

# 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 2011, the State of Bihar had 25 working PSUs( 21 Companies and four Statutory corporations) and 40 non-working PSUs (all companies), which employed 0.19 lakh employees. The State working PSUs had registered a Turnover of ₹ 4031.46 crore for 2010-11 as per their latest finalised Accounts. This Turnover was equal to 1.89 per cent of State GDP. The PSUs had Accumulated Losses of ₹ 7212.86 crore as per their latest finalised Accounts as of 30 September 2011.*

### **Investments in PSUs**

*As on 31 March 2011, the investment (Capital and long term loans) in 65 PSUs was ₹ 10865.23 crore. Power Sector had accounted for 82.73 per cent of total investment in 2010-11. The Government contributed ₹ 2024.48 crore towards Equity, Loans and Grants / Subsidies during 2010-11.*

### **Performance of PSUs**

*As per the latest finalised Accounts, out of 25 working PSUs, 10 PSUs had earned Profit of ₹ 89.80 crore and 11 PSUs had incurred Loss of ₹ 1383.23 crore. The major contributors to Profit were Bihar Rajya Pul Nirman Nigam Limited (₹ 45.08 crore) and Bihar State Road*

*Development Corporation Limited (₹ 23.99 crore). Heavy Losses were incurred by Bihar State Electricity Board (₹1294.98 crore) and Bihar State Road Transport Corporation (₹55.74 crore).*

*Audit noticed various deficiencies in the functioning of PSUs. A review of latest Audit Reports of CAG shows that the State working PSUs incurred losses to the tune of ₹1539.24 crore and infructuous investments of ₹28.94crore were attributable to deficiencies in financial management, planning and implementation of their activities.*

### **Quality of Accounts**

*The quality of Accounts of PSUs needs improvement. During the year 2010-11, all 30 Accounts of the companies received were given qualified certificates. The compliance of companies with the Accounting Standards was poor as there were 26 instances of non-compliance in 16 accounts during the year.*

### **Arrears in Accounts and winding up**

*25 Working PSUs had arrears of 186 accounts as of 30 September 2011. The extent of arrears was one to 21 years. There were 40 non-working PSUs including seven under liquidation.*

(Chapter I)

## 2. Performance Audit relating to Government Company

A Performance Audit of ‘Bihar State Food and Civil Supplies Corporation Limited’ was conducted. Executive summary of the audit findings is given below:

### Introduction

*Bihar State Food & Civil Supplies Corporation Limited (Company) was incorporated in April 1973. The activities of the Company extend to lifting of food-grains for Government schemes and distribution thereof, procurement of grains under the Minimum Support Price (MSP) Scheme, operation of Liquefied Petroleum Gas centres, distribution of levy sugar and supply of food items to jails. The present performance audit for the period 2006-11 was conducted with a view to assessing the effectiveness and the efficiency with which their activities were carried out and whether they were in conformity with the prescribed procedure.*

*As a nodal State agency, its share in total procurement in the State ranged between 14.29 per cent and 14.71 per cent in respect of wheat and 7.84 per cent and 10.71 per cent in respect of paddy during the period 2007-11. The distribution of foodgrains during the period 2006-11 under different schemes was 99.94 per cent of wheat and rice procurement.*

### Procurement

*The Company procured paddy ranging between 11.25 per cent and 87.20 per cent of the target during 2006-11. In respect of wheat, the procurement was between 15.30 per cent and 68.56 per cent of the target during 2006-11. However, the procurement in respect of paddy and wheat was less than 20 per cent of the target during 2010-11. There was no planning for identification of the procurement centres and farmers prior to commencement of procurement seasons. There was no monitoring by the Company of the procurement activities pursued by different DLOs. In DLO Gaya, a sum of ₹ 81.27 lakh remained blocked due to non-lifting of grains under SGRY.*

### Storage Management

*The Company had 387 godowns with a total storage capacity of 1.35 lakh MT. The Company created additional capacity by constructing only one small godown at Jamui (1000 MT capacity) during 2006-11.*

*Following the Government decision (September 2008) to create 47000 MT capacity, the Company submitted an estimate of ₹ 33.48 crore. Neither there was any follow-up action by the Company nor did the Government take any action to augment the storage capacity till now (November 2011).*

