CHAPTER - IV

4. Transaction Audit Observations

Important audit findings noticed as a result of test check of transactions of the State Government companies/corporations are included in this Chapter.

Government companies

BIHAR STATE TEXT BOOK PUBLISHING CORPORATION LIMITED

4.1 Loss due to excess wastage over the norms

The Company suffered a loss of Rs 1.03 crore in printing of books due to excess wastage over the norms.

Bihar State Text Book Publishing Corporation Limited, Patna, (Company) publishes, prints and sells textbooks of all subjects for primary and secondary education in the State. The requirement for printing is based on the average sale of books over the last three years. The Company supplies paper, blocks etc. to private printers for printing of the books depending on the requirement (including provision for wastage). The wastage norms prescribed by the Company range from 2.5 to 3.5 per cent.

During 2002-04, the Company supplied 56 GSM[•] paper by weight to the private printers based on the size and number of books required. But on completion of printing, the books were received in numbers and not weighed to ensure actual consumption and wastage. The Company replied (May 2005) that it was not possible to weigh individual books. As such the Company had no means of ascertaining the quantity of paper actually consumed.

As a test check, Audit weighed 20 books each of Mathematics and Hindi (two books per class) for classes I to X printed during 2002-04. It was found that for printing of 209.66 lakh copies of books selected, the Company supplied 44.05 lakh kg of paper including wastage of 1.38 lakh kg leaving a quantity of 42.67 lakh kg with the printers for printing. As worked out in audit, there was excess consumption of 3.56 lakh kg of paper valued at Rs 1.03 crore over and above the normative consumption based on actual weight of the books.

The Company further stated (September 2005) that 2.5-3.5 *per cent* prescribed wastage was for printing only and 8-10 *per cent* trimming wastage was allowed over and above that as is done in the industry including NCERT (National Council for Educational Research and Training) and hence the shortage pointed out in audit was well within the limits.

The reply is not acceptable on the following grounds:

[•] Grams per Square Meter.

(i) The Company had neither carried out any empirical study to work out the wastages nor did it adopt (in Board) any norm for trimming wastage,

(ii) The Company has no system of weighing the books for proper control over the consumption and wastage of paper.

(iii) The management failed to produce any evidence in support of its claim of industry norm for additional wastages.

Thus, due to lack of an effective Internal Control System the Company suffered avoidable loss of Rs 1.03 crore due to excess wastage only on the sample selected in audit.

The matter was reported to Government (July 2005); reply had not been received (September 2005).

4.2 Corporate Governance

Introduction

4.2.1 Corporate Governance is a set of concepts and values by which Companies are directed and controlled by the Board of Directors in the best interest of the stakeholders.

4.2.2 The Companies Act 1956 was amended in December 2000 by providing, inter-alia, Director's Responsibility Statement (Section 217) to be attached to the Director's report to the shareholders. According to the Section 217(2AA) of the said Act, the Board of Directors has to report to the shareholders that it has taken proper and sufficient care for maintenance of accounting records for safeguarding assets of the company and for preventing and detecting frauds and other irregularities.

Further, according to Section 292-A of the said amended Companies Act, 1956, every public limited company having paid up capital of not less than Rupees five crore shall constitute an Audit Committee at the Board level.

4.2.3 A similar provision has also been introduced through clause 49 of the Listing Agreement for listed companies issued by Securities and Exchange Board of India (SEBI). The listing agreement also provides that the Board of Directors of listed companies shall have an optimum combination of executive and non-executive Directors, with not less than 50 per cent of the Board of Directors comprising non-executive Directors. It also provides that listed companies having paid up capital of rupees three crore and above or net worth of Rs. 25 crore or more at any time should have a qualified and independent Audit Committee latest by March 2002.

4.2.4 The main components of Corporate Governance include:

- matters relating to the Board of Directors
- Directors’ Report and
- constitution of the Audit Committee

Out of the 16 working Government Companies, Audit reviewed 11 unlisted PSUs[∅] (there was no listed company) with the objective of assessing the compliance by these companies of various provisions of the Companies Act, 1956 that affect corporate governance and matters related thereto. The results of the review are discussed in the succeeding paragraphs:

Board of Directors

4.2.5 Meeting of the Board of Directors

As per Section 285 of the Companies Act, 1956 the Board of Directors should meet atleast once in every three calendar months and there should be at least four such meetings in a year. Since the Board of Directors is the agency for the implementation of good governance practices it is imperative that the Board is properly constituted and meets regularly as per the provisions of the Act and devotes adequate attention to issues under consideration.

