

Chapter-III

3. Transaction audit observations

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

Government companies

Bihar Rajya Pul Nirman Nigam Limited

3.1 Avoidable payment of Income tax and penal interest on Income tax

Failure to file Income Tax returns for the years 1997-99 to set off losses for these years against the profit for 2005-06 and failure to pay advance tax in time resulted in an avoidable payment of Income tax and penal interest on Income tax of Rs. 1.28 crore.

Section 72 of the Income Tax Act, 1961, *inter alia*, provides that where, for any assessment year, the net result of computation under the head “Profit and gains of business or profession” is a loss, such loss should be carried forward to the following assessment year and so on for seven assessment years immediately succeeding and set-off against the profits, if any, during subsequent years.

Further, as per section 208 of the Income Tax Act, 1961, advance tax is payable during a financial year, in every case, where the amount of such tax payable by the assessee during the year, is rupees five thousand or more. Besides as per provision of section 234 (B) of the Act, where in any financial year, an assessee who is liable to pay advance tax under section 208 failed to pay such tax or where the advance tax paid by such assessee is less than 90 *per cent* of the assessed tax, the assessee shall be liable to pay simple interest at the rate of one *per cent* for every month from first day of April on the amount by which advance tax paid fell short of the assessed tax.

Section 234 (C) of the Act further stipulates that if the Company (assessee) failed to pay advance tax or advance tax paid is less than 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* of tax due till 15 June, 15 September, 15 December and 31 March respectively, the Company shall be liable to pay simple interest at the rate of one *per cent* on the amount of the shortfall. Thus, to avoid payment of interest on tax, the Company should have assessed its income and paid tax in advance quarterly as per the Act.

It was found in Audit (January 2008) that the company sustained a loss of Rs. 3.54 crore during the years 1997-98 and 1998-99 and earned a profit of Rs. 5.96 crore during 2005-06. The Company, however, did not file the required tax returns for the years 1997-99 during the following years to carry forward the losses till 2005-06. As a result, the losses suffered during these years could not be set off against the profit for the year 2005-06.

Had the Company submitted the tax returns for the years 1997-99 to avail the facility of carry forward of losses as provided in the Act, these losses could have been set off against the profit of 2005-06 and payment of Income Tax to the extent of Rs. 1.06 crore (30 per cent of Rs. 3.54 crore) could have been avoided.

Audit further observed that the Company paid advance tax of Rs. 2.61 crore in two installments (January and March 2007) against provisional payment to be made every quarter for the year 2006-07. As a result of this deferment of payment of advance tax, the Company had to pay an interest amounting to Rs. 22.08 lakh under section 234 (B) and 234 (C) of the Act which was avoidable.

The Management stated (February 2008) that due to non finalisation of accounts for the years 1997-99, the returns could not be filed as the IT Act provided for audit of accounts and submission of Statutory Auditor's Report alongwith Tax Audit Report. The Management further stated that advance payment of Income tax was not made due to non-estimation of centage income; however, since 2006-07 estimation of centage income for payment of advance tax had been started. The fact remained that the Management failed to file IT Return for the years 1997-99 in violation of the IT Act and lost the opportunity of set off of losses suffered during the period which resulted in avoidable payment of income tax to the tune of Rs. 1.06 crore. As regards payment of interest due to non payment of advance tax, the fact, however, remained that the Company failed to assess the amount of tax due and remit the same in time.

Thus due to failure of the Management to file IT Return for the years 1997-99 and to assess the amount of tax due and remit the same in time, resulted in an avoidable payment of Rs. 1.28 crore on account of Income Tax and interest thereon.

The matter was reported to the Government (April 2008); their reply was awaited (September 2008).

Bihar State Minorities Financial Corporation Limited

3.2 Avoidable payment of penal interest

Non utilisation and non refund of the funds provided for extending welfare measure of minority communities resulted in an avoidable payment of penal interest of Rs. 30.37 lakh.

National Minorities Development & Finance Corporation (NMDFC) launched (December 2004) a special programme for the economic development of members of minority communities in the 41 minority concentrated districts of the country. NMDFC selected three districts viz Purnea, Katihar and Darbhanga, in Bihar for implementation of the programme and sanctioned Rs. 3.0 crore (Rs. 1.5 crore in January 2005 and Rs. 1.5 crore in March 2005) to Bihar State Minorities Financial Corporation Limited (Company), the State Channelising Agency. As per the guidelines, the Company was to utilise the amount within a period of six months and the funds remaining unutilised were

to be returned to NMDFC. In case the same were retained even after six months, the Company was liable to pay interest/ penal interest at the rate of 8.5 per cent per annum.

It was found (January 2008) in Audit that the Company did not make adequate efforts for identifying the beneficiaries and timely disbursement of the amount as a result the entire amount of Rs. 3 crore remained unutilised till March 2007. As the funds released to the Company remained unutilised, the same should have been returned to the NMDFC before the expiry of six months period. The Company, however, retained the fund for more than two years and paid penal interest of Rs. 30.37 lakh up to March 2007.

The Management stated (May 2008) that due to holding of two Assembly elections (two phases) in 2005 and Panchayat elections in May 2006, the model code of conduct was promulgated which prohibited the disbursement of loan for a period of eight to 10 months. It also stated that a request had also been made to the NMDFC in September 2006/December 2007 to waive the penal interest.

As the model code of conduct did not prohibit carrying out operations under normal activities and during the period between January 2005 and March 2007 (27 months) it was effective only for nine months on three occasions¹, the Company had enough time to identify the beneficiaries and disburse the loan. Besides, it did not prohibit the Company from identifying the beneficiaries and the actual disbursement could have been made during the period when it was not in force. In the meanwhile, NMDFC had not yet acceded to the request for waiver of penal interest (September 2008).

