

Chapter IV

Transaction Audit Observations

Important audit findings arising out of test check of transactions made by the State Government companies/corporations are included in this chapter.

Government Companies

West Bengal Power Development Corporation Limited

4.1 *Extra burden on consumer*

In violation of regulatory requirement, the Company failed to disclose realisation of Rs. 542.52 crore, towards delayed payment surcharge in its tariff petitions, leading to extra burden on distribution company.

In terms of the West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations 2007 (Regulations), a power generating company is required to file a tariff petition to the West Bengal Electricity Regulatory Commission (WBERC) within the specified period, for determination of tariff. The tariff petition includes fixed and variable elements of cost, plus a reasonable return to arrive at the aggregate revenue requirement (ARR), required to be recovered through the tariff mechanism. Any other income, including delayed payment surcharge accruing to the generating company is reduced from the ARR. In terms of the amended (December 2007) Regulations¹, in case of variation of ARR *minus* fuel cost portion, by more than two *per cent*, the generating company may seek readjustment of the tariff for the subsequent period. Further, as per provisions² of the Electricity Act 2003, the generating company/ licensee is required to refund any charge recovered in excess of the tariff fixed along with interest to the consumer.

The West Bengal Power Development Corporation Limited (Company), a generating company, supplied the entire power generated to the erstwhile West Bengal State Electricity Board (Board) at the tariff rates, determined by the WBERC since 2000-2001. As per the power purchase agreement (May 1991) between the Board and the Company, delayed payment surcharge (DPS) was payable by the Board at five *per cent* on the amount remaining unpaid after 61 days of the bill till the date of payment. Due to failure of the Board to liquidate its dues in time, the Company claimed

¹ Clause 2.6(iv) of Regulations of February 2007, read with the clause 2.5.6 of amended regulations of December 2007.

² Section 62(6) of the Act.

Rs. 722.65 crore³ towards DPS from the period from 1994-95 to 2005-06 and accounted for it as 'other income' in the accounts of the respective years. While passing orders (January 2003) on the tariff petition filed by the Company for the years 2000-01 to 2002-03, the WBERC did not consider DPS for determination of tariff, due to its inability to identify the amount of DPS from the petition filed by the Company. However, WBERC directed the Company to lodge claims for DPS in terms of the agreement executed with the Board, and intimate the details of realisation thereof. The Company neither complied with the directives of WBERC nor did it include the DPS claim in the subsequent tariff petitions, though it accounted for Rs. 542.52 crore from 2000-01 to 2005-06⁴. As a result, the tariff was fixed on the higher side for the years 2000-01 to 2005-06.

Subsequently, in course of a restructuring plan for State-owned power utilities, the State Government approved (September 2007), a 'one time cross settlement' of outstanding Government loans and interest taken by the Company against the amount receivable from the Board, towards outstanding power bills and DPS up to March 2006. While the Company realised the outstanding DPS of Rs. 542.52 crore, it did not disclose the same in its subsequent tariff petitions of 2007-08 and 2008-09, so that the effect of reduced ARR could be passed on to the Board or its successor distribution company. Consequently the Board/ successor distribution company had to bear extra burden of Rs. 542.52 crore on account of DPS from the period 2000-01 to 2005-06. Had the Company disclosed the DPS as 'other income' in the tariff petitions of the respective years, the tariff would have been lowered to that extent. Thus, failure to disclose realisation of DPS of Rs. 542.52 crore in the tariff petitions of 2007-08 and 2008-09, in violation of the Act and the Regulations, led to unjust enrichment of the Company at the cost of the distribution company and its ultimate consumers.

Government/ Management stated (September 2009) that question of unjust enrichment of the Company at the cost of the distribution company and its ultimate consumers does not arise because DPS was adjusted against the outstanding Government loans taken by the Company due to non-acknowledgement of debt by the Board. Further, payment of DPS through book adjustment was carried out by the Government from its budgetary fund and no cash payment was made by the Board from its own resources for which they can claim from the ultimate consumers.

The reply does not address the fact that adjustment of receivables from sale of power including DPS, with Government loans and interest payables in effect results in recovery of receivables because the adjustment results in remission of liability which is as good as receipt of cash. The recovery of DPS through adjustment of Government loans needed disclosure before WBERC in the same way as the obligation towards State Government loan

³ Rs. 180.13 crore from 1994-95 to 1999-2000, and Rs. 542.52 crore from 2000-01 to 2005-2006.

⁴ Tariff fixation by WBERC commenced from 2000-01.

and interest was disclosed in the tariff petitions. This would have enabled appropriate fixation of tariff by the WBERC.

4.2 Loss due to delay in repair of transformer

The Company failed to recover Rs. 16.16 crore towards fixed charges, due to loss of generation of 482.63 million units of power arising from delay in replacement of oil in generator transformer despite repeated observance of fault gases dissolved in the oil.

A dissolved gas analysis (DGA) of the oil in the generator transformer of Unit-4 of the Kolaghat Thermal Power Station (KTPS) of West Bengal Power Development Corporation Limited (Company), conducted by the Central Power Research Institute (CPRI) in March 2008, indicated a high level of fault gases dissolved in the oil. This led to a rise in oil temperature, indicating possible thermal fault in the generator transformer. The Company referred the matter to the original equipment manufacturer, BHEL⁵ who recommended (May 2008), immediate degassing of transformer oil through high vacuum filter machine to eliminate all gases in the transformer. Between June 2008 and September 2008, the Company conducted five DGAs, all of which indicated presence of fault gases and possibility of thermal fault. The management, however, neither replaced the transformer oil (cost: Rs. 20 lakh) nor evaluated the risk of operating the transformer with presence of fault gases in the oil.

After four months, the Company invited (September 2008) BHEL to submit a detailed offer for the repair of the generator transformer. On the basis of BHEL's offer (October 2008), the Company placed a letter of intent (LOI) on it on the same day for the work of inspection, repairing, overhauling of the transformer at a cost of Rs. 32 lakh. The work was to be completed within 35 days from the date of handing over of the site. Meanwhile the unit was forced to shut down on 9 October 2008 due to rise in temperature of transformer oil to an alarming level. The Company handed over the site to BHEL on 17 November 2008. Against the scheduled date of completion of 22 December 2008, BHEL completed the work on 13 February 2009 and the unit was re-commissioned (13 February 2009) for generation after 126 days from the date of shut-down resulting in loss of generation of 482.63 million units of power.

As per the tariff order, recovery of fixed charges⁶ is dependent on achievement of plant availability factor (PAF). Against the targeted PAF of 76 per cent WBERC⁷ allowed (September 2008) recovery of Rs. 49.29 crore as fixed charges for each unit of KTPS. Due to avoidable excess outage of 91 days at Unit- 4 the Company failed to recover fixed charges of Rs. 16.16 crore in 2008-09. Though KTPS had six identical

⁵ Bharat Heavy Electricals Limited.

⁶ Fixed Charges include employee cost, interest and financing cost, depreciation, operation & maintenance expenses and return on equity capital.

⁷ West Bengal Electricity Regulatory Commission

units, manufactured by BHEL at KTPS, it had not contemplated acquiring a spare generator transformer (Cost: Rs. 8 Crore) in order to avoid such outage.

The Government / Management stated (October 2009) that the decision of overhauling could not be taken without consulting BHEL. They further stated that DGA had been conducted as per the suggestion of the CPRI and that under-recovery of fixed charges at a power station could be set-off against enhanced performance of another station of the Company.

The reply does not address the fact that the management neither analysed the cost benefits of replacing the oil *vis-a-vis* possible generation loss nor explained reasons for over-dependence on BHEL in spite of operating the Unit for 14 years. Further, as per the Tariff Regulations, recovery of fixed cost from other power stations is allowed only in case one power station generates above its declared plant load factor (PLF). Since, none of the other power stations of the Company had generated above their declared PLF the question of setting off of under-recovery in the instant case with other stations does not arise.

Thus, due to lack of proper and timely action in repairing generator transformer of Unit-4 by replacing oil, the Company suffered loss of Rs. 16.16 crore.

West Bengal State Electricity Distribution Company Limited

4.3 Wasteful expenditure

The Company incurred wasteful expenditure of Rs. 68.06 crore on procurement and installation of one lakh energy meters for shallow tube wells due to purchase of TOD⁸ energy meters at higher cost, extra expenditure on procurement of LPR⁹ enabled meters without assessing its functionability.

In 2005-06, 98,427 un-metered agricultural consumers were using shallow tube-wells (STW) for irrigation purpose. The erstwhile West Bengal State Electricity Board¹⁰ (Board) billed STW consumers at monthly slab rates which varied according to lean, peak and moderate periods in a year and area of operation. This led to collection of revenue below average cost of supply, resulting in high distribution losses. So the Board decided (January 2004) to install electromagnetic suspension bearing meters (estimated cost: Rs. 30.10 crore) for one lakh STW consumers. However, no action was taken for procurement. Subsequently, the Board approved (May 2005) installation of pole mounted static TOD energy meters at a

⁸ Time of Day, a system where there is different rate of billing for peak, off-peak and normal periods

⁹ Low Power Radio mode of communication which enables meters to be read from a distance of 100 feet through a LPR-enabled computerized meter reading instrument

¹⁰ West Bengal State Electricity Distribution Company Limited (Company) is successor entity

revised estimated cost of Rs. 144 crore. WBERC¹¹ also directed (March 2006) the Board that until dedicated feeders for supplying power to agricultural consumers were implemented, consumers having metered supply might be given an option to receive power on TOD basis, by installing TOD meters. WBERC envisaged recovery of the cost of these meters from consumers in installments.

