

CHAPTER III



Chapter III

3 Compliance Audit

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

West Bengal Small Industries Development Corporation Limited

3.1 Lease management in Industrial Estates and Commercial Estates

3.1.1 Introduction

The West Bengal Small Industries Development Corporation Limited (WBSIDCL) was incorporated (March 1961) as a wholly owned Government company under the Department of Micro, Small & Medium Enterprises and Textiles⁹⁸ (MSME&T), Government of West Bengal (GoWB). It is engaged in developing, upgrading, creating and maintaining industrial⁹⁹/ commercial estates¹⁰⁰ (IEs/CEs) with infrastructure¹⁰¹ for allotment of plots/ sheds/ stalls/ building spaces to small scale entrepreneurs on short/ long-term leases with the objectives of industrialisation and employment creation in the State. These leases can be classified as (i) **fresh leases** where plots/ sheds/ stalls/ building spaces are leased for the first time to entrepreneurs for a specified term as determined by WBSIDCL from time to time, including leases by way of transfer for the unexpired period of original lease term and (ii) **renewal of existing leases** on expiry of the original term of lease.

As of March 2016, WBSIDCL had established 49¹⁰² operational, one non-operational¹⁰³ and four¹⁰⁴ upcoming IEs/ CEs in 13 out of 20 districts of the State covering 732.44 acres of land. The total investment in such estates stood at ₹ 162.69 crore (own fund ₹ 48.34 crore, Government grants : ₹ 114.35 crore).

The Management of WBSIDCL is vested in a Board of Directors (BoD) with Managing Director (MD) as the Chief Executive. The development and maintenance of estates is supervised by an Executive Engineer (IE and CE construction), while the Estate Manager is in charge of estate management¹⁰⁵.

⁹⁸ Erstwhile Department of Cottage and Small Scale Industries (C&SSI).

⁹⁹ An industrial estate (IE) is a premises where required facilities and factory accommodation are provided by the Government or its agency to entrepreneurs for establishment of their industries.

¹⁰⁰ A commercial estate (CE) is a non-residential property used for commercial profit-making purposes.

¹⁰¹ Includes development of land, construction of boundary walls, internal roads, stalls, sheds, building space and street lighting.

¹⁰² 38 industrial estates and 11 commercial estates.

¹⁰³ Garia CE (0.53 acres) though ready for allotment is non-operational due to pending legal suit in Court.

¹⁰⁴ Bolpur-II, Dabgram-II, Shaktigarh-II, Khas Jungle.

¹⁰⁵ Allotment, renewal, eviction, lease premium and rentals collection, etc.

3.1.2 Scope and methodology of Audit

A theme based audit was conducted during March 2016 to June 2016 with the objective to assess whether WBSIDCL had effectively and transparently followed the allotment procedure while leasing out plots/ sheds/ stalls/ building spaces in IEs/ CEs and facilitated promotion and development of micro, small scale and medium enterprises¹⁰⁶ (MSMEs) in the State during the period 2011-16. Audit methodology involved scrutiny of records at Head Office of WBSIDCL, 11 completed IEs/ CEs¹⁰⁷ selected through simple random sampling (out of 50 IE/ CEs) and Directorate of District Industries Centre and MSME&T Department. Besides, Entrepreneurs' Satisfaction Survey (ESS) was conducted with help of Sub-Assistant Engineers of the IE/ CE concerned to ascertain feedback from entrepreneurs on infrastructure created and services rendered by WBSIDCL.

Criteria for audit were sourced from the policies framed by MSME&T Department/ WBSIDCL for allotment of IEs/ CEs and Board agenda and minutes of WBSIDCL.

Audit findings

Audit observations are discussed in the succeeding paragraphs.

3.1.3 New and existing IEs/ CEs

3.1.3.1 Development of new estates

In order to facilitate promotion and development of SSIs or MSMEs, adequate planning for the development of new estates by identifying land as well as creation/ up-gradation infrastructure facilities of existing estates is essential.

Audit observed that even after its existence for more than five decades, WBSIDCL had not formulated any long term or short term strategic plans/ policies for acquiring land or creating a land bank for setting up/ developing of IEs/ CEs. It was also observed that WBSIDCL had no system in place for assessing demand for plots/ sheds/ stalls from entrepreneurs in different districts. It was observed that as of September 2015, 26.47 per cent of plots/ sheds remained vacant in 40 IEs. This also needs to be seen in the light of the fact that, while developing new IEs, WBSIDCL did not assess requirement/ demand for it as evidenced by the fact that at IEs in Ambari Falakata, Rejinagar and Illuabari, 470 out of 569 plots were lying vacant for 26 to 43 months as of March 2016 after incurring expenditure of ₹ 71.37 crore.

¹⁰⁶ As per Micro, Small and Medium Enterprise Development Act, 2006 Micro scale industries are those having investment in plant and machineries of ₹ 25 lakh in manufacturing sector and ₹ 10 lakh in service sector, Small scale industries are those having investment in plant and machineries of ₹ five crore in manufacturing sector and ₹ two crore in service sector, and Medium scale industries are those having investment in plant and machineries of ₹ 10 crore in manufacturing sector and ₹ five crore in service sector.

¹⁰⁷ Baltikuri IE, Durgapur RIP, Durgapur CE, Malda CE, Tangra IE, Kasba IE, Siliguri IE, Kalyani IE, Ashoknagar IE, Maniktala IE and Khidirpore IE.

Management accepted (September 2016) that in respect of these three IEs, no study had been made relating to demand. Further, the Government added (November 2016) that WBSIDCL had recently offered additional rebates on rates to make these IEs 'more accessible to prospective buyers'.

3.1.3.2 Non-fulfilment of legal requirements regarding ownership of land at IEs/ CEs

Out of the 54 IEs/ CEs that WBSIDCL had as on 31 March 2016, 49 IEs/ CEs were operational, one CE was non-operational and four IEs were upcoming. Details of land acquired, received from different departments and by outright purchase¹⁰⁸ for setting up these IEs/ CEs is given in **Table 3.1**.

Table 3.1: Details of land acquired/ received/ outright purchased by WBSIDCL as on 31 March 2016

Sl. No.	Acquired/ Received/ Outright Purchased from	No. of Estates (Nos.)	Area (in acres)	Lease deed executed (in acres)	Lease deed not executed (in acres)	Lease deed not found (in acres)	Mutation done (in acres)	Mutation not done (in acres)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)=(5)-(8)
A)	Operational IE and CEs							
1	C & SSI Department ¹⁰⁹	21	180.01	82.88	82.79	14.34	1.68	81.20
2	Land and Land Reforms Department	9	374.07	215.80	155.64	2.64	-	215.80
3	Other Government Departments	11	103.57	79.96	23.61	-	-	79.96
4	Outright purchase	8	19.16	19.16	-	-	0.44	18.72
	Sub-total (A)	49	676.82	397.80	262.04	16.98	2.12	395.68
B)	Non Operational CE							
5	Outright purchase	1	0.53	0.53	-	-	-	0.53
	Sub-total (B)	1	0.53	0.53	-	-	-	0.53
C)	Upcoming IEs							
6	Land and Land Reforms Department	4	55.09	17.12	37.97	-	-	17.12
	Sub-total (C)	4	55.09	17.12	37.97	-	-	17.12
	Grand Total (A + B + C)	54	732.44	415.45	300.01	16.98	2.12	413.33
	Percentage against total land/ lease deed executed			56.72	40.96	2.32	0.29	99.49

(Source : Information furnished by WBSIDCL)

According to Sections 17 and 23 of The Registration Act 1908, title/ lease deeds of immovable property are required to be in writing and registered within four months of execution of the deeds. Besides, West Bengal Land and Land Reforms Manual 1991 provides that settlement of land for non-agricultural purposes should be only under registered leases. Yet, WBSIDCL and the departments had not executed title/ lease deeds in favour of WBSIDCL for 300.01 acres (40.96 per cent) of land out of total land of 732.44 acres, reasons were neither on record nor made available to Audit, though called for. Moreover, out of an aggregate of 415.45 acres of land registered, WBSIDCL had undertaken mutation of 2.12 acres only (0.29 per cent),

¹⁰⁸ Official Liquidator High Court, Calcutta, Kolkata Improvement Trust, Municipalities and Cooperative Societies.

¹⁰⁹ Previously, the Micro, Small & Medium Enterprises and Textiles department went by the name of Cottage and Small Scale Industries department.

while mutation of the remaining 413.33 acres (99.49 per cent) was not completed for reasons not on record. Resultantly, the land, building and sheds on these lands given on lease by WBSIDCL to the entrepreneurs were not free from encumbrances. As per Section 16 (a) of The Registration Act, such land was liable to be reverted back to the departments/ agencies from which these were received which would adversely impact the investment by the entrepreneurs in these plots/ sheds.

The Government stated (November 2016) that WBSIDCL would take up the matter, through the MSME&T Department, GoWB, with the Land and Land Reforms Department to resolve the issue.

