

CHAPTER-III
Transaction Audit Observations

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3. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporation have been included in this Chapter.

Government companies

Jharkhand State Forest Development Corporation Limited

3.1 *Avoidable payment of Income Tax and interest on short payment of Advance Tax*

Failure to set off business losses for the years 2005-07 against the business profit for the year 2007-08 due to delay in filing Income Tax returns and non/short payment of Advance Tax for the years 2007-10 resulted in avoidable payment of Income Tax and Interest of ₹ 85.51 lakh.

(a) Section 72 of the Income Tax Act, 1961 (Act) stipulates that the loss sustained by a Company in any assessment year under the head 'Profits and gains of business or profession' can be carried forward to the immediately succeeding eight assessment years and can be set-off against the profits, if any, earned during the subsequent year(s). Further, Section 80 of the Act specifies that the Company can carry forward and set off the loss only if the return of income has been filed on or before the due date under Section 139(1).

We observed (October 2011) from the records of Jharkhand State Forest Development Corporation Limited (Company) that the Company filed its return of income showing loss of ₹ 1.09 crore and ₹ 11.02 lakh during the financial years 2005-06 and 2006-07 respectively. It had however, not filed the returns within the due date *i.e.*, by 30 September of the respective year as required under the Act. The returns for the financial years 2005-06 and 2006-07, were filed on 31 March 2008 and on 9 January 2009 respectively, due to which the benefit of carry forward and set off of losses could not be availed of by the Company. Thus, although the Company earned a profit of ₹ 2.93 crore in the year 2007-08, the total loss of ₹ 1.20 crore suffered by it in the years 2005-06 and 2006-07 could not be set-off against this profit. Thus the Company had to make avoidable payment of Income Tax amounting to ₹ 40.83 lakh¹.

(b) Further, as per section 208 of the Act, Advance Tax is payable during a financial year, in every case, where the amount of such tax payable by the assessee during the year is rupees ten thousand² or more. Section 234B of the

¹ Income tax of 30 *per cent* on ₹ 1,20,12,604 (₹ 36.04 lakh) plus surcharge of 10 *per cent* on tax amount (₹ 3.60 lakh) plus Education Cess of 3 *per cent* (₹ 1.19 lakh).

² Substituted for "five thousand" by the Finance Act, 2009 w.e.f 1.4.2009.

Act stipulates that where in any financial year, an assessee who is liable to pay advance tax under Section 208 failed to pay such tax or where the Advance Tax paid by such assessee is less than 90 *per cent* of the assessed tax, the assessee shall be liable to pay simple interest at the rate of one *per cent* for every month from the first day of April on the amount by which the Advance Tax paid fell short of the assessed tax.

Further, Section 234C of the Act provides that if an assessee fails to pay Advance Tax or the Advance Tax paid is less than 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* of the tax due till 15 June, 15 September, 15 December and 31 March respectively, the assessee shall be liable to pay simple interest at the rate of one *per cent* on the amount of the shortfall. In terms of the provision of section 234A, in case the return of income for any assessment year is furnished after the due date, simple interest at the rate of one *per cent* for every month or part of a month is chargeable on the amount of tax on the assessed income less Advance Tax paid and tax deducted/collected at source.

We observed that the Company had neither filed the tax returns on the due dates nor paid the Advance Tax for the financial years 2007-08 and 2009-10 as required under Sections 234A, 234B and 234C of the Act, thereby resulting in payment of interest of ₹ 40.81 lakh. In respect of the financial year 2008-09 the Company, instead of paying advance tax in installments, paid ₹ one crore in March 2009 only against the assessed tax of ₹ 95.52 lakh. This resulted in payment of avoidable interest of ₹ 3.87 lakh under Section 234C of the Act.

