

CHAPTER II

2. PERFORMANCE AUDITS RELATING TO GOVERNMENT COMPANIES

2.1 PERFORMANCE AUDIT ON FINANCING AND RECOVERY ACTIVITIES OF BIHAR STATE BACKWARD CLASSES FINANCE AND DEVELOPMENT CORPORATION

2.2 PERFORMANCE AUDIT ON FINANCING AND RECOVERY ACTIVITIES OF BIHAR STATE MINORITIES FINANCIAL CORPORATION LIMITED

Chapter II

Performance Audits relating to Government companies

2.1 Financing and recovery activities of Bihar State Backward Classes Finance and Development Corporation

Executive Summary

Introduction

With a view to promote economic and developmental activities for the benefit of members of Backward Classes in the State of Bihar, the Government of Bihar (GoB) set up Bihar State Backward Classes Finance and Development Corporation (Company) under the Companies Act, 1956. The Company is under the administrative control of Backward Classes and Extremely Backward Classes Welfare Department, GoB. The Company is responsible for identification of potential beneficiaries and implementation of the schemes as per guidelines and instructions issued by the Government/National Backward Classes Finance and Development Corporation (NBCFDC).

Financial Management of the Company

The financial management of the Company was deficient as the recoveries were insufficient to discharge the liabilities of NBCFDC. The Company had made repayment of outstanding dues of ₹5.00 crore to NBCFDC from its own fund (Share Capital) during 2010-11. Due to poor recovery and non-repayment of NBCFDC loan, NBCFDC did not release the sanctioned loan of ₹114.39 crore to the Company which adversely affected the implementation of schemes. The accounts of the Company were in arrears since 1998-99.

Lending and Recovery activities of the Company

NBCFDC Education Loan Scheme

No fresh loan under the Scheme was disbursed due to non-release of funds by NBCFDC. 49 beneficiaries to whom educational loan amounting to ₹97.58 lakh was disbursed had not commenced repayment of the loan despite completion of their courses.

NBCFDC Term Loan

No fresh Term Loan was sanctioned during the period 2008-13. Recoveries made by the Company during five years ending March 2013, against the loan disbursed was very dismal and ranged between 0.21 per cent and 1.26 per cent of the total outstanding amount.

Mukhya Mantri Nishaktjan Shiksha Rin Yojna

Out of ₹3.46 crore received under the Scheme, only ₹1.50 crore could be disbursed during 2008-13. The poor disbursement was mainly caused by delay in preparation of guidelines by the Government. The Company recovered ₹1.16 lakh only against total disbursement.

Mukhya Mantri Nishaktjan Swarojgar Rin Yojana

Against receipt of a sum of ₹5.19 crore under the Scheme, the Company could disburse only ₹1.89 crore and the balance ₹3.30 crore remained undisbursed and was lying with the Company upto March 2013. Further, lack of control system resulted in poor recovery of only ₹1.21 lakh against disbursement of ₹1.89 crore.

Financial Assistance under Scholarship Scheme

Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna (MMAPVYM)

The benefit under this Scheme was extended to 299 students without verifying their Extremely Backward Class status.

The Company was not in receipt of utilisation certificates of beneficiaries from DWOs/ DEOs. Further DWOs/ DEOs were not prompt in returning the unutilised amount and kept the undisbursed amounts/ Bank Drafts with them.

Manpower

Shortage of manpower adversely affected the functioning of the Company and was not effectively dealt with by BoD.

Internal Control mechanism

There was no MIS prevalent in the Company. No system was evolved to obtain the utilisation certificate in respect of disbursement of funds.

Ledger showing loanee wise details of amount due and recoverable on account of principal and interest was not properly maintained and there was no effective watch on recovery of loans.

Conclusion and Recommendations

The performance of the Company in regard to financing and recovery under various schemes was found to be far from satisfactory. Non-preparation of detailed plan resulted in poor implementation of the schemes and deprivation of intended benefits to the targeted beneficiaries. The role of the Government in the functioning of the Company was deficient as there were delays in formulation of the guidelines, issuance of instructions and constitution of Board of Directors.

Financial management of the Company was deficient as instances were noticed of poor recovery, funds pertaining to various loans/scholarship schemes lying unutilised, blocking of funds and there were delays in finalisation of accounts.

There was no system of securing utilisation certificate in respect of funds disbursed.

The system for follow-up of the recoveries from the beneficiaries was far from satisfactory. The shortage of manpower adversely affected the functioning of the Company. The internal control and monitoring mechanism prevalent in the Company was deficient.

The Company needs to evolve a detailed plan for disbursement of loan fund to the intended beneficiaries; evolve a system of securing utilisation certificates and strengthen recovery mechanism.

The BoD should effectively deal with the shortage of manpower, and

Internal control and monitoring mechanism prevalent in the Company need to be streamlined and strengthened.

Introduction

2.1.1 With a view to promote economic and development activities by way of providing loans and advances under economically and financially viable schemes for the benefit of members of Backward Classes¹(BC) in the State, the Government of Bihar (GoB) set up (June 1993) Bihar State Backward Classes Finance and Development Corporation (Company), a non-profit making Government Company under Section 25 of the Companies Act, 1956. As on 31 March 2013, the paid up capital of the Company was ₹ 20.36 crore. The Company is under the administrative control of Backward Classes and Extremely Backward Classes Welfare Department, Government of Bihar. Besides pursuing Government Schemes, the Company also works as State Channelising Agency (SCA) for the lending, training and other schemes of National Backward Classes Finance and Development Corporation (NBCFDC²).

¹ Backward classes consist of extremely backward classes and backward classes as per Gazette notification (3/1992 and amended time to time) of Government of Bihar.

² It is an apex Corporation under Ministry of Social Justice and Empowerment, Government of India, responsible to provide financial assistance to members of Backward Classes through State Channelising Agencies.

The major schemes pursued by the Company during the period 2008-13 included Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna, Mukhya Mantri Nishaktjan Shiksha Rin Yojna and Mukhya Mantri Nishaktjan Swarojgar Rin Yojna of the State Government and Term loan and Education Loan schemes of NBCFDC of the Government of India.

The Administrative Department of the Company is responsible for framing of guidelines for various schemes of State Government for the benefit of intended beneficiaries and laying down procedures for implementation of schemes, notifying members of backward classes from time to time, extending guarantee for loans taken by the Company from NBCFDC, extending budgetary support to the Company, seeking utilisation certificate for the funds made available to the Company for various schemes, etc. The guidelines in respect of the schemes of NBCFDC are framed by NBCFDC. The Company is responsible for identification of potential beneficiaries and implementation of the schemes as per guidelines and instruction issued by the Government/NBCFDC.

The Management of the Company is vested in a Board of Directors (BoD) consisting of 10 Directors. As on March 2013, the BoD had seven Government Directors and three posts of non-Government Directors were lying vacant. The Company did not have its BoD during the period April 2006 to June 2010. The Managing Director (MD) is the Chief Executive of the Company and is assisted in day-to-day operation by other officials. As the Company does not have district level set up, the schemes and programmes are implemented by the Company through District Welfare Offices (DWOs)/ Assistant Director Social Securities (ADSS)/ District Education Offices (DEOs)³ of the State Government.

A para on “Non achievement of objective” relating to the Company was included in the Audit Report of the Comptroller and Auditor General of India (Commercial) – GoB for the year ended 31 March 2008.

Audit scope and methodology

2.1.2 The present Performance Audit covers the “Financing and recovery activities” of the Company during the period 2008-13. For this purpose, records of the Administrative Department and Headquarters Office of the Company as well as the DWOs/ ADSS/ DEOs were scrutinised by audit during the period June 2013 to August 2013. Out of 38 districts of the State where schemes were being implemented, ten⁴ districts were selected on random sample basis.

An entry conference was held on 31 May 2013 to apprise the Government and the Management about the audit objectives of Performance audit. A mix of methodologies was adopted in the course of Performance audit which included

³ Under SC & ST Welfare Department/ Social Welfare Department/ Education Department respectively.

