CHAPTER-II

2.1 PERFORMANCE AUDIT ON BIHAR STATE HYDROELECTRIC POWER CORPORATION LIMITED

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Chapter II
Performance Audits relating to Government Companies and Statutory Corporation

2.1 Performance Audit on Bihar State Hydroelectric Power Corporation Limited

Executive summary

Bihar State Hydroelectric Power Corporation Limited (Company) was incorporated as a wholly owned Government Company in March 1982 and is presently engaged in setting-up of hydroelectric power projects, their maintenance and generation and selling of power in the State of Bihar.

As on 31 March 2016, the Company had set-up 13 Small Hydroelectric Projects (SHPs) with installed power generation capacity of 54.30 MW while works for establishing 16 projects with power generation capacity of 35.30 MW were in progress.

The water supply to the SHPs is ensured from the canals of the Water Resources Department (WRD), GoB. These canals are linked to three barrages namely Indrapuri Barrage constructed on Sone River at Dehri, Valmikinagar Barrage on Gandak River at Valmikinagar and Birpur Barrage on Koshi River at Kataiya. Indrapuri Barrage caters to the water requirements of 10[1] SHPs (17.10 MW), Valmikinagar and Birpur Barrage caters to the water requirement of three[2] SHPs (37.20 MW). The water is released by the WRD for irrigation purpose without any consultation with the Company which uses the water for power generation.

The power generation of the Company declined from 40.65 Million Units (MUs) in 2011-12 to 33.16 MUs in 2015-16. This was mainly due to unavailability of water to the SHPs and low volume of water released by the WRD. Further, power generation of five SHPs were also affected due to lack of distribution network for supply of power.

The following were the main audit findings:

Financial Management of the Company

During the period 2011-16, the power generation cost ranged between ₹ 8.13 per unit and ₹ 12.36 per unit. However, the Company sold power to DISCOMS at the Bihar Electricity Regulatory Commission (BERC) approved rate of ₹ 2.49 per unit during the said period. The sale price of the Company was even less than the average Power Purchase Cost of DISCOMs which was ₹ 4.12 per unit for the period 2015-16.

As a result, the Company incurred a revenue loss ranging from ₹ 5.64 per unit to ₹ 9.87 per unit during 2011-16. The Company sold 213.14 MUs during the period 2011-16 resulting in losses of ₹ 147.66 crore. The BERC approved

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[1] (i) Agnoor SHP, (ii) Arwal SHP, (iii) Barun SHP, (iv) Belsar SHP, (v) Dehri-on-sone SHP, (vi) Dhelabag SHP, (vii) Jainagara SHP, (viii) Nasriganj SHP, (ix) Sebari SHP and (x) Srikhinda SHP.

[2] (i) Triveni SHP (ii) Valmikinagar SHP and (iii) Kataiya SHP

tariff rates remained constant during 2011-16 as the tariff petition was not submitted by the Company since 2010-11 due to its failure to finalise the Annual Accounts since 2001-02. However, the power generation cost of the Company increased during 2011-16 as its major element, the interest cost on borrowings increased from 47.52 *per cent* in 2011-12 to 61.39 *per cent* in 2015-16 and also due to decrease in power generation.

Further, even if the Company succeeds in obtaining approval for its Tariff from BERC in future and that too at par with the prevailing average Power Purchase Cost of DISCOMs, the under recovery of Generation Cost would still exist. As such, the Company would never be in a position to attain the break-even point to become commercially viable.

The total investment of the State Government in the Company was ₹ 570.47 crore, out of which ₹ 99.04 crore (17.36 *per cent*) was Equity and ₹ 471.43 crore (82.64 *per cent*) was Borrowings. This meant that the Company was heavily dependent on borrowed funds. During the period, the Company incurred losses over the years which resulted in accumulated losses of ₹ 231.50 crore in 2015-16. Consequently, the share capital of the Company was fully eroded. The Net Worth of the Company remained negative in all the five years since 2011-12 which ranged between (-) ₹ 23.73 crore and (-) ₹ 132.46 crore.

Operational efficiency of the Company

Plant Load Factor

As against the norm of BERC of 417 MUs of power to be generated by SHPs, the actual power generated during 2011-16 was 213.14 MUs. The shortfall in generation by 203.86 MUs (48.89 *per cent)* resulted in a revenue loss of ₹ 50.76 crore.

The actual power generation of the Plant when compared with the installed capacity (Plant Load Factor) ranged between 11.79 *per cent* and 19.56 *per cent* during 2011-12 to 2015-16. However, the norm for PLF fixed by BERC was 30 *per cent*. The main reason for failure to achieve the PLF as per norm of BERC was Low Plant Availability due to longer duration of plant shutdowns.

In five sampled SHPs, it was observed that the longer duration of plant shutdowns was mainly due to (i) unavailability/low volume of water to the SHPs which ranged between 39 to 66 *per cent* of available hours during the period 2011-12 to 2015-16, (ii) breakdown of SHPs which ranged between one to 23 *per cent* of the available hours, caused due to poor repair and maintenance of machines and (iii) lack of distribution network for supply of power which ranged between six to 18 *per cent* of the available hours during the period 2011-16.

Plant Availability

The Plant Availability (PA) of the Company ranged between 35.42 *per cent* (2011-12) to 12.65 *per cent* (2015-16). However, the norm for PA as per the Detailed Project Report of the Company was 67 *per cent*. The main reason for lower PA was mainly due to longer duration of plant shutdowns caused by unavailability/low volume of water, poor repair and maintenance of machines, *etc*.

Execution of Capital Works

As against the Administrative Approval (AA) of ₹ 49.92 crore, eight projects/ SHPs were completed by incurring an expenditure of ₹ 102.79 crore. The excess expenditure of ₹ 52.87 crore incurred on these projects was sourced by way of diversion of funds from other projects which was irregular.

Further, ongoing work for construction of 16 SHPs and one Escape Channel was suspended since December 2012/ July 2013 due to delays in execution and financial constraints faced by the Company. As such, significant amount of ₹ 543.87 crore was blocked in Capital Work-in-Progress.

The suspension of the aforesaid 17 incomplete projects since December 2012/ July 2013 not only led to blocking of funds but also the civil structures of the projects were exposed to nature leading to deterioration in their physical condition and their reusability may entail extra expenditure at the time of restarting the work. Besides, the plant and machinery installed in these incomplete projects and the electro-mechanical materials lying at the site/godowns were also prone to obsolescence/ damage and theft. This would have adverse effect on economic utility of the same.

During joint physical verification, audit observed that the electro-mechanical materials costing ₹ 4.50 crore supplied at Mathauli and Bathnaha SHPs sites upto December 2014 were lying unutilised at the sites for the last two to four years and the expenditure incurred thereon was blocked and unfruitful.

Introduction

2.1.1 Bihar State Hydroelectric Power Corporation Limited (Company) was incorporated as a wholly owned Government Company in March 1982 and is presently engaged in setting-up of hydroelectric power projects, their maintenance and generation and selling of power in the State of Bihar.

The Department of Energy, Government of Bihar (Department), is the Administrative Department of the Company. The Department sanctions various projects for development of hydroelectric projects in the State and entrusts the same to the Company for their execution. The Department also extends budgetary support to the Company in the form of loans.

As on 31 March 2016, the Company had 13 commissioned Small Hydroelectric Projects (SHPs) with installed power generation capacity of 54.30 MW while 16 projects for power generation capacity of 35.30 MW as detailed in ***Annexure-2.1.1*** were ongoing/ being constructed.

The water supply to the SHPs is ensured from the canals of the Water Resources Department (WRD), GoB. These canals are linked to three barrages namely Indrapuri Barrage constructed on Sone River at Dehri, Valmikinagar Barrage on Gandak River at Valmikinagar and Birpur Barrage on Koshi River at Kataiya. Indrapuri Barrage caters to the water requirements of 10[3] SHPs (17.10 MW), Valmikinagar and Birpur Barrages cater to the water requirement

[3] (i) Agnoor SHP, (ii) Arwal SHP, (iii) Barun SHP, (iv) Belsar SHP, (v) Dehri-on-sone SHP, (vi) Dhelabag SHP, (vii) Jainagara SHP, (viii) Nasriganj SHP, (ix) Sebari SHP and (x) Srikhinda SHP.

of three[4] SHPs (37.20 MW). The water is released by the WRD for irrigation purpose without any consultation with the Company which uses the water for power generation.

As per the provisional Accounts of the Company for the year ended 31 March 2016, the Paid-up Share Capital of the Company was ₹ 99.04 crore and accumulated losses were ₹ 231.50 crore. The Company incurred losses during all the years from 2011-12 to 2015-16.

The Management of the Company is vested with the Board of Directors (BoDs) of the Company. As on 31 March 2016, the BoDs consisted of five directors, including the Managing Director, who is appointed by the State Government. The Principal Secretary of the Department is the *ex-officio* Chairman of the BoDs of the Company. The Managing Director, who is the Chief Executive Officer of the Company, is responsible for the conduct of the affairs of the Company and is assisted by Chief Engineer, Superintending Engineer, Executive Engineers and Company Secretary.

Audit Scope and Methodology

2.1.2 The performance of the Company was earlier reviewed and featured in Audit Report (Commercial) of the Comptroller and Auditor General of India, Government of Bihar, for the year ended 31 March 2010. The aforementioned review is yet to be taken up for discussion by the Committee on Public Undertakings (CoPU) (November 2016).

The Performance Audit (PA) for the period of five years, from 2011-12 to 2015-16, was conducted during the period April 2016 to June 2016. During the audit, records of the Company's Head office and five[5] out of 13 generating stations and six[6] out of 16 ongoing construction projects were selected for scrutiny through random sampling method.

An Entry Conference was held on 29 March 2016 to apprise the Government and the Management about the objectives of the Performance Audit. The audit findings were reported (August 2016) to the Government and the Management and also discussed in an Exit Conference on 23 November 2016. In the Exit Conference Principal Secretary, Department of Energy, Government of Bihar agreed with the audit observations.

Audit Objectives

2.1.3 The objectives of the performance audit were to assess whether:

- the generating stations were being operated/maintained economically and evacuation of energy generated and billing thereof was efficient;

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4 (i) Triveni SHP (ii) Valmikinagar SHP and (iii) Kataiya SHP

5 (i) Arwal SHP (1x0.5MW), (ii) Kataiya SHP (4x4.48MW),(iii) Nasriganj SHP (2x0.5MW), (iv) Sebari SHP (2x0.5MW) and (v) Valmikinagar SHP (3x5MW)

6 (i) Barbal SHP (2X0.8MW), (ii) Bathanaha SHP (4X2MW), (iii) Mathauli SHP (2X0.4MW) (iv) Paharma SHP (2X0.5MW), (v) Tejpura SHP (2X0.75MW) and (vi) Walidad SHP (2X0.35MW)

- the planning and execution of new hydroelectric power projects was done efficiently, economically and effectively;
- the funds received from Government of India (GoI)/ Government of Bihar (GoB) for hydroelectric projects were utilised efficiently, economically and effectively;
- effective mechanism was in place to conform with environment protection laws and adhere to sound environmental practices; and
- monitoring and internal control system was adequate and effective.

Audit Criteria

2.1.4 The criteria for assessing the achievement of audit objectives were drawn from:

- Business bye-laws of the Company; Directives of the Administrative Department/ State Government;
- The Bihar Financial Rules, 2005 and the Bihar Public Works Department Code;
- Technical Evaluation/Guidelines issued by National Bank for Agriculture and Rural Development (NABARD);
- Operation Manual of the projects; Generation targets fixed by the Management;
- Detailed Project Reports (DPRs) of projects; the agreements with contractors; and
- Terms and conditions of the agreements for sale of energy.

Audit Findings

The Audit findings are discussed in the succeeding paragraphs:

Financial Management

Efficient fund management is important for any organisation as the available financial resources should be utilised optimally. The Company's main sources of funds were sale of power generated by Small Hydroelectric Projects (SHPs) and the loans obtained from the State Government.

Financial position and working results

2.1.5 As per the Companies Act, 2013 the financial statements of a Company for each financial year were required to be finalised within six months from the end of the relevant financial year. However, the Company failed to comply with the statutory requirement and its Accounts were in arrears since 2001-02. Audit observed that the Accounts of the Company were in arrears mainly because sufficient accounting professionals/ account knowing personnel were not available with the Company. The sanctioned strength, Men-in-Position and vacancy position of accounting personnel during 2011-16 is detailed in Table No. 2.1.1 below:

Table No. 2.1.1 Manpower position of accounting personnel

Sl no	Category of posts	Sanctioned strength	Men in Position	Vacant posts
1	Financial Advisor cum Chief Accounts Officer	1	0	1
2	Manager (Accounts)	2	1	1
3	Assistant Manager (Accounts)	7	3	4
4	Accountants	20	3	17

It was evident from above that only one Manager (Accounts), three Assistant Manager (Accounts) and three Accountants were in position and significant numbers of posts were lying vacant. Consequently, huge arrears of Accounts persisted. Due to arrears of Accounts, the Company has been unable to file the tariff petition with Bihar Electricity Regulatory Commission (BERC) along with Audited Accounts since 2010-11 as discussed in **Paragraph 2.1.8**.

2.1.6 As per the provisional Accounts of the Company, the financial position and working results of the Company for the five years ended March 2016 is given in the ***Annexure*- 2.1.2.** As seen from the Annexure, the total investment in the Company was ₹ 570.38 crore (Equity: ₹ 99.04 crore and Borrowings: ₹ 471.43 crore). This indicated that the Company was heavily dependent on borrowed funds. The Capital Employed (CE) was ₹ 292.52 crore in 2011-12 which increased to ₹ 338.97 crore in 2015-16. The Return on Capital (RoC) employed ranged between ₹ 0.83 crore to (-) ₹ 18.25 crore. The Net Worth of the Company was negative in all the five years and it ranged between ₹ 23.73 crore and ₹ 132.46 crore. Main reason for negative net worth and negative RoC was persistent losses over the years which resulted in significant increase in accumulated losses from ₹ 122.77 crore (2011-12) to ₹ 231.50 crore in 2015-16. Thus, the financial condition of the Company was not sound. Audit observed the following reasons for the deteriorating financial condition of the Company:

- Financial cost of borrowings was ₹ 57.85 crore during 2011-16 while the revenue from sale of power and other income was of ₹ 52.38 crore which was insufficient to meet the financial cost. Further, the Company incurred other operational expenditure aggregating to ₹ 142.95 crore which were also met from the revenue of the Company during the same period.
- Significant amount of ₹ 543.87 crore was blocked in Capital Work-in-Progress due to suspension of ongoing SHPs work since December 2012/ July 2013. These works were pending for completion due to inefficient execution of works and financial constraints faced by the Company as discussed in **Paragraphs 2.1.17 to 2.1.21.**
- Current Assets included Work-in-Progress, stores, materials issued to contractors and advances to suppliers aggregating to ₹ 24.33 crore. These assets were being carried forward for the last ten years. The details of these current assets were not available. Hence, their realisability/ utilisation was doubtful.
- There was decline in the revenue from sale of power from ₹ 13.54 crore in the year 2013-14 to ₹ 8.26 crore in 2015-16. This was mainly due to unavailability/low supply of water to the SHPs, closure of SHPs for repair and maintenance and failure of the Company to get its tariff revised since 2010-11 as discussed in **Paragraph 2.1.8 and 2.1.10.**

The Management stated (November 2016) that the shareholders in the 21 Annual General Meeting (August 2016) of the Company has directed the Company to put these issues before the BoDs with proper facts. However, the fact remains that these issues have not been addressed by the Company so far (November 2016).

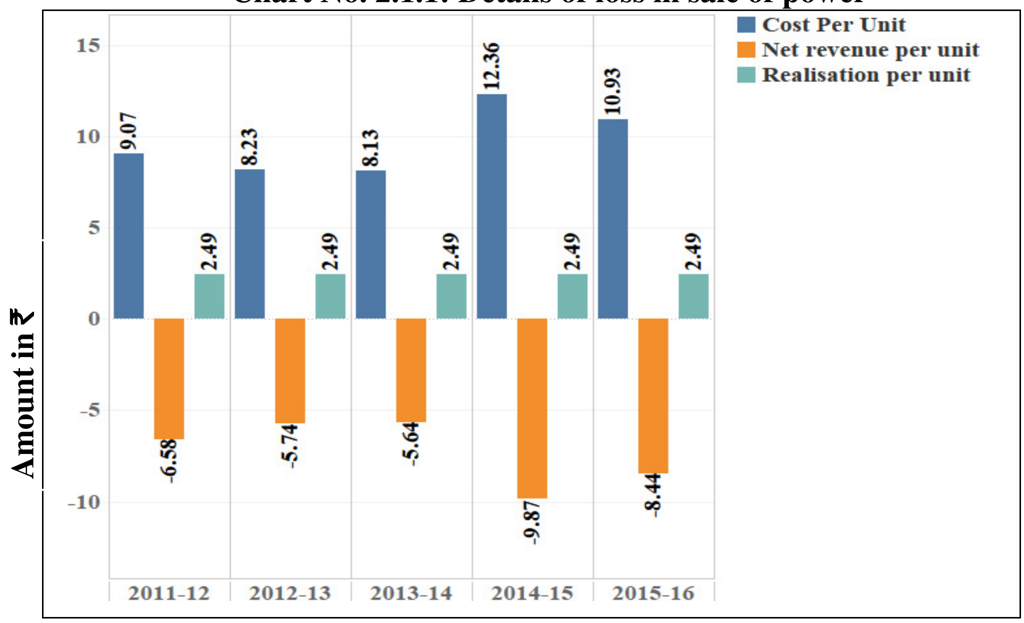
Losses in sale of power

2.1.7 During the period 2011-16, the power generation cost ranged between ₹ 8.13 per unit and ₹ 12.36 per unit. However, the Company sold power to DISCOMS at the Bihar Electricity Regulatory Commission (BERC) provisional approved rate of ₹ 2.49 per unit during the period. As a result the Company incurred a revenue loss ranging from ₹ 5.64 per unit to ₹ 9.87 per unit during 2011-16. The Company sold 213.14 MUs during the period 2011-16 resulting in losses of ₹ 147.66 crore. The BERC approved tariff rates remained constant during 2011-16 as the tariff petition was not submitted by the Company since 2010-11 due to its failure to finalise the Annual Accounts since 2001-02. However, the power generation cost of the Company increased during 2011-16 as its major element, the interest cost on borrowings increased from 47.52 *per cent* in 2011-12 to 61.39 *per cent* in 2015-16 and also due to decrease in power generation.

Audit observed that the cost of generation in the Company during 2015-16 was much higher when compared to similar SHPs in Uttar Pradesh Jal Vidyut Nigam Limited (₹ 2.73 per unit and ₹2.86 per unit) and Chhattisgarh State Power Generation Company Limited (₹2.55 per unit and ₹3.89 per unit)

The declining trend in net revenue per unit on sale of power during the period 2011-12 to 2015-16 is given in Chart No. 2.1.1.

Chart No. 2.1.1: Details of loss in sale of power



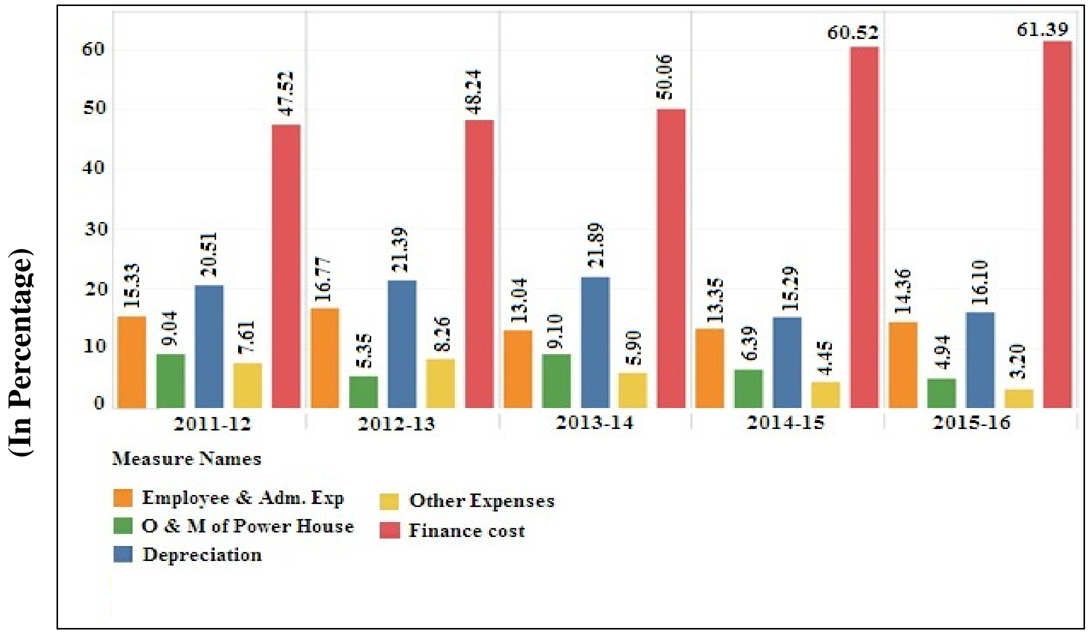
Source: Information furnished by the Company

The net revenue per unit on sale of power was negative during the period 2011-12 to 2015-16 and increased from (-) ₹ 6.58 per unit in 2011-12 to (-) ₹ 8.44 per unit in 2015-16

It is evident from above that the net revenue per unit on sale of power was negative during the period 2011-12 to 2015-16 and increased from (-) ₹ 6.58 per unit in 2011-12 to (-) ₹ 8.44 in 2015-16. The main reasons for under recovery were failure to file the tariff petition, delay in finalisation of Annual Accounts and operational inefficiencies as discussed in **paragraphs 2.1.8 and 2.1.10.**

Component-wise break up of cost per unit (in percentage) in the last five years is given in Chart No. 2.1.2:

Chart No. 2.1.2: Various elements of cost of operation in percentage



Source: Information furnished by the Company

It is evident from above that finance cost constituted a major element of the total cost and it ranged between 48 *per cent* and 61 *per cent* of total cost during the period 2011-12 to 2015-16.

Failure of the Company to get its tariff revised by BERC

2.1.8 Regulation 5 of the Bihar Electricity Regulatory Commission (BERC), terms and conditions for determination of tariff regulation, *inter alia,* stipulated that the generating Company shall make an application along with audited annual Accounts of the preceding year to the BERC for the approval of tariff. BERC while approving the tariff orders of 2009-10 of the Company on a provisional basis had directed the Company to furnish duly audited Annual Accounts in future, failing which it would not accept the tariff petition of the Company.

Audit observed that the approved tariff of ₹2.49 per unit was less than the per unit approved tariff for most of similar SHPs viz. ₹2.73 per unit (Sheetala SHP of Uttar Pradesh Jal Vidyut Nigam Limited), ₹ 3.78 per unit and ₹ 3.94 per unit (Gangrel and Korba SHPs of Chhattisgarh State Power Generation Company Limited) in neighbouring states.

In absence of audited Annual Accounts, the Company failed to file tariff petition with BERC since 2010-11

The Accounts of the Company were in arrears since 2001-02. In the absence of duly audited annual Accounts, Company could not file its tariff petition since 2010-11 with the BERC.

As such, the Company was constrained to sell its power at 2009-10 tariff rate of ₹ 2.49 per unit.

Audit also observed that the approved tariff of ₹ 2.49 per unit was less than the average Power Purchase Cost of DISCOMs of ₹ 4.12 per unit for the period 2015-16.

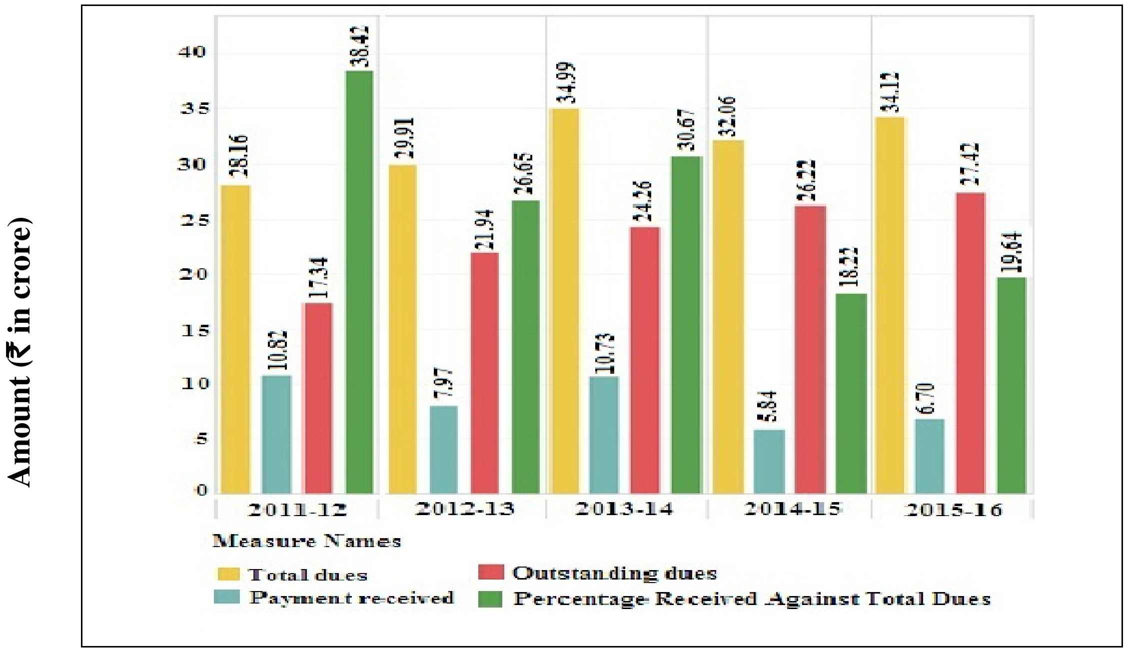
Thus, even if the Company is successful in obtaining the approval of its Tariff from BERC in future and that too at par with the prevailing average Power Purchase Cost of DISCOMs, the under recovery of Generation Cost will still exist. As such the operation of Company's SHPs will never be in a position to attain Break Even Point. This renders the operation of Company's SHPs commercially unviable.

