

CHAPTER IV

4. TRANSACTION AUDIT OBSERVATIONS

Chapter-IV

4. Transaction Audit Observations

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

Government Companies

Bihar State Hydroelectric Power Corporation Limited

4.1 Unfruitful expenditure

Failure on the part of the Company to comply with the directives of BEREC resulted in unfruitful expenditure of ₹ 29.62 lakh towards consultancy charges and loss of revenue of ₹ 4.72 crore due to sale of energy at lower rates

In exercise of power under Section 62 of the Electricity Act, 2003 (Act), the Bihar Electricity Regulatory Commission (BERC) has to fix tariff in accordance with the procedure laid down in BERC (Terms and conditions for determination of Tariff Notification) Regulation, 2007 (Regulation). In terms of para 6 (8) of the Regulation, the Bihar State Hydroelectric Power Corporation Limited (Company) is to file Aggregate Revenue Requirement (ARR) along with requisite data in the prescribed format for each financial year by 15 November of the preceding year so that the tariff petition is processed and finalised in 120 days as specified in Section 64 (3) of the Act. Further, para 5 stipulates that for determination of tariff, the generating Company is required to submit an application accompanied with Annual Accounts of the previous year prior to the date of application, duly audited and certified by the Statutory Auditors.

The Company sells the electricity generated by its hydro projects to the Bihar State Electricity Board (Board). The Company had filed (March 2009) a tariff petition to BERC for the year 2009-10. As the Annual Accounts were in arrears from 1997-98, the Commission approved (December 2009) a provisional tariff of ₹ 2.49 per KWh only and directed the Company to take immediate steps for getting the Annual Accounts in arrears audited by the Statutory Auditors/CAG within a time bound programme. The Commission also instructed that in future the Company should submit the tariff proposal along with the Annual Accounts and Audit Reports thereon of the Statutory Auditors/ CAG.

Audit observed that:

- The Company, instead of complying with the instructions of the BERC regarding up-dation of Annual Accounts in arrears, assigned the work of the preparation of tariff proposals of electricity for the years 2010-11 (December 2009) and 2011-12 (December 2010) to Price Waterhouse

Coopers (PwC), a consulting firm, and paid a sum of ₹ 23.47 lakh towards consultancy and other charges and ₹ 6.15 lakh for the filing charges of the tariff petitions.

- In disregard to the Directives given earlier by the BEREC, the Company filed the ARR/ Tariff petition for ₹ 3.72 per KWh and ₹ 2.99 per KWh for the year 2010-11 (April 2010) and for 2011-12 (December 2010) respectively without the Audited Accounts. Consequently, the BEREC rejected the tariff petition of the Company for both the years in June 2010 and May 2011 respectively due to non-compliance of the Directives. Thus, rejection of the tariff petition by the BEREC due to non-adherence to its directives resulted in unfruitful expenditure of ₹ 29.62 lakh towards consultancy and filing charges. Besides, the Company also suffered loss of revenue of ₹ 4.72 crore¹ due to sale of electricity at lower tariff during 2010-11 and 2011-12.

The Management, *inter alia*, stated (July 2012) that the expenditure incurred by the Company towards consultancy and filing charges was in anticipation of approval of provisional tariff of ₹ 2.99 per KWh by the BEREC. It further stated that the efforts were being made to get the Accounts audited by the Statutory Auditors/CAG. We are, however, not convinced with the reply as the Company failed to exercise due diligence and make serious efforts to liquidate the arrears of its Accounts by ensuring the Audit of its Accounts by the Statutory Auditors/CAG within a time bound programme.

The Company needs to make serious efforts to liquidate the arrears of its Accounts by getting its Accounts audited by the Statutory Auditors/CAG within a time bound programme.

The matter was reported to the Government (June 2012), reply was awaited (November 2012).

4.2 Irregular payment to employees

The Company irregularly paid incentive to the tune of ₹ 32.56 lakh to its employees in violation of directions issued by the Finance Department

Finance Department, Government of Bihar issued directions (December, 1984) to all Public Sector Undertakings (PSUs) which, *inter alia*, states that they would make payment of *ex-gratia* or similar payments in any other name to their employees only with the prior approval of the concerned Administrative Department in this regard. The Administrative Department would communicate to the concerned PSU, the Government's decision on the proposal made justifying such payment to the employees after compulsorily taking approval of the Finance Department.

¹ 2010-11 - 26504682 KWh x ₹ 1.23 (3.72-2.49) = ₹ 3.26 crore.

2011-12 - 29218329 KWh x ₹ 0.50 (2.90-2.40) = ₹ 1.46 crore. Total: ₹ 4.72 crore.

We observed (March 2012) that Bihar State Hydroelectric Power Corporation Limited (Company) made a payment of ₹ 32.56 lakh² during 2008-10 to its employees as incentive without taking the approval of its Administrative Department in violation of the instructions issued by the Finance Department. The incentive payments to the employees were made even without taking approval of the Board of Directors of the Company. Thus, payment of incentives to its employees by the Company in contravention of the directions of the Finance Department resulted in irregular payment of ₹ 32.56 lakh.