⁴ Araria, Bhagalpur, Bhojpur, Buxar, Darbhanga, Gaya, Patna, Samastipur, Saran and Siwan.

examination of records; documenting and analysing evidence collected from the Headquarters Office of the Company and its field offices; examination of agenda and minutes of BoD meetings; guidelines, instructions issued by Government and NBCFDC and issuance of audit enquiries for information and interaction with the Management. The Audit findings were reported to the Government (Administrative Department) / Company (September 2013). The exit conference was held on 28 November 2013 which was attended by the Secretary, Backward Classes & Extremely Backward Classes Welfare Department, GoB who also holds the charge of Managing Director of the Company.

Audit Objectives

2.1.3 The Performance audit was undertaken with a view to assess whether:

- Strategic plan/Annual Action Plan was prepared by the Company in view of allotment of fund by NBCFDC and State Government for proper and timely implementation of schemes;
- Financial management of the Company was effective and funds received under various schemes were put to effective use in a time bound manner;
- An efficient system for identifying the eligible beneficiaries was in place and the Company had data-base of beneficiaries;
- The schemes were implemented efficiently and effectively and recoveries were made as per prescribed norms;
- The Government/Company has put in place a system to monitor the implementation of various schemes;
- Adequate monitoring mechanism existed to ensure timely recovery of dues and resorting to action in case of default; and
- The Company had adequate manpower and efficient internal control mechanism.

Audit criteria

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

- Guidelines issued by Government and NBCFDC for disbursement of loans/financial assistance;
- Policy/framework/criteria/guidelines laid down by the State/ Central Government and NBCFDC for upliftment of targeted beneficiaries;
- Laid down procedures for sanction and disbursement of financial assistance and loans; and
- Procedures prescribed for post-disbursement monitoring and recovery mechanism.

Audit findings

2.1.5 The Audit findings are discussed in succeeding paragraphs:

Planning

Non-preparation of strategic plan

2.1.6 With a view to pursue its objectives as stated in its Memorandum of Association, the Company is required to plan or fix targets as per the concentration of beneficiaries in urban as well as rural areas, prepare a well-considered action plan based on periodical data collected from grass-root levels for effective implementation of schemes. Further, as per the guidelines issued by NBCFDC for identification of beneficiaries, the SCA was required to consider holding of Beneficiaries Identification Camps in the area where the Backward Class population is high and the NBCFDC schemes had not been implemented previously.

The Company had not prepared any strategic plan

We observed that the Company had not prepared any strategic plan nor had maintained any data base of intended beneficiaries at block and district level. This resulted in poor implementation of the schemes, and deprivation of intended benefits to the targeted beneficiaries which are discussed in paragraphs 2.1.10 to 2.1.16.

In the exit conference, the Management stated (October 2013) that the Company did not have their own set up at district level and were facing dearth of manpower and paucity of funds which caused non-preparation of strategic plan.

Annual Action Plan

2.1.7 To obtain loan from NBCFDC for various schemes, the Company is required to submit Annual Action Plan (AAP) to NBCFDC for approval. The sanctioned loan is disbursed by NBCFDC to the Company on approval of the AAP for which certain conditions are required to be fulfilled which include, *inter alia*, execution of General Loan Agreement (GLA) by the Company, availability of adequate State Government Guarantee, satisfactory level of utilisation of funds released and repayment of NBCFDC dues, completion of process of identification of beneficiaries for intended drawal of funds, etc.

We observed that the proposal under AAP submitted to NBCFDC was based on ad hoc data in respect of numbers and fund requirement for the intended beneficiaries as the Company had not conducted any survey and collected data at block as well as district levels or for concentration of beneficiaries in urban as well as rural areas.

Financial Management of the Company

2.1.8 The Company is financed through budgetary support from the State Government, fund allocated to the Company for implementation of the State schemes and loan assistance from National Agency. The Company generated

their income by earning margin of interest to the extent of 2.5 to three *per cent* on their lending activities. The year-wise position of receipts and payments/ disbursements is shown as under:

Table No: 2.1.1

Year-wise receipts and disbursements of Bihar State Backward Classes Finance and Development Corporation

(₹ in lakh)

Particulars			2008-09	2009-10	2010-11	2011-12	2012-13	Total
Receipts	Opening Balance		28.35	431.96	558.39	1016.58	2179.51	
	NBCFDC		45.95	28.78	18.00	3.49	-	124.57 ⁵
	Backward Classes and Extremely Backward Classes Welfare Department	Share Capital	100.00	100.00	100.00	100.00	100.00	500.00
		Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna	-	900.00	2800.00	7194.34	- ⁶	10894.34
	Social Welfare Department	Mukhya Mantri Nihshaktjan Shiksha Rin Yojna	130	-	16.00	8.00	192.00	346.00
		Mukhya Mantri Nihshaktjan Swarojgar Rin Yojna	195.00	-	24.00	12.00	288.00	519.00
	Recoveries		19.13	37.42	17.26	28.51	17.16	119.48
Total Receipts			518.43	1498.16	3533.65	8362.92	2776.67	12503.39
Disbursement	Education Loan		53.84	25.29	8.83	0.45	-	88.41
	Training		3.78	-	7.56	-	-	11.34
	Mukhya Mantri Atyant Pichhada Varg Medha Vriti Yojna		-	858.20	1902.10	6004.70	2126.50	10891.50
	Mukhya Mantri NihshaktJan Shiksha Rin Yojna		-	22.22	49.56	47.30	30.63	149.71
	Mukhya Mantri NihshaktJan Swarojgar Rin Yojna		-	-	46.10	118.30	24.25	188.65
	Repayment/ Refund to NBCFDC		28.85	34.06	502.92 ⁷	12.66	35.43 ⁸	613.92
Total Disbursement			86.47	939.77	2517.07	6183.41	2216.81	11943.53
Closing Balances			431.96	558.39	1016.58	2179.51	559.86	

(Source: Information furnished by the Company)

We observed that:

- The disbursement activity was concentrated mainly in distribution of funds under Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna whereas

⁵ Including Opening Balance of ₹ 28.35 lakh. This also includes amount received (₹ 40.00 lakh in 2008-09, ₹ 25.00 lakh in 2009-10) under education loan sanctioned prior to 2008-09. The balance amount of ₹ 13.22 lakh was received for training programme (₹ 5.95 lakh in 2008-09, ₹ 3.78.00 lakh in 2009-10 and ₹ 3.49 lakh in 2011-12).

⁶ From 2012-13, Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna was being implemented by the Administrative Department directly through DWOs. Hence no receipt.

⁷ This includes ₹ 5.00 crore repayment to NBCFDC from the Share Capital of Company.

⁸ This includes ₹ 18 lakh refunded to NBCFDC which was received under general loan in the year 2010-11.

lending activity for loan schemes⁹ was moderate.

- The opening balance of funds received under various schemes was on increasing trend as the funds received were not utilised on time and the Company earned interest thereon by keeping the funds under term deposits. Further, the scheme-wise accounts had not been maintained by the Company.
- During the period 2008-13, ₹ 8.65 crore was received by the Company under schemes for handicapped persons¹⁰, out of which, ₹ 5.27 crore could not be utilised. The main reason for non-utilisation of fund was delayed preparation of guidelines by the concerned Department, i.e., Social Welfare Department as commented in the paragraphs 2.1.13 and 2.1.14.
- Recovery performance of the Company during the period 2008-13 was dismal and amount recovered was insufficient to discharge the liabilities of NBCFDC. Resultantly, the repayments of outstanding dues of ₹ five crore to NBCFDC was made by the Company from their own fund (Share Capital) during 2010-11. Due to poor recovery and poor repayment of NBCFDC loan, NBCFDC did not release the sanctioned loan of ₹ 114.39 crore to the Company which impacted the scheme adversely as discussed in paragraphs 2.1.11 and 2.1.12.
- The activity of the Company was extended to the territory of Jharkhand also prior to reorganisation of the erstwhile State of Bihar in the year 2000. However, even after reorganisation, the assets and liabilities of the Company were not apportioned between these two states (September 2013).
- The Company had received an amount of ₹ 14.07 crore from Social Welfare Department, Government of Bihar for construction of schools/ hostels for students of Backward Classes during 1997-99. The Company incurred an expenditure of ₹ 0.27 crore for which the details were not furnished to the audit. It was observed that on the instructions from Social Welfare Department (January 2003), a sum of ₹ eight crore was returned by the Company. The balance funds of ₹ 5.80 crore were lying unutilised with the Company (October 2013). Thus, the funds were not utilised for the intended purpose.

