

CHAPTER IX: MINISTRY OF HEAVY INDUSTRIES & PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

9.1 *Avoidable expenditure due to inclusion of restrictive clause in tender documents*

Due to acceptance/inclusion of restrictive clause in the tenders for boiler vertical packages, the Company deprived itself of the benefit of competitive rates and had to incur an avoidable expenditure of ₹ 27.77 crore.

Bharat Heavy Electricals Limited (Company) was awarded a contract (December 2008) for supply, erection, testing and commissioning of Main Plant Equipment by NTPC Limited (NTPC) for their Mauda Thermal Power Station (2 units of 500 MW) project in Maharashtra. After submission of the bid by the Company (August 2007) and during pre-award discussions, NTPC insisted (November 2007) that the erection agency for the first unit boiler shall not be deployed for the next unit which was agreed to by the Company.

During execution of the above order, Power Sector Western Region, Nagpur unit (PSWR) of the Company awarded (September 2009) the boiler vertical package for Unit-I at ₹ 47.37 crore to Sunil Hi-Tech Engineers Limited who had emerged L1 in the open tender.

For boiler vertical packages of Unit-2 of the Mauda project and for two other units (Unit Nos. 8 and 9) of Chandrapur project of Maharashtra State Power Generation Corporation Limited, the PSWR of the Company issued (August 2009) a consolidated limited tender enquiry to 11 vendors. In the tender enquiry (August 2009), the Company included a condition (restrictive clause) that “One bidder shall get only one job per location, *i.e.* if a bidder is awarded the job for one of the units in any location, then the bidder is not eligible for the same job of other unit at the same location and his price bid shall not be opened”. In response to tender, eleven offers were received. The price bid of Sunil Hi-Tech Engineers Limited for Unit-2 of Mauda project, was not considered (December 2009) because they had already been awarded the job of Mauda Unit-1. In all, price bids of only four vendors were opened (2 bids rejected due to late receipt, 3 bidders were not approved by the customers, 1 bidder withdrew the bid, and 1 bidder was not considered due to restrictive clause) and amongst them, Power Mech Projects Limited who emerged L1 at a total value of ₹ 60.63 crore was awarded the work (February 2010). The departmental estimate was same for both units (₹ 56.52 crore) and there was no change in the nature, scope and location of both the works.

Acceptance of the restrictive clause in the contract with NTPC, led to an additional expenditure of ₹ 13.26 crore for unit-2 boiler which was 28 *per cent* more than the cost of unit-1 of Mauda project.

Audit further observed that there was no contractual condition between the Company and Maharashtra State Power Generation Corporation Limited to award the work of different

units of Chandrapur Project (2 units of 500 MW) to separate parties. However as discussed above, the Company clubbed this work in tender of Mauda-II unit of NTPC and applied the restrictive clause to Chandrapur project as well. This resulted in awarding (February 2010) of the Unit No. 9 work at Chandrapur to Texcel Engineering Private Limited for ₹ 48.94 crore whereas the Unit No. 8 of Chandrapur project was awarded (November 2009) to Sunil Hi-Tech Engineers Ltd. at a lower contractual value of ₹ 44.17 crore resulting in avoidable expenditure of ₹ 4.77 crore.

The Company also floated between November 2009 and May 2010 two tender enquiries for boiler packages with restrictive clauses for awarding work of one block to one contractor, though there was no such insistence from the customers resulting in avoidable expenditure of ₹ 9.74 crore* .

The Company while accepting the incurrance of extra expenditure and assuring to be more vigilant in future in agreeing to restrictive clause of customers, stated (October 2011/January 2012) that:

- *Complexities of executing two or more units in parallel means mobilization of all resources as many times which requires a very high level of preparedness, and working with large number of labour for the entire period of the contract is very daunting;*
- *Each contractor draws power from a central or identified power source lines through their own dedicated lines (overground or partly underground) which need to be frequently re-routed to allow for and accommodate the other construction activities which results temporary disruption in the construction activities. When two or more agencies are deployed, it is ensured that only one line is re-routed/relaid at a time so that work is not stopped altogether in a Project;*
- *There are limited number of contractors equipped to carry out such large works involving mobilization of large number of manpower, deployment of skilled technicians, deployment of large cranes. etc. required for this work. Since it is a huge risk for any agency to manage such complexities even for one unit, awarding of two or more units to a single vendor only further increases the risk;*
- *Though there is an apparent increase in cost, the financial implication of non-performance by a single agency would be much more for the Company;*
- *Executing all the units through a single agency would aggregate the risks and in case of default by vendor the whole project will be affected; and*
- *In case of NTPC the condition had been agreed to by the Company at pre award stage and was, therefore, binding on the Company.*

The reply of the Company is not acceptable in view of the following:

* *Being the difference between the awarded price and L1 price accepted for similar units at the same location for India Bulls Realtech Ltd. (Awarded price of ₹24.28 crore per unit less L1 price of ₹20.59 crore per unit. Avoidable expenditure for 2 units was 2X₹3.69 crore= ₹ 7.38 crore) and Hindalco Industries (Awarded price of ₹42.46 crore for Block II less L1 price of ₹40.10 crore for Block I. Avoidable expenditure was ₹2.36 crore). Thus total avoidable expenditure was ₹9.74 crore i.e. ₹7.38 crore+₹2.36 crore.*

