CHAPTER – III

3. Reviews relating to Statutory corporations

3.1 Implementation of rural eletrification programme by Bihar State Electricity Board.

Highlights

Bihar State Electricity Board took up schemes for electrification/rehabilitation of villages and construction/rehabilitation of power sub-stations under rural electrification programme.

[Paragraph 3.1.1]

Out of Rs 221.94 crore released by the Government of India for rural electrification, the State Government disbursed Rs 155.86 crore to the Board during 2001-04 and kept Rs 66.08 crore in personal ledger account.

Out of Rs.155.86 crore, the Board could utilise only Rs 55.32 crore and kept the unutilised fund of Rs 100.54 crore in fixed deposit at lower rates of interest whereas the Board had obtained loan from the Government at higher rates of interest. This has resulted in loss of Rs 13.31 crore to the Board on account of difference in rates of interest.

[Paragraph 3.1.4]

The Board failed to claim subsidy of Rs 2,963.09 crore from the State Government for loss on rural electrification for the period from 1995-96 to 2000-01 and suffered loss of interest of Rs 1,627.91 crore during last five years ending 31 March 2004.

[Paragraph 3.1.5]

Due to delay in preparation of annual works programmes, inadequate/mismatching procurement and of materials and diversion of stores from rural electrification works to other works, the Board could electrify/rehabilitate 7,186 villages against target of 26,512 villages and was deprived of revenue of Rs 71.54 crore during 1999-2004.

[Paragraphs 3.1.11, 3.1.12, 3.1.13, 3.1.14, and 3.1.15]

Against approved cost of Rs 72.06 crore for electrifications of 2600 villages in Muzaffarpur and Vaishali districts, the Board executed an agreement with the Power Grid Corporation of India Limited (PGCIL) at enhanced cost of Rs 158.06 crore without arranging additional fund of Rs 86 crore. As a result, delay/non-completion of the project cannot be ruled out.

[Paragraph 3.1.18]

The Board agreed to inadmissible escalations of Rs 20.77 crore claimed by PGCIL on account of unauthorised expenditure on consultancy fee (Rs 8.08 crore), higher cost of materials (Rs 2.27 crore), inadmissible turnkey responsibility cost (Rs 1.58 crore), higher cost of meters (Rs 1.84 crore), additional charge for concreting of poles (Rs 4.93 crore) and construction of power sub stations (Rs 2.07 crore).

[Paragraphs 3.1.19, 3.1.20, 3.1.22, 3.1.23, 3.1.24 and 3.1.25]

Due to mismatch in construction of power sub stations against required load in the villages electrified, the transformers were overloaded. As a result 3,124 transformers failed in excess of norms resulting in avoidable expenditure of Rs 5.37 crore on their repair.

[Paragraph 3.1.28]

Due to delay in fixation of target and inadequate purchase of materials, the Board could construct/rehabilitate 20 power substations against target of 328 power sub stations during five years ending 31 March 2004, and the capacity of power sub stations fell short of requirement

[Paragraph 3.1.29]

Due to non-lifting of poles by the allottee units causing space blockage and shortage of raw materials, the pre stressed concrete pole manufacturing units failed to achieve the target production and the Board had to purchase 86,500 poles from the market at a higher rate resulting in avoidable expenditure of Rs 2.21 crore.

[Paragraph 3.1.32]

Introduction

3.1.1 Bihar State Electricity Board (Board) took up schemes for rural electrification (RE) since 1970-71. The schemes envisaged electrification of villages including Harijan villages, construction of power sub stations (PSS) in rural areas and extending connections to consumers below poverty line under Kutir Jyoti Scheme. The Board also executed rehabilitation works in villages and PSS electrified earlier but not operative due to destruction/damage/theft of the infrastructure created for RE.

There were five schemes in operation under RE during 1999-2004, one[*] scheme financed by State Government and the remaining four[∂] funded by the Central Government.

Organisational set up

3.1.2 RE works were under the overall supervision of Member (transmission and distribution) of the Board, who was responsible for planning/execution and erection of works with the help of Chief Engineer (RE) at Board Headquarters, six area boards and 14 electrical supply circles.

Scope of Audit

3.1.3 The review on rural electrification was included in the Report of the Comptroller and Auditor General of India for the year 1990-91 (Commercial) - Government of Bihar. The report had not yet been discussed by the Committee on Public Undertakings (August 2004).

The present review conducted between December 2003 and April 2004 covers performance of the Board in the implementation of rural electrification schemes during 1999-2004, to ascertain how far the Board executed the works efficiently and economically, and delivered the intended results effectively.

The audit finding as a result of test check of records were reported to the State Government and the Board in July 2004 with specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/Board was taken into account before finalising of the review. The meeting of ARCPSE was held on 13 September, 2004 where Board was represented by Member (Finance). The review was finalised after considering the viewpoint of the Board. The viewpoint of the Government could not be taken into account due to non participation in the ARCPSE meeting.

The audit findings as a result of test check of records of six circles[♣] are set forth in the succeeding paragraphs.

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[*] Under state plan

[∂] Pradhan Mantri Gramodaya Yojna (PMGY), Minimum Needs Programme (MNP), Border Area Development Programme (BADP), and Tal and Diara Scheme (TDS)

[♣] Patna, Darbhanga, Saharsa, Muzaffarpur, Motihari and Gaya.

Sources and application of fund

State plan and Central schemes

3.1.4 Up to 2000-01, all works relating to RE were executed with funds received from State Government and from 2001-02 only rehabilitation of villages/PSS and construction of new PSS were undertaken.

Central Schemes

- ***Pradhan Mantri Gramodaya Yojna (PMGY)***

This scheme was effective from 2001-02. Under this scheme allocation for electrification of new villages was made every year by the Central Government.

- ***Minimum Need Programme (MNP)***

This scheme was also effective from 2001-02. Under this scheme 2600 villages in Vaishali and Muzaffarpur districts are to be electrified.

- ***Border Area Development Programme (BADP)***

Under this scheme, one time allocation was made in 2000-01 for rehabilitation of 161 villages of different blocks at the international border.

- ***Tal and Diara Scheme (TDS)***

One time allocation was made by the Central Government in 1999-2000 for electrification of 200 villages in Tal (100 villages) and Diara (100 villages) area along with two new PSSs in each area.

Details of funds received from Central Government (during 2001-04) and State Government (during 1998-2000) and utilisation thereof as on 31 March 2004 are given below:

(Rupees in crore)

Scheme	Loan	Grant	Total	Amount utilised	Percentage of utilisation	Balance
Central Government						
PMGY	46.21	14.63	60.84	15.63	25.69	45.21
MNP	57.40	10.08	67.48	25.22	37.37	42.26
BADP	5.48	--	5.48	1.67	30.47	3.81
TDS	--	22.06	22.06	12.80	58.02	9.26
Total	**109.09**	**46.77**	**155.86**	**55.32**	**35.49**	**100.54**
State Government						
State Plan	181.50	--	181.50	196.25	--	(-) 14.75

Audit observed as under:

Rs 66.08 crore disbursed by the GOI for RE was deposited in PL account.

- Loan of Rs 46.08 crore released by the Central Government during 2003-04 under MNP (Rs 34 crore) and PMGY (Rs 12.08 crore) was not disbursed to the Board and instead deposited in personal ledger (PL) account. Besides, fund of Rs 20 crore disbursed to the Board during

2003-04 was taken back and deposited in PL account without any reason on record. Thus out of Rs 221.94 crore released by the Central Government, the State Government disbursed Rs 155.86 crore to the Board and kept Rs 66.08 crore in PL account (April 2004).

Unutilised amount was kept in fixed deposit.

- The loan carried interest of 13 per cent and in the event of failure to repay the amount, penal interest of 2.5 per cent was also payable. The Board had not paid the interest due Rs. 12.48 crore including penal interest of Rs. 2.01 crore on loan from Central Government up to 31 March 2004. Audit observed that the Board deposited unutilised amount of Rs. 66.57 crore during 2002-04 (excluding grant) in fixed deposit at interest rate of 5.5 per cent. Thus, the Board sustained loss of Rs. 13.31 crore on account of difference in borrowing rate (15.5 per cent) and lending rate (5.5 per cent) of interest during 2002-04.
  Board stated (September 2004) that no interest had been paid to the Government and the Board had earned interest on investment. Hence there was no loss to the Board. Reply of the Board was not tenable though, the Board had not paid interest, yet the Board became liable for payment of interest as per condition of Government loan.

The Board sustained loss of interest of Rs 13.31 crore

In violation of guidelines of GOI, Rs 14.75 crore was diverted from PMGY to state plan head.

- According to the guidelines issued by the Central Government while sanctioning PMGY scheme, fund under the scheme including interest earned there on was to be kept in separate account and not to be diverted to any other programme. Audit observed that in complete disregard to the guidelines, the Board diverted Rs 14.75 crore from PMGY to State plan head.

The Board stated (September 2004) that the fund was diverted from PMGY to State Plan head on a temporary basis in 2003-04. However, no correspondence (September 2004) has been made with the Government for recoupment of the fund.

Subsidy receivable from State Government

The Board did not claim subsidy of Rs 2963.09 crore and sustained loss of interest of Rs 1627.91 crore.

3.1.5 The State Government agreed (November 1975) to give annual subsidy equivalent to the amount by which the Board's operating expenses in respect of its rural electrification operations exceeded its revenue from such operations. Loss was to be calculated annually and mutually agreed between the Board and the State Government. Audit observed that though the loss was calculated yearly and taken in the accounts, the Board failed to claim the subsidy of Rs 2963.09 crore for the period from 1995-96 to 2000-01 from the State Government. Due to non-claiming of subsidy, the Board sustained interest loss of Rs 1627.91 crore at the rate of 13[*] per cent during 1999-2004. As the accounts of the Board from 2001-02 were in arrear, the amount of subsidy for the subsequent years could not be calculated.

[*] Charged by the State Government on loans.

The Board stated (September 2004) that the Government had given substantial amount of loan and interest had never been paid by the Board on such loan. Further the State Government has taken over liability of Rs 1573.53 crore on account of Central Public Sector Undertakings' outstanding dues.

The Board's reply is not tenable as interest outstanding against Government loan as on 31 March 2001 was Rs 2377.73 crore, and even after adjustment of interest, the Board would have received Rs 585.36* crore. Further, records in support of taking over liability of Rs 1573.53 crore by the Government were not made available to Audit.

