

Overview

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This Report contains the following chapters:

- Chapter-1:** General information on functioning of State Public Sector Undertakings (PSUs),
- Chapter-2:** Audit of production and transportation of woollen blankets by JHARCRAFT - Fraudulent payment of ₹ 18.41 crore, and
Audit of Jharkhand Police Housing Corporation Limited.
- Chapter-3:** One Compliance Audit Paragraph on PSUs.

The total financial impact of Audit findings is ₹ 46.23 crore.

1 Functioning of State Public Sector Undertakings

Investments in State PSUs

There are 24 PSUs in Jharkhand. As on 31 March 2017, the investment (Capital and Long-Term Loans) in these PSUs was ₹ 10,753.32 crore. The thrust of the State Government investment in PSUs during the last five years was in the Power sector (₹ 9,425.67 crore).

All the 24 PSUs are State Government companies which includes three non-working companies.

Out of the 24 PSUs, 22 PSUs had arrears in accounts ranging from 2009-10 onwards. Delays/ non-preparation of accounts are fraught with risk of misrepresentation of facts, fraud and misappropriation.

As per the latest finalised accounts of the 10 PSUs, that had finalised their accounts in the last three years, five PSUs earned profit of ₹ 22.98 crore and five PSUs incurred loss of ₹ 1,700.73 crore. These 10 PSUs registered a turnover of ₹ 4,052.92 crore.

The 10 PSUs that had finalised their accounts in the last three years, generated an average negative Return on Investment (RoI) of 18.34 *per cent* on the investments (equity and long term loans) made by the State Government. As against this, the average cost of borrowings of the State Government was 6.87 *per cent* during 2014-15 to 2016-17. Thus, the loss to the public exchequer as a result of the investment in these 10 PSUs amounted to ₹ 2,092.21 crore over the past three years. The loss, if any, incurred by the remaining 14 PSUs who have not finalised their accounts could not be assessed.

(Paragraphs 1.1, 1.5, 1.6, 1.9 and 1.10)

Arrears in finalisation of Accounts

The Companies Act, 2013 stipulates that the annual financial statements of companies are to be finalised within six months from the end of the relevant financial year *i.e.*, by September end. Failure to do so may attract penal provisions, under which, every officer of the concerned defaulting company

shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to ₹ five lakh rupees, or with both.

Out of 21 working PSUs, only two PSUs finalised their accounts for the year 2016-17 while 19 PSUs had arrears of 54 accounts as of 31 December 2017 with the extent of arrears ranging from one to eight years. The three non-working PSUs had arrears of 15 accounts ranging from one to eight years. The State Government had extended Budgetary support (Equity, Loans, Grants, Subsidy, etc.) of ₹ 2,659.56 crore to 12 working PSUs during the period for which accounts were in arrears, out of which ₹ 208.22 crore was extended to six working PSUs, whose accounts were in arrears for more than three years.

The State Government has not formulated any dividend policy for the State PSUs. Consequently, though, as per their latest finalised accounts, five PSUs with Government equity of ₹ 128.11 crore earned aggregate profit of ₹ 22.98 crore, none of these PSUs declared dividend.

(Paragraphs 1.9, 1.10, 1.11 and 1.14)

Recommendations

- **The Finance Department and the concerned administrative departments should ensure that the State PSUs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act.**
- **The Finance Department and the concerned administrative departments should ensure that Budgetary support is not extended to such PSUs whose accounts are not current.**

Accounts Comments

The Statutory auditors had given qualified certificates for 21 accounts finalised by 12 companies. Compliance to the Accounting Standards by the companies remained poor as there were 36 instances of non-compliance to Accounting Standards in 11 accounts of seven companies. Thus, the quality of accounts of companies needs improvement.