The Board invited (June 2005) tenders for procurement, installation, meter reading and distribution of bills for one lakh TOD meters, separately with and without Low Power Radio (LPR) facility, for agricultural consumers. Of three offers received, offers from Secure Meters Limited (SML) and Genus Overseas Electronics Limited (GOEL) were found to be technically acceptable. Subsequently, Central Testing Division (CTD) of the Board, on testing (January 2006) sample meters of SML and GOEL, observed that LPR facility failed to function during power failure. This implied that meter reading, in the event of power failure or non-functioning of LPR would necessitate physical access to the meters, which were required to be installed at a height of eight meters.

The Board, without considering the observation of CTD and disregarding the direction of WBERC to give option to consumers to receive power on TOD basis, placed (April 2006) six letter of awards (LOA) on SML and GOEL for supply (Rs. 158.82 crore), installation (Rs. 27.86 crore), and data collection/meter reading (Rs. 48.62 crore) of one lakh meters aggregating Rs. 235.30 crore. The entire work was to be completed by April 2008. The cost was proposed to be met out of loan of Rs. 178 crore from Punjab National Bank and balance Rs. 57.30 crore from own resources.

It was observed that against the supply order of one lakh meters, only 88,477 meters (SML – 42806, GOEL – 45671) were installed upto June 2008. Meanwhile after restructuring of the Board in 2007 into two companies, one of the Companies i.e. West Bengal State Electricity Distribution Company Limited (Company) terminated (June 2008) both the contracts since both SML and GOEL failed to complete installation of meters by April 2008. SML and GOEL furnished 7,94,410 meter readings and distributed 5,32,798 bills during the period. The company paid Rs. 183.54 crore¹² to SML and GOEL.

In this context, the following points were noticed in audit:

- The directives of WBERC envisaged 100 *per cent* metering of STWs, with TOD meters to be provided to those consumers who opted for the same. Without ascertaining the number of optees, the Company procured TOD meters for all STW consumers. Subsequently, the Company could not enforce TOD tariff due to poor response from the consumers. Thus, failure to assess number of optees led to unfruitful

¹¹ West Bengal Electricity Regulatory Commission

¹² Rs.183.54 crore was paid to SML (Rs.102.58 crore) and GOEL (Rs.80.96 crore) towards supply (Rs.145.68 crore), installation (Rs.21.73 crore) and meter reading work (Rs.16.13 crore).

expenditure of Rs. 26.26 crore¹³ on procurement of one lakh TOD meters at higher rates.

- It was recorded during tender finalisation process that the meters were made of advanced technology requiring technically competent meter reader having knowledge of operating the computerised remote meter reading instrument (CMRI). Though the LOA provided for imparting free training to the Company's personnel, consequent upon termination of the contract (June 2008) manual reading of meters was resorted to. In order to enable manual reading the meters installed at a pole height of eight meters had to be lowered to a 'man readable height'. This implied that CMRI were neither procured nor were the Company's personnel imparted free training. This resulted in the Company being forced to incur an extra expenditure of Rs. 4.18 crore towards lowering of meters, and also rendered expenditure of Rs. 37.31 crore on procurement of LPR enabled meters wasteful.
- Even after installing TOD meters the Company raised 54 *per cent* of the bills on the slab rates applicable to un-metered STWs. Review of records at six¹⁴ divisions with 29,573 STW connections, indicated that 16,089 bills were raised on 'average' basis as the meter reading data furnished by SML and GOEL were inaccurate. Therefore, the cost of meter reading of Rs. 31 lakh in respect of these bills became unproductive. T&D losses ranged between 22.21 *per cent* and 48.69 *per cent* in three of these divisions during 2007-08 and 2008-09.

Thus, even after expenditure of Rs. 183.54 crore, the objective of 100 *per cent* metering of STW consumers could not be achieved. Besides, the Company incurred wasteful expenditure of Rs. 68.06 crore towards unnecessary procurement of TOD meters at higher rate without assessing their functionability, extra expenditure on LPR enabled meters and on inaccurate meter readings.

The Government/ Management stated (October 2009) that the TOD meters with LPR facilities were procured to get rid of three difficulties viz. it would restrict use of electricity during peak hours, can be installed in the fields in climate and pilfer proof box and with LPR facilities pole mounted meters would be protected from vandalism. But this arrangement could not be continued as the agriculture consumers were not ready to pay TOD tariff and that demanding the meter reading must be visible to them.

The reply indicates that the procurement planning was faulty because (i) despite WBERC's directives the Company did not take consent of the consumers before installation of meters as the TOD tariff was optional; (ii) non-TOD meters can also be installed in climate/ pilfer proof box and (iii) during the decision of lowering the meters at a 'man readable height' consumers protest was not a recorded reason. The reply was also silent as

¹³ Being the cost differential of TOD and non TOD meters at Rs.2,626 X 1,00,000 meters.

¹⁴ Kalyani, Tehatta, Krishnagar, Berhampore-I, Berhampore-II and Malda.

to why the readings taken through CMRI could not be shared with consumers.

The Company needs to take steps for utilisation of these advanced meters so as to keep in check T&D losses in agricultural sector and consider providing dedicated feeders for agricultural consumers.

4.4 Additional expenditure due to defective planning

West Bengal State Electricity Distribution Company Limited awarded contracts for supply/ erection of equipment for a project without acquiring the required land. Consequently, the project was delayed and the contractor was allowed compensation of Rs. 14.54 crore for suspension of work, extension of project duration and change of duration/ work sequence.

The precursor of the West Bengal State Electricity Distribution Company Limited (Company), the erstwhile West Bengal State Electricity Board (Board) issued (March 2001) two letters of award on Mitsubishi Heavy Industries Limited, Japan (Contractor) for design, supply, erection, testing and commissioning of hydro-mechanical equipment (Lot 5) for the Purulia Pumped Storage Project (Project) at a firm price of Rs. 165.14¹⁵ crore.

According to both orders, supply and erection of Lot-5 was tied to the main civil works, with zero date of 1 May 2001. Supply was to commence by August 2002 and be completed by June 2005 *i.e.* 50 months from zero date and commissioning within August 2006 *i.e.* 64 months. The Board awarded the main civil works to Taisei Corporation subsequently in June 2001. The main civil works could not be taken up on time due to delay in receipt of Government approval for diversion of additional forest land as the initial acquisition (November /December 1997) proved to be inadequate as per detailed project report and geological studies.

Between October 2001 and May 2006, the Board held four co-ordination meetings with the project consultants and contractors to finalise/ revise construction/ activity schedules as well as monitor progress of work. Accordingly, the commencement date for Lot-5 was mutually revised in October 2001, to 12 March 2003 in place of earlier 1 August 2002 with erection planned to be completed within 41.5 months *i.e.* August 2006. The requisite approval for diversion of forest land was received only in March 2002 with main civil works commencing thereafter. Due to change in commencement of work, there were consequential delays in supply and erection also. The Board extended (April 2004) the erection schedule by 5.5 months from 31 August 2006 to 11 February 2007. Finally, the Board increased (February 2006) the supply schedule to 28 October 2006 and commissioning to 11 January 2008.

Meanwhile, from January 2002, the Contractor raised compensation claims for additional expenditure towards project related establishment, local base

¹⁵ Based on conversion of 100 Japanese Yen = Indian Rupees 40.

related expenses, project-assigned engineers' cost, extension of performance security etc. arising from suspension of work, extension of project duration and change of duration/ work sequence. In June 2004, the Contractor's claim was Rs. 52.40 crore. Finally, the Contractor reduced (June 2005) its claim to Rs. 31.77 crore, based on suspension of work for 16.5 months and delays in erection and supply of seven and fifteen months respectively.

The Board admitted the claim (January 2006) with reference to -

- suspension of work for 7.5 months from 1 August 2002 to 12 March 2003;
- delay of 5.5 months in erection arising from extending erection completion to 11 February 2007 *vis-à-vis* planned erection by 31 August 2006; and
- average actual delay of 4.27 months in supply of equipment as compared to supply schedule agreed in October 2001.

Consequently, the Board limited the claim to Rs. 14.54 crore and enhanced (March 2006) the value of contract *etc.* to Rs. 179.68 crore.

The Government /Management stated (June 2009) that the Company had no control over delayed receipt of approval for additional forest land acquisition proposal which was not anticipated before tendering and placement of orders. The reply itself indicate that had the Company initially acquired (November / December 1997) forest land after identifying the location of project structure, the necessity of additional acquisition of forest land could be avoided. This reflects deficient planning and poor project management.

Thus, placement of orders for supply, erection and commissioning of hydro-mechanical equipment prior to placement of order for main civil works and without obtaining requisite permission for diversion of forest land resulted in additional expenditure of Rs. 14.54 crore towards compensation.

Orders for supply of project materials/ implementation of work need to be issued only after ensuring availability of land and receipt of necessary permissions to take up the project.

4.5 Opportunity to recover money ignored

West Bengal State Electricity Distribution Company Limited did not either take the opportunity to recover their money or pursue the matters to their logical conclusions. As a result, recovery of money amounting to Rs. 3.17 crore remains doubtful.

A review of unsettled paragraphs from seven Inspection Reports pertaining to periods upto 2003-04 showed that there were nine cases in respect of

West Bengal State Electricity Distribution Company Limited (Company)¹⁶ involving a recovery of Rs. 3.17 crore. In terms of the instructions (June 1982) of Finance Department, Government of West Bengal the Company is required to furnish reply/ details of remedial action taken within three months after receipt of Inspection Reports from Audit. However, no effective action was taken to take matters to their logical conclusions, i.e. to recover the dues from the concerned parties. Resultantly the Company has lost the opportunity to recover its money, which could have augmented its finances.

The list of individual paragraphs is given in **Annexure 18**.