The number of meetings held as against the minimum required during the year 2002 to 2004 is given in **Annexure - 37**.

It was noticed that the Board of Directors of nine companies[*] did not hold the required number of meetings. The shortfall ranged between 25 to 100 per cent.
No Board of Directors was constituted in BRPNN. As a result the Board of Directors meetings could not be held from 13 September 2000 to 08 September 2003. Further, during 2003 only two meetings were held.

4.2.6 Attendance of the Directors in the meetings of the Board:

Board of Directors is the agency for the implementation of good governance practices, as such it is imperative that all the members of the Board should participate in the meetings. Audit scrutiny revealed that the Government nominee directors of 10[•] Companies failed to attend most of the meetings held during 2002-04 thereby the Companies were denied of there expert/professional inputs during these meetings.

4.2.7 Directors' Report to the Shareholders (DRS)

Five[♦] Companies did not include DRS in the accounts laid before the AGM. Similarly annual reports of three[♣] Companies did not disclose the composition of the audit committees in the AGM in violation of the statutory provision.

[∅] Bihar Rajya Matsya Vikas Nigam Ltd (BRMVN), Bihar State Tourism Development Ltd. (BSTDC) **(Private Ltd. Company)** Bihar State Mineral Development Corporation Ltd (BSMDC), Bihar Rajya Pul Nirman Nigam Ltd.(BRPNN), Bihar State Credit and Investment Corporation Ltd (BICICO), Bihar State Minorities Finance Corporation Ltd (BSMFC), Bihar State Backward Classes Finance & Development Corporation (BSBCFDC), Bihar State Food and Civil Supplies Corporation Ltd. (BSFCSC), Bihar State Hydro Electric Power Corporation Ltd. (BSHEPC) **(Private Ltd. Company),** Bihar State Text-Book Publishing Corporation Ltd. (BSTBPC) **(Private Ltd. Company)** and Bihar Rajya Beej Nigam Ltd. (BRBN)

[*] BRMVN, BSMDC, BRPNN, BSMFC, BSFCSC, BSHEPC, BSTBPC, BSIDC and BRBN

[•] BICICO, BSHPC, BSTDC, BSMFC, BRBN, BRPNN, BRMVN, BSMDC, BSBCFDC and BSFCSC

[♦] BSHPC, BSTBPC, BRBN, BRPNN and BRMDC.

[♣] BSMDC, BSFCSC and BICICO.

4.2.8 Maintenance of Accounting records

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also required to be laid before the Legislature within nine months from the end of the financial year.

It is the responsibility of the Board of Directors to get the Annual Accounts of the company finalised and any arrear of Accounts is cleared in a time bound programme in order to exercise proper financial control.

None of the Companies finalised its accounts in time and their accounts were in arrears for period ranging from 3 to 22 years **(Annexure - 38)**

4.2.9 Vacancy position of Directors

The post of CMD/MD/Nominee Director remained vacant in respect of Companies as per the details given in **Annexure - 39**. It was seen that:

- None of the Boards of the Companies except BSMFC have been fully constituted as per the numbers prescribed in the respective Articles of Association.
- Two posts of Directors are lying vacant (July 2005) in BSHPC for more than three years.
- In case of Bihar State Text-Book Publishing Corporation Ltd. (BSTBPC) the number of Directors presently appointed is five against 15 required.
- The Board of Directors of Bihar Rajya Beej Nigam Ltd. has been reconstituted in May 2005, with ten Board members out of the total strength of eleven. Further, four posts of Directors are lying vacant (July 2005) in Bihar Rajya Pul Nirman Nigam Ltd. and four posts of Directors are lying vacant (July 2005) in BRMVN since 23 October 2002.