Loan from Rural Electrification Corporation

3.1.6 For execution of RE schemes, the Board obtained loans of Rs 223.73 crore from the Rural Electrification Corporation (REC) during 1970-71 to 1997-98, against 1178 schemes at interest rates ranging from 5 to 11.5 per cent per annum. Due to non- payment of principal and interest by the Board, REC stopped financing the schemes from 1998-99. Total amount outstanding against the Board (March 2002) was Rs 301.78 crore.

A memorandum of understanding (MOU) was signed between the Board and REC (May 2003) and it was decided that the interest overdue and accrued will be paid in 60 monthly instalments of Rs 2.33 crore with effect from April 2003 whereas principal overdue / balance loan of Rs 127.21 crore along with interest accrued thereon (Rs 141.29 crore) would be paid in 75 monthly instalments of Rs 3.58 crore with effect from January 2008. It was also decided to waive the penal interest in a phased manner.

Audit observed that the recoveries from the consumers was poor and the amount recoverable rose from Rs 514.67 crore in 1991-92 to Rs 2370.87 crore in 2000-01 Had the Board monitored recoverables effectively, outstanding payment to REC could have been liquidated and interest liability of Rs 141.29 crore could have been avoided.

The Board stated (September 2004) that it would not be correct to expect repayment of REC loan in time unless the subsidy for RE loss being claimed by the Board through annual accounts, which is being placed before the Legislature, is received. The Board's reply was not acceptable as the subsidy was never claimed from the Government, and provision in the accounts cannot be treated as claim of subsidy from the Government.

Adjustment of amount from installment of interest resulted in loss of interest of Rs 1.05 crore.

The Board started repayment of interest as per MOU. Audit observed that the Central Government deducted Rs. 17.17 crore from the resources of the State Government (January 2003) and paid to REC towards outstanding against the Board. On being pointed out by the Board, the REC agreed to adjust the amount in subsequent installment of interest from July 2003. Had the

* Rs 2963.09 crore minus Rs 2377.73 crore

adjustment been made from outstanding principal amount instead of interest, the Board could have saved interest of Rs 1.05 crore at the rate of 10.11 per cent charged by REC.

The Board, while accepting the view of the audit regarding adjustment of the amount from the principal, stated (September 2004) that final account of interest receivable/payable would be prepared periodically for necessary adjustment.

Implementation of schemes

Power sector reforms

3.1.7 For reforms in power sector, a Memorandum of Understanding (MOU) was signed (September 2001) between Government of India (GOI) and the Government of Bihar (GOB). The GOB had made following commitments in the MOU relating to rural electrification.

- All villages to be electrified by the year 2006.
- Meters at all 11 KV feeders were to be installed by December 2001.
- 100 per cent metering of all consumers by December 2002.
- Development of effective distribution system.

Electrification of villages

Out of 45,098 villages in the state, only 17,231 villages were getting power.

3.1.8 As per status of electrification of villages, out of 45,098 villages in the State (March 2004), 31,225 villages were electrified of which 17,231 villages were getting power whereas 13,994 villages were not getting power due to theft/damage of lines etc. and required rehabilitation. During the last five years ending 31 March 2004, the Board had completed electrification and rehabilitation works in 345 and 6,841 villages, at an average rate of 69 and 1368 villages per year respectively. Keeping in view the above trend, there is remote possibility of achieving the target of electrification of all villages by the year 2006.

Metering of all 11 KV feeders

3.1.9 Though commitment was made by the GOB for metering of all 11 KV feeders by December 2001, no progress was made in this regard (April 2004). In the absence of detailed information, transmission loss on this account could not be worked out in Audit.

Metering of all consumers

3.1.10 Urban consumers were given metered connections and charged for the units consumed, whereas rural consumers had unmetered connections and were charged a fixed amount of Rs. 62 per month. As per cost benefit

Despite commitment made in MOU, metering of all consumers was not done.

analysis made in detailed project report (DPR) for APDRP♣ prepared for eight circles• during 2000-01 (one circle) and 2001-02 (seven circles), out of 1,911.859 MU power, 960.949 MU was sold and balance 950.909 MU was lost on account of technical (355.943 MU) and commercial (594.966 MU) losses. It was stated in the DPR that 220.29 MU energy could be saved per year by 100 per cent metering of all consumers. But the Board took no action in this regard. Moreover the commitment made by GOB in this regard was not fulfilled.

Electrification of villages

3.1.11 The Board was executing electrification of new villages as well as rehabilitation of villages electrified earlier but not getting power due to theft/damage of lines/DSS through the fund received from State Government upto 2000-01. From 2001-02, electrification of new villages was undertaken from the funds received from the Central Government and rehabilitation work was done using the fund received from the State Government. Physical performance in respect of electrification/rehabilitation in the State during last five years ending 2003-04 is detailed below:

Against a target of 26,512 villages, only 7,186 villages were electrified.

State Plan

Year	Electrification of village		Rehabilitation of villages	
	Target	Achievement (percent)	Target	Achievement (per cent)
1999-2000	300	43 (14.33)	5443	2690 (49.42)
2000-2001	200	37 (18.50)	3000	850 (28.33)
2001-2002	319	29 (09.09)	4000	957 (23.92)
2002-2003	NIL	12	5132	1119 (21.80)
2003-2004	NIL	NIL	6013	1100 (18.29)
Total	**819**	**121 (14.77)**	**23,588**	**6716 (28.47)**

Centrally sponsored schemes

Year	Pradhan Mantri Gramodaya Yojna		Minimum Need Programme		Border Area Development Programme		Tal and Diara Scheme.	
	Target	Achivement (percent)	Target	Achivement (percent)	Target	Achievement (percent)	Target	Achievement (percent)
2001-2002	600	NIL	231	NIL	161+	NIL	200+	NIL
2002-2003	1,269+	51 (4.02)	475+	14 (2.95)	161	74 (45.96)	200	NIL
2003-2004	1,218	80 (6.57)	462	41 (8.87)	87	51 (58.62)	200	38 (19)

It would be seen from the table that percentage of achievement under State and Central plans for electrification and rehabilitation during the last

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♣ Accelerated Power Development and Reforms Programme

• Muzaffarpur, Chapra, Bhagalpur, Purnea, Darbhanga, Gaya, Saharsa and Sasaram.

+ These figures represent targets to be achieved during 2001-04 five years ended 2003-04, ranged from 9.09 to 49.42 and nil to 58.62 respectively. Against the target of 26,512 villages (State plan 24,407 and Central plan 2,105 villages), the Board could complete electrification/rehabilitation of 7,186 villages (State plan 6,837 and Central plan 349 villages), and the remaining 19,326 villages remained without power. Besides, the Board was deprived of revenue of Rs 71.54 crore during the last five years ended 2003-04. The reasons for shortfall in achievement had not been analysed by the Board.

Delay in preparation of Annual Works Programme

Annual works programme was prepared in third quarter instead of first quarter of the year

3.1.12 Schemes for rural electrification were executed by the field units on the basis of Annual Works Programme (AWP) approved by the Board. The AWP should have been prepared before the commencement of the financial year. Audit observed that the AWP for the last five years ended 2003-04 were prepared and intimated to field units in third quarter (October-December) except for 2000-01(August 2000) and 2001-02 (September 2001).

Further after preparation of AWP and material budget, the process of procurement was initiated. Audit observed that purchase orders were placed after the end of the year.

Inadequate procurement

3.1.13 Material budgets prepared by RE wing were sent to stores and purchase wing (S & P wing) for purchase of materials required for RE works. Details of major materials required and purchased by the Board upto March 2004 are given in the table below:

Procurement of materials was inadequate.

Material	PMGY		MNP		BADP		TDS	
	Required	Purchased	Required	Purchased	Required	Purchased	Required	Purchased
Weasel conductor (KM)	7,772	3,611	1,428	252	497	785	1854	1560
Squirrel conductor (KM)	9,748	1,060	1,786	NIL	582	NIL	NIL	NIL
Transformer 63KVA/ 100 KVA (Nos)	1,261	798	231	164	161	150	204	176
Power transformer 3.15 MVA	NIL	NIL	NIL	NIL	NIL	NIL	4	NIL
GI wire 8 SWG (MT)	504	217	92	78	28	16	7	Nil

As seen from the above table, lower quantities of materials were ordered by the Board in comparison to the quantity mentioned in material budget without any recorded reason. Further, the expenditure register relating to RE State Plan was not complete. Therefore, adequacy of material purchased under this head could not be checked.

Mismatch in supply of materials

3.1.14 For execution of work, all required matching materials were to be made available to circles. Audit observed that materials purchased by the Board were not allocated to the circles in required proportion. This had adversely affected the progress of work. Audit findings are discussed below:

- Under PMGY, as per material budget, 6.17 km of weasel conductor was required per transformer. In Sasaram circle, 897 km weasel conductor was received against 35 transformers at the rate of 25.64 km weasel conductor per transformer whereas in Samastipur circle, only 86 km weasel conductor was received against requirement of 759 km weasel conductor for 123 transformers. In Bhagalpur circle, 29 transformers were received but required quantity of 179 km weasel conductor was not received.
- The Board purchased 1,060 km squirrel conductor and distributed it amongst three circles viz. Patna, Nalanda and Muzaffarpur. In remaining 11 circles squirrel conductor was not supplied under PMGY.
- Under TDS, 176 transformers were purchased against requirement of 204 transformers. But transformers were not supplied to Munger and Purnea circles, against requirement of 45 and 10 numbers respectively, whereas 39 transformers were supplied to Darbhanga and Sasaram circles where there was no work under the scheme.
- Under BADP, the villages of four circles viz. Darbhanga, Motihari, Saharsa and Purnea were to be rehabilitated. However, the transformers were supplied to Muzaffarpur, Motihari, Darbhanga and Saharsa. Weasel conductor was supplied to only two circles Darbhanga and Muzaffarpur. Thus, transformer and weasel conductor were supplied to Muzaffarpur without any requirement whereas they were not supplied to Purnea circle where it was required. Besides, in Motihari circle transformer was supplied but weasel conductor was not made available.

Due to mismatch in procurement and supply of materials for RE works, 213 villages of four[♣] circles remained to be electrified.

Diversion of stores

Materials worth Rs 2.81 crore were diverted from RE to non-RE works.