The Management stated (May 2012) that incentive payments had been made to encourage employees' contribution and further productivity. Further, the issue pertaining to payment of incentive could not be put up to the Board for approval since very few Board meetings were held during the aforementioned period.

The reply, however, did not explain as to why the prior approval of the Administrative Department was not obtained before making such payments. Moreover, such payments were made on the basis of profits arrived at on provisional figures as audit of the accounts of the Company were in arrears.

The Company should make endeavour to liquidate the arrears of Accounts and adhere to the directives/guidelines of the Finance Department in making payment of *Ex-gratia* or similar payments to its employees.

The matter was reported to the Government (June 2012), reply was awaited (November 2012).

Bihar State Road Development Corporation Limited and Bihar Rajya Pul Nirman Nigam Limited

4.3 Avoidable payment of interest

Absence of system for ensuring proper assessment of tax liability led to short payment of advance income tax resulting in avoidable payment of interest of ₹ 1.39 crore

As per Section 207 of the Income Tax Act, 1961 (Act), every assessee is required to pay advance tax on estimated current income for the financial year in accordance with the provisions of Section 208 to 219 of the Act in four advance instalments³ at the prescribed rates, in case the amount of Income tax payable is ₹ 10,000 or more. Failure to deposit minimum 90 *per cent* of the tax in advance as well as shortfall in depositing tax as per the prescribed slab attracts interest at the rate of one *per cent* per month separately as prescribed

² ₹ 13.77 lakh (2008-09) + ₹ 18.79 lakh (2009-10).

³ On or before 15 June (not less than 15 *per cent* of such advance tax), 15 September (not less than 45 *per cent* of such advance tax as reduced by the amount paid in earlier instalment), 15 December (not less than 75 *per cent* of such advance tax as reduced by the amount paid in earlier instalments) and 15 March of the financial year (the whole amount of such advance tax as reduced by the amounts paid in the earlier instalments).

under Section 234B and 234C of the Act. This calls for proper estimation of taxable income to ensure deposit of advance tax as required to avoid the incidence of interest payment.

Bihar State Road Development Corporation Limited (BSRDC) and Bihar Rajya Pul Nirman Nigam Limited (BRPNN) are established mainly for construction of roads and bridges respectively in the State of Bihar and are liable to pay advance tax on their assessed income under the provisions of the Act *ibid*.

Scrutiny of records revealed as under:

- BSRDC deposited ₹ 10 crore as advance income tax for the financial year 2010-11. Of this, ₹ two crore was paid (15 June 2010) in the first quarter, ₹ four crore (14 September 2010) in the second quarter, nil in the third quarter and ₹ four crore (14 March 2011) in the fourth quarter. In addition, ₹ 2.75 crore was the amount of tax deducted at source on the income of the Company. The total tax liability of BSRDC for the financial year 2010-11 was ₹ 18.86 crore. Since the total tax paid (advance tax of ₹ 10 crore and TDS of ₹ 2.75 crore) fell short of 90 *per cent* of tax payable, BSRDC had to pay interest of ₹ 0.72 crore. The balance amount of income tax of ₹ 6.11 crore (₹ 18.86 crore minus ₹ 12.75 crore) and interest of ₹ 0.72 crore was paid by the Company in September 2011.
- Likewise, BRPNN deposited ₹ 14.50 crore as advance income tax for the financial year 2009-10. Of this, ₹ 2.70 crore was paid (12 June 2009) in the first quarter, ₹ 2.38 crore (15 September 2009) in the second quarter, ₹ 4.27 crore (19 December 2009) in the third quarter and ₹ 5.15 crore (12 March 2010) in the fourth quarter. In addition, ₹ 2.05 crore was the amount of tax deducted at source on the income of the Company. The total tax liability of BRPNN for the financial year 2009-10 was ₹ 22.02 crore. Since the total tax paid (advance tax of ₹ 14.52 crore and TDS of ₹ 2.05 crore) fell short of 90 *per cent* of tax payable, BRPNN had to pay interest of ₹ 0.67 crore. The balance amount of income tax of ₹ 5.45 crore (₹ 22.02 crore minus ₹ 16.57 crore) and interest of ₹ 0.67 crore was paid by the Company in September 2010.

For estimation of taxable income for payment of advance tax, there should be a system to ensure timely availability of relevant information such as estimated Turnover/revenue, etc. However, even in the month of March 2011 when fourth and last instalment of advance tax was paid, the BSRDC was not aware of its Turnover for the year 2010-11, which was more than double the Turnover of 2009-10 (contract revenue was ₹ 881 crore in 2010-11 as against ₹ 415 crore in 2009-10). Similarly, BRPNN Management was also not aware of its Turnover for the year 2009-10 even at the time of payment of the fourth and final instalment of advance tax. It was observed that due to absence of a system, both the companies could not make estimation of taxable income properly and paid less advance tax resulting in avoidable payment of interest of ₹ 1.39 crore (BSRDC - ₹ 0.72 crore, BRPNN - ₹ 0.67 crore).

