CHAPTER-IV

Transaction Audit Observations

Important audit findings emerging out of test check of transactions of the State Government companies /corporations are included in this Chapter

Government companies

Bihar State Forest Development Corporation Limited

4.1 *Loss of Rs 46.35 lakh due to non-sale of Kendu leaves*

Bihar State Forest Development Corporation Limited suffered loss of Rs 46.35 lakh due to delay in selling *Kendu* leaves, a perishable commodity.

Bihar State Forest Development Corporation Limited (Company) decided (March 2001) to collect *Kendu* leaves from Sasaram, Bhabhua, Chenari and Rohtas ranges of Gaya division. The Company departmentally collected and stored 10,489[1] standard bags[2] of *Kendu* leaves from Gaya division, during 2001-02 season.

The Company invited (16 August 2001 and 28 August 2001) tenders for selling the leaves so collected. The highest bids received per standard bag were, Rs 501 for Chenari, Rs 471 for Rohtas and Sasaram ranges and Rs 653 for Bhabhua range. The Company, however, did not sell the leaves of Chenari, Rohtas and Sasaram ranges stating low rate as the reason, while the leaves of Bhabhua range could not be sold due to default of the tenderer.

The tenders, called four times subsequently, between September 2001 and October 2001, did not get any offer. Hence, the Sales Committee negotiated (October 2001) with the tenderers who had participated in the first tender (August 2001) and a quantity of 1,960 bags was sold at the rate of Rs 511 per standard bag for a total of Rs 10.02 lakh. Another tenderer offered Rs 501 per standard bag for 8,530 bags, provided the Company allowed him to pay the sale consideration and EMD in four bimonthly instalments. Despite the Sales Committee’s recommendation for acceptance of the offer, as there was no possibility of better price due to recession in the market and deterioration in the quality of leaves, the Managing Director rejected (November 2001) the offer stating that the conditions were unacceptable. No consideration was given to the perishable nature of the leaves, market recession, and recurring inventory carrying cost. The Managing Director also did not take into account the fact that the rates obtained (Rs 501 and Rs 471 per standard bag) were

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[1] Bhabua (317.685 bags) + Chenari (2,068.130 bags) + Kholhol (97.100 bags) + Rohtas (6,046.800 bags) + Sasaram (1,959.968 bags) = 10,489.683 bags (Total expenditure Rs 48.91 lakh)

[2] Standard bag = bag containing 1,000 bundles of 50 leaves i.e. 50,000 leaves

higher than the cost price of Rs 466[1] per standard bag, which would have absorbed the cost of collection, transportation and storage charges and also yielded some profit. Subsequent six tender invitations between December 2001 and October 2004 did not yield any offer, leaving the *Kendu* leaves worth Rs 46.35[2] lakh unsold (September 2006). The Divisional Manager, Gaya informed (October 2005) the Managing Director that the leaves had become totally rotten.

Thus the decision of the Managing Director, not to sell the leaves despite their perishable nature, market recession and recurring inventory carrying cost resulted in loss of Rs 46.35 lakh.

The Company stated (July 2006) that as the conditions put forth by the purchaser were not in accordance with the tender conditions, the offer was rejected. Further, the management had expected good rates. The reply is not acceptable, as it was more important to sell the leaves in view of the perishable nature of leaves and market recession. Moreover, there was nothing on record to indicate better rates in future calls and that the Sales Committee had already cautioned that there was no possibility of better prices due to recession in the market and deterioration in the quality of the leaves.

The matter was reported to the Government (May 2006); reply has not been received (September 2006).

Bihar State Minorities Financial Corporation Limited

4.2 *Non-utilisation of fund due to poor planning*

Despite money being made available, the Company failed to develop infrastructure and improve the recovery position

National Minorities Development & Financial Corporation (NMDFC), in view of the financial constraints faced by the State Channelising Agencies (SCAs), introduced (1998-99) a scheme that provided one *per cent* additional interest margin to SCAs for strengthening infrastructure, manpower development, promotional activities and engagement of recovery agents etc. The allocation so made under the said scheme was available to the SCAs on reimbursement basis. Bihar State Minorities Financial Corporation Limited (Company) is the SCA for implementation of the various schemes of NMDFC in Bihar. The entitlement of any year can be availed over a period of two years, failing which the same would lapse. As a special case the company was allowed to carry forward its allocation beyond the period of two years upto 2003-04.