3.1.15 While sanctioning the schemes of RE works, the GOI had clearly mentioned that funds made available should not be diverted to any other scheme. Accordingly, purchases of materials were made separately for RE and non-RE works and sent to different central stores in circles for use in respective schemes. During test check of five circles[•], Audit observed that in disregard to GOI instructions, major items valued at Rs. 2.81 crore were

[♣] Bhagalpur, Samastipur, Munger and Purnea.

[•] Gaya, Darbhanga, Patna, Muzaffarpur and Saharsa diverted from RE to non RE works during last five years ending 31 March 2004, causing shortage of materials in execution of RE works.

While accepting the above facts the Board stated (September 2004) that shortage of technical staff was also an important factor due to which targets could not be fulfilled. The Board further stated that stores were diverted for urgent work on replenishment basis. The Board's reply is not tenable, as the Board would have prepared annual works programme keeping in view the resources available. Further the statement of the Board that the stores were diverted for urgent works on replenishment basis is also not tenable as diversion was against the guidelines and the stores diverted had not been recouped during last five years.

Completed works of electrification of villages

Non issue of bills to consumers of electrified villages resulted in loss of Rs 35.60 lakh.

3.1.16 Electrification/rehabilitation of 7,186 villages was completed during 1999-2004. Audit observed that final bills were not prepared. As a result thereof, completion of electrification of villages could not be verified, and consumption of materials also could not be checked. During test check of records relating to billing of these villages in three circles (Darbhanga, Saharsa and Patna), Audit observed that 75 villages were declared to have been electrified during 1999-2004, but energy bills were not being issued to the consumers of those villages. As such, in the absence of final bills and energy bills to the consumers of those villages, electrification done in 75 villages could not be verified. Besides due to non-billing, the Board was deprived of revenue of Rs 35.60 lakh upto March 2004.

Incomplete works

Materials valued at Rs 62.07 lakh remained with contractors.

3.1.17 During scrutiny of records of Darbhanga circle Audit observed that material worth Rs. 96.28 lakh was supplied from the central store for electrification of 38 villages to different contractors during 1998-2003. Though the materials were issued from the central stores of the circle, the works could not be completed and materials worth Rs 62.07 lakh remained with the contractors. Audit further observed that instead of taking action against the defaulting contractors, the work of seven villages were re-allotted to other contractors without realisation of stores valued Rs 7.15 lakh from the defaulting contractors, the reason for which was not on record. The balance materials valued Rs 54.93 lakh also remained with the contractors, the chances of recovery of which were remote. Besides, the Board was deprived of revenue of Rs. 16.85 lakh.

Similarly, in Samastipur circle, electrification of 32 villages allotted to six contractors at an estimated cost of materials of Rs 48.56 lakh was incomplete. The work orders were issued during 1998-2002. The works were to be completed within one month from the date of issue of materials. Though the materials were issued and payment of Rs. 3.15 lakh towards labour cost was also made the works remained incomplete resulting in blocking of Rs. 51.71 lakh and loss of revenue of Rs 10.69 lakh to the Board.

Turnkey execution of electrification of villages in Muzaffarpur and Vaishali districts through Power Grid Corporation of India Limited.(PGCIL)

3.1.18 In order to electrify all villages by the year 2007, the project for electrification of 2,600 villages in Muzaffarpur and Vaishali districts at a cost of Rs. 72.06 crore was approved (December 2002) by the Government of India (GOI) under MNP.

According to the guidelines for MNP issued by the GOI the work was to be executed in conformity with the prescribed specification without any cost and time overrun. Besides, payment of agency charges was also not admissible under the scheme. The Board was informed to examine the possibility of implementation of scheme on turnkey basis through PGCIL. At the request of Government of Bihar, PGCIL agreed to undertake the scheme on turnkey basis at a consultancy fee of eight per cent of the project cost (February 2003).

Estimate of Rs 72.06 crore was revised to Rs 119.64 crore.

During review of the scheme, certain shortcomings were noticed by the PGCIL. Accordingly in order to make the distribution system technically adequate with minimum technical losses, the estimate of Rs. 72.06 crore was revised (August 2003) to Rs 119.64 crore for electrification of 2378 villages (Rs 90.14 crore), construction/rehabilitation of PSS (Rs. 20.64 crore) and consultancy charge of Rs. 8.86 crore. It was also decided to execute the work in two phases. In the first phase, work of electrification of 1149 villages and construction/augmentation of power sub stations was to be undertaken and electrification of remaining 1229 villages was to be done in the second phase. The agreement for execution of the project was signed between the Board and the PGCIL in December 2003 which inter alia contained the following.

Agreement was executed without time schedule and firm rate.

- The agreement was executed on the basis of tentative rate with the stipulation that the cost may undergo change depending on site conditions or for any reason and as such the final execution cost would be arrived at after completion of the project.
- Though Rs. 10 crore was released to the PGCIL in April 2003 i.e. eight months before execution of agreement, no provision was made for recovery/adjustment of such initial adhoc advance and the Board had already lost rupees one crore by way of interest before start of the scheme at the rate of 10 per cent per annum (March 2004).
- There was no firm time schedule for completion of the project in the agreement and no provision for penalty for delay in completion was made in the agreement. However, the Board stated (September 2004) that as per work order placed on the contractor by the PGCIL, first phase was to be completed in 18 months from date of agreement (December 2003).

- PGCIL was not required to invest any fund at any stage and the fund was to be deposited by the Board always in advance.

There was cost overrun of Rs 86 crore without arrangement for additional fund.

The work of first phase was awarded (February 2004) to the contractors for Rs 93.46 crore for electrification of 1149 villages (Rs 70.69 crore) and construction of PSS (Rs 22.77 crore) excluding consultancy fee (Rs 8.07 crore). Thus against sanctioned cost of Rs 72.06 crore, the present cost of the project without revision of second phase (Rs 52.03 crore) worked out to Rs 158.06 crore including consultancy fee Rs 12.57 crore, which would result in cost overrun of Rs 86 crore. As cost overrun was not admissible under the scheme and the Board had not taken any action for arranging the additional fund required, delay/non-completion of the project cannot be ruled out.

The reasons as stated by the PGCIL for escalation were upward market trend, extra work, turnkey responsibility, contractors profit etc. In anticipation of approval of escalation by the Board, the PGCIL was asked to go ahead with the proposed cost by the Board.

During scrutiny of proposal for cost escalation in respect of first phase submitted by PGCIL, unauthorised/avoidable/extra expenditure of Rs 22.96 crore was noticed, as discussed in subsequent paragraphs.

Unauthorised expenditure on consultancy fee

Consultancy fee of Rs 8.08 crore was not admissible under the scheme.

3.1.19 According to the GOI guidelines, no agency charges was admissible from the fund. But, as per agreement between the Board and PGCIL, eight per cent consultancy fee was payable to PGCIL in addition to the cost of work. Instead of arrangement of fund from own/other resources for consultancy fee (Rs 8.08 crore), the Board had paid Rs. 92 lakh from the fund received from Central Government and had incurred liability of Rs 7.16 crore (including service tax at the rate of eight per cent on the consultancy fee) on the cost of Rs. 93.46 crore of the first phase of the work.

The Board stated (September 2004) that GOI has allowed the work to be undertaken by the PGCIL and hence the payment towards consultancy charge was not unauthorised. The reply is not tenable as the Government of India had only suggested to examine possibility of the work to be done by PGCIL on turnkey basis. But the Board executed agreement on cost plus basis with consultancy fee of eight per cent, which was not admissible under the scheme.

Price variation on materials

3.1.20 PGCIL submitted revised cost of Rs 40.45 crore (January 2004) for cost of material against pre-revised cost of Rs 35.86 crore and proposed escalation of Rs. 4.59 crore (13 per cent). The proposal of cost escalation was based on the plea that original estimate was based on the cost data for the year 2002-03, and there was upward trend in the market. Audit observed that though the Board's S & P wing was responsible for all purchases, the reasonability of proposal for price variations submitted by PGCIL was not got verified by the wing.

Cost of materials was admitted at rates higher by Rs 2.27 crore.

A comparison of the rates submitted by the PGCIL with the prevailing market rate is detailed in **Annexure 13.** It would be seen from the annexure that rates proposed by PGCIL were higher by Rs 2.27 crore than the prevailing market rates. Thus, escalation agreed to by the Board was not justified. This also resulted in an increase of Rs 18.16 lakh in the erection charge at the rate of eight per cent of material cost.

The Board stated (September 2004) that the price of the materials had increased and thus price variation on materials was justified. The reply is not tenable because while comparing rates, Audit has taken the price at which Board procured materials in March 2004.

Excess materials

3.1.21 In aerial bunched cable (ABC), phase cores of conductors are insulated with polythene and are twisted around the neutral conductor. Thus the length of conductor required is equal to the length of the line. However against provision of 233 and 332 km ABC of three phase and single phase respectively in the detailed project report (DPR), three times of length i.e. 699 and 996 km respectively had been taken. This resulted in extra cost of Rs 5.97 crore on account of ABC three phase (Rs 3.75 crore) and ABC single phase (Rs 2.22 crore).

Additional cost of Rs 6.55 crore on account of excess materials was admitted.

Similarly, in case of 565 km LT[*] line (233 km three phase and 332 km single phase), cost of 1695 km squirrel conductor had been taken against requirement of 1031[♦] km. This resulted in additional cost of Rs 58.12 lakh.

The Board stated (September 2004) that as per details prepared for comparison of cost as per L-1 offer, actual length of product has been taken and thus there was no excess ABC. The reply of the Board is not tenable as the statement prepared was only for comparison purpose and matter was never taken up with PGCIL for reduction of cost.

Turnkey responsibility cost

3.1.22 PGCIL had proposed turnkey responsibility cost of Rs. 4.51 crore at the rate of 10 per cent of the material cost (Rs. 45.08 crore including extra items). Though this was not included in the agreement, the Board had accepted the same on the ground that the DPR was prepared on the assumption of supervision of work by BSEB engineers and it was a turnkey responsibility for PGCIL. Turn key responsibility cost included insurance (two per cent), bank guarantee cost (0.5 per cent) and capital blockage

[*] Low tension.

[♦] (233x3) + (332x1) =1031.

(three per cent). Audit observed that cost of bank guarantee was not admissible as bank guarantee is received to safeguard the advance paid to the contractor and in case it is deposited at the cost of the Board, it would not serve any purpose. Further no bank guarantee was deposited by the PGCIL with the Board. Thus Rs 22.54 lakh claimed by the PGCIL on account of bank guarantee at the rate of five per cent of material cost was not admissible

Turnkey responsibility cost of Rs 1.58 crore was admitted without any provision in the agreement.