BSRDC Management stated (March 2012) that advance tax paid for the year 2010-11 was on the basis of tax of ₹ 13.10 crore paid for the financial year 2009-10. The increase in tax liability during 2010-11 was attributed to increase in Turnover by more than two times with respect to financial year 2009-10, which could not be assessed due to non availability of statistical data.

The Administrative Department (Road Construction Department) of the BSRDC in their reply (August 2012) stated that the amount of ₹ 0.72 crore paid as interest was not the actual expenditure of the Company as the Company had also earned interest on the amount of delayed advance tax lying invested in the bank deposit of the Company. As such, the Department claimed that the net expense on account of interest conceded by the Company was much less. The reply of the Government is not acceptable as the Company had kept huge funds (₹ 74.16 crore as on 31 March 2010) in its Current Account on which it did not earn any interest and the same could have been utilised to avoid payment of interest.

BRPNN Management attributed (June 2012) short payment of advance tax to the accelerated year-end work which prevented fair assessment of Turnover for the year. Reply of the BRPNN Management is not acceptable as for estimation of taxable income for payment of advance tax, there should be a system to ensure timely availability of relevant information such as estimated Turnover/revenue, etc.

Thus, failure of the Companies in assessing the Turnover for the year 2010-11 in March 2011 (BSRDC) and 2009-10 in March 2010 (BRPNN) indicated that there was lack of system to ensure proper estimation of taxable income and tax liability. This resulted in payment of avoidable interest of ₹ 1.39 crore.

The Companies should strengthen their internal control system so as to ensure timely availability of information pertaining to Turnover, revenues and other parameters necessary for estimation of taxable income and formation of other projections, etc.

The matter was reported to the Government (June 2012), reply in respect of BRPNN was awaited (December 2012).

Statutory Corporation

Bihar State Electricity Board

4.4 Loss to the Board on account of non-claiming of TDS

The Board's failure in obtaining TDS certificates from the payee Banks and non-claiming of refund of TDS resulted in a loss of ₹ 12.87 crore to the Board

As per Section 194A of the Income Tax Act, 1961 (Act), interest earned on fixed deposits is subject to deduction of Income tax at source (TDS) by the payee Bank. The TDS is deposited by the Bank to Income Tax Department and a certificate in this regard is furnished to the assessee organisation under

Section 203 of the Act. The assessee organisation should claim refund of TDS by filing Income Tax Return by due date if its taxable income is nil/there is no/lesser tax liability.

Bihar State Electricity Board (Board) had fixed deposits of ₹ 807.50 crore (2008-09), ₹ 629.34 crore (2009-10), ₹ 1,127.79 crore (2010-11) and ₹ 1,771.30 crore (2011-12) with nine Banks⁴. On the interest earned by the Board, Banks deducted TDS. The Board, however, did not take any action to get the TDS certificates from Banks. As such the Board had no information regarding the amount of TDS deducted by banks. This indicated absence of an effective internal control system to ensure timely flow of information in respect of TDS made by Banks. After continuous persuasion regarding TDS certificates by Audit, the matter was finally taken up by the Board with the Banks in February 2012. The Banks intimated that a total of ₹ 36.14 crore was deducted on account of TDS for the period 2008-09 to 2011-12. Since the Board was incurring losses, it was imperative on the part of the Board to claim the refund of TDS by filing Income Tax Return within the prescribed time limit.

We observed that due to non-maintenance of proper records, lack of close coordination with the Banks and non-filing of Income Tax Return, the afore mentioned TDS amounting to ₹ 36.14 crore could not be claimed for refund. This indicated poor fund management as well as non-observance of financial interests on the part of the Board.

The Board replied (July 2012) that the statement of TDS of ₹ 36.14 crore during 2008-09 to 2011-12 had been obtained from Banks. Further, necessary action to claim refund of TDS by way of filing Income Tax Return was in progress. The fact remains that until pointed out by the Audit, the Board had no system for ensuring information regarding TDS on its interest income. Besides, the Board had filed its Income Tax Returns up to the financial year 2000-01 as of March 2011. It is also pertinent to mention that, out of a total sum of ₹ 36.14 crore deducted on account of TDS up to 2010-11, a sum of ₹ 12.87 crore⁵ had become time barred since no claim of refund can be made on expiry of period of two years from the end of the financial year in which tax was deducted at source.

Thus, deficient internal control system and poor fund management resulted in failure of the Board in filing claims on time for refund of TDS amounting to ₹ 36.14 crore including a sum of ₹ 12.87 crore which had already become time barred.