- The operational and logistic difficulties and non-performance by a single agency, realignment of power lines, risks of contractors involving mobilization of large number of manpower, deployment of skilled technicians, deployment of large cranes, etc. indicated by the Company are not insurmountable issues in any contract management and a Navratna Company like BHEL should be able to deal with such situations by appropriate planning, monitoring and efficient project management. Such issues do not justify the decision of one contractor for one unit involving extra financial burden on the Company.
- At the time of award of works the Company neither had any well defined policy for deploying more than one contractor for different units nor any separate technical criteria for assessing the execution capacity of the bidders. Audit observed that the Company had also awarded work of more than one unit (Mauda unit 1 in September 2009 and Chandrapur unit 1 in November 2009) to the same contractor (Sunil Hi-Tech Engineers Limited) almost at the same time.
- The policy guideline for deploying more than one vendor for different major works was issued in October 2010. The same had the approval of only three out of four Regional Executive Directors. Such a policy which applies to all major contracts and involves significant financial implications requires approval of the Board level.
- Further NTPC insisted for the restrictive clause only in the negotiation/pre award stage and not in the bidding stage. Accepting a post bid clause during negotiations that has cost implications reflects adversely on the contract management system in the Company.

Thus, due to acceptance/inclusion of restrictive clause in the tenders, the Company deprived itself of the benefit of competitive rates and had to incur an avoidable expenditure of ₹ 27.77 crore.

The matter was referred to Ministry (October 2011); their reply was awaited (May 2012).

9.2 Extra expenditure due to non-diversification of the vendor base

The Company lost an opportunity to save ₹ 11.50 crore due to laxity on the part of the Management to add a known vendor to its vendor base.

The Heavy Electrical Equipment Plant, Haridwar, one of the four major manufacturing units of Bharat Heavy Electricals Limited (the Company) procured Flexible Terminal Connections (FTCs) from Siemens Limited (M/s. Siemens) on single tender basis till December 2009. FTC is a critical and sophisticated current transfer component which serves as a flexible joint application between bushing and bus bar connections in generators.

Audit observed (April 2011) that the Company was aware in August/September 2002 itself that M/s. Geitzenauer was supplying FTCs to M/s. Siemens. In order to widen its list of approved suppliers, the Company made a formal enquiry to M/s. Geitzenauer in September 2002. However, in response M/s. Geitzenauer informed that the enquiry had been forwarded to M/s. Siemens for an offer. The Company, subsequently, neither followed up the case with M/s. Siemens nor took up the issue again with M/s Geitzenauer till 2009. Under the technical collaboration agreement, M/s. Siemens was responsible for

intimating the Company of the possible sub-suppliers. Later in March 2006 M/s. Siemens furnished a list of their sub suppliers for generator assembly which included M/s. Geitzenauer as a sub supplier for the FTC. However, the Company did not even scrutinise the information received from M/s. Siemens till October 2008. Subsequently, in December 2009, when the Company again approached M/s. Geitzenauer for supply of FTCs they quoted their price and were added as a registered vendor for FTCs in the product material directory of the Company.

Subsequent to registration of M/s. Geitzenauer as an approved vendor, the Company floated (February 2010) limited tender enquiry to both the approved vendors viz., Siemens and M/s. Geitzenauer for supply of FTCs. The comparative rates quoted by both the vendors revealed that M/s. Geitzenauer was L1 with quoted price of Euro 7,250 and Euro 7,950 per unit whereas Siemens was L2 with quoted price of Euro 24,756 and Euro 23,021 per unit for the 500 MW FTC and 660 MW FTC respectively. The price quoted by M/s. Geitzenauer was significantly lower than the prices of Siemens for 500 MW FTC and 660 MW FTC respectively and accordingly, purchase orders were placed (February 2010) on M/s. Geitzenauer.

Audit further observed that in the meanwhile, 144 FTCs were procured during January 2007 to October 2009 from M/s. Siemens on a single tender basis for ₹ 17.48 crore. As the price quoted by M/s Geitzenauer was nearly one-third of Siemens, the Company lost an opportunity of saving ₹ 11.50 crore[▼] due to procurement of FTCs from Siemens during January 2007 to October 2009 on single tender basis.

Management while accepting that M/s. Geitzenauer as a vendor for FTCs was known to them since 2002, stated (February/June 2011) that:

- *When the vendor was approached in February 2003, they declined to make a direct offer and advised the Company to obtain the same from M/s. Siemens.*
- *The approved list of updated suppliers received from M/s. Siemens in March 2006 was part of thousands of drawings and documents in soft copy. Different Engineering Groups initiated scrutinizing of information received only after the Company had received first firm order of 800 MW rating generator in October 2008.*
- *Even if M/s. Geitzenauer had been approached earlier, they were not in a position to deal directly with BHEL till November 2009 due to capacity constraints as informed by their agent.*

We do not agree with the Management because:

- As per agreement (August 2002) between M/s. Siemens and the Company, M/s. Siemens was under an obligation to inform the latter of the possible sub-suppliers. However, neither M/s. Siemens informed the Company about M/s. Geitzenauer nor the Company made any effort with Siemens despite M/s. Geitzenauer's confirmation in September 2002 that they were the suppliers of FTC to M/s. Siemens. In fact, the Company did not follow it up with either M/s. Siemens or M/s. Geitzenauer for more than six years from 2003 to December 2009.

[▼] *Based on the difference of 65.47 and 70.71 per cent between the prices quoted by M/s. Siemens and M/s. Geitzenauer against tender floated in February 2010 for 500 MW FTCs and 660 MW FTCs respectively.*

- The Management took abnormal time of more than two years to scrutinise the information received from M/s. Siemens in March 2006. The Management's argument that the Engineering Groups initiated scrutiny of information only after the Company had received first firm order of 800 MW rating generator in October 2008 reflects adversely on the system of vendor development to get the best price. This was despite the fact that vendor information was already available.
- The issue of capacity constraint was never raised by the vendor in their correspondence with the Company nor did the agent's letter of November 2009 get reflected anywhere in the minutes of the meeting relating to registration of M/s. Geitzenauer held in December 2009. In fact, these minutes indicated that the correspondence was done directly with the vendor.

