

OVERVIEW

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This Report contains three Chapters. Chapter-I contains Functioning of State Public Sector Undertakings, Chapter-II includes Reports of two Performance Audits and two Audits *viz.* Audit of the functioning of Distribution Franchisees in Power Distribution Companies of Bihar and Audit of Recovery Performance of Bihar State Financial Corporation. Chapter-III contains 12 Compliance Audit Paragraphs on Government Companies. The total financial impact of Audit findings is of ₹ 316.39 crore.

1. Functioning of State Public Sector Undertakings

The audit of Government companies is governed by Section 139 and 143 of the Companies Act, 2013. The Accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India. These Accounts are also subject to supplementary audit conducted by Comptroller and Auditor General of India. Audit of Statutory corporations is governed by their respective legislation. As on 31 March 2016, the State of Bihar had 34 working PSUs (31 Government companies and three Statutory corporations) and 40 not working PSUs (all Government companies). The working PSUs registered a turnover of ₹ 12,879.76 crore and incurred overall aggregate loss of ₹ 599.66 crore as per their latest finalised Accounts as of 30 September 2016.

(Paragraphs 1.1, 1.2 and 1.3)

Investment in State PSUs

As on 31 March 2016, the investment (Capital and long term loans) in 74 PSUs was ₹ 46693.55 crore. It grew by 277.33 *per cent* from ₹ 12374.75 crore in 2011-12 to ₹ 46693.55 crore in 2015-16 mainly because of increase in investment in Power Sector, which accounted for 82.63 *per cent* of total investment in 2015-16. The Government contributed ₹ 13791.96 crore towards Equity, Loans and Grants/Subsidies during 2015-16.

(Paragraphs 1.6, 1.7 and 1.8)

Performance of PSUs as per their latest finalised Accounts

As per the latest finalised Accounts, out of 34 working PSUs, 15 PSUs had earned Profit of ₹ 544.97 crore and 14 PSUs had incurred Loss of ₹ 1144.63 crore. Out of the remaining five PSUs, three PSUs had nil profit/loss and two PSUs had not finalised their first Accounts.

(Paragraph 1.16)

Accounts Comments

The quality of Accounts of companies needs improvement. Of the 39 Accounts finalized by 17 working companies during October 2015 to September 2016, the Statutory Auditors had given qualified certificates for all 39 Accounts. There were 26 instances where the compliance of accounting standards was not done in eight Accounts.

(Paragraph 1.21)

Arrears in finalisation of Accounts

Out of 34 Working PSUs, only three PSUs finalised the Accounts for the year 2015-16 while 31 PSUs had arrears of 202 Accounts as of 30 September 2016 with the extent of arrears ranging from one year to 25 years. Out of 40 not

working PSUs, five PSUs were in the process of liquidation and the remaining 35 PSUs had arrears of 952 Accounts for eight to 39 years. The State Government had invested ₹ 16239.49 crore in 17 working PSUs {Equity: ₹ 7478.86 crore (5 PSUs), Loans: ₹ 2255.78 crore (10 PSUs), Grants: ₹ 1435.14 crore (9 PSUs) and others (subsidy): ₹ 5069.71 crore (7 PSUs)} during the year for which accounts have not been finalised. In the absence of finalisation of accounts and their subsequent audit, it could not be ascertained whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

(Paragraphs 1.10, 1.11 and 1.12)

Placement of Separate Audit Reports

Separate Audit Reports (SARs) of three to 32 years of two Corporations were not placed in the State Legislature. This weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability.

(Paragraph 1.14)

Winding up of PSUs which are not working

Out of 40 not working PSUs, five were under liquidation by court and in respect of another five, no winding process had been started after issuance of closure order by the State Government.

(Paragraph 1.20)

Follow-up action on Audit Reports

Administrative Departments were required to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature. Out of 72 Paragraphs/Performance Audits, explanatory notes to 33 Paragraphs/ Performance Audits in respect of 13 departments, which were placed in the State Legislature during last five years, were awaited (September 2016)

(Paragraph 1.24)

2.1 Performance Audit on Bihar State Hydroelectric Power Corporation Limited

Bihar State Hydroelectric Power Corporation Limited (Company) was incorporated as a wholly owned Government Company in March 1982 and is presently engaged in setting-up of hydroelectric power projects, their maintenance and generation and selling of power in the State of Bihar.

