Chapter III

3 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

The Durgapur Projects Limited

3.1 Loss due to preventable breakdown of power plant

The Durgapur Projects Limited incurred expenditure of ₹ 18.23 crore on repair to rotors of Unit 7 power plant damaged due to faulty operation and delayed intervention and had to forgo annual fixed charges of ₹ 393.77 crore.

The Durgapur Projects Limited (Company) put into commercial operation (30 April 2008) Unit-7 power plant (capacity: 300 MW), which was supplied and erected by Dongfang Electric Corporation (DEC), China at a contractual price of US$ 12.47 crore (imported items) and ₹ 240.91 crore (indigenous items). Under the contract, guarantee period was twelve months from the date of commercial operation (COD) and performance guarantee (PG) test[1] of plant was to be conducted within two months from COD. PG test could not be conducted within the specified period. With the view to avoid primary risk of operating the Unit, the Company entrusted its' operation and maintenance to DEC during 2008-09. Subsequent handing over of the Unit by DEC to the Company was not documented.

The Company shut down (June- August 2009) Unit-7 for preparatory and other repair jobs necessary for PG test. But the test could not be undertaken due to the Company's failure to undertake rectification of all listed defects identified by DEC besides certain systems remaining out of service since inception. Ultimately, the Unit was shut down for PG test in first fortnight of May 2010.

On 30 May 2010 while the test of electrostatic precipitator (ESP) was in progress the feed water bypass valve of high pressure heater (HPH) No. 3 was in open condition as the actuator was out of order and the inlet and outlet

[1] Ensure different guaranteed parameters of plant like unit heat rate, auxiliary energy consumption, running of plant above 40 *per cent* load without oil support, achievement of full load, fulfilment of emission norms *etc.*

valves of the HPH were opened manually. Consequently, the entire area was engulfed in steam, which then found its way through the cable room to the uninterrupted power supply (UPS) room. This caused earth fault of both UPS with loss of power to the digital display control panel (DDC) as well as de-energisation of the trip solenoids and tripping of the turbine.

When the turbine is tripped, it is put on turning or barring gear automatically to keep turbine shaft rotating while a fully functional lubricating system reduces friction and keeps the surfaces cool. If it is suddenly halted, the rotors may bend and get distorted. When the turbine tripped, the lubricating oil pumps (LOP) of Unit 7 did not start automatically due to lack of power and as a result, the turbine could not be put on barring gear. Consequently, the rotor and bearings of turbo-generator got damaged.

The Company got the damage assessed (June – September 2010) through DEC, NTPC[2] and BHEL. The Company placed (September 2010) order for repair of rotors in China, supply of spares and dismantling/ re-assembling of turbine/ generator at a cost of ₹ 14.33 crore on DEC, besides incurring marine insurance and freight aggregating to ₹ 3.90 crore. The Company met this expenditure out of bank loan of ₹ 14 crore bearing interest of 10.5 *per cent per annum*, drawn between November 2010 and May 2011, and the balance from own sources. The Unit was commissioned on 29 August 2011. The Company had issued (December 2010/ January 2011) charge sheets against the delinquent officers.

We observed that this damage to rotors was preventable since –

- DEC had called for (28 May 2010) emergency rectifications of the turbo-generator including malfunctioning actuator of HPH No. 3. As the repair had not been taken up, the feed water bypass valve remained in open condition resulting in leakage of steam.

- The leakage from HPH No. 3 continued for three hours till UPS earth fault occurred. Although the root cause for rise in HPH pressure could not be ascertained within reasonable time, the Unit was not tripped.

- When the turbine tripped, no attempt was made to start the jacking oil pump manually, to inject lubricating oil at high pressure at the bottom of the turbo-generator shaft and prevent friction and wear. This led to damage of the turbine bearings and the turbine could not be put on barring gear.

- Few safety features like emergency LOP switch at the back up panel of DDC; cutting off all fuel through FSSS[3] in the event of UPS failure *etc*. had not been commissioned since COD.

- All the delinquent officials against whom charge sheets had been issued were sent for training to China for two weeks to one month.

[2] National Thermal Power Corporation Limited and Bharat Heavy Electricals Limited.
[3] Furnace Safety Supervisory System.

Yet they failed to watch malfunctioning of the unit and were unable to take preventive action.

These factors had led to the Unit being out of operation for 10,929 hours from May 2010 to August 2011 due to rotor damage. The West Bengal Electricity Regulatory Commission (WBERC) had approved (September/ October 2008) annual fixed charges of ₹ 268.28 crore at 85 *per cent* plant availability for the year 2010-11. Consequently, the Company was unable to recover fixed charges aggregating ₹ 393.77 crore during this period. Moreover, the expenditure on repair worked out to ₹ 18.23 crore with interest on loan accruing to ₹ 69.82 lakh till August 2011.

Admitting the facts, the Government stated (August 2011) that failure of DDC resulting in damage of turbine rotor was mainly due to ingress of moist steam in UPS room for a prolonged period. This was an extremely unusual situation and occurred due to inability to identify the root cause for rise in steam pressure. They further added that though disciplinary proceedings had been initiated, damage to turbine rotor due to lubrication failure could not have been totally avoided since cutting of fuel supply automatically in case of UPS failure was not foreseen. The Management stated (August 2011) that a standby manual switch was being installed to cut the fuel supply.

The reply was silent about the lack of preventive maintenance required immediately before PG test, failure to trip the unit when root cause for rise in pressure could not be identified within reasonable time, failure to start oil pumps manually, non-commissioning of some of the safety features and negligence on the part of trained power plant officials. There was no mention of the preparedness of the Company to respond to any similar incident in future.

3.2 Extra expenditure for not availing of discount on oil price

The Company incurred extra expenditure of ₹ 9.17 crore on purchase of fuel oil due to their failure to sign an agreement with the supplier at a discounted price.

The Durgapur Projects Limited (Company) used to purchase oil and lubricants for their power plants from different suppliers, but due to co-ordination problems with more than one supplier, the availability of materials suffered. To avoid the problem, the Company entered (September 2003) into an agreement with Indian Oil Corporation Limited (IOCL) for a period of three years to purchase their entire requirements of fuel oil[4] from IOCL. During the period of the agreement, IOCL would maintain the parking inventory (PI) of 1,500 Kilolitre (Kl) FO on their own account at the storage of the Company. The Company was entitled to seven days credit from the date of invoice and a cash discount of ₹ 200 per Kl for payment made within seven days. Upto

[4]Furnace Oil (FO), Low Viscosity Furnace Oil (LVFO), Light Diesel Oil (LDO), Motor Spirit (MS), High Speed Diesel (HSD), lubricants and greases etc.

August 2006, the Company procured their entire fuel oil requirement from IOCL as per agreement and enjoyed the benefit of discount.

For renewal of the agreement, Management invited (September 2006) fresh offer from the IOCL and BPCL[5] and a price negotiation committee was appointed to evaluate the offers. IOCL offered a flat discount of ₹ 800 per Kl on purchase of any fuel oil, discount upto ₹ 325.54 per Kl on account of temperature variance allowance, ₹ 50 per Kl for prompt payment within 30 days and parking inventory benefit at the rate of ₹ 830 per Kl which was found to be more beneficial compared to BPCL's offer. The Committee recommended (September 2006) the acceptance of the offer. Instead of accepting the offer of IOCL, the Management, taking into account long term financial interest of the Company decided to further analyse the issues concerned. Consequently they decided (September 2006) to invite limited tenders and extension of the existing agreement was sought. IOCL agreed and extended the agreement for three months upto December 2006. However, limited tenders were not invited, reasons for which were not on record.

Meanwhile, Management focussed attention on the rising trend of oil consumption in power plants and concentrated on efforts to bring down consumption before deciding on the supplier. It was decided to resort to piecemeal procurement of oil in order to restrict over procurement and consequent over consumption.

But we observed that the high consumption of oil was basically attributable to operational inefficiencies like frequent tube leakage, non-availability of coal mill, increased use of vintage plants like Unit-I and II requiring oil support, forced outages leading to re-commissioning of different units *etc*. Thus, the decision of the Management to restrict procurement did not have any positive impact on actual consumption of oil as evident from the fact that it was high at 6.45 to 10.12 ml per unit of power generated during 2007-08 to 2009-10 against the norm of 2.85 to 2.45 ml as fixed by WBERC. On the other hand, it was counterproductive since the Company lost precious time in evaluating the offer of IOCL, despite clear indication of rising trend of market price of crude oil.

