

Important audit findings emerging from test check of transactions of the State Government Companies/Statutory Corporations are included in this Chapter.

### Government Companies

#### Bihar State Food & Civil Supplies Corporation Limited

##### 4.1 *Loss of ₹ 2.91 crore due to non-registration of land*

**Company's failure to timely get the purchase of land registered in their name resulted in a loss of ₹ 2.91 crore.**

The Board of Directors (Board) of Bihar State Food & Civil Supplies Corporation Limited (Company) passed a resolution (March 1983) for purchase of land measuring 1.48 acres situated at Malsalami disapproving the proposal for setting up a rice mill. This land was adjacent to its SILO (Granary) at Patna city. The Company paid (June 1983) the total consideration of ₹ 3.52 lakh to M/s Sri Krishna Goshala (SKG) and took (January 1984) possession of 1.41 acres of land. The Company, however, did not get the sale deed of land registered in their name till 1998. In October 1998, M/s SKG requested the Company to return the land since it was running into losses.

Between the period October 1998 and March 2006 the Company, except for sending several routine requests and reminders to the District Administration to permit them to register the land in their name, did not actively pursue the matter. Meanwhile, M/s. SKG returned (September and October 2004) the consideration amount of ₹ 3.70 lakh to the Company which it did not accept. The Company also took a legal opinion (August 2005) from a legal counsel who opined to file a suit in Civil court to get the land registered in their name. The Company, however, could not file the suit as the sale of the land was executed on a plain paper (January 1984) which was not sustainable in the Court of Law. The Managing Director of the Company had placed a proposal (September 2010) before the Board to return the land to M/s SKG against the consideration of ₹ 8.57 lakh (including simple interest for past 27 years four months).

The Company did not initiate effective steps in past 27 years to get the land registered in their name as well as to protect the land from encroachment by M/s. SKG. The Company also did not have the proper documents to file suit in the Court to get the land registered in their name.

The Management, without ascertaining the prevalent market value of the land, handed it over to M/s SKG at its original cost price plus five *per cent* simple

interest i.e. ₹0.09 crore which resulted in a loss of ₹ 2.91<sup>1</sup> crore to the Company.

The Management stated (May 2011) that several requests to District Magistrate, Patna had been made for permission of registration of land but since permission had not been given by the District Administration, the registration could not be done. The reply of the Management was not acceptable as the Company's activities were not in their best interest since the possession of the land for the last 27 years was sufficient evidence in the eyes of law about the ownership of the property. By parting with the possession of the land, the Company suffered a loss of ₹ 2.91 crore.

The matter was reported to the Government (June 2011); their reply was awaited (December 2011).

#### **Bihar State Text Book Publishing Corporation Limited**

#### **4.2 Irregular grant to Chief Minister Relief Fund: ₹ One crore**

**The Company contributed donation of ₹ one crore in violation of the provisions of the Companies Act, 1956 which was against the canons of financial prudence.**

Section 293(1) (e) of the Companies Act, 1956 (Act) restricts the powers of the Board of Directors of a public Company to contribute to charitable and other funds not directly relating to the business of the Company or the welfare of their employees. The Company may contribute any amount the aggregate of which, within any financial year, does not exceed fifty thousand rupees or five *per cent* of its average profit during the three financial years immediately preceding, whichever was greater. Where the contribution is likely to exceed the aforesaid limit, the same must be done with the prior consent of the Company in a General Meeting.

We observed (July 2010) that Bihar State Text Book Publishing Corporation Limited (Company), a public limited company, contributed (September 2008) ₹ one crore (41.67 *per cent* of its average profit for three immediately preceding financial years) to Chief Minister Relief Fund. Since the contribution exceeded the limits specified by the Companies Act, prior consent of the Company in the General Meeting was required to be obtained, but the same was not done by the Company.

Thus, the action of the Company to donate ₹ one crore during 2008-09 was not only in violation of the Act but also against the canons of financial prudence.

The Management justified (December 2011) the contribution to the fund and stated that due to non-apportionment of the shares of the Company between Governments of Bihar and Jharkhand, the Annual General Meeting of the Company was not held since December 2007. Further, the Board had resolved

<sup>1</sup> Market value of the land i.e. ₹ 2,99,62,500 - consideration received back i.e. ₹ 8,57,000 = ₹ 2,91,05,500.

