Chapter - III

CHAPTER-III

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 Deficiencies in sale of kendu leaves

Introduction

3.1.1 The Jharkhand State Forest Development Corporation Limited (Company), a Public Sector Undertaking of Government of Jharkhand (GoJ), is the only agency of the Government of Jharkhand (GoJ) for the purpose of collection and sale of kendu leaves[1] in Jharkhand used for wrapping tobacco and making Beedis[2]. It performs its activities under the provision of the Jharkhand Kendu Leaves (Control of Trade) Rules, 1972, Jharkhand Kendu Leaves (Control of Trade) Act, 1973 and rules made thereunder.

Kendu leaves are sold in advance on lump sum basis in the month of December every year through tender *i.e.*, before the commencement of kendu leaves collection season (April to June). Tenders for sale of kendu leaves are invited by the Company for each lot[3]. Tenders received are finalised at Corporate office of the Company after evaluation by the Sale Committee constituted[4] by the GoJ. Agreements with highest bidders are entered into within 10 days from finalisation of tenders. In plucking season, kendu leaves pluckers collect new leaves of kendu and deliver these to the authorised agent of the purchasers deputed at the collection centres. After receipt of collected kendu leaves at collection centres, these dried leaves are sprinkled with water to soften them and then packed in jute bags called standard bags containing 1,000 polas[5]. Packed kendu leaves are transported to the godowns of the company or authorised private godowns where these are kept under "double lock system" consisting of locks of the purchaser and the company until the payment and lifting of the kendu leaves by the purchasers.

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1 Botanical name Diospyros Melanoxylon.

2 Popular smoke especially among poor natives.

3 Lots are territorial/part territorial ranges consisting of one or more than one unit depending on size of the area and quantity of kendu leaves.

4 Sale Committee includes representatives of Finance Department, Vigilance Department, Forest Department and the Company including Managing Director.

5 Bundles of 50 kendu leaves is called as polas.

Audit findings

During examination of records relating to sale of kendu leaves following deficiencies were noticed:

Unsold lots of kendu leaves

3.1.2 Unsold lots of kendu leaves are such lots for which no tender was received or tenders were received below the reserve price and were not considered for advance sale by the Sale Committee. These unsold lots were not collected by the pluckers and remained un-harvested[6] and were not useful for beedi making.

We noticed that on an average 10 to 15 rounds of advance sale tenders of kendu leaves lots were invited by the Company in between December to May during the seasons 2009 to 2013 so as to ensure sale of as many lots as possible. Despite successive advance sale tenders some lots of kendu leaves remained unsold. The details of sold and unsold kendu leaves lots during the seasons 2009 to 2013 are given in the ***Table – 3.1.***

Table – 3.1

Season	Total no. of lots	No. of sold lots	No. of unsold lots	Notified yield[7] of unsold lots (Std bags)	Reserve price of unsold lots (₹ in crore)
2009	297	237	60	132850	1.62
2010	295	240	55	126650	1.42
2011	298	279	19	34750	0.57
2012	296	290	06	17500	0.25
2013	299	200	99	266675	16.04
Total	**1485**	**1246**	**239**	**578425**	**19.90**

(Source: Data compiled from sale report)

During the seasons 2009-2013, unsold kendu leaves lots were ranging from six to 99. Thus, 5,78,425 standard bags of kendu leaves in respect of 239 unsold lots remained un-harvested. The sale of kendu leaves is the major source of income of the Company and it also provides seasonal employment to poor forest dwellers and villagers. Being a commercial entity the Company should have explored alternative avenues such as departmental collections[8] as carried out in erstwhile Bihar by way of making advance Action Plan for the lots which remained unsold in advance sale tenders till March of the respective collection season and reduction in reserve price with the approval of the BoDs as stipulated in Jharkhand Kendu Leaves (Control of Trade) Act, 1973 for harvesting these lots. However, no efforts were made in this regard by the Company.

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[6] The period of plucking/collection season of kendu leaf lots are from April to June i.e before rainy season. In the season, pluckers collect new leaves of kendu of sold lots. After the end of season the leaves get over matured. Thus, kendu leaves of the lots which are not sold in process of advance sale tenders remained un-harvested.

[7] Yield of kendu leaves in respective lots as per Gazette Notification dated 28 November 1984.

[8] Departmental collection- Before formation of Jharkhand the kendu leaves lots which could not be sold through auctions were got collected through pluckers under supervision of Company officials and directly sold to the purchasers.