The paragraphs mainly pertained to non-payment of energy bills / non-recovery on account of undercharge of revenue (Rs. 2.91 crore), non-return of materials (Rs. 26.39 lakh) by contractors and defalcation of cash (Rs. 0.37 lakh).

These cases reflect the failure of the Company to safeguard its financial interest. Audit observations and their repeated follow up by audit, including bringing the pendency to the notice of the Administrative/ Finance Department and the Company Management periodically, have not yielded the desired results in these cases.

The Company should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

4.6 Lack of remedial action on audit observations

West Bengal State Electricity Distribution Company Limited did not either take remedial action or pursue matters to their logical end, resulting in foregoing the opportunity to improve its functioning.

A review of unsettled paragraphs from two Inspection Reports (IRs) pertaining to periods upto 2003-04 of West Bengal State Electricity Distribution Company Limited (Company)¹⁷ showed that there were three paragraphs in respect of the Company which pointed out deficiencies in the functioning of the Company. In terms of the instructions (July 1982) of Finance Department, Government of West Bengal the Company is required to submit reply/ details of remedial action taken within three months after receipt of IRs from Audit. However, no effective action was taken to take matters to their concluding end, i.e. to take remedial action to address these deficiencies. Resultantly the Company has so far lost the opportunity to improve its functioning in this regard.

The list of individual paragraphs is given in **Annexure 19**.

The paragraphs pertained to avoidable expenditure on insurance on equipment (Rs. 2.05 crore), loss of revenue due to non-consideration of

¹⁶ The successor company of erstwhile West Bengal State Electricity Board.

¹⁷ The successor company of erstwhile West Bengal State Electricity Board

connected load (Rs. 78.86 lakh) and lack of co-ordination leading to extra cost (Rs. 73.00 lakh) by the Company.

These cases reflect the failure of the Company to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/ Finance Department and the Company management periodically, have not yielded the desired results in these cases.

The Company should initiate immediate steps to take remedial action on these paragraphs and complete the exercise in a time bound manner.

4.7 Under billing due to application of wrong tariff

West Bengal State Electricity Distribution Company Limited wrongly billed an information technology park as high voltage industrial consumers, instead of high voltage commercial consumer leading to under billing of Rs. 71.38 lakh.

Based on an application from Madgul Parks Private Limited (consumer) in December 2003, the erstwhile West Bengal State Electricity Board (Board) offered (February 2004) to supply energy at high voltage (33 KV) to their information technology (IT) park at Salt Lake, Kolkata, with the applicable tariff of high voltage bulk consumers (Rate-F). Accordingly, in March 2004, the Board entered into an agreement with the consumer for supply of power for industrial purposes and commenced energy supply from 23 July 2004. The Board billed the consumer under the commercial category from July to September 2004 since it leased space to different IT companies but was not itself involved in IT activities. Thereafter the category was changed to 'Industrial Consumer'. However, the Chief Engineer (Commercial) of the Board clarified (November 2004) to the consumer that it had inadvertently classified it as an 'Industrial Consumer' instead of 'Non-Industrial Consumer'. Meanwhile, the consumer sought (September 2004) reduction of contractual demand and signed (December 2004) a revised agreement with the Board for supply of energy at 33 KV, in which the Board had re-classified the consumer as non-industrial. Although the Board had communicated, in November 2004, to the consumer that it was non-industrial since it was accommodating IT industries and not dealing with any IT activities, the consumer objected to being classified as a non-industrial consumer in January 2005.

Subsequently, the tariff orders from 2005-06 to 2008-09 trifurcated the rate for supply at 33 KV (Rate-F) into public utilities, commercial establishments and industry and specified energy charges of Rs. 3.70 to Rs. 3.76 per kilowatt hour (Kwh) for supply to commercial consumers as compared to Rs. 3.43 to Rs. 3.58 per Kwh for industry. It was noticed (November 2008) that although the consumer was involved in leasing space to IT companies and despite the Chief Engineer's clarification that the consumer was classified as non-industrial, the Board and its successor entity viz. West Bengal State Electricity Distribution Company Limited

(Company) was billing the consumer at the industrial tariff instead of the commercial tariff, leading to under billing of Rs. 71.38 lakh (energy charges by Rs. 60.75 lakh and electricity duty by Rs. 10.63 lakh) from April 2005 to July 2008.

The Government /Management stated (August 2009) that the consumer had been approved by the State and Central Government for building infrastructure including electricity for promotion of IT industries and as such industrial tariff was applicable to them. Further, the supply of power to the IT park was for the purpose of IT and therefore the applicable tariff rate was industrial tariff.

The reply does not address the point because (a) the Company billed the consumer at industrial rate contrary to the agreement which classified it as non-industrial consumer (b) the leasing out of space to IT industry is not covered by Government of India's definition of IT industry.

Thus, by wrongly billing the Consumer as an industry instead of a commercial establishment between April 2005 and July 2008, the Company had forgone revenue of Rs. 60.75 lakh towards energy charges and loss to the exchequer of Rs. 10.63 lakh towards electricity duty thereon.

The Company should evolve clear and unambiguous guidelines for classification of consumers.

The Durgapur Projects Limited

4.8 Undue benefit extended to a contractor

The Company extended undue favour to a contractor by releasing advance payment of Rs. 25.22 crore for purchase of fuels in contravention of the provision of contract. It failed to recover the amount till March 2009 and had to bear additional interest burden of Rs. 2.87 crore.

To establish a 300 MW capacity thermal power plant at Durgapur, The Durgapur Projects Limited (Company) placed (July 2004) a letter of award (LOA) on Dongfang Electric Corporation (contractor), China at a contract price of US\$ 12.47 crore (imported items) and Rs. 240.91 crore (indigenous items). The project was financed by a loan from Power Finance Corporation Limited at an interest rate of 9.75 *per cent per annum*. In terms of the contract,¹⁸ supply of fuel oil as might be required for commissioning and upto the commercial operation date (COD) of the unit, was to be arranged by the contractor at his own cost. The scheduled date of COD of the unit was 33 months from the date of issue of the LOA *i.e.* April 2007.

¹⁸ Clause 14(d) of first amendment (April 2004) to the specification of main power plant package.

Since the work was behind schedule, the contractor requested (March 2007) the Company to arrange procurement of fuel to avoid procedural delay and agreed to reimburse the cost through adjustment from outstanding bills. Accordingly, the Company purchased (April 2007 – March 2007) 7,651.54 kilo-litre LDO/ HSD¹⁹ aggregating Rs. 25.22 crore for supply to the contractor. The unit was declared open for commercial operation in April 2008.

Though the Company had released payments of Rs. 123.92 crore to the contractor during May 2007 to May 2008, it failed to recover Rs. 25.22 crore from the contractor's bills towards cost of supply of fuel. On this being pointed out (August 2008) by Audit, the Management stated (December 2008) that the advance would be adjusted from the pending bills of the contractor. But till March 2009 the Company had not adjusted Rs. 25.22 crore, thereby extending an undue benefit to the contractor. Resultantly the Company had to bear an additional interest burden of Rs. 2.87 crore²⁰ upto March 2009.

In reply Government stated (September 2009) that though there was no specific provision in the contract for procurement of oil by the Company it had to do so in view of procedural and infrastructural bottleneck faced by the contractor. They also stated that a substantial part of the cost of fuel, accounted for as advance, was not recoverable because the contractor had operated the unit prior to COD on the pre-condition that the Company would bear the cost of oil.

The reply is not in consonance with the facts as the contract stipulated that supply of fuel oil during commissioning of the unit was the responsibility of the contractor. This also implied that the contract price included the cost of fuel required prior to COD. Thus, unwillingness of the Company to recover the advance resulted in undue benefit of Rs. 25.22 crore extended to the contractor beyond the provisions of the agreement, in addition to loss of interest of Rs. 2.87 crore.

4.9 Loss due to failure to realise dues

The Durgapur Projects Limited suffered a loss of Rs. 17.46 crore in supplying processed water to 116 consumers due to its failure in enforcing contractual provisions and taking effective action for realisation of dues.

The Durgapur Projects Limited (Company) processes raw water drawn from the Damodar river at its water works wing for captive consumption. Surplus water is distributed to different industrial, commercial and domestic consumers in the Durgapur area. Water is supplied to the consumer at rates fixed by the Company based on the size of the supply

¹⁹ Light Diesel Oil / High Speed Diesel.

²⁰ At the rate of 9.75 per cent from the date of drawal upto March 2009.

ferrule²¹ (Domestic and Commercial consumers) or meter installed at supply point²² of the industrial consumers.

The Company supplies water to consumers after executing agreements with them. Monthly water bills are raised at the end of each month, as per scheduled water rates. The agreement, *inter alia*, stipulates that the consumer should submit a security deposit equivalent to one month's water supply charges. The Company also allowed 45 days credit to the consumer from the date of bill. Penal interest, at the rate of eight *per cent per annum*, would be imposed thereafter up to the date of actual payment. The agreement, however, also provided that Company had the right to terminate the supply in case bills were not paid within 45 days.