The Board needs to strengthen its internal control system to ensure information regarding TDS, timely filing of Income Tax Returns and efficient

⁴ State Bank of India, Canara Bank, Punjab National Bank, Union Bank, Bank of India, Central Bank of India, Bank of Baroda, Bihar State Co-operative Bank, SBI, Maurya Lok Branch.

⁵ ₹ 6.38 crore for 2008-09 and ₹ 6.49 crore for 2009-10.

and effective management of its fund. Besides, the Board should also fix responsibility for the loss caused to the Board.

The matter was reported to the Government (June 2012); reply was awaited (November 2012).

4.5 Theft of electricity in the Government residential buildings

Due to failure to install working meters at the consumers' premises as well as to inspect consumer's premises to detect unauthorised use of electricity, the Board lost the opportunity of earning revenue of ₹17.40 crore

Section 135 (1) of the Electricity Act, 2003 (Act), provides, *inter alia*, that whoever, dishonestly, taps, makes or causes to be made any connection with service facilities of a licensee, or supplier, to use electricity shall be punishable with an imprisonment for a term which may extend to three years or with fine or with both. As per Clause 11.1 (c) (iii) and (iv) of the Bihar Electricity Supply Code, 2007 (Code), the assessment of charges for theft of electricity shall be made for the entire period during which such unauthorised use of electricity has taken place and if, however, the period during which such unauthorised use of electricity has taken place cannot be ascertained, such period shall be limited to a period immediately preceding twelve months and the assessment shall be made at a rate equal to twice the tariff applicable for the relevant category of service.

We examined the records viz. Consumers' Master data, Consumers' ledger, bills, etc. relating to 1940 Government quarters (420⁶ for officers and 1520⁷ for other staff) taking power connection from the Board and noticed the following deficiencies:-

- In case of 320 quarters including 281 police quarters, electricity was being unauthorisedly used without any proper connection from the Board, during the period April 2007 to March 2012;
- In case of 147 officers/staff quarters, bills were being issued on average basis since there were either no meters or there existed defective meters.
- Out of the above mentioned 420 officers' quarters, 261 quarters were with proper electric connections and meters while 79 quarters either did not have meters or had defective meters. 80 officers' quarters could not be checked for want of necessary details;
- Payments in respect of 56 quarters out of the aforesaid 261 officers' quarters for the period April 2011 to January 2012 were not received and the arrears had accumulated to ₹ 35.82 lakh as on 31 January 2012 but the Board had not disconnected any connection till date (January 2012).

⁶ 420 officers' quarters include 84 officers' flats, Punaichak, 90 nos. of officers' flats at Bailey Road, 150 ABC officers' hostel, Punaichak and 96 officers' flat, Bailey Road

⁷ 1520 staff quarters include 316 police quarters in different police stations in Patna.

Further scrutiny revealed:

- Out of 316 Upper Subordinate (US)/Lower Subordinate (LS) quarters in 17 Police Stations in Patna, the occupants of 160 US and 121 LS quarters were using electricity unauthorisedly without taking connection from the Board which tantamount to theft of energy. Further the Board also failed to inspect the premises at division level as well as STF level. No action was taken by the Board in this regard as required under Section 135(1) of Electricity Act, 2003.
- In view of non-availability of information regarding actual load, Audit had considered a load of 1 KW for LS quarters and 2 KW for US quarters for five years. Based on this, the amount of fine and other charges recoverable from the occupants for unauthorised use/theft of electricity for the assessed period as per the codal provisions worked out to ₹ 17.40⁸ crore for five years from 2007-08 to 2011-12.
- For non-payment of dues, no action had been taken by the Board as required under the Act/Code. The reasons for non-payment as analysed in audit revealed that in case of 39 quarters, bills were prepared and served in the name of officers who had already left the quarters during the period April 2011 to January 2012. Further, the new allottees/occupants were using electricity without taking connection from the Board which was again a case of theft of electricity. As such, they were to be charged as per Clause 11.1 (c) (iii) and (iv) of the Bihar Electricity Supply Code, 2007.
- The officers/staff who vacated the quarters did not intimate the Board so that further bill may be discontinued after preparation of final bills. The agency for serving the bill failed to ascertain the actual occupants of the quarters. As payment was not being made, the theft could have been detected at sub-division/division level by reviewing the payment position, but it was also not done.

Thus, the Board failed to install correct/working meters at the consumers' premises as per Section 55 of Electricity Act, 2003 and inspect the premises to detect unauthorised use of electricity as per the provision of Section 126 of Act, and lost the opportunity of earning revenue of ₹17.40 crore.

The Board should periodically inspect the premises of the consumers and install correct and working meters so as to avoid unauthorised use of electricity. Besides, the Board also needs to disconnect the electricity supply of the consumers for non-payment of dues as required under the Electricity Act/Electricity Supply Code.

⁸ Formula=Units assessed=L x F x D x H., ₹ 3.48 crore per year. Total for 5 years at the rate of ₹ 3.48 crore per year.