The Management stated (March 2012) that filing of Income Tax returns was delayed due to delay in finalisation of accounts. Further, the Company could not visualise the sudden increase in receipts on account of kendu leaf sales in the auction sale in 2007-08. The reply underlines the failure of the Company to ensure timely finalisation of accounts which resulted in non-compliance with the statutory requirement of the Income Tax Act. Further, though the budgeted profit of ₹ 5.80 crore was much more than the actual profit of ₹ 2.88 crore during 2007-08, the Company failed to pay Advance Tax.

Thus, failure of the Company to finalise its accounts within the prescribed time, estimate its income correctly, file Income Tax returns on the due dates, assess the amount of Advance Tax payable and remit the same in time resulted in:

- Payment of Income Tax of ₹ 40.83 lakh due to non availing of benefit of carry forward and set off of business losses for the years 2005-06 and 2006-07 against the business profit for the year 2007-08; and
- Payment of Interest of ₹ 44.68 lakh under Section 234A, 234B and 234C of the Act for the years 2007-08 to 2009-10.

The matter was reported to the Government in May 2012; their reply is awaited (January 2013).

Jharkhand Police Housing Corporation Limited

3.2 Non-recovery of Workers' Welfare Cess

Non-recovery of Workers' Welfare Cess from the bills of the contractors led to additional liability of ₹ 18.28 lakh, besides interest and penalty leviable.

With a view to augmenting the resources of the Building and Other Construction Workers' Welfare Board, the Government of India (GoI) notified (August 1996) the Building and Other Construction Workers' Welfare Cess Act, 1996 (Act). As per Section 3 of the Act, cess is to be levied and collected from the contractor at the rate of not less than one *per cent* of the total cost of construction incurred by an employer. It was also provided that in relation to buildings or other construction works of Public Sector Undertakings (PSUs), the cess will be collected by way of deduction at source by PSUs. Section 8 of the Act specifies that if the employer fails to pay the cess within the time specified in the order of assessment, he shall be liable to pay interest on the amount to be paid at the rate of two *per cent* for every month or part of a month from the date on which such payment is due till such amount is actually paid. Further, Section 9 states that the assessing officer can impose penalty not exceeding the amount of cess in default.

The State Government constituted (July 2008) the Jharkhand Building and Other Construction Workers Welfare Board (Welfare Board). In pursuance of the provisions of Section 3(2) of the Act, the State Government directed (December 2008) all Departments/PSUs and other Government agencies/bodies carrying out any building and other construction work to enforce the deduction of cess at the rate of one *per cent* of the total cost of construction and remit the same to the Welfare Board.

We observed (February 2012) that during the period January 2009 to March 2010 the Jharkhand Police Housing Corporation Limited (Company) awarded building and other construction works valuing ₹ 18.28 crore to contractors but a specific clause regarding recovery of cess was not included in the terms and conditions of the Notice Inviting Tender (NIT). Consequently the Company did not deduct cess of ₹ 18.28 lakh while releasing the payments to the contractors despite the specific directions of the State Government (December 2008). The Company included a provision regarding deduction of cess in the contracts entered into after March 2010 and has been regularly recovering and depositing the cess with the Welfare Board.

Thus, failure of the Company to include a clause regarding applicability of cess in the NIT issued during the period January 2009 to March 2010 resulted in:

- i) Non-compliance with the provisions of the Act;
- ii) Additional liability of ₹ 18.28 lakh for non-deduction of cess at source;

- iii) Liability for interest and penalty for non-deduction and deposit of cess;
- iv) Non-augmentation of the resources of the Welfare Board to the extent of cess not deducted.

The matter was reported to the Management/Government (May 2012); their reply is awaited (January 2013).

Tenughat Vidyut Nigam Limited

3.3 Blocking of funds on procurement of conductor

Procurement of ACSR Dog conductor without concrete plans for execution of work resulted in blocking of funds of ₹ 95.74 lakh and avoidable interest burden of ₹ 78.83 lakh to the Company.