The Management stated (October 2013) that ₹ 5.80 crore remained unutilised and would be dealt with as per instruction received from the State Government. We, however, observed that neither the Company sought for Department's views nor the Department pursued the matter for its utilisation.

- As the Company was registered under section 25 of the Companies Act,

⁹ Mukhya Mantri Nishaktjan Shiksha Rin Yojna, Mukhya Mantri Nishaktjan Swarojgar Rin Yojna of the State Government and NBCFDC Education Loan of the Government of India.

¹⁰ Mukhya Mantri Nihshaktjan Shiksha Rin Yojna (₹ 3.46 crore), Mukhya Mantri Nihshaktjan Swarojgar Rin Yojna (₹ 5.19 crore).

Recovery performance of the Company was dismal and insufficient to discharge the liabilities of NBCFDC

1956 (Not for Profit making Company), it is exempted from tax under section 10 (26) (b) of the Income Tax Act, 1961 and as such the interest accrued on the fixed deposit are exempted from Tax Deducted at Source (TDS). We observed that an amount of ₹ 34.49 lakh being tax at source was deducted by State Bank of Bikaner & Jaipur against the accrued interest on fixed deposit for the period 2010-12, as the Company failed to communicate to the Bank its status under section 25 of the Companies Act, 1956 regarding exemption from TDS. Thus, non-furnishing of specific instruction to the concerned Bank by the Company had resulted in blocking of fund of ₹ 34.49 lakh.

The Management stated (November 2013) that a complaint had been lodged with the bank to submit Form 16A against deduction.

Delay in finalisation of accounts

2.1.9 Section 210 of the Companies Act, 1956 read with sections 166 and 216, requires the Board of Directors of a Company to place the Accounts of the Company along with Auditors Report (including supplementary comments of CAG) in the Annual General Meeting (AGM) of the shareholders within six months of the close of its financial year.

The accounts of the Company were in arrears since 1998-99

We observed that the accounts of the Company were in arrears for the last 14 years since 1998-99. The delay was mainly due to non-constitution of Board of the Company during the period from April 2006 to June 2010. Further, the Company initiated the preparation of accounts in 2001-02 after eight years of incorporation (1993-94).

Due to non-finalisation of accounts, it could not be ensured whether the investment and expenditure incurred was properly accounted for and the purpose for which the funds were invested, was achieved. Further, delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

Lending and Recovery activities of the Company

2.1.10 Under the lending activities, the Company had implemented the Education Loan and Term Loan Schemes of NBCFDC (Government of India) and Mukhya Mantri Nishakatjan Shiksha Rin Yojna and Mukhya Mantri Nishakatjan Swarojgar Rin Yojna of the State Government during the period 2008-13.

NBCFDC Education Loan Scheme

2.1.11 The Educational Loan Scheme was formulated by NBCFDC for the benefit of Backward Classes (BC) students, having annual income below double the poverty line (₹ 42,412) by providing loan at concessional rate of interest (four *per cent* per annum) for betterment of education opportunities and making education (General, Professional and Technical courses) within the reach of eligible students. Maximum admissible loan limit was 90 *per cent* of cost of education subject to a limit of ₹ 75000 per annum upto a maximum

of ₹ three lakh. The entire loan was repayable in equated monthly instalments (EMI) basis within a period of five years. The repayment was to commence after three months on employment of the beneficiary or six months in case of self-employment.

Audit observed that due to poor recovery and non-repayment of NBCFDC loan by the Company, NBCFDC did not release the sanctioned loan of ₹ 114.39 crore intended for 27254¹¹ targeted beneficiaries. Resultantly, no fresh education loan could be sanctioned by the Company during the period 2008-13. However, during the period 2008-13, out of a sum of ₹ 0.90 crore¹² available with the Company for disbursement of Education Loan, a sum of ₹ 0.89 crore was utilised for disbursement of loan instalments to only those students with whom agreements had been entered into prior to 2008-09.

As against the total loan of ₹ 1.89 crore¹³ disbursed under the Scheme upto 2011-12, recovery was only ₹ 30.89 lakh as on March 2013. We further observed that:

Due to absence of any monitoring mechanism recovery of loan amounting to ₹ 0.98 crore had not been commenced

- As per clause 16 of the agreement for education loan entered into with the borrowers/students, the borrower was required to report to the Company time to time as soon as he/she secured employment after completion of course. However, we observed that the beneficiaries did not intimate completion of their course with consequent employment to the Company and the Company also did not evolve any mechanism to ascertain whether the borrowers got employment/were self employed, which indicated absence of loan recovery management. As a result, no action against the beneficiaries/ parents/ guarantors could be initiated for recovery of educational loan amounting to ₹ 97.58 lakh disbursed to 49 beneficiaries during 2006-10.

The Management stated (October 2013) that no legal steps had been taken against the defaulting beneficiaries, but reminders were being issued to the beneficiaries and their guarantors for early repayment. However, no such records were shown to audit.

NBCFDC Term Loan Scheme

2.1.12 Assistance under Term loan scheme was available for any commercially viable and technically feasible ventures for the beneficiaries belonging to backward class living below the poverty line as specified by the Government. Under the Scheme, loan can be granted upto 85 *per cent* of the project cost at six *per cent* interest subject to a maximum of ₹ five lakh per beneficiary. The entire loan was to be repaid within a maximum period of ten years including the moratorium period.

¹¹ Number of beneficiaries sanctioned by NBCFDC.

¹² ₹ 24.71 lakh: Opening balance of unutilised fund as on April 2008, ₹ 40 lakh: 2008-09, ₹ 25 lakh: 2009-10).

¹³ This includes ₹ one crore disbursed prior to 2008-09 and subsequent instalment of ₹ 0.89 crore disbursed during 2008-12.

We observed that due to non-release of fund by NBCFDC to the Company, no fresh loan under the Scheme was sanctioned during the period 2008-13. However, recoveries made against the loan disbursed prior to 2008-09 was as under:

Table No: 2.1.2

(₹ in lakh)

Financial Year	Outstanding Amount (Principal)	Recovery during the year	Percentage of Recovery with outstanding amount
2008-09	2788.16	16.85	0.60
2009-10	2771.31	35.02	1.26
2010-11	2736.29	11.19	0.41
2011-12	2725.10	17.43	0.64
2012-13	2707.67	5.73	0.21

(Source: Information furnished by the Company)

**Non-maintenance/
non-updation of
beneficiaries accounts
resulted in poor
recovery of
outstanding loan**

As would be seen from the above table, recovery made by the Company against the loan disbursed prior to 2008-09 was very dismal during five years ending March 2013. It was observed that beneficiaries' records/ files/ registers were not maintained and there was no updating of beneficiaries accounts in test checked¹⁴ districts. Resultantly, there was no effective pursuance for recovery of outstanding loan.

The Management stated (October 2013) that repayment of loan was being done by the beneficiaries at districts offices and efforts are being made for recovery through correspondence with the DMs/DWOs of the districts.

We further observed that:

- In District Welfare Office (DWO), Darbhanga, out of a sum of ₹ 1.25 crore disbursed to 233 beneficiaries, 74 loanees did not pay any instalment even after lapse of over eight years. In other test checked districts¹⁵ due to non-maintenance of requisite records/ files/ registers in respect of loan, recovery position could not be evaluated.

The Management, while accepting the fact, stated (October 2013) that the observations as pointed out were being looked into for necessary compliance from the concerned DWOs.

- The recovery notices/ reminders were not issued to defaulters during the period 2008-13 and no action was taken against sureties (who were Government servants) in case of non-payment of loan by the beneficiaries in all the 10 test-checked DWOs.

The Management stated (October 2013) that recovery notices/ reminders to the defaulter and also to the sureties of the beneficiaries had been issued. However, no such records were shown to audit in all 10 test checked DWOs.

¹⁴ Samastipur, Buxar, Bhojpur, Saran and Siwan.

¹⁵ Samastipur, Buxar, Bhojpur, Saran, Gaya and Siwan.

- The percentage of loan recovered in all districts was very poor and ranged between “nil” to 38.5 *per cent* except in Lakhisarai where recovery was 72.7 *per cent*. Further in five¹⁶ districts, the recovery ranged between “nil” to 7.77 *per cent*.