Audit Committee

4.2.10 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 a committee of the Board known as "Audit Committee" which shall consist of not less than three Directors and such number of other Directors as the Board may determine of which two-thirds of the total members shall be Directors other than the Managing Director or whole time Directors. It also provides that the members of the Audit Committee shall elect a Chairman from amongst themselves. The Chairman of the Committee shall be an independent director. Sub-section 6 of this Section provides a broad frame of the scope of the Committee's function. It requires the Audit Committee to discuss periodically with the Auditors about the Internal Control System, the scope of audit and the observation of the Auditors.

The Committee is statutorily required to review the half yearly and annual financial statements before submission to the Board of Directors and to ensure compliance of Internal Audit observation in the company. It has further been provided in the said Act that if a default is made in complying with the provisions of the Section 292A, the company, and every officer who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which may extend to fifty thousand rupees, or both. Audit scrutiny revealed that the compliance with Section 292A of the Companies Act, 1956 was deficient as detailed below:

4.2.11 Composition of the Audit Committees:

- Though the Audit Committees were set up by BSMDC (December 2003) and BSFCSC (July 2004), the same were not reconstituted as required due to reconstitution of the Board of Directors from March 2005.
- The Bihar State Minorities Finance Corporation Ltd (BSMFC) has not constituted the Audit Committee so far (August 2005).
- Though the Audit Committee was required to be formed immediately after amendment of the Companies Act, 1956 in December 2000, BICICO had formed it only in May, 2004 and held its last meeting in January 2005. The compliance of the Section 292A of the Companies Act, 1956 was not made as the Chairman of the Audit Committee was not an independent director.

4.2.12 Meetings of the Audit Committees

- After formation of the Audit committee by BSMDC in December 2003, no meeting was held.
- The Audit Committee Meeting had not been convened even after formation of the Audit Committee in July 2004 by BSFCSC.

4.2.13 Discussion by the Audit Committee

The Audit Committee of BICICO did not review the adequacy of Internal Control System and the irregularities pointed out by the CAG/Statutory/Internal Auditors of the company as required under Section 292A(6) of the Companies Act, 1956. The Audit Committee had also not been specifically mandated to look into fraud and fraud related risks of the Companies in respect of BICICO.

General

4.2.14 Attendance in the Annual General Meeting (AGM)

According to Section 166 of the Companies Act, 1956 every company shall, in each year hold, in addition to any other meetings a general meeting as its annual general meeting (AGM) to consider the Directors Report and the Annual Accounts of the Company. It is the statutory duty of the directors to hold the meetings. Failure to hold the AGM within the stipulated time is punishable with penalty.

The position of holding of AGMs and attendance of directors therein, in the test checked companies is given in **Annexure - 40**.

It would be seen from the Annexure that:

- In BSHPC, no AGM was held during the year 2002, while in BRMVN no AGM was held during the year 2002 to 2004. In BRBN the AGM was held after a gap of nearly 33 months.
- The attendance of Government nominee directors was poor in all the companies.

This shows lackadaisical approach of the directors towards the Corporate governance of the companies.

Impact of poor Corporate Governance

4.2.15 The foregoing paras would reveal that the companies not only violated the legal provisions, But there was also lack of seriousness with which these were governed. The deficient Corporate Governance contributed to the following:

- According to the latest finalised accounts of 16 working Government companies, 11 companies had incurred an aggregate loss of Rs. 57.19 crore upto September 2005.
- 106 accounts of 16 working companies were in arrears as on 30 September 2005 ranging from 3 to 22 years.
- Adequate steps were not taken to strengthen the Internal Audit and Internal Control System by eight companies even after repeated comments by the Statutory Auditors of the companies.
- Audit Committee was not constituted/ reconstituted in the PSUs, as required.
- The meetings were also not held even where the Audit Committee had been formed.

Summary

In order to achieve the fundamental objectives of good Corporate Governance the relevant provisions of the Companies Act, 1956 are required to be strictly followed. Non-following of the prescribed provisions also attracts the penal provisions prescribed in the said Act.

Statutory corporations

Bihar State Electricity Board

4.3 Loss due to non-levy of penalty on delayed supply of material and interest loss on blocked funds.

Bihar State Electricity Board suffered loss of Rs 1.98 crore due to non-levy of penalty on delayed supply of material and interest loss on blocked funds.

