

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The Accounts of Government companies are audited by Statutory Auditors appointed by CAG of India. These Accounts are also subject to supplementary audit conducted by CAG of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2013, the State of Bihar had 31 working PSUs (28 Companies and three Statutory corporations) and 40 non-working PSUs (all companies), which employed 0.16 lakh employees. The State working PSUs had registered a turnover of ₹4857.63 crore as per their latest finalised Accounts. The PSUs had aggregate losses of ₹1109.82 crore as per their latest finalised Accounts as of 30 September 2013.

Investment in PSUs

As on 31 March 2013, the investment (Capital and long term loans) in 71 PSUs was ₹ 8321.80 crore. Power Sector had accounted for 66.88 per cent of total investment in 2012-13. The Government contributed ₹ 5094.08 crore towards Equity, Loans and Grants / Subsidies during 2012-13.

Performance of PSUs

As per the latest finalised Accounts, out of 31 working PSUs, 15 PSUs had earned Profit of ₹135.74 crore and 10 PSUs had incurred Loss of ₹ 1222.18 crore. The major contributors to Profit were Bihar State Road Development Corporation Limited (₹ 37.36 crore), Bihar State Educational Infrastructure Development Corporation Limited

(₹ 24.15 crore) and Bihar State Beverages Corporation Limited (₹ 12.42 crore). As per the latest finalised accounts, heavy Losses were incurred by the erstwhile Bihar State Electricity Board (₹1087.63 crore) for the period from April 2012 to October 2012.

Audit noticed various deficiencies in the functioning of PSUs. A review of latest Audit Reports of CAG shows that the State working PSUs incurred losses to the tune of ₹2495.44 crore and infructuous investment of ₹ 52.23 crore were attributable to deficiencies in financial management, planning and implementation of their activities.

Quality of accounts

The quality of Accounts of companies needs improvement. During the year 2012-13, the statutory auditor had given qualified certificates for all the 21 Accounts received during the year. The compliance of accounting standards were poor as there were 15 instances of non-compliance in seven accounts.

Arrears in accounts and winding up

Out of 31 Working PSUs, 29 PSUs had arrears of 196 accounts as of 30 September 2013. The extent of arrears was one to 23 years. There were 40 non-working PSUs including seven under liquidation.

(Chapter-I)

2. Performance Audits relating to Government companies

2.1 A Performance Audit on “Financing and recovery activities of Bihar State Backward Classes Finance and Development Corporation” was conducted. Executive summary of the audit findings is given below:

Executive Summary

Introduction

With a view to promote economic and developmental activities for the benefit of members of Backward Classes in the State of Bihar, the Government of Bihar (GoB) set up Bihar State Backward Classes Finance and Development Corporation (Company) under the Companies Act, 1956. The Company is under the administrative control of Backward Classes and Extremely Backward Classes Welfare Department, GoB. The Company is responsible for identification of potential beneficiaries and implementation of the schemes as per guidelines and instructions issued by the Government/National Backward Classes Finance and Development Corporation (NBCFDC).

Financial Management of the Company

The financial management of the Company was deficient as the recoveries were insufficient to discharge the liabilities of NBCFDC. The Company had made repayment of outstanding dues of ₹ five crore to NBCFDC from its own fund (Share Capital) during 2010-11. Due to poor recovery and non-repayment of NBCFDC loan, NBCFDC did not release the sanctioned loan of ₹ 114.39 crore to the Company which adversely affected the implementation of schemes. The accounts of the Company were in arrears since 1998-99.

Lending and Recovery activities of the Company

NBCFDC Education Loan Scheme

No fresh loan under the Scheme was disbursed due to non-release of funds by NBCFDC. 49 beneficiaries to whom educational loan amounting to ₹ 97.58 lakh was disbursed had not commenced repayment of the loan despite completion of their courses.

NBCFDC Term Loan

No fresh Term Loan was sanctioned during the period 2008-13. Recoveries made by the Company during five years ending March 2013, against the loan disbursed was very dismal and ranged between 0.21 per cent and 1.26 per cent of the total outstanding amount.

Mukhya Mantri Nishaktjan Shiksha Rin Yojna

Out of ₹ 3.46 crore received under the Scheme, only ₹ 1.50 crore could be disbursed during 2008-13. The poor disbursement was mainly caused by delay in preparation of guidelines by the Government. The Company recovered ₹ 1.16 lakh only against total disbursement.

Mukhya Mantri Nishaktjan Swarojgar Rin Yojana

Against receipt of a sum of ₹ 5.19 crore under the Scheme, the Company could disburse only ₹ 1.89 crore and the balance ₹ 3.30 crore remained undischursed and was lying with the Company upto March 2013. Further, lack of control system resulted in poor recovery of only ₹ 1.21 lakh against disbursement of ₹ 1.89 crore.