Thus the Company failed in identifying the beneficiaries and refunding the money received which resulted in avoidable payment of penal interest of Rs. 30.37 lakh besides defeating the purpose for which the funds were obtained from NMDFC.

The matter was reported to the Government (May 2008); their reply was awaited (September 2008).

Bihar State Food and Civil Supplies Corporation Limited

3.3 Embezzlement

Embezzlement due to non observance of internal control system resulted in loss of Rs. 66.73 lakh.

Internal Control is a management tool used to provide reasonable assurance that the objectives are being achieved in an economical, efficient and effective manner. Bihar State Food and Civil Supplies Corporation Limited (Company) formulated an Internal Control System for handling of food grains which is detailed below:

- Submission of monthly stock statements by the Godown Managers to the District office,

¹ 17.12.2004 to 05.03.2005, 03.09.2005 to 23.11.2005 and 25.02.2006 to 11.06.2006.

- Reconciliation of the Store Issue Orders with the balance stock available in the godowns,
- Surprise physical verification of stocks by the District Managers,
- Periodical verification of stocks by the District Supply Officers, and
- Devising and defining the system of accounting to be practiced for smooth and risk free functioning evolved and brought out in the form of a manual for better understanding of the officials, better internal control and efficient governance.

Non observance of the above prescribed internal control may result in defalcation/theft by the employees. Audit had already highlighted in the Report of the C&AG of India (Commercial), Government of Bihar, for the year ended 31 March 2006 on the failure of internal control system leading to defalcation of foodgrains worth Rs. 1.22 crore by the employees of the Company.

It was again found (April 2008) in Audit that the Company did not take corrective measures as pointed out by Audit to prevent defalcation/theft of foodgrains. The scrutiny of records of the Company revealed (November 2007) cases of embezzlement to the tune of Rs. 45.94 lakh at the District Office, Muzaffarpur by one Assistant Manager during his charge and Rs. 20.79 lakh at the District Office, Hazipur by the Salesman-in-Charge of Mahnar and Desari Godowns between June to November 2007 respectively as the Company failed to insist submission of monthly stock statements by the Branch Managers in Charge, conduct periodical and surprise verification of stores, etc.

It was further found in Audit that the same Assistant Manager was also involved in a similar case of embezzlement to the extent of Rs. 3.90 lakh in Palamu, Bhojpur and Ranchi Districts as District Manager and as Godown-in-Charge at Mohaddinagar and Patauri of Samastipur District during 2003-04.

The Salesman-in-Charge had also been found guilty of such cases once in 1992-93 to the tune of Rs. 1.14 lakh in sale centre No. 2 of Hazipur and was jailed for four months (January to April 1993) and subsequently embezzled Rs. 9,553 in Lalganj during 1995-96.

Thus, despite noticing these cases of embezzlement, the Management failed to observe the proper internal control measures which resulted in increasing trend of embezzlement. No responsibility had been fixed on the officials who failed to conduct surprise/periodical verification.

The matter was reported to the Government/Company (June 2008); their replies were awaited (September 2008).

Bihar State Hydroelectric Power Corporation Limited

3.4 Idle Investment due to delay

Idle investment in Tenu-Bokaro Link Canal Small Hydroelectric Power project of Rs. 5.29 crore resulting in loss of revenue of Rs. 1.83 crore per annum.

The construction and installation of 1 MW Tenu-Bokaro Link Canal Small Hydroelectric Project located at Tenughat, Jharkhand State was completed in March 2007 at a cost of Rs. 5.29 crore. The power house could not generate power till date (September 2008). The Company estimated (December 2007) the value of loss to the extent of Rs. 0.50 lakh per day due to non generation.

Audit observed (May 2008) that as the project was located in Jharkhand State, the Company could have taken up the matter with Jharkhand State Electricity Board (JSEB) for executing an agreement for transmission and evacuation of power through their transmission lines which is permissible under the Electricity Act, 2003. No such agreement was, however, executed by the Company with JSEB. Instead, it approached (September 2005) the JSEB for purchase of power from this mini hydel station which was still pending. Despite the fact that the project was completed in March 2007 and was ready for commissioning in April 2007, the power house has not generated any power till date (September 2008).

The Management accepted (June 2008) that the power house was ready for generation of power and would start only when the permission to evacuate power to Kathara sub-station (Jharkhand) is received and Memorandum of Understanding (MOU) for power purchase is signed with JSEB.

Thus the Company, instead of insisting on the JSEB to execute an agreement for purchase of power, could have approached the JSEB to enter into MOU for transmission and evacuation of power from the mini Hydroelectric project. Failure to execute an agreement for evacuation of power resulted in not only rendering the investment in the project of Rs. 5.29 crore as idle but also a recurring loss of revenue of Rs. 1.83 crore per annum.

The matter was reported to the Government (August 2008); their reply was awaited (September 2008).

Bihar State Backward Classes Finance and Development Corporation

3.5 Non-achievement of objective

The poor performance in implementing various schemes coupled with weak monitoring and poor recovery of dues resulted in non-achievement of the objective.

Introduction

3.5.1 Bihar State Backward Classes Finance and Development Corporation (Company) was set up (June 1993) under the Companies Act, 1956 with the objective of promoting the economic and development activities for the benefit of Backward Classes (BC) in the state by extending financial assistance for income generating activities, granting concessional finances to selected cases for the persons below the poverty line and extending loans to beneficiaries in pursuing professional/ technical education or training at graduate and higher levels. The Company functions as a State Channelising Agency (SCA) of National Backward Classes Finance and Development Corporation (NBCFDC) under various self-employment schemes of NBCFDC.