The Management stated (October 2013) that the Company was making efforts for recovery.

- A sum of ₹ 18.59 lakh recovered against loan by five DWOs¹⁷ were not remitted to the Company and was lying with them over two to five years which indicated lack of internal control over the recovery system of the Company.

The Management stated (October 2013) that the matter was being pursued with the respective DWOs for immediate remittance.

- An amount of ₹ 4.85 crore disbursed by the Company in Jharkhand prior to bifurcation of State of Bihar was yet to be recovered (September 2013).

Mukhya Mantri Nishaktjan Shiksha Rin Yojna

2.1.13 Mukhya Mantri Nishaktjan Siksha Rin Yojana was introduced by the State Government during 2007-08 with an objective to make the handicapped persons capable of leading common life. The Company was the implementing agency. Under the Scheme, loan upto ₹ five lakh was to be sanctioned to the disabled students of State for pursuing technical/ vocational courses at four *per cent* interest per annum. The repayment of loan was to commence after one year from completion of course or six months from employment, whichever was earlier. This Scheme was to be implemented as per the guidelines of the Directorate of Social Welfare, Social Welfare Department, Government of Bihar. A sum of ₹ 3.46 crore was allocated by Social Welfare Department as a revolving fund during the five years period ending March 2013 out of which a sum of ₹ 1.50 crore was disbursed to 102 beneficiaries. The details of funds received under the Scheme and utilisation thereof during five years from April 2008 to March 2013 are detailed below:

Table No: 2.1.3

(₹ in lakh)			
Year	Funds Received	Loans Disbursed	Recovery
2008-09	130.00	-	-
2009-10	-	22.22	-
2010-11	16.00	49.56	-
2011-12	8.00	47.30	0.20
2012-13	192.00	30.63	0.96
Total	346.00	149.71	1.16

(Source: Information provided by the Company)

¹⁶ Araria, Jamui, Banka, Arwal and Sheohar.

¹⁷ Buxar, Darbhanga, Gaya, Saran and Siwan.

We observed the following deficiencies in execution of the Scheme:

- The Government released (April 2008) fund of ₹ 1.30 crore without intimating the guidelines for implementation of the Scheme. The guidelines were finalised by the Social Welfare Department only in July 2009. In the absence of guidelines, no disbursement could be made during 2008-09.
- Further, during 2012-13, due to absence of Managing Director (during the period 01 May 2012 to 26 February 2013) only ₹ 30.63 lakh was disbursed out of ₹ 1.92 crore though the amount was received in April 2012.
- Test check of assistance sanctioned to 26 beneficiaries out of 102 beneficiaries revealed that in case of seven beneficiaries, loan was sanctioned between September 2009 and April 2011 at the last stage of academic session between 2010 and 2011.

The Management stated (October 2013) that the delay in implementation of the Scheme was mainly due to delay in finalisation of the Scheme guidelines. The reply of the Company itself shows that there was absence of planning for implementation of the Scheme.

Against disbursement of ₹ 1.50 crore, the recovery was mere ₹ 1.16 lakh

- Total recovery against disbursement of ₹ 1.50 crore during the period 2008-13, amounted to ₹ 1.16 lakh only. It was observed that no mechanism was evolved to monitor the timely recovery of loan, as a result, no recovery had been commenced from 18 beneficiaries to whom educational loan amounting to ₹ 24.56 lakh was disbursed and whose courses were completed during 2009-12.

The Management/Government stated in exit conference (November 2013) that necessary monitoring and recovery mechanism was being created.

Mukhya Mantri Nishaktjan Swarojgar Rin Yojna

2.1.14 Mukhya Mantri Nishaktjan Swarojgar Rin Yojna was introduced by the State Government in 2007-08 for the welfare of disabled persons through promotion of their self-employment with the loan upto ₹ 1.50 lakh. The repayment of loan was to be commenced by beneficiary after expiry of one year from the date of receipt of loan or after six months from commencement of business, whichever was earlier. This Scheme was also to be implemented as per the guidelines of the Directorate of Social Welfare, Social Welfare Department, Government of Bihar. Against receipt of a sum of ₹ 5.19 crore under the Scheme, the Company could disburse only ₹ 1.89 crore and the balance ₹ 3.30 crore remained undisbursed and was lying with the Company upto March 2013. The receipt of funds and their disbursement during five years from April 2008 to March 2013 is shown in the table below:

Table: 2.1.4

(₹ in lakh)			
Year	Funds Received	Loans Disbursed	Recovery
2008-09	195.00	-	-
2009-10	-	-	-
2010-11	24.00	46.10	-
2011-12	12.00	118.30	0.05
2012-13	288.00	24.25	1.16
Total	519.00	188.65	1.21

(Source: Information provided by the Company)

Scrutiny of records revealed the following deficiencies in disbursement:

- The Company did not formulate any action plan to implement the Scheme to cater to the financial needs of the targeted beneficiaries. It was observed that loan was not disbursed in 11 out of 38 districts.
- We observed that a list of 26 beneficiaries was sent to Company headquarters from Siwan district for approval and sanction of loan but the same was not acknowledged and processed by the Company despite lapse of three years.
- The fund was made available by the Social Welfare Department in March 2008 without any guidelines for implementing the Scheme. However, even on receipt of guidelines in July 2009, the fund was disbursed after a delay of nine months in April 2010 only to the beneficiaries. This resulted in inordinate delay in initiation of disbursement of funds.
- It was also observed that the time taken in processing the loan applications ranged from six months to 26 months.

The Management, while accepting the fact, stated (October 2013) that delay in documentation as pointed out by audit would be looked into on a priority basis.

Lack of control system resulted in poor recovery of only ₹ 1.21 lakh against disbursement of ₹ 1.89 crore

- Though there was provision in the guidelines, no separate Saving Bank Account was opened/operated for this Scheme by three¹⁸ Assistant Director Social Security (ADSS). “No objection certificate” was also not found obtained in any district except, in Araria and Bettiah, in respect of loan from other financial institutions. Further, verification of units to confirm proper utilisation of loan was not conducted in three districts¹⁹ test checked, nor post dated cheques were obtained in four districts²⁰ and beneficiaries’ loan ledger was also not maintained by these offices. These deficiencies show lack of proper control system. As a result against a total disbursement of ₹ 1.89 crore under this

¹⁸ Patna, Gaya and Buxar (amount disbursed ₹ 39.60 lakh).

¹⁹ Samastipur, Darbhanga and Bhojpur.

²⁰ Samastipur, Darbhanga, Buxar and Saran.

Scheme during the period 2008-13, the recovery during the said period was dismal and was a mere ₹ 1.21 lakh (0.64 per cent).

The Management stated (October 2013) that the specific directions had been issued to the respective districts for immediate action as pointed out by audit.

Financial Assistance under Scholarship Scheme

2.1.15 In addition to implementing the lending schemes, the Company was also responsible for implementation of Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna during the period 2008-13. Related audit findings are discussed in succeeding paragraphs.

Mukhya Mantri Atyant Pichhada Varg Medhavriti Yojna (MMAPVMY)

2.1.16 MMAPVMY was introduced by State Government in 2008-09 with a view to increase the awareness among students of extremely backward classes²¹ (EBC) towards higher education. The said Scheme provided for payment of ₹ 10,000 as assistance to a student permanently residing in Bihar and securing first division in Xth Class examination conducted by Bihar School Examination Board, Patna. The Scheme was to be implemented by the Company through DWOs and the amount was to be disbursed through Bank Drafts/Cheques. The list of beneficiaries was issued by Bihar School Examination Board, Patna which was sent to Backward Classes and Extremely Backward Classes Welfare Department and based on such list, disbursements were required to be made by the Company. The list of the students to be disbursed with money under this Scheme was subject to the confirmation by the DWOs that they belonged to the EBC category. During 2008-13, the Company had received a sum of ₹ 108.94 crore for 1,08,940 students from State Government out of which ₹ 108.91 crore were disbursed to respective DWOs/DEOs for 1,08,915 EBC students under this Scheme.

Scrutiny of records pertaining to MMAPVMY revealed the following deficiencies:

Assistance of ₹ 29.90 lakh was extended to 299 ineligible beneficiaries

- As per the instruction²² of the Company/Department, the DWO was required to verify the EBC status of beneficiary before extending financial assistance under this Scheme. During verification of the EBC status of the beneficiaries on test check basis, it was found that in four²³ districts a sum of ₹ 29.90 lakh was sanctioned/dispursed to 299 candidates who were not eligible for assistance under the Scheme since they did not belong to the EBC community.

