REPORT

OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1988

NO. 4 OF 1989

(COMMERCIAL)

GOVERNMENT OF WEST BENGAL

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PREFACE

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

—Government Companies;

—Statutory Corporations; and

—Departmentally-managed Commercial Undertakings.

2. This Report deals with the results of audit of accounts of Government Companies and Statutory Corporations including the West Bengal State Electricity Board and has been prepared for submission to the Government of West Bengal for presentation to the Legislature under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in March 1984. The results of audit relating to departmentally-managed commercial undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil)—Government of West Bengal.

3. There are certain companies which, in spite of Government investment, are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled Companies/Corporations hold less than 51 *per cent* of the shares. A list of such undertakings in which Government investment was more than Rs. 10 lakhs as on 31st March 1988 is given in Annexure 1. The total investment in these 20 Companies up to March 1988 was Rs. 73·69 crores.

4. In respect of the three State Road Transport Corporations and West Bengal State Electricity Board, which are Statutory Corporations, the Comptroller and Auditor General of India is the sole auditor. In respect of West Bengal Financial Corporation and West Bengal State Warehousing Corporation, he has the right to conduct the audit of their accounts independently of the audit conducted by the Chartered Accountants appointed under the respective Acts. The audit of accounts of West Bengal Industrial Infrastructure Development Corporation was entrusted to the Comptroller and Auditor General of India under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, initially for a period of 5 years from 6th June 1978 and was subsequently extended in September 1983 for another 5 years from 6th June 1983. The

audit reports on the annual accounts of all these Corporations are being forwarded separately to the Government of West Bengal.

5. The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1987-88 as well as those which had come to the notice in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 1987-88 have also been included, wherever considered necessary.

6. A report on the working of 'Durgapur Projects Limited' has been prepared for submission for presentation to the State Legislature under the Act, ibid.

OVERVIEW

1. The State had 52 Government Companies (including 13 subsidiaries), one 619B Company and seven Statutory Corporations as on 31st March 1988.

(Paragraphs 1.2.1, 1.2.5 and 1.3.1)

2. The aggregate paid-up capital of these Companies as on 31st March 1988 was Rs. 278·88 crores, of which Rs. 267·54 crores and Rs. 3·60 crores were invested by the State and Central Governments respectively and the balance of Rs. 7·74 crores by others. The balance of loans, including loans advanced by the State Government, in respect of 37 Companies including 8 subsidiaries outstanding as on 31st March 1988 aggregated Rs. 580·36 crores. Repayment of loans and interest thereon in respect of 26 Companies carried guarantee by State Government. The amount guaranteed and outstanding towards loan as on 31st March 1988 was Rs. 363·12 crores and Rs. 186·25 crores respectively.

[*Paragraphs 1.2.2 (a) to (c)*]

3. Only 9 Companies including two subsidiaries had finalised their accounts for the year 1987-88. The accounts of remaining 43 Companies, including 11 subsidiaries were in arrears for periods ranging from one to eight years.

(Paragraph 1.2.3)

4. On the basis of latest available accounts which varied from Company to Company, the cumulative losses of 36 Companies came to Rs. 239·98 crores while three Companies together earned profit of Rs. 0·44 crore. The cumulative losses of Rs. 190·73 crores sustained by 15 Companies exceeded their paid-up capital of Rs. 39·03 crores.

[*Paragraph 1.2.4(ii)*]

5. Out of 20 Companies in which Government invested more than Rs. 10 lakhs but which are not subject to audit by the Comptroller and Auditor General of India, seven had furnished their latest annual accounts for review. As per these accounts, one Company made profit of Rs. 8·48 crores during 1986-87, while six Companies sustained losses aggregating

Rs. 27·07 crores on the basis of latest available accounts. The cumulative losses (Rs. 14·31 crores) sustained by five Companies exceeded their paid-up capital of Rs. 0·87 crore.

(Paragraph 1.2.6)

6. Supplementary audit by the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 of the accounts of 33 Companies, certified by the Chartered Accountants, brought out cases of inflation of profit and understatement of loss to the extent of Rs. 0·02 crore and Rs. 2·28 crores respectively.

[Paragraph 1.2.7(ii)]

7. The audit of annual accounts of West Bengal State Electricity Board vests solely with the Comptroller and Auditor General of India. The accounts of the Board had been prepared up to the year 1987-88 and their audit was in progress (February 1989). The accounts so prepared showed a net deficit of Rs. 26·72 crores for the year 1987-88.

(Paragraphs 1.3.2 and 1.4.4)

8. The accounts of Calcutta State Transport Corporation had been prepared up to 1986-87 and the audit thereof was in progress (February 1989). The accounts so prepared showed a net deficit of Rs. 32·88 crores for the year 1986-87. The accounts of South Bengal State Transport Corporation (formerly Durgapur State Transport Corporation) and North Bengal State Transport Corporation had been finalised up to 1985-86 and 1986-87 respectively. The audit reports in respect of South Bengal State Transport Corporation up to 1978-79 and those of North Bengal State Transport Corporation up to 1985-86 had been issued to the respective Corporations and Government on 21st November 1988 and on 2nd March 1989 respectively.

(Paragraphs 1.3.2 and 1.5.3)

9. While West Bengal Financial Corporation had finalised its accounts up to 1987-88, West Bengal State Warehousing Corporation had finalised its accounts up to 1986-87.

(Paragraph 1.3.3)

10. The audit of West Bengal Industrial Infrastructure Development Corporation had been entrusted to the Comptroller

and Auditor General of India under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 initially for 5 years from June 1978 which was subsequently extended by another 5 years effective from June 1983. Accounts of the Corporation had been finalised only up to 1983-84. Audit of accounts for the years 1981-82 to 1983-84 was in progress (February 1989).

(Paragraph 1.3.4)

11. The activities of three Government Companies viz., the West Dinajpur Spinning Mills Limited, Webel Business Machines Limited, West Bengal Pharmaceutical and Phytochemical Development Corporation Limited and the activity of import and distribution of cement under Open General Licence taken up by West Bengal Essential Commodities Supply Corporation Limited during 1982-84 were reviewed in audit.

(Paragraphs 2A to 2D)

12. Review of the West Dinajpur Spinning Mills Limited disclosed that although the main objective of establishing the mill in North Bengal was to make yarn available easily at reasonable prices to the weavers. who were hitherto procuring their requirements from far off places at higher rates, the Company did not develop any mechanism to ascertain and ensure the same, inasmuch as its only customers are two Co-operative Societies—Tantuja and Tantusree. The Company could not commission all the 25,088 spindles by 1987-88 due to shortage of trained workmen and cannibalisation of one ring frame. Investment of Rs. 7·04 lakhs on spindles installed but not commissioned (1,052 spindles) thus, remained unproductive so far. The percentage of capacity utilisation of spindles was about 76·1 and 70·4 against the projected norms of 65 and 85 respectively during the two years up to 1987-88; the fixed cost left unabsorbed on this account during 1987-88 being Rs. 45·73 lakhs. Absenteeism accounted for 8 to 19 *per cent* of the under-utilisation and shortfall in production on this account worked out to Rs. 99·22 lakhs. The average production of yarn per spindle shift ranged between 49·30 and 57·07 grams against the expectation of 72·99 grams in the project report and under absorption of fixed overheads on this account was Rs. 136·14 lakhs. The Company has been sustaining losses since inception and the accumulated loss at the

end of 1987-88 was Rs. 423·17 lakhs representing 66 *per cent* of the paid-up capital.

(Paragraphs 2A.1 to 2A.9)

13. Review of Webel Business Machines Limited, a wholly owned subsidiary of West Bengal Electronics Industry Development Corporation Limited disclosed that the Company had no Managing Director since its formation (August 1981). A private company, inducted in February 1986 to run the Company as a joint sector unit left after two years reaping all the advantages of a joint sector partner while contributing only 10 *per cent* of the equity against the prescribed share of 25 *per cent*. The production activity starting (1980) with manufacture of calculators and inverters was diversified to manufacture of micro-processor based equipment (MPS) and uninterrupted power supply equipment (UPS) from April 1982 and February 1984 respectively. Production of inverters and calculators was discontinued from 1985-86 and 1987-88 respectively due to lack of demand in the home market. But achievement of continuous higher production of MPS and UPS had not helped to improve the financial position of the Company due to very high raw material cost of its products. The capacity utilisation of MPS unit varied between 6·2 and 99·5 *per cent*, while that of the UPS unit ranged between 18·7 and 80·0 *per cent*. The Company had been incurring losses since its inception except during 1982-83. The accumulated loss of Rs. 51·40 lakhs up to 1987-88 represented about 228 *per cent* of the paid-up capital. The diversification programme did not have any effect on viability of the units since a considerable portion of overheads remained unabsorbed.

(Paragraphs 2B.1 to 2B.14)

14. Review of West Bengal Pharmaceutical and Phytochemical Development Corporation Limited showed that the Company took up 23 projects/schemes for development of pharmaceutical and phytochemical industrial and farming enterprises in the State. Nine of them were abandoned mainly due to paucity of funds, non-availability of raw material etc., while six projects/schemes were under implementation for commercial operation as on 31st March 1988. Most of the eight projects/schemes established at a total capital cost of Rs. 115·79 lakhs had not been viable so far. While large scale cultivation of citronella grass at Telipara Drug Farm during 1980-81 to 1983-84

following experimental farming up to 1979-80 resulted in loss of Rs. 13·04 lakhs, ipecac harvested in the said Farm during 1987-88 resulted in a loss of Rs. 2·61 lakhs due to poor yield and higher costs of cultivation. The fractionation factory establisehd to use citronella oil produced at the Farm is now being run with purchases of oil from outside sources. It had incurred an operating loss of Rs. 6·21 lakhs as the product mix actually obtained consisted of 60 *per cent* low valued products as against 15 *per cent* envisaged in the project report. 8-Hydroxyquinoline manufacturing factory at Kalyani had to change the product mix due to availability of the product in the market at cheaper rates. The changed product mix could not be sold. The loss suffered by the factory in 1987-88 amounted to Rs. 9·64 lakhs. The Company had been incurring losses from its inception and the accumulated loss as on 31st March 1988 was Rs. 164·32 lakhs representing 60 *per cent* of its paid-up capital. Delayed implementation of schemes, lower yield, poor marketability of the products due to higher cost and availability of cheaper imported products in the market mainly contributed to the loss.

(Paragraphs 2C.1 to 2C.8)

15. West Bengal Essential Commodities Supply Corporation Limited designated as authorised agency for the import of cement under Open General Licence (OGL) in 1982-83 and distribution to the actual users at economic prices did not conclude early contracts for imports in adequate quantities after proper assessment of actual requirements of the State within the OGL period with the result that the Company could import only 0·17 lakh tonnes of cement by the end of March 1983 while another 0·72 lakh tonnes were procured during the extended period of OGL up to July 1983. Since the imports under OGL were inadequate, the Company procured 0·18 lakh tonnes of imported cement from S.T.C. at higher prices for maintaining confidence of the consumers who had paid money in advance. The Company had, however, to refund Rs. 35·73 lakhs of such advances to about 299 consumers to whom it could not supply cement in time. Import and distribution of such meagre quantity hardly influenced the price ruling in the home market. The selling price of imported cement having been fixed by adopting assumed figures for different elements of cost, the Company had made a profit of Rs. 65·33 lakhs over and above the service charges of

Rs. 31·62 lakhs in the handling of a mere 1·07 lakh tonnes. Consumers' interest was evidently not the prime consideration.

The Company suffered a loss of about Rs. 112·81 lakhs on account of various lapses in the deals, such as extra expenditure for procurement of 0·18 lakh tonnes of imported cement at higher rate (Rs. 0·18 lakh), foreign exchange outgo on freight of 0·38 lakh tonnes of imported cement by not engaging Indian shippers (Rs. 108·26 lakhs), payment to Port Trust Authority towards weighment charges of 185 tonnes of cement which were not actually received by the Company (Rs. 0·52 lakh), demurrage at loading point for delay in getting import licence revalidated by the Company (Rs. 2·40 lakhs) and irregular payment to a transport contractor (Rs. 1·45 lakhs).

(Paragraphs 2D.1 to 2D.5)

16. The activities of the West Bengal State Electricity Board—Transmission and distribution system and West Bengal Financial Corporation were also reviewed in audit.

(Paragraphs 3A, 3B)

17. A review of the transmission and distribution system of the West Bengal State Electricity Board disclosed that the Board made an additional capital investment of Rs. 559·72 crores in transmission and distribution network during the Sixth Plan and first three years of the Seventh Plan. The additional investment on installations of generating capacity during this period was Rs. 420·98 crores. But compared to the increase in generating capacity in 1987-88 by 81 *per cent* over 1979-80, the increase in the capacity of the transmission and distribution lines was only 49 *per cent* and 72 *per cent* respectively. With utilisation of 56 *per cent* of the Sixth Plan allocation, the capacity achievement of the EHT/HT lines and power transformers was only 38 *per cent* and 10 *per cent* respectively. Even during the first three years of the Seventh Plan although 51 *per cent* of plan allocation was utilised, the physical achievement of transmission lines and transformers was only 19 *per cent* and 12 *per cent* respectively of the target.

System losses ranged from over 20 *per cent* to over 23 *per cent* against the norm of 15 *per cent*. The value of loss of energy over the norm during the last 5 years up to 1987-88 was Rs. 144·24 crores.

Under-utilisation of ten transmission lines (cost Rs. 37·90 crores), injudicious or avoidable expenditure of Rs. 30·82 crores on transmission and distribution lines and sub-stations in six cases unproductive expenditure to the tune of Rs. 0·22 crore due to non-synchronisation of completed lines with completion of sub-stations in two cases, unproductive expenditure of Rs. 0·63 crore owing to delay in utilisation of lines in three cases, extra expenditure of Rs. 15·09 crores due to slow progress in construction of lines and sub-stations in six cases, non-utilisation of 493·84 acres of land for about 33 years, loss of Rs. 2·56 crores due to theft of power line equipment and stores, non-recovery of over Rs. 0·41 crore from one contractor and extra expenditure/avoidable expenditure/inrfuctuous expenditure of Rs. 0·84 crore were some of the other irregularities noticed in audit.

(Paragraphs 3A.1 to 3A.13)

18. Review of West Bengal Financial Corporation revealed that out of the financial assistance of about Rs. 168·09 crores to 7,616 industrial units up to 1987-88, 99·8 *per cent* of which were in the private sector, only 14 *per cent* went to no-industry districts. Shortfall in availing IDBI refinancing facilities, one of the main sources of funds, ranged between 41 and 49 *per cent* due to delay in completion of procedural formalities by the Corporation and the entrepreneurs. Due to poor recovery efficiency and the failure on the part of the loanee units in repayment of loans, the Corporation had to bear the burden (Rs. 5·99 crores) of repayment to IDBI under "IDBI Refinance Scheme". It could not secure refinance in 8 cases involving loan of Rs. 1·83 crores. Of the total default of Rs. 29·58 crores as on 31st March 1988, Rs. 13·80 crores were in respect of the units taken over by the Corporation under provisions of Section 29 of the State Financial Corporation Act, 1951, Rs. 2·17 crores in respect of units against which suits had been filed; while of the remaining, Rs. 12·04 crores were accounted for by only 26 units defaulting over Rs. 30 lakhs each. The Corporation did not have the means or ascertaining the number of units which had gone into production, units under implementation, units which have become sick, closed or abandoned. The Corporation had nominated its Directors in only 114 units out of 540 units. Of these 114 units, there was no response from 45 units regarding acceptance of the nominations. The Corporation sustained a loss of Rs. 0·13 crore up to March 1988 in investing in the shares of four of the 27

units in private sector due to the units becoming unviable. Rescheduling of repayment of loans sanctioned during 5 years ending with 1987-88 amounted to Rs. 21·11 crores in 142 cases. Even after rescheduling 49 units were found to be defaulting. The Corporation had invoked the provision of Section 29 of the Act in respect of 183 cases, of which 22 cases (Amount due: Rs. 221·13 lakhs) were disposed of at a loss of Rs. 99·68 lakhs.

(Paragraphs 3B.1 to 3B.13)

19. Besides, a test check of records of the Government Companies and Statutory Corporations revealed:

—non-recovery of recoverable advances amounting to Rs. 5·34 lakhs paid irregularly year after year to the staff of West Bengal Agro-Industries Corporation Limited.

(Paragraph 4A.1)

—avoidable extra expenditure of Rs. 3·02 lakhs towards penal interest due to non-payment of sales tax with quarterly return by West Bengal State Leather Industries Development Corporation Limited.

(Paragraph 4A.2)

—expenditure of Rs. 48·20 lakhs incurred up to March 1988 on a still born project by Webel Precision Industries Limited, wholly owned subsidiary of West Bengal Electronics Industry Development Corporation Limited due to inability to find a suitable joint sector collaborator possessing technical know-how.

(Paragraph 4A.3)

—infructuous expenditure of Rs. 12·32 lakhs including foreign exchange of Rs. 7·64 lakhs by West Bengal State Electricity Board on procurement (February 1982) of a sky-climber, a mechanically powered ladder system suitable for repairing chimneys and boilers of thermal power stations which has not been inspected for its quality and suitability for the last seven years.

(Pargraph 4B.1)

—avoidable expenditure of Rs. 3·55 lakhs up to February 1989 towards idle wages for maintenance of two operators in the pay roll of a division of West Bengal State Electricity Board.

(Paragraph 4B.2)

—unfruitful expenditure of Rs. 2·38 lakhs incurred by West Bengal State Electricity Board for maintenance of a sub-division which remained defunct from February 1984 to December 1985.

(Paragraph 4B.3)

—idle investment of Rs. 1·63 lakhs made by West Bengal State Electricity Board on procurement of two transformers.

(Paragraph 4B.4)

—infructuous expenditure of Rs. 1·48 lakhs incurred by West Bengal State Electricity Board on electrification of one village.

(Paragraph 4B.5)

—non-receipt of materials against the advance of Rs. 1·17 lakhs made to the suppliers between February 1982 and February 1986 by Santaldih Thermal Power Station of West Bengal State Electricity Board.

(Paragraph 4B.6)

—revenue loss of Rs. 0·62 lakh due to failure to have renewed the bank guarantee furnished by way of deposit by a decentralised bulk consumer of West Bengal State Electricity Board, who went into liquidation later.

(Paragraph 4B.7)

—avoidable expenditure of Rs. 1·41 lakhs towards payment of worker's share of contribution to ESI due to failure on the part of the management of Calcutta State Transport Corporation to keep abreast of the legislative changes and to implement the enhanced rate of ESI contribution in time.

(Paragraph 4B.8)

—inadmissible payment of Rs. 2·76 lakhs towards commission to advertisement agents of Calcutta State Transport Corporation due to misinterpretation of the relevant clauses of the agreement.

(Paragraph 4B.9)

—loss of revenue to the extent of Rs. 1·74 lakhs due to renewal of contracts with the advertisers of Calcutta State Transport Corporation at the old rates even after the introduction of enhanced rates.

(Paragraph 4B.10)

—infructuous expenditure of Rs. 2·58 lakhs by the Calcutta State Transport Corporation towards extensive repairs of 5 vehicles without the probability of their being road worthy.

(Paragraph 4B.11)

CHAPTER I

1. GENERAL VIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1 Introduction

This chapter contains particulars about the investment in, and state of accounts etc. of, the Government companies and Statutory corporations.

Paragraph 1.2 gives a general view of Government companies, paragraph 1.3 deals with general aspects relating to Statutory corporations and paragraphs 1.4 to 1.9 give more details about each Statutory corporation including its financial and operational performance.

1.2 Government companies—General view

1.2.1 There were 52 Government companies (including 13 subsidiaries) as on 31st March 1988, in the State, as against 48 Government companies (including 12 subsidiaries) as on 31st March 1987. During the year 1987-88 three new companies, according to the information received by Audit, were incorporated and one Company namely Webel Power Electronics Limited hitherto a Joint Sector company became a subsidiary of West Bengal Electronics Industry Development Corporation Limited. The particulars ot the tour new companies are given below:

Sl. No.	Name of Company	Date of incorporation	Date of becoming Government company	Authorised capital (Rupees in crores)
1.	National Iron and Steel Company (1984) Limited, Howrah	28th July 1986	28th July 1986	N.A.
2.	The Carter Pooler Engineering Company Limited	22nd June 1987	22nd June 1987	1·00
3.	Greater Calcutta Gas Supply Corporation Limited, Calcutta	23rd December 1987	23rd December 1987	18 00
4.	Webel Power Electronics Limited, Calcutta	17th May 1977	1st July 1987	0·25

1.2.2 The particulars of up-to-date paid-up capital, outstanding loans, amount of guarantees given by the State Government and the amount outstanding thereagainst, working results, etc., in respect of all the Government companies are given in Annexure 2. The position is summarised below:

(*a*) Against the aggregate paid-up capital of Rs. 176·37 crores in 48 Government companies (including 12 subsidiaries) as on 31st March 1987, the aggregate paid-up capital as on 31st March 1988 stood at Rs. 278·88 crores in 52 Government companies (including 13 subsidiaries) as per particulars given below:

Sl. No.	Particulars	Number of Companies	Investment by			Total investment
			State Government	Central Government	Others	
			(Rupees in crores)			
1.	Companies wholly owned by the State Government	25	222·01	—	—	222·01
2.	Companies jointly owned with Central Government/Others	14	44·73	3·48	2·49	50 70
3.	Subsidiary companies	13	0 80	0·12	5 25	6·17
		52	267·54	3·60	7·74	278·88

(*b*) The balance of long-term loans outstanding in respect of 37 companies including 8 subsidiaries as on 31st March 1988 was Rs. 580·36 crores (State Government: Rs. 361·27 crores, others: Rs. 217·57 crores and deferred payment credits: Rs. 1·52 crores) as against Rs. 422·31 crores (State Government: Rs. 299·96 crores, others: Rs. 120·28 crores and deferred payment credits: Rs. 2·07 crores) as on 31st March 1987 in respect of 24 companies including 2 subsidiaries.

(*c*) The State Government had guaranteed the repayment of loans raised by 26 companies and payment of interest thereon. The amount guaranteed and outstanding thereagainst as on 31st March 1988 were Rs. 363·12 crores and Rs. 186·25 crores respectively as shown in Annexure 2.

The companies have to pay commission in consideration of guarantees given by the Government. The payment of guarantee commission was in arrears to the extent of Rs. 1·03 crores payable by 9 companies as shown in Annexure 2.

1.2.3 A synoptic statement showing the financial results of all the companies based on the latest available accounts is given in Annexure 3.

Nine companies (including two subsidiaries) had finalised their accounts (position as on 31st December 1988) for the year 1987-88 (serial numbers 4, 7, 11, 17, 18, 28*, 30, 31* and 48 of Annexure 3). In addition, 24 companies (including 5 subsidiaries) had finalised their accounts for some earlier years since the previous Report (serial numbers 1, 2, 3, 6, 8, 9, 10, 12, 14, 16, 20, 21, 22, 26, 27*, 29*, 35, 36, 38*, 39*, 40*, 43, 44 and 49 of Annexure 3).

It will be observed from Annexures 2 and 3 that the accounts of 43 companies (including 11 subsidiaries) were in arrears. The position of arrears is summarised below:

Sl. No.	Extent of arrears	No. of years involved	Number of companies		Invested by				Reference to Sl. No of Annexure 3
					Government		Holding companies		
			Com-panies	Sub-sidiary com-panies	Capital	Loans	Capital	Loans	
					(Rupees in crores)				
1.	1980-81 to 1987-88	8	1	—	0·70	1·08	—	—	34
2.	1981-82 to 1987-88	7	1	1	0·10	2·99	1·05	0·60	22, 29*
3.	1982-83 to 1987-88	6	2	1	14·16	3·18	0·93	0·15	14, 15, 25*
4.	1983-84 to 1987-88	5	3	1	3·76	4·22	—	—	9, 23, 24, 46*
5.	1984-85 to 1987-88	4	1	3	8·33	—	0·57	0·22	8, 40*, 42* 45*
6.	1985-86 to 1987-88	3	8	1	22·04	112·99	0·33	0·06	2, 5, 10, 13, 32, 35, 36, 38*, 44
7.	1986-87 and 1987-88	2	8	2	75·42	114·49	0·93	0·82	1, 3, 6, 19, 20, 33, 37*, 41*, 47, 50
8.	1987-88	1	8	2	53·88	85·15	0·88	0·38	12, 16, 21, 26, 27*, 39*, 43, 49, 51, 52

In the absence of finalisation of accounts, the productivity of the investment of Rs. 502·49 crores (capital: Rs. 178·39 crores

*Subsidiary Company.

and loans: Rs. 324·10 crores) by the State Government and Rs. 6·92 crores (capital: Rs. 4·69 crores and loans: Rs. 2·23 crores) by the holding companies in these companies could not be conclusively vouchsafed.

The position of arrears in finalisation of accounts was last brought to the notice of Government in January 1989 at the level of the Chief Secretary to the Government of West Bengal.

1.2.4 In regard to the working results of the companies, the following further observations are made:

(*i*) In respect of 9 companies which finalised their accounts for 1987-88, the following position is reflected:

(*a*) One company earned profit of Rs. 2·41 crores during 1987-88 and declared dividend of Rs. 0·15 crore representing 15 *per cent* of the paid-up capital. The particulars in respect of the company showing the comparative position of the previous year are given below:

Sl. No.	Name of Company	Paid-up capital		Profit (+)/ Loss (−)		Percentage of profit to paid-up capital	
		1987-88	1986-87	1987-88	1986-87	1987-88	1986-87
		(Rupees in crores)				(per cent)	
1.	Webel Telecommunication Industries Limited (A subsidiary to WBEIDC Limited)	1·00	1·00	(+)2·41	(+)2·18	241	218

(*b*) During the year 1987-88, seven companies incurred losses aggregating Rs. 12·66 crores. Particulars in respect of them, showing the comparative position of the previous year, are given below:

Sl. No.	Name of Company	Paid-up capital		Profit (+)/Loss (−)	
		1987-88	1986-87	1987-88	1986-87
		(Rupees in crores)			
1.	The Durgapur Projects Limited	62·37	46·76	(−) 8·04	(−) 6·52
2.	West Bengal Industrial Development Corporation Limited	17·36	14·76	(−) 1·59	(−) 1·30
3.	West Bengal Mineral Development and Trading Corporation Limited	3·64	2·90	(−) 0·88	(−) 0·59
4.	West Bengal Pharmaceutical and Phytochemical Development Corporation Limited	2·74	2·21	(−) 0·42	(−) 0·19

Sl. No.	Name of Company	Paid-up capital		Profit (+)/Loss (−)	
		1987-88	1986-87	1987-88	1986-87
		(Rupees in crores)			
5.	West Dinajpur Spinning Mills Limited	6·40	6·25	(−) 1·51	(−) 1·54
6.	The West Bengal Livestock Processing Development Corporation Limited	1·92	1 92	(−) 0 13	(−) 0·13
7.	Webel Power Electronics Limited	0·10	—	(−) 0·09	—
		94·53	74·80	(−)12·66	(−)10·27

(*c*) One company viz., I. P. P. Limited which has finalised its accounts for 1987-88 was under construction.

(*ii*) As shown in Annexure 2, the accumulated losses in respect of 15 companies (including two subsidiaries) as reflected in the accounts received up to the period noted against each, had exceeded their paid-up capital at the close of the year:

Sl. No.	Name of Company	Year up to which accounts prepared	Paid-up capital at the close of the year	Accumulated loss up to the end of the year	Serial number of Annexure 2
			(Rupees in crores)		
1.	The Kalyani Spinning Mills Limited	1985-86	1 58	43·87	1
2.	Electro-Medical and Allied Industries Limited	1985-86	0 25	3·06	3
3.	Durgapur Chemicals Limited	1984-85	5 09	42·65	5
4.	The State Fisheries Development Corporation Limited	1985-86	1·15	1·30	6
5.	Westinghouse Saxby Farmer Limited	1984-85	1 00	35 47	10
6.	West Bengal Sugar Industries Development Corporation Limited	1984-85	2·37	6·03	13
7.	West Bengal Tourism Development Corporation Limited	1985-86	1·05	1·33	19
8.	Basumati Corporation Limited	1980-81	0·10	0 87	22
9.	West Bengal State Leather Industries Development Corporation Limited	1982-83	0·67	0 81	24
10.	West Bengal Ceramic Development Corporation Limited	1982-83	0·98	2·13	25

Sl. No.	Name of Company	Year up to which accounts prepared	Paid-up capital at the close of the year	Accumulated loss up to the end of the year	Serial number of Annexure 2
			(Rupees in crores)		
11.	West Bengal Tea Development Corporation Limited	1986-87	3·09	4·04	27
12.	The Shalimar Works (1980) Limited	1984-85	0·75	3·12	35
13.	Webel Business Machines Limited (Subsidiary of West Bengal Electronics Industry Development Corporation Limited)	1986-87	0·22	0·42	28
14.	Webel-Nicco Electronics Limited (Subsidiary of West Bengal Electronics Industry Development Corporation Limited)	1984-85	0·33	0·59	37
15.	The Calcutta Tramways Company (1978) Limited	1986-87	20·40	45·04	42

1.2.5 In addition there was one company covered under Section 619 B of the Companies Act, 1956 details such as paid-up capital etc. of which are given below:

Sl. No.	Name of Company	Latest year of accounts	Paid-up capital	Investment by Government	Profit (+)/ Loss (−) during the year
			(Rupees in crores)		
1.	West Bengal Filaments and Lamps Limited	1987-88	2 51	0 81	(−)0·40

1.2.6 Out of the 20 companies whose names appeared in Annexure 1, 7 had furnished their latest annual accounts. Remaining undertakings did not furnish their annual accounts for necessary review. As per these accounts, one company made profits of Rs. 8·48 crores during 1986-87, while six companies sustained losses aggregating Rs. 27·07 crores.

In order to tide over the difficult ways and means position, funds amounting to Rs. 33·29 crores, were provided as working capital to enable 19 undertakings to pay their outstanding dues on account of salary, wages and retirement benefits to the employees, employers' contribution to provident fund, arrears of electricity bills, statutory levy of excise duty etc. In four of the 19 undertakings, Rs. 1·08 crores were provided without fixation of terms of repayment and rate of interest applicable in each case. Since the investment was made just to tide over the difficult ways and means position without any scheme being in progress to improve the working of the Company, there was little prospect of getting any return on the investment. In fact, all the 19 undertakings failed to pay back, the principal and interest to the Government as per agreed terms, due to their inability to generate any surplus owing to poor capacity utilisation and delay in implementation of renovation/modernisation programme. Interest accrued on fund (Rs. 76·10 crores) provided to the undertakings up to March 1987 had accumulated to Rs. 7·51 crores as on 31st March 1987. In the absence of terms of repayment, claim of Government with a receiver of an undertaking could not get any priority and it was noticed (August 1988) by the Government that chance of recovery of Rs. 0·57 crore was remote.

Government had not specified any time limit for submission of utilisation certificates. In most of the cases, it was noticed that utilisation certificates were not submitted by the undertakings.

All the undertakings did not prepare their annual accounts regularly. The accumulated losses in respect of 5 undertakings as reflected in the accounts received up to the period noted against each had exceeded their paid-up capital as shown below:

Sl. No.	Name of Undertaking	Year up to which accounts were prepared	Paid-up capital at the end of the year	Accumulated loss up to the end of the year	Serial number of Annexure 1
			(Rupees in crores)		
1.	Apollo Zipper Company (P) Limited	1985-86	0 05	3·53	1
2.	Engel India Machines and Tools Limited	1984-85	0 46	4·78	8
3.	Gluconate Limited	1984-85	0 07	2 24	11
4.	Indian Health Institute and Laboratory Limited	1984-85	0 08	1·79	12
5.	Mackintosh Burn Limited	1986-87	0 21	1 97	19

1.2.7 Some of the important observations made by Statutory Auditors and as a result of audit by the Comptroller and Auditor General of India in respect of the accounts of the companies audited during the year are mentioned below:

(*i*) The Companies Act, 1956, empowers the Comptroller and Auditor General of India to issue directives to the auditors of Government companies in regard to the performance of their functions. In pursuance of the directives so issued, supplementary reports of the auditors on the accounts of 17 companies were received by 31st December 1988.

Important points noticed in these reports are summarised below:

Sl. No.	Nature of defects	Number of Companies where defects were noticed	Reference to Sl. No. of Annexure 2
1.	Non-maintenance of Internal Audit Manual defining the scope and programmes of work of the internal auditors	13	1, 4, 7, 10, 15, 16, 17, 18, 21, 23, 24, 27, 30
2.	Non-fixation of minimum and maximum limits of stores/ spares	1	8
3.	Non-fixation of norms of requirement/deployment of manpower	7	1, 4, 7, 16, 18, 24, 42
4.	Non-maintenance of Accounting Manual	6	1, 10, 15, 18, 21, 27
5.	Non-preparation of annual budgets	4	18, 21, 24, 42
6.	Non-fixation of norms for consumption of major raw materials for manufacture of major products	2	1, 4
7.	Non-fixation of production targets and non-maintenance of periodical quantity accounts	3	8, 10, 17
8.	Non-maintenance of Asset Register	2	18, 27
9.	Absence of effective system of obtaining confirmation of debts	10	1, 8, 10, 11, 15, 16, 17, 21, 24, 42
10.	Absence of system of ascertaining idle time for labour, machinery and fixation of standard cost of various products	6	1, 4, 8, 10, 20, 42
11.	Absence of effective system of determination of surplus/ unserviceable raw material, stores and spares	6	1, 4, 10, 20, 24, 42

(*ii*) Under Section 619(4) of the Companies Act, 1956, the Comptroller and Auditor General of India has a right to comment upon or supplement the report of the company auditors. Under this provision, the review of annual accounts of Government companies is being conducted in selected cases. The accounts of 33 companies were selected for such review during the period from January 1988 to December 1988.

The net effect of the comments issued under Section 619(4) of the Act, ibid, was as follows:

Details	Number of accounts	Monetary effect (Rupees in crores)
(*i*) Increase in profits	—	Nil
(*ii*) Decrease in profits	2	0 02
(*iii*) Increase in loss	7	3 08
(*iv*) Decrease in loss	4	0 80
(*v*) Non-disclosure of material facts	14	8·69

Some of the major errors and omissions noticed in the course of review of annual accounts of some of these companies, not pointed out by Statutory Auditors, are mentioned below:

(*a*) **The Kalyani Spinning Mills Limited (accounts for the year 1984-85):**

Loss for the year was understated to the extent of Rs. 33·50 lakhs due to non-charging/non-provision of penal interest in the profit and loss account.

(*b*) **Westinghouse Saxby Farmer Limited (accounts for the year1983-84):**

Omission to account for purchase of certain components in respect of a sales contract resulted in understatement of loss by Rs. 60·28 lakhs with corresponding understatement of liability.

(*c*) **Webel Nicco Electronics Limited (accounts for the year 1984-85):**

Accounting of income from service charges even before rendering services had resulted in inclusion of premature income amounting to Rs. 28·58 lakhs during the last two years. This had resulted in understatement of cumulative loss to that extent.

(*d*) **Neo-pipes and Tubes Company Limited (accounts for the year 1984-85):**

Deposit for share capital of Rs. 150 lakhs was included in unsecured loan.

(*e*) **West Bengal Mineral Development and Trading Corporation Limited (accounts for the year 1986-87):**

(*i*) Loss was understated by Rs. 11·77 lakhs due to valuation of closing stock of rock phosphate at cost price which is higher than selling price.

(*ii*) Loss was understated by Rs. 3·88 lakhs due to over-valuation of work-in-process.

(*f*) **West Bengal Forest Development Corporation Limited (accounts for the year 1985-86):**

Expenditure of Rs. 1·71 lakhs on staff training had not been charged to profit and loss account but shown as loans and advances instead, resulting in overstatement of loans and advances and profit to that extent.

(*g*) **The Durgapur Projects Limited (accounts for the year 1987-88):**

Sales to the extent of Rs. 183·39 lakhs was overstated with corresponding understatement of loss due to charging of the rate in excess of the rate provisionally approved by Eastern Regional Electricity Board.

(*h*) **The Calcutta Tramways Company (1978) Limited (accounts for the year 1986-87):**

(*i*) Inclusion of Rs. 301 lakhs received from the State Government as loan for implementation of the CUTP Scheme under agreement with the World Bank in capital reserve, resulted in understatement of 'Loan' and overstatement of 'Capital Reserve'.

(*ii*) Capital Reserve stood understated to the extent of Rs. 132·75 lakhs due to non-accounting of Government capital of the erstwhile undertaking.

1.3 **Statutory Corporations—General aspects**

1.3.1 There were seven Statutory corporations in the State as on 31st March 1988, *viz.*

—West Bengal State Electricity Board,
—Calcutta State Transport Corporation,
—North Bengal State Transport Corporation,
—South Bengal State Transport Corporation (formerly Durgapur State Transport Corporation),
—West Bengal Financial Corporation,
—West Bengal State Warehousing Corporation and
—West Bengal Industrial Infrastructure Development Corporation.

1.3.2 The West Bengal State Electricity Board was constituted on 1st May 1955 under Section 5(*i*) of the Electricity

(Supply) Act, 1948 and North Bengal State Transport Corporation, Calcutta State Transport Corporation and South Bengal State Transport Corporation (formerly Durgapur State Transport Corporation) were constituted on 15th April 1960, 15th June 1960 and 7th December 1973 respectively under the Road Transport Corporations Act, 1950.

Under the respective Acts, the audit of the West Bengal State Electricity Board and the State Transport Corporations vest, solely in the Comptroller and Auditor General of India. Separate Audit Reports mainly incorporating the comments on the annual accounts of each year, are issued separately to the organisations and to Government.

The annual accounts along with the separate Audit Reports of the Board up to the year 1985-86 had been presented to the State Legislature while the accounts for the year 1986-87 and the separate Audit Report thereon issued on 29th September 1988 had not been presented to the State Legislature so far (February 1989). The audit of annual accounts for the year 1987-88 received in December 1988 was in progress (February 1989).

The accounts of the Calcutta State Transport Corporation had been prepared up to 1986-87. The audit of annual accounts of the Corporation for the year 1986-87 received in June 1988 was in progress (February 1989). The separate Audit Report along with certified copy of accounts for the year 1985-86 issued to the Corporation and Government on 22nd June 1988 had not been presented to the State Legislature so far (February 1989).

The accounts of the South Bengal State Transport Corporation (formerly Durgapur State Transport Corporation) and North Bengal State Transport Corporation had been finalised up to the year 1985-86 and 1986-87 and Audit Reports in respect of South Bengal State Transport Corporation up to 1978-79 and that of North Bengal State Transport Corporation up to 1985-86 were issued to the Corporation and Government on 21st November 1988 and on 2nd March 1989 respectively which had not been presented to the State Legislature so far (March 1989).

1.3.3 The West Bengal Financial Corporation was constituted on 1st March 1954 under Section 3(*i*) of the State Financial Corporations Act, 1951 and the West Bengal State Warehousing Corporation was constituted on 31st March 1958 under the

Agricultural Produce (Development and Warehousing) Corporation Act, 1956 replaced by the Warehousing Corporations Act, 1962.

Under the respective Acts, the accounts of the organisations are audited by the Chartered Accountants appointed by the State Government in consultation with the Comptroller and Auditor General of India and the latter may also undertake audit of the Corporations separately. Separate Audit Reports in respect of the annual accounts of the Corporations are also issued by the Comptroller and Auditor-General of India. The annual accounts of the two Corporations had been certified by the Chartered Accountants up to the year 1987-88 and 1986-87 respectively. Separate Audit Reports on the annual accounts had been issued in respect of West Bengal Financial Corporation up to 1987-88 and in respect of West Bengal State Warehousing Corporation up to 1984-85 to the respective Corporations and Government while the separate Audit Reports for the years 1985-86 and 1986-87 in respect of accounts of West Bengal State Warehousing Corporation received in November 1988 and February 1989 respectively were under finalisation (March 1989). The annual accounts for the year 1986-87 and the separate Audit Report thereon in respect of the Financial Corporation issued in March 1988, was placed before the State Legislature in April 1988, while that of 1987-88 issued in March 1989 is yet to be placed before the State Legislature (July 1989).

1.3.4 The West Bengal Industrial Infrastructure Development Corporation (WBIIDC) was constituted in November 1973 under the West Bengal Industrial Infrastructure Development Corporation Ordinance, 1973, subsequently replaced by West Bengal Industrial Infrastructure Development Corporation Act, 1974.

The audit of the accounts of the Corporation has been entrusted to the Comptroller and Auditor General of India under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in March 1984 initially for a period of 5 years from June 1978 which was subsequently extended in September 1983 for another 5 years effective from June 1983.

Separate Audit Report, mainly incorporating the comments on the annual accounts, is issued separately to the Corporation and Government. The accounts of the Corporation had been finalised up to 1983-84. The Audit Reports on the annual accounts for the years 1981-82 to 1983-84 received in June 1988 are under finalisation (February 1989). The separate Audit Reports for the years 1976-77 to 1979-80 were placed before the State Legislature on 12th April 1988.

1.3.5 The financial results of these seven Statutory Corporations for the latest years for which accounts have been finalised are summarised in Annexure 4. Salient points about the accounts and physical performance of these Statutory Corporations are given in paragraphs 1.4 to 1.10.

1.4 **West Bengal State Electricity Board**

1.4.1 The capital requirements of the Board are met by way of loans from Government, the public, the banks and other financial institutions.

The aggregate of long-term loans (including loans from Government) obtained by the Board and outstanding as on 31st March 1988 was Rs. 1,273·35 crores and represented an increase of Rs. 81·00 crores compared to the long-term loans of Rs. 1,192·35 crores outstanding at the end of previous year. Particulars of loans obtained from the State Government and other sources and outstanding at the close of March 1987 and March 1988 are as follows:

Sl. No.	Source	Amount outstanding as on 31st March		Percentage increase
		1987	1988	
		(Rupees in crores)		
1.	State Government	451·63	466·08	3 2
2.	Others	740·72	807·27	9 0
	Total:	1,192·35	1,273·35	

1.4.2 Government had guaranteed repayment of loans raised by the Board to the extent of Rs. 1,408·24 crores and payment of interest thereon. The amount of principal guaranteed and outstanding thereagainst as on 31st March 1988 was Rs. 806 crores. The Board has to pay guarantee fee in consideration of the guarantees given by the Government. The payment of guarantee fee to the extent of Rs. 17·49 crores was in arrears as at the close of March 1988.

1.4.3 The financial position of the Board at the end of the three years up to 1987-88 is given below:

	1985-86	1986-87	1987-88
		(Rupees in crores)	
A. Liabilities			
1. Long-term loans from:			
(a) Government	604·52	451·63	466·08
(b) Other sources	702·82	740·72	807·27
2. Subvention and grants from:			
(a) Government	—	—	—
(b) Others	63·29	72·72	84·56
3. Overdrafts/ways and means advances from Government	28·53	16·30	26·87
4. Interest on loans	311·86	298·42	347·09
5. Deposits from public	18·23	21·86	26·11
6. Current Liabilities and provisions ..	277·47	269·65	363·49
7. (a) Reserves and reserve funds ..	6·74	6·74	0·30
(b) Surplus(+)/Deficit(−) ..	(−)223·94	(−)232·11	(−)252·39
Total—A	1,789·52	1,645·93	1,869·38
B. Assets			
1. Gross fixed assets	904·68	568·98	713·32
(a) Depreciation	152·02	170·70	195·42
(b) Net fixed assets	752·66	398·28	517·90
2. Capital Work-in-progress	559·29	512·62	528·66
3. Current assets	470·61	564·81	660·35
4. Investment	6·96	170·22	162·47
Total—B	1,789·52	1,645·93	1,869·38
C. Capital employed	594·14	878·53	1,001·69
D. Capital invested	1,314·00	1,289·34	1,406·54

1.4.4 Up to 1984-85, the order of allocation of gross surplus was prescribed in the then existing Section 67 of the Electricity

Notes: 1. Capital employed represents net fixed assets (excluding capital work-in-progress) *plus* working capital.
2. Capital invested represents paid-up capital *plus* long-term loans plus free reserves.