Thus, due to negligence on the part of the Management to add a known vendor to its vendor base despite the availability of information about vendor, the Company lost an opportunity to save an expenditure of ₹ 11.50 crore.

The matter was reported to Ministry in October 2011; reply was awaited (May 2012).

9.3 Extra expenditure due to inadequate system of cost estimation

Due to non adherence to its 'Works policy' and inadequacies in the system of cost estimation, Bharat Heavy Electricals Limited could not avail the benefit of competitive rates and incurred an avoidable expenditure of ₹ 8.64 crore in a work in Sudan.

Bharat Heavy Electricals Limited (Company) invited (July 2006) open tenders for the work of design and construction of two numbers reinforced concrete twin flue¹ steel lined chimneys and four cooling towers at Kosti Thermal Power Plant, Sudan of M/s. National Electric Corporation, Sudan (NEC).

Three technically responsive bids received by the Company were opened and the lowest tenderer (L1) M/s. Simplex Infrastructure Pvt. Limited was found to be 61 *per cent* higher than the estimated cost. The Company rejected the tenders and retendered the work in December 2006 after deletion of design from the scope of work. Three bids received (March 2007) were again cancelled (July 2007) by the Company as the quoted price of L1 (M/s. Gammon India Limited) was 36 *per cent* higher than the estimated cost. The work was retendered third time (August 2007) and price bids of two technically responsive parties namely M/s. Bygging India Limited, Mumbai (BIL) and M/s. Progressive construction Limited, Hyderabad were opened. BIL was L1 at Euro 9.23 million (equivalent to ₹ 53.55 crore²) which was 27.5 *per cent* higher than the estimated cost of ₹ 42 crore. As BIL refused to offer any discount during negotiation, the Company decided (March 2008) to revisit the estimates and retender the work.

While retendering the work for the fourth time in March 2008, the Company revised the estimate from ₹ 42 crore to ₹ 50 crore mainly on the basis of price of BIL for two items *viz.* concrete and form work for cooling towers quoted in third round of tender in August 2007. On retendering, the Company received three bids out of which two were

¹ a pipe for conveying exhaust gases

² 1 Euro = ₹ 58.047 as taken by the Management in their calculations.

technically responsive. BIL was again L1 and the work was awarded (June 2008) to them at the negotiated price of US\$ 14.5 million (Equivalent to ₹ 62.19 crore*).

Audit observed that as per the 'Works policy', the Company was required to re-examine the estimates in case of variance in rates beyond 20 *per cent* of the estimates. However, the Company revised the estimated rates for two items for cooling towers in April 2008 even though the market price of these items was known to them in March 2007 itself when tendering for these items had already been carried out twice. Due to overlooking the available market information and retendering the work for the third time in August 2007 without realistic estimates and in deviation of its 'Works policy', the Company deprived itself of the benefit of competitive rates and had to award the work to the same contractor in the fourth round of tendering at a higher price of US\$ 14.5 million (equivalent to ₹ 62.19 crore) resulting in an extra expenditure of ₹ 8.64 crore.

The Management stated (August 2010) that they had no back up data of other similar projects in Sudan. As the items in the tender were not general in nature due to quality and quantity issues, independent survey was also not possible.

We find it difficult to accept the Management's contention as the Company had already discovered the price of these items twice before tendering for the third time in August 2007. A realistic cost estimation which was required as per the Company's Work policy before tendering third time could have saved an extra expenditure of ₹ 8.64 crore for getting the work done through the same contractor.

Thus, despite the fact that there was a Works policy in place in the Company, the Management failed to comply with it. As a result, the Company could not avail the benefit of competitive rates and incurred an avoidable expenditure of ₹ 8.64 crore.

The matter was reported to Ministry in September 2010; reply was awaited (May 2012).

9.4 'Fund Management' in Government Companies Incorporated under Section 25 of the Companies Act, 1956

9.4.1 Introduction

The Companies incorporated under Section 25 of the Companies Act, 1956 are 'not for profit' entities. The profit earned by these Companies, if any, is required to be applied for promoting its objectives only i.e. to provide concessional finance to promote economic and development activities of their target groups, those living below double the poverty line (DPL), mainly through State Channelizing Agencies (SCAs) in case of four social sector Companies; and to promote, develop and commercialize the technologies in case of research Company. The following Government Companies (Companies) incorporated under Section 25 of the Companies Act were selected for 'Audit of Fund Management'.

* 1 US\$= ₹42.89 as per RBI reference rates on date of award

(₹ in crore)

Sl. No.	Name of the Company	Year of Incorporation	Administrative Ministry	Paid-up Capital (31-3-11)
Social Sector Companies				
1.	National Scheduled Castes Finance & Development Corp. (NSFDC)	1989	Ministry of Social Justice & Empowerment	596.80
2.	National Backward Classes Finance & Development Corp.(NBCFDC)	1992		602.35
3.	National Minorities Development & Finance Corporation(NMDFC)	1994	Ministry of Minority Affairs	933.17
4.	National Scheduled Tribes Finance & Development Corp. (NSTFDC)	2001	Ministry of Tribal Affairs	277.33
Research & Development Company				
5.	National Research Development Corporation (NRDC)	1987	Ministry of Science & Technology	4.42

9.4.2 Audit Objectives, Scope and Methodology

The thematic audit was conducted to assess whether the funds of the social sector Companies were managed in an efficient and effective way for economic upliftment/development of beneficiaries and encourage technological innovations in case of the research Company. Audit primarily covered a period of last three years ended 2010-11.