Thus, 5,78,425 standard bags of kendu leaves in respect of 239 lots with reserve price of ₹ 19.90 crore remained un-harvested depriving revenue to the Company, State exchequer and employment to the pluckers.

The Management stated (November 2013) that reduction in reserve price would adversely affect sale in the next season. The limited purchasers would organise themselves into a cartel to sell lots at rates below reserve price thereby prices would reduce every year. Departmental collection would require huge initial investment for additional establishment and other infrastructure. Past experience of the same had not been very encouraging. The Management further stated that the matter will be taken up in the BoDs meeting.

Reply is not acceptable as the fixation of the reserve price is an internal matter of the Company. Hence, formation of cartels on the basis of a lowered reserve price does not arise. In a tender process the purchasers will offer higher price so as to purchase the lot on account of competitive bidding. Further, Jharkhand Kendu Leaves (Control of Trade) Act, 1973 provides for reduction in reserve price with the approval of competent authority. As regards departmental collection of unsold lots, no effort was made by the Company since its incorporation though the average market price of kendu leaves was higher than the collection cost including all charges. Further, the Company had not furnished the details of investment and additional establishment expenditure involved in support of its reply.

Undue favour extended to purchasers owing to deficient clause

3.1.3 As per clause 1 of the terms and conditions of agreement, in case of delivery of kendu leaves in excess[9] of notified yield purchasers will pay for excess quantity with all taxes and duties. The value of excess quantity of kendu leaves over notified quantity will be calculated at 50 *per cent* of the average sale price per standard bag.

During seasons 2008 to 2012, an excess quantity of 3,04,286 standard bags of kendu leaves were collected over notified yields of 10,55,325 standard bags in respect of 407 sold lots ranging between 11.15 to 35.94 *per cent* of the notified yield aggregating total collections of 13,59,611 standard bags. The sale price of such excess collected leaves worked out to ₹ 15.10[10] crore –***Annexure-3.1.***

The purchasers paid to the Company only 50 *per cent* of the average sale price per standard bag over notified yield of the respective lot for extra quantity of leaves collected as per agreement clause though the purchasers got full value of these extra quantities of leaves from their sale to Beedi manufacturer. We further observed that total collection including excess collection were within the yield as assessed by the Institute of Forest Productivity (IFP) Ranchi.

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9 Excess collection will be taken over compulsorily by purchasers.

10 (Lump sum sale price /notified yield) X extra collection in standard bag; calculated for each lot where extra collection recorded.

Thus, due to deficient clause of agreement by allowing 50 *per cent* incentive on excess collection of kendu leaves is detrimental to the financial interest of the Company which resulted in extending undue benefit to the purchasers to the extent of ₹ 7.55 crore- ***Annexure 3.1***.

The Management stated (November 2013) that the present policy to encourage extra collection beyond notified yield at 50 *per cent* of the average sale price per standard bag motivates the purchaser to collect more leaves. This gives extra revenue for the Company; otherwise the purchaser may not be interested in kendu leaves collection beyond the target.

The reply of the Management is not acceptable as the policy of the Company is detrimental to its financial interest by allowing extra collection at 50 *per cent* rate. The Company did not revise the notified yield and tap the potential yield of kendu leaves as assessed by the IFP. Non revision of the notified yields and updating their systems resulted in aiding the purchasers. Further, the IFP Report was pending for adoption since December 2010, which would result in increase of notified yield.

Adverse impact on sale of kendu leaves due to non enforcement of terms of agreements

3.1.4 In terms of the clause 7 (b) (i) of agreement, the purchaser has option to lift the sold quantity of leaves in four equal installments after depositing the sale value. Further, as per clause 11 of agreement, if the purchaser fails to deposit installment by due date or fails to comply with any other condition of the agreement, the Company may cancel the agreement, forfeit the security deposit and seize the stock to dispose of the said kendu leaves and recover the losses, if any, from the purchasers after its resale.

We noticed that the Company sold Khunti A lot under Ranchi division at lump sum price of ₹ 25.75 lakh and entered (February 2011) into agreement with the purchaser[11] in season 2011. The validity of the agreement was up to March 2012 and entire stocks of leaves were to be lifted within the validity period. The purchaser stored 753.250 standard bags collected in May-June 2011 at departmental godown.