(Supply) Act, 1948. The provisions of the Act had been amended (August 1983) providing for showing the working results on unitorm commercial accounting system applicable to the accounts from 1985-86 onwards.

The working results of the Board for the three years up to 1987-88 on comparative commercial basis are summarised below:

	1985-86	1986-87	1987-88
		(Rupees in crores)	
1. (a) Revenue receipts	288·24	348·01	402·74
(b) Subsidy from the State Government ..	20·89	28·45	34·37
Total	209·13	376·46	437·11
2. Revenue expenditure including write off of intangible assets	252·92	318·71	392·24
3. (a) Gross surplus(+)/deficit(−) for the year	(+)56 21	(+)57·75	(+)44·87
(b) Adjustments relating to previous years ..	(−) 3 65	(+) 0·11	(+) 3 56
(c) Surplus(+)/deficit(−)	(+)52·56	(+)57 86	(+)48·43
4. Appropriations:			
(a) Depreciation	19·48	19·35	21·87
(b) Interest on Government loans ..	47·24	44·32	46·30
(c) Interest on other loans and bonds ..	65·21	50·90	64·26
(d) Total interest on loans	112·45	95·22	110·56
(e) *Less:* Interest capitalised	49·46	48·54	57·28
(f) Interest charged to revenue ..	62·99	46 68	53·28
5. Net surplus(+)/deficit(−)	(−)29 91	(−) 8·17	(−)26 72
6. Total return:			
On capital employed	33·08	38 51	26 55
On capital invested	28·14	36·64	24 08
7. Percentage of return:			
On capital employed	5 6	4 4	2 7
On capital invested	2·1	2 8	1 7

The following major irregularities and omissions were pointed out in the separate Audit Report on the annual accounts of the Board for the year 1986-87 reterred to in paragraph 1.3.2 supra. Some of these have been persisting for long.

(1) Fixed assets (Gross Block Rs. 56,898·00 lakhs) do not include Rs. 1,813·82 lakhs being the value of works completed and put to use but shown under "Capital Expenditure in Progress" and non-accountal of Rs. 6·41 lakhs being the value of assets payable to ex-licencees.

(2) Loans and advances (Rs. 16,223 lakhs) stand understated by Rs. 91·18 lakhs (net) on account of (*i*) excess transfer of interest (Rs. 129·95 lakhs) accrued on IDBI credit to West Bengal Power Development Corporation Limited and (*ii*) treatment of grant (Rs. 38·77 lakhs) allowed to a Co-operative Society as advance.

(3) Sundry receivables (Rs. 13,047 lakhs) stand understated by Rs. 275·91 lakhs (net) on account oi (*i*) non-adjustment of value of claims (Rs. 8·93 lakhs) preferred but withdrawn subsequently and (*ii*) non-accountal of claims (Rs. 284·84 lakhs) lodged with the Railways towards cost of coal involved in missing wagons.

(4) Cash and Bank balances (Rs. 1,759 lakhs) stand understated by Rs. 10·13 lakhs (net) due to omission (*i*) to reduce the amount (Rs. 7·81 lakhs) represented by cheques not credited by Banks within their validity period and (*ii*) to write back the amount of Rs. 2·32 lakhs involved in cheques issued by the Board but not encashed within their currency.

1.4.5 The following table indicates the operational performance of the Board during the three years up to 1987-88:

	1985-86	1986-87	1987-88 (Provisional)
		(MW)	
1. Installed capacity:			
(*i*) Thermal	1,444 00	1,024·00	1,024 00
(*ii*) Hydel	45·00	45·60	45 60
(*iii*) Others (Diesel & gas turbine) ..	118 80	118·80	117·03
Total—1	1,607 80	1,188.40	1,186·63
		(MKWH)	
2. Power generated:			
(*i*) Thermal	4,566·66	3,745·09	3,460·78
(*ii*) Hydel	130·90	109·20	93·88
(*iii*) Others (Diesel & gas turbine) ..	57·00	38·99	28·33
Total—2	4,754·56	3,893·28	3,582·99

	1985-86	1986-87	1997-88 (Provisional)
		(MW)	
3. *Less:* Auxiliary consumption	480·41	387·86	374·93
4. Net power generated (2—3)	4,274·15	3,505·42	3,208·06
5. Power purchased/procured	734·27	1,867·12	2,735·52
6. Total power available for sale (4+5) ..	5,008·42	5,372·54	5,943·58
7. Normal maximum demand (in MW) ..	862·00	950·00	1,066·00
8. Power sold	3,848·78	4,107·29	4,601·00
9. (*i*) Transmission and distribution loss ..	1,158·34	1,263·95	1,341·93
(*ii*) Free supply to Bhutan	1·30	1·30	0·65
		(*Per cent*)	
10. Load factor	60·5	41·8	38·6
11. Percentage of generation to installed capacity	33·8	37·4	34·37
12. Percentage of transmission and distribution losses to total power available for sale ..	23·1	23·5	22·6
		(KWH)	
13. Number of units generated per KW of installed capacity	2,957·2	3,276·1	3,019·0
14. Number of villages/towns electrified ..	NA	NA	NA
15. (*a*) Pump sets/wells energised ..	NA	NA	NA
(*b*) Pump sets/wells awaiting energisation	NA	NA	NA
16. Number of sub-stations (33 KV and above)	NA	NA	NA
17. Transmission/distribution losses:			
(*i*) High/Medium voltage	NA	NA	NA
(*ii*) Low voltage	NA	NA	NA
18. Number of consumers (in lakhs) ..	NA	NA	NA
19. Number of employees	NA	NA	NA
20. Total expenditure on staff (Rupees in lakhs)	7,847·44	8,090·35	9,170·92
21. Percentage of expenditure on staff to total revenue expenditure	23·4	21·0	19·6
22. Break-up of sale of energy according to categories of consumers (MKWH):			
(*a*) Agriculture	127·16	NA	NA
(*b*) Industries	1,541·11	NA	NA
(*c*) Commercial	156·30	NA	NA
(*d*) Domestic	257·80	NA	NA
(*e*) Others	1,766·41	NA	NA
Total—22	3,848·78	NA	NA

NA—Not available

	1985-86	1996-87	1987-88 (Provisional
23. (*a*) Revenue per KWH (excluding subsidy)	74·89	NA	NA
(*b*) Expenditure per KWH	87·14	NA	NA
(*c*) Profit (+)/Loss (−) per KWH ..	(—) 12·25	NA	NA

1.5 Calcutta State Transport Corporation

1.5.1 Under Section 23(*i*) of the Road Transport Corporations Act, 1950, the State Government and the Central Government had agreed to contribute to the capital in the ratio of 6·08:1.

The capital of the Corporation as on 31st March 1988 amounting to Rs. 708·46 lakhs (Rs. 608·46 lakhs contributed by the State Government and Rs. 100·00 lakhs by the Central Government) was the same as on 31st March 1987. Interest on capital received from the State Government and the Central Government is payable at the rate of 4 to 6 *per cent* and 6·25 *per cent* respectively. Interest amounting to Rs. 893·33 lakhs was payable on capital up to the year 1986-87.

1.5.2 The Corporation has finalised its accounts up to the year 1986-87 and the accounts for the year 1987-88 were in arrears (February 1989).

The financial position of the Corporation at the end of the three years up to 1986-87 is given below:

	1984-85	1985-86	1986-87
		(Rupees in lakhs)	
A. Liabilities:			
1. Capital	708·46	708·46	708·46
2. Reserves and Surplus	2,792·45	3,179·11	3,661 71
3. Borrowings	8,272·78	9,441·32	10,711·59
4. Trade dues and other current liabilities ..	3,721·39	4,434·84	4,879 [illegible]2
Total—A	15,495·08	17,763·73	19,960·78
B. Assets:			
1. Gross block	6,948·65	7,693·58	8,440·89
2. *Less:* Depreciation	3,348·72	3,835·56	4,323·68
3. Net fixed assets	3,599·93	3,858·02	4,117·21

NA—Not available

Particulars	1984-85	1985-86	1986-87
		(Rupees in lakhs)	
4. Capital work-in-progress	59·33	53·86	38·91
5. Investments	2,243·83	2,521·60	2,819·44
6. Current assets, loans and advances ..	2,588·61	2,648·34	2,588·04
7. Accumulated loss	7,003·38	8,681·91	10,397·18
Total—B	15,495·08	17,763·73	19,960·78
C. Capital invested*	8,981·23	10,149·78	11,420·05
D. Capital employed**	2,336·44	1,917·92	1,619·73

1.5.3 The working results of the Corporation for the three years up to 1986-87 are summarised below:

Particulars	1984-85	1985-86	1986-87
		(Rupees in lakhs)	
(1) (*a*) Operating:			
Revenue	1,426·60	1,551·34	1,698·07
Expenditure	3,826·05	4,169·77	4,464·33
Deficit	2,399·45	2,618·43	2,766·26
(*b*) Non-operating:			
Revenue	112·86	83 06	87·08
Expenditure	467·65	563·96	573 40
Deficit	354·79	480·90	486·32
(2) Total revenue	1,539·46	1,634 40	1,785·15
(3) Total expenditure	4,293·70	4,733·73	5,073·63
(4) Net loss	2,754·24	3,099·33	3,288·48
(5) Interest on capital and loan	485 32	567·53	608 32
(6) Total return on:			
(*i*) Capital employed	(−)2,268·92	(−)2,531·80	(−)2,685 16
(*ii*) Capital invested	(−)2,310·05	(−)2,572·93	(−)2,726·30

Notes : *Capital invested represents capital *plus* long-term loans and free reserve.
**Capital employed represents net fixed assets (excluding capital work-in-progress) *plus* working capital.

1.5.4 Certain major comments on the accounts of the Corporation for the year ended 31st March 1986 are given below:

(1) **Miscellaneous receipts**—Rs. 20·50 lakhs

This represents the gross sale price of obsolete and unserviceable stores without adjustment of the book value in the stores account, resulting in overstatement of stores and understatement of loss to the extent of the value not so adjusted. The disposal of such stores was also made without the approval of Board.

(2) **Salary**—Rs. 239·70 lakhs

This does not include Rs. 12·01 lakhs, being outstanding liability on account of pay, allowances, incentives etc. pertaining to the year but paid in subsequent years, resulting in understatement of both loss and liabilities to that extent.

(3) **Bank overdraft**—Rs. 187·20 lakhs

This includes Rs. 13·94 lakhs, being the value of cheques issued during the period from 1973-74 to 1984-85 and which though timebarred had not been adjusted in accounts, resulting in understatement of sundry creditors and overstatement of overdraft balances.

(4) **Others**—Rs. 742·12 lakhs

(*i*) The above amount does not include Rs. 0·86 lakh, being the arrear rent for 1981-86 payable to Calcutta Improvement Trust on account of office accommodation and goomty space resulting in understatement of both loss and liability to that extent.

(*ii*) The above amount also does not include Rs. 15·75 lakhs, being the statutory liability for making payment of compensation to the victims/dependants of motor accidents on "no fault liability principle" in terms of the Motor Vehicles Act, 1939 as amended in 1982. Management could not confirm (January 1988) the total liability on this account as on 31st March 1986.

(5) **Cash at Bank**—Rs. 408·05 lakhs

The above amount does not include stale cheques (cheques issued to the creditors but not presented to the bank) amounting to Rs. 11·45 lakhs (Rs. 11·09 lakhs issued on RBI and Rs. 0·36 lakh on SBI) resulting in understatement of both bank balance and outstanding liability creditors to that extent.

1.5.5 The table below indicates the physical performance of the Corporation during the three years up to 1987-88:

	1985-86	1986-87	1987-88 (provisional)
1. Average number of vehicles held ..	1,166	1,204	1,213
2. Average number of vehicles on road ..	721	658	684
3. Percentage of utilisation	61 84	54 65	56 39
4. Kilometres covered (in lakhs):			
(a) Gross	407·42	434·16	478·05
(b) Effective	383·14	402·00	435·41
(c) Dead	24·28	32·16	42·64
5. Percentage of dead Kms. to gross Kms. ..	5 96	7·41	8·92
6. Average Kms. covered per vehicle per day	163	167	175
7. Average revenue per Km. (in paise) ..	429·73	441·70	NA
8. Average expenditure per Km. (in paise) ..	1,200 07	1,253·13	NA
9. Loss per Km. (in paise)	770·34	811·44	NA
10. Total route Kms.	10,379 58	10,588	10,605
11. Number of operating depots	9	9	10
12. Average number of break-downs per lakh Kms.	250·68	167 00	117 8
13. Average number of accidents per lakh Kms.	1·30	1 23	1·29
14. Passenger Kms. scheduled (in lakhs) ..	28,148	25,454	26,747·43
15. Passenger Kms. operated (in lakhs) ..	23,770	21,182	23,448
*16. Occupancy ratio (per cent)	84	95	NA

1.6 South Bengal State Transport Corporation (formerly Durgapur State Transport Corporation)

1.6.1 Durgapur State Transport Corporation has been re-named as South Bengal State Transport Corporation with effect from 17th March 1988, vide State Government Notification

*Occupancy ratio means total seat Kms. occupied (in lakhs) out of total seat Kms. offered (in lakhs) expressed in percentage.

No. 3325-WT dated 17.3.88 with a view to extending the facilities of Road Transport in five districts of South Bengal, namely, Burdwan, Bankura, Purulia, Midnapore and Hooghly.

The capital of the Corporation was Rs. 1,712·06 lakhs (wholly subscribed by the State Government) as on 31st March 1988 as against Rs. 1,549·87 lakhs as on 31st March 1987.

1.6.2 The Corporation had finalised its accounts up to the year 1985-86 and the accounts for 1986-87 onwards were in arrears (February 1989).

The table below summarises the financial position of the Corporation at the end of the three years up to 1985-86:

	1983-84	1984-85	1985-86
		(Rupees in lakhs)	
A. Liabilities			
1. Capital	119·91	119·91	119·91
2. Reserves and surplus	14·80	17·09	19·39
3. Borrowings	1,121·36	1,231·34	1,323·67
4. Deposits	5·19	5·16	5·24
5. Trade dues and other current liabilities ..	417·71	501·28	610·77
Total—A	1,678·97	1,874·78	2,078·98
B. Assets			
1. Gross block	468·99	551·01	653·33
2. *Less:* Depreciation	221·78	260·87	314·35
3. Net fixed assets	247·21	290·14	338·98
4. Capital work-in-progress	71·46	50·22	25·81
5. Investments	37·74	37·75	37·79
6. Current assets, loans and advances ..	114·39	161·86	166·23
7. Accumulated loss	1,208·17	1,334·81	1,510·17
Total—B	1,678·97	1,874·78	2,078·98
C. Capital invested*	1,241·27	1,351·25	1,443·58
D. Capital employed**	(−)56·11	(−)49·28	(−)105·56

*Capital invested represents capital *plus* long-term loans and free reserve.

**Capital employed represents net fixed assets (excluding capital work-in-progress) *plus* working capital.

1.6.3 The working results of the Corporation for the three years up to 1985-86 are summarised below:

Particulars	1983-84	1984-85	1985-86
		(Rupees in lakhs)	
1. (a) Operating:			
Revenue	156·51	173·44	204·77
Expenditure	373·18	401·36	468·12
Deficit	216·67	227·92	263·35
(b) Non-operating:			
Revenue	177·02	182·56	181·98
Expenditure	75·80	81·28	93·99
Surplus	101·22	101·28	87·99
2. Total revenue	333·53	356·00	386·75
3. Total expenditure	448·98	482·64	562·11
4. Net loss	115·45	126·64	175·36
5. Interest on capital and loan	75·80	81·28	93·99
6. Total return on:			
(i) Capital employed	(–)39·65	(–)45·36	(–)81·37
(ii) Capital invested	(–)47·15	(–)52·86	(–)88·87

1.6.4 The following major irregularities and omissions were pointed out in the separate Audit Report on the annual accounts of the Corporation for the year 1978-79 referred to in paragraph 1.3.2 supra:

Loss for the year—Rs. 97·77 lakhs

The loss for the year was understated by Rs. 1·76 lakhs with corresponding understatement of liabilities on account of the following:

(*i*) Non-provision of interest of Rs. 1·11 lakhs on loan received from Industrial Development Bank of India and the State Government;

(*ii*) Non-provision of penal interest of Rs. 0·37 lakh on overdue instalments of loans;

(*iii*) Omission to debit general charges of Rs. 0·10 lakh;

(*iv*) Non-provision of guarantee fees or Rs. 0·04 lakh payable to the State Government;

(*v*) Non-provision of accident reserve fund of Rs. 0·24 lakh and

(*vi*) Expenditure of Rs. 0·10 lakh paid in advance for 1979-80 wrongly charged to the accounts.

1.6.5 The table below indicates the operational performance of the Corporation during the three years up to 1987-88.

	1985-86	1986-87	1987-88 (provisional)
1. Average number of vehicles held ..	203	223	219
2. Average number of vehicles on road ..	106	103	103
3. Percentage of utilisation	52	46	47
4. Kilometres covered (in lakhs):			
(*a*) Gross	81·63	84·45	84·65
(*b*) Effective	75·36	76·62	77·97
(*c*) Dead	6·27	7·83	6·68
5. Percentage of dead Kms. to gross Kms. ..	8	9	8
6. Average Kms. covered per vehicle per day	102	94	98
7. Average revenue per Km. (in paise) ..	270	256	276
8. Average expenditure per Km. (in paise) ..	710	756	771
9. Loss per Km. (in paise)	440	500	495
10. Total route Kms.	NA	NA	NA
11. Number of operating depots	1	1	1
12. Average number of break-downs per lakh Kms.	21	21	20
13. Average number of accidents per lakh Kms.	0·54	0·70	0·46
14. Passenger Kms. scheduled (in lakhs) ..	3,768	3,831	3,899
15. Passenger Kms. operated (in lakhs) ..	2,261	2,181	2,388
*16. Occupancy ratio (per cent)	60	57	61

1.7 North Bengal State Transport Corporation

1.7.1 The capital of the Corporation was Rs. 1,038·06 lakhs (Rs. 587·04 lakhs contributed by State Government and

*Occupancy ratio means total seat Kms. occupied (in lakh) out of total seat Kms. offered (in lakh) expressed in percentage.

Rs. 451·02 lakhs by Central Government) as on 31st March 1988 as against Rs. 825·56 lakhs (Rs. 587·04 lakhs contributed by State Government and Rs. 238·52 lakhs by Central Government) as on 31st March 1987.

1.7.2 The accounts of the Corporation for 1987-88 were in arrears.

The financial position of the Corporation at the end of the three years up to 1986-87 is given below:

	1984-85	1985-86	1986-87
		(Rupees in lakhs)	
A. *Liabilities*			
1. Capital	821·05	825·55	825·55
2. Reserves and Surplus	7·27	7.38	8·28
3. Borrowings	2,358·25	2,506·36	2,849·44
4. Trade dues and other current liabilities	1,607·31	1,909·25	2,267·87
5. Difference in accounts	0·63	0·70	0·72
Total—A	4,794·51	5,249·24	5,951·86
B. *Assets*			
1. Gross block	359 28	468·59	592·14
2. *Less:* Depreciation	84·27	137·19	199·72
3. Net fixed assets	275·01	331·40	392·42
4. Capital work-in-progress	—	—	—
5. Investments	365·41	392·50	405 56
6. Current assets, loans and advances ..	174·05	173·66	299·76
7. Accumulated loss	3,980 04	4,351·68	4,854·12
Total—B	4,794·51	5,249·24	5,951·86
C. Capital invested*	3,122·68	3,333·21	3,673·02
D. Capital employed**	(—)1,159·21	(—)1,404·94	(—)1,576·23

*Capital invested represents capital plus long-term loans and free reserve.

**Capital employed represents net fixed assets (excluding Capital work-in-progress) plus working capital.

1.7.3 The working results of the Corporation for the three years up to 1986-87 are summarised below:

Particulars	1984-85	1985-86	1986-87
		(Rupees in lakhs)	
1. (*a*) Operating:			
Revenue	460 06	533·31	820·44
Expenditure	1,049·05	1,185 46	1,551·39
Deficit	588·99	652·15	730·95
(*b*) Non-operating:			
Revenue	6·18	3·44	2·55
Expenditure	195·17	204·36	216·96
Deficit	188·99	200·92	214·41
2. Total Revenue	466·24	536·75	822·99
3. Total Expenditure	1,244·22	1,389·82	1,768·35
4. Net loss	777·98	853·07	945·36
5. Interest on capital and loan	194·41	204·33	216·14
6. Total return on:			
(*i*) Capital employed	(−)583 57	(−)648·74	(−)729·22
(*ii*) Capital invested	(−)589·20	(−)653·01	(−)731·52

1.7.4 Certain comments made on the accounts of the Corporation for the year ended 31st March 1985 are given below:

(1) **Salary:** Rs. 5·05 lakhs

The above does not include salary and allowances amounting to Rs. 27·90 lakhs for the month of March 1985 disbursed in April 1985 though the cheques prepared in March 1985 were encashed in April 1985. This has resulted in understatement of 'Other Liabilities—salary' and overstatement of Bank overdraft to the extent of Rs. 27·90 lakhs.

(2) **Guarantee Fee**

Provision has not been made for 'Service Charges (Guarantee Fee)' amounting to Rs. 3·35 lakhs (Rs. 2·95 lakhs up to 1983-84) payable to the State Government on cash credit of Rs. 30 lakhs obtained from a Nationalised Bank and loan of Rs. 50 lakhs from IDBI on rediscounting scheme resulting in understatement of accumulated loss by Rs. 3·35 lakhs and current year's loss by Rs. 0·40 lakh.

(3) **Stores: Lubricants:** Rs. 19·56 lakhs

This includes advance of Rs. 7·80 lakhs paid to Indian Oil Corporation Limited for supply of lubricants against which supply was received during the subsequent year. This has resulted in understatement of 'Advance and Deposits' and overstatement of loss for the year to the extent of Rs. 7·80 lakhs.

(4) **Diesel:** Rs. 176·22 lakhs

This includes advance of Rs. 23·60 lakhs paid to Indian Oil Corporation Limited for supply of diesel against which supply was received during the subsequent year. This has resulted in understatement of 'Advance and Deposits' and overstatement of loss for the year to the extent of Rs. 23·60 lakhs.

1.7.5 The table below indicates the operational performance of the Corporation during the three years up to 1987-88:

	1985-86	1986-87	1987-88 (Provisional)
1. Average number of vehicles held ..	378	449	529
2. Average number of vehicles on road ..	321	376	426
3. Percentage of utilisation	85	84	81
4. Kilometres covered (in lakhs):			
(*a*) Gross	192·47	288·89	328·67
(*b*) Effective	190·92	286·72	326·08
(*c*) Dead	1·55	2·17	2·59
5. Percentage of dead Kms. to gross Kms. ..	0·81	0·79	0·79
6. Average Kms. covered per vehicle per day	163	209	209
7. Average revenue per Km. (in paise) ..	281	287	313
8. Average expenditure per Km. (in paise) ..	728	617	554
9. Loss per Km. (in paise)	447	330	241
10. Total route Kms.	25,696	37,200	41,172
11. Number of operating depots	17	17	18
12. Average number of break-down per lakh Kms.	15	15	15
13. Average number of accidents per lakh Kms.	0·21	0·19	0·27
14. Passenger Kms. scheduled (in lakh) ..	11,793·75	15,663·12	16,910·58
15. Passenger Kms. operated (in lakh) ..	9,434·49	14,096·91	16,071·63
*16. Occupancy ratio (per cent)	65	68	95

*Occupancy ratio means total seat Kms. occupied (in lakh) out of total seat Kms. offered (in lakh) expressed in percentage.

1.8 West Bengal Financial Corporation

1.8.1 The paid-up capital of the Corporation amounting to Rs. 1,000·00 lakhs (Rs. 475·89 lakhs contributed by the State Government, Rs. 475·88 lakhs by the Industrial Development Bank of India (IDBI) and Rs. 48·23 lakhs by others) as on 31st March 1988 was the same as on 31st March 1987.

Government had guaranteed under Section 6(*i*) of the State Financial Corporations Act, 1951 the repayment of share capital of Rs. 920·00 lakhs (i.e., excluding special share capital of Rs. 80·00 lakhs) and payment of minimum dividend thereon at 3·5 *per cent.* Subvention paid by Government (during the non-profit earning period of the Corporation) towards the guaranteed dividend amounted to Rs. 11·87 lakhs which was outstanding for repayment as on 31st March 1988.

Government has also guaranteed repayment of market loan of Rs. 4,290·00 lakhs raised by the Corporation through bonds and debentures. Amount of principal outstanding thereagainst as on 31st March 1988 was Rs. 4,290·00 lakhs.

1.8.2 The table below summarises the financial position of the Corporation under broad headings at the end of the three years up to 1987-88:

	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
A. Liabilities:			
1. Paid-up capital	1,000·00*	1,095·00†	1,405·00‡
2. Reserve Fund, Other reserve and surplus	606·31	687·31	790·63
3. Borrowings:			
(*i*) Bonds and debentures	2,915·00	3,547·50	4,290·00
(*ii*) Others	3,748·05	4,763·19	5,629·92
4. Subvention paid by State Government on account of dividend	11·87	11·87	11·87
5. Other liabilities and provisions ..	452·96	786·28	1,058·82
Total—A	8,734·19	10,891·15	13,186·24

*Includes Rs. 48·73 lakhs of share application money.

†Includes Rs. 95·00 lakhs of share application money.

‡Includes Rs. 405·00 lakhs of share application money.

	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
B. Assets:			
1. Cash and Bank balances	148·48	180·80	260·43
2. Investments	16·28	18·28	18·46
3. Loans and Advances	8,274·02	10,381·52	12,608·14
4. Debentures, shares etc., acquired under underwriting agreements	36·34	41 34	41·30
5. Net fixed assets	9·51	14·13	14·15
6. Dividend deficit account	11·87	11 87	11·87
7. Others assets	237·69	243·21	231 89
Total—B	8,734·19	10,891·15	13,186 24
C. Capital employed**	7,525·84	9,286 20	11,240·62
D. Capital invested***	8,170 08	10,189·16	11,892·19

1.8.3. The Corporation switched over to cash system of accounting from mercantile system of accounting from 1st April 1982. The following table gives details of the working results of the Corporation for three years up to 1987-88:

Particulars	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
1. Income:			
(a) Interest on loans and advances ..	663·12	851·76	1,077·28
(b) Other income	10·70	15·79	43·12
Total—1	673·82	867·55	1,120 40
2. Expenditure:			
(a) Interest on long-term loans ..	442 98	610 22	812 88
(b) Other expenses	79 22	90 88	113 50
Total—2	552·20	701·10	926 38

**Capital employed represents the mean of the aggregate of opening and closing balances of (i) paid-up capital, (ii) bonds and debentures, (iii) reserves, (iv) borrowings (including refinance) and deposits.

***Capital invested represents paid-up capital *plus* long-term loans *plus* free reserve.

Particulars	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
3. *Profit before tax*	*151·62*	*166·45*	*194·02*
4. Provision for tax	56·00	55·00	61·11
5. Profit after tax	95·62	111·45	132·91
6. Other appropriations	60·65	66·58	83·61
7. Reserve for bad and doubtful debts ..	—	5·00	10·00
8. Amount available for dividend ..	34·97	39·87	39·30
9. Dividend paid	33·29	35·00	35·00
10. (*a*) Capital employed	7,525·84	9,286·20	11,240·62
(*b*) Capital invested	8,170·08	10,189·16	11,892·19
11. Total return on:			
(*a*) Capital employed	594·60	776·67	1,006·90
(*b*) Capital invested	594·60	776·67	1,006·90
12. Percentage of return on:			
(*a*) Capital employed	7·9	8·4	8·9
(*b*) Capital invested	7·3	7·6	8·5

1.8.4 Certain major comments on the accounts of the Corporation for the year ended 31st March 1987 are given below:

(1) **Seed Money:** Rs. 10,23,778·75

This includes Rs. 2·24 lakhs being the amount received from the State Government (through the District Industrial Centres) during the period rrom 1977 to 1984 for disbursement to loanees. The amount could not be disbursed as the loanees did not turn up for receiving the balance of loan in the phased manner and also defaulted in repaying their dues to the Corporation. Non-adjustment of the amount against their loans (already disbursed) has resulted in overstatement of "loans and advances" as well as liability towards 'seed money" to the same extent.

(2) **Insurance and D.I.C.G.C. claim Received**
Rs. 1,59,52,532·98

This includes Rs. 147·91 lakhs received from the Deposit Insurance and Credit Guarantee Corporation on account of credit guarantee claims. This has not been adjusted in the loanees' accounts as a set-off against claims of the Corporation resulting in overstatement of Insurance and D.I.C.G.C. claims received and loans and advances to the extent of Rs. 147·91 lakhs.

(3) **Other assets: Suspense (recoverable):** Rs. 28,99,168·79

This includes Rs. 26·92 lakhs adjusted in 1984-85 towards commitment charges due to I.D.B.I. Out of this amount Rs. 22·27 lakhs is realisable from the loanees and the balance remaining unrealisable should have been charged to Profit and Loss Account. This has resulted in overstatement of profit by Rs. 4·65 lakhs and understatement of loans and advances by Rs. 22·27 lakhs.

1.8.5 The table at page 32 indicates the position regarding the receipts and disposal of applications of loans for the three years up to 1987-88:

Out of outstanding loans of Rs. 12,608·12 lakhs on 31st March 1988, an amount of Rs. 2,958·03 lakhs (including interest of Rs. 2,013·69 lakhs) was overdue for recovery. The percentage of overdue amount to the total outstandings has gone up from 12·5 in 1985-86 to 18·4 in 1986-87 and further to 23·5 in 1987-88.

1.8.6 Investment made by the Corporation at the close of the year 1987-88 included Rs. 13·57 lakhs towards share capital and Rs. 1,674·32 lakhs towards loans (including interest of Rs. 925·76 lakhs) on 120 units lying closed or considered sick (representing 17·35 *per cent* and 13·28 *per cent* of the total investment by the Corporation in all the units in share capital and loans respectively). The Corporation had made a provision of Rs. 29·12 lakhs towards bad and doubtful debts up to 31st March 1988.

1.9 West Bengal State Warehousing Corporation

1.9.1 The paid-up capital of the Corporation as on 31st March 1988 was Rs. 484·40 lakhs (Rs. 279·70 lakhs contributed by the State Government and Rs. 204·70 lakhs by Central Warehousing Corporation) against Rs. 449·40 lakhs (Rs. 244·70 lakhs contributed by the State Government and Rs. 204·70 lakhs by Central Warehousing Corporation) as on 31st March 1987.

Table showing the position of receipts and disposal of applications of loans (referred to in paragraph 1.8.5, page 31):

Particulars	1985-86		1986-87		1987-88		Cumulative	
	Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)
1. Applications pending at the beginning of the year	271	303·76	291	408·00	271	465·29	—	—
2. Applications received during the year ..	1901	3,889·33	1730	5,441·66	3684	5,870·81	16607	38,950·56
3. Total	2172	4,193·09	2021	5,849·66	3955	6,336·10	16607	38,950·56
4. Applications sanctioned during the year	1581	3,315·33	1653	4,079·93	3229	5,017·27	13943	29,430·53
5. (a) Applications cancelled/withdrawn/ reduction in amount	249	368·49	97	1,008·15	591	743·21	2272	6,286·36
(b) Rejected	51	101·27	—	296·29	—	79·44	256	2,737·49
6. Applications pending at the close of the year	291	403·00	271	465·29	135	496·18	135	496·18
7. Loans disbursed	1030	2,087·10	1355	2,636·68	1443	3,012·92	7582	16,187·11
8. Loans outstanding at the close of the year	4523	9,670·78	5871	10,381·52	7289	12,608·14	7289	12,608·14
9. Amount overdue for recovery at the close of the year:								
(a) Principal	—	475·14	—	599·32	—	944·34	—	944·34
(b) Interest	—	709·02	—	1,316·28	—	2,013·69	—	2,013·69
(c) Total	—	1,184·16	618	1,915·60	3251	2,958·03	3251	2,958·03
				(Per cent)				
10. Percentage of default to total loans outstanding	—	12·5		18·4		23·5		23·5

1.9.2 The table below summarises the financial position of the Corporation at the end of the three years up to 1986-87:

	1984-85	1985-86	1986-87
	(Rupees in lakhs)		
A. Liabilities:			
1. Paid-up capital	379 40	399·40	419·40
2. Reserves and Surplus	138·32	166·76	205·46
3. Trade dues and other current liabilities	144·31	180·69	221·62
Total—A	662·03	746·85	846·48
B. Assets:			
1. Gross block	340·37	380·56	471·71
2. *Less:* Depreciation	41·59	44·96	50·90
3. Net fixed assets	298 78	335·60	420·81
4. Capital Work-in-progress	—	—	—
5. Investment	49·19	49·11	49·31
6. Current assets, loans and advances ..	314·06	362·14	376·36
Total—B	662·03	746·85	846·48
C. Capital employed*	468·53	517·05	575·55

1.9.3 The following table gives the working results of the Corporation for the three years up to 1986-87:

Particulars	1984-85	1985-86	1986-87
	(Rupees in lakhs)		
1. Income:			
(*i*) Warehousing charges	180·87	233·48	257·82
(*ii*) Other receipts	1·79	0·50	0·70
Total—1	182·66	233·98	258·52
2. Expenditure:			
(*i*) Establishment charges	76·45	92·49	99·92
(*ii*) Other expenses	86·64	106·63	107·71
Total—2	163·09	199·12	207·63

Particulars	1984-85	1985-86	1986-87
		(Rupees in lakhs)	
3. Profit before tax	19 57	34 86	50 89
4. Provision for tax	1·03	0·29	0 41
5. Other appropriations	3·81	4·33	7·58
6. Amount available for dividend	14·73	30·24	42·90
7. Proposed dividend	18 97	18 97	27·96
(*Per cent*)	(5)	(4·75)	(6)
8. Total return on capital employed ..	19·57	34·86	50·89
		(*Per cent*)	
9. Percentage of return on capital employed ..	4·18	6·74	8·84

1.9.4 Other main points brought out in the separate Audit Report on annual accounts of the Corporation for the year 1984-85 referred to in paragraph 1.3.3 are mentioned below:

(1) The net profit is understated by Rs. 1·88 lakhs (net) on account of the following:

(*i*) Non-provision of insurance premium (Rs. 2·31 lakhs) and rent (Rs. 0.62 lakh) with corresponding understatement of liabilities by Rs. 2·93 lakhs.

(*ii*) Advance of Rs. 4·81 lakhs given for ex-gratia payment charged to accounts as expenditure with corresponding understatement of advance by Rs. 4·81 lakhs.

(2) **Cash at Bank:** Rs. 49·21 lakhs

This includes Rs. 5·00 lakhs kept in deposit with the Pay and Accounts Officer, Government of West Bengal (R.B.I.) in contravention of the provisions of Section 28 of the Warehousing Corporations Act, 1962.

1.9.5 The following table gives details of the storage capacity created, capacity utilised and other information about performance of the Corporation during the three years up to 1987-88:

Particulars	1985-86	1986-87	1987-88
1. Number of stations covered	38	40	40
		(Tonnes in lakhs)	
2. Storage capacity created up to the end of the year:			
(*a*) Owned	0·63	0·76	0·89

*Capital employed represents net fixed assets (excluding Work-in-progress) *plus* working capital.

Particulars	1985-86	1986-87	1987-88
(b) Hired	1·58	1 54	1 58
Total	2·21	2 30	2 47
3. Average capacity utilised during the year ..	1·92	2 03	2·06
		(Per cent)	
4. Percentage of utilisation	87	88	83
		(Rupees)	
5. Average revenue per tonne per year ..	105·64	104·30	108·90
6. Average expenses per tonne per year ..	90·10	78·32	NA

1.9.6 Under provisions of sub-section (7) of Section 31 of the Warehousing Corporations Act, 1962, West Bengal State Warehousing Corporation should submit a copy of its auditors' report to the Comptroller and Auditor General of India at least one month before it is placed before the Annual General Meeting. The Corporation, however, submitted the auditors' reports on the accounts for the years 1981-82 to 1983-84 to the Comptroller and Auditor General of India only on 10th September 1984, 23rd September 1986 and 8th December 1987 after holding the Annual General Meeting to consider these reports on 2nd March 1984, 16th September 1986 and 10th November 1987 respectively.

1.9.7 Under provisions of sub-section (10) of Section 31 of the Act ibid the separate Audit Report of the Comptroller and Auditor General of India is required to be placed before the shareholders within 6 months of the close of the financial year to which it relates. Since the accounts were in arrears, the Separate Audit Reports should have been placed before the next Annual General Meeting of the shareholders. Separate Audit Reports for the years 1981-82 and 1982-83 issued by the Comptroller and Auditor General of India on 12th July 1985 and 18th May 1987 respectively were not placed before the Annual General Meetings held on 16th September 1986 and 10th November 1987.

1.10 **West Bengal Industrial Infrastructure Development Corporation**

1.10.1 The Corporation had no share capital of its own. The Corporation has obtained long-term loans from the State

Government from time to time. Outstanding balance of the loans as on 31st March 1984 was Rs. 334·19 lakhs as against Rs. 284·19 lakhs as on 31st March 1983.

1.10.2 The table below summarises the financial position of the Corporation at the end of the three years up to 1983-84:

	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
A. Liabilities:			
1. Loans from State Government ..	259·19	284·19	334·19
2. Net balance of deposit for deposit works	55·74	78·22	58·58
3. Reserves and Surplus	2·98	—	—
4. Trade dues and other current liabilities	234·45	253·43	285·38
Total—A	552·36	615·84	678·15
B. Assets:			
1. Gross block	183·20	186·97	182·19
2. *Less:* Depreciation	8·74	8·00	7·17
3. Net fixed assets	174·46	178·97	175·02
4. Capital work-in-progress	0·08	0·08	0·08
5. Expenditure for development of industrial areas and estates and other schemes ..	64·96	70·94	110·21
6. Current assets and loans and advances ..	312·86	359·43	382·95
7. Deficit	—	6·42	9·89
Total—B	552·36	615·84	678·15
C. Capital employed*	252·87	284·97	272·53
D. Capital invested**	262·17	277·77	324·30

1.10.3 The following table gives the details of the working results of the Corporation for the three years up to 1983-84:

*Capital employed represents net fixed assets *plus* Working Capital.
**Capital invested represents long-term loans *plus* free reserves less deficit.

Particulars	1981-82	1982-83	1983-84
		(Rupees in lakhs)	
A. Income:			
1. Annual rent of land and buildings ..	9 41	9.40	9·45
2. Recoveries of overheads on development work at 12½ *per cent*	4 04	0·34	0·63
3. Interest from Bank	10·48	8·56	6·63
4. Interest from Entrepreneurs.. ..	1·25	3·77	1·97
5. Water supply and electricity supply charges	3·56	4·77	7·72
6. Miscellaneous income	0·22	0·45	2·30
Total—A	28·96	27·29	28·70
B. Expenditure:			
1. Administrative expenses	12·75	15·48	19·17
2. Interest on loans	12·31	12·64	13 50
3. Depreciation and other expenses ..	9·86	8·58	8·60
Total—B	34·92	36·70	41·27
C. Profit (+)/Loss (–) before tax ..	(–)5·96	(–)9·41	(–)12·57
D. Provision for tax	—	—	—
E. Net Profit (+)/Loss (–)	(–)5·96	(–)9·41	(–)12·57
F. Total return on:			
(*a*) Capital employed	6·35	3·23	0·93
(*b*) Capital invested	6·35	3·23	0·93
		(*Per cent*)	
G. Percentage of total return on:			
(*a*) Capital employed	2·5	1·1	0·4
(*b*) Capital invested	2·4	1·1	0·3

1.10.4 Other main points brought out in the Separate Audit Report on annual accounts of the Corporation for the year 1983-84 referred to in paragraph 1.3.4 supra are mentioned below:

Deficit for the year: Rs. 12·57 lakhs

The deficit for the year has been understated by Rs. 4·10 lakhs and the net surplus has been overstated by Rs. 0·18 lakh due to the following omission/commission of errors:

(*i*) Short debit of interest of Rs. 0·73 lakh on the loans from Government of West Bengal.

(*ii*) Omission to charge depreciation of Rs. 3·35 lakhs for four years ending 1983-84 on Rs. 9·73 lakhs, being the residual cost of addition of one housing complex at Kharagpur not being accounted for although the complex has been completed (31.3.1980) and let out to a private company on annual rent of Rs. 9·43 lakhs (vide income account) with effect from 1st April 1980.

(*iii*) Omission to debit accounting charges of Rs. 0·02 lakh for 1983-84 to Profit and Loss Account and Rs. 0·18 lakh for 1974-75 to 1982-83 to prior period Adjustment Accounts for completion of the annual accounts for 1974-75 to 1983-84 by a firm of Chartered Accountants. This is required as per Rule 25(*i*) of the West Bengal Industrial Infrastructure Development Corporation Rules, 1978, wherein it is indicated that the accounts are to be maintained in accordance with the commercial systems. This has resulted in understatement of deficit for the year by Rs. 0·02 lakh and net deficit by Rs. 0·20 lakh (Rs. 0·02 lakh+ Rs. 0·18 lakh) and liabilities to that extent.

CHAPTER II

2. REVIEWS RELATING TO GOVERNMENT COMPANIES

This chapter contains reviews on the working of the following three Companies and an activity of import and distribution of cement under Open General Licence taken up by West Bengal Essential Commodities Supply Corporation Limited during 1982-84.

2A. The West Dinajpur Spinning Mills Limited

2B. Webel Business Machines Limited

2C. West Bengal Pharmaceutical and Phytochemical Development Corporation Limited

2D. Import and distribution of cement by Public Sector Undertakings in West Bengal during 1982-84.

2A. THE WEST DINAJPUR SPINNING MILLS LIMITED

HIGHLIGHTS

The West Dinajpur Spinning Mills Limited incorporated in August 1975, established a spinning mill in North Bengal with an installed capacity of 25,088 spindles at a cost of Rs. 8·70 crores and the mill commenced commercial production in December 1985 as against the revised scheduled date of commissioning of June 1983. Although the main objective of establishing the mill in North Bengal was to make yarn available easily and at reasonable prices to the weavers, who were hitherto procuring their requirements from far off places at higher rates, the Company did not develop any mechanism to ascertain and ensure the same, inasmuch as its only customers are two Co-operative Societies—Tantuja and Tantusree.

The Company could not commission all the installed spindles due to shortage of trained workmen and canni-

balisation of one ring frame. The investment of Rs. 7·04 lakhs on spindles installed but not commissioned during 1987-88 was thus unproductive.