*The Government decision (July 2008) to utilise the identified 44 damaged godowns of 45,250 MT capacity at the estimated repairing cost of ₹ 4.32 crore did not materialise as the repair was not complete, even though the Company released ₹ 7.86 lakh for repairing of five godowns with the capacity of 4,400 MT. The repairing of remaining 39 godowns had not been taken so far (November 2011) and the Company could not create storage capacity of 45,250 MT.*

*Repairing of 38 own damaged/incomplete godowns to create an additional 3,800 MT capacity was pending since March 2009.*

*Out of 21,243 quintals of paddy procured during 2008-10 in two DLOs Bhojpur and Nalanda, 16,169.06 quintals of paddy valuing ₹ 1.47 crore was lying unmilled for nearly 30 months resulting in blocking of fund and deterioration in its quality could not be ruled out.*

### Transportation and handling

*Absence of effective pursuance with District Administration resulted in blockage of ₹ 20.08 crore in respect of nine DLOs till May 2011 on account of handling and transportation charges and consequent interest loss.*

The Transporting Agents in Madhubani and Araria did not provide the required number of trucks on time which resulted in lapse of 7.76 lakh quintals of foodgrains during 2006-08 resulting in loss of contribution margin of ₹ 2.38 crore to the Company besides non-supply of foodgrains to the targeted beneficiaries.

#### **Distribution**

Due to short lifting of 68.72 lakh MT of foodgrains under various schemes during 2006-11, the Company was deprived of margin money of ₹ 203.45 crore.

The Company diverted foodgrains from one scheme to another without return of the same quantities to the original scheme to ensure that the targeted beneficiaries were not deprived of the intended benefit of the scheme. As a result of the diversions, the Company earned profits of ₹ 25.74 crore and also incurred loss of ₹ 25.53 crore.

The Company also suffered loss of ₹ 52.11 lakh due to non-disposal of 3,346 quintals of levy sugar in time.

In Gaya District, intended benefit did not reach 85.06 per cent and 37.07 per cent of beneficiaries for 2007-08 and 2008-09 respectively under Nutrition Programme for Adolescent Girls (NPAG) Scheme.

In DLO Nalanda, the Company could not issue 104 quintals of wheat in the absence of any action plan for the implementation of Government scheme for disbursement of grains for protection from starvation at the rate of one quintal per Panchayat.

In DLO Nawadah, there was non-issuance of 599.60 quintals of rice under MDM Scheme during the period April 2010 to May 2010 which adversely affected the scheme implementation.

The Company extended its activities in distribution of Liquefied Petroleum Gas (LPG) for which it was receiving ₹ 22.17 per cylinder from IOCL (June 2011) towards its margin. The average yearly refill sold to consumers registered with the Company during 2006-11 was below one and there was deterioration in the overall performance of the Company and resultant loss of contribution margin.

#### **Financial Management**

The contribution margin to meet their cost of operation approved in 2002 has not been revised for the last nine years (till July 2011) despite huge increase in the transportation and handling cost in 2010-11 as compared to the cost prevailed in 2002. Proposed increase (November 2009) in existing margin ranging between ₹ 21 to ₹ 35 per quintal to ₹ 45 per quintal has not been approved so far and as a result the Company could not recover ₹ 84.02 crore during 2009-11. The Company further submitted (February/March 2011) proposals to increase the margin money for all the Schemes which were pending for decision by the Government (November 2011).

The difference between the procurement price of sugar and sale price to FPS dealers was reimbursed by the Government at the approved rate of margin. The Ministry of Consumer Affairs and Public Distributions had prescribed norm of yearly revision of margin on receipt of requisite proposal. The admissible margin remained unchanged since October 2005. The Company though submitted a proposal (December 2006) for upward revision of margin to meet the price equalization, it was pending at the level of State Government (November 2011).

The differential margin of sugar claims of ₹ 3.43 crore for the period September 2006 to March 2007 submitted to FCI had not been entertained due to non-submission of valid certificates. In addition, the Company was yet to submit (November 2011) its claim for ₹ 68.24 crore for the period from August 2009 to November 2010 due to non-receipt of utilisation certificates from their DLOs.

#### **Human Resource Management and Internal Control**

Total number of working employees as on 31.01.2011 was 1040.