Audit examined records of social sector companies to have assurance that the funds in the companies were managed efficiently and effectively to achieve its corporate objectives. Audit also reviewed the role of Ministry of Social Justice and Empowerment in achievement of the Companies' objectives. In case of NRDC, royalty collection and angel investments were reviewed in audit.

9.4.3 Audit Findings

Audit findings in respect of the four social sector companies and one research & development company are organized separately in this report under Group-A and Group-B respectively considering the diverse nature of activities and audit findings.

A: Fund Management in Social Sector Companies

Background: State Channelizing Agencies (SCAs), nominated by the State Governments, formulate and implement financial assistance schemes for target groups of the beneficiaries. The Companies sanction loans to SCAs based on the annual action plans submitted by the latter and disburse the funds on demands raised by the SCAs.

The Companies send the proposal to their respective Administrative Ministries for release of equity based on fund available with them and loan allocated for disbursement to SCAs. Further action to sanction and disburse loan to SCAs is undertaken by the Companies reportedly without any interference from the Administrative Ministry and the disbursement of fund to target groups (beneficiaries) is done by SCA under various schemes.

The Companies charged low interest rates from SCAs depending on the scheme and the latter charged little higher interest rates from the beneficiaries, but much below the market rate.

The process flow of fund/information is depicted in the chart placed in **Annexure-IV**. Financials of the Companies for the last three years ended 2010-11 may be seen in **Annexure-V**.

A.1 Loan to SCAs

(i) Sanction and disbursement of loan

The Companies sanctioned and disbursed loans to SCAs considering the available fund. Audit observed sizable difference between the amount of loans sanctioned and the amount of fund disbursed to SCAs, which led to substantial funds being surplus and parked in fixed deposits with banks. Ratio of fixed deposits to funds disbursed by the Companies ranged between 18.55 *per cent* and 47.29 *per cent* during the last three years ended 31 March 2011 (refer details in **Annexure-VI**). The details of loan sanctioned and disbursed during the three years ended 31 March 2011 are given below.

Name of the Company	Loan Sanctioned (₹ in crore)	Loan Disbursed (₹ in crore)	Percentage (%) of loan disbursed to loan sanctioned
NSTFDC	474.76	271.68	57.22
NBCFDC	812.23	484.84	59.69
NMDFC	949.53	561.74	59.16
NSFDC	635.92	476.62	74.95
Total	2872.44	1794.88	62.48

It may be seen that in case of NSTFDC, NBCFDC and NMDFC the loan disbursed was less than 60 *per cent* of the sanctioned loan. This was indicative of deficiencies in loan sanction process. A review of records of the Companies for year 2010-11 revealed that some loan were sanctioned in an irrational manner as highlighted below:

- **NMDFC** sanctioned loan for some SCAs in States of Andhra Pradesh, Jammu & Kashmir, Manipur, Madhya Pradesh, Mizoram-Zidco, Orissa, and Uttar Pradesh even though these SCAs had not availed loan for last several years and, except in Andhra Pradesh, were chronic defaulters. During 2010-11, NMDFC allocated funds of ₹60.38 crore for these SCAs but no disbursement was made.
- **NBCFDC** sanctioned loan of ₹ 36.47 crore to nine SCAs who were in the list of chronic defaulters and disbursed only ₹ 2.02 crore during the year 2010-11.

If the above fund were sanctioned to SCAs with good track record, more beneficiaries could be covered under financial assistance schemes.

NMDFC stated (February 2012) that allocation was made on assumption that SCAs would clear outstanding dues during the year. NBCFDC attributed (December 2011) the low disbursement to non-availability of adequate guarantee to cover the fresh disbursements and poor record in terms of repayment and utilization of funds by some SCAs. The reply is not acceptable as the flawed process of loan sanction also caused the non-disbursement of some fund as highlighted above.

NSTFDC stated (December 2011) that SCAs were requested to comply with the norms regarding outstanding dues, utilization of funds and guarantee; hence, there was a gap

between sanctions and disbursement. The Company's contention is not sustainable as the loan disbursed was only 57.22 per cent of the loan sanctioned for last three years taken together.

In conclusion, fact remains that there is a scope for making the loan sanction process more rational so that the available funds are disbursed to the target beneficiaries to the maximum extent instead of parking substantial funds in fixed deposits.

(ii) Non-utilization of loan fund by SCAs

As per lending policy of the Companies, SCAs are required to disburse the funds to target group within a prescribed period of three to six months as per schemes. The unutilized money lying with SCAs for more than six months as on 31 March 2011 is stated below:

(₹ in crore)

Company	Unutilized funds lying with SCAs			
	Six month to one year old	One to three years old	More than three years old	Total
NSFDC	64.82	57.74	44.16	166.72
NSTFDC	3.76	43.25	14.37	61.38
NBCFDC	3.37	10.16	4.78	18.31
NMDFC	7.92	4.76	0.24	12.92
Total	79.87	115.91	63.55	259.33

It may be seen from above that funds amounting to ₹ 259.33 crore remained unutilized with SCAs for more than six months including ₹ 63.55 crore for more than three years.

Audit observed that, as a disincentive for delay in utilization of funds by SCAs, **NBCFDC** and **NMDFC** charged higher rate of interest on the amount lying unutilized with SCAs beyond the prescribed period. The Ministry, in respect of **NMDFC** stated (May 2012) that as on date ₹ 7.92 crore indicated by audit has been utilised. **NSFDC**, however, discontinued charging of higher rate of interest from April 2010 and such interest of ₹ 76.37 crore charged up to March 2010 was not effectively pursued for recovery. **NSTFDC** did not have any policy of charging higher rate of interest, but it stipulates that unutilized funds should be refunded within a period of one year from the date of drawal of fund.