During the eight years up to March 2006, NMDFC allocated Rs 38.34 lakh to the Company under the aforesaid scheme. In the initial two years (1998-99 and 1999-2000), the Company did not spend any funds allotted under the scheme. In the subsequent six years upto March 2006, the Company spent

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[1] 10,490 bags = Rs 48.91 lakh Cost per bag = 48,51,000/10490=466.25 Say Rs 466/ per standard bag

[2] (cost of 8,530 bags of leaves @ Rs 466 = 39.75 lakh) + (storage cost 04/02-03/06 @ 1.65 lakh for 4 years = 6.60 lakh)= Rs 46.35 lakh.

only Rs 9.41 lakh, and Rs 28.93 lakh remained unutilised. Despite special dispensation to the Company to carry forward the unutilised portion under the scheme beyond two years, funds to the extent of Rs 14.12 lakh lapsed in March 2006 (Rs 6.41 lakh in April 2004 and Rs 7.71 lakh April 2005).

Thus despite availability of funds, the Company failed to frame schemes to strengthen infrastructure as envisaged in the scheme which could have been utilised to improve the recovery process. The Company could not derive the intended benefit available under the scheme. The recovery during 2005-06 further declined to 2.15 *per cent* from 2.64 *per cent* in 2003-04.

The Company admitted (June 2006) that the funds allotted under the Scheme could not be fully utilised due to lack of quorum in the purchase committee.

The matter was reported to the Government (May 2006); their reply has not been received (November 2006).

Bihar State Credit & Investment Corporation Limited

4.3 *Loss due to acceptance of forged documents*

Bihar State Credit and Investment Corporation Limited lost Rs 56.11 lakh due to acceptance of forged documents

Bihar State Credit & Investment Corporation Limited (Company) disbursed (March 1995) Rs 56.11 lakhs to Barway Granite & Stone Corporation Private Limited Ranchi (Unit). The Unit defaulted in repayment and the balance outstanding against the unit as on March 2002 was Rs 1.63 crore (interest Rs 1.07 crore). The Company took over the possession of the unit in May 2002 and put it to auction on seven occasions between April 2002 and April 2005, but no offers were received. In response to the eighth sale notice (May 2005), one offer was received and was accepted at a negotiated price of Rs 53.12 lakh. Accordingly acceptance of the offer along with standard conditions of the terms of offer was communicated to the tenderer (June 2005).

The Company subsequently (September 2005) decided that as the purchaser had deposited 50 *per cent* of the consideration amount (Rs 27 lakh including earnest money Rs one lakh), the assets could be handed over on furnishing of bank guarantee for the balance consideration money. Before taking possession of the unit, the purchaser verified the title deeds and found that all the title deeds were forged. The land mortgaged was ‘Bakast Bhuinhari Pahnai’ a tribal land which could not be sold to any person without the permission of the Deputy Commissioner. Since the Company’s possession of the land was illegal, it refunded Rs 26 lakh (March 2006) to the tenderer on his request. The Company neither investigated nor fixed responsibility for acceptance of forged documents. Thus, due to acceptance of forged documents the company suffered loss of Rs 56.11 lakh.

The management stated (May 2006); that the matter was being enquired into and, if necessary, responsibility would be fixed.

The matter was reported to the Government (May 2006); reply has not been received (September 2006).

Bihar State Credit and Investment Corporation Limited

4.4 *Undue benefit to ineligible units: Rs 3.69 crore*

Bihar State Credit and Investment Corporation Limited allowed undue benefit to ineligible units due to faulty implementation of OTS scheme resulting in loss of Rs 3.69 crore

Bihar State Credit and Investment Corporation Limited (Company) introduced (October 2004) a One Time Settlement (OTS) Scheme in order to reduce the burden of Non-Performing Assets. The scheme was extended upto September 2005 and again upto December 2005. Under the scheme, the units eligible for settlement were divided into six categories and one of the categories was 'units registered with BIFR/Apex body (State Level Committee for SSI[1] units)'.