In the mean time, IOCL insisted (October 2006-February 2007) on maintaining of parking inventory of 1500 Kl which the Company was unwilling to do. After expiry of the earlier agreement in December 2006, the Company did not sign any fresh agreement with IOCL for purchase of their entire oil requirement for three years at a discounted price. From January 2007 to March 2008, IOCL allowed prompt payment discount of ₹ 200 per Kl, which they withdrew from April 2008. We observed that the Management's earlier decision (September 2006) to defer signing the agreement with the expectation of better terms, ultimately, proved to be detrimental to the financial interest of the Company as the later piecemeal procurement of oil was devoid of any benefit on account of discount.

[5] Bharat Petroleum Corporation Limited.

The Government/ Management stated (August 2011) that availability of sufficient oil in stock usually results in additional oil consumption. Further, while admitting the fact that the benefit of discount could have been availed between January 2007 and March 2008, they argued that it was not possible to save the loss from April 2008 onwards since IOCL withdrew discount and credit facility from April 2008.

The reply overlooked the fact that higher oil consumption was attributable to operational inefficiencies as would be evident from average monthly consumption trend of oil which was 1,042 Kl during September 2003 to December 2006 in comparison to 1,602.98 Kl per month for the period January 2007 to December 2009 when austerity measures were in force.

Though the earlier agreement expired in December 2006, the Company was enjoying discount and credit facility upto March 2008 as a goodwill gesture of IOCL.

Had the Company signed the agreement in January 2007 for a period of three years their financial interest could have been safeguarded.

Thus, by not signing the agreement within December 2006 the Company failed to avail discount of ₹ 9.17 crore[6] on purchase of 56,668 Kl oil during January 2007 to December 2009.

3.3 Extra expenditure on procurement of energy meters

Disregarding tariff requirement and CEA standards, the Company procured energy meters at higher rate leading to extra expenditure of ₹ 1.51 crore.

In August 2006, The Durgapur Projects Limited (Company) decided to procure 34,500 single phase, static, 2-wire whole current energy meters in compliance with directives of WBERC[7] for replacing the electromechanical meters with static meters as per standard[8] notified by Central Electricity Authority (CEA). Since the Company had not purchased energy meters earlier;[9] they consulted WBSEB[10] but drew up their own specifications based on model specifications supplied by the manufacturers.

Notice inviting tender (NIT) was floated in October 2006 without preparing an estimate. Only two bidders participated in the tender. After testing

[6] Flat discount @ of ₹600 (₹800- ₹ 200) per Kl for 17,501 Kl upto March 2008 and @₹ 800 per Kl for 39,167 Kl *plus* prompt discount @ ₹50 per Kl for 56,668 Kl *plus* parking benefit @ ₹ 830 per Kl for 56,668 Kl.
[7] West Bengal Electricity Regulatory Commission.
[8] For low and medium voltage domestic /commercial consumers CEA notified (March 2006) that meters should measure cumulative active energy, time of use of energy and have anti tampering features so that the meters do not become non-functional even if input/ output terminals and neutral are interchanged.
[9] Earlier, energy meters were bought by respective consumers.
[10] West Bengal State Electricity Board predecessor to West Bengal State Electricity Distribution Company Limited (WBSEDCL).

(January 2007) the meters, Secure Meters Limited (SML) was found to be the only technically acceptable bidder who quoted a price of ₹ 1,641 per meter. Due to poor response the Management cancelled (June 2007) the tender and decided to review tender specifications. Based on revised specifications, the Company again floated (July 2007) a fresh NIT without preparing an estimate. Technical bids were opened in September 2007 and the sample meters were tested (December 2007). Again only SML emerged as the technically qualified bidder. The price bid opened in January 2008 revealed that SML quoted price at ₹ 1,287.50 per meter. After negotiation with SML, the Company placed an order (February 2008) for 20,000 meters at ₹ 1,262.50 per unit. In September 2008, the Company, without ascertaining prevailing rate or consulting other distribution licensees, placed a repeat order for 10,000 meters on SML at ₹ 1,250 per unit to meet the remaining requirement for replacement of old existing meters.

We observed that -

- the Management included features in the specifications of meters like load profile recording and supply of one common meter reading instrument (CMRI) for every 2,000 meters free of cost without examining its actual requirement *vis-à-vis* cost;

- the then prevailing rate for supplying this type of standard meter was ₹ 757.71 per meter. WBSEDCL had awarded (July 2008) a contract for purchase of 2.50 lakh meters to Electronics Corporation of India Limited (ECIL) at ₹ 720 per unit. WBSEDCL again procured (September 2008) four lakh meters from ECIL at ₹ 739.71 per unit.

The Government/ Management stated (July 2011) that WBSEB had neither procured nor invited tender for such type of meters. Moreover, they did not concur with the audit observation that meters were purchased at a high rate in comparison with prices of ECIL as they were against a different platform and with different specifications. They further contended that additional features adopted in the specifications were justified and would be beneficial in increasing security money.

The contention overlooked the fact that **(a)** WBSEDCL had been procuring and using this type of meters of standardised specifications since January 2006 without additional features. **(b)** Management framed specifications which included additional features over and above the specifications prescribed by CEA. Moreover, as per WBERC's regulations,[11] the determination of security deposit for each consumer is to be based on three months estimated consumption of electricity for that consumer. Hence, for the purpose of determining security deposit, features like recording load profile were redundant. **(c)** Even conceding the requirement of CMRI, had the Management bought CMRI separately, it would have cost only ₹ 8.65 lakh compared to the total additional cost of ₹ 1.60 crore incurred for 30,000 meters.

[11] Regulation 23 of 18 October 2005.

Thus, the Company incurred extra expenditure of ₹ 1.51 crore[12] compared to cost of WBSEDCL due to procurement of meters having unnecessary specifications at higher rate disregarding the tariff requirement and CEA standard.

West Bengal Power Development Corporation Limited

3.4 Loss due to failure to remove ash from ash handling system

West Bengal Power Development Corporation Limited had not undertaken evacuation of ash leading to collapse of electrostatic precipitator with avoidable expenditure of ₹ 3.48 crore on repair. Besides, the Unit was on total and partial outages leading to under-recovery of fixed charge of ₹ 30.22 crore.

West Bengal Power Development Corporation Limited (Company) commissioned (November 2007) Unit V (capacity: 250 MW) at Santaldih Thermal Power Station (STPS) with commercial operation from 31 March 2009. Bharat Heavy Electricals Limited (BHEL) was the turnkey contractor for the main plant while ash handling plant (AHP) was supplied by United Conveyor Corporation (India) Private Limited (UCC) as sub-vendor and electrostatic precipitator (ESP) by BHEL – Ranipet. Till 14 November 2009, UCC was in charge of the operations and maintenance (O&M) of the AHP when the Company took over. The Unit was under planned outage till 14 December 2009 to address the issue of condenser vacuum problems which resulted in the Unit being operated at partial load of 150 to 160 MW. However, the Unit continued to be operated at partial load of 150 to 160 MW even after the planned outage due to problem of major ash accumulation.

From January 2010, the Company entrusted the work of O&M of ESP, AHP and vacuum pump house (VPH) including removal of fly ash for this Unit to D. C. Industrial Plant Services Private Limited (DCIPSPL). DCIPSPL was the O&M contractor for units-I and II at STPS. However, on 11 January 2010, when DCIPSPL attempted to undertake O&M work at Unit V, their employees 'were severely manhandled and beaten by local hooligans' despite assurance of security by the Company. Consequently, due to accumulation of ash in hoppers, ESP of the Unit collapsed on 25 January 2010 and the Unit had to be shut down.

Two ('A' & 'B') out of four passes of the ESP sustained severe damage while the remaining two ('C' & 'D') were partially damaged. The Company engaged (February 2010) BHEL to revive the partially damaged C & D passes and the Unit was synchronised on 20 February 2010 after total outage of 622 hours. Subsequently, the Unit continued to be operated[13] for 7,008 hours with a restricted load of 150 to 160 MW with only two passes till repair and

[12] (₹ 1262.51- ₹ 720) X 20,000 meters + (₹ 1250- ₹ 739.71) X 10,000 meters = ₹ 1.60 crore *less* ₹ 8.65 lakh being the cost of CMRI not procured by WBSEDCL= ₹ 1.51 crore.

