

## Overview

### 1. Overview of Government companies and Statutory corporations

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG of India. These accounts are also subject to supplementary audit conducted by CAG of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2010, the State of Bihar had 25 working PSUs (21 Companies and four Statutory corporations) and 40 non-working PSUs (all companies), which employed 0.22 lakh employees. The State working PSUs registered a turnover of ₹ 2508.83 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 1.62 per cent of State GDP indicating an insignificant role played by State PSUs in the economy. The PSUs had accumulated loss of ₹ 4617.88 crore as per their latest finalised accounts as of 30 September 2010.*

#### **Investments in PSUs**

*As on 31 March 2010, the investment (Capital and long term loans) in 65 PSUs was ₹ 9622.02 crore. Power Sector accounted for 80.86 per cent of total investment in 2009-10. The Government contributed ₹ 1670.15 crore towards equity, loans and grants / subsidies during 2009-10.*

#### **Performance of PSUs**

*As per the latest finalised accounts, out of 25 working PSUs, eight PSUs earned profit of ₹ 12.78 crore and 14 PSUs incurred loss of ₹ 1187.37 crore. The major contributors to profit was Bihar State Financial Corporation Limited (₹1.36 crore) and Bihar State Beverages Corporation Limited (₹ 1.09 crore).*

*Heavy losses were incurred by Bihar State Electricity Board (₹ 1102.28 crore) and Bihar State Road Transport Corporation (₹ 55.74 crore).*

*Audit noticed various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG of India shows that the State working PSUs' losses of ₹ 164.49 crore and infructuous investments of ₹ 64.21 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. During the year 2009-10, all 15 accounts of the companies received qualified certificates. The compliance of companies with the Accounting Standards remained poor as there were 13 instances of non-compliance in 11 accounts during the year.*

#### **Arrears in accounts and winding up**

*25 working PSUs had arrears of 213 accounts as of 30 September 2010. The extent of arrears was one to 21 years. There were 40 non-working PSUs including seven under liquidation.*

(Chapter 1)

## 2. Performance Review relating to Government Company

A performance review relating to 'Working of Bihar Rajya Pul Nirman Nigam Limited' was conducted. Executive summary of the audit findings is given below:

### Introduction

*Bihar Rajya Pul Nirman Nigam Limited (Company) was incorporated in June 1975 as a wholly owned Government Company with prime objective to construct all types of bridges and roads and to collect toll on bridges notified by the State Government.*

*The activities of the Company being in the areas of creation of societal infrastructure, a performance review of the activities was considered imperative. The present review covers the activities undertaken during the period 2005-10.*

### Planning

*The Company estimated cost of land acquisition on lump-sum basis without conducting detailed site survey which resulted in delays in completion of eight projects and funds held up to the tune of ₹ 134.30 crore for three to 17 months. There were delays in utilisation of 45 bridges upto 27 months due to non-completion of approach road. Estimate for the work of construction of the bridge was incomplete as it did not include the cost of essential items, which resulted in short allotment of fund from Government, blockade of fund and the company could not earn centage charges to the tune of ₹ 0.49 crore.*

### Execution

*During 2005-10 the State Government had allotted work of 742 bridges at an estimated cost of ₹ 5,574.73 crore of which the Company completed 538 bridges at a cost of ₹ 1,415.20 crore which included a sum of ₹ 11.74 crore met from BDF.*

*The Company completed substantial number of projects handled by it during the years 2008-10. However, there were delays in execution of projects due to reasons including delays in tendering*

*process, delay in execution of the projects by the contractors, delay in land acquisition, rescinding of the contract etc. In violation of CVC circular and PWD code the Company invited L1 tenderers for rate negotiations.*

### Implementation of schemes

#### *Mukhya Mantri Setu Nirman Yojana (MMSNY)*

*During 2007-10, out of 522 bridges under the MMSNY, the Company had completed 404 bridges. 60 completed bridges were constructed with delay of one to 26 months. Further, the incomplete bridges were delayed from two to 22 months due to reasons such as delays in start of work, delayed execution by contractors and non clearance of site etc. A loss of ₹ 12.13 crore occurred due to execution of work without agreement in Darbhanga Division. Delay in finalisation of tender in respect of Kaptan Pul at Purnea resulted in cost overrun of ₹ 2 crore.*

#### *Construction of Railway Over Bridges (ROBs)*

*Out of eight ROBs, only three could be completed at a cost of ₹ 86.60 crore against the original estimated cost of ₹ 80.15 crore. The remaining ROBs had not been completed till July 2010. These had different scheduled completion dates.*

#### *Execution of Turnkey Contracts.*

*The implementation of three turnkey contracts was deficient as the original GAD, BOQs and estimate were not compared with the designs submitted by the contractor and the actual cost of the projects was not analysed before making payments to the contractors. We observed excess payment of ₹ 43.84 lakh to the contractor in respect of ROB Purnea, short recovery of ₹ 0.80 crore from the Contractor in ROB at Sultanganj, loss of ₹ 13.21 crore due to acceptance of design*

involving less quantum of work without consequent reduction in cost in respect of bridges at Larjha Ghat, Samastipur and Rasiyari Ghat, Darbhanga.