The percentage of capacity utilisation of spindles was about 76·1 and 70·4 against the projected norms of 65 and 85 respectively during the two years up to 1987-88; the fixed cost left unabsorbed on this account during 1987-88 being Rs. 45·73 lakhs. Absenteeism was one of the main constraints, accounting for 8 to 19 *per cent* of the under-utilisation; the shortfall in production during these two years due to absenteeism working out to Rs. 99·22 lakhs.

The output of even those commissioned fell far short of expectations. The average production of yarn *per* spindle shift during the period ranged between 49·30 and 57·07 grams against the expectation of 72·99 grams in the project report and under-absorption of fixed overheads on this account was Rs. 136·14 lakhs.

The Company has been sustaining losses since its commencement of commercial production. The accumulated loss at the end of 1987-88 was Rs. 423·17 lakhs representing 66 *per cent* of the paid-up capital of Rs. 640·24 lakhs. The contribution made during 1987-88 was inadequate to meet even the employees' cost. Under-utilisation of capacity, low average output from spindles, high incidence of absenteeism, productivity not keeping pace with increase in the wages etc., mainly contributed to the losses.

2A.1 **Introduction**

The Company was incorporated on 22nd August 1975 as a Government Company with the main object of setting up a spinning mill with 25,088 spindles at Raigunj in the district of West Dinajpur to produce 20 to 40 counts of textile yarn and to supply yarn to the weavers of the backward districts of North Bengal who were getting yarn from far off places at high costs. The mill was established at a cost of Rs. 8·70 crores (up to 31st March 1988) against the estimated cost of Rs. 9·74 crores. The mill started commercial production only on 2nd December 1985 against the revised scheduled date of commissioning of June 1983. The Company is presently engaged in producing cotton carded yarn of 40 counts only.

2A.2 **Organisational set up**

The management of the Company is vested in a Board of Directors headed by a Chairman. As at the end of March 1988, there were eleven directors on the Board; nine directors nominated by the State Government and one each by Industrial Development Bank of India (I D B I) and Industrial Finance Corporation of India (I F C I). The Chief Executive of the Company is the Chairman-cum-Managing Director nominated by the State Government. The accounts wing is headed by Secretary-cum-Financial Controller and the mill is headed by a Works Manager.

2A.3 **Scope of Audit**

The execution of the project was reviewed in Chapter II of the Report of the Comptroller and Auditor General of India for the year 1984-85 (Commercial) wherein mention was, inter alia, made about the delay in execution of the project. Results of further review conducted in audit in June-July 1988 on the working of the Company after commencement of commercial operations on 2nd December 1985, are discussed in the succeeding paragraphs.

2A.4 **Funding**

The Authorised Capital of the Company was Rs. 6·50 crores, against which the paid-up capital as on 31st March 1988 was Rs. 6·40 crores contributed by the State Government (Rs. 6·17 crores) and West Bengal Handloom and Powerloom Development Corporation Limited (Rs. 0·23 crore). In addition, the Company had obtained from time to time unsecured loans from Government of West Bengal and secured loans from I D B I and I F C I for meeting the capital expenditure of the project and the working capital requirement. Loans outstanding as on 31st March 1988 were Rs. 431·41 lakhs (State Government: Rs. 68·91 lakhs and financial institutions: Rs. 362·50 lakhs). The Company had also a cash credit arrangement against hypothecation of its stores, stock and book debts with a nationalised bank with effect from 7th March 1987 up to a limit of Rs. 20 lakhs for meeting its working capital requirements; the balance outstanding was Rs. 11·08 lakhs (including interest) as on 31st March 1988.

The Company made defaults in repayment of instalments of principal to the financial institutions. Out of Rs. 362·50 lakhs, an amount of Rs. 50·00 lakhs towards principal was overdue for payment to the institutions as on 31st March 1988. The default attracted liability for payment of penal interest which amounted to Rs. 2·07 lakhs as on that date.

2A.5 **Production performance**

2A.5.1 *Capacity utilisation of spindles*

2A.5.1.1 The mill produces cotton carded yarn of 40 counts. It had an installed capacity of 25,088 spindles (56 ring frames of 448 spindles each). It started commercial production in December 1985 and as against three shifts of 8 hours a day and 7 days a week envisaged in the project report, it was operated in two shifts of 7½ hours a day and 7 days a week up to June 1987, when it started three shifts of 7½ hours a day.

The Company, however, could not commission all the installed spindles (25,088) which were ready for commissioning due to shortage of trained workmen and cannibalisation of one ring frame for use of its parts in one damaged ring frame. It was seen in audit that during operation, one of the ring frames got damaged and spares required for repairing the damaged frame were taken by cannibalising one ring frame kept ready for commissioning. The Company did neither procure capital spares required for 3 to 4 years maintenance along with the ring frames, nor studied the economics of cannibalising one ring frame vis-a-vis procuring few parts required for repairing the damaged ring frame. The Company did not even approach the supplier for the parts so required before cannibalisation. The Company stated (April 1988) that an order was, however, placed on the supplier for the parts. The parts were awaited (February 1989).

As per project report, out of the installed capacity of 25,088 spindles 21,325 spindles were required to be commissioned to achieve 85 *per cent* capacity utilisation during the second year of operation viz. 1987-88. However, the average commissioned capacity of the unit was only 20,273 during 1987-88. The investment on spindles installed but not so commissioned during 1987-88 amounting to Rs. 7.04 lakhs (1,052 spindles of Rs. 669.75 each) was thus unproductive.

According to the project report, the expected loss of spindle shifts for maintenance and other stoppages was 35 *per cent* in the first year and 15 *per cent* in the second year of commissioning. Details of number of spindles installed, spindle shifts available and worked, spindle shifts lost and percentage of their utilisation during the two years up to 1987-88 are given below:

		1986-87	1987-88
(*i*)	Spindles installed (number)	25,088	25,088
(*ii*)	Spindle shifts available (in lakhs)	115 37	201 91
(*iii*)	Spindle shifts worked (in lakhs)	87 79	142 19
(*iv*)	Spindle shifts lost (in lakhs)	27 58	59 72
(*v*)	Spindle utilisation (percentage of *iii* to *ii*)	76 1	70·4

The overall spindle utilisation during the two years up to 1987-88 was 76·1 and 70·4 as against the prescribed norms of utilisation of 65 and 85 *per cent* respectively. The extent of under-utilisation during 1987-88 was very much on the high side, considering the overall allowance of 15 *per cent* implied in the utilisation norm of 85 *per cent.* The stoppages of spindle shifts exceeded the norm by 14·6 *per cent* during 1987-88 and the shortfall in yarn production during the year due to stoppages in excess of the norms fixed (15 *per cent*) was 1·45 lakh kilograms worth Rs. 55·84 lakhs on the basis of the average sales price of yarn realised during the year while fixed costs left unabsorbed due to this under-utilisation amounted to Rs. 45 73 lakhs during the year.

An analysis of the causes of shortfall in spindle shifts as per the records of the Company revealed that the non-achievement of targets was mainly due to power cuts/power failure, absenteeism, repairs and maintenance and lack of supervision etc. During the year 1987-88, the spindle shifts lost amounted to 29·6 *per cent* of the spindle shifts available including 19·4 *per cent* lost due to absenteeism, 3·8 *per cent* lost due to power cut/power failure, 4·9 *per cent* lost due to lack of supervision and 1·5 *per cent* lost due to repairs and cleaning. These losses were very high compared to the ear'ier year when the stoppages of spindle shifts were within the prescribed norm.

2A.5.1.2 One of the major constraints responsible for under-utilisation of spindles was stated by the Management (December 1986) to be high rate of absenteeism. The spindle shifts remaining idle due to absenteeism varied from 8 to 19·4 *per cent* of the available spindle shifts during the period under review.

In pursuance of a decision of the Board (December 1986), a Committee of Directors headed by the Chairman was constituted to examine in detail some aspects like grievances of workmen, discipline, productivity, managerial performance and all other incidental matters and to make a comprehensive report to the Board with their specific recommendations. While analysing the level of production of yarn during the last four months ending March 1987, the Committee observed that the high rate of absenteeism and lack of discipline in workmen were mainly due to non-implementation of Textile Wage Board Award. The Committee, however, recommended, inter alia, implementation of the Wage Board Award to those workmen who had successfully completed one year of training and achieved the work load/norms of work recommended by South India Textile Research Association (SITRA). Despite implementation of the Wage Board Award with effect from 1st June 1987, under-utilisation of spindles due to absenteeism continued to be high. In February 1988 the under-utilisation due to absenteeism was about 24 *per cent.* The Managing Director who was authorised by the Board to analyse objectively the factors leading to the alarming rate of absenteeism and identify the habitual absentees in particular, attributed the problems to inter-union rivalry. The Company had not taken any concrete steps to reduce the incidence of absenteeism which was the main reason for under-utilisation of spindles.

On the basis of the average sales price of yarn, the total value of the shortfall of 2·68 lakh kilograms in production of yarn due to absenteeism during April 1986 to March 1988 was Rs. 99·22 lakhs.

2A.5.2 *Shortfall against budgeted production*

Up to the year 1986-87, the Company did not have a system of preparing its production budget. During 1987-88 the Company fixed the production target on the basis of 80 *per cent* spindle efficiency, 7½ hours per shift and spindle speed (RPM) at 11,800 as against 88 *per cent* spindle efficiency, 8 hours per shift and spindle speed at 12,500 RPM envisaged in the project report. The table below indicates the target and achievement of production of yarn for the year 1987-88:

	1987-88
Budgeted production	10·20 lakh kgs.
Actual production	7·01 lakh kgs.
Shortfall in production	3·19 lakh kgs.
Percentage of shortfall in production to budgeted production	31·3

Consequent on the non-achievement of the target, the shortfall in production of yarn during the year 1987-88 was 3·19 lakh kgs, valued Rs. 122·66 lakhs on the basis of the average sales realisation.

The shortfall in production, as could be seen from the records, was mainly due to under-utilisation of available spindle shifts and restricting the speed of the ring frames due to non-availability of trained workmen.

It was, however, noticed in audit that out of 605 workers as on 31st March 1988, 557 workers had already been trained. Still the speed of the ring frames was restricted to 10,500 RPM on an average and the percentage of stoppage of spindle shifts to total shifts available worked out to 29·6 during the year. Loss of production due to lower spindle speed was stated (August 1988) by the Management to be 10·95 grams per spindle shifts. The loss of production on this basis worked out to 1·56 lakh kgs of yarn valued Rs. 60·00 lakhs during the year 1987-88.

2A.5.3 *Production loss due to lower outturn per spindle shift*

The average production of yarn per spindle shift (40s count) was very poor which ranged between 49·30 and 57·07 grams as against 72·99 grams envisaged in the project report during the two years up to 1987-88, as detailed below:

		1986-87	1987-88
(*i*)	Total production of yarn (in lakh kilograms) ..	5·01	7·01
(*ii*)	Number of spindle shifts worked (in lakhs)	87·79	142·19
(*iii*)	Production of yarn in grams per spindle shift ..	57·07	49·30
(*iv*)	Shortfall in production of yarn in grams per spindle shift compared to the prescribed norm	15·92	23·69
(*v*)	Percentage of shortfall in production	21·8	32·5
(*vi*)	Loss of production (yarn in lakh kilograms) ..	1·40	3·37

It was seen in Audit that due to lower spindle point production there was under-absorption of fixed overheads to the tune of Rs. 136·14 lakhs out of the total fixed overheads of Rs. 453·84 lakhs during the years under review.

Low spindle speed due to untrained workmen, low productivity of labour owing to high rate of absenteeism, lack of discipline amongst the workmen and power cuts/power failure were stated

(June-July 1988) to be the main reasons for the low level of production during the years under review.

To run the mill during the hours of load-shedding and voltage fluctuation, the Company had installed (March 1985) two diesel generator sets of 365 KVA capacity each at a total cost of Rs. 23 lakhs. But it did not yield the desired result inasmuch as the spindle shifts lost due to power cut/power failure ranged between 3·8 and 6·4 *per cent* of the spindle shifts available during the period under review. To cope with absenteeism in the various departments, the Company had not taken any concrete steps so far (December 1988):

2A.6 **Sale of yarn**

2A.6.1 *Sales policy*

The area (North Bengal) in and around the mill had number of handlooms which were procuring yarn from far off places. It was with the idea of taking advantage of the ready market for the yarn in this area that the State Government had established the mill. It was, however, noticed in audit that sale of yarn was mainly confined to the two institutional buyers of the State i.e., West Bengal State Handloom Weavers Co-operative Society Limited (Tantuja) and West Bengal Handloom and Powerloom Development Corporation Limited (Tantusree). The table below indicates the details of sale of yarn made by the Company in the State during April 1986 to March 1988:

Customers	1986-87	1987-88
	(In lakh kilograms)	
(*i*) Tantuja	3·08	2·00
(*ii*) Tantusree	1·91	0·73
(*iii*) National Handloom Development Corporation Limited ..	—	2·90
(*iv*) Others	—	1·21
	4·99	6·84

The Company also aimed (September 1985) at selling 60 *per cent* of the yarn to the institutional buyers and 40 *per cent* to the private dealers. But no such dealers were appointed by the Company for the purpose. The yarn was being sold by the Company through negotiations at market rates prevailing in

Calcutta. In the absence of detailed records it could not be ascertained in audit to what extent the weavers and handloom industries of North Bengal were benefited due to sale of yarn to Tantuja and Tantusree.

2A.6.2 *Sales realisation*

The sale price of yarn had no relation to costs. The table below indicates the average cost of sale of yarn, sales realisation per kilogram and loss of revenue due to sales below cost during the two years up to 1987-88.

Year		Average cost of sales per kilogram	Average sales realisation per kilogram	Yarn sold (in lakh kilograms)	Loss (Rupees in lakhs)
		(Rupees)			
1986-87	..	61 40	30·49	4·99	154·24
1987-88	..	59·30	38·45	6 84	142 61

It would be seen from the above that the Company was not able to absorb its total cost of sales and the average cost of sales per kilogram of yarn varied from Rs. 59·30 to Rs. 61·40 during the two years up to 1987-88 as against the projected cost of sale of Rs. 24·97 and Rs. 23·61 per kilogram respectively.

Though the Management maintained (August 1988) that yarn was sold in accordance with the rate ruling at Calcutta Market, it had no effective machinery to gather market intelligence concerning yarn price movements throughout India. A review by Audit of the invoices revealed that the Company sold about 0·91 lakh kilograms of yarn to Tantuja during April 1986 to July 1987 at rates lower than the rates at which the yarn was sold to Tantusree during the same period, resulting in a loss of Rs. 1·01 lakhs to the Company. The consideration on which Tantuja was allotted yarn at lower rates was stated (August 1988) to be that there was quicker realisation from Tantuja than others. But the reason adduced by the Management is not tenable as the yarn was required to be sold at uniform rates and both the parties were equally regular in payments.

2A.7 **Inventory control**

The table below indicates the position of inventory as at the end of each of the two years up to 1987-88:

Particulars	As on 31st March	
	1987	1988
	(Rupees in lakhs)	
(i) Raw materials	2·29	19·48
(ii) Stores and spare parts	3·27	7·56
(iii) Work-in-progress	7·19	18·01
(iv) Finished goods	2·97	12·39
Total	15·72	57·44

It would be seen from the above that the total value of inventory increased from Rs. 15·72 lakhs at the end of 1986-87 to Rs. 57·44 lakhs at the end of 1987-88.

The stock of raw materials, stores and spare parts was equivalent to 0·9 month's and 1·9 months' consumption. While work-in-process was equal to 9 days' and 18 days' value of production at cost, the finished goods were equal to 0·2 month's and 0·6 month's sales at the end of two years up to 1987-88 respectively.

The Company had not conducted any review of the position of inventory with a view to identifying idle, non-moving, slow-moving and obsolete stores.

2A.8 **Financial position**

The table below summarises the financial position of the Company under broad headings for the three years up to 1987-88:

Liabilities	1985-86 (4 months)	1986-87	1987-88
	(Rupees in lakhs)		
(a) Paid-up capital	570·19	625·42	640·24
(b) Reserves and surplus	—	4·97	—
(c) Borrowings (including cash credit)	380·00	374·00	442·49
(d) Trade dues and other current liabilities (including provisions)	23·36	20·10	37·79
Total	973·55	1,024·49	1,120·52
Assets			
(e) Gross block	806·27	859·44	869·66
(f) *Less:* Depreciation	110·64	212·46	295·36
(g) Net fixed assets	695·63	646·98	574·30

	1985-86	1986-87	1987-88
(h) Current assets, loans and advances ..	150·80	96 21	122·39
(i) Accumulated loss and misc. expenses not written of	127 12	281 30	423 83
Total	973 55	1,024·49	1,120 52

	1985-86 (4 months)	1986-87	1987-88
	(Rupees in lakhs)		
Capital employed	823·07	723 09	658 90
Net worth	443 07	349 09	216·41

The net worth of the Company has steadily decreased from Rs. 443·07 lakhs in 1985-86 to Rs. 216·41 lakhs in 1987-88, mainly because of continuous losses.

2A.9 **Productivity and profitability analysis**

2A.9.1 The project report envisaged employment of 1,028 personnel for full plant capacity utilisation based on 3 shifts of 8 hours each in a period of 350 days in a year to manufacture textile yarn of 20 to 40 counts. As the Company concentrated its activities only on production of cotton carded yarn of 40 counts, the actual manpower requirements were assessed (March 1988) by the Management at 784. The particulars of men in position, value of production, value added, expenditure on salaries and wages and other particulars for the three years up to 1987-88 are furnished below:

	1985-86 (4 months)	1986-87	1987-88
(i) Men in position	477	611	737
(ii) Value of production (Rupees in lakhs) ..	39·96	152·07	282·90
(iii) Value added (Rupees in lakhs) ..	13 50	50·46	81·39
(iv) Expenditure on salaries and wages (Rupees in lakhs)	10 40	41·55	83·72
(v) Production of yarn (in lakh kilograms) ..	1·85	5·01	7·01
(vi) Productivity in terms of kilograms per employee per annum	388	820	952
(vii) Incidence of salaries and wages per kilogram of production (Rupees) ..	5·61	8·29	11·94

Notes: (i) Capital employed represents net fixed assets *plus* working capital.
(ii) Net worth represents paid-up capital *plus* reserves less intangible assets.

Although there was an increase in the per capita productivity in terms of production of yarn from 820 kgs. in 1986-87 to 952 kgs. in 1987-88, the productivity per spindle shift actually came down from 57·07 grams in 1986-87 to 49·30 grams in 1987-88 when the third shift was introduced pointing to gross underutilisation of labour earlier. The budgeted production level of the Company at 10·20 lakh kgs. assumed per capita productivity of 1,383·93 kgs. during 1987-88. However, the actual per capita production of 952 kgs. fell far short even of that assumption. Even after absorption of a part of the idle labour by introduction of the third shift in 1987-88 idle capacity persisted as reflected by the shortfall in actual productivity with reference to budgeted level. While the value added in monetary terms had increased from year to year, the increase in the value added during 1987-88 was offset by the increase in the salaries and wages. Employees' cost per kilogram of yarn produced *viz.* Rs. 5·61, Rs. 8·29 and Rs. 11·94 in 1985-86, 1986-87 and 1987-88 respectively was high compared to the employees' cost of Rs. 2·27 per kilogram of yarn envisaged in the project report. The idle labour had not been analysed and watched for taking remedial action.

2A.9.2 According to the project report, the Company would incur a loss of Rs. 7·10 lakhs during the first year of operation at 65 *per cent* capacity, a profit of Rs. 20·02 lakhs during the second year of operation at 85 *per cent* capacity and thereafter it was expected to earn profit at 93 *per cent* capacity. However, the Company has been incurring losses ever since the start of commercial production and the cumulative loss as on 31st March 1988 was Rs. 423·17 lakhs which represented about 66·09 *per cent* of the paid-up capital (Rs. 640·24 lakhs). The accumulated loss would be Rs. 510·80 lakhs taking into account the non-provision for extra shift allowance (Rs. 87·63 lakhs).

The table below brings out the profitability trend of the Company during the three years up to 1987-88:

	1985-86 (4 months)	1986-87	1987-88
	(Rupees in lakhs)		
Value of production	39·96	152·07	282·90
Less: consumption of raw materials, stores, power and fuel	26·46	101·61	201·51
Contributed value	13·50	50·46	81·39
Less: employees' cost	10·40	41·55	83·72
	3·10	8·91	(—)2·33

	1985-86 (4 months)	1986-87	1987-88
		(Rupees in lakhs)	
Less: other expenses excluding depreciation and interest	3·20	10·26	11·19
Results of working before charging depreciation and interest	(−) 0·12	(−) 1·35	(−) 13·52
Less: depreciation and interest	126·18 (−)126·30	152·60 (−)153·95	137·54 (−)151·06
Less: other income	0·01	0·23	0·50
Loss during the year	(−)126·29	(−)153·72	(−)150·56
Prior period adjustment account ..	—	(−)0·54	(−)7·94
Net loss	(−)126·29	(−)154·26	(−)142·62

During 1985-86 and 1986-87 the contribution was adequate to meet the employees' cost and part of the other expenses. Although there was higher production during 1987-88 over 1986-87, the contribution was inadequate to meet even the employees' cost. This was mainly due to increase in the staff strength and implementation of Textile Wage Board Award from June 1987.

The poor results of working were attributed (July 1988) by the Management to:

(*i*) steep rise in price of cotton without proportionate increase in sale price of yarn. The reason put forth by the Management is not tenable as analysis in audit revealed that while the average procurement price of raw cotton per kilogram was Rs. 17·25 as against the projected price of Rs. 12·23, the sales realisation per kilogram of yarn worked out to Rs. 33·04 as against the projected sale price of Rs. 24·54 during the period under review. On this basis the cost of consumption of cotton per kilogram of yarn increased on an average by Rs. 5·70, while the selling price increased by Rs. 8·50 with reference to project report assumption;

(*ii*) sizeable number of operators under training.

It was, however, noticed in Audit that out of 605 workers as on 31st March 1988, 557 workers have already completed their training;

(*iii*) heavy interest burden;

(*iv*) sharp increase in salaries and wages and

(*v*) high rate of absenteeism.

Apart from the reasons ascribed by the Management, the analysis made in the preceeding paragraphs will indicate that the main factors contributing to the losses were:

—under-utilisation of capacity accounting for Rs. 141·59 lakhs;

—low average spindle point production accounting for Rs. 136·14 lakhs; and

—low labour productivity.

Since all expenditure, other than the expenditure on raw materials, stores, power and fuel is, by and large, fixed, the profitability of the unit would depend largely upon the maximum utilisation of capacity.

The above matters were reported to the Company and the Government in October 1988; their replies had not been received (February 1989).

2B. WEBEL BUSINESS MACHINES LIMITED

HIGHLIGHTS

Webel Business Machines Limited, incorporated in December 1976 as a Joint Sector Company became a wholly owned subsidiary of West Bengal Electronics Industry Development Corporation Limited (WBEIDC) in August 1981. It was dormant till June 1980 since the Co-promoters—a private entrepreneur—left the Company. Only in June 1980, the Board of the Company was re-constituted and the Company went into commercial production.

A private company, with whom a "Memorandum of understanding" was entered into (February 1986) by the holding company and who subscribed only 10 *per cent* of the equity against the prescribed share of 25 *per cent*, nominated two directors on the Board of the Company up to September 1988 and then left the Company. Right from its inception, the Company did not have a Managing Director and its day-to-day affairs are being managed by its Chief Executive.

Initially, the Company started commercial production of calculators and inverters of different ratings from June-July 1980. Due to continuing losses on account of

the manufacture of the products, the Company discontinued their production and adopted diversification programme for manufacture of micro-processor based equipment (MPS) and uninterrupted power supply equipment (UPS) from April 1982 and February 1984 respectively. While enough orders were in hand, the Company could not manufacture MPS, UPS according to the available capacity. The capacity utilisation of MPS unit varied between 6·2 and 99 5 *per cent*, **while that of the UPS unit ranged between 18·7 and 80.0** *per cent* **of the capacity. The diversification programme did not have any effect on the viability of the units. After-sale services activity of the Company to the customers was also insignificant.**

The Company could meet only an insignificant percentage of country's demand. Availability of the products at cheaper price in the market adversely affected the sale performance.

The Company had been incurring losses since its inception except during 1982-83; the accumulated loss of Rs. 51·40 lakhs up to 1987-88 representing about 228 *per cent* **of the paid-up capital. Inability to take appropriate action in time in order to keep pace with the technological developments, low utilisation of capacity, low productivity, unhappy industrial relations etc. contributed to the decline in the fortune of the Company.**

2B.1 **Introduction**

West Bengal Electronics Industry Development Corporation Limited (WBEIDC), a Government of West Bengal undertaking, obtained a letter of intent in October 1974 from Government of India for manufacture of electronic equipment like calculators, cash registers, type-writers etc., and ıormed a joint sector company named as Webel Business Machines Limited on 20th December 1976 for implementation of the letter of intent. The private entrepreneurs associated with the joint sector unit left the organisation in March 1978, reasons for which were not on record. The Company remained inactive till 13th June 1980 when the Board was reconstituted and it started commercial production by the end of June 1980. Shares held by the private entrepreneurs having been transferred in ıavour of the WBEIDC in August 1981 the Company became a wholly owned subsidiary of WBEIDC.

In February 1986 a "Memorandum of Understanding" was entered into by the holding company with a company in private sector—Tega India Limited, Calcutta—which was to contribute 25 *per cent* of the capital as its share. It had, however, contributed only 10 *per cent* of the equity and nominated two directors to the Board of the Company. As the Company in private sector did not take any initiative to give effect to the "Memorandum of Understanding" even within the period extended up to February 1987, conversion of the Company again into a joint sector unit did not materialise. The private company, however, left the organisation in September 1988. There were no recorded reasons for their leaving the organisation.

The present activities of the Company are mainly confined to manufacture of calculators, uninterrupted power supply equipment (UPS) and micro-processor based equipment (MPS).

2B.2 **Organisational set up**

The management of the Company is vested in a Board of Directors headed by the Chairman appointed by the holding company with the approval of State Government. The Board, as constituted in March 1986, consisted of five directors, three nominated by the holding Company and two represented the private company. The nominees of the private company left the Board in September 1988. The Company had no Managing Director at any time and the day to day affairs of the Company are being managed by the Chief Executive of the Company.

The holding company which was to nominate the Managing Director (after its becoming a subsidiary) had not taken initiative to fill in the post, for reasons not on record.

2B.3 **Scope of Audit**

A review of the working of the Company was conducted by Audit between May and August 1988 and salient features emerging thereform are discussed in the succeeding paragraphs.

2B.4 **Funding**

2B.4.1 *Capital structure*

The authorised capital of the Company as on 30th June 1988 was Rs. 100 lakhs, against which the paid-up capital was Rs. 22·50 lakhs (provisional) subscribed by the holding company and the private company to the extent of Rs. 20·25 lakhs and

Rs. 2·25 lakhs respectively. The shares held by the private company were, however, transferred in favour of the holding company in September 1988.

2B.4.2 *Borrowings*

In addition, the Company borrowed funds from a nationalised bank—State Bank of India—and the holding company for meeting its working capital requirements. Out of the outstanding loans of Rs. 35·58 lakhs, loans amounting to Rs. 32·48 lakhs and interest of Rs. 12·18 lakhs thereon were overdue for payment to the holding company as on 30th June 1988.

Besides, the Company had cash credit arrangement with a nationalised bank—State Bank of India—up to a limit of Rs. 46 lakhs against hypothecation of stock and book debts for meeting its working capital requirements. The amount payable to the bank including interest as on 30th June 1988 was Rs. 48·50 lakhs.

2B.5 **Production performance**

2B.5.1 Initially the Company started commercial production of calculators and inverters of different ratings from June/July 1980. In view of the fact that electronic industry was undergoing vast changes in product/models, design and technology, the Company took up diversification programme and started commercial production of micro-processor based equipment (MPS) and uniterrupted power supply equipment (UPS) from April 1982 and February 1984 respectively. The Company had been manufacturing MPS and UPS and marketing the same on the basis of an industrial licence held by the holding company. The Company had, however, obtained an industrial licence in its name only in June 1988.

2B.5.2 *Production of calculators and inverters*

The table below details the licensed capacity, installed capacity and achievements thereagainst during the five years up to 1986-87 in respect of calculators:

	1982-83	1983-84	1984-85 (Number)	1985-86	1986-87
(*i*) Licensed capacity ..	15,000	15,000	15,000	15,000	15,000
(*ii*) Installed capacity ..	2,500	2,500	2,500	2,500	2,500
(*iii*) Actual production ..	359	1,863	1,015	1,403	100
(*iv*) Percentage of production to:					
(*a*) Licensed capacity ..	2·4	12·4	6·8	9·4	0·6
(*b*) Installed capacity ..	14·4	74·5	40·6	56·1	4·0

Besides, the Company produced 529 pieces of inverters up to June 1985. The Company discontinued the production of inverters from 1985-86 and also of calculators from 1987-88 reportedly due to taking up of a programme for gearing up the production of UPS and MPS. Thereafter, the calculators and inverters were either got manufactured through other agencies as per Company's specifications or directly purchased from open market on the basis of limited quotations. These goods are sold with a loading of 25 *per cent* on the cost of procurement. The Company had not ascertained the results of these trading activities to find out whether they were making any profit in the deal. In the absence of data regarding installed capacity/targeted production, the capacity utilisation of the unit in respect of inverter could not be assessed in audit.

Production of calculators ranged between 0·6 and 12·4 *per cent* of the licensed capacity and between 4·0 and 74·5 *per cent* of the installed capacity during the five years up to 1986-87. The shortfall in production of calculators with reference to installed capacity in all the five years up to 1986-87 was attributed (August 1988) by the Management to lack of demand for the Company's products due to availability of smuggled goods and sharp fall in price of product in the market. In the absence of break-up data of orders on hand for calculators and inverters at the end ot each of these years, the Company's reasoning could not be verified in audit.

A firm of consultants—Behram Wadia & Associates, Pune—engaged by the Company in August 1980 for conducting market survey at a fee of Rs. 0·13 lakh, inter alia, observed (March 1981) in their report that the unit with an annual output beyond 18,000 pieces of calculators would be a viable one. They, however, recommended to set up a unit capable of producing 1,500 pieces of calculators per month in the first phase at a cost of Rs. 6·10 lakhs with a provision to double the output in future without any substantial increase in investment. The annual turnover was estimated to be Rs. 75 lakhs in the first phase at the production level of 18,000 pieces per annum against the total demand of the country of 8·40 lakh pieces valuing Rs. 23·21 crores. The consultants further observed that the unit would have to produce 400 pieces of calculators per month (*i.e.*, 26·7 *per cent* of the capacity) to reach the break even level. They held that in spite of there being smuggled goods in the Indian market, particularly the pocket calculators, there still remained a very substantial market for the indigenous products. The Company has not so far (January 1989) drawn up any plan to implement the recommendations.

The Management stated (August 1988) that due to adoption of diversification programme at that time, no project report was prepared based on calculators only.

2B.5.3 *Production of micro-processor based equipment (MPS)*

The underlying idea behind the diversification programme for manufacture of MPS in February 1981 was to off-set the continuing loss on account of the manufacture of calculators and inverters. Production performance of this unit from the beginning, however, belied the expectations of the Management. The capacity utilisation of the unit was erratic from year to year.

As against the available capacity of Rs. 60 lakhs *per annum*, the unit executed orders valuing Rs. 3·74 lakhs, Rs. 13·84 lakhs, Rs. 18·12 lakhs, Rs. 40·48 lakhs and Rs. 59·70 lakhs which represented 6·2, 23·1, 30·2, 67·5 and 99·5 *per cent* of the available capacity respectively during the five years up to 1987-88. It was, however, noticed in audit that production during the years 1986-87 and 1987-88 included one boughtout component valuing Rs. 33·27 lakhs and MPS valuing Rs. 50·35 lakhs (82·2 and 84·3 *per cent* of the production) respectively executed through sub-contractors—The National Radio and Electronics Company Limited (NELCO)—which the Company could not claim as its own efforts. Thus the actual capacity utilisation during 1986-87 and 1987-88 was only 17·8 and 15·7 *per cent* respectively. The unit could not even execute the pending orders on hand at the end of each of the five years. Orders valuing Rs. 27·84 lakhs remained unexecuted at the end of 1987-88.

The Management stated (August 1988) that the Research and Development Wing of the Company had to engage itself in development of the equipment as per requirement of the consumers throughout and as such the unit could not utilise its capacity. It was noticed in audit that although the Company took up a programme to diversify its product line as back as in February 1981, it failed to develop the product mix to the extent required till date (October 1988). As a sequel to the failure to develop the product mix, the Company could not expand the product line in respect of MPS and the infrastructure facilities (value not ascertainable) created for expanding the product line remained idle. Execution of a technical collaboration agreement with a foreign firm of repute for obtaining technical know-how is *still under* consideration of the Company (January 1989).

The consultants—Behram Wadia & Associates, Pune—who were engaged in July 1980 at a fee of Rs. 0·24 lakhs for conducting market survey of the product before undertaking investment in the project, inter-alia, recommended in July 1981 that the production level of the unit should be raised to Rs. 2 crores *per annum* initially and by concerted efforts to boost up production up to Rs. 5 to 7 crores by fifth year of operation. The consultants also recommended manufacture of (*i*) general micro-computer, (*ii*) original equipment manufacture (OEM)—micro-computer and (*iii*) dedicated micro-processor based apparatus valuing Rs. 6·50 crores *per annum* to meet 3 to 4 *per cent* of the indigenous demand. The productivity of the unit was expected to improve considerably on implementation of the recommendations.

In February 1981, the Company further entered into an agreement with a private individual of Calcutta for development of the product mix. As per terms of the agreement the products to be developed were:

(*i*) single board micro-computer and micro-computer development system, and

(*ii*) small business computer.

The agreement was for a period of three years. The products under (*i*) were to be developed by the end of the first year and that under, (*ii*) by the end of the second year. The Company was to pay to the consultant a fee of Rs. 2,500 per month and out of pocket expenses and a royalty at the rate of 3 *per cent* on the actual sale of the product from the date of commercial production. On completion of development of the specified products, the consultant was to supply the data for preparation of a detailed project report.

The consultant had continued his work up to March 1983 during which both the products as referred to in the agreement were to be developed. But it was noticed in audit that only one product (single board micro-computer) had actually been developed by September 1981. The Company had paid to the consultant a sum of Rs. 0·65 lakh as consultancy fee besides out of pocket expenses for his retention up to March 1983.

The Management stated (August 1988) that the development of the second product was not pursued with the consultant because of formation of a new wholly owned subsidiary—Webel Computer

Limited—in November 1981 meant for the product. It was, however, noticed in audit that the formation of the new company was conceived in July 1981.

Thus, retention of the consultant beyond September 1981 had resulted in an avoidable expenditure of Rs. 0·45 lakh apart from the out of pocket expenses.

No project report as contemplated earlier had been prepared. The Management stated (August 1988) that the project report was not formulated on the basis of development of the product concerned in view of the fact that the development of very large scale integrated chips (VLSI) in the electronic industry in the meantime had outdated their design.

If the Company was not able even to prepare the project reports, let also produce the product so developed by the consultant before its design became outdated, the appointment of consultant lacked justification and the fees paid to the consultant became infructuous.

2B.5.4 *Production of uninterrupted power supply equipment (UPS)*

The manufacture of UPS with ratings between 0·5 KVA and 10 KVA is one of the principal activities, but the performance of the Company left much to be desired as may be seen from the following table:

Year		Installed capacity (In numbers)	Actual production (In numbers)	Percentage of actual production to installed capacity (Per cent)	Value of orders on hand at the end of the year (Rupees in lakhs)
1984-85	..	80	15	18·7	7·00
1985-86	..	80	30	37·5	12·00
1986-87	..	80	35	43·7	6·00
1987-88	..	80	64	80·0	11·00

The low capacity utilisation was attributed (August 1988) by the Management mainly to:

(*i*) non-availability of a few specialised components like power transistors, giant transistors etc., and

(*ii*) go-slow policy of the workmen to press their various demands submitted from time to time.

An analysis of records, however, revealed that shortage of components like power transistors, giant transistors etc., which restricted the production of UPS during 1986-87 and 1987-88 was mainly due to unplanned procurement of raw materials. A Monitoring Committee set up for monitoring the production of the unit expressed (April-May 1988) their dissatisfaction over non-cooperation of the purchase and accounts wings with the Committee in regard to procurement of the components. The Committee observed that out of 54 UPS for which work orders were issued during 1987-88, only 33 sets could be delivered to the consumers due to dearth of components. According to the Committee, the striking feature was the lead time which varied from 4 days to 250 days. Test check of the records for the years 1986-87 and 1987-88 in audit revealed that for 4 UPS of 1 KVA capacity 46 to 203 days, for 11 UPS of 2 KVA capacity 44 to 250 days, for 8 UPS of 3 KVA capacity 77 to 261 days and for 5 UPS of 5 KVA capacity 96 to 201 days were taken to deliver to the customers, as against the prescribed delivery period of 21 to 28 days for UPS of 3 KVA capacity and 70 to 84 days for 5 KVA and above capacities. The Committee urged procurement of standard raw materials directly from the manufacturers through bank on a regular basis and to open letters of credit in time for procurement of imported materials wherever necessary. There was no evidence of any attempt on the part of the Company to ensure timely procurement of raw materials. Delay in execution of the work orders owing to shortage of specialised components is, however, still continuing (February 1989).

One of the constraints responsible for low production in all units during 1986-87 and 1987-88 was stated (August 1988) to be "go-slow" policy adopted by the workmen for implementation of their charter of demands like enhancement of D.A., H.R.A., P.F. contribution, conveyance and tiffin allowances etc., and decrease in working days *per annum* from 241 days to 191 days. The Board of Directors of the Company observed (April 1986) that extensive postering, slogan shouting, refusal to obey superiors' orders, misbehaviour with suppliers/sub-contractors affected the production in all the units.

2B.6 **Sales performance**

2B.6.1 The Company discontinued its own production and continued trading in inverters from 1985-86 and calculators from 1987-88 onwards. Sales realisations were Rs. 13·94 lakhs, Rs. 9·07 lakhs and Rs. 12·12 lakhs as against the value of items purchased for 9·36 lakhs, Rs. 8·73 lakhs and Rs. 8·93 lakhs during the three years up to 1987-88. There was no system of assessment of the results of trading in individual products. Calculators, MPS and UPS equipment constitute the main items of sales. The other significant activity is after sales service. All these activities are in the competitive range and the prices are regulated by the principle of what the market can bear.

2B.6.2 The Company's productsare sold in three ways *viz.*, (*i*) direct sale, (*ii*) sale through holding company and (*iii*) sale through dealers. In December 1980 the Board of Directors decided that marketing of products to Government parties would remain with the holding company.

The table below details the direct sales, sales effected through holding company and through the dealers during the five years up to 1987-88:

	1983-84		1984-85		1985-86		1986-87		1987-88	
	(Rupees in lakhs)	Percent-age to total	(Rupees in lakhs)	Percent-age to total	(Rupees in lakhs)	Percent-age to total	(Rupees in lakhs)	Percent-age to total	(Rupees in lakhs)	Percent-age to total
(*i*) Direct sales ..	23·95	77·3	32·10	80·5	51·72	89·3	74·89	93·0	126·59	96·0
(*ii*) Through holding company	6·05	19·5	3·18	8·0	1·02	1·8	0·59	0·7	2·69	2·0
(*iii*) Through dealers ..	1·00	3·2	4·60	11·5	5·13	8·9	5·04	6·3	2·67	2·0
Total: ..	31·00	100 0	39·88	100·0	57·87	100·0	80·52	100.0	131·95	100·0

It would be seen from the above that sales through the holding company and dealers were very insignificant. The distribution arrangements through dealers provided for the payment of commission at different rates for different products. No minimum turnover was specified in any of the agreements entered into with the dealers. In the absence of any target, no penalty could be imposed by the Company for low off-takes.

2B.6.3 The turnover of the Company fell short of the budgeted sales in all the years from 1983-84 to 1987-88 as detailed in the table below:

	1983-84	1984-85	1985-86	1986-87	1987-88
			(Rupees in lakhs)		
Budgeted sales	65 00	70·00	150·38	248·27	183·60
Sales value of products ..	29·78	35·54	53·03	74·17	128·19
Value of services rendered ..	1·22	4·34	4·84	6·35	3·76
Total sales	31·00	39·88	57 87	80·52	131·95
Extent of shortfall	34 00	30·12	92·51	167·75	51·65
Percentage ot shortfall .	52·3	43 0	61 5	67·6	28 1

The Management stated (August 1988) that shortfall in actual sales compared to the budgeted sales was due to the fact that the budgeted sales included delivery against orders received from Defence Departments, Calcutta Port Trust and Durgapur Projects Limited, the delivery of which could not be effected due to (*a*) non-receipt of bulk production clearance certificate from the customers against 2 kw battery chargers, (*b*) non-availability of space for installation at consumers' end and (*c*) non-removal of certain constraints from a micro-processor system (imported equipment supplied to the Company by the party) on which the Company had to undertake further development work for its integration.

The reports submitted (March-July 1981) by the consultants envisaged annual turnover of calculators and MPS to the tune of Rs. 0·75 crore and Rs. 6·50 crores against the country's demand of Rs. 23·21 crores and Rs. 186 crores respectively. The Company could not meet even the small or insignificant share of the market as originally planned even though there was enough scope.

2B.7 **After-sales service**

Although the Company has an arrangement of rendering 'after-sales service' to the customers of its products, it has not fixed the capacity either in physical or in financial terms. Values of services rendered by the Company itself during the five years up to 1987-88 were Rs. 0·77 lakh, Rs. 1·79 lakh, Rs. 0·50 lakh, Rs. 3·91 lakhs and Rs. 0·56 lakh respectively. In the absence of any capacity being fixed, the extent of capacity utilisation of the unit could not be assessed in audit. An analysis of the records for the two years ending 1987-88, however, revealed that while the value of services rendered amounted to Rs. 3·91 lakhs and Rs. 0·56 lakh, the expenditure incurred by the Company on this account worked out to Rs. 1·95 lakhs and Rs. 1·82 lakhs respectively.

2B.8 **Credit control**

There was no system of obtaining any advance from the customers up to 1984-85. Subsequently in 1985-86, it introduced the system of taking advance to the extent of 40 *per cent* of the value of the order without fixing any monetary limit for credit sales.

The following table details the volume of sales made and the book debts outstanding at the end of the five years up to 1987-88:

Year	Book debts as at the end of the year	Sales including services rendered during the year	Percentage of total debts to sales
	(Rupees in lakhs)		
1983-84	10·05	31·00	32·4
1984-85	16·24	39·88	40·7
1985-86	23·04	57·87	39·8
1986-87	33·77	80·52	41·9
1987-88 (Provisional) ..	47·18	131·95	35·8

It would be seen from the above table that although the outstanding debts had increased from Rs. 10·05 lakhs as on 30th June 1984 to Rs. 47·18 lakhs as on 30th June 1988, no effective follow-up action was taken to realise the debts. Out of the total debts of Rs. 47·18 lakhs as on 30th June 1988, a sum of Rs. 1·58 lakhs was due from the dealers. No action could be taken by the Company against the dealers in the absence of suitable provision in the agreements. The total outstanding as on 30th June 1988, however, represented about 131 days' sales.