NSTFDC stated (December 2011) that the matter of utilization of funds had been taken up with SCAs at regular intervals. NSFDC stated (December 2011) that the Company did not release further funds to any SCA unless cumulative utilization level of 80 per cent was achieved. However, these two Companies did not furnish reasons for not taking effective action for recalling the unutilized loans or to charge higher rate of interest to discourage SCAs from keeping funds unutilized for long period.

(iii) Non-recovery of over dues from SCAs

Recovery of principal loan and interest in time is necessary to ensure that the financial assistance is provided to more beneficiaries. The loans are given by the Companies to SCAs against the guarantees by the respective States.

Audit noticed that a substantial amount of the fund was blocked for long periods with SCAs as a result of non-recovery of over dues. The details of total over dues (principal and interest) and the chronic defaulters, as on 31-3-2011, are given below.

(₹ in crore)

Company	Total over dues	Number of defaulting SCAs	Chronic defaulters *	
			Over dues	No. of SCAs
NSFDC	299.11	23	185.40	5
NBCFDC	186.66	38	136.03	9
NMDFC	173.28	22	121.55	9
NSTFDC	101.09	30	76.75	12
Total	760.14	123	519.73	35

* Detail of chronic defaulters (i.e. non payment for more than 3 years) is given in Annexure-VII.

It may be seen that chronic default in payment of dues by few SCAs constituted a major part of total over dues in the Companies. Out of total over dues of ₹ 760.14 crore from 123 SCAs, an amount of ₹ 519.73 crore was due from 35 chronic defaulters. SCAs from the States of Uttar Pradesh, Madhya Pradesh, Andhra Pradesh, Gujarat, Bihar, Assam and Mizoram were the major chronic defaulters (₹ 452.77 crore), as per details given below.

(₹ in crore)

Sl. No.	Name of State of SCAs	NSFDC	NBCFDC	NMDFC	NSTFDC	Total
1	Uttar Pradesh	43.94	34.73	61.10	0.00	139.77
2	Madhya Pradesh	51.22	30.43	7.76	15.53	104.94
3	Andhra Pradesh	79.15	-	-	-	79.15
4	Gujarat	-	23.90	20.72	-	44.62
5	Assam	9.72	4.74	4.90	22.80	42.16
6	Bihar	-	21.91	-	-	21.91
7	Mizoram	-	-	11.72	8.50	20.22
	Total	184.03	115.71	106.20	46.83	452.77

Audit observed that in spite of chronic default in payment of over dues by some SCAs, the Companies did not invoke State guarantees available with them to enforce the recovery. This resulted in blockage of substantial fund which otherwise could be provided to more beneficiaries.

NSFDC stated (December 2011) that such legal action was never initiated as it viewed the same to be a sensitive issue. NSTFDC stated (January 2012) that it was taking up the matter of over dues with the respective State Governments at various levels. However, the fact remains that the guarantees taken to secure its funds served no purpose if the same were not intended to be enforced in appropriate cases. Such situation may not deter SCAs from committing defaults in future and deprives potential beneficiaries of the fund.

The Ministry of Minority Affairs stated (March 2012) that NMDFC had since taken extreme steps of invoking government guarantee to realize the over dues and same was expected to yield positive results. NBCFDC stated (January 2012) that it was since considering invocation of the State guarantees.

A.2 Inadequate assurance on achievement of objectives

The Companies are dependent on SCAs for achieving their respective objectives i.e. to extend concessional finance to target groups for their economic upliftment and development. Therefore, the Companies ought to have devised an effective system to

ensure that the loan reached the eligible beneficiaries in complete form, was utilized for intended purpose and impacted positively on earning capacity of beneficiaries. The Companies test verified the financial assistance provided to beneficiaries by SCAs and also got evaluation studies conducted on SCAs' capabilities/schemes.

However, Audit noticed serious deficiencies as discussed below.

(i) Insufficient eligibility verification:

The Companies and their administrative Ministries did not play an effective role in ensuring that the concessional finance reached eligible beneficiaries only i.e. the persons who were living below double the poverty line (DPL) and belonging to a particular target group i.e. caste, tribes, minority or backward class. The Companies do communicate income criteria to SCAs but do not specify how the same should be verified and documented by the SCAs before providing loan to beneficiaries. Even the beneficiaries' verification process does not require such eligibility verification with reference to any authentic document or reliable method. Most of the verification reports only indicated the income, before and after the concessional finance, as informed by the beneficiary.

Audit noticed following instances which indicate the need for an effective system in ensuring eligibility of the beneficiaries.

- An evaluation study conducted (June 2008) in 10 States for NMDFC by Agriculture Finance Corporation (a multi-disciplinary consultancy public entity in agriculture and rural development segments of the economy) indicated that almost 22 *per cent* of the loan was availed by person above DPL. The report further mentioned that "by and large SCAs are observing the DPL income limit but the authority issuing the 'below poverty line' certificates differs from States to States. While in Punjab, an affidavit signed by notary public is enough, in West Bengal a simple affidavit signed by beneficiary serves as entitlement for the loan. A village officer in Kerala, and at other places income certificate from Tehsildar or DC is enough to make them eligible. In SCA like MP Handloom, Nagaland Handloom and Kerala Fisheries Development Corporation, membership of the society is the norm for the eligibility. At most places anyone can obtain a DPL certificate with contacts or through middleman by paying them the required amount. Thus, most of the beneficiaries were found to be above the poverty line and many in well off category."
- An internal beneficiary verification conducted by NSFDC in Assam in the year 2008-09 reported (January 2009) that 'most of the beneficiaries obtained loan for schemes in transport sector and majority of them used the vehicles for private purpose and not as means of earning'. Audit opines that these people might have obtained the concessional finance though they were not under DPL category.
- An internal beneficiary verification report (2008-09) by NSFDC in Jalgaon district of Maharashtra State covering 17 beneficiaries stated that 11 of the 17 units were not in operation, including a case where the beneficiary was not honest and was a small political leader; three beneficiaries were wilful defaulters and diverted the money to their other activities. Audit opines that these cases were indicative of misuse of the public fund by economically well off person.