[13] For 292 days from 21 February to 30 October 2010 i.e. 292 days X 24 hours = 7,008 hours.

re-commissioning of the A & B passes on 31 October 2010. During this period, DCIPSPL undertook O&M work. However, the Company incurred (October 2010) expenditure of ₹3.48 crore[14] on restoration of the damaged ESP (both exhausts) through BHEL, due to their lack of foresight to assess on-site situation accurately.

We observed (April 2010) that –

- In November 2009, the Company took over responsibility for O&M of the AHP without making alternate arrangements till January 2010. Moreover, the Company's personnel were not familiar with AHP system. Yet, in December 2009, the Company resumed generation without arranging for ash removal. Consequently, the Unit operated for 42 days[15] at 150 to 160 MW due to major problem of ash accumulation.

- To enable operation of the Unit and prevent tripping, the ESP fields were kept off. This allowed ash to accumulate beyond safety limits. Despite the frequent problem of ash evacuation being on record since December 2009, manual evacuation was not undertaken. This led to excessive ash accumulation beyond the safety limit. Yet, the Company continued to operate the Unit.

- Against target normative annual availability factor of 85 *per cent* for full recovery of annual fixed charge (₹ 107.46 crore), the Unit had achieved only 43.68 and 70.40 *per cent* in 2009-10 and 2010-11.

The Government stated (August 2011) that the DCIPSPL's employees were not well conversant with the systems of the new Unit. Moreover, the ash level indicator was faulty and level of ash accumulation could not be gauged. So rather than negligence by the Company's employees, it was a technical fault that was responsible for the breakdown. The reply was not convincing, as the Company was aware of the problems that led to collapse of the ESP but failed to arrange for timely manual evacuation of accumulated ash.

Thus, the Company's failure to remedy the problem of ash accumulation, arrange for timely manual evacuation and poor maintenance led to collapse of the ESP with avoidable expenditure of ₹ 3.48 crore on repair and the Unit was under total outage for 622 hours and partial outage for 7,008 hours during 2009-10 and 2010-11 resulting in non-realisation of ₹ 30.22 crore towards fixed charges in both these years.

[14] Material from BHEL-Ranipet at ₹1.30 crore with erection and services by BHEL- Power Sector (Eastern Region) at ₹2.18 crore.
[15] 14 December 2009 to 25 January 2010.

3.5 Avoidable burden on consumers

West Bengal Power Development Corporation Limited had not obtained requisite excise duty exemption on water treatment equipment and thereby paid avoidable excise duty of ₹4.52 crore towards cost of the equipment.

The Government of India exempted (September 2002) from excise duty, all items of machinery and components required for setting up water treatment plants to make the water fit for human or animal consumption as well as pipes needed for delivery of water from its source to the plant and from there to the storage facility. In January 2004, this benefit was also extended to water supply plants intended to make water fit for industrial use. Subsequently, from March 2006, water treatment plants supplying water for industrial use were no longer eligible for excise duty exemption. To avail of this exemption from January 2004 to February 2006, the users of such plant, machinery and components were required to obtain a certificate from the District Magistrate of the district certifying that such goods are cleared for the intended use and produce the certificate to Central Excise authorities.

West Bengal Power Development Corporation Limited (Company) issued (September 2004) letter of award for ₹ 55.81 crore on Subhash Projects & Marketing Limited (SPML) for raw water make-up system from Panchet Dam reservoir to STPS. STPS was located in Purulia district.

It was observed (April 2011) that the Company had not applied to the District Magistrate, Purulia for the requisite exemption certificates. Consequently, they paid (January 2005 – February 2006) excise duty of ₹ 4.52 crore to SPML that was avoidable.

The Government/ Management stated (August 2011) that the Company was not aware of the excise duty exemption and action had been taken to obtain refund of ₹ 4.52 crore paid to SPML between January 2005 and February 2006. Besides, the avoidable excise duty and its consequent effect on tariff of the project were 'very negligible' in comparison to total project cost. The reply was misleading since refund of excise duty cannot be obtained as the requisite certificate had not been obtained from the District Magistrate, Purulia. Moreover, in a commercially-operated generation utility, the Management should have explored all opportunities to minimise project costs, rather than burdening consumers to any extent.

Thus, by not obtaining requisite certificates, the Company had paid avoidable excise duty of ₹ 4.52 crore. This added to project costs which led to consumers being burdened with higher tariff.

3.6 Avoidable interest due to short deposit of advance tax

West Bengal Power Development Corporation Limited paid avoidable interest of ₹ 3.28 crore due to short deposit of final instalment of advance tax and self assessment tax arising from incorrect estimation of taxable income for the years 2006-07 and 2007-08.

According to provisions of section 208 read with section 211 of the Income Tax Act, 1961 (Act), every company is required to pay for each financial year, quarterly instalments of advance tax at prescribed rates[16] within due dates, if the amount of income tax payable during the financial year exceeds ₹ 5,000. If the instalments of advance tax deposited was less than the prescribed percentages, the assessee company was liable to pay interest under the provisions of section 234B[17] and 234C[18] of the Act. This interest was to be calculated and deposited with the balance tax determined on self assessment.

Paragraph 4.8 of C&AG Report (Commercial) 2003-04 had highlighted failure of West Bengal Power Development Corporation Limited (Company) to deposit advance tax which led to payment of avoidable interest. Consequently, Committee on Public Undertakings (COPU) observed (December 2008) in their Report that this showed serious managerial deficiencies and pointed to the need of the Company to improve professional efficiency and financial management. However, deficiency in financial management related to payment of advance tax continued to persist as discussed below.

In 2006-07 and 2007-08, the Company deposited advance tax of ₹ 1.12 crore and ₹ 7.02 crore as against self assessed tax of ₹ 30.55 crore and ₹ 14.63 crore respectively resulting in short deposit of advance tax of ₹ 29.42 crore and ₹ 7.60 crore respectively.

The Company attributed (September 2007/ August 2008) the sharp rise in tax on book profits for years 2006-07 & 2007-08 to accounting for fuel cost adjustment of ₹ 262.36 crore relating to the financial years 2004-05 (₹ 208.37 crore) and 2005-06 (₹ 53.99 crore) in 2006-07 and fuel cost adjustment of ₹ 114.69 crore for 2006-07 in 2007-08, based on orders passed (July 2007/ May 2008) by West Bengal Electricity Regulatory Commission (WBERC). Since, there was no scope to estimate the quantum of fuel cost adjustment granted by WBERC well in advance, applicable advance tax could not be paid in time.

The Company deposited balance tax of ₹ 29.42 crore and ₹ 7.60 crore on 24 September 2007 and 24 August 2008 without interest. They filed returns

[16] 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* of assessed tax by 15 June, 15 September, 15 December and 15 March respectively.
[17] If advance tax paid was less than 90 *per* cent of the assessed tax, interest was payable at the rate of one *per cent* per month or part thereof on the amount by which the advance tax paid falls short of assessed tax.
[18] Interest at the rate of one *per cent* per month or part thereof on the amount short deposited against cumulative instalments of advance tax for the period of three months.

for the financial years 2006-07 and 2007-08 on 29 October 2007 and 19 September 2008 respectively. Subsequently, Income tax authorities raised (November 2009/ March 2011) claims of ₹ 4.44 crore and ₹ 1.33 crore for 2006-07 and 2007-08 respectively towards interest on short deposit of advance and self-assessed tax under Sections 234B and 234C of the Act.

The Company appealed (September 2007) to Income Tax authorities for waiver of interest levied on short deposit of advance tax for the financial year 2006-07. The Chief Commissioner, Income tax (CCIT) waived (March 2011) interest of ₹ 1.53 crore for 2006-07 under Section 234C of the Act but did not waive revised interest of ₹ 2.62 crore assessed (March 2011) under Section 234B. CCIT waived interest under Section 234C since the income was received or accrued after the due date of the payment of the instalments of advance tax. The Company paid (March 2011) ₹ 2.62 crore towards interest under Section 234B for 2006-07. Similarly, the Company appealed (August 2008) for waiver of entire interest for the financial year 2007-08. The Deputy Commissioner, however, rejected (March 2011) the appeal and demanded payment of interest. The Company deposited (March 2011) ₹ 66.56 lakh towards 50 *per cent* of demand and lodged (March 2011) fresh appeal with CCIT for waiver of interest. Further development was awaited (October 2011).