Tenughat Vidyut Nigam Limited (Company) generates power at its Tenughat Thermal Power Station (TTPS) and supplies it through two feeders to Biharsharif Grid of Bihar State Electricity Board and to Patratu TPS Switchyard of Jharkhand State Electricity Board (JSEB). During power failure, TTPS had an arrangement for drawing back-up power from JSEB through its Kathara-Lalpania 33 kV line (line). However, this alternative source of back-up power was not available to the Company since January 2004 as the line was out of operation due to theft of power conductor. Keeping in view the importance of the line, the Company decided (April 2006) to take up the work of restoration of the line.

We observed (March 2012) that the Company placed (July 2006) a purchase order on urgent basis for supply of 128 Km of ACSR Dog conductor³ (conductor). The material was received on 12 July 2006 and payment of ₹ 99.87 lakh including freight, excise duties and taxes was made (20 July 2006).

However, we observed that in spite of urgency of the work keeping in view the importance of the line, the Company had not taken up restoration of the same due to lack of technical expertise in erection of the line. As a result, the conductor, procured on an urgent basis for erection of the line, remained unutilised even after six years of its procurement. The Company could not utilise the conductor for any alternative purpose also and only 5.291 Km of the conductor was issued (as on November 2012) from the store for maintenance work in the TTPS township.

The Management, while accepting the fact, stated (July 2012) that JSEB had been requested several times to get the work done and it has now assured to examine the matter and get the work done. However, the fact remains that the

³ ACSR (Aluminum Conductor Steel Reinforced) conductor are composed of multiple layers of aluminum wire concentrically stranded with a coated steel core of high strength. They are used as transmission and distribution cable. Dog conductor is of size 36/4.72 + 7/1.57 mm.

Company had taken up (June 2012) the matter for restoration of line with the JSEB only after the matter was pointed out by Audit.

Thus, purchase of the conductor for restoration of the line was made without any technical expertise in erection of the line which resulted in blocking of funds of ₹ 95.74 lakh⁴ and avoidable interest burden of ₹ 78.83 lakh⁵ to the Company on blocked funds.

The matter was reported to the Government in July 2012; their reply is awaited (January 2013).

3.4 Corporate Governance in State Government Companies of Jharkhand

3.4.1 Introduction

Corporate Governance is a set of systems, processes and principles which ensure that a Company is governed by the Management in the best interest of all stakeholders. Corporate Governance provides a principled process and structure through which the objectives of the Company are attained. It basically denotes the system by which Companies are directed and controlled by the Board of Directors (BoDs) in the interest of the stakeholders. Corporate Governance promotes fairness, transparency and accountability in the affairs of the Company. It ensures:

- Adequate disclosures and effective decision making to achieve corporate objectives;
- Transparency in business transactions;
- Statutory and legal compliances;
- Protection of shareholder interests;
- Commitment to values and ethical conduct of business; and
- Better and timely financial reporting.

The Board of Directors is responsible for the governance of their Company. The main components that constitute the mechanism of Corporate Governance are matters relating to the Board of Directors, Directors' Report and constitution of the Audit Committee.

The legal and regulatory framework for Corporate Governance in India is governed by the Companies Act, 1956 and SEBI guidelines, applicable to listed companies. There are 12 Public Sector Undertakings in Jharkhand (*Annexure-9*), none of which is listed in any of the Stock Exchanges. As such, SEBI guidelines are not applicable to them.

⁴ ₹ 99,86,847x 122.709/128.

⁵ ₹ 95,74,041 @ 13 per cent (for 76 months upto November 2012).

We reviewed the system of Corporate Governance in nine Companies⁶ for the period 2007-08 to 2011-12, with the objective of assessing the compliance by these Companies to the various statutory and regulatory requirements.

3.4.2 Board of Directors

The responsibility for good governance rests with the Corporate Board which has the primary duty of ensuring that the principles of Corporate Governance, as imbibed in law, are voluntarily complied with and the stakeholders' interests are scrupulously protected. For this purpose, it is imperative that every Company should hold meetings of the BoDs at regular intervals. Every Director should attend these BoDs meetings to share expertise and knowledge and to guide the affairs of the Company.