(November 2011) to put up the matter for the *post-facto* approval in the Annual General Meeting to be held in the future. The reply was not in consonance with the provisions of the Companies Act since the contribution was irregular *ab-initio* and the Act does not provide for its subsequent regularisation through *post-facto* approval in the General Meeting.

The Company should ensure compliance with the provisions of the Companies Act, 1956 prior to contributing to charitable and other funds not directly relating to the business of the Company or the welfare of their employees.

The matter was reported to the Government (May 2011); their reply was awaited (December 2011).

### 4.3 *Infructuous expenditure of ₹ 4.76 crore due to failure in delivery of printed textbooks in time*

**Failure of the Company to supply the textbooks in time before the academic year and revision of syllabus rendered the expenditure of ₹ 4.76 crore infructuous.**

Bihar Education Project Council (BEPC) placed an order (October 2008) for 9.66 crore text books on Bihar State Text Book Publishing Corporation Ltd (Company), Patna for printing, packing and delivery for class I to VIII under Sarva Siksha Abhiyan (SSA) 2009-10. Since these books were to be used during the academic year 2009-10, the scheduled date of delivery was 15 March 2009. Though, the time available for printing and delivery of the textbooks was merely five months, which was not adequate considering the volume of the order, the Company, however, issued orders for printing to private printers in December 2008.

We observed (July 2010) that the Company did not deliver the printed textbooks to BEPC within the stipulated time of March 2009. Instead, it made several requests to BEPC for grant of time extension for delivery of books, with the latest extension being allowed up to 15.11.2009. Meanwhile, the State Education Research and Training Council, Patna intimated (August 2009) the introduction of a new syllabus for class I, III & VI from the academic year 2010-11.

The Company, despite time extensions allowed as well as prior intimation of change in syllabus for class I, III & VI, did not ensure timely printing and packing of textbooks. This resulted in 27.28 lakh books of class I, III and VI valuing ₹ 4.76 crore with the Company becoming obsolete and irrelevant. Since these books were not utilized, the Company decided (July 2010) to dispose off these books by way of distributing to the poor children of the Society.

Failure of the Company to ensure timely delivery of the textbooks resulted in an infructuous expenditure of ₹ 4.76 crore to the Company.

The Management stated (October 2010) that time constraints and other reasons such as lack of space, complex nature of packing, Parliament elections and

floods in some districts, etc led to the non-delivery of printed textbook. The Company despite knowing the change in the syllabus failed to ensure its delivery schedule. In addition, the Company did not safeguard their financial interest by incorporating the suitable penal clause and/or Liquidated Damages clauses in the agreement with the private printers for delay in the delivery of books which resulted in an infructuous expenditure of ₹ 4.76 crore.

The matter was reported to the Government (May 2011); their reply was awaited (December 2011).

#### **Bihar State Credit & Investment Corporation Limited**

#### **4.4 Failure to comply with the terms and conditions of the agreement resulting in non-recovery of dues**

**Failure on the part of the Company to comply with the terms and conditions of the loan agreement resulted in non-recovery of dues of ₹ 15.08 crore.**

Bihar State Credit & Investment Corporation Ltd. (Company) is registered under the Companies Act, 1956. Government of India vide their Notification<sup>2</sup> declared that the provisions of the Sections 29, 30, 31, 32, 32(A), 32(B), 32(C) and 32(D) of the State Financial Corporations Act (SFC Act), 1951 would be applicable to the Company since it was engaged in financing activities. Section 29 of the said SFC Act empowered the Financial Corporation to take over the management or possession of the defaulting industrial concern, and to transfer/take over the property pledged or assigned to the Financial Corporation. The units taken over are then sold/auctioned for the realisation of the outstanding dues of the defaulting units. Further, in cases where the outstanding amount was not fully realised by way of such sale proceeds, the balance amount was to be recovered by invoking the collateral security and/or the personal guarantee of the promoters/directors/guarantors.