The Management stated (August 1988) that the private individuals were given credit considering their status, association and the Company's other business prospects.

While the Company availed itself of the cash credit at higher rates of interest from bank for meeting its working capital requirements, considerable funds of the Company have been locked up in outstanding debts. Incidence of interest on outstanding debts during the three years up to 1987-88 amounted to Rs. 16·23 lakhs. The amount of loss from year to year would have been less, had the incidence of interest on cash credit been reduced by collecting the dues promptly.

2B.9 **Inventory holding**

The table below details the comparative position of the inventory and its distribution at the close of each of the five years up to 1987-88:

		1983-84	1984-85	1985-86	1986-87	1987-88
				(Rupees in lakhs)		
(*i*)	Closing stock of raw materials	6 57	7 26	9 05	10 88	9 63
(*ii*)	Closing stock of finished goods	2 49	3 33	4 19	4 29	5·05
(*iii*)	Consumption of raw materials	29 88	23 99	34 60	61 17	93·34
(*iv*)	Total sales during the year ..	31 00	39 88	57 87	80 52	131 95
	Closing stock of raw materials in terms of number of months' consumption . ..	2 64	3 63	3 14	2 13	1 24
	Closing stock of finished goods as number of days' sales ..	29	30	26	19	14

The following persisting deficiencies were noticed during audit of stores records and accounts:

(*i*) The Company did not compile any Stores Manual.

(*ii*) The minimum, maximum and re-ordering level of stores were not fixed with a view to ensuring proper control over procurement and stock-holding.

(*iii*) The stores items were not analysed agewise or valuewise for effecting inventory control. This resulted in accumulation of non-moving and slow-moving items valuing about Rs. 4·29 lakhs as on 30th June 1988.

The Management stated (August 1988) that due to fast changing technology some of the items which had been lying in stock, were utilised at a very slow pace and those items were mainly utilised as spares against earlier supplies to customers.

2B.10 **Costing system**

The Company has not compiled any cost accounting manual so far (January 1989). It does not have a system of computing the actual cost of its products. Prices of products manufactured are fixed on the principle of what the market can bear. No records showing the wastages, rejections, losses of materials and components in manufacturing calculators, inverters, MPS and UPS are being maintained to have effective control on consumption of materials. The Company had not kept any log books for utilisation of machines, in the absence of which utilisation of machines and their idle time could not be ascertained. The Company had also not worked out the extent of idle labour and financial impact thereof on cost of production.

2B.11 **Evaluation of R & D efforts**

With a view to developing indigenously the technology for manufacturing micro-processor and power electronic equipment, the Company established an in-house R & D laboratory in 1981. The R & D laboratory was recognised by the Department of Science and Technology, Government of India in June 1982. Since then the Company undertook different projects for development of (*i*) data logger (*ii*) process controller (*iii*) AC/DC drives (*iv*) data acquisition system (DAS) (*v*) solid state contractor and (*vi*) temperature controller etc. The projects were to continue for periods ranging between 1 and 3 years.

Despite incurring expenditure of Rs. 18·25 lakhs during the last 4 years up to 1986-87, Company's owned developed technology was found inadequate to cope with its requirements. Engagement of a suitable technical collaborator to help the Company in this regard is still under consideration of the Company (February 1989).

2B.12 **Expansion scheme**

The letter of intent obtained in February 1985 for manufacturing eletcronics industrial monitoring and control equipment stipulated setting up of a new unit at Salt Lake. Accordingly, the Company engaged (August 1985) a firm of consultants—West Bengal Consultancy Organisation Limited (WEBCON), Calcutta—for preparation of a techno-economic feasibility report at a fee of Rs. 0·95 lakh. The consultants submitted their draft report in February 1986. The project estimated to cost Rs. 281·07 lakhs was proposed to be met from share capital (Rs. 102·02 lakhs), term loan (Rs. 168·64 lakhs) and subsidy (Rs. 10·41 lakhs).

Although a period of more than two years from the date of receipt of feasibility report had elapsed, the Management has not taken any firm decision in giving the project a final shape (October 1988).

The Management stated (January 1989) that the report had become obsolete in view of the changing pattern of customers' requirements and technology and the finalisation of the project would depend on the availability of foreign technical know-how. No tangible progress in availing the foreign technical know-how has been made so far (January 1989).

2B.13 *Financial position*

The accounts of the Company for the year 1987-88 were in arrears. The table below summarises the financial position of the Company under broad headings at the end of four years up to 1986-87:

	1983-84	1984-85	1985-86	1986-87
		(Rupees in lakhs)		
Liabilities				
(a) Paid-up capital	16·78	16·78	19·03	22·50
(b) Reserves and surplus ..	—	—	—	—
(c) Borrowings	21·85	37·83	40·62	77·94
(d) Trade dues and other current liabilities	18·53	22·94	45·05	38·85
Total	57·16	77·55	104·70	139·29
Assets				
(e) Gross block	6·38	9·45	19·30	20·09
(f) *Less:* Depreciation	1·60	2·97	4·19	7·13
(g) Net fixed assets	4·78	6·48	15·11	12·96
(h) Current assets, loans and advances	31·55	34·64	44.34	62·83

	1983-84	1984-85	1985-86	1986-87
		(Rupees in lakhs)		
(*i*) Intangible assets—				
(*i*) Research and development expenditure	8·18	13·59	17·51	21·60
(*ii*) Miscellaneous expenditure not written off ..	0·51	0·45	0·38	0·32
(*iii*) Accumulated loss ..	12·14	22·39	27·36	41·58
Total	57·16	77·55	104·40	139·29
Capital employed	17·80	18·18	14·40	36·94
Net worth	(−)4·05	(−)19·65	(−)26·22	(−)41·00

Notes: (1) Capital employed represents net fixed assets plus working capital.
(2) Net worth represents paid-up capital plus reserves and surplus less intangible assets.

The net worth of the Company which was *minus* Rs. 2·89 lakhs in the first year of operation (1980-81) improved in the second and third year of operation and turned into *plus*. It continued to decrease from 1983-84 and turned into a negative figure Rs. 4·05 lakhs to finally dip to *minus* Rs. 41·00 lakhs in 1986-87. The decreasing trend in net worth was mainly due to increasing trend in losses.

2B.14 **Productivity and profitability analysis**

2B.14.1 The Company had not made any scientific study of the manpower requirement so far (January 1989). No norms indicating the quantum of work to be done within a schedule time by a workman have been fixed (January 1989). As a result, there is no mechanism available to gauge the efficiency.

The table below shows the comparative position of the value added per employee and salaries and wages per employee during the last 5 years up to 1987-88:

	1983-84	1984-85	1985-86	1986-87	1987-88
(*i*) Men in position ..	55	58	60	59	60
(*ii*) Value of production (Rupees in lakhs)	36·38	35·92	57·77	85·99	131·76
(*iii*) Value added (Rupees in lakhs)	6·29	11·71	22·98	24·48	37·97
(*iv*) Value added per employee (Rupees)	11,436	20,190	38,300	41,492	63,283
(*v*) Salaries and wages (Rupees in lakhs)	8·12	10 95	13·19	16·05	16·53
(*vi*) Salaries and wages per employee (Rupees) ..	14,764	18,879	21,983	27,203	27,550

	1933-84	1984-85	1985-86	1986-87	1987-88
(*vii*) Increase in the salaries and wages as a percentage over the previous year	—	34 9	20·5	21·7	3·0
(*viii*) Sales value (Rupees in lakhs)	31 00	39·88	57 87	80 52	131·95
(*iv*) Increase in the sales value as a percentage over the previous year	—	28·6	45·1	39·1	63 9

It will appear from the above that the contribution per employee was less than the cost per employee during 1983-84. The value added included trading profits on the products got manufactured/services rendered by other outside agencies amounting to Rs. 0·45 lakh, Rs. 2·55 lakhs, Rs. 4·34 lakhs, Rs. 2·44 lakhs and Rs. 5·71 lakhs during the 5 years up to 1987-88 for which the Company had no efforts of its own. The value added was largely offset by the employees' cost in all the years.

2B.14.2 The Company started commercial production of its first product *viz.*, calculators and inverters in June-July 1980 and gradually undertook the production of MPS and UPS in later years. The Company had been incurring losses since its inception except during 1982-83 when marginal profit aggregating Rs. 3·23 lakhs was earned. The accumulated loss as on 30th June 1988 amounted to Rs. 51·40 lakhs which represented about 228·4 *per cent* of the paid-up capital.

The table below brings out the operational results of the Company during the last three years up to 1987-88:

	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
Value of production	57·77	85 99	131 76
Less: Consumption of raw materials, stores and power and fuel	34 79	61 51	93 79
Contributed value	22 98	24 48	37·97
Less: Employees' cost	13·19	16 05	16 53
	9·79	8 43	21 44
Less: Other expenses excluding depreciation and interest	6 86	8 24	15 91
Results of working before charging depreciation and interest	2·93	0 19	5·53
Less: Depreciation and interest	7·57	13 82	15·37
	(−)4 64	(−)13·63	(−)9·84
Less: Other income	—	0·03	0 02
	(−)4·64	(−)13 60	(−)9·82

During the three years up to 1987-88, the contribution was adequate to meet the employees' cost and other expenses, but was inadequate to meet the depreciation and interest charges. Out of production during the last 8 years up to 1987-88, a part continued to remain as unsold stock and adjustment thereof would alter the results. It will also be seen that the consumption of raw materials and stores etc., accounted for a major portion of the value of production and it varied from 60·2 to 71·5 *per cent* of the value of production during the period under review. There had been a steep increase in fixed overheads from Rs. 27·62 lakhs in 1985-86 to Rs. 47·81 lakhs in 1987-88. The increase in overhead expenditure was mainly due to increase in administrative overheads on account of increase in salaries and wages and selling expenses (Rs. 12·39 lakhs) and increase in interest (Rs. 6·57 lakhs).

The adverse working results as noticed in Audit were mainly due to:

—under-utilisation of capacity of the units;
—low productivity;
—delay in execution of orders resulting in withdrawal of a good number of orders by the customers and
—high rate of consumption of raw materials.

As the actual production had fallen far short of the installed capacity/target during the years under review, a considerable portion of overheads remained unabsorbed. The highest level of production so far achieved was Rs. 131·76 lakhs in 1987-88. Even when adequate orders were on hand and the capacity existed, the Company could not produce to the extent it could on account of reasons like serious industrial relation problems, non-procurement of essential bought out components etc. As per recommendations of the consultants, the Company would have to produce initially calculator and MPS valuing Rs. 6·10 lakhs and Rs. 2 crores *per annum* respectively to make the Company viable. The recommendations of the consultants have not been given effect to (October 1988). The Company has no dearth of orders and there is all the incentive to attain full production.

In view of the fact that the Company had been continuously incurring losses since inception and has not so far been able to achieve even the break-even level of production, and that all the expenditure, other than consumption of raw materials, stores, power and fuel is, by and large, fixed, viability of the unit would depend largely upon the maximum utilisation of existing capacity.

2B.15 Other point of interest

Loss due to delay in supply

In July 1981 the Company received an order for supply of 174 switch board charging cubicles (5·5 kw capacity) for Rs. 29·28 lakhs (at the rate of Rs. 16,500 each) from the Ministry of Defence, Government of India. Supply was to commence within two months of the issue of bulk clearance certificate at the rate of 50 per month failing which the customer was entitled to recover liquidated damages at the rate of 2 *per cent* of the price of the goods that remained undelivered. In terms of bulk clearance certificate issued in February 1983, delivery was to be completed by 10th July 1983, but the company could not supply even a single unit within the stipulated date due to delay in procurement of materials/components from the sources approved by the purchaser. Consequently the purchaser had reduced the ordered quantity to 152, the supply of which had actually been made during the extended delivery period from February 1984 to May 1986. The customer, however, withheld Rs. 0·51 lakh from the bills of the Company as liquidated damages for delayed supply of the equipment.

It was further noticed in Audit that there was cost overrun due to delay in taking up the production against the above order. The estimated cost of Rs. 16,500 per unit included a profit margin of Rs. 326. Actual cost of production per unit being Rs. 20,300 there was a short realisation of Rs. 3,474 per unit which put the Company to a loss of Rs. 5·28 lakhs in the deal.

The Management stated (August 1988) that the actual loss would be assessed after finalisation of the quantum of liquidated damages.

The above matters were reported to Government (December 1988); their reply had not been received (January 1989).

2C. WEST BENGAL PHARMACEUTICAL AND PHYTOCHEMICAL DEVELOPMENT CORPORATION LIMITED

HIGHLIGHTS

The Company, incorporated in March 1974 to carry on business of cultivation of medicinal and essential oil plants, production of essential and aromatic oils and pharmaceuticals and other products and also to promote and encourage the development of pharmaceutical and phytochemical industrial and farming enterprises in the State, took up 23 projects/schemes. Nine of them were abandoned mainly for want of funds, non-availability of raw material, constraints in marketing the finished products etc. While six projects/schemes are under implementation for commercial operation as on 31st March 1988, eight projects/schemes have been put into operation at a total capital cost of Rs. 115·79 lakhs, most of which had not been viable so far.

Large scale cultivation of citronella grass at Telipara Drug Farm during 1980-81 to 1983-84 following experimental farming up to 1979-80 resulted in loss of Rs. 13·04 lakhs due to poor yield and higher costs.

Ipecac harvested at Telipara Drug Farm in 1987-88 resulted in a loss of Rs. 2·61 lakhs due to poor yield and higher costs of cultivation.

The Fractionation Factory at Telipara Drug Farm established without ensuring source of sustained supply of raw material incurred operating loss of Rs. 6·21 lakhs as 60 *per cent* of the production consisted of low valued products in place of 10 to 15 *per cent* envisaged in the project report. The Company launched an expansion scheme and handed over the factory to a Joint Venture unit formed for the purpose. While the expansion scheme was refused by the State Government. the approval of the Joint Sector venture is still awaited. In the absence of establishment of source of sustained supply of raw material, the factory with its expansion scheme is doubtful of survival.

8-Hydroxyquinoline manufacturing factory at Kalyani had to change the product-mix as imported hydroxy-

quinoline was available in the market at chaeper rates. The changed product-mix could not be sold. The loss suffered by the factory in 1987-88 amounted to Rs. 9·64 lakhs.

The Company had been running in losses since inception and the accumulated losses as on 31st March 1988 were Rs. 164·32 lakhs representing 60 *per cent* of its paid-up capital of Rs. 273·60 lakhs as on that date. The persistent losses were due to delayed implementation of schemes, lower actual yield, poor marketability of the products due to higher cost and availability of cheaper imported products in the market and unfavourable product-mix obtained after manufacture.

2C.1 Introduction

The West Bengal Pharmaceutical and Phytochemical Development Corporation Limited was incorporated in March 1974 to carry on business through cultivation of medicinal plants, essential oil plants, production of essential and aromatic oils, basic drugs, intermediate basic drugs and also to play a catalytic role in promoting and developing pharmaceutical and phytochemical industrial and farming enterprises in the State.

2C.2 Organisational set up

The Board of Directors of the Company consisted of twelve Directors including a Managing Director all nominated by the State Government. The Managing Director is the Chief Executive of the Company, in whom all powers are vested; there being no delegation of powers below the level of Managing Director. During the span of fourteen years of Company's existence Managing Directors were changed eight times and frequent changes at the executive level had affected the proper functioning of the Company as discussed in the subsequent paragraphs. The Company had four production units, each headed by Works/Project Manager.

2C.3 Scope of Audit

The working of the Company was last reviewed in Section V of the Report of the Comptroller and Auditor General of India for the year 1980-81 (Commercial) which was discussed by the Committee on Public Undertakings. The present review covers the working of the Company for a period of five years up to the end of 1987-88 with reference to the findings of the earlier Report in the relevant cases.

2C.4 **Funding**

The authorised capital of the Company was altered in 1986-87 from initial Rs. 200 lakhs to Rs. 500 lakhs, divided into 50,00,000 shares of Rs. 10 each. The paid-up capital of the Company as on 31st March 1988 stood at Rs. 273·60 lakhs, wholly subscribed by the State Government.

Loans raised by the Company from Government and financial institutions from time to time and outstanding as on 31st March 1988 was Rs. 17·00 lakhs and Rs. 60·78 lakhs respectively.

2C.5 **Overall performance analysis**

The Company took up 23 projects/schemes (including one expansion scheme) for cultivation of medicinal and aromatic plants and production of pharmaceutical and other products. Nine of them had already been abandoned after incurring capital expenditure of Rs. 0·42 lakh, preliminary expenses of Rs. 2·42 lakhs and sustaining operating loss of Rs. 2·28 lakhs. Six schemes/ projects are under implementation for commercial operation. Eight projects/schemes have so far been put into operation at a total capital cost of Rs. 115·79 lakhs, none of which has become viable so far. The Company suffered a total loss of Rs. 164·32 lakhs including the miscellaneous expenses (Rs. 42·12 lakhs) yet to be written off up to March 1988. The net worth of the Company as on 31st March 1988 was Rs. 118·04 lakhs against the paid-up capital of Rs. 273·60 lakhs indicating that 57 *per cent* of the capital has already been eroded. The Management explained (July 1988) the loss and erosion of capital, inter alia, as follows:

"(*a*) Net loss could not be avoided because the Company is still in transitional period dealing with promotional and development activities.

(*b*) Gestation period of the Company is likely to be long because of its two-fold objectives *viz.*(*i*) promotional and (*ii*) developmental".

The fact, however, remains that even after 14 years of its existence, the Company could not show improvement and the losses have been increasing steadily from year to year.

The following table summarises the operating results of the completed projects/schemes for the last five years up to 1987-88:

Sl. No.	Sales and Services (items)	1983-84	1984-85	1985-86	1986-87	1987-88
				(Rupees in lakhs)		
1.	Phytochemical products ..	1·41	1·80	0·68	3·23	5·60
2.	Pharmaceuticals ..	—	—	—	—	0·10
3.	Crude drugs (Trading) ..	0·66	0·66	1·33	1·42	3·75
4.	Laboratory testing services ..	1·06	1·11	1 16	1 30	1·20
5.	Other receipts (inclusive of house rent and interest credited against the Joint Sector Company, Behala) ..	1·55	1·31	1·28	2 09	5·88
6.	Accretion in stock ..	0 14	(−) 1·05	0·14	2·81	2·96
	Total value ..	4·82	3·83	4·59	10·85	19·49
	Less: Consumption of raw materials, cultivation expenses, purchase of crude drugs etc. ..	2·23	2 07	3·73	9 42	14·44
	Contributed value ..	2·59	1·76	0 86	1·43	5·05
	Less: Salaries and wages ..	4·71	5·18	6·49	9·65	12·26
		(−) 2·12	(−) 3·42	(−) 5·63	(−) 8 22	(−) 7·21
	Less: Other expenses ..	3 28	3·15	4 63	4·99	12·96
		(−) 5 50	(−) 6 57	(−)10 26	(−)13 21	(−) 20·17
	Less: Interest paid on loans ..	0 13	0·14	0·26	1·17	9·21
		(−) 5·63	(−) 6·71	(−)10 52	(−)14 38	(−) 29·38
	Less: Depreciation on projects	1·20	2·12	3·70	4·18	12·29
	Loss for the year ..	(−) 6·83	(−) 8·23	(−)14·22	(−)18 56	(−) 41 67
	Accumulated loss at the end of each year ..	(−)38·92	(−)47·75	(−)61 97	(−)80 53	(−)122·20

Analysis by Audit revealed that the following factors contributed to the persistent losses:

(*a*) delay in project implementation,

(*b*) actual scale of operation was much less than that envisaged,

(*c*) yield from cultivation of medicinal and aromatic plants fell far short of expectations,

(*d*) unfavourable product-mix with preponderence of low-valued products on account of defective technology and

(*e*) very high unit cost of output leading to demand constraints because of availability of imported phyto-chemical and pharmaceutical products at cheaper rates in the market.

The performance of five of the eight completed projects, progress of one of the six projects under implementation and three of nine projects abandoned are discussed in the succeeding paragraphs.

2C.6 **Abandoned projects/schemes**

Six projects/schemes abandoned by the Company up to 1980-81 were reviewed in the Report of the Comptroller and Auditor General of India for the year 1980-81 (Commercial). During the period under present review, the Company proposed the implementation of three projects which were abandoned at the consideration stage either by the Company or by the Government. The total preliminary expenditure on preparation of feasibility reports on them was Rs. 1·41 lakhs. In this connection the following observations are made:

(*i*) One project assumed to manufacture papain from the latex of papaya fruit in Nadia district at a cost of Rs. 71 lakhs was abandoned by the Company as the project report had not visualised the difficulties in obtaining assured supply of latex from the farmers.

(*ii*) Another project for manufacturing pharmaceutical formulations at a cost of Rs. 72 lakhs by floating a Joint Sector Company was not approved by the Government in May 1988 due to difficulties in raising funds from the public, paucity of Government funds and doubts about Company's ability to keep proper control over the project which was very small though viable.

(*iii*) Setting up of a project for manufacturing B-ionone from lemon grass oil was considered by the Company but this did not materialise as the availability of lemon grass oil was found doubtful.

2C.7 **Projects/Schemes under implementation**

The details of the schemes/projects under implementation as on 31st March 1988 are as follows:

1. Phytochemical Complex, Jalpaiguri
2. Salicylic/Aspirin projects, Kalyani
3. Halogenated Hydroxyquinoline project, Kalyani
4. Expansion of Fractionation Factory under Joint Sector Company, Telipara
5. Ayurvedic formulation, Behala
6. Household utility products, Behala

Certain points noticed in one of the projects under implementation are discussed below:

2C.7.1 *Phytocomplex, Jalpaiguri*

The Company was allotted 32·89 acres of land by the State Government in November 1986 at Taralpara of Jalpaiguri for bringing up a phytochemical complex. The Company had so far (February 1989) paid only Rs. 2·26 lakhs towards 80 *per cent* of the value of the land and developed only one acre in 1986-87 at a cost of Rs. 1·39 lakhs for establishing two factories for the project. Progress of establishment of these two factories is as under:

(i) Oleoresins and essential oil factory

This factory will produce oleoresins and essential oils from spices like ginger, chillies and black pepper etc. Though these kinds of products have no popular use in India, the Management anticipated that 60 *per cent* of the products would be consumed in domestic market and 40 *per cent* would be exported. The anticipated return was Rs. 2·72 lakhs in the first year, to increase to Rs. 16·46 lakhs in the 10th year of operation at 60 *per cent* and 90 *per cent* capacity utilisation respectively. The project cost of the factory was estimated at Rs. 45·40 lakhs. The schedule of commercial production in the factory was revised to August 1989 as against August 1987 envisaged in the project report.

(ii) N-Triacontanol factory

This factory will produce N-triacontanol, a plant growth promoter (used in tea gardens etc.) from tea-waste and sugar cane press mud. The anticipated return was Rs. 0·76 lakh in the first year to increase to Rs. 5·43 lakhs in the fourth year of operation of the factory. The project was estimated to cost Rs. 5·69 lakhs. The commercial production in the factory was scheduled to commence in March 1989.

Work order for the construction of office-cum-factory buildings and other allied civil works for the above two factories was placed on a local contractor of Jalpaiguri in November 1987 at a negotiated cost of Rs. 9·58 lakhs. These works as per contract were scheduled to be completed by November 1988 under the supervision of Goscon, the consultant. The progress of civil works was only to the extent of Rs. 3·55 lakhs (bill value) till December 1988, leaving 63 *per cent* of the works unexecuted.

Though agreements for indigenous process technology for both the above factories were finalised by March 1988, procurement of the plant and machineries did not progress till December 1988. As against the estimation of Rs. 0·66 lakh in the project report, the Company had already spent Rs. 2·10 lakhs as preoperative expenses excluding interest to complete only the required land development and 37 *per cent* of the aforesaid civil works on the expiry of 25 months till December 1988 from the date of acquisition of land.

2C.8 **Performance analysis of completed projects/schemes**

2C.8.1 *Manufacture of citronella oil*

Mention was made in Paragraph 5.04 (*iv*) (*b*) of the Audit Report (Commercial) for 1980-81 about low production of citronella oil during the four years up to 1979-80 owing to lack of infrastructural facilities in the Telipara Farm.

With a view to improving the production of citronella grass and to achieve a better yield of citronella oil, the Company appointed a Technical Director (Phytochemical) who initiated in 1979 a fresh programme for cultivation and distillation of citronella grass on commerical basis as the land and topography of the area of Telipara was considered to be very suitable for citronella grass cultivation. This programme as approved by the Board envisaged that the yield of oil from cultivation and distillation of citronella grass would be 5,000 to 7,000 kgs per annum from 100 acres of land taken up for cultivation. The financial projection of the scheme is given in the table below:

	1979-80	1980-81	1981-82	1982-83	1983-84
1. Land in acres ..	100	100	100	100	100
2. Yield anticipated per acre (Kgs)	—	50	70	70	60
3. Total yield anticipated in distilation (Kgs) ..	—	5,000	7,000	7,000	6,000
			(Rupees in lakhs)		
4. Anticipated sales ..	—	5 00	7·00	7 00	6·00
5. Expenses and adjustment ..	0·27	5·91	6·04	5 68	5·50
6. Net profit (+)/loss (−) ..	(−)0·27	(−)0·91	(+)0·96	(+)1·32	(+)0·50
7. Capital expenditure ..	3·63	4·95	1·30	0·50	—

During implementation of the scheme from 1980-81 to 1983-84 the yield achieved was far below the anticipation. The actual results of the working of the scheme from 1980-81 to 1983-84 are contained in the table below which reveals that actual yield of oil per acre varied between 3·16 kgs and 21·85 kgs against the projected yield of 50 kgs to 70 kgs.

	1979-80	1980-81	1981-82	1982-83	1983-84
1. Land in acres ..	NA	50	130	130	80
2. Actual total yield of oil (Kgs) ..	Nil	158	1,089	1,844	1,748
3. Actual yield of oil per acre (Kgs)	Nil	3 16	8 38	14·18	21·85
4. Quantity of oil sold (Kgs) ..	NA	NA	NA	448	1,460
			(Rupees in lakhs)		
5. Sales ..	0·21	0·14	1·02	0 41	1·25
6. Expenses including adjustments	0·56	2 19	4·70	5·01	3·61
7. Net loss ..	0 35	2·05	3·68	4 60	2·36
8. Actual capital expenditure ..	Nil	3·19	3·77	0·26	0·14

The financial projection of the scheme for five years envisaged total capital expenditure at Rs. 10·38 lakhs, anticipated sales realisation at Rs. 25·00 lakhs, expenses and adjustments at Rs. 23·40 lakhs leaving a net profit of Rs. 1·60 lakhs in aggregate at farm level. On actual performance the total capital expenditure stood at Rs. 7·36 lakhs and actual total sales stood at Rs. 3·03 lakhs as against total actual revenue expenses of Rs. 16·07 lakhs resulting in a revenue loss of Rs. 13·04 lakhs at the end of 1983-84. This happened despite bringing more area under cultivation (130 acres) than that projected (100 acres) mainly because of low yield which at its peak was 21·85 kgs per acre as against 70 kgs expected. The scheme had virtually been abandoned in 1984-85 and the land is being used for cultivation of other medicinal and essential oil plants.

The Management, however, stated in July 1988 that failure of citronella cultivation at Telipara was due to the following reasons:

(*i*) cultivation efforts are still in experimental stage and it may take years to standardise the method of medicinal and aromatic plants cultivation,

(*ii*) occasional labour trouble particularly during harvesting season and

(*iii*) expected yield of citronella oil in accordance with the published results could not be obtained.

The Management further stated in February 1989 that inadequate distillation facilities also contributed to the poor yield.

These reasons are not tenable as it was clearly mentioned in the scheme prescribed in 1979 that experiment of cultivation of citronella done in 1976-79 was encouraging. Besides, the experience of citronella cultivation undertaken by the State Forest Department, as also in other parts of the country, could have been made use of. The Company had not maintained any record of crop harvested and used in distillation, in the absence of which no control could be exercised by the Company to watch the actual quantity of crop grown and that actually put to distillation for yield of oil.

2C.8.2 *Ipecac cultivation*

The Company initiated a scheme for cultivation of Ipecac, a medicinal plant, in Telipara Drug Farm to start from 1983-84. The Project Report envisaged taking up of cultivation in batches of 5 acres each in five phases, each phase involving cultivation of Ipecac in 1 acre in the first year and 4 acres in the second year, maintenance during the intermediate years and harvesting in the fifth and sixth years. The proejct envisaged a profit of Rs. 8·63 lakhs during the years from 1987-88 to 1992-93 on a capital expenditure of Rs. 24·64 lakhs and revenue expenditure of Rs. 41·77 lakhs against sales of Rs. 50·40 lakhs on the basis of cost of Rs. 220 to Rs. 240 per kg and selling rate of Rs. 525 per kg of Ipecac root with yield of 1 kg per 'Kamra'. The span of the project was 10 years beginning from 1983-84. Ipecac has to be cultivated in 'Kamras' or covered spaces measuring 9′ × 4′ each constructed of iron rod and wires with bitumen felt roof and 400 such 'Kamras' can be used per acre of land. Each plantation of Ipecac takes 4 years of cultivation and upkeep to mature for harvesting in the fifth year. The roots of Ipecac are saleable products for use in manufacturing drug like emitine.

The Company, however, did not proceed with the original scheme as stated above. In view of the falling price of Ipecac roots due to free imports from Brazil at cheaper rates, the Company restricted the Ipecac cultivation programme to only about 8 acres. During the years 1983-84, 1984-85, 1985-86 and 1986-87 Ipecac was cultivated in 1,500, 900, 500 and 350 'Kamras' respectively at a total capital expenditure of Rs. 11·06 lakhs and revenue expenditure of Rs. 5·73 kakhs up to 31st March 1988. The crop of 1,500 'Kamras' was harvested in 1987-88 yielding only 0·44 kg per kamra against the anticipated yield of 1 kg. The loss at the farm level on this activity was Rs. 2·61 lakhs.

Due to poor yield the actual cost of production per kg of Ipecac roots rose to Rs. 811 per kg as on 31st March 1988. The actual cost on the basis of anticipated yield of 1,500 kgs would have been Rs. 354 per kg as against the projected cost price of Rs. 240 per kg considered in 1983-84 indicating that the cost also increased for reasons other than lower yield. The market price per kg of Ipecac root was taken at Rs. 525 but it fell to Rs. 475 per kg in 1987-88 and to Rs. 400 per kg in 1988-89. Though the Company restricted the cultivation of Ipecac to only 8 acres instead of 20 acres on consideration of declining market price of Ipecac roots due to liberal imports from Brazil, the cost of the product per kg (Rs. 811) continued to be highly unremunerative. Company's share in the country's demand being negligible (one-tenth of the country's demand), it could not also propose restriction on import of Ipecac roots.

The Management attributed the poor yield to flood and chronic labour problem and hoped that better yields may be obtained in future years. It was also stated that the stock could not be sold to the Directorate of Cinchona for their Emitine factory due to disturbed condition in the hill areas. However, the stock has since been disposed of to another customer at about Rs. 400 per kg. The evaluation of the entire scheme can be done only when the remaining crop grown in 1,750 'kamras' is harvested and sold.

2C.8.3 *Fractionation Factory at Telipara Drug Farm*

The Company set up a Fractionation Factory at Telipara Drug Farm in November 1985 at a cost of Rs. 11·74 lakhs in collaboration and consultancy with Regional Research Laboratory (RRL) of Jammu, a unit of CSIR, as per agreement signed and project report approved by the Company in 1983. It was set up to produce citronellal, citronellol, geraniol, terpenes etc., from citronella oil to be processed at a capacity of 15,000 kgs per annum. The oil was to be procured mainly from the distillation factory of the Telipara farm.

It is interesting to note that by the time the agreement with RRL was signed in 1983, the scheme of distillation of citronella oil in the distillation factory of the Telipara farm was showing signs of closure and by the time the fractionation factory was established in November 1985, the distillation of citronella oil was completely stopped. Further, although the installed capacity of the distillation plant was in the range of 10,000 kgs *per annum*, the Company had not envisaged in the Project Report the source for the balance quantity of raw material required for fractionation factory either at the time of closure of the distillation plant or even at the time of commissioning the fractionation factory. The Company had not established the source of raw material.

During 1985-86 (5 months) and 1986-87 the factory procured 9,313 kgs and processed 5,848 kgs of citronella oil, major part of which was procured from the State Forest Department. However, it was noticed in Audit that the Company had not made any attempt to enter into an agreement with the State Forest Department to ensure continued supply of the raw material.

The envisaged yield of product-mix and the anticipated profitability are shown in the table below:

Citronella oil to be processed per year (kgs)			Recovery of products as per norms (kg)	Sales price per kg (Rupees)	Total per year (Rupees in lakhs)
15,000 kgs					
	1. Citronellal	..	4,650	175	8·13
	2. Citronellol	..	2,430	200	4·86
	3. Geraniol	..	2,700	225	6 07
	4. Terpenes	..	810	125	1·01
	5. Mixed cuts	..	2,700	50	1·35
	6. Hydro Carbon	..	540	—	—
			13,830		21·42
				Less total expenses	19·91
				Profit	1·51

It was envisaged in the project report that 5,000 kgs of citronella oil would be processed in the first year of operation of the factory to achieve yield and profitability as shown below:

Items of products to be recovered from 5,000 kgs of citronella oil			Rate of recovery per batch of 50 kgs (Kg)	Total recovery (Kg)	Sales price per kg (Rupees)	Total sales (Rupees in lakhs)
1. Citronellal	..	..	14 ~~4~~ 5	1,450	200	2·90
2. Citronellol	..	..	8 1	810	225	1·82
3. Geraniol	..	..	9·0	900	250	2 25
4. Terpenes	..	..	2·7	270	150	0 40
5. Mixed cuts	..	..	9·0	900	125	1.12
6. Hydro carbons	..	..	1·8	180	—	—
Total	..	..	45·1	4,510		8 49
					Less discount	0 85
						7·64
					Less expenses	6·89
					Profit	0·75

The trial run of the factory was conducted in November 1985. The factory processed 1,034 kgs of citronella oil in 1985-86 (5 months) and 4,814 kgs in 1986-87. The year-wise performance of the factory is as shown below:

1985-86

	Revocry as per norm from 1,034 kgs (kg)	Actual recovery from 1,034 kg (kg)	Diffe-rence (kg)	Sales price per kg (Rupees)	Total as per norm (Rupees in lakhs)	Total as per actuals (Rupees in lakhs)	Diffe-rence (Rupees in lakhs)
1. Citronellal ..	300	—	300	200	0·60	—	0·60
2. Citronellol ..	168	58	110	225	0·38	0·13	0·25
3. Geraniol ..	186	191	(—) 5	250	0·47	0·48	(—)0·01
4. Terpenes ..	56	46	10	150	0·08	0·07	0·01
5. Mixed cuts ..	186	17	169	125	0·23	0·02	0·21
6. Hydro carbon ..	37	—	37	—	—	—	—
7. Residue and high boiling	Not envisaged	268	(—)268	—	—	—	—
Total ..	933	580	353		1·76	0·70	1·06

1986-87

	Recovery as per norm from 4,814 kgs (kg)	Actual recovery from 4,814 kgs (kg)	Diffe-rence (kg)	Sales price per kg (Rupees)	Total as per norm (Rupees in lakhs)	Total as per actuals (Rupees in lakhs)	Diffe-rence (Rupees in lakhs)
1. Citronella ..	1,396	Nil	1,396	200	2·79	—	2·79
2. Citronellol ..	780	870	(—) 90	225	1·76	1·96	(—)0·20
3. Geraniol ..	867	495	372	250	2·18	1·24	0·94
4. Terpenes ..	260	467	(—) 207	150	0·39	0·70	(—)0·31
5. Mixed cuts ..	867	Nil	867	125	1·08	—	1·08
6. Hydro carbons ..	173	Nil	173	—	—	—	—
7. Residue and high boiling	Not envisaged	1,453	(—)1,453	54	—	0·78	(—)0·78
8. Acetone ..	Not envisaged	1,532	(—)1,532	16	—	0·25	(—)0·25
	4,343	4,817	(—) 474		8·20	4·93	3·27

While the product-mix envisaged in the project report consisted of valuable products like citronellal, citronellol, geraniol, terpenes and mixed cuts to the extent of 90 *per cent*, the product-mix actually obtained contained only 55 and 38 *per cent* of the valuable products in 1985-86 and 1986-87 respectively which drastically affected the viability projection.

In this context the Management stated in July 1988 that—

(*i*) the process technology supplied by RRL Jammu was defective and did not give yields as per ISI specifications,

(*ii*) the Company modified the technology and got the desired yields but at higher cost of production. So processing of more oil within the installed capacity limit resulted in more financial loss.

The views of the Management do not bear scrutiny as the percentage of valuable products went down from 55 *per cent* in 1985-86 to 38 *per cent* in 1986-87.

Besides, RRL technology was selected by the Management itself in 1982 and the same was established in the factory in 1985 after full satisfaction of the Management as to the effectiveness of this technology.

The financial results obtained in operation of the fractionation factory for 1985-86 (5 months) and 1986-87 is shown below:

	1985-86	1986-87
	(Rupees in lakhs)	
1. Sales	0·31	2·77
2. Accretion in stock and works-in-progress	0·25	2·60
Total (A)	0·56	5·37
3. Cost of raw materials and process chemicals	1·37	5·82
4. Other expenses and depreciation	2·02	2·93
Total (B)	3·39	8·75
5. Loss at factory level (A)—(B)	2·83	3·38

(Sl. No. 4 includes depreciation of Rs. 1·38 lakhs and 1·40 lakhs for 1985-86 and 1986-87 respectively).

The Management, however, decided to ensure the viability of the factory through expansion by inducting better technology and additional facilities for production of Hydrox citronellal, a high valued product. A Joint Sector Company was formed on 10th March 1987 to implement this expansion programme. The cost of the expansion project under the Joint Sector Company was considered at Rs. 54·00 lakhs to be financed through share capital (Rs. 12·00 lakhs), central subsidy (Rs. 6·00 lakhs) and term loan (Rs. 36·00 lakhs). The expansion works were scheduled to be completed for starting production from 1989-90. As per joint sector formula, the Company's participation in share capital of the new Company would be 26 *per cent* or Rs. 3·12 lakhs. Against this investment the Company anticipated dividend of Rs. 0·46 lakh *per annum* after the unit went into production. The Management transferred the factory with 9 of its 13 employees, fixed assets valued at Rs. 3·98 lakhs, current assets valued at Rs. 4·39 lakhs along with land measuring 30 acres (not yet valued) to the Joint Sector Company on and from 1st April 1987.

While rejecting the expansion scheme, the Government directed (May 1988) the Company to concentrate its efforts on increasing the availability of citronella locally. Despite these directions from the State Government, the Company did not make any attempt to ensure the continued supply of raw material and in its absence, it is doubtful whether the Company, with its diversified expansion scheme, could survive. Further, the formation of the Joint Sector Company and the transfer of the Company's assets to newly formed Company without prior approval of Government was unauthorised. The records of transaction from April 1987 onwards being with the Joint Sector Company, these were not available to Audit for scrutiny. The fate of the Joint Sector Company and the consequential arrangements on its non-approval are still uncertain (February 1989). The Company has also not settled so far (February 1989) the terms for the recovery of the value of the assets transferred in excess of its share capital contribution to the Joint Sector Company amounting to Rs. 10·25 lakhs.

2C.8.4 *50 TPA 8-Hydroxyquinoline Factory at Kalyani*

The Company received a letter of intent from the Government of India in August 1977 to manufacture 100 TPA of 8-Hydroxyquinoline, a basic drug intermediate. The Company, however, set up a 50-TPA (tonnes *per annum*) plant at Kalyani at a cost of Rs. 102·16 lakhs (1988) as against the envisaged project cost of Rs. 58·00 lakhs revised to Rs. 81·50 lakhs (1982). The plant was scheduled to be commissioned by June 1982 but the actual commissioning was done in August 1986 and the plant was put to commercial operation in February 1988. The project cost increased by Rs. 20·66 lakhs mainly due to price increase and time overrun.

The execution of the project took 7 years and 4 months (October 1980 to February 1988). This delay was attributed by the Management to delay in completion of building construction works. The work order for this job was awarded in December 1982 for completion by June 1983. But the contractor completed only 55 *per cent* of the works by December 1984 even after extension allowed by the Management. The Management terminated the contract in January 1985 but could entrust the work to another contractor only after getting the injunction obtained by the contractor vacated. The Company got the building construction works completed in March 1986. The building works in question thus took 3 years and 3 months (December 1982 to March 1986) instead of envisaged period of 8 months.

Profitability of the project as envisaged was as shown below:

	1st year	2nd year	3rd year	4th year	5th year
	(Rupees in lakhs)				
Sale value of production at Rs. 250 00 per kg of 8 HQL ..	87·50	100 00	112 50	125 00	137·50
Cost of sales	76 04	86·77	94 69	102·41	110·87
Operating profit	11·46	13 23	17 81	22 59	26·63

The selling price per kg of 8-HQL was fixed at Rs. 250·00 as against the landed cost of Rs. 130·00 per kg of the product which was an imported item enjoying lesser customs duty. This profitability projection was rejected by the financial institution on the ground of marketability constraint due to cheaper import price of the product. The Management, therefore, reconsidered the viability of the project by changing the product mix of the plant without changing the cost of the plant and also without fresh market survey vis-a-vis the new product mix proposed as shown below:

Production plan of the products	Capacity utilisation		Profit in the first year (Rupees in lakhs)
	1st year	2nd year	
1. 8-Hydroxyquinoline (8 HQL)	10 TPA	15 TPA	(−)5 00
2. Orthonitrophenol (ONP)	24 TPA	35 TPA	2·34
3. Ortho Aminophenol (OAP)	35 TPA	20 TPA	5 57
4. Overall profit in the operation of first year			2·91

ONP and OAP are two intermediate products processed in production of 8-HQL. This production plan was approved by the financial institution as per anticipation of the Management as to the market prospect of the products. This anticipation was not, however, based on any market survey. The Company started trial run of the unit in 1986-87 and till March 1988 the Company could sell different trial-run products to the extent of Rs. 0·10 lakh only. The total value of finished products in hand and of raw materials and work-in-process as on 31st March 1988 was Rs. 5·68 lakhs and Rs. 3·87 lakhs respectively. The present cost of production of 8-HQL is Rs. 350 per kg as against the import price of Rs. 300 per kg. The Company has not yet found any market for ONP and OAP (February 1989). The loss incurred by the Company in operating this plant amounted to Rs. 9·64 lakhs in 1987-88 alone.

2C.8.5 The Company formed a Joint Sector Company—Infusion (India) Limited—(a promotional enterprise) in 1978 to produce transfusion solutions. But disputes arose in between the Company and joint sector promoter leading to litigation and as a result the Calcutta High Court appointed (May 1981) a special officer to manage the joint sector company. It was taken over by the State Government in August 1985 by an ordinance which was repealed by the Infusion (India) Limited (Acquisition of shares) Act 1985. But the joint sector promoter challenged the said ordinance and moved the matter to the Supreme Court. The Court, however, ordered (December 1985) maintanence of "*Status quo*".