The Government stated (August 2011) that prior to the financial year 2008-09 the Company had not included fuel cost adjustment claims in income estimates for deposit of instalments of advance tax. These claims were not considered since there was no reasonable certainty before the close of each financial year that the income would actually be receivable. In the tariff order for 2008-09, WBERC had for the first time prescribed the formula for fuel cost adjustment.

The reply overlooks the fact that interest was not to be levied only on those instalments of income tax deposited prior to the income being received, accruing, anticipated or contemplated. Since the fuel cost adjustment claims had been lodged on 6 March 2007 and 4 March 2008 i.e. before deposit of last instalment of advance tax on 15 March 2007 and 15 March 2008 respectively, the Company had knowledge of the accruals.

Thus, Company's failure to assess tax on income after considering claims towards fuel cost adjustment has resulted in short deposit of advance tax and self assessed tax leading to payment of avoidable interest of ₹ 3.28[19] crore and a possibility of further liability of ₹ 66.56 lakh.

[19] 2006-07: ₹ 2.62 crore, 2007-08: ₹ 66.56 lakh.

The Shalimar Works (1980) Limited

3.7 Loss due to defective estimates in construction of fuel barges

The Shalimar Works (1980) Limited incurred extra expenditure of ₹ 5.17 crore on construction of two fuel barges for Indian Navy due to under estimation of cost of equipments overlooking terms of request for proposal, non- consideration of equipment/ items of expenditure in the pre-bid estimates and non-inclusion of appropriate excise duty exemption clause in agreement.

The Shalimar Works (1980) Limited (Company) builds and fabricates marine vessels. The Company contracted (September 1998) with Marine Consultants (MC) to prepare documents for submission of bids by the Company, as well as detailed design and drawings. Against request (March 2006) for proposal (RFP) from Indian Navy (Navy) for construction of two 500 ton fuel barges, the Company, with the assistance of MC, quoted (May 2006) a fixed price of ₹ 14.25 crore per barge including all taxes and duties on components/ equipments. Being lowest bidder, the Company obtained the order at a negotiated (March 2007) firm price of ₹ 13.95 crore per barge, to be delivered in February and May 2009 respectively. A contract was inked in November 2007. The Company also retained (November 2007) MC to prepare design, construction drawings, manuals and documents and to obtain test and trial certificates. Meanwhile, with a view to execute the work, the Company entered (August 2006/ January 2008) into agreements with SHM Shipcare (SHMS), a Mumbai based firm to act as technical collaborator cum financier. Subsequently, the Company terminated (February 2009) contract with SHMS. Thereafter, the Company has been executing the project work departmentally.

Till March 2011, the Company could complete only 52 *per cent* and 26 *per cent* of construction work of two barges respectively though the procurement had been completed. They had incurred expenditure of ₹ 17.78 crore in this contract. The Navy agreed to revise the schedule of delivery to June and August 2011 while the Company expected to deliver in November 2011 and January 2012 respectively.

We noticed (October 2009/ May 2011) that –

- The Company was to supply both barges at fixed and firm price within February and May 2009 respectively. To this end, they had engaged SHMS to build the barges, with drawings to be prepared by MC. MC had, however, delayed submission of drawings and consequently, SHMS had terminated the agreement. This delayed commencement of work.

- The RFP provided that the Company had to procure machinery and equipment from Navy nominated vendors. However, in case of constraints, the Company had to seek Navy's approval for alternative vendors. The Company submitted (May 2006) their offer based on cost estimates prepared by MC without ascertaining prices and delivery schedules from Navy nominated vendors. Moreover, even during the ten months from initial quotation in May 2006 to final offer in March 2007, they had not followed up with the nominated vendors. Consequently, they placed purchase orders on Navy nominated vendors for 24 items of main machinery /equipment at prices 10 to 717 *per cent* above estimates. Till May 2011, the Company purchased 35 items of main machinery/ equipment at ₹ 10.78 crore against estimate of ₹ 7.83 crore **(Annexure 20)**. They thereby incurred additional expenditure of ₹ 2.95 crore due to their failure to obtain rates from nominated vendors before preparation of estimates.

- The estimate prepared by MC had not incorporated six[20] items of main equipment required to construct the barges as well as expenditure on bank guarantee commission, inspection charges payable to Indian Registrar of Shipping and consultancy fees to MC. The Company, subsequently, incurred expenditure of ₹ 1.79 crore on these items.

- Under the extant provisions[21], excise duty (ED) on inputs like steel and indigenous machinery/ equipment used in defence production qualify for exemption, provided certificate to that effect from the designated defence authority is submitted to the supplier. But during negotiations with Navy, the Company did not endeavour to incorporate a specific clause for issue of ED exemption certificate. Till May 2011, the Company incurred expenditure of ₹ 1.01[22] crore towards ED on indigenous machinery and steel utilised in construction of these barges. Thus, Company's failure to incorporate appropriate clause in the contract with Navy led to avoidable expenditure of ₹ 1.01 crore.

While accepting the observations, the Government stated (September 2011) that it was for the first time that the Company had taken up ship building works for the Indian Navy and could not foresee the equipment required and its price during cost estimation. They further stated that the extra expenditure of ₹ 5.17 crore[23] might be compensated by way of savings from other items of expenditure at the time of delivery of the 1st vessel on completion (January 2012) of construction.

The contention was not acceptable because **(a)** they had appointed MC, a reputed marine consultant in Eastern India who had past experience of working with the Company. Further, as per RFP the Company was required to procure machineries and equipments from nominated vendors but they could not ascertain vendors' price before preparation of estimate; **(b)** Management's statement regarding cost savings on other heads lack justification since the construction of the barges were yet to be completed and the Company had overshot procurement expenses by ₹ 2.95 crore, labour and overhead expenses

[20] Engine order telegraph, emergency stop panel, tank content gauge, Gemini craft, breathing apparatus and air-conditioning systems.
[21] Vide notification no. 25/2002-CE 11 April 2002.
[22] ED on machineries and equipments: ₹ 58 lakh and steel: ₹ 43 lakh.
[23] ₹ 2.95 crore, ₹ 1.79 crore and ₹ 0.43 crore.

by ₹ 3.14 crore besides liability towards delivery and certification expenses of ₹ 87.64 lakh compared to the estimate.

Thus, due to defective estimate overlooking terms of RFP, non-inclusion of items in the estimate and failure to incorporate suitable clause in the agreement for ED exemption certificate, the Company incurred additional expenditure of ₹ 5.17 crore.

West Bengal Electronics Industry Development Corporation Limited

3.8 Loss of revenue due to non enhancement of permission fee

The Company failed to install an effective mechanism to control sub-letting of built up spaces by their lessees and enhance rate of permission fee for sub-letting resulting in non realisation of additional income of ₹ 3.77 crore.

In order to promote and develop electronics industries, West Bengal Electronics Industry Development Corporation Limited (Company) sub-leases[24] out plots/ building spaces in their electronic complex at Sector V of Salt Lake for a period of 90 years. In terms of the sub-lease deed, the Company introduced (March 1999) a system of grant of permission to their lessees for sub-letting part of the built-up space constructed by the lessee on their leasehold land on payment of a permission fee of ₹ 2 per sqft. per month. The relevant permission letters *inter-alia,* provided that (i) permission would lapse after the expiry of three years of tenancy or earlier if so determined, (ii) the permission fee to be revised from time to time, and (iii) renewal of tenancy was permissible subject to revision of rate. As a commercial entity, it was imperative upon the Company to revise the rate of permission fee keeping parity with the change in the rate of rental of let out portion to increase their income.

We noticed that:-

⇒ The Company did not have an effective control mechanism to maintain details of tenants, the period of their tenancy and increase in rentals from time to time by sub-lessees to facilitate consideration of commensurate upward revision of permission fee from ₹ 2 per sqft. per month, in keeping with increase in market rates at which sub- lessees were collecting rentals.