Implementation of schemes

3.5.2 NBCFDC allocates the funds for implementation of various schemes to each state as General Term Loan, Other Term Loan and Micro Finance. Based on the proposal submitted by the Company, NBCFDC sanctions loan, after deducting the share of Company towards margin money and promoter's contribution. Till March 2008, the Company had extended financial assistance aggregating Rs. 35.10 crore to 6,311 beneficiaries mainly under term loan scheme. The Company had also imparted vocational training to 1,488 BC students. During the period 2003-08, the company disbursed Rs. 5.53 crore to 600 beneficiaries mostly under education loan scheme (107 beneficiaries) and tractor loan scheme (105 beneficiaries).

Audit findings

3.5.3 As per norms fixed by National Agency, families belonging to the target communities living below double the poverty line from the specific target group are eligible for Company lending activity.

It was seen in Audit that the Company had not formulated any long-term perspective plan to implement the schemes for the social, economic and educational upliftment of BC people of the State.

Thus, the Annual Action Plan (AAP) formulated by the Company lacked long term perspective and direction required for achievement of objectives of the schemes.

Financial and physical target

3.5.4 The Company identifies the beneficiaries and disburses loans to them. The Company fixes financial and physical targets in the form of AAP. The Company has to provide guarantee from State Government for drawal of loan from NBCFDC. The Company had so far provided State Government guarantee for Rs. 25 crore only. The targets and achievement of the Company during 2003-08 are indicated below:

(Amount : Rupees in crore)

Year	Target		Achievement		Percentage of achievement	
	Physical (No. of beneficiaries)	Financial (Amount)	Physical (No. of cases)	Financial (Amount)	Physical	Financial
2003-04	1,784	13.00	340	3.19	19.06	24.54
2004-05	1,510	9.00	119	0.98	7.88	10.89
2005-06	2,146	9.57	62	0.46	2.89	4.81
2006-07	2,151	9.99	36	0.41	1.67	4.10
2007-08	4,409	19.21	43	0.49	0.98	2.55
Total	12,000	60.77	600	5.53	5.00	9.10

The Company could not achieve its targets in respect of any of the schemes during 2003-08. The percentage of achievement in respect of NBCFDC schemes was very low, i.e., between 0.98 to 19.06 *per cent* in physical terms and 2.55 to 24.54 *per cent* in terms of financial targets. The disbursement of loan mainly related to disbursement under education and tractor loans sanctioned during 2003-08.

The Management stated (September 2008) that the scheme objectives could not be fulfilled due to non furnishing of guarantee by the State Government and non repayment of loan to NBCFDC. Based on the Audit findings, the company addressed (June 2008) the State Government to increase the guarantee limit from Rs. 25 crore to Rs. 50 crore. The State Government is yet to increase the guarantee limits (September 2008).

Audit scrutiny revealed that the low achievement was due to failure to obtain enhancement of Government guarantee for repayment of loan, fixation of targets without identifying beneficiaries, ineffective monitoring and poor recovery as discussed in succeeding paragraphs.

Sanction of General Loan

3.5.5 Under General Loan scheme, it was noticed in audit that the Company procured 105 tractors from HMT at a cost of Rs. 2.95 crore during 2003-04 and distributed to selected beneficiaries without assessing the credit worthiness of the beneficiaries. As per guidelines of NBCFDC, beneficiary identification camp was to be held but the same was not carried out. Thus, the selection of beneficiaries lacked transparency and was in contravention of guidelines issued by NBCFDC. The Management accepted (September 2008) the poor recovery of tractor loans.

Education Loan Scheme

3.5.6 The Company operated Education Loan Scheme introduced by NBCFDC from 2001-02 under other Term Loan. The Company sanctions loans up to Rupees three lakh to meritorious students belonging to backward class families living below double the poverty line for pursuing professional or technical courses.

The details of target fixed for Education Loan sanctioned by NBCFDC, amount actually drawn and disbursed during last five years ending 2007-08 are as under: -

(Amount: Rupees in crore)

	Sanctioned		Receipt		Disbursed	
	Physical	Financial	Physical	Financial	Physical	Financial
2003-04	200	1.67	-	0.08	4	0.02
2004-05	50	0.32	15	0.10	12	0.11
2005-06	75	0.45	-	0.30	12	0.17
2006-07	100	0.68	70	0.47	36	0.41
2007-08	200	1.57	-	0.30	43	0.50
Total	625	4.69	85	1.25	107	1.21

It would be seen from above table that against the physical target of 625 beneficiaries and the financial target of Rs. 4.69 crore for 2003-08, the Company actually disbursed a meagre amount of Rs. 1.21 crore (25.80 per cent) only to 107 beneficiaries (17.12 per cent) leading to shortfall in achievement of physical and financial targets. This was mainly due to lack of awareness among the students.

It was noticed in Audit that:

- The Company did not form any committee for selection of beneficiaries as required under the scheme.
- Priority was given to the applicants who got their application verified first and thus the selection of beneficiaries lacked transparency.
- Loans were disbursed without obtaining guarantee papers and documents obtained as security against loan even though mortgaged were not registered.
- The rate of interest was indicated in the application form as 3.5 per cent per annum as against four per cent.
- In one case, assistance of Rs. 1.50 lakh was provided (July 2005) to a son of an employee of a Bihar State Government Undertaking whose income was more than the limit prescribed as the same beneficiary had produced the income certificate for amount less than the limit. The loan agreement was executed by the uncle of beneficiary to avoid the identity of father.
- In another case loan of Rs. 2.96 lakh was extended to a beneficiary (January 2005) who obtained admission in a private medical college under payment seat category and even failed in MBBS Phase-I examination. Thus, the Company extended assistance without

considering merit and released the loan in installments even after noticing that the beneficiary had failed.