Similarly in case of capital blockage, Rs 1.35 crore at the rate of three per cent of material cost (Rs 45.08 crore) was not admissible as all the payments were being made in advance by the Board and the PGCIL was not required to invest its fund at any stage of the work.

Thus the Board had accepted inadmissible amount of Rs 1.58 crore on account of turnkey responsibility cost.

The Board stated (September 2004) that the contractor has to give performance guarantee. This is in addition to the bank guarantee deposited with PGCIL. In respect of capital blockage, the Board stated that there will always be a gap between investment made and the payment received by the agency. Thus provision of the same was justified.

The reply of the Board is not tenable as these items were admitted without any provision in the agreement. Besides, as per agreement, the Board had to make advance payment and the Board was making the same as per agreement. So far as the performance guarantee, which was applicable only on transformers, is concerned, the Board purchased transformers with performance guarantee clause from others also, but did not pay any guarantee charges on these purchases. Besides PGCIL was charging eight per cent consultancy fee on total project cost.

Service connection

3.1.23 The proposed scheme included 30,573 domestic service connections at the rate of Rs 1,814 per connection, which included cost of meters at Rs 1,358. Audit observed that the Board purchased electronic meters for domestic connections under Power Sector Reforms at the rate of Rs.755.83 in November 2003. As a result, the Board had become liable for additional expenditure of Rs. 1.84 crore.

Higher rate of meter resulted in additional liability of Rs 1.84 crore.

The Board stated (September 2004) that Rs 1.84 crore has been reduced from the proposal of Rs 8.31 crore and finally Rs 7.47 crore has been accepted. Board’s reply is not correct as only Rs 84 lakh has been reduced and the Board was still liable for extra expenditure of rupees one crore.

Additional items

Charge for concreting of poles

Concreting of PSC poles against norm of REC resulted in avoidable expenditure of Rs 4.93 crore.

3.1.24 Additional charge of Rs 4.93 crore for concreting of PSC poles had been shown in the revised cost estimates by the PGCIL. As per specification of Rural Electrification Corporation (REC) and prevailing practice in Board, concreting of pole was not required and thus, the Board became liable for avoidable expenditure of Rs 4.93 crore.
The Board stated (September 2004) that though concreting of poles was not in practice in the Board but concreting would make the foundation strong, which in turn would prevent bending, and other consequent effects. Reply of the Board is not tenable, as the specification for pole pitching of REC did not provide concreting of PSC pole.

Construction of PSS

3.1.25 Similarly, the estimate of Rs 20.64 crore for construction/ augmentation of 14 PSS was revised to Rs 22.27 crore. Test check of proposal for revision revealed that inadmissible escalation of Rs 2.07 crore on account of supply of materials (Rs 85.70 lakh), bank guarantee cost (Rs 76.05 lakh) and capital blockage (Rs 45.64 lakh) was accepted by the Board.

Kutir Jyoti Scheme

3.1.26 The Board took up programme of Kutir Jyoti financed by REC for extending single point connection to the households of rural poors below poverty line including Harijan and Adivasi families in the state.

Under the scheme, after consent of the Board, REC fixed the target for each year and released 50 per cent of cost of connection in advance. The remaining 50 per cent was to be reimbursed after release of connection and submission of bills by the Board. Under the scheme, unmetered connections were given up to 2001-02 and from 2002-03, metered connections were being given to the beneficiaries. According to REC guidelines, separate ledger and other books of accounts were to be maintained by the Board.

Physical performance of the Board for implementation of Kutir Jyoti scheme during last five years up to 2003-04 are detailed in table below:

Achievement to target varied from 17.30 to 50.42 percent.

(In number)

Year	Target for the year	Spill over from last year	Total target	Achievement	Shortfall	Percentage of achievement to target
1999-2000	33,650	-	33,650	5,822	27,828	17.30
2000-01	50,000	27,828	77,828	28,030	49,798	36.02
2001-02	92,880	49,798	1,42,678	52,703	89,975	36.94
2002-03	88,470	89,975	1,78,445	89,975	88,470	50.42
2003-04	82,929	88,470	1,71,399	36,797	1,34,602	21.47

It would be seen from the above that achievement of target varied from 17.30 to 50.42 per cent. The reasons for low achievement were not on record. Due to non-achievement of targets, the rural people of the State remained deprived of electricity and the Board sustained loss of revenue of Rs. 30.44 crore during last five years up to 2003-04. Besides fund of Rs. 4.80 crore of Central Government relating to 51,673 pending connections remained blocked for two years upto 2003-04.

Audit observed as unde:

- The Board did not maintain separate ledger and books of accounts for Kutir Jyoti programme.
- Materials used in service connections were substandard as pointed out by REC during test check of materials.
- Bills were not being issued regularly resulting in huge accumulation of dues.

Unfruitful investment

Meters valued at Rs 1.70 crore remained unfruitful.

3.1.27 As per instructions of Government of India, metered connections were released from 2002-03 under Kutir Jyoti scheme. During 2002-04, 36,797 metered connections involving investment of Rs. 1.70 crore on meters at the rate of Rs. 463 per meter were released. However, as per existing tariff of the Board, fixed amount of Rs. 50 per month was being billed. As the Board did not change the tariff for metered connections and continued to charge fixed amount, 36,797 meters installed at cost of Rs 1.70 crore remained unfruitful.

Mismatch in construction/electrification

3.1.28 The power received in a grid sub-station from generating/purchase point, after stepping down to 33 KV, is transmitted to the power sub-station (PSS) through a 33 KV line, where it is further stepped down to 11 KV, and supplied to connected distribution substations (DSS) through 11 KV lines. Power is supplied to consumers from DSS through LT lines. In order to achieve the desired benefit, availability of PSS of required capacity is a pre-requisite for electrification of villages. Thus PSS and DSS of required capacity and the LT lines in villages should be erected simultaneously.

Keeping in view the safety of the transformer and other equipments, the Board had fixed norm of operations at 75 per cent of installed capacity of transformers installed at PSS and DSS. Further for safety of equipment and safe passage of electricity, the capacity of PSS should be more than that of DSS and the capacity of DSS should be more than the connected load. Details of capacity of PSS, DSS and connected load in Board during four years upto 2001-02 [f] were as under:

[f] Figures for 2002-03 and 2003-04 were not available due to non-finalisation of accounts.

Year	PSS		DSS		Connected load
	Capacity (MVA)[*]/ (MW[Φ])	Safe load (MVA)/ (MW)	Capacity (MVA)/ (MW)	Safe load (MVA)/ (MW)	MW
1998-99	1,436.05 1,148.84	1,077.04 807.78	2,502.57 2,002.06	1,876.93 1,501.54	3,736.24
1999-2000	1,436.05 1,148.84	1,077.04 807.78	2,564.78 2,051.82	1,923.59 1,538.87	3,841.47
2000-01	1,443.55 1,154.84	1,082.66 811.99	2,613.77 2,091.02	1,960.33 1,568.26	3,424.67
2001-02	1,443.55 1,154.84	1,082.66 811.99	2,991.45 2,393.16	2,243.59 1,914.52	3,584.58

Capacity of PSS and DSS was inadequate for connected load.

It would be seen from the above table that the capacity of PSS was less than DSS and capacity of DSS was less than the connected load. Thus, both PSS and DSS were overloaded.

Low capacity of PSS and DSS resulted in theft of conductor valued at Rs 5.29 crore.

As the PSS and DSS were not able to supply power to full connected load even when operated at full installed capacity, major areas could not get energy and the line in those areas remained unenergised. As a result there were frequent thefts of conductor and other line materials. Test check of records of 14 circles[∝] revealed that Board sustained loss of Rs 5.29 crore on account of theft of conductor and other line materials during 1999-2004.

Failure of transformers in excess of norm resulted in loss of Rs 5.37 crore.

Further, as the PSS and DSS were overloaded, there were frequent failure/burning of transformers and other equipments installed at PSS and DSS. Audit observed that out of 22,101 and 25,272 transformers installed in 11 circles[∞] during 2001-02 and 2002-03 respectively, 2,407 (10.89 per cent) and 2,612 (10.36 per cent) transformers failed against norm of four per cent fixed by the Board. Thus, 3,124 transformers failed in excess of norm and resulted in avoidable expenditure of Rs 5.37 crore on their repair during 2001-03 at an average cost of Rs. 17,176 per transformer.

Due to failure of transformers installed at DSS, billing to connected consumers was stopped till replacement of the failed transformer. Test check of records of three circles revealed that the Board sustained loss of potential revenue of Rs 1.55 crore (Saharsa circle; Rs 58.89 lakh, Darbhanga circle; Rs 90.82 lakh and Patna circle; Rs 4.97 lakh) during five years ended 31 March 2004 on this account.

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[*] Mega volt ampere
[Φ] Mega watt
[∝] Gaya, Sasaram, Patna, Biharsarif, Ara, Muzaffarpur, Chapra, Motihari, Darbhanga, Samastipur, Saharsa, Purnia, Bhagalpur and Munger.
[∞] Patna, Gaya, Sasaram, Biharsarif, Muzaffarpur, Chapra, Darbhanga, Saharsa, Purnia, Bhagalpur and Munger.

Execution of schemes under State Plan

33/11 KV PSSs and 33 KV lines

3.1.29 Details of target and achievement for construction/rehabilitation of PSS and allied 33 KV lines during five years ended 31 March 2004 were as shown below:

3.1.30

Percentage of achievement to target ranged between 1.85 and 14.29.

(In number)

Year	New			Rehabilitation		
	Target	Achievement	Percentage	Target	Achievement	Percentage
1999-2000	20	Nil	Nil	52	4	7.69
2000-01	28	1	3.57	54	1	1.85
2001-02	21	1	4.76	36	4	11.11
2002-03	27	2	7.41	32	4	12.50
2003-04	44	1	2.27	14	2	14.29
Total	**140**	**5**	**3.57**	**188**	**15**	**7.98**

Audit observed that 32 PSS were inoperative requiring rehabilitation of 33 KV lines (17 numbers), and PSS (15 numbers). Besides 34 PSS were at different stages of construction and construction of 19 PSS were not taken up though the land was available for these PSS. The Board had not analysed the reason for non achievement of target for construction of PSS.