The Bihar State Electricity Board (Board) placed three purchase orders on Steel Authority of India Limited (SAIL) during the period April 2000 to October 2002 for the purchase of 13,021 rail poles valuing Rs 15.21 crore. As per the terms of the purchase order, the amount was to be deposited in advance and the delivery was to be completed within one month of the date of advance payment. In case of delay, a penalty of one *per cent* of the value of materials delayed for each fortnight, or part thereof was to be charged.

It was observed in audit that the Board made advance payment of Rs 14.99 crore against the above mentioned orders during the period April 2000 to February 2003. SAIL, however, supplied 10,570 rail poles valuing Rs 12.53 crore during the period April 2000 to December 2003 while 2451 rail poles valuing Rs 2.68 crore had not been supplied (September 2005). Of the total supply of 10,570 poles, only 225 poles were supplied within the stipulated period while 10,345 poles were supplied after delays ranging from 5 to 376 days (as detailed in **Annexure - 41**). Audit analysis revealed that:

(i) The Board had not imposed penalty of Rs 1.10 crore for delayed supply of materials in terms of the purchase order.

(ii) The Board had not taken action to recover the balance advance of Rs 2.46 crore resulting in blocking of fund from May 2000 to March 2005 and consequent loss of interest of Rs 88.09[ψ] lakh.

(iii) The Board had not adjusted the balance advance in subsequent supplies. The balance advance of Rs 79.66 lakh for order dated 10 April 2000, the last supply against which was received on 13 July 2001, could have been safely adjusted against order No. 78 dated 16 October 2002.

Thus, due to non-imposition of the terms of the supply order with regard to penalty for delayed supply of the material and not taking action for recovery/adjustment of balance advance led to blocking of Rs 2.46 crore and a loss of Rs 1.98 crore on account of penalty and interest.

[ψ] 12 percent of

(1)	Rs 79.66 lakh from June 2000 to March 2005 (4 years 10 months)	-Rs 46.15 lakh
(2).	Rs 2.31 lakh from June 2001 to March 2005 (3 Years 10 months)	-Rs 1.03 lakh
(3)	Rs 163.67 lakh from March 2003 to March 2005 (2 years 1 month)	-Rs 40.91 lakh
	Total	**Rs 88.09 lakh**

The matter was reported to the Government/Board (April 2005); their replies had not been received (September 2005).

4.4 Loss due to injudicious decision in purchase of transformers

Bihar State Electricity Board suffered a loss of Rs 19.79 lakh in purchase of transformers due to injudicious decision.

Bihar State Electricity Board (Board) invited (September 2003) open tenders♠ for supply of 368 numbers of 200 KVA distribution transformers. The price was to be quoted indicating therein the ex-factory price, freight element up to destination, excise duty, sales tax and entry tax. Six firms (four outside Bihar, and two local SSI units) participated in the bidding process. The lowest landed cost of the transformer was Rs 79,002.35 inclusive of excise duty, sales tax and freight, and all the firms agreed to supply at this rate. For firms outside Bihar, Entry Tax at the rate of eight *per cent* was leviable extra. The offer was valid for 365 days from the date of opening of the tender (January 2004), and all the firms were ready to supply the transformers within four to six months.

It was noticed in audit that the Board rejected the offers of the two local firms based on its assessment that they would not be able to supply the transformers within six months. Further, the Board in the Central Purchase Committee (CPC) meeting decided (May 2004) that the payment of entry tax separately, over and above the landed cost, could not be allowed to the firms outside the State. The CPC also decided that the firms outside the State should be asked to supply the transformers at the above mentioned landed cost including entry tax failing which, a short-tender for the total quantity was to be invited immediately.

The outside State firms refused, and accordingly, a short tender notice was issued (June 2004) for the full quantity of 368 transformers. In response to this short tender, all the four (outside State) firms, which had quoted in the earlier tender responded. The Rajasthan Transformers & Switchgears (RTS), Jaipur quoted the lowest landed rate per transformer of Rs 83,982.50, plus entry tax of eight *per cent*, taking the total cost to Rs 90,701♣ per unit. The Board placed orders (July/August 2004) on the RTS, Jaipur for the total tendered quantity of transformers at the above rate.

Had the Board acted on the earlier offer of the firms and allowed entry tax, extra expenditure of Rs 19.79 lakh on account of increase in price could have been avoided.