The Government in Exit conference stated (November 2016) that a three-member committee was being constituted by the Company to finalise the Accounts so that statutory audit could be completed.

Accumulation of recoverable dues: ₹ 27.42 crore

2.1.9 The position of amount due/ recoverable from the erstwhile Bihar State Electricity Board (Board)/Distribution Companies (DISCOMs) during the period 2011-12 to 2015-16 is depicted in Chart No. 2.1.3.

Chart No. 2.1.3: Details of recoverable dues



Source: Information furnished by the Company

It is evident from above that the recoverable dues increased from ₹ 17.34 crore in 2011-12 to ₹ 27.42 crore in 2015-16. Further, payments received against total dues declined from 38.42 *per cent* (2011-12) to 19.64 *per cent* (2015-16) which reflected poor realisation of dues. The accumulation of recoverable dues adversely affected the operations of the Company. This was mainly due to the failure of the Company to sort out the issues relating to SHP Kataiya and failure to reconcile the arrears with DISCOMS as discussed below:

- GoB issued a notification (June 2003) for transferring the Kataiya SHP to the Company from the erstwhile Board and the same was transferred in September 2003. As per the notification Kataiya SHP was to continue to sell/

provide power free to the Board to the extent of power that was being generated by the Board before this transfer. Any additional generation of power over and above the existing generation by the Company would be paid by the Board at the tariff rate applicable to the Company. Further, after the notification, position of Kataiya SHP was to be reviewed after one year. However, no such review was carried out so far (November 2016). Audit observed that ₹ 16.66 crore remained recoverable from Board/ DISCOMs against 77.66 Million Units (MUs) of power sold up to November 2016.

- Reconciliation in respect of claims for sale of energy between the Company and the Board was done in the year 2011, wherein against the claim of ₹ 18.44 crore (including ₹ 11.02 crore for SHP Kataiya), the Board partially accepted the claim for ₹ 3.27 crore. Thus, the claims aggregating to ₹ 15.17 crore remained unreconciled for which no further efforts were made by the Company. The Company also failed to reconcile the energy sold to Board/DISCOMs for the period 2011-12 to 2015-16.

The Management while accepting (November 2016) the audit observation stated that efforts were made for recovery of dues and ₹ 9.23 crore had been recovered. However, the Management did not furnish any evidence of recoveries so made. In the absence of evidence, recoveries made could not be verified by audit.

Operational Efficiency of the Company

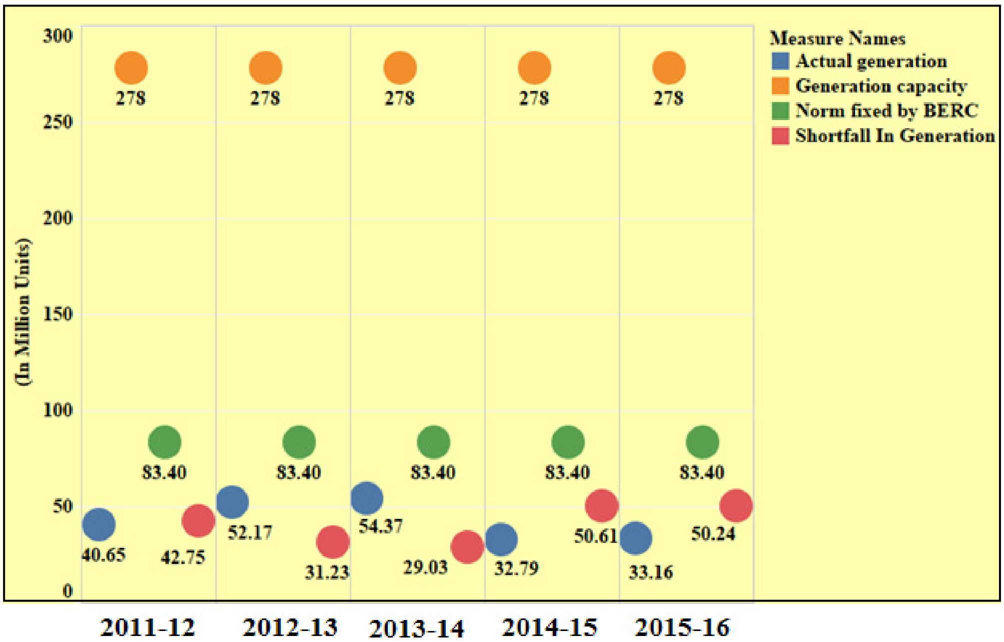
The Company had 13 SHPs with installed capacity of 54.30 MW. The operational performances of these SHPs were examined with reference to plant load factor, plant availability and actual generation against targeted generation. The operational performances of commissioned SHPs are discussed in succeeding paragraphs:

2.1.10 Shortfall in power generation

The BERC has prescribed the PLF norm of 30 *per cent* for operation of SHPs. The capacity, norm, actual generation and shortfall in generation of power of 13[7] SHPs of the Company having installed capacity of 54.30 MW, during the period 2011-12 to 2015-16 are given in Chart No. 2.1.4.

[7] (i) Agnoor SHP (2x0.5MW), (ii) Arwal SHP (1x0.5MW) ,(iii) Barun SHP (2x1.65MW), (iv) Belsar SHP (2x0.5MW),(v) Dehri-on-sone SHP (4x1.65MW), (vi) Dhelabag SHP (2x0.5MW), (vii) Jainagara SHP (2x0.5MW), (viii) Kataiya SHP (4x4.8MW), (ix) Nasriganj SHP (2x0.5MW), (x) Sebari SHP (2x0.5MW), (xi) Sirkhinda SHP (2x0.35MW), (xii) Triveni SHP (2x1.5MW) and (xiii) Valmikinagar SHP (3x5MW)

Chart No. 2.1.4: Details of shortfall in generation



Source: Information furnished by the Company

It is evident from above chart that power generation by the Company was not satisfactory. As against the norm of BERC of 417 MUs of power to be generated by SHPs, the actual power generated during 2011-16 was 213.14 MUs. The shortfall in generation of power by 203.86 MUs (48.89 *per cent)* resulted in revenue loss of ₹ 50.76 crore to the Company during the period 2011-12 to 2015-16.

The main reasons for the shortfall in generation are enumerated below:

- Plant Load Factor (PLF) refers to the ratio between the actual generation and the maximum possible generation at installed capacity. The year-wise details of plant load factor as per targets and actual PLF in respect of SHPs are given in ***Annexure-2.1.3 (a).*** It can be seen from the ***Annexure*** that the plant load factor ranged between 11.79 *per cent* and 19.56 *per cent* during 2010-11 to 2015-16 as against the benchmark PLF of 30 *per cent*. The decline in PLF of the Company was mainly due to low plant availability and higher duration of Plant Outages which is discussed in succeeding the paragraphs.

- The norm for average plant availability for SHPs was 67 *per cent*, after excluding one-third of available hours, when water for SHPs would not be available. The source of water supply to the Company's SHPs is ensured from the canals of the Water Resources Department (WRD), GoB. These canals are linked to three barrages namely Indrapuri Barrage constructed on Sone River at Dehri; Valmikinagar Barrage on Gandak River at Valmikinagar and Birpur Barrage on Koshi River at Kataiya. Indrapuri Barrage caters to the water requirements of 10[8] SHPs (17.10 MW), Valmikinagar and Birpur Barrage caters to the

[8] (i) Agnoor SHP, (ii) Arwal SHP, (iii) Barun SHP, (iv) Belsar SHP, (v) Dehri-on-sone SHP, (vi) Dhelabag SHP, (vii) Jainagara SHP, (viii) Nasriganj SHP, (ix) Sebari SHP and (x) Srikhinda SHP.

water requirement of two[9] SHPs (18 MW) and one SHP namely Kataiya SHP (19.20 M.W) respectively. The water from the canals is released by the WRD for irrigation purpose only depending upon the irrigational requirement of the State which is also used by the Company for power generation. The details of operated hours and available hours for operation are indicated in ***Annexure 2.1.3 (b)***. It can be seen from the Annexure that actual operated hours were on lower side against the available hours for operation. The plant availability ranged between 35.42 *per cent* (2011-12) and 12.65 *per cent* (2015-16). This reflected the inefficient operation of SHPs. The low plant availability was mainly attributable to longer duration of outages caused due to unavailability of water/low supply of water and breakdown of machineries.

- Actual Plant outages ranged between 65 *per cent* and 87 *per cent* of maximum available hours. This was mainly due to failure of the Company to ensure availability of water to its SHPs from the WRD. Besides, the Company also failed to ensure supply of water to its SHPs by alternate arrangement viz. construction of Escape Channels, improper evacuation system and poor operation and maintenance of plant as discussed below:

  Escape Channel is an alternative arrangement to ensure supply of water in the SHPs during the canal closure period. For this purpose, the Company prepared a Project Report for construction of escape channel at Valmikinagar SHP which would add 41.17 MUs of power to the State. For this purpose, a fund of ₹ 17 crore was released by the State Government during the period 2012-13 to 2014-15. Audit observed that this project is yet to be taken up (November 2016) by the Company even after lapse of three years.

  In order to improve the evacuation system of its SHPs (Amethi[10]SHP, Tejpura[11] SHP, Arwal[12] SHP and Nasriganj[13] SHP) by stepping up the voltage from 11 KV to 33 KV for evacuation through GSS, fund to the tune of ₹ 14 crore was released to the Company during February 2013 to March 2014. Audit observed that this project is yet (November 2016) to be taken up despite lapse of more than three years from the receipt of fund.

  The details of Outages in five test checked SHPs namely (i) Valmikinagar SHP, (ii) Kataiya SHP, (iii) Arwal SHP, (iv) Nasriganj SHP and (v) Sebari SHP during the period 2011-16 is summarised in **Table No. 2.1.2**:

[9] (i) Triveni SHP and (ii) Valmikinagar SHP

[10] Meant for connection of 11 KV line of Jainagara SHP, Shirkhinda SHP, Amethi SHP, Rampur SHP and Natwar SHP and further step up to 33 KV for evacuation to Grid Sub Station (GSS)

[11] Meant for connection of 11 KV line of Dehra SHP, Tejpura SHP, and Sipha SHP and further step up to 33 KV for evacuation to GSS

[12] Meant for connection of 11 KV line of Agnoor SHP, Belsar SHP, Walidad SHP and Arwal SHP.

[13] Meant for connection of 11 KV line Dhelabag SHP, Nasriganj SHP, Paharma SHP and Sebari SHP and further step up to 33 KV for evacuation to GSS

Table No. 2.1.2 Details of Outages in five test checked SHPs

Year	Maximum available hour[14]	Operated hour	Actual outage	Total (in percentage)	Details of Outages (in percentage)		
					Unavailability/ low volume of water	Grid failure	R&M works
2011-12	44592	15794.17	28797.83	65	39	17	8
2012-13	70080	18828.07	51251.93	73	54	18	1
2013-14	70080	23229.95	46850.05	67	53	11	3
2014-15	70080	12103.25	57976.75	83	66	6	10
2015-16	70080	8865.42	61214.58	87	58	6	23
Total	**324912**	**78820.86**	**246091.14**				

Source: Information furnished by the Company

- It can be seen from the above table that the longer duration of plant shutdowns was mainly due to (i) unavailability/low volume of water to the SHPs which ranged between 39 to 66 *per cent* of available hours during the period 2011-12 to 2015-16, (ii) breakdown of SHPs which ranged between one to 23 *per cent* of the available hours caused due to repair and maintenance of machines and (iii) lack of distribution network for supply of power which ranged between six to 18 *per cent* of the available hours during the period 2011-16.

The details of Plant Outages in these SHPs in terms of hours and the percentage of plant outages due to various constraints during the period 2011-12 to 2015-16 are provided in ***Annexure- 2.1.3 (c).*** Close analysis of the said annexure revealed that the shortage in power generation in these SHPs in terms of hours was mainly attributable to (i) unavailability of water/low volume of water supply to SHPs for 180043.57 hours (loss[15] of 116 MUs valued at ₹ 28.89 crore), (ii) breakdown of SHPs for 29513.72 hours caused by poor repair and maintenance of machines (loss of 3.98 MUs valued at ₹ one crore) and (iii) grid failure for 36533.85 hours (loss of 8.19 MUs valued at ₹ 2.04 crore) during 2011-16. Further analysis of the outages in the said annexure revealed that outages in these SHPs was predominantly due to unavailability/low volume of water supplied to SHPs which is discussed SHP-wise below:

Valmikinagar SHP: The Plant outage attributable to unavailability of water/Low supply of water, during the period 2011-12 to 2015-16, ranged between 9549 hours to 13065 hours. The Percentage of Plant Outage due to unavailability of water/Low discharge of water constituted 51 to 75 *per cent* of the total outages.

Kataiya SHP: The Plant outage on account of unavailability of water/Low supply of water ranged between 18614 to 21777 hours during the period 2012-13 to 2015-16 which comprised of 80 to 93 *per cent* of the total outages.

[14] After excluding four months for canal closure by WRD.

[15] Loss of energy in MUs was worked out on the basis of Operation of SHPs on the line of BERC norm of 30 *per cent* of PLF

Nasriganj SHP: The Plant outage due to unavailability of water/Low supply of water ranged between 788 hours to 7564 hours during the period 2011-12 to 2015-16 which constituted seven to 65 *per cent* of the total outages.

Sebari SHP: The Plant outage attributable to unavailability of water/Low supply of water ranged between 2088 hours to 7650 hours during the period 2011-12 to 2015-16 which accounted for 18 to 65 *per cent* of the total outages.

Arwal SHP: The Plant outage was mainly attributable to unavailability of water/Low discharge of water which ranged between 457 hours to 777 hours during the period 2012-13 to 2013-14. The Percentage of Plant Outage due to unavailability of water/Low supply of water constituted eight to 13 *per cent* of the total outages. The SHP was closed from May 2014 on account of operation and maintenance issues.

The Government stated in the Exit conference (November 2016) that a new Operation & Maintenance policy was being formulated by the Company to effectively address the shortcomings.

Further, the Principal Secretary, Energy Department, GoB, on the issue of availability of water to the Company's SHPs, stated (January 2017) that the SHPs of the Company are based on the irrigation canals and release of water is controlled by the Water Resource Department (WRD) for irrigation purpose. He also stated that there is no written assurance for quantum of water by the WRD for ensuring availability of water in the canals for generation of electricity. As such, the Company has no control over availability of water.

Operation and Maintenance (O&M) activity of SHPs

2.1.11 The BoD of the Company resolved in 56th meeting held in May 1995 to get the O&M work executed on contract basis. Accordingly, the Company engaged (July 2012) private agencies for O&M of SHPs. As per O&M contracts, if the generation of the SHPs fell below 40 *per cent* of design capacity, the Company would review the performance of the contractors and take corrective steps to improve the operational performance.

On review of O&M contracts awarded by the Company, Audit observed the following shortcomings:

- The Company, against tender invited (March 2012) for O&M work for 10 SHPs, awarded the work order to two contractors[16] by relaxing the criteria of techno-commercial bid in their favour which was irregular.

  The Management stated (November 2016) that the issue raised by Audit was being examined. Action would be taken accordingly.

- The Company awarded (July 2015) the O&M work of SHPs at L2[17] rate of ₹ 2.41 lakh per month instead of at L1[18] rate of ₹ 1.48 lakh per month without any justification on record. This resulted in extending undue

[16] M/s Gandak Construction Private Limited and M/s Ratan & Sons Electronics Private Limited.
[17] M/s Shahabad Engineers Private Limited, Rohtas
[18] M/s DBS Construction Private Limited, Rohtas

favour to the contractor and excess expenditure of ₹ 42.32 lakh[19] upto April 2016.

The Management stated (November 2016) that L2 bidder was awarded work instead of L1 on account of unrealistic bid of L1 which was 39 *per cent* lower than the estimated amount. The reply was not tenable as no such criteria were defined earlier during the bidding process.

- The Company did not review the work of private O&M agencies hired during 2011-12 to 2015-16 to assess their performance.

Execution of Capital works

2.1.12 The Company is the implementing agency for setting up Small Hydro Power Projects (SHPs) in the State. The Company executed various State Government/National Bank for Agriculture and Rural Development (NABARD) funded SHPs in the State. During the period 2011-12 to 2015-16, the Company undertook the construction of three[20] State Government and NABARD funded SHPs valued at ₹ 92.67 crore. Besides, two (System improvement of power evacuation of all SHPs of Sone Canal and Escape channel for Valmikinagar SHP) other works for reducing generation loss of its existing projects valued at ₹ 39.95 crore were also entrusted to the Company by the State Government during the period.

Execution of Capital works by the Company includes two major activities, i.e., (i) Planning the setting up of SHPs, and (ii) construction of SHPs and modernisation/ upgradation of its existing SHPs. Project planning mainly comprises of identification of sites, river survey, preparation of Pre-feasibility Report (PFR), preparation of Detailed Project Report (DPR) with cost estimates and obtaining of Administrative Approval (AA) of cost estimates by appropriate authority for funding of the project. Construction of SHPs was done through award of work by inviting tender.

Planning

2.1.13 Non-conventional sources of energy being most environment-friendly, there is an urgent need to promote generation of electricity based on such sources. Proper planning is essential to exploit non-conventional energy resources, viz., small hydro units, wind, solar, bio-mass, etc., to generate maximum power in the State.

The Company was appointed as nodal agency to recommend the proposals for the development of small hydel projects under "Bihar Policy for promotion of New and Renewable Energy Sources 2011" of Government of Bihar.

The Company estimated that the State had a hydroelectric power potential of 479.85 MW of which only 89.60 MW had been harnessed (November 2016). The deficiency in planning for the augmentation of Hydroelectric Power projects in the State is discussed in succeeding paragraphs:

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[19] 45.5 months x (₹ 2.41 lakh- ₹ 1.48 lakh)

[20] Ararghat SHP, Sipaha SHP and Dehra SHP.

- **Failure to review Hydro Power Policy for Mini Power Projects**

The State Government did not review the hydel policy

The Department issued (June 2011) "Bihar Policy for Promotion of New and Renewal Energy Sources 2011" for all forms of New and Renewal Energy including mini/ micro/ small hydro projects (upto 25 MW). The Department, under the said policy, appointed the Company as a nodal agency for development of hydro power projects in the State. Since no application for development of small hydro power projects was received during the period 2011-12 to 2015-16, it was, therefore, incumbent on the State Government to review the said policy. However, the same was not done by the State Government (November 2016).

The Management stated (November 2016) that a revised New and Renewable Energy Policy is being formulated by Bihar Renewal Energy Development Agency (BREDA) which includes the hydro power.

- **Unfruitful expenditure due to inaction by the Company**

The Company incurred unfruitful expenditure of ₹ 1.76 crore on preparation of PFRs

(a) The Company, with a view to tap the hydro power in the State conducted (2011-12) river survey and pre-feasibility for setting up hydel projects on Mahananda river basin, Burhi Gandak basin and Gandak river basin. The Company invited (August 2011) Notice Inviting Tenders (NITs) for various packages, viz., Package A and B (Mahananda river basin), C and D (Burhi Gandak basin) and E & F (Gandak river basin) and issued work order (December 2011 to January 2012), without obtaining Administrative Approval[21] (AA) of the Department as well as the approval of Board of Directors (BoD), to Xplorer (Package A for ₹ 0.48 crore), Water and Power Consultancy Services (WAPCOS) (Packages B, C and D for ₹ 1.96 crore) and Voyants Solution Private Limited (Packages E and F for ₹ 0.68 crore). These Contractors submitted (February 2013 to September 2013) the survey reports and 14[22] Pre-feasibility Reports for setting up projects with installed capacities of 216.86 MW. The total payment made by the Company was ₹ 1.76 crore (November 2016). Audit observed that the Company failed to act in accordance with PFRs even after three years, thus rendering the expenditure of ₹ 1.76 crore incurred in the preparation of these PFRs as unfruitful (November 2016).

The Company incurred unfruitful expenditure of ₹ 49 lakh on preparation of DPRs

(b) The Company invited NIT (September 2011) for preparation of DPRs for three[23] projects of installed capacity of 20 MW during the period 2011-12. The Letter of Intent (LoI) was issued to the contractors in December 2011/ January 2012 for ₹ 94 lakh. The contractors submitted the DPRs in October 2013. A sum of ₹ 49 lakh was paid to contractors (November 2016). However, the Company failed to take any action on these DPRs even after a lapse of three

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[21] as required under rule 121 of the PWD code and office order No. 24/ Fin/ Code-11/ 252/ 83 dated 30-06-1983

[22] (i) Bagaha (50MW) (ii) Baragovindpur (14.50 MW) (iii) Bardiyaghat (1MW), (iv) Basantpur (10.4 MW), (v) Bettiah (80MW) (vi) Birpur (2.60MW) (vii) Chatarbhog (5.4MW) (viii) Dalkola (9.44 MW), (ix) Jiriya (3.25MW) (x) Pokheria (7.3MW), (xi) Raghunathpur (2MW), (xii) Raghunathpur (9MW), (xiii) Rupadhar (4.97MW)and (xiv) Sonapur (17MW).

[23] (i) Manhara (Saharsa)- (4x2 MW), (ii) Malhanwa (Supaul)- (3x2 MW) and (iii) Santokhar (Madhepura)- (2x3MW)

years. As a result of inaction of the Company, an expenditure of ₹ 49 lakh remained unfruitful (November 2016).

The Management stated (November 2016) that the matter was being examined and further action would be taken.

Execution/ Construction of SHPs

2.1.14 The Company, during the period from 2011-12 to 2015-16, awarded the work for construction of three new SHPs as well as construction of SHPs awarded prior to 2011-12 under the various NABARD funded Rural Infrastructure Development Fund (RIDF).

RIDF was instituted with the sole objective of giving low cost fund support to State Governments and State owned Corporations for quick completion of ongoing projects relating to medium and minor irrigation, soil conservation, energy sector, etc.

Out of 15 SHPs sanctioned in 2003-04 under NABARD, RIDF phase VIII, only six projects were completed upto 2010, two SHPs were completed during the period 2011-12 to 2015-16 while seven SHPs were still under construction (November 2016).

The deficiencies observed in the execution of SHPs are discussed in succeeding paragraphs:

Completed Projects

The Company incurred excess expenditure of ₹ 52.87 crore on eight completed projects by way of diversion of funds relating to other projects

2.1.15 The status of eight completed SHPs under RIDF VIII scheme comparing their actual cost of completion *vis-a-vis* their sanctioned cost are detailed in ***Annexure 2.1.4 (a).*** It can be seen from the said Annexure that as against the AA of ₹ 49.92 crore, these eight SHPs were completed by incurring an expenditure of ₹ 102.79 crore. The excess expenditure of ₹ 52.87 crore incurred on these SHPs was sourced by way of diversion of funds from other projects which was irregular. The Company also failed to obtain revised Administrative Approval (AA) for excess expenditure from the State Government so far (November 2016).

The Principal Secretary of the Department stated (January 2017) that the matter would be reviewed by 15 February 2017 for necessary action.

The deficiencies in execution of two projects completed during the Performance Audit period are highlighted below:

Additional expenditure of ₹ 13.70 crore on Arwal and Belsar SHPs

2.1.16 The LoI for construction of civil works of Arwal SHP (1x0.5 MW) was awarded in June 2004 for ₹ 1.41 crore, with the scheduled date of completion being February 2005. Likewise, the LoI for Electro-Mechanical (E-M) work of the said project was issued in February 2006 for ₹ 3.19 crore, with the scheduled date of completion being November 2008. However, the Arwal SHP was commissioned after a delay of seven years in February 2012 after incurring an additional expenditure of ₹ 5.78 crore.

Similarly LoI for civil works as well as E-M work for Belsar SHP (2x0.5 MW) was awarded in October 2005 for ₹ 8.35 crore with scheduled date of completion being November 2008. However, Belsar SHP was completed after a delay of three years and two months, in February 2012, after incurring an additional expenditure of ₹ 7.27 crore.

The delay in completion of these two SHPs was mainly attributable to the following reasons:

- The Company took three years to approve the drawings of civil works for Arwal SHP and a period of five years for Belsar SHP.
- Consequent upon changes in drawings of the civil works of these SHPs, the Company effected changes in the fifteen test checked items of the bills of quantity (BOQ) for these projects. The increase of the said items under BoQ ranged between 48.28 *per cent* and 3791.38 *per cent*. The said increase was effected by the Company without obtaining AA of the revised cost from the Department as required under rule 135[24] of the Bihar Public Works Department Code (Code).
- These two projects were completed after incurring an additional[25] expenditure of ₹ 13.05 crore by way of diversion of funds from other projects which was irregular.

The Management stated (November 2016) that the matter was being examined and further action would be taken.

Incomplete projects

2.1.17 The Company had 17 incomplete projects (seven sanctioned under RIDF VIII and ten under NABARD- RIDF Phase XIII, XV, XVI and XVII). The status of these projects are detailed under ***Annexure 2.1.4 (b)*** and ***Annexure 2.1.4(d).*** The construction works of these projects were suspended since December 2012/January 2013. This not only led to blocking of fund but the civil structures of the projects were exposed to nature leading to deterioration in their physical condition and their reusability may entail extra expenditure at the time of restarting the work. Besides, the plant and machinery installed in these incomplete projects and the electro mechanical materials lying at the site/godowns were also prone to obsolescence/damage and theft. This would have adverse affect on economic utility of the same.