²¹ Caste mentioned in Annexure-I of Gazette notification of State Government.

²² Instruction issued by the Company to DWOs at the time of release of fund.

²³ Purnea, Gaya, Bhagalpur and Buxar.

Utilisation certificates of beneficiaries were not received from DWOs against disbursement of fund

- The Company was not in receipt of utilisation certificates of beneficiaries from 38 DWOs/DEOs in respect of a sum of ₹ 93.73 crore against the total disbursement of ₹ 108.91 crore made under this Scheme. The Company did not pursue the matter effectively with DWOs/ DEOs²⁴ in this regard.
- DWOs/ DEOs were not prompt in returning the unutilised amount and kept the undisbursed amounts in various banks and retained Bank Drafts with them. An amount of ₹ 1.86 crore was lying unutilised with the DWOs/DEOs for the period ranging from one year to four years. Further, ₹ 5.38 crore, being the undisbursed amount returned by DWOs/ DEOs was lying with the Company in various bank accounts and thus the benefit could not be passed to 53,800²⁵ beneficiaries. Moreover, the Company did not surrender the undisbursed amount to the Department.

The Management stated (October 2013) that the utilisation certificates from 16 districts had since been received. The reply of the Company confirms that the Company was not receiving the utilisation certificates properly. Further, reply is also silent on the amount/period for which the utilisation certificate had been received. It was further stated that the Company had been regularly receiving back the undisbursed amount lying at the DWOs/DEOs. We noticed that the DWOs/DEOs were returning the undisbursed amount after a period ranging between five months to 35 months.

Manpower

Shortage of manpower adversely affected the functioning of the Company and was not effectively dealt with by BoD

2.1.17 There was shortage of manpower in the Company as against the sanctioned strength of 30 officials (seven managerial and 23 sub-ordinate posts), 15 posts (five managerial and 10 sub-ordinate) were lying vacant during the Performance audit period which accounted for 50 *per cent* shortage of manpower. Due to shortage of manpower, the Company was not in a position to have its own district level set up. The Company has not determined the sanctioned strength at District Level Offices. The matter of shortage of manpower was not effectively dealt with by BoD of the Company. No recruitment policy has been formulated so far by the Company. Further, the Company had not prepared any personnel manual for establishment matters, recruitment, training, etc. During the period 2008-13, no training was imparted by the Company. Further, there was no system of Annual Performance Appraisal of the employees. These deficiencies affected the Company's working with respect to implementation of the schemes.

Internal Control mechanism

2.1.18 Internal Control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient,

²⁴ District Welfare Offices/District Education Offices.

²⁵ ₹5.38 crore (Undisbursed amount/bank draft) ÷ ₹10,000 (Amount of assistance to be disbursed to a student under the Scheme) = 53,800 students/beneficiaries.

effective and orderly manner. As a part of effective Internal Control System provision of efficient Management Information System (MIS) is a prerequisite to facilitate decision making and control. Further, an efficient and effective internal audit wing should also be in existence for better control. Audit noticed the following deficiencies in Internal Control System and Internal Audit:

- There was no MIS prevalent in the Company. The Company did not have any operational and functional manual. Further, no periodic reports/returns regarding disbursement, recovery due and actually made was prepared and sent by the DWO to the top management for effective monitoring.
- No system was evolved by the Company to monitor the receipt of utilisation certificate regarding disbursement of fund from DWOs/ADSS/DEOs. Further, data regarding year-wise/scheme-wise/District-wise utilisation certificate were not maintained by the Company.
- Ledger showing loanee-wise details of amount due and recoverable on account of principal and interest was not found properly maintained/updated. The database of loanees defaulting in repayment of the loan was also not being maintained. In absence of such basic records, there was no effective watch on recovery of loans which is evident from poor recovery performance.

The Management stated (October 2013) that the work of compilation had been started by the Company and the ledgers were to be updated based on inputs from the Districts.

- Only two Board meetings were held during the period 2008-09 to 2012-13. The Company did not have its BoD during the period April 2006 to June 2010. However, despite constitution of Board, the Board meetings were not held as stipulated under section 285 of the Companies Act, 1956 which resulted in non-finalisation of annual accounts, failure in filing statutory returns in absence of annual general meeting, poor/non-monitoring of recovery of loans, etc.
- Annual Returns²⁶ under Section 159 of the Companies Act, 1956 were not filed with Registrar of Companies (RoC) for the financial years since 1997-98. As a result, RoC served (October 2009 and June 2010) Notice for default under sections 159, 166, 210 and 220 of the Companies Act, 1956 and the Company's name was published by Ministry of Company Affairs in the list of "Dormant Companies".

The aforementioned deficiencies were indicative of poor internal control system and monitoring mechanism prevalent in the Company.

²⁶ Balance Sheet, Profit and Loss accounts, etc.

Internal audit

2.1.19 There was no separate internal audit wing in the Company since inception. Further, Internal Audit Manual was not prepared by the Company. In the Company, Chartered Accountants were engaged for updating of accounts and carrying out internal audit functions. Internal Audit of the Accounts was done for the period upto 2010-11. No corrective action was taken by the Company on the observations made by the internal auditor which included, *inter alia*, non-maintenance of ledger and beneficiary-wise account, follow-up for recovery of due amount from the beneficiaries, non-verification of the documents of loan and terms and conditions of loan, etc.

The Management, while accepting the fact, stated (October 2013) that the internal control and monitoring mechanism as suggested by the audit would be looked into on a priority basis.

Conclusion

The performance of Bihar State Backward Classes Finance and Development Corporation in regard to financing and recovery under various schemes was found to be sub-optimal. Non-preparation of detailed plan resulted in poor implementation of the schemes and deprivation of intended benefit to the targeted beneficiaries. The role of the Government in the functioning of the Company was deficient as there were delays in constitution of Board of Directors, formulation of the guidelines and issuance of instructions. Financial management of the Company was deficient as instances were noticed of poor recovery, non/under utilisation of funds pertaining to various loans/scholarship schemes, blocking of funds and there were delays in finalisation of accounts. The implementation of various schemes was deficient due to which the benefits of schemes did not reach fully to targeted beneficiaries.

There was no system of securing utilisation certificate to ensure that the loan/scholarship fund was indeed disbursed to the beneficiaries and the same was being utilised for the purpose for which it was disbursed.

The system for follow-up of the recovery from the beneficiaries was far from satisfactory since the total recovery effected by the Company during the last five years ending March 2013 was dismal. The shortage of manpower prevalent in the Company was not effectively dealt with by BoD which adversely affected the functioning of the Company. The internal control and monitoring mechanism prevalent in the Company was deficient.

Recommendations

- The Company by virtue of its nature of activities has a greater social responsibility and as such it needs to evolve a strategic plan for disbursement of loan/scholarship fund to the intended beneficiaries and recovery thereagainst. Besides, there is a need to

develop a system by which the funds are utilised within the time bound manner and for the purpose it is received;

- The Company should evolve a system of securing utilisation certificates from DWOs/colleges/institutes/beneficiaries prior to release of the subsequent scholarship/loan fund as well as ensure that the scholarship/loan fund disbursed to beneficiaries were being utilised for the purpose for which they were disbursed;
- Recovery mechanism needs to be strengthened. The Company needs to update the data base of its beneficiaries and needs to pursue and strictly monitor recovery from the beneficiaries at regular intervals;
- The BoD should effectively deal with the shortage of manpower so that the functioning of the Company is not adversely affected and district level set-up of the Company is ensured; and
- Internal control and monitoring mechanism prevalent in the Company need to be streamlined and strengthened.

2.2 Financing and recovery activities of Bihar State Minorities Financial Corporation Limited

Executive Summary

Introduction

Bihar State Minorities Financial Corporation Limited (Company) was incorporated in March 1984 by the Government of Bihar (GoB) under the Companies Act, 1956. The Company is under the administrative control of Minority Welfare Department, GoB. The Company is responsible to shortlist the eligible beneficiaries for various schemes of Government/National Minorities Development and Finance Corporation (NMDFC) based on laid out criteria and after physical verification, selection of beneficiaries is done by a committee having representation of district authorities, lead bank and Directorate of Industries and Commerce.