We observed (June 2011) that the Company had sold nine industrial units during the period 2002-2009, realising ₹ 2.23 crore (i.e. 12.9 per cent) in respect of six industrial units<sup>3</sup> against the recoverable dues of ₹ 17.31 crore. For the remaining recoverable dues of ₹ 15.08 crore, the Company was required to invoke the irrevocable and unconditional personal guarantee of the promoters/directors of the loanee units for realisation of dues. However, in case of six industrial units, out of the nine sold, the Company did not initiate any such action even after lapse of two to eight years from the date of sale of these units. Thus, failure on the part of the Company to adhere to the terms and conditions of the loan agreement led to non-realisation of the recoverable dues of ₹ 15.08 crore as on March 2011.

<sup>2</sup> Notification No. F.6 (1)/88-IF.II Dated 29.02.1988.

<sup>3</sup> M/s Bala Paper Mills Pvt. Ltd., M/s Bhagwati Solvex (P) Ltd., M/s Ellen Drinks (P) Ltd., M/s MSL Industries (P) Ltd., M/s GR Magnets (P) Ltd., M/s Adarsh Paper Board (P) Ltd.

The Management replied (September 2011) that action had already been taken for the recovery of balance dues by way of institution of Public Demand Recovery (PDR) cases as well as invocation of personal guarantee of the promoters/directors in respect of the nine industrial units. The reply was not correct as personal guarantee of the promoters/directors was invoked in respect of only three, out of nine cases, and the remaining six industrial units as highlighted above were left out finding them irrevocable. Therefore, in absence of proper legal recourse, recovery of the balance dues of ₹ 15.08 crore could not be made.

The matter was reported to the Government (August 2011), their reply was awaited (December 2011).

**Bihar Rajya Pul Nirman Nigam Limited and Bihar Police Building Construction Corporation Limited**

**4.5 Creation of undue liability due to non-deduction of Labour Cess**

**Non-enforcement of labour cess led to creation of undue liability amounting to ₹ 8.19 crore.**

The Government of Bihar (GoB) vide an Extra Ordinary Gazette notification<sup>4</sup> enforced Labour Cess as envisaged by the Ministry of Labour, Government of India notification<sup>5</sup> of 'the Building and Other Construction Workers' Welfare Cess Act, 1996'. The Act specified deduction of Labour Cess at the rate of one *per cent* out of the cost of construction incurred by an employer. Accordingly, all Government Departments and Public Sector Undertakings, engaged in construction works were to deduct Labour Cess at the prescribed rate from the bills of the agencies and remit the same to the "Building and Other Construction Workers Welfare Board" (Welfare Board) through a crossed demand draft within 30 days of such deduction. If any employer failed to pay any amount of Labour Cess payable within the time specified, such employer would be liable to pay interest on the amount at the rate of two *per cent* for every month or part of a month till such amount was actually paid.

We observed (June 2011) that three<sup>6</sup> divisions of Bihar Rajya Pul Nirman Nigam Ltd. (BRPNN) and Patna division of Bihar Police Building Construction Corporation Ltd. (BPBCC) were not effecting mandatory deduction of Labour Cess since April 2008. While BRPNN had started making deductions since February 2010, BPBCC was yet to start deduction (November 2011). Consequently, a sum of ₹ 5.60<sup>7</sup> crore was not deducted from the bills of contractors to be deposited with the concerned authorities as a

<sup>4</sup> Notification No: 865 dated 04 April 2008.

<sup>5</sup> Central Gazette Notification No: SO 2899 of 26<sup>th</sup> September 1996.

<sup>6</sup> Patna-I, Patna-II, and Road Divisions of BRPNN.

<sup>7</sup> Includes labour cess of ₹ 5.11 crore due in respect of BRPNN for the period April 2008 to January 2010 and labour cess of ₹ 0.49 crore in respect of BPBCC for the period April 2008 to March 2011.

result of which the Company had been liable to pay penal interest to the tune of ₹ 2.59<sup>8</sup> crore. This resulted in creation of undue liability to the extent of ₹ 8.19 crore on account of Labour Cess and interest thereon (up to March 2011) towards the Labour Resources Department, GoB (*Annexure-19*). Thus, the Corporation incurred an avoidable liability of ₹ 8.19 crore.

BRPNN intimated (July 2011) that they had started making deduction of Labour Cess from February 2010.

The belated action of the Company in adhering to the Provisions of the Act resulted in an avoidable liability of ₹ 8.19 crore.

Reply of BPBCC was awaited (December 2011).

The matter was reported to the Government (June 2011), their reply was awaited (December 2011).