- An evaluation study of NBCFDC schemes in Assam State during the year 2010-11 reported that "No assessment as regards beneficiaries' skill was done and disbursement was done haphazardly with the result that needy applicants were left out of the programme altogether and even families well off economically availed the benefits like materials and machineries".
- An internal verification report of NSTFDC (2008-09) found that scheduled tribe members in Kuvarshi Co-operative Society in Gujarat constituted only 69% against the requirement of minimum 80 *per cent* to be eligible for the financial assistance.
- An internal verification report of NSTFDC (2010-11) mentioned that, 'in Chhattisgarh State, according to the circular issued by SCA, those applicants who do not have tribal certificate with them, in their cases the certificates issued by Sarpanch/local representative are valid'.

The Companies contended that the release of fund to eligible beneficiary only is the responsibility of SCAs. The contention is not acceptable as the Companies are not commercial entities but 'not for profit' organizations established for specific social objectives.

Ministry of Minority Affairs (May 2012) for NMDFC has accepted CAG's suggestion for a reliable mechanism for identification of DPL status but feels creating such a database would amount to carrying out a mini survey which does not come under its purview.

In conclusion, audit opines that the Companies and the Administrative Ministries together need to ensure that a reliable mechanism, as to methodology and documentation, is recognized in identification/verification of DPL status and target group. The Companies should make it mandatory for SCAs to follow such mechanism in all cases. In absence of such mechanism, it may not be appropriate to assume that the objectives of the Companies are being achieved.

(ii) Inadequate beneficiaries' verification

The Companies did not have any policy on determining the extent of beneficiaries' verification required to have realistic assessment of the achievement of objectives. The verification was largely based on the targets fixed in memorandum of understanding (MOUs) by the Administrative Ministry. Also, there was no well considered policy on sample selection methodology.

Audit opines that above practice lacked objectivity with regard to quantum of verification as well as the sample selection. NSFDC covered 7 SCAs as per the MOU target for the year 2010-11, but it verified a meagre 135 beneficiaries which was only 0.28 *per cent* of the total number of beneficiaries financed during the year 2010-11. Also, the detail of population from where the beneficiaries were selected was not made available to Audit.

Further, the annual number of beneficiaries covered in the verification process was too low to have a reasonable assurance on the achievement of the Companies' objectives. The beneficiaries' verification was only 0.98 *per cent* of the total beneficiaries in NSFDC, 1.61 *per cent* in NBCFDC, 4.26 *per cent* in NMDFC and 3.34 *per cent* in NSTFDC during last three year ending 31 March 2011 (refer details in **Annexure-VIII**).

The Companies contended that they conducted beneficiaries' verification every year and the evaluation studies on beneficiaries from time to time.

Fact however remains that the Companies need to evolve a scientific/well considered mechanism for identifying the extent of verification and method of sample selection in order to have realistic assessment of the achievement of objectives.

(iii) Inadequate evaluation study

The Companies engaged outside agencies to carry out evaluation of the capabilities of SCAs and the effectiveness of the loan scheme in different areas. Audit observed that the periodicity of the evaluation studies was too low and the selection of SCAs was not rational as would be evident from following.

- NSFDC conducted (2009-10) only one evaluation study in the last three years ended 2010-11 and this study covered only 4 SCAs out of 21 SCAs.
- NMDFC conducted last evaluation study in 2006-07. Prior to this, such study was conducted long back in 1998-99. ***Ministry of Minority Affairs replied (May 2012) that an Evaluation & Impact Assessment Study Report is expected by 1st June, 2012 for NMDFC***
- NBCFDC conducted evaluation study in each of last three years. However, none of the studies included SCAs of Maharashtra and West Bengal though they were disbursed significant amount aggregating to ₹46 crore in last three years, whereas SCA of Pondicherry was covered twice even with a loan of ₹7 crore.
- NSTFDC also conducted the evaluation studies in each of last three years but covered 8 SCAs only. SCAs of Delhi, Chhattisgarh and Madhya Pradesh were not covered in the studies of last three years though these SCAs were disbursed significantly higher fund (₹84 crore) compared to many of SCAs covered in these studies i.e. States of J&K, Sikkim, Meghalaya Rajasthan and West Bengal.

Thus, in NSFDC and NMDFC, the frequency of evaluation study was very low. In NBCFDC and NSTFDC, though evaluation studies were conducted every year, the coverage was low and the selection of SCAs was not satisfactorily rational.

Audit opines that the evaluation studies reveal valuable feedback on deficiencies/irregularities post disbursement of loans to SCAs. Hence, the frequency of the evaluation studies should ensure that all SCAs/loan schemes are covered at least once in 3 to 5 years. The Companies may carry out an ABC analysis on SCAs and loan schemes on considerations of materiality and risk profile. SCAs and loan schemes with high materiality and risks should be covered more frequently than the others.

(iv) Absence of effective action on reports of verification and evaluation study

The Companies were forwarding the findings of beneficiaries' verification and evaluation study to the SCAs for necessary action. However, the Companies did not analyse and determine the action that is needed on part of the SCAs in most cases. Also, there was no effective follow up on the action taken by SCAs.