#### **Construction of Bridges under Plan/Non-Plan head**

During 2005-10, the Company received a sum of ₹ 3103.56 crore for the construction of 212 bridges under Plan / Non-plan heads of which the Company completed 161 bridges at a cost of ₹ 886.71 crore. The remaining 51 bridges were in progress (September 2010). We observed that out of 41 projects undertaken in three divisions – Bhagalpur, Katihar and Darbhanga, 24 were completed with delays ranging from three months to 19 years. Out of the remaining 17 ongoing projects, seven projects were already delayed by period ranging from eight to 23 months.

#### **Excess expenditure due to awarding works above the ceiling rates**

111, 43, and 80 works on nomination basis were awarded at 10, 12 and 15 per cent above ceiling rate respectively which resulted in excess expenditure of ₹ 1.95 crore.

#### **Construction of roads**

Since 2007-08 the Company also started construction of roads as and when allotted by the Road Construction Department, Government of Bihar. Against 72 roads only 44 were (61 per cent) completed as on September 2010. There were delays of upto 21 months in completion of roads for various reasons viz. delay in starting of the work, slow progress by the contractor, rescindment and re-award of the work, etc.

#### **Monitoring**

There is no independent quality control wing at the divisions and Company headquarters was not adequately equipped with requisite machines. In contravention of clauses of the SBD, no action was taken against the defaulting agencies to recover the additional cost to the extent of ₹ 15.18 crore (September 2010). The quality and specification of material was not ensured as such documents (M and N forms) were not found enclosed with the bills in any of

the projects. Due to non-observance of MORTH specifications BM work of 4674.46 M<sup>3</sup> valued ₹ 2.79 crore became substandard since there was a gap of six to nine months between the application of two pavement courses which should have been done in forty eight hours. Unauthorised payment of carriage cost of ₹ 22.54 lakh for 4955.40 M<sup>3</sup> of stone chips from unapproved quarry was observed.

#### **Financial position and working results**

The company had not maintained its accounts upto date and these were in arrears since the year 2002-03. Annual accounts of the Company for the year since 2006-07 are yet to be approved by the Board of Directors. Interest earned on unutilised funds for construction activities kept in Fixed Deposits accounted for 14.68 to 51.48 per cent of the total income of the Company during 2005-10.

#### **Funding**

The overall utilisation of the available funds during 2005-10 remained around 80 per cent with general increase in utilisation of funds since 2007-08 as a result of execution of projects under MMSNY. Non-obtaining of prior sanction of excess expenditure from Government resulted in blockade of Company's fund to the tune of ₹ 84.98 crore.

#### **Handing over completed bridges**

141 bridges pertaining to four divisions completed during 2005-10 had not been handed over to the Government till date after a delay of up to 48 months.

#### **Internal Control**

The Internal Control System of the Company was inadequate. The Company did not have an internal audit wing. Firms of Chartered Accountants were appointed for internal audit and the work of compilation of accounts, reconciliation of bank accounts, etc. The Internal Audit Reports did not cover technical audit and propriety of expenditure.

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### **3. Performance Review relating to Statutory Corporation**

A performance review relating to 'Power Generation Undertakings in Bihar' was conducted. Executive summary of the audit findings is given below:

*Power is an essential requirement for all facets of life and has been recognised as a basic requirement. In Bihar, the generation of power is carried out by Bihar State Hydroelectric Power Corporation Limited (Company) and Bihar State Electricity Board (Board). As on 31 March 2010, Board had one thermal generation station i.e. Barauni Thermal Power Station and the Company had 11 canal based hydro generation stations with installed capacity of 372.80 MW. The turnover of the Board was ₹ 2795 crore and of the Company was ₹ 6.78 crore in 2009-2010, which were equal to 1.80 per cent and 0.005 per cent respectively of the State Gross Domestic Product. The BTPS employed 586 employees and the Company employed 107 employees as on 31 March 2010.*

#### **Capacity Addition and Project Management**

*As on 31 March 2010, the State sector had total installed power generation capacity of 372.80 MW. Against the peak demand of 2500 MW demand met was 1508 MW leaving a deficit of 992 MW while the actual addition was 8.7 MW (by Company) to meet the energy generation requirement in the State during 2005-10. There was no addition in thermal capacity. Thus the State was not in position to meet the demand as the power generated as well as power purchased fell short to the extent of 2909.58 MUs to 12297.11 MUs during 2005-10.*

#### **Contract Management**

*During 2005-10, 21 contracts valuing ₹ 36.38 crore (of the Company) were executed. Delays were noticed in finalization of tender, which led to increase in project cost by ₹ 6.07 crore in the three projects reviewed in Audit.*

#### **Operational Performance**

*Performance of the existing generation stations depends on efficient use of material, manpower and capacity of the plants so as to generate maximum energy possible without affecting the long term operations of the plants. Our scrutiny of*

*operational performance revealed the following:*

#### **Procurement of fuel**

*Short receipt of coal (71.41 per cent) against the total linkage approved by Standard Linkages Committee during the four years upto 2008-09 led to shortfall in achievement of the generation targets. In absence of any agreement with the coal companies, the Board paid ₹ 6.29 crore on procurement of 0.43 lakh MT of inferior/ungraded coal which was loss to the Board.*