Financial Assistance under Scholarship Scheme

Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna (MMAVPMY)

The benefit under this Scheme was extended to 299 students without verifying their Extremely Backward Class status.

The Company was not in receipt of utilisation certificates of beneficiaries from DWOs/ DEOs. Further DWOs/ DEOs were not prompt in returning the unutilised amount and kept the undisbursed amounts/ Bank Drafts with them.

Manpower

Shortage of manpower adversely affected the functioning of the Company and was not effectively dealt with by BoD.

Internal Control mechanism

There was no MIS prevalent in the Company. No system was evolved to obtain the utilisation certificate in respect of disbursement of funds.

Ledger showing loanee-wise details of amount due and recoverable on account of principal and interest was not properly maintained and there was no effective watch on recovery of loans.

Conclusion and Recommendations

The performance of the Company in regard to financing and recovery under various schemes was found to be far from satisfactory. Non-preparation of detailed plan resulted in poor implementation of the schemes and deprivation of intended benefits to the targeted beneficiaries. The role of the Government in the functioning of the Company was deficient as there were delays in formulation of the guidelines, issuance of instructions and constitution of Board of Directors.

Financial management of the Company was deficient as instances were noticed of poor recovery, funds pertaining to various loans/scholarship schemes lying unutilised, blocking of funds and there were delays in finalisation of accounts.

There was no system of securing utilisation certificate in respect of funds disbursed.

The system for follow-up of the recoveries from the beneficiaries was far from satisfactory. The shortage of manpower adversely affected the functioning of the Company. The internal control and monitoring mechanism prevalent in the Company was deficient.

The Company needs to evolve a detailed plan for disbursement of loan fund to the intended beneficiaries; evolve a system of securing utilisation certificates and strengthen recovery mechanism.

The BoD should effectively deal with the shortage of manpower, and Internal control and monitoring mechanism prevalent in the Company need to be streamlined and strengthened.

(Chapter-2.1)

2.2 A Performance Audit on “Financing and recovery activities of Bihar State Minorities Financial Corporation Limited” was conducted. Executive summary of the audit findings is given below:

Executive Summary**Introduction**

Bihar State Minorities Financial Corporation Limited (Company) was incorporated in March 1984 by the Government of Bihar (GoB) under the Companies Act, 1956. The Company is under the administrative control of Minority Welfare Department, GoB. The Company is responsible to shortlist the eligible beneficiaries for various schemes of Government/National Minorities Development and Finance Corporation (NMDFC) based on laid out criteria and after physical verification, selection of beneficiaries is done by a committee having representation of district authorities, lead bank and Directorate of Industries and Commerce.

Annual Action Plan

Due to failure of the Company to comply the terms and conditions of letter of intent against allocated fund, a sum of ₹45.20 crore was not released by NMDFC to the Company for disbursement during the period 2008-13.

Financial Management of the Company

The financial management of the Company was deficient as the recoveries were insufficient to discharge the liabilities of NMDFC. The Company had made repayments of outstanding dues of ₹12.99 crore to NMDFC from their own fund (Share Capital) during 2010-11.

Lending and recovery activities of the Company

Term Loan Scheme

The Company received ₹ 21.27 crore out of which ₹ 16.66 crore was utilised during 2008-13.

In Saran division, out of 361 applications received, 22 selected applications did not have income certificate which was a prerequisite for selection. In Patna division, the names of original 84 applicants were not considered for selection. Out of 49 test checked income certificates of beneficiaries, 16 were found deficient as per records of issuing authority (Circle Office).

Recovery effected by the Company during the five years ending March 2013 was dismal and ranged between 3.24 and 4.65 per cent of the total amount recoverable.

Education loan Scheme

The Company received ₹ 2.13 crore out of which ₹ 1.46 crore had been disbursed during the period 2008-13. No fresh loan under the Scheme could be disbursed in the year 2009-10 due to non-receipt of fund. Disbursement was also not made by the Company during the year 2011-12 despite availability of fund.

Repayment of loan under Educational Loan Scheme was not pursued as the beneficiaries neither informed the Company of their completion of course and/or self employment nor did the Company make endeavour to ascertain this aspect from the loanees.

Micro Credit Scheme

Under the Micro Financing Scheme, the Company released a sum of ₹ 48.21 lakh to three NGOs on their request for 305 beneficiaries without verifying the financial credibility/track record of NGOs out of which, a sum of ₹ 43.50 lakh could not be recovered for over four years. The Micro Financing Scheme was discontinued by the Company from 2009-10.

Financial Assistance under Scholarship, Coaching and Skill Development schemes

Post Matric Scholarship Scheme (Central)

The percentage of unutilised fund under Post Matric Scholarship Scheme (Central) during the period 2008-09 to 2011-12 ranged from 11.31 to 54 per cent. An amount of ₹ 14.01 crore was lying unutilised with the Company since 2011-12.