3.1.4 Allotment and possession

3.1.4.1 Delay/ non-execution of lease deeds

(a) WBSIDCL communicates formal allotment of land/ space to the selected entrepreneurs after receipt of lease premium, for execution of lease deed and registration within 90 days of allotment. The status of the lease deeds executed/ not executed in cases of long term lease cases where allotment was communicated during 2011-16 is shown in **Table 3.2** as follows:

Table 3.2 : Status of execution of lease deeds

Long term lease cases during 2011-16	Total Allotment (in nos)		
	New	Transfer	Total
Numbers of long-term allotments issued <i>i.e.</i> lease premium received	204	87	291
Lease Deeds executed within schedule	20	9	29
Lease Deeds executed beyond schedule (delays ranging from five days to 1,071 days)	38	14	52
Lease deeds not executed (even after lapse of 52 to 1,821 days)	146	64	210
Percentage of lease deeds not executed despite collected lease premium	71.57	73.56	

(Source : Information provided by WBSIDCL)

Table 3.2 points to the delay in execution of lease deeds as well as non-execution of lease deeds even after deposit of lease premium by the entrepreneurs. Audit was not provided with any records pertaining to whether the entrepreneurs had submitted all the required documents for execution of lease deeds. As such, reasons for delays, whether on the part of WBSIDCL or entrepreneurs were not on record.

The Government in its reply (November 2016) accepted the audit observation.

(b) With a view to set up an IE, GoWB had transferred (December 2012) to WBSIDCL, 118.36 acres of land at Ambari Falakata on 30 years lease. Without registering the land in its favour, WBSIDCL had allotted (June 2014/ August 2015) plots measuring 2.087 acres to four entrepreneurs on 99 years lease. It was observed that no lease deeds had been executed by WBSIDCL with the entrepreneurs. It was further observed GoWB had not yet agreed to

extend WBSIDCL's lease period to 99 years as proposed in July 2014. As a result, as of March 2016, these plots were lying vacant and no operation was started by the entrepreneurs. It was not clarified how land received on 30 years lease could be sub-leased for 99 years.

The Government stated (November 2016) that WBSIDCL would start procedure for resumption according to the norms. The reply, however, did not address the audit issue.

3.1.4.2 Handing over of possession

On execution of lease deed and completion of registration thereof, physical possession of the plot/ land is handed over to the selected entrepreneur. Audit checked the related records and conducted joint inspections with the WBSIDCL officials and observed that in respect of 207 allotments in 22 estates¹¹⁰, WBSIDCL had allowed the entrepreneurs to occupy the plots without executing lease deeds. Audit observed that in the absence of lease deeds for handing over possession, 94 stalls (13,583.99 sq. ft) in three CEs¹¹¹ were occupied by unauthorised persons.

3.1.5 Operation of leases

Audit observations with regard to operation of short term and long term leases of plots allotted in IEs/ CEs to entrepreneurs by WBSIDCL are discussed in the succeeding paragraphs.

3.1.5.1 Lacunae in deeds

Audit observed the following lacunae in 106 lease deeds/ deeds of assignment which were executed during 2011-16, including those for which the lease premium were paid earlier:

- In respect of 44 out of 48 deeds executed for sole proprietorship enterprises, lease was given in the name of the sole proprietorship enterprises and in the remaining four cases the deeds were executed in the name of the proprietorship enterprise instead of the individual who was the proprietor.
- BoD had decided (February 2013) that if any plot/ shed/ stall was transferred to the legal successors/ heirs within the family¹¹² of the lessee, only 'service charges' would be levied. In all other cases, transfer fee had to be levied. In case of transfer of control/ shares/ ownership exceeded 50 *per cent* of ownership, it should also be treated as transfer. Ownership ratios of the entrepreneurs in their respective businesses were not disclosed in deeds. Consequently, even if there were changes in ownership, WBSIDCL was not able to claim service charges

¹¹⁰ Ambari Falakata IE (4), Baltikuri IE (6), Baruipur IE (7), Behala CE (18), Behala IE (5), Belegkata IE (2), Berhampore CE (11), Berhampore IE (3), Dabgram IE (1), Durgapur CE (11), Durgapur IE (2), Durgapur RIP (1), Kasba IE-II (1), Khidderpore IE (20), Malda CE (40), Raiganj CE (45), Rejinagar IE (9), Santoshpur IE (2), Shilpa Bhavan (5), Siliguri IE (11), Tangra IE-II (1) and Udayan IE (2).

¹¹¹ Malda (40), Raiganj (45), Durgapur (9).

¹¹² Family means husband/ wife/ sons/ daughters.

or transfer fees from the entrepreneurs. Audit observed that since the deeds had not detailed the ownership pattern, WBSIDCL was not aware that at Kalyani and Dabgram IEs, three entrepreneurs had substantially¹¹³ changed (September 2013 to July 2015) their ownership pattern. These lacunae in the deeds resulted in loss of revenue of ₹ 66.86 lakh to WBSIDCL towards transfer fees.

3.1.5.2 Conversion to long term lease agreements

In September 2012, BoD decided that approval of Finance Department, GoWB was to be taken for realising lease premium/ rate below the market price as WBSIDCL was a custodian of GoWB's land. Thereafter, on demand by short term lease holders to convert short term leases to long term leases, BoD permitted (May 2013) existing entrepreneurs to convert to long term lease for 99 years on payment of conversion premium at the rate of ₹ 40,000 *per katha* for uncovered plots/ sheds and ₹ 200 *per sft* for covered shed at Kalyani IE-I & II, against prevailing premium¹¹⁴ at ₹ five lakh *per katha* and ₹ 694 *per sft* respectively. Yet, WBSIDCL had not obtained approval of the Finance Department, GoWB to this proposal. Out of 193 entrepreneurs at Kalyani IEs, 29 had accepted (March 2014 to March 2016) the offer¹¹⁵. Consequently, WBSIDCL sustained loss of revenue of ₹ 25.82 crore due to difference between prevailing premium and conversion premium.

The Government in its reply (November 2016) accepted the audit observation.

3.1.5.3 Irregularities in transfer of lease deeds

WBSIDCL permitted (December 1996/ February 2010/ July 2013) transfers of plots/ sheds/ stalls/ building spaces from existing entrepreneurs to other entrepreneurs for the balance period of original lease agreements against transfer fees from the new occupants, only after a lock-in period of five years. Further, WBSIDCL had introduced (April 2011), in the lease agreements, an exit clause permitting existing entrepreneurs to surrender their plots *etc.*, to WBSIDCL and receive refunds of up to 75 *per cent* of the original premium.

On the other hand, the MD, WBSIDCL had informed (September 2012) the BoD that the units were unofficially taking huge premium and surrendering/ transferring the plots *etc.*, to other units, thereby depriving WBSIDCL of revenue. It was observed from the Board minutes/ agenda, ledger of transfer fee (long term) and files that instead of disallowing transfers, WBSIDCL had discontinued with the exit clause, from July 2013. From April 2011 to March 2016, WBSIDCL had effected 87 transfers of plots/ sheds/ stalls/ building spaces. It was also observed that:

- All transfers executed were required (December 2013) to be subsequently ratified by WBSIDCL's BoD. Yet, eight out of 34 transfers of plots/ spaces effected between January 2014 and March 2016 had not been submitted for BoD's ratification.

¹¹³ That is more than 50 *per cent* of the original ownership pattern had changed.

¹¹⁴ Rate at which WBSIDCL was collecting lease premium from new entrepreneurs.

¹¹⁵ Twelve plots : 542.01 *kathas*, 17 sheds : 17,966.77 *sft*.

- GoWB had directed (August 2013) that all allotments of land required prior approval of the Standing Committee of the Cabinet on Industry, Infrastructure and Employment, GoWB. Yet, 30 transfers of plots/ sheds at 12 IEs¹¹⁶, effected between September 2013 and March 2016 at an under-valuation of ₹ 15.58 crore were not placed for the Committee's approval.

The Government in its reply (November 2016) stated that it would look into the matter.

3.1.5.4 Loss to Government exchequer due to non-inclusion of transfer fee

Entrepreneurs were required to register the lease deeds of the plots/ spaces within 90 days from the date of offer of allotment. To aid in assessment/ levy of stamp duty, Registrar of Assurances, Kolkata, Directorate of Stamp Duty and Registration, GoWB requested (August 2015) WBSIDCL to draw¹¹⁷ a deed of transfer of lease or to make a surrender of lease first and then grant a fresh lease in favour of the subsequent SSI units, mentioning all money paid or agreed to be paid by the entrepreneur succeeding the lease. As per Indian Stamp Act, 1899, the incoming entrepreneurs were required to pay stamp duty on the transfer fees paid at the time of execution of lease deed.

Out of 87 instances of transfer from April 2011 to March 2016, WBSIDCL had executed lease deeds in 23 instances only while the deeds had not been executed for the remaining 64 cases for reasons not on record. However, lease deeds of 13 out of 23 cases of transfer did not include information on transfer fees paid. Thus, there was loss of ₹ 14.73 lakh to the Government exchequer on account stamp duty not realised.