It was further observed that the Board purchased additional 71 transformers against the same tender from International Transformers Private Limited, Lucknow, Anand Transformers Private Limited, Faizabad and East India Udyog Limited, Gaziabad to meet urgent requirement of the work but out of total 439

♠ vide NIT no. 179/PR/BSEB/03

♣ Rs 83,982.50 + 8% of Rs 83,982 = Rs 90,701.10

transformers purchased during the period from July 2004 to January 2005, 74 transformers were lying unutilised (June 2005). As the procurement of these transformers was made to meet the urgent requirements their non-utilisation is indicative of poor inventory management which resulted in blocking of Rs 67.12 lakh[µ].

The matter was reported to the Government/Board (May 2005); their replies had not been received (September 2005).

4.5 Excess expenditure on purchase of Pre-stressed Concrete (PSC) poles

The Board incurred excess expenditure of Rs 29.43 lakh due to non-observance of it own directives

The Bihar State Electricity Board (Board) decided (March 2003) that for the purchase of PSC poles, manufacturing units that are closer to the destination should be preferred.

It was noticed in audit (May 2004) that the Chief Engineer (Stores & Purchase) of the Board placed purchase orders (December 2003) on Vijay Concrete Works, Chapra, for supply of 5,000 and 3,000 PSC poles of 200 Kg working load at Mithila Area Board, Darbhanga and Magadh Area Board, Gaya respectively, ignoring the nearest manufacturing units viz Mithila Concrete & Engineering, Darbhanga and Sheikhpura Concrete, Sheikhpura in contravention of the Board's directive of March 2003. The reasons for this deviation were not on record. It was also seen that the landed cost per unit of Vijay Concrete Works, Chapra, was between Rs 270 - 440 more than the landed cost offered by the nearby suppliers.

Thus, by non-observance of its own directives and by purchase of poles at a higher cost the Board incurred excess expenditure of Rs 29.43[ψ] lakh on the purchase of 8000 PSC poles.

The Chief Engineer (Stores & Purchase) stated (March 2005) that the poles supplied by the local firms were not enough to meet the requirement of Mithila Area and as there was no private pole manufacturing unit in the jurisdiction of Magadh Area, the orders were placed on North Bihar firms. The reply is not tenable as a supplier in Mithila Area, Mithila Concrete & Engineering, Darbhanga had supplied a full order (7000 poles) earlier and for Magadh Area, the nearest supplier Sheikhpura Concrete, Sheikpura, should have been considered instead of North Bihar firms to avoid excess expenditure.

The matter was reported to the Government/Board (June 2005); their replies had not been received (October 2005).

[µ] 74 X 90701 = Rs 67.12 lakh

[ψ] Details in **Annexure 42**.

4.6 Loss due to incorrect categorisation of consumers

Bihar State Electricity Board suffered a loss of Rs 5.26 crore due to incorrect categorisation of consumers

The Bihar State Electricity Board (Board) issued notifications (January/May 2001) that the consumers in rural areas, which were being fed from Urban/Town feeders were to be categorised under Domestic Service (DS-II) and Non-Domestic Service (NDS-II) for domestic and commercial use respectively.

It was noticed in audit that in five[ϕ] Electric Supply Divisions, rural consumers receiving supply from Urban/Town feeders from June 2001 to May 2005 were categorised as DS-I and NDS-I attracting lower tariff rate than the DS-II and NDS-II consumers and were billed accordingly. These consumers should have been billed under DS-II and NDS-II for either energy consumed as per meter reading or minimum 144 units per month in case of defective/damaged/burnt meters as per the provisions of the tariff.

Thus the Board charged Rs 1.18 crore instead of Rs 6.44 crore during the above mentioned period and suffered a loss of Rs 5.26 crore (as detailed in **Annexure - 43**) due to incorrect categorisation of the consumers.

The matter was reported to the Government/Board (April 2005); their replies had not been received (September 2005).

4.7 Ineffective pollution control in Thermal Power Stations of Bihar State Electricity Board

Introduction

Thermal Power Plants (TPPs) have been identified as one of the major polluting industries. Air is polluted by Suspended Particulate Matter (SPM), and emission of SO_2 and NO_x[δ] gases, land is polluted by coal slurry[Θ] and water is polluted by slurry flowing into the rivers.