Meeting of the Board of Directors

Section 285 of the Companies Act, 1956 provides that every Company should hold a meeting of its Board of Directors at least once in every three months and at least four such meetings shall be held every year. The details regarding meetings of the BoDs held during the period 2007-08 to 2011-12 are indicated in ***Annexure-10***.

It may be seen from the Annexure that all the nine Companies whose system of Corporate Governance was examined, had violated the provision of Section 285 of the Companies Act between five to 15 times. JIIDCO did not hold 15 such meetings whereas TVNL, JPHCL, JTDC, JSMDC and GRDA deviated from the statutory provision on 10 or more occasions. There was a maximum gap of 25 months between two meetings of the Board of Directors of JSMDC and 21 months in JIIDCO.

We further observed that three meetings⁷ of the BoDs in TVNL were held after a gap of 10 months to 15 months from the previous meetings. In the 27th Board Meeting held in May 2010, the Chairman, TVNL, had observed that the Board meetings should be conducted at shorter intervals to ensure quick policy decisions. Further, due to delay in holding meetings of the BoDs of the Company, important decisions on administrative and financial matters for which power was vested only with the Board, were taken by the Chairman and placed in the next meeting of the Board for post facto approval.

Thus, the Managements of these Companies had failed to comply with the provision of the Companies Act, 1956.

⁶ Jharkhand Hill Area Lift Irrigation Corporation Limited (JHALCO), Jharkhand Industrial Infrastructure Development Corporation Limited (JIIDCO), Jharkhand Silk Textile and Handicraft Development Corporation Limited (JHARCRAFT), Tenughat Vidyut Nigam Limited (TVNL), Jharkhand Police Housing Corporation Limited (JPHCL), Jharkhand Tourism Development Corporation Limited (JTDC), Jharkhand State Forest Development Corporation Limited (JSFDC), Greater Ranchi Development Agency Limited (GRDA) and Jharkhand State Mineral Development Corporation Limited (JSMDC).

⁷ 22nd meeting held in December 2007, 26th meeting held in May 2009 and 27th meeting held in May 2010.

Attendance of Directors in the meetings of the Board

Annexure-11 indicates the attendance of the Directors in the BoD's meetings held in eight Companies⁸ during the period 2007-08 to 2011-12. It may be seen from the Annexure that in TVNL all the Directors attended all meetings of the Board held during the period reviewed by us. In the other seven Companies, during this period, the Directors attended 39 meetings out of 131 meetings held during their tenure in this period, eight Directors in respect of four companies⁹ did not attend any meeting of the Board while 23 Directors attended only one to four meetings of the Board out of two to ten meetings held during their tenure. This indicated that the Directors did not actively participate in the management of affairs of the Companies and in the decision-making process to safeguard the interests of the Companies/stakeholders.

Frequent changes of Managing Directors and vacancies of Directors

Frequent changes of the top executives adversely affect smooth functioning of the Company. **Annexure-12** indicates the details of Managing Directors whose tenure was less than a year during the period 2007-08 to 2011-12. It may be seen that during the period 2007-12, out of the nine Companies reviewed by us, five Companies viz. TVNL, JPHCL, JTDC, JSMDC and GRDA had eight Managing Directors whose tenures ranged between 23 days to 11 months 21 days. Further, the post of the Chairman of TVNL remained vacant for about 19 months¹⁰ and that of Managing Director for two months seven days during the period 2007-12. As a result of frequent changes and vacancies in the positions of Chairman/Managing Director, the meetings of the BoDs could not be held regularly and timely. The post of Managing Director in JSMDC was vacant for two months and 14 days. The post of one Director in JPHCL remained vacant in spells for a total period of two years and seven months during the period 2007-12.

Preparation of Minutes of Meetings of the Board of Directors

As per Section 193 of the Companies Act, 1956 every Company shall cause minutes of all proceedings of every general meeting and of all proceedings of every meeting of its Board of Directors or of every committee of the Board, to be kept by making within thirty days of the conclusion of every such meeting concerned, entries thereof in books kept for that purpose with their pages consecutively numbered and each page of every such book shall be initialed or signed and the last page of the record of proceedings of each meeting in such books shall be dated and signed, in the case of minutes of proceedings of a meeting of the Board or of a committee thereof, by the Chairman of the said meeting or the Chairman of the next succeeding meeting.