Where L= Connected load in KW found at the time of inspection/raid at site.
F= Load factor.
D= Number of days during which unauthorised use of electricity has taken place.
H= Number of average hours of supply made available per day.

The matter was reported (August 2012) to the Government/Board, their replies were awaited (November 2012).

4.6 Short collection of revenue

Board's failure to ensure adherence to Codal provisions in billing and collection of revenues from its consumers resulted in short collection of revenues amounting to ₹ 4.73 crore

Section 9.20 of Bihar State Electricity Supply Code, 2007 (Code), *inter alia*, provides that bills issued to the consumers against consumption of energy shall contain specified details. As per Section 10.17 of the Code, if the consumer fails in payment of any bill in full, by the due date, service connection of the consumer will be liable to be disconnected temporarily. Section 10.20 states that the supply can be restored only after the payment of the outstanding charges/dues/amount of instalment fixed along with reconnection charges as applicable. Further, Section 10.16 of the Code stipulates that the authorised official of the Licensee has to ensure that all the cases pertaining to default in payment are monitored regularly and timely action is initiated as per prescribed procedure for temporary or permanent disconnection.

We examined the records relating to Patna Electricity Supply Undertaking (PESU) of Bihar State Electricity Board (Board) and noticed that in case of consumers occupying 233 staff quarters of Bihar Military Police (BMP-5, BMP-10 and BMP-14), bills were issued on an average basis at the rate of 40 to 288 units per month during the period April 2006 to March 2012 as none of the meters was working in the quarters. No action was taken by the Board either to get the defective meters rectified or to install new meters.

Further, against the bills issued, payments were being accepted by the Board at the rate of 40 units per quarter per month, through cheque from BMP office and not on the basis of bills raised on an average basis. Though as per Codal provision, disconnection of electricity and restoration thereof only after payment of outstanding dues together with restoration charges was the basic requirement for timely collection of its dues, no such action was taken by the Board. We observed that in most of the cases, the occupants of the quarters had changed but bills were being issued in the name of old consumers without any pursuance. Due to acceptance of short receipts by the Board, the arrears had accumulated to ₹ 4.73 crore as on 31 March 2012, the realisability of which had become doubtful for want of requisite action by the Board (March 2012).

Thus, failure of the Board to adhere to codal provisions for billing and collection of revenue has led to recurring loss to the Board. The loss which has already mounted to ₹ 4.73 crore as at the end of March, 2012 is likely to continue unless the defective meters are rectified or new meters are installed.

The Board needs to strengthen its internal control system so as to ensure adherence to the codal provisions relating to providing electricity connections,

billing and collection of revenue from its consumers. Besides, the Board should also fix responsibility on its officials for short realisation of revenues.

The matter was reported (August 2012) to the Government/Board, their replies were awaited (November 2012).

4.7 Loss of revenue due to delay in enhancement of load

<i>Inordinate delay on the part of Board in enhancement of the load resulted in a revenue loss of ₹2.21 crore</i>
--

As per Clauses 15 (B) and 17 of the Bihar Electricity Regulatory Commission (Standards of Performance of Distribution Licensee) Regulations, 2006, the Bihar State Electricity Board (Board) shall enhance the load, in case of High Tension (HT) and High Tension Specified Services (HTSS) category consumers, within 145 days where erection of 33 KV line is involved and within 27 days where no extension and alteration of distribution network is involved.

We noticed that in three cases relating to enhancement of load (as per details in *Annexure-8*), the time limit prescribed by the Commission was not adhered to and there were abnormal delays ranging from 92 to 343 days in enhancement of load by the Board. Reasons for inordinate delays as analysed in audit are detailed below:

- Application for enhancement of load from 60 HP to 6300 KVA on 33 KV systems was received from M/s Triveni Smelters Private Limited on 15 January 2011. Load enhancement proposal along with feasibility report was sent by the Electricity Supply Circle (ESC), Patna to the Central Electricity Supply Area Board (Area Board), Patna on 24 January 2011. However, due to lack of co-ordination between the Area Board and the ESC, Patna, the load was sanctioned on 27 June 2011 and supply commenced from 10 September 2011, i.e., after a delay of 92 days.
- Application for enhancement of load from 90 HP to 2151 KVA was received from M/s Balaji Mini Steels & Re-rolling Private Limited, Bihta on 28 July 2010. Though the feasibility report as per the Standards was to be issued within 10 days, the same was issued on 02 May 2011. Resultantly, the supply commenced from 04 October 2011, i.e., after an abnormal delay of 287 days.
- Application for enhancement of load from 7400 KVA to 8000 KVA was received from M/s Neelkamal Steels Private Limited, Patna on 06 January 2011 and after preparation of feasibility report, load enhancement proposal was sent to the GM cum CE for sanction by the Circle on 11 January 2011. However, load was sanctioned by the Board Headquarters on 14 December 2011 and the supply at the enhanced load commenced from 11 January 2012. Thus, there was a delay of 343 days in making correspondences with Area Board and circle located at the same station (Patna).