The then Managing Director of the Company decided in April 2005 to relax the OTS Scheme to the extent that an application filed with BIFR/Apex body would be sufficient for consideration under the scheme. The decision of the Managing Director to relax the provisions of OTS Scheme was not approved by the Board of Directors.

Audit scrutiny revealed that eight units[2] which were sick and had applied for registration with BIFR/Apex body were given benefit under the scheme and were asked to deposit Rs 5.43 crore (Annexure-21) by the specified date. All the units (except one[3] which deposited partial settlement amount) deposited the settlement amount. Since the units were not registered with BIFR/Apex body, their cases were not eligible to be settled under the scheme and Rs 9.12 crore should have been recovered as settlement amount. The Company had allowed undue benefit to the extent of Rs 3.69 crore to these units. The management stated (December 2005) that it was pursuing these units either to submit the registration certificate from BIFR/Apex body or to deposit Rs 3.69 crore with the Company. The Board directed (February 2006) that OTS settlements made without registration with BIFR/Apex body should be rejected due to violation of the rules and other omissions on the part of the concerned officers.

The management stated (July 2006) that action had been taken to realise the balance dues from the concerned Units. The management further stated that a departmental inquiry had been conducted, and suitable action would be taken.

The matter was reported to the Government (May 2006); reply has not been received (September 2006).

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[1] Small Scale Industrial units.

[2] (i) City Gold Metal (P) Ltd. (ii) Eastern Food Industries (iii) Gautam Coal Works (iv) Hotel Nanaksons (P) Ltd. (v) Nav Bharat Link Chain (vi) Data Alloys (P) Ltd. (vii) Shivalik Reclamation (P) Ltd. (viii) Saraogi Oxygen (P) Ltd.

[3] Eastern Food Industries.

Statutory corporations

Bihar State Electricity Board

4.5 *Idle expenditure on power sub-stations and related 33 KV lines*

The Board incurred idle expenditure of Rs 1.91 crore on incomplete power sub-stations and related 33 KV lines

Bihar State Electricity Board (Board) constructs Power Sub-Stations (PSS) and related 33 KV lines through their supply circles, for smooth passage of electricity. Work may be undertaken either for construction of new PSS/line, or rehabilitation of existing PSS/line. The civil and electrical works are executed by contractors, and materials are supplied by the Board.

It was noticed during audit (May-September 2005) that the Board undertook construction of two new PSS and their related lines in Ramchandrapur and Bariarpur of Munger District. It also undertook construction of three PSS and related lines in Ghanshyampur of Darbhanga District, Shambuganj in Banka District and Sandesh in Bhojpur District. Rehabilitation of 33 KV line from Mirganj PSS to Dargah PSS of Purnia District, and from Sandesh PSS (under construction) to different villages in Bhojpur District was also taken up. The details are as given below:

(Amount: Rupees in lakh)

Name of PSS / **Related Line**	**Scheme**	**Year of estimate**	**Estimated Cost of PSS/ Line**	**Scheduled date of completion**	**Expend -iture on PSS/ Line**	**Total**
Ramchandrapur (Munger District) and related 33 KV Line	ADP[1]	2002-03	40.02 26.14	March 2004	27.79 1.99	29.78
Bariarpur, (Munger District) and related 33 KV Line	RE[2]	2000-01	41.28 40.09	March 2004	3.22 1.27	4.49
Ghanshyampur, (Darbhanga District) and related 33 KV Line	RE	2002-03 2003-04	27.97 66.64	March 2003	16.83 14.55	31.38
Rehabilitation of 33 KV line from Mirganj PSS to Dargah PSS. (Purnia district)	Rehabil ation	2003-04	71.65	March 2005	61.33	61.33
Shambuganj (Banka District) and related 33 KV	RE	2001-02	77.00 45.79	2003-04 Feb. 2005	31.84 5.94	37.78