Scrutiny of records revealed that outstanding dues from 884 customers stood at Rs. 24.20 crore as of 31 March 2009. Age wise analysis of dues showed that Rs. 15.97 crore remained unrealised for more than three years, Rs. 1.64 crore for more than two years, and Rs. 3.12 crore for more than one year. Audit noticed that out of the outstanding dues, Rs. 17.46 crore became irrecoverable from 116 customers since the Company failed to enforce contractual provisions and take effective action for realisation of dues, as discussed below:

- The Company had terminated water supply to 70 consumers between April 1996 and December 1998 due to non-payment of dues for periods ranging from three months to more than three years. Against a total outstanding of Rs. 36 lakh, the Company held security deposits of Rs. 1.26 lakh only. It made provision of only Rs. 17.33 lakh in its accounts upto March 2008 thereagainst.
- The Company supplies water to consumers after executing agreements with them. Monthly water bills are raised at the end of each month, as per scheduled water rates. The agreement, *inter alia*, stipulated that the consumer should submit a security deposit equivalent to one month's water supply charges. Since the Company's dues were unsecured in nature and available security deposits were just one month's water charges, the chances of their recovery are remote.
- Though the customers had defaulted in making payment within due dates, the Company failed to raise bills on interest charges. Test check of records of 20 consumers revealed that despite delay in payment of monthly bills ranging from 50 to 1592 days, the Company neither disconnected the supply nor charged interest of Rs. 4.72 crore.
- Mining and Allied Machinery Corporation Limited (MAMC), a sick public sector unit, had regularly defaulted in payment of water bills and accumulated dues mounted to Rs. 6.30 crore up to

²¹ An attachment fitted at the supply point to regulate water supply.

²² Industrial consumer taking supply for both drinking and process purpose.

December 1998. Barring issue of a few notices the Company did not take any effective action for realisation of dues. The Company stopped supply of water to the plant in September 2001 when outstanding dues against it rose to Rs. 8.36 crore. MAMC went into liquidation in May 2002. But the Company continued to supply water at its township. Despite uncertainty in realisation of dues from MAMC or the inhabitants of the town ship the Company supplied water valued Rs. 6.32 crore up to March 2009 which remained unpaid. In absence of any agreement with the residents of the township the chances of recovery of the dues were remote.

While accepting the observations the Government / Management stated (September 2009) that the absence of specific provisions with regard to due dates for payment of water supply bills and non-enforcement of penal measures had resulted in accumulation of dues. The Company also stated that certain remedial actions had been taken from 2008-09. Moreover, the Company was hopeful of realisation of dues from the liquidators of the closed industrial units.

The reply does not indicate why such measures had not been taken earlier. The delay in follow-up led to accumulation of dues with considerable doubts relating to its ultimate recoverability. Further, the optimism regarding realisation of dues from liquidators overlooks the fact that the Company is an unsecured creditor and has no specific information as to availability of funds on liquidation of assets of those closed units.

4.10 Extra expenditure due to payment of additional interest

The Durgapur Projects Limited had to pay additional interest of Rs. 1.16 crore due to release of payment of Rs. 8.38 crore to a contractor in relaxation of the terms of payment.

The Durgapur Projects Limited (Company) placed (July 2004) a letter of award (LOA) on Dongfang Electric Corporation (contractor), China for setting up the seventh unit of 300 MW capacity thermal power plant at Durgapur, at a contract price of US\$ 12.47 crore (imported items) and Rs. 240.91 crore (indigenous items). The project was funded through a loan from Power Finance Corporation Limited at an interest rate of 9.75 per cent per annum. The scope of the LOA included supply, erection, testing and commissioning of the main power plant including civil works. The scheduled dates of synchronisation and commercial operation of the Unit were 30 months (January 2007) and 33 months (April 2007) respectively from the date of issue of the LOA.

As per the terms of payment for erection and civil works, 10 per cent of the supply price would be released as advance, 70 per cent on pro-rata basis against progress of work, 7.5 per cent on synchronisation and submission of operation and maintenance manual, 5 per cent pro-rata payment against commercial operation, 5 per cent on successful demonstration of performance and guaranteed parameters. The balance 2.5 per cent would be released on submission of 'as-built' drawings.

Upto July 2006, the contractor had completed civil works valuing Rs. 67.02 crore for which they were entitled to receive Rs. 53.62 crore (80 *per cent*²³ of completed works) as per the LOA. Since the contractor was facing financial difficulties in arranging payments to its sub-contractors, it requested the Company to relax payment terms relating to civil works (erection and services). The Company in August 2006 enhanced the pro-rata payment against the progress of work from 70 to 82.50 *per cent*, after clubbing the 7.5 *per cent* payment on synchronisation/submission of manual and 5 *per cent* pro-rata payment against commercial operation and released Rs. 8.38 crore²⁴ to the contractor. The Board of Directors approved the action post-facto in September 2006 since it felt that the payment was necessary for timely completion of the project.

Contrary to the Board's expectations, the actual date of synchronisation of the Unit was November 2007, as against the scheduled date of January 2007. Similarly, the Unit was declared open for commercial operation in April 2008, as against the scheduled date of April 2007, one year behind schedule. Since the payment terms had been amended, the Company made the payment (August 2006) of Rs. 5.03 crore by 453 days and Rs. 3.35 crore by 611 days in advance of the dates when the Unit was declared open for commercial operation. This resulted in the Company having to pay additional interest of Rs. 1.16 crore to Power Finance Corporation Limited. Since the Company was concerned about the timely completion of the project it should have linked the amendment of the terms of payments with timely completion of the project, failing which benefit of the amendment stand withdrawn. However, the Company did not safeguard its financial interest while amending the terms of payment and hence, had to incur additional interest payment.

The Government/ Management stated (June 2009) that initial advance usually paid along with or immediately after placement of order, was delayed because of delayed receipt of clearance from Income Tax Authority. Consequently, to assist DEC in overcoming liquidity problem in disbursing payments to sub-contractors and in the interest of the completion of the project LOA was amended. The management also stated that considering the savings of interest due to delayed payment of advance, there may not be any loss for quicker outflow of fund due to revised terms of payment.

The reply is contrary to the facts because **(a)** delayed release of advance was attributable to DEC as it failed to comply with the documentation required for this purpose in time, **(b)** the question of liquidity problem did not arise as DEC sought approval of sub-contractors list in March 2005 and so could not have any outstanding liability towards them **(c)** as the project was not completed in time, the underlying purpose of amending the LOA was not served, resulting in extension of loan tenure, and additional interest burden on entire loan drawn. This additional interest burden negates the

²³ Including advance payment of 10 percent.

²⁴ Being 12.5 *per cent* of completed works valuing Rs. 67.02 crore.

argument of the Management regarding saving of interest on delayed release of advance.

**West Bengal State Electricity Distribution Company Limited and
West Bengal State Electricity Transmission Company Limited**

4.11 Loss of interest due to unnecessary payment of tax

Though not required under the provisions of the Income Tax Act, two companies formed after restructuring of the erstwhile State Electricity Board, paid Rs. 9.69 crore as minimum alternate tax leading to blocking up of funds and consequent loss of interest of Rs. 1.56 crore.

Under section 115JB of the Income Tax Act (Act), a company is liable to pay minimum alternate tax (MAT) at the rate of 10 *per cent* of book profit in case tax computed under normal provisions²⁵ of the Act is less than 10 *per cent* of the book profits. However, with the introduction of section 80IA from the financial year 2000-2001, successor companies, formed by restructuring of an existing State Electricity Board, are entitled to deduction of tax at the rate of 100 *per cent* of their taxable profits for 10 years. The accumulated losses and unabsorbed depreciation of previous periods are, however, adjustable against current year's profits.

Under Government of West Bengal notification (January 2007), the erstwhile West Bengal State Electricity Board (WBSEB) was restructured into two companies, *viz.* the West Bengal State Electricity Distribution Company Limited (WBSEDCL) and the West Bengal State Electricity Transmission Company Limited (WBSETCL). Under the Act, both the successor companies were entitled to exemption from tax from the financial year 2007-08 under Section 80IA. They were also not liable to pay MAT for the same period as an amount being lower of unabsorbed losses and unabsorbed depreciation of WBSEB would be available for set-off against the current year's profits. Subsequently, the management of WBSEDCL obtained (July 2007) a legal opinion from the tax consultant. The consultant indicated that these companies would have to take over unabsorbed losses of WBSEB aggregating Rs. 505 crore in order to avoid MAT for a period of two years subsequent to the restructuring. However, the exact amount of unabsorbed losses of WBSEB to be carried forward was not indicated in the notification (January 2007). The State Government, in another notification (September 2008) subsequently, transferred accumulated losses of WBSEB aggregating Rs. 655 crore to be carried forward by WBSEDCL (Rs. 483 crore) and WBSETCL (Rs. 172 crore).

In spite of the specific opinion by the tax consultant, both WBSEDCL and WBSETCL paid (June and September 2007) Rs. 5.08 crore and

²⁵ Section 28 to 44D of the Act.

Rs. 4.61 crore, respectively, as MAT for the financial year 2007-08. Subsequently, they claimed (October 2008 / April 2009) refund of the MAT already paid. Considering the express provisions for exemption of tax in case of restructured companies, the payment of MAT led to an unnecessary blockage of funds aggregating Rs. 9.69 crore.

In reply, both WBSEDCL and WBSETCL stated (August/ September 2009) that they had paid the first two installments of MAT to avoid penal provisions under the Income Tax Act, since the Government notification transferring accumulated losses of WBSEB to the successor entities was issued only in September 2008. The Government endorsed the views of the managements.

The reply overlooked the fact that delayed payment of advance tax on account of MAT, is not liable to penal interest as per Supreme Court²⁶ ruling. The reply was silent as to the abnormal delay on the part of the Government to issue the notification and why no follow-up actions were taken by the management to ensure early issue of the notification.

Thus, payment of MAT, though not required under the Act, led to blockage of funds and loss of interest of Rs. 1.56 crore²⁷. The Companies should ensure proper tax planning to avoid unnecessary blockage of funds.

West Bengal Industrial Development Corporation Limited

4.12 Payment of avoidable interest on delayed deposit of service tax

West Bengal Industrial Development Corporation Limited paid avoidable interest of Rs. 1.25 crore due to delay of 329 days in deposit of service tax.