Audit scrutiny further revealed that:

- After completion of course, beneficiaries had not intimated by the Company regarding the amount due, commencement and number of EMIs.
- The beneficiary also did not intimate the Company about completion of course. Though 29 beneficiaries, having loan of Rs. 45.48 lakh out of 107 beneficiaries, have completed the course (March 2008) as per records of the Company, only nine beneficiaries were addressed by the Company for repayment of loan. No further monitoring of recovery of loan was made. No efforts were made to address the balance 20 beneficiaries.

The Management stated (April 2008) that the loan was given as per the guidelines of NBCFDC and merit was not a criteria for giving loan. The reply is not in consonance with guidelines issued by the NBCFDC (December 2000) that selection of beneficiaries should be based on merit.

Absence of post disbursement monitoring

3.5.7 NBCFDC guidelines, *inter alia*, specify introduction of beneficiaries loan cards to ensure the authenticity of the transaction and to monitor/ verify the utilisation of loan and its repayment. Audit noticed that these guidelines were not complied with by the Company to ascertain the status of actual implementation of the schemes.

Deficiencies in monitoring

3.5.8 The monitoring mechanism of the schemes was inadequate as detailed below:

- No procedure was evolved for post disbursement inspection of the premises of beneficiaries before the first installment became due for repayment.
- The Company did not conduct physical verification of assets of the beneficiaries, as a result, it was not in a position to ascertain the existence of non- performing assets or the actual number of units working, closed, sold or managed by persons other than the beneficiaries.
- The Company did not maintain sufficient and up to date database of the addresses of beneficiaries and the guarantors as several reminders/ notices returned undelivered.
- Beneficiaries' ledgers were not maintained/ maintained properly by the DWOs, i.e., postings were not made for all the years. As a result, the amount due for the recovery and received thereagainst could not be verified.
- No loan pass books were issued to the beneficiaries indicating weak monitoring system.

- Surprise/ spot verification was not conducted. Proof of purchase of assets was not available in many cases. This indicates that the Company failed to obtain evidences after disbursement.

The Management stated (April 2008) that the Company is only a channelising agency and compliance with Government instructions was the responsibility of District Authorities. The reply is not acceptable because as per agreement with NBCFDC, the Company had to ensure compliance with the guidelines and necessary formalities. The Company had neither taken any step to set right the deficiencies nor taken any action against the erring officials.

Recovery performance

3.5.9 The Company gets 90 *per cent* of loan sanctioned to eligible categories from the NBCFDC at concessional rate of interest and gets interest margin of three *per cent* from the beneficiaries. It provides five *per cent* as margin money. The Company can be financially viable only if the recovery from the beneficiaries is ensured so as to broaden its activities by recycling the funds and make regular repayments to NBCFDC to avoid penal interest.

Audit noticed the following common deficiencies in recovery from all categories of the beneficiaries:

- The loanee ledgers were not properly maintained as complete addresses of the loanees and sureties were not maintained in the ledger and interest dues from the chronic defaulters were not worked out.
- The recovery notices/ reminders were not issued regularly.
- The Company did not maintain age-wise profile of dues to prioritise efforts for the recovery of old dues.
- No action has ever been taken against sureties (who are Government servants) in case of non payment of loan by the beneficiaries.
- There was no system of test checking of correctness of interest worked out/ recovered by the district offices, as such discrepancies in the amount recovered from the loanees could not be ruled out.

Recovery of dues

3.5.10 The position of recovery of dues during 2003-08 is given below:

(Amount: Rupees in crore)

Year	Opening Balance of Dues	Demand for the Year	Total Amount Recoverable	Amount Recovered	Closing Balance of dues	Percentage of recovery	Administrative Exp.
2003-04	17.63	4.85	22.48	0.53	21.95	2.36	0.51
2004-05	21.95	4.39	26.34	0.30	26.04	1.14	0.44
2005-06	26.03	3.20	29.23	0.62	28.61	2.12	0.31
2006-07	28.62	2.00	30.62	0.31	30.31	1.01	0.32
2007-08	30.30	0.93	31.23	0.28	30.95	0.90	0.38
Total	-	15.37	-	2.04	-	-	1.96

It was observed in Audit that:

- The recovery ranged between 0.90 and 2.36 *per cent* of amount due during above period. As a result, the outstanding amount of Rs. 21.95 crore in 2003-04 mounted to Rs. 30.95 crore in 2007-08 with an increase of 41 *per cent* in five years, indicating ineffective recovery.
- Out of 38 districts, in respect of 25 districts recovery could not be made for the various periods ranging from one year to four years (2003-04 to 2006-07).
- The Company could recover only Rs. 1.72 lakh from five beneficiaries against Rs. 9.98 lakh (approx) due from 29 beneficiaries who had completed the course under educational loan as on 31 March 2008.
- Due to poor recovery, the Company could not pay the installment of principal loan falling due from time to time. Consequently the NBCFDC levied penal interest of Rs. 3.77 crore till March 2008 which was yet to be paid.
- The Company incurred establishment expenses Rs. 1.96 crore against recovery of Rs. 2.04 crore.
- NBCFDC directed (2004) the Company to set up a recovery cell at headquarters' and district level. Though the Company set up a cell at headquarter in August 2005, it did not monitor the recovery of dues effectively. No such cell had been set up at the district level so far.
- The Company had failed to effect any recovery from a number of beneficiaries, while substantial number of beneficiaries had paid only a few installments against dues.
- The Company did not issue Beneficiary Loan Cards to oversee the recovery of dues as instructed (March 1998) by NBCFDC.
- NBCFDC sanctioned (July 2004) grant-in-aid of Rs. 2.50 lakh for strengthening the EDP cell and MIS to enable prompt monitoring of recovery. The Company spent Rs. 4.36 lakh on computerisation and obtained reimbursement from NBCFDC. The computers purchased out of above fund were not put to effective use to monitor the recovery.
- DWOs committed inordinate delay in sending the recovered amount from beneficiaries to the Company.