⁸ Information was not furnished by JHALCO.

⁹ JIIDCO, JSFDC, JSMDC and JTDC.

¹⁰ 01.04.2007 to 17.12.2007; 18.06.2008 to 01.03.2009 and 29.05.2011 to 05.08.2011.

We observed the following:

- Though JTDC had maintained the Minutes Book, entries had not been made since 2007-08.
- In GRDA, out of eight meetings held minutes of only one meeting was signed.
- In JHARCRAFT, out of 13 meetings the minutes of four meetings were signed without date, minutes of seven meetings were signed after delay of one month 27 days to six months two days and minutes of the 13th meeting were not signed till March 2012.
- Out of 15 meetings held in JPHCL during 2007-08, three minutes of meetings were signed without date and delay in signing of minutes of the remaining meetings ranged from 16 days to eight months eight days.
- In JSFDC, out of 16 meetings, only one minutes of meeting was initialed and signed, in 13 meetings delay between 15 days to four months 20 days was noticed in signing the minutes while in two meetings the minutes were neither signed nor initialed.
- In TVNL, out of 14 meetings only one minute was duly signed, two minutes were initialed but not signed by the Chairman in the last page of the Minutes Book whereas the remaining minutes of the meetings were neither signed nor initialed.

Director's Report to shareholders

Section 217 (2AA) of the Companies Act, 1956, requires that the BoDs have to report to the shareholders that proper and sufficient care has been taken for maintenance of the accounting records, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities. A report of the BoDs including a Directors' Responsibility Statement is to be attached to every Balance Sheet laid before a Company in the Annual General Meeting.

We observed that all the nine companies attached the Directors' Responsibility Statement to every Balance Sheet laid in the Annual General Meeting (AGM) of the Company.

Audit Committee

Section 292A of the Companies Act, 1956, requires that every Public Limited Company having paid-up capital of not less than rupees five crore shall constitute an Audit Committee, at the Board level.

The main functions of the Audit Committee are to assess and review the financial reporting system to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the

statutory auditors before finalisation of Annual Accounts. It reviews the adequacy of the internal control system and holds discussions with Internal Auditors on any significant finding and follows up action thereon. It also reviews the financial and risk management and evaluates the findings of internal investigation where there is any suspected fraud or irregularity or failure of the internal control system of material nature and reports on the same to the Board.

Out of the nine Companies reviewed by us, Section 292A of the Companies Act, 1956 was applicable to only one Company¹¹ viz. JHARCRAFT with effect from the year 2009-10. We, however, observed that the Company has not yet constituted an Audit Committee in compliance with the provision of the Act.

We further observed that TVNL, a Private Limited power generating Company with paid up capital of ₹ 105 crore, has its annual accounts in arrears for 16 years since 1996-97. Hence, the Company may consider forming an Audit Committee for monitoring and expediting finalisation of its accounts.

3.4.3 Disclosure and Transparency

Filing of Annual Returns with Registrar of Companies

As per Section 159 of the Companies Act, 1956, every Company having share capital, shall file, within 60 days from the day on which the AGM was held, annual returns furnishing information regarding its registered office, particulars of its members and debenture holders, shares and debentures etc. and its Directors, Managing Directors and other officers in the prescribed format to the Registrar of Companies (ROC). Where the AGM of the Company for any year has not been held, these shall be filed with the ROC within 60 days from the latest day on or before which that meeting should have been held in accordance with the provisions of the Act.