According to the Finance Act 1994, service tax is leviable on identified taxable services, with the service provider liable to pay the service tax. For the financial year 2007-08 and 2008-09, service tax was payable at 12.36 per cent inclusive of education as well as secondary and higher education cesses. Further, under the Service Tax Rules 1994, all service providers, excluding individuals, proprietary concerns and partnership firms, are to deposit the service tax on the amount realised for each month by the fifth of the following month. In the event of delay, interest at 13 *per cent* was payable for the period of delay. Moreover, failure to pay service tax would attract penalty of Rs. 200 for each day of failure or two per cent of such tax per month whichever was higher, but shall not exceed the service tax due.

²⁶ CIT Vs Kwality Biscuits Limited [(2006), 284 ITR 434]

²⁷ At the borrowing rate of 8.5 *per cent* for the period from the dates of payments of tax upto 31 July 2009.

In October 2007, West Bengal Industrial Development Corporation Limited (Company) entered into an agreement with Tata Sons Limited (TSL) to provide, *inter alia*, business auxiliary services for arranging allotment of 50 acres of land from another State Government Company *viz.* West Bengal Housing Infrastructure Development Corporation Limited (HIDCO) at New Town, Kolkata; undertake physical inspection, joint measurement and registration of the deed of conveyance for the 26 acres already allotted and follow-up with HIDCO for the remaining 24 acres. The Company was to receive premium of Rs. 200 crore from TSL for this service. On signing the agreement, the Company received (October 2007) Rs. 100 crore that was credited to a suspense account. Although business auxiliary services were liable to service tax, the Company failed to deposit service tax of Rs. 11 crore within 5 November 2007 for reasons not on record.

It was noticed (March 2009) that, on 31 March 2008, the Company transferred the entire receipt of Rs. 100 crore from the suspense account to other income as legal and other fees for Rs. 89 crore and service tax of Rs. 11 crore. Even then, the Company failed to deposit the amount of service tax. Ultimately, after a delay²⁸ of 329 days, the Company deposited, on 29 September 2008, Rs. 12.25 crore towards service tax (Rs. 11 crore) and avoidable interest (Rs. 1.25 crore). Moreover, the Company had not paid interest of Rs. 3.75 lakh on the cesses of Rs. 32.04 lakh. In addition, the Company was liable to pay penalty of Rs. 2.42 crore for failure to pay service tax in time.

The Government / Management stated (August 2009) that as it was not clear whether service tax was payable on such receipt, and the same was paid only after obtaining (September 2008) a legal opinion. However due to non-payment of service tax in time, the Company earned interest on the amount of service tax of Rs. 11 crore by way of lending activities. Further, they added that in terms of the Finance Act 1994, no interest was payable on the amount of cess.

The reply does not address the fact that earning of interest by withholding the payment of statutory dues is contrary to the accepted principles of corporate financing and indicates lax corporate governance. Further the reply was silent as to why the management obtained legal opinion after a lapse of one year from the date of receipt of the amount from TSL. The contention that interest is not payable on cess is contrary to the provisions of the Finance Act 1994, as cess forms a part of the total tax due.

The Company should evolve a system for monitoring timely payment of all statutory dues. Accountability needs to be fixed in the instant case.

²⁸ From the due date *viz.* 5 November 2007.

West Bengal Electronics Industry Development Corporation Limited

4.13 Unauthorised retention of Government money

In violation of Government directives, West Bengal Electronics Industry Development Corporation Limited appropriated Rs. 4.24 crore on sale of land and building of a closed subsidiary.

Under a scheme for restructuring the State Public Sector Enterprises, Government of West Bengal (Government) decided in February 2004 to close down five²⁹ subsidiaries of West Bengal Electronics Industry Development Corporation Limited (Company) and offer early retirement to all their employees. The assets and liabilities of these subsidiaries were transferred in August 2005 to the Government. Subsequently, in terms of Government directives (November 2005) the Company disposed of the assets of these five subsidiaries and deposited the net proceeds of Rs. 2.58 crore in June 2008 into a re-structuring fund administered by the Public Enterprises department of the Government.

It was noticed (December 2008) in audit that the book value of the land and buildings of Webel Carbon & Metal Film Resistors Limited was Rs. 14.04 lakh as of 31 March 2005. This land and buildings had earlier been rented³⁰ out in March 2000 and August 2001. Since the land was originally leased (December 1981) by the Company to Webel Carbon & Metal Film Resistors Limited, it resumed (October 2006) the land and again sub-leased them in May 2008, for 90 years from September 2007, at a premium of Rs. 4.12 crore to the existing tenant. As per Government order (November 2005) this realisation, had to be deposited into the restructuring fund. Instead, the Company transferred to the restructuring fund only Rs. 14.04 lakh, being the written down book value of these land and buildings and appropriated the profit and accrued rent as its income.

Under Section 619(4) of the Companies Act 1956, the Comptroller and Auditor-General of India had commented (December 2008) on this unauthorised retention of profit on leasing out of land and buildings in the accounts of 2007-08. However, the Company had not transferred Rs. 4.24 crore to the restructuring fund as of March 2009.

While placing the comments of the Comptroller & Auditor General of India on the accounts for 2007-08 before its Members at its Annual General Meeting in December 2008, the Management stated that the Company had extended loans to meet the expenditure of the closed subsidiaries, which were written off after their closure. These loans were far in excess of the profit on leasing out of land and buildings. The Management reiterated

²⁹ Webel Video Devices Limited, Webel Carbon & Metal Film Resistors Limited, Webel Multimedia Limited, Webel Crystals Limited and Webel Capacitors Limited.

³⁰ 23,250 square feet at Rs. 12 per sqft with 50 *per cent* being withheld by the tenant towards cost of repairs and additions to the building made by the tenant *viz.* TCG Life Sciences Private Limited.

(October 2009) this in their reply and stated that the net proceeds deposited to the re-structuring fund of the Public Enterprises department included Rs. 1.42 crore towards lease rental income. The Government endorsed the views of the Management.

The replies do not address the facts that the Public Enterprises department had specifically clarified (May 2008) that loans taken from the Company by the subsidiaries could not be adjusted from the proceeds of sale of assets of those subsidiaries. Further, the remittance to restructuring fund did not include any amount out of the realisation of Rs.4.12 crore from sub-lease of the land. Moreover, no specific approval of the Public Enterprises department had been obtained for appropriating the lease premium. This led to unauthorised retention of Rs. 4.24 crore which was to have been deposited in the restructuring fund.

4.14 Loss due to inadequate monitoring

The Company suffered a loss of Rs. 1.02 crore in providing internet connectivity due to deficient contract management and inadequate control over billing and recovery of dues.

In order to provide internet services to corporate and individual customers, West Bengal Electronic Industries Development Corporation Limited (Company) obtained (October 2003) source bandwidth from two basic service providers³¹. Upto November 2008, the Company had provided connectivity links to 72 corporate customers directly from its own control room as well as to 69 local access providers (LAPs)³² for extending connectivity to individual and distant customers. The Internet Service Provider (ISP) division was responsible for this business segment.

Audit noticed that the outstanding dues from customers increased from Rs. 6.11 lakh in March 2004 to Rs. 1.81 crore in March 2008. Of this, Rs. 1.02 crore had become irrecoverable from 26 corporate customers and 37 LAPs for the following reasons:

- The Company had not executed agreements with corporate customers, while 54 out of 69 LAPs had entered into agreements with the Company for only one year. The agreements with 29 LAPs which expired between January 2005 and June 2008, were not renewed.
- It did not formulate a pricing mechanism for fixing bandwidth charges recoverable from customers. The same were fixed on the basis of negotiation. The agreements executed prior to April 2007 did not even indicate the bandwidth charge payable by the LAPs.

³¹ Bharti Broadband, Reliance Infocom

³² Local Cable Operators

- The Company had not obtained any security deposits/ bank guarantees from the LAPs/ corporate customers to safeguard its financial interest in the event of non-payment of bandwidth charges.
- The Company was to receive monthly bandwidth charges in advance from customers. In case of defaults, internet services to customers were required to be disconnected. However, it did not raise monthly bills on the LAPs alongwith system generated log to ensure accuracy in collection. Though the monthly bandwidth charges were not received in advance, the Company took no action to disconnect services, but continued to provide the service. Ultimately, it disconnected the services to 26 corporate customers and 37 LAPs after a delay of two to three months (12), three to five months (6), five to 10 months (30) and 10 to 12 months (15).
- The ISP division neither monitored the performance of LAPs nor reviewed the position of dues recoverable from customers.

Thus, due to deficient contract management, inadequate monitoring and control over billing and recovery of dues, the Company failed to recover the dues of Rs. 1.02 crore from 26 corporate customers and 37 LAPs, which had discontinued the business with the Company between October 2004 and April 2008. In the absence of security deposits/ bank guarantees, prospect of recovery of dues from these customers are bleak.

The Management stated (June 2009) that new agreements with LAPs and change in existing billing system would be implemented by June 2009 after addressing all legal and technical issues. Besides, the Company had appointed a consultant for formulating a pricing policy and price list and had also engaged an outside agency for regular follow up and collection of dues from customers. It further stated that legal action had been initiated against the defaulting LAPs. However, the Management did not offer any explanation as to why such action had not been initiated earlier.

The deficient handling of business has a considerable impact on the business segment which earned a profit of Rs. 3.54 crore during 2003-04 to 2007-08. The doubtful debts at Rs 1.02 crore constituted 29 *per cent* of its segment profit. The Company should address the deficiencies urgently and streamline the system.

The matter was reported to the Government (April 2009); their replies had not been received (September 2009).

West Bengal State Food Processing Industries and Horticulture Development Corporation Limited

4.15 Investment in unviable project

The Company invested Rs. 1.75 crore to set up a cold store and pack house at Barasat for vegetable exports which remained unutilised even after two years of construction due to lack of demand from exporters.