Rural Infrastructure Development Fund (RIDF) Phase VIII projects

2.1.18 Seven projects sanctioned (2003-04) under NABARD, RIDF phase VIII scheme were still (November 2016) pending for completion. The status of these projects is detailed in ***Annexure 2.1.4 (b).***

The Company even after incurring excess expenditure of ₹ 17.99 crore did not complete seven projects

It can be seen from ***Annexure*** that as against the AA of ₹ 27.50 crore, the Company incurred (November 2016) an expenditure of ₹ 45.49 crore, the excess expenditure of ₹ 17.99 crore being sourced by way of diversion of funds from other projects. These projects were incomplete and work in respect of them was suspended since December 2012/January 2013. Further, no action has been taken by Company to revive these projects so far (November 2016). As a result, expenditure of ₹ 45.49 crore remained blocked and unfruitful.

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24 In case of any alteration in a project involving additional expense, a revised supplementary estimate shall be submitted to the appropriate authority for sanction.

25 Additional expenditure: Arwal SHP- ₹ 5.78 crore and Belsar SHP- ₹ 7.27 crore

Deficiencies observed in the execution of these projects are discussed below:

Tejpura, Walidad and Paharma SHPs

2.1.19 The details of date of issue of LoI for civil works and Electro-Mechanical works, termination of contracts due to slow progress, date of award for remaining work in respect of Tejpura (2x0.75MW), Walidad (2x0.35MW), and Paharma (2X0.5 MW) SHPs are given in ***Annexure-2.1.4 (c)***.

Audit observed that the delay in completion of these projects was attributable to the following reasons:

- The drawings of the civil work for Tejpura and Paharma SHP were finalised after a delay of seven years and four years respectively from the date of award of civil works, while the final drawing in respect of Walidad SHP is yet to be finalised (November 2016) even though a period of nine years had elapsed from the date of award of work to the contractor.
- The Company effected changes in six items, viz, earthwork in excavation of foundation of power house, laying of Plain Cement Concrete (PCC) below foundation of power house, laying Reinforced Cement Concrete (RCC) foundation and superstructure, brick works, laying Reinforced Cement Concrete at elevation and steel enforcement of the BoQ ranging between 167 *per cent* to 3545 *per cent* without obtaining AA for the revised cost from the competent authority.
- During joint physical verification (May 2016), audit observed that the electro mechanical materials for Tejpura, Walidad and Paharma SHPs valued at ₹ 11.66 crore were supplied upto August 2008, large number/quantity of these materials were lying without being put to use for nearly eight years. As a result, expenditure to the tune of ₹ 11.66 crore remained blocked and unfruitful so far (November 2016) as can be seen in the following photographs;

Physical status of incomplete SHPs and EM materials at site

Incomplete SHP at Tejpura

Turbine of incomplete work at Tejpura SHP

Incomplete SHP at Walidad

Guide van lying in open at Walidad SHP

Incomplete SHP at Paharma

Draft tube with elbow section at Paharma SHP

- As against the sanctioned cost of ₹ 16.45 crore, the Company incurred an expenditure of ₹ 21.64 crore in respect of these three SHPs. The execution of these three SHPs were suspended in December 2012/January 2013 for want of additional funds. No action was taken by the Company for restarting the stalled projects as of November 2016.

As a result, expenditure of ₹ 21.64 crore incurred was rendered blocked and unfruitful. Besides, the targeted capacity addition of 3.2 MW of power in the state also could not be achieved.

NABARD-RIDF Phase XIII, XV, XVI and XVII projects

2.1.20 Under NABARD, RIDF phase XIII (2008-09), XV (2009-10), XVI (2010-11) and XVII (2012-13), a total number of 10 projects were sanctioned during the period 2008-13. The physical and financial progress of the said projects as on March 2016 is given in the ***Annexure-2.1.4(d).***

It can be seen from the ***Annexure*** that in respect of six[26]projects, total expenditure incurred stood at ₹ 82.04 crore with the physical progress ranging between 20 and 90 *per cent* even after a lapse of three to five years from the scheduled date of completion. Further, work order of four[27] projects were cancelled after incurring an expenditure of ₹ 8.04 crore and no action had been taken by the Company to restart the execution of these SHPs. The Company had incurred an expenditure of ₹ 90.08 crore on the 10 incomplete projects so far (October 2016).

Deficient planning and execution of projects by the Company resulted in blocking of funds to the tune of ₹ 90.08 crore

Thus, deficient planning and execution of projects by the Company resulted in blocking of public funds to the tune of ₹ 90.08 crore. Besides, the Company also had to incur interest liability valued at ₹ 124.89 crore on these projects during the period 2011-12 to 2015-16.

The Deficiencies noticed in execution of three test checked projects under NABARD-RIDF Phase XIII, XV, XVI and XVII are discussed below:

Mathauli SHP and Bathnaha SHP-Unfruitful expenditure: ₹ 31.14 crore

2.1.21 For construction of Mathauli SHP, the Company issued (April 2010) LoI for civil construction works at a cost of ₹ 6.97 crore, with the scheduled date of completion being May 2012. The Electro Mechanical work for the said project was awarded (July 2010) at a cost of ₹ 4.96 crore with the scheduled date of completion being September 2011.

For Bathnaha SHP, the Company issued (August 2010) an LoI for civil construction work valued at ₹ 42.74 crore with the scheduled date of completion being November 2013. The E/M work for the project was awarded (October 2010) at a cost of ₹ 22.84 crore with the scheduled date of completion being May 2011.

Audit observed following deficiencies in execution of Mathauli and Bathnaha SHPs:

- As against the total requirement of 3.09 acres and 17.99 acres of land in respect of Mathauli SHP and Bathnaha SHP, only 2.5 acres and 8.05 acres of land was available (October 2016) for Mathauli and Bathnaha SHP respectively. Further, as against the sanctioned amount of ₹ 4.98 crore, the Company awarded the construction work of Mathauli SHP for ₹ 11.93 crore without arranging for additional funds required for the execution of the project. Funds constraints persisted in Mathauli SHP even though six years since the date of award of the work order had elapsed which indicated deficient planning on the part of the Company.

- The Company took four years to finalise the drawings of the civil work for Mathauli SHP. Further, complete drawing in respect of Bathnaha SHP was yet to be approved (October 2016) by the Company though a period of eight years since the date of award of the work order had expired.

[26] Mathauli SHP, Nirmali SHP, Bathnaha SHP, Dehri escape channel, Sipaha SHP and Dehra SHP.

[27] Katanya SHP, Barbal SHP, Dhoba SHP and Ararghat SHP.

- As against the provision of ₹ 53 lakh for dewatering[28] in BOQ for the civil work for Mathauli SHP, the payment of ₹ 4.33 crore was made to the contractor by the Company. Audit observed that the commencement of construction work of SHP was delayed by 20 months due to delay in finalisation of design and drawings of the civil structure. This caused repeated accumulation of water at site due to rains during the period of execution. Successive dewatering over the period involved excess expenditure on dewatering. The construction activity was suspended since January 2013. Consequently, the expenditure of ₹ 4.33 crore incurred upto November 2016 for dewatering was rendered wasteful.

- The Company awarded the civil work and Electro Mechanical work for Mathauli and Bathnaha SHP to the contractor without obtaining AA of the revised cost from the Department and without approval of Board of Directors.

- During joint physical verification (May 2016), audit observed that the Electro Mechanical materials costing ₹ 4.50 crore supplied at Mathauli and Bathnaha SHP site upto December 2014 were lying unutilised at the sites for the last two to four years and the expenditure incurred thereon was blocked and unfruitful as can be seen in the photographs below:

Physical status of incomplete SHPs and EM materials at site

Incomplete SHP at Mathauli

Material at site at Mathauli SHP

Incomplete SHP at Bathnaha

Materials at Site at Bathnaha SHP

28 It is a process where underground water is removed continuously at the construction site so that the civil work could be carried out till the finalisation of power house sub structure.

- The Company after incurring an expenditure of ₹ 31.14 crore[29] on execution of these two SHPs, suspended the work in June 2013 and since then no action had been taken by the Company (October 2016) for restarting the work. Further, an expenditure of ₹ 2.51 crore in respect of Mathauli SHP was incurred from funds diverted from other project funds which was irregular.

Deficient planning and execution of the SHP by the Company has resulted in unfruitful expenditure of ₹ 31.14 crore

Thus, deficient planning and execution of the SHP on the part of the Company not only rendered the expenditure of ₹ 31.14 crore unfruitful but also led to denial of intended benefit of power capacity addition of 8.80 MW for the State.

Unfruitful Expenditure of ₹ 3.52 crore

2.1.22 A paragraph on Barbal SHP relating to idle expenditure of ₹ 3.52 crore on Barbal SHP (1.6 MW) featured under Paragraph 4.13 of the Report of Comptroller and Auditor General of India on Public Sector Undertakings, Government of Bihar, for the year ended 31 March 2014. Audit further observed that the Company failed to take any initiative for restarting the work on this SHP even though further four years had passed since the suspension of work in January 2012. As a result, expenditure of ₹ 3.52 crore incurred in respect of this SHP has become unfruitful as the entire civil works done so far was water logged.

Blocking of public fund of ₹ 6.67 crore

2.1.23 The Company issued an NIT in June 2007 for construction of Escape Channel[30], Escape Regulator[31] and Cross Regulator[32] for continuous water supply to Dehri SHP. The work for construction of Escape Channel was awarded (May 2008) to the Contractor at a cost of ₹ 1.17 crore with the scheduled date of completion being November 2008. The work for construction of Cross Regulator and Escape Regulator was awarded to contractors in May 2008 and August 2008 for ₹ 4.68 crore and ₹ 4.56 crore respectively, the scheduled dates of completion being November 2008 and September 2009. The work of these projects was stopped by the contractor in July 2013 for want of site clearances, finalisation of drawings and stoppage of payment of bills of all contractors by the Company in July 2013. However, after incurring an expenditure of ₹ 6.67 crore, these projects were incomplete (November 2016) even though eight years from the date of award of the work order had lapsed.

Deficient planning and execution of escape channel by the Company resulted in blocking of fund to the tune of ₹ 6.67 crore

Thus, deficient planning and delayed execution of works resulted in blocking of public fund to the tune of ₹ 6.67 crore and also led to the failure to ensure continuous supply of water in SHP for uninterrupted generation of energy. No further action was taken by the Company to revive the project (November 2016).

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[29] Mathauli SHP- ₹7.48 crore and Bathnaha SHP- ₹23.66 crore.

[30] Escape Channel is an arrangement whereby a channel is constructed to ensure continuous supply of water in the SHPs for uninterrupted generation of energy by the SHP.

[31] Escape Regulator is a gate constructed on Escape Channel to regulate the flow of water into the river.

[32] Cross Regulator means a gate constructed on the main canal for the purpose of regulating the flow of water into the canal.

In respect of **Paragraphs 2.1.19, 2.1.21, 2.1.22 and 2.1.23,** the Management stated (November 2016) that Alternate Hydro Energy Centre (AHEC), Roorkee has been engaged (September 2016) for technical evaluation of these projects. The Principal Secretary of the Department stated (January 2017) that the Report submitted by the AHEC, Roorkee, was being examined and the Government's view on the technical evaluation of AHEC would be taken, by mid-February 2017. The fact however remained that AHEC, Roorkee, was engaged by the Company after being pointed out by the Audit and final action is yet to be taken (January 2017).

State Plan Funded Projects

2.1.24 Under State Plan, four[33] projects were sanctioned during the period 2006-07 to 2012-13. The physical and financial progress of the projects as on March 2016 is given in the ***Annexure 2.1.4 (e).***

It can be seen from ***Annexure*** that as against the receipt of funds of ₹ 74.84 crore, a sum of ₹ 31.97 crore only had been incurred on these projects (June 2016). Two projects were incomplete and two projects were yet to commence (November 2016) even though a period of three to eight years had elapsed since the year of sanction.

The deficiencies noticed in execution of two projects are discussed below:

Renovation and Modernisation (R&M) work for Kataiya SHP

2.1.25 The work relating to Renovation & Modernisation (R&M) of Kataiya SHP was awarded (August 2010) to a contractor for ₹ 38.08 crore with the scheduled date of completion being February 2012.

Even after incurring expenditure of ₹ 24.03 crore, the Company failed to revive all the four units of Kataiya SHP

Audit observed that the contractor could renovate only two of the four units of the said SHP and that too after an expiry of 18 months from the scheduled date of completion. So far (November 2016), an expenditure of ₹ 24.03 crore had been incurred on the project. It was seen in Audit that the contractor stopped (June 2014) the work as bills aggregating to ₹ 5.30 crore remained pending with the Company. Failure of the Company to pay the contractors bill was mainly on account of inadequate funds which could be attributed to irregular diversion of funds (₹ 8.81 crore) from this project to another projects. Thus, despite having incurred an expenditure of more than ₹ 24.03 crore, no further action had been taken by the Company to revive this project (November 2016).

The Management stated (November 2016) that issues were being examined and further action would be taken accordingly.

[33] R&M of Koshi Hydel Project, preparation of DPR for Dagmara Hydro electric project, System improvement of power evacuation of all projects of Sone canal and Escape Channel for Valmikinagar.

Delay in finalization of DPR of Dagmara Hydro Electric Project

2.1.26 Matters relating to Dagmara Hydro Electric Project (DHEP) (130 MW) highlighting avoidable expenditure of ₹ 1.50 crore due to failure of the Company to verify the international issues associated with the said project and awarding of work for preparation of DPR in contravention of Central Water Commission (CWC) Guidelines featured under **Paragraph 4.8** of the Report of the Comptroller and Auditor General of India on Public Sector Undertakings, Government of Bihar, for the year ended 31 March 2013.

Audit further observed that the DPR so prepared after incurring an expenditure of ₹ 7.94 crore was pending with the Central Electricity Authority (CEA) since February 2012 which was not approved by CEA because of assurances sought by the CEA to reduce the project cost (₹ 1795.55 crore) and tariff (₹ 3.01 per unit). The Company made (March 2013) a proposal to CEA to bring down the cost of project by apportioning the project cost to flood protection measures. The reimbursement of the apportioned cost was to be obtained from the Water Resources Department (WRD), Government of Bihar. After a period of three years, the Consultant of the Company submitted (June 2016) the revised cost of project aggregating to ₹ 2384.43 crore with the tariff of ₹ 10.66 per unit. The cost to be apportioned to the flood control measures in the revised cost was envisaged to be ₹ 414.77 crore. However, the Company failed to obtain the assurances from the WRD regarding the reimbursement of the apportioned cost of ₹ 414.77 crore so far (November 2016). As a result, the DPR of Dagmara project is yet to be approved by CEA.

Failure of the Company in obtaining the approval of DPR of Dagmara HEP from CEA resulted in denial of intended benefit of targetted capacity addition of 130 MW of power to the State

Thus, failure, on the part of the Company to obtain the approval of the said DPR from CEA had not only resulted in escalation of project cost from ₹ 1795.55 crore to ₹ 1969.66 crore (excluding flood protection measures cost), but also led to the failure in augmenting the power capacity in the state by 130 MW.

Audit also observed that the Company incurred an interest obligation of ₹ 6.72 crore on ₹ 11 crore received for the preparation of DPR for the project upto June 2016.

The Management stated (November 2016) that approval of DPR of Dagmara project was pending at CEA due to high project cost. As per the direction of CEA, cost apportionment had been done and calculation had been submitted to CEA, which was under examination. The reply of the Company, however, was silent on the failure of the Company in obtaining assurances from WRD regarding the reimbursement of the apportioned cost, for it had an impact on project cost and tariff per unit, which was the basic requirement put forth by the CEA for approving the project.

Regulatory Failures

Insufficient environmental clearances

2.1.27 Sections 25 and 26 of the Water (Prevention & Control of Pollution) Act, 1974 as well as Section 21 of the Air (Prevention & Control of Pollution) Act, 1981, *inter alia,* provide that any industrial plant or processes will not be established and no plant would discharge and emit any effluent in the water or in air in excess of the prescribed standard without obtaining "Prior Consent-to–Establish and Consent-to-Operate" from the Bihar State Pollution Control Board (BSPCB).

Audit observed:

- The Company was operating 13 SHPs commissioned with installed power generation capacity of 54.30 MW but none of these projects had obtained "Consent-to Operate" from the BSPCB. Further, there was nothing on record to show that the Company had taken any action to obtain this "Consent-to-operate" from BSPCB.
- 16 SHPs having a generation capacity aggregating 35.30 MW were under various stages of construction. Though, "Consent to Establish" were obtained from the BSPCB to establish these projects, the said NOCs were valid only for a period of one or two years. These "Consent to Establish" had expired a long back (September 2011). The Company, however failed to take any action for their renewal so far (November 2016).

Thus, the Company was operating 29 projects without obtaining "Consent-to-Operate/Consent-to-Establish". Disregarding the provisions of environmental legislation rendered the Company vulnerable to penal action.

The Management stated (November 2016) that action was being taken to renew permission/ NOC on regular basis. However, no records were produced to audit in support of this contention.

Clean Development Mechanism

2.1.28 A paragraph on Clean Development Mechanism featured under **Paragraph No. 3.20** of the Report of Comptroller and Auditor General of India (Commercial), Government of Bihar, for the year ended 31 March 2010. To save the earth from Green House Gases (GHG), a number of countries including India signed the Kyoto protocol (Protocol), which was adopted (December 1997) in the third Conference of parties to the United Nations Framework Convention on Climate Change (UNFCCC). The UNFCCC had set the standard level of carbon emission allowed for a particular industry or activity. If an entity emits less carbon than the standard fixed by UNFCCC, it gets credit for the same. The bookings of such saving of GHG are called purchase of Certified Emissions Reduction (CER), commonly called carbon credits. This whole system is named Clean Development Mechanism (CDM).

For sale of CER, a power plant is required to be registered as a CDM project with UNFCCC. The power plants that commenced operations on or after 1 January, 2000, were eligible for registration by submitting the request with the Ministry of Environment and Forest (MoE&F), Government of India.

The Company did not take any action for registering its SHPs plants with UNFCCC through MoE&F to sell 30484.59 CER valued at ₹ 61 lakh

Audit observed that the Company did not take any action for registering its SHPs plants with UNFCCC through MoE&F. This resulted in failure of the Company to sell 30484.59[34] CER earned by the Company from nine projects valued at ₹ 61[35] lakh.

[34] 38105.74 MWH generated X 0.8 = 30484.59 CER

[35] 30484.59 CER X ₹ 200 = ₹ 60,96,918

The Management stated (November 2016) that necessary action was being taken.

Monitoring and Internal Control

2.1.29 Internal control system is a management tool used to provide reasonable assurances that management objectives are being achieved in an efficient, effective, and orderly manner. Besides, there should be a proper Management Information System (MIS) to report on performance of the Company *vis-a-vis* the established standards/norms. Review of Internal Control System prevalent in the organisation revealed that:

- The average tenure of CEO of the Company during the period under Performance Audit was less than one year. Frequent changes at the senior management level may be one of the main reasons for failure of the Company to formulate any Long Term/ Perspective Plan/ Road map with clearly defined targets and goals to be achieved. Besides, the post of FA- cum-CAO was also lying vacant.
- The Company failed to devise a proper and efficient review procedure so as to analyse its financial, operational and generational activities and take corrective measures on deficiencies noticed. Neither periodical review meetings were held by the senior management nor an MIS system was put in place.
- Section 285 of the Companies Act 1956/ Section 173 (1) of the Companies Act 2013, *inter alia,* provide that at least four meetings of Board of Directors shall be held every year, in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board.

  As against this statutory requirement of four meetings of the Board of Directors, only two meetings were held in each of the years 2011, 2012 and 2013. Further, no meeting was held in 2014 while only one meeting was held in 2015.
- Delegation of financial power of the Company states that Budget and Plans require the sanction/approval of the Board of Directors of the Company. The Company failed to prepare the budget for the years 2014-15 and 2015-16. In absence of budget, there was no budgetary control and the capital and operational expenditure were incurred during these periods without the prior approval of the Board of Directors.
- There was a dearth of manpower in the company as against sanctioned strength of 457, the actual men in position were only 162 (35 *per cent*).

The Company failed to renew/ invoke 20 Bank Guarantees in respect of Mobilisation Advances of ₹4.02 crore, as a result a sum of ₹ 2.96 crore of MA was still recoverable from the contractors

- The Company failed to renew/invoke 20 Bank Guarantees in respect of Mobilisation Advances (MA) of ₹ 4.02 crore made to the contractors. As a result, a sum of ₹ 2.96 crore on account of MA was still recoverable from the contractors. It was noticed that, the Company in violation of Central Vigilance Commission (CVC) Circular (2007) in respect of release of MA in lieu of Bank Guarantees, released MA of ₹ 1.77 crore to two contractors in lieu of Corporate Guarantee[36] submitted by them. Failure by the Company to comply with CVC guidelines, resulted in a sum of ₹ 1.59 crore unrecoverable from the contractors (June 2016).

- The Company failed to reconcile its Bank balances with balances as per cash book for the last four years. The last Bank Reconciliation Statement (BRS) of the Company's Bank Accounts was prepared in 2011-12, wherein large numbers of un-reconciled balances for previous eight years were highlighted. As on 31 March 2016, un-reconciled difference of ₹ 13.37 crore between balances as per bank statements and cash book in respect of 13 banks operated by the Company were observed. This required reconciliation and differences needs to be investigated.
- Paragraph 8 of Schedule II (Special term and conditions) of sanction letter of NABARD, *inter alia,* stipulated that the Company shall maintain separate Accounts of project expenditure. However, the Company failed to do so as a result of which diversion of project funds to another projects was noticed in the Company.
- The Company failed to maintain proper records showing full particulars, including quantitative details and situation of fixed assets. Besides, a system for periodical physical verification of Company's assets was also not being practiced in the Company.
- The Company did not have its own Internal Audit Wing. A firm of Chartered Accountants appointed for Internal Audit of the Company was merely certifying the compilation of Accounts and did not undertake any technical / propriety audit of the Company.

The Management accepted (November 2016) the audit observation.

The Audit findings on the Performance Audit of the Company were reported (August 2016) to the Government, reply is still awaited (November 2016).

Conclusion

Audit concluded that:

- **The Company could not ensure availability of water to its Small Hydroelectric Projects from the Water Resources Department. Adequate water for operation was not available for 39 to 66 *per cent* of the available hours during the period 2011-16. Further, the Company failed to construct escape channel to ensure availability of water to plants during canal closure period. The unavailability of water for such prolonged hours resulted in drastic reduction in power generation and increased generation cost. Consequently, operation of these plants is unlikely to achieve the targeted Plant Load Factor of 30 *per cent* and Break Even Point of cost of sales.**

[36] Corporate Guarantee refers to an undertaking given by the contractor himself to make good the payment of mobilisation advance made to him.

- **The power generation cost per unit ranged between ₹ 8.13 per unit and ₹ 12.36 per unit during the period 2011-16. However, the Company sold power to DISCOMs at the Bihar Electricity Regulatory Commission (BERC) approved rate of ₹ 2.49 per unit during the said period. The sale price of the Company was even less than the average Power Purchase Cost of DISCOMs which was ₹ 4.12 per unit for the period 2015-16.**
- **The Company incurred a revenue loss ranging from ₹ 5.64 per unit to ₹ 9.87 per unit during 2011-16. The Company sold 213.14 MUs during the period 2011-16 resulting in losses of ₹ 147.66 crore. The BERC approved tariff rates remained constant during 2011-16 as the tariff petition was not submitted by the Company since 2010-11 due to its failure to finalise the Annual Accounts since 2001-02. However, the power generation cost of the Company increased during 2011-16 as its major element, the interest cost on borrowings, increased from 47.52 *per cent* in 2011-12 to 61.39 *per cent* in 2015-16 and due to decrease in power generation.**
- **The inaction on the part of the Company on Pre-feasibility Report and Detailed Project Reports, delay in approval of drawings, increase in the Bill of Quantities and revision in cost thereof without prior approval of the competent authority and diversion of funds to other projects led to time and cost overruns of the Capital works.**
- **Suspension of construction of projects since December 2012/July 2013 led to blocking of funds and the civil structures of the projects so created were exposed to nature leading to deterioration in their physical condition. Besides, the plant and machinery installed in these incomplete projects and the electro-mechanical materials lying at the site/godowns were also prone to obsolescence/damage and theft.**
- **The top Management of the Company failed to review the operational and financial performance of the Company through periodical meetings/ Board Meetings as per statutory requirement.**
- **In view of the unavailability of water to the plants and their operation at abysmally low PLF, the operational cost of the plants were abnormally high. As the tariff for the power generated remained unchanged, the Company suffered continuous losses during the period 2011-16 and the operation of the plants of the Company under the present condition is commercially unviable. The poor situation of the Company would continue even if the Company succeeds in ensuring the approval of its tariff from BERC at par with the prevailing average Power Purchase cost of DISCOMs.**

Recommendations

Based on above conclusions, Audit recommends that:

- **The State Government should make efforts to get continued supply of required quantity of water so that the plants could achieve a PLF of 30 *per cent.* The State Government should also review the functioning/operation of the plants in the State to make it commercially viable.**
- **The Company should take appropriate measures to liquidate the arrear of Annual Accounts, comply with the BERC's instructions to get its tariff approved and restrict the operational expenditure.**
- **The Company should endeavour to increase the generation performance of its plants and improve Plant Load Factor by mitigating Plant Outages through proper and timely repair and maintenance of machines, construction of escape channels and redress the problem of grid failure through effective power evacuation system.**
- **The Company should initiate action to avoid delays in pre execution activities such as approval for Pre-Feasibility Report, DPRs, drawings, *etc.* so that time and cost overrun of projects could be avoided.**
- **The Company should strengthen its monitoring mechanism by conducting Board meetings as per statutory requirements.**

2.2 Performance Audit on Bihar State Electronics Development Corporation Limited

Executive Summary

Bihar State Electronics Development Corporation Limited (Company) was incorporated on 21 February 1978 with objectives to promote and develop Electronic Industry in the State of Bihar. The Company was under the Administrative Control of Department of Information and Technology (DIT), Government of Bihar (GoB).