The Government in its reply (November 2016) accepted the audit observation.

3.1.6 Non-functioning units and eviction procedure

The lease agreements between WBSIDCL and the entrepreneurs provided that if the premises were not utilised within a period of six (for other than plots)/ 12 months (for plots) for their intended purpose or remained closed for three/ six months consecutively under short term/ long term leases, then the lease would be deemed to have been surrendered. In such an event, WBSIDCL had the right to repossess the premises. In this regard audit observed that:

¹¹⁶ Five cases in Baltikuri IE, four cases in Durgapur IE, three cases in Durgapur RIP, three cases in Dabgram IE, six cases in Kasba IE-I, three cases in Kasba IE-II, two cases in Kasba IE-III, one case in Khidderpore IE, one case in Phears Lane CE and two cases in Udayan.

¹¹⁷ Sections 61 and 63 of Indian Stamp Act, 1899.

- As of September 2015, out of 2,471 allottees, 424 allottees (17.16 per cent) were non-functioning¹¹⁸. Some of these non-functioning units were used for other purposes¹¹⁹ by the entrepreneurs.
- As at September 2015, 654 plots/ sheds (26.47 per cent) in 40 IEs remained vacant. It was observed¹²⁰ that at 12 IEs/ CEs, vacant land (5.84 acres) had been encroached. Resultantly, WBSIDCL failed to earn a revenue of ₹ 14 crore.
- WBSIDCL does not prepare monthly or quarterly performance/ status report of IEs/ CEs. In absence of such database, operational performances of IEs/ CEs *vis-à-vis* promotion, growth and development of industries could not be assessed. Thus, WBSIDCL is not fully aware of the status of utilisation of these IEs/ CEs.

This showed the WBSIDCL had a lackadaisical approach in enabling MSMEs and was also indifferent about maximising its revenue earning operations.

The Government stated (November 2016) that the matter was viewed seriously and noted for compliance in future.

3.1.7 Non-realisation of dues

With a view to ensuring viability of IEs/ CEs, WBSIDCL should promptly realise lease rent along with proportionate share of expenses towards municipal tax, service tax, *etc.* paid to the respective authorities by WBSIDCL, from the entrepreneurs. As of March 2016, outstanding lease rent, municipal tax, service tax and penal interest stood at ₹ 15.84 crore (provisional), which was an increase of 91 per cent from ₹ 8.30 crore as at March 2012. The percentage of collection *vis-à-vis* annual demand from allottees of the IEs/ CEs during the last five years upto 2015-16 is depicted in **Figure 3.1**.

Figure 3.1: Details of total collections to recovery from 2011 -16 It would be seen from the

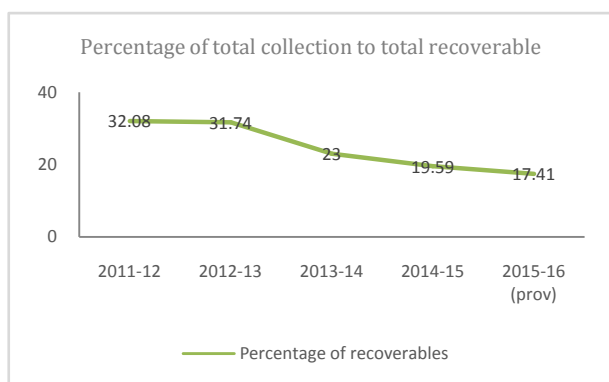


figure alongside that the percentage of total collection to total recoverable declined over the years, indicating poor collection efficiency. This was in spite of a task force being formed (June 2012) for collecting the outstanding dues by WBSIDCL. Moreover, no mechanism existed for

¹¹⁸ Information provided by WBSIDCL.

¹¹⁹ Five were converted to canteen, guest house, staff quarters, mess, godown, sub-lease on rent and residence (12 plots), at Durgapur IE, CE, Rehabilitation Industrial Plot, and Export Promotion Industrial Park and at Raigunj CE, five stalls were unauthorisedly handed over, one is being used by West Bengal State Electrical Contractors Association and the other as local political party office.

¹²⁰ Records, data furnished by WBSIDCL and through physical verification.

monitoring timely recovery of outstanding lease premium, municipal taxes, etc. Some instances of non-realisation were as follows:

- The lease agreements stipulate that after an estate had been completed and handed over by WBSIDCL to the Entrepreneurs' Association (EA), EA shall solely be responsible for the maintenance¹²¹ of IE/ CEs. Further, expenses incurred by WBSIDCL towards maintenance of IEs/ CEs prior to hand over to EA are to be recovered *pro-rata* from entrepreneurs. During 2011-12 to 2015-16, WBSIDCL incurred maintenance charges of ₹ 9.25 crore towards 48 IEs/ CEs, which it had not claimed for reasons not on record.

The Government stated (November 2016) that continuous discussion was going on with the respective entrepreneurs' associations and it was expected that large number of associations would come up to take over the maintenance within the next financial year. However, they did not respond to the issue of non-recovery of maintenance charges already incurred by WBSIDCL.

- At Siliguri IE, WBSIDCL had, with the approval of BoD, enhanced (February 2010) lease rent from ₹ 650/- *per katha per month* (fixed in October 2001) to ₹ 3,600/- *per katha per month*. Accordingly, lease rent bills were raised on the entrepreneurs at ₹ 3,600 *per katha per month*. Against this, five entrepreneurs approached the High Court for reduction of lease rent. These petitions were dismissed (June 2013 to July 2015) as infructuous since WBSIDCL had constituted a 'Review Committee' to review the rate of rent to resolve the dispute. Meanwhile, WBSIDCL had discontinued claiming of rent from March 2015. Moreover, it had settled (June 2015) with the entrepreneurs and reduced the rent to ₹ 300 *per katha per month*. The same was only approved in August 2016 by BoD after being pointed out by Audit in May/ July 2016. Failure to collect rent at enhanced rates led to loss of revenue of ₹ 50.71 lakh between March 2015 and March 2016. Further, WBSIDCL had neither taken any step for collection of outstanding dues (₹ 3.53 crore till March 2015) nor evicted the entrepreneurs who had not paid rent at enhanced rates for non-payment of dues.
- For the period from October 2007 to December 2012, WBSIDCL had paid¹²² service tax of ₹ 5.24 crore on lease premium and transfer fees. In terms of the lease agreement, this amount was recoverable from the entrepreneurs. However, as of March 2016, WBSIDCL could recover only ₹ 2.23 crore while the balance amount of ₹ 3.01 crore was yet to be recovered.

While accepting the audit observation, the Government stated (November 2016) that WBSIDCL was making all out efforts for speedy recovery.

¹²¹ Expenses related to security guards, pump operator, repair to machinery, building/ sheds/ boundary walls/ internal roads/ drainage, etc.

¹²² December 2013: ₹ 2.70 crore; March 2014: ₹ 0.50 crore and June 2014: ₹ 2.04 crore Under Voluntary Compliance Encouragement Scheme, 2013.

3.1.8 Monitoring and Control

To function effectively and efficiently as a facilitator for SMSEs, WBSIDCL was required to control and monitor its operations and put in place systems to fulfil this role. Audit observed the following deficiencies in the control and monitoring mechanism:

- Fixed asset register pertaining to the infrastructure of all estates had not been updated from prior to March 2007 and details of land received/acquired along with location and cost, expenditure on construction of buildings, sheds, roads, electrical equipment, *etc.*, were not on record. Consequently, the cost of development of each estate to recover the expenditure incurred could not be assessed. Moreover, in respect of the Taratala IE, WBSIDCL was not aware of the whereabouts of the IE. After locating the IE, it was seen that the entire land of 1.11 acre had been encroached, which WBSIDCL was ignorant about.
- WBSIDCL had engaged (September 2014) Bengal Srei Infrastructure Development Limited (BSIDL) for physical and document survey of immovable assets and software development for asset data management at a cost of ₹ 63.50 lakh, to be completed within January 2015. Audit



Figure 3.2: Encroachment in Kasba IEs by shops

WBSIDCL, it was noticed that in many premises, there were no sign boards at the gate or on the wall indicating name of the entrepreneurs, plot no, *etc.*, to identify the current occupant. Also 15 plots were used for residential purposes at Durgapur Rehabilitation Industrial Park (RIP). Further, scrutiny showed that security services were withdrawn (March 2015 to October 2015) from Tangra IE, Behala IE, Siliguri IE, Baltikuri IE and Khidderpore IE though the maintenance of the estates had not been handed over to the Entrepreneurs Associations (EA) of these estates. As a result, there had been encroachment of plots (1.2118 acre) not allotted at Baltikuri and Siliguri IEs.

observed that the work was discontinued (February 2015) due to delay in commencement and progress of work by BSIDL. However, WBSIDCL made payment (September 2015) of ₹ 13.72 lakh which became infructuous.