⇒ While the rate of monthly rentals being collected from tenants increased from ₹ 10 per sqft. per month in June 1999 to ₹ 42 per sqft. in March 2009 (an increase of 320 *per cent*), the Company, contrary to

[24] The land has been taken on lease of 999 years by the Company from the Government of West Bengal.

their policy, did not take any initiative to increase the rate of permission fee.

⇒ The Company formed a realty management cell in April 2009, which recommended increase in the existing monthly permission fee from ₹ 2 per sqft. to ₹ 3 per sqft (an increase by 50 *per cent*). The proposal placed (July 2009) before the Board was deferred on the basis of "difficult market conditions" and rate of permission fee remained the same. The decision of the Board lacked justification since they failed to factor in the increase of rentals by 320 *per cent* over the years. Immediately thereafter, monthly rentals collected by sub-lessees increased sharply from ₹ 43 per sqft (August 2009) to ₹ 63 per sqft. (November 2009).

⇒ The Company lost the opportunity to earn additional revenue of ₹ 3.77 crore during the period from July 2009 to March 2011 due to indefinite deferment by the Board of the proposal to increase monthly permission fee by ₹ 1 per sqft.

The Management stated (August 2011) that decision had not yet been taken on enhancement of permission fees by the Board of Directors and *status quo* would be maintained till Government advice is received.

The reply endorses the audit finding.

Thus, failure of the Management to devise a suitable mechanism to assess market trend and increase unit rate of permission fee at the proposed rate, led to loss of potential income of ₹ 3.77 crore.

The matter was reported to the Government (July 2011), their reply was awaited (October 2011).

Eastern Distilleries and Chemicals Limited

3.9 Avoidable payment of overtime

In 2009, Eastern Distilleries & Chemicals Limited paid avoidable overtime of ₹ 92.43 lakh due to inordinate delay in decision to procure new automatic bottling line. Besides, due to loss of production since January 2010, they had forgone contribution of ₹ 2.61 crore.

Eastern Distilleries & Chemicals Limited (Company) produces and bottles country spirit (CS) in glass bottles[25], with one automatic (capacity : 150 bottles per minute) and two semi-automatic (capacity : 54 bottles per minute each) bottling lines installed more than 13 years and 30 years earlier respectively. Against their declared capacity of

[25] In 300 ml and 600 ml capacities.

90,000 bottles per shift, effective capacity was 82,000[26] bottles per shift. Till December 2007, the Company catered to an estimated CS demand of 80,000 bottles per day for 94 shops in North and South Kolkata, South 24-Parganas and Howrah districts. From January 2008, the demand to be met increased to 1.12 lakh bottles per day following approval from the State Excise department for additional business in Kolaghat, East Midnapore district. The Company, however, did not explore the possibility of augmenting installed capacity. Instead, the Company resorted to payment of overtime (OT) to meet the additional requirement. Besides, the Company continued to pay incentives for daily production under scheme approved in September 2002. Between April 2007 and March 2010, the Company paid OT and incentive of ₹ 3.67 crore for 9.49 crore bottles of CS.

The Company's Board of Directors (Board) decided (July 2008) to install new, modern machines and directed the preparation of an evaluation report. The report recommended (December 2008) the need for enhancement of production capacity by replacing two old semi-automatic lines by a new fully automatic line with capacity of 1.06 lakh bottles per shift. Accordingly, the Board directed (December 2008) preparation of draft tender notice for their approval. Subsequently, the Board constituted (January 2009) a committee for preparation of technical and commercial bids as well as project report for approval by the Government of West Bengal.

In June 2009, the Committee expressed to the Board the difficulties in preparation of the project report due to non-availability of requisite technical and other parameters. Consequently, the Board decided to appoint a consultant for preparation of project report for installation of fully automatic CS bottling line. The Company appointed (December 2009) Indian Institute of Packaging (IIP) as consultant at a fee of rupees three lakh for preparation of report in 10 weeks' time. Despite receiving the entire fee in December 2009, IIP has not yet submitted the report (June 2011).

Thereafter, in January 2010, the Company decided to stop OT as a cost cutting measure, resulting in drastic dip in production leading to non-fulfilment of demand. When apprised, the Board directed (May 2010) immediate purchase of an automatic bottling line and placed (July 2010/ December 2010) orders on Jagat Industries, New Delhi for supply of fully automatic bottling line with 150 bottles per minute at a cost of ₹ 78.68 lakh. The machine was commissioned in April 2011.

We noticed (April 2011) that -

- The sale price of CS and each element of cost were determined by the State Excise Authority. The Company was entitled to bottling charges of ₹ 2.95 per bottle/ ₹ 3.05 (January 2009) per bottle, for recovery of their cost of operation and overhead charges. Yet, the Company had not undertaken a cost-benefit analysis for operation of semi-automatic *vis-à-vis* automatic bottling lines.

[26] Capacity of each semi automatic machine: 16,000 bottles per shift and automatic machine: 50,000 bottles per shift.

- Based on actual deployment of manpower on each bottling line and apportioning electricity charges on the basis of effective capacity, the bottling cost for automatic and two semi-automatic lines in 2009-10 worked out to ₹ 0.67 and ₹ 1.30/ ₹ 1.26 per bottle during normal working hours and ₹ 0.95 and ₹ 1.93/ ₹ 1.92 per bottle during OT hours respectively. This indicates that bottling cost of semi-automatic lines were higher by 91 (normal hours) to 103 *per cent* (OT hours) compared to automatic line and therefore, decision to continue bottling with semi-automatic lines lacked justification.

- The correlation between monthly bottling achieved *vis-à-vis* corresponding incentive and OT paid declined over the three years up to 2009-10. Further, between January 2008 and December 2009, when production was enhanced from around 94,158 bottles per day to 1.18 lakh, the correlation between production on one hand and incentive, as well as OT on the other, was not significant. This showed that additional OT was not justified.

- Although the Board had decided to install a new automatic bottling line in July 2008, the decision matured in May 2010 after a delay of 22 months, resulting in payment of avoidable overtime of ₹ 92.43 lakh[27] from January[28] to December 2009.

- Against demand of 1.12 lakh bottles daily, the Company produced average of 69,647 bottles daily since January 2010. The new line ordered in July 2010/ December 2010 was supplied between December 2010 and March 2011 and commissioned in April 2011. If decision to purchase the new line had been taken on time and it had been commissioned by December 2009, the Company could have bottled, at least, one lakh[29] bottles daily from January 2010 onwards. After deducting variable cost per bottle of ₹ 0.67 and rebate of ₹ 0.05 for packaging from bottling charge of ₹ 3.05, the Company would have earned additional contribution of ₹ 2.31 per bottle aggregating to ₹ 2.61 crore from January 2010 to March 2011.

The Management stated (September 2011) that the report of IIP was still awaited, despite reminders. Moreover, the Company took the decision to purchase an automatic bottling line with roll-on pilfer-proof (ROPP) cap sealing facility to comply with Government's order to fill country spirit only in bottles with ROPP caps.

The reply, however, overlooks the fact that ultimately, the new line was installed without receipt of IIP's report. Further, decision to install a new automatic bottling line was taken in July 2008 and reiterated in December 2008 and January 2009. Besides, from December 2008, the

[27] Difference between actual OT of ₹ 121.96 lakh paid and OT of ₹ 29.53 lakh which would have payable even if new line was installed to achieve production of 1.06 lakh bottles per day.
[28] Excluding a lead time of six months between ordering and installation of machine.
[29] Existing capacity of automatic bottling line – 50,000 bottles per day (@ 150 bottles per minute) with similar capacity of new line.

Government had allowed country spirit manufactured in bottles with ROPP caps a refund of ₹ 0.20 per bottle on privilege fee which would have helped to improve on the contribution. Thus, due to inordinate delay in taking decision to purchase a new machine the Company paid avoidable overtime of ₹ 92.43 lakh. Moreover, the delayed decision had also led to loss of contribution of ₹ 2.61 crore.

The matter was reported to the Government (July 2011), their reply was awaited (November 2011).

West Bengal State Electricity Distribution Company Limited

3.10 Loss due to delay in repair of a hydel unit

Inordinate delay by the Company in taking a decision to repair the hydel alternator of Unit -I at Mungpoo Kali Khola hydel power station led to loss of generation of six million units of power valued at ₹ 1.99 crore.