As per Section 2 of the said Act 26 *per cent* share of the Company in the equity capital of the joint sector company was not taken over. As per State Government notification (August 1985) the present Managing Director o1 the Company was appointed to manage the taken over company. The Managing Director took this charge in August 1985 and has been managing the taken over company by deputing one special officer from the Company. Under the management of this special officer the production improved and during 1985-86 loss was Rs. 0·71 lakh as against the previous year's loss of Rs. 4·12 lakhs. During 1986-87 the production further improved and the company made a profit of Rs. 1·32 lakhs. The details of 1987-88 were not available till June 1988.

Although the "*Status quo*" order of Supreme Court was issued in December 1985, till June 1988 no positive action was taken by the Company despite advice from the State Government (April 1987) to have the order vacated. The Company's financial involvement in the taken over company stood at Rs. 20·61 lakhs as up to March 1988 as detailed below:

(*a*) Bridge loan	..	Rs. 6·25 lakhs
(*b*) Interest on loan	..	Rs. 6·22 lakhs
(*c*) Rent receivable	..	Rs. 5·70 lakhs
(*d*) Advance	..	Rs. 0·75 lakh
(*e*) Equity investment	..	Rs. 1·69 lakhs

The above matters were reported to the Company and the Government in November 1988; their replies had not been received (February 1989).

2D. IMPORT AND DISTRIBUTION OF CEMENT BY PUBLIC SECTOR UNDERTAKINGS IN WEST BENGAL DURING 1982-83 AND 1983-84

HIGHLIGHTS

West Bengal Essential Commodities Supply Corporation Limited (WBECSC) was designated as authorised agency for the import of cement under the open general licence (OGL) in 1982-83 and to distribute to the actual users at economic prices. It did not conclude contracts for imports in adequate quantities after proper asessment of actual requirements of the State within the OGL period and out of the import contracts for 1·24 lakh tonnes entered into by the Company during 1982-83, contracts for only 0.16 lakh tonnes were entered into during the first eight months and the rest were entered into towards the end of open general licence period with the result the Company could import a total quantity of only 0.89 lakh tonnes by the expiry of the extended period of OGL *i.e.*, July 1983.

Since the imports made under OGL were inadequate, the Company procured further 0.18 lakh tonnes of imported cement from State Trading Corporation of India Limited (STC) on high seas sales basis at higher prices for maintaining confidence of the consumers from whom amounts were obtained in advance. The Company

had, however, to refund Rs. 35·73 lakhs of such advances to about 299 dissatisfied consumers, on its failure to procure and supply cement.

Thus taking into account the procurement from STC, the total procurement was only 1·07 lakh tonnes against the total estimated consumption of 29·18 lakh tonnes during 1982-83 to 1984-85. Import and distribution of such meagre quanitty hardly influenced the price ruling in the home market and the policy of the Government to make cement available to actual users at economic prices did not largely serve the purpose.

The selling price per bag of imported cement was fixed by the Company by adopting assumed figures for different elements of cost including service charges. Actual cost for different elements being less than the assumed figures, the Company made a profit of Rs. 65·33 lakhs over and above the service charges of Rs. 31.62 lakhs. The possible resultant increase in cost to actual consumers in the State was totally ignored by the Company.

While the price per bag of imported cement ranged between Rs. 49·60 and Rs. 72·28, the ruling price per bag of levy cement varied from Rs. 36·80 to Rs. 47·50 during the three years up to 1984-85. The Company had no information about the ruling price of non-levy cement to see how the price fixed by the Company compared with the prevailing price of non-levy cement.

Instances of financial irregularities involving Rs. 222·22 lakhs were also noticed in connection with the conclusion and implementation of contracts for import and distribution of cement by the Company, as under:

(*i*) Avoidable extra expenditure of Rs. 45·67 lakhs for procurement of 0.18 lakh tonnes of imported cement from STC at higher rate.

(*ii*) Avoidable foreign exchange outgo of 10,51,248 U.S. dollars (Rs. 108·26 lakhs) on freight of 0.38 lakh tonnes of imported cement by not engaging Indian shippers as directed by Ministry of Shipping and Transport.

(*iii*) Avoidable payment of Rs. 0·52 lakh to Port Trust Authority towards weighment charges of 185 tonnes of cement which were not actually received by the Company.

(*iv*) Avoidable payment of Rs. 2·40 lakhs towards

demurrage at loading point for delay in getting import licence revalidated by the Company.

(*v*) **Irregular payment of Rs. 1·45 lakhs to a transport contractor.**

(*vi*) **Financial loss of Rs. 63·92 lakhs due to failure to claim Rs. 29 77 lakhs from a surety for non-execution of a contract in full in terms of performance bank guarantee, non-recovery of Rs. 27·33 lakhs towards cost of 0·02 lakh tonnes of cement from an autonomous body of sports, failure to claim refund of customs duty of Rs. 1·75 lakhs within the prescribed time on account of short landing of cement and non-settlement of insurance claim amounting Rs. 5·07 lakhs.**

2D.1 **Introduction**

Under the Import and Export Policy announced in February 1982 by the Government of India for the year 1982-83, cement was allowed to be imported by designated agencies of State/Union Territory Governments up to 31st March 1983 under Open General Licence (OGL) to meet the requirements of actual consumers. However, the Company decided (April 1982) to deal with cement required only by those categories of users who were not eligible to get levy cement. This was in contravention of the policy of Government of India. The aim of the new import policy was to sell imported cement at economic price to discipline the price of open market non-levy cement. In terms of the guidelines issued by Government of India and the Import Trade Control Order issued in April 1982 by the Chief Controller of Imports and Exports, the State Government appointed in April 1982, West Bengal Essential Commodities Supply Corporation Limited (WBECSC), a State Government Company, as the designated agency in West Bengal for importing cement, on behalf of actual users who were to register their demands with the designated agency. The policy of import of cement was relaxed by Government of India in October 1982, permitting import for off-the-shelf sales also. The cement, thus, imported was to be free from price and distribution control. The validity period of the open general licence which was extended twice expired on 31st July 1983.

2D.2 **Scope of Audit**

The transactions relating to the import of cement during the currency of OGL and subsequent procurement of imported cement from State Trading Corporation of India Limited (STC) to meet the demand, not fulfilled by import under OGL and its distribution by the Company were test checked in Audit during May-June 1988 and the results thereof are set out in the succeeding paragraphs.

2D.3 **Procurement**

2D.3.1 The Company had not effectively concluded contracts for import of cement in adequate quantities within the OGL period. Out of the import contracts for 1·24 lakh tonnes entered into by the Company during 1982-83, contracts for only 0·16 lakh tonnes were entered into during the first eight months and the rest were entered into towards the end of open general licence period with the result the Company could import a total quantity of only 0·89 lakh tonnes up to the end of July 1983. Inadequacy of the imports by the Company under OGL to meet the requirements of the State resulted in further procurement of 0·18 lakh tonnes of imported cement from STC during May-August 1984 at higher prices.

The table below gives the details of cement imported by the Company under OGL against the contracts concluded during 1982-83, details of imported cement procured from STC on high seas sales basis and the average landed costs per tonne of cement incurred by the Company in respect of purchase made from each source:

(i) Name of seller	Chowdhury and Company	Korea Cement Export Corporation		Universal Cement Corporation	Nanhen Inter-national Corporation	Typen Corporation	Philip Brothers Hong Kong Limited	
	(firm 'A')	(firm 'B')		(firm 'C')	(firm 'D')	(firm 'E')	(firm 'F')	STC
(*ii*) Month and year of agreement	June 1982	November 1982	March 1983	March 1983	March 1983	March 1983	March 1983	January 1984
(*iii*) Quantity ordered (tonnes)	8,000	8,000	16,000	17,800	25,000	17,000	31,800	20,000
(*iv*) Quantity received (tonnes)	7,973	9,084	11,491	11,427	8,000	9,091	31,873	18,237
(*v*) Scheduled date of completion of supply	June 1982	December 1982	April 1983	May 1983	May 1983	April 1983	May 1983	January-April 1984
(*vi*) Actual period of supply	September 1982	June- July 1983	August 1983	June 1983	August 1983	July 1983	July 1983	May-August 1984
(*vii*) c.i.f. cost per tonne incurred (Rupees)	716 42	689 72	667 26	705 86	757 55	666·23	638·75	755 66
(*viii*) Customs duty, handling, clearing and storage charges per tonne incurred (Rupees)	242 66	318 97	318 97	316 66	323 63	391 90	324 26	493·09
(*ix*) Average landed cost per tonne (Rupees)	959 08	1,008 69	986 23	1,022 52	1,081 18	1,058·13	963 01	1,248 75

It would be seen from the above table that the average landed cost per tonne of cement imported by the Company under OGL against the contracts concluded in 1982-83 ranged between Rs. 959·08 and Rs. 1,081·18. The average landed costs per tonne of cement procured from firms "D' and 'E' were excessively high compared to that from other firms mainly due to variation in exchange rate and avoidable payment towards demurrage at loading point. Procurement price of imported cement from STC on high seas sales basis was exorbitant owing mainly to increase in price per tonne of cement, variation in exchange rate and avoidable payment towards diversion charges, demurrage and handling charges at unloading point.

The following further points were noticed in audit:

(*a*) Though the Company was designated in April 1982 by the State Government as sole agent for import of cement under OGL, the Company made no efforts to assess the demand of actual users till January 1983 when the actual users were urged upon through press advertisement to register their names with the Company and that too only after assessment of the requirement was insisted upon by the Cement Controller. In February 1983, the Company assessed the actual requirement for the imported cement as 1,23,600 tonnes on the basis of the demand registered by the actual users with the Company. Since the Company entered into contracts by February 1983 for only 16,000 tonnes, it had to enter into contracts for the balance quantity of 1·08 lakh tonnes in March 1983, the last month of the OGL period. Despite the extension of the OGL period up to July 1983, the Company could procure only 0·72 lakh tonnes out of the twelfth hour contracts. This is indicative of improper planning.

(*b*) The Company placed orders for 16,000 tonnes of cement (8,000 tonnes in June 1982 on firm 'A', an Indian agent of a foreign firm and 8,000 tonnes in November 1982 on firm 'D', a Korean firm) without invitation of any tenders on the ground of urgency. Of the above 16,000 tonnes contracted for, without invitation of tender, 7,973 tonnes and 9,084 tonnes were obtained in September 1982 and July 1983 against the scheduled dates of delivery of June 1982 and December 1982 respectively. Contracts for the remaining 1,07,600 tonnes of cement were entered into only in March 1983 against the tenders floated in November 1982, with the result the Company could import only 71,882 tonnes up to the end of August 1983. The landed cost per tonne of cement, thus, varied widely due to late procurement. There was no evidence of any attempt on the part of the Company to ensure that adequate cement supplies were made to actual consumers in time and at reasonable price. The possible resultant increase in cost to actual consumers in the State was completely ignored by the Company. The Chairman of the Company expressed his deep concern over the delay in import of cement under OGL and held (February 1983) that there was considerable delay in finalisation of tenders floated in November 1982 in spite of his repeated requests for expeditious finalisation of tenders.

(*c*) Since the imports made under OGL were inadequate, the Company procured 18,237 tonnes of imported cement from STC on high seas sales basis at higher price during May 1984 and August 1984 against the order placed on them in January 1984 for maintaining confidence of the consumers from whom price was obtained in advance. But this procurement was not sufficient to meet the consumers' demand. It was noticed in audit that refund of Rs. 35·73 lakhs (approximately) deposited by about 299 consumers towards cost of cement had to be made between October 1982 and August 1984 by the Company without any interest thereon for not supplying any quantity of cement to them as advances were received from users of cement without establishing the sources of procurement.

The landed cost (Rs. 1,248·75) per tonne of cement procured from STC was excessively high compared to the average landed cost (Rs. 998·32) per tonne of cement purchased from other foreign firms. This had put the Company to incur an additional expenditure of Rs. 45·67 lakhs which had been passed on to the ultimate consumers. The extra expenditure incurred by the Company could have been avoided had the Company effectively played its role as designated agency and imported adequate quantity of cement after proper assessment of requirements from the very beginning under OGL.

(*d*) In May 1982, Ministry of Industry, Department of Industrial Development, Government of India, while communicating the modalities of import of cement under the new Import and Export Policy of 1982-83 to be adopted, had directed the State Government that as a national policy, imports should strictly be on f.o.b. basis so that Transchart in the Ministry of Shipping and Transport could engage as many Indian ships as possible to improve their financial position and save foreign exchange to be paid for freight to foreign ships. The State Government was also requested to impress upon the designated agencies to follow the instructions strictly by getting in constant touch with the Ministry of Shipping and Transport. It was noticed (June 1988)in audit that the Company had concluded contracts and imported 37,639 tonnes of cement from three foreign firms (firms 'A' 'B' and 'E') on C&F liner terms violating the national policy for which US$ 10,51,248 equivalent to Rs. 108·26 lakhs (approximately) was paid to the foreign shippers on account of freight.

The Chairman of the Company informed (September 1982) the Ministry of Shipping and Transport that poor rate of despatch of levy cement from the factories and high price of levy-free cement in the open market necessitated import of cement on linear terms on an emergent basis to increase the supply of cement in internal market and to discipline the price of open market non-levy cement. But the contention of the Management was not tenable as the designated Company imported only 7,973 tonnes of cement during 1982-83 and 80,966 tonnes up to the end of August 1983 against the actual users' demand of 1,23,600 tonnes registered with the Company.

The payment of freight in foreign currency could have been avoided, had the agreements for supply of cement been concluded with the foreign suppliers on f.o.b. terms as directed by the Ministry of Industry in May 1982 after keeping constant touch with the chartering wing of the Ministry concerned.

2D.3.2 Other points of interest noticed in audit during test check relating to purchase contracts entered into by the Company are discussed below:

2D.3.2.1 *Contract with a firm of Korea*

In November 1982 an agreement for import of 8,000 tonnes of cement was entered into with firm 'B' of Democratic People's Republic of Korea, at US$ 69 per tonne c & f Calcutta port. The supply was to be completed by December 1982 failing which buyer had the right to demand 100 *per cent* value of the quantity of cement in the event of delay or default in the shipment of the contracted cement and/or any other breach of the said contract by the supplier in terms of a performance guarantee executed for US$ 5,52,000 by the Embassy of Democratic People's Republic of Korea, New Delhi in November 1982. The guarantee was valid up to ninety days from the last date of completion of discharge at the port of destination (Calcutta port). The firm shipped 9,084 tonnes of cement in May-June 1983 which were received in June-July 1983 against the scheduled date of delivery of December 1982. In March 1983 another agreement for a further quantity of 16,000 tonnes of cement at US$ 64·10 per tonne was concluded with the same firm of Korea on the basis of the tender floated in November 1982, keeping other terms as usual stipulating the date of completion of supply as April 1983. Shipment of 11,491 tonnes of cement was made by the supplier in August 1983 leaving a balance of 4,509 tonnes unexecuted. The material was received in August 1983 against the scheduled date of completion of April 1983. The Company did not press the supplier for early supplies. No claim for US$ 2,88,450 (equivalent to Rs. 29·77 lakhs at the exchange rate of US$ 9·71 = Rs. 100) for the defaulted quantity as per terms of the performance guarantee was, however, lodged (June 1988) with the Embassy of Democratic People's Republic of Korea (Surety) for reimbursement within 90 days after the receipt of last consignment as per terms of agreement. There was no recorded reason for non-preferment of claim. There was nothing on record to show that the Management had ever informed the Board of the matter.

In August 1983, 11,491 tonnes (nett) of cement against invoiced quantity of 11,580 tonnes (gross) were received at Calcutta port against order of March 1983. On weighment at Calcutta port by adopting a method of random selection of 20 to 30 bags out of the consignment, the Port Trust Authority assessed the gross weight of the consignment, as 11,765 tonnes and as such an amount of Rs. 0·52 lakh on account of weighment charges for excess 185 tonnes (11,765 tonnes—11,580 tonnes) of cement as claimed by the Port Trust Authority was paid by the Company in August 1983. In terms of the agreement, cement was to be packed in 6 ply pasted/stitched kraft paper bags of 50 kgs net capacity. As no extra bags for excess 185 tonnes of cement were actually received by the Company, payment towards weighment charges lacked justification. There was no evidence of any attempt made on the part of the Company to convince the Port Trust Authority before incurring such avoidable expenditure.

2D.3.2.2 *Contracts with the firms of Taiwan*

(*a*) The Company entered into an agreement with firm 'E' of Taiwan on 10th March 1983 for import of 17,000 tonnes of cement at US$ 64·10 per tonne c & f Calcutta port on linear terms. The supply was to be completed by 30th April 1983. In terms of the agreement, the supplier was to deliver a performance bank guarantee equivalent to five *per cent* of the full value of cement contracted in favour of the Company through an international bank with its branch at Calcutta within seven days of signing the contract. In turn, the Company was to open a letter of credit covering full value of cement ordered in favour of the supplier within seven days after the receipt of acceptable performance bank guarantee. Performance bank guarantee was, however, executed by the supplier only on 2nd April 1983. The execution of this bank guarantee having not been confirmed by any international bank having a branch at Calcutta as per agreement, the letter of credit for US$ 9,51,150 opened by the Company on 22nd April 1983 could not be made operative up to 30th May 1983, when the Company was persuaded by its banker to accept the guarantee as a valid instrument. The Company, thus, ignored the provision for confirming the execution of the performance bank guarantee through Calcutta branch of the supplier's bank. Necessary amendment to the original contract regarding execution of performance bank guarantee had not been made. The letter of credit was, however, extended up to 30th June 1983 and the supplier shipped 9,091 tonnes of cement within the validity period (*i.e.*, 30th June 1983) leaving a balance of 7,909 tonnes unexecuted.

Delay of about 15 days in opening letter of credit by the Company compounded by the problem of confirmation of performance bank guarantee through supplier's own banker having a branch at Calcutta badly delayed the shipment of the consignment. No action was taken by the Company to invoke the performance bank guarantee of US$ 47,557 which was valid up to July 1983 for non-execution of the contracted quantity in full within the scheduled date. Further, there were also no recorded reasons for acceptance of performance bank guarantee covering only 5 *per cent* of the value of cement contracted as against 100 *per cent* agreed to by four other suppliers.

(*b*) In March 1983 an agreement for import of 25,000 tonnes of cement at US$ 88·90 per tonne on f.o.b. terms was entered into with firm 'D' of Taipei, Taiwan for supply by Indian vessels. Supply was scheduled to commence from March 1983 and to complete by May 1983. Chartering wing (Transport) of the

Ministry concerned was informed (9th March 1983) by the Company about the programme fixed for shipping the cement. On 18th March 1983 letter of credit for US$ 9,72,500 was opened in terms of the agreement with the Indian Overseas Bank, Calcutta to facilitate payments to the supplier. There was no evidence of any attempt on the part of the Company to pursue with the Chartering wing of the Ministry of Shipping and Transport to have suitable Indian vessels after 9th March 1983. Supply of cement could not be effected up to 12th June 1983, when the supplier expressed inability to supply the entire quantity of cement ordered since the Company as well as the Chartering wing of the Ministry of Shipping and Transport failed to nominate suitable Indian vessels during March-May 1983. The supplier, however, agreed to supply only 9,000 tonnes of cement during the extended period of import licence/letter of credit *i.e.*, up to June 1983. Consequent upon reduction of quantity of cement, the letter of credit was amended (23rd June 1983) to US$ 3,89,000 covering the full f.o.b. value of 9,000 tonnes.

For shipment of cement, Transchart alloted (18th June 1983) M.V. "Ratnanandini (voyage-28)". The earliest date when the charterers must be ready to load and the latest date when the owner must present his vessel for loading were 20th June 1983 and 30th June 1983 respectively as per fixature note. M.V. "Ratnanandini" failed to turn up at the port of loading (*i.e.*, Kaosiung, Taiwan) due to bad weather and reported only on 2nd July 1983. Notice of readiness for loading was also communicated by the shipping company on the same day. Meanwhile, the extended period of OGL/letter of credit had expired on 30th June 1983. There was no indication of any timely action taken by the Company either to revalidate the import licence or to extend the letter of credit further. The letter of credit/import licence was, however, got extended up to 31st July 1983 enabling the loading to commence on 23rd July 1983. Due to detention of the ship at the loading point for over 20 days, demurrage of Rs. 7·13 lakhs, as incurred by the shipping agency, was claimed (July 1983) from the Company which was not, however, admitted. The matter was referred (July 1984) by the shipping agency to an arbitrator in terms of the agreement who made an award (August 1987) for Rs. 2·40 lakhs in favour of the shipping agency.

Thus, the payment of demurrage amounting to Rs. 2·40 lakhs at loading point was as a result of the failure on the part of the Company to take timely action for getting import licence revalidated and absence of valid letter of credit.

2D.4 **Distribution**

2D.4.1 The Company distributed 0·98 lakh tonnes of cement directly to the consumers from the Port and 0·09 lakh tonnes were distributed through depots of the Company and a few dealers. Out of 1·07 lakh tonnes of imported cement, 0·41 lakh tonnes, 0·23 lakh tonnes and 0·43 lakh tonnes were distributed amongst the Government departments, registered manufacturers and un-registered manufacturers including bulk consumers, respectively. The consumers were to register their demand with the Company in advance and cement was to be issued to them in the order of priority in the register of demands as recommended from time to time by a screening committee established for the purpose. The consumer was to get delivery orders for cement on deposit of full value of the quantities of cement mainly depending on the information of despatch of the vessels carrying cement from the overseas countries.

The selling price per bag of imported cement was fixed by the Company from time to time by adopting assumed figures for different elements of cost including service charges at the rate of Rs. 33·50 per tonne (Rs. 1·68 per bag). The service charges actually paid to the Government of West Bengal were Rs. 4·00 per tonne or Rs. 0·20 per bag. The balance was, therefore, assumed to be the cost of service rendered by the Company.

2D.4.2 The table below details the sale prices of imported cement per bag including sales tax fixed by the Company from time to time:

Effective date of price fixation	Sale to Government Departments		Sale to registered manufacturers		Sale to bulk consumers and un-registered manufacturers	
	From port	From godown	From port	From godown	From port	From godown
	(Rupees per bag)					
16th August 1982	51·05	54·95	49·60	53·40	53·00	57·00
19th December 1982	51·75	53·95	50·80	52·90	53·75	56·00
July 1983	56·35	59·20	55·30	58·05	58·50	61·45
October 1983 (for re-bagged cement)	—	58·05	—	56·96	—	60·25
May 1984	67·17	69·66	65·90	68·35	69·69	72·28

The Government had permitted import of cement during 1982-83 under OGL with the sole aim of meeting the requirements of actual users and of keeping the prices under control in view of shortage in home market. The Company which was authorised to import and distribute cement in the State under the above policy had failed to meet the requirements of the actual users. The actual cost for different elements was less than the cost assumed for the purpose of price fixation, leaving an additional margin of Rs. 3·05 per bag over and above the service charges. The Company made an additional profit of Rs. 65·33 lakhs which was ultimately borne by the consumers.

While the price per bag of imported cement ranged between Rs. 49·60 and Rs. 72·28, the ruling price per bag of levy cement varied from Rs. 36·80 to Rs. 47·50 during the three years up to 1984-85. The Company had no information about the ruling price per bag of non-levy cement during the period under review to see how the price charged by the Company compared with the prevailing price of non-levy cement and whether the import made by the Company really influenced the price of the open market.

The table below shows the year-wise performance of the Company as against the total consumption of the State for the three years ending 1984-85:

Year	Quantity consumed	Quantity imported and distributed	Percentage of import to total consumption
	(In lakh tonnes)		(per cent)
1982-83	8 05	0 08	0 98
1983-84	9 80	0 81	8 37
1984-85	11·33	0 18	1 57
	29·18	1 07	

It would be seen that the performance of the Company in procurement and distribution of cement was poorest during 1982-83 (OGL period) when the availability of cement was the least. The total import of cement of 1·07 lakh tonnes which was only 3·7 *per cent* of the cement consumed during the period could hardly influence the price ruling in the domestic market.

2D.4.3 In June 1984, the Company, at the instance of the State Government, issued 2,000 tonnes of imported cement valuing Rs. 27·33 lakhs to the Society for Sports and Stadium (SSS), Salt Lake. No advance payment was insisted upon before issue of cement. It was agreed (June 1984) by the Society to pay the dues within a week of lifting the cement. The action of the Company for a credit sale was, however, ratified by the Board of Directors in their 71st meeting held on 26th July 1984. Bill for Rs. 27·33 lakhs towards cost of cement preferred on 29th September 1984 had not been realised so far (July 1988).

2D.5 Transportation

Sima Transport Agency of Calcutta was awarded (April 1983) a contract for transportation of imported cement from Calcutta port to different godowns of the Company in Calcutta after execution of an agreement and receipt of security deposit and earnest money amounting to Rs. 0·55 lakh, despite there being a policy in vogue to distribute the imported cement to the consumers directly from the port since September 1982.

The transport contractor was allowed to carry only 0·03 lakh tonnes of cement from Calcutta port to 4 godowns of the Company against 0·99 lakh tonnes of cement imported by the Company during the period April 1983 to August 1984 since about 0·96 lakh tonnes of imported cement were distributed to the consumers direct from the port. The quantum of work offered being too small, the contractor lodged (September 1983) claim for Rs. 3·31 lakhs towards compensation for maintenance of an establishment engaging labour force and hiring of trucks in anticipation of carrying the entire imported cement as assured by the Company during the currency of the contract. As no claim was entertainable for offering insufficient workload to the contractor due to absence of definite volume of work to be performed by the contractor in the agreement, the dispute was referred (November 1985) to an arbitrator in terms of the agreement. In September 1986, the arbitrator awarded Rs. 1·33 lakhs in favour of the contractor along with interest at 9 *per cent per annum* on the amount awarded from the date of reference (November 1985) to the date of award (September 1986) on the ground that the contractor was offered inadequate business, although the Company continued to assure him of substantial business and as such he had to set up an establishment engaging labour and trucks throughout.

Thus, the failure of the Company to mention in the agreement the definite volume of work to be performed by the contractor resulted in an avoidable payment of compensation amounting to Rs. 1·45 lakhs including interest of Rs. 0·12 lakh. Since major portion of the imported cement was distributed to the consumers direct from port, appointment of the transport contractor lacked justification.

20.6 **Other topics of interest**

(*a*) *Non-settlement of insurance claims*

In January 1984, an agreement for procurement of 20,000 tonnes of cement on high seas sales basis was entered into with STC at c.i.f. price of Rs. 735 per tonne. Entire quantity of cement was to be supplied between January and April 1984. Supply could not be effected as scheduled. During may 1984 and August 1984, 18,347 tonnes of cement was received against the invoiced quantity of 18,750 tonnes. Of the 18,347 tonnes of cement received, 110 tonnes were found in damaged condition. It was only in August 1985 two claims for shortage (403 tonnes) and damage (110 tonnes) for a total amount of Rs. 6·70 lakhs were lodged with the insurer. The insurer while accepting the claims for Rs. 5·07 lakhs requested (September 1985) the Company to furnish certain documents viz., discharge vouchers, original short landing certificates issued by the Port Trust Authority, vouchers/cash memos for purchase of gunny bags and labour charges incurred by the Company to settle the dues. The documents could not, however, be furnished (July 1988) to the insurer as most of them were reported to have been found misplaced. Further developments were awaited (August 1988).

(*b*) *Loss due to delay in preferring refund claims from Customs department*

In terms of the agreement entered (May 1984) into with Tarapada Suhasini Marine Contractors (P) Limited, the clearing agent, for any extra payment of customs duty due to short landing of cement, the clearing agent was to file relevant papers with the Customs Authorities for refund. It was, however, noticed in Audit that no claim for the excess payment of customs duty amounting to Rs. 1·25 lakhs for short landing of 403 tonnes of cement was lodged with the Customs Authority by the clearing agent with supporting documents within the specified period of six months from the date of payment of duty as per the provisions of the Customs Act, 1962. Failure to prefer refund claims within the prescribed time limit resulted in rejection of claims by the Customs Authority, the consequent loss amounted to Rs. 1·25 lakhs. No recovery has also been effected so far from the clearing agent (August 1988).

The above matters were reported to the Government in September 1988; their replies had not been received (February 1989).

CHAPTER III

3. REVIEWS RELATING TO STATUTORY CORPORATIONS

This Chapter contains reviews on the working of the following Corporations:

3A. West Bengal State Electricity Board—Transmission and distribution system

3B. West Bengal Financial Corporation

3A. WEST BENGAL STATE ELECTRICITY BOARD—

Transmission and distribution system

HIGHLIGHTS

The Board made an additional capital investment of Rs. 559·72 crores in transmission and distribution net-work during the Sixth Plan and first three years of the Seventh Plan. The additional investment on installations of generating capacity by the Board during this period was Rs. 420·98 crores. The increase in the facilities for transmission and distribution did not, however, keep pace with the increase in generating capacity. Compared to the increase in generating capacity in 1987-88 by 81 *per cent* over 1979-80, the increase in the capacity of the trans-mission and distribution lines was only 49 *per cent* and 72 *per cent* respectively.

Even with utilisation of 56 *per cent* of the Sixth Plan allocation, the physical achievement of the Extra High Tension/High Tension lines and power transformers was only 38 and 10 *per cent* of targets respectively.

During the first three years of the Seventh Plan, although 51 *per cent* of plan allocation was utilised, the physical achievement of transmission lines and trans-formers was only 19 *per cent* and 12 *per cent* respectively of the targets.

System losses were all along very high ranging from over 20 *per cent* to over 23 *per cent* against the norm of 15

per cent. **The value of loss of energy over the norm during the last five years up to 1987-88 was Rs. 144·24 crores.**

While the abnormally high system losses continued unabated, the system improvement schemes undertaken to reduce the losses was not implemented properly.

A test check of construction of transmission and distribution lines and sub-stations revealed:

(*a*) **Ten transmission lines constructed at a cost of Rs. 37·90 crores were either under-utilised or energised after efflux of 21 to 96 months of completion.**

(*b*) **An expenditure of Rs. 30·82 crores on transmission and distribution lines and sub-stations proved either injudicious or avoidable due to inadequate planning in six cases.**

(*c*) **Completion of transmission lines was not synchronised with completion of sub-stations resulting in unproductive/avoidable expenditure of Rs. 21·92 lakhs in two cases.**

(*d*) **Similar unproductive expenditure of Rs. 62·64 lakhs was noticed in three cases in which schemes were either given up or there was delay in utilisation of lines due to lack of co-ordination between Planning and Execution wing of the Board.**

(*e*) **Unproductive or extra expenditure of Rs. 15·09 crores was incurred in six cases due to slow progress in the construction of sub-stations and transmission lines.**

(*f*) **493·84 acres of acquired land was not put to use for 33 years.**

(*g*) **Theft of power line equipment and stores resulted in loss of Rs. 2·56 crores.**

(*h*) **Non-recovery of over Rs. 41 lakhs from one contractor and extra expenditure/avoidadle expenditure/ infructuous expenditure of Rs. 83·62 lakhs were also noticed in seven cases.**

3A.1 **Introduction**

The power generation system of West Bengal State Electricity Board at the end of March 1988 consisted of thermal power stations (installed capacity: 1,024 MW), gas turbine power stations (installed capacity: 100 MW), hydel power stations (installed capacity: 45·6 MW) and diesel power stations (installed capacity: 17·03 MW). In addition, the Board supplements its own generation by purchase of power from agencies like—West Bengal Power Development Corporation Limited (WBPDCL), Damodar Valley Corporation (DVC), National Thermal Power Corporation (NTPC), National Hydel Power Corporation (NHPC), the Durgapur Projects Limited (DPL) etc. Such purchase in 1987-88 was 2,735·52 million units and constituted about 76 *per cent* of its own generation of 3,582·99 million units. Power generated and/or purchased is transmitted through a net work of 400 KV, 220 KV, 132 KV, 66 KV and 33KV extra high tension (EHT) and high tension (HT) transmission lines inter connected with the neighbouring States like Assam, Bihar and other agencies viz. DVC, DPA and Calcutta Electric Supply Corporation limited (CESC) to various distribution centres where the associated sub-stations are located.

3A.2 **Organisational set up**

The Transmission and Distribution Wing is working under Member (T&D). Administratively the wing is headed by an Executive Director, who is responsible for transmission and distribution of power, consumer service etc., including construction of transmission and distribution system. The Executive Director is assisted by two Additional Chief Engineers, one in charge of construction and the other in charge of operation and maintenance. The wing is divided into four zones. Each of the zones is under the control of one Zonal Manager of the rank of Deputy Chief Engineer. Besides, there are two Deputy Chief Engineers; one in charge of construction of 400 KV line and the other in charge of construction of other lines etc. The zones have got circles headed by Superintending Engineers and the circles are divided into Divisions. The Zonal Managers/Deputy Chief Engineers are functioning as co-ordinating officers.

3A.3 **Scope of Audit**

The working of Extra-High Tension Transmission system, a part of the Transmission and Distribution system, was last revised in the Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial). The Committee on Public Undertakings examined the report during August/September 1986. The report of the Committee is awaited (March 1989). The results of further review conducted in Audit in respect of Transmission and Distribution system of the State up to 31st March 1988 are discussed in succeeding paragraphs.

3A.4 **Capital Outlay**

The investment of the Board on transmission and distribution projects vis-a-vis the investment on generation at the end of each of the Fifth and the Sixth Five-Year Plans and first three years of the Seventh Plan (up to 1987-88) is indicated below:

At the end of			Capital outlay on		Percentage of investment on T & D to that on generation
			Generation	Transmission and distribution	
			(Rupees in lakhs)		(Per cent)
Fifth Plan	..	..	35,338	21,417	61
Sixth Plan	..	..	70,927	50,636	71
Seventh Plan:					
1985-86	..	..	82,630	53,877	65
1986-87	..	..	99,452*	63,411	64
1987-88	..	..	1,14,628*	77,389	68

Prima facie, the investment of the Board in transmission and distribution has been gradually increasing in financial terms. However, the fact that the investment on generation as indicated above does not include the capital cost of generating stations of other organisations from which bulk purchase is made has also to be kept in view. Although the percentage of investment on transmission and distribution showed an increasing trend in comparison with the investment on generation, the data in paragraph 3A.5 would indicate that in physical terms the increase in the facilities for transmission and distribution did not keep pace with the increase in the generating capacity of the Board.

3A.5 **Progress in physical terms**

The target and achievement in respect of construction of EHT lines and erection of EHT power transformers during the Sixth and Seventh Five Year Plans were as follows:

*Includes investment made in Kolaghat Thermal Power Station (K T P S) transferred to W B P D C L from 1st April 1986.

Particulars	Physical				Financial (Rupees in lakhs)			
	Targets		Achievements		Targets		Achievements	
	6th plan	7th plan (For 3 years)	6th plan	7th plan (For 3 years)	6th plan	7th plan (For 3 years)	6th plan	7th plan (For 3 years)
(*a*) EHT/HT lines in circuit kms (Ckm)	2,643	3,137	1,055 (38)	592 (19)				
(*b*) EHT/HT Sub-stations (Number)	31	36	9	5	22,500	27,000	12,695 (56)	13,838 (51)
(*c*) EHT/HT Power trans-formers (MVA)	5,520·5	7,146·7	535·8 (10)	882 (12)				
(*d*) Sub-Trans-mission Lines/ Sub-Stations								
(*i*) 33 KV line and below (Ckm)	—	13,700	23,234	12,941 (94)	18,789	17,000	16,524 (88)	12,915 (76)
(*ii*) Trans-formers (KVA)	—	15,60,000	4,91,266	4,92,878 (32)				

The following points emerge from the above table:

(*i*) Though the expenditure incurred (Rs. 12,695 lakhs) during Sixth Plan was 56 *per cent* of the Plan allocation (Rs. 22,500 lakhs), the length of new EHT/HT lines and the capacity of EHT/HT power transformers brought into use during plan period were only 38 *per cent* and 10 *per cent* of the respective targets.

(*ii*) The expenditure incurred at the end of third year of the Seventh Plan (Rs. 13,838 lakhs) was 51 *per cent* of the plan allocation (Rs. 27,000 lakhs) but the length of new EHT/HT lines and the capacity of EHT/HT power transformers commissioned

Note: The figures in the brackets indicate percentage of achievements to targets.

during the same period were only 19 *per cent* and 12 *per cent* of respective targets.

(*iii*) On the distribution side, no physical target had been fixed during the Sixth Plan period and hence the performance could not be evaluated.

(*iv*) Though the achievement in respect of construction of sub-transmission lines at the end of third year of the Seventh Plan was 94 *per cent* of the target, the capacity of the sub-stations commissioned during the period was only 32 *per cent* of the target. Non-completion of sub-stations resulted in under utilisation or delayed energisation of sub-transmission lines as discussed in paragraph 3A.9 *infra.*

3A.6 **Performance Analysis**

The table below indicates the transmission and distribution facilities built up vis-a-vis energy sold and revenue earned at the end of 1979-80 (close of Fifth Five-Year Plan), 1984-85 (close of Sixth Five Year Plan) 1985-86, 1986-87 and 1987-88 (first three years of Seventh Five-Year Plan):

Particulars	1979-80	1984-85	1985-86	1986-87	1987-88
1. (*i*) Total installed capacity of generating Stations (MW) (Derated)	890	1,398	1,608	1,188	1,187
(*ii*) Maximum demand (MW)	636	829	862	950	1,066
(*iii*) Percentage of demand to installed capacity	71	59	54	80	80
2. EHT transmission lines (Circuit Kms)					
(*i*) 400 KV	Nil	Nil	Nil	Nil	134
(*ii*) 220 KV	724	1,266	',266	1,266	1,386
(*iii*) 132 KV	1,918	2,371	2,478	2,488	2,709
(*iv*) 66 KV	615	635	635	635	635
Total	3,257	4,272	4,379	4,389	4,864
3. Sub-transmission Lines (Circuit Kms)					
(*i*) 33 KV	3,646	4,337	4,573	4,882	5,107
(*ii*) 11 KV	30,567	46,431	48,548	51,318	51,528
(*iii*) 6·66 KV } (*iv*) 3·33 KV }	788	783	799	799	799

Particulars	1979-80	1984-85	1985-86	1986-87	1987-88
(*v*) L.T. Lines	20,169	32,579	34,808	37,688	38,145
Total	55,170	84,130	88,728	94,687	95,579
4. Total length of lines controlled by the Board (ciruit kms)	58,427	88,402	93,107	99,076	1,00,443
5. Capacity of power and Distribution Transformers (MVA)					
(*i*) Power Transformers	1,688	2,224	2,309	2,655	3,120
(*ii*) Distribution Transformers	1,344	1,835	2,000	2,140	2,328
Total	3,032	4,059	4,309	4,795	5,448
6. Investment on transmission and distribution					
(*i*) Total investment (Rupees in lakhs)	9,944	24,274	24,591	24,966	36,377
(*ii*) Average investment per Ckm of lines (Rupees)	17,019	27,459	26,411	25,199	36,217
7. Units sold during the year					
(*i*) Total (Mkwh)	3,004	3,206	3,849	4,107	4,601
(*ii*) Average per ckm of lines controlled (Kwh)	51,413	36,267	41,340	41,453	45,807
(*iii*) Average per KVA of distribution transformer (Kwh)	2,235	1,747	1,925	1,919	1,976
8. Revenue earned during the year from sale of power					
(*i*) Total (Rupees in lakhs)	9,596	21,290	28,422	34,346	39,674
(*ii*) Average revenue per Ckm of lines (Rupees)	16,423	24,083	30,526	34,666	39,499
(*iii*) Average revenue per KVA of distribution transformer (Rupees)	7,140	11,602	14,211	16,050	17,042
(*iv*) Average revenue per Kwh sold (Rupees)	0·32	0·66	0·74	0·84	0·86

The construction of transmission lines did not keep pace with the addition to the generating capacity of the Board itself, leaving aside the additions to the generating capacity of other organisations from which bulk purchase is made. With reference to the position at the end of Fifth Plan (1979-80), the generating capacity of the Board increased by 57 *per cent* at the end of the Sixth Plan (1984-85). However, the growth in the construction of transmission and sub-transmission lines during the same period was only 31 *per cent* and 52 *per cent* respectively. The same trend continued even during the first three years of the Seventh Plan. At the end of 1987-88 while the generating capacity (including the capacity of 420 MW of WBPDCL) increased by 81 *per cent* with reference to 1979-80, the increase in the transmission and sub-transmission lines was only 49 *per cent* and 73 *per cent* respectively.

3A.7 **Consumer analysis**

The Board has HV, MV and LV consumers. The HV consumers are consuming power in bulk and may be termed as High Tension (HT) consumers or bulk consumers and the MV and LV consumers may be termed as Low Tension (LT) consumers. The bulk consumers include besides CESC, Eastern and South-Eastern Railway, the neighbouring beneficiaries like DVC, Bihar and Orissa State Electricity Boards, NTPC and NHPC.

As on 31st March 1988, the Board had 188 centralised and 1,359 decentralised bulk consumers. The number of LT consumers was 11,01,356.

The table below indicates the power consumed and the number of consumers during the three years up to 1987-88 and position of consumption in 1984-85:

	1984-85		1985-86		1986-87		1987-88	
Units sold (MkWh)	2,106·39		3,848·78		4,107·29		4,601·90	
Number of consumers	—		9,94,676		9,98,875		11,02,903	
	Bulk	LT	Bulk	LT	Bulk	LT	Bulk	LT
	—	—	1,163	9,93,513	1,448	9,97,427	1,547	11,01,356
Units sold total (Mkwh) ..	2,495·27	711·12	3,067·77	781·01	3,248·80	858·49	3,620 65	980·35
Units sold per consumer (Kwh) ..	—	—	$2\cdot64\times10^{6}$	786·11	$2\cdot24\times10^{6}$	860·70	$2\cdot34\times10^{6}$	890·13
Percentage of increase:								
(*a*) In consumption compared to consumption in 1984-85 ..			23	10	30	21	45	38
(*b*) In consumers compared to consumers in 1985-86					25	0·39	33	11

While the growth of sub-transmission lines was 8 *per cent* (from 88,728 ckm in 1985-86 to 95,579 ckm in 1987-88) and that of distribution transformers was 16 *per cent* (2000 in 1985-86 to 2,323 in 1987-88), the growth in the number of consumers was only 11 *per cent* from 1985-86 to 1987-88 indicating the fact that sub-transmission lines growth is not keeping pace with the growth of consumers and of sub-station system.

Supply of electrical energy to the high-voltage consumers accounts for 75 to 80 *per cent* of the total supply of the Board but no action was taken to provide connection to supply 547 such prospective consumers, in respect of which even applications for 297 cases were not finalised so as to keep pace with the growth of LT consumers.

3A.8 **System Losses**

System loss is the quantum of power lost in transmitting and distributing power from the generating stations to the consumers.