As on 31 March 2016, the Company had set-up 13 Small Hydroelectric Projects (SHPs) with installed power generation capacity of 54.30 MW while works for establishing 16 projects with power generation capacity of 35.30 MW were in progress.

The water supply to the SHPs is ensured from the canals of the Water Resources Department (WRD), GoB. These canals are linked to three barrages namely Indrapuri Barrage constructed on Sone River at Dehri, Valmikinagar Barrage on Gandak River at Valmikinagar and Birpur Barrage on Koshi River

at Kataiya. Indrapuri Barrage caters to the water requirements of 10 SHPs (17.10 MW), Valmikinagar and Birpur Barrage caters to the water requirement of three SHPs (37.20 MW). The water is released by the WRD for irrigation purpose without any consultation with the Company which uses the water for power generation.

The power generation of the Company declined from 40.65 Million Units (MUs) in 2011-12 to 33.16 MUs in 2015-16. This was mainly due to unavailability of water to the SHPs and low volume of water released by the WRD. Further, power generation of five SHPs were also affected due to lack of distribution network for supply of power.

The following were the main audit findings:

Financial Management of the Company

During the period 2011-16, the power generation cost ranged between ₹ 8.13 per unit and ₹ 12.36 per unit. However, the Company sold power to DISCOMS at the Bihar Electricity Regulatory Commission (BERC) approved rate of ₹ 2.49 per unit during the said period. The sale price of the Company was even less than the average Power Purchase Cost of DISCOMs which was ₹ 4.12 per unit for the period 2015-16.

As a result, the Company incurred a revenue loss ranging from ₹ 5.64 per unit to ₹ 9.87 per unit during 2011-16. The Company sold 213.14 MUs during the period 2011-16 resulting in losses of ₹ 147.66 crore. The BERC approved tariff rates remained constant during 2011-16 as the tariff petition was not submitted by the Company since 2010-11 due to its failure to finalise the Annual Accounts since 2001-02. However, the power generation cost of the Company increased during 2011-16 as its major element, the interest cost on borrowings increased from 47.52 *per cent* in 2011-12 to 61.39 *per cent* in 2015-16 and also due to decrease in power generation.

Further, even if the Company succeeds in obtaining approval for its Tariff from BERC in future and that too at par with the prevailing average Power Purchase Cost of DISCOMs, the under recovery of Generation Cost would still exist. As such, the Company would never be in a position to attain the break-even point to become commercially viable.

The total investment of the State Government in the Company was ₹ 570.47 crore, out of which ₹ 99.04 crore (17.36 *per cent*) was Equity and ₹ 471.43 crore (82.64 *per cent*) was Borrowings. This meant that the Company was heavily dependent on borrowed funds. During the period, the Company incurred losses over the years which resulted in accumulated losses of ₹ 231.50 crore in 2015-16. Consequently, the share capital of the Company was fully eroded. The Net Worth of the Company remained negative in all the five years since 2011-12 which ranged between (-) ₹ 23.73 crore and (-) ₹ 132.46 crore.

(Paragraphs 2.1.6 and 2.1.7)

Operational efficiency of the Company

Plant Load Factor

As against the norm of BERC of 417 MUs of power to be generated by SHPs, the actual power generated during 2011-16 was 213.14 MUs. The shortfall in

generation by 203.86 MUs (48.89 *per cent*) resulted in a revenue loss of ₹ 50.76 crore.

The actual power generation of the Plant when compared with the installed capacity (Plant Load Factor) ranged between 11.79 *per cent* and 19.56 *per cent* during 2011-12 to 2015-16. However, the norm for PLF fixed by BERC was 30 *per cent*. The main reason for failure to achieve the PLF as per norm of BERC was Low Plant Availability due to longer duration of plant shutdowns.

In five sampled SHPs, it was observed that the longer duration of plant shutdowns was mainly due to (i) unavailability/low volume of water to the SHPs which ranged between 39 to 66 *per cent* of available hour during the period 2011-12 to 2015-16, (ii) breakdown of SHPs which ranged between one to 23 *per cent* of the available hours, caused due to poor repair and maintenance of machines, and (iii) lack of distribution network for supply of power which ranged between six to 18 *per cent* of the available hours during the period 2011-16.