Annual Action Plan

Due to failure of the Company to comply with the terms and conditions of letter of intent against allocated fund, a sum of ₹45.20 crore was not released by NMDFC to the Company for disbursement during the period 2008-13.

Financial Management of the Company

The financial management of the Company was deficient as the recoveries were insufficient to discharge the liabilities of NMDFC. The Company had made repayments of outstanding dues of ₹12.99 crore to NMDFC from their own fund (Share Capital) during 2010-11.

Lending and recovery activities of the Company

Term Loan Scheme

The Company received ₹21.27 crore out of which ₹16.66 crore was utilised during 2008-13.

In Saran division, out of 361 applications received, 22 selected applications did not have income certificate which was a prerequisite for selection. In Patna division, the names of original 84 applicants were not considered for selection. Out of 49 test checked income certificates of beneficiaries, 16 were found deficient as per records of issuing authority (Circle Office).

Recovery effected by the Company during the five years ending March 2013 was dismal and ranged between 3.24 and 4.65 per cent of the total amount recoverable.

Education loan Scheme

The Company received ₹2.13 crore out of which ₹1.46 crore had been disbursed during the period 2008-13. No fresh loan under the Scheme could be disbursed in the year 2009-10 due to non-receipt of fund. Disbursement was also not made by the Company during the year 2011-12 despite availability of fund.

Repayment of loan under Educational Loan Scheme was not pursued as the beneficiaries neither informed the Company of their completion of course and/or self employment nor did the Company make endeavour to ascertain this aspect from the loanees.

Micro Credit Scheme

Under the Micro Financing Scheme, the Company released a sum of ₹48.21 lakh to three NGOs on their request for 305 beneficiaries without verifying the financial credibility/track record of NGOs out of which, a sum of ₹43.50 lakh could not be recovered for over four years. The Micro Financing Scheme was discontinued by the Company from 2009-10.

Financial Assistance under Scholarship, Coaching and Skill Development schemes

Post Matric Scholarship Scheme (Central)

The percentage of unutilised fund under Post Matric Scholarship Scheme (Central) during the period 2008-09 to 2011-12 ranged from 11.31 to 54 per cent. An amount of ₹14.01 crore was lying unutilised with the Company since 2011-12.

The Company disbursed a sum of ₹25.02 lakh in the year 2010-11 to four non-existent private colleges without ascertaining their authenticity.

Post Matric Scholarship Scheme (State)

An amount of ₹ 18.24 lakh was released to 456 students by the Company under Post Matric Scholarship Scheme (State) against whom funds had already been released under Post Matric Scholarship Scheme (Central). As a result of this, other eligible students were deprived of the benefits under this Scheme.

Non-achievement of objective under Coaching Scheme

Due to failure of monitoring by the committee constituted by the Department, an amount of ₹ 3.69 crore out of ₹ 4.67 crore received during 2007-11 could not be utilised which was ultimately refunded by the Company to the Department.

Mukhya Mantri Shram Sakti Yojna

Out of ₹ three crore received under the Scheme, the Company utilised only ₹ 14 lakh and balance ₹ 2.86 crore remained unutilised for more than four years. Thus the intended beneficiaries were deprived of the benefits under this Scheme.

Manpower

There was shortage of manpower which affected the Company's working with respect to implementation of schemes.

Internal Control mechanism

No system was evolved to obtain the utilisation certificate in respect of disbursement of funds.

There was no system of verification of the list of the eligible students prepared by outsourced agency/contractual staff which resulted in excess/double release of fund under scholarship scheme.

Conclusion and Recommendations

The Performance of the Company in financing and recovery under various schemes was far from satisfactory. Detailed plan was not prepared by the Company. The role of the Government in the functioning of the Company was deficient as it did not effectively monitor the functioning of Committee for Coaching Scheme. The financial management of the Company was deficient. There were procedural lapses in identification of intended beneficiaries and disbursement of financial assistance. Besides, there was no system of securing utilisation certificate. The system for follow-up of the recoveries from the beneficiaries was far from satisfactory. The internal control in the Company was deficient.

The Company needs to evolve a detailed plan for disbursement of loan/scholarship fund and recoveries thereof; develop a system for time bound utilisation of funds; develop a data base to identify the eligible beneficiaries; strengthen recovery mechanism and improve Internal Controls.

Introduction

2.2.1 Bihar State Minorities Financial Corporation Limited (Company) was incorporated in March 1984 under Section 617 of the Companies Act, 1956 to aid, assist, promote, encourage, co-ordinate, organise, extend and render financial help and assistance by way of loan or otherwise to the financially and socially weaker and needy members of the religious minority communities¹ residing in the State of Bihar. The Company works under the administrative control of Minority Welfare Department, Government of Bihar (GoB). In furtherance of its objectives, loans and assistance to the targeted beneficiaries are extended by the Company through various Government policies and programmes. Besides, the Company also works as State Channelising Agency (SCA) for the schemes of National Minorities Development and Finance

¹ Muslim, Christian, Sikh, Jain and Buddhist.

Corporation (NMDFC²). As on 31 March 2013, the paid up capital of the Company was ₹ 33.79 crore.

The major schemes pursued by the Company included the schemes of NMDFC viz. Term Loan, Education loan and Micro Credit. Besides, the Company also pursued various Government schemes such as Post Matric Scholarship Scheme (Central), Merit-cum-Means Scholarship, Post Matric Scholarship Scheme (State) and Mukhya Mantri Shram Shakti Yojana.

The Administrative Department of the Company is responsible for framing of guidelines for various schemes and laying down procedures for their implementation, notifying members of backward classes from time to time, extending guarantee for loans taken by the Company from NMDFC, extending budgetary support to the Company, seeking utilisation certificate for the funds made available to the Company for various schemes, etc. The guidelines in respect of the schemes of NMDFC are framed by NMDFC. The Company is responsible to shortlist the eligible beneficiaries based on laid out criteria and after physical verification, selection of beneficiaries is done by a Committee having representation of district authorities, lead bank and Directorate of Industries and Commerce.

The Management of the Company is vested in a Board of Directors (BoD) consisting of nine Directors. As on 31 March 2013, there were seven Government Directors and two non-Government Directors. Managing Director (MD) being the Chief Executive is assisted in day-to-day operation of the Company by other officials. The Government schemes and programmes are implemented by the Company through its field offices at nine divisions³ and with the help of District Welfare Offices (DWOs⁴) since the Company does not have district level set up.

A Review on the Working of the Company was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial) – GoB.

Audit scope and methodology

2.2.2 The present Performance audit covers the “Financing and Recovery activities” of the Company during the period 2008-13. Records of the Administrative Department and Headquarters Office of the Company as well as its field offices were scrutinised by audit during the period June 2013 to August 2013. Out of 38 districts of the State, where schemes were being implemented, ten⁵ districts were selected on random sample basis. An entry conference was held on 31 May 2013 to apprise the Government and the Management about the audit objectives of Performance audit. A mix of methodologies was adopted in the course of Performance audit which included

² It is a Central Public Sector Undertaking under Ministry of Minority Affairs, Government of India, set up to promote the economic and developmental activities for the benefits of the backward sections among the notified minorities.

³ Bhagalpur, Darbhanga, Kosi, Magadh, Munger, Patna, Purnia, Saran and Tirhut.

⁴ Under SC & ST Welfare Department, Government of Bihar.

⁵ Araria, Bhagalpur, Bhojpur, Buxar, Darbhanga, Gaya, Patna, Samastipur, Saran and Siwan.

examination of records; documenting and analysing evidence collected from the Administrative Department of the Company, Company Headquarters' Office, and field offices; examination of agenda and minutes of BoD meetings; guidelines, instructions issued by Government and NMDFC and issuance of audit enquiries for information and interaction with the Management. The Audit findings were reported (September 2013) to the Government (Administrative Department)/Company. The exit conference was held on 28 November 2013 which was attended by the Principal Secretary, Minority Welfare Department, GoB and Managing Director of the Company.