Apart from the business of distribution of power, West Bengal State Electricity Distribution Company Limited (Company) also operates hydro generation plants at Darjeeling and Purulia districts. Unit I of Mungpoo Kali Khola hydel power station (MKHPS- 3X1 MW), managed by the Company, suddenly tripped while in operation on 11 November 2006 due to failure of its alternator (Generator). Siliguri Testing Circle (STC) of the Company after inspection (February 2007) suggested that help be sought from Jyoti Limited (JL), the original equipment manufacturer which advised (March 2007) the Company to send the alternator to their workshop at Baroda to identify exact causes of the failure. The Director (Generation) and the Chairman cum Managing Director (CMD) approved the proposal in February and May 2007 respectively. The Company placed the work order on Jyoti Limited for repairing the alternator at a cost of ₹ 35 lakh in August 2009, after a delay of 27 months. Finally, the equipment was repaired and Unit-I was re-commissioned in June 2010.

We observed that:-

- Necessary design parameters required for repair of the alternator were proprietary items of Jyoti Limited. As such, it was desirable to send the alternator to them for repair at the earliest. Yet, the management took six months to get the approval of CMD to send the damaged equipment to the works of JL.

- Thereafter, setting aside the direction of CMD, the plant authority decided (June 2007) to explore the possibility of repairing the damaged equipments at the site of MKHPS by three agencies to avoid sending the equipments to the works of Jyoti Limited at Baroda. However, the belated initiative of getting the equipment repaired on site did not yield any result due to lack of positive response and perceived inability on the part of the agencies approached by the Company.

Thus, failure of the Management to get the proprietary equipment repaired by the Jyoti Limited immediately after the approval of CMD led to avoidable delay of 27 months [30] which resulted in loss of generation of six million units of energy valued at ₹ 1.99[31] crore.

The Government/ Management stated (June 2011) that the plant authorities took the opportunity of getting the machine repaired on the spot to avoid trouble of sending the equipment to Baroda. They further attributed the delay in repairing the equipment to difficulty in finalising the transportation contract and the time taken for dismantling, testing and finalisation of rates by Jyoti Limited. They also stated that loss of generation was not techno-mechanically justified due to non availability of water to run all the three units simultaneously, since, availability of water was the prime governing factor for generation and not the availability of units.

The reply of the Government was not acceptable since **(i)** it was well known that repair involved proprietary items of JL, which rendered other alternatives unviable. **(ii)** Delay of 27 months in awarding work order was attributed to exploring the possibility of repairing the equipment at site (11 months), finalisation of transport contract to despatch the equipment to Baroda (seven months) and evaluation of repair estimate and price negotiation with Jyoti Limited (nine months) by the Company which were clearly controllable. **(iii)** The computation of generation loss is techno-mechanically justified since the DPR of MKHPS envisaged running of three units at full capacity during monsoon months from July to October based on daily discharge for 90 *per cent* dependable year. Moreover, generation loss was computed on actual average monthly generation of Unit-I during pre and post failure period which averaged out seasonal fluctuations in generation during lean and peak period.

West Bengal Surface Transport Corporation Limited, Westinghouse Saxby Farmer Limited, West Dinajpur Spinning Mills Limited, Gluconate Health Limited and Greater Calcutta Gas Supply Corporation Limited

3.11 Excess contribution to Provident Fund

Four 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 ₹ 1.48 crore.

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

[30] Excluding time taken by JL (10 months) for repairing and re-commissioning.

[31] At selling price of ₹ 3.21 to ₹ 3.49 per unit of the Company in absence of separate price of generation determined either by WBERC or the Company.

each employee's basic wages, dearness allowance including cash value of any food concession allowed and retaining allowance for certain establishments or class of establishments with effect from 22 September 1997. However, industrial companies[32] which had Accumulated Losses in any financial year equal to or exceeding 50 *per cent* of their average Net Worth[33] 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 their entire Net Worth, were permitted to contribute at 10 *per cent.*

Five companies adopted their accounts for 2004-05 from September 2005 to June 2006 which reflected that the Accumulated Loss of these companies had exceeded 100 *per cent* of their average Net Worth in 2001-05 as detailed below.

(Amount : ₹ in crore)

Name of the Company	Date of adoption of accounts for 2004-05	Accumulated Loss as on 31 March 2005	Average net worth in 2001-05	Percentage of Accumulated Loss to average net worth
West Bengal Surface Transport Corporation Limited (**WBSTCL**)	28 November 2005	62.59	33.97	184.25
Westinghouse Saxby Farmer Limited (**WHSFL**)	15 September 2005	368.47	97.50	377.92
West Dinajpur Spinning Mills Limited (**WDSML**)	28 September 2005	69.35	8.77	790.76
Gluconate Health Limited (**GHL**)	29 September 2006	87.67	23.52	372.75
Greater Calcutta Gas Supply Corporation Limited (**GCGSCL**)	30 September 2005	136.43	30.14	452.65

Therefore WBSTCL, WHSFL, WDSML, GHL and GCGSCL were permitted to contribute at 10 *per cent* to the provident fund of their employees. However, except WDSML, the other four companies continued to contribute their share to Provident Fund at the higher rate of 12 *per cent.* In case of WDSML the Management contributed at 10 *per cent* up to December 2007 but *suo-moto* enhanced the contribution to 12 *per cent* from January 2008 for reasons not on record. WDSML, however, continued to suffer losses throughout this period. Under a Capital re-structuring scheme, in 2008-09, WHSFL set-off their Accumulated Loss with Paid-up Capital and was required to contribute at 12 *per cent*. This led to excess contribution of ₹ 1.48[34] crore during 2006-10.

The Government/ **WDSML** stated (August/ July 2011) that based on the proceedings, RPFO[35] passed order (March 2011) to contribute at the rate of

[32] Such companies are sick industrial companies within the meaning of Sec 46AA of the Companies Act 1956.
[33] Aggregate of Paid up Capital and Free Reserves after deducting the prescribed provisions or expenses.
[34] WBSTCL : ₹ 69.11 lakh, WHSFL : ₹ 24.14 lakh (2006-08), WDSML : ₹ 21.66 lakh, GHL : ₹ 13.67 lakh and GCGSCL : ₹ 19.70 lakh.
[35] Regional Provident Fund Officer.

10 *per cent* and accordingly WDSML was contributing at 10 *per cent* since March 2011. However, the reply was silent about the excess contribution till February 2011.

While admitting their mistake the Government/ **GCGSCL** stated (October 2011) that they would take appropriate care in the future. Moreover, GCGSCL was not eligible to contribute at 10 *per cent* since they had not incurred cash losses during 2006-10. However, reduction in the rate of contribution is yet to be effected. Further, the argument was not valid as the eligibility parameters for contributing at lower rate had been amended under Companies Act, 1956 which repealed the requirement of cash loss criterion.

Similarly, the Government/ **WBSTCL** while admitting the facts assured (May 2011) that the contribution would be made as per reduced rates.

GHL stated (August 2011) that they could not take any *suo-moto* action without prior approval of the appropriate authority considering ramifications of industrial relations and socio-economic measures. The Management should take appropriate measures to improve financial performance or consider all options to pare costs including reducing contribution to provident funds.

The Government/ **WHSFL** stated (September/ August 2011) that the Accumulated Losses were less than Net-Worth since 2004-05. The calculation of Net-Worth was not, however, according to the applicable provisions. Only from 2008-09, when the Accumulated Loss was written off from the Paid up Capital **WHSFL** was liable to contribute at 12 *per cent*.

Thus, these companies' failure to obtain relief under the Act *ibid* resulted in excess contribution of ₹ 1.48 crore towards employer's contribution to provident fund at the higher rate of 12 *per cent* instead of 10 *per cent* from 2005-06 to 2009-10. The higher rate of contribution continued in 2010-11.

The matter regarding GHL was reported to the Government (July 2011), their reply was awaited.

West Bengal Housing Infrastructure Development Corporation Limited

3.12 Opportunity to earn interest not availed

West Bengal Housing Infrastructure Development Corporation Limited kept funds in non-interest bearing current accounts and failed to avail opportunity to earn interest by gainfully deploying funds leading to loss of ₹ 1.40 crore.