#### **Bihar State Industrial Development Corporation Limited**

#### **4.6 Inadequate arrangements for safeguarding movable and immovable assets.**

#### **Inadequate safety arrangement resulted in encroachment of assets worth ₹ 21.32 crore.**

The Bihar State Industrial Development Corporation Limited (Company) was incorporated on 5 November 1960 with the objective to promote, establish and execute medium and large industry. The Company had become non-functional since 1991-92 due to financial crisis and redundant technology. The accounts of the Company were finalized and audited up to the year 1987-88 but yet to be adopted (December 2011) in the Annual General Meeting. According to the certified accounts for the year ended 31 March 1988, the Company had total assets of ₹ 4.19<sup>9</sup> crore.

Audit of the annual accounts (1987-88) of the Company revealed the following deficiencies in the maintenance of proper records and lack of adequate measures in safeguarding the movable and immovable properties by the Company:

#### **Inadequate maintenance of asset records & physical verification of assets.**

As per Section 209 (1) (c) of the Companies Act, 1956 (Act), Fixed Assets Register is mandatory to be maintained by the Company as a scientific and effective internal control system. The Company was required to maintain records in respect of each asset showing particulars such as its location, original cost, accumulated depreciation, technical and engineering

<sup>8</sup> Includes penal interest of ₹ 2.48 crore in respect of BRPNN for the period April 2008 to January 2010 and penal interest of ₹ 0.11 crore in respect of BPBCC for the period April 2008 to March 2011.

<sup>9</sup> Immovable assets ₹ 2.98 crore and movable assets ₹ 1.21 crore.

specification, identification number, etc. Our scrutiny (June 2011) revealed that the Company did not maintain adequate and up-to-date records depicting the essential information.

Physical verification of assets at regular intervals is an essential tool of internal control as it helps in ensuring the availability of assets in the possession of the Company, minimizes the risk of its loss/theft and encroachments enabling the Management to take timely remedial action.

We noticed that the Company did not carry out the physical verification of their assets for several years and consequently lacked knowledge regarding any discrepancy in its assets. Inaction in this regard thus exposed the assets of the Company to the risks of theft/ encroachment.

**Encroachment of assets worth ₹ 21.32 crore due to inadequate security arrangements**

Proper arrangement for security and watch and ward of the immovable properties of the Company (viz. land and building) is very essential as it ensures the free availability of the land and building for the Company. Our scrutiny, however, revealed that the Company did not make adequate arrangements for watch and ward of the land measuring 435 acres valuing ₹ 550.71 crore (current market value) at various locations/units of the Company resulting in encroachments as indicated below:-

**A. High Tension Insulator Factory (HTIF), Namkum, Ranchi**

A.(1) Jharkhand State Electricity Board (JSEB) as a part of the erstwhile Bihar State Electricity Board (BSEB) had constructed a grid sub-station on 11.39 acres of land of the Company valuing ₹ 13 crore (at current market price) without any payment to the Company and also without entering into any formal agreement for sale/lease/transfer of the land. However, the Hon'ble High Court, Jharkhand, intervened in the matter and directed (March 2005) the JSEB to approach the Company for taking the said land on lease. But the JSEB had neither paid any amount to the Company (May 2011) nor approached for any agreement for the land. Thus, 11.39 acres of land of the Company valuing ₹ 13 crore were under the possession/encroachment of JSEB without any monetary return to the Company for their assets being used by another Company.

A. (2) 40,000 Sq. feet (0.92 acre) of land of the Company at High Tension Insulator Factory, Ranchi had been encroached by the ex-employees/families of ex-employees/outsideers for 15 years or more. The Company, however, failed to take any effective step to get the land vacated. Thus a substantial area/land valuing ₹ 1.63 crore was under encroachment (May 2011).

A. (3) An ESI Hospital was constructed by The Employees State Insurance Corporation at Namkum, Ranchi on 5.9 acres of land of the Company valuing ₹ 5.69 crore without any payment to the Company and without entering into any formal agreement.

## B. Bihar State Super-Phosphate Factory, Sindri

Half acre (50 Decimal) of residential area at Bihar State Super Phosphate Factory, Sindri valuing ₹ one crore had been encroached by the ex-employees/outsideers since the year 2000. The Company had not taken any effective steps to get the residential land/area vacated (June 2011).