We observed that the purchaser did not deposit any installment within the validity period of agreement. The purchaser applied (April 2012) for extension up to 30 June 2012 after depositing extension fee of ₹ 3.20 lakh and again applied (September 2012) for extension up to 10 October 2012 which was not granted. The Company neither cancelled the agreement nor seized the kendu leaves in accordance with the provisions of clause 11 of the agreement despite the fact that leaves are perishable by nature. The agreement was belatedly terminated and the security money of ₹ 9.65 lakh including extension fee was forfeited in December 2012. The effort of the Company to sell the seized stock of kendu leaves through auction (May 2013), after delay of one year and two months from the validity date, did not materialise being two years old stock and perishable nature of the leaves and resulted in a loss of ₹ 12.90 lakh.

[11] Prasan Kumar Sinha

The Management stated (November 2013) that the seized kendu leaves of the lot was put for sale in 2013, despite several rounds of tender no bid was received.

Reply confirms failure of the Company to take timely action for disposal of the seized kendu leaves ignoring clause 11 of the agreement.

3.1.5 As per clause 7 (vi) of agreement, the purchaser is required to insure against fire and theft of notified quantity of leaves sold to them in favour of the Company within 10 days of the execution of the agreement and submit an original/ certified copy of the insurance policy to the respective Divisional Manager prior to taking delivery of kendu leaves. The insured sum will not be less than the amount payable at any time and in case of excess collection of kendu leaves the purchaser is also required to make insurance within 10 days of such excess collection. Further, as per clause 32 (b) (iv) of the terms and conditions of agreement, the purchaser was responsible for safety of delivered leaves at the collection centre and the stock of kendu leaves in the godown under supervision of the Company. In this regard following deficiencies were noticed:

3.1.5.1 The Company sold Simdega East C lot under Ranchi division at lump sum price of ₹ 61.11 lakh and entered (February 2011) into agreement with the purchaser[12] in season 2011. The validity of the agreement was up to March 2012 and entire stock of leaves were to be lifted within the validity period.

The purchaser stored 2,649.750 standard bags collected in May-June 2011 at his godown at Kansdega which was insured for risk of fire only. The purchaser lifted only 662.437 standard bags up to January 2012 and the balance quantity remained in the godown even after expiry of agreement. Overlooking clause 11 of the agreement the Company neither cancelled agreement nor seized stock of kendu leaves despite being aware of their perishable nature. Although the purchaser applied extension up to 10 October 2012, no extension was granted. The agreement was terminated and security deposit of ₹ 15.28 lakh was forfeited (December 2012). Physical verification of stock was conducted (February 2013) by the Company after termination of the agreement in which 1,567.460 standard bags valuing ₹ 31.94 lakh[13] including taxes and other charges were found short for which neither any responsibility was fixed nor any recovery of the loss has yet been made (July 2013). Thus, in absence of insurance against theft the Company suffered a loss of ₹ 31.94 lakh. Further, efforts of the Company to sell the seized stock valuing ₹ 8.55 lakh[14] through auction (May 2013) did not materialise as kendu leaves being perishable by nature. Failure in taking timely action for seizure and resale of seized kendu leaves stock resulted in denial of potential revenue.

While accepting the facts Management stated (November 2013) that F.I.R. has been lodged against the godown owner, purchaser and the Forest Produce

[12] Prasan Kumar Sinha

[13] ₹ 40.49 lakh/1987.313 Std bags*1567.460 Std bags

[14] ₹ 40.49 lakh/1987.313 Std bags*419.853 Std bags of Simdega East= ₹ 8.55 lakh

Overseer (FPO). FPO has been suspended and departmental proceedings have been initiated against him and Forest Produce Inspector (FPI). A certificate case has also been lodged against the purchaser. However, the fact remains that recovery of loss is yet to be made.

3.1.5.2 In a similar case pertaining to Simdega East C lot and Simdega East D lot during the season 2012 the Company sold kendu leaves at a lump sum price of ₹ 72.11 lakh and ₹ 91.21 lakh. The purchaser stored 3,310.050 standard bags of Simdega East C lot and 3,770.790 standard bags of Simdega East D lot in godown. The purchaser deposited security of ₹ 40.83[15] lakh for the lots.