The details regarding delay in filing of Annual Return by the Companies with the ROC are indicated in *Annexure-13*. It may be seen from the Annexure that during the period 2007-12, JSMD C did not file the annual return, TVNL had not filed the annual return since 1993-94 while four Companies viz. JHALCO, JIIDCO, JHARCRAFT and JTDC have not filed their annual returns for one to four financial years. Also, all the seven Companies have delayed in filing the annual return in most of the years by 20 days to three years ten months.

Filing of Balance Sheet and Profit & Loss Account with ROC

Section 220 of the Companies Act, 1956 stipulates that after the Balance Sheet and Profit & Loss Account have been laid in the AGM of the Company, the same shall be filed with the ROC within 30 days from the date on which the Balance Sheet and Profit & Loss Account were so laid in the AGM. Where the

¹¹ The other eight Companies, though Government Companies, are registered as Private Limited Companies and are therefore exempted from the requirement of Section 292A of the Companies Act, 1956.

AGM of the Company for any year has not been held, these shall be filed with the ROC within 30 days from the latest day on or before which that meeting should have been held in accordance with the provisions of the Act.

The details regarding filing of Balance Sheet & Profit and Loss Account with the ROC by the Companies during the period 2007-08 to 2011-12 are indicated in **Annexure – 14**. We observed that JSMD and GRDA had not filed the Balance Sheet & Profit and Loss Account with the ROC since its incorporation while JHALCO has not filed the Balance Sheet and Profit & Loss Account with the ROC since 2004-05. TVNL has also not filed its Balance Sheet and Profit & Loss Account as the Company has not finalised its annual accounts since the year 1996-97. During the period 2007-12, five¹² Companies have delayed the filing of the Balance Sheet and Profit & Loss Account for one month 17 days to four years four months.

3.4.4 General

Appointment of Company Secretary

Section 383(A) of Companies Act, 1956, stipulates that all Companies having paid-up capital of not less than rupees five crore¹³ shall have a whole time Company Secretary. Up to 15 March 2009 six Companies¹⁴ had paid up capital of more than rupees two crore out of which only two Companies employed full time Company Secretary (JIIDCO & JSMD). After 15 March 2009 though five Companies (JHALCO, JIIDCO, JHARCRAFT, GRDA and TVNL) had paid up capital of more than rupees five crore, only JHALCO and GRDA had engaged part time Company Secretary during the period while TVNL engaged a part time Company Secretary upto 17 May 2011 and appointed a whole time Company Secretary since 5 September 2011. JHARCRAFT did not appoint any whole time Company Secretary till 23 March 2011 though it was required to engage a whole time Company Secretary since 2008-09. Thus, the Companies either did not engage any Company Secretary or engaged a part time Company Secretary for most of the period during the years 2007-12 and hence violated the requirements of the Companies Act.

Annual General Meetings and Attendance of Directors in the AGMs

According to Section 166 of the Act, every Company shall in each year hold a general meeting as its AGM and not more than fifteen months shall elapse between the date of one AGM and that of the next. Further, every Company is liable to prepare annual accounts of the Company *viz.* Balance Sheet and Profit & Loss Account for the financial year ended within six months or nine months in case of a Company holding its first AGM as per Section 210 of the Act.

¹² JIIDCO, JHARCRAFT, JPHCL, JTDC and JSFDC.

¹³ ₹ Five crore w.e.f. 15 March 2009. Previously it was ₹ two crore.

¹⁴ JHALCO, JIIDCO, JPHCL, JHARCRAFT, JSMD and TVNL.

The details regarding holding of AGMs during the period 2007-08 to 2011-12 by the Companies are indicated in **Annexure – 15**. We observed that while two companies viz. JPHCL and JSFDC held their AGMs regularly while seven Companies did not hold their AGMs every year during the period 2007-12. TVNL did not hold any AGM as it could not finalise its annual accounts for any year during the period. The other six companies viz. JTDC, JHARCRAFT, JHALCO, JSMD, GRDA and JIDCO did not hold their AGMs in one to five years and hence failed to comply with the above provisions of the Act.