During 2006-11, there had been shortage of accounts personnel and AGMs which resulted in the accounts of the Company being in arrears since 1990-91.

The Company had not prepared Accounts and Internal Audit Manuals.

Internal Audit Reports prepared for the period upto 2009-10 were not placed before the BoD so as to resolve

shortcomings in the areas of interest for the Company.

As on 31 March 2011, number of employees held responsible for shortages of foodgrains stood at 257. Out of a total claim of ₹ 29.94 crore including interest receivable on account of shortages of foodgrains, a sum of ₹ 5.73 crore had been recovered from them and ₹ 24.21 crore was yet to be recovered.

#### **Computerisation of business activities.**

The Company decided (March 2007) to computerise their business activities.

Due to poor planning, the computerisation activities of the Company were incomplete even after a lapse of nearly 49 months depriving the Company of the opportunity to save a sum of ₹ 4.72 crore, as envisaged.

#### **Miscellaneous**

Claims against FCI for the short supply of 431 bales of jute bags valuing ₹ 65.55 lakh were pending settlement since July 2009 due to non-fixation of final rates by FCI.

During 2006-11, at four DLOs against the procurement of 4,58,156 Jute bags, only 1,72,526 (37.66 per cent) bags were utilised indicating that the bags were purchased without proper assessment of their requirement resulting in blocking of funds of ₹ 87.40 lakh.

#### **Conclusion and Recommendations**

Company's procurement of paddy and wheat touched the level of less than 20 per cent of target in 2010-11 and as a result started losing contributory margins. It may consider improving the level of procurement by identifying procurement centres and farmers well before the start of procurement season.

Company's storage management needs improvement as its initiation for creation

of additional storage capacity by construction of additional godowns, repairs and usage of their own damaged godowns, hiring the godowns of co-operative societies did not materialize during the review period. The Company may step up its activities for acquisition of additional storage capacity.

As transport agents did not place their trucks in time, the Company lost an opportunity to lift the allocated foodgrains and therefore the management of transport agents requires to exercise strict control over them.

Instances of diversion of foodgrains were noticed from one scheme to another whereby its intended beneficiaries were deprived of the benefits of the scheme. The Company may institute adequate control mechanism where such diversions are avoided and in the case of unavoidable diversions, the mechanism may ensure replenishment of the diverted quantity so that the benefit reached the targeted beneficiaries.

The continuous non-revision of contributory margin and non-submission of claims for reimbursement in time has deprived the Company of its dues. The Company may persuade the State Government to revise its margin adequately to cover its cost of operations and ensure submission of its claims in time with valid certificates.

The non-preparation of accounts since 1990-91 results in erosion of its public accountability and may lead to occurrence of fraud. The Company may ensure preparation of its accounts up to date.

(Chapter II)

### 3. Performance Audit relating to Statutory Corporation

A Performance Audit relating to ‘Power distribution utilities in Bihar’ was conducted. Executive summary of the audit findings is given below:

#### **Introduction**

The distribution system of the power sector constitutes the final link between the generation and the consumer. As on 31 March 2011, the Board had distribution network of 1.42 lakh CKMs of lines, 473 Sub-stations and 43491 Distribution transformers of various capacities. The Turnover of the Bihar State Electricity Board (Board) was ₹ 2409.69 crore in 2010-2011, which was equal to 47.14 per cent of State PSUs Turnover and 1.13 per cent of the State GDP. It employed 11651 employees as on 31 March 2011.

#### **Distribution network planning**

As against the planned addition of 291 Sub-stations and 3062.7 MVA capacity during the review period, only 111 sub-stations and 1912.70 MVA was added to the distribution system. Ineffective circle-wise planning resulted in wider mismatch between the planned transformation capacity and the projected connected load as on 2010-11.

#### **Ineffective planning**

While planning the construction of 40 PSSs, the planning for construction of its connecting lines was not done simultaneously. As a result, 12 out of 40 PSSs constructed with an expenditure of ₹ 11.53 crore could not be charged and were lying idle for eight months. Further, ineffective planning, had increased the cost of construction of connecting lines by ₹ 4.80 crore from the estimated cost.