The purchasers did not deposit any installment of the lots on due dates. Despite this, the Company did not seize the kendu leaves stock in accordance with the provisions of clause 11 of the agreement. The godown caught fire (28 October 2012) and entire stock of kendu leaves valuing ₹ 163.32[16] lakh was burnt. The Company failed to ensure the safety of kendu leaves stock. However, the Company claimed (November 2012) for recovery of insured amount against these lots with the insurance company and the security deposits were forfeited. The claim is yet to be settled by insurers (November 2013). Failure to enforce clause 11 of the agreement and to ensure the safety of kendu leaves stock, the Company may sustain loss of ₹ 122.49[17] lakh.

The Management stated (November 2013) that all requisite information regarding the claim sought by surveyor of insurance company was made available. However, recovery of loss has not been made even after one year of the claim. The Management further stated that FPO has been suspended and departmental proceedings have been initiated against him and FPI. A certificate case has also been lodged against the purchaser along with black listing him.

The fact remained that the amount is yet to be realised (November 2013).

3.1.5.3 It was also noticed that as against the 3,770.790 standard bags of kendu leaves collected in Simdega East D lot the payment of wages of ₹ 7.05[18] lakh was made to the kendu leaves collectors for 1007.12 standard bags only at the time of delivery of kendu leaves. Payment of wages for 2,763.670 standard bags could not be made as the Company did not obtain collection cost from the purchaser in contravention of the clause 6 of the agreement which provides that collection cost was to be obtained in full from the purchaser for timely payment to collectors before taking delivery of the collected leaves. Matter was brought to the notice[19] of the Company after a delay of seven months from the delivery of the kendu leaves although FPO and FPI were responsible for ensuring timely payments to collectors. Due to

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[15] Simdega East C- ₹ 18.03 lakh *plus* Simdega East D- ₹ 22.80 lakh
[16] Simdega East C- ₹ 72.11 lakh *plus* Simdega East D- ₹ 91.21 lakh
[17] Value of kendu leaves - ₹ 163.32 lakh *minus* security money-₹ 40.83 lakh = ₹ 122.49 lakh
[18] 1007.12 standard bags x ₹ 700 per standard bag = ₹ 7.05 lakh
[19] By Local Member of Parliament.

inaction of the Management the Company have to pay wages amounting to ₹ 19.35[20] lakh and to suffer loss to that extent.

Inadequacies in insurance of stock of kendu leaves

3.1.6 During test check of records pertaining to purchasers along with insurance policies of Minor Forest Produce Divisions at Ranchi, Hazaribag, Giridih and Daltonganj during the seasons 2008-12, we noticed the following inadequacies;

- In the four test checked divisions, out of 910 lots sold, only 880 lots were insured. Moreover, out of these 880 insured lots 76 lots were insured for amounts less than the lump sum amount of the respective lots. In four cases, no original or certified copies of insurance policy was submitted.

- Insurance against the risk of theft were not done in Division offices at Ranchi and Daltonganj as required under terms and conditions of agreement whereas 203 lots and nine lots were insured against the risk of theft out of 208 and 268 insured lots in Giridih and Hazaribag respectively.

- In Hazaribag division, in five cases the kendu leaves were lifted after the expiry of the insurance policy ranging from 12 days to 10 months. The validity of the insurance policies in respect of 43, 33, 15 and 12 lots of Giridih, Hazaribag, Daltanganj and Ranchi divisions respectively expired before the contract period *i.e.* 31 March of year succeeding the year of collection.

- In season 2009, stock for Pratappur E lot was insured for shops dealing in hazardous goods, arms and ammunition dealers, motor vehicle showrooms including sales and services, petrol and diesel kiosks instead of stocks of kendu leaves. Wrong categorization of insured item may result in denial of claim in case of damage due to any accident.

Thus, failure of the Company to ensure adequate and proper insurance of kendu leaves stock indicates lack of monitoring. Inadequate or improper insurance may result in unnecessary loss of revenue and blocking of fund apart from wastage of time and resources in unwanted legal proceedings/procedures.

While confirming the facts the Management stated (November 2013) that in future steps would be taken to get the stock of kendu leaves insured against both fire and theft and the inadequacy have been noted and will not be repeated in future.

[20] 2763.670 standard bags x ₹ 700 per standard bag = ₹ 19.35 lakh

Statutory Corporation

Jharkhand State Electricity Board

3.2 *Blockade of fund of ₹85.23 lakh due to improper planning*

Procurement of ACSR Panther conductor without proper assessment of requirement resulting in blocking of fund of ₹ 85.23 lakh and consequential loss of interest of ₹ 53.55 lakh.