Thus, the recovery mechanism in the Company was deficient resulting in piling up of dues.

The Management stated (April 2008) that District level monitoring was being done under the supervision of DM/ DWO and the Company was actively considering setting up of its own monitoring cell at District level. The reply is not acceptable as no records relating to monitoring were produced to audit either at district level or at Headquarter of the Company nor did the results of recovery indicate any sort of monitoring being carried out. The Management also stated (September 2008) that reminders coupled with legal notices have been issued to more than 1,700 beneficiaries/ guarantors. Audit observed that neither there was any response from the beneficiaries/ guarantors nor further legal action taken by the Company.

In view of the poor performance of the Company in implementing various schemes coupled with weak monitoring and poor recovery of dues, the objectives of the Company could not be achieved. Hence the Company needs to: -

- **prepare a long term perspective plan;**
- **strengthen the procedure of selection, sanction and disbursement of loan in co-ordination with DWOs;**
- **strengthen the post disbursement monitoring mechanism;**
- **redefine the recovery mechanism by strengthening it to ensure strict monitoring.**

Statutory corporations

Bihar State Road Transport Corporation

3.6 Loss of revenue

Delay in payment of accident compensation claim resulted in a loss of revenue of Rs. 50.28 lakh.

The Bihar State Road Transport Corporation (Corporation) receives claims under third party accident compensation for various accidents occurred where the vehicles of the Corporation are involved. The payment of compensation of claims shall be payable in full within the due date prescribed as per the court orders unless otherwise contested by the Corporation. The Corporation received (December 1999) a sum of Rs. 3.50 crore from the Government of Bihar towards payment of compensation in motor vehicle accident claims.

The Corporation was directed (August 1999) by the Additional Motor Accident Claim Tribunal, Giridih to pay within two months Rs. 1.79 lakh as third party accident compensation to Smt Binapani Mitra and others (decree holders) with interest at the rate of six *per cent* per annum, failing which the interest would be payable at the rate of 10 *per cent* per annum. Consequent upon the dismissal of the appeal filed (August 1999) by the Corporation, the decree holder filed (12 September 2001) an Execution Petition in the Lower Court of Giridih. The Court issued (May 2004) an order to seize five buses of Giridih Depot. In compliance of the court order, three buses were seized (November 2004) and kept under its custody. The Corporation suffered a loss of revenue of Rs. 50.28 lakh due to seizure.

It was observed (January 2008) in Audit that:-

- The Corporation delayed in making payment of compensation and paid a sum of Rs. 3.99 lakh on various dates from April 2001 to July 2005 as against the amount of Rs. 4.95 lakh. This was due to incorrect calculation of interest payable for belated payment of compensation to the claimants. Hence, the Court pronounced that the amount was not

paid in full by the Corporation and reiterated that the seized buses might not be released till the judgment for payment was fully honoured. The Corporation had not fixed any responsibility on the officials who failed to comply with the court orders.

- The Corporation had received (December 1999) a sum of Rs. 3.50 crore from the State Government exclusively towards the payment of compensation in motor vehicle accident cases and at the time of judgment, the Corporation had sufficient funds to pay the compensation. The Corporation, however, did not comply with the court orders which led to loss of revenue of Rs. 50.28 lakh due to seizure of buses during the period November 2004 to March 2008¹.

Thus the lackadaisical approach in complying with the court orders coupled with incorrect calculation of interest payable, despite availability of funds for payment of compensation led to seizure of the buses which resulted in denial of service to the public and loss of revenue of Rs. 50.28 lakh.

The Management stated (June 2008) that the buses seized, were off the road on the date of seizure and were not deployed. Hence there is no loss of revenue. The fact, however, remained that the buses were not declared off road permanently and could have been repaired and introduced for operation on the road had they not been seized. The Management, further, filed writ petition in the Jharkhand High Court to get the buses released.

The matter was reported to the Government (May 2008); their reply was awaited (September 2008).

Bihar State Electricity Board

3.7 Wasteful expenditure

Wasteful expenditure of Rs. 88.40 lakh on setting up of new departmental manufactured pre stressed concrete (PSC) pole units at Ara and Gaya.

Bihar State Electricity Board (Board) decided (June 2003) to establish six pole casting units² in addition to five existing pole casting units³ to cater to requirements of Rural Electrification (RE) work during 2003-08. Accordingly, in first phase, two units, one each in Ara and Gaya on Board's land were proposed to be established. Administrative approval for Rs. 1.61 crore (Rs. 85 lakh for Ara and Rs. 76 lakh for Gaya respectively) was accorded (June 2003). The decision to establish pole casting units was taken when the capacity utilisation of the existing five units ranged between 38 *per cent* and 65 *per cent* during the period 2002-05.