The main reasons for non achievement of target as analysed in Audit were as follows:

- Due to delay in preparation of annual works programme, targets were communicated to field units between August and December and the requirement of materials were sent to purchase wing almost in the last quarter of the financial year.
- Though targets were fixed in the annual works programme, the names of the PSS and 33 KV lines were not specified in AWP
- Shortage of materials

Deficiencies in construction/rehabilitation of PSSs and 33 KV Lines

3.1.30 Instances of systemic deficiency like non-supply of power transformer, non-replacement of stolen conductor, non-identification of land for construction of power sub-stations (PSS), non-monitoring of work and non-rehabilitation of 33 KV line, as detailed below, have been noticed, which caused delay in the implementation/rehabilitation of power sub-stations (PSS) leading to cost over-run of Rs. 2.32 crore and loss of potential revenue of Rs. 13.45 crore:

Sl. No.	Name of PSS/KV Line	Facts in brief	Audit observation
1.	33/11 KV PSS Khodaganj (Gaya circle)	Construction of civil works of power substation at Khodaganj and connected 33 KV line was completed (May 1995) at an estimated cost of Rs 51 lakh. But the PSS could not be energised due to non supply of power transformer of 1.6 MVA valued at Rs 3.09 lakh and the PSS remained inoperative. The line remained unenergised for long period and line materials were stolen. Besides, the PSS also required rehabilitation. The Board prepared revised estimate of Rs 55.31 lakh (May 2003) for completion/rehabilitation of PSS (Rs16.49 lakh) and 33 KV line (Rs 38.82 lakh), implementation of which was under progress and the PSS was still inoperative.	Due to non-supply of power transformer of 1.6 MVA valued at Rs 3.09 lakh, the Board had become liable for avoidable cost overrun of Rs 52.22 lakh. Besides, there was potential loss of 56.06 MU of energy valued at Rs 10.09 crore for the period 1999-2000 to 2003-04.
2.	33/11 KV PSS Biharibigha (Patna District)	Seven hundred meters of conductor valued at Rs 9,300 was stolen (April 1994) by unidentified miscreants and the PSS became inoperative. Stolen materials were not replaced and further line materials and equipments installed in PSS were also stolen between September 1994 and September 1997. Estimates of Rs 20.22 lakh and Rs 63.63 lakh for rehabilitation of PSS (Rs 44.32 lakh) and 33 KV line (Rs 19.31 lakh) prepared in October 1998 and June 2000 could not be implemented for want of details of FIR and inventory report.	Due to delay in repair of line valued at Rs 9300, the PSS remained inoperative for 10 years (March 2004) and there was cost overrun of Rs 95.94 lakh.

3.	33/11 KV PSS Belchi (Patna District)	For electrification of 45 villages of Tal area in Patna district under Tal and Diara scheme, a PSS was to be constructed at Belchi from the fund received from Central Government (2000-01). But the Board failed to identify land for the PSS.	Electrification of 45 villages could not be done depriving power to the residents of the area and potential revenue of Rs 32.56 lakh (March 2004) to the Board.
4.	33 KV line between Hathidah and Mokamah (Patna District)	Due to theft of conductor and other line materials of 33 KV line, the work of rehabilitation was awarded to a contractor (1992) at an estimated cost of Rs 23.28 lakh including labour cost of Rs 3.10 lakh. The work was to be completed within six months. The contractor did not complete the work. The Board lodged (August 2000) FIR against the contractor after lapse of more than eight years from the scheduled date of completion for recovery of unused materials valued at Rs 16.88 lakh. A fresh estimate of Rs 34.62 lakh was prepared for rehabilitation of the line but it could not be implemented. Another estimate of Rs 74.49 lakh was sanctioned and the work was still under progress. Moreover the Mokamah PSS was charged on 11 KV.	Due to negligence on the part of the Board in monitoring the work and delay in taking action against the contractor, the Board incurred cost overrun of Rs 51.21 lakh. An HT consumer closed its activity because of irregular power and improper voltage leading to frequent breakdowns. As a result, the Board sustained loss of potential revenue of Rs 1.01 crore (March 2004).
5.	33 KV line from Kataiya to Baluabazar (Supaul District)	To meet the increased demand of power in and around Baluabazar in Supaul district, the Board constructed a 1.6 MVA PSS at Baluabazar and a feeder line at a cost of 25.12 lakh in March 1983. However due to theft of conductor valued at Rs 0.10 lakh (January 1990), the aforesaid PSS became inoperative as the Board did not replace the stolen	Due to non-repair of line, the Board incurred cost overrun of Rs 33.25 lakh and sustained loss of 11.21 MU potential energy valued at Rs 2.02 crore. Besides a PSS under construction

		conductor and the feeder line was left unenergised. Further material valued at Rs 21.10 lakh was also stolen for which FIR was lodged (August 1999). For rehabilitation of line, an estimate of Rs 33.35 lakh was approved in December 2003 and the line was still inoperative.	at Chatapur, which was to be linked with PSS Baluabazar, could not be completed due to non-completion of line from Kataiya to Baluabazar.

Purchase of materials

Avoidable payment of price variation

3.1.31 According to provisions prescribed in Finance and Account Code (Stores), the comparative statement of tenders should be prepared immediately on the same day of opening of tender. It was also prescribed that letter of intent (LoI) should be placed within seven days from the date of opening of tender.

Audit observed (November 2003) that five tenders were invited for procurement of different types of conductors during 1999 and 2000. The tenders were opened after delay of 40 to 74 days from the schedule date. Audit further observed that the Board had placed LoI to 18 firms after a delay of 78 to 330 days, and purchase orders were issued after delay of 120 to 365 days. As a result, the Board paid Rs 83.31 lakh as price variation. Had the Board followed the codal provisions, the price variation would have amounted to Rs. 25.59 lakh only. Thus, due to delay in placing of purchase orders, the Board incurred extra expenditure of Rs. 57.72 lakh.

The Board incurred avoidable expenditure of Rs 57.72 lakh due to delay in finalisation of purchase orders

In reply the Electrical Superintending Engineer (Purchase) stated (October 2003) that during finalisation of purchase order a lot of exercise has to be done and if finalised in hurry it may cost the Board more than amount of price variation. Reply is not tenable as purchase order was not finalised as per codal provisions, which led to unnecessary delay and avoidable extra expenditure of Rs. 57.72 lakh towards price variation.

PSC pole manufacturing units

3.1.32 The Board, in order to meet the demand of Pre-stressed concrete (PSC) poles for execution of RE schemes, had set up five PSC pole manufacturing units at Patna, Muzaffarpur, Barun, Madhopur and Katihar from the loan sanctioned by the REC in 1990-91. The installed capacity of each unit was 1200 poles per month.

Audit observed that against the installed capacity of 1200 poles per month, actual average production was 580 poles per month at an average cost of Rs. 833.91 per pole. Thus against capacity of 3,60,000 poles during five years up to 2003-04, only 1,73,938 poles were manufactured and there was shortfall of 1,86,062 poles.

Reasons for lower production, as stated by the Board were non-lifting of poles by the allottee units causing space blockage and shortage of materials.

Lower production of PSC poles resulted in extra expenditure of Rs 2.21 crore due to purchase at higher rate.

Audit further observed that the Board, in order to meet the demand for rural electrification, purchased 86,500 PSC poles from private manufacturers at higher average cost of Rs 1089.25 per pole during 2002-04. Thus, the Board incurred extra expenditure of Rs 2.21 crore on procurement of poles The extra expenditure would have been avoided by taking action for production in own units up to installed capacity.

Conclusion

Funds received for rural electrification schemes from Central Government were not utilised properly. Due to poor fund management and failure to claim subsidy from the State Government, the Board had to pay avoidable interest to Rural Electrification Corporation. Due to lack of monitoring, the Board failed to achieve target of electrification of villages leading to loss of revenue. The rural people of the State also remained deprived of electricity. Besides, non-construction/rehabilitation of power sub-stations resulted in mismatch in construction, frequent failure of equipments, theft of conductors and cost overruns.

The Board should ensure optimum utilisation of fund to avoid loss of interest. The State Government needs to take action to fulfill the commitments in the Memorandum of Understanding for reforms in power sector. Proper co-ordination and monitoring is required to complete the work without time and cost overrun. Agreement with PGCIL and related claims needs to be examined in detail. Besides, construction of power sub-stations of required capacity needs to be ensured before electrification of villages.

The matter was reported to the Government (July 2004); their replies had not been received (September 2004).

3.2 Recovery Performance of Bihar State Financial Corporation

Highlights

Bihar State Financial Corporation (Corporation) was established in November 1954 for development of industries in the state by providing technical, managerial and financial assistance. Presently the Corporation has restricted its activities mainly to recovery of its overdues.

[Paragraph 3.2.1]

The Corporation retained fund ranging from Rs 15.99 crore to Rs 36.81 crore during the last five years up to March 2004, but it did not utilise the same for repayment of its higher interest bearing (6.5 to 17 per cent plus two per cent penal interest) borrowings. The Corporation, instead, deposited the amount in short-term deposits in banks at interest rates of 3 to 12.5 per cent resulting in loss of interest of Rs 8.12 crore.

[Paragraph 3.2.5]

Up to 2003-04, the Corporation disbursed loans aggregating Rs 438.60 crore. There against Rs 267.35 crore as principal and Rs 2,122.06 crore as interest and other charges were outstanding from 6,185 assisted units as on 31 March 2004.

[Paragraph 3.2.6]

Out of Rs 2,386.36 crore overdue as on 31 March 2004, Rs 2,383.19 crore (99.87 per cent) was overdue for periods from three to 27 years.

[Paragraph 3.2.8]

Units numbering 5,983 having outstanding dues of Rs 2,365.09 crore had not made any payment for more than six years.

[Paragraph 3.2.9]

Even after finalisation of sale of assets of 323 units during 1998-2003, the Corporation is yet to recover Rs 73.86 crore from the original promoters. But, it failed to invoke personal guarantees against them.

[Paragraph 3.2.19]

The Corporation had filed 368 cases involving overdue of Rs 417.30 crore for issue of recovery certificate, but was unable to get any recovery certificate from specified authority resulting in non realisation of Rs 417.30 crore.