In order to meet the requirement for upgradation and extension of the electricity distribution system as per the demand, Jharkhand State Electricity Board (JSEB) prepares Annual Development Programme (ADP) each year. The requirement of materials for the works under ADP is worked out on the basis of requirement obtained from field offices and is included in the material budget for procurement during the year. The proposed expenditures under the ADP are largely met with the funds provided by the Government of Jharkhand (GoJ).

The General Manager-cum-Chief Engineer of Area Office, Jamshedpur, JSEB proposed (June 2006) the works of three 33 kV Switching sub-stations, 44 Kms of 33 kV line Stray extension and Rehabilitation of 14 Kms of 33 kV lines for which requirement of 1.8 Kms of ACSR Panther Conductor[21](Panther Conductor) and 313.60 Kms of Dog Conductor[22] was sent to JSEB, Headquarter. Against this, the works of three Switching sub-stations, eight Kms of 33 kV line Stray extension and Rehabilitation of 10 Kms of 33 kV lines was approved by JSEB for Area Office, Jamshedpur. Provision for procurement of 150 Kms of Panther Conductor was made in the material budget of ADP for the year 2006-07 although requirement projected by the field was only for procurement of 1.8 Kms of Panther Conductor.

JSEB proposed for procurement of 151.65 Kms[23] of Panther Conductor for which Chairman, JSEB accorded administrative approval (October 2006). Accordingly, tender was invited (December 2006) for supply of the material. After following the due tender evaluation procedure purchase order was placed (April 2008) on Anvil Cables Pvt. Ltd. for supply of 147 Kms of ISI marked Panther Conductor at a variable price of ₹ 1,20,044.27 per Km. The material was to be supplied within 45 days of issue of Letter of Intent (27 March 2008) *i.e.,* by May 2008. Out of the ordered quantity of 147 Kms supply of 85.30 Kms of Panther Conductor was received.

We observed (March 2013) that procurement of Panther conductor was made under the approved material budget for 2007-08 wherein provision was made for purchase of 200 Kms of Panther conductor on ad-hoc basis without assessing fresh requirement from the field.

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[21] Aluminium Conductor Steel-reinforced (ACSR) panther cable is high current carrying capacity conductor used in Power Sub-stations and 33 kV lines

[22] ACSR Dog Conductor is utilised for construction of 33 kV line/11 kV line and LT lines

[23] Including 150 Kms for ADP and 1.65 Kms for Rural Electrification

Against the requirement of 1.80 Kms of Panther Conductor, 22.70 Kms of the conductor was delivered to the Central Store under Jamshedpur Area Office of which only 3.28 Kms was utilised (July 2013). JSEB delivered the balance material[24] to other Central Stores under Electric Supply Circles although no requisition for the material was received from them. As against the procured quantity of 85.30 Kms of the ACSR Panther conductor only 20.213 Kms (23.70 *per cent*) was utilised and balance quantity of 65.087 Kms valuing ₹ 85.23 lakh[25] remained (July 2013) in the Stores.

JSEB stated (August 2013) that the Panther Conductor could not be utilised in Jamshedpur Area Office and in other areas due to non-completion of proposed Switching Station and PSSs during the years 2008-2013 on account of land disputes and other reasons. The reply is not acceptable as Panther Conductor demand assessed in 2006-07 was only 1.8 Kms which was much less against the procurement. Further, JSEB has planned for construction of 46 PSSs under ADP in 2013-14 in which only 27.60[26] Kms of Panther Conductor would be required. Considering the fact that only four PSSs were constructed during 2008 to 2012 due to constraints of land availability for the proposed PSSs and other problems substantial time would be required for construction of the PSS. Thus, there was no possibility of immediate utilisation of the balance quantity of 65.087 Kms of the Panther Conductor.

Thus, procurement of the Panther Conductor in excess of requirement by JSEB resulted in 65.087 Kms of the conductor remaining unutilised for five years and consequential blocking of funds of ₹ 85.23 lakh. As the Board was under severe financial constraints and the funds were arranged mainly by loan from the GoJ, it has entailed avoidable interest burden of ₹ 53.55[27] lakh.