Audit Objectives

2.2.3 The Performance audit was undertaken with a view to assess whether:

- Strategic plan/Annual Action Plan was prepared by the Company in view of allotment of fund by NMDFC and State Government for proper and timely implementation of schemes;
- Financial management of the Company was effective and funds received under various schemes were put to effective use in a time bound manner;
- An efficient system for identifying the eligible beneficiaries was in place and the Company had data-base of beneficiaries;
- The schemes were implemented efficiently and effectively and recoveries were made as per prescribed norms;
- The Government/Company has put in place a system to monitor the implementation of various schemes; and
- The Company had adequate manpower and efficient internal control mechanism.

Audit criteria

2.2.4 The audit criteria adopted for assessing the achievement of audit objectives were:

- Guidelines issued by Government and NMDFC for disbursement of loans/financial assistance;
- Policy/framework/criteria/guidelines laid down by the State/ Central Government and NMDFC for upliftment of targeted beneficiaries;
- Laid down procedures for sanction and disbursement of financial assistance and loans; and
- Procedures prescribed for post-disbursement monitoring and recovery mechanism.

Audit findings

2.2.5 The Audit findings are discussed in succeeding paragraphs:

Planning

Non-preparation of strategic plan

2.2.6 With a view to pursue its objectives as stated in Memorandum of Association, the Company is required to plan or fix targets as per the concentration of beneficiaries in urban as well as rural areas, prepare a well-considered action plan based on periodical data collected from grass-root levels for effective implementation of schemes. Further, as per the guidelines issued by NMDFC for identification of beneficiaries, the SCA should consider holding of Beneficiaries Identification Camps in the area where the Minority population is high and the NMDFC schemes have not been implemented previously. We observed that the Company had not prepared any strategic plan nor had maintained any data base of intended beneficiaries at block and district level.

In the exit conference, the Management stated (October 2013) that the Company did not have its own set up at district level and were facing shortage of manpower and paucity of funds which caused non-preparation of strategic plan.

Annual Action Plan (AAP)

2.2.7 The Company is required to submit in the prescribed format need based sector wise annual action plan bifurcated into quarterly targets in the month of February/March for the forthcoming financial year. On completion of the prescribed conditions⁶, the AAP is approved and NMDFC issues formal sanction in the form of letter of intent to the Company.

We observed that the proposals under AAP, which were approved by NMDFC, were based on ad hoc data in respect of numbers and fund requirement for the intended beneficiaries as the Company had not conducted any survey and collected data in respect of its targeted beneficiaries at block as well as district levels. The details of annual allocation, actual receipt of fund and utilisation thereagainst are given below:

⁶ Arrangement of Government Guarantee against allocated fund, adequate contribution in share capital of NMDFC and timely utilisation of the received fund.

Table No: 2.2.1

Details of annual allocation, actual receipt of fund and utilisation thereof

(₹ in lakh)

Year	Allocation/Target as per Annual Action Plan		Fund available for disbursement			Utilisation		Percentage achievement against target of annual action plan	
	Physical (in number)	Financial	Opening Balance	Receipt against allocation	Total	Physical (in number)	Financial	Physical	Financial
1	2	3	4	5	6	7	8	(9) = Col.(7) ÷ (2) × 100	(10) = Col. (8) ÷ (3) × 100
2008-09	3050	900	Nil	900	900	1282	616.90	42.03	68.54
2009-10	4178	770	283.10	-	283.10	148	62.90	3.54	8.17
2010-11	4245	1584	220.20	789	1009.20	545	234.49	12.84	14.80
2011-12	2491	1619	774.71	438	1212.71	1154	603.60	46.33	37.25
2012-13	1868	1774	609.65	-	609.65	338	148.58	18.09	8.38
Total	15832	6647	-	2127	-	3467	1666.47	-	-

(Source: Information provided by the Company.)

Due to failure to comply with the conditions of release of sanctioned loan, NMDFC did not release ₹ 45.20 crore for 12365 beneficiaries

It can be seen from the above table that percentage of achievement of physical and financial disbursement against the targeted allocation under AAP during 2008-13 ranged from 3.54 to 46.33 and 8.17 to 68.54 respectively. We observed that due to failure of the Company to comply with the terms and conditions of Letter of Intent, a sum of ₹ 45.20 crore⁷ was not released by NMDFC to the Company during 2008-13. Thus, targeted beneficiaries⁸ were deprived of the benefit of NMFDC schemes during the period 2008-13.

The Management/Government stated (October 2013) in the exit conference that due to non-fulfillment of conditions laid down by NMDFC, funds were not released. As regards failure on the part of the Company to arrange Government guarantee against the NMDFC loans, it was stated that as a policy matter, the Government had decided not to extend guarantee to any Company.

Financial Management of the Company

2.2.8 The Company is financed through budgetary support from the State Government, loan assistance from NMDFC and fund allocated to the Company by the Central/State Government for implementation of different schemes. The Company generated their income by earning margin of interest to the extent of 2.5 per cent on their lending activities. The year-wise position of receipts and payments/ disbursement is shown as under:

⁷ ₹ 7.70 crore for 2009-10, ₹ 7.95 crore for 2010-11, ₹ 11.81 crore for 2011-12 and ₹ 17.74 crore for 2012-13.

⁸ Number of targeted beneficiaries under AAP less the number of beneficiaries to whom loans were disbursed. (15832 – 3467 = 12365).

Table No: 2.2.2
Year-wise receipts and disbursements of Bihar State Minorities Financial Corporation Limited

(₹ in lakh)

Particulars		2008-09	2009-10	2010-11	2011-12	2012-13	Total
Receipts	Opening Balance	-	978.08	966.10	3599.52	4359.80	
	Loans Received from NMDFC	900.00	-	789.00	438.00	-	2127.00
	Central Government						
	Post Matric Scholarship Scheme (Central)	648.08*	605.86	1596.22	2227.09	-	5077.25
	Merit cum Means Scheme	-	-	946.08	673.82	1196.28	2816.18
	State Government						
	Post Matric Scholarship Scheme (State)	205.96*	100.00	100.00	-	-	405.96
	Mukhya Mantri Shram Shakti Yojna	200.00	100.00	-	-	-	300.00
	Coaching Scheme	302.40*	100.00	65	-	-	467.40
	Mukhya Mantri Alpshankhyak Rojgar Rin Yojna	-	-	-	-	1500.00	1500.00
	Mukhya Mantri Alpshankhyak Siksha Rin Yojna	-	-	-	-	500.00	500.00
	Equity Contribution	50.00	-	2028.92	100.00	100.00	2278.92
	Grants-in-aid	6.31	1.60	3.19	1.68	-	12.78
	Recoveries	154.03	139.34	192.07	192.09	237.37	914.90
Total Receipts		2466.78	1046.80	5720.48	3632.68	3533.65	16400.39
Payments/ Disbursements	Loans (NMDFC)	616.90	62.90	234.49	603.60	148.58	1666.47
	Post Matric Scholarship Scheme (Central)	574.80	587.51	1320.54	1193.54	-	3676.39
	Merit cum Means Scheme	-	-	-	775.26	1659.47	2434.73
	Post Matric Scholarship Scheme (State)	120.00	185.92	100.00	-	-	405.92
	Mukhya Mantri Shram Shakti Yojna	-	-	-	-	14.00	14.00
	Coaching Scheme	-	97.85	-	-	-	97.85
	Repayment to NMDFC	177.00	124.60	1432.03 ⁹	300.00	225.15	2258.78
	Total Payments	1488.70	1058.78	3087.06	2872.40	2047.20	10554.14
Closing balance		978.08	966.10	3599.52	4359.80	5846.25	

(Source: Information provided by the Company.)

The following observations are made:

- The disbursement activity of the Company was concentrated mainly in distribution of funds under scholarship schemes¹⁰ whereas lending activity was moderate.
- During the period 2008-13 the Company received ₹ 21.27 crore from NMDFC out of which ₹ 4.60 crore could not be disbursed till March 2013 owing to various reasons viz. delay in documentation, delay in sanction of loan, etc. Further, ₹ 50.77 crore was received under Post Matric Scholarship Scheme (Central) out of which ₹ 36.76 crore was utilised upto

* Inclusive of opening balance or unspent balance of the Scheme.

⁹ This includes ₹ 12.99 crore repayment to NMDFC from the Share Capital of Company.