- The Board did not have adequate internal control system to monitor timely preparation of feasibility report, processing of application and other formalities to ensure enhancement of load in the stipulated time period.

Thus, avoidable delays of 92 to 343 days in enhancement of load in the above cited three cases, resulted in a revenue loss of ₹ 2.21 crore⁹ to the Board due to realisation of revenue at the lower tariff than as per the enhanced loads.

The Board attributed (November 2012) delays in enhancement of load to M/s Triveni Smelters Private Limited and M/s Neelkamal Steels Private Limited to consumption of time in redressal of deficiencies in the application made by the consumers and non-clearance of energy bills (M/s Neelkamal Steels Private Limited) against them. For the delays in the case of M/s Balaji Mini Steels & Re-rolling Private Limited, the Board stated that it was due to settlement of protest made by another consumer to provide the enhanced load through tapping of energy from the latter's 33 KV line.

Reply of the Board is not convincing as it was noticed in audit that the inordinate delays in enhancement of load were mainly due to procedural delays and lack of co-ordination between different offices of the Board.

The Board needs to ensure compliance with the provisions as well as strengthen its internal control system so as to mitigate the procedural delays in providing electricity connections to the consumers.

The matter was reported to the Government (June 2012); reply was awaited (November 2012).

4.8 Loss of revenue due to incorrect categorisation of consumers

Incorrect categorisation of consumer and non-adherence to the tariff provisions resulted in a revenue loss of ₹1.47 crore to the Board

As per Tariff Order issued by Bihar Electricity Regulatory Commission from time to time,¹⁰ the Domestic Service (DS)-III is applicable to residential colonies and multistoried residential complexes taking load in bulk at a single point, with a minimum load of 2 KW per flat/house and subject to the maximum total load up to 60 KW. The load having 75 KVA and above comes under High Tension Service (HTS) -I category.

We noticed that Divisional Accounts Office, Eastern Central Railway, Bibiganj, was sanctioned (April 2001) a load of 60 KW under DS - III tariff category to electrify its 107 residential quarters and was billed as per DS-III tariff till August 2010 and thereafter under DS-II¹¹. The total amount charged against the consumer for the period November 2006 to March 2012 worked out to ₹ 12.21 lakh.

⁹ M/s. Triveni Smelters Private Limited (₹ 1.32 crore), M/s Balaji Mini Steels & Re-rolling Private Limited (₹ 0.41 crore) and M/s Neelkamal Steels Private Limited (₹ 0.48 crore).

¹⁰ November 2006, September 2008, December 2010 and May 2011.

¹¹ Applicable for domestic premises in urban areas.

The minimum aggregate load for 107 residential quarters works out to be 214 (107 \times 2) KW (238 KVA) justifying its categorisation as HTS -I as the aggregate load exceeded 75 KVA. As such, the load sanctioned to the said consumer under DS-III/DS-II category instead of HTS-I category was incorrect and was not as per the tariff provisions. Taking into account the Tariff provision, amount to be charged as per tariff for HTS - I category was ₹ 159.57 lakh.

Thus, due to incorrect categorisation of the consumer under DS-III/DS-II instead of HTS-I, the Board had charged the consumer ₹ 12.21 lakh only instead of ₹ 159.57 lakh¹² for the period November 2006 to March 2012, and thereby suffered a revenue loss of ₹ 147.36 lakh (₹ 159.57 lakh - ₹ 12.21 lakh).

The Board should categorise its consumers in accordance with the provisions of the Tariff Order and bill them accordingly. Besides, the Board should also fix responsibility for the loss caused to the Board due to incorrect categorisation of consumers.

The matter was reported to the Board and Government (May 2012); replies were awaited (November 2012).

4.9 Revenue loss due to non-conversion of the Consumer's category

The Board suffered a revenue loss of ₹ 1.50 crore due to non-conversion of the Consumer's category

Para 2.2 of Tariff Order issued in 2006 by Bihar Electricity Regulatory Commission (Commission) provides that Non-Domestic (NDS-I, II & III) categories are applicable for supply of electricity to the Low Tension (LT) consumers with a maximum contracted load of 66 KVA only. Further, as per Para 7.1 of the Tariff Order, supply under High Tension Service (HTS) category is applicable for electricity with a minimum contract demand of 75 KVA. The tariff for HTS category is higher in comparison to the tariff applicable for DS and NDS categories.

Our Audit scrutiny revealed that a consumer, L.N. Mishra Institute, Patna, was supplied electricity at an enhanced load of 290 KW (322 KVA) with effect from September 2006 but billings were being done under NDS-II category.