From the above it could be seen that 18.71 acres of the Company land valuing ₹ 21.32 crore were under encroachment. Failure by the Company to take appropriate action to recover the encroached lands resulted in the Company failing to safeguard its financial interest. Further, the loss of these lands through the principle of adverse possession cannot also be ruled out as and when these encroachments are challenged in a Court of Law.

The matter was reported to the Government/Management (December 2011), their replies were awaited (December 2011)

### Nine Government Companies

#### 4.7 Avoidable expenditure by way of excess contribution to Employees' Provident Fund

#### **Nine<sup>10</sup> Government companies deposited the employers' contribution to provident fund in excess by ₹ 4.15 crore in contravention to the Employees' Provident Fund and Miscellaneous Provisions Act, 1952**

As per Section 6 of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, the employer was under obligation to contribute to the fund at the rate of 12 *per cent* of basic pay, dearness allowance, cash value of food concession and retaining allowance payable to each employee. Further Chapter –IV, Para 26 A (2) of Employees' Provident Fund Scheme, 1952 provides that where the monthly pay of an employee exceeds ₹ 6,500, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of ₹ 6,500. Accordingly, all Public Sector Undertakings covered under the Scheme were required to restrict their contribution to the prescribed limit under the Act.

We observed (June 2011) that the nine Government companies had deposited the employers' contribution at the rate of 12 *per cent* without limiting the contribution to the amount payable on the monthly pay of ₹ 6,500. This resulted in an excess contribution of ₹ 4.15 crore by the employers (details given in *Annexure-20*) during the years 2006-11.

Out of the nine Companies, replies from six were received and stated below:

<sup>10</sup> (i) Bihar State Beverages Corporation Limited, (ii) Bihar State Tourism Development Corporation Limited, (iii) Bihar Rajya Beej Nigam Ltd., (iv) Bihar State Credit & Investment Corporation Limited, (v) Bihar State Hydro Electric Power Corporation Limited, (vi) Bihar State Food & civil supplies Corporation Limited (vii) Bihar State Minorities Finance Corporation Limited (viii) Bihar Rajya Pul Nirman Nigam Limited, and (ix) Bihar Police Building Construction Corporation Limited.



(a) Bihar State Credit & Investment Corporation Limited had accepted the facts (September 2011) and issued orders restricting employers' contribution to ₹ 6,500 per month.

(b) Bihar Rajya Pul Nirman Nigam Limited (September 2011) stated that the employers' contribution in excess of the statutory limit was not in violation of Para 26(2) (A) of Employees' Provident Fund scheme and was legal in view of decision pronounced by the Hon'ble Kerala High Court (N. Vijayan & Others V/s Secretary to Govt. Agricultural (Dairy) Department & others) that the employee might make contribution in excess of the statutory limits would not create a corresponding duty with the employer to match such contribution. However, in a given case, employer might on their volition pay more what was statutorily required.

(c) Bihar State Minorities Finance Corporation Limited stated (December 2011) that the Company had issued an office order as per the provisions of Section 26 (6) of the Employees Provident Fund Scheme 1952, allowing payment of employer contribution more than the limit of wages fixed and thereafter Regional Provident Fund Commissioner had been requested (May 2011) to pass necessary orders permitting payment of employer contribution more than the limit of wages which was under consideration.

(d) Bihar Police Building Construction Corporation Limited and the Joint Director, Home (Police) Department, Government of Bihar separately stated (December 2011) that the Company had sought guidance from the Regional Provident Fund Commissioner, Patna in respect of employer contribution more than the prescribed limit which was awaited.

(e) The other two<sup>11</sup> Companies referred to the provision of Section 11(3) of Employees Pension Scheme, 1995 which states that "the maximum pensionable salary would be limited to six thousand and five hundred rupees per month provided that if at the option of the employer and employee, contribution paid on salary exceeding ₹ 6500 per month from the date of commencement of this scheme or from the date salary exceeds ₹ 6500 whichever was later, and 8.33 *per cent* share of the employers thereof was remitted to the Pension Fund, pensionable salary would be based on such higher salary. Thus, these Companies did not violate the provisions of the Act.

The remaining three Companies did not furnish their replies (December 2011).