Plant Availability

The Plant Availability (PA) of the Company ranged between 35.42 *per cent* (2011-12) to 12.65 *per cent* (2015-16). However, the norm for PA as per the Detailed Project Report of the Company was 67 *per cent*. The main reason for lower PA was mainly due to longer duration of plant shutdowns caused by unavailability/low volume of water, poor repair and maintenance of machines *etc.*

(Paragraph 2.1.10)

Execution of Capital Works

As against the Administrative Approval (AA) of ₹ 49.92 crore, eight projects/ SHPs were completed by incurring an expenditure of ₹ 102.79 crore. The excess expenditure of ₹ 52.87 crore incurred on these projects was sourced by way of diversion of funds from other projects which was irregular.

Further, ongoing work for construction of 16 SHPs and one Escape Channel was suspended since December 2012/July 2013 due to delays in execution and financial constraints faced by the Company. As such, significant amount of ₹ 543.87 crore was blocked in Capital Work-in-Progress.

The suspension of the aforesaid 17 incomplete projects since December 2012/ July 2013 not only led to blocking of funds but also the civil structures of the projects were exposed to nature leading to deterioration in their physical condition and their reusability may entail extra expenditure at the time of restarting the work. Besides, the plant and machinery installed in these incomplete projects and the electro-mechanical materials lying at the site/godowns were also prone to obsolescence/damage and theft. This would have adverse effect on economic utility of the same.

During joint physical verification, audit observed that the electro-mechanical materials costing ₹ 4.50 crore supplied at Mathauli and Bathnaha SHPs sites upto December 2014 were lying unutilised at the sites for the last two to four years and the expenditure incurred thereon was blocked and unfruitful.

(Paragraphs 2.1.15, 2.1.17, 2.1.18, 2.1.20 and 2.1.21)

2.2 Performance audit on Bihar State Electronics Development Corporation Limited

Bihar State Electronics Development Corporation Limited (Company) was incorporated on 21 February 1978 with objectives to promote and develop Electronic Industry in the State of Bihar. The Company is under the Administrative Control of Department of Information and Technology (DIT), Government of Bihar (GoB). The Company, during the period 2011-12 to 2015-16, concentrated its activities mainly on the execution and maintenance of Information Technology (IT) related projects in Bihar on behalf of various Departments of Government of Bihar and State Public Sector Undertakings (PSUs). During the Performance Audit period, the Company had undertaken 35 IT related projects [including five projects of National e-Governance Plan (NeGP)] and services out of which 28 projects were completed.

Audit findings on the performance of the Company are as under:

Financial Management

The Company failed to incorporate Central Vigilance Commission (CVC) Guidelines relating to Mobilisation Advance in the agreements for execution of IT Projects which resulted in irregular advances aggregating to ₹ 16.64 crore to the vendors in respect of three projects.

The Company, in undertaking the project Information and Communication Technology at Schools (ICT at Schools) failed to surrender surplus project funds amounting to ₹ 32.89 crore to the Human Resource Department, Government of Bihar, despite the fact that the project commenced in July 2007 and was completed in July 2015.

The Company parked funds in saving bank account without availing auto sweep facility, resultantly suffering a loss of interest income amounting to ₹ 5.01 crore.

(Paragraphs 2.2.12, 2.2.8 and 2.2.10)

Project Planning

The Project Planning of the Company was deficient as it did not frame any timelines for the pre-tendering activities, as a result of which it took 30 months in preparing Detailed Project Reports of three projects (SDC, SSDG and BSWAN) and 22 months in finalizing the tender (SDC Project). Thus, the assigned projects were delayed considerably since a lot of time was spent prior to the execution of these projects on pre-tendering activities. Further, DIT in response to the questionnaire issued by audit stated that they were not fully satisfied with the execution of project by the Company.

The Company failed to finalise the tender within the validity period of the bids and procured IT materials worth ₹ 2.43 crore in piecemeal which could not be installed so far (November 2016) and were lying idle. Further, in response to the questionnaire issued to the DIT to assess whether the objective of the project as envisaged was achieved, it was replied by the DIT that the same was not achieved as the project could not be completed by the Company.

(Paragraphs 2.2.14 and 2.2.15)

Execution of IT Projects and other activities

Execution works relating to three projects involving a total value of ₹ 26.78 crore was awarded to vendors without inviting tender in violation of the Bihar Financial Rules. Similarly, the Company in violation of the CVC Guidelines awarded the work of providing consultancy services in seven projects worth ₹ 9.08 crore on a nomination basis without assigning any justification/reason on record.