(Paragraph 1.16)

Recommendation

- **The Finance Department and the concerned administrative departments should immediately review working of the 12 companies where the Statutory auditors had given qualified comments.**

Follow up action on Audit Reports

In terms of extant instructions, administrative departments are required to submit replies/ explanatory notes to audit paragraphs/ performance audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature. Out of 70 audit paragraphs/ performance audits included in Audit Reports for the years 2005-06 to 2015-16 placed in the State Legislature during April 2007 to August 2017, explanatory notes to 33 performance audits/ audit paragraphs in respect of eight¹ departments were still awaited (June 2018).

(Paragraph 1.18)

Restructuring of PSUs

Consequent to the reorganisation of the erstwhile Bihar State into the states of Bihar and Jharkhand *w.e.f.* 15 November 2000, it was decided (September 2005) to divide the assets and liabilities of the then existing 12 PSUs. This exercise, has, however, been completed only in respect of five PSUs as of December 2017.

(Paragraph 1.21)

Recommendation

- **Since almost two decades have passed since reorganisation of the State, the State Government is required to work closely with the Government of Bihar for the expeditious division of assets and liabilities of the seven PSUs, where the Government investment as on 15 November 2000 was ₹ 132.36 crore.**

Reforms in Power Sector under Ujwal Discom Assurance Yojna (UDAY)

A tripartite Memorandum of Understanding (MoU) was signed (January 2016) between Ministry of Power, GoI, Government of Jharkhand (GoJ) and Jharkhand Bijli Vitran Nigam Limited (JBVNL) for implementation of the scheme with identified financial and operational targets.

As per MoU, GoJ was required to take over debt of JBVNL by providing grant of ₹ 6,136.37 crore during 2015-16. However, GoJ had provided the amount as loan which resulted in annual interest liability of ₹ 797.73 crore² on the company in violation of MoU. Further, grant of ₹ 292 crore scheduled for 2016-17 has also not been provided by GoJ to the company, so far (June 2018).

¹ Departments of (i) Energy; (ii) Industry, Mines and Geology; (iii) Tourism, Arts, Culture, Sports & Youth Affairs; (iv) Forest Environment and Climate Change; (v) Water Resources; (vi) Home, Jail & Disaster Management; (vii) Urban Development & Housing and (viii) Excise & Prohibition.

² At the rate of 13 *per cent* per annum

JBVNL failed to achieve financial targets in respect of reduction of aggregate technical and commercial (AT&C) losses, billing efficiency and collection efficiency. In respect of operational targets also, the performance of JBVNL was far from satisfactory. It could not achieve the targets of distribution transformer metering (Rural), rural feeder audit, smart metering and electricity access to unconnected households.

(Paragraph 1.22)

2 Audit of Government companies

2.1 Audit of production and transportation of woollen blankets by Jharcraft - fraudulent payment of ₹ 18.41 crore

Jharcraft officials made fraudulent payment of ₹ 18.41 crore against fictitious records relating to cost of woollen yarn, wages, finishing and transportation of 8.89 lakh blankets.

Department of Labour, Employment and Training (Labour Department), GoJ ordered (November 2016 and May 2017) Jharkhand Silk, Textile & Handicraft Development Corporation Limited (Jharcraft), a State PSU, to supply 9,82,717 woollen blankets³ for ₹ 29.48 crore. Jharcraft planned to provide woollen yarn and hand looms to different Self Help Groups (SHGs)/ Primary Weavers Co-operative Societies (PWCSs) for weaving of blankets which would have generated employment for the weavers. The semi-finished blankets were thereafter to be washed and finished by Nutan Industries, Panipat and the finished blankets were then to be transported by Super Haryana Road Lines, Panipat and Speed Fast Courier & Cargo Services, Ranchi to different districts in Jharkhand for distribution to people living below the poverty line (BPL). Jharcraft incurred expenditure of ₹ 19.39 crore⁴ up to January 2018⁵.