For instance, (i) NSFDC sent (January 2009) findings of internal verification reports to 11 SCAs during the year 2008-09, but only SCA of Assam replied (April 2009) that the they were in the process of taking action wherever possible without specifying the action. Audit did not find any other case where SCAs responded to the findings/suggestions of

any report forwarded to them by NSFDC. (ii) In case of NMDFC, the last evaluation report was submitted in June 2008 and the Company forwarded the concerns raised therein to concerned SCAs in September 2009 for necessary action. Only one SCA assured (September 2009) to take the necessary action, but the detail of action was not received by the Company.

Audit opines that the Companies should specify/suggest the action to be taken by SCAs on the concerns raised in the reports, instead of just forwarding the reports' content. An appropriate follow up action mechanism should be formulated to ensure the intended action occur and the action taken report is regularly submitted to the Board/Ministry till the intended action on part of the SCAs/Companies occur.

Further, where serious irregularities are noticed during the course of beneficiaries' verification/evaluation study, the sample size should be appropriately increased in the ongoing as well as the future studies. Some of such serious concerns noticed in audit are pointed out below:

- As per internal inspection report (January 2009) of NSFDC's Zonal office – Mumbai, covering 17 beneficiaries as sample (from Jalgaon district), in four cases the assets supplied under the schemes were defective / uncompetitive. Two illiterate beneficiaries received only ₹ 4,500 through middleman out of sanctioned loan of ₹ 25,000.
- An internal verification of four States by NSFDC revealed (January/March 2009) wilful default in transport and service sector in all the four States.
- An evaluation study of 'NBCFDC schemes in Assam' during the year 2010-11 reported that "in many cases credit was not extended to the beneficiaries but materials of inferior quality and of less value compared to the official records were made available to the evaluation team".
- An internal verification report of NSTFDC (2010-11) found that, in Karnataka, some beneficiaries' incomes appear to be reasonably good yet wilfully not repaying the dues.
- The beneficiary verification report of NMDFC for 2009-10 stated that, out of 3690 beneficiaries' interviewed, 367 (10 *per cent*) beneficiaries had diverted the fund.

In view of the serious irregularities based on sample test check, the Companies need to carry out more beneficiaries' verification as also investigate and take appropriate action.

Audit is of the opinion that the beneficiary verification and evaluation studies were oriented more towards achieving the MOU targets rather than ensuring optimum utilization of fund to achieve the objectives.

A.3 Absence of public awareness of loan assistance schemes

Most of the verification and evaluation studies reported that awareness about the loan assistance schemes and follow up of activities/technical support/training among the underprivileged masses/illiterates was very poor. Awareness generation is required on a larger scale for benefits to flow among poorest of the poor. An evaluation study conducted by Agriculture Finance Corporation for NMDFC indicated (June 2008) that more publicity of NMDFC schemes should be carried out amongst the illiterate

population as majority of target beneficiaries were illiterate. It further reported that nearly 85 per cent of the loan had been cornered by literate person. One of the studies conducted by NBCFDC in Gujarat (2010-11) stated that SCAs did not have proactive approach for involving people in the schemes, they only wait for application without making advertisement in the low addressed districts.

The details of expenditure incurred by the Companies on advertisement/public awareness and the respective weightage/targets units in MOU during last three years was as follows.

Year	NSFDC	NBCFDC	NMDFC	NSTFDC	Total
Expenditure on advertisement and public awareness (Amount in Rupees)					
2008-09	56,92,619	52,33,171	80,218	80,439	1,10,86,447
2009-10	20,35,190	20,95,305	44,033	10,020	41,84,548
2010-11	10,62,731	98,87,030	0	3,41,486	1,12,91,247
Total	87,90,540	1,72,15,506	1,24,251	431,945	2,65,62,242
MOU for public awareness: Weightage as points (major target units)					
2008-09	7 points (12 camps)	2 points (22 camps)	Nil	7 points (15 camps)	Weightage (target units)
2009-10	6 points (20 camps)	5 points (25 camps)	Nil	5 points (15 camps)	Weightage (target units)
2010-11	6 points (20 camps)	5 points (5 camps)	Nil	5 points (3 camps)	Weightage (target units)

Thus, the Companies collectively spent only ₹ 2.66 crore during the last three years ended 2010-11 against loan of ₹ 1795 crore disbursed during this period. The spending on advertisement/public awareness was only 0.15 per cent of loans disbursed, despite regular findings in all evaluation studies about lack of awareness of financial assistance schemes amongst illiterate people. MOU targets were mainly in terms of 'camps to be organized' in case of NSFDC, NSTDFC and NBCDFC. There was no separate MOU target in NMDFC for advertisement/public awareness and the expenditure was also negligible. *Ministry of Minority Affairs stated (May 2012) that SCAs have been extended Grant-in-Aid through NMDFC of upto 10 per cent of the amount for advertisement, publicity etc. during the 11th plan period.*

Audit observed that the MOU targets for loan sanction and disbursement to SCAs in terms of amount was given weightage ranging between 22 to 35 points (out of total of 100 points) in these Companies during the last three years ended 2010-11, as against 2 to 7 points for the advertisement/public awareness. Hence, the Companies efforts were oriented more towards quantitative achievement than the qualitative performance.

Further, the MOU target units in terms of camps significantly varied from Company to Company and year to year, indicating absence of any rational basis in fixation of the targets. Audit opines that without public awareness among the poorest of poor in the target group, the implementation of the schemes is likely to be more subjective. Hence, MOU weightage/targets need to be suitably worked out so as to be commensurate in terms of target population coverage in the awareness programs.