[Paragraph 3.2.20]

Introduction

3.2.1 Bihar State Financial Corporation (Corporation) was established in November 1954 in pursuance of Section 3 of the State Financial Corporations (SFC) Act, 1951, to act as the major instrument for rapid and integrated establishment, growth and development of industries in the State by providing technical, managerial and financial assistance.

Presently the Corporation has restricted its activities mainly to recovery of its overdues. The loans of the Corporation carry interest varying from five to 20 per cent, and are payable in eight to 10 years in quarterly/half yearly instalments with a moratorium upto two years.

Organisational set up

3.2.2 The management of the Corporation is vested in the Board of Directors (Board) comprising maximum 10 directors. As on 31 March 2004 there were eight directors. Of these the Chairman and the Managing Director were appointed by Small Industrial Development Bank of India (SIDBI) and State Government respectively in consultation with each other, and the remaining directors were nominated/appointed by State Government (two), SIDBI (two), financial institutions and banks (two), and shareholders (two). The Managing Director is the Chief Executive and is assisted by a General Manager, Assistant General Managers and Deputy General Managers.

The Corporation has five zones and 25 branch offices in Bihar and 10 branch offices in Jharkhand. The zones and branch offices are headed by Assistant General Managers and Branch Managers respectively. Branch managers monitor recovery of loans disbursed to loanees under the supervision of Assistant General Managers and the Head Office is responsible for watching the overall recovery position of the Corporation.

In November 2000, Bihar was bifurcated into Bihar and Jharkhand states. However, as per provisions of Section 64 (1) of the Bihar Reorganisation Act, the Corporation still continues to work in both the states.

Scope of Audit

3.2.3 The recovery performance in respect of loans granted by the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999, (Commercial). The Committee on Public Undertakings has not discussed the report so far (August 2004).

The scope of this review was to evaluate the efficiency of the Corporation during the last five years up to March 2004, in monitoring the functioning of the assisted units for effecting prompt/regular recovery of dues and efficacy of the various control mechanisms introduced to achieve the purpose. For this, out of 489 cases having balance outstanding (BOS) of rupees one crore and above (including interest and other charges) as on 31 March 2003, 91 cases were selected from 13 branch offices covering all five zones.

The present review was conducted during November 2003 to May 2004. The audit findings as a result of test check of these cases were reported to Government/Corporation in July 2004 with specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the viewpoint of Government/management was taken into account before finalising the review. The meeting of ARCPSE was held on 14 September 2004 where Managing Director represented the Corporation. The review has been finalised after considering the views of the management. Government's viewpoint could not be considered due to non attendance of meeting by the Government representative.

Procedure for recovery of loans

3.2.4 The instalments of repayment are fixed on quarterly or half yearly basis after 12/24 months moratorium from the date of first disbursement of loan. The assets created by the loanee units are mortgaged in favour of the Corporation and collateral securities are also to be given by the promoters. The officers of branch offices as well as the head office, visit loanees and report regarding recovery of respective branch offices/head office. If recoveries are still not forthcoming, action under Sections 29 and 30 of the SFC Act, 1951 is taken and procedure for sale of loanee units is initiated by inviting open tenders and realisation is adjusted against the dues.

In cases, where the sale proceeds of the mortgaged assets are less than the balance outstanding, the balance (difference of balance outstanding and sale value) is realisable from the original promoters by invoking their personal guarantee under Section 32G of SFC Act, 1951 and Bihar and Orissa Public Demands Recovery Act, 1914. The failure of the Corporation to take appropriate action in this regard has been discussed in paragraph 3.2.15.

Sources of finance and utilisation

3.2.5 The sources of fund, which were available for disbursement to loanees during the last five years ended 2003-04 are given in the **Annexure - 14.**

It would be seen from the annexure that:

- Due to increase of non performing assets (NPAs), IDBI/ SIDBI stopped refinancing totally from 1992. Even then the Corporation had not improved NPAs which were 99 per cent of total outstanding as on 31 March 2003.
- The main source of finance of the Corporation is recovery of loan and interest from the assisted units. During 1999-2004, the Corporation recovered loan and interest from its loanees to the extent of Rs 78.64* crore against the total overdue of Rs 2,386.36 crore (as on 31 March 2004). As a result, funds remained locked preventing their recycling.

The Corporation lost interest of Rs 8.12 crore.

- The Corporation retained cash ranging from Rs 15.99 crore to Rs 36.81 crore during the last five years up to March 2004, but it did not utilise the amount in repaying the borrowed funds bearing higher rate of interest (6.5 to 17 per cent plus two per cent penal interest). The Corporation, instead, deposited the same in short-term deposits in banks at interest rates of three to 12.5 per cent. This resulted in loss of interest of Rs 8.12♥ crore.

Recovery performance

3.2.6 Up to 2003-04, the Corporation disbursed loans aggregating Rs 438.60 crore, out of which Rs 267.35 crore as principal and Rs 2,122.06 crore as interest and other charges were outstanding from 6,185 assisted units as on 31 March 2004.

Classification of assets

3.2.7 In terms of IDBI guidelines of March 1994, as modified from time to time, the loan portfolio of the Corporation is classified as standard assets or performing assets (PA) and non-performing assets (NPA) for the purpose of income recognition and provisioning. A standard asset becomes NPA when it is in default for a period exceeding six months. Assets are classified into the following five categories viz.

- Standard assets: which do not carry more than normal risk and do not require any provision.

* (Rs 19.34 + Rs 14.58 + Rs 16.68 + Rs 18.37 + Rs 9.67) crore = Rs 78.64 crore year-wise recovery.

♥ Difference of interest earned by the Corporation from short terms deposited and interest payable on average cash retained at rate of 13.75 per cent (avearage rate of interests plus two per cent penal interest-minimum rate of interest 6.5 per cent and maximum rate of interest 17 per cent).

- Sub-standard assets: loan assets that are NPAs for more than six months, but not exceeding 18 months.
- Doubtful assets (A): a loan asset, which has been a NPA for more than 18 months and up to three years. For provisioning purpose doubtful assets have been classified into two-categories with effect from 31 March 2001:
  a) Remaining doubtful up to one year
  b) Remaining doubtful from one year to three years
- Doubtful assets (B): NPAs for more than three years
- Loss assets: a loss asset is one where losses are identified but not written off wholly or partly.

The Corporation has classified its loan portfolio as shown below:

(Rupees in crore)

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
1.	Classification of loans					
(i)	Standard assets	10.99	7.90	6.38	4.82	2.94
(ii)	Sub-standard assets	11.63	9.98	8.04	5.62	3.99
(iii)	Doubtful assets (A)	113.57	27.77	9.23	6.19	8.54
(iv)	Doubtful assets (B)			9.05	11.69	3.55
(v)	Loss assets	173.56	258.91	268.25	267.12	270.33
2.	Total non performing assets (NPA) (ii to iv)	298.76	296.66	294.57	290.62	286.41
3.	Percentage of NPA to total outstanding	96.45	97.41	97.88	98.37	98.98
4.	Provision for NPA	11.31	39.69	279.09	275.09	274.65

It would be seen from the above table that:

Standard assets decreased while loss assets increased.

- Standard assets decreased from Rs 10.99 crore in 1998-99 to Rs 2.94 crore in 2002-03.
- Loss assets increased from Rs 173.56 crore in 1998-99 to Rs 270.33 crore in 2002-03.
- The percentage of NPA to total outstanding also increased from 96.45 per cent in 1998-99 to 98.98 per cent in 2002-03.

The decrease of standard assets and increase of loss assets indicate continuous slippage of standard assets and sub standard assets into loss assets for which no effective action was taken by the Corporation.

The slippage of standard assets to non-performing assets as analysed in Audit was due to the following:

- The Corporation did not have any system of regular review on case-to-case basis with regard to factors affecting performance, prospects of recovery etc.
- Where borrowers balance sheet and profit and loss accounts were received, they were not analysed.
- Non monitoring to prevent new cases from slipping into non-performing asset category.

Recovery position

3.2.8 The details of loan due for recovery, amount recovered and amount overdue for recovery including interest, at the end of each of the last five years upto 2003-04 are detailed in **Annexure - 15**.

The table below indicates the summarised recovery position of the Corporation:

(Rupees in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1. Amount due at the beginning of the year	1,247.01	1,429.77	1,626.50	1,823.22	2,095.61
2. Current demand	199.70	208.29	213.26	289.23	300.42
3. Total recoverable during the year (1+2)	1,446.71	1,638.06	1,839.76	2,112.45	2,396.03
4. Recovery out of old dues	7.87	8.82	11.01	9.98	6.29
5. Recovery out of current demand	9.07	2.74	5.53	6.86	3.38
6. Total recovery during the year (4+5)	16.94	11.56	16.54	16.84	9.67
7. Amount due at the end of the year (3-6)	1,429.77	1,626.50	1,823.22	2,095.61	2,386.36
8. Percentage of recovery of old dues to amount due at the beginning of the year (4 to 1)	0.63	0.62	0.68	0.55	0.30
9. Percentage of recovery of current demand (5 to 2)	4.54	1.32	2.59	2.37	1.13
10. Percentage of recovery of total demand (6 to 3)	1.17	0.71	0.90	0.80	0.40
Target for recovery	-	-	406.63*	455.81**	-
Achievement	-	-	16.54	16.84	-
Percentage of achievement to target	-	-	4.07	3.69	-

The recovery of overdue was very poor

As seen from the annexure, the recovery position of overdue amount was very poor. As a result the Corporation instead of generating any cash profit by way of interest, was not able to recover even the principal amount as its recovery had ranged between 1.58 and 3.11 per cent during the above five years. Thus, huge amounts had remained locked in the form of funds overdue for recovery.

- The Corporation fixed no target regarding sanction and disbursement during the period under review. Targets for recovery were fixed during

* 25 per cent of 1,626.50
** 25 per cent of 1,823.22

2001-03 at 25 per cent of balance outstanding as at 31 March of the preceding financial year. Against the target, the achievement of the Corporation was 4.07 and 3.69 per cent for 2001-02 and 2002-03 respectively.

99.87 per cent of the total default was overdue for three to 27 years.

- Out of overdue of Rs 2,386.36 crore as on 31 March 2004, Rs 2,383.19 crore was overdue for periods over three to 27 years, which represented 99.87 per cent of the total default.

  Management stated (September 2004) that the reasons for poor recovery were poor infrastructural facility in the state, non co-operation of banks in providing working/adequate working capital and non introduction of any settlement scheme for defaulters by the Corporation and non availability of purchasers of the units advertised for sale.