In JHARCRAFT, the Board comprised of seven Directors out of which only two to four Directors attended four AGMs out of five AGMs held during the period while in JSFDC attendance of the Directors in the AGM was two to five of the seven Directors in position. In JPHCL, of the eight directors in position only three to four Directors were present in the AGMs (except in 5th adjourned AGM) of the Company held.

The matter was reported to the Management/Government (July 2012); their reply is awaited (January 2013).

3.4.5 Conclusion

- Board meetings were not held regularly in most of the Companies in violation of the provisions of the Companies Act, 1956;
- Attendance of Directors in Board meetings and AGMs was not regular;
- Minutes of the Meetings of the BoDs were not maintained properly as per the requirement of the Act;
- Audit Committee was not constituted by JHARCRAFT;
- Mandatory compliance related filings viz. Annual Return and Balance Sheet and Profit & Loss Account to the ROC were not made on the due dates;
- Company Secretaries were not engaged as per requirement of the Act;
- The Companies did not hold AGMs every year; and
- Non-compliance with the provisions of Sections 159, 166, 193, 220, 292A and 383A of the Companies Act, 1956 is an offence punishable with imprisonment and fines ranging from ₹ 500 to ₹ 50,000. Hence the defaulting Companies are liable to face penal action for infringement of the legal requirements.

Statutory Corporation

Jharkhand State Electricity Board

3.5 Generation loss due to delay in procurement of DCS Controller Cards

Failure of the Board to enter into Annual Maintenance Contract, non availability of spare Controller Cards in the store and delay in procurement of Controller Cards for the Distributed Control System resulted in shut down of Unit No.4 of PTPS for 516.50 hours. Consequently, there was loss of power generation of 17.97 MUs and loss of contribution of ₹ 2.53 crore.

The Jharkhand State Electricity Board (Board) has a Thermal Power Station at Patratu. The operation of Unit No. 4 of Patratu Thermal Power Station (PTPS) is controlled through a Distributed Control System (DCS). The DCS (DELL make) of Unit No. 4 (40 MW capacity) of PTPS, installed and commissioned in 2008 with a warranty period of one year, was supplied by ABB Limited (ABB) at a cost of ₹ 1.07 crore. It comprised of five work stations (including an engineering station for data feeding and logical work), server and other DCS panels in the unit control room.

We observed (February 2012) that two work stations of the DCS of Unit No. 4 went out of order on 18 September 2010 and 3 October 2010 respectively due to damage to their Small Computer System Interface (SCSI) Controller Cards which communicate between the computers and the server. PTPS had not entered into an Annual Maintenance Contract (AMC) for the repair/maintenance of the DCS and the SCSI Controller Cards/spare computer systems were also not available in the stores of PTPS. The user department¹⁵ of PTPS submitted (9 November 2010) an urgent requirement for procurement of a complete set of computers for the DCS of DELL make from ABB on proprietary basis. The Plant management made enquiries from DELL India, Bangalore on 26 November 2010 and from Instrumentation Limited, Kota (IL Kota) on 17 January 2011 for purchase of the SCSI Controller Cards but no response was received from them. Despite this, the Board did not take steps to locate another supplier for the SCSI Controller cards given the urgency of the matter. Meanwhile, the SCSI Controller Cards of the other three work stations (including the engineering station) also went out of order on 20 July 2011, 2 August 2011 and 22 August 2011 due to which Unit No. 4 had to be shut down on 22 August 2011. It was only after the Unit shut down that the Board located (26 August 2011) another vendor (ZACO Computers, Mumbai) through the internet for the SCSI Controller Cards and issued (30 August 2011) an order for purchase of five SCSI Controller Cards at a price of ₹ 71,400. On receipt and installation (11 September 2011) of the SCSI Controller Cards, power generation from Unit No. 4 was restarted on

¹⁵ Electrical Maintenance Department of Unit No. 4.

12 September 2011. Unit No. 4 of PTPS remained shut down from 22 August 2011 to 11 September 2011 (516.50 hours) resulting in generation loss of 17.97 MUs¹⁶ and contribution loss of ₹ 2.53 crore¹⁷. Considering that the cost of the Controller cards was only ₹ 0.71 lakh, the inaction on the part of the Board proved to be detrimental to the interest of the Board.