The execution of BSWAN, e-PDS, SDC, ICT at schools and CAL projects were found to be deficient which resulted in loss/avoidable excess expenditure aggregating to ₹ 6.35 crore and the IT equipments were lying idle.

Due to delay in implementation of e-payment facility in e-Tendering Project, Tender Processing Fee (TPF) of the Company aggregating to ₹ 11.91 crore could not be realised till date (November 2016).

(Paragraphs 2.2.17, 2.2.18, 2.2.19, 2.2.20, 2.2.21, 2.2.22, 2.2.24 and 2.2.26)

Monitoring and Internal Control

Out of 244 schools established by the vendor in 16 schools, the Computer Center under Computer Assisted Learning (CAL) programme could not get operational due to theft of all hardware. Further, BEP (user Department) in response to the questionnaire issued by audit also stated that their objective was not fully achieved. It was also stated by the BEP that the cases of theft of equipment were not properly managed and that these locations were not made re-operational by the Company.

The assets worth ₹ 15.09 crore so created were not handed over to the District e-governance society till November 2016. Thus, due to ineffective monitoring, flow of the benefits from the expenditure so incurred was not ensured by the Company. Further, DIT in response to the questionnaire issued by audit stated that the project was not managed efficiently by the Company as Final Acceptance Test of Gaya District was not completed and the project was not operationalised.

Monitoring and Internal Control mechanism of the Company was deficient and there was an over dependency on the Consultants for execution of IT Projects. Failure of the Company to adhere to the agreements resulted in avoidable excess expenditure of ₹ 1.16 crore on account of payment made to the Consultant.

(Paragraphs 2.2.34, 2.2.36 and 2.2.31)

2.3 Audit of Functioning of Distribution Franchisees in DISCOMS of Bihar

The Bihar State Power Holding Company Limited (BSPHCL) was created with a view to improve operational and commercial efficiency of the distribution system and to improve the quality of service to its consumers. The Company sought to bring in management expertise through public-private participation in the distribution of electricity. Further, as provided under Section 14 of the Electricity Act 2003, it implemented Input Based Distribution Franchisee System (IBDFS) in urban areas of the State.

The objectives of appointing Distribution Franchisee (DF) were to minimise Aggregate Technical and Commercial (AT &C) losses, bring improvement in metering, billing and revenue collection, minimise arrears of revenue and to enhance customer satisfaction by improving the quality of service.

Audit findings on the performance of the Distribution Franchisees are as under:

Operational Efficiency

There were reductions in Aggregate Technical & Commercial (AT&C) losses since it reduced from 58 *per cent* to 52.04 *per cent*, 68.55 *per cent* to 66.95 *per cent* and 69.24 *per cent* to 62.90 *per cent* from base year 2011-12 to 2015-16 in DF Muzaffarpur, Bhagalpur and Gaya, respectively. However, DF failed to restrict the AT&C loss within the level of target fixed by Distribution Licensee.

(Paragraph 2.3.4)

Financial Management

The Distribution Licensee (DL) failed to finalise Average Billing Rate (ABR) which resulted in unilateral adjustment of ₹ 308 .92 crore by DFs. The ABR was reduced mainly due to excess billing of 30.67 MUs to consumers and meter rent which was not considered to be the part of ABR. This resulted in under recovery of Energy bills of ₹ 20.30 crore from DFs.

Lack of monitoring by Distribution Licensee resulted in delayed submission of information on collection of Electricity Duty and Security Deposit by DFs to DL. This led to failure of the DFs to remit the collected amount of ₹ 10.31 crore to DL which resulted in loss of interest of ₹ 2.03 crore to DL. DF Gaya and Bhagalpur collected arrears of ₹ 26.86 crore from the consumers of South Bihar Power Distribution Company Limited but failed to remit the same to DL which resulted in loss of interest of ₹ 7.36 crore to the Company.

(Paragraphs 2.3.8, 2.3.9, 2.3.10, 2.3.12 and 2.3.13)

Consumer Satisfaction

Dissatisfaction amongst consumers at Gaya, Bhagalpur and Muzaffarpur due to wrong/excess billing and failure to establish a consumer redressal forum resulted in increase in consumers complaints ranging from 19.34 *per cent* to 28.67 *per cent*, 7.68 *per cent* to 33.40 *per cent* and 11.70 *per cent* to 60.62 *per cent* for the year ending March 2016 at DF Gaya, Bhagalpur and Muzaffarpur respectively. During beneficiary survey of 300 consumers of DF Gaya, 280 consumers were not satisfied with the quality of service rendered by the DF.