(*a*) The particulars of generation and purchase of energy, net energy available for sale, power sold and power lost in transmission and distribution etc. during the 5 years up to 1987-88 are given in the following table:

	1983-84	1984-85	1985-86	1986-87	1987-88
1. Gross generation of power (Mkwh)	3,458·96	3,741·78	4,754·56	3,893·28	3,582·99
2. Auxiliary consumption (Mkwh)	349·84	382·49	480·41	387·86	374·93
3. Percentage of auxiliary consumption to gross generation	10·11	10 22	10 10	9·96	10·46
4. Net generation (Mkwh) (1-2)	3,109·12	3,359 29	4,274·15	3,505·42	3,208·06
5. Power purchased (Mkwh)	925·82	819·39	734·27	1,867·12	2,735·52
6. Total power available for sale (Mkwh)	4,034·94	4,178·68	5,008·42	5,372·54	5,943 58
7. Power sold (Mkwh)	3,203·20	3,206 39	3,848·78	4,107·29	4,601·00
8. Power supplied free (Mkwh)	1·30	1·30	1·30	1·30	0·65
9. System loss (Mkwh)	830·44	970·99	1,158·34	1,263·95	1,341·93
10. Percentage of system loss to power available for sale	20·58	23·24	23·13	23·53	22·58

It would be clear that the percentage of loss which varied between 20·58 and 23·53 during the last five years up to 1987-88 was much above the norm of 15 *per cent* recommended (April 1987) by the Central Electricity Authority. Out of this 15 *per cent* only 4 *per cent* shall cover EHT transmission and rest 11 *per cent* sub-transmission and distribution losses.

The loss sustained by the Board in financial terms in system losses in excess of 15 *per cent* recommended by CEA at an average selling price during the five years up to 1987-88 worked out to Rs. 14,424·09 lakhs as shown in the table below:

Year	Average selling price per Kwh (paise)	Total system losses	Losses as per 15 per-cent of sale (in Mkwh)	Loss in excess of 15 per cent	Total revenue losses (Rupees in lakhs)
1983-84	63	830·44	605·24	225·20	1,418·76
1984-85	66	970·99	626·79	344·20	2,271·72
1985-86	74	1,158·34	751·26	407·08	3,012·39
1986-87	84	1,263·95	805·87	458·08	3,847·87
1987-88	86	1,341·93	891·54	450·39	3,873·35

(*b*) The higher T & D losses were attributed (August 1988) by the Management to lower voltage profile in high voltage distribution network, long length of high voltage line, use of undersized conductors, non-replacement of defective meters, unmetered supply to different unit offices of the Board, theft of energy, tampering of metering circuit and non-billing of low voltage and medium voltage consumers in some cases.

The Board has not, however, laid down any norm for length of line for each range of transmission nor does it have any infrastructure for measuring the loss at each stage of transformation, transmission and distribution on the network. Even at a few sub-stations where metering arrangement exists proper records have not been kept of the inflow/outflow of energy and consequent losses. The Board has not also put a stop to the unmetered supply of energy to different unit offices of the Board. The Board works out the loss only indirectly on the difference between the total of units purchased and net units generated (after allowing auxiliary consumption) and the units sold and billed for. In view of the lack of infrastructure it has not been able to assess the benefit derived from system improvement measures taken by it.

In course of mid-term appraisal of Seventh Five-Year Plan the Power Department of the State Government made an indepth study of power utilisation and found that there had been a leakage due to transmission loss of 23 *per cent* of the total power supply in West Bengal as against the national average of 21·5 *per cent.* Out of 100 units of such leakages 65 *per cent* was due to technical factors and 35 *per cent* was due to administrative laxity.

According to the Board (November 1986) for supply to HT consumers such loss did not exceed 5 *per cent* (though more than 75 *per cent* of the total supply of energy by the Board relates to HT consumers). The Board also worked out transmission loss in respect of power supply to LT consumers around 55 *per cent.* This would indicate a very high incidence of loss.

(*c*) The computation of system losses does not include auxiliary consumption in any power station—thermal, hydel, gas or diesel. The Board has not also fixed any norm of auxiliary consumption in any of these power stations. The Vij Committee appointed (May 1967) by Central Government to examine generation, transmission and distribution aspects of West Bengal, Bihar and DVC power systems recommended (November 1967) the norm for station auxiliaries as two *per cent* for hydel and nine *per cent* for thermal. The Board has maintained a level of one *per cent* for hydel station auxiliaries, but in the case of thermal power stations the auxiliary consumption was in excess of nine *per cent* (except for Bandel Thermal Power Station). The value of loss owing to auxiliary consumption in excess of 9 *per cent* of generation works out to Rs. 2,399·10 lakhs for five years from 1983-84 to 1987-88 in respect of Santaldih Thermal Power Station, Gouripur Thermal Power Station and Kolaghat Thermal Power Station (before its transfer to WBPDCL) as shown in the table below:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
			(in Mkwh)		
1. *Santaldih Thermal Power Station*					
(*a*) Gross generation ..	1,156·00	1,038·00	1,199·50	1,131·80	1,117·00
(*b*) Actual auxiliary consumption	161·45	147·59	161·06	163·38	156·81
(*c*) Consumption as per norm (9 *per cent*)	104·04	93·42	107·96	101·86	100·53
(*d*) Excess consumption	57·41	54·17	53·10	61·52	56·28

Particulars	1983-84	1984-85	1985-86 (in Mkwh)	1986-87	1987-88
2. *Gouripur Thermal Power Station*					
(*a*) Gross generation	28·70	31·50	44·10	52·10	40·80
(*b*) Actual auxiliary consumption	3·64	4·22	5·74	6·13	5·55
(*c*) Consumption as per norm (9 *per cent*)	2·58	2·83	3·97	4·69	3·67
(*d*) Excess consumption	1·06	1·39	1·77	1·44	1·88
3. *Kolaghat Thermal Power Station*					
(*a*) Gross generation	—	226·00	945·30	—	—
(*b*) Actual auxiliary consumption	—	31·99	105·63	—	—
(*c*) Consumption as per norm (9 *per cent*)	—	20·34	85·08	—	—
(*d*) Excess consumption	—	11·65	20·55	—	—
Total excess consumption	58·47	67·21	75·42	62·96	58·16
Revenue per unit of power (paise)	63	66	74	84	86
Loss of revenue (Rupees in lakhs)	368·36	443·59	558·11	528·86	500·18

(*d*) While the abnormally high system losses continued unabated, the system improvement schemes undertaken to reduce the losses were also not implemented properly as discussed below:

(*i*) A reference is invited to paragraph 8.02.9 of the Report of the Comptroller and Auditor-General of India for the year 1982-83 (Commercial)—Government of West Bengal in which it was stated that in terms of System Improvement Scheme (1973-74) of Government of India to be financed by the Rural Electrification Corporation (REC), the Board submitted two schemes (estimated cost: Rs. 123 lakhs) for sanction. The REC sanctioned up to March 1981 Rs. 65·69 lakhs against which the Board received Rs. 49·91 lakhs up to March 1982. The Board formulated another scheme in 1974-75 (estimated cost: Rs. 735·80 lakhs). The Planning Commission sanctioned (November 1980) Rs. 696 lakhs during Sixth Plan. On implementation the Board expected a saving of energy loss of 107·7 Mkwh *per annum*. However, the Board could utilise Rs. 60 lakhs only, which proves that the system improvement scheme was not taken up seriously by the Board and meanwhile the system loss increased from 13·51 *per cent* (1980) to 23·24 *per cent* (1984-85) at the close of Sixth Plan.

(*ii*) In one such scheme, the Board in order to improve power factor of supply and thereby to reduce the line losses, programmed erection of 64·8 Mega Volt Ampere Reactive (MVAR) static capacitor banks during Sixth Plan period which were procured but could not be utilised during the Sixth Plan or even subsequently. Computed on the basis of estimated savings (*i.e.*, one lakh units *per annum per* MVAR capacitor bank) the annual line loss that could have been saved by installing 64·8 MVAR capacitor as proposed during the Sixth Plan worked out to 6·48 MU valued at Rs. 165·24 lakhs in three years from 1985-86 to 1987-88.

(*iii*) During the Seventh Plan (1985-90), a scheme for system improvement at an estimated cost of Rs. 6,500 lakhs was sanctioned. The target for five years and achievement for the first three years are detailed in the table below:

	Target (1985-90)		Achievement (1985-88)			
	Physical	Financial (Rupees in lakhs)	Physical		Financial	
			Total	Percentage of target	Total (Rupees in lakhs)	Percentage of target
1. Upgradation of						
(*i*) 33 KV lines	1,500 KMS	750	420 KMS	28	452·85	60
(*ii*) 11 KV lines	2,200 KMS	550	570 KMS	26	234·00	41
(*iii*) L.T. lines	3,000 KMS	450	352 KMS	12	107·00	30
2. Augmentation of Sub-Station						
(*i*) 33 KV Sub-Station	330 MVA	990	201·2 MVA	64	979·93	99
(*ii*) 11/04 KV Sub-Station	210 MVA	620	107·2 MVA	51	124·15	20
3. Installation of Capacitor bank 33 KV and below	800 MVA	1,760	4 MVA	0·50	6·14	0·35
4. Installation of Sectionaliser	5,000 Nos.	1,380	53 Nos.	1	23·78	2
		6,500			1,927·85	

It would appear that, except for augmentation of sub-station, physical achievement was much below the target. However, in the case of 33 KV sub-station only 64 *per cent* of the target was achieved after incurring 99 *per cent* of the estimated expenditure.

In the case of upgrading of lines the physical achievement was not commensurate with expenditure incurred.

The schemes prepared and implemented were not monitored properly. No evaluation was made to assess the quantum of savings in system losses during the period of first three years of Seventh Plan. Though Rs. 1,927·85 lakhs was spent, the system losses increased to 23·53 *per cent* in 1986-87 from 20·58 *per cent* in 1983-84 with marginal improvement to 22·58 *per cent* in 1987-88.

The Management has not analysed the reasons therefor so far (February 1989).

(*e*) With a view to detecting cases of theft of energy and tampering with meters by consumers, the Board created (1985) a Central Squad under the Security and Vigilance Wing. The Squad (consisting of 13 officers) is assisted by local unit and police authorities. During the period of three years up to 1987-88 the position of consumers checked by the Central Squad is as follows:

	1985-86	1986-87	1987-88
1. Total number of consumers (in lakhs)	8·99	9·95	11·03
2. Number of inspections carried out (Numbers)	3,727	2,193	1,241
3. Number of cases in which theft, pilferage etc. detected (Numbers)	3,707	1,964	946
4. Energy estimated as stolen (KWH)	66,000	8,85,000	Not assessed
5. Percentage of number of cases detected to number of inspections	99·47	89·55	76·23

Eventhough the percentage of detection of theft with reference to the number of inspections carried out was almost 100 *per cent* during 1985-86, there was a sharp decline in the number of inspections carried out during 1986-87 and 1987-88. The total number of cases checked in three years was only 0·65 *per cent* of the total number of consumers and the value of pilferage detected was estimated at Rs. 1·23 lakhs. There is an apparent need for sustained efforts to intensify the inspections to detect cases of theft and pilferage of energy.

3A.9 **Under-utilisation and delay in energisation of transmission lines**

(*a*) The following ten lines constructed at a cost of Rs. 3,790·05 lakhs during the period between September 1976 and March 1988 were either under-utilised or energised after effluxion of 21 to 96 months from the date of completion.

Sl. No.	Particulars of lines	Cost of construction (Rupees in lakhs)	Construction completed in	Period of under-utilisation and delay in energisation	Reasons
(1)	(2)	(3)	(4)	(5)	(6)
1.	400 KV Kolaghat-Jeerat S/C	1,960 79	June 1987	Charged at 220 KV in June 1987	For want of Switchyard and other terminal arrangements
2.	220 KV Durgapur Projects Limited -Bidhannagar D/C	92·82	February 1988	Charged at 132 KV in February 1988	Non-completion of associated feeder bay
3.	220 KV Santaldih Thermal Power Station—Chandil S/C	432·80	March 1988	Charged in March 1988 but not handed over to Operation and Maintenance Wing	Non-completion of Sub-Station-bay
4.	132 KV Hizli-Bishnupur D/C	684 22	January 1988	Charged at 33 KV in January 1988	Non-completion of associated Sub-Station
5.	132 KV Khejuriaghat-Malda D/C	81·92	October 1978	Charged at 33 KV in December 1979	-do-
6.	132 KV Joka-Falta S/C	419 00	March 1988	Charged at 33 KV in March 1988	-do-
7.	66 KV Ranaghat-Bagula	31·00	January 1980	Energised in October 1983	Non-completion of Sub-Station
8.	66 KV Chalsa-Kalimpong	61·17	July 1982	Energised in May 1984	-do-
9.	33 KV Egra-Contai	11·32	September 1976	Energised in September 1984	-do-
10.	33 KV Karimpur-Amtala	15·01	November 1980	Energised in April 1984	-do-
		3,790·05			

The Board had not analysed the effect of undercharging these lines, on its system efficiency and/or revenue. Interest burden on the capital expenditure incurred by the Board on the works at Sl. Nos. 7 to 10 due to delay in energisation, however, worked out to Rs. 30·43 lakhs (at the Board's borrowing rate of 8 *per cent per annum*).

(*b*) *Inadequate planning in the construction of transmission lines/Sub-Stations*

The Board incurred an expenditure of Rs. 3,081·85 lakhs which proved either injudicious or avoidable due to inadequate planning in the following cases:

(*i*) *Under-utilisation of Kolaghat-Jeerat 400 KV S/C line*

The laying of the 400 KV Kolaghat-Jeerat line for the purpose of evacuating power from Kolaghat Thermal Power Station at 400 KV by synchronising it with the construction of requisite terminal arrangements at Kolaghat at a cost of Rs. 1,595·54 lakhs was approved by the Planning Commission for inclusion in the Fifth Plan. An order for fabrication and supply of tower members and erection of the line etc. at a cost of Rs. 522·11 lakhs was placed (March 1982) with SAE (India) Limited, New Delhi for completion by December 1984 providing for price variation up to a ceiling of 20 *per cent* raised to 24 *per cent* (April 1983). The work could not, however, be commenced before June 1985 due to delay in finalisation of designs, route length and quantum of work and the Board agreed to honour the claim of the contractor for escalation without any ceiling due to delay on its part. The work was completed (June 1987) at a cost of Rs. 1,960·79 lakhs (including Rs. 263·88 lakhs being the cost of another contract for river crossing) inclusive of escalation charges of Rs. 49·24 lakhs. The line could not, however, be charged at the rated voltage of 400 KV as provided in the contract due to non-completion of the work of terminal arrangements at Kolaghat and is being charged at 220 KV and 132 KV on different sections of the line.

(*ii*) The scheme for setting up 400 KV Sub-station at Durgapur where NTPC's 400 KV line from Farakka would be terminated was included in the Sixth Plan with the approval of the Central Electricity Authority (CEA). The CEA intimated (May 1982) the Board that since DVC would like to receive power at 220 KV direct from NTPC, the latter decided to set up a 400 KV Sub-station at Durgapur. In December 1982, a decision was taken under the Chairmanship of CEA that both NTPC and the Board would construct 400 KV Sub-stations separately at Durgapur. Accordingly the Board acquired (March 1983) 44·46 acres of land valuing Rs. 86·24 lakhs (including interest of Rs. 18·82 lakhs for non-payment of instalment with due dates to the Asansol-Durgapur Development Authority) and procured (1983-84 to 1987-88) equipment worth Rs. 640·97 lakhs, besides incurring an expenditure of Rs. 0·96 lakh for civil construction. Meanwhile, the Board declared (June 1986) the scheme redundant considering the fact that it would be more economical to share the common facilities with NTPC Sub-station and further decided to utilise the equipment already procured at Jeerat 400 KV Sub-station and Arambag Sub-station. However, the 400 KV Sub-station at Jeerat taken up in October 1982 was almost in the final stages of completion by the time the above decision was taken. The Sub-station was completed in February 1987 and commissioned in August 1988 and thus the equipment could not be used at Jeerat. The Sub-station at Arambagh is still in a proposal stage (February 1989).

Thus, improper planning in the initial stages and delayed decision in abandoning the scheme resulted in locking up of funds of Rs. 728·17 lakhs in the equipment (Rs. 640·97 lakhs), cost of land (Rs. 86·24 lakhs) and civil works (Rs. 0·96 lakh).

(*iii*) The laying of 220 KV single-circuit line from Durgapur to Kasba at an estimated cost of Rs. 480 lakhs approved by the Board in January 1978 was meant to cater to the needs of Calcutta Industrial belt. The survey work for the line was conducted (July 1982) at a cost of Rs. 1·30 lakhs. Materials worth Rs. 154·28 lakhs were procured (1978-79 to 1981-82) before the route profile of the line was finalised. The erection order was not placed (December 1988) resulting in locking up of funds to the extent of Rs. 154·25 lakhs.

(*iv*) The laying of the single circuit 220 KV transmission line from Kolaghat to Haldia at an estimated cost of Rs. 325·50 lakhs approved by the Planning Commission in November 1981 was meant to cater to the industrial load growth of Haldia. The Board purchased (July to October 1983) materials like tower members, conductors etc. valuing Rs. 183 lakhs but had not issued erection order till December 1988. Materials worth Rs. 17 lakhs were diverted (March 1985 to August 1988) to other units for utilisation.

Thus, as the purchase was not synchronised with the erection work, the investment of Rs. 166 lakhs had remained unproductive for over five years and would continue to remain so till the line is completed. The interest on locked up capital worked out to Rs. 133 lakhs.

(*v*) In order to cater more power with a fair degree of reliability at Darjeeling/Jalpaiguri districts and utilise transmission of bulk power from South Bengal and Chukka Hydel Project (of Bhutan), a work order was issued (July 1978) for construction of 102 kms 132 KV S/C North Bengal University-Birpara line at an estimated cost of Rs. 179·90 lakhs (also approved by the Board in March 1979). The cost was revised (February 1981) to Rs. 193·02 lakhs. The work order issued (September 1980) to Swapan Kumar Chatterjee and Company, Siliguri for Rs. 21·91 lakhs was placed (January 1981) with S. N. Company (SN) (on the death of the former) through negotiation for completion of the work by January 1982. SN started (March 1982) the work but could not complete as the drawings were changed many times and foundation drawing was finally released in March 1983. The soil testing was done (March 1983) after two years from the date of erection order. Through negotiation the Board issued six additional erection orders (April 1983 to January 1988) on the basis of soil testing, foundation drawing and route profile for a total sum of Rs. 39·28 lakhs. The line was completed (June 1986) and handed over to O & M wing for commercial operation. Other ancillary works continued (July 1988). Total expenditure incurred up to March 1988 was Rs. 254·20 lakhs (materials Rs. 212·21 lakhs and erection and contingency Rs. 41·99 lakhs).

The fact remains that instead of proceeding with the work starting with soil testing, followed by finalisation of designs and drawings and then issuing the work orders, the Board had proceeded in reverse direction in first placing the orders in September 1980/January 1981, then preparing the designs and drawings in March 1982 for commencing the work and then soil testing in March 1983. This is inclusive of defects in planning on the part of the Board, resulting in time overrun of 4 years and 5 months (January 1982 to June 1986) and cost overrun of Rs. 61·18 lakhs.

(*vi*) An order (November 1976) for erection of 38 kms 33 KV line from Bishnupur to Chandrakona at a cost of Rs. 6·85 lakhs was revised (May 1977) to 44 kms to be constructed at Rs. 8·94 lakhs in order to avoid forest land. It was then proposed

(July 1977) to draw the line from Bishnupur to Garbeta and to connect it with the existing 15 kms 33 KV line from Chandrokona to Garbeta to avoid fresh construction of 15 kms line. The proposal could not materialise as erection of 35 kms line parallel to existing 15 kms line at different alignments from Chandrakona side was by then completed. The Board could not avoid forest land as it had to divert its line in order to keep it at a safe distance from the Navigational Mast near Bishnupur. The work could not proceed beyond May 1979 for want of permission foruse of forest land. The Board decided (November 1981) to complete the work, when on survey it was seen that almost the entire line materials were stolen and the line required to be reconstructed afresh. Thus the expenditure of Rs. 11·46 lakhs incurred by the Board for this 35 kms line had became nugatory due to faulty planning, lack of co-ordination and indecision. The Board is yet to decide (February 1989) the alignment of the line.

(*c*) *Non-synchronisation of Sub-station erection work with transmission line construction work*

The completion of transmission lines was not synchronised with the completion of Sub-stations which resulted in unproductive investment/avoidable expenditure to the extent of Rs. 21·92 lakhs in the following cases:

(*i*) The laying of 25 kms of 66 KV line from Ranaghat to Bogula was estimated (August 1975) by the Board to cost Rs. 15·01 lakhs (cost of materials Rs. 11·02 lakhs and labour cost Rs. 3·99 lakhs). As per the erection order issued to ESCICO (Private) Limited in December 1976, the work was to commence in January 1977 and completed by July 1977. Materials were to be supplied by the Board. The contractor commenced the work in March 1977 and completed it in January 1980 at a cost of Rs. 15·39 lakhs after a delay of 30 months. Even after completion, the line could not be commissioned for non-completion of 66 KV Sub-station at Bogula. Due to thefts between the period September 1980 and April 1983 major portion of conductor and tower members were stolen from the line, value of which was not on record. The line was revitalised at a cost of Rs. 15·61 lakhs in July 1983 and brought to use from October 1983 when the Bogula Sub-station was commissioned. Due to delay in completion of the associated Sub-station, the Board had to incur an avoidable expenditure of Rs. 15·61 lakhs in revitalisation work.

(*ii*) The work of construction of 26·5 kms 33 KV line between Karimpur and Amtala was constructed (from March 1975 to November 1980) at a cost of Rs. 6·62 lakhs by SAPS Enterprise, Calcutta, because of desertion of work by A. K. Nandi and Company, Calcutta. The line could not be energised and handed over to the Maintenance wing as the connected Sub-station at Amtala had not been commissioned. The line had to be revitalised at a cost of Rs. 6·31 lakhs due to theft (December 1982) of materials valuing Rs. 5·65 lakhs from the undercharged line and charged and handed over to O & M wing in April 1984 on completion of Sub-station in October 1983.

The Board had to incur an avoidable extra expenditure of Rs. 6·31 lakhs in the form of revitalisation work.

(*d*) *Lack of co-ordination between Planning and Execution Wing*

The Board incurred an unproductive/avoidable expenditure of Rs. 62·64 lakhs due to lack of co-ordination between Planning and Execution wing in the following cases:

(*i*) In order to improve the power position of Coochbehar and Jalpaiguri districts, the Board issued (April 1983) a letter of intent (LOI) to S. N. and Company, Siliguri for erection of 54 kms of 132 KV Birpara-Alipurduar S/C line at a cost of Rs. 17·78 lakhs. The work was to be completed by March 1985. The Member (Engineering) of the Board opined (March 1986) that the LOI be withdrawn as there was no need to erect the line consequent upon erection of 220 KV line between NHPC's Birpara and Assam SEB's Gossaingaon Sub-station and inter-connection of Board's system with NHPC. Accordingly the LOI was withdrawan (April 1986) for which the firm claimed (May 1986) compensation for mobilisation of labour and materials. Although the Transmission and Distribution wing discarded (May 1986) the scheme, the Planning wing after studying the network for stability of the Board's system again decided (October 1986) to implement the same for which negotiation was made with the firm. The work was awarded (April 1988) for execution by April 1989 at a cost of Rs. 28·19 lakhs. The firm executed (July 1988) 17·84 *per cent* of the work for which a sum of Rs. 5·03 lakhs was paid (May 1988).

The Board had to incur the liability of extra expenditure of Rs. 10·41 lakhs due to lack of co-ordination between two wings of the Board. Inventory carrying cost had also to be incurred as Rs. 25·70 lakhs being the value of tower materials procured as per work schedule remained unutilised from 1983-84 to 1987-88.

(*ii*) The refusal of one Operation and Maintenance Division (August 1978) to take over 38 kms 33 KV single circuit line between Bishnupur and Kotalpur completed in May 1978 at a cost of Rs. 9·29 lakhs on the plea of forest clearance of 25 feet in place of 40 feet led to an idle line and subsequent theft of materials from line. This necessitated first revitalisation in October 1981 at a cost of Rs. 8·09 lakhs. The line required a second revitalisation in December 1984 because of damage due to theft and natural hazards at a cost of Rs. 9·82 lakhs before it was energised and handed over (December 1984) to the same O & M Division with the same 25 feet strip of forest clearance.

Lack of understanding between two wings of the Board and inability of the top Management to make the O & M wing accept the completed work led not only to delay of utilisation of the line by six and a half of years but landed the Board in an extra expenditure of Rs. 17·91 lakhs on revitalisation work.

(*iii*) An order for construction of control-room building at Jeerat 400 KV sub-station at a cost of Rs. 36·05 lakhs was placed (April 1984) on S. N. Hazra and Company, Howrah. The work was scheduled to be completed by February 1985. The Board, however, could not supply drawings to the firm on the scheduled date (April 1984) of commencement of work. Delayed supply (December 1984 to March 1985) of drawings resulted in enhancement of value (Rs. 44·67 lakhs) of the revised order (October 1986) by 24 *per cent* compared to the original order and also extension of the completion time up to January 1987.

Thus, owing to inadequate planning and lack of co-ordination between Planning and Execution wings the Board incurred the liability of extra expenditure of Rs. 8·62 lakhs.

(*e*) *Slow progress in the construction of sub-station and transmission lines*

The Board had to incur an unproductive extra expenditure of Rs. 1,508·55 lakhs due to slow progress in the construction of Sub-stations and transmission lines in the following cases:

(*i*) The single circuit 400 KV transmission line between Kolaghat and Durgapur which was intended to evacuate power generated from KTPS was approved by the Planning Commission in September 1981 at an estimated cost of Rs. 1,364·25 lakhs. However, the work commenced only in October 1984 was to be completed by October 1987 but the same was in progress

(December 1988). An expenditure of Rs. 1,164·95 lakhs being 85 *per cent* of the approved cost had been incurred up to July 1988 when 35 *per cent* of the erection work was executed. Delay in completion was due to delayed finalisation of route alignment, contract for foundation work, terminal arrangements at Kolaghat and Durgapur, supply of matching tower members and other materials.

(*ii*) The Board issued (September 1976) a work order for Rs. 34·30 lakhs for construction of 66/32/11 KV Sub-station at Balurghat. The Board also purchased 2 transformers of 8 MVA 66/33/11 KV ratings at a cost of Rs. 15 lakhs as per original scheme. The transformers could not be transported to the site due to load restrictions on certain bridges/culverts enroute to Balurghat. Consequently the Board decided (February 1983) to instal two transformers of 5 MVA/66/33 KV and two transformers of 3 MVA (66/11 KV) rating at the said Sub-station and a revised work order valuing Rs. 65 lakhs was issued (July 1983) by the Board with the target date of completion by December 1983. This involved change of original foundation layout drawing of the sub-station. The requisite drawings and materials were made available only by November 1986. The sub-station was partially commissioned (June 1988) after spending a sum of Rs. 69·02 lakhs.

The following observations are made:

(1) Utilisation position of the two transformers of 8 MVA was not intimated to Audit till December 1988.

(2) 14·90 acres of land valuing Rs. 0·53 lakh was left unutilised since 1970.

(3) One 11 KV 7 panel switch board valuing Rs. 1·60 lakhs procured in 1979 got damaged and the same had to be repaired (June 1988) at a cost of Rs. 0·32 lakh before installation.

(4) A work order valuing Rs. 2·06 lakhs for construction of Switch Yard fencing was awarded (April 1985) to United Enterprises, Siliguri with the stipulation to complete the work within three months from the date of handing over of the site. Though the site was handed over in November 1985, the work was completed in March 1987 owing to delay in supply of required materials by the Board. The firm preferred (March 1987) a claim for Rs. 0·39 lakh as price escalation which was still pending (December 1988).

(5) An expenditure of Rs. 31·38 lakhs (including Rs. 2·19 lakhs being the cost of additional work) was incurred up to March

1988 on civil works against the approved cost of Rs. 27·36 lakhs. The extra expenditure of Rs. 4·02 lakhs had not been approved by the Board so far (March 1989).

(*iii*) The Planning Commission approved (October 1976) the Centrally sponsored scheme of 220 KV Santhaldih-Chandil Single Circuit line at an estimated cost of Rs. 277 lakhs (West Bengal Rs. 201 lakhs and Bihar Rs. 76 lakhs) with a view to connecting the Joda (Orissa) Chandil (Bihar) grid system with Santhaldih (West Bengal) grid system for transfer of power between systems.

The Board approved (September 1981) the scheme for Rs. 272·72 lakhs and issued (December 1981) work order after 5 years from the date of approval of the scheme by the Planning Commission. Meanwhile, the Board procured materials valuing Rs. 166·08 lakhs from time to time up to 1984-85 under IDA credit agreement. The erection order was issued (October 1982) to AMCON Engineering Company (P) Limited of Calcutta at a cost of Rs. 29·85 lakhs with the stipulation to complete the work by December 1984.

The Planning Commission approved (March 1986) the revised estimate of Rs. 432·80 lakhs (West Bengal: Rs. 318·08 lakhs and Bihar: Rs. 114 lakhs). However, the Board incurred an expenditure of Rs. 337·22 lakhs up to March 1987 as against the revised estimate of Rs. 318·80 lakhs.

The work was completed in February 1988 and the line was energised in March 1988. The total expenditure incurred by the Board for implementation of the said line could not be ascertained in Audit due to non-production of necessary records by the local management.

The Central Electricity Authority attributed the delay in completion of the work to the following:

—delay in issuing of work order,

—delay in securing forest clearance,

—theft of tower members.

Due to time overrun by more than 12 years, there was significant price escalation of materials and labour and as a result the estimated cost of the work increased by Rs. 136·22 lakhs (67·8 *per cent*) till March 1987.

(*iv*) The Board approved (May 1984) the construction of a Sub-station at Katwa along with a 56·6 kms 132 KV line from Katwa to Gokarna. The work was proposed to be completed by March 1987. Though the work order for Rs. 286·39 lakhs was issued (July 1984) for construction of the Sub-station, the issuance of erection orders to contractors was delayed by four years due to delay in finalisation of land compensation cases and preparation of foundation layout drawings. The erection orders for 11 items out of 16 items were issued (May 1987 to May 1988) to the contractors for a total cost of Rs. 108·95 lakhs against the previous estimates of Rs. 78·73 lakhs. Up to May 1988 only 28 *Per cent* of the work was completed at a cost of Rs. 30·80 lakhs. The erection orders in respect of balance 5 items have not been issued (March 1989).

A portion (25 kms) of 56·6 kms 132 KV Katwa—Gokarna line from Katwa to Salar was completed (March 1988) at a cost of Rs. 101·15 lakhs by Sun Steel Industries (Private) Limited but could not be brought into use at its rated voltage of 132 KV due to non-completion of 132 KV Sub-station at Katwa resulting in unproductive investment of Rs. 131·95 lakhs.

(*v*) Against a deposit of Rs. 6·79 lakhs in 1978 by South Eastern Railway for obtaining power supply at 33 KV at Adra Railway Station, the work was completed in October 1985 at Rs. 10·73 lakhs (transmission line Rs. 5·19 lakhs and terminal arrangement Rs. 5·54 lakhs) though in terms of erection orders of June 1983 and August 1984, the Board was to incur only Rs. 6·63 lakhs. For delay in execution of the work (Scheduled date was 1979-80, actual date of completion October 1985), the Board had to incur an additional expenditure of Rs. 4·10 lakhs, (of which, Rs. 2·11 lakhs, to be borne by South Eastern Railway has not as yet been claimed because of delay in execution.

(*vi*) The work relating to construction of 11 KV line between Purulia and Jhalda at an estimated cost of Rs. 0·71 lakh (labour) remained incomplete after partial execution as Monobin and Company, the contractor left the work after the occurance of theft in June 1979 involving material worth Rs. 1·37 lakhs; Rs. 0·29 lakh paid by the insurance company against the theft was collected and retained by the contractor. Board cancelled the order in January 1988 after which the work is left incomplete. Labour cost of the work done by the contractor was Rs. 0·36 lakh.

(*vii*) The work of 11 KV Purulia—Balarampur line estimated to cost Rs. 0·40 lakh (labour) was abandoned by Gem Construction in December 1974 after executing work worth Rs. 0·16 lakh (labour) without returning materials worth Rs. 0·42 lakh. The Board cancelled the order (June 1979) leaving the work incomplete.

No action was taken by the Board for recovery of the cost of materials (March 1989), though the Legal Adviser of Board advised to institute money suit by August 1983.

3A.10 **Procurement of land and its development**

3A.10.1 *Non-utilisation of land*

The Board has not prescribed any norm as to the requirement of land for construction of 220 KV, 132 KV, 66 KV and 33 KV Sub-stations. Consequently Audit could not verify the quantum of land purchased/requisitioned in excess of the requirement in any place.

The records maintained by the Board are not specific as regards location of the land, its quantum, utilisation and price paid thereagainst. However, land register maintained for recording land transactions revealed that up to 1987-88, land measuring 6,662·170 acres was acquired/purchased for construction of Sub-stations, lines, power stations etc. out of which 1,046·525 acres was transferred to West Bengal Power Development Corporation Limited in 1986-87 and 433·880 acres was reserved for Bakreswar Thermal Power Project. Out of the remaining 5,181·765 acres, 883·22 acres was vacant land of which 514·73 acres was acquired for construction of Sub-stations. No details as regards utilisation and purpose of acquisition of 368·49 acres of land was available. In Balurghat 19·200 acres purchased for construction of 66·33 KV sub-station, 14·300 acres valuing Rs. 0·53 lakh remained unutilised (December 1988) since 1970.

The Board could not indicate the extent of utilisation of 493·840 acres of land acquired/purchased from 1955 onwards in different districts of the State and the extent of the portion that remained unutilised.

The Member (Transmission and Distribution), however, proposed (February 1988) derequisition of surplus land. Final result thereof is awaited (December 1988).

3A.10.2 *Land development*

The contractor, who was entrusted (October 1976) with the work of 25,000 cubic feet earth filling at Lakshmikantapur sub-station in 24-Parganas district, requested (November 1977) for determination of the contract amount after completion of 96 *per cent* of the work estimated to cost Rs. 2·56 lakhs. The contract was determined (December 1977) on payment of

Rs. 2·52 lakhs, although the higher officer had observed (December 1977) that about 50 *per cent* of the work had been done. Sixty *per cent* of the security deposit (Rs. 0·15 lakh) was also refunded (December 1977) to him. The quantum of incomplete work was variously appraised by different authorities without coming to any definite conclusion. The incomplete work was awarded (November 1981) to S.M. Chatterjee and Company and got completed (August 1984) at a cost of Rs. 2·39 lakhs without fixing responsibility for wrongful release of payment to the first contractor.

The Board was, thus, put to incur an extra expenditure of Rs. 2·35 lakhs, on payment of total sum of Rs. 4·91 lakhs against the estimated cost of Rs. 2·56 lakhs.

3A.11 **Theft of power lines, equipment and stores**

Theft of power lines, equipment and stores resulted in a loss of Rs. 256·29 lakhs to the Board in four cases as detailed below:

(*a*) Pilferage (Rs. 230·85 lakhs): Against the Transmission and Distribution assets (valued Rs. 2,045·83 lakhs) created during the three years up to 1986-87 power lines equipment and stores lost through pilferage were of the value Rs. 230·85 lakhs (about 13 *per cent* of assets created).

(*b*) Restoration work (Rs. 22·30 lakhs): Theft of tower members at Murshidabad resulted in collapse of 34 towers in 132/66 KV lines in storms (February/March 1988). Restoration work on emergency basis through negotiation (April 1988) cost the Board Rs. 22·30 lakhs.

(*c*) Stock shortage (Rs. 1·98 lakhs): The stores verification (July 1982) detected shortage of 49,393 kgs (valued at Rs. 1·98 lakhs) of tower members procured for construction of 220KV Santaldih—Chandil Line and stored (November 1978) in Durgapur Divisional Stores and Purulia Sub-Divisional Stores.

(*d*) Store materials valuing Rs. 1·16 lakhs were found (March 1988) stolen from the Divisional Store, Siliguri,EHT Construction Division. No action has been taken by the Board so far (March 1989) to fix responsibility for the shortages/theft.

3A.12 **Cost Trends**

The cost of operation and maintenance on transmission lines per Kwh/Ckm at various points of supply for the three years up to 1987-88 were as under:

Particulars	1985-86	1986-87	1987-88
(*i*) Cost of operation and maintenance expenses (paise per Kwh)			
(*a*) Transmission	1 4	1·3	1·3
(*b*) Distribution	12·3	12·7	13·1
(*ii*) Operation and maintenance expenses on transmission system per Ckm (Rupees)	5,674	5,787	6,619

It would be seen from above table that:

—the transmission expenses per Kwh of energy sold decreased from 1·4 paise in 1985-86 to 1·3 paise in both 1986-87 and 1987-88 whereas distribution expenses increased from 12·3 paise in 1985-86 to 13·1 paise in 1987-88.

—operation and maintenance charges on transmission and distribution system per Ckm of line increased from Rs. 5,674 in 1985-86 to Rs. 6,619 in 1987-88.

Reasons for variation in transmission and distribution and operation and maintenance charges have not been analysed by the Board (December 1988).

3A.13 **Other points of interest**

3A.13.1 *Non-realisation of dues*

The Board supplied materials valuing Rs. 155·68 lakhs to R. Ghosh and Company, Calcutta up to July 1985 for execution of Bishnupur—Chandrakona 132 KV D/C line. The Contractor completed the line in August 1985 and consumed materials worth Rs. 135·17 lakhs and balance materials valuing Rs. 20·51 lakhs were not returned to the Board. The Contractor was paid Rs. 45·58 lakhs against the erection order of Rs. 12·00 lakhs by the local management up to October 1985 without obtaining the orders of the Board.

It was noticed in Audit that a sum of Rs. 41·19 lakhs was recoverable from the contractor on account of the following:

(*i*)	Materials not returned ..	.. Rs. 20·51 lakhs
(*ii*)	Excess payment towards escalation charges	.. Rs. 6·02 lakhs
(*iii*)	Non-return of tools and tackles ..	.. Rs. 6·34 lakhs
(*iv*)	Excess payment of head loading charges	.. Rs. 3·59 lakhs
(*v*)	Cost of rectification of defective works	.. Rs. 1·00 lakh
(*vi*)	Excess payment for concrete work ..	.. Rs. 3·30 lakhs
(*vii*)	Cost of non-returned tent and tarpaulins	.. Rs. 0·43 lakh
		Rs. 41·19 lakhs

The security deposit through Bank Guarantee for Rs. 0·60 lakh by the contractor expired in August 1985. Neither the contractor has preferred the final bill so far (February 1989) nor the Board has initiated to ascertain the final amount recoverable from him. Although the contractor had been executing certain other works awarded by the Board, the Board had not taken any initiative to recover/adjust the amount due from him.

3A.13.2 *Avoidable expenditure on wooden cable drums*

1,097 cable drums were procured between 1979-80 and 1981-82 in five divisions for utilisation in 132 KV and 220 KV lines. Delay in utilisation resulted in the decay of wooden drums which necessitated rewinding of the cables therein for use in lines. The cost of fresh drums, repairing of old drums and charges on account of rewinding of cables amounted to Rs. 12·10 lakh. The time lag between the date of procurement of the cable drums (1979-80 to 1981-82) and their utilisation (after 1985-86) due to improper planning (in procurement and erection of line) caused the Board to incur an avoidable expenditure of Rs. 12·10 lakhs.

3A.13.3 *Extra expenditure due to issue of materials to works without reference to the estimates*

The Board placed (October 1980) an order on A.G. Dastidar for laying 33 kms 33 KV S/C line from Ashoknagar to Bashirhat at a cost of Rs. 20·59 lakhs (cost of materials Rs. 18·94 lakhs and labour Rs. 1·65 lakhs). The work was to be completed within six months from the date of the order. As per order the Board was to supply major items of materials to the firm who would be entirely responsible to arrange insurance cover for all the materials issued to them as well as the executed portion of the work till it was taken over by the Board. The work commenced from November 1980 and issue of materials started from January 1981. No action was taken to get the insurance coverage to the fullest extent although the contractor had insured goods worth Rs. 2·00 lakhs against material worth Rs. 7·76 lakhs issued to the firm. Reasons for non-completion of the work within the scheduled/extended period were not on record. Meanwhile materials worth Rs. 0·25 lakh and Rs. 4·37 lakhs including conductor worth Rs. 2·87 lakhs were stolen from the custody of the contractor on 14th and 22nd July 1982 respectively.

The firm preferred (December 1982) claims with the Insurance Company. Against the claim for Rs. 0·25 lakh, the Board received (December 1986) Rs. 0·17 lakh from the Insurance Company. The claim for Rs. 4·37 lakhs, however, was not received (December 1988). At the time of leaving the job, materials worth Rs. 4·50 lakhs were lying with the firm. After persuasion, the firm re-started (April 1983) the balance work and the Board started issuing materials afresh for the work. The work was completed (October 1983) at a cost of Rs. 28·32 lakhs (cost of materials Rs. 26·07 lakhs and labour Rs. 2·25 lakhs). The Board issued (January 1981 to April 1984) materials worth Rs. 35·14 lakhs out of which materials valuing Rs. 26·07 lakhs were utilised. Though the firm's dues on account of erection cost and security deposit payable by the Board was only Rs. 0·95 lakh, the latter has to recover from the firm Rs. 8·07 lakhs being the value of materials not returned to the Board till December 1988.

Thus, negligence on the part of the management in issuing materials to the firm without reference to the estimated cost of work and ensuring proper insurance coverage has resulted in loss of materials valuing Rs. 8·07 lakhs. Further, delay in execution of work has resulted in extra cost of Rs. 7·73 lakhs due to escalation in cost of labour and materials.

3A.13.4 *Infructuous expenditure on idle staff*

The staff posted in one Division in 1976-77 for the construction of 66 KV Chalsa sub-station remained idle for want of work for 43 months after completion and transfer (September 1984) of the assets to the Operation and Maintenance wing till April 1988. Infructuous expenditure incurred by the Board during the period from October 1984 to April 1988 on idle staff amounted to Rs. 7·53 lakhs.

3A.13.5 *Avoidable expenditure due to transport of materials by road*

The Board placed (June 1980) an order on Sun Steel Industries (P) Limited of Howrah for fabrication, galvanising and supply of towers and accessories of 1,260 tonnes valuing Rs. 35·14 lakhs f.o.r. destination with stipulation of delivery at the rate of 150/200 tonnes *per* month to be started after 8 weeks. The materials were to be utilised in erection of 132 KV Hizli-Bishnupur D/C line.

In view of urgency, the firm was instructed verbally (confirmed in January 1983) to supply the materials by road transport with agreement to pay the difference between road transport charge fixed by the Board and railway freight prevailing at the time of delivery. During December 1980 to May 1985 the firm supplied 1,758·769 tonnes of tower materials, out of which 1,648·584 tonnes were supplied by road transport and the Board paid Rs. 3·01 lakhs to the firm as difference of freight charges without ascertaining the prevailing railway freight at the time of delivery of materials.

The tower materials so received on urgent basis could not be utilised for 2 to 3 years. Furthermore, the extra payment of Rs. 3·01 lakhs was unwarranted as the supply stipulated to be completed within 11 to 14 months was actually completed in 57 months.

3A.13.6 *Avoidable expenditures due to inadequate planning*

Storage space of 2,000 square feet was hired (15th May 1979 to 15th December 1984) at Howrah for accommodating three sets of 220 KV Air Circuit Breakers procured under IDA credit for EHT work against the indent of Durgapur Division which was much in advance of actual requirement (May-July 1986). All the sets were transferred (December 1984) to Durgapur where two sets could be utilised in May-July 1986. The remaining equipment remained unutilised (December 1988).