Analysis of arrears

5,983 units, having outstanding of Rs 2,365.09 crore had not paid any amount for more than six years.

3.2.9 Audit observed that in respect of 6,185 assisted units (principal outstanding: Rs 267.35 crore), Rs 2,386.36 crore (principal: Rs 264.30 crore, interest and other charges Rs 2,122.06 crore) were overdue as on 31 March 2004 for recovery. Out of the above, 5,983 units, having outstanding of Rs 2,365.09 crore (principal: Rs 253.75 crore and interest and other charges: Rs 2,111.34 crore) and categorised under non performing assets, had not paid any amount towards principal and interest and other charges for more than six years. Table below indicates the age wise analysis of the overdue during the five years ending 2003-04:

(Rupees in crore)

Age of overdues	1999-2000	2000-01	2001-02	2002-03	2003-04
upto 6 months old	0.59 (0.04)	0.58 (0.04)	0.63 (0.03)	1.01 (0.05)	0.37 (0.02)
more than 6 months to 18 months old	4.42 (0.31)	5.20 (0.32)	4.30 (0.24)	2.94 (0.14)	1.00 (0.04)
more than 18 months to 3 years	6.20 (0.43)	9.52 (0.58)	7.09 [illegible]	7.31 (0.35)	1.80 (0.08)
More than 3 years old	1418.56 (99.22)	1611.20 (99.06)	1811.20 (99.34)	2084.35 (99.46)	2383.19 (99.87)
Total overdue	**1,429.77**	**1,626.50**	**1,823.22**	**2,095.61**	**2,386.36**

Note: Figures in brackets represent percentage to total overdue

It would be seen from the above table that the amount of overdue increased from Rs 1,429.77 crore in 1999-2000 to Rs 2,386.36 crore in 2003-04. The age wise analysis of the overdues has not been done by the Corporation, which could have helped it to prioritise recovery action in a meaningful manner.

Classification of outstanding loan and interest in terms of money value

3.2.10 Classification of outstanding dues of the Corporation as on 31 March 2003 in terms of money value is given below:

(Rupees in crore)

Sl.No	Loan, interest and other charges outstanding	Total outstanding including units in Jharkhand		Outstanding against units now in Jharkhand	
		Unit	Amount	Unit	Amount
1	Below Rs 50 lakh	5,300	782.71	1609	279.76
2	Rs 50 lakh - Rs one crore.	521	359.36	281	105.44
3	Rs one crore - Rs five crore.	422	877.27	55	279.92
4	Rs five crore and above	13	82.60	4	29.40
	Total	**6,256**	**2101.94**	**1,949**	**694.52**

Out of total outstanding of Rs 2101.94 crore against 6,256 units, Rs 1,319.23 crore was outstanding against 956 units.

It would be seen from the above that the loan and interest outstanding as on 31 March 2003 against 6,256 units were Rs 2101.94 crore. Out of above outstanding against 956 units (having outstanding of Rs 50 lakh and above) was Rs 1,319.23 crore, which accounted for 63 per cent of the total outstanding. The Corporation had not taken any effective recovery action against these units. After the bifurcation of Bihar (November 2000), 10 branch offices of the Corporation are in Jharkhand, having 1,949 assisted units. Against these units, the balance outstanding was Rs 694.52 crore (33 per cent of the total outstanding). The recovery of outstanding dues from these units seems to be doubtful in view of the management's reply (September 2004) that the Company has been facing resistance from Jharkhand Government in taking action against the defaulting units.

In view of above, the Government of Bihar should take up the matter with Government of Jharkhand for recovery of dues from units located in Jharkhand.

Reasons for low/non recovery

3.2.11 The poor recovery performance of the Corporation was mainly due to:

- Improper/non maintenance of records to watch performance of assisted units and recovery of dues.

- Inadequacy of appraisal system in identifying viable and non-viable projects resulting in sanction to non-viable projects.
- Unwarranted relaxation in compliance of pre-disbursement conditions resulting in release of loan to unscrupulous individuals leading to non-recovery of dues.
- Lack of monitoring and physical verification of assisted units and delayed attachment of units resulting in removal of assets from sites.
- Failure in identification of revivable/non revivable units and in-initiation of strict, effective and timely recovery action.
- Non-introduction of OTS scheme as per guidelines of Reserve Bank of India and IDBI and special sale strategy.
- Delay in disposal of assets of defaulting units resulting in diminution of value of assets due to efflux of time.
- Delay in finalisation of sale process resulting in backing off of prospective purchasers
- Failure to invoke personal guarantees and delay in filing certificate cases resulting in locking of funds.

System deficiencies

Progress reports of loanee units were not available in 95 case files test checked in audit.

3.2.12 Audit observed following system deficiencies:

- The loanee unit was to submit to the Corporation annual progress report with information in prescribed form, so as to give up to date position of security, production, marketing, payment of dues etc. Requisite progress reports submitted, if any, by the loanee units were not available in the 95 case files test checked in audit. The Corporation had not maintained any consolidated records to watch the receipt of such reports.

- The Corporation neither prescribed the periodicity of the inspection, nor defined the technical and financial matters to be covered in inspection. The Corporation had also not drawn any programme to inspect all loanee units within a fixed period.

- The Corporation had also not evolved any system of regular feed back about the financial health of loanee units indicating: units earning profit and in defaults, units facing short term problems (working capital, non availability of raw material etc) but not in default; projects under implementation and in default, units facing long term problems and rehabilitation packages under consideration / implementation, long term viability of projects and recall of loan under consideration and recall cases, for taking appropriate action by the management.

- The Corporation had not maintained any consolidated records relating to nominee directors in defaulting units, such as name of unit, appointment of director, meetings attended, and role played by the nominee director.

- In addition to the aforesaid, consolidated records relating to (i) notices issued under Sections 29 and 30 of SFC Act for watching their implementation, (ii) requisitions filed under PDR$^{\Phi}$ Act to watch the progress of issue of recovery certificate, recovery made through recovery certificate etc., (iii) receipt of accounts of borrowing unit, were not maintained.

Corporation had not fixed any criteria to decide the take over of assets of defaulting units.

In the absence of (i) any system to watch receipt of requisite progress reports, (ii) scope of periodical inspection, etc, (iii) analysis of information/records received from borrowers, the Corporation was not in a position to assess correctly when a defaulting unit was fit to be taken over. The Corporation had also not fixed any criteria to decide the takeover of assets of units in default or restoration of units already taken over under SFC Act.

Recoveries from defaulting units

3.2.13 A test check of 97 cases (loans sanctioned and disbursed during 1958 to 1997) having balance outstanding of Rs 286.21 crore (principal: Rs 31.52 crore and interest and other charges: Rs 254.69 crore) as on 31 March 2004, showed that the Corporation recovered Rs 10.15 crore only (principal: Rs 81 lakh and interest and other charges: Rs 9.34 crore). Out of the above 97 units, 26 units having balance outstanding of Rs 53.76 crore (principal: Rs 6.55 crore and interest and other charges: Rs 47.21crore) had not paid any amount till date.

Measures adopted by the Corporation to increase recovery of overdues

3.2.14 In order to increase the recovery of its overdues, the Corporation introduced following two schemes:

One time settlement scheme (OTS)

The Corporation introduced OTS in June 1993, which was effective up to September 1997. Under the scheme, the defaulting loanees were given a chance to clear off balances outstanding (BOS), after availing relief by making payments in one lump sum, or 25 per cent of BOS initially and remaining amount within six months of the agreement. The scheme envisaged relief to the loanees by way of reduction of interest rate by two to three per cent.

At the end of September 1997, there were 24 cases under OTS scheme, which remained unsettled. The Corporation was unable to provide information in respect of nine cases. During review of remaining 15 cases, Audit observed that these defaulting units (**Annexure 16**) having BOS of Rs 1.30 crore had applied for OTS within the validity period of the scheme. Out of which, eight cases having BOS of Rs 71.54 lakh were finalised by the Corporation during November 1997 to July 1999 for OTS amount of Rs 46.09 lakh, after granting relief for Rs 25.45 lakh. But one unit (Prabhat Udyog Bokaro) had

$^{\Phi}$ Bihar and Orissa Public Demands Recovery Act, 1914.

not paid OTS amount of Rs 11.43 lakh. Reasons for non-payment of OTS amount were not on record.

Further two units whose OTS cases were not finalised by the Corporation had liquidated their dues in July 2000. OTS of remaining five units were not finalised by the Corporation for which there were no recorded reasons (May 2004) and BOS increased from Rs 39.39 lakh to Rs 98.14 lakh at the end of March 2003.

Thus, in the absence of OTS scheme after September 1997, the recovery performance of the Corporation deteriorated further as no other defaulter turned up for settlement of his dues.

3.2.15 Special sale strategy

A special sale strategy was introduced in September 1994, under which the Corporation first tried to sell the unit at the BOS and if it was not possible, efforts were to be made to sell it at a consideration equal to OTS amount, or at the market value as determined by the Corporation. Preference was to be given to higher of these two amounts. In case, the unit was not sold even then, it was to be sold below that value. The difference between the BOS and sale price was to be recovered from the original promoters. Position of 44 units sold during 1998-2003 is discussed below:

Rs 4.03 crore remained unrealised from the sale of units.

- The Corporation sold 20 defaulting units for Rs 73.43 lakh during 1998-2003, which was Rs 24.14 lakh less than the amount of principal (Rs 97.57 lakh). Thus, of the total amount overdue for recovery, Rs 4.03 crore remained unrealised from the original promoters **(Annexure 17).**
- The Corporation sold, 21 defaulting units valued at Rs 2.85 crore for Rs 2.15 crore and suffered loss of Rs 70 lakh. The total unrealised amount on these units was Rs 6.47[•] crore (**Annexure 18**).
- The Corporation sold three defaulting unit**s**[®] for Rs 5.93 crore, after realisation of initial cash down payment Rs 1.23 crore and converting balance amount of Rs 4.70 crore in term loan to the purchasers, these purchasers also became defaulters and BOS mounted against them to Rs 10.16 crore as on 31 March 2004.