Efficient cash management envisages drawing up of cash budgets, preparation of periodic cash flow statements, assessment of surplus funds, and judicious evaluation of investment options to allow for prudent investments decisions that led to maximum returns through optimal deployment of funds and ensures growth of a business entity. Absence of periodic cash flow analysis results in retention of idle cash balances in banks. Flexi-deposit schemes provided by banks allow customers access to liquidity as and when required, while maximising interest income. Under such schemes surplus funds in current accounts are automatically invested which can be encashed as and when funds are required to meet an impending expenditure.

Activities of West Bengal Housing Infrastructure Development Corporation Limited (Company) include land acquisition, infrastructure development and sale of land at New Town, Kolkata. The Company did not prepare periodic cash budgets to forecast cash requirement and identify idle funds for gainful deployment. During the period April 2007 to March 2010, the Company maintained 38[36] current accounts. Twenty of these accounts had been opened with approval of the Board of Directors of the Company mainly to ensure smooth operation of business, while minutes of Board meetings during the period did not indicate approval for opening of the remaining 18 current accounts. Consequent upon an audit query having been raised, the Management stated (July 2011) that these accounts were opened at the instances of banks as sub-accounts to the main accounts for convenience of collection and segregating application money received from different categories of applicants during allotment of plots. However, the management was silent regarding Board approval not being on record. Out of 38 accounts, two accounts had no balance and in remaining 36 current accounts, aggregate minimum monthly balances ranged from ₹ 1.86 crore to ₹ 23.68 crore during the same period without earning any interest. The Company lost the opportunity to earn interest of ₹ 1.40 crore[37] on these balances due to non operation of flexi deposit schemes with banks, with tenure of at least one month.

In addition, out of the 36 accounts, 10 had either no transaction or rare transactions since 2001-02 to 2009-10. Consequent upon audit observation (July 2011), the Management initiated an exercise to identify accounts which could be closed.

While accepting the need to minimise the number of current accounts to a need based minimum, the Management stated (September 2011) that there were a few constraints in opening flexi deposit accounts since all banks did not offer such schemes with current accounts, whereas some demanded higher minimum balance and minimum locking period for such fund was seven to 15 days. However, they assured to explore the possibility of earning interest by converting their existing current accounts to flexi deposit accounts with auto sweep facility.

[36] Indian Bank (2), United Bank of India (2), State Bank of India (4), Oriental Bank of Commerce (1), Punjab National Bank (9), Andhra Bank (4), Allahabad Bank (8), Bank of India (3), Bank of Maharashtra (1), Syndicate Bank (4) all located within Kolkata.

[37] Computed at lowest rates prevailing between 2.50 *per cent* to 4.75 *per cent* on 30 days deposit.

The contention that all banks do not offer such schemes with current accounts was not correct and the constraints faced with isolated banks were not adequate or plausible reason not to opt for the flexi deposit schemes where they were available.

Thus due to inefficient cash management, the Company could not evaluate investment option judiciously and kept funds in non-interest bearing current accounts which led to loss of opportunity to earn interest of ₹ 1.40 crore through gainful deployment of funds.

The matter was reported to the Government (July 2011), their reply was awaited (November 2011).

Webel Mediatronics Limited

3.13 Loss due to failure to execute a contract

The Company failed to execute a contract for supply, installation and commissioning of FM transmitter at All India Radio, Kohima due to selection of an incapable contractor, deficient contract management and poor monitoring and control over the work leading to loss of ₹ 1.03 crore.

Webel Mediatronics Limited (Company) received (March 2004) an order from Director General, All India Radio (DG, AIR) for supply, installation, testing and commissioning of 10 KW very high frequency (VHF) FM transmitter set up along with construction of 100 metre high steel tower and transmitter control room at AIR, Kohima. The firm price purchase order of ₹ 2.01 crore was to be completed by January 2005.

On earlier occasions, the Company had executed this sort of work order through engagement of various experienced agencies qualified in different fields. As a departure from this arrangement, the Company decided (May 2004) to sub-contract the job of design, drawing, construction and fabrication of tower, installation and commissioning of transmitter on turnkey basis. The Company selected Raycon India (Raycon) for the job without inviting tender. There was no evidence to suggest that financial strength of Raycon had been duly assessed. The Company placed (May 2004) a work order on Raycon at a negotiated price of ₹ 56 lakh with the stipulation to complete the job by December 2004.

From the very beginning, Raycon failed to adhere to the time schedule and got their design/ drawings approved by the designated authority only in August 2004/ July 2005. Thereafter, they carried out foundation work of tower and supplied some tower materials. The Company paid (June 2004 – March 2006) ₹ 49.12 lakh to Raycon against admissible payment of ₹ 21.74 lakh in terms of payment clause. Raycon left the site in January 2006 with balance work incomplete. A money suit filed (August 2006) against Raycon remained unsettled.

The Company entrusted (February/ March 2006) the balance work valued at ₹ 15.06 lakh to Handy Tools (Engineers) Private Limited (HTEPL). The tower was erected upto a height of 57 metres but it was found to be deformed and twisted due to faulty construction of foundation. The Company engaged (September 2007) experts of IIT, Khargapur to investigate the foundation problem and suggest rectification measures at a fee of ₹ 4.08 lakh. Experts observed (January 2008) that there was discrepancy in layout of tower foundation which magnified at upper levels and quality of concrete used was poor. They suggested rectification of layout and strengthening the foundation by reconstruction and extra reinforcement for jacketing. The Company engaged (January 2008) United India (UI) for dismantling of tower and reconstruction of foundation. The work was completed in March 2008 at a cost of ₹ 10.10 lakh.

Meanwhile, between July 2004 to March 2007, the Company supplied FM transmitter antenna, cables, audio equipments and other materials worth ₹ 1.22 crore to AIR, Kohima. Further, the Company incurred (April-July 2006) ₹ 11.86 lakh on procurement and transportation of tower materials after Raycon left the job.

In the meantime DG, AIR had extended the delivery period thrice upto March 2009 at the Company's request. But the Company did not take up the balance work of installation of transmitter on the ground of non-receipt of payment. Ultimately, DG, AIR cancelled (July 2010) the purchase order and forfeited the performance bank guarantee of ₹ 10.04 lakh submitted by the Company. Against the total expenditure incurred of ₹ 2.13 crore[38] the Company received (November 2006- March 2007) ₹ 1.10 crore from DG, AIR.

The Management stated (June 2011) that the payment was released to Raycon to meet contractual obligation based on certification by AIR of the extent of execution of the contract job at different stages of work. They attributed the twisting and deformation of the tower mainly to the soil condition, inaccessibility of the region, and absence of suitable experienced officials to monitor the work. The rectification work was carried out to salvage their reputation since AIR jobs were a major portion of their revenue stream.

The contention of the Management was not acceptable as **(a)** the payment was made to Raycon beyond the stipulations of the contract. **(b)** The deformation of the tower was due to discrepancy in the layout of the foundation and poor quality of concrete as observed by IIT Kharagpur. Moreover, before commencement of the work, experts of IIT had advised modifications of design of tower foundation and its execution in view of the soil conditions, which was ignored by Raycon and overlooked by the Company as well. **(c)** Further the Company's reputation was not saved since they failed to complete the work and AIR forfeited their performance guarantee of ₹ 10.04

[38] Supply of equipment to DG,AIR: ₹1.22 crore, payment to Raycon:₹ 49.12 lakh, erection cost to HTEPL: ₹ 3.90 lakh, IIT fees: ₹ 4.08 lakh, dismantling & rectification work by UI:₹ 10.10 lakh, cost of purchase & transportation of tower materials:₹ 11.86 lakh, legal expenses:₹ 2.02 lakh and forfeited bank guarantee :₹ 10.04 lakh.

lakh. However, the Management was silent regarding assessment of financial capability of Raycon which led to the failure in execution.