#### **Implementation of Centrally Sponsored Schemes**

##### **Rural Electrification**

The target of cent per cent village electrification could not be achieved. Out of 28140 targeted villages, infrastructure work of electrification was completed in only 20573 villages upto March 2011. In eight districts of Bihar where the Board was the executing agency, out of 4714

villages to be electrified, only 1920 villages could be electrified up to October 2011. Against the target of providing access to electricity to 27.62 lakh BPL rural house holds (RHHs), only 18.18 lakh (65.83 per cent) were electrified (September 2011).

Due to inordinate delay in award of contract the project cost had increased by ₹ 103.69 crore and the objectives of RGGVY could not be achieved.

An amount of ₹ 24.18 crore incurred on installation of 3038 DTRs had proved to be infructuous, as the DTRs failed in guarantee period due to slackness of the Board to stop the unauthorized connections.

#### **APDRP**

The Board nominated the PGCIL (consultant) to execute the APDRP Scheme without following the process of award for execution of work of underground cabling. Had the Board executed the scheme itself, Board could have saved ₹ 6.24 crore towards supervision charges. Again, the Board lost an opportunity to avail grant of ₹ 2.95 crore due to under-estimation of the project cost. Besides, due to inefficient monitoring and poor co-ordination by the Board, the project suffered cost overrun of ₹ 65.69 crore.

The Board incurred an expenditure of ₹ 69.21 crore on system metering for data analysis in four circles with a view to reduce T&D losses by energy accounting. However, in the absence of follow-up action on analysis of data collected, the Board could not derive the envisaged benefit of the project.

#### **Restructured Accelerated Power Development Reforms Programme (R-APDRP)**

Out of total fund of ₹ 68.37 crore received during 2009-11, the Board could utilise ₹ 12.31 crore till March 2011 due

to non-synchronisation of the activities of the scheme.

Due to failure of Board to appoint IT implementing agency within stipulated time, the IT enabled system was delayed by nine months. Further, in SCADA/DMS project, the IT consultant was selected after a delay of seven months. The consultant submitted the DPR in April 2011, after a delay of 15 months which was approved by PFC in November 2011. Since there was initial delay in selection and approval of DPR, the possibility of completing the project within stipulated period and conversion of loan into grant is, therefore, remote.

Target for installation of consumer metering had not been achieved in any of the years by the Board. The percentage of meter installed against target ranged from 26.59 per cent to 36.6 per cent only during performance audit period.

#### **Operational efficiency**

Due to drawal of power under Unscheduled Interchange, the Board incurred an extra expenditure of ₹ 254.26 crore on 1211.51 MUs as compared to long term power purchase cost during 2006-11. In addition, the Board could not make payment of UI charges in time which resulted in payment of penal interest of ₹ 20.95 crore on delayed payment during 2008-09 to 2010-11.

Except during 2008-09, the Board could not bring down the T&D losses within the limit prescribed by BERC. The energy lost during the period 2006-11 was 1768.66 MUs. The loss of revenue suffered by Board on this count was ₹ 638.55 crore.

The percentage of failure of DTRs had increased and ranged between 10.40 and 17.46 per cent of the total installed DTRs during the performance audit period. 120 DTRs failed in the guarantee period. Out of these, 112 DTRs were replaced/ repaired after a delay of two days to 237 days. Besides, eight DTRs were still not repaired/ replaced (December 2011) even after a delay of five months to three years.

Due to non-installation of capacitor banks in distribution system, the Board

had lost envisaged energy savings of 20.01 MUs valued at ₹ 6.09 crore.

The percentage of checking of number of consumers by raid team was minor and ranged between 0.08 per cent and 0.24 per cent.

#### **Billing Efficiency**

Energy billed during the performance audit period ranged between 56.36 and 61.95 per cent of the total energy available for sale. Further, the assessed sales constituted 31.11 per cent to 42.04 per cent of the metered sales.

Due to incorrect application of tariff provisions with respect to transformer capacity, the Board suffered a loss of revenue of ₹ 4.84 crore. The Board also suffered a revenue loss of ₹ 2.45 crore due to short assessments and short billing of contract demand with respect to a HTSS consumer.

#### **Revenue collection efficiency**

The dues outstanding at the end of the year ranged between ₹ 5749.43 crore in 2006-07 and ₹ 5700.20 crore in 2010-11. Non-disconnection of supply of defaulting consumers resulted in accumulation of arrears to ₹ 245.98 crore (March 2011).