The Regional Provident Fund Commissioner, Bihar, Patna clarified (December 2011) that any member of the Employees Provident Fund Scheme, 1952 might contribute on more than the prescribed limit by giving a joint request alongwith his employer by giving an undertaking to pay administrative charges over and above prescribed limit. Similar provision existed for pension contribution also, however, only from the date the employee crossed the pay of prescribed limit and not thereafter. The contribution and administrative

<sup>11</sup> Bihar Rajya Beej Nigam Ltd. & Bihar State Food & Civil Supplies Corporation Limited.

charges payable by employer towards Employees Deposit Linked Scheme, 1976, would, however, be restricted to prescribed limit only.

The replies submitted by the Companies as stated above were not acceptable as the employers were not under obligation to exceed the statutory limit in accordance with Section 26 A (2) of the Scheme.

The matter was reported to the Government (August 2011), their reply was awaited (December 2011).

### Statutory Corporations

#### Bihar State Electricity Board

#### 4.8 Loss to the Board

#### Non-implementation of NIT and purchase order clause resulted in a loss of ₹ 0.53 crore

The Board placed orders (June 2008) on M/s East India Udyog Limited and M/s Anand Transformers Private Limited for the purchase of 35 and 20 transformers respectively. As per the terms of the purchase orders, the rate of transformer was to be quoted on variable basis as per IEEMA<sup>12</sup> Price variation circular with the base date of August 2007. As per clause 31(b)(ii) of the NIT “in case of delayed delivery, the purchaser reserved the right to make payment of price variation computed at the date of contractual delivery date or actual delivery date whichever was advantageous for purchaser”. Further as per IEEMA Price Variation circular, the date of delivery was to be the date on which transformer was notified as being ready for inspection/dispatch or the date of contractual delivery whichever was earlier.

M/s East India Udyog Limited had to supply the transformers within two months (15 transformers in first month and 20 in second month) and M/s Anand Transformer within four months (without supply schedule) from the date of issue of purchase orders.

We observed (January 2011) that 17 transformers<sup>13</sup> were delayed and delivered to Chief Engineer, Stores and Purchase of the Board. However, the CE, Stores & Purchase, calculated and released payments on the basis of rates worked out on the scheduled delivery date which was more than the rates prevailing on the actual delivery date. This resulted in excess payments of ₹ 0.53 crore (₹ 0.49 crore to the supplier and ₹ 0.04 crore as entry tax) (*Annexure- 21*).

The Board stated (June 2011) that the amount was paid to the supplier as per terms of NIT and IEEMA circulars.

<sup>12</sup> Indian Electrical Equipments Manufacturers' Association

<sup>13</sup> 13 transformers of M/s East India Udyog Ltd., 4 transformers of M/s Anand Transformers Private Limited.

The contention of the Board was not acceptable since IEEMA circular was concerned with the determination of the date of delivery and in case of delay in delivery by the supplier, the Board should have computed the cost of transformers as per the NIT clause 31(b)(ii) which was not done. The transformers were notified as ready for inspection after a delay of two to eight months from the scheduled date of supply. This resulted in an excess payment of ₹0.53 crore to the supplier.

The matter was reported to the Government (August 2011), their reply was awaited (December 2011)

#### 4.9 Loss in procurement of energy meters

**Failure on the part of the Board to review the purchase order and to take benefit of rebate in procurement of single phase electronic energy meters resulted in avoidable expenditure of ₹ 0.78 crore.**

(A) According to Bihar Finance (Amendment) Rules 2005, adopted by the Bihar State Electricity Board (Board), goods can be procured directly from suppliers at the price not exceeding the rates of Directorate General of Supplies & Disposals (DGS&D). On 24 September 2010, the Central Purchase Committee of the Board decided to procure 1.80 lakh single phase electronic energy meters from five suppliers at DGS&D rates. The Board on 29 September 2010 issued purchase orders as detailed in *Annexure-22*. The delivery of the orders must be completed within four months from the date of purchase orders. The above rates were valid up to 30 September 2010 and from 1 October 2010 the rates were to be revised.