The Company, during the period 2011-12 to 2015-16, concentrated its activities mainly on the execution and maintenance of Information Technology (IT) related projects in Bihar on behalf of various Departments of Government of Bihar and State Public Sector Undertakings (PSUs). During the period under the Performance Audit, the major IT projects undertaken by the Company were Bihar State Wide Area Network (BSWAN), Common Service Centres (CSC), e-District, State Services Delivery Gateway (SSDG), State Data Centre (SDC), Secretariat Local Area Network (SecLAN), Information and Communication Technology at Schools (ICT at Schools), National Land Record Modernisation Programme (NLRMP), e-Public Distribution System (e-PDS; pilot phase), Bihar Revenue Administration Intra Net-Data Centre (BRAIN-DC), e-Shakti, Comprehensive Treasury Management Information System (CTMIS), Modernisation of Prison (MoP-phase I) and Computer Aided Learning (CAL).

During the Performance Audit period, the Company had undertaken 35 IT related projects and services out of which 28 projects were completed.

Financial Management

The Company failed to incorporate Central Vigilance Commission (CVC) Guidelines relating to Mobilisation Advance in the agreements for execution of IT Projects which resulted in irregular advances aggregating to ₹ 16.64 crore to the vendors in respect of three projects.

The Company, in undertaking the project Information and Communication Technology at Schools (ICT at Schools) failed to surrender surplus project funds amounting to ₹ 32.89 crore to the Human Resource Department, Government of Bihar, despite the fact that the project commenced in July 2007 and was completed in July 2015.

The Company parked funds in saving bank account without availing auto sweep facility, resultantly suffering a loss of interest income amounting to ₹ 5.01 crore.

Project Planning

The Project Planning of the Company was deficient as it did not frame any timelines for the pre-tendering activities, as a result of which it took 30 months in preparing Detailed Project Reports (DPRs) of three projects (SDC, SSDG

and BSWAN) and 22 months in finalizing the tender (SDC Project). Thus, the assigned projects were delayed considerably since a lot of time was spent prior to the execution of these projects on pre-tendering activities. Further, DIT in response to the questionnaire issued by audit stated that they were not fully satisfied with the execution of project by the Company.

The Company failed to finalise the tender within the validity period of the bids and procured IT material worth ₹ 2.43 crore in piecemeal which could not be installed so far (November 2016) and were lying idle. Further, in response to the questionnaire issued to the DIT to assess whether the objective of the project as envisaged was achieved, it was replied by the DIT that the same was not achieved as the project could not be completed by the Company.

Execution of IT Projects and other activities

Execution works relating to three projects involving a total value of ₹ 26.78 crore was awarded to vendors without inviting tender in violation of the Bihar Financial Rules. Similarly, the Company in violation of the CVC Guidelines awarded the work of providing consultancy services in seven projects worth ₹ 9.08 crore on a nomination basis without assigning any justification/reason on record.

The execution of BSWAN, e-PDS, SDC, ICT at schools and CAL projects were found to be deficient which resulted in loss/avoidable excess expenditure aggregating to ₹ 6.35 crore and the IT equipments were lying idle.

Due to delay in implementation of e-payment facility in e-Tendering Project, Tender Processing Fee (TPF) of the Company aggregating to ₹ 11.91 crore could not be realised till date (November 2016).

Monitoring and Internal Control

Out of 244 schools established by the vendor in 16 Schools, the Computer Center under Computer Aided Learning (CAL) programme could not get operational due to theft of all hardware. Further, BEP (user Department) in response to the questionnaire issued by audit also stated that their objective was not fully achieved. It was also stated by the BEP that the cases of theft of equipment were not properly managed and that these locations were not made re-operational by the Company.

The assets worth ₹ 15.09 crore so created were not handed over to the District e-governance society till November 2016. Thus, due to ineffective monitoring, flow of the benefits from the expenditure so incurred was not ensured by the Company. Further, DIT in response to the questionnaire issued by audit stated that the project was not managed efficiently by the Company as Final Acceptance Test of Gaya District was not completed and the project was not operationalised.

Monitoring and Internal Control mechanism of the Company was deficient and there was an over dependency on the Consultants for execution of IT Projects. Failure of the Company to adhere to the agreements resulted in avoidable excess expenditure of ₹ 1.16 crore on account of payment made to the Consultant.

Introduction

2.2.1 Bihar State Electronics Development Corporation Limited (Company) was incorporated on 21 February 1978 with the main objectives to promote and develop Electronic Industry in the State of Bihar and to undertake activities considered necessary for its growth, viz., to manufacture, buy, sell, import, assemble, distribute, repair, exchange and deal in all types of electronic equipment, tools, machinery, instruments and appliances. The Company was under the Administrative Control of Department of Information and Technology (DIT), Government of Bihar (GoB). The Department issued (2011) an Information and Communication Technology Policy (ICT Policy 2011) with the objective to provide guidelines for enabling the development of IT services and e-governance in the State. Paragraph 5.3.6 of the policy, *inter alia,* provided that the Company, would form Joint Ventures with private agencies with a view to facilitate e-Governance implementations and rendering IT services. The Company, during the period 2011-12 to 2015-16, concentrated its activities mainly on the execution and maintenance of IT related projects in Bihar on behalf of various Departments of Government of Bihar and State Public Sector Undertakings (PSUs).

The Company, apart from execution of the IT projects, is also the State Procurement Agency and procures IT related products on behalf of various Government Departments/Agencies/PSUs. It also provides IT manpower (Programmers, Data Entry Operators, etc.) to various Government Departments/Agencies/PSUs when requisitioned by them to do so. Further, the Company also provides facility for hoisting e-tenders to various Government Departments/Agencies/PSUs in Bihar. The Company, for carrying out the designated work, charges supervision and service fees as per rates fixed by the State Government.

During the period under the Performance Audit, i.e., 2011-12 to 2015-16, the major IT projects undertaken by the Company were Bihar State Wide Area Network (BSWAN), Common Service Centres (CSC), e-District, State Services Delivery Gateway (SSDG), State Data Centre (SDC), Secretariat Local Area Network (SecLAN), Information and Communication Technology at Schools (ICT at Schools), National Land Record Modernisation Programme (NLRMP), e-Public Distribution System (e-PDS; pilot phase), Bihar Revenue Administration Intra Net-Data Centre (BRAIN-DC), e-Shakti, Comprehensive Treasury Management Information System (CTMIS), Modernisation of Prison (MoP-phase I) and Computer Aided Learning (CAL). During the Performance Audit period, the Company had undertaken 35 IT related projects (including five projects of NeGP) and services out of which 28 projects were completed. The objectives of these IT projects are given in ***Annexure-2.2.1***.

The Management of the Company was vested with a Board of Directors, comprising seven Directors including a Managing Director who, as the Chief Executive Officer of the Company, was responsible for conduct of the affairs of the Company. He was assisted by General Manager (Planning & Development), Managers (Finance, Marketing, Administration, Project Implementation, Technology Co-ordination and Business Development) and a Company Secretary.

Audit Scope and Methodology

2.2.2 The Performance Audit of the Company with respect to activities related to execution and maintenance of IT projects, e-tendering facility, IT related procurements and providing IT related manpower during the period 2011-2016 was carried out from April 2016 to June 2016. Four IT projects[1] out of five under National e-Governance Plan (NeGP), execution and maintenance of nine[2] (covering 30 *per cent* of the numbers of IT projects) out of 30 other IT projects assigned to the Company wherein expenditure incurred was greater than ₹ 10 crore were selected for detailed scrutiny.

Further, out of 734 Purchase Indents for supply of various IT related products involving a total amount of ₹ 85.27 crore, 33 Purchase Indents involving value of more than ₹ 50 lakh aggregating to ₹ 44.60 crore (52.30 *per cent* of the total value of Purchase Indents) were also selected for detailed scrutiny.

Audit methodology included examination of the records of the Company as well as those of the Administrative Department, issue of questionnaire, consideration of reply of the Company/ Department in response to the audit notes issued, interaction with the Management and Department, etc. In order to apprise the Management with the audit objectives, audit scope and methodology, etc., an Entry Conference was held with the Secretary of the Administrative Department who also held the charge of Managing Director of the Company on 31 March 2016. Further, to elicit the Company/Department's views on the audit observations, an Exit conference was held on 11 November 2016. Company/Department's views on the audit observations have been incorporated in the Performance Audit Report.

Audit Objectives

2.2.3 The performance audit of the Company was carried out to assess whether:

- the Company managed its financial resources in an effective and efficient manner;
- planning for implementation of IT Projects was carried out effectively and efficiently;
- execution of the IT projects was carried out economically, efficiently and effectively;
- activities relating to e-tendering, procurement of IT equipment and providing IT manpower to various Departments were carried out economically, efficiently and effectively; and
- the Company had an adequate and effective monitoring/Internal Control System in place.

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[1] BSWAN (AMC Phase), e-District, SDC and SSDG.

[2] MoP-1, e-PDS(pilot phase),e-Shakti, CTMIS, SecLAN, NLRMP,ICT at School, Computer Aided Learning (CAL) at School and BRAIN-DC.

Audit Criteria

2.2.4 The criteria to assess the audit objectives were drawn from the following sources:

- Memorandum and Articles of Association of the Company;
- Guidelines of the Government of India on National e-Governance Plan (NeGP), State Government Guidelines for other State Funded Projects;
- Directives of the Administrative Department/State Government;
- Detailed Project Reports (DPR)/Request for Proposal (RFP)/Agreements for execution of the projects;
- Bihar Government Financial Rules, 2005, Statutory Applicable Acts and Rules; and
- Central Vigilance Commission Guidelines.

Audit Findings

2.2.5 The audit findings are discussed in subsequent paragraphs:

Financial Management

2.2.6 Efficient Fund Management is a pre-requisite for the success of any organisation. This also serves as a tool for effective decision making, ensures optimum utilisation of available financial resources and favourable borrowings at favourable rates when needed.

The main sources of funds of the Company were from the sale of IT equipment, project supervision and service charges. These funds were mainly utilised for procurement of IT equipment and services, employee benefit expenses, operating and administrative expenses, etc. Apart from this, the Company also received funds for implementation of IT projects in Bihar from Department of Information Technology (DIT) and other Departments of Government of Bihar.

Financial position and working results

The financial position and working result of the Company during the period 2011-12 to 2015-16 are given in ***Annexure-2.2.2***. Audit observed that:

- The Company had been registering profits during the period covered under audit. However, the profitability of the Company declined from ₹ 18.41 crore in 2011-12 to ₹ 13.31 crore in 2015-16. The said decline was because of a Government order (August 2012) directing the Company to credit the interest earned on unutilised project funds to the respective Project Accounts. Consequently, the Company had to dispense with the earlier incorrect practice of accounting for the interest earned on the unutilised funds for various projects as its own income.

- Reserves and Surplus of the Company increased from ₹ 24.32 crore in 2011-12 to ₹ 51.45 crore in 2015-16. The Company, notwithstanding huge reserves and surplus, failed to effectively utilise them for either servicing the debts and/or for business growth. The Company failed to service its unsecured loan availed from the Government of Bihar at a rate of 15.50 *per cent* per annum. The interest liability on a loan of ₹ 6.00 crore had ballooned to ₹ 25.54 crore upto March 2016.

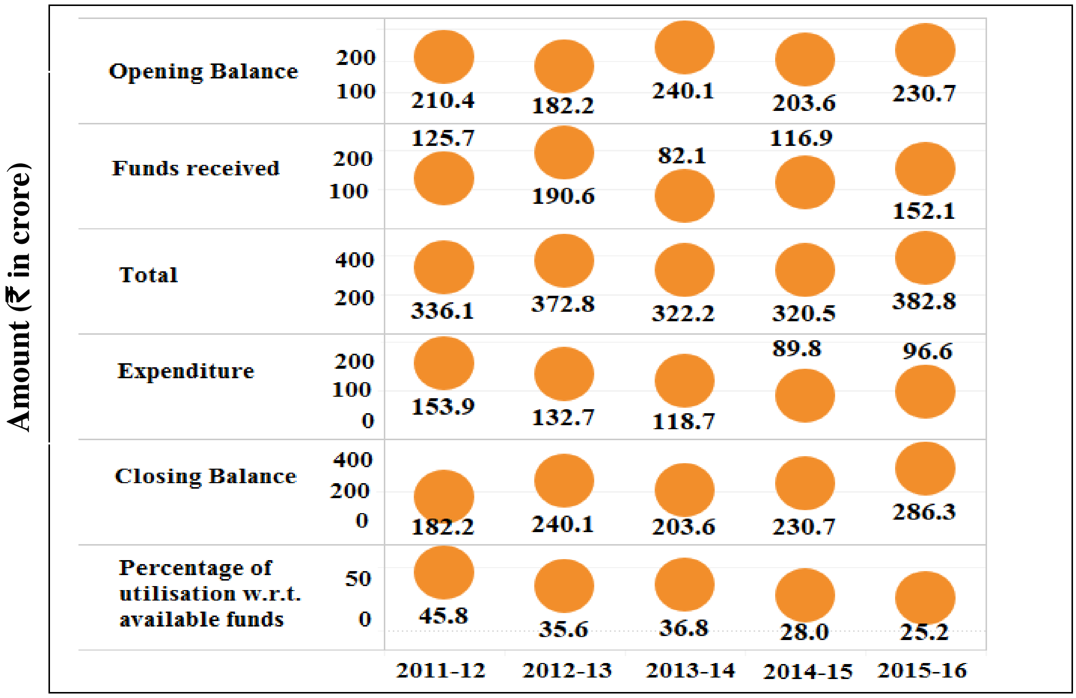
  The Management on the issue relating to repayment of Government Loan and interests thereon from Reserves and Surplus, stated (November 2016) in the Exit Conference that a proposal to increase the Authorised Share Capital of the Company was in the offing and if approved by the State Government, the same would be utilised to increase the Capital base of the Company.

- Out of ₹ 35.01 crore receivable from various Government Departments/parties upto March 2016, a sum of ₹ 3.65 crore was being carried over since 2011-12. Similarly, out of ₹ 10.38 crore given as advance to various parties upto March 2012, a sum of ₹ 6.48 crore had not been adjusted/recovered till March 2016. Audit noticed that neither age-wise analysis of the receivables/advances was maintained nor balance confirmation was found on the records. In the absence of these informations, the recoveries/adjustment seemed doubtful.

Receipt and Utilisation of Funds

2.2.7 The details of funds received by the Company during the period 2011-12 to 2015-16 and their utilisation is detailed in the Chart No. 2.2.1.

Chart No. 2.2.1: Receipt and utilisation of funds



It can be seen from the Chart No. 2.2.1 that the year-wise percentage utilisation of the available funds showed a declining trend and ranged between 25.22 and 45.79 *per cent* of the available funds during the said period. Thus, low utilisation of fund, among other factors was responsible for low profitability of the Company during the same period.

Other observations

Surplus project fund not refunded to Government

2.2.8 The surplus fund, if any, against a project should be returned to the concerned User Department. Audit observed that:

- For implementing the ICT Project at Schools, Human Resource Department, GoB provided funds amounting to ₹ 85 crore to Company in April 2007. The project commenced in July 2007/March 2008 and was completed in July 2015. However, the Company failed to surrender the unutilised funds of ₹32.89 crore to the Human Resources Department, GoB because settlement of vendor's claim was pending.
- Similarly, in case of project on State Data Centre (SDC), as against the estimated cost of ₹ 53.89 crore, the Company had received ₹ 28.70 crore (till March 2015) from IT Department, Government of Bihar. The Company awarded (March 2015) the work at a firm cost of ₹ 16.75 crore. However, the Company did not surrender the surplus fund of ₹ 11.95 crore to the concerned Department (October 2016).

The Management, in the Exit Conference stated (November 2016) that the surplus fund was not refunded as issues like settlement of dues of vendors were still pending. Further, the project accounts were still to be closed. The issue of refund shall be addressed on the closure of the project accounts.

Idle Investment in Subsidiaries/Joint Venture (JV) Companies

2.2.9 As on March 2016, the Company made an investment of ₹ 9.28 crore in seven Companies which were incorporated between the year 1980 and 1997 out of which three were subsidiaries, and the remaining four were Joint Venture (JV) Companies.

Audit noticed that:

- Out of ₹ 9.28 crore, ₹ 8.19 crore was invested in two subsidiaries viz. Beltron Video System Limited (BVSL) and Beltron Mining System Limited (BMSL). Although the Company filed a petition (2004) in the court for winding up of BVSL and BMSL, the same was turned down (2006) by the Hon'ble High Court, Patna, on the ground that the State Government in the context of Bihar Reorganisation Act, 2000 was empowered to frame a scheme by virtue of section 3 of Inter-state Corporation Act, (ISC) 1957, and accordingly, if the shareholders and the State Government are of the view that the Corporation was required to be dissolved, then steps as per ISC Act, 1957 was required to be taken. However, the Company did not proceed further with the steps provided under ISC Act, 1957 for winding up of these companies and status quo was maintained till date (October 2016).

- The matter of Beltron Telecommunication Limited, a joint venture of the Company, in which the company had made an investment of ₹ 66.45 lakh, was pending before BIFR since the year 2002.
- In case of investment in other four Companies, the Company had not taken any action viz. to review its long term investments and wind up these companies.

Thus, inaction on the part of the Management led to the continued operation of these Companies which have failed to earn any returns for the Company.

The Management stated (September 2016) that these Companies had huge liabilities towards employees remuneration and litigations relating to employees remuneration were pending. Further, the Government of Bihar had constituted (2003) a high level committee under the chairmanship of Development Commissioner, Bihar, to take a decision on Companies that were not working. The Management also stated that they were reviewing all the long term investments with a view to wind up these Companies. However, the fact remains that the Company failed to take effective steps during the period 2011-12 to 2015-16 to review its long term investments and wind up these companies.

Loss on account of parking of funds in Savings Bank accounts without auto sweep facility

2.2.10 Auto sweep facility refers to a facility provided by the Commercial banks on Savings Accounts as well as Current Accounts wherein the banks treat the balance over and above the specified minimum balance as Term Deposit and accordingly provide higher rate of interest thereon. In case of fund as and when demanded by the customers, the said Term Deposit automatically gets converted into normal deposits thereby ensuring liquidity to the customers.

The Company failed to avail benefit of auto sweep facility from its saving bank accounts and lost opportunity to earn interest income of ₹ 5.01 crore

Audit observed that the Company was operating four to five savings bank accounts without the auto sweep facility during the period 2012-13 to 2015-16, wherein the minimum monthly balances ranged from ₹ 3.97 lakh to ₹ 30.89 crore. The Company failed to safeguard its financial interest by not opting for auto sweep facility and thus lost an opportunity of earning additional interest income to the tune of ₹ 5.01 crore.

The Management in the Exit Conference (November 2016) stated that there was no instruction from the State Government in this regard. However, since the issue raised by audit was a desirable financial management practice, a request to Finance Department, GoB, in this regard shall be made in due course.

Failure of the Company to safeguard its financial interests

2.2.11 Some of the instances wherein the Company failed to safeguard its financial interests are discussed below:-

- For Modernisation of Prison Securities (which included various works such as installation of video conferencing facility between Jail and Court, Close Circuit Television camera, hand held metal detector, walky-talky, baggage scanner, etc.) in various jails of Bihar, Home Department, Government of Bihar provided ₹ 22.43 crore during the year 2007-08. The Company finalized the tender and awarded (March 2008) the work order (₹ 29.45 crore) with an increased scope of work in anticipation of approval of the increased cost by the Home Department. Further, a sum of ₹ 3.88 crore was also provided to the Company by the Home Department in respect of Annual Maintenance Contract (AMC), manpower, repairs, etc. As against the total available fund of ₹ 26.31 crore, the total expenditure incurred by the Company as on March 2015 stood at ₹ 28.98 crore which included ₹ 1.87 crore from the Company's fund. Thus, failure of the Company in obtaining the approval of the Home Department and execution of the project with increased cost led to blocking of Company's fund to the tune of ₹ 1.87 crore. It was further observed in audit that the Company could not earn its agency charges valued at ₹ 1.84 crore (seven *per cent* of ₹ 26.31 crore) on the project.

The Management did not offer any comments on the above observation.

- In case of e-PDS project (roll out), the Company failed to safeguard its financial interests by not collecting the cost of DPR preparation in advance from Bihar State Food and Civil Supplies Corporation Limited (BSFC). As a result, the cost of preparation of DPR amounting to ₹ 25 lakh was still (September 2016) to be recovered by the Company.

  The Management stated (September 2016) that matter was taken up with BSFC to recover the cost of DPR preparation. The reply of the Management was not tenable since no correspondence to substantiate the reply furnished to audit was available on records.

Irregularities in release of Mobilisation Advance

2.2.12 As per the Guidelines issued by Central Vigilance Commission (CVC), provisions of mobilisation advance should essentially be need-based and preferably the mobilisation advance should be given in instalments. Further, in case of interest free mobilisation advance, the recovery should be time bound and not linked with progress of work.

Failure on the part of the Company to incorporate provisions of CVC Guidelines in MSA, resulted in irregular advances aggregating to ₹ 16.64 crore made to the vendors

Audit observed that the Company failed to incorporate the CVC guidelines relating to mobilisation advance in Master Service Agreement (MSA) as a result of which in three projects namely, e-Shakti Project, SDC Project and CAL project, advances ranging from 10 *per cent* of the project cost to 90 *per cent* of the project cost were given as mobilisation advance in one instalment. Further, in all the above cases, recovery was linked to the progress of work which was in violation of CVC Guidelines. Thus, failure on the part of the Company to adhere to the CVC guidelines, resulted in irregular mobilization advances being paid to vendors of the three projects aggregating ₹ 16.64 crore[3].

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[3] e-Shakti project- ₹ 10.60 crore, SDC project - ₹ 1.64 crore and CAL- ₹ 4.40 crore.

Further, in case of an e-PDS project, an interest free mobilisation advance of ₹ 98.85 lakh was provided (January 2014) to the vendor, which was adjusted in March 2014. However, on request of the vendor, a sum of ₹ 73.56 lakh was returned (May 2014) to the vendor in violation of the CVC Guidelines which was irregular.

The Management stated (September 2016) that the mobilisation advance was given to vendors as per the term and condition of the MSA. However, compliance of CVC guidelines with respect to deduction of advance will be ensured in all future projects. Further, in case of e-PDS project, the management accepted that the recovered MA was refunded to the vendor on his request but the same was done as per clause 1.2 of MSA. The reply of the Management was not tenable as clause 1.2 of the MSA stated that the MA shall be adjusted against the invoices till the entire advance is adjusted. Thus, when the entire amount of MA was adjusted from the first bill itself, the refund of the same was irregular. This also resulted in undue favour to the vendor.

Project Management

2.2.13 The Company is an implementing agency of IT related projects formulated by Central Government and the IT Department, Government of Bihar. Further, the Company also executes various projects as and when assigned by various other Departments/PSUs/Agencies of Government of Bihar. IT related projects executed by the Company during the period 2011-12 to 2015-16 were categorized under two heads viz. IT Projects implemented under National e-Governance Plan (NeGP), GoI and IT Projects assigned to the Company by IT and other Departments/PSUs/Agencies of GoB.

Project Management by the Company includes two major activities, i.e., (i) planning for project implementation and (ii) execution and maintenance of IT projects. Project planning, which *inter alia,* includes preparation of Detailed Project Report (DPR)/Cost Estimates/Request for Proposals (RFP) for the concerned project, was outsourced by the Company to the Consultants. Implementation/Execution of the projects was done by awarding the work through inviting tender.

Project Planning

2.2.14 Proper planning is imperative and indispensable for ensuring the successful execution of projects so as to avoid time and cost overruns. An Action Plan specifying time schedules for completion of different stages of the projects should be laid down to monitor the timely execution of the projects. Adherence to the project time lines is essential to avoid time and cost overruns, blocking of funds, delay in utilization of the project fund, etc. Besides, in order to maintain the availability/integrity of data of IT projects (Data Centres), Disaster Recovery (DR) mechanism/plan should be put in place.

Audit observed that for carrying out the various project planning activities viz. preparation of DPR/cost estimates/RFP, the Company was dependent on the Consultants. The Company did not have a mechanism to review the DPR/RFP prepared by the Consultant as a result of which deficiencies in implementation of various IT projects, namely, BSWAN, e-PDS and MOP-I projects remained unnoticed/unchecked in time, as are discussed in the succeeding paragraphs:

- The Company did not frame any timelines for its pre-tendering activities. Audit observed that in SDC, SSDG and BSWAN projects (in installation of connectivity points), it took almost 30 months from the date of assignment of project (October 2008) to accomplish the preparation of DPR, RFP and other preparatory works. Besides, the Company took 22 months to finalise the tender and award the work relating to SDC project. Thus, the assigned projects were delayed considerably even prior to the commencement of their execution.

  The Management, while accepting the fact stated (September 2016) that in case of SDC project, the delay was mainly due to delay in constitution of tender evaluation committee. In case of SSDG project, the delay was mainly due to preparation and finalisation of RFP which involved co-ordination between various departments. In case of BSWAN project, delay was because of the modification of RFP.

  The reply of the management confirms the audit observation about delays in commencing these projects. Further, DIT in response to the questionnaire issued by audit stated that they were not fully satisfied with the execution of project by the Company, as the Company inordinately delayed the completion of the projects assigned to it.

- The Company executed the work of two data Centres (SDC in March 2015 and BRAIN-DC in March 2010). The Company, however, failed to formulate any DR plan/policy while formulating the scope of work for these two data centre projects. As a result, these data centres were being operated without any Business continuity and disaster recovery plan. Thus, the data stored in these data centres were vulnerable to risks of data loss in case of any contingency.

  The Management in the Exit Conference accepted (November 2016) the observation and stated that the backup of data are stored in tapes and kept at safe place and also that a DR site was under preparation at Gaya.