The Company disbursed a sum of ₹ 25.02 lakh in the year 2010-11 to four non-existent private colleges without ascertaining their authenticity.

Post Matric Scholarship Scheme (State)

An amount of ₹ 18.24 lakh was released to 456 students by the Company under Post Matric Scholarship Scheme (State) against whom funds had already been released under Post Matric Scholarship Scheme (Central). As a result of this other eligible students were deprived of the benefits under this Scheme.

Non-achievement of objective under Coaching Scheme

Due to failure of monitoring by the committee constituted by the Department, an amount of ₹ 3.69 crore out of ₹ 4.67 crore received during 2007-11 could not be utilised which was ultimately refunded by the Company to the Department.

Mukhya Mantri Shram Sakti Yojna

Out of ₹ three crore received under the Scheme, the Company utilised only ₹ 14 lakh and balance ₹ 2.86 crore remained unutilised for more than four years. Thus the intended beneficiaries were deprived of the benefits under this Scheme.

Manpower

There was shortage of manpower which affected the Company's working with respect to implementation of schemes.

Internal Control mechanism

No system was evolved to obtain the utilisation certificate in respect of disbursement of funds.

There was no system of verification of the list of the eligible students prepared by outsourced agency/contractual staff which resulted in excess/double release of fund under scholarship scheme.

Conclusion and Recommendations

The Performance of the Company in financing and recovery under various schemes was far from satisfactory. Detailed plan was not prepared by the Company. The role of the Government in the functioning of the Company was deficient as it did not effectively monitor the functioning of Committee for Coaching Scheme. The financial management of the Company was deficient. There were procedural lapses

in identification of intended beneficiaries and disbursement of financial assistance. Besides, there was no system of securing utilisation certificate. The system for follow-up of the recoveries from the beneficiaries was far from satisfactory. The internal control in the Company was deficient.

The Company needs to evolve a detailed plan for disbursement of loan/scholarship fund and recoveries thereof; develop a system for time bound utilisation of funds; develop a data base to identify the eligible beneficiaries; strengthen recovery mechanism and improve Internal Controls.

(Chapter-2.2)

3. Performance Audit relating to Statutory Corporation

Performance Audit on Warehousing activities of Bihar State Warehousing Corporation was conducted. Executive summary of the audit findings is given below :

Executive Summary

Introduction

Bihar State Warehousing Corporation (Corporation) was established in March 1957 under the Agricultural Produce (Development and Warehousing) Corporation Act, 1956. As on March 2013, the Corporation had 37 warehousing centres with a total available storage capacity of 31.99 lakh Metric Tonnes (MT).

Deficiencies in warehousing activities

Non-accrual of benefits to primary producers (Farmers)

The Corporation failed to achieve its main objective of providing storage facility to primary producers because of lack of initiative on the part of Corporation to educate farmers regarding benefit of scientific storage of stock.

Loss due to shortage of stock

The Corporation incurred a loss of ₹12.63 crore due to shortage of foodgrains, caused by deficient monitoring of the periodical physical verification of State Warehousing Centres (SWCs).

Non-compliance of First In First Out (FIFO) method

Stock of 448 MT and 269 MT of rice at SWC, Bettiah and SWC, Raxaul respectively were lying unissued since 2010-11 due to non-observance of FIFO method. The rice worth ₹1.42 crore had become discoloured, infested, heavily broken and non-issuable.

Engagement of Excess Capacity

At SWC, Muzaffarpur, due to engagement of more godowns than required, the Corporation could not utilise the aggregate storage capacity of 98,000 MT resulting in potential loss of ₹0.54 crore towards storage charge.

Non-recovery of Storage loss

At SWC, Sasaram, no monthly report of storage loss was submitted to FCI for waiver. Resultantly an amount of ₹1.05 crore could not be recovered (August 2013). A further storage loss of 145 MT of wheat and 171 MT of rice valuing ₹23.13 lakh was reported at the same centre during October 2009 to February 2011. Despite continued storage loss at

the centre, the Corporation neither investigated the reasons nor took any initiative to plug the loopholes.

Deficient protective measures

Utilisation of dunnage and other fumigation material was much below norms which may damage the godowns, foodgrains and other stocks kept. Besides, the intended objective of scientific storage was defeated.

Tariff and billing

Non-raising of revised bills of FCI

Arrear bills valuing ₹ 3.16 crore of storage charges at revised enhanced rates (effective from April 2009) were not preferred by seven centres (August 2013).

Non-realisation of revised tariff from IFFCO

Although the arrear bills at the revised rate were issued by the Corporation, the enhanced rate was made applicable by IFFCO from the next month of the receipt of tariff order instead of retrospective effect. This led to non-realisation of ₹ 44.04 lakh (July 2013) to the Corporation.