The Board stated (September 2012) that the DCS was new to the plant and they were not aware of where to procure the Controller Cards from, apart from the original supplier. The AMC could not be made due to lack of response from the firm (IL Kota) even after contacting them several times. The process for entering into an AMC has now been initiated. The reply confirms the failure of the Board to enter into an AMC and ensure timely procurement of SCSI Controller Cards for the DCS.

Thus, failure of the Board to enter into an AMC, keep spare Controller Cards and delay in procurement of Controller Cards for the DCS of Unit No. 4, resulted in shut down of the Unit with consequential generation loss of 17.97 MUs and loss of contribution of ₹ 2.53 crore.

The matter was reported to the Government (June 2012); their reply is awaited (January 2013).

GENERAL

3.6 Follow up action on Audit Reports

3.6.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of audit scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive.

Audit Reports for the years 2007-08 to 2010-11 were placed in the State Legislature in July 2009, August 2010, August 2011 and September 2012 respectively. Out of 25 paras/Performance Audit involving five PSUs under four Departments featured in the Audit Reports (Civil & Commercial) for the years 2007-08 to 2010-11, no replies in respect of 24 paras/Performance Audit have been received from the Government by 30 September 2012 as indicated below:

¹⁶ Load 40 MW x Operating hours 516.50/1000 at 87 % PLF.

¹⁷ 17.97 MU x ₹ 1.41 {Loss of contribution per unit *i.e.*, Average sales realisation per unit in 2010-11 (₹ 2.96) – Variable cost per unit (₹ 1.55)}.

Year of Audit Report	Total Paragraphs/Performance Audit in Audit Report	No. of Departments involved	No. of Paragraphs/Performance Audit for which replies were not received
2007-08	9	3	8
2008-09	5	2	5
2009-10	7	2	7
2010-11	4	3	4
Total	25		24

Department wise analysis is given in *Annexure-16*.

Compliance with the Reports of Committee on Public Undertakings (COPU)

3.6.2 In the Audit Reports (Civil & Commercial) for the years 2001-02 to 2010-11, 35 paragraphs and eight Performance Audits were included. Out of these, seven paragraphs and three Performance Audits had been discussed by COPU upto 30 September 2012. COPU had made recommendations in respect of three paragraphs and two Performance Audits of the Audit Reports for the years 2001-02 to 2007-08.

As per the working rules of the COPU, the concerned departments are required to submit Action Taken Notes (ATNs) to COPU on their recommendations within three months. The ATNs are, however, furnished by the departments to us only at the time of discussion of ATNs by COPU.

Response to Inspection Reports, Draft Paragraphs and Performance Audits

3.6.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned administrative department of the State Government through Inspection Reports (IRs). The heads of PSUs are required to furnish replies to the IRs through the respective heads of departments within a period of six weeks. IRs issued upto March 2012 pertaining to 10 PSUs disclosed that 1388 paragraphs related to 357 IRs remained outstanding at the end of September 2012. Department-wise break-up of IRs and audit observations outstanding as on 30 September 2012 are given in *Annexure-17*.

Similarly, draft paragraphs and performance audit on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned and the Principal Secretary, Finance demi-officially, seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of five draft paragraphs and one performance audit report forwarded to the various departments during May to July 2012, the Government had replied (January 2013) only to the performance audit report; replies to the draft paragraphs have not been received so far (January 2013) as detailed in *Annexure-18*.

We recommend that the Government should ensure that (a) procedure exists for taking action against the officials who failed to send replies to Inspection

Reports/Draft Paragraphs/Performance Audit and Action Taken Notes on the recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayments in a time bound manner, and (c) the system of responding to audit observations is revamped.



Ranchi
The

(MRIDULA SAPRU)
Principal Accountant General (Audit)
Jharkhand

Countersigned



New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India