NSTFDC stated (January 2012) that since, in most of the cases, the medium of other institution was utilized, the expenses incurred by NSTFDC were low. Audit is of the opinion that the Companies need to have a well considered policy on

advertisement/public awareness, considering the findings/recommendations of the evaluation studies.

A.4 Need for transparency as part of good governance practice

The Companies have their respective websites for dissemination of information about their activities. The website also displayed details about the schemes and SCAs. However, Audit noticed that, except NMDFC, none of the Companies' website had data of basic details of the beneficiaries and the reports of the beneficiaries' verification/evaluation studies. Hence, there could not be any public feedback as to the impact of schemes on target groups (individual/cluster beneficiaries).

Audit feels that the website of the Companies and SCAs should display the basic details of the beneficiaries' (their names & address, loan amount/assets disbursed etc) and the findings of beneficiaries' verification and evaluation studies, for getting public acknowledgement and support. The public participation, particularly from the social organizations working for the welfare of under-privileged groups in the society, could compensate for the inadequate infrastructure in the Companies and the SCAs. Further, Audit noticed that the evaluation studies have time and again raised concerns on the inadequate infrastructure in the Companies as well as the SCAs in terms of field set-up and manpower, which was a constraint in proper implementation of the schemes. The display of aforesaid details and reports would also work as deterrent in curbing malpractices.

B: Fund Management in National Research & Development Corp. (NRDC)

B.3 Royalty collection:

NRDC is engaged in commercialization of inventions, technologies and processes emanating from various national research and development institutions. Licensing of technology was a major source of income of NRDC. As per the license agreement, licensees were required to file royalty return periodically and pay royalty on production. The licenses were liable to be terminated in case of non-payment of the due royalty. NRDC had 550 licensees as on 31 March 2011 and earned ₹ 18.81 crore as royalty from 70, 59 & 79 licensees respectively during the last three years ended 31 March 2011. *Out of remaining 471 licenses, as per reply of the Ministry (May 2012) to audit, 301 licensees did not file royalty return, royalty was not due from 120 licensees due to various reasons, 40 license cases were in disputes and 10 licensees for defence technologies are in production but royalty is not payable on defence supply. Audit observed that NRDC neither took any effective action for determination and recovery of the royalty from 301 licensees nor terminated the license. Management assured (December 2011) that efforts were since being made to strengthen royalty collection system to increase its revenue through royalty. Ministry in its reply (May 2012) stated that NRDC is assessing the commercialization status of the remaining 301 licences and pursuing with them to file royalty returns.*

B.4 Angel Investments

Under angel funding scheme, NRDC is making investment in the share capital of incubate companies out of grants received from the Government under technology/invention promotion programs. A total amount of ₹ 90 lakh (₹ 30 lakh each) was invested in three companies so far under the scheme. As per guidelines for angel

funding, an expert committee or investment committee was to be appointed by NRDC to review the progress of the incubate companies, but no expert/review committee was appointed so far. *Ministry replied (May 2012) that NRDC plans to set up an independent Monitoring Committee by July 2012.*

Conclusions

- **Social Sector Companies needed to exercise more efficiency and effectiveness in sanction of loan, discouraging non-utilization of Funds for long period by SCAs, and recovery of over dues from chronically defaulting SCAs.**
- **Companies did not have a well considered mechanism for ensuring that the concessional finance reached the eligible people only.**
- **Beneficiaries' verification was not inadequate and frequency & coverage of evaluation studies was too low, to have reasonable assurance on achievement of the Companies' objectives. Appropriate action on the findings of evaluation studies and beneficiaries' verification was not taken.**
- **The Companies did not display the basic details of beneficiaries and reports of inspections/studies on its website, which is necessary to invite public acknowledgement and participation for effective implementation of the schemes.**
- **NRDC failed to ascertain and recover the royalty due from most of the licensees.**

Recommendations

- *Improve upon the process of sanction of loan to SCAs, discouraging non-utilization of loan funds by SCAs beyond the prescribed period and the recovery of over dues from chronic defaulters.*
- *Formulate well considered parameters on eligibility identification, beneficiaries' verification, evaluation studies, action on the findings and public awareness on the welfare schemes.*
- *As a part of good governance and tenets of transparency, the Companies should display basic details of beneficiaries and reports of inspections/studies along with action taken status on website.*
- *NRDC to take action to assess and recover royalty due from 301 licensees.*

National Highways Authority of India, United India Insurance Company Limited, The Oriental Insurance Company Limited, The New India Assurance Company Limited, National Insurance Company Limited, Mahangar Telephone Nigam Limited, Bharat Earth Movers Limited, NTPC Limited, Neyveli Lignite Corporation Limited, Steel Authority of India Limited and Food Corporation of India

9.5 Recoveries at the instance of Audit.

During test check, several cases relating to non-recovery, short recovery, excess payment, short charging of premium etc by Central Public Sector Undertakings (PSUs) were pointed out. In 36 such cases pertaining to 11 PSUs, audit pointed out that an amount of

₹ 84.39 crore was due for recovery. The Management of PSUs had recovered an amount of ₹ 83.83 crore during the year 2010-11 as detailed in **Appendix I**.

Central Warehousing Corporation, National Seeds Corporation Limited, Bharat Heavy Electricals Limited and Hindustan Aeronautics Limited.

9.6 *Corrections/rectifications at the instance of audit*

During test check, cases relating to deficiencies in the systems, policies and procedures etc were observed and brought to the notice of the Management. Details of cases where the changes were made by the Management of the PSUs in their policies/ procedures at the instance of audit are given in **Appendix II**.