In order to set up a 75 MT capacity cold store and pack house, at Haringhata in Nadia district, for vegetable exports at an estimated cost of rupees two crore, West Bengal State Food Processing Industries and Horticulture Development Corporation Limited (Company) prepared a project report for financial assistance from Agricultural and Processed Food Products Export Development Authority (APEDA). APEDA approved (November 2004) the proposal and agreed to finance the project to the extent of Rs. 1.47 crore. The balance of Rs. 53 lakh was met from a grant given by the State Government.

Meanwhile at the instance of the Government, the Company changed (December 2004) the location of the pack house from Haringhata to Barasat in North 24-Parganas district given its proximity to the airport, abundant availability of vegetables in the district and the existence of big food processing units in the area. However, it was noticed that no project report regarding the viability of the project at the new site was prepared. Market survey of export potential of vegetables grown locally was also not conducted.

The Company started the work in September 2005 and the pack house was completed in October 2006 at a cost of Rs. 1.75 crore. The Company initially decided (January 2007) to operate the pack house for six months on trial basis. Against the monthly average expenditure of Rs. 0.54 lakh, the Company did not realise any rent from the pack house in the first six months since there was no response from vegetable growers / exporters.

During November 2006 to April 2008, the Company incurred Rs. 14.43 lakh towards electricity, security and maintenance expenses of the pack house. It was observed that while the initial project report envisaged earnings of Rs. 1.98 crore in the first two years of operation including income of Rs. 1.71 crore from export activities, the Company earned only a nominal rent of Rs. 0.41 lakh. This led to a cash loss of Rs. 14.02 lakh.

It was clear from the initial project report that without export business, the pack house would not be viable since rental income from pack house and storage was inadequate to generate break-even contribution. But the Company had not taken any steps to promote export business for operating the pack house profitably. Moreover, instead of investigating the reasons for lack of demand for services provided by the pack house, the Company attempted to lease out the pack house to private parties. No response was,

however, received though repeated tenders (January 2007/ September 2007/ July 2008) were invited.

Thus, the failure to promote vegetable export and address the factors underlying the lack of demand led to idle investment of Rs. 1.75 crore due to the pack house becoming unviable, and also to a cash loss of Rs. 14.02 lakh.

While admitting the audit observation, the Management stated (October 2009) that export from the pack house was found to be uneconomical to the exporters due to high air freight. It also stated that the project might not be considered unviable as the Company had decided to lease out the pack house to a private party. The reply indicates lack of proper feasibility study at project inception stage since the economics of export was vital for the success of the project. Further, though the Company had agreed to lease out the pack house, the party had not turned up till date (October 2009).

The Company should take up projects based on realistic market surveys and viability studies.

The matter was reported to the Government (June 2009); their reply had not been received (October 2009).

West Bengal Agro Industries Corporation Limited, The Electro Medical and Allied Industries Limited and West Bengal Tea Development Corporation Limited

4.16 Excess contribution to provident fund

By failing to take steps to declare sickness, three sick industrial companies, continued to contribute at 12 per cent towards employer's share instead of 10 per cent permissible under the Employees' Provident Fund and Miscellaneous Provisions Act 1952, leading to excess contribution of Rs. 68.99 lakh.

With effect from 22 September 1997, the Employees' Provident Fund and Miscellaneous Provisions Act 1952 (Act) enhanced the employer's contribution to Provident Fund from 10 to 12 per cent of each employee's basic wages, dearness allowance including cash value of any food concession allowed and retaining allowance³³ for certain establishments or class of establishments. However, industrial companies³⁴ which had accumulated losses in any financial year equal to or exceeding 50 per cent

³³ An allowance payable to retaining the service of an employee for the time being during the period in which the establishment is not working.

³⁴ Such companies are sick industrial companies within the meaning of Sec 46AA of the Companies Act 1956

of its average net worth³⁵ in the four years immediately preceding such financial year, as well as establishments which had at the end of any financial year accumulated losses equal to or exceeding its entire net worth, were permitted to contribute at 10 *per cent*.

On 22 March 2004, 4 November 2004 and 8 November 2005 West Bengal Agro Industries Corporation Limited (AICL), The Electro Medical and Allied Industries Limited (EMAIL) and West Bengal Tea Development Corporation Limited (TDCL) adopted their annual accounts for 2002-03 reflecting an accumulated loss of Rs. 33.65 crore, Rs. 7.85 crore and Rs. 66.96 crore respectively. It was noticed (February/ June 2009) in audit that this loss was 61 *per cent* of the average net worth of EMAIL in 1998-2002 and exceeded the net worth for AICL and TDCL in 1998-2002. Therefore EMAIL, AICL and TDCL were permitted to contribute at 10 *per cent* to the provident fund of its employees. However, these Companies continued to contribute to provident fund at the higher rate of 12 *per cent*. This led to an excess contribution of Rs. 68.99 lakh³⁶ during 2003-08.

The EMAIL stated (May 2009) that as its accumulated cash loss had exceeded the net worth only in 2007-08, the Government and Provident Fund Commissioner were being moved for approval to reduce employer's contribution from 12 *per cent* to 10 *per cent*. The reply does not address the fact that EMAIL had accumulated losses in 1998-2002 exceeding 50 *per cent* of its average net worth but had failed to apply to reduce its rate of contribution.

AICL and TDCL claimed that they were not 'industrial companies' and therefore not permitted to contribute at 10 *per cent*. The replies overlook the fact that 'establishments' having accumulated losses equal to or exceeding their net worth are permitted to contribute at 10 *per cent*.

Thus, the Companies' failure to obtain relief under the Act *ibid*, resulted in excess contribution of Rs. 68.99 lakh towards employer's contribution to provident fund at higher rate of 12 *per cent* instead of 10 *per cent* from 2005-06 to 2007-08. The higher rate of contribution continued in 2008-09 and 2009-10.

The Companies / Government should take appropriate measures to improve financial performance or else consider all possible avenues of cost cutting including reduced contribution to provident funds.

The matter was reported to the Government (July 2009); their replies had not been received (September 2009).

³⁵ Aggregate of paid-up capital and free reserves after deducting the prescribed provisions or expenses

³⁶ West Bengal Agro Industries Corporation Ltd. : Rs20.82 lakh for 2004-08, The Electro Medical and Allied Industries Ltd: Rs 22.96 lakh for 2005-08 and West Bengal Tea Development Corporation Ltd.: Rs 25.21 lakh for 2006-08

West Bengal Infrastructure Development Finance Corporation Limited

4.17 Loss of interest due to inadequate controls

Due to inadequate controls the Company paid the redemption value of bond of Rs. 25 crore twice to Life Insurance Corporation of India and obtained a refund after delays of 137 to 167 days, leading to loss of interest of Rs. 85.61 lakh.

West Bengal Infrastructure Development Finance Corporation Limited (Company) proposed (July 2000) to issue bonds for Rs. 300 crore guaranteed by the State Government, by way of private placement, to finance infrastructure development project in the state. The bond issue, consisting of two options for tenure of 10 years and seven years, carried interest of 13 and 12.75 *per cent per annum* respectively, payable semi-annually.

Based on the offer of the Company, Life Insurance Corporation of India (LIC) agreed (July/ August 2000) to invest Rs. 75 crore in 10 year bonds and Rs. 25 crore in seven year bonds. LIC also suggested that the Company create a sinking fund with LIC Housing Finance Limited (LICHFL) to deposit the required monthly amount, so as to yield a maturity value of Rs. 75 crore and Rs. 25 crore at the end of tenth and seventh year respectively for matching the redemption amount of the bonds. It also proposed that the Company enter into a tripartite agreement involving LIC and LICHFL to ensure the contribution to the sinking fund and timely repayment to LIC. The Company agreed (August 2000) to the proposal and allotted (1 October 2000) bonds worth Rs. 75 crore for 10 year and Rs. 25 crore for seven year tenure to LIC. The Company also created a sinking fund by opening (16 November 2000) three recurring deposit (RD) accounts for 10 years (for Rs. 75 crore) and seven years (for Rs. 25 crore) carrying interest of 11 *per cent per annum* compounded semi annually with a monthly installment of Rs. 54.64 lakh. The Company, however, did not enter into any tripartite agreement for the arrangement made with LIC and LICHFL.

The seven year bonds matured on 30 September 2007. The Company repaid LIC Rs. 25 crore on the due date for redemption of bonds. Though there was a time lag of one and half months between the date of redemption of bond and the date of maturity of earmarked RD, the Company did not send any information to LICHFL regarding bond redemption. Consequently, LICHFL paid (November 2007) the maturity value (Rs. 25 crore) of RD account directly to LIC as per the arrangement. This double payment to LIC was not noticed by the Company till December 2007 due to inadequate monitoring and failure to co-relate the sinking funds with investments made. The Company requested LIC to refund the excess amount paid towards bond redemption only in January 2008. After lapse of 137 /167 days from the date of maturity of RD account, LIC/ LICHFL refunded the excess amount in March 2008

(Rs. 23.44 crore) and April 2008 (Rs. 1.56 crore). Though the Company lodged (September 2008) a claim of interest with LICHFL on delayed repayment of maturity value of recurring deposit, no payment was received from them till April 2009.

Thus, due to inadequate controls and monitoring over the redemption procedure with the sinking fund, the Company suffered loss of interest of Rs. 85.61 lakh³⁷.

The Company should develop a strong monitoring mechanism so that double payments could be avoided. Accountability needs to be fixed in the instant case.

While accepting the audit observation, the Government/ Management stated (October 2009) that the double payment should not be construed upon as a gross lapse of the management since they were not aware of the co-relation between the sinking fund investments and bond redemption because of non-availability of relevant documents.