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

3.3 Unfruitful expenditure on repairing of Generator Stator

Unfruitful expenditure of ₹ 71 lakh due to repairing of Generator (Stator & Rotor) for shut down Unit No.3 of Patratu Thermal Power Station without ensuring fund availability for the proposed restoration of the shut down Unit and consequent non-utilisation of the Generator Stator.

As per the Financial and Account Code of Bihar State Electricity Board as adopted by Jharkhand State Electricity Board (JSEB), capital scheme involving expenditure of more than rupees fifteen lakh is to be prepared only with prior consultation of the State Government. JSEB prepares Work Plan for schemes relating to Generation each year, funding of which is made mainly by the Government of Jharkhand (GoJ). JSEB after obtaining administrative

[24] 62.60 Kms (85.30 Kms – 22.70 Kms)

[25] ₹ 69.78 lakh (53.304 Km x ₹ 1,30,900 landed cost per Km including price variation) + ₹ 15.45 lakh (11.783 Km x ₹ 1,31,153 landed cost per Km including price variation)

[26] considering the requirement of 600 meters in each proposed PSS

[27] ₹ 85.23 lakh x 13 *per cent* x 58 months/12 = ₹ 53.55 lakh

approval of the schemes from the apex Board sends the proposal to the GoJ for approval and for provision of fund.

The 50 MW Russian make power generation Unit No.3 of Patratu Thermal Power Station (PTPS) was shut down since August 2003. JSEB prepared Generation Work Plan for 2007-08 for ₹ 100 crore in which the scheme for restoration of Unit No.3 of PTPS at a cost of ₹ 25.29 crore was included. The GoJ made a provision of ₹ 100 crore against the work plan in the budget outlay for 2007-08. The apex Board of JSEB accorded administrative approval (April 2007) to the proposal subject to final approval of the GoJ. JSEB invited (February 2008) tender for awarding the work at an estimated cost of ₹ 25.29 crore in anticipation of approval of the GoJ.

The GoJ sanctioned (March 2009) ₹ 100 crore under Generation Plan of JSEB but restricted utilisation of the fund for Unit No. 3 stating that the funds were to be utilised only for ongoing rehabilitation of Unit No. 9 and 10 of PTPS. As the fund was not available, JSEB cancelled (February 2010) the comprehensive tender for restoration of the unit. Subsequently, restoration of Unit No.3 was postponed (February 2011) by the GoJ.

It was observed that in the meantime the Plant management of JSEB had proposed (May 2007) repairing of Generator (Stator & Rotor) for the unit separately though the cost (₹ 2.53 crore) for the same was included in the estimated cost (₹ 25.29 crore) for restoration of Unit No.3 (March 2007). The proposal was approved (December 2007) by the apex Board of JSEB and a technical estimate of ₹ 3.54 crore was sanctioned (May 2008) for the same.

JSEB placed (January 2009) the work order on turnkey basis for repair/rewinding of Generator Stator and Rotor on ABB Limited (ABB) at a price of ₹ 2.12 crore excluding taxes & duties. The complete work of repair of the Generator Rotor and re-insulation of the Stator including supply of winding materials for the Stator was completed by ABB in October 2009.

However, rewinding of the Stator, assembly of Stator and Rotor and associated works at the plant site of Unit No. 3 were yet to be executed as per the scope of work. There was no possibility of utilisation of the generator in the unit hence balance work for repairing of the Generator Stator was not done. The repaired Rotor was utilised (October 2010) in the generator of another 50 MW Russian make Unit No. 4 of PTPS which was shut down since December 2009 due to failure of its Rotor.

JSEB foreclosed (May 2013) the work order before completion of the work and revised the work order for reduced value of ₹ 1.65 crore (excluding taxes and duties) for actual quantity of works executed. The actual work done for the Stator costing ₹ 71 lakh remained unutilised so far (May 2013). This equipment can only be utilised in case of breakdown of Stator of Unit No. 4. Possibility of utilisation in other units of PTPS was also remote as JSEB has proposed (February 2013) phasing out of 50 MW Russian make Units no. 1, 2 and 3 immediately.

JSEB stated (August 2013) that separate work order for repair of Generator (Stator & Rotor) Unit No. 3 was placed on ABB Ltd. for early restoration of the Unit and that keeping one set of Generator Stator as spare was better. The repaired rotor of the generator was used for bringing into operation the shut down Unit No.4 due to failure of its Rotor.