#### **Financial Position and Working Results**

The Accumulated Losses of the Board had increased by 281.77 per cent from ₹ 1524.71 crore in 2006-07 to ₹ 5820.86 crore in 2010-11. The Board was incurring losses mainly due to the high cost of power purchase, interest and finance charges.

The borrowings of the Board had also increased by 52.29 per cent from ₹ 5577.62 crore in 2006-07 to ₹ 8493.88 crore in 2010-11. Loss per unit had also increased from ₹ 1.12 per unit in 2006-07 to ₹ 1.65 per unit during 2010-2011.

#### **Financial Management**

##### **Filing of Aggregate Revenue Requirement**

Due to delay in the filing of ARR (80 days to 399 days), the Board suffered revenue loss of ₹ 963.85 crore during the period 2006-07 to 2010-11.

**Subsidy Support**

The subsidy support from the State Government ranged between 42.97 per cent and 56.43 per cent. This was a matter of concern as the subsidy might be withdrawn over a period of time in a phased manner so that tariff would cover the average cost of supply to consumers.

**Consumer Satisfaction****Redressal of consumer grievances**

The pending complaints were ranging between 33000 and 52000 during the period 2008-11. The percentage of complaints redressed beyond time to total complaints ranged between 15.74 per cent and 27.46 per cent during this period.

**Energy conservation & energy audit**

The Board did not formulate any energy conservation policy during 2006-11. Further, energy audit could not be conducted as cent per cent system metering was not done.

**Conclusion**

The Board was incurring losses mainly due to the high cost of power purchase, interest and finance charges. The Board did not make correct assessment of power purchase, as a result, the Board incurred extra expenditure on drawal of power through UI. The Board was also dependent on borrowings for implementation of various schemes and other activities. This can be minimized by reducing T&D losses and improving its operational, billing and collection efficiency. The Centrally sponsored scheme and State specific scheme launched for strengthening and

upgrading the distribution system should be closely monitored to ensure economy, efficiency and effectiveness. The Board also did not submit ARR in time and cross-subsidization was also beyond the norms.

**Recommendations**

Planning for creation of additional infrastructure should be done on the basis of the past load growth trends, current load and projected load growth in future to make the system equally efficient and to reduce the gap between transformation capacity and connected load in all circles.

Effective contract management and regular monitoring of execution of projects and schemes should be done to avoid delay and cost overrun.

The Board should implement effective measures to reduce the T&D losses in phased manner.

Correct application of the Tariff Orders should be ensured in the billing system and the Board should be prompt in realisation and collection of outstanding dues.

The Board should ensure the filing of ARR in time so as to reduce the losses due to delayed implementation of revised tariff.

The Board should ensure the installation of system meters in all the Supply Circles so that the Energy Audit could be started and at the same time the Board should initiate awareness campaign regarding Energy Conservation.

(Chapter III)

#### 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/non-recovery of ₹ 28.42 crore in four cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.*

*(Paragraphs 4.2, 4.4, 4.5 and 4.7)*

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

*(Paragraph 4.6)*

*Loss/infructuous expenditure of ₹ 8.98 crore in four cases due to non safeguarding of the financial interests of the organisation.*

*(Paragraphs 4.1, 4.3, 4.8 and 4.9)*

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

Failure to timely get the purchase of land registered in their name resulted in a loss of ₹ 2.91 crore to the **Bihar State Food & Civil Supplies Corporation Limited**.

*(Paragraph 4.1)*

Failure on the part of the **Bihar State Text Book Publishing Corporation Limited** to supply the textbooks in time before the academic year and revision of syllabus rendered the expenditure of ₹ 4.76 crore infructuous.

*(Paragraph 4.3)*

Failure on the part of the **Bihar State Credit & Investment Corporation Limited** to comply with the terms and conditions of the loan agreement resulted in a loss of ₹ 15.08 crore to the Company.

*(Paragraph 4.4)*

Non-enforcement of labour cess led to creation of undue liability amounting to ₹ 8.19 crore in respect of **Bihar Rajya Pul Nirman Nigam Limited and Bihar Police Building Construction Corporation Limited**.

*(Paragraph 4.5)*

**Nine 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.

*(Paragraph 4.7)*