Audit examination indicated that the purported transactions were a fabric of fiction and Jharcraft officials purchased inferior blankets from elsewhere, which were distributed to the BPL category in 24 districts through the Deputy Commissioners of districts. Audit evidence supporting this conclusion is furnished below:

Failure to ensure quality and quantity in yarn procurement

Jharcraft placed orders (May 2016 to September 2017) for supply of yarn to NAN Woollen Mills, Panipat (18.64 lakh kg) and Unnati International, Panipat (2.94 lakh kg) for a total value of ₹ 15.54 crore. The supply orders stipulated that 15.24 lakh kg of yarn was to be delivered at the central store at Irba, Ranchi. Further, the MD Jharcraft had assured (June 2017) the Labour Department that Jharcraft's central store had five technical personnel to ensure

³ At a rate of ₹ 300 per blanket, each measuring 60" x 90" and weighing 2 kg.

⁴ ₹ 6.85 crore provided (July 2017) by the Department, ₹ 4.54 crore met from own funds and ₹ 8.00 crore diverted (July 2017 and November 2017) from funds available under Sericulture scheme under orders of MD, which is yet to be recouped.

⁵ ₹14.53 crore for yarn, ₹2.39 crore towards wages to weavers including supervision charges, ₹ 1.36 crore for finishing charges and ₹1.10 crore for transportation.

quality control. Despite this, for reasons not on record⁶, the yarn was shown⁷ as supplied directly (June 2106 to October 2017) from Panipat to 27 clusters of Jharcraft. Since the clusters did not have technical personnel to perform quality control, the yarn stated to have been supplied directly to the clusters could not have been tested for quality.

Further, the stock account of receipt of yarn at Jharcraft head office was based only on sale invoices⁸ and there was no record to prove that the items and quantities mentioned in the invoices had actually been delivered.

(Paragraph 2.1.1)

Irregular engagement of transporters

Jharcraft selected (March 2017) two firms⁹ as transporters for transportation of yarn and handloom products within and outside the state. Without approval of the competent authority, DGM Handloom engaged four other firms¹⁰ for transportation of woollen yarn/ semi-finished blankets/ finished blankets, instead of the two firms selected by the competent authority. None of these four firms had participated in the tender process, and there was no record on how and why the DGM Handloom selected these ineligible firms. Subsequently, at the time of payment, the MD called for the explanation of the DGM Handloom, who, at that time, justified the unauthorised and irregular engagement on grounds of emergency and pressure from different Deputy Commissioners to supply blankets within the stipulated time. Consequently, the MD approved (during April 2017 to November 2017) payment of ₹ 1.10 crore. The justification given by DGM Handloom, however, was an afterthought since there was no evidence of such emergency or undue pressure from Deputy Commissioners. The *post facto* approval of the MD was therefore, irregular.

(Paragraph 2.1.2)

Discrepancies in transport challans and road permits

Audit test check of transport challans¹¹, and their cross-verification with road permits issued by the Commercial Taxes department (CTD) revealed the following irregularities:

✓ During the period 27 July 2017 to 10 September 2017, twelve vehicles¹² were recorded as having made two return trips between Panipat and Jharkhand within a short span of one to five days by covering 2,366 km to 3,134 km for the first journey, before commencing the second journey. This worked out to speeds ranging between 48 km per hour and 261 km per hour¹³ which were

⁶ Nevertheless, the DGM, Handloom, as operational head of blanket production was accountable, for failing to ensure adherence to supply order or to ensure quality control through technical personnel.

⁷ In the stock account maintained in the Jharcraft head office, invoices of the supplier and transporter's challans

⁸ Issued by NHDC or the vendor (in cases where purchases were not routed through NHDC).

⁹ Super Haryana Road Lines, Panipat and Speed Fast Courier & Cargo Services, Ranchi

¹⁰ (1) Haryana Goods Transport Co., Panipat, (2) Haryana Transport Co., Panipat, (3) Haryana Golden Road lines, Karnal and (4) Shri Ganesh Transport Co., Karnal

¹¹ Delivered to the clusters, but available with Jharcraft Head Office.