- WBSIDCL had not framed procedures for regular inspections of allotted plots/ spaces at IEs/ CEs. During physical inspection in six¹²³ IE/ CEs, along with officials of



Figure 3.3: Durgapur RIP used for residential purposes

¹²³ Durgapur RIP, Malda CE, Khidderpore IE, Siliguri IE, Raiganj CE and Durgapur CE.

- Estate wise income, expenditure and profitability had not been worked out. Consequently, performance of each estate could not be assessed and compared in audit.
- WBSIDCL had not framed any policy of equitable allotment of plots and sheds to entrepreneurs. Resultantly, profitable MSME enterprises running in good health had been acquiring additional plots/ sheds which were not made available to new units. Audit observed that at 10¹²⁴ IEs, 32 entrepreneurs/ groups had additionally acquired three or more plots/ sheds by way of transfer/ allotment, thereby ending up holding four to 14 plots/ sheds each. WBSIDCL had not ascertained whether the investment in plant and machinery by these entrepreneurs/ groups remained within the ceiling of ₹ ten crore and ₹ five crore for medium-sized manufacturing and service enterprises respectively, to ensure their continuing eligibility for plots/ sheds in these IEs.

3.1.9 *Entrepreneurs' Satisfaction Survey on infrastructure created and services rendered*

With a view to assess the satisfaction level of the entrepreneurs on assets created and services rendered by WBSIDCL, Entrepreneurs' Satisfaction Survey (ESS) was conducted by Audit along with the officials of WBSIDCL. The survey covered (a) Roads (*i.e.* Quality of roads, availability of approach roads, repair & maintenance, *etc.*) (b) Other infrastructural facilities (*i.e.* Drainage including waste management, lighting, water supply, safety measures, *etc.*) (c) Environmental issues (*i.e.* Plantation and green belt, common effluent treatment plant, *etc.*) and (d) Relationship with the entrepreneurs and other issues (*i.e.* and redressal of grievances, assistance from estate offices, communication of changes in rules and regulations, behaviour of officials, *etc.*) of the IE/ CEs developed and maintained by WBSIDCL. Audit observations on these issues are given below.

Coverage and methodology

This survey was carried out in 11 IE/ CEs with WBSIDCL. A questionnaire covering 19 aspects on the above four issues having five parameters¹²⁵ of satisfaction levels was responded to by 29 entrepreneurs and six entrepreneurs' associations (EAs). The satisfaction levels as emerged from such survey may be seen from the following Figure.

¹²⁴ Baltikuri, Berhampur, Durgapur IE, Durgapur RIP, Kasba-I, Kasba-III, Siliguri, Tangra-I, Tangra-II and Udayan.

¹²⁵ 'Excellent', 'Very good' and 'Good' were treated as the "Satisfied" entrepreneurs and 'Average' and 'Poor' were treated as the dissatisfied entrepreneurs.

Figure 3.4 Satisfaction levels of the entrepreneurs of WBSIDCL

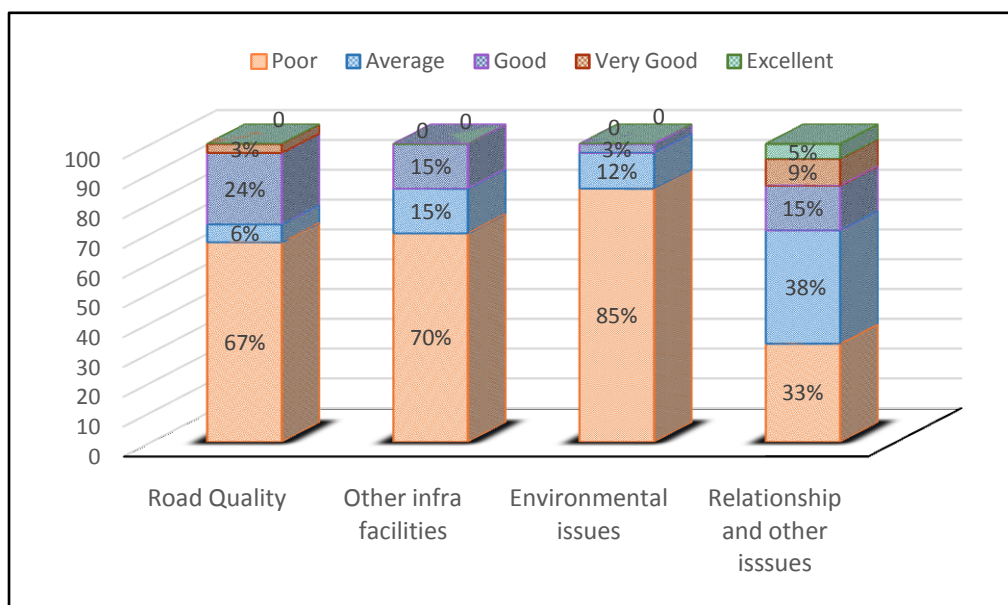


Figure 3.4 shows that the satisfaction level of the entrepreneurs was minimal (between three per cent and 29 per cent) whereas the dissatisfaction level was higher (between 71 and 97 per cent). This was indicative of the perception that WBSIDCL had largely failed to provide desired level of basic infrastructural facilities and other services to the entrepreneurs in the IE/ CEs.

The Government in its reply (November 2016) accepted the audit observation.

3.1.10 Conclusion

MSME&T sector has been given (2013) high priority by GoWB and WBSIDCL, under the aegis of MSME&T department which plays an important role in this sector by providing thrust for infrastructure support to small entrepreneurs. WBSIDCL, however, had -

- (I) **Not formulated any long term/ short term strategic plans/ policies for acquisition of land or to create a land bank for the purpose of setting up/ developing IEs/ CEs.**
- (II) **Belatedly executed/ not executed lease deeds putting entrepreneurs to many difficulties.**
- (III) **Failed to collect transfer fees resulting in loss of revenue, due to shortcomings and lacunae in the lease deeds.**
- (IV) **Not appraised the status of utilisation of IEs/ CEs as units were non-functional, being utilised for other purposes, etc. Percentage of total collection to total dues declined over the years, indicating poor collection efficiency, lack of regular monitoring and inspection.**
- (V) **Not updated fixed asset register of infrastructure for all estates. Moreover, it had failed to provide desired level of basic infrastructural facilities and other services to the entrepreneurs in the IE/ CEs.**

WEST BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED

3.2 Extra expenditure on purchase of power

West Bengal State Electricity Distribution Company Limited incurred extra expenditure of ₹ 42.07 crore on purchase of power in contravention of tariff policy and regulations.

The Tariff Policy¹²⁶ notified (January 2006) by Ministry of Power, Government of India (MoP) under section 3 of the Electricity Act, 2003 provides that the Regulatory Commissions shall be guided by the Central Commission for determination of tariff and should, *inter alia*, ensure availability of electricity to consumers at reasonable and competitive rates. Accordingly, Regulations¹²⁷ of West Bengal Electricity Regulatory Commission (WBERC) provided that the price for purchase of electricity from cogeneration¹²⁸ and/ or renewable sources¹²⁹ shall be agreed mutually by the buyers and the suppliers of power at a level not above the price cap¹³⁰ indicated in these regulations. These regulations also provide that the buyer shall examine the price proposal in the light of WBERC's regulation on price reasonableness, impact on consumer tariff and the price cap specified. The price cap fixed (May 2008/ August 2010) by WBERC for purchase of power from cogeneration was ₹ 2.55 per unit, keeping the consumers' interest in view. This was to remain in force for five years from the date of coming into force of these regulations.

For purchase of power, West Bengal State Electricity Distribution Company Limited (WBSSEDCL) executed fifteen power purchase agreements (PPAs) with power generating companies¹³¹ from cogeneration and renewable sources. Audit observed (December 2015) that in case of four PPAs with generating companies¹³² producing power from cogeneration, the PPAs were executed (April 2009, November 2009, April 2010 and December 2010) for purchase of power by WBSSEDCL at rates fixed above the price cap specified by WBERC. During the period from 2009-14 these rates were in excess of the price cap by ₹ 0.11 per unit to ₹ 2.80 per unit, in respect of above four PPAs.

¹²⁶ Clause 2.3 and 4.0 (2).

¹²⁷ Clause 4.0 and 9.2 of West Bengal Electricity Regulatory notification 39/ WBERC dated 26 May 2008, Clause 4.0 and 10.2 of West Bengal Electricity Regulatory notification 47/ WBERC dated 10 August 2010 and Clause 5.0 and 16.2 of West Bengal Electricity Regulatory notification 50/ WBERC dated 22 March 2013.

¹²⁸ Also called Combined Heat and Power (CHP), it is the use of a heat engine or power station to generate electricity and useful heat at the same time.

¹²⁹ Renewable electricity generating sources such as small/ mini/ micro hydel project up to 25 MW capacity, wind, solar, biomass based on 100 per cent producer gas on combustion route, urban/ municipal waste, industrial waste, geothermal, tidal, ocean thermal energy conversion or such other sources as approved by the Ministry of New and Renewable Energy of the Government of India.