Additional financial burden on State Exchequer

2.2.15 The BSWAN and e-district Projects (under NeGP) was funded by the Government of India. As such, while preparing the detailed scope of work and cost estimates, it was incumbent upon the Company to include all the required components in the estimates sent to the Government of India (GoI) for approval. Audit observed that:

- To bring all government departments and offices under one network, the BSWAN Project was completed in April 2010 as a connectivity backbone for all IT projects in Bihar. Under the project, State Headquarters (SHQ), District Headquarters (DHQ) and Block Headquarters (BHQ) were to be provided with network facility. Audit noticed that the Company while formulating the estimates in respect of BSWAN project did not include all the offices under the said network. As a result, 77 BHQs were not included in the cost estimates sent to GoI for approval. Since separate connectivity point for these offices was essential, therefore, a proposal for installation of connectivity point at 140 places including these 77 BHQs at a cost of ₹ 25.17 crore was approved (November 2015) which was to be funded by DIT, GoB. Since funding for NeGP by GoI was 100 *per cent*, thus, a sum of ₹ 13.84 crore incurred for providing connectivity point to these 77 BHQs from State government funds was an additional financial burden on the State exchequer.

Failure to include connectivity points for all BHQs resulted in additional financial burden of ₹ 13.84 crore on the State exchequer

  The Management in the Exit Conference accepted (November 2016) the audit observation regarding additional financial burden to the state exchequer on these 77 BHQs under the BSWAN project.

- As per the NeGP Guidelines for e-district project, selection of Implementation Support Agency (ISA/Consultant) was to be done from the empanelled list of Consultants of the Department of Electronics and Information Technology (DEITY), GoI. However, the Company selected (December 2008) a Consultant who was not empanelled and paid a sum of ₹ 2.21 crore to the Consultant. The Company requested the reimbursement of this amount incurred on consultancy work from DEITY which was turned down by DEITY because the consultant hired was not from the list of empanelled Consultants of DEITY. As a result, the expenditure on account of consultancy charges had to be borne by the State Government. Thus, selection of Consultant in violation of NeGP Guidelines resulted in additional financial burden of ₹ 2.21 crore to the State Exchequer.

Selection of Consultant in violation of NeGP Guideline resulted in additional financial burden of ₹ 2.21 crore to the State Exchequer

  The Management stated (September 2016) that Consultant was selected for e-district project in accordance with the provision of e-district Guidelines which *inter-alia* stated that State may choose to undertake the task of project monitoring through a state agency capable of providing such support and in such case, the funds for Consultant earmarked for the project can be used engaging its own state agency.

  The reply of the Management was not tenable as the consultant engaged was not approved by the DEITY and therefore the cost was not reimbursed.

Procurement of required IT materials in piecemeal delayed the process, as a result IT assets worth ₹ 2.43 crore were lying idle

- For enhancement of the performance of services in e-district (pilot) project, a DPR/RFP was prepared (January 2013) by the Company for procurement/installation of four additional servers with necessary peripherals/operating system. Department of IT, GoB accorded administrative approval for the same in February 2013. Audit observed that the Management failed to finalise the tender within the validity period of the bids and procured these items worth ₹ 2.43 crore in piecemeal. However, since the project was closed in June 2014, materials worth ₹ 2.43 crore could not be installed so far (November 2016) and were lying idle.

The Management while accepting the facts stated (September 2016) that servers and other equipments purchased by the Company would be used for State wide roll out phase of e-district project.

The reply of the Management was not tenable as roll out phase of e-district was yet to be finalised (October 2016) and IT assets of ₹ 2.43 crore were lying idle since August 2014. Further, in response to the questionnaire issued to the DIT to assess whether the objective of the project as envisaged was achieved, it was replied by the DIT that the same was not achieved as, the project (pilot phase) could not be completed by the Company.

Execution of IT Projects

2.2.16 The Company executed IT projects of National e-Governance Plan (NeGP) as well as IT projects assigned to it by various Departments/PSUs/Agencies of Government of Bihar. NeGP was formulated by the Department of Information Technology (IT), Government of India. The primary vision of NeGP was to make all Government services accessible to the common man in his locality, through common service delivery outlet and to ensure efficiency, transparency and reliability of such services at affordable costs to fulfil the basic needs. The States/UTs were vested with the responsibility of actual implementation of the programme. Apart from NeGP projects, the Company also undertakes various IT related projects and services assigned by IT and other Departments, GoB.

During the performance audit period, the Company had undertaken 35 IT related projects (including five projects of NeGP) and services (28 completed and seven ongoing) involving a total cost of ₹ 674.27 crore. Against these projects, a total fund of ₹ 672.06 crore was received (March 2016) out of which an expenditure of ₹ 502.31 crore was incurred. The details of these IT projects are depicted in ***Annexure-2.2.3***.

From amongst the aforementioned 35 projects, 13 projects were selected for detailed scrutiny. Out of 13 selected projects, five projects[4] were completed within the scheduled time and nine[5] projects were completed within the estimated cost. The irregularities observed in execution of these projects are discussed below:

Irregular award of work to vendor

Execution work of these Projects worth ₹ 26.78 crore was irregularly awarded to vendors without inviting tender

2.2.17 Rule 131ZL (b) of Bihar Financial Rules (BFR), 2005 stipulates that, all works and services having an estimated value of above ₹ 10 lakh should be awarded by inviting tenders. Audit observed that in violation of BFR, 2005, works relating to three projects valued at ₹ 26.78 crore[6] was awarded to vendor without inviting tenders.

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4 BRAIN-DC, CTMIS, CAL, ICT at School, SecLAN.

5 BSWAN, SSDG, SDC, MOP-I, CAL, ICT at School, SecLAN, NLRMP, e-PDS.

6 CTMIS (AMC Phase) ₹ 10.94 crore, BSWAN (AMC Phase) ₹ 5.20 crore and CAL ₹ 10.64 crore

The Management, in case of CTMIS project, stated (September 2016) that since the projects were developed and customised by the vendor as per the requirement of user department, therefore, the same vendor was considered till implementation of new software. In case of CAL Project, the Management stated that the vendor had expertise in education sector and the user department too had accepted its proposal, and therefore, a tripartite MoU was signed. In case of BSWAN (AMC Phase), the Management in the Exit Conference accepted (November 2016) the audit observation and stated that the process of awarding AMC should have been initiated well before completion of project.

The reply on CTMIS was not acceptable as on the completion of the scheduled period of operation, the AMC work should have been awarded by inviting tender. The reply on CAL project was also not tenable since invitation of tender for the project could have attracted competitive rates from experienced vendors which could have resulted in cost savings.

Irregular Appointment of Consultant

2.2.18 The CVC Guidelines (25 November 2002) 'on appointment of Consultant', *inter-alia,* state that (a) the selection of Consultants should be made in a transparent manner through competitive bidding and (b) the contract should incorporate clauses having adequate provisions for penalizing the Consultants in case of defaults by them at any stage of the project including delays attributable to the Consultants. This was further emphasised vide CVC order dated July 2007 based on Judgment of the Hon'ble Supreme Court of India arising out of SLP (Civil) number 10174 of 2006, which *inter-alia*, provided for awarding of Governmental contract only through public auction/public tender in order to ensure transparency in the Governmental contracts as well as weed out corrupt/irregular practices.

The Company irregularly awarded the work of providing consultancy services worth ₹ 9.08 crore on a nomination basis

Audit observed that the Company in violation of the aforementioned CVC Guidelines, awarded the work (May 2007 to December 2013) of providing consultancy services in seven projects worth ₹ 9.08 crore[7] on a nomination basis which did not qualify as exceptional cases as per the CVC Guidelines and also without assigning any justification/reason on record. This was not only irregular and against the Judgement of the Apex Court but also amounted to extension of undue benefit to the consultant.

The Management stated (September 2016) that BeST Limited was established as Special Purpose Vehicle (SPV) to provide technical assistance to Company. As per agreement with BeST Limited and decision of Board of Directors, consultancy works were awarded to BeST Limited. The reply of the Management was not convincing as the BeST Limited was a separate entity and therefore CVC Guidelines should have been adhered to while awarding the work to BeST Limited. Moreover, in absence of competitive bidding for selection of consultant, the Company could have been deprived off the most economical rates.

[7] MoP-1: ₹ 1.91 crore, e-Shakti : ₹ 2.54 crore, e-PDS (pilot) : ₹ 0.33 crore, ICT at Schools: ₹ 2.51 crore, CTMIS : ₹ 0.29 crore, SecLAN : ₹ 0.38 crore and NLRMP : ₹ 1.12 crore.

BSWAN Project

2.2.19 The BSWAN project was launched (October 2006) with the objective to provide connectivity to all IT projects in Bihar. The project was completed (October 2008 to April 2010) in nine phases. The AMC (for repair, maintenance work and providing manpower) of the last phase of the BSWAN project ended in March 2015. Audit observed that the Company granted verbal extension of AMC to the same vendor in March 2015 with post-facto approval in July 2015 under which, the vendor agreed to provide only manpower and not to meet the expenses, if any, incurred towards repair of hardware.

Audit observed that as against the 525 Point of Presences (PoP) envisaged in Service Level Agreement (SLA), only 344 PoPs were in operation as on March 2015. The total payment made during the period April 2015 to July 2015 by the Company to the vendor was ₹ 5.20 crore for 525 PoPs. Thus, failure on the part of the Company to assess if the PoPs function and its corresponding manpower requirements before making payments, resulted in unfruitful expenditure of ₹ 1.79 crore on account of payments made in respect of 181 PoPs that were not functional.

The Management stated (November 2016) that a total of average 489 PoPs were live and rest 43 were not functional.

The reply of the Management was untenable for as per the third party Auditor's report which was quoted (July 2015) by the Secretary, IT department, GoB, only 344 PoPs were operational as on March 2015 and 138 PoPs were down. Further, in response to the questionnaire issued to the DIT regarding constraints encountered in delivering the targets of the Department, it was stated by the DIT that the objective of their project was partially achieved as the project was not functional in all locations.

e-Public Distribution System (e-PDS) project

Lack of financial prudence in making payments in respect of uninstalled 236 floor scales resulted in unfruitful expenditure of ₹ 1.49 crore

2.2.20 e-PDS project was launched (April 2014) with an objective to streamline the functioning of Bihar State Food and Civil Supplies Corporation Limited (BSFC). It was to use tools of IT to address issues like leakages/diversions of food grains, challenges faced during procurement, etc. Under the project, 534 floor scales to electronically measure and record the weights of the foodgrains were to be installed in BSFC godowns and calibrated with the system. Audit observed that out of total 510 floor scales delivered/installed (January 2014 to March 2014) at a cost of ₹ 3.21 crore, 236 floor scales (46.27 *per cent*) worth ₹ 1.49 crore were not installed and calibrated with the e-PDS system till completion of the project. This resulted in unfruitful expenditure of ₹ 1.49 crore on account of payments made for 236 uninstalled floor scales. Thus, the Company had failed to apply due diligence in protecting the financial interest of user department.

The Management stated (September 2016) that no calibration issue has been raised by BSFC and the delivery of these weighing scales were done as per the requirement of client. The reply of the Management was not based on facts as the Final Acceptance Test (FAT) report issued by the consultant itself mentioned that 236 floor scales were not calibrated and hence were not being utilised.

State Data Centre (SDC) Project

2.2.21 SDC project was launched (October 2012) with the objective to provide efficient electronic delivery of Government to Government (G2G), Government to Business (G2B) and Government to Citizen (G2C) services through common delivery platform. As per the scope of work of SDC Project, a total of 42 applications of various Departments of Government of Bihar were to be hosted on the servers of SDC at a cost of ₹ 16.44 crore. Audit observed that even after lapse of one year of commissioning (March 2015), the data centre was only partially utilised as only 15 applications of 11 Departments were hosted. Further, three data server costing ₹ 27.96 lakh was lying unutilised (November 2016) as no database/software of the User Department was installed.

The Management while accepting the fact stated (November 2016) that servers currently not in use would be put to use after the receipt of compatible applications.

ICT at Schools Project

2.2.22 Information and Communication technology at Schools (ICT at school) project was started (July 2007 and February 2008) with a view to establish a computer laboratory with one server, 10 PC nodes, networked with printer and power backup facility like UPS and Genset and computer furniture. Under this project, the software to be utilized in each computer lab was to be provided by the Company to vendors. The Company made agreements (July 2007 and March 2008) with vendors for supply of the software at concessional rate. Audit observed that of the software valued at ₹ 68.97 lakh, software worth ₹ 55.08 lakh was not utilized in the project and declared as surplus (March 2012) and was lying in inventory till date (October 2016). Thus, due to the failure of the Company to assess the actual requirements of applications software, the expenditure of ₹ 55.08 lakh incurred on surplus software remained idle.

The Management stated (September 2016) that software licenses were procured by the Company for ICT at schools on behalf of Education Department and the same software licenses were used by different vendors under this project. The reply of the Management is not tenable as software valued at ₹ 13.90 lakh was utilised only in March 2012, and software valued at ₹ 55.08 lakh was still lying in inventory till date (October 2016). Further, the Management in the Exit Conference accepted the audit observation and stated (November 2016) that a letter to the Department to utilise the software shall be issued shortly.

Failure to levy Penalty or deduct Liquidated Damages

2.2.23 In case of all IT projects implemented by the Company, agreements were entered into with the vendors wherein time frame was fixed in the agreement for installation/delivery/operation of every component of project, failing which Liquidated Damages (LD) was to be deducted from the contractor's bill.

Failure to deduct LD resulted in extension of undue benefit to contractor to the extent of ₹ 3.28 crore

Audit observed that the Company failed to deduct LD and/or levy penalty for delay in completion of the project by the vendor. Thus, LD valued at ₹ 3.28 crore in respect of four projects[8] were either not deducted/levied or short levied by the Company. This resulted in extension of undue benefit to the contractor to the extent of ₹ 3.28 crore.

The Management in case of SDC project stated (September 2016) that the delay was attributable to revision in scope of work and mismatch between technical solution and actual setup. The reply of the Management was not based on facts as delay on account of change of scope was merely four weeks while the delay of 30 weeks was attributable to the vendor and therefore LD should have been deducted. In case of SSDG, the Management accepted the observation and stated that deduction under LD would be considered at the time of final settlement of invoices. The management on e-PDS project did not furnish any specific reply to the audit observation on failure to deduct LD.

Excess payment/expenditure

2.2.24 Being a nodal agency for execution of IT Projects, the Company while making the payment to vendors should ensure due diligence and compliance with the provisions of agreement so as to avoid excess payment/ expenditure. Some of the instances of excess payment/ expenditure are discussed in the succeeding paragraphs:

- As per clause 1.20.1 of the RFP for SDC project, the price quoted by the bidders shall be firm and final (inclusive of all taxes) and shall not be subject to any upward modification on any account whatsoever. The quoted price of successful bidder was ₹ 16.44 crore which was firm and inclusive of all taxes. Audit observed that the Company irregularly modified the agreement by accepting to pay taxes over and above the quoted rate which resulted in excess payment of ₹ 26.82 lakh.

  The Management stated (September 2016) that taxes were paid on actual basis as mentioned in RFP volume-1 Commercial and Legal Specification of SDC projects. The reply of the Management was not tenable as payment of taxes on actual basis in RFP Vol-I was provided on Operational Expenditure. The payment of ₹ 26.82 lakh instead was made on Capital Expenditure.

- Under the Computer Aided Learning (CAL) school project, a tripartite MoU between Bihar Education Project Council (BEPC), Company and Indian Leasing Finance Services Education Technical Services (ILFSETS) was entered into (1 February 2010) for installation of various equipments in 244 schools. As per the payment clause of the MoU, the upper ceiling of each unit of the cost was fixed which included the cost of procurement, installation, monitoring, support, documentation, dispatch, etc. Further, the Company and its consortium partner ILFSETS were to maintain

[8] e-PDS: ₹79.04 lakh, e-Shakti: ₹ 1.27 crore, SDC: ₹ 80 lakh and SSDG: ₹ 42.10 lakh.

corresponding invoices in their office for further inspection. Audit observed that the Company did not exercise financial prudence and failed to compare the vendor's invoices with the payments released, as there was huge price difference in respect of K-yan, Genset and printer provided to the Company as given in Table No. **2.2.1**:

Table No. 2.2.1: Details of price difference in material

Amount in (₹)

Sl. No	Name of Item	Cost per unit as per MoU	Cost per unit as per invoice	Difference per unit	Total no. of units supplied	Excess in percentage	Total excess
01	K-YAN	107000	47233	59767	244	126	14583148
02	Genset	36000	30500	5500	244	18	1342000
03	Printer	9000	4700	4300	244	91	1049200
	Total						**16974348**

It can be seen from Table No. 2.2.1 that the price paid in respect of the three aforementioned IT products was high and ranged between 18 *per cent* and 126 *per cent* of the actual price as per tax invoices. Thus, failure on the part of the Company to exercise financial diligence resulted in avoidable expenditure of ₹ 1.70 crore.

The Management stated (September 2016) that in absence of available documents pertaining to cost comparison against the agreed prices of equipments with the actual price, the Company was unable to submit detailed justification of rates. The reply of the Management was not correct as the audit observation was based on the documents provided by the Management. Further, as per the MoU only the upper ceiling of the cost was defined and nothing prevented the management from applying principle of financial prudence by checking these costs vis-à-vis the actual cost.

Further, as per MoU all the documents/vouchers were to be kept with the Company.

Other activities carried out by the Company

2.2.25 Besides the execution of the IT projects, the Company provides facility for hoisting e-tenders to various Government Departments/Agencies/PSUs in Bihar. Further, being the State Procurement Agency, it procures IT related products on behalf of various Government Departments/Agencies/PSUs and also provides IT manpower (Programmers, Data Entry Operators, etc.) to various Government Departments/Agencies/PSUs if requisitioned by them to do so. Deficiencies noticed in carrying out these activities are discussed in succeeding paragraphs:

e-Tendering Activity

2.2.26 e-Tendering is the process wherein the physical tendering activity is carried out online using the Internet and associated technology. This provides real time bidding solutions for buyer and sellers. The Tender Management Software helps both the buyers and the suppliers to reduce the cycle time, unnecessary paper work, waiting in long queues and simultaneously maintains transparency in the entire process. For creation of e-tendering facility, the

Company awarded LoI to the vendor in August 2008, Master Service Agreement (MSA) was signed in April 2010 and the project was finally declared commissioned (FAT issued) in December 2012 by the Company.

Audit observed that:

- As per schedule 12 of the MSA, if the bidder failed to complete the acceptance test within the time period specified in the implementation plan, the Company shall levy as liquidated damages, a sum of ₹ 10,000 payable for each week or part thereof up to a maximum of ₹ 50 lakh. Audit noticed that the project was delayed by four years from the date of issue of LoI, and more than two years from the date of agreement. Further, other module such as e-payment gateway was implemented in April 2014 and e-auction was yet to be implemented. However, since in MSA date of FAT was not mentioned, therefore, no liquidated damages could be imposed by the Company. Thus, due to deficient agreement, the company extended undue benefit to the vendor.

  The Management stated (September 2016) that implementation plan was incorporated in MSA with timelines. Further, the Management also stated that approval of the project got delayed from Cabinet. The reply of the Management was not correct as date of FAT was not mentioned/incorporated in MSA on which LD was to be deducted. Further, delay attributed to the cabinet was also not correct as approval from cabinet was granted in June 2009 while the vendor completed the project in December 2012 after more than two years from the date of signing Master Service Agreement (MSA) (April 2010).

A sum of ₹ 11.91 crore was recoverable from various user department for over two years due to delay in implementation of e-tendering facility

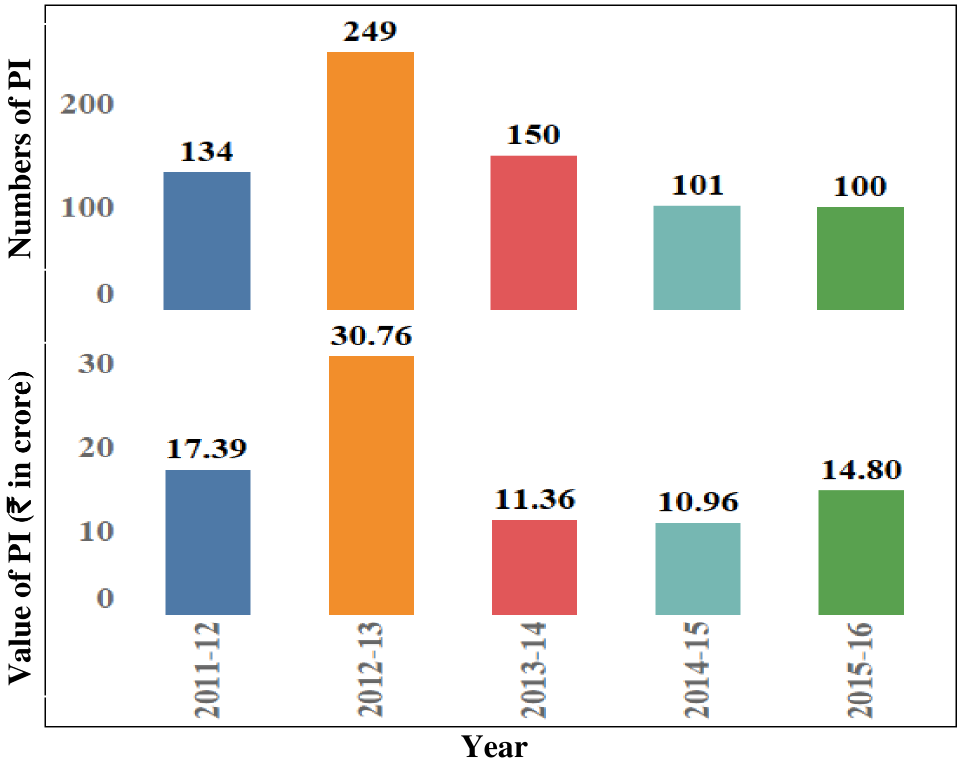
- As per order of Government (June 2009), the Company was required to collect tender processing fee (TPF)[9] from the bidders. However, it was seen in audit that the collection of Company's TPF was done by the tender issuing departments till March 2014 due to delay of 16 months in introduction of e-payment facility. Thus, due to delayed commencement (April 2014) of e-payment facility, TPF of ₹ 11.91 crore could not be collected directly by the Company the same was still recoverable for more than two years from tender issuing Departments.
- The Company did not take any action towards fixation of TPF for tenders floated without estimated cost. In case of 299 tenders (876 bidders participated) TPF was not collected by the Company and in case of 837 un-estimated tenders (2401 bidders participated), the company charged ₹ 1000 per bidder at minimum rate on adhoc basis.
- The e-tendering facility was also deficient as it did not provide for off-site storage of back-up of data which was indicative of absence of business continuity and disaster recovery plan.

[9] to be paid by the tenderers @ ₹1000 per tenderer for tenders valuing upto ₹70 lakh, ₹5000 per tenderer for tender valuing more than ₹ 70 lakh and upto ₹ three crore and ₹15000 per tenderer for tender valuing more than three crore.

Procurement activity

2.2.27 The Company has been nominated as "State Purchase Agency" for procurement and supply of Information Technology related software, hardware, etc. on behalf of various Government Departments. The Company receives seven *per cent* of the total value of procurement as its Agency charge. The requirements from the client Departments are received in the form of purchase indents. The details of Purchase Indents received by the Company during the period from April 2011 to March 2016 are detailed in Chart No. **2.2.2.**

Chart No. 2.2.2: Details of Purchase Indents (PI) received



It can be seen from the Chart No. 2.2.2 that during the period from 2011-12 to 2015-16, the procurement activity of the Company ranged from ₹ 10.96 crore to ₹ 30.76 crore. The Company was dependant on various user departments for carrying out its procurement activities.

Audit also observed that:

- during 2011-16, the Company did not pursue with client departments to purchase the required IT equipment from the Company.
- the Company spent one to nine months in finalising 15 Rate Contracts during the period 2011-12 to 2015-16. As a consequence of delay in finalisation of Rate Contract, the Company was constrained to purchase 335 desktop computers valued at ₹ 1.32 crore on the basis of old Rate Contract even after the lapse of one to seven months from the expiry of the validity period of the old rate contract.

The Management stated (September 2016) that delay occurred due to various reasons such as inadequate participation of vendor, higher rate, demand of excess time by vendors, etc. It was also stated that attempts were being made to finalise the tender in time.

- in respect of procurement of 1087 desktops, the Company failed to compare the rate of software/Operating System (i.e. difference between LINUX and Windows OS) with DGS&D rate at the time of finalising the Rate Contract and instead executed the rate contract on a higher rate. This resulted in excess expenditure of ₹ 42.41 lakh made by the Company which was avoidable.

  The Management stated (September 2016) that the approved rate of the Company under rate contract was less than the DGS&D rate of desktop computer. It was also stated that rate approved by the Company was inclusive of all taxes but the DGS&D prices are not inclusive of the taxes. The reply of the Management was not tenable as DGS&D rates offered for comparison by the management was for the computers made by HP whereas computers purchased by the company were made by Dell and Wipro.

Supply of IT Manpower

2.2.28 The Company also provides IT manpower viz. Programmers, Stenographers, Data Entry Operators, IT personnel to different Departments, undertakings, institutions, associations, local authorities, etc. of Government of Bihar. To facilitate its effective functioning, it had created the Bihar Knowledge Centre (BKC). BKC imparts training and conducts examination of registered candidates to prepare a panel of successful candidates. BKC was managed by a Consultant firm under an agreement executed between Company and M/s BeST from 1 October 2010. The Company deployed its IT manpower to various Government Departments/ Agencies/PSUs from which it receives a specific fixed amount alongwith contribution towards Employees Provident Fund (EPF)/Employees' State Insurance Corporation (ESIC) and service charges ranging from ₹ 350 to ₹ 550 per candidate per month.

Audit observed that 14990 out of 15921 registered candidates completed their training during the period 2010-14, of which only 6023 candidates (40.18 *per cent*) were deployed (December 2015) in various Government Departments/Agencies/ PSUs, leaving 59.82 *per cent* which were still to be deployed.