Bihar State Electricity Board (BSEB) owns two TPPs; Barauni Thermal Power Station (BTPS) and Muzaffarpur Thermal Power Station (MTPS) situated at Barauni and Kanti respectively. Of the seven units at BTPS only two[η] are functional. MTPS comprises two units both of which have been shutdown since October 2003.

[ϕ] Bhagalpur (Rural), Begusarai, Hajipur, Jamui, and Jhanjharpur.

[δ] NO_x could mean NO_2, NO_3, or N_2O_5

[Θ] Coal ash mixed with water

[η] Units 6 and 7

Pollution Control Measures in TPPs

The TPPs are required to control pollution by installing Electro Static Precipitators (ESP), reduction of particulate matter emission upto 100mg/m^3, installation of opacity meters/continuous monitoring system with proper calibration, reviewing stack height requirement, use of beneficiated coal as per GoI notification (March 2003), entering into a 'fuel supply agreement' with coal companies to meet requirement of coal as per Central Electricity Authority's (CEA) matrix, setting up their own coal washeries and selecting private entrepreneurs to set up coal washeries near pitheads, installation of coal beneficiation plants, adoption of dry fly ash extraction/dry disposal system, or medium (35 - 40 per cent) ash concentration slurry disposal system, or lean phase with 100 *per cent* ash water recirculation system, depending upon the site specific environment, and construction of two separate ash ponds at TPPs[φ].

In order to protect the environment, conserve top soil and prevent dumping of fly ash discharge from coal based TPPs, GoI notified (September 1999) that TPPs should provide dry ash/fly ash to users outside the premises or allow uninterrupted access to such users. The fly ash was to be used in brick kilns, construction of roads and dams, cement manufactories and landfills.

Achievements of the Board in controlling pollution

ESPs were installed at Units 6 and 7 of BTPS and 1 and 2 of MTPS at the time of their commissioning. Stack Emission Monitoring Tests and Ambient Air Quality Tests were being conducted by a (GoI recognized) private agency in MTPS till its closure in October 2003.

In BTPS, the stack emission monitoring was done departmentally upto January 2002 and discontinued thereafter for which there were no recorded reasons. BTPS did not have any report on Ambient Air Quality.

Opacity meter/continuous monitoring system with proper calibration do not exist in BTPS or MTPS.

The pollution levels on different parameters for BTPS (latest report of January 2002) and MTPS (latest report of August 2003) are summarised in the table below.

Test	Pollutant	CPCB Norms	Actuals	
			MTPS	BTPS
SEM[*]	SPM	150mg/m^3	324.6mg/m^3	310mg/m^3
	SO_2	NS	125.7mg/m^3	102mg/m^3

[φ] for depositing and drying coal ash slurry

[*] Stack Emission Monitoring. SPM norms as per Gazette of India, General Emission Standards, published by Ministry of Environment & Forests, 19 May 93

	NO_x	NS	47.3mg/m^3	87mg/m^3
AAQ#	SPM	500µg/m^3	315µg/m^3	NA
	SO_2	120µg/m^3	29.8µg/m^3	
	NO_x	120µg/m^3	19.9µg/m^3	

NS – Not specified NA – Not available

Non-completion of chimney work at MTPS

A Public Interest Litigation on the pollution of Ganga was filed in the Hon'ble Supreme Court, which directed BSPCB[Δ] to inspect industries including TPPs polluting Ganga directly or indirectly. The BSPCB inspected MTPS and found that air pollution was above the permissible limit. Based on this report, the Supreme Court directed MTPS to either increase the height of the existing chimney from 125 to 220 metres or construct a new 220 metre high chimney as per the norms and the rules notified by GoI. Accordingly, work order for design and construction of a new 220 metre high RCC[Φ] chimney was awarded to Gammon India Ltd., Mumbai (Contractor) for a cost price of Rs 8.99 crore in April 1995.

Meanwhile, CPCB[ξ] in January 1996 concluded that TPPs sanctioned by CEA prior to 1 July 1984 might not be required to increase the height of existing chimneys as per regulations notified by GoI in August 1990. In view of this, BSEB filed an affidavit in the Supreme Court praying for exemption from increasing the chimney height to 220 metres and *suo moto* stopped the work. The matter is subjudice and the work is incomplete. Neither was the work order cancelled nor was mobilisation advance recovered. The Contractor, however, demanded Rs 93.00 lakh (upto November 1997) at the rate of Rs 3.00 lakh per month as compensation for idle establishment, which has neither been accepted nor rejected by BSEB.