The reply of JSEB is not acceptable as early restoration of the Unit No.3 was not possible as the work for comprehensive restoration of the Unit was not awarded due to uncertainty of getting the fund from the GoJ. Also, reply of JSEB to keep one set of Stator as spare is an afterthought as no such alternative was mooted at the time of placement of order.

Thus, placement of the work order for repair of Generator (Stator & Rotor) separately although the same was included in the restoration scheme of Unit No.3 which was not taken up due to non-availability of fund for the scheme was not justified as after getting it repaired the Stator remained unutilised since October 2009 rendering the expenditure of ₹ 71 lakh unfruitful.

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

3.4 Loss due to non-levy of penalty

Short billing of ₹ 45.72 lakh resulted in loss of interest of ₹ 5.29 lakh due to non/delayed realisation of penalty for exceeding 110 *per cent* of the contract demand from the consumers.

Jharkhand State Electricity Board (JSEB) was supplying power to Eastern Coalfields Limited (ECL) a subsidiary of Coal India Limited, a Central Public Sector Undertaking through HTS connections and supply of power to Railways was being made by JSEB through Railway Traction Services (RTS) connections. We observed (January/May 2013) that one HTS connection of ECL at Lalmatia, under Electric Supply Circle, Deoghar recorded their maximum demand exceeding 110 *per cent* of the Contract demand during the period August 2011 to November 2011. Similarly, three RTS connections (Tolra, Lodhma and Bakaspur) of Railways under Transmission Circle, Ranchi recorded their maximum demand exceeding 110 *per cent* of the contract demand during the period August 2012 to March 2013. However, JSEB in violation of the provisions of the tariff order raised the bills for demand

> As per provisional Tariff order in respect of High Tension Voltage Supply Service (HTS) consumers issued by Jharkhand State Electricity Regulatory Commission (JSERC) applicable from 1 August 2011 if the recorded demand exceeds 110 per cent of the contract demand then the demand charge upto 110 per cent of contract demand will be charged as per the normal tariff rate. The remaining recorded demand over and above 110 per cent will be charged at the rate of 1.5 times the normal tariff rate.

charges for the recorded maximum demand at the normal rates without levying the penal charges for the actual recorded demand exceeding 110 *per cent* of the contract demand. Thus, short billing for the penal charges resulted in short receipt of ₹ 45.72 lakh from the consumers.

On this being pointed out by Audit, JSEB raised supplementary bills on the above consumers for the penal charges amounting to ₹ 45.72 lakh of which ₹ 35.06 lakh in respect of the three RTS consumers were received (July/August 2013). However, the penal charges of ₹ 10.66 lakh receivable from ECL remained unrealised so far (October 2013).

JSEB has accepted (September 2013) the facts and further stated that even after reminder (July 2013) ECL had not paid the penal charges of ₹ 10.66 lakh.

Thus, failure of JSEB to levy penalty as per provisions of tariff order resulted in non recovery of ₹ 10.66 lakh and consequently it suffered interest loss of ₹ 5.29 lakh[28] due to delay in realisation/non-realisation of the penalty charges.

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

3.5 Non- realisation of share of expenditure for proposed power project from the beneficiary States

JSEB had not realised ₹ 1.57 crore from the beneficiary States towards the share of expenditure for the proposed Thermal Power Project and borne additional interest burden of ₹ 1.16 crore.

The Government of India (GoI), Ministry of Power proposed (October 2007) to allocate Mourya Coal Block in Jharkhand to a Special Purpose Vehicle[29] (SPV) to be formed jointly by Jharkhand, Bihar and Uttar Pradesh, with these States having a share of drawal of 60 *per cent*, 25 *per cent* and 15 *per cent* power respectively from the thermal power project to be established in Jharkhand. The SPV would call tariff based competitive bid for procurement of power on behalf of the distribution utilities of the States for selection of developer. The SPV was to be taken over by the selected developer paying all the costs incurred by the SPV on the project.

The Jharkhand State Electricity Board (JSEB) appointed (February 2008) Power Finance Corporation (PFC) as consultant for creation of the SPV and to assist the SPV in getting water allocation, fuel linkage and in obtaining statutory clearances *viz.,* environment, forest clearance etc. and to advise and support for selection of developer for the project. The consultancy fee payable

[28] at 13 per cent rate of interest at which JSEB is borrowing from the Government of Jharkhand

[29] a legal identity established under the relevant Act of a country through an agreement

was ₹ 14 crore plus taxes. JSEB paid (February 2008) ₹ 3.93 crore[30] to PFC as advance as per terms of the work order.