The tenders were called (June 2003) for execution of the above works consisting of (i) construction of civil structures, (ii) installation of required equipment and machines and, (iii) supply, fabrication and installation of steel

¹ Based on average net income of three buses for the above period at Rs 40,881 per bus per month.

² Ara, Gaya, Nawada, Barh/Bihar Sharif/Bakhtiyarpur, Madhubani and Samastipur.

³ Purnia, Barun, Katihar, Muzaffarpur and Madhopur.

moulds. The work was to be completed by January 2004. The civil part of the works was completed by various agencies in Ara and Gaya and total sum of Rs. 88.40 lakh was spent till December 2005. The Board, however, stopped (December 2005) the ongoing works on the said pole units on the plea that:

- most of works of Rural Electrification had gone to Central Public Sector Undertakings (PSUs) for implementation and setting up of pole casting units at Ara and Gaya would not be beneficial under the prevalent circumstances,
- the requirement of poles to meet the need of works to be executed by the Board themselves would be less which could be met by the existing units, and
- the upcoming pole casting units might not be able to cater to the requirement by ensuring quantity and timely supply even if the poles were to be supplied to central PSUs who implement the scheme.

Hence, it was decided (14 December 2005) by the Board that it would be better to stop the ongoing works of pole casting units and lease them out on “as is where is” basis. Efforts made to lease these units, however, did not yield desired result as there were no takers. The Board had constituted (October 2007) a committee for revival of these units in view of increase in demand for PSC poles under RE schemes.

Thus, when the Board was unable to utilise the existing five pole casting units fully and effectively due to shortage of OPC cement and High Tension Steel wire etc., the decision to establish pole casting units lacked justification which led to an unfruitful expenditure of Rs. 88.40 lakh.

The Management while accepting the fact stated (February 2008) that efforts were made to lease out these units but no tender was received even after NIT was extended twice.

The fact, however, remained that the decision of the Management to establish the pole casting units, while the existing five units were not utilised to its maximum capacity, resulted in a wasteful expenditure of Rs. 88.04 lakh.

The matter was reported to the Government (April 2008); their reply was awaited (September 2008).

3.8 Waiver of notice period charge

Loss of Rs. 24.42 lakh due to irregular waiver of notice period charge to a HT consumer.

Bihar State Electricity Board (Board) introduced one time settlement (OTS) scheme (April 2006) with a view to provide relief to all types of consumers whose service connections are either connected or disconnected. The scheme *inter-alia* included 100 per cent waiver of the amount of delayed payment surcharge (DPS) charged up to March 2006 on the outstanding dues, if the consumer makes the payment of the balance amount of energy dues up to May 2006.

It was found (July 2007) in Audit that the service connection of Gaya Cotton & Jute Mills (Consumer No. HT-24) in Electric Supply Circle, Gaya, was disconnected in July 1998 due to non-payment of energy dues amounting to Rs. 1.42 crore. The consumer approached (April 2006) the Board to avail the benefits under OTS scheme. The energy bill of the consumer was calculated and as against the dues of Rs. 1.42 crore, the consumer was ordered to pay Rs. 1.12 crore which excluded the waiver of DPS amounting to Rs. 5.75 lakh being the eligible amount for waiver under OTS scheme. The notice period charge of Rs. 24.42 lakh, charged under clause 9B of the HT agreement was waived and no dues certificate was issued to the consumer without obtaining approval of the Board.

Thus, notice period charge, which was not covered under OTS Scheme, was waived irregularly without the approval of the Board, resulting in loss of revenue of Rs. 24.42 lakh.

The Board admitted (June 2008) that the notice period charge of Rs. 24.42 lakh was waived with the consent of the Chairman subject to approval of the waiver by the Board. However, it was observed by Audit that necessary approval of the Board had not been obtained till date.

The matter was reported to the Government (May 2008); their reply was awaited (September 2008).

3.9 Unfruitful expenditure

Unfruitful expenditure due to failure of the cables laid across M. G. Setu and associated OHT lines : Rs. 43.06 crore.

To meet the power requirements of Chapra, Hajipur and Gopalganj districts, the Bihar State Electricity Board (Board) executed an agreement (December 2003) with Power Grid Corporation of India Limited (PGCIL) for laying single circuit 132 KV cable across Mahatma Gandhi Setu (M. G. Setu) and associated overhead transmission line and Bay extension works in Gaighat and Hajipur sub-stations at a cost of Rs. 38.49 crore. The project was to be completed by June 2005.

The project was completed and handed over by the PGCIL to the Board in April 2005. The Board paid a sum of Rs. 43.06 crore (including amount paid due to escalation) to the PGCIL. The deteriorated condition of the bridge coupled with its effect on the hanging trough, caused damage to the cable. Two phases of the cables (R&B) in four pillars (28 & 29, 4 & 5) were punctured in May/June 2007. Due to these problems the line was tripping and finally failed in May/June 2007. In the meanwhile many cases of theft of aluminium clamps (5000 nos.) occurred during March/December 2005. The line was restored by the Cable Corporation of India Limited in August 2007. But, it again failed within a fortnight and was closed since August 2007. The cable was yet to be rectified. The Board is providing power to the three districts through Samastipur and Gopalganj 220/132 KV Grid Sub Stations.