¹³⁰ Upper price limit as prescribed by WBERC.

¹³¹ Fifteen generating companies based on cogeneration and renewable sources.

¹³² Sree Renuka Sugars Limited (SRSL), Ram Swarup Loh Udyog (RSLU), Himadri Chemicals Limited (HCL) and Rashmi Cement Limited (RCL).

This resulted in extra expenditure of ₹ 42.07 crore (*Annexure 5*) by WBSEDCL.

Management stated (September 2016) that when these PPAs were being negotiated with the generating companies the market price of power on the electricity exchanges was very high. Consequently, the generating companies had sought open access to sell power in the open market at higher rates. WBSEDCL claimed that the price cap was not binding on the generating companies. It further added that these power purchases had not only fulfilled its renewable power purchase obligations but also benefitted the consumers through reduced tariff by purchase of power at rates below the then prevailing market rates. Therefore, WBSEDCL had decided to purchase power from these generating companies at a negotiated rate in excess of the cap.

Management's reply was not acceptable for the following reasons:

- (i) WBERC's regulations (Regulation 04) on price cap are applicable to WBSEDCL and binding on generating companies as well.
- (ii) Regulation 4.2 *inter alia* specified that the Commission did not debar a licensee from agreeing to a negotiated price within the capped price.
- (iii) Regulation 3.6 specified that the quantum of energy wheeled/transmitted through the system of any licensee against such open access could also be taken into account as fulfilment of its purchase obligation for that licensee. Accordingly, fulfilment of renewable power purchase obligation could have been achieved through use of open access through the system/ infrastructure of WBSEDCL by the generating companies.
- (iv) The claimed benefit to consumers through reduced tariff was also not acceptable as PPAs were executed by WBSEDCL at rates fixed above the price cap specified by WBERC.
- (v) In violation of regulation (Regulation 3.2), WBSEDCL did not approach WBERC for settlement of disparity in price, before entering into the long term PPAs.
- (vi) Purchase of power at rates below the then prevailing market rates deprived the consumers of the long term benefit of lower tariff determined in the light of price cap specified by WBERC.

Thus, purchase of power by WBSEDCL from cogeneration at higher rates between 2009-10 and 2013-14, in violation of tariff policy of Government of India and WBERC regulations, had resulted in extra expenditure of ₹ 42.07 crore. Moreover, it had failed to achieve the objective of ensuring availability of electricity to consumers at reasonable and competitive rates, leading to extra burden to its consumers.

The matter was brought to the notice of the Government in May 2016, their reply was awaited (September 2016).

3.3 Avoidable expenditure on purchase of power at higher rates

West Bengal State Electricity Distribution Company Limited failed to include a penalty clause for short supply of power in the long term power purchase agreement with private generating company in violation of Government of India guidelines and regulations, which led to avoidable expenditure of ₹ 12.76 crore.

The National Electricity¹³³ and Tariff¹³⁴ policies notified (February 2005/ January 2006) by the Ministry of Power, (MoP) under Section 3 of the Electricity Act, 2003 provided that States would implement, by April 2006, Availability Based Tariff (ABT) in long term power purchase agreements (PPAs). ABT, *inter alia* includes clauses of penalty for short supply/ non-supply of power. Accordingly, Regulations¹³⁵ of West Bengal Electricity Regulatory Commission (WBERC) specified in February 2007 and April 2011 that every entity purchasing power from any other entity within the jurisdiction of WBERC should have PPAs. The PPAs should include penalty for deviation from the scheduled supply of power to take care of ABT.

Audit observed that West Bengal State Electricity Distribution Company Limited (WBSEDCL) had entered (July 2008) into a long term power purchase agreement with a private power generating company, Tata Power Company Limited (TPCL), Haldia. The power purchase agreement was for the supply of 20 MW of power to WBSEDCL for a period of 10 years from the date of commercial operation of its Haldia plant. TPCL started its commercial operation during August 2008 to September 2009¹³⁶.

From the available records, it was observed in audit that during the period from April 2013 to March 2016, TPCL had supplied less than the contracted quantity of power to WBSEDCL under PPA, despite having adequate power. The shortfall in power supply ranged between 24.53 *per cent* and 37.59 *per cent* as given in *Annexure 6*.

To meet this shortfall, WBSEDCL had to purchase 81.71 MU¹³⁷ power on short term/ by spot tender again from TPCL, Haldia as well as from Indian Energy Exchange (IEX)¹³⁸ at rates, which were higher than those offered by TPCL under PPA. WBSEDCL had not taken up the matter of violation of terms of agreement with TPCL. It was also observed that while finalising the PPA for purchase of power from TPCL, WBSEDCL, in violation of Electricity Act and tariff policies notified under this Act by MoP as well as

¹³³ Clause 5.7.1.

¹³⁴ Clauses 6.2 and 8.4.

¹³⁵ Clause 5.3.1 of West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations (No. 31/ WBERC dated 9 February 2007) and Clause 7.3.1 of West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations 2011 (No. 48/ WBERC dated 25 April 2011).

¹³⁶ Commercial Date of Operation (COD) of Unit 1 and Unit 2 was August 2008 and December 2008 respectively. However, the COD of Unit 3 was September 2009.

¹³⁷ Fifty five *per cent* of the total power short supplied from the same TPCL, and 23 *per cent* from IEX.

¹³⁸ Indian Energy Exchange is an automated electronic trading exchange regulated by the Central Electricity Regulatory Commission.

WBERC regulations, had not included a penalty clause for short supply/non-supply of power. Consequently, WBSEDCL could not take any action and had to incur additional expenditure of ₹ 12.76 crore on these power purchases.

While accepting the facts, WBSEDCL stated (September 2016) that the matter was taken up (April 2016) with TPCL to incorporate a penalty clause in the PPA.

Thus, WBSEDCL had to incur avoidable additional expenditure of ₹ 12.76 crore on power purchases at higher rates due to non-inclusion of penalty clause. This has also resulted in undue benefit of ₹ 7.97 crore (₹ 12.76 crore - ₹ 4.79 crore: paid to IEX) to TPCL.

The matter was brought to the notice of the Government in May 2016, their reply was awaited (September 2016).

3.4 Loss due to absence of agreement for purchase of power

West Bengal State Electricity Distribution Company Limited did not enter into power purchase agreement with Dishergarh Power Supply Company Limited for purchase of power due to which rebate for timely payment of power bills could not be availed, resulting in loss of ₹ 3.13 crore.

West Bengal Electricity Regulatory Commission (WBERC) Regulations¹³⁹ specified (February 2007 and April 2011) that every entity purchasing power from any other entity within the jurisdiction of WBERC should have power purchase agreements (PPAs). West Bengal State Electricity Distribution Company Limited (WBSEDCL) sells¹⁴⁰ as well as purchases¹⁴¹ power to and from Dishergarh Power Supply Company Limited¹⁴² (DPSCL).

It was seen in audit that for selling power, WBSEDCL had entered into (December 2011) PPA with DPSCL. However, no PPA was entered into for purchase of power by WBSEDCL from DPSCL. It was further observed that during 2011-15, DPSCL had availed of rebate for timely payment of bills, of ₹ 4.36 crore (on a total bill amount of ₹ 262.59 crore), as per clause for rebate in the PPAs with WBSEDCL.

Audit also observed that WBSEDCL had belatedly approached (June 2012/ August 2014) DPSCL for rebate on the same lines but was denied by DPSCL. However, in the absence of a PPA, which was a prerequisite as per the WBERC regulations for the purchase of power, WBSEDCL could not avail of the rebate. Consequently, WBSEDCL had no scope to claim and realise the

¹³⁹ Clause 5.3.1 of West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations 2007 (No. 31/ WBERC dated 9 February 2007) and Clause 7.3.1 of West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations 2011 (No. 48/ WBERC dated 25 April 2011).

¹⁴⁰ Through three off-take points.

¹⁴¹ Through 18 off-take points.

¹⁴² A distribution licensee, renamed India Power Corporation Limited from August 2013 as an Independent Power Producer.

rebate of ₹ 3.13 crore¹⁴³ on total power bills of ₹ 312.60 crore paid to DPSCL during 2011-15.

In response to the audit observation, Management replied (September 2016) that the arrangement of power was reciprocal and historical in nature. WBSEDCL had purchased power from DPSCL to serve its consumers better as its then existing supply network was not sufficient. With the development of WBSEDCL's own infrastructure/ network, it is presently not drawing power¹⁴⁴ from DPSCL.

The reply did not address the audit observation that WBSEDCL had envisaged (2011-12) purchase of power from DPSCL up to the year 2016-17 (six years) but did not execute PPAs for the same. Moreover, the response that WBSEDCL was no longer drawing power did not justify the absence of PPA.

Thus, absence of PPA for purchase of power from DPSCL resulted in loss of ₹ 3.13 crore to WBSEDCL.