JSEB constituted (19 September 2008) the SPV, Karanpura Energy Limited (KEL) as a Company under the Companies Act, 1956 wholly owned by JSEB with representatives of Government of Bihar and Uttar Pradesh in its Board of Directors. The Ministry of Coal, Government of India allocated (June 2009) the Mourya Coal Block for a Greenfield power project (2x660 MW) to be set up by KEL and the coal produced from the above mines was to be exclusively used in the power project.

The proposed power project was to be set up with the resources available in the State in which power was to be shared with Bihar and Uttar Pradesh. As such the expenditure relating to the project was to be shared among the beneficiary states in proportion to their share of power. JSEB however, did not enter into any arrangement with the states of Bihar and Uttar Pradesh for sharing of expenditure.

Though JSEB intimated (March 2008) the Government of Bihar and Uttar Pradesh that the expenses on consultancy services were to be shared by them, payment for the same was not pursued with them. As a result the share of the expenditure of ₹ 3.93 crore for consultancy charges i.e., ₹ 98.25 lakh[31] receivable from Bihar and ₹ 58.95 lakh[32] from Uttar Pradesh was not received (October 2013).

We noticed that the consultancy fee of ₹ 3.93 crore paid by JSEB was accounted for by KEL as loan received from JSEB in its accounts[33] although no interest on the same was shown as payable and thus JSEB would not receive interest on the amount on taking over of the SPV by the selected developer.

JSEB stated (November 2013) that it has requested the beneficiary states for remittance of the funds against their share of expenditure.

The reply is not acceptable as JSEB did not make effort for realisation of the proportionate share of the expenditure of the consultancy charges of ₹ 3.93 crore from the beneficiary states as the request for the payment was made only once in October 2013 on being pointed out by audit.

Thus, due to failure of JSEB in entering into an arrangement for sharing of expenditure for the project with the beneficiary States and in taking effective action for its realisation, ₹ 1.57 crore remained unrealised. Consequently, JSEB borne (October 2013) additional interest burden of ₹ 1.16 crore[34].

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[30] ₹ 350 lakh (25 *per cent* of ₹ 1400 lakh) plus ₹ 43.26 lakh (12.36 *per cent* Service tax)
[31] 25 *per cent* of ₹ 3.93 crore
[32] 15 *per cent* of ₹ 3.93 crore
[33] for the period 19 September 2008 to 30 June 2009 and for the subsequent accounting periods
[34] ₹157.20 lakh x 13 *per cent* x 68 months (March 2008 to October 2013)/12

The matter was reported to the Government in July 2013; their reply is awaited (December 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 2011-12 were placed in the State Legislature in July 2009, August 2010, August 2011, September 2012 and July 2013 respectively. Out of 31 paras/Reviews involving ten PSUs under eight Departments featured in the Audit Reports (Civil & Commercial) and Audit Report on PSUs respectively, no replies in respect of 30 paras/Reviews have been received from the Government by 30 September 2013 as indicated in the ***Table – 3.2.***

Table – 3.2

Year of Audit Report	Total Paragraphs/Reviews in Audit Report	No. of Departments involved	No. of Paragraphs/Reviews 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
2011-12	6	8	6
Total	**31**		**30**

Department wise analysis is given in ***Annexure-3.2.***

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 and Audit Report on PSUs for the year 2011-12, 40 paragraphs and nine Reviews were included. Out of these, seven paragraphs and three Reviews had been discussed by COPU upto 30 September 2013. COPU had made recommendations in respect of three paragraphs and two Reviews 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 Reviews

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 within a period of four weeks. IRs issued upto March 2013 pertaining to 10 PSUs disclosed that 1,510 paragraphs related to 386 IRs remained outstanding at the end of September 2013. Department-wise break-up of IRs and audit observations outstanding as on 30 September 2013 are given in ***Annexure-3.3***.

Similarly, draft paragraphs and reviews 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 review forwarded to the various departments during June to August 2013, the Government had replied (December 2013) only to the review; replies to the draft paragraphs have not been received so far (December 2013) as detailed in ***Annexure-3.4.***

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/Reviews 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 **(MRIDULA SAPRU)**
The **Principal Accountant General (Audit)**
Jharkhand

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
The **Comptroller and Auditor General of India**