[1] Annual Development Programme
[2] Rural Electrification

Name of PSS Related Line	Scheme	Year of estimate	Estimated Cost of PSS/ Line	Scheduled date of completion	Expend-iture on PSS/ Line	Total
Line						
Sandesh (Bhojpur District) and related 33 KV Line	RE	2003-04	46.30 88.74	June 2004	22.46 3.36	25.82
Total			**571.62**			**190.58**

The construction/rehabilitation works were undertaken by the supply circles at a total estimated cost of Rs 5.72 crore, and an expenditure of Rs 1.91 crore was incurred on civil and electrical works, including cost of materials. Audit scrutiny revealed that progress of installation of related 33 KV lines was meagre, and the above schemes were incomplete till date (September 2006). The PSS cannot be energised until the line works are completed. The main reason for non-completion of the works, as stated by the circles, was partial supply of materials by the Board.

It would be seen from the above table that the scheduled dates of completion had already elapsed and there was no definite time frame with the Board for completion of the PSS and related lines. Further, the possibility of theft/damage of installed materials can not be ruled out.

Thus due to unplanned execution of works, the expenditure of Rs 1.91 crore remained unfruitful and the desired benefit of the scheme could not be achieved.

The matter was reported to the Government/Board (April 2006); their replies have not been received (September 2006).

4.6 *Unnecessary purchase of spare parts*

Unnecessary purchase of spare parts resulted in blocking of fund of Rs 1.59 crore and consequential loss of interest of Rs 63.73 lakh.

The Barauni Thermal Power Station (BTPS) of Bihar State Electricity Board (Board) placed (November 2001) a purchase order on Bharat Heavy Electricals Limited (BHEL) for supply of 82 spare parts for capital maintenance of boiler of Unit 6 at a cost of Rs 1.33 crore plus excise duty and sales tax. The purchase proposal was approved by the Central Purchase Committee of the Board in its meeting held in August 2001. All the spare parts were received at BTPS during January 2002 to February 2003 at a total cost of Rs 1.60 crore. The material supplied was guaranteed against bad workmanship and unsatisfactory performance for a period of 18 months from the date of dispatch or 12 months of actual use, whichever was earlier. It was noticed during audit that not a single spare was used at BTPS, as the capital maintenance of Unit 6 had not been undertaken by the Board so far (September 2006). Only four parts valued at Rs 0.60 lakh were transferred to Muzaffarpur Thermal Power Station, and the remaining spares were lying idle resulting in blocking up of Rs 1.59 crore and consequential loss of interest of

Rs 63.73 lakh calculated at the rate of 13 *per cent*[1] per year from March 2003 to March 2006.

The Board stated (April 2006) that initially the capital maintenance of Unit 6 was planned and spare parts were procured, but subsequently it was decided to take up Renovation & Modernisation (R&M) of Unit 6 instead of capital maintenance, for better performance of the plant. The Board further stated that the spares purchased for capital maintenance would be utilised in R&M work. BHEL had already started the restoration work for R&M in March 2006. The reply is not acceptable as improper planning by the Board resulted in purchase of spares worth Rs 1.59 crore, which were lying idle for the last three years, the lead time for procurement of which was nine months only. Further the guarantee period of the materials has also elapsed and deterioration in the condition of the spares cannot be ruled out.

The matter was reported to the Government (April 2006); their reply has not been received (September, 2006).

4.7 *Avoidable expenditure due to deficient agreement*

Bihar State Electricity Board incurred avoidable expenditure of Rs 42.45 lakh due to deficient agreement for purchase of transformers

Bihar State Electricity Board (Board) purchased 63/100 KVA distribution transformers through competitive bidding process between August 2002 and November 2004.

As per Clause 7 of the Purchase Order, in case of delayed supply a penalty at the rate of 0.25 *per cent* per week or part thereof was to be recovered from the suppliers, subject to a ceiling of 5 *per cent* of the value of the materials supplied. No 'risk and cost' clause for recovery of extra cost on purchase of transformers from other sources, in case of failure of the original supplier to complete the supply, was, however, incorporated in the Purchase Order, which could have protected the Board against any financial loss.