Failure to comply with statutory provisions of EPF and ESIC

Due to deficient monitoring on the part of the Company, EPF and ESIC contribution amounting to ₹ 5.41 crore could not be deposited with respective authorities

2.2.29 The agreement relating to providing of IT manpower by the four vendors[10] on behalf of the Company, *inter alia*, provided that the vendors would be responsible for compliance with various laws which had a bearing on the employment of personnel used by them for rendering services on behalf of the Company. It also provided that the vendor shall submit the proof of deposit of Employee Provident Fund (EPF), Employee State Insurance Corporation (ESIC) contributions, etc. Audit observed that four vendors failed to deposit EPF and ESIC contributions amounting to ₹ 5.41 crore during the period 2011-12 to 2015-16. Thus, deficient monitoring on the part of the Company resulted in non-compliance with the statutory provisions relating to deposit of EPF and ESIC contributions.

The Management stated (November 2016) in the Exit Conference that FIR has been lodged against the defaulting vendors.

Monitoring and Internal Control

2.2.30 Monitoring at every stage of implementation of Projects is essential for the Company to ensure that the quality of work executed is as per the terms of the contract. This process should commence from the approval stage and continue during implementation and the post-completion stage. Monitoring of the execution work of IT projects of the Company is done by Consultants. The deficiencies observed in proper monitoring of the projects undertaken by the Company are discussed below:

Working of Consultants

2.2.31 For monitoring of IT projects, the Company was totally dependent on Consultants. Every activity relating to implementation of IT projects ranging from project formulation, preparation of DPR, selection of bidders, activities related with execution, Final Acceptance Test, recommendation for payment to vendors, project monitoring, etc. were being carried out by consultants. No mechanism existed in the Company to review the working of the Consultants. Some irregularities noticed in the functioning of the consultants are given below:

- For providing consultancy services in various projects undertaken by the Company, a consultancy agreement was executed by the Company with the consultant (BeST) in May 2007. As per the said agreement, a consolidated three *per cent* of the projects cost was to be paid to BeST as consultancy charges in all the projects except BSWAN.

  Audit noticed that as against the stipulated three *per cent* in the agreement, the Company, in case of MOP-I project, paid six *per cent* of the project cost as consultancy fees to BeST for which no justification was found on record. This not only resulted in avoidable excess expenditure of ₹ 84 lakh but also led to extension of undue benefit to the Consultant.

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[10] Electronic net, Vision India, Urmila info solution and Vibgyor Info Private Limited.

The Management stated (September 2016) that as per agreement between the Company and the consultants, three *per cent* of the project cost was to be paid, however, since the tenure of the MoP-I project was five years, therefore, on verbal discussion, the Company had engaged the Consultant for five years at an additional rate of three *per cent*.

The reply of the Management was not based on facts since as per the agreement a consolidated three *per cent* of the project cost was to be paid to BeST as consultancy charges in all the projects whereas it was seen that six *per cent* was paid which was irregular. Thus, payment of six *per cent* was in violation of the agreement signed.

- In respect of MoP-I project, apart from the consultancy and supervision work, the Consultant was also awarded (December 2010) the work of procurement, supply, installation and maintenance of various networking equipments (routers, modems, supply of Manpower, etc.) valued at ₹ 2.17 crore along with the AMC of the materials at a cost of ₹ 2.22 crore. Instead the Consultant was paid project Management fee at a rate of 15 *per cent* of the total cost for which no justification was found on record. Since the Company was entitled to only seven *per cent* of the project cost as agency charges, payment of consultancy fee at a rate of 15 *per cent* resulted in excess expenditure of ₹ 31 lakh.

  The Management stated (September 2016) that BeST was asked to invite tender for procurement of hardware. The reply of the Management was not tenable as the work of finalisation of tender was to be done by the Company itself and the same could not be entrusted to consultant. Further, the Company did not offer any comment on fixation of 15 *per cent* as project management fee.

Failure to invoke Performance Bank Guarantee (PBG)

2.2.32 In MoP-I Project whose date of commencement was March 2009 and scheduled date of completion was March 2014, the vendors submitted the Performance Bank Guarantees (PBG) valued at ₹ 3.19 crore which was valid upto July 2012 and March 2013, respectively. The Company did not take any action to extend the validity of the PBG with a view to safeguard its financial interest.

Audit noticed that the vendors did not run the projects for five years (as was envisaged in the agreement) from the date of commencement and left the work (August 2013) without transferring the ownership of the Infrastructure to the Company. Accordingly, the agreement was terminated by the Company (March 2014). Audit observed that the Company had failed to extend the validity of the PBG submitted by the vendors. As a result, the Company could not invoke PBGs valuing ₹ 3.19 crore in respect of MoP-I project from two vendors who left the work midway, but also had to get the remaining work executed from its own resources.

The Management stated (September 2016) that several reminders for renewal of PBG was given to vendors. However, due to financial constraints, they failed to renew the PBG. The Company further stated that PBG amount would be adjusted from the final bills of the vendor, if raised. The reply was not tenable as the PBG should have been renewed in advance during the contract period. Further, since the work orders were already terminated (March 2014), hence the amount of PBG was not recoverable.

Manpower of the Company

2.2.33 Manpower planning includes efficient utilization of Human Resource in an organization. As on 31 March 2016, there were 153 sanctioned posts of different categories in the Company which included 12 key managerial position i.e. Managing Director, General Manager, Managers (Marketing, Finance, Administration, Project Implementation, Business Development and Technology co-ordination), Deputy Managers (Business development, Project implementation and Technology co-ordination). As against these sanctioned post, there were 51 men in position. Further, eight out of 12 Key Managerial Posts were lying vacant during the period 2011-12 to 2015-16. As a result of vacancies in Key Managerial Position, the Company was heavily dependent on consultants in discharging its functions. Meanwhile, the activities of the Company had also expanded substantially.

The Management, in the Exit Conference stated (November 2016) that restructuring of the Company was under progress and would be implemented when approved.

Denial of intended benefits from CAL Project

2.2.34 In order to provide computer assisted learning through multimedia contents to the students of 244 Schools in Bihar through CAL Project, a Memorandum of Understanding (MoU) was signed (February 2009) between Bihar Education Project Council (BEP), the Company and Vendor. As per the MoU, the vendor had to establish the Computer Centres and to operate it for the period of one year, mutually extendable to three years. The total cost of project was ₹ 8.59 crore. Audit noticed that out of 244 schools established by the vendor, in 16 Schools the programme could not get operational due to theft of all hardware. The Company, although, deducted ₹ 36.85 lakh from vendor on account of theft but no action was taken to re-establish the computer centre at the affected schools. As a result, students of 16 schools remained deprived of the benefits of CAL programme.

The Management stated (September 2016) that the lab was operational even after the theft of PC and other items. Further, it was also stated that even after theft, theory classes and the lab with one or two PCs was operational.

The reply of the Management itself confirms that schools remained deprived of all the benefits of CAL programme, which also included learning through multimedia, which could not operationalised due to the theft of hardware. Further, BEP (user Department) in response to the questionnaire issued by audit also stated that their objective was not fully achieved. It was also stated by the BEP that the cases of theft of equipment were not properly managed and that these locations were not made re-operational by the Company.

Deficient execution of MoP-I Project

2.2.35 In case of MoP-I project, Audit noticed that the execution of the project was marred by various deficiencies throughout its execution. Audit observed cases of frequent breakdown of the security equipment installed at jails, not maintaining proper power back-up, short availability of the spare parts, defective installation of the equipment (metal door detector, sirens, etc.) resulting in User Departments showing dissatisfaction and frequent complaints received from various jails and courts. Thus, due to improper monitoring by the Company, the objective of the project could not be achieved.

Further, in response to the questionnaire issued to the Home Department, it was confirmed that they encountered various constraints while delivering the targets as set out under the MoP-I project.

The Management did not offer any comment on above issue.

Failure to handover assets to the User Department

2.2.36 Effective monitoring also ensures that IT assets are handed over timely to concerned department/entity. Audit observed that the contract with vendor for operation of the e-District project had expired in May 2014 and since then the project remained closed. However, the assets worth ₹ 15.09 crore so created were not handed over to the District e-governance society till November 2016. Thus, due to ineffective monitoring, continuation of the benefits from the expenditure incurred was not ensured by the Company.

The Management stated (September 2016) that the matter of handing over was taken up with District e-Governance Society.

The reply was untenable as the handing over of the IT assets should have been completed on the completion of the project, i.e. June 2014. Moreover, in case of delay in handing over, the Company may be held liable for any damage/shortages of IT assets. Further, DIT in response to the questionnaire issued by audit stated that the project was not managed efficiently by the Company as Final Acceptance Test of Gaya District was not completed and the project was not operationalised.

Denial of intended benefits of SSDG Project

2.2.37 As per scope of the State Services Delivery Gateway (SSDG) project (service delivery gateway via internet to common citizens for application of basic services), 56 services of 12 departments were scheduled to be delivered. However, even after a lapse of 25 months from its commissioning, only eight services were made live and 48 services had not been made live. Audit observed that the Company failed to take any action to ensure the participation of User Departments as a result of which the major objective of SSDG could not be fulfilled.

The Management stated (September 2016) that the matter was taken up with the State Government. Letters were also sent to Departments requesting to accord approval to make services live.

Further, DIT, in response to the questionnaire issued by audit stated that they were not fully satisfied by the performance of the Company as various Departments were not ready for using the facility.

Internal Audit

2.2.38 Existence of an independent Internal Audit wing is a necessary tool for an effective Internal Control System to provide reasonable assurance that the objectives of the Company are being achieved in an economical, effective and orderly manner. Audit observed that the Company did not have its own Internal Audit Wing. Firms of Chartered Accountants (CAs) were appointed for internal audit and also for the work of compilation of accounts, reconciliation of bank accounts, etc. Further, there was no mechanism whereby the report of the internal auditors were reviewed and complied with. Hence the Internal Audit System was ineffective.

Corporate Social Responsibility

2.2.39 Section 135 of Companies Act, 2013 *inter alia*, provides that every Company having a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee and spend at least two *per cent* of the average net profits of the Company made during the three immediately preceding financial years, in pursuance of its CSR Policy, failing which the Board shall thereof, in its report, specify the reasons for not spending the amount.

Audit observed that notwithstanding, constitution of CSR committee and profitability during the period 2011-12 to 2014-15, the Company failed to spend a sum of ₹ 43.37 lakh in discharge of its CSR as plans for carrying out CSR activities was not prepared during the period 2014-16. This resulted in violation of the provision of the Companies Act, 2013.

The Management while accepting the audit observation stated (September 2016) that due to absence/changes in the composition of the Board of Directors, there was a delay in constituting the CSR Committee.

The Audit findings on the Performance Audit of the Company were reported (August 2016) to the Government, reply is still awaited (November 2016).

Conclusion

Audit concluded that:

- **the Company failed to manage its financial resources in an effective and efficient manner as a result of which there were instances of failure to refund surplus project funds to the State Government, utilisation of Reserves and Surplus for servicing of unsecured loans/business growth, loss of interest income, irregular grant of Mobilisation Advances, etc. aggregating ₹ 70.33 crore.**

- **planning for implementation of IT Projects was not carried out effectively and efficiently as there were instances of delayed completion of the projects, avoidable excess expenditure, additional financial burden on State Exchequer, IT equipment lying idle and vulnerable to the obsolescence aggregating ₹ 19.72 crore.**

- **execution of IT projects by the Company was found deficient as instances of irregular award of work to vendors, appointment of Consultants without inviting tenders, avoidable excess expenditure, IT equipment lying idle, etc. aggregating ₹ 45.49 crore were observed.**

- **activities related to e-tendering, procurement of IT equipment and supply of IT manpower were not satisfactory since there were instances of avoidable excess expenditure/ blocking of Company's fund aggregating ₹ 17.74 crore.**

- **the monitoring mechanism and Internal Control of the Company was deficient and inadequate as a result of which instances of over dependence on consultants, excess payment to consultants, failure to invoke the Performance Bank Guarantee and failure to ensure compliance with various statutes aggregating ₹ 5.14 crore were observed.**

Recommendations

Audit recommends that:

- **the Company needs to ensure that the funds available with the Company are utilized fully and in accordance with the prescribed principles of financial propriety.**

- **the Company should improve its planning process by adopting professional approach and mitigating over dependency on consultants. Besides, it should also frame various timelines necessary for preparation of DPR, Feasibility Report as well as other pre-tendering activities.**

- **the Company should resort to award of contracts only through a competitive tendering process and execute projects efficiently so that expenditures made are not rendered unfruitful or idle.**

- **the Company should pursue the realisation of its recoverable Tender Processing Fees from the User Departments on a regular basis for e-Tendering activity and also ensure transparency in its procurement activity.**

- **the Company needs to strengthen its monitoring and Internal control system so that projects are completed in time and deficiencies as pointed out in the report of Internal Auditors are rectified.**

2.3 Audit of the Functioning of Distribution Franchisees in Power Distribution Companies of Bihar

Introduction

2.3.1 The Bihar State Power Holding Company Limited (BSPHCL) was created with a view to improve operational and commercial efficiency of the distribution system and to improve the quality of service to its consumers. The Company sought to bring in management expertise through public-private participation in the distribution of electricity. Further, as provided under Section 14 of the Electricity Act 2003, it implemented Input Based Distribution Franchisee System (IBDFS) in urban areas of the State. The objectives of appointing Distribution Franchisee (DF) were to minimise Aggregate Technical and Commercial (AT &C) losses[1], bring improvement in metering, billing and revenue collection, minimise arrears of revenue and to enhance customer satisfaction by improving the quality of service.

In line with the desired objectives of BSPHCL, the Distribution Companies (DISCOMs)[2] of Bihar, as Distribution Licensees (DLs) appointed Distribution Franchisees (DFs)[3] for Muzaffarpur, Bhagalpur and Gaya towns and its adjoining areas. The DISCOMs entered into a Distribution Franchisee Agreements (DFA) for 15 years in June 2013, July 2013 and December 2013 for Muzaffarpur, Bhagalpur and Gaya respectively. The DFs commenced their work from November 2013, January 2014 and June 2014 in Muzaffarpur, Bhagalpur and Gaya town respectively. The power sold by DLs to DFs in the franchisee area during the period November 2013 to March 2016 was 3931.90 Million Units (MUs)[4] valued at ₹ 1620.40 crore[5].

The audit of DISCOMs with a view to analyse efficiency in functioning of DFs was conducted during the period April 2016 to June 2016.

Audit findings

The Audit findings are discussed in the succeeding paragraphs:

Adequacy of Distribution Network

Shortage in transformation capacity causing a threat to the entire distribution network

2.3.2 As per Article 5.2.2 of the DFA, Distribution Franchisee shall make capital expenditure to improve efficiencies, augment and upgrade infrastructure, ensure reduction in distribution losses and improve quality of power supply in franchisee area. As per Clause 4.2 of the Bihar Electricity Supply Code, 2007, the licensee shall have the obligation to ensure that its distribution system is

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[1] The sum total of technical losses , commercial losses and shortage resulting from failure to recover the total billed energy expressed in terms of percentage *i.e AT&C loss* =[1-(billing efficiency × collection efficiency)] × 100.

[2] North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL)

[3] Essel Vidyut Vitran Limited (now Muzaffarpur Vidyut Vitaran Limited), Bhagalpur Electricity Distribution Company Private Limited and India Power Corporation Limited

[4] Gaya-1199.77 Million Units (MUs), Bhagalpur -1254.94MUs and Muzaffarpur-1477.19MUs

[5] Gaya- ₹ 499.05 crore, Bhagalpur - ₹ 514.45 crore and Muzaffarpur- ₹ 606.90crore

upgraded, extended and strengthened to meet the demand for electricity in its area of supply, wherever the existing transformation capacity[6] is loaded up to 80 *per cent* of its capacity. The position of existing and required transformation capacity as well as existing shortage of capacity in respect of the three Distribution Franchisees are detailed in Table No. 2.3.1:

Table No. 2.3.1: Transformation capacity in DF area

(in MVA)

Sl. No.	Particulars	Gaya	Bhagalpur	Muzaffarpur	Total
1	Existing transformation capacity of DFs, Bhagalpur and Muzaffarpur (March 2014) and Gaya (March 2015)	232	154	197	583
2	Required transformation capacity of DFs Bhagalpur and Muzaffarpur (March 2014) and Gaya (March 2015)	305	157	335	797
3	Shortage in transformation capacity (Row 2 - 1)	73	3	138	214
4	Percentage of shortage (Row 3/2*100)	24	2	41	27
5	Existing transformation capacity as on March 2016	247	161	237	645
6	Required transformation capacity as on March 2016	324	168	530	1022
7	Shortage in transformation capacity as on March 2016 (Row 6-5)	77	7	293	377
8	Percentage of shortage (Row 7/6*100)	24	4	55	37
9	Capacity added (Row 5-1)	15	7	40	62

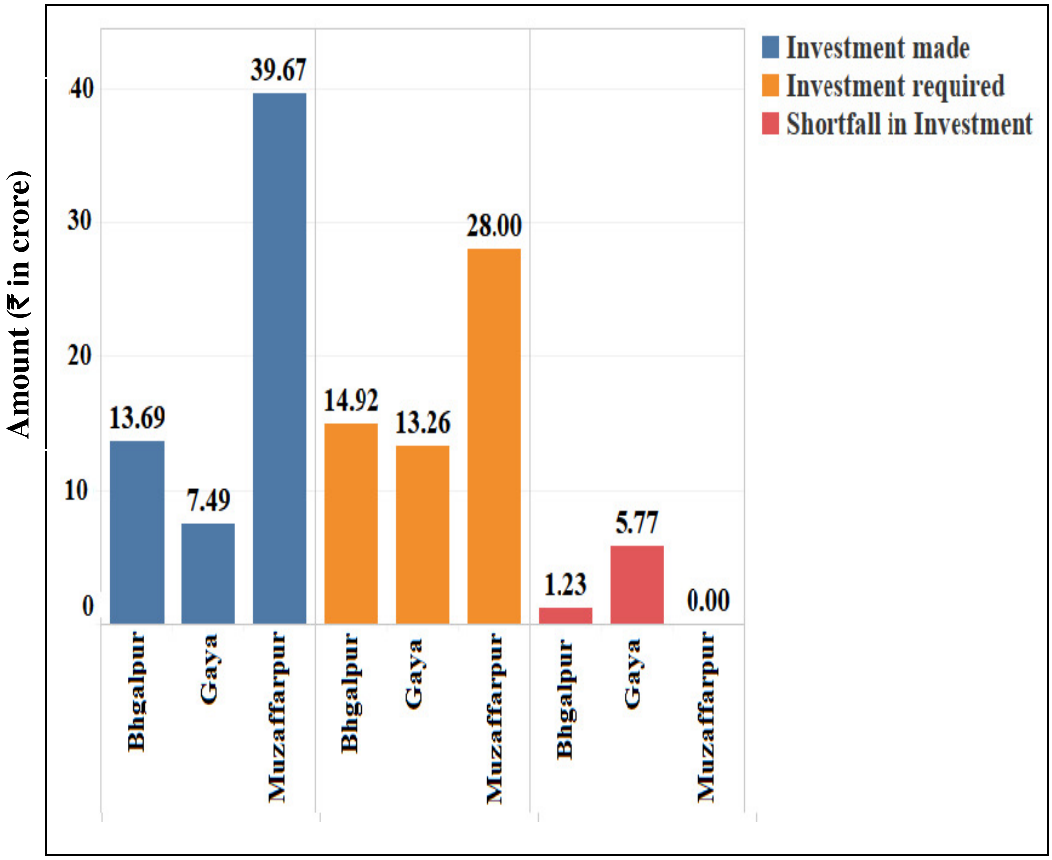
Source: Information furnished by Distribution Franchisees

It may be seen from above that although DF Gaya, Bhagalpur, Muzaffarpur added seven to 40 MVA during the period 2014-15 to 2015-16, shortage of transformation capacity further increased from four *per cent* to 55 *per cen*t respectively as on March 2016. The shortage in transformation capacity was significantly high (55 *per cent*) at DF, Muzaffarpur. This indicated that the transmission infrastructure in these areas was not developed by DFs, which resulted in overloading and caused a threat to the entire distribution network. This was because adequate investments had not been made by the DFs during the contract period as discussed below:

2.3.3 As per Article 5.2.2 of the DFA, DF shall provide capital expenditure under the Capital Expenditure Plan (Capex Plan) to improve efficiencies, augment and upgrade infrastructure, reduce distribution losses and improve the quality of supply in franchisee area. As per the decision of the Bihar Electricity Regulatory Commission (BERC), investment on meter installation was not to be considered to be a part of capital expenditure. The minimum investment to be incurred and shortfall thereagainst are stated in the Chart No. 2.3.1:

[6] Transformation capacity is the installed capacity of sub-station to cater to the connected load of the consumers`

Chart No. 2.3.1: Capital Expenditure incurred by DF



Source: Information furnished by the Distribution Franchisees

It may be seen from Chart No. 2.3.1 that there was shortfall in Minimum Investments by DFs Gaya (43.51 *per cent*) and Bhagalpur (8.24 *per cent*).The DF, Muzaffarpur had ensured minimum investment as per the DFA. Audit observed that the Capex plan of DF had not been finalised because DL and DF differed over inclusion of expenditure incurred on meter installation as capital expenditure. The BERC expressed (November 2015) concern over this failure in finalising the Capex plan.

Management stated (November 2016) that the DF was being impressed upon to strengthen the Distribution Network matching with the requirement of load during the review meetings and that the strengthening of Distribution Network would be implemented by March 2017. Management further stated that finalisation of expenditure under the Capex plan and capital investment would be ensured by March 2017, failing which appropriate action would be taken.

- As per Article 5.2.10 of DFA, the Distribution Franchisee shall submit details of assets added by it on a quarterly basis, and the value of such assets shall be certified by Distribution Licensee as acceptable. Such certification shall be completed within a period of 90 days from the date of creation of such assets.

Audit observed that the DF, Gaya did not furnish any report on addition of Assets to DL for certification. DF, Bhagalpur submitted details of Assets added annually on March 2015 and May 2016 to the Chief Engineer (Commercial), SBPDCL against the scheduled quarterly submission dates but this was not reviewed by the SBPDCL. Audit noticed that DF, Muzaffarpur submitted details of Assets annually which were reviewed by the NBPDCL for the years 2013-14 and 2014-15 against which DL had raised objections which had not been complied with by DF(May 2016). Thus, the authenticity of the expenditure on assets made by DF remained uncertified.

Management stated (November 2016) that steps had been taken to jointly verify the capex work done in all three DF areas and would be completed by January 2017.

Operational efficiency

Failure to reduce Distribution losses and AT&C losses as per the target

2.3.4 One of the objectives of appointment of DFs was to strengthen the distribution system with the focus on reduction of Distribution losses and Aggregate Technical and Commercial (AT&C) losses on a sustainable basis. The BERC had fixed Distribution losses for the Distribution licensee at 23 *per cent*, 21.40 *per cent* and 20 *per cent* for the period 2013-14, 2014-15 and 2015-16 respectively. Further the AT&C losses were fixed by the DL for all three DFs for entire 15 year of the contract period with yearly reduction targets. The position of Distribution loss and AT&C losses against the targeted reduction is detailed in ***Annexure 2.3.1.***

It may be seen from ***Annexure*** that there were reductions in Distribution losses with respect to base year (2011-12) from 57.19 *per cent* to 55.41 *per cent* by DF, Bhagalpur, from 62.24 *per cent* to 58.75 *per cent* by DF Gaya and from 44.64 *per cent* to 29.85 *per cent* by DF, Muzaffarpur during the period 2013-14 to 2015-16. However, Distribution Franchisees failed to bring down the distribution losses to the limits prescribed by the BERC. The distribution losses beyond the BERC prescribed limit stood at 1283.07 MUs valued at ₹ 660.10 crore. Further, Aggregate Technical & Commercial (AT&C) losses reduced from 58 *per cent* to 52.04 *per cent*, 68.55 *per cent* to 66.95 *per cent* and 69.24 *per cent* to 62.90 *per cent* from base year 2011-12 to 2015-16 in DF Muzaffarpur, Bhagalpur and Gaya, respectively. However, Distribution Franchisees failed to restrict the AT&C loss within the targeted level as detailed in ***Annexure 2.3.1***. Such distribution losses were mainly attributed to deficient capacity addition, insufficient transformation capacity and heavy quantum of unmetered consumers and theft of electricity which are discussed in paragraphs 2.3.2, 2.3.3, 2.3.5 and 2.3.6.

Management stated (November 2016) that the operation period of Distribution Franchisees were for 15 years and the base rate of Input energy for different years were calculated on the basis of improvement in AT &C loss up to the level of 15 p*er cent* by the end of the tenure of the Franchisee Agreement, with substantial reduction in the AT&C loss during the first five years. As such, there was no financial loss to DL but it would take all steps to reduce AT&C and Distribution losses. It further stated that it would take all steps to reduce AT&C and Distribution Losses.

The reply was not tenable as though the Distribution loss was factored *vis a vis* the Input rate determined for the DF, the said Input Rate was inadequate since it did not effectively cover the supply cost of the DL and as such represented the loss to DL. Further, the failure on part of DF to augment infrastructure to reduce AT&C loss entailed further loss to DL in terms of loss of energy.

Loss of revenue due to failure to install meters

2.3.5 Clause 8.1 of the Bihar Electricity Supply Code, 2007 provides that no new connection shall be given without a Meter and all unmetered connections shall be metered by the Licensee. As per Agreement, the DFs have to ensure installation of meters in the DF area. Unmetered consumers have to pay the energy charges on fixed tariff rates approved by the BERC. So the DF does not earn revenue as per the actual consumption of energy done by the unmetered consumers. Besides, it prevents the determination of correct Average Billing Rate (ABR)[7]. The position of total consumers and unmetered consumers of three Distribution Franchisee areas is depicted in the Table No. 2.3.2:

Table No. 2.3.2: Details of unmetered consumers

Year	Total number of consumers	Unmetered consumers	Percentage of unmetered consumers
Bhagalpur			
2014-15	162539	13273	8.17
2015-16	179066	19331	10.80
Gaya			
2014-15	120672	20015	16.59
2015-16	150564	19175	12.73
Muzaffarpur			
2013-14	159802	13950	8.73
2014-15	236703	22986	9.71
2015-16	286588	16563	5.78

Source: Information furnished by the Distribution Franchisees

It may be seen from above Table No. 2.3.2 that the percentage of unmetered consumers to total consumers was as high as 16.59 at DF, Gaya in 2014-15 which decreased to 12.73 in 2015-16. In case of DF, Muzaffarpur, the percentage of unmetered consumer came down to 5.78 *per cent* during the period 2013-14 to 2015-16. However, in case of DF, Bhagalpur, the percentage of unmetered consumers to total consumers increased from 8.17 in 2014-15 to 10.80 in 2015-16.