The matter was brought to the notice of the Government in May 2016, their reply was awaited (September 2016).

3.5 Loss due to lack of fund management

West Bengal State Electricity Distribution Company Limited retained funds in non-interest bearing current accounts and resorted to borrowings from cash credit accounts for making various payments, due to lack of fund management. This led to avoidable payment of interest of ₹ 1.79 crore on cash credit accounts.

West Bengal State Electricity Distribution Company Limited (WBSEDCL), a distribution licensee, maintains 19 current accounts with various banks for meeting its operating expenditures. Three of these current accounts¹⁴⁵ were without auto-sweep facility¹⁴⁶. The Board of Directors of WBSEDCL had approved (September 2009) availing of short term loans or cash credit facilities¹⁴⁷ from banks for the purpose of meeting its operational expenditures under acute exigencies¹⁴⁸.

In this connection audit observed the following:

- During 2012-16, WBSEDCL retained amounts ranging from ₹ 3.80 lakh to ₹ 2,619.62 lakh in three non-interest bearing current

¹⁴³ Calculated at one *per cent* as prescribed by WBERC for timely payment of bills by power consumers.

¹⁴⁴ Number of off-take points have reduced to one from 18.

¹⁴⁵ Axis Bank, ICICI Bank and Indian Overseas Bank.

¹⁴⁶ Facility that interlinks savings/ current account with a fixed deposit account and transfers extra amount lying in the bank account, above a threshold limit, to FD, thereby helping to earn better interest.

¹⁴⁷ Twelve accounts with 11 banks.

¹⁴⁸ Arising out of shortfall in cash flow due to time lag between the incurring of costs on increase in fuel prices for power purchase, pay revision, *etc.* and their recovery through tariff.

accounts with Axis Bank, ICICI Bank and Indian Overseas Bank¹⁴⁹ as idle funds for periods ranging between one day and 18 days.

- During the same period, WBSEDCL had availed cash credit facilities ranging from ₹ 6,259 to ₹ 247.71 lakh with interest rates of 11.50 per cent for making various payments¹⁵⁰. These payments were not in compliance with the Board's decision to draw cash credit after due consideration of exigencies.
- The idle funds lying in these three non-interest bearing current accounts could have been deposited to the cash credit accounts from where the payments were disbursed and payment of ₹ 1.79 crore towards interest on such cash credit accounts could have been avoided (*Annexure 7*).

Management stated (September 2016) that WBSEDCL had to open current accounts for its operations with a purpose, while cash credit accounts were opened to redress liquidity crunch. Therefore, current accounts and cash credit accounts were operated simultaneously. WBSEDCL, further, stated that since payments were made to small vendors, power utilities, the State Government and other institutions; it was practically not possible to match the receipts with disbursement of funds.

The reply shows that WBSEDCL had not monitored the availability of funds in non-interest bearing current accounts while resorting to borrowings from cash credit accounts to meet payments. Moreover, the WBSEDCL's Audit Committee had observed (August 2014) that significant balances were maintained by WBSEDCL in current accounts, whereas substantial interest was paid on borrowings from cash credit. The Committee had directed that all current accounts be closed by August 2014, which was not done.

Thus, due to improper fund management, WBSEDCL failed to safeguard its financial interest and incurred avoidable loss of ₹ 1.79 crore on account of interest on cash credit accounts.

The matter was brought to the notice of the Government in May 2016, their reply was awaited (September 2016).

MACKINTOSH BURN LIMITED

3.6 Loss of ₹ 1.61 crore in execution of a water treatment plant

Mackintosh Burn Limited suffered a loss of ₹ 1.61 crore in execution of water treatment plant due to improper estimate for the work on turnkey basis.

Kolkata Metropolitan Water and Sanitation Authority (KMW&SA) awarded (March 2013) the work of executing a partially completed Water Treatment Plant¹⁵¹ (WTP) at Khamarpara, Bansberia to Mackintosh Burn Limited

¹⁴⁹ Closed during 2014-15.

¹⁵⁰ Contractors' payments for materials, payments to various agencies for rent, stationery, etc.

¹⁵¹ Under Jawaharlal Nehru National Urban Renewal Mission (JnNURM).

(MBL), on nomination basis. The work involved completion of the partially completed WTP, *viz.*, design, construction, commissioning and trial run of 15 MGD¹⁵² WTP including 2 MG¹⁵³ underground reservoir-cum-pumping station within the existing WTP campus and 12 months operation and maintenance of the WTP on a turnkey basis. The contract price of the project was fixed at ₹ 13.50 crore and it was to be completed within 12 months from the date of agreement (March 2013).

Rule 171 of the Public Works Department Code, Government of West Bengal (GoWB) specified that in the case of works required in the interest of the general public, preliminary designs and estimates should be prepared. Further, as per prescribed Guidelines¹⁵⁴, Public Works Department –Schedule of Rates (PWD-SOR) was to be taken into consideration for cost estimation of the incomplete project. This envisaged checking of unit cost of each item during the present time and revision, if necessary, on the basis of PWD-SOR.

Audit observed that:

- As per the opinion of KMW&SA, the projected cost of the work of water treatment plant by taking into consideration the prevailing PWD-SOR, 2012 and market rates was ₹ 14.97 crore against which MBL had quoted ₹ 13.50 crore.
- During July 2009 to February 2012 there were six ongoing works for construction of water treatment plants in the State, average cost per MGD for which worked out to ₹ 1.55 crore. This was higher than the rate quoted by MBL which was ₹ 1.32 crore.
- The basis of estimate of the quoted value by MBL was not on record. MBL also stated (May 2016) that the basis of estimation of awarded value of work was not available.

The work of construction of WTP was completed in March 2015 and operation and maintenance works were completed in March 2016. MBL incurred an expenditure of ₹ 15.11 crore up to March 2016 against the awarded work of ₹ 13.50 crore.

Management confirmed (September 2016) the loss and stated that MBL was very much interested to procure the project as it did not have any previous credentials of WTP work. The reply of Management, however, did not address the reason for quoting below the prevailing market rate of ₹ 14.97 crore.

Thus submission of quotation without adhering to the norms for estimation of cost resulted in loss of ₹ 1.61 crore (₹ 15.11 crore - ₹ 13.50 crore) to MBL.

The matter was brought to notice of the Government (June 2016); their reply was awaited (September 2016).

¹⁵² Million Gallons per Day.

¹⁵³ Million Gallons.

¹⁵⁴ Schedule and Guidelines for preparation of piped water supply schemes by Public Health Engineering Directorate, Government of West Bengal.

THE SHALIMAR WORKS (1980) LIMITED

3.7 Loss due to non-compliance with prescribed standard design guidelines

Shalimar Works (1980) Limited incurred loss of ₹ 1.21 crore on reconstruction and renovation of dry docks due to non-compliance with the prescribed standard design guidelines.

Prior to the commencement of construction of any work in the bed of a river, it becomes obligatory to exclude, temporarily, river flow from the proposed work area during the construction period, so as to permit the work to be done in dry or semi-dry conditions. Such a diversion can be achieved through building of cofferdams which are temporary structures which prevent water from entering the work area. The applicable Indian standard¹⁵⁵ for cofferdams specifies that earthen¹⁵⁶ cofferdams are suitable for only one working season *i.e.* November to February when low tide prevails. Further, if they are to be retained for more than one working season, special protection measures/treatment have to be provided. Earthen cofferdams are not suitable where depth of water exceeds three metres. Instead, steel coffer dams with double wall sheet pile or cellular sheet pile are suitable.

It was observed that Garden Reach Shipbuilders and Engineers Limited¹⁵⁷ (GRSE) had awarded (May 2009) reconstruction and renovation works of two¹⁵⁸ dry docks at Raja Bagan Dockyard to The Shalimar Works (1980) Limited (SWL), at a firm price of ₹ 2.58 crore to be completed by June 2010 and September 2010 respectively. Since these dry docks were on the Hooghly river front, to save them from getting flooded while works were going on, the scope of work, *inter alia*, included erection of cofferdams for both the dry docks by use of materials like sandbags, bamboo/ sal piles, soil, other suitable support materials, *etc.*, as necessary. Thereafter, SWL sub-contracted (June 2009) the works to S. N. Construction (SNC) at a cost of ₹ 2.06 crore, for completion within the above dates which *inter alia* included the construction of cofferdams to be completed in July 2009. GRSE's tender specified that detailed tide tables for Hooghly River were available with GRSE and Kolkata Port Trust for identifying tidal characteristics required for executing the works.

Audit observed (July 2013/ May 2014) the following:

- Construction of cofferdams was not completed till October / November 2009 due to high tide water levels.
- As both cofferdams were constructed of earthen materials, they collapsed¹⁵⁹ in March 2010 due to high tides.
- SNC refused to re-erect the cofferdams due to fund constraints.

¹⁵⁵ IS : 9795 (Part-I) – 1981 (Reaffirmed 2012) Guidelines for choice of diversion works – Part I Cofferdams.

¹⁵⁶ Including timber and soil.