The fact, however, remains that non-availability of relevant documents was a fall out of non-finalisation of the tripartite agreement. Even in the absence of agreements, the lack of awareness relating to time and method of discharging of a liability reflects upon the poor internal control mechanisms.

Sundarban Infrastructure Development Corporation Limited

4.18 Extra expenditure on installation of tubewells

The Company incurred extra expenditure of Rs. 66.52 lakh in sinking 323 tubewells due to payment towards extra items, allowing higher rates and increase of rates beyond the Schedule of Rates.

Sundarban Infrastructure Development Corporation Limited (Company) undertakes the construction of roads, bridges, buildings, jetty, sinking of tubewell *etc.* in the Sundarban area as deposit works on behalf of other departments of the State Government. The Company follows the Schedule of Rates (SOR), prepared by Sundarban Development Project Circle (SDPC) of the Sundarban Affairs Department, for preparation of cost estimates for different works.

The Company prepared (January 2008) the estimates at Rs. 1.13 crore³⁸ for installation of 101 tubewells in 11 blocks of Sundarban area. All except four of the items included in the cost estimates were as stipulated in the SOR. However, while preparing a subsequent estimate (February 2008) at

³⁷ At the rate of 9 *per cent*, being the cost of fund, for Rs. 23.44 crore on the delayed period of 137 days and for Rs. 1.56 crore on the delayed period of 167 days.

³⁸ To be funded by Sundarban Development Board (SDB).

Rs. 3.50 crore³⁹ for installation of 306 tubewells in 14 blocks, the Company enhanced the rates for all the 11 items by five to 20 *per cent* over the SOR though it had not been revised.

The Company invited a tender in January 2008 for 101 tubewells. The seven lowest bidders quoted their rates at 2.01 to 3.05 *per cent* below the estimates of January 2008. Work orders were accordingly issued (February 2008) for installation of 101 tubewells in 11 blocks⁴⁰ at a total cost of Rs. 99 lakh. Subsequently, tenders were invited (March/May 2008) for 306 tubewells. The same bidders quoted (March/May 2008) one to 1.5 *per cent* above the already inflated estimates of February 2008. The Company issued (March- May 2008) 15 work orders to seven contractors for installation of 306 tubewells in 14 blocks⁴¹ at the lowest tendered rates aggregating Rs. 3.50 crore. The contractors had installed 323 tubewells till November 2008.

Audit observed that the Company had incurred an extra expenditure of Rs. 66.52 lakh in sinking 323 tubewells as discussed below:

- The Company enhanced (February 2008) the rates of all the items by five to 20 *per cent* over the SOR. No reasons for such enhancement were on record. This led to extra expenditure of Rs. 35.54 lakh on installation of 251 tubewells.

The Management stated (April 2009) that the Company did not incur extra expenditure because estimate was prepared keeping in view of sudden hike of price of all the materials including the rates of sinking of tubewell and enhancement of rates in PWD-SOR. The reply does not address the fact that revised PWD-SOR was effective from 15 May 2008, whereas the Company prepared the estimate in February 2008 and issued work orders in March (282 tubewells) and May 2008 (only 24 tubewells). Moreover, in the revised SOR, there was no hike in prices of either material actually used by the Company or labour charges involved

- In addition to the cost of G.I. pipes, an additional amount of Rs. 9.50 per metre of G.I. pipe was allowed on the grounds that the work was within the riverine areas of Sundarban. Further, Rs. 200 per metre was allowed towards labour charges for filling up of the space between tubewell assembly and borehole with coarse sand. The SOR did not include these items and Sundarban Development Board had not allowed such items in the estimates of similar works in the same area. The Company incurred extra expenditure of Rs. 21.68⁴² lakh on these two accounts.

³⁹ To be funded by Public Health Engineering department (PHED).

⁴⁰ Canning-II, Patharpratima, Namkhana, Canning-I, Mathurapur-II, Jaynagar-II, Mathurapur-I, Basanti, Jaynagar-I, Kultali, Kakdwip.

⁴¹ Canning -II, Patharpratima, Namkhana, Canning-I, Mathurapur-II, Jaynagar-II, Mathurapur-I, Basanti, Jaynagar-I, Kultali, Kakdwip, Hasnabad, Sagar, Minakhan.

⁴² At the rate of Rs. 9.50 per metre for 92,239 metres plus labour charges at the rate of Rs. 200 per metre for 6,460 metres.

The Management stated that packing of the filter zone is required to prevent choking up of vacant area of the filter by fine sand after water is sucked out by the tubewell. Therefore labour charges for filling up of annular space with medium coarse sand is justified as this will enhance the life of the tubewell. The reply does not address the fact that as per the hydrological report, selected aquifer zone at 300 metre was composed of medium sand which had good porosity and permeability. This rendered the expenditure on additional packing redundant.

- The Company allowed Rs. 5.02 lakh towards labour charges to four contractors for unsuccessful boring of tubewells by them though no such clause was provided for in the 'conditions of the contract'.
- Though the SOR allowed Rs. 755 per metre for brass jacketed strainers, the Company allowed a higher rate of Rs. 984 per metre leading to extra expenditure of Rs. 4.28 lakh on 1872 metres of strainer.

The Management argued that in PHE - SOR rate of strainer was Rs. 1179 per metre and this rate was further justified by enhancement of rates in PWD-SOR. The contention is contrary to the fact as PHE document is not a schedule of rate but a mere estimate prepared in December 2008. Hence, not relevant for the instant work. Further, revised PWD-SOR did not include the rates of brass jacketed strainer.

Thus, the Company by deviating from its policy of following SOR prepared by SDPC incurred an extra expenditure of Rs. 66.52 lakh in sinking 323 tubewells due to payment towards extra items, allowing higher rates and enhancement of rates beyond those admissible under the SOR.

The Company needs to ensure that while preparing estimates the SOR prepared by SDPC is followed.

The matter was reported to the Government (March 2009); their reply had not been received (September 2009).

**West Bengal Agro Industries Development Corporation Limited
and West Bengal Film Development Corporation Limited**

4.19 Loss of interest due to poor fund management

The two companies kept funds in non-interest bearing current accounts and failed to gainfully deploy the funds leading to loss of interest of Rs. 43 lakh.

West Bengal Agro Industries Corporation Limited (WBAICL) is engaged in purchase and sales of seeds, pesticides, power tillers, tractors and agricultural implements etc through its head quarters, central stores, both at Kolkata and at twenty district outlets. The sale proceeds are transferred to

current accounts with six banks⁴³, maintained at the head quarters in Kolkata. Similarly, West Bengal Film Development Corporation Limited (WBFDCCL) was formed to promote the development of film industry in the State. The State government placed funds with the Company for disbursement to the film producers (the ultimate beneficiaries) and to carry out promotional activities. These funds were deposited in current accounts at Kolkata and Siliguri till final disbursement.

Scrutiny revealed that both the companies did not prepare cash budgets to forecast their cash requirement and identify surplus funds for gainful deployment. As a result, minimum balances ranging from Rs. 35.90 lakh to Rs. 554.33 lakh (WBAICL) during the period April 2006 to March 2009, and from Rs. 69.70 lakh to Rs. 197.55 lakh (WBFDCCL) during the period April 2006 to September 2008, remained idle without generating any interest. Consequently, the Companies suffered loss of interest of Rs. 43 lakh⁴⁴, computed at 4.5 per cent to 5 per cent rate of interest available on 30 day fixed deposits, during the same period.

In reply, Government stated (September 2009) that WBFDCCL was mere custodian of the funds ear-marked for Nandan⁴⁵, and since payments had to be released as and when Nandan requisitioned it, they had no control over such funds. However, an estimate of cash requirements with reference to past records could have assisted in gainfully deploying surplus funds and interest could have been earned on the same. No such estimate was prepared by the Management.

WBAICL stated (September 2009) that though they had back to back arrangements for payment to suppliers on receipt of payments from various departments, it was difficult to prepare cash budgets and forecast cash requirements since the business of the Company depends on orders of various Government departments. Further, opening /closing balances of a bank account could not be a yardstick for determining idle fund. It also stated that the Company arranged an auto-sweep facility to earn interest on idle funds in 2008-09. The reply overlooks the aspects that (i) back to back payments facilitate preparation of cash budgets more accurately rather than hindering it. (ii) Loss of interest, as calculated, was based on minimum monthly balances after meeting all expenses and (iii) even after transfer of fund under auto sweep arrangement minimum monthly balances aggregating Rs. 32.93 crore was noticed in six banks during 2008-09 which could have been gainfully utilised.

The matter in respect of WBAICL was reported (August 2009) to the Government, but their reply had not yet been received (September 2009).

⁴³ State Bank of India, United Bank of India, Central Bank of India, Bank of India, Union Bank of India, Punjab & Sind Bank.

⁴⁴ WBAICL-Rs.28 lakh, WBFDCCL- Rs.15 lakh.

⁴⁵ A theatre under the Information & Cultural Affairs Department, Govt of West Bengal.

West Bengal Forest Development Corporation Limited

4.20 Information Technology review of on-line booking system

Introduction

4.20.1 The West Bengal Forest Development Corporation Limited (Company) introduced an online computerized booking system for booking 379 rooms at 19 Ecotourism resorts from the year 2003. The application was developed by a private vendor using SQL Server 2000 as RDBMS and ASP.Net 3.0 as front-end tool. The software was operated by the Head office, all eight divisions and by 16 booking agents. Rooms could be booked only by the users of the system. Availability of rooms/lodges could be checked from the website of the Company by the general public. The existing hardware in the Company was utilised for the on-line booking system (OLBS). Besides, an expenditure of Rs. 7 Lakh was incurred on software, annual maintenance contract etc. during the period 2003-04 to 2008-09.