The SPM concentration in stack emission was more than double the CPCB norm which could have been reduced by raising the stack height. Thus, stoppage of the work of construction of the new chimney of the required height is not justified as the existing height is ineffective in controlling pollution.

Quality of coal

Coal linkage to TPPs of BSEB is provided by CEA. There are no proposals to either set up own coal washeries or to select private entrepreneurs to set up coal washeries and install coal beneficiation plants.

[#] Ambient of Air Quality. Norms as per National AAQ Standards for Industrial Areas as per CPCB notification 11 April 1994. Average of measurements taken at three places over 24 hours.

[Δ] Bihar State Pollution Control Board

[Φ] Reinforced Cement Concrete

[ξ] Central Pollution Control Board

Further, the boilers of the TPPs in BSEB have been designed to consume slack coal of Grade D but the coal received at these TPPs was of inferior grading i.e. E, F and G (ungraded). Consequently, coal consumption and pollution are high vis-a-vis the norms. As 'fuel supply agreements' were not made with the coal companies supply of quality coal could not be ensured.

Construction of ash ponds

Dry fly ash extraction/dry disposal system does not exist in either BTPS or MTPS. Presently, the fly ash/bottom ash generated is sent to ash ponds as slurry which dries after settlement. Ash users lift dry ash from ash ponds. This is the system prevalent in both BTPS & MTPS.

BTPS has two ash ponds of 143 acres and 102 acres and MTPS has only one ash pond of 290 acres. A second ash pond is to be constructed in MTPS. The system of ash disposal envisaged in GoI's notification[Ψ] has not been adopted either by BTPS or MTPS.

Disposal of coal ash

BTPS and MTPS published notices in the local press allowing free lifting of coal ash to brick kilns, cement manufactories to construct roads and dams and fill low lying areas.

The ash disposal in BTPS during 2003-04 was only 14.69 thousand ton and ash remaining in the ash ponds was 3 million tons. Ash disposal in MTPS upto 2001-02 was 4.36 lakh ton and balance lying in the ash pond till March 2004 was approximately 1 million ton. Thus disposal of ash at both plants has not been satisfactory leading to a large pileup of ash.

Conclusion

The infrastructure in BTPS and MTPS for controlling pollution is inadequate. Facilities to test SPM and flue gases emission are inadequate and hence emission checks are not of the desired frequency. The height of the chimney at MTPS is less than that required to effectively control pollution due to which the stack emission of SPM was more than double the CPCB norm. Ash disposal too was ineffective at both BTPS and MTPS and ash disposed off is negligible compared to the quantity generated. The fuel supply agreements were not made with coal companies for supply of beneficiated coal as a result supply of quality coal could not be ensured.

The matter was reported to the Board/Government (June 2005); their replies had not been received.

[Ψ] Issued by the Ministry of Environment & Forests, on 14 September, 99

Bihar State Road Transport Corporation

4.8 Excess expenditure on purchase of buses

Bihar State Road Transport Corporation incurred excess expenditure of Rs.1.61 crore due to delayed decision and imprudent tax management and Rs. 2.69 crore due to purchases made contrary to the recommendations of a study done for this purpose

In view of the precarious financial position of the Bihar State Road Transport Corporation (Corporation) the Government of Bihar paid the Corporation Rs. 105.82 crore in phases (Rs. 66 crore as subsidy during 1998-99, and Rs. 39.82 crore as loan from 1999-2000 to 2003-04) against revival package for liquidation of retirement benefits, retrenchment compensation, fleet augmentation etc. The Corporation purchased 130 buses (January 2000) in the first phase against a target of 250 buses. In November 2000 it was decided to purchase approximately 500 new buses which were required to be on road on or before 31 July 2001, subsequently revised to October 2002. An amount of Rs 60.51 crore was reallocated and earmarked for the purpose. After an inordinate delay of more than one year, the Corporation purchased 467 new buses (116 deluxe and 351 semi-deluxe) in the second phase (against target of more than 500) in three lots for which three purchase orders were placed with Tata Engineering & Locomotive Company Limited (TELCO) in August 2002 (55 chassis), January 2003 (181 chassis), and May 2003 (231 chassis).