¹² Carrying 1.46 lakh kg yarn valued at ₹ 1.05 crore

¹³ Presuming 12 hours travel per day

significantly higher than the average travelling speed¹⁴ (20-40 km per hour) of trucks in India. It is therefore evident that these journeys did not actually take place.

✓ In respect of eight vehicles which claimed to have transported yarn¹⁵ during the period 27 June 2017 to 30 June 2017, the vehicle number mentioned in the concerned transport challans available with Jharcraft did not match the vehicle number mentioned in the road permits issued by the Commercial Tax Department, GoJ. It is, therefore, evident that the road permits were not used for transportation of the yarn claimed to have been supplied to Jharcraft.

✓ Three vehicles claimed to have carried 21,071 semi-finished blankets between 26 September 2017 and 26 October 2017. Audit scrutiny of the transport challans¹⁶, however, revealed the following: (i) even to the layman's eye it was evident that the handwriting on the transport challans issued for different clusters and different vehicles was identical, indicating that the transport challans were fabricated; (ii) the names of the drivers for the same vehicle travelling on the same day differed in the respective transport challans; (iii) the different transport challans claimed that each of the three vehicles had visited two clusters located in different districts (as far apart as 60 km, 227 km and 461 km) on the same day, which was unlikely, if not impossible. Further, each of the transport challans claimed freight charges from point to point (i.e., from the concerned cluster to Panipat), which makes it clear that the vehicles had not visited more than one cluster per trip.

✓ The Jharkhand Value Added Taxes Rules, 2006 stipulate that CTD check posts would countersign the declaration on the road permits and affix their official seal. Audit observed, however, that none of 92 road permits for the period January 2017 to June 2017 contained the mandatory countersignature and CTD official seal. It is therefore evident that the road permits were not used to transport yarn/ semi-finished blankets/ finished blankets, and the records indicating this were fictitious.

(Paragraph 2.1.3)

Discrepancies with reference to toll plaza data

To verify the purported transportation of woollen yarn/semi-finished/ finished blankets between Panipat and different districts of Jharkhand, the registration number of trucks mentioned in the transport challans were matched with the toll data¹⁷ relating to Sasaram toll plaza on NH-2 in Bihar, Dahar toll plaza on NH-709 and the alternative Bhagan toll plaza¹⁸ on NH-1 (both in Haryana).

¹⁴ As per report of Retailers Association of India on "Movement of goods in India" published in December 2013.

¹⁵ 0.48 lakh kg of yarn (worth ₹ 0.35 crore)

¹⁶ Road permits for this period could not be examined for this period since the system of generating road permits was dispensed with after 1 July 2017.

¹⁷ Provided by National Highways Authority of India (NHAI) for the period 01 January 2017 to 31 December 2017 in respect of Sasaram toll plaza and Dahar toll plaza, and for the period 23 October 2017 to 31 December 2017 in respect of Bhagan toll plaza.

¹⁸ Since the Bhagan toll plaza became operational only from 23 October 2017, toll data was collected from that date till December 2017. However, as per records of Jharcraft, no yarn was transported during this period.

The route through Sasaram on NH-2 is the preferred and the shortest route¹⁹ for vehicles travelling between Panipat and Jharkhand. Audit has therefore presumed that, even if some of the vehicles used other routes, it is unlikely that none of the vehicles used the shortest and preferred route through Sasaram. Audit has also estimated that trucks leaving Panipat for Jharkhand would cross either Dahar or Bhagan toll plazas in one day²⁰, and take a total of three days²¹ between Panipat and Sasaram.