¹⁵⁷ A Government of India undertaking.

¹⁵⁸ DD 1 & 2 and DD 5.

¹⁵⁹ 28 March and 30 March 2010 respectively when high tide levels exceeded five metres.

- Consequently, in terms of contract, SWL cancelled (April 2010) the work order on SNC.

The entire work of repair and renovation of dry docks was then awarded (April 2010) to Newedge Nirman Private Limited (NNPL) at ₹ 1.30 crore, with revised completion dates of August 2010 and September 2010 respectively. NNPL, however, abandoned the works in July 2010 for reasons not on record.

Thereafter, SWL decided (August 2010) to complete the work of reconstruction and renovation of dry docks on their own by October 2010 and November 2010 respectively. The cofferdams were re-built (August 2010) with earthen materials, these repeatedly collapsed on seven¹⁶⁰ occasions between September 2010 and August 2011. The work of one dry dock was finally completed (May 2013) after a lapse of 35 months beyond scheduled date. Till March 2014, SWL incurred total expenditure of ₹ 212.85 lakh for one dry dock, against which it had received ₹ 61.95 lakh from GRSE. Besides, GRSE had deducted liquidated damages of ₹ 12.10 lakh and withheld payment of ₹ 46.95 lakh, resulting in loss of ₹ 103.95 lakh¹⁶¹. No further payment was received by SWL from GRSE (March 2016). The second cofferdam was not re-built. Consequently, the work of second dry dock remained incomplete even after incurring an expenditure of ₹ 87.21 lakh. In January 2014, SWL decided to foreclose work on the second dry dock. Till March 2016, SWL had received ₹ 70.12 lakh from GRSE leading to further loss of ₹ 17.09 lakh¹⁶². The aggregate loss on both dry docks was ₹ 121.04 lakh (₹ 103.95 lakh + ₹ 17.09 lakh).

The Management stated (April 2016) that after receipt of work orders, a reputed and qualified designer had been engaged for suggesting an appropriate construction methodology and preparation of drawings, within the purview of the tender specifications. Moreover, the successive failures of cofferdams were due to unforeseen calamity beyond their control and not due to non-compliance with the prescribed Indian standards.

The reply was not tenable as Audit had observed from the tide tables of Hooghly river available with GRSE that high tides exceeded 4.5 metres, the data which were never used by SWL. Further, as the work of renovation and reconstruction of dry docks had encompassed more than one working season and depth of water exceeded three metres, choice of earthen cofferdams was not appropriate as was evidenced by the collapse of cofferdams on nine occasions. Thus, due to non-compliance with the prescribed standard design guidelines for cofferdams, SWL incurred loss of ₹ 1.21 crore on reconstruction and renovation of dry docks.

The matter was communicated to the Government in April 2016, their reply was awaited (September 2016).

¹⁶⁰ First : 17 September 2010, 26 September 2010, 8 October 2010 and 1 August 2011; second : 18 September 2010, 20 February 2011 and 6 July 2011.

¹⁶¹ Total expenditure : ₹ 212.85 lakh less payment received : ₹ 61.95 lakh and amount withheld : ₹ 46.95 lakh.

¹⁶² ₹ (87.21 – 70.12) lakh.

CALCUTTA STATE TRANSPORT CORPORATION

3.8 Loss of revenue

Calcutta State Transport Corporation failed to claim license fees for utilisation of vacant land of CSTC depots; it also failed to charge license fees according to actual utilisation of land in setting up auto LPG dispensing outlets which led to loss of ₹ 76.12 lakh to CSTC, apart from its failure to increase non-traffic revenue.

Calcutta State Transport Corporation (CSTC) was set up in 1960 for development of road transport in Calcutta and the districts of 24 Parganas, Howrah and Hooghly. Its financial health had deteriorated over the years and for increasing the non-traffic revenue by commercial utilisation of vacant land, it had planned (November 2008) to lease out land in five¹⁶³ depots of CSTC for setting up auto LPG dispensing outlets (ALDO).

To operationalise this plan, CSTC had floated (December 2008) a tender for setting up of ALDO in the five identified depots. CSTC received responses from bidders in respect of only three¹⁶⁴ depots and the tender was awarded to the highest bidder, BND Gas Private Limited (Firm), in June 2009 for setting up ALDO, in three depots. An agreement was signed with the Firm in August 2009 which specified that payment of license fees for the leased land would commence from the date of delivery of the space for the ALDO. Further, in November/ December 2010, CSTC had entered into separate license deeds¹⁶⁵ with the Firm for the setting up of ALDO only in two depots¹⁶⁶. No documents were available in the file to show the reasons as to why license deed for the third¹⁶⁷ depot had not been entered into. The license deeds also specified that payment of license fees would commence from the date of taking over the space for setting up ALDO. In August 2012, CSTC had entered into another agreement with BND Gas Private Limited for setting up ALDO at Howrah and Belghoria depots of CSTC. No lease deed was signed in this case.

In this regard, Audit had observed the following:

A. Non recovery of license fees

The Firm had sought (September 2009) a three-month rent-free gestation period which was turned down (November 2009) by the Board of Directors of CSTC on the ground that it would entail revenue loss. CSTC had not raised any claim against the Firm towards payment of license fees from August 2009 upto March 2011. Thereafter, it had raised and collected payment of license fee from April 2011 onwards.

As such, CSTC failed to collect the license fees of ₹ 55.78 lakh for 20 months (August 2009 to March 2011) for both depots.

¹⁶³ Taratala, Manicktala, Howrah, Belghoria and Nilgunge depots.

¹⁶⁴ Taratala, Manicktala and Nilgunge depots.

¹⁶⁵ License deed gives the licensee the right to use and occupy the premises for a limited duration, in this case 20 years.

¹⁶⁶ Taratala and Manicktala depots.

¹⁶⁷ Nilgunge depot.

B. Loss of license fees

The agreement (August 2012) had stated that CSTC would hand over the space specified in it and charge license fees as stipulated in the agreement. The actual space that had been handed over to the Firm for setting up ALDO was found to be in excess of the space to be allotted, as mentioned in the agreement. CSTC had raised claims for license fees, based on the space specified in the agreement, instead of actual space occupied by the Firm. This had resulted in short-claiming of license fees aggregating ₹ 20.34 lakh on the differential space up to May 2016 for the depots at Belghoria and Howrah, as follows in **Table 3.3:-**

Table 3.3: Short-Claiming of License Fees

Particulars	Belghoria Depot	Howrah Depot
Agreement executed	August 2012	August 2012
Area actually allotted/ handed over (in sq.ft)	9,151	9,612
Area (sq.ft) mentioned in the agreements	8,000	8,000
Area for which license fees short claimed (in sq.ft)	1,151	1,612
Period of short claim (months) till May 2016	46	46
Short claim of license fee (months × license fee per sq. ft × difference between actual area handed over and area for which claimed) (₹)	8,47,136	11,86,432
Grand total (₹)	20,33,568	

The Government stated (December 2016) that a claim of ₹ 44.32¹⁶⁸ lakh had been raised (July 2016) towards outstanding/ short license fees on the Firm. The fact remained that failure to claim license fees for utilisation of vacant land of CSTC depots and failure to charge license fees according to actual utilisation of land in setting up ALDO led to loss of ₹ 76.12 lakh to CSTC, apart from its failure to increase non-traffic revenue.

3.9 Extra expenditure on maintenance of Volvo buses

Calcutta State Transport Corporation failed to avail of free maintenance services during the existing warranty period envisaged in the contract which resulted in extra payment of ₹ 50.85 lakh (May 2016) to the sole authorised service provider of the supplier towards service support of 63 Volvo buses.

Calcutta State Transport Corporation (CSTC) executed (20 February 2014) a contract with Volvo India Private Limited (VIPL) for procurement of buses and services¹⁶⁹ associated with running of these buses. Accordingly, CSTC procured (May to July 2014) 63 Air-Conditioned Ultra Low-Floor Bharat Stage-IV buses (cost : ₹ 63.79 crore) from VIPL under Jawaharlal Nehru National Urban Renewal Mission (JnNURM) Scheme¹⁷⁰.

¹⁶⁸ Manicktala depot : ₹ 3.08 lakh (February-March 2011), Belghoria/ Howrah depots ₹ 10.24 lakh each (September 2012-April 2013) and amount short claimed for differential area : ₹ 20.76 lakh (up to May 2016).

¹⁶⁹ Design, Manufacture, Supply and Commissioning of buses.

¹⁷⁰ Extended.

Under terms of the contract¹⁷¹, VIPL was required to station at least one competent engineer during the entire warranty period¹⁷² for evaluation of performance of buses and liaising with CSTC. VIPL was required to depute one engineer in each depot where Volvo buses were allotted. VIPL was also required to depute, at their own cost, necessary technical personnel for investigating defects and failures in these buses and carrying out modifications as and when required during the warranty period *i.e.* from September 2014 upto August 2016.