Construction of godowns

Central/ State Scheme

Rashtriya Krishi Vikash Yojana (RKVY)

The Government sanctioned ₹ 26.30 crore for construction of 10 godowns with total capacity of 50,000 MT at seven locations in 2007-08 and 2008-09, under RKVY. However, only eight godowns were completed (September 2013) with a delay ranging between 18 to 40 months as against the scheduled completion period of seven months.

Under Own scheme

The Executive Committee of the Corporation sanctioned (March 2010) ₹ 6.43 crore for construction of two godowns at two centres (Kasba-6000 MT and Muzaffarpur-4310 MT) from its own funds. However, the godowns were completed with a delay of 19 and 21 months as against the scheduled completion period of seven months.

Financial Management

Non-finalisation of Accounts

The Corporation has finalised its Annual Accounts upto the year 2009-10, while the Accounts for 2010-11 to 2012-13 were yet to be finalised (September 2013). Delay in finalisation of Accounts may result in risk of financial irregularities including fraud.

Deficient Manpower Planning

As against the sanctioned strength of 493 employees, the Corporation had working strength of 206 employees as on 31 March 2013 out of which 153 employees were Peon-cum-Dusting officials (PCDOs), drivers, etc. Superintendents were required to be posted as godowns in-charge, however, due to huge shortage of manpower, Lower Cadre Personnel such as Assistants in 23 SWCs and PCDOs/ Daftery/Record keepers in 14 SWCs were given the charge of risk prone warehouses. However, no action was taken by the Management for appointment of employees.

Internal control

The Corporation does not have any operation or functional manual nor has its own accounts manual. Internal Audit Reports were not placed before the Board of Directors. Only 18 meetings of the BoD and 10 meetings of Executive Committee were held at irregular intervals against the required number of 30 and 60 meetings respectively during 2008-13. The Corporation had not devised any comprehensive Management Information System for collection, consolidation and analysis of various information / data for effective monitoring. Books of records were also not properly maintained.

Conclusion

The Corporation did not have a proper plan for construction of godowns. The Corporation failed to achieve its main objective of providing storage facility to primary producers. The warehousing activities of the Corporation were deficient as it suffered losses on account of pilferage of stock, non-observance of FIFO, etc. Also, there were instances of wrong application of tariff, billing and non realisation. The financial management, Internal Control and MIS were deficient.

Recommendations

The Corporation needs to prepare perspective plan for construction of godowns and ensure timely completion of construction of godowns; ensure scientific storage and issuance of stock; raise bills timely and pursue realisation,

keep the control registers complete and updated, strengthen its Internal Control System and improve MIS.

(Chapter-III)

4. Transaction audit observations

Transaction audit observations included in the Report highlight deficiencies in the management of Public Sector Undertakings involving serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss/non-recovery of ₹ 5.09 crore in five cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.1, 4.2, 4.5, 4.6, and 4.7)

Loss of ₹ 60.86 crore in three cases due to non-safeguarding of the financial interests of the organisation.

(Paragraphs 4.3, 4.4 and 4.11)

Loss of ₹ 10.74 crore in three cases due to defective/deficient planning.

(Paragraphs 4.8, 4.9 and 4.10)

Gist of some of the important audit observations are given below:

Non-adherence to the provisions of the Tariff Order regarding reduction of contract demand by the **South Bihar Power Distribution Company Limited** resulted in undue benefit to the consumer and a loss of revenue of ₹ 1.19 crore to the Company.

(Paragraph 4.1)

Bihar Urban Infrastructure Development Corporation Limited made contribution of ₹ two crore to the Chief Minister's Relief Fund without following due procedures and also in violation of relevant provision of the Companies Act, 1956.

(Paragraph 4.6)

The **Bihar State Hydroelectric Power Corporation Limited** incurred an avoidable expenditure of ₹ 1.50 crore due to failure to verify the international issues associated with the Dagmara power project and awarding of work order for preparation of DPR in contravention of the Central Water Commission Guidelines.

(Paragraph 4.8)

Deficient planning on the part of the **Bihar State Hydroelectric Power Corporation Limited** in respect of Dhoba SHP resulted in wasteful expenditure of ₹ 0.31 crore. Besides, there was irregular drawal of further instalments of NABARD loan by submitting incorrect expenditure certificates by the Company.

(Paragraph 4.9)

Failure on the part of the **Bihar State Electronics Development Corporation Limited, Bihar Police Buildings Construction Corporation (Private) Limited and Bihar State Beverages Corporation Limited** to devise a suitable system for ensuring proper assessment of tax liability led to non-payment of advance tax resulting in avoidable payment of interest of ₹ 1.64 crore.

(Paragraph 4.11)

(Chapter IV)