Thus, selection of financially incapable contractor, deficient contract management and poor monitoring and control over the execution work led to loss of ₹ 1.03 crore.[39]

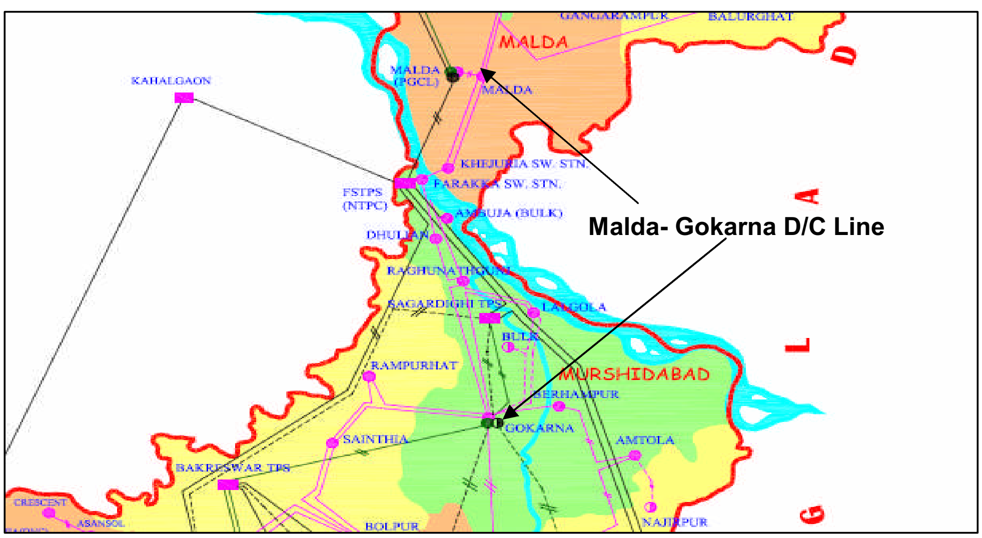
The matter was reported to the Government (May 2011), their reply was awaited (November 2011).

West Bengal State Electricity Transmission Company Limited

3.14 *Excess transmission loss due to non replacement of conductor*

West Bengal State Electricity Transmission Company Limited decided not to replace conductor along the entire length of Malda – Gokarna line leading to idle inventory of ₹ 12.93 crore for five years, payment of avoidable interest of ₹ 5.82 crore to REC and continuing energy losses of ₹ 1.51 crore.

As part of a scheme for renovation and modernisation of some existing sub-stations and lines installed long back, the erstwhile West Bengal State Electricity Board[40] (WBSEB) had prepared (June 2003) a Detailed Project Report (DPR) for replacing worn-out ACSR[41] Panther conductors with AAAC[42] Panther conductors on 150 km Malda-Gokarna 132 KV double Circuit (DC) line at an estimated cost of ₹16.28 crore. Since the existing conductor had outlived its' economic life of 35 years, the objective of replacement was to reduce transmission loss, improve system reliability and to cater additional load. Besides, it is mandatory to replace conductors after 35 years of their use. The map below indicates alignment of the line.



[39]Total expenditure: ₹ 2.13 crore – ₹ 1.10 crore (receipt from DG, AIR.).
[40]West Bengal State Electricity Transmission Company Limited (Company) is a successor entity of WBSEB.
[41] Aluminium Core Steel Reinforced.
[42] All Aluminium Alloy Conductors.

The Board procured (January to December 2005) material worth ₹ 21.46 crore and kept at three Transmission (O&M) sub-divisional stores at Malda, Gokarna and Raghunathgunj. The purchases were financed by loan from Rural Electrification Corporation Limited (REC) carrying interest at rates ranging from nine to 14 *per cent*.

Three work orders were issued (November 2005 - March 2007) for replacement of existing conductors between Gokarna and Moregram – 36 Kms (₹ 31.87 lakh), Moregram and Dhulian -37 Kms (₹ 36.65 lakh) and Dhulian and Farakka -22 Kms (₹ 17.85 lakh) sections, to be completed within five months from the award of works. While the first order was partially executed (November 2006) to the tune of ₹ 27.06 lakh, the third order was cancelled (June 2009) for failure to commence work. The second order was completed in July 2010. Conductors on an aggregate over 74.32 Kms were replaced.

Work order was, however, not issued for change of conductors along the section from Farakka to Malda and the local management stated that it had not observed any defect of the conductors during line patrolling. This in turn was attributed (August 2009) by local management to partial loading of line for a long time compared to the capacity of existing ACSR Panther conductors. However, before deciding on non replacement of conductors, Residual Life Assessment test of the conductors across the section was not carried out.

We noticed (September 2010) that –

- AAAC Panther conductors (638.31 km), 120 Kilo Newton Disc Insulators (8,218 nos) and 70 Kilo Newton Disc Insulators (16,266 nos) valued at ₹ 12.93 crore remained unutilised at Malda, Gokarna and Raghunathgunj transmission (O&M) sub-divisional stores.

- The Malda-Gokarna 132 KV ACSR Panther conductors suffered from higher line loss. The average line loss at 132 KV line with AAAC Panther conductors during 2007-10 was 0.87 *per cent* elsewhere in the State, while the average loss across Malda-Gokarna circuit during the same period was 1.28 *per cent*. Consequently, Malda-Gokarna circuit suffered excess line loss of 4.33 MU of power during 2007-10 valued at ₹ 1.51 crore[43].

The Government/ Management had accepted (July 2011) the loss due to holding of idle inventory. The Government/ Management emphasised (August/ September 2011) that replacement of conductor was not to reduce transmission loss but to improve system reliability and attain additional transfer capacity. Further, they contested comparison of 0.87 *per cent* loss for AAAC Panther Conductor in the State with 1.28 *per cent* across Malda-

[43] At the rate of 349.48 paise per KWH

Gokarna circuit since system loss was mainly a network criterion, dependent on loading of particular section of transmission line.

The contention was not correct because **(a)** Along with system reliability and additional transfer capacity, DPR envisaged line loss reduction after replacement of conductors, **(b)** Line loss has been calculated and not loss of the entire transmission system, based on data provided by the Management[44] and **(c)** Two years after the decision of local management not to replace the conductors, the Company did finally place (July 2011) an order on National Test House for Residual Life Assessment of the conductors across the section where replacement had not been made earlier. The report, due within 28 days, was not available till November 2011.

Thus, decision of the Company not to undertake re-conductoring along the entire line length led to idle inventory of ₹ 12.93 crore for five years, payment of avoidable interest of ₹ 5.82 crore[45] to REC and continuing energy losses of ₹ 1.51 crore the Company failed to improve system reliability and enhance transfer capacity as envisaged.

3.15 Follow-up action on Audit Reports

Outstanding departmental replies on paragraphs appeared in the Audit Reports

3.15.1 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 (October 2009) 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 two months from the date of presentation 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, 2007-08, 2008-09 and 2009-10 were presented to the State Legislature in August 2004, August 2005, July 2006, March 2007, March 2008, July 2009, July 2010 and September 2011 respectively, 17 departments, whose activities were commented upon did not submit their explanatory notes on 50 out of 206 paragraphs/ reviews as of September 2011, as indicated in **Annexure 21**. It would be seen from the annexure that the departments largely responsible for non-submission of explanatory notes were Power and Non Conventional Energy Sources, Commerce and Industries, Public Enterprises, Transport and Finance. Government did not respond to even paragraphs/ reviews highlighting

[44] Metering data collected and computed by Secure Meters Ltd on behalf of the Company.
[45] At nine *per cent per annum* for five years.

important issues like misappropriation, fraud, system failure, mismanagement, non-adherence to extant provisions, *etc.*

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

3.15.2 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 six to 37 months, six departments did not furnish the ATNs on 23 recommendations relating to 11 COPU Reports presented (July 2008 - March 2011) to the State Legislature (**Annexure 22)**.

Response to the Inspection reports, draft paragraphs and reviews

3.15.3 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 2011 pertaining to 36 PSUs disclosed that 99 paragraphs relating to 47 IRs remained outstanding at the end of September 2011. The department-wise break up of IRs and audit observations as of September 2011 is given in **Annexure 23.** In order to expedite settlement of the outstanding paragraphs, Audit Committees were constituted in 16 out of 23 departments. These Committees were to meet, at least, once every month. During October 2010 to September 2011, two such committees settled eight paragraphs, in three meetings, while another two committees had met twice but not settled any paragraphs.

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. We, however, noticed that the five draft paragraphs and one draft performance audit review forwarded to various departments during May to October 2011, as detailed in **Annexure 24** had not been replied so far (November 2011).

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/ overpayment is taken within the prescribed period and **(c)** system of responding to audit observations is revamped.

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The **West Bengal**

Countersigned

NEW DELHI **(VINOD RAI)**
The **Comptroller and Auditor General of India**