3.2.16 Incentive scheme

The Corporation introduced incentive scheme for settlement of loan cases where entire principal and interest of the loan has been proposed for payment. The scheme was effective from October 2001.The entire penal interest

[•] BOS Rs 8.62 crore minus amount realized Rs 2.15 crore

[®] 1.Bipasa Investment (P) Ltd. (Singhbhum Flour Mills) Rs 3.15 crore 2. Gahlaut &Chaudhary Steels (P) Ltd. Rs 1.80 crore 3. S.B.Agro India Ltd. Rs 5.21 crore (Interest from April 2002 to 31 March 2004 on Rs 3.64 crore plus BOS as on 31 March 2003) (pending) and other charges in borrower's loan account on the date of receipt of valid proposal/application from borrower was to be waived by the Managing Director subject to the under noted eligibility criteria / conditions:

- All cases of non performing assets will be eligible for incentive.
- The borrower will be required to deposit at least five per cent of the balance outstanding with his application, as application money.
- After receipt of application, the MD will pass an order within a period of four weeks and the borrower will have to pay the balance within two months (sixty days).
- The Corporation will settle only those accounts which have been sanctioned by the Corporation.
- A maximum amount of Rs 25000 of other charges only would be eligible for waiver in the account of other charges under the incentive scheme.
- This scheme will cover only the unpaid portion of interest and other charges.

Under this scheme, the Corporation granted benefit of Rs 17.32 lakh upto 31 March 2004 to 36 units. Out of which 33 units availed the benefit of Rs 13.28 lakh and liquidated their dues while three units did not avail the benefit of Rs 4.04 lakh.

Audit observed that this incentive scheme was meant for those defaulting loanees against whom the amount of BOS was small and who were able to pay entire amount within 60 days. This scheme did not cover the defaulting loanees against whom huge amount was outstanding. As a result major defaulting units did not turn up for settlement of their overdues and the recovery performance of the Corporation remained poor.

Non-pursuance of notices issued under Section 29 and 30 of SFC Act

3.2.17 In the absence of any consolidated records regarding number of notices issued under Sections 29 and 30 of SFC Act, the extent of notices issued but not pursued further and reason thereof could not be ascertained in Audit. Test check of 18 cases **(Annexure - 19)** revealed that though the Corporation had served notices to these units to take over their assets during March 1982 to September 1994, no further action was taken except advertising these units for sale. The amount recoverable from these units increased from Rs 1.07 crore on the date of notice to Rs 13.33 crore as on 31 March 2003, recovery of which appears doubtful.

Management stated (September 2004) that the Corporation had issued recall notices under Sections 29 and 30 of the SFC Act to 4,382 defaulting units, except composite loan cases sanctioned to weaker sections of the society and 900 defaulting units were advertised under continuous sale policy even then the promoters of these units did not respond. The takeover of mortgaged assets of defaulting units is counter productive because Corporation could not sell the defaulting units and was also unable to safeguard the assets of such units due to lack of manpower and expenditure on security.

Reply of the management is not tenable as the Corporation failed to comply with the provisions of the SFC Act.

Sale of units under Sections 29 and 30 of SFC Act

3.2.18 The Corporation sold defaulting units through invitation of bids and subsequent negotiation and sale proceeds were adjusted against the outstanding dues of the concerned defaulting loanee. In case, the full amount was not recovered by selling the assets, the balance was to be recovered from guarantors from their personal security/guarantee as might be available with the Corporation.

Table below shows the number of units sold under Sections 29 and 30 of SFC Act by the Corporation during last five years upto 2002-03, balance outstanding, sale value realised, and amount recoverable from the original promoters.

(Amount Rs in crore)

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
1.	No. of units sold	77	68	32	90	56	323
2.	Amount for which sold	7.90	11.06	2.37	8.08	5.74	35.15
(i)	Amount of initial cash down payment	3.13	2.72	0.94	3.32	2.72	12.83
(ii)	By grant of term loan	4.77	8.34	1.43	4.76	3.02	22.32
3.	Balance amount outstanding	26.54	26.31	8.70	28.33	19.13	109.01
4.	Amount recoverable (3-2)	18.64	15.25	6.33	20.25	13.39	73.86

A test check of sold units revealed the following:

- There were 6,256 defaulting units having balance outstanding of Rs 2,101.94 crore as on 31 March 2003, but the Corporation could sell only 323 defaulting units having balance outstanding of Rs 109.01 crore which was 5.16 per cent of the total defaulting units and 5.18 per cent of the total balance outstanding.

- On sale of 323 units having balance outstanding of Rs 109.01 crore, the Corporation realised Rs 12.83 crore only and balance Rs 22.32 crore was adjusted by grant of fresh loan.

Failure to invoke personal guarantee

3.2.19 A test check of four sold cases* revealed that the Corporation had personal guarantees from the promoters and directors of the loanee units, in the form of assurances to pay and indemnify the Corporation against the losses of principal, interest or other money in case of default. These personal guarantees did not contain any details viz. particulars, value of the properties against which guarantees were given etc. Further the Corporation did not have any system to keep track of the guarantor's properties during the pendency of the loan.

Even after finalisation of sale of assets of 323 assisted units during 1998-2003, the Corporation is yet to recover Rs 73.86 crore i.e. the difference between the balance outstanding against the sold units and consideration price at which the units were sold. As per condition of loan agreements, loans were also personally guaranteed by the promoters/directors of the loanee units for repayment of dues. However, the Corporation did not initiate action to invoke personal guarantees of the promoters/directors of these units even after the Board had resolved in their meetings held during 1998-2003 that the balance amount (difference between outstanding and sale amount) should be recovered from the original promoters by invoking personal guarantees. The reasons for not invoking personal guarantees were not on record.

Management stated (September 2004) that the invoking of personal guarantee involved huge cost and litigation could run for several years without having any certainty of recovery of dues. So, this has not been resorted to by the Corporation.

Reply of the management is not acceptable as the Corporation should have followed its own codal provisions.

Action for recovery under Section 32 (G) of SFC Act

3.2.20 In case of non recovery, the Corporation can make an application in prescribed manner to the State Government or the specified authority for recovery of amount due to it from any defaulting unit by issue of a certificate for total amount to the District Collector.The Collector shall proceed to recover the amount in the same manner as an arrear of land revenue.

Delay in filing certificate cases resulted in non-realisation of overdues of Rs 417.30 crore.

Since inception to 31 March 2004, the Corporation had filed 368 cases (all during 2002-03) involving overdues of Rs 417.30 crore to the specified authority, on which the specified authority issued notices to the defaulters between July and October 2002 but did not issue certificates .Thus, due to non filing certificate cases, the Corporation was unable to get any recovery

* Katihar Jute Mills, Bihar Precision Tools (P) Ltd., Dinesh Surgical (P) Ltd and India Automotives.

certificate from the specified authority which resulted in non-realisation of overdues of Rs 417.30 crore (May 2004).

Non-existence/partial existence of assets

The value of existing assets of 305 units was Rs 30.09 crore whereas BOS against these units had mounted to Rs 131.03 crore.

3.2.21 In the years 1994 to 1996, a drive was conducted by the Corporation to ascertain the physical status of the assisted units. The branch level valuation team inspected the sites of the units and valued the existing assets of the unit. A test check of 305 cases of three branch offices (Patna, Fatuha and Nalanda) revealed that the value of the existing assets was Rs 30.09 crore, whereas the balance outstanding against these units amounted to Rs 131.03 crore in March 2003. Since then no further verification and valuation of existing assets of these 305 assisted units was carried out. Due to this, value of the existing assets at present could not be ascertained.

The realisation of outstanding amount from the disposal of 305 units seems remote because due to passage of time (eight to 10 years) the assets have become unserviceable/scrap (due to wear and tear) or obsolete, and would not fetch the valuation amount as was evident from the disposal of 21 units having assets worth Rs 2.85 crore and balance outstanding of Rs 8.62 crore at the time of sale the Corporation realised only Rs 2.15 crore **(Annexure - 18).**

Removal/theft of mortgaged/hypothecated assets

Assets worth Rs 1.90 crore were removed by the promoters of the closed units, or stolen due to inadequate security.

3.2.22 Details of 15 cases showing FIR date, date of occurrence, value of removed assets, value of existing assets, balance outstanding etc. are given in **Annexure - 20**. From the annexure it would be seen that assets worth Rs 1.90 crore were removed by the promoters of the loanee units, or stolen due to closure of the units and inadequate security of the assets (June 1987 to June 2002). Assets worth Rs 6.29 crore were lying in the units.

Though, the Corporation lodged FIRs during 1990 to 2003 with the police authorities, in none of the cases police authorities were able to recover the removed/stolen assets nor could the corporation recover the cost of these assets from the promoters/director. As the balance outstanding against these units mounted to Rs 19.61 crore as on 31 March 2003 and no further verification and valuation of existing assets of these 15 units were carried out (April 2004), actual existence and their present value could not be ascertained. The realisation of the outstanding amount of Rs 19.61 crore from the disposal of units seems remote because of efflux of time.

Internal audit

3.2.23 As per decision of the Board of Directors (June 2000), Internal audit cell has been created which conducts internal audit of the branches as well as head office of the Corporation. The Corporation has no manual defining the items to be checked, extent of check, duties and responsibility of internal auditors, scope of audit, periodicity of audit etc. However, internal audit cell conducts internal audit of the branches and Head Quarters of the Corporation with reference to reconciliation, classification, booking under different heads, discrepancies in accounts, correction of accounts etc. Deficiencies in recovery performance (sanction, disbursement, documentation and follow up action) were not scrutinised by internal audit. There is scope for improvement in the system of internal audit, which was accepted by the Board of Directors, during reply to statutory auditors' observations on the accounts of the Corporation for the year ended 31 March 2001 and 2002.

Conclusion

The Corporation was formed to act as major instrument for rapid and integrated establishment, growth and development of industries in the State. The performance of the Corporation in recovery of loan was very poor due to non-observance of procedure prescribed for approval, sanction and disbursement of loan, lack of proper monitoring and non introduction of one time settlement scheme. This had not only put its fund at stake but had also affected the generation of its own resources thereby affecting the financial health of the organization and limiting its loan disbursement activity.

The Corporation needs to (a) review its system of post disbursement follow up, (b) introduce OTS scheme and special sale strategy to improve its recovery performance, (c) review all the cases of sold units and file certificate cases against those units where it suffered loss and pursue all the cases effectively to get recovery certificates at the earliest for realisation of balance amount (d) take up the matter of defaulting units located in Jharkhand, with the Government of Jharkhand for effective recovery action and disposal of defaulting units.

The matter was reported to the Government (July 2004); their reply had not been received (September 2004).