Management stated (November 2016) that the issue of unmetered consumers has been taken very seriously and all three DFs has been directed not to issue any connection without meter and to replace defective meters immediately so as to ensure that all consumers were metered within a specific time frame.

Incidence of theft of Electricity

2.3.6 Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and unauthorised tapping/hooking by the unauthorised consumers. As per Clause 11.3 of the Bihar Electricity Supply Code, 2007, at least five *per cent* of total connections should be inspected annually.

Audit observed that DF did not conduct the mandatory five *per cent* checking of total connection to detect thefts. The DFs detected 6371 cases of theft of electricity in the three franchisee areas during the period 2013-14 to

[7] ABR is the sum product of total billed units and approved tariff in each consumer category divided by total billed units in all consumer categories,i.e,ABR =(Billed units x Tariff rate) /Billed units

2015-16. The theft cases in DF areas increased substantially during the period 2014-15 to 2015-16, the same being as high as 2214 in DF area Muzaffarpur in 2015-16. Increased theft cases led to increased distribution loss to the DFs.

Management while accepting the observation stated (November 2016) that Distribution Companies were launching awareness programme under Information, Education and Communication (IEC) in Bihar from 2017 to prevent theft of Electricity.

Inaccurate assessment of Input Energy units

2.3.7 As per Article 6.1.2 of the DFA, installation and timely replacement of main meters required to directly measure energy input in the Franchisee Area, shall be the responsibility of Distribution Licensee (DL). In addition to the existing main meters at each of the Input Points, the DF is required to provide Check Meter to each of them. Further Article 6.2.1 of the DFA requires that the DL shall inspect and if necessary, recalibrate the meter on a regular basis at least once every three months or a shorter interval at the request of either party.

Audit observed that installation of main meters by DL was undertaken after a delay of 24 and 21 months in December, 2015 and March, 2016 at Bhagalpur and Gaya respectively and that these were not operational. However, the DFs (Gaya and Bhagalpur) had installed Check Meter at each Input point to provide measurement of Input Energy and payment of energy charges.

It was further observed that as against the provision of conducting at least one meter calibration per three months, meter calibration was done only once at Bhagalpur in June 2015 during the period of audit. The meter readings, based on which energy bill payments were made, was therefore inaccurate. This was further substantiated by the fact that in an inspection of the main meter at Bhagalpur in February 2016, excess reading of 920 units (12450-11530) was detected by SBPDCL.

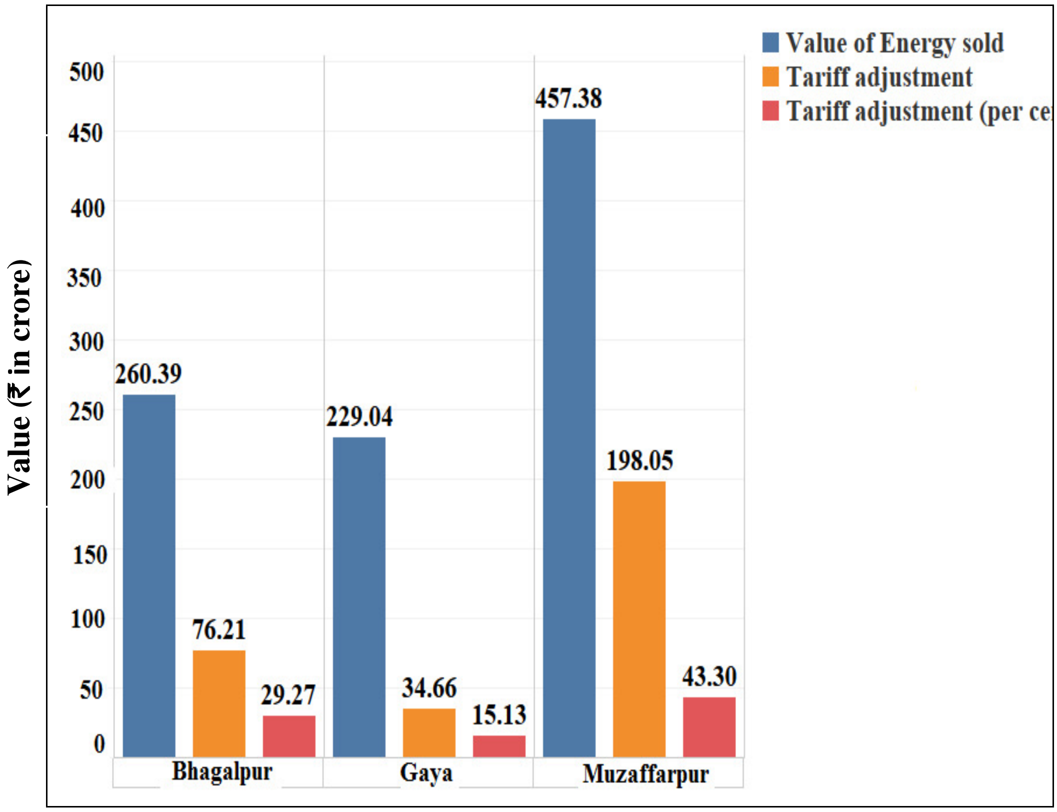
Management stated (November 2016) that main meter had been installed and readings were being taken through remote meter reading system. However, the fact remained that setting up of main meters as provided for under Article 6.1.2 were delayed by up to 24 months.

Financial Management

Failure of the Distribution Licensee to finalise Average Billing Rate

2.3.8 As per Article 7.1 of DFA, the monthly invoice of DF is to be prepared by DL after adjusting the Input Energy Rates on the basis of Average Billing Rate (ABR) of each month, as Tariff adjustment. ABR for the base year 2011-12 was fixed at ₹ 5.32/unit, ₹ 5.29/unit and ₹ 5.99/unit for the DFs, Gaya, Bhagalpur and Muzaffarpur respectively and was the basis for adjustment of Input rates towards payment of energy charges. As per the DFA, in case of increase in revenue due to increase in ABR from the base year, 75 *per cent* of such increase was to be added to the Input rate and in case of decrease thereof, 100 *per cent* of such decrease was to be deducted from Input Rates of DF. Further, as per provision of the agreement, the tariff adjustment shall be computed every month and the same shall be used for computation of the revenue for Input Energy Rate for unit supplied to the DFs. The position of Input energy and ABR adjustment worked out by DFs, Gaya, Bhagalpur, and Muzaffarpur are detailed in Chart No. 2.3.2.

Chart No. 2.3.2: Details of Value of Input Energy and Tariff Adjustment

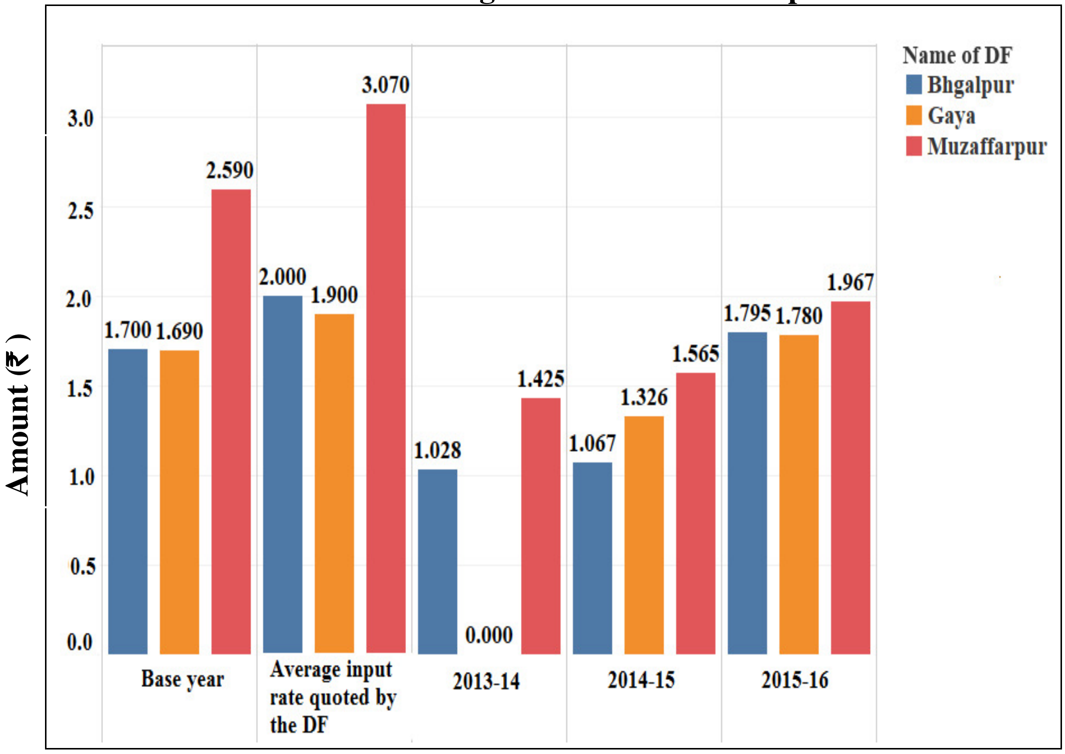


Source: Information furnished by the DF/Circle office of DL

It can be seen from the Chart No. 2.3.2 that a sum of ₹ 308.92 crore (32.63 *per cent*) was deducted by the three DFs towards tariff adjustment which was not reconciled by November 2016 and accepted by the DL.

Audit observed that the tariff adjustment claimed by all three DFs was ranging between 12 to 90 *per cent* of the energy billed during the period of the contract. Audit further observed that due to excessive tariff adjustments, the average recovery of energy charges per KWh decreased as is depicted in Chart No. 2.3.3.

Chart No. 2.3.3: Details of Average revenue realization per unit in DF areas



Source: Information furnished by the DF/Circle office of DL

It can be seen from the Chart No. 2.3.3 that the average revenue realisation per KWh to the DL during the period 2013-14 to 2015-16 for all the three DFs were significantly lower than the rate quoted by the DFs.

Management stated (November 2016) that tariff adjustment shown above was not final and it would be worked out only after ABR was finalised by the Independent Auditor of DF, Gaya and Bhagalpur. The ABR of DF Muzaffarpur had been finalised on the basis of adjudication by Arbitrator (July 2016), for the period November 2013 to November 2015 against which a sum of ₹ 156 crore had been adjusted.

The reply of the Management was not tenable since as per the provisions of the DFA, the ABR was to be finalised every month which was not done.

Audit scrutiny of ₹ 308.92 crore as tariff adjustment further revealed excess billing and incorrect calculation of ABR which are discussed in Paragraphs 2.3.9 and 2.3.10.

Excessive billing by DFs to reduce ABR

2.3.9 To ensure correct calculation of ABR referred to in Article 7.1 of the DFA, the DFs were required to comply with provisions of the applicable Supply Code, Government orders and tariff orders. Test check of selected three months of ABR adjustments made by DFs revealed that the DFs did not comply with the aforesaid provisions and tariff orders.

We observed that excessive billings were resorted to by the DFs through imposition of chargeable units over and above the prescribed limits in case of Kutir Jyoti (KJ), Domestic service (DS) -I, DS-II, Non-Domestic service (NDS) -II and Street Light services (SS)-II category of consumers as well as raising demands against the period prior to appointments of DFs over which the DL, in fact, had the legitimate claim. This resulted in the reduction of ABR below the predetermined ABR thereby leading to DFs claim for reduction in the Input Rate of DL to the extent of 100 *per cent* of the differential amount as detailed in ***Annexure 2.3.2*** and summarized in the Table No. 2.3.3.

Table No. 2.3.3 Details of excess billing taken into ABR

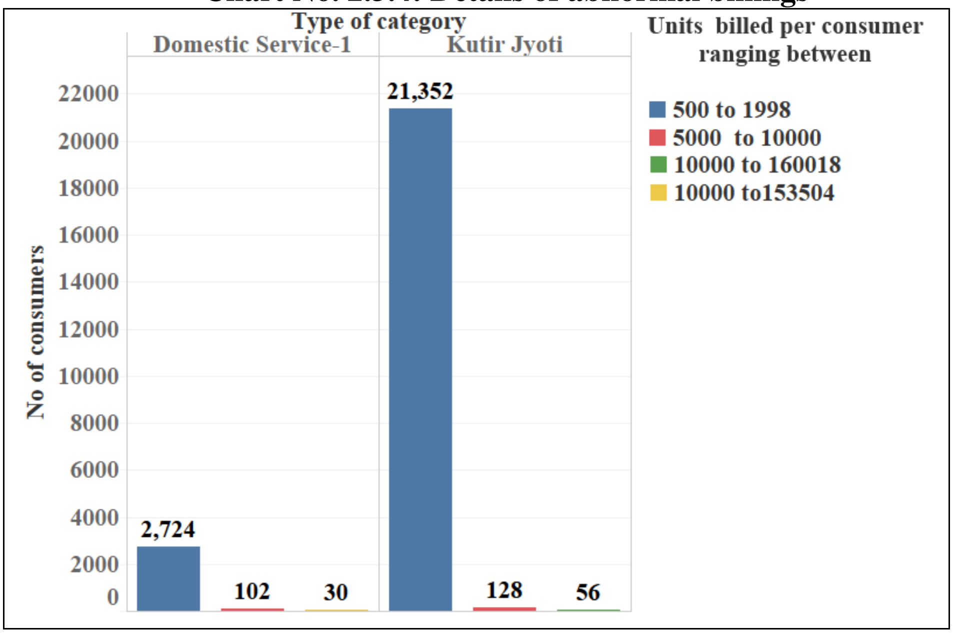
Name of DF	Unit supplied in three test checked month (in MUs)	Unit taken in ABR (in MUs)	Unit to be part of ABR (in MU)	Excess units taken in ABR (in MU)	Difference in ABR rate for revenue realization per unit (in ₹)	Impact of reduction in ABR[8] (₹ in crore)
Gaya	155.87	3.72	2.55	1.17	0.051	0.80
Bhagalpur	134.63	14.50	3.69	10.81	0.299	4.02
Muzaffarpur	139.64	51.44	32.75	18.69	0.298	4.16
Total		**69.66**	**38.99**	**30.67**		**8.98**

Source: Information furnished by the DF/Circle office of DL

It may be seen from Table No. 2.3.3 that DFs made excess billings of 30.67 MUs on consumers, which resulted in reduction in ABR and consequently DFs made excess adjustment of ₹ 8.98 crore against amount payable to DL The fact is confirmed on analysis of data of three months in respect of three DFs.

As per the Tariff Orders issued by the BERC, the assessment of units in respect of unmetered Kutir Jyoti consumers was to be 30 units per month per connection and the Domestic Service-I category consumers are allowed to be connected with a load up to 2KW, with a Monthly Minimum Charge of 40 units per month. Audit observed that these category of consumers were abnormally billed by the DFs which is evident from the analysis of billing data in the test checked three months. The details of abnormal billing are depicted below in Chart No. 2.3.4.

Chart No. 2.3.4: Details of abnormal billings



Source: Information furnished by the DF/Circle office of DL

[8] difference in ABR multiplied by units supplied

Thus, it can be seen from the Chart No. 2.3.4 that unrealistic billing of the Kutir Jyoti and DS-I category of consumers on the part of the DFs, that too on a large scale, was mainly driven with an objective to reduce the ABR further and thus deprive the DL of its share of revenue.

Management stated (November 2016) that the instances of excess billing were being examined by Independent auditors of DF, Gaya and Bhagalpur in line with the order of the Arbitrator of DF, Muzaffarpur.

The reply of the Management was not tenable since as per the provisions of the DFA, the ABR was to be finalised every month and the issue of excess billing should had been examined by the DL on a continuous basis. The fact, however, remains that the Management failed to do so even after lapse of a period of more than two years.

Short recovery due to failure to include meter rent in ABR calculation

2.3.10 As per Article 2.2.2 of the DFA, for the fixation of ABR for the base year 2011-12, meter rent was included as one of the components and monthly adjustments were to be carried out in the input energy rate. In case of increase in revenue due to increase in ABR from the base year, 75 *per cent* of such increase is added in input rate and in case of decrease, 100 *per cent* is deducted from Input rate.

Audit observed that DFs Gaya and Bhagalpur had collected ₹ 8.67 crore[9] towards meter rent from consumers since the date of commencement of their operations to March 2016. However, the meter rents so collected from the consumers were not included in the approved tariff for the purpose of calculation of ABR. This resulted in reduction of ABR and their consequent deduction of the differential ABR from the Input Rate of DL which resulted in revenue loss of ₹ 20.30 crore[10] to DL as detailed in ***Annexure 2.3.3.***

Management while accepting the audit observation stated (November 2016) that they had calculated the ABR for base year by taking meter rent as one of the components and that the same would be duly considered in all further ABR calculations after finalisation of ABR by the Independent Auditor.

Mutual claims of DF and DL remained unsettled

2.3.11 Audit observed that mutual claims were pending of DL and DF against each other which were still to be settled.

- A sum of ₹ 25.21crore was claimed by DF, Gaya against DL on account of delay payment surcharge (DPS) charged by DL and direct payments made to DL by consumers.
- A sum of ₹ 21.40 crore was claimed by DF, Bhagalpur against energy consumed by Municipal Corporation, which included ₹ 13 crore directly remitted to DL by the Government of Bihar on behalf of Municipal Corporation and not repaid to DF.

[9] Gaya: ₹ 3.79 crore and Bhagalpur: ₹ 4.88 crore
[10] Gaya: ₹ 9.98 crore and Bhagalpur: ₹ 10.32 crore

- Further an amount of ₹ 1.11 crore was claimed by DL on account of materials supplied and salary paid on deployment of SBPDCL staff in DF Bhagalpur for initial period.

Thus, the two DFs and DL had mutual claims of ₹ 46.61 crore and ₹ 1.11 crore which were pending for settlement. Failure to settle the claims resulted in blocking of significant funds of both the DL as well as DFs.

Management stated (November 2016) that ₹ 46.16 lakh had been settled against DF Gaya and the adjustments against DF Bhagalpur would be made after adjudication by Arbitrator.

Loss of interest to DL due to failure of DFs to remit Security Deposits and Electricity Duty collected

2.3.12 Article 13.1.1 of the DFA provides that DF shall be required to submit the data regarding electricity duty and security deposit collected on monthly basis not later than three days after the end of the billing cycle. Further, Article 7.2 provides that the monthly invoice raised by DL inclusive of electricity duty (ED) and security deposit (SD) collected shall be paid within a week of its receipt. Any delay in payment after due date shall attract a penal interest of 18 *per cent* per annum compounded quarterly.

Loss of interest of ₹ 2.03 crore to DL due to failure of DFs to remit Security Deposits and Electricity Duty of ₹ 7.81 crore

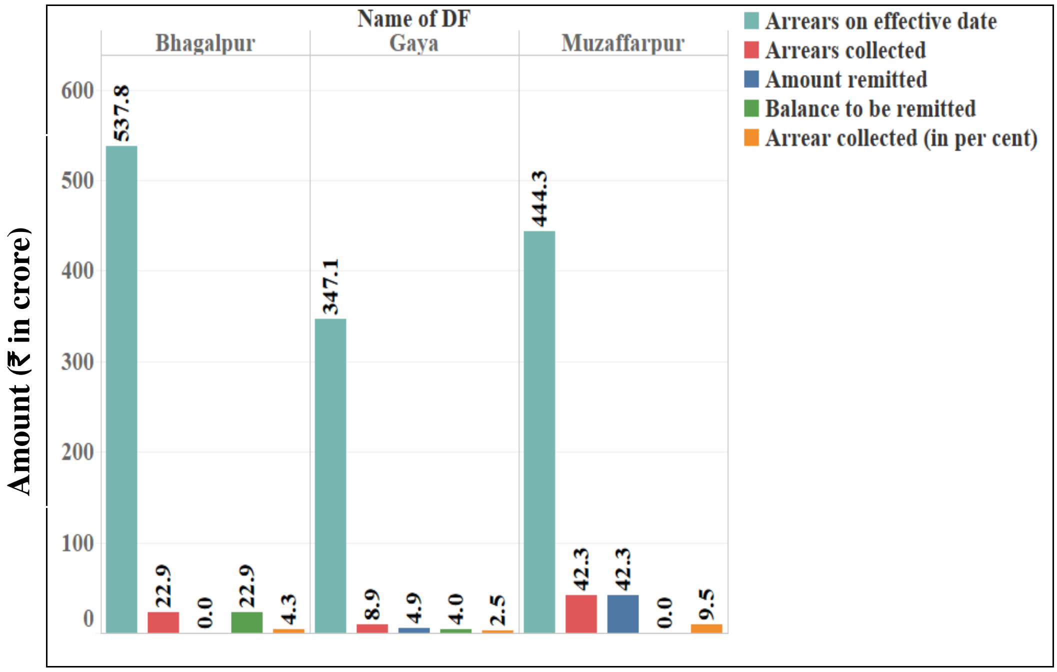
Audit observed that the DFs, Gaya and Bhagalpur submitted data on security deposit and electricity duty after three to six months from the date of their collection. Audit further observed that the DF, Bhagalpur had collected an amount of ₹ 10.31 crore which included ₹ 7.81 crore towards Electricity Duty and ₹ 2.50 crore towards security deposits for the period January 2014 to March 2016, but did not remit the same to DL. Due to delayed remittance of Electricity Duty and Security Deposits on the part of the DF, the DL suffered loss of interest aggregating to ₹ 2.03 crore upto May 2016.

Management stated (November 2016) that the collection of data relating to ED and SD had not been furnished by Gaya and Bhagalpur and after finalisation of ABR, Delay Payment Surcharge (DPS) would be charged by DL against the short payment at a rate of 18 *per cent* per annum compounded quarterly.

Loss of interest to DL due to failure of DF to remit old arrears

2.3.13 As per Article 8.5 of the DFA, Distribution Franchisee shall collect the arrears from the current live consumers and provide the details of recovery of arrears and make the payment in respect thereof to DL within seven days of its recovery. It further provides that Distribution Franchisee shall make best endeavour in accordance with the provisions of the Bihar Electricity Supply Code, 2007, the Electricity Act, 2003 and other applicable laws to collect arrears accrued earlier from the live consumers and permanently disconnected consumers for which an incentive of 10 *per cent* and 20 *per cent* shall be given to the DFs. The position of arrears, collection and remittances are depicted below in Chart No. 2.3.5.

Chart No. 2.3.5: Detail of arrear collected and their remittances



Source: Information furnished by the DF/Circle office of DL

Failure to remit old arrears of ₹ 26.86 crore by DF to DL resulted in loss of Interest of ₹ 7.36 crore

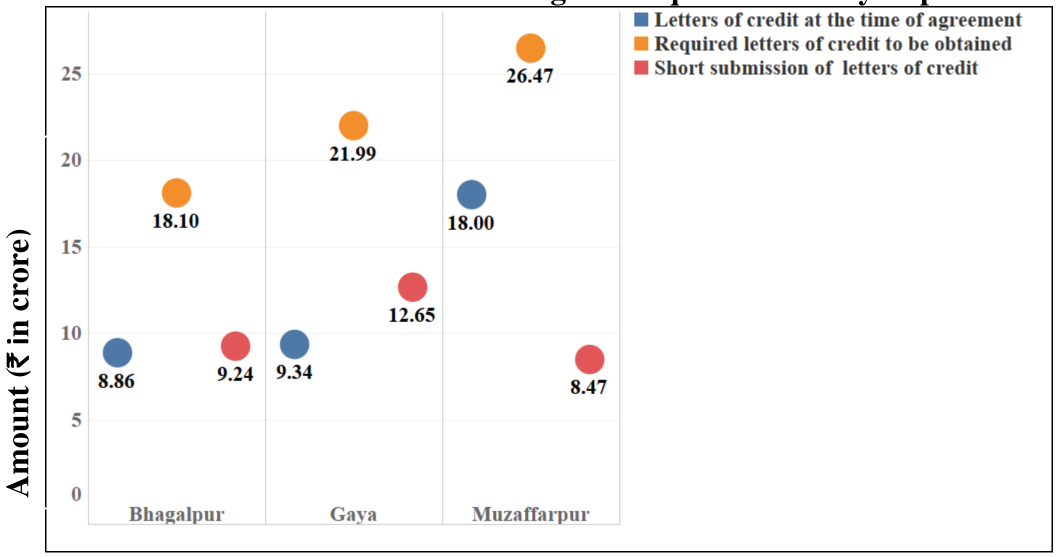
It may be seen from Chart No. 2.3.5 that during the period from November 2013 to March 2016, the recovery against old arrears constituted only 2.5 *per cent* and 4.25 *per cent* of total dues at DFs, Gaya and Bhagalpur respectively. The collected arrears of ₹ 26.86 crore were not remitted to DL by the DFs. Failure of the DFs to remit the old arrears to DL resulted in loss of interest to DL aggregating to ₹ 7.36 crore. The reason for slow collection of arrears on the part of the DF was mainly attributable to delay in determination of the consumers from whom the arrears were to be collected.

Management stated (November 2016) that DFs had been directed to pay the old arrears and in case of DF Bhagalpur, stringent action was initiated apart from invocation of the Letter of Credit.