Absence of policy formulation

4.20.2 The Company was unable to formulate a well defined computerization policy for OLBS even six years after the application was being used. It had yet to formulate important policies relating to computerization like the 'Password policy', the 'back-up policy', 'business continuity plan' and overall Company's IT policy/ strategy. No post implementation review was conducted to evaluate whether the system met the envisaged requirements. The Management in its reply accepted the system shortcomings and stated that due to lack of technical expertise, the Company could not submit its user requirement specification (URS).

Absence of administrative control

4.20.3 The Company also failed to formulate a strong administrative procedure to control the users of OLBS which resulted in creation of multiple users having super-user (with all administrative powers) privileges and a number of additional users. The System failed to generate any log; in absence of which it was difficult to fix responsibility for manipulation of data. There were repeated instances of editing of reservation data and manual cancellations of reservation without updating the system, booking of rooms without advance and deletion of records. The management had no effective control over the users of the system, their privileges and their actions. They failed to formulate any hierarchy of authorization in cases where modification of room tariff, deletion or editing of records was required. The Management stated in reply that proper measures for addressing the deficiencies would be initiated.

Control deficiencies

Lack of validation control

4.20.4 The OLBS neither had mechanism for recording the IP address of the computer interacting with its booking system nor did it provide any audit trail and system logs. It allowed booking of any lodge/hut even prior to the current date. It was seen that the system was so designed that booking of any lodge/hut could have been done even prior to the current date. A room of one ecotourism spot (Samsing) was booked for 09 June 2009 on 26 June 2009. The system not only accepted the data but generated the reservation printout. Later, this particular record was deleted from the database from the front end application without leaving any trail in the system.

The application accepted input data and bookings could be done for one year in advance in contravention to company's rule of three months in advance of the current month (maximum 123 days in advance). Data analysis revealed that in nine cases bookings were made in advance of the maximum period of 123 days and up to 145 days. Thus the system could be manipulated to block bookings during the peak season. Test data was entered in the front end by changing the system date. The application accepted the data and bookings were successfully done for one year in advance. Thus the system could not distinguish between system date and server date.

Deletion of records

4.20.5 The system had an unusual provision of allowing a super user to delete any entry from the front end of the database, without recording a reason making it impossible to ascertain when, how and why important data were deleted. Data analysis revealed that 1950 gaps existed in system generated unique serials (FDC_ID) during 2005-06 to 2008-09.

Pre-printed permit-cum-money receipts were mandatory for occupancy of a reserved room. No manual as well as system check existed to prevent misuse by capturing the serial number of each permit-cum-money receipt to ascertain which Unique number (FDC_ID) was provided with which serial number of permit-cum-money receipt. Test check revealed that whereabouts of as many as 29,501 such receipts out of 90,000 receipts printed were not known to the Company. The Management stated in reply that steps would be taken to trace the missing printed tickets.

Other points

Under crediting of luxury tax to Government accounts

4.20.6 Luxury tax collected at source on realised room rents was required to be deposited quarterly by the Divisional Managers to the District Agricultural Income Tax Officer stating the head of account on the face of the deposit challan. As bulk of the bookings of the eco-tourism resorts

were carried out from the booking office at Kolkata, most of the luxury tax payable at the Divisional offices was collected at the Head office. The system should have in-built module to calculate the luxury tax collected at point of booking, pertaining to each division/resort. Scrutiny of manual records revealed that during 2006-07 to 2008-09, the Corporation collected Rs. 10.46 lakh as luxury tax but the system exhibited the luxury tax component as Rs. 2.37 lakh (upto February 2009). Thus the booking system could not even correctly calculate the total luxury tax collected. These figures reflect that the software failed to aid the management in correctly ascertaining Government revenue collected by the Company from the public, resulting in possible under crediting of Government revenue. The Management stated in reply that the software developer would be instructed to develop modules for proper accountal of luxury tax and efforts were being made to reconcile the payment of luxury tax division wise as per collection figures.

Non integration of accounting modules with the system

4.20.7 Annual accounts of the Company for the years 2003-04 to 2007-08 exhibited revenue of Rs. 6.73 crore realised from rents of rooms/lodges. Interestingly, system generated MIS reports understated the figure and reported it as Rs. 6.06 crore. The difference was due to manual cancellation under special contingent conditions, non adjustment of subsequent receipts realised against bookings made without advance payment and deliberate deletion of records. Thus, the management failed to obtain a true and fair view of receipts from eco-tourism from its OLBS due to non integration of accounts module.

Agents' commission not embedded in the software

4.20.8 Though the OLBS was in place since 2003-2004, no MIS report on dues payable/receivable by/from agents was available. The manual ledger system and computerised data pertaining to revenue (booking amount) collected by agents varied and did not reflect the actual position. Data analysis revealed that during 2007-08, two agents Wander Vogel Adventures and Tour-n-Travel remitted Rs. 1,283 and Rs. 8,725 in excess of their collection. In some cases, it led to under realization of revenue. As of March 2008 Wheels had a debit balance of Rs. 51, 805 (sum payable to Company).

The ledger exhibited unrealised amount of Rs. 14.28 lakh in respect of four agents since 2007-08. Neither any entry for 2008-09 had been made nor any penal interest imposed on unrealised amounts.

Thus, the Company was not in a position to accurately specify revenue receivable from any agent or commission payable to any agent, depending on the computerized MIS generation capability.

Conclusion

Though, the Company had made a beginning by creating a website and providing platform for online reservation for its ecotourism resorts, there were various defects in the system. No system log was created, passwords were stored in unencrypted form and the software had provisions for editing and deleting data from the front-end. It had poor validation controls which resulted in generation of erroneous MIS. The booking system failed to calculate the agents' commission, to reconcile the receipts of the Corporation and to calculate the luxury tax payable division wise, which was necessary for effective management information system and internal control.

The management failed to ensure adequate control over the users of the system, their privileges and their action.

Recommendation

In order to enhance revenue from OLBS, payment gateway facilitating payment through debit/credit card should be introduced. Proper IT Security policy along-with a business continuity plan, disaster recovery plan required to be formulated and implemented. There should be proper input controls and validation checks to ensure correct data entry. Changes in business rules/logic should be incorporated and critical information captured in the system so that accurate and timely MIS are generated to aid the management in effective decision making.

4.21 Follow-up action on Audit Reports

Outstanding departmental replies on paragraphs appeared in the Audit Reports

4.21.1 Reports of the Comptroller and Auditor General of India contain observations arising out of scrutiny of accounts and transactions of various Government companies and Statutory corporations. Therefore, it is necessary that the executives give appropriate and timely response to them. Finance Department, Government of West Bengal instructed (June 1982) all the administrative departments to submit explanatory notes to the West Bengal Legislative Assembly with corrective/ remedial action taken or proposed to be taken on the observations included in the Audit Reports within one month from the date of communication of laying of the Audit Reports in the State Legislature.

Though the Audit Reports for the years 2002-03, 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 were presented to the State Legislature in August 2004, August 2005, July 2006, March 2007, March 2008 and July 2009 respectively, 14 departments, whose activities were commented upon did not submit their explanatory notes on 44 out of 160 paragraphs/ reviews as of September 2009, as indicated in **Annexure 20**. It would be

seen from the annexure that the departments largely responsible for non-submission of explanatory notes were Public Enterprises, Power, Commerce and Industries, Finance and Transport. Government did not respond to even paragraphs / reviews highlighting important issues like misappropriation, fraud, system failure, mismanagement, non-adherence to extant provisions, etc.

Outstanding action taken notes on the Reports of the Committee of Public Undertakings (COPU)

4.21.2 Reports of the COPU presented to the Legislature contain recommendations and observations on which administrative departments are required to submit their Action Taken Notes (ATNs) within six weeks from the date of receipt of COPU recommendations. Even after the lapse of nine to 123 months, six departments did not furnish the ATNs on 36 recommendations relating to 12 COPU Reports presented (June 1999 – December 2008) to the State Legislature (**Annexure 21**).

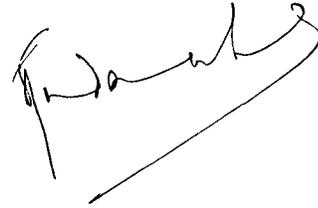
Response to the Inspection reports, draft paragraphs and reviews

4.21.3 Irregularities/ shortcomings noticed during the periodical inspections of Government Companies/ Corporations and not settled on the spot are communicated through the Inspection Reports (IRs) to the respective heads of PSUs and the concerned departments of the State Government. The heads of PSUs are required to furnish their replies to the IRs through the respective heads of the departments within a period of six weeks. A half - yearly report is being sent to the Principal Secretary/ Secretary of the departments in respect of pending IRs to facilitate monitoring of the audit observations in those IRs.

The Inspection Reports issued up to March 2009 pertaining to 36 PSUs disclosed that 191 paragraphs relating to 80 IRs remained outstanding at the end of September 2009, of which 16 IRs containing 35 paragraphs had not been replied to, though more than two years had elapsed. The department-wise break up of IRs and audit observations as of September 2009 is given in **Annexure 22**. In order to expedite settlement of the outstanding paragraphs, Audit Committees were constituted in 16 out of 21 departments. These committees settled 248 paragraphs in 40 meetings during 1997-2009.

Similarly, the draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. It was, however, noticed that the six draft paragraphs and two draft performance audit reviews forwarded to various departments during March to September 2009, as detailed in **Annexure 23** had not been replied so far (October 2009).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports/ draft paragraphs/ reviews and ATNs on recommendations of COPU, as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ over-payment is taken within the prescribed period; and (c) system of responding to audit observations is revamped.



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