(Paragraph 2.3.15)

2.4 Audit on Recovery Performance of Bihar State Financial Corporation

Bihar State Financial Corporation (Corporation) was established in November 1954 under the State Financial Corporations Act (Act), 1951 with the main objective of extending financial assistance to small and medium level industrial units in the State. The organization was created to promote economic growth, balanced regional development and widening of

entrepreneur base. However, the Corporation stopped its lending activity since 2002-03 and thereafter its activities were mainly confined to the recovery of old outstanding loans. Audit finding on the Corporation are as under:

Recovery Performance

The total amount of outstanding recoverable by the Corporation as on 31 March 2012 was ₹ 3542.05 crore (Principal ₹ 135.53 crore, Interest ₹ 3389.52 crore and Others ₹ 17.00 crore) which increased to ₹ 5859.12 crore (Principal ₹ 103.35 crore, interest ₹ 5738.60 crore and others ₹ 17.17 crore) as on 31 March 2016. The significant increase in the outstanding/recoverable amount was attributable mainly to the yearly interest accumulation on the outstanding principal loan with insignificant recovery thereagainst.

The Corporation did not earn any profit during the last five years ended 31 March 2016. The percentage of the operational income to total income of the Corporation decreased from 42.88 *per cent* in 2011-12 to 30.74 *per cent* in 2015-16 which was insufficient to meet its routine and other expenses.

Almost all the assets (98.10 *per cent*) of the Corporation as on 31 March 2016 were Non Performing Assets (NPAs) and so possibility of realization seemed remote.

The One Time Settlement Scheme, 2014 and Incentive-cum-Loan Re-structuring Scheme launched by the Corporation were not effective since a sum of ₹ 5.07 crore (Principal: ₹ 2.47 crore, Interest and Others: ₹ 2.60 crore) only was recovered during the period of five years ended 31 March 2016, which was insignificant in comparison to the amount of outstanding dues.

In response to questionnaire issued to the management, the management cited shortage of manpower, cases of loan being old, inordinate delays in legal proceeding and not availability of buyers to purchase the property of defaulting loanee as the main constraints in realization of outstanding dues.

(Paragraphs 2.4.5, 2.4.2, 2.4.4, and 2.4.6)

Inadequate Manpower

As on 31 March 2016, the Corporation had inadequate manpower. There were only seven officers in position. Out of these seven officers, four were posted in Head office and three in branch office. Due to shortage of manpower, the Corporation did not prefer to file certificate cases in respect to some of the defaulting loanees.

(Paragraphs 2.4.7 and 2.4.8)

3. Compliance audit observations

Compliance 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/failure to recover a sum of ₹ 10.98 crore in seven cases due to failure to comply with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 3.1, 3.2, 3.3, 3.4, 3.5, 3.7, and 3.12)

- Loss of ₹ 35.87 lakh in one case due to deficient Internal Control System.
(Paragraph 3.9)

- Loss/blocking of funds of ₹ 6.42 crore in four cases due to failure to safeguard the financial interests of the organisation.

(Paragraphs 3.6, 3.8, 3.10 and 3.11)

Gist of some of the important compliance audit paragraphs are given below:

Failure to adhere to the tariff provisions and deficient Internal Control System prevalent in the **South Bihar Power Distribution Company Limited** resulted in loss of revenue of ₹ 3.20 crore due to unauthorised use of electricity by the consumers.

(Paragraphs 3.1 and 3.2)

Incorrect categorisation of Consumers and billing thereof at a lower rate by **North Bihar Power Distribution Company Limited** resulted in revenue loss of ₹ 5.55 crore.

(Paragraphs 3.3, 3.4 and 3.5)

Failure of the **Bihar State Text Book Publishing Corporation Limited** to safeguard its financial interests resulted in blocking up of working capital of the Company to the tune of ₹ 4.19 crore.

(Paragraph 3.11)

Bihar State Road Development Corporation Limited in violation of the provisions of the agreement failed to deduct Liquidated Damages of ₹ 1.66 crore from the bills of the Contractor. This resulted in extension of undue benefit to the Contractor by the Company.

(Paragraph 3.12)