It was seen in audit that instead of availing of free maintenance services during the warranty period from VIPL as envisaged in the contract, CSTC entered (September 2014) into a separate agreement with the only authorised service provider of Volvo in the Eastern region, VE Commercial Vehicles Limited (VECVL), for service support¹⁷³ to these 63 Volvo buses at sites during the warranty period. The contract with VECVL was to be effective for 24 months, beginning from October 2014. Under this agreement, VECVL was to deploy four technical supervisors at a fee of ₹ 0.50 lakh per month (plus taxes as applicable) per technical supervisor and if the number of vehicles were more than 30 at a given depot¹⁷⁴/ site, one site technician¹⁷⁵ was also to be deployed at a fee of ₹ 0.20 lakh per month (plus taxes as applicable) per site. Accordingly, CSTC paid ₹ 50.85 lakh (*Annexure 8*) to VECVL for deployment of technical supervisors and on site technicians for service support to these buses during October 2014 to May 2016. CSTC, also would have to pay VECVL for service support of these buses during the entire validity period of the agreement *i.e.* upto September 2016. Thus, it was observed that for the same work of providing maintenance services to the 63 buses purchased, two agreements ran concurrently and CSTC failed to avail of the free support services for which the contract had already been signed.

Management stated in their reply (June 2016) that Volvo buses were high-end buses and considering the importance of maintenance of fleet, it was essential that regular maintenance be carried out under proper supervision. With this understanding, a separate agreement was entered into for providing five engineers for five different depots of CSTC for assisting the manpower of CSTC in carrying out regular maintenance.

The reply of the Management is not tenable as according to the agreement between CSTC and VIPL at least one competent engineer was to be necessarily stationed during the entire warranty period in each of the five depots for evaluation of performance of buses and liaising with CSTC. Necessary technical personnel were also to be deputed by VIPL at their cost for investigating defects and failures and carrying out modifications as and when required within warranty period. As such, the Corporation paid for

¹⁷¹ Clause 36.2 of Request for proposal (RfP) forming part of the contract.

¹⁷² Two years from the date of issuance of Final Acceptance certification (August 2014) or 2,00,000 km whichever is earlier.

¹⁷³ Including carrying out of warranty repairs, assistance in running repairs, emergency repairs, minor repairs, *etc.* but excluding accident related repairs and major overhaul of aggregates.

¹⁷⁴ Taratala Depot, Lake Depot, Howrah Depot, Garia Depot and Maniktala Depot.

¹⁷⁵ Parts-in-charge.

maintenance which was provided for free under the contract with the bus supplier.

Thus, failure of Corporation to avail of free maintenance services during the existing warranty period envisaged in the contract with VIPL resulted in extra payment of ₹ 50.85 lakh so far (May 2016) towards service support of these Volvo buses by another agency.

NORTH BENGAL STATE TRANSPORT CORPORATION

3.10 Extra expenditure on purchase of High Speed Diesel (HSD)

North Bengal State Transport Corporation incurred an extra expenditure of ₹ 63.48 lakh on purchase of HSD due to lack of proper procurement/ supply policy of HSD and failure to secure best value for money through regular monitoring of HSD prices from different sources.

North Bengal State Transport Corporation (NBSTC) operates bus services through 21 depots under the control of four divisions¹⁷⁶. The cost of High Speed Diesel (HSD) constitutes 43 *per cent*¹⁷⁷ of the total cost of its operations. Hence, to bring down costs and increase profitability, it is vital that NBSTC should optimise the cost of HSD. NBSTC procures HSD in three ways:

(a) The division offices directly procure HSD from Indian Oil Corporation Limited (IOCL) through their oil tankers from designated supply points¹⁷⁸ of IOCL against advance payment for distribution¹⁷⁹ to the depots according to their requirements.

(b) Inter-depot supply and issue, and

(c) En-route purchases by buses from retail refilling stations.

In January 2013, Government of India had announced that HSD would be sold to bulk consumers from retail refilling stations at the prevailing market prices effective from 18 January 2013. As this would be the cheapest option as compared with bulk procurement, to avail of the benefit of lower prices at retail refilling stations as a result of this order, the Transport Department, Government of West Bengal (GoWB) issued (24 January 2013) directions to all the State Transport Undertakings in the state to procure HSD en-route from retail refilling stations.

During test-check of records relating to purchases of HSD by NBSTC, Audit observed that NBSTC had procured 20,789.40 KL of HSD (valued at ₹ 106.97 crore) between September 2014 and March 2016. Out of this total procurement, 17,410.33 KL (valued at ₹ 89.20 crore) were directly purchased

¹⁷⁶ Coochbehar division- 5 depots, Siliguri division- 7 depots, Raiganj division- 5 depots and Baharampur division- 4 depots.

¹⁷⁷ Minimum 29.35 *per cent* in July 2013 and Maximum 43.11 *per cent* in June 2015.

¹⁷⁸ Coochbehar division- Hasimara, Siliguri division-Siliguri, Raiganj division-Malda and Baharampur division-Malda.

¹⁷⁹ Coochbehar division-Coochbehar, Siliguri division-Siliguri, Raiganj division-Raiganj and Baharampur division- Baharampur.

in bulk from IOCL while the remaining 3,379.07 KL (valued at ₹ 17.77 crore) of HSD were purchased en-route. Analysing these purchase activities, Audit observed the following:

A. NBSTC had started purchase of HSD from retail refilling stations since January 2013, in accordance with GoWB's decision. It was observed that the difference in price between the retail refilling stations and bulk purchases directly from IOCL was getting reduced gradually. Consequently, in June 2014, IOCL approached Principal Secretary, Transport Department for reverting back to direct procurement from IOCL to avail of price advantages. Neither the Transport Department issued any instructions nor had NBSTC availed of this opportunity. NBSTC resumed (September 2014) bulk procurement of HSD from IOCL when the price of HSD at the retail refilling stations was higher than that of IOCL. However, NBSTC did not execute any Memorandum of Agreement (MOA) from the time they resumed bulk purchase; instead, it executed the MOA only in October 2015. As per this MOA, NBSTC was entitled to a special cash discount of ₹ 150 per kilolitre (KL) on the quantity lifted in each month through bulk purchase. Between September 2014 and September 2015 (when the MOA was not executed), NBSTC had purchased 13,531.62 KL of HSD, in bulk, from IOCL. Due to delay of 13 months¹⁸⁰ in execution of MOA with IOCL, NBSTC failed to avail of discount of ₹ 20.30 lakh¹⁸¹ against these purchases.

B. Further, during 2014-15 (September 2014) and 2015-16, NBSTC had procured 3,379.07 KL (valued at ₹ 17.77 crore) of HSD en-route, in cash, from retail refilling stations. It was observed that during this period, the average price of HSD per litre at retail refilling stations varied from ₹ 48.19 per litre (February 2016) to ₹ 63.81 per litre (September 2014). The corresponding average price of HSD for bulk procurement from IOCL ranged between ₹ 46.61 per litre (February 2016) and ₹ 62.33 per litre (September 2014). As such, NBSTC incurred extra expenditure of ₹ 43.18 lakh on purchase of 3,379.07 KL of HSD at higher rates from retail refilling stations.

The Government stated (November 2016) that NBSTC had taken up the issue of signing MOA to receive the benefit of discount with IOCL several times but presumably IOCL was reluctant to execute MOA. Besides, NBSTC was compelled to procure HSD en-route from retail refilling stations at higher rate as NBSTC operated services in the Bihar region, up to a distance of 400 km from the last fueling point at Islampur depot. Moreover, NBSTC could not stock HSD from IOCL due to financial crisis.

The reply was not acceptable since the offer to switch the procurement from retail refilling stations to directly from IOCL was made by IOCL in June 2014. Moreover, NBSTC had approached IOCL for entering into MOA only on two occasions in September 2014, and had thereafter not followed up with IOCL for a year till execution of MOA in October 2015. Further, it was seen that


¹⁸⁰ From September 2014 to September 2015.

¹⁸¹ 13,531.62 KL (From September 2014 to September 2015) x ₹ 150 per KL.

fuel was purchased en-route from retail refilling stations in Islampur itself and other adjoining areas within West Bengal and not from retail refilling stations located in Bihar. Moreover, NBSTC had not framed any criteria for en-route purchases of HSD from retail refilling stations. Lack of pursuance with IOCL and absence of HSD procurement policy led to avoidable outflow of fund, which in turn had eroded the financial health of NBSTC.

Thus, absence of proper procurement policy of HSD, non-availing of contractual discounts and failure to secure the best value for money through regular monitoring of HSD prices from different sources resulted in extra expenditure of ₹ 63.48 lakh (₹ 20.30 lakh + ₹ 43.18 lakh) on purchase of HSD.

KOLKATA
The 17 February 2017


(NAMEETA PRASAD)
Accountant General
(Economic & Revenue Sector Audit)
West Bengal

Countersigned

NEW DELHI
The 22 February 2017


(SHASHI KANT SHARMA)
Comptroller and Auditor General of India