As NDS-II is applicable up to 60 KW (66 KVA) only, the supply of electricity to the Consumer at a load of 290 KW under NDS-II was irregular and required categorisation of the said consumer into HTS category. The Board issued (October 2009) a notice to the consumer for enhancement of its load and for conversion of its category. Neither the consumer responded to the notice nor this matter was pursued by the Board further. Since the Board, despite being aware of the load of the said consumer being in excess of 66 KVA, did not take effective measures for conversion of the consumer's category, this tantamounted to extension of undue benefit to the consumer. Non-conversion

¹² Energy charges (₹ 131.82 lakh) + Demand charges (₹ 27.75 lakh) for 107 quarters.

of the consumer's category from NDS-II to HTS resulted in a loss of revenue of ₹ 1.50 crore (during September 2006 to June 2012) to the Board.

The Management's reply was still awaited. However, the Circle office of the Board stated (July 2012) that the consumer had been converted into HT category with effect from 14 July 2012 and billing would be done accordingly. Though, the Board at the instance of audit observation had categorised the said consumer into HTS category, no action had been taken for the recovery of loss of ₹ 1.50 crore¹³ already caused to the Board.

Thus, non-conversion of consumer's category from NDS II to HTS during the period September 2006 to June 2012 resulted in an extension of undue benefit to the consumer and a loss of ₹ 1.50 crore to the Board.

The Board should take effective measures promptly with the consumer requiring conversion of consumer category so as to avoid loss of revenue. Besides, the Board also needs to fix responsibility for the lapse.

The matter was reported to the Board and the Government (May 2012); replies were awaited (November 2012).

4.10 Avoidable expenditure in procurement of Distribution Transformers

The Board failed to invoke the clauses of the Purchase Order which led to avoidable expenditure of ₹ 47.09 lakh in procurement of Distribution Transformers

Bihar State Electricity Board (Board) placed a Purchase Order on a private firm M/s East India Udyog Limited (Supplier) in August 2010 for supply of 2000 Distribution Transformers of 100 KVA capacity at a landed cost of ₹ 67,662.73 per transformer. Clause 6 of Purchase Order provided for supply of the entire quantity of transformers within four months, i.e., up to 19 December 2010¹⁴. Clause 7 of the said Purchase Order provided for levy of penalty at the rate of 0.25 *per cent* of ex-works value of the materials delayed in delivery for a week or part thereof subject to a maximum ceiling of five *per cent* from the bills of the suppliers. Further, as per Clause 8 of the Purchase Order, the Board was empowered to reject either in part or full of the awarded contract/order without assigning any reason in case of delay in supply of materials or supply of substandard materials.

The audit scrutiny revealed that:-

- Against the schedule of supplying 800 transformers by 19 October 2010, the supplier delivered only 486 transformers. Instead of supplying the entire 2000 transformers by 19 December 2010, the supplier made a delivery of a total quantity of 1868 transformers during September 2010 to October 2011. The Board had deducted a sum of ₹ 14.80 lakh from the bills of suppliers on account of penalty for delay in supply of Distribution

¹³ HTS Billing (due): ₹ 2.38crore – NDS-II Billing (charged): ₹ 0.88 crore = ₹ 1.50 crore.

¹⁴ 1st month-200, 2nd month-600, 3rd month- 600, 4th month-600.

Transformers. It was also observed that even after a lapse of ten months from the scheduled completion period, the supply of entire quantity of transformers was not made. Inordinate delay on the part of supplier, thus, attracted provisions of Clause 8 of the Purchase Order which was, however, not invoked.

- In September 2010, the Board invited tender for procurement of another 1000 Distribution Transformers of 100 KVA for which the price bid was opened on 15 November 2010. The rate per transformer quoted by the lowest tenderer was found to be ₹ 63800, which was lower by ₹ 3862.73 than the rate of ₹ 67662.73 at which 2000 transformers were under procurement. By 15 November 2010, when the price bids were opened, the supplier had made a delivery of only 649 transformers, against the previous order.
- Since the price quoted against the tender of September 2010 was lower than that of Purchase Order of August 2010 and the supplier had defaulted in timely supply of transformers, it was in the financial interest of the Board to cancel the Purchase Order by invoking clause 8 thereof for the remaining quantity (1351)¹⁵ of transformers yet to be supplied. Alternatively, the balance quantity should have been purchased at a lower rate of ₹ 63800 per transformer. Instead of this, the Board, continued to accept the transformers supplied belatedly at a higher rate (total quantity of 1868 transformers were delivered by the supplier). This resulted in an avoidable expenditure of ₹ 47.09 lakh (₹ 3862.73 x 1219 transformers, i.e., 1868 minus 649 received till 15 November 2010).
- Further, invitation of tender for procurement of 1000 distribution transformers merely within a month from the date of placement of Purchase Orders for 2000 Distribution Transformers of same capacity reflected ill planning on the part of the Board and also deprived the Board of volume discount it could have got from the supplier.

The Board needs to ensure compliance with the terms and conditions of the Purchase Order so as to avoid extra expenditure.

The matter was reported to the Board and Government (June 2012); replies were awaited (November 2012).

¹⁵ 2000-649=1351.