Audit scrutiny revealed the following-

- While awarding (December 2003) the contract for laying of cables across the MG Setu, the Board failed to assess the deteriorating condition of the bridge. It also failed to notice the same even at the time of taking over the completed work in June 2005.
- After failure of the cable and consequent closure in August 2007, a joint investigation conducted (February 2008) by the Board, PGCIL and CCI reported that site induced problems such as deterioration of bridge conditions and its effects transmitted to the hanging trough, mechanical/physical damage caused to the cables had resulted in failure of the cables.
- The report further pointed out that due to theft of aluminium clamps and vertical gaps between troughs caused by severe jerking resulted in continuous deterioration of cables and suggested for regular surveillance to avoid further theft.
- As per design concept of M.G. Setu, original cable trough constructed beneath the eastern lane of the bridge was meant for laying the power cables of Board as decided in November 2002. However, the area was occupied by BSNL and Reliance Communication Limited. While BSNL cleared the area and shifted its line, the Reliance cable line was not shifted. The cables laid by PGCIL were damaged during the maintenance work carried out by the Tata Tele Services and Reliance Communication Limited which was reported (May 2007) by Transmission Division, Patna to the Board.

Thus non-assessment of the deteriorating condition of the bridge before taking up the work and theft of aluminium clamps not only resulted in unfruitful expenditure of Rs. 43.06 crore but also defeated the objective of providing reliable power to the three districts of Chapra, Hajipur and Gopalganj for which the project was envisaged.

The matter was reported to the Government/Board (May 2008); their replies were awaited (September 2008).

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

<p>The Board incurred idle expenditure of Rs. 2 crore due to non completion of power sub-station and related 33 KV line.</p>

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

It was found (June-December 2007) in Audit that the Board undertook construction of three new PSS and their related lines in Manjhala (Nawadah), Belachi (Patna) and Barhat (Jamui District) as detailed below :

(Amount: Rupees in lakh)

Name of PSS related Line	Scheme	Year of estimate	Scheduled date of completion	Estimated cost of PSS/Line	Expenditure on PSS/Line
Manjhala (Nawadah District)	RE State plan	2003-04	May 2004	90.13/39.83	73.94/31.56
Belachi (Patna District)	Tal-Diara	2003-04	August 2003	90.04/128.90	Nil/55.94
Barhat (Jamui District)	RE State plan	1998-99	December 2000	40.76/44.00	39.04/Nil
Total				433.66	200.48

The construction work was undertaken by the supply circles at a total estimated cost of Rs. 4.34 crore, and an expenditure of Rs. 2 crore was incurred upto December 2005 on civil and electrical works, including cost of materials. In case of Manjhala PSS, the work has been stopped after incurring substantial expenditure on PSS and related line, while in the case of Belachi and Barhat there was no expenditure on PSS and related lines and the above works remained incomplete till date (August 2008). The PSS could not be energised until both the PSSs and the line works are completed. The main reason for non-completion of the works, as stated by the Circle/ Division was public obstruction in construction of line at Manjhala, non acquisition of land for power sub station in Belachi and non receipt of permission from the Railways for necessary level crossing of line in Barhat. Audit noticed (August 2008) that the Board failed to address this matter with the highest level officers in the Railway Board for according permission in respect of level crossing in Barhat. It also failed to expedite the matter of acquisition of land at Belachi with District Administration Authorities. Besides, the Board failed to foresee the problems as the lines pass through various habitated regions and plan accordingly.

Audit noticed that though the scheduled dates of completion have already elapsed and the works are lying incomplete since December 2005, yet the Board had not fixed a revised time schedule for completion of the PSS.

Thus, due to unplanned execution of works, the expenditure of Rs. 2 crore remained unfruitful and the desired benefit of the scheme could not be achieved.

The matter was reported to the Government/Board (May 2008); their replies were awaited (September 2008).

3.11 Short assessment of revenue

The Board suffered a loss of Rs. 1.49 crore due to non billing according to tariff provision.

The Bihar State Electricity Board's Tariff 1993 (Para 16.4) stipulates that the transformer capacity of High Tension (HT) and Extra High Tension (EHT) consumers shall not be more than 150 *per cent* of their contracted demand. Para 8-A and 8-D of the modified terms and conditions of Supply Notification

(October 2002) further stipulate that when a consumer is found to be using a transformer of higher capacity than admissible for his contracted demand, the compensation payable by the consumer should be assessed based on 2/3rd of the capacity of the transformer as contracted demand of the consumer for the entire period of malpractice and charged at twice the existing rate under appropriate tariff less already charged for the period. In case the period of malpractice could not be ascertained, six months period prior to detection of such malpractice shall be taken.

Audit observed (February 2008) that N.E. Railway, Siwan Junction, an HT consumer having a contracted demand of 250 KVA was found (September 2003) by the Board using two transformers of aggregate capacity of 410 KVA against the admissible capacity of 375 KVA. As the period of malpractice could not be ascertained, the billing was to be done from March 2003 (i.e., six months prior to detection of such malpractice). But, the Electric Supply Circle, Chapra, did not bill the consumer as per the prevailing tariff and orders of the Board. As a result, the Board was deprived of revenue of Rs. 1.49 crore during the period March 2003 to January 2008. As the Board is yet to revise the bill as per the above, it continued to be deprived of Rs. 0.23 lakh (approx) on a monthly basis.

The Board stated (June 2008) that the consumer has kept 160 KVA transformer as standby for emergency purpose and the consumer has been receiving supply from the transformer of 250 KVA against the contracted load of 250 KVA. The reply is not acceptable on the following grounds:-

- The Board's order (April 2006) for keeping standby transformer does not apply to this case, as the additional transformer was detected in September 2003 while the Board had allowed the consumers to keep standby transformers in April 2006 without retrospective effect.
- The reply is silent about whether the consumer informed in advance to the Board Headquarter (Commercial Wing) of the plan for installation of standby transformer of 160 KVA capacity as stipulated in the Board's order of April 2006 along with the affidavit and the Board's acceptance for the same.