Thus, due to inadequate planning in synchronising the procurement with the execution of a scheme, the Board had to incur an avoidable expenditure of Rs. 2·29 lakhs (at the rate of Rs. 1·25 *per* sq. ft. *per* month up to 31st August 1981 from 15th May and Rs. 2 *per* sq. ft. *per* month from 1st September 1981 to 15th December 1984 onwards) towards payment of godown rent.

3A.13.7 *Extra expenditure due to delay in preparation and supply of drawings*

An order (value: Rs. 13·70 lakhs) for construction of one well foundation in the Tista river bed for erection of tower was placed in November 1982. Although the work was to be completed within May 1983, the Board could supply neither the designs and drawings of the well cap before 5th May 1983 nor steel materials to the firm. Meanwhile, with the onset of the monsoon the firm had to suspend the work and resumed it in January 1984. The work was executed (May 1984) at a cost of Rs. 12·98 lakhs which included an amount of Rs. 0·50 lakh paid (March 1987) to the firm for preparation of the site for the second time.

Thus, owing to delay in preparation and supply of drawings and materials, the Board incurred an extra expenditure of Rs. 0·50 lakh.

3A.13.8 *Irregular payment*

The Board issued (March 1981) an order for laying the line from Hizli to Chandrakona at a cost of Rs. 14·32 lakhs to S. M. Chatterjee and Company of Calcutta. The work was to be commenced on 10th April 1981 and completed by 30th June 1982. However, foundation drawings and designs were not finalised and the Board had to pay escalation charges of Rs. 6·01 lakhs to the firm due to delay (19 months) in supplying the drawings and designs.

The Board supplied the drawings and designs in November 1982 when the firm had started the work. The Board issued (November 1982 to May 1987) materials valuing Rs. 202·36 lakhs against which the firm utilised materials worth Rs. 169·14 lakhs and did not return the balance material valuing Rs. 33·22 lakhs and tools and tackles of Rs. 2·01 lakhs (December 1988).

As the firm failed to complete the work even after effluxion of more than 3 years from the target date of completion, the Board terminated (May 1987) the contract without imposing any penalty on the firm who by then had installed 202 towers and laid 38 kms line against the requirement of 212 towers and 47 kms line. A sum of Rs. 58·38 lakhs including escalation charges of Rs. 15·87 lakhs and excess payment of Rs. 8·63 lakhs due to error in calculation was paid (up to May 1987) by the local authority without obtaining the order of the Board. However, the payment made in excess of the ordered value and the proposal (August 1986) of the revised estimates of Rs. 65·41 lakhs were not approved by the Board (December 1988) for want of proper records. To realise dues from the firm, the Board instituted (November 1987) money suit for Rs. 50·46 lakhs in the High Court at Calcutta. Further development is awaited (December 1988).

The balance work was, however, completed (February 1988) departmentally at a cost of Rs. 6·09 lakhs including cost of materials.

3A.13.9 *Non-imposition of penalty*

The Board awarded (March 1983) to Hindusthan Brown Boveri Limited of Baroda construction work of 400 KV Switch yard on turn-key basis at a cost of Rs. 1,227·93 lakhs with completion target of October 1985. The value of the work was amended (December 1986) to Rs. 1,221·11 lakhs plus variation in price. Sales tax and excise duty subject to a ceiling limit of 30 *per cent.* The contractor completed, up to March 1988, the construction of five bays as against seven bays and the installation of six out of seven transformers. The Board paid Rs. 1,420·59 lakhs including price variation of Rs. 193·17 lakhs up to March 1988. The balance work spilled over to 1988-90.

Although the delay in completion of the work was mainly due to delay in procurement of materials by the contractor, the extension of time was granted without imposition of damages up to a maximum limit of five *per cent* of contract value (Rs. 61 lakhs).

The above matters were reported to the Management/Government in January 1989; their replies had not been received (March 1989).

3B. WEST BENGAL FINANCIAL CORPORATION

HIGHLIGHTS

One of the main objectives of the Corporation viz. to develop industries especially in no-industry districts of the State, had not largely been served, as only 14 *per cent* of its total assistance (up to 1987-88) went to these districts.

Due to delays in completion of procedural formalities by the Corporation/enterpreneurs, the Corporation could not avail of IDBI refinancing facilities in full, one of the main sources of funds for its operations; the shortfall ranging from 41 to 49 *per cent.* Due to poor recovery efficiency, it had to bear the burden of repayment to IDBI under 'IDBI Refinance Scheme'. It could not secure refinance in 3 cases, involving loan of Rs. 183·24 lakhs, for extending facilities to ineligible units.

Up to 31st March 1988, the Corporation's financial assistance to 7,616 industrial units (7,600 in private sector, 8 in public sector and 8 in joint sector) was Rs. 168·09

crores. The amount in default as on 31st March 1988 was Rs. 2,958·03 lakhs (Principal: Rs. 944·34 lakhs; interest: Rs. 2,013·69 lakhs) which included amount due in respect of suit filed cases (Rs. 217·18 lakhs) and units taken over by the Corporation under the provisions of Section 29 of the State Financial Corporations Act, 1951 (Rs. 1,379·68 lakhs). Defaults over Rs. 30 lakhs each in respect of 26 loanees contributed Rs. 1,203·51 lakhs representing about 41 *per cent* of the total default as on 31st March 1988. The Corporation did not have the means of ascertaining the number of units which had gone into production, units under implementation, units which had become sick, closed or abandoned. Generation of employment consequent on investment made has also not been assessed.

In contravention of its policy to nominate its directors on the Boards of the units, in which its investment was Rs. 25 lakhs or more, the Corporation had nominated its Directors in only 114 units out of 540 such units. Of these 114 units, there was no response from 45 units regarding acceptance of the nominations. Thus, practically the Corporation does not have means of ascertaining the state of affairs of 87 *per cent* of such units. The reports of nominee Directors who attended the meetings were more of a formality than containing a critical analysis on the functioning of the units, with the result it had not been able to take either preventive measures or remedial and timely action in case of sick/abandoned cases. A test check of the loan cases revealed inadequate and deficient pre-sanction appraisals which led to report of the units becoming sick/closed due to avoidable causes like non-availability of raw material, lack of market, shortage of working capital etc, while inadequate and delayed post-sanction follow-up action led to accumulation of heavy arrears.

The Corporation sustained a loss of Rs. 12·32 lakhs up to March 1988 on account of bad investment in the shares of four of the 27 units in private sector due to the units becaming unviable, market value of shares (Rs. 13·56 lakhs) in five units was less than the book value (Rs. 17·74 lakhs) while the remaining 19 units (investment Rs. 35·26 lakhs) had not declared any dividend since the date of investment, although they were making profits.

Re-scheduling of repayment of loans sanctioned during the 5 years ending with 1987-88 amounted to Rs. 2,111·28 lakhs in 142 cases. Even after rescheduling, 49 units were found to be defaulting. The Corporation had invoked the provisions of Section 29 of the Act in respect of 183 cases, of which 22 cases (Amount due: Rs. 221·13 lakhs) were disposed of at a loss of Rs. 99·68 lakhs.

Against 1,647 claims worth Rs. 811·03 lakhs lodged with Deposit Insurance and Credit Guarantee Corporation (DICGC) up to 31st March 1988, only 109 claims worth Rs. 250·12 lakhs were pending. 23 claims worth Rs. 84 61 lakhs were rejected and remaining claims were settled for Rs. 348·52 lakhs.

3B.1 **Introduction**

West Bengal Financial Corporation was established on 1st March 1954 pursuant to Section 3(1) of the State Financial Corporations Act, 1951 with the main object to aid and foster the development and growth of industries in the State, especially in the backward and no-industry district areas, by providing financial assistance by way of share participation, loans, etc., to medium, small-scale, cottage and tiny sectors and by identifying and promoting specific projects for utilisation of resources of the State.

3B.2 **Activities**

The main functions of the Corporation are—

—guaranteeing loans realised by industrial concernes,
—underwriting of issue of stock, shares, bonds or debentures by industrial concerns,
—acting as agent of the Central/State Government and financial institutions,
—subscribing to the stock or shares of industrial concerns,
—grant loans or advances to or subscribe to debentures of industrial concerns and
—to perform work incidental to and carrying out of those functions.

The Corporation has, however, at present taken up the following activities:

—underwriting of issue of shares of industrial concerns
—investment in shares of industrial concerns

—granting loans advances to industrial concerns
- acting as agent of the Central/State Government/financial institutions.

3B.3 **Organisational set up**

The management of the Corporation is vested in a Board of Directors headed by a Chairman. As on 31st March 1988, there were 12 directors—5 including the Chairman nominated by the State Government, 3 nominated by the financial institutions and 4 elected to represent scheduled banks, insurance companies, shareholders etc. The Managing Director is the Chief Executive of the Corporation assisted by other executives. The Corporation has 12 branches, each under the charge of a Branch Manager.

3B.4 **Scope of Audit**

The working of the Corporation was suo-moto examined by the Committee on Public Undertakings in 1974-75 in its First Report presented to the State Legislature in April 1975 and action taken thereon was contained in Fourth Report presented to the Legislature in April 1976. The present review covers the activities of the Corporation up to the period ending 31st March 1988.

3B.5 **Sources of finance**

3B.5.1 *Capital structure*

The initial authorised capital of Rs 10 crores was increased from time to time to Rs. 25 crores as on 31st March 1988 consisting of 25,00,000 shares of Rs. 100 each. The paid-up capital as on 31st March 1988 was Rs. 10 crores contributed by State Government (Rs. 4·76 crores), Industrial Development Bank of India (IDBI) (Rs. 4·76 crores) and others (Rs. 0·48 crore). The shares held by the State Government and IDBI include 40 000 shares each valued at Rs. 40 lakhs contributed as special share capital under section 4A(2) of the Act. This part of the paid-up capital was to be used for providing financial assistance on soft terms to small scale units, particularly units set up in backward areas, which experience difficulties in implementation of projects due to financial hardship of promoters. The Corporation also received between April 1983 and March 1988 Rs. 405 lakhs as share application money from the State Government (Rs. 250 lakhs) and IDBI (Rs. 155 lakhs) pending increase in Authorised

Capital. Although the Authorised Capital has been increased in February 1988, the share application money has not yet been converted into share capital (February 1989). An interest bearing loan of Rs. 210 lakhs in lieu of share capital was received from IDBI (Rs. 153 lakhs) and State Government (Rs. 57 lakhs). Terms and conditions for repayment of this loan have not yet been finalised (February 1989).

Under Section 6(*i*) of the Act, the Government had guaranteed the repayment of share capital, excluding special share capital and payment of minimum dividend thereon at the rate of 3·5 *per cent.* Subvention (Rs. 11·87 lakhs) paid by the Government (up to 31st March 1962) towards the guaranteed dividend remained outstanding for repayment till June 1988 (when the amount was repaid), although the earnings were sufficient to repay the amount to the State Government in subsequent years.

A special Reserve Fund was created in April 1962 in terms of Section 35A of the Act, to which dividend forgone by the State Government and IDBI was credited. The balance in the fund as on 31st March 1986 aggregated Rs. 148·29 lakhs. The fund was utilised by the Corporation for its business.

The Corporation also created a special Reserve as required under Section 36(*i*) (*viii*) of Income Tax Act, 1961. The balance in the fund as on 31st March 1988 aggregated Rs. 503·86 lakhs.

3B.5.2 *Borrowings*

The Corporation had resorted to issue of bonds and debentures to meet its working capital and the amount outstanding as at the end of March 1988 was Rs. 42·90 crores. The Government had guaranteed the repayment of these loans and payment of interest thereon. Funds were also borrowed from the Reserve Bank of India from time to time. The amount outstanding on this account as on 31st March 1988 was Rs. 2 crores. The Corporation had not borrowed funds from the State Government.

3B.5.3 *Refinance from IDBI*

The Corporation's major source of funds, however, has been from the Refinance Scheme of the IDBI under Section 7(4) of the Act. The amount outstanding under Refinance Scheme as on 31st March 1988 was Rs. 54·30 crores. Refinance facilities are available only against actual disbursement. The details of refinance sanctioned by IDBI, amount availed during each of the years and shortfall in utilisation during the 3 years up to 1987-88 are given in the following table:

Particulars	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
(*i*) Refinance sanctioned	2,232·33	3,474 24	3,178·11
(*ii*) Refinance availed	1,328·07	1,867·88	1,610·04
(*iii*) Balance unutilised	904·26	1,606·36	1,568·07
(*iv*) Amount repaid	632·00	737·10	908·30
		(*Per cent*)	
(*v*) Percentage of shortfall in utilisation ..	40·5	46·2	49·3

The shortfall in utilisation was mainly due to non-completion of legal formalities like agreements, hypothecation deeds etc. and delays in procurement of plant and machinery.

The following further points were noticed:

(*a*) The repayment of instalments of principal and interest to IDBI has to be effected by the Corporation irrespective of whether the same has been recovered from the loanees or not. While the Corporation had made the repayments of instalments of principal on due dates, there were extensive defaults on the part of the loanees. The Corporation had not evolved a procedure for ascertaining the defaulted amount of principal and interest against which the refinance from IDBI has been either fully or partly repaid. However, it was observed in Audit that against the repayment of Rs. 4,969·62 lakhs to IDBI since introduction of the refinance scheme in 1963-64, the amount actually recovered from loanees amounted to Rs. 4,370·89 lakhs to end of 1987-88. This necessarily affected the Corporation's resources which had to be made good through borrowings by issue of bonds.

(*b*) During the three years up to 1987-88, refinance applications in respect of 8 cases of sanctioned loans aggregating Rs. 183·20 lakhs had been rejected by IDBI due to non-adherence to eligibility criteria by the Coporation. Consequently, the Corporation was obliged to meet the funds from its own sources.

3B.6 **Overall financial position and working results**

3B.6.1 The Corporation which had maintained its accounts on mercantile basis till 1981-82 had switched over to cash basis of accounting from 1982-83. The preparation of accounts on cash basis was not only opposed to the basic concept of commercial accounting system but was also not in conformity with the provisions of the Act. The position regarding the resources and the pattern of their utilisation during the three years up to 1987-88 as disclosed in the accounts is detailed below:

	1985-86	1986-87	1987-88
		(Rupees in lakhs)	
A. Sources:			
(*i*) Increase in paid-up capital including share application money	64·00	190 00	310·00
(*ii*) Borrowings:			
(*a*) Bonds	605·00	797·50	907·50
(*b*) Refinance from IDBI ..	1,328·00	1,867·88	1,610·04
(*c*) Reserve Bank of India ..	200·00	190·00	200·00
(*d*) Loans in lieu of share capital ..	115·27	95·00	—
(*iii*) Recoveries of loans	506·10	544 00	738·62
(*iv*) Interest received	663·10	851 76	1,069·40
(*v*) Others	164·63	125·50	424·58
Total:	3,646·10	4,661·64	5,260·14

	1985-86	1986-87	1987-88
B. Application:			
(*vi*) Share participation	—	7 00	—
(*vii*) Loans disbursed:			
(*a*) Public Sector	4·12	1·00	—
(*b*) Joint Sector	0·96	5 00	—
(*c*) Private Sector	2,082 02	2,628 68	3,012 92
(*viii*) Repayment of borrowings ..	732·00	1,042·10	943·30
(*ix*) Redemption of bonds	110·00	165·00	.165·00
(*x*) Payment of interest	445·00	610 22	812 88
(*xi*) Cash and bank balance	(−)11·93	31·80	79 63
(*xii*) Administrative expenses	80·00	75 22	56·70
(*xiii*) Others	203·93	95·62	187·53
Total:	3,646·10	4,661·64	5,260·14

In all the three years the repayment of borrowings by the Corporation were partly effected either from internal resources or from fresh borrowings as recoveries of loans fell short of repayment obligations during these years. The assistance extended by the Corporation in all the three years up to 1987-88 had comprised almost entirely of term and composite loans to private sector. The difference between the amount disbursed and that received from IDBI was mainly met from share capital and other borrowings.

3B.6.2 The following are the working results of the Corporation for the last 5 years up to 1987-88:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
			(Rupees in lakhs)		
1. Income:					
(a) Interest and dividend earned	385·40	534·17	663·10	851·76	1,077·28
(b) Other income ..	19·37	10·05	10·72	15·79	43·12
(c) Write back of provision ..	—	0·66	—	—	—
Total—1 ..	404·77	544·88	673·82	867·55	1,120·40
2. Expenditure:					
(a) Interest on long-term loans etc., paid	281·19	392·71	442·98	610·22	812 88
(b) Other expenditure ..	64·35	63·40	79·22	95·83	123·50
	345·54	456·11	522·20	706·10	936·38
Less: Provision for bad and doubtful debts ..	—	—	—	5·00	10 00
Total—2 ..	345 54	456·11	522·20	701·10	926·38
3. Profit before tax (1-2) ..	59·23	88·77	151·62	166 45	194·02
4. Provision for tax	12·00	24 00	56·00	55·00	61·11
5. Profit after tax (3-4) ..	47·23	64·77	95·62	111 45	132 91
6. Other appropriations ..	23·69	35·51	60·65	71·58	93·61
7. Surplus available after taxation and reserve (5-6) ..	23 54	29·26	34·97	39 87	39·30
8. Dividend (at 3·5 *per cent*) payable	23·86	29·26	33·29	35·00	35·00
9. Total return on capital employed	340·42	481·48	594·60	776·67	1,006·90
10. Percentage of return on capital employed	6·6	7·8	7·9	8·4	9·0

While the Corporation's income during 1987-88 registered an increase of 29·1 *per cent* over the previous year, expenditure went up by 32·6 *per cent.* The main reasons for the increase in expenditure during 1987-88 were:

(*i*) Increase in finance charges (Rs. 211·02 lakhs).
(*ii*) Increase in establishment expenditure (Rs. 15·28 lakhs) and
(*iii*) Writing off of bad debts (Rs. 3·98 lakhs).

The percentage of return on capital employed had increased from 6·6 in 1983-84 to 9·0 in 1987-88. The Corporation had not taken credit for interest in the Profit and Loss Account up to March 1982 in respect of dues from certain defaulting parties but kept the amount in suspense account. Out of interest of Rs. 113·52 lakhs, thus, credited to suspense account up to 31st March 1982, the Corporation had recovered/adjusted a sum of Rs. 35·48 lakhs only over a period of 6 years up to 1987-88 leaving a balance of Rs. 78·04 lakhs still under the suspense account. From 1982-83 interest is credited on cash basis.

3B.7 **Financial assistance**

3B.7.1 Financial assistance from the Corporation is available for setting up new industrial projects as also for expansion, diversification or for modernisation of existing ones (project cost up to a limit of Rs. 3 crores in each case). The assistance is available in the form of short-term or long-term loans and guaranteeing of deferred payments. The assistance is also available for underwriting the issue of shares of the industrial units or subscription to the shares of industrial units from special share capital of the Corporation. The entrepreneurs of such classes of industrial units are to submit applications to the Corporation giving details about the installed capacity and estimated cost of the project, location, availability of infrastructure facilities, marketability of products, existing financial arrangements, etc. The Corporation takes up technical and financial appraisals to ascertain the feasibility of the project and background of the entrepreneurs. Sanction for financial assistance is accorded after satisfying itself about the viability of the project and disbursement is made after entering into an agreement with the entrepreneur.

Up to 31st March 1988, the Corporation's financial assistance to 7,616 units (7,600 in private sector, 8 in public sector and 8 in Joint sector) was Rs. 16,809·37 lakhs (share participation;

Rs. 72·58 lakhs, seed capital assistance: Rs. 7·22 lakhs, term loans: Rs. 15,646·46 lakhs, composite loans: Rs. 558·21 lakhs, margin money loans: Rs. 137·61 lakhs, margin money grants: Rs. 7·82 lakhs and assistance under Central/State Government incentive schemes: Rs. 379·47 lakhs). Over 97 *per cent* of the total assistance went to private sector and only 14 *per cent* went to 1,916 units in 5 districts (Coochbehar, Purulia, Jalpaiguri, Darjeeling and Bankura) notified as 'No Industry Districts' by the Government of India. Thus, one of the main objectives of the Corporation viz., to develop industries especially in "No Industry Districts" is yet to be achieved. Information about the total number of units which had gone into production, units under implementation, units which had become sick, closed or abandoned had not been ascertained by the Corporation. The Corporation had also not assessed the generation of employment consequent on the investment made.

The performance of the Corporation under the various schemes is discussed in the succeeding paragraphs.

3B.7.2 *Investment in shares*

The Corporation had, up to 31st March 1988, invested Rs. 72·58 lakhs in the share capital of 27 units in private sector. Certain cases of bad investment were noticed in Audit. One of the units—Footfeel (India) Private Limited—in which the Corporation had invested Rs. 12·08 lakhs (Rs. 2 lakhs in shares and Rs. 10·08 lakhs in term-loan) having been closed in August 1986, the assets were sold for Rs. 11 lakhs and there was no surplus to realise the investment in shares after adjusting the principal of the loan and a part of outstanding interest thereon. Two losing units—Engel India Machine Tools Limited and Incheck Tyres Limited—(investment: Rs. 9·49 lakhs) were taken over by Central/State Government as sick units and these shares having practically no market value, Rs. 8·98 lakhs was written off in the accounts for 1981-82 leaving a balance of Rs. 0·51 lakh in the books of accounts of the Corporation. Another unit—Abrasive and Casting Limited (investment: Rs. 2 lakhs) having been amalgamated with Wood Polymer Limited in March 1983 in pursuance of a decision of the Gujarat High Court, the Corporation received one share in Wood Polymer Limited for every 4 shares held by it in the assisted unit, thereby losing an amount of Rs. 1·84 lakhs of the investment. Thus, the Corporation sustained a total loss of Rs. 12·82 lakhs in its investment.

Out of the 26 units (investment: Rs. 59·76 lakhs) in which the Corporation was holding shares as on 31st March 1988, the shares in respect of 5 units (investment: Rs. 17·74 lakhs) were quoted in the stock exchange. The market value of shares (Rs. 13·56 lakhs) of these 5 units was less than the book value (Rs. 17·74 lakhs). Shares of 21 units (investment: Rs. 42·02 lakhs) were not quoted in the market. The Corporation had neither assessed the working of the assisted units nor ascertained from time to time the market value of shares held in these units.

The Corporation received a total dividend of Rs. 1·18 lakhs during the last 5 years up to 1987-88 from 7 units (investment: Rs. 24·50 lakhs). 19 units (investment: Rs. 35·26 lakhs) had not declared any dividend since the date of investment.

The Corporation retained as on 31st March 1988 investment to the extent of Rs. 23·43 lakhs in all units beyond the maximum period of 7 years in contravention of clause (*f*) of Section 25(1) of the Act. This had adversely affected the recycling of the available resources among more units.

3B.7.3 *Special share capital assistance*

The Corporation raised during 1980-81 and 1985-86 special share capital of Rs. 80 lakhs under Section 4A(2) of the Act, contributed by the State Government and IDBI in equal proportions for providing financial assistance on soft terms to new entrepreneurs who did not have sufficient funds to meet the level of contribution expected of them. Of Rs. 61·94 lakhs disbursed to 62 units up to 31st March 1988, Rs. 20·46 lakhs were invested in the share capital of 14 units and Rs. 41·48 lakhs were disbursed as soft loan to 48 units. As on 31st March 1988, the Corporation's investment in shares stood at Rs. 18·46 lakhs to 13 units while the amount outstanding against soft loan was Rs. 42·97 lakhs (Principal: Rs. 41·48 lakhs and interest: Rs. 1·49 lakhs) of which Rs. 9·13 lakhs was overdue as on that date from 16 units.

3B.7.4 *Seed capital assistance*

The assistance under this scheme (introduced in 1987-88) is available to new entrepreneurs having technical knowledge and/or professionally qualified persons who do not have sufficient funds of their own to cover their share of contribution for development of small and medium scale units under the refinance scheme of IDBI. The amount of assistance is normally not to exceed Rs. 15 lakhs in each case. The assistance is in the form of an interest-free loan recoverable in suitable instalments with a service charge of one *per cent per annum.* The Corporation disburses the amount and receives the same from IDBI to be repaid in the same instalments as applicable to the loans sanctioned to the units. Assistance amounting to Rs. 7·22 lakhs was granted to two paper producing units during 1987-88.

3B.7.5 *Loan assistance—Term and composite loans*

The Corporation extends term loans up to Rs. 60 lakhs in the case of a company with limited liability and up to Rs. 30 lakhs in other cases for the purpose of acquiring fixed assets for setting up new industries and expansion of existing units. Any small or medium scale unit is eligible for such assistance, provided the project is technically feasible and economically viable and its cost does not exceed Rs. 3 crores. It also extends composite loans up to a limit of Rs. 0·50 lakh to the artisans as well as industrial units in the tiny sector with a view to generating more production and self employment in the rural areas. The Corporation conducts a detailed appraisal for evaluation of the project for which loan assistance is sought and the loans are sanctioned on the basis of these appraisals.

The Corporation charges different rates of interest in respect of different schemes and different classes of customers. The rates of interest charged vary from 14 to 19 *per cent* and in respect of industries set up in backward areas interest rebate up to 2 *per cent is extended.*

Loans sanctioned by the Corporation are repayable after a period of moratorium extending up to 2 years and the period of repayment ranges between 3 and 8 years excluding the moratorium period, depending upon the scheme to be assisted. Longer moratorium period for repayment is allowed for loans sanctioned to industries in backward areas. The Corporation also reschedules the repayment of loans at the request of the assisted units.

The Corporation had received up to 31st March 1988, 16,606 applications for loans aggregating Rs. 38,950·76 lakhs, out of which 5,182 applications for Rs. 15,847·71 lakhs had either lapsed or were withdrawn or cancelled while 135 applications for Rs. 496·18 lakhs were awaiting sanction as on that date. In respect of 11,289 effective sanctions for Rs. 22,606·87 lakhs, the Corporation disbursed Rs. 16,204·67 lakhs representing about 72 *per cent* (term loans: Rs. 15,646·46 lakhs and composite loans: Rs. 558·21 lakhs) up to 1987-88 against 7,582 applications.

The age-wise break-up of the pending applications as on 31st March 1988 is given below:

Period	Number of applications	Amount (Rupees in lakhs)
Less than 6 months	76	242 08
6 to 12 months	46	146 21
12 months and above	13	107 89
Total	135	496 18

Out of the total loan assistance of Rs. 16,204·67 lakhs disbursed to 7,582 units up to 31st March 1988, Rs. 173·70 lakhs (1·1 *per cent*) were disbursed to 8 units in public sector, Rs. 191·19 lakhs (1·2 *per cent*) to 8 in joint sector units and Rs. 15,839·78 lakhs (97·7 *per cent*) to 7,566 in private sector. Of the total effective sanctions (Rs. 22,606·87 lakhs) and disbursements (Rs. 16,204·67 lakhs) up to 31st March 1988, the effective sanctions and disbursements to units in backward districts in the State worked out to 46·08 *per cent* (Rs. 10,417·96 lakhs) and 44·30 *per cent* (Rs. 7,179·78 lakhs) respectively.

Data showing industry-wise disbursements at the end of each of the three years up to 1987-88 is given in the following table:

Sl. No.	Category of Industry	At the end of 1985-86		At the end of 1986-87		At the end of 1987-88	
		Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)	Number	Amount (Rupees in lakhs)
1.	Engineering	902	3,209·18	1,129	3,719·31	1,277	3,984·78
2.	Chemicals and Pharmaceuticals ..	323	1,190·42	362	1,587·11	465	2,076·84
3.	Cotton and Silk Textiles	1,137	448·70	1,578	508·83	2,016	627·34
4.	Rubber Products	46	148·74	55	193·83	64	231·69
5.	Paper, Paper Board, Printing and Publishing	188	1,066·31	234	1,222·84	274	1,546·44
6.	Plywood, Woodcraft, Wooden furniture ..	279	202·91	299	366·44	343	433·34
7.	Hotel Industry	40	306 33	49	467·21	64	432·13
8.	Transport	54	48·87	57	55·22	79	77·52
9.	Tannery, Leather products	174	103·56	219	123·44	242	140·50
10.	Electronics	32	235·00	42	286·76	63	355·10
11.	Miscellaneous	1,609	3,577·49	2,115	4,643·20	2,695	6,298·95
	Total	4,784	10,537·51	6,139	13,174·19	7,582	16,204·63

As may be seen from the above table, assistance to engineering industry was of the order of 25 *per cent*, followed by chemicals and pharmaceutical industry with assistance of 13 *per cent* and paper and printing industry with 10 *per cent* of the total assistance.

It was, however, observed that despite increasing trend in default in respect of repayment of principal and payment of interest in the above three categories of industries during the 3 years up to 1987-88, the Corporation had pumped more loan assistance to these industries compared to other industries.

It was noticed in Audit that abnormally long time was taken by the Corporation in sanctioning the loans from the dates of application. In 13 out of 36 cases test checked (September 1988), a period of over 6 months was taken in processing the applications. Delays in processing the applications, as could be seen from the records, were mainly due to non-completion of formalities by the entrepreneurs.

Considerable delay was also noticed in respect of disbursement of the first instalment for which the Corporation was fixing time limit (2 years) for drawal. Delay in disbursement affected the progress of implementation of the projects. A test check conducted in Audit in November 1988 in 107 cases revealed that in 18 cases delay in disbursement of first instalment was more than 3 years, in 61 cases delay ranged between one and three years and in 28 cases it was less than one year. The delay was mainly due to following reasons:

(*i*) inability/unwillingness of the promoters to comply with the terms and conditions of the sanction (56 cases),

(*ii*) inability of the promoters to comply with legal formalities (41 cases),

(*iii*) inability of the promoters to arrange working capital (15 cases),

(*iv*) inability of the promoters to obtain necessary permission/licence from the Government (9 cases) and

(*v*) other reasons (24 cases).

The Committee on Public Undertakings (1974-75) in their First Report emphasized (April 1975) that the Corporation should take all steps so that no undue delay occurred in sanctioning loans. During evidence the Government stated (April 1976) that the Corporation was endeavouring to reduce the gap between sanction and disbursement with active co-operation of the borrowers.

Considerable gap in sanctioning and disbursement of the loans, however, still (November 1988) continues.

The following further points are noticed in test check of these loans:

(*a*) *Loan assistance to public sector units*

The Corporation disbursed term loans of Rs. 173·70 lakhs to 8 public sector undertakings up to the end of 1987-88. The amount outstanding as on 31st March 1988 was Rs. 152·70 lakhs, of which Rs. 43·23 lakhs was overdue on that date.

Out of 8 units, 6 units had gone into production, West Bengal Projects Limited was under implementation and Webel Television Limited was converted into a joint sector project which was running well. Of the 6 units under production, Silpabarta Printing Press Limited accumulated profits of Rs. 0·13 lakh as on 31st March 1987 while the other 5 showed unfavourable working results since inception, as detailed below:

Unit	Year up to which accounts were finalised	Loan assistance disbursed	Paid-up capital	Accumulated loss
		(Rupees in lakhs)		
Webel Video Devices Limited ..	1980-81	30·00	69·00	59·29
West Bengal Tourism Development Corporation Limited ..	1985-86	25·00	104·56	133·33
West Bengal Pharmaceutical and Phytochemical Development Corporation Limited	1986-87	30·00	221·00	61·97
West Bengal Mineral Development and Trading Corporation Limited	1986-87	9·80	290·08	275·08
Webel Electronic Communication Systems Limited	1985-86	12·74	20·54	16·69

It would be seen from the above that the accumulated loss (Rs. 133·33 lakhs) in West Bengal Tourism Development Corporation Limited exceeded its paid-up capital (Rs. 104·56 lakhs).

Unfavourable working results in these five units, as could be seen from the records, were due to initial teething troubles, delay in identification of various sources of raw materials, non-availability of imported raw materials, lack of trained personnel, poor labour productivity due to industrial unrest, severe power shortage, low occupancy ratio, poor liquidity and solvency position due to continuous cash losses and low demand etc.

(*b*) *Loan assistance to Joint Sector units*

The Corporation disbursed term loans of Rs. 191·19 lakhs up to the end of 1987-88 to 8 joint sector projects. Six of these, to which the Corporation had disbursed Rs. 159·78 lakhs, had gone into production. West Bengal Cements Limited (loan assistance: Rs. 25·00 lakhs) was sold by the promoter with the approval of the Corporation and the amount due to the Corporation was kept in a frozen loan account as a measure of financial relief to the buying company under the sale agreement; the balance as on 31st March 1988 being Rs. 37·68 lakhs. Infusion (India) Limited to which the Corporation had disbursed term loan of Rs. 6·41 lakhs became sick. The outstanding dues from the unit as on 31st March 1988 amounted to Rs. 17·17 lakhs. Out of the 6 units which had gone into production, Telerama (India) Limited and Webel Nicco Electronics Limited (loan assistance: Rs. 32·46 lakhs) are working well and earning profits, while four units are running in losses since inception as detailed below:

Unit	Products	Year up to which accounts were finalised	Loan disbursed	Paid-up capital	Accumulated loss
			(Rupees in lakhs)		
Webel Electro Ceramics Limited	Electrical insulators	1985-86 (June 1986)	60·90	24·90	122·52
Webel Toolsind Limited	Electronic tools and implements	1986-87 (June 1987)	36·84	30·00	55·52
Webel Carbon and Metal Film Resistors Limited	Carbon and metal film resistors	1986-87 (July 1987)	22 48	63 00	17·89
Eastern Explosives Limited	Slurry explosives	1987-88 (June 1988)	30·00	200 00	93·63

The accumulated losses in Webel Electro Ceramics Limited and Webel Toolsind Limited exceeded their paid-up capital.

The unfavourable working results in these units were attributed (November 1988) by the Management to delay in implementation of the project due to inadequate power supply by West Bengal State Electricity Board, labour trouble, inferior quality of product due to bad technology, inept handling of the project by the Management at the initial stage, stiff competition of product in the market, inadequate working capital, problems in stabilisation of production, low marketability of the product etc. The fact remains that pre-sanction appraisal of the projects was inadequate and deficient regarding technology, managerial capabilities and market conditions.

(c) *Loan assistance to private sector units*

Although the Corporation had extended loan assistance to 7,566 units in private sector disbursing Rs. 15,839·78 lakhs as on 31st March 1988, there is no effective system for ensuring prompt receipt of audited accounts of assisted units and appraisals thereof. As a result, the Corporation had no information about the financial position of the assisted units under production.

As already pointed out in para 3B.7.1 *supra*, the Company had no information as to how many of these units had been running well, how many had been closed/became sick and reasons therefor etc. Deficiencies in pre-sanction appraisals, post-sanction follow-up etc. noticed in Audit during test-check of some of these units are discussed in the succeeding paragraphs.

3B.8 **Nominee Directors**

Under Section 27(2) of the Act, the Corporation can appoint one or more directors on the Boards of the assisted units to obtain feed back information on their working. The Corporation nominates directors on the Boards of the assisted units where its assistance exceeds Rs. 25 lakhs. It was observed in Audit that as against 540 such units in respect of which the loan outstanding was Rs. 8,305·11 lakhs as on 31st March 1988, the Corporation had its nominee directors on the Boards of 114 companies only (21 *per cent*) in respect of which loan amount outstanding was Rs. 2,492·97 lakhs (30 *per cent*). Of the nominee directors, 83 were represented by its own officers and 31 by outside professionals. It was further noticed in Audit that, of the above 114, 36 companies, where nominations were communicated by the Corporation during 1987-88, had not intimated their acceptance, while nine companies had not invited the nominees to the meetings of their Board not even once.

Thus, out of 540 units in which its assistance exceeded Rs. 25 lakhs, the Corporation had no means of ascertaining the working and financial health of 471 units (87 *per cent*) due to the fact that either it had not nominated its Directors (426 units) or there was no response from the units (45) where it had nominated Directors.

Out of 69 units where Directors were nominated and where Directors had been attending the Board meetings of the concerned units, reports from the Directors in respect of 20 units were awaited (November 1988). On the reports received from the Directors in respect of 49 units, recovery/rehabilitation action had been taken by the Corporation in the case of only 8 units. It is also observed that the reports submitted by the nominee Directors did not contain critical analysis of the functioning/ affairs of the units and suggestions for improving the health of the units, but they contained merely a factual statement of having attended the meeting, duly enclosing a copy of the minutes of the meeting.

Thus, the Corporation had not so far evolved an effective system to ascertain the state of affairs of each assisted unit in order to take either preventive measures to avoid a unit becoming sick or corrective measures by initiating timely rehabilitation/ rescheduling programmes in order to safeguard its financial interest in the assisted units.

3B.9 **Recovery efficiency**

3B.9.1 The Corporation had disbursed loans (term loans and composite loans) aggregating Rs. 16,204·67 lakhs from inception to 31st March 1988 to 7,582 units of which Rs. 12,608·14 lakhs were outstanding from 7,289 units as on that date. The repayment of loans aggregating Rs. 944·34 lakhs and interest on loans to the extent of Rs. 2,013·69 lakhs were overdue from 3,251 units as on 31st March 1988. The details of the amounts recovered during each of the 5 years up to 1987-88 are given in Annexure 5.

It would be seen that out of the total realisable amount of Rs. 4,883·31 lakhs (principal: Rs. 1,800·37 lakhs and interest: Rs. 3,082·94 lakhs) arrears (relating to the period up to 1986-87) accounted for Rs. 1,801·60 lakhs (Principal: Rs. 529·32 lakhs and interest: Rs. 1,272·28 lakhs). An amount of Rs. 1,925·28 lakhs (Rs. 214·00 lakhs against arrears) was recovered during the year 1987-88, representing only 39·4 *per cent* of the total amount due for recovery (Rs. 4,883·31 lakhs).

While there had been significant improvement in recovery performance during 1987-88, the amount of default was quite sizeable. Defaults over Rs. 30 lakhs each in respect of 26 loanees contributed Rs. 1,203·51 lakhs representing 41 *per cent* of total defaults as on 31st March 1988. The amount in default as on 31st March 1988 was Rs. 2,958·03 lakhs which also included amount due in respect of 50 suit-filed cases (Rs. 217·18 lakhs) and 161 units taken over by the Corporation by invoking the provisions of Section 29 of the Act, (Rs. 1,379·68 lakhs). The Corporation does not prepare age-wise analysis of the cases of default.

It was noticed in Audit that with the passage of time, composite loans had a tendency to become sticky. This was borne out by the fact that out of 1,450 loan accounts in respect of which credit guarantee was invoked from time to time, 921 accounts (63·5 *per cent*) with aggregate disbursement of Rs. 89·67 lakhs pertained to the first 4 years of operation of the scheme. Even if the guarantee claim of Rs. 87·51 lakhs is received in full against Corporation's dues totalling Rs. 102·12 lakhs outstanding on respective dates of invocation of guarantee, it stands to lose the balance of Rs. 14·61 lakhs.

The main reasons adduced by the Corporation for the defaults in repayments were inadequacy of working capital, shortage of raw materials, management failure and marketing constraints.

The Committee on Public Undertakings (1974-75) in their First Report observed (April 1975) that defaults frustrated the very basis of the credit system and recommended that wilful defaults should be dealt with firmly with strong hand, while defaults due to unavoidable circumstances should be properly diagnosed and treated with adequate guidance and help. During evidence the Government stated that periodical programme for inspection of the assisted units was regularly prepared by the Corporation and necessary inspections are carried out by different officers of the Corporation. Each assisted unit is required to be inspected by the inspection staff of the Corporation at least once in a year to verify, *inter alia*, whether the loans had been utilised for the specific purpose within the specified period and whether the assisted units continued to function on the lines indicated in the feasibility/appraisal/project report. It was noticed in Audit that most of the units had not been inspected even once. Out of 71 defaulting units test checked in Audit as many as 59 units had not been inspected at all and 12 units were inspected once in three years. The Corporation did not have complete information of assisted units which had become sick or had closed down and exact reasons for sickness.

A Default Review Committee (DRC), constituted to review cases of default, ceased functioning from June 1982 for failure on the part of the loanees to honour their commitment to the Committee. Default cases were reviewed by the Board till April 1986 when a new DRC consisting of 5 members—Managing Director of the Corporation as Chairman, one nominee from IDBI and three Directors of the Corporation as members, was formed. While reviewing 118 cases of default, the Board recommended legal action in 42 cases, to rehabilitate 15 units and in 45 cases a part of the dues were recovered. It, however, did not make any recommendations in respect of the remaining 16 cases. The DRC met 10 and 11 times during 1986-87 and 1987-88 respectively. The effect of efforts of the Committee in reducing the amount in default was not ascertainable in the absence of details.

3B.9.2 In cases of default, the remedies open to the Corporation include rescheduling of loans and grant of further loans/moratorium in deserving cases, resorting to legal action, recalling the loans in cases where the interests of the Corporation are in jeopardy, take over the management of the units under Section 29 of State Financial Corporations Act, 1951, sale of security and/or restraining the units from transferring or moving plant/machinery from the premises without the permission of the Board of Directors of the Corporation etc.

3B.9.2.1 *Re-scheduling of loans*

The Corporation permits re-scheduling of repayment of loan instalments as also interest as a measure of relief where the assisted units are unable to meet repayment obligations on the due dates. On sanctioning of the re-scheduling, the overdues of principal and interest are removed from the default list. The amount of loans and interest re-scheduled during the five years ended 1987-88 aggregated Rs. 2,211·28 lakhs in 142 cases. The extent of aggregate relief granted due to funding and waiver of interest is not ascertainable under the cash system of accounting. Eventhough the loans and interest were rephased, loanees continued to default in repayment of loans and payment of interest. In 49 cases loanees had defaulted in repayment of principal and payment of interest amounting to Rs. 542·37 lakhs as at the end of 1987-88 even according to revised schedule.

A few cases of default are discussed below:

(*a*) Between July 1979 and February 1982 a term loan of

Rs. 27 lakhs was disbursed to Chrome Chem (P) Limited for implementation of a project (cost: Rs. 31 lakhs) to manufacture industrial chemicals to be commissioned by May 1980. Due to delay in receipt of machinery, the project was delayed by over a year causing a cost overrun of Rs. 11·65 lakhs. Production commenced in June 1981 and the unit sustained a loss of Rs. 38 lakhs during the first six months due to frequent breakdowns of machinery, labour unrest and marketing problems. As a measure of relief, the Corporation rephased the loan by funding the arrear interest of Rs. 11·20 lakhs up to December 1983 and rephased the repayment schedule from February 1984 to April 1990. All efforts to revive the unit having failed, the Corporation took over the unit in September 1986 under Section 29 of the Act. The Corporation received (March 1988) Rs. 10 lakhs against credit guarantee claim but its efforts to sell the assets of the unit did not yield any results till August 1988. As at 31st March 1988, its outstanding dues were Rs. 63·30 lakhs of which Rs. 61·20 lakhs were overdue.

The unit's failure was attributed (August 1987) by the Corporation to lack of technical capability of the promoter. It was, however, not explained to Audit why the shortcoming on the part of the promoter could not be foreseen at the time of appraisal of the project. On the basis of a valuation done in August 1987, the fixed assets of the unit (except leasehold land) were of the value of Rs. 13·42 lakhs. The Corporation's dues of Rs. 53·20 lakhs (taking into account the guarantee claim receipt of Rs. 10 lakhs) thus remained grossly unprotected. The unit which was seized in September 1986, is yet to be disposed of (November 1988).