Against the above purchase orders, M/s Maxwell India did not supply the meters. On 5 October 2010, another supplier, M/s Capital Power System Ltd requested the Board to review the Purchase Order since the DGS&D had considered the rate of ₹ 439 of energy meter to be higher and considered the rate of ₹ 405 reasonable. The Board did not respond to this offer and the supplier did not supply the meters. The remaining three suppliers namely M/s Allied Engineering Works, M/s Indotech Switch Gear & Control Pvt. Ltd. and M/s Nakoda Meters supplied 1,07,900 meters out of the total ordered quantity of 1,08,000 meters between December 2010 and April 2011. The payments for supplies of these meters were made in full to these suppliers at the rate of ₹ 450 plus taxes. However, payment to M/s Nakoda Meters was made only for 28000 meters out of 36000 meters supplied.

We observed that the revision in the single phase energy meter rates was due on 1 October 2010. M/s Capital Power System Ltd. had also requested immediately to the Board to review the purchase orders by the time supply of the meters were not made by any of the suppliers. On 18.10.2010, DGS&D revised the rates of energy meters which ranged between ₹ 404 and ₹ 405 plus taxes. Thus, it was imperative on the part of the Board to review the purchase orders and take up the matter with the suppliers. Besides, the Purchase order did not contain any provision for cancellation or amendment of the Purchase Order to safeguard the interest of the Board. Thus, in the absence of review of

the purchase orders to avail the benefit of the lower DGS&D rates resulted in an avoidable expenditure of ₹ 0.59 crore.

Board stated (December 2011) that the purchase orders were placed with the suppliers on DGS&D rate which was valid upto 30.09.2010. Further, on the basis of DGS&D rate which was effective from October 2010, it was not possible to amend the purchase order issued on the basis of the earlier prevailing DGS&D rates. The facts remained that the Board did not review/amend the purchase orders with the suppliers with reference to the revised DGS&D rates which resulted in avoidable expenditure of ₹ 0.59 crore.

(B) For procurement of 3,55,000 single phase electronic energy meters, Board issued purchase order for 50,000 meters in December 2010, 1,25,000 meters in February 2011 and 1,80,000 meters in May 2011 at a price of ₹ 405 per meter plus taxes, etc as detailed in *Annexure-23*. Against the purchase order, 82000 meters were supplied by M/s Allied Engineering Works and 68000 meters by M/s Bentex Control & Switch Gear Co. (September 2011). Out of this, payments were made to M/s Allied Engineering Works (31,719 meters) and to M/s Bentex (36,000 meters) at the rate of ₹ 405 plus taxes, etc. (i.e. ₹ 492.37) per meter.

We observed that DGS&D rate contract of M/s Bentex provided for a slab discount of ₹ 10 per meter for supply of a minimum quantity of 2000 meter. The party was also willing to supply 4-5 lakh of meters. Considering the discount of ₹ 10, the rate per meter of M/s Bentex was ₹ 395 instead of ₹ 405. The Board disregarding these facts had placed orders, for purchase of meters at a rate of ₹ 405 plus taxes and incurred an avoidable expenditure of ₹ 0.19 crore on supply of 1.50 lakh meters (September 2011).

The Board stated (December 2011) that the purchase orders were placed on the suppliers after incorporating additional requirements/specifications in the technical specification prescribed by DGS&D which was known as Guaranteed Technical Particulars (GTP). Further, the slab discount provided on the website of DGS&D was valid only for the technical specifications prescribed by the DGS&D and as such none of the suppliers were ready to supply meters with GTP on rebate. The reply was not convincing as the meters at DGS&D rate could be procured from the suppliers directly, without adhering to the process of tendering, as per the technical specifications of DGS&D.

The matter was reported to the Government (August 2011), their reply was awaited (December 2011).

## GENERAL

### 4.10 *Response to inspection reports, draft paragraphs and reviews*

Audit observations made during audit and not settled on the spot were communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports (IRs). The heads of the PSUs were required to furnish replies to the IRs through respective heads of departments within a period of six weeks. IRs issued up to March 2011 pertaining to 22

PSUs disclosed that 1462 paragraphs related to 589 inspection reports were outstanding at the end of September 2011. These outstanding inspection report paragraphs had not been replied to for one to five years. Department-wise break-up of IRs and audit observations outstanding as on 30 September 2011 is given in *Annexure-24*

Similarly, draft paragraphs and reviews on the working of PSUs were forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially, seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed, that replies to two reviews and 21 draft paragraphs forwarded to the various departments during April to November 2011 as detailed in *Annexure -25* were awaited.

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

Patna  
The



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