Audit scrutiny revealed (January 2006) that the Board had issued four Purchase Orders on four suppliers between August 2002 and November 2004 for supply of 549 nos. 63 and 100 KVA distribution transformers against which only 307 transformers were supplied between March 2003 and January 2005 and 242 transformers were not supplied. The reasons for non-supply and the efforts made by the Board to obtain the balance supplies were not on record. It was further noticed that the Board had imposed a penalty of Rs 0.15 lakh on one supplier for delayed supply of 45 transformers. For non-supply of 242 transformers, penalty amounting to Rs. 4.94 lakh was, however, not imposed on the defaulting suppliers, thereby extending undue favour to the suppliers. Besides, the Board invited fresh tenders and placed fresh Purchase Orders between April 2004 and December 2005 on the same suppliers for supply of 670 transformers. These included the unsupplied 242 transformers

[1] Rate of interest charged by the Government of Bihar on loans to the Board.

of previous Purchase Orders at higher prices entailing extra cost of Rs 42.45 lakh as detailed in **Annexure–22**.

The Board neither safeguarded its financial interest by including a'risk and cost' clause in the purchase orders for non-supply, nor did it impress upon the suppliers to bring down the prices of 242 transformers at par with the rates of the previous orders. Thus the Board had to incur avoidable expenditure of Rs 42.45 lakh.

The Board stated (July 2006) that due to acute financial crisis in the Board it could not make full payments to the suppliers and as a result they did not complete their supplies. Hence, no penalty was imposed and the materials were bought at subsequent date at higher rates. The reply is not acceptable as the Board should have addressed these problems before placing the purchase orders.

The matter was reported to the Government (May 2006); their reply had not been received. (September 2006).

4.8 *Idle expenditure at thermal power stations*

Bihar State Electricity Board incurred avoidable idle expenditure of Rs 88.05 crore at thermal power stations

Bihar State Electricity Board (Board) was running two units each at Barauni Thermal Power Station (BTPS) and Muzaffarpur Thermal Power Station (MTPS) with total installed/derated installed capacity of 430 MW. BTPS could not run another two units of 100 MW installed capacity, which were under shutdown since March 1995/April 1996, due to non-installation of Electro Static Precipitators.

As per the norms, the capital maintenance of a thermal power station is required to be carried out after every 10,000 hours running of the plant. It was noticed during audit (April 2006) that the capital maintenance of both the plants which was long overdue had not been done till date. The date of last capital maintenance, due-date of next capital maintenance and hours run upto March 2006 (since last capital maintenance) of these units are given below:-

Unit	Date of last capital maintenance	Due date of next capital maintenance	Hours run upto March 2006 (since last capital maintenance)
BTPS-Unit No. 6	November 1989	1992	66,331
BTPS-Unit No. 7	May 1993	1996	45,520
MTPS-Unit No. 1	January 1997	2001	19,611
MTPS-Unit No. 2	May 1995	1997	35,992

Due to not undertaking timely capital maintenance of the above units, the condition of the plants further degenerated and the plants required Renovation & Modernisation (R&M). The Board, however, continued to run the units at very low Plant Load Factor (PLF) in comparison to the all India average PLF of 63.8[1] *per cent* against the prescribed norm of 80 *per cent* as detailed below:-

(Plant Load Factor in *per cent*)

Year	BTPS	MTPS
2001-02	17.35	18.42
2002-03	14.49	13.93
2003-04	14.95	3.96 (closed since October 2003)
2004-05	8.34	Plant under shutdown
2005-06	6.57	Plant under shutdown

It was further noticed in audit that in both the plants, only one unit worked at a time, the other remaining shut down due to operational problems. Both the units of MTPS were under shutdown since October 2003 due to high cost of operation, low PLF, and frequent breakdowns. The Board was neither able to undertake capital maintenance of MTPS nor could restart it, for reasons not on record. It was observed in audit that the actual net generation in both the plants (510.875 MU) was only 7.70 *per cent* of the norm (6,632.88 MU), during the last three years upto March 2006. The fixed cost was, however, much higher in proportion to the energy generated during the period. As a result the Board incurred loss of Rs 88.05 crore (**Annexure-23**) due to establishment cost remaining unrecovered.