✓ **Cross verification of transport challans with toll data on vehicles claiming to have carried woollen yarn from Panipat to Jharkhand**

As per the transport challan, one vehicle (HR 67 A 1061) was stated to have transported woollen yarn to Jharkhand leaving Panipat on 15 September 2017. However, the Dahar toll data showed that the truck had exited via Dahar on 15 September and returned on 16 September itself. Further, the same truck left Dahar on 19 September and returned via Dahar on the same day. Again, the truck left Dahar on 20 September 2017 and returned on 21 September. It is therefore evident that the truck had not travelled to Jharkhand during this period and the transport challan was fictitious.

(Paragraph 2.1.4.1)

✓ **Cross verification of transport challans with toll data on vehicles stated as carrying semi-finished blankets from Jharkhand to Panipat**

During the period 23 October 2017 to 31 December 2017, as per transport challans, 4,10,844 semi-finished blankets were dispatched to Panipat from Jharkhand for washing and finishing through 127 trips by 83 trucks. None of these trucks crossed Dahar or Bhagan toll plazas after crossing Sasaram toll plaza. Thus, it is evident that none of these trucks travelled from Jharkhand to Panipat.

Audit also noticed that as per transport challans, one truck (HR 67A 3918) was shown to have left Daltonganj, Jharkhand on 16 September 2017. However, the toll data showed that the truck crossed Dahar on the same day (a distance of 1,300 km). The transport challans also indicated that the same truck (HR 67A 3918) was shown to have once again left Daltonganj on 26 September 2017; here also, the toll data showed that the truck had crossed Dahar on the same day itself.

Again, as per transport challans, another truck (HR 67B 6567) was shown to have left Godda, Jharkhand on 29 September 2017. However, the toll data showed that the truck crossed Dahar on the same day from the opposite direction (*i.e.*, leaving Panipat).

¹⁹ Vehicles plying on other routes between Panipat and Jharkhand have to travel extra distances ranging between 26 km and 402 km.

²⁰ Panipat is 10 km from Dahar toll plaza and 93 km from Bhagan toll plaza. Both these distances can be covered in one day (at an average of 30 km per hour for 12 hours per day, compared to the estimated speed of 48 to 261 km per hour as per Jharcraft records-refer paragraph 2.1.3 above).

²¹ Panipat is 1,000 km from Sasaram toll plaza, which can be covered in three days.

It is therefore evident that all these transport challans claiming to have transported 4,10,844 semi- finished blankets from various clusters in Jharkhand to Panipat were fictitious.

(Paragraph 2.1.4.2)

✓ **Cross verification of transport challans with toll data on vehicles stated as carrying finished blankets from Panipat to Jharkhand**

During the period 23 October 2017 to 31 December 2017, as per transport challans, 4,49,762 finished blankets were dispatched from Panipat to Jharkhand for distribution through 57 trips by 46 trucks. None of these trucks crossed Dahar or Bhagan and Sasaram toll plazas.

It is, therefore, evident that the transport challans claiming to have transported 18.84 lakh kg of yarn (valued at ₹ 13.56 crore), 8.50 lakh semi-finished blankets (valued at ₹ 18.42 crore) and 6.75 lakh finished blankets (valued at ₹ 15.83 crore) between Jharkhand/ Panipat were fictitious.

(Paragraph 2.1.4.3)

Weaving of blankets by Self Help Groups (SHGs)/ Primary Weavers Cooperative Societies (PWCSs)

Out of 21.48 lakh kg of supplied yarn, 62 SHGs/ PWCSs utilised only 20.16 lakh kg of yarn which was sufficient for production of 9,50,944 blankets taking into account 2.12 kg yarn required for weaving one blanket as per standards of Jharcraft. However, SHGs/ PWCSs had supplied 9,83,447 woven blankets to Jharcraft. Thus, SHGs/PWCSs could not have produced 32,503 blankets in absence of woollen yarn and the claim of Jharcraft on blanket production is doubtful.