4.11 Loss to the Board

Non-compliance with the terms and conditions of Fuel Supply Agreement resulted in a loss of ₹3.32 crore to the Board

Clause 4.6.1 of Fuel Supply Agreement (FSA) entered into between Bihar State Electricity Board (Board) and Eastern Coalfields Limited (ECL) for supply of coal to Barauni Thermal Power Station (BTPS), effective from April 2009 provided, *inter alia*, that the purchaser shall inform the seller, the presence of stones in the consignment of coal received immediately on its detection at delivery/unloading point. The quantity of stones was to be segregated for joint assessment by the seller and the purchaser and the quantity of oversized stones (more than 250 mm in size) was to be adjusted from the coal bills pursuant to clause 9.1 of FSA. Further, clause 4.6.3 (a) and (b) of FSA provided for segregation and stacking of oversized stones at a mutually agreed place. The stones were to be disposed off only after determination of its quantity during joint assessment.

Our audit scrutiny revealed that :-

- A quantity of 24590.44 tonne of stones was found with the coal supplied by ECL during April 2009 to September 2011. As per FSA, the stones were to be stacked and measured by the joint team of ECL and Board. Though the team of ECL visited BTPS several times (during February 2010 to November 2010) but stone could not be measured due to its non-stacking and non-availability of survey instruments until April 2011.
- In May 2011, the joint team measured 1798.41 tonne of stones (for the period December 2009 to April 2011) and found oversized stones of 1528.64 tonne. The joint team again measured (October 2011) a quantity of 252.20 tonne of stones (for the period May 2011 to September 2011) and found 226.98 tonne of oversized stones. On an average, 85 *per cent* of the total quantity of stones was found to be oversized.
- From time to time, the Board resorted to picking, segregating and disposal of stones without carrying out the joint assessment thereof.

It was further observed that against a quantity of 24590.44 tonnes of stones received, the Board could produce a quantity of 2050.61 tonnes of stones only for joint measurement and the remaining 22539.83 tonne of stones could not be produced. As a result, the Board lost the opportunity of claiming ₹ 3.32 crore on 19158.86 tonne (85 *per cent* of 22539.83 tonne at the rate of ₹ 1730.27 per tonne) towards the presence of oversized stones in the balance quantity of 22539.83 tonnes. Reasons for non-production of the remaining quantity of stones for joint measurement as examined in audit were space constraints and non-finalisation of a mutually agreed place for stacking of stones. In the absence of the said mutually agreed place, picked stones could not be stacked and therefore could not be made available for joint

measurement. Thus, Board's failure to comply with the terms and conditions of the Fuel Supply Agreement resulted in a loss of ₹3.32 crore¹⁶ to the Board.

The Board stated (August 2012) that total of 24590 tonne of stones were collected/segregated/stacked/disposed off during the period from December 2009 to September 2011. The stone of size 250 mm above and below 250 mm picked, segregated and stacked at one place, was shown to ECL representatives for their measurement but they refused to go for it in absence of survey instrument as mentioned in FSA.

The Reply is not based on facts as the joint team of Board and ECL had measured 2050.61 tonne of stones only out of total quantity of stones segregated and stacked during December 2009 to May 2011. As such refusal by the ECL to measure segregated and stacked quantity of stones does not hold good. The fact remains that BTPS failed to segregate and stack the oversized stones for verification by ECL and further adjustment against coal bills. Moreover, disposal of stones was done regardless of their size and without carrying out joint assessment, which was otherwise to be disposed off only after the determination of oversized quantity.

The Board in compliance with the terms and conditions of the FSA should segregate and stack the stones and make the same available for joint measurement before the representatives of ECL for further segregation of stones of 250 mm size and above.

The matter was reported to the Government (June 2012); reply was awaited (November 2012).

GENERAL

4.12 Response to inspection reports, draft paragraphs and Performance Audits

Audit observations made during audit and not settled on the spot were communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports (IRs). The heads of the PSUs were required to furnish replies to the IRs through respective heads of departments within a period of six weeks. IRs issued up to March 2012 pertaining to 18 PSUs disclosed that 1320 paragraphs related to 608 Inspection Reports were outstanding at the end of September 2012. These outstanding Inspection Report paragraphs had not been replied to for one to eight years. Department-wise break-up of IRs and audit observations outstanding as on 30 September 2012 is given in *Annexure- 9*

¹⁶ 19,158.86 tonnes x ₹ 1,730.27 per tome = ₹ 3.32 crore.

Similarly, draft paragraphs and Performance Audits on the working of PSUs were forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially, seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed, that replies to 11 draft paragraphs and two Performance Audits forwarded to the various departments during May to August 2012 as detailed in *Annexure -10* were awaited (December 2012).

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

Patna
The



(I. D. S. DHARIWAL)
Accountant General (Audit), Bihar

Countersigned

New Delhi
The



(VINOD RAI)
Comptroller and Auditor General of India