(*b*) A term loan of Rs. 30 lakhs was disbursed between March 1977 and November 1977 to Chains (India) Limited which proposed manufacture of bicycle chains. Although it commenced commercial operation in February 1977, it failed to break even and defaulted in payment of interest amounting to Rs. 4·55 lakhs. The default continued even after rephasement of the repayment schedule in January 1979 and total default rose to Rs. 45·82 lakhs (principal: Rs. 30 lakhs and interest and other charges: Rs. 15·82 lakhs) at the end of June 1981. Thereafter, the unit obtained (November 1981) loans totalling Rs. 27·30 lakhs from a nationalised bank—Punjab and Sind Bank and IDBI for its revival. Although the Board of Directors of the Corporation directed (July 1982) legal action to be taken against the unit following lack of interest on the part of the promoters, no such action was taken in view of the interest of other financial institutions.

The factory was closed in August 1981 following disputes among the promoters and the unit was wound up (March 1983) by a court's order obtained by one of its creditors. Since then all efforts of the official liquidator appointed for the purpose of selling the assets of the unit failed. As against Rs. 17·95 lakhs worth of assets as valued in October 1984, the dues of the Corporation at the end of March 1988 was Rs. 96·98 lakhs. Further developments were awaited (November 1988).

(*c*) A term loan of Rs. 29·12 lakhs was disbursed between March 1975 and June 1979 to Indian Lead (P) Limited, which proposed to manufacture lead products. The unit earned profits from 1976 and continued to run profitably till 1982. Since then the unit faced acute liquidity problem and, as a result, capacity utilisation decreased considerably leading to its net worth sliding from Rs. 48·64 lakhs as at the end of March 1982 to Rs. 4·22 lakhs as on 30th June 1985. On the unit defaulting the repayment, the Corporation wanted (May 1984) to take over the unit, but instead, rephased the repayment schedule at the request of the loanee unit. Except repayment of Rs. 3 lakhs up to June 1986 towards instalments of principal, the unit could not adhere to the revised schedule and its default as on 30th June 1986 was Rs. 8·77 lakhs which included principal of Rs. 5·99 lakhs. The Corporation did not take possession of the assets of the unit at the request (June 1986) of a nationalised bank which was reportedly considering a rehabilitation programme for the unit. The net worth of the unit came down to a negative figure against the Corporation's dues of Rs. 30·45 lakhs (principal: Rs. 21·28 lakhs and interest and other charges: Rs. 9·17 lakhs as on 31st March 1988). The rehabilitation efforts did not materialise so far (August 1988).

3B.9.2.2 *Revival of sick units*

Pursuant to a decision (November 1984) of the Board, rehabilitation study of 10 sick units was entrusted to two firms of consultants (WEBCON and EDCON) between June 1986 and September 1986 at a fee of Rs. 5,000 *per* unit (chargeable to the sick units). The study in respect of eight units (study of the remaining two not undertaken due to court cases) having shown constraints (dissension amongst directors: 4 units, labour trouble: 2 units and poor marketability: 2 units) too difficult to over-come for their rehabilitation, the Board decided (December 1986) not to undertake study in respect of other units.

3B.9.2.3 *Action taken under Section* 29 *of the Act*

Section 29 of the Act empowers the Corporation to take over the management and/or possession of the mortgaged properties, with the right to transfer by way of lease or sale of the industrial concern and realise the property pledged, mortgaged, hypothecated or assigned to the Corporation. Up to March 1988, the Corporation had invoked these provisions in respect of 183 units (amount due: Rs. 1,600·81 lakhs), of which 22 units (amount due: Rs. 221·13 lakhs) were disposed of at a loss of Rs. 99·68 lakhs.

Management stated (June 1988) that cases where Section 29 of the Act had been invoked were being taken to the courts of law resulting to delay in reopening of closed units and cases where the Corporation had sought to dispose of the assets, suitable buyers were not available resulting in delayed recovery.

3B.9.3 Certain aspects noticed during the review of a few units which closed or defaulted heavily are discussed in the following sub-paragraphs:

(*a*) Two term-loans of Rs. 23·80 lakhs and Rs. 6·20 lakhs were disbursed in April 1975 and April 1976 respectively to Eureka Chemicals Limited for setting up a plant (project cost: Rs. 80·71 lakhs) to manufacture carbon black. The unit started production in June 1977 but its working was unsatisfactory from the very beginning owing to very low capacity utilisation arising out of abnormal increase in the cost of raw materials. To meet its working capital requirements, it was decided (January 1982) to restructure the unit and accordingly, the management was transferred to another party in August 1982 who obtained (November 1982) a loan of Rs. 40 lakhs from IRBI to revive the unit with the concent of the Corporation.

It was seen in Audit that as the unit could not come out of its sickness even up to December 1985, IRBI along with the other financial institutions directed the Management of the unit to submit concrete proposals for running the unit viably, which was not complied with by it. Chances of reviving the unit having been found to be remote, IRBI obtained (March 1986) court's order to sell the assets of the unit for realising its dues of Rs. 55·64 lakhs. Initially there was no buyer for the assets of the unit but ultimately an offer of Rs. 35 lakhs was received in

August 1988 which was not considered adequate to cover the outstanding dues of the Corporation and IRBI. Further developments were awaited (November 1988).

(*b*) The Corporation disbursed a term-loan of Rs. 19·99 lakhs between March 1981 and April 1983 to Uma Boroflint Glass Industry Limited for manufacture of laboratory glassware. The unit commenced production in September 1982 but failed to market the first batch of products due to delay in receiving test certificate from the National Test House and its failure to manufacture the complete range of glassware on demand in the market. This was followed (during 1983) by acute shortage of working capital and dissension among the Directors. The performance of the unit being far from satisfactory, the entire loan with interest and other charges (Rs. 25·08 lakhs) was recalled in June 1984 by the Corporation followed by a notice to take over the unit. In December 1985 (*i.e.*, after about one and half years) when the officials of the Corporation visited the factory site with a view to taking over the fixed assets, the premises were found under lock and key of an Official Receiver appointed in the case filed by United Industrial Bank against the unit for default in repayment of its loan. The Corporation having failed to take an inventory of the fixed assets, posted security guards there. On an application of the Corporation, the Court appointed (July 1987) the said Receiver as the receiver for the Corporation also. On a visit to the factory with the Receiver in July 1987, all the machinery was found missing and a claim was lodged (August 1987) with the insurer. The case was closed for ever by the insurer in June 1988 since the Company could not meet their requirements. Although the incident of theft occurred when the factory was under the Official Receiver and also when the Corporation's security guards were posted there, these were neither reported to the Receiver nor was the agency deploying the guards on behalf of the Corporation held responsible therefor. Except for the leasehold land and buildings which were not valued by the Corporation, the Corporation's outstanding dues of Rs. 43·06 lakhs as on 31st March 1988 remained unsecured. Absence of post-sanction inspections and delay in seizing the unit resulted in the dues of Rs. 43·06 lakhs becoming doubtful of recovery.

(*c*) A term-loan of Rs. 22·58 lakhs was disbursed (February 1982) to Holy Indian Natural Products Limited for setting up a straw board factory (project cost: Rs. 37·52 lakhs) by March

1983. The implementation was delayed from the very beginning due to various lapses on the part of the promoters. Machines received in November 1982 remained uninstalled, spares lay scattered in open space and factory building remained incomplete. The loanee having failed to repay the first instalment of loan and interest thereon, the Corporation took possession of the unit in January 1985 when outstanding dues mounted to Rs. 24·69 lakhs. It sold (March 1986) machines and spares valuing Rs. 11·56 lakhs for Rs. 5·25 lakhs. The Corporation did not value land and buildings till 31st March 1988, when its outstanding dues rose to Rs. 31·02 lakhs. Credit guarantee claim amounting to Rs. 10 lakhs lodged in September 1986 is yet to be settled (November 1988). Absence of post-sanction inspections and delay in seizure of the unit resulted in the dues of Rs. 21·02 lakhs becoming bad.

(*d*) A term-loan of Rs. 18·70 lakhs was sanctioned in October 1978 by the Corporation to I.R.P. Semi Conductors (P) Limited which proposed manufacture of electronic products. Disbursement of loan was subject to the conditions that (*i*) the loanee should make adequate working capital arrangement with a bank, (*ii*) promoter's capital would be raised to Rs. 7 lakhs, (*iii*) arrangements would be made for obtaining necessary equity support and ancillary status from West Bengal Electronics Industries Development Corporation Limited, (*iv*) the loanee would obtain valid title deed from the State Government in respect of land and (*v*) the loanee would arrange seed capital assistance.

Before the fulfilment of any of the above conditions by the loanee, the Corporation agreed (August 1979) to stand as guarantor for the letter of credit opened by the loanee in a bank for the import of plant and equipment. Certain equipment ordered by the loanee on foreign suppliers arrived in November 1979 but as the loanee could not mobilise the required funds, the Corporation, as the guarantor, had to pay Rs. 4·13 lakhs between November 1974 and February 1984 being 90 *per cent* of the value of equipment to the bank. The loanee, in the meanwhile, had not made any progress even in respect of acquisition of land for the project but refused (February 1985), on the other hand, to pay the sum of Rs. 4·13 lakhs to the Corporation on the ground that the payments had been made to the bank and not to him. Various efforts made by the Corporation to sell the equipment kept in a bonded warehouse pending payment of an estimated import duty of Rs. 6 lakhs failed so far (August 1988). Credit guarantee claim of Rs. 2·32 lakhs lodged with DICGC in February 1988 was not received so far (August 1988).

The Corporation's dues of Rs. 4·13 lakhs besides an additional liability of about Rs. 6 lakhs, thus, remained virtually irrecoverable as a result of disbursing the loan before fulfilment of the conditions for disbursement. There was no indication, however, of the matter having been pursued further (November 1988).

(*e*) Two term-loans of Rs. 30 lakhs each were sanctioned (March 1985) to two units—Super Shelving (P) Limited (J) and Kraft Werke (P) Limited (K)—belonging to the same group which proposed manufacture of steel slotted angle system and modern pre-treatment and painting respectively. Unit 'K' was to be the ancillary of the unit 'J'. The two projects estimated to cost Rs. 51·81 lakhs and Rs. 47·30 lakhs respectively were to be completed within 8 months from the date of first disbursement of loans. Scrutiny revealed that norms for disbursement of loans to the units were not adhered to and adequate precautionary measures not taken to safeguard the Corporation's interest as would be evident from the following:

(*i*) First disbursement of loans of Rs. 10·77 lakhs to unit 'J' and Rs. 10·10 lakhs to unit 'K' (both payments were made to two suppliers of machinery) were made in March 1985 despite the fact that (1) the units did not have valid SSI certificates (2) both had recorded very high preoperative expenses and (3) both were found to have lent funds to others.

(*ii*) Internal Auditors appointed by the Corporation to check the affairs of unit 'K' reported (June 1985) that it lent its surplus funds of Rs. 2·78 lakhs as on 31st May 1985 to others.

(*iii*) There were reports against unit 'K' that it had been trading in pumpsets and had withheld payment due to the suppliers of pumpsets.

Disbursement of second instalment due in June 1985 had been withheld till March 1986 in view of the slow progress of work and dissension amongst Directors. Instead of nominating Directors on the Boards of the two units, the Corporation disbursed (April 1986) Rs. 6 lakhs and 4·86 lakhs to units 'J' and 'K' respectively at the instances of the Chief Minister.

On the units defaulting the repayment and the projects not coming up due to inefficient management, the Corporation took over the units in September 1987 when the units owed Rs. 38·64 lakhs to the Corporation.

Against the advance of Rs. 10·77 lakhs paid to the supplier of machinery for unit 'J', one machine worth Rs. 6·26 lakhs was received in July 1986. The supplier refused (March 1988) to refund the balance amounts of Rs. 4·51 lakhs on the ground that it had not received the advance from the Corporation. Against the advance of Rs. 10·10 lakhs paid to the other supplier for unit 'K', one machine worth Rs. 5·34 lakhs was received in July 1988 with the assurance of despatch of the remaining machines.

Thus, against its accumulated dues of Rs. 43·09 lakhs, the Corporation was holding machinery worth Rs. 11·60 lakhs. The balance remained unsecured. Further developments were awaited (November 1988).

3B.10 **Agency functions**

The Corporation has been acting as the disbursing agent of the State Government in operating various incentive schemes *viz.*, margin money loan, subsidy on fixed capital investment, subsidy for feasibility report, power subsidy, special employment subsidy, etc., to promote industrial growth. Margin money loan at the rate of 10 *per cent* of the total project cost is sanctioned by the State Government and disbursed through the Corporation and other agencies. Such loan carries interest at the rate of 10 *per cent* per annum with repayment commencing after liquidation of term-loan from financial institutions or 8 years whichever is earlier. The scheme of margin money grant is discussed in paragraph 3B.11.1 *infra.*

The following are the particulars of disbursements made in respect of various incentive schemes since inception up to 1987-88:

Schemes	1983-84	1984-85	1985-86	1986-87	1987-88	Total
			(Rupees in lakhs)			
(i) Margin money loan ..	74 07	23 93	24 17	7 68	7·76	137·61
(ii) State investment subsidy	0 02	–	18·08	31·09	65 05	117 25
(iii) Margin money grant under self employment scheme of registered unemployed (SESRU) ..	—	—	—	—	7·82	7·82

Up to 31st March 1988 the Corporation received Rs. 242·10 lakhs from the State Government as margin money loan and grants and disbursed Rs. 145·43 lakhs till that date leaving a balance of Rs. 96·67 lakhs unutilised. It also received state investment subsidy amounting to Rs. 117·25 lakhs-during the 5 years up to 1987-88 which it disbursed in full by 31st March 1988.

With a view to promoting industries in the backward areas, Government of India introduced (August 1971) a scheme for payment of subsidy to new industrial units set up in notified backward areas and also to existing units undertaking substantial expansion in such backward areas. The subsidy was equivalent to 10 to 25 *per cent* of fixed capital investment subject to a ceiling varying from Rs. 10 to Rs. 25 lakhs. The subsidy is disbursed out of the funds of the Corporation after obtaining prior sanction of the State Level Committee appointed for the purpose and the same is reimbursed by the Central Government along with interest at the rates charged by the Corporation on its loans for the period intervening between the dates of release of subsidy and the dates of reimbursement of the same by the Central Government. It was, however, noticed in Audit that during January 1977 to March 1985 the Corporation released subsidy to the extent of Rs. 38·67 lakhs to 30 units (against their entitlement of subsidy of Rs. 42·76 lakhs) treating it as a loan for which it charged Rs. 3·99 lakhs by way of interest from the entrepreneurs for the intervening period without lodging any claim with the Central Government for payment of such interest. Thus, the Corporation, besides non-payment of subsidy amounting to Rs. 4·09 lakhs to the entrepreneurs, saddled them with interest of Rs. 3·99 lakhs with corresponding short recovery from the Central Government.

The Management stated (August 1988) that the matter is being taken up with the Central Government.

3B.11 **Special schemes**

3B.11.1 *Self employment schemes for registered unemployed (SESRU)*

Inspite of extremely poor recovery in respect of Composite Loans as discussed in paragraph 3B.9.1 *supra*, the Corporation participated in another scheme *viz.*, Self Employment Scheme for the Registered Unemployed (SESRU) from 1987-88. This scheme, formulated by the State Government envisaged setting up of economically viable projects by unemployed young entrepreneurs registered with Employment Exchanges. Of the project cost, 75 *per cent* was to be advanced by the Corporation as loan as *per* terms and conditions and the remaining 25 *per cent* being borne by the State Government as margin money grant.

During the first year of its operation, the Corporation had sanctioned loans aggregating Rs. 277·05 lakhs (1,637 cases) and disbursed only Rs. 35·61 lakhs (177 cases). It received margin money grants totalling Rs. 98·21 lakhs from the State Government during 1987-88, out of which it disbursed only Rs. 7·82 lakhs to entrepreneurs during the year.

3B.11.2 *Credit guarantee scheme*

The Government of India formulated a credit guarantee scheme during 1961-62 and 1962-63 and operated it through Reserve Bank of India for partial guarantee against losses in respect of advances granted by specified credit institutions to small scale industrial (SSI) units. Similarly, financial assistance to small road transport operators, hotels and other service industries was covered by the Deposit Indsurance and Credit Guarantee Corporation (DICGC) from December 1971. The credit guarantee scheme of SSI units also was transferred to DICGC from 1st April 1981.

Guarantee is effected against payment of prescribed guarantee fee to DICGC from the date of first disbursement, up to the date of repayment of the last instalment of loan by the loanee. Credit institution can invoke the guarantee in the event of default after recalling the loan from the party, before resorting to legal remadies and without waiting for the outcome of the efforts to recover the dues. Under this scheme, reimbursement is made by DICGC to the extent of 50 to 90 *per cent* of the amount in default (revised from 50 to 60 *per cent* from January 1985).

The following points were noticed.

(*a*) The year-wise break-up of the number and amount of claims lodged with and entertained by DICGC as per its norms up to 1987-88 are as follows:

Year	Claims lodged		Claims Settled	
	Number	Amount (Rupees in lakhs)	Number	Amoun (Rupees in lakhs)
Up to 1983-84	63	98·71	16	14 80
1984-85	48	156 44	8	10·29
1985-86	718	136·91	24	17 38
1986-87	310	197·00	1,069	148·00
1987-88	508	221·97	421	158·05
Total:	1,647	811·03	1,538	348 52

Of the difference of Rs. 462·51 lakhs, 23 claims involving Rs. 84·61 lakhs were rejected in full and the remaining 1,515 cases settled for Rs. 348·52 lakhs on partial rejection of claims of Rs. 127·78 lakhs owing to undue inflation of claims lodged. Of the 109 claims for Rs. 250·12 lakhs remaining outstanding as on 31st March 1988, 9 claims for Rs. 8·93 lakhs were found to be more than 3 years old as on 31st March 1988. Reminders to DICGC for settlement of claims were found to be inadequate inasmuch as only one reminder was issued during the last 3 years.

(*b*) 23 claims involving Rs. 84·61 lakhs were rejected by DICGC on account of various lapses on the part of the Corporation (demand notice not served on guarantor: 21 cases for Rs. 77·11 lakhs, deficiency in post-disbursement follow-up: 1 case for Rs. 7·07 lakhs and disbursement of loan to a unit defaulting in the repayment of loan taken from another financial institution: 1 case for Rs. 0·43 lakh). No responsibility for such lapses was, however, fixed by the Corporation.

(*c*) As per the scheme, a guarantee can be invoked after expiry of one month from the date of notice of demand served on a defaulting loanee, the dues being calculated with reference to the dues outstanding from the loanee on the date of notice or the date on which the unit was closed down, whichever was earlier (called the relevant date). A test-check, however, revealed that in 7 cases claims were lodged after expiry of 3 to 11 half years from the relevant due dates during which period guarantee fees totalling Rs. 1·60 lakhs were paid. These payments could have been avoided had guarantees been invoked immediately on expiry of one month from the relevant dates.

(*d*) The scheme further stipulates that any recovery from a loanee in respect of whom a claim has been paid by DICGC has to be shared with DICGC in the same proportion in which DICGC entertains the guarantee claims of the Corporation within one month from the date of such recovery. In case of delay in sharing, interest is payable to DICGC at bank rate for the period for which the sharing remains withheld beyond one month. It was noticed that although the Corporation received Rs. 35·10 lakhs from sale of 8 units in respect of which it had received guarantee claims (Rs. 22·16 lakhs) from DICGC, it did not pay DICGC's share which worked out to Rs. 17·55 lakhs till August 1988. The Corporation was also liable to pay interest for delay which worked out to Rs. 1·87 lakhs computed at the rate of 18 *per cent per* annum up to August 1988.

(*e*) Guarantee fee due for a half-year is payable to DICGC within two months from commencement of the half-year. Delay in payment attracts penal interst. Since the commencement of the new scheme on 1st April 1981, the Corporation paid fees totalling Rs. 157·93 lakhs covering the period up to June 1988 for credit facilities extended to 5,122 units. It was noticed that the Corporation had paid (July 1981) excess fee of Rs. 1·52 lakhs for the period from April 1981 to December 1982 and claimed the same from the DICGC in January 1988. DICGC admitted (March 1988) the excess payment but instead of refunding the same or adjusting it against future fees, informed (March 1988) the Corporation that the excess payment would be adjusted against penal interest payable by the Corporation on account of delayed payment of guarantee fees. The amount of such penal interest was not intimated by DICGC till August 1988. There were no recorded reasons for delay in payment of guarantee fees.

3B.12 **Published accounts of assisted units**

The agreement with the borrower envisages that the borrower should submit the audited accounts within 6 months from the date of closing of such accounts. The number of assisted units as on 31st March 1988 was 7,289, against which the loans outstanding amounted to Rs. 12,608·14 lakhs. It was noticed in audit that the Corporation had not even kept track of the receipt of audited accounts.

3B.13 **Operating cost**

The details of the number of applications dealt with, loans sanctioned, loans disbursed, operating expenses and percentage of operating expenses to loans sanctioned and loans disbursed and operating expenses per application sanctioned for the 3 years up to 1987-88 are given below:

	1985-86	1986-87	1987-88
(*i*) Number of applications dealt with	1,881	1,750	3,820
(*ii*) Number of loans sanctioned	1,581	1,653	3,229
(*iii*) Loans sanctioned (Rupees in lakhs)	3,315 33	4,079 93	5,017 27
(*iv*) Loans disbursed (Rupees in lakhs)	2,087·10	2,636 68	3,012·92
(*v*) Recoveries effected (including interest) (Rupees in lakhs)	1,257 00	1,452 00	1,925·28

	1985-86	1986-87	1987-88
(*vi*) Operating expenses (Rupees in lakhs)	495·57 (522 20)	682·90 (701·11)	857·88 (926·38)
(*vii*) Operating expenses per application sanctioned (Rupees in lakhs)	0 31	0·41	0 27
(*viii*) Percentage of operating expenses to		(per cent)	
— Loans sanctioned	14·95	16 74	17·10
— Loans disbursed	23·74	25·90	28 47
— Recoveries effected	39·42	47·03	44 56

While the operating expenses *per* application sanctioned had gone up from Rs. 0·31 lakh in 1985-86 to Rs. 0·41 lakh in 1986-87 it came down to Rs. 0·27 lakh in 1987-88. The increase in 1986-87 and decrease in 1987-88 were mainly due to increase in operating expenses during 1986-87 and increase in the number of loans sanctioned in 1987-88.

The above matters were reported to the Corporation and the Government in December 1988; their replies had not been received (February 1989).

Figures in brackets represent the total expenses.

CHAPTER IV

4. MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

A. *GOVERNMENT COMPANIES*

WEST BENGAL AGRO-INDUSTRIES CORPORATION LIMITED

4A.1 Non-recovery/non-adjustment of recoverable advances

The Company has been paying recoverable advances at the rate of 3·67 *per cent* in addition to bonus at the rate of 8·33 *per cent* of wages to its staff. While sanctioning (October 1983) bonus and recoverable advances to its staff for the year 1982-83, the Government stipulated that the advance should not be treated as *ex-gratia* payment and should be recovered in full in instalments. The Company paid (October 1983) a sum of Rs. 1·27 lakhs as recoverable advances for the year 1982-83. No steps had so far been initiated to effect recovery (August 1988).

The Company further paid recoverable advances amounting to Rs. 3·08 lakhs to its staff (Rs. 1·32 lakhs in September 1984 and Rs. 1·76 lakhs during September 1985 and December 1985) for the years 1983-84 and 1984-85 subject to the condition that conversion of such advances to *ex-gratia* would be considered only on finalisation of accounts of the respective years. Although the accounts for the year 1983-84 disclosed a loss of Rs. 12·33 lakhs, final decision of the Company on treatment of advances given for 1983-84 was pending (August 1988). Accounts for the years from 1984-85 onwards are awaiting finalisation (October 1988).

Meanwhile, the Finance Department issued (June 1985) an order which, inter alia, stated that *ex-gratia* payment might be made strictly on the last year's pattern only in an organisation not covered by the payment of Bonus Act and in making such payments, it should be ensured that if payments are sanctioned as recoverable advances, they should be allowed only where similar advances allowed earlier had been recovered. Thus, no *ex-gratia* payment was admissible to the staff of the Cmpany during 1985-86.

However, for the year 1985-86 a recoverable advance amounting to Rs. 1·92 lakhs was sanctioned and paid (September 1986) in relaxation of the above orders subject to the condition that the advances would be recovered in eight instalments and undertakings to that effect were obtained from the staff. No recovery has been effected so far (August 1988).

While agreeing to pay recoverable advances to the staff of the Company for 1986-87 the Government imposed a further condition that advances would be allowed to such staff only who had repaid the advances taken in earlier years. But the Company had paid a sum of Rs. 2·15 lakhs as recoverable advances for the year 1986-87 to its staff without insisting upon the recovery of advances paid in earlier years, in anticipation of the approval of Finance Department. Although the formal orders of the Public Undertakings Department issued on 15th September 1987 were received in the Company (date of receipt not known) which prohibited grant of recoverable advances to those who had not repaid the advances for the last year, nothing has been done to recover the advances in respect of the year 1985-86 and 1986-87.

Thus, the Company has not effected recovery of the advances amounting to Rs. 5·34 lakhs paid irregularly to its staff. Final decision of the Company on treatment of recoverable advances of Rs. 1·32 lakhs paid for 1983-84 was also pending (October 1988).

The matter was reported to the Company/Government in November 1988; their replies had not been received (March 1989).

WEST BENGAL STATE LEATHER INDUSTRIES DEVELOPMENT CORPORATION LIMITED

4A.2 Penalty for non-compliance of provisions of the West Bengal Sales Tax Act

Under the West Bengal Finance (Sales Tax) Act, 1941 and Central Sales Tax Act, 1956, a registered dealer is required to submit to the Sales Tax authorities, quarterly returns in the prescribed form showing the gross and taxable turnover within 30 days of the end of the quarter to which the return relates along with a copy of the challan depositing the tax. Non-submission of the return and specially the non-deposit of the tax within the prescribed time makes the dealer liable for penalty.

The Company, a registered dealer, had, however, submitted returns for the period from 1st July 1983 to 31st March 1986 and after that period deposited sales tax amounting to Rs. 7·42 lakhs in instalments from 31st July 1986 to 22nd October 1986. Due to late filing of returns and non-payment of sales tax in time, Sales Tax Authority imposed (May 1986) penalty amounting to Rs. 3·02 lakhs which was deposited by the Company in 21 instalments during the period from October 1986 to September 1988. An enquiry ordered by the Board (December 1987) revealed (March 1988) that the matter of submission of sales tax returns had been neglected all along but no notice of it was taken by the higher officers of the Company and that the Company was also not aware of the penal clauses. Thus, ignorance on the part of the management to comply with the provisions of the Sales Tax Act entailed an avoidable extra expenditure of Rs. 3·02 lakhs towards penal interest. The results of the departmental enquiry were not, however, put up to the Board and no responsibility was also fixed (February 1989).

The matter was reported to the Company/Government in February 1989; their replies had not been received (March 1989).

WEBEL PRECISION INDUSTRIES LIMITED

4A.3 **Uncertainty of a project**

The Company was incorporated on 23rd March 1981 as a wholly owned subsidiary of West Bengal Electronics Industry Development Corporation Limited (WBEIDC) with the object of manufacturing and dealing in all kinds of precision tools, dies, moulds, die cast etc. and precision industrial plastic components required for electronics and other allied industries. The paid-up capital was Rs. 43·90 lakhs (including Rs. 3·23 lakhs towards share capital advance) as on 30th June 1988.

With a view to utilising the letter of intent received by the holding Company for manufacture of 1,250 sets of precision tools, dies etc. and 150 tonnes of precision industrial plastic components *per* annum, the Government of West Bengal allotted (March 1981) 2·5 acres of land (cost: Rs. 6·05 lakhs) to the Company for setting up a factory complex at Salt Lake City. The Company entered into (November 1981) a technical collaboration agreement with Tata Precision Industry Private Limited of Singapore for taking them as co-partner, but the firm backed out in March 1982 due to some difficulties arising out of its being situated outside India. In August 1984 (after a lapse of 29 months) the holding Company further executed a "Memorandum of Understanding" with Guest Keen and Williams Limited of Calcutta for setting up a Joint Sector Company. The project cost was proposed to be met by way of equity participation by the private firm (25 *per cent*), the holding company (26 *per cent*) and financial institutions (49 *per cent*). The formal joint sector agreement was executed in November 1985 (after 14 months from the date of execution of the "Memorandum of Understanding") and the industrial licence was revalidated up to January 1989. Accordingly, the Company requested in February 1987 (only after more than one year after signing the agreement) Industrial Finance Corporation of India (IFCI) for financial assistance for implementation of the project. In April 1987, IFCI, however, informed the Company that it would not suit the financial institution to lend financial assistance to the project, since the co-partner had its own modernisation programme and was suffering from financial stringency. Consequently, the proposal for formation of a Joint Sector Company did not materialise.

Against the total estimated cost of civil works, amounting to Rs. 88 lakhs, a part work was awarded to Mackintosh Burn Limited of Calcutta in February 1982 at a cost of Rs. 36·76 lakhs on the basis of the project finalised in consultation with the first collaborator. The work was to be completed within 6 months. Eventhough the first collaborator of Singapore had signified his unwillingness in March 1982 to participate in the project, the Company continued to execute the work. The work could not be completed due to changes in plant layout and product-mix caused by withdrawal of the collaborator. The contractor abandoned (September 1985) the work after executing construction work valuing Rs. 17·05 lakhs due to indecision and delay on the part of the Company and also non-finalisation of contractor's running account bills. Accounts with the firm are yet to be finalised although unconsumed material valuing Rs. 3·53 lakhs is yet to be recovered from them (February 1989). Incomplete work was not got completed due to non-finalisation of collaboration agreement with a suitable firm. Total expenditure incurred on the still born project up to March 1988 amounted to Rs. 48·20 lakhs [incidental expenditure during construction period: Rs. 21·02 lakhs, capital work-in-progress: Rs. 20·58 lakhs and gross block (land, furniture, office equipment): Rs. 6·60 lakhs].

In September 1987, the Management stated that the project would be looked into afresh. Proposal for setting up a joint venture company with Government of India (Department of Electronics) is still hanging in the balance (February 1989). The future of the Company is, thus, uncertain.

The matter was reported to the Government in January 1989; their reply had not been received (March 1989).

B. *STATUTORY CORPORATIONS*

WEST BENGAL STATE ELECTRICITY BOARD

4B.1 Injudicious purchase of sky-climber

In March 1981 the Board placed an order on a firm of Bombay for supply of a sky-climber (powered scaffolding system) at a cost of Rs. 7·64 lakhs c.i.f. Calcutta payable in foreign currency for lifting heavy equipment to a high altitude with a view to reducing the boiler overhauling time at the Bandel Thermal Power Station. The total cost was Rs. 12·32 lakhs including Rs. 4·53 lakhs towards customs duty and Rs. 0·15 lakh for other charges. Relevant records justifying its procurement and selection of supplier were not, however, made available to Audit (June 1988).

The equipment received in February 1982 could not be utilised reportedly (March 1989) due to apprehension of accidents and subsequent industrial relation problem and is stated to be lying in loose condition. The equipment was not even inspected in order to get defects, if any, rectified by the supplier within the guarantee period of one year from the date of receipt.

Management stated (June 1988) that attempts would be made to use the equipment for specific purpose in other Divisions. However, nothing has been done so far (March 1989) to cure its proneness to accident which prevented its use for the intended original purpose.

The entire expenditure of Rs. 12·32 lakhs including foreign exchange of Rs. 7·64 lakhs on procurement of the equipment thus proved infructuous.

The matter was reported to the Board/Government in September 1988; their replies had not been received (March 1989).

4B.2 Nugatory expenditure on idle wages

Four skilled workers holding the posts of carpenter, black-smith, compressor operator, driller-cum-vibrator operator, were posted in Murshidabad (D) Construction Division, on transfer from other units of the Board during the period April 1972 to November 1972, although there was no scope to utilise their services in that division. The local management took up the matter on several occasions (November 1982, April 1983, December 1985) with higher authorities for their immediate withdrawal from the division for better utilisation of their services elsewhere, but in vain. There being no other alternative, the services of the carpenter and blacksmith were somehow utilised as "Store Sramik", but the services of the other two operators could not be utilised at all. The division, thus, had to incur an avoidable expenditure of Rs. 3·55 lakhs up to February 1989 towards idle wages for maintenance of the two operators in the pay roll of the Division. The operators are still being retained in the division without any gainful employment.

The Management stated (August 1987) that while services of the carpentor and blacksmith are being utilised, the services of the two operators could not be utilised at all and that higher authorities were again being requested to divert for better utilisation of their services. Further developments are awaited (March 1989).

The matter was reported to the Government in November 1988; their reply had not been received (March 1989).

4B.3 **Unfruitful expenditure on idle staff**

In February 1984, the Board opened one Sub-Divisional office at Baharu under Baruipur Construction Division in the district of 24 Parganas with seven employees of different cadres, posted from time to time, during the period from February 1984 to December 1985. The staff remained idle till December 1986. According to local management (June 1986), the Sub-Divisional office could not function for want of vehicle and staff. On scrutiny, it was noticed that barring one post of Sub-Assistant Engineer the full complement of normal staff was positioned. No action was, however, taken by the local management to obtain sanction for hiring a vehicle and to divert one of the three surplus Sub-Assistant Engineers available in the controlling Divisional office. The Sub-Division thus remained idle till December 1986 from inception in February 1984. To maintain the establishment of the Sub-Division the Board incurred an expenditure of Rs. 2·13 lakhs towards pay and allowances and Rs. 0·25 lakh on account of rent for the hired premises up to December 1986.

The total expenditure of Rs. 2·38 lakhs incurred by the Board was thus wasteful.

The matter was reported to the Board/Government in

November 1988; their replies had not been received (February 1989).

4B.4 **Idle transformers**

A work order for electrification of 328 mouzas and 974 shallow tube wells and for erection of a 33/11 KV sub-station with two 0·5 MVA transformers at Sabang, in the district of Midnapur was issued by the Board in February 1972, for completion over a period of five years. Although a substantial portion of the lines was erected by 1979 which were energised from another 33/11 KV sub-station, the land for the sub-station and the two transformers of 0·5 MVA costing Rs. 1·63 lakhs were procured only in 1980 without reappraising the load growth in the area and the adequacy of transformer capacity. No action was taken to install the transformers till 1983 when it was decided to procure two 3·15 MVA transformers for the sub-station keeping in view the existing and future load growth. The two 0·5 MVA transformers were lying unused (March 1989).

Purchase of the two transformers after 7 years of launching of the scheme without reassessing the load growth resulted in the idle investment of Rs. 1·63 lakhs on the transformers.

The matter was reported to the Board/Government in December 1988; their replies had not been received (March 1989).

4B.5 **Infructuous expenditure due to delay in revitalisation of the line**

The work connected with electrification of one village in 24 Parganas District was got done through a contractor at a cost of Rs. 1·48 lakhs. The installation was handed over to the Maintenance Division in April 1982. Some of the materials were found stolen after energisation of the line rendering the work ineffective. No record was, however, maintained to indicate the dates of occurrence of theft, the value of materials involved and the date on which the FIR was lodged with the police. The revitalisation of the line sanctioned in March 1986 at a cost of Rs. 2·36 lakhs had not been taken up so far (March 1989) for reasons not on record. The supply of electric power to the village remains suspended rendering the expenditure of Rs. 1·48 lakhs on electrification infructuous.

The matter was reported to the Board/Government in October 1988; their replies had not been received (March 1989).

4B.6 Irregular advance payments to suppliers

During the period from February 1982 to February 1986 Santaldih Thermal Power Station of the Board placed orders on four firms for supply of materials like tri-sodium phosphate, sodium meta phosphate, brass shin, air pre-heater, h.p. governor etc. valuing Rs. 1·17 lakhs to meet its immediate requirements on the basis of quotations. Although payment was to be made against delivery from ready stock, the local management made full payment to the firms between March 1982 and April 1986 on pro-forma invoices without obtaining delivery. The firms after getting advances did not make supplies with the result the advances remained unadjusted. There was also no evidence of any attempt on the part of the local management either to obtain delivery of the materials or to recover the advances from the firms.

The Management stated (September 1988) that the cases would be looked into. Further development were awaited (March 1989).

The matter was reported to the Government in November 1988; their reply had not been received (March 1989).

4B.7 Avoidable loss due to non-enforcement of terms of the agreement

A decentralised bulk consumer—Chains India (P) Limited—who had furnished security deposit of Rs. 0·62 lakh in August 1977 in the shape of bank guarantee, failed to renew it after the expiry of its validity period in August 1980. No action was, however, taken to have the bank guarantee renewed in terms of clauses 19 and 25 of the agreement with the consumer, under which the Board could ask the consumer to renew the deposit by a requisition and to discontinue the supply by giving 7 days' notice if he fails to comply with the request made by the Board. The consumer started defaulting in payment of energy charges from July 1981 onwards and the supply of power was disconnected in August 1981. The unpaid energy charges of Rs. 1·14 lakhs for the months of June, July and August 1981 could not be recovered as the consumer had gone into liquidation under the orders of the Court and recovery of dues is uncertain. Timely renewal of bank guarantee could have avoided the loss of revenue to the extent of at least Rs. 0·62 lakh which occurred due to failure of the management to enforce the terms of the agreement.

The matter was reported to the Board/Government in December 1988; their replies had not been received (March 1989).

CALCUTTA STATE TRANSPORT CORPORATION

4B.8 Avoidable expenditure due to delayed implementation of the Employees' State Insurance (Amendment) Act, 1984

Consequent upon amendment of Employees' State Insurance Act, 1984 (No. 45 of 1984), published in the Gazette of India on 7th August 1984, the rate of recovery of contribution towards Employees' State Insurance (ESI), both from the eligible employees and employers was enhanced and the coverage was extended to employees drawing wages up to Rs. 1,600 in place of the existing limit of Rs. 1,000. The Corporation took no notice of those developments. The Corporation was informed of the amendments in the Act by the Employees State Insurance Corporation through a circular in January 1985 which was received by the former in February 1985. The revised rate was effective from 27th January 1985. But, in fact, the amendments were given effect to by the management of the Corporation from 1st May 1985, ignoring the period from 27th January 1985 to 30th April 1985 for which period recovery was made at old rates. Employees' State Insurance Corporation, as a consequence, stopped extending the admissible benefits to the concerned employees unless the employees' and employers' contribution at the enhanced rates for the period from 27th January 1985 to 30th April 1985 was paid to the ESI authorities.

In terms of proviso to clause (2) of Section (40) of the Employees' State Insurance Act, 1984, the principal employer is not entitled to recover the employees' contribution by deduction from his wages not relating to the period or part of the period in respect of which the contribution is payable. The Corporation, therefore, could not recover the difference between the revised rate and the old rate for the disputed period (from 27th January 1985 to 30th April 1985) from the employees and deposited Rs. 1·41 lakhs on this account from its own fund.

Thus, the failure on the part of the management to keep abreast of the legislative changes and to implement the enhanced rate of (ESI) contribution, in time, led to an avoidable expenditure of Rs. 1·41 lakhs.

Management stated (October 1987) that the amendments could not be given effect to in time as the issue was under correspondence with the Transport Department. Records, however, disclosed that action on this score was first initiated by the Corporation in November 1985.

The matter was reported to the Government in October 1988; their reply had not been received (March 1989).

4B.9 **Payment of inadmissible commission**

Calcutta State Transport Corporation appoints agents from time to time on commission basis for securing advertisement for display on the body of different types of vehicles plying regularly. In terms of agreement, the agents were to be paid commission on a graded scale after calculating and reconciling the account of the gross amount of business secured by them. Rates of commission payable to the agents varied from 12·5 *per cent* to 30 *per cent.* No commission was payable if the actual business secured was less than Rs. 0·25 lakh *per* annum. The payment of such graded commission was, again, subject to the fulfilment of the terms and conditions in the agreement with the agents. The agreement, however, remained silent as to the mode of payment of commission to the respective brokers.

As per the procedure followed, the agents used to submit monthly account of total volume of business secured and paid to the Corporation under different contracts along with the claim on account of commission on the basis of which the Corporation usually discharged its liability from time to time.

On a scrutiny of records, it was noticed in Audit that out of four agents, three had calculated and claimed commission at a flat rate of 30 *per cent* (maximum), while the other at different rates, ranging from 15 to 30 *per cent* on the monthly business secured without adhering to the formula laid down in the agreement.

During the three years up to 1987-88, the agents secured business valuing Rs. 62·06 lakhs and were paid commission aggregating Rs. 18·36 lakhs as against Rs. 15·60 lakhs due for payment as per agreement. Misinterpretation of the relevant clause of the agreement, thus, resulted in an inadmissible payment of Rs. 2·76 lakhs towards commission to the agents.

Management stated (July 1988) that the commission of the advertisement agents would be calculated in the scale system henceforth. The fact remains that the agents were paid inadmissible amount of Rs. 2·76 lakhs towards commission and that the Corporation was not inclined to recover the same.

The matter was reported to the Government in December 1988; their reply had not been received (March 1989).

4B.10 Loss of revenue from advertisement

Calcutta State Transport Corporation secures advertisement through agents for displaying on the body of the vehicles on commission basis. As per terms of agreement, the period of display and the rates of advertisement charges are also fixed by the Corporation from time time. The agents are generally engaged for a period of one year initially.

The rates of advertisement charges for different spaces of the bus body, once fixed in May 1982 were revised by the Corporation in May 1986 and made effective from July 1986. The rates, thus, revised were applicable to the new and renewed contracts from the date of commencement of such contracts. The agents were informed (May-July 1986) of the fact accordingly.

It was, however, noticed in Audit that the benefit of lower rates prevailing prior to July 1986 was allowed by the Corporation to six advertisers whose contracts were renewable from a date subsequent to June 1986 despite the advice of the Law Officer of the Corporation that contracts renewed from a date subsequent to June 1986 should be at the new rates.

The Corporation, thus, suffered a loss of revenue to the extent of Rs. 1·74 lakhs due to renewal of contracts after June 1986 at old rates.

The matter was reported to the Corporation/Government in December 1988; their replies had not been received (March 1989).

4B.11 Injudicious expenditure on repairs of condemned Hindusthan make buses

Mention was made in paragraph 5B.6 of Chapter V of the Report of the Comptroller and Auditor General of India for the year 1986-87 (Commercial) regarding premature condemnation of 40 Hindusthan make single decker buses costing Rs. 56·86 lakhs.

It was further noticed (June 1987) in Audit that five of such vehicles, withdrawn from routes between October 1979 and July 1980, were put on repairs in Corporation's own workshop without assessing their suitability for economical repairs. In course of repairs the Management discovered that the vehicles would not render any service to the Corporation even after extensive repairs and stopped repairing after incurring an expenditure of Rs. 2·58 lakhs. The vehicles did not render any service even after part repairs and were thus condemned. All these vehicles were disposed of by auction during September 1987 to July 1988 for Rs. 1·49 lakhs.

Repairs to the vehicles without studying the probability of their being roadworthy after extensive repairs involved an infructuous expenditure of Rs. 2·58 lakhs.

The Management stated (January 1989) that there had been no practice of prior inspection of the vehicles to determine their suitability for being put on road after repairs.

The matter was reported to Government in December 1988; their reply had not been received (March 1989).

Calcutta,
The 28 DEC 1989

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Countersigned

T. N. Chaturvedi

New Delhi,
The -8 JAN 1990

(T. N. CHATURVEDI)
Comptroller and Auditor General
of India