Had the Board taken timely action for capital maintenance of its thermal power stations, run both the units of each plant simultaneously and installed ESPs at BTPS in time to run two units of 100 MW capacity each, generation could have been increased and establishment cost recovered.

The Board stated (September 2006) that initially it was decided to take up capital maintenance of Unit 6 and R&M of Unit 7 of BTPS, and R&M of MTPS but subsequently, to achieve all-round improvement, R&M of four units of BTPS and two units of MTPS taken up under the Rashtriya Sam Vikas Yojna. Now a Memorandum of Agreement had been signed between the Government of Bihar and NTPC for formation of a Joint Venture Company for running MTPS units. The reply is not tenable as a timely action could have prevented the units from degenerating to such level.

The matter was reported to the Government (May 2006); reply had not been received (September 2006).

Bihar State Financial Corporation

4.9 *Theft/removal of mortgaged assets: Rs 18.32 Crore*

Failure of Bihar State Financial Corporation to devise a system for safeguarding its assets resulted in loss of Rs 18.32 crore

Bihar State Financial Corporation (Corporation) provides financial assistance for setting up industrial units. The instalments of repayment are fixed on

[1] Source: Ministry of Power.

quarterly or half yearly basis after 12/24 months moratorium from the date of first disbursement of the loan. The assets created by the loanee units are mortgaged in favour of the Corporation. The Corporation officers visit loanee units and report regarding their status and recovery position are submitted to the respective branch office/head office. If recoveries are not forthcoming, action under Sections 29 and 30 of the State Financial Corporation (SFC) Act 1951 is taken and process for sale of unit is initiated by inviting open tenders. The Corporation is therefore, required to provide/ensure adequate security of the mortgaged assets till the process of disposal is completed.

During the period of issuing notices under Section 29 for acquisition of the defaulting units and putting the same to auction, the Corporation does not have any system to ensure the safety of the mortgaged assets. The Corporation puts the units to auction without taking physical possession, thus rendering the assets vulnerable to theft/removal by the defaulters. Audit scrutiny revealed that the Corporation filed (August 1984 to November 2004) FIRs in 748 cases against defaulting units for recovery of assets worth Rs 18.69 crore which had allegedly been removed by the promoters as of January 2005 (**Annexure - 24**).

It can be seen from the Annexure that out of 748 cases, 686 cases are more than five years old. It was further noticed during audit that 44 cases (6 *per cent*) out of 748, had been decided by the courts so far (September 2006). Out of these 44 cases, only 17 cases have been decided in favour of the Corporation, and an amount of only Rs 36.98 lakh (2 *per cent* of the total money involved : Rs 18.69 crore) has been recovered. Besides poor recovery, the Corporation has been spending substantial amount (which could not be quantified in audit) in pursuing the court cases.

Thus the failure of the Corporation to devise and implement a system to safeguard its assets, resulted in 748 FIR/court cases against which recovery of Rs 18.32 crore was pending for more than five years.

The Management, while accepting the audit observation stated (May 2006) that it did not have any system to ensure safety of the mortgaged assets. It further stated that it was the responsibility of the promoters to safeguard the assets till they were taken over by the Corporation and that whenever instances of removal of assets came to notice FIRs were filed and pursued. The fact remains that the Corporation does not have a system to safeguard its assets, and thereby lost Rs 18.32 crore[1].

The matter was reported to the Government (May 2006); reply has not been received (September 2006)

GENERAL

4.10 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 the 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

[1] approximate value of missing assets, allegedly removed by the promoters.

March 2006 pertaining to 54 PSUs show that 7,113 paragraphs relating to 1,704 inspection reports remained outstanding at the end of September 2006. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2006 are given in **Annexure-25**

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 thereon within a period of six weeks. It was, however, observed, that replies to nine draft paragraphs and three reviews forwarded to the various departments during April to November 2006 as detailed in **Annexure-26** were awaited.

It is recommended that the Government should ensure that (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 audit observations is strengthened.

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