Thus, the Board suffered a loss of Rs. 1.49 crore due to non recovery of compensation from the consumer as per provision of tariff.

The matter was reported to the Government (May 2008); their reply was awaited (September 2008).

3.12 Non collection of security deposit

Non-realisation of Security Deposit of Rs. 4.55 crore resulting in loss of interest of Rs. 28.50 lakh.

As per the terms and conditions of contact for power supply as regulated by Bihar Electricity Regulatory Commission, Security Deposit equivalent to the estimated energy charges including fixed/demand charges for a period of three months shall be recovered by the Bihar State Electricity Board (Board) from all public sector undertakings and local bodies along with other consumers except from Central and State Government departments. The amount of

security deposit shall be liable to be enhanced every year in April-May of next year on the basis of average bills of previous year. In case of non receipt of security amount, the service line of the consumer was to be disconnected after serving thirty days notice. The service connection thereafter could be restored only if the deposit was made in full along with the prescribed reconnection charges and surcharge at the rate of 1.5 *per cent* per month or part thereof on the outstanding amount.

Consequent upon the transfer (September/October 2000) of the business of providing telecom services in the country entrusted with the department of telecom services (DTS) and the department of telecom operations (DTO) to a corporate body Bharat Sanchar Nigam Limited (BSNL), a newly formed company incorporated as a company with limited liability under the Companies Act, 1956 with effect from 1 October 2000 by Government of India, security deposit was required to be collected from the electric connections earlier held by DTS and DTO.

It was found (April 2007 to January 2008) in Audit that the Security Deposit amounting to Rs. 74.73 lakh (upto April-May 2007) was neither demanded by the circle nor paid by 11 High Tension consumers under BSNL in five supply circles. No effective action to pursue claims for payment of Security Deposit by bringing to the notice of the highest level of officers in BSNL was taken. Despite non receipt of security deposit amount, the electric line of the consumer was not disconnected. Thus, failure of the Board to comply with provision of schedule of tariff resulted in non realisation of security deposit amounting to Rs. 74.73 lakh.

During test check of bills of four Electric Supply Circles and two Supply divisions¹ from April 2006 to March 2007, Audit observed that demand of enhanced amount of security deposits of 11 High Tension (HT), 52 Low Tension Industrial Services (LTIS) and six commercial consumers (CS) whose cases were reviewed in Audit were not preferred by the concerned Assistant Electrical Engineer/Electrical Executive Engineer/Electrical Superintending Engineer as per above provisions of tariff to safeguard against the accumulation of dues. As a result, additional security deposits of Rs. 3.80 crore could not be realised from 69 consumers and the Board also suffered a loss of interest amounting to Rs. 28.50 lakh at the rate of 7.5 *per cent* being the difference of interest payable on receipt of loan for working capital requirement and interest payable on security deposit of the consumers.

The matter was reported to the Government/Board (June 2008); their replies were awaited (September 2008).

3.13 Non compliance with Accounting Standards

Persistent non-compliance with Accounting Standards in preparation of financial statements.
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Accounting Standards (AS) are the standards of accounting recommended by the Institute of Chartered Accountants of India (ICAI) and prescribed by the

¹ Electric Supply Circle(ESC) Darbhanga, Muzaffarpur, PESU (W) and Transmission Circle, Dehri and Electric Supply Divisions {(ESD) (rural)}, Gaya and Barh.

Central Government in consultation with the National Advisory Committee on Accounting Standards under Section 210A of the Companies Act, 1956. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate the comparability of information contained in published financial statements of companies. Under Section 211 (3A) of the Companies Act 1956, it is obligatory for every company to prepare the financial statements (profit & loss account and balance sheet) in accordance with the AS. Under Section 227 (3)(d) of the Act, *ibid*, the statutory auditors of the companies are required to report whether profit and loss account and balance sheet complied with the AS referred to in sub-section (3C) of Section 211 of the Companies Act, 1956. A review of the financial statements and the Statutory Auditors' report thereon in respect of seven selected State Public Sector Undertakings (PSUs) revealed non-compliance with one to six Accounting Standards as detailed in **Annexure-13**.

It would be seen from the Annexure that:-

- Out of seven PSUs which finalised their previous year's accounts as of March 2008, five (Serial No. 1, 2, 4, 5 and 7 of annexure) PSUs did not comply with AS 15 which deals with accounting for retirement benefits to employees (viz provident fund, pension, gratuity, leave encashment, etc.) and provides that the contribution payable by the employer towards retirement benefits be charged to Profit and Loss account for the year on accrual basis and accruing liability calculated as per actuarial valuation.
- Three (serial No. 4, 5 and 6 annexure) PSUs violated AS 2 relating to determination of the value at which inventories are carried in financial statements until the related revenues are realised and provides that inventories should be valued at the lower of cost or net realisable value.
- Two (Serial No. 2 and 4 of annexure) PSUs persistently flouted AS 4 and AS 5 which deal with contingencies and events occurring after the Balance Sheet date and net profit or loss for the prior period items and charges in accounting policies respectively.

The matter was reported to the Government (June 2008); their reply was awaited (September 2008).

GENERAL

3.14 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 March 2008 pertaining to 54 PSUs show that 4,126 paragraphs relating to 1,152 inspection reports remained outstanding at the end of September 2008.

Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2008 are given in **Annexure-14**.

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 three reviews and 15 draft paragraphs forwarded to the various departments during April to August 2008 as detailed in **Annexure-15** 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.

Patna
The

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The

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