Short recovery of security deposit of ₹ 80.36 crore by DL

2.3.14 As per Article 11.4 of the DFA, the Distribution Licensee has to review the amount of Security Deposit (SD) from DF after one year of contract. It further provides that Letter of Credit (LoC) shall be provided through bank, appointed as default escrow agent. The position of existing and required SD in respect of three DFs is detailed in ***Annexure-2.3.4*** and summarized in Chart No. 2.3.6:

Chart No. 2.3.6: Details of existing and required Security Deposits



Source: Information furnished by the DF/Circle office of the DL

It may be seen from Chart No. 2.3.6 that Additional Security Deposits valued at ₹ 30.36 crore (DF, Muzaffarpur- ₹ 8.47 crore, DF, Bhagalpur- ₹ 9.24 crore and DF, Gaya- ₹ 12.65 crore) were not obtained after a review of quarterly Input Rate. Audit observed that DFs, Bhagalpur and Gaya had submitted Letters of Credit through State Bank of India and South Indian Bank respectively who were not default escrow agents. Thus, failure to review security deposits resulted in short collection of SDs valued at ₹ 30.36 crore.

Management stated (November 2016) that the Independent auditor report on final monthly ABR was under finalisation and that the amount of fresh LoC would be calculated and revised accordingly. Further Letters had been sent to DFs to open LoC at escrow agent account.

Consumer Satisfaction and Redressal of Grievances

2.3.15 The BERC specified the mode and time frame for redressal of consumers' grievances as per the provisions of the Bihar Electricity Regulatory Commission (Consumer Grievance Redressal Forum and Electricity Ombudsman) Regulation, 2006 and the Bihar Electricity Regulatory Commission (Standards of Performance of Distribution Licensee) Regulations, 2006, prescribing time limits for rendering services to the consumers and compensation payable for not adhering to the same. The nature of services contained in the Standards, *inter-alia* include Overhead line/cable breakdowns, Distribution Transformers (DTs) failure, period of scheduled outages, voltage fluctuations, meter complaints, new service connections, etc. The outstanding consumer complaints and their redressal by DFs are detailed in ***Annexure 2.3.5***.

It may be seen from the ***Annexure*** that during 2013-14 to 2015-16, the percentage of complaints with respect to total number of consumers ranged between 19.34 and 28.67 at DF Gaya, 7.68 and 33.40 at DF Bhagalpur and 11.70 and 60.62 at DF Muzaffarpur. This indicated that the number of complaint cases had increased, which reflected dissatisfaction among consumers with the services provided. The maximum complaints were registered at DF, Muzaffarpur. Muzaffarpur had the higher complaints against faulty meters and wrong billings (67 *per cent*) during 2014-15.

Audit observed that 32159 complaints were settled beyond the stipulated time, against which no compensation were paid to the consumers as provided under the Bihar Electricity Regulatory Commission (Standards of Performance of Distribution Licensee) Regulations, 2006 (May 2016). During beneficiary survey, the feedback of 300 consumers was taken in the area of DF, Gaya out of which 280 consumers stated that they were not satisfied with quality of services render to them by DF, Gaya.

Management while accepting the audit observation stated (November 2016) that notice had been served to DF Bhagalpur for providing unsatisfactory services to the consumer, and that steps would be taken against them for failure to maintain minimum service quality in their franchisee area. The management did not furnish any reply on complaints received under DF, Gaya and DF, Muzaffarpur.

2.3.16 Article 5.6.5 of DFA provides that DF should establish within a period of one year from the effective date, at least one well equipped Internal Grievance Redressal Cell/Consumer Service Centre and one Consumer Grievance redressal forum for settlement of consumer grievances within 60 days of receipts of such complaint.

Audit observed that DF, Gaya had established four Consumers Care Centres at Gandhi Maidan, Golpather, Manpur and Bodhgaya, against which only one Consumer care centre at Gandhi Maidan was equipped with minimum facility as per Distribution Franchisee Agreement (DFA). DF, Gaya and Bhagalpur had not established consumer redressal forum within one year from their effective dates. Audit further observed that despite approval of the Board of Directors of SBPDCL (February 2016), even after a delay of 21 months from the date of commencement of operation by DFs, Consumer Grievance redressal forum at Gaya and Bhagalpur areas were not operational.

Management accepted (November 2016) that there was delay in appointment of members of the CGRF which resulted in delay in establishment of CGRF. However, CGRF had now been established at Gaya and Bhagalpur.

Internal Control system

2.3.17 For an organisation, to succeed in carrying out its operation, economically, efficiently and effectively, a sound Internal Control System should be there in place.

We observed that:

- The DF cells were constituted by the DL at the circle level with an objective to ensure adequacy of Internal Control. For quick and smooth compliance with the provision of DFA, guidelines were issued to the DF Cell to monitor the functioning of DFs. Audit observed that the DF cells had not adhered to the provision of DFA and the Guidelines as DFs failed to review ABR every month, verify the assets added by the DFs and pursue MIS Reports from the DFs. Further, the DF cells were not fully functional due to shortage in manpower.

- The internal audit of the DF was not carried out annually by the DL as was provided in DFA.
- MIS reports as required under Article 13.1.5 of DFA were not generated and monitored by DL.

Management stated (November 2016) that Independent Auditors had been appointed for Gaya and Bhagalpur and for Muzaffarpur, the auditors would be appointed shortly. Further steps were being taken to ensure submission of MIS reports by DFs.

The Audit findings on the audit of functioning of the Distribution Franchisees in Power Distribution Companies of Bihar were reported (August 2016) to the Government, reply is still awaited (November 2016).

Conclusion

Audit concluded that:

- **there were shortages in transformation capacity in all the DFs due to inadequate planning of capacity addition and inadequate minimum investment by DFs on capital Assets. Resultantly, the transformation capacity of Power Distribution Companies was overloaded.**
- **distribution franchisees failed to improve their operational efficiencies by restricting the AT&C losses to the stipulated levels.**
- **the DFs failed to finalise monthly ABRs causing mutual claims of DF and DL remaining unsettled. Besides, DFs with a view to reduce ABR raised excess bills for more tariff adjustments.**
- **lack of monitoring by DLs resulted in delayed submission of information relating to collection of electricity duty and security deposits and failure of the DF to remit the collected amount to the DL resulted in loss of interest to the DL.**
- **there existed dissatisfaction amongst consumers of the franchisee areas at Gaya, Bhagalpur and Muzaffarpur as respective DFs did not comply with the provisions of the applicable regulations regarding redressal of consumer grievances.**

Recommendations

Audit recommends that:

- **the DFs need to effectively strive for augmenting transformation capacity through sound planning and ensuring investments on Capital Assets.**
- **the DFs need to take stringent measures to bring AT&C losses to the targeted level and improve their operational efficiency.**
- **the DFs should desist from raising incorrect/ inflated bills so that correct position of revenue realisation is available and ABR is determined in a true and fair manner.**

- **the monitoring by DL needs improvement. The DFs should comply with the provisions of DFA in respect to timely collection and their remittance to DL.**
- **both DLs and DFs should comply with the provisions of the DFA and applicable regulations regarding redressal of consumers' grievances.**

2.4 Audit of Recovery Performance of Bihar State Financial Corporation

Introduction

2.4.1 The Bihar State Financial Corporation (Corporation) was established in November 1954 under the State Financial Corporations Act (Act), 1951 with the main objective of extending financial assistance to small and medium industrial units in the State. The organization was created to promote economic growth, balanced regional development and widening of entrepreneur base. Disbursement of loans and recovery thereof was the main function of the Corporation. The Corporation had stopped its lending activity since 2002-03 and thereafter its activities were mainly confined to the recovery of old outstanding loans.

As on 31 March 2016, the total investment in the Corporation in form of Equity and Loans stood at ₹ 470.16 crore (Equity: ₹ 77.83 crore and Long/Short term borrowings: ₹ 392.33 crore). The main source of finance of the Corporation was the recovery of loan and interest from the assisted units. The total amount of outstanding recoverable by the Corporation as on 31 March 2012 was ₹ 3542.05 crore (Principal ₹ 135.53 crore, Interest ₹ 3389.52 crore and Others ₹ 17.00 crore) which increased to ₹ 5760.85 crore (Principal ₹ 103.35 crore, Interest ₹ 5640.33 crore and Others ₹ 17.17 crore) as on 31 March 2016. The Corporation had recovered a sum of ₹ 64.78 crore (including interest) during the period 2011-12 to 2015-16.

The Management of the Corporation is vested with the Board of Directors (BoD) comprising a maximum of 12 Directors. As on 31 March 2016, there were six Directors which included the Managing Director who is the Chief Executive Officer of the Corporation. He is assisted in day to day functioning of the Corporation by the Assistant General Managers, Managers and Deputy Managers.

The Corporation had four zones and nine branch offices (six in Bihar and three in Jharkhand). The main work of the branch offices is to facilitate the recoveries of outstanding loans by following-up of loan recoveries, valuation of assets like Land/ Building, Plant & Machinery, etc., and other routine matters. The basic paper work done/ information collected, by the branch offices is submitted to the Head Office which in turn is responsible for managing the overall recovery operations of the Corporation.

The recovery performance in respect of loans granted by the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India Commercial, Government of Bihar, for the year ended 31 March 2004 (Commercial). The report is yet to be discussed by the Committee on Public Undertakings (CoPU) (November 2016).

The Audit of the Corporation was undertaken to evaluate the efficiency of the Corporation during the period 2011-12 to 2015-16, in respect of recovery of loans from the loanee and the efficacy of the various control mechanism introduced for the purpose. Out of 30 cases of loan with an outstanding balance of ₹ 10 crore or more (including interest and other charges), as on 31 March 2016, a total of 18 cases (on the basis of sale finalised and others) were selected for audit scrutiny. It was seen in these 18 cases that:

- Sale of defaulting loanee units had been finalised in four cases;
- In five cases, sale of loanee units did not materialize as the price quoted by the buyer was less than the reserve price fixed by the Corporation. The reserve price so fixed was not less than the Principal Outstanding (POS) and it was valued by Branch Level Valuation Team (BLVT) and Central Valuation Team (CVT);
- In five cases, the Corporation had lodged Certificate cases[1];
- In three cases, the loanee units had been sold under the orders of the Court through an official liquidator; and
- In one case, the sale of loanee unit was yet to materialize, notwithstanding the appointment of official liquidator.

Out of a sample population of the Corporation's four zones and nine branch offices, two branch offices viz., Muzaffarpur (Bihar) and Bokaro (Jharkhand) were selected for examination.

Financial Management

2.4.2 Efficient fund management is imperative and indispensable in any organisation for ensuring optimum utilisation of available financial resources. Besides, it is also considered as an effective tool for decision making.

Particulars showing the financial position as well as working results of the Corporation for the last five years ended 31 March 2016 are detailed in the Table No. 2.4.1.

[1] Certificate case means a suit filed under the provisions of Bihar and Odissa Public Demands Recovery Act, 1914, for recovery of dues.

Table No. 2.4.1: Working results of the Corporation

(Amount: ₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1 (a)	Operational income[2]	5.78	6.86	8.16	5.03	4.30
1 (b)	Other income[3]	7.70	9.88	7.70	8.39	9.69
1 (c)	Total income[4]	13.48	16.74	15.86	13.42	13.99
1 (d)	Percentage of operational income to total income	42.88	40.98	51.45	37.48	30.74
2.	Expenditure	34.07	31.36	33.53	31.08	29.15
3.	Operating profit/ (Loss) 1 (c)-2	(20.59)	(14.62)	(17.67)	(17.66)	(15.16)
4.	Accumulated loss	382.14	392.95	404.58	421.65	436.02
5.	Provision for bad/ doubtful debts	136.14	132.33	126.29	101.27	100.53

Source: Records of the Corporation

It is evident from the Table No. 2.4.1 that:

The loss of the Corporation during period ranged between ₹ 20.59 crore in 2011-12 to ₹ 15.17 crore in 2015-16

- due to poor realization against the outstanding dues, the Corporation did not earn any profit during the last five years ended 31 March 2016. The operational loss of the Corporation during the said period ranged between ₹ 20.59 crore in 2011-12 to ₹ 15.17 crore in 2015-16.

- the percentage of the operational income to total income of the Corporation decreased from 42.88 *per cent* in 2011-12 to 30.74 *per cent* in 2015-16. Audit observed that operational income of the Corporation was not sufficient to meet its routine and other expenses and the Corporation was utilising its non-operational income to meet these expenditures.

- the efforts made by the Corporation for recovery of its old outstanding dues (either by way of sale of defaulting units or through incentive schemes) was only marginally successful, since the operational income of the Corporation during the said period showed a decreasing trend.

- operating loss had increased due to yearly provisioning of interest on borrowings made from the State Government. The Corporation had sent a proposal (January 2011) for conversion of Government Loans into share capital and waiver of interest thereon to the State Government. Decision on this is yet to be taken (November 2016) by the State Government.

[2] Income generated through core activities of the Corporation
[3] Income generated through activities other than core activities.
[4] It is sum total of operational and non-operational income.

Service tax not realized- ₹32.99 lakh

Due to clause pertaining to recovery of service tax not included in the agreement with the tenants, the corporation could not realise a sum of ₹ 32.99 lakh

2.4.3 With effect from 01 June 2007 as per the terms of section 65(105) (zzzz) of Finance Act, 1994 renting of immovable property falls under the category of taxable services. The burden of Service tax, being an indirect tax, is to be borne by the person who receives services, but it is to be collected and paid to Government exchequer by the service provider. The Corporation after receipt of demand from Central Excise and Service Tax Commissionerate in September 2009, and reminder in April and July 2010, by an office order (August 2010), after a delay of 38 months, served notices to all (eight) the existing tenants for realization of overdue service tax. A test check of all agreements with the tenants revealed that the agreement with them did not provide for any clause regarding recovery of any such taxes which could be levied by the authorities in future. As such, out of the total service tax due from the eight tenants from June 2007 to March 2016 amounting to ₹ 74.45 lakh, only a sum of ₹ 41.46 lakh could be recovered from them. Four tenants refused to pay service tax and two tenants paid the amount of service tax partially.

Thus, due to failure to include the clause pertaining to recovery of Service Tax in its agreements with the tenants, the Corporation could not realise a sum of ₹ 32.99 lakh on account of Service Tax.

The Government replied (October 2016) that the matter of recovery of service tax was being continuously pursued with the tenants who defaulted in such payments.

Recovery Performance

Classification of Assets

2.4.4 Based on the RBI Guidelines, SIDBI issued the Guidelines (February 2015) according to which the loan portfolio of the Corporation is classified as follows;

- Standard Assets: Assets that do not carry more than normal risk and do not require any provision.
- Sub-Standard Assets: Assets that remain Not Performing Assets (NPA) for a period less than or equal to 12 months.
- Doubtful Assets: Assets that remain in the sub-standard category for a period of 12 months**.**
- Loss Assets: A loss asset is one where losses are identified but not written off wholly.

As on 31 March 2016, 98.10 *per cent* of the assets were NPAs

All assets other than Standard Assets are termed as NPAs. We observed that almost all the assets (98.10 *per cent*) of the Corporations as on 31 March 2016 qualified as NPAs and so the possibility of their realisation seemed remote.

The Government accepted (October 2016) the audit observation.

Position of Outstanding Loans & Recovery

2.4.5 As per memorandum accounts maintained by the Corporation, the summarised position of loan outstanding for recovery from the loanee and the amount recovered by the corporation for the last five years ending March 2016 is given in the Table No. 2.4.2.

Table No. 2.4.2: Details of Outstanding loan and recovery

(Amount: ₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Amount due at the beginning of the year	3440.99	3542.05	3996.54	4540.12	5139.07
2	Current demand[5]	464.32	489.35	608.41	678.44	655.99
3	Total recoverable during the year (1+2)	3905.31	4031.40	4604.95	5218.56	5795.06
4	Recovery out of old dues as per the Corporation	359.68	32.31	58.39	74.66	30.58
	Waiver amount	337.83	24.21	51.56	70.34	27.93
	Recovery	21.85	8.10	6.83	4.32	2.65
5	Recovery out of current demand	3.58	2.55	6.44	4.83	3.63
6	Total recovery during the year (4+5)	25.43	10.65	13.27	9.15	6.28
7	Amount due (including waiver amount) at the end of the year (3-6)	3879.88	4020.75	4591.68	5209.41	5788.78
8	Amount shown as waived out	337.83	24.21	51.56	70.34	27.93
9	Amount due at the end of the year (7-8)	3542.05	3996.54	4540.12	5139.07	5760.85
10	Percentage of recovery of old dues to amount due at the beginning of the year (6 to 1)	0.74	0.30	0.33	0.20	0.12
11	Percentage of recovery out of current demand to current demand (5 to 2)	0.77	0.52	1.06	0.71	0.55
12	Percentage of total recovery to total demand (6 to 3)	0.65	0.26	0.29	0.17	0.11

Source: Records of the Corporation

From the Table No. 2.4.2, it can be seen that:

- The total amount of outstanding recoverable by the Corporation as on 31 March 2012 was ₹ 3542.05 crore (Principal ₹ 135.53 crore, Interest ₹ 3389.52 crore and Others ₹ 17.00 crore) which increased to ₹ 5760.85 crore (Principal ₹ 103.35 crore, Interest ₹ 5640.33 crore and Others ₹ 17.17 crore). The significant increase in the outstanding/recoverable amount was attributable mainly to increased interest that kept accruing on principals of loans outstanding against loanees against which only minimal recoveries could be affected. Audit observed that though the Corporation could not recover any interest or principal against assets qualified as non-performing, it kept on showing

[5] Current Demand includes the amount demanded by the corporation on account of principal and interest.

interest as recoverable against these NPAs. Consequently, the figures of outstanding dues did not agree with the figures shown in the annual accounts of the Corporation wherein all incomes are to be accounted for on cash basis and all expenses on accrual basis.

Recovery declined from ₹ 25.43 crore in 2011-12 to ₹ 6.28 crore in 2015-16

- During 2011-12, the Corporation recovered a sum of ₹ 25.43 crore against its outstanding dues but the recovery declined rapidly over the years and was only ₹ 6.28 crore in 2015-16. The recovery percentage of the Corporation with respect to the total recoverable dues ranged between 0.11 and 0.65 *percent* during the period 2011-12 to 2015-16 which indicated poor pursuance for recovery of outstanding dues. In the paragraph 3.2.11 of Audit report of CAG of India (Commercial), GoB for the year ended 31 March 2004, it was pointed out by audit that records to watch performance of assisted units and the recovery of these dues were poorly maintained. Audit scrutiny revealed that the irregularity continued to persist during the period of the audit (2011-16). Further, the Corporation had shortage of manpower due to which it did not prefer filing of certificate cases against some of the defaulting loanees.

  The Government replied (October 2016) that the recovery had declined over the period as the left over units comprise mainly of private /leased, rented land/ premises or otherwise difficult cases from where recovery of loan was normally difficult. The reply of the Government was not tenable as the Corporation failed to take sufficient steps to recover the dues like finding prospective buyers for sale of defaulting units through timely advertisement/readvertisement, settlement of offer made by the prospective buyer through effective negotiations, etc.

- The Corporation did not fix any target of recovery of dues for the period 2010-11 to 2015-16.

  The Government replied (October 2016) that recovery target was not fixed during the period as it would not serve much purpose.

  The Government reply was not tenable since setting of recovery targets provides a basis for result oriented actions and is a prerequisite for assessing the effectiveness of the efforts taken for recovery of outstanding dues.

One Time Settlement Scheme 2014 (OTS) and Incentive-cum-Loan Re-structuring Scheme (ILRS)

2.4.6 In order to increase the recovery of its outstanding dues, the Corporation introduced two schemes viz. (a) One Time Settlement Scheme 2014 (OTS - 2014) and (b) Incentive-cum-Loan Re-structuring Scheme (ILRS).

Under the OTS – 2014, the settlement amount was:

(a) 400 *per cent* of the principal outstanding amount as on 31 March 2014 for the loans sanctioned up to 31 March 1990;

(b) 300 *per cent* of the principal outstanding amount as on 31 March 2014 for the loans sanctioned after 31 March 1990; and

(c) 100 *per cent* of the principal outstanding amount as on 31 March 2014 for certain special categories of loanees like Mahila Udyog Niti (MUN), Self-Employment Scheme for Ex-Serviceman (SEMFEX), etc.

Under ILRS, settlement amount was to be arrived at by full waiver of penal interest and other charges subject to a maximum amount of ₹ 25,000.

From the OTSS/ILRS, the Corporation recovered ₹ 5.07 crore (principal - ₹ 2.47 crore, interest and others - ₹ 2.60 crore)

Audit observed that the recovery schemes launched by the Corporation was not effective since only a sum of ₹ 5.07 crore (Principal: ₹ 2.47 crore, Interest and others: ₹ 2.60 crore) was recovered during the period of five years ended 31 March 2016, which was insignificant in comparison to the amount of outstanding dues.

The Government stated (October 2016) that the recovery scheme so launched was a special settlement scheme and was for only such units where immovable mortgaged assets in shape of Land/ Building was not available and from where chances of recovery were remote.

The reply of Government was not tenable as the Corporation should have launched the scheme keeping in mind the existing condition of the loanee units.

Certificate cases for recovery of dues

The Corporation also initiated legal action under section 32 (G) of the Act for the recovery of its dues by way of filing Certificate case against the defaulting units. Since inception of the Corporation till date (March 2016), a total of 376 cases were pending, as given in Table No. 2.4.3

Table No. 2.4.3: Details of certificate cases

Particulars	No. of cases	Amount (₹ in crore)
(a) Cases pending with different collectors	129	427.00
(b) Cases pending for hearing	247	359.00
Total	**376**	**786.00**

Source: Information furnished by the corporation

It can be seen from the table that though the legal action had been initiated by the Corporation to recover its dues, the action had not proved to be fruitful as 376 numbers of total Certificate cases amounting to ₹ 786.00 crore were still pending.

The Government accepted (September 2016) the facts and assured audit that the follow up action was being taken by the Corporation.

It is worth mentioning over here that of a total of 2777 number of defaulting units as on 31 March 2016, the Corporation initiated recovery through filing of Certificate Cases only in respect of 579 defaulting units. Thus the Corporation was not aggressive in pursuing the realisation of its recoverable dues.

The Government replied (October 2016) that the Corporation was not filing further Certificate cases as previously filed cases were not fruitful despite consistent follow up. The Corporation further stated that unless the previously filed Certificate cases were concluded, filing more cases would not be reasonable in view of shortage of manpower for cases needed to be followed up.

Constraints in recovery of loan

In response to a questionnaire issued to the Management, the Management cited the following constraints in realisation of outstanding dues:

a) Shortage of manpower to pursue outstanding dues;

b) Cases of loan were more than 20 years old and complete records of these loans were either not available or only partially available;

c) There were inordinate delays in legal proceedings; and

d) Where the Corporation wanted to sell off the property of the defaulting loanees, in some cases buyers were not available or they quoted rates that were far less than the reserve price fixed by the Corporation.

Failure to comply the recommendations of previous Performance Audit

2.4.7 A Review on "Recovery Performance of Bihar State Financial Corporation" had featured in the Audit Report (Commercial), Government of Bihar for the year ended 31 March 2004. The Report contained recommendations asking the Corporation to (a) review its system of post disbursement follow up, (b) introduce OTS scheme and special sale strategy to improve its recovery performance, (c) review all the cases of sold units and file certificate cases against those units where it suffered loss and pursue all the cases effectively to get recovery certificates at the earliest for realization of balance amount, (d) take up the matter of defaulting units located in Jharkhand, with the Government of Jharkhand for effective recovery action and disposal of defaulting units.

Audit observed that the Corporation failed to follow up on the recommendations made by Audit except for launching an OTS/incentive schemes for recovery of old outstanding dues. Records to watch performance of assisted units and recovery of dues continued not to be maintained properly.

The Government replied (October 2016) that (a) the recommendation regarding post disbursement follow-up would be taken on recommencing by the Corporation of its financial activities, i.e. sanction/disbursement of loan; (b) in consonance with the recommendations, Corporation had introduced settlement schemes, viz., OTS 2004, 2006, 2009, ILRS 2008 and OTS 2014; (c) Certificate cases were initiated in several cases subsequent to the recommendations; and (d) the earlier policy decision of Jharkhand Government was a hindrance in sale and recovery from defaulting units located in Jharkhand. This was however subsequently settled on the initiatives taken by the Corporation which resulted in taking actions for sale of defaulting units located in Jharkhand.

Manpower

2.4.8 In order to operate the functions of the Corporation economically, efficiently and effectively, the Corporation should have adequate number of employees commensurate with the nature and size of business. This is also necessary to safeguard the properties/assets of the Corporation.

As against the sanctioned strength of 514, there were only 149 employees Out of which, only five *per cent* of these were officers

Audit observed that the manpower of the Corporation was inadequate as discussed below:

- As on 31 March 2016, as against the sanctioned strength of 514, there were only 149 employees employed in the Corporation. Most of these employees were lower level employees viz. clerk, peon, typist, etc. Only five *percent* of the employees were at the officer level.
- The number of officers was only seven which included both the officers in Head Office as well as Branch offices. Out of these seven officers, four officers were posted in Head office and only three officers were posted in branch offices.

Thus, due to lack of manpower in the Corporation as well as its branch offices, during the last 10 years, the Corporation had lodged only 46 FIR cases amounting to ₹ 1.79 crore. Dearth of manpower adversely affected the recovery performance of the Corporation.

The Government replied (October 2016) that the Corporation was maintaining optimum strength of officers and staff which appeared adequate to maintain present level of its activities. The reply was not tenable as only five *per cent* of its employees were officers deputed at Head office as well as Branch offices which was not sufficient for monitoring the entire recovery functions for Bihar and Jharkhand. Further, due to shortage of manpower, the Corporation did not prefer to file certificate cases in respect of defaulting loanees as mentioned in paragraph 2.4.6.

Conclusion

Audit concluded that:

- **the performance of the Corporation regarding recovery of loan and its pursuance was poor. The OTS-2014 and ILRS schemes brought in by the Corporation did not prove to be fruitful. The Corporation did not comply with the recommendations of the previous Audit Report.**
- **there was shortage of manpower in the Corporation which had adversely affected its recovery performance.**

Recommendation

Audit recommends that the Corporation needs to develop a concrete mechanism to improve its recovery of loans.