#### **Consumption of fuel**

*Use of coal having less gross calorific value coupled with high heat rate of station above designed heat rate the Board incurred an extra expenditure of ₹ 48.71 crore on excess consumption of coal during 2005-10.*

#### **Deployment of Manpower**

*The Company had 107 employees as on 31 March 2010). The deployment of manpower was not rational as the manpower deployed in the Company was in excess of the norms fixed by CEA resulting in extra expenditure of ₹3.98 crore.*

#### **Plant Load Factor**

*The PLF of Hydel plants of the Company and BTPS was below the national PLF in all the years during 2005-10. This resulted in generation loss of 3952.9 MUs. Besides, the Company lost contribution of ₹ 39.59 crore.*

#### **Outages**

*The forced outages remained more than the norms of 10 per cent as prescribed by the CEA in all the five years (2005-10) ranging from 12.90 to 81.19 per cent. The outages of unit No. 6 of BTPS was 73 percent of the total available hours during 2005-10. During 2006-07, 11817 hours was avoidable out of 13977 hours of planned outages which resulted in loss of generation of 3.49 MUs.*

### **Auxiliary Consumption**

*The actual auxiliary consumption at BTPS and the Company was more than the norms fixed by CERC during the period under review resulting in loss of generation of 48.97 MUs.*

### **Financial Management**

*Company's dependence on borrowed funds increased from ₹ 290.26 crore in 2005-06 to ₹ 499.60 crore (72.12 per cent) in 2009-10. Similarly the Board borrowings increased from ₹ 7773.25 crore in 2005-06 to ₹ 12605.44 crore (62.16 per cent) in 2009-10. Nearly two third of the paid up capital of the Company eroded at the end of 2009-10 due to increase in accumulated losses.*

### **Environmental Issues**

*The Board did not take any action for washing of 7.08 lakh MT of high ash content coal (weighted average of ash ranged between 41.27 and 46.24 per cent) before use. BTPS neither installed adequate silencing equipments nor installed noise monitoring equipment to record noise levels.*

### **Conclusion and Recommendations**

*The Company could not keep pace with growing demand of power in the State due to non-commencement of commercial production by the newly established hydro generating units as per their scheduled*

*plan. The Board also did not keep pace of the growing demand of power by not executing LE/R & M work (at BTPS) which resulted in further deterioration of the health of the TPS. The project management was ineffective as there were instances of time and cost overrun in all the projects taken up during 2005-10. Operational performance of the plants was adversely affected due to short receipt as well as inferior quality of coal, high heat rate causing excess consumption of coal. Further the plant load factor and plant availability remained lower than the national average level. Heavy capital expenditure coupled with interest commitment on loans without adequate returns due to delay in commercial operation of the plants caused significant increase in cost of operations. The top management did not take corrective measures to ensure adherence to norms/targets in respect of input efficiency parameters. The review contains seven recommendations which include effective planning and monitoring, ensuring consumption of coal within the prescribed norms, minimise forced outages and auxiliary consumption and ensure compliance to environmental laws, etc.*

(Chapter 3)

#### **4. Transaction audit observations**

Transaction audit observations included in the Report highlight deficiencies in the management of Public Sector Undertakings involving serious financial implications. The irregularities pointed out are broadly of the following nature:

*Loss of ₹ 184.52 crore in five cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.*

**(Paragraphs 4.1, 4.4, 4.5, 4.7 and 4.8)**

*Loss of ₹0.24 crore due to inadequate/deficient monitoring system.*

**(Paragraphs 4.2.B)**

*Loss of ₹ 3.67 crore in two cases due to non safeguarding of the financial interests of the organisation.*

**(Paragraphs 4.3 and 4.6)**

*Unfruitful expenditure of ₹ 3.45 crore in two cases due to defective / deficient planning.*

**(Paragraphs 4.9 and 4.10)**

Gist of some of the important audit observations are given below:

The decision of Bihar State Food and Civil Supplies Corporation Limited to give donation of ₹ four crore without prior approval in its general meeting, not only led to violation of the provisions of the Act but was also against the canons of financial prudence.

**(Paragraph 4.1)**

Failure of Bihar State Electronic Development Corporation Limited to enforce the clause of the agreement led to non-recovery of Facility Management Services fee of ₹ 0.32 crore.

**(Paragraph 4.3)**

Non billing of the consumers under High Tension Services-I category as per the provision of tariff resulted in loss of revenue of ₹ 0.82 crore to Bihar State Electricity Board (Board).

**(Paragraph 4.4)**

The Board suffered a loss of ₹ 0.52 crore due to non-billing according to the tariff provisions.

**(Paragraph 4.5)**

Unnecessary Purchase of under ground cable resulted in blocking of ₹ 3.35 crore and consequential loss of interest of ₹ 1.41 crore to the Board.

**(Paragraph 4.6)**

Non-adherence to the tariff provisions by the Board led to loss of revenue of ₹ 5.21 crore.

**(Paragraph 4.8)**