(Paragraph 2.1.5)

Audit analysed the capacity of each SHGs/ PWCSs for weaving of blankets on the basis of standards fixed by Jharcraft and observed that 13 SHGs/ PWCSs supplied 44,909 blankets on 24 different dates (during June 2016 to September 2017) though no yarn was available with them on relevant dates. Further, 51 SHGs/ PWCSs were shown to have supplied 3.72 lakh blankets in excess of their production capacity during June 2016 to December 2017. Thus, the claim of Jharcraft that 9.83 lakh blankets were woven by SHGs/PWCSs is doubtful.

(Paragraph 2.1.5)

Irregularities in purchase of hand looms

The records indicated that between May 2016 and December 2017, Jharcraft purchased 633 hand looms and accessories²² at a cost of ₹ 2.02 crore from four firms²³. Though the records stated that these hand looms had been distributed to the 62 SHGs/ PWCSs, there is no proof by way of identification number, location and working condition of the handlooms.

²² To supplement the existing 50 hand looms in Jharcraft.

²³ A. K. Enterprises, Latehar; Bunker Seva, Ranchi; KGN Traders, Ramgarh and S.H Traders, Latehar.

Joint physical verification (January 2018) of three clusters by Audit and Jharcraft officials (including the Managing Director) revealed that these three test checked SHGs had only 18 *per cent* of their claimed production capacity and payment had been made to suppliers without ensuring delivery of full complement of hand looms.

(Paragraph 2.1.6)

From the above observations, audit concluded that Jharcraft officials made fraudulent payment of ₹ 18.41 crore against fictitious records relating to cost of woollen yarn (₹ 13.56 crore), wages (₹ 2.39 crore), finishing (₹ 1.36 crore) and transportation (₹ 1.10 crore) of 8.89 lakh blankets.

2.2 Audit of Jharkhand Police Housing Corporation Limited (JPHCL)

During the audit of the Company following irregularities were noticed:

Award of Construction contracts to ineligible bidders

Six construction contracts valued at ₹ 4.87 crore were awarded to four ineligible contractors disregarding the eligibility criteria given in tender.

(Paragraph 2.2.1)

Deficiencies in quality testing of construction materials

The quality tests reports²⁴ accepted by the Company in construction contracts were unreliable as verification of records relating to 20 casting samples pertaining to two works revealed that 18 samples were shown as sent to laboratory for quality testing on the day of casting itself and two samples were shown as sent four to 21 days prior to the date of casting though the same were required to be sent for testing after curing for 24 hours from their casting.

Further, the documentation for dispatch of the samples and receipt of the test reports from test labs (*e.g.*, dispatch register, receipt register *etc.*) was not maintained by the company.

(Paragraph 2.2.2)

Avoidable payment of income tax

Wrong accounting of interest income of ₹ 15.33 crore on GoI scheme funds as own income in violation of General Financial Rules provision resulted in avoidable payment of income tax of ₹ 5.03 crore.

(Paragraph 2.2.3)

Summary of recommendations

- **The Home Department should initiate appropriate action against the members of the tender evaluation committees who wrongly qualified ineligible bidders for award of works.**

²⁴ The quality test samples were sent by AE, JPHCL to BIT Sindri through its messenger and test reports were sent by BIT Sindri to Executive Engineer, JPHCL, though cost of carrying out the test was borne by the contractors.

- **The Company should investigate the possible manipulation of quality test reports and take strict action against the officials and contractors found responsible.**
- **The Company should prescribe the standard procedures for testing of materials at each stage *i.e.*, for preserving test samples at site, their dispatch to lab, receipt of the test reports and documentation for the same.**
- **The Company should credit the interest earned on project funds to the project accounts or should remit the same to Government so as to avoid payment of income tax on income which does not belong to it.**

Gist of compliance audit paragraph is given below:

✓ **Jharkhand Urja Utpadan Nigam Limited** suffered an avoidable generation loss of 75.73 MU power valued at ₹ 22.79 crore due to failure to carry out periodic testing of bushings and unnecessary delay of 16 months in procurement and installation of replacement.

(Paragraph 3.1)