Audit findings on the procurement of buses have been discussed in the succeeding paragraphs.

(a) Avoidable expenditure due to increase in Excise Duty

The Corporation, despite having sufficient funds failed to adhere to the time schedules for making purchases due to procedural delays arising out of lack of initiative, delayed decision making, non-existence of approved purchase guidelines and executive failures (July 2002). The purchase orders were further delayed due to postponement of meetings, change in the incumbency of the Purchase Committee, raising of settled issues by Purchase Committee and members. Delayed action on the part of the Corporation had resulted in excess expenditure of Rs. 43.21 lakh due to increase in excise duty leviable with effect from 1 March 2003[ϑ] on supply of 382[λ] chassis at the rate of Rs 11,312[μ] per chassis. Had the time schedules for completion of purchase been adhered to the Corporation could have avoided the excess expenditure of Rs 43.21 lakh due to increased excise duty.

(b) Imprudent tax management

The Corporation decided to get the bus bodies built at Jamshedpur in Jharkhand State and took delivery of all the chassis at ex-Regional Sales Office, Patna and

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[ϑ] Government of India, Union Budget 2003-04

[λ] 231 + 151 balance of January 2003 order.

[μ] Excise duty: Rs 10,000 + Bihar Sales Tax: 12 per cent + Turnover Tax : 1 per cent.

incurred an expenditure of Rs 51.32 crore including 12 per cent Bihar Sales Tax and one per cent turn over tax (details as per **Annexure - 44**) on purchase and body building of 467 buses. The Corporation could have got itself registered as a dealer under Section 7 (2) of the Central Sales Tax Act, 1956 (CST Act), and availed of the concessional rate of sales tax at the rate of four per cent. Had the Corporation registered itself under CST Act and taken the delivery of chassis at Jamshedpur it would have incurred an expenditure of only Rs 50.14 crore (four *per cent* CST and five per cent Entry Tax) for the same purchase. Thus, due to not getting itself registered under CST Act the Corporation incurred an extra expenditure of Rs 1.18 crore (Rs 51.32 crore - Rs 50.14 crore).

(c) Excess expenditure on the purchase of deluxe buses

A cost-benefit analysis[π] was done (March 2002) at the time of purchase of new buses in second phase to determine the ideal purchase combination of different kinds of buses. The cost-benefit study recommended that the Corporation should purchase semi-deluxe buses only as they would yield higher revenue. Although, the recommendation was accepted (March 2002) the purchase decision was taken at variance with it, without any basis or justification on record. Total 467 buses (116 deluxe + 351 semi-deluxe) were purchased at a cost of Rs 51.32 crore[τ]. Had the Corporation purchased semi-deluxe buses only, as envisaged in the cost benefit study, the cost of 467 buses would have been Rs. 48.63 crore (details as per **Annexure - 44**). Thus, the Corporation had incurred an excess expenditure of Rs 2.69 crore(Rs 51.32 crore - Rs 48.63 crore) which could have been utilised to purchase 26 additional semi-deluxe buses.

The matter was reported to the Corporation/Government (April 2005); their replies had not been received.

GENERAL

4.9 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through inspection reports. The heads of the PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2005 pertaining to 54 PSUs shows that 8,276 paragraphs relating to 1,707 inspection reports remained outstanding at the end of September 2005. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2005 is given in **Annexure-45.**

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments

[π] by a Technical Team comprising Controller of Stores & Purchase, Dy. Chief Mechanical Engineer, and Chief of Operations

[τ] chassis - Rs 29.10 crore + body building - Rs 22.22 crore thereon within a period of six weeks. It was, however, observed, that eight draft paragraphs and three reviews forwarded to the various departments during April to July 2005 as detailed in **Annexure-46** have not been replied to (September 2005).

It is recommended that the Government should ensure that (a) a procedure exists for action against officials who fail to send replies to inspection reports / draft paragraphs / reviews as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule; and (c) the system of responding to the audit observations is revamped.

Patna
The

(Vikram Chandra)
Principal Accountant General (Audit), Bihar

Countersigned

New Delhi
The

(Vijayendra N. Kaul)
Comptroller and Auditor General of India