¹⁰ Post Matric Scholarship Scheme (Central), Post Matric Scholarship Scheme (State), Merit cum Means Scholarship Scheme.

March 2012 and ₹ 14.01 crore remained unutilised, as discussed in paragraph 2.2.15.

- Recovery performance of the Company during the period 2008-13 was dismal and amount recovered was insufficient to discharge the liabilities of NMDFC. Resultantly, the repayments of outstanding dues of ₹ 12.99 crore to NMDFC were made by the Company from their own fund (Share Capital) during 2010-11. Due to poor recovery and poor repayment to NMDFC loan, ₹ 45.20 crore sanctioned under AAP was not released by the NMDFC which impacted the schemes adversely which is discussed in para 2.2.10 to 2.2.12.
- Further, the Company received an amount of ₹ 3.05 crore in May 1999 from Minorities Welfare Department under Peshewar Loan Scheme out of which a sum of ₹ 1.61 crore was lying unutilised with the Company over 10 years which depicted casual approach of the Company towards rendering its duty for welfare of minorities communities and weak control mechanism on the part of the Administrative Department also.
- The activity of the Company was extended to the territory of Jharkhand prior to reorganisation of the erstwhile State of Bihar in the year 2000. However, even after reorganisation the assets and liabilities of the Company were not apportioned between these two states (September 2013).

Lending and Recovery activities of the Company

2.2.9 The Company had implemented the Term Loan, Education Loan and Micro Credit Schemes of NMDFC of Government of India during the period 2008-13.

Term Loan Scheme

2.2.10 Assistance under Term Loan Scheme was available for any commercially viable and technically feasible ventures for the beneficiaries belonging to minority communities living below double the poverty line¹¹. Under the Term Loan Scheme, projects costing up to ₹ five lakh were considered for financing. NMDFC provided loan to the extent of 85 per cent of the project cost and the remaining cost of project was to be met by the State Channelising Agency (SCA) and the beneficiary. The applications of beneficiaries were to be received and scrutinised at division level offices and the same was to be put up before the Selection Committee¹² constituted by State Government. The beneficiaries selected by the Committee were sent to Company's divisional offices where documentation was completed in all respects

¹¹ ₹ 40,000 for rural area and ₹ 55,000 for urban area.

¹² Members of Committee: Additional District Magistrate or District Development Commissioner, District Welfare Officer (Concerned district), Manager of lead Bank of concerned district, Managing Director or Officer nominated by him, two non-Government members belonging to minority community as nominated by the Government, District Industry Promotional Officer/LEO.

and sent to Company's headquarters for sanction of loan. Against the allocated/targeted funds of ₹ 66.47 crore, the Company had received an amount of ₹ 21.27 crore only out of which ₹ 16.66 crore was utilised during the period 2008-13.

Receipts of fund from NMDFC and disbursement are depicted below:

Table No: 2.2.3

Year	Funds available for disbursement (₹ in lakh)			Utilisation
	Opening Balance	Receipts against allocations	Total	Financial (₹ in lakh)
2008-09	Nil	900	900	616.90
2009-10	283.10	-	283.10	62.90
2010-11	220.20	789	1009.20	234.49
2011-12	774.71	438	1212.71	603.60
2012-13	609.11	-	609.11	148.58
Total	-	2127	-	1666.47

(Source: Information provided by the Company)

Deficiencies observed in disbursement of loan and its recovery are discussed in succeeding paragraphs:

As per the State Government direction¹³, the selection of beneficiaries was to be done by inviting applications twice a year, i.e., first in the month of June and second in the month of December. The applications of beneficiaries were to be scrutinised at division level offices of the Company and the same was to be put up before the Selection Committee. Scrutiny of records of division level offices¹⁴ revealed that:

- During the period 2008-13, advertisement for invitation of application was made only once. Further, only one meeting of Selection Committee was held in 2011-12 instead of required 10 meetings.
- Basic records such as applications received, processed and applications rejected were not maintained in the division level offices. The application forms provided to beneficiaries were neither embossed/marked with serial number/unique number nor were allotted with such serial number or unique number at the time of receipt.
- During 2008-13, out of 361 applications received in Saran division office, 22 selected applications did not have income certificate which was a pre requisite for selection. In Patna division, it was found that names of 84 beneficiaries out of 899 selected beneficiaries, did not match with their respective serial numbers as entered in the application register. As a result, the names of original 84 applicants were not considered for selection. This indicated lack of transparency in selection procedure.

Names of original 84 applicants in Patna Division were not considered for selection which indicated lack of transparency in selection procedure

¹³ Issued vide letter no. 372 dated 14 March 2007.

¹⁴ Bhagalpur, Gaya, Darbhanga, Patna and Saran.

Due to Non-compliance of State Government Order, loan was disbursed to 16 beneficiaries in Patna, Saran and Gaya districts on deficient income certificates

- As per the State Government direction¹⁵, income certificates annexed with application forms were required to be verified by the Company through correspondence with the issuing authorities. However, the same was not done. Audit examination of 49¹⁶ income certificates annexed with the records of income certificate issuing authority (Circle Office), revealed that income certificates of beneficiaries in respect of four out of 10 beneficiaries in Gaya District, one out of two in Saran district and 11 out of 19 in Patna district were deficient as per records of Circle Office (issuing authority). Status of eight out of 10 in Saran district and 10 income certificates of Darbhanga district were yet to be received (August 2013).
- In Patna Division, on test check of 35 cases of loan amounting to ₹ 17.23 lakh out of total loan of ₹ 88.80 lakh disbursed to 354 beneficiaries during the period 2008-13, it was observed that Loan Agreements and Hypothecation bonds were not properly filled up and signed by both beneficiaries and guarantors; order sheet for loan was not signed by Managing Director; spot verification in case of 21 loanees was not done prior to the disbursement of loan and photocopy of Pass Book of Saving Bank Accounts of loanee was not obtained in all cases. The loan files were also not maintained properly.

The Management stated (October 2013) that meetings of district level Selection Committee were not held regularly because the funds from NMDFC were not provided as per approved Annual Action Plan. Further, due to shortage of manpower, income certificate and residential certificate of beneficiaries could not be verified from the issuing authority. The Management further assured to take care in future.

Recovery under Term Loan

2.2.11 Details of dues recoverable and actual recovery made against term loan for the five years period from 2008-09 to 2012-13 are given in the table below:

Table No: 2.2.4

Particulars	(₹ in lakh)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Opening Balance of outstanding dues	3735.99	3907.21	4163.33	4395.86	4642.53
Addition during the year	325.58	395.51	424.59	438.76	465.21
Total dues recoverable	4061.57	4302.72	4587.92	4834.61	5107.74
Actual recovery during the year	154.03	139.34	192.07	192.09	237.37
Percentage of recovery against dues during the year	47.31	35.23	45.24	43.78	51.02
Percentage of recovery against total dues recoverable	3.79	3.24	4.19	3.97	4.65

(Source: Information provided by the Company)

¹⁵ Issued vide letter no. 372 dated 14 March 2007.

¹⁶ Chapra-10, Darbhanga-10, Patna-19 and Gaya-10.

During 2008-13, recoveries against term loan ranged between 3.24 and 4.65 per cent of total amount recoverable

Despite provision of recovery under PDR Act, no action was taken against 78 defaulters

It can be seen from the above that recoveries effected by the Company during the five years ending March 2013 was dismal and ranged between 3.24 and 4.65 per cent of the total amount recoverable.

We further observed that:

- In Saran district, out of 78 defaulting loanees, 34 did not pay any instalment against outstanding loan of ₹ 41.80 lakh even after lapse of a period of more than eight years. We observed that the Company had not initiated action under the Public Debt Recovery (PDR) Act, 1914 for recovery of the dues. Further the Company was not aware about the whereabouts of five loanees and as such chances of recovery of the loan from these loanees were remote.
- In Darbhanga district, during the period 2008-13, out of ₹ 1.11 crore disbursed to 246 loanees, 41 loanees to whom a sum of ₹ 17.42 lakh was disbursed, did not pay any instalment even after lapse of more than one year of its disbursement.

The reasons of poor recovery as observed in audit included poor follow-up or pursuance for recovery, non-filing of cases against defaulting loanees under PDR Act, disbursement of loan to beneficiaries without verifying their credentials, etc.

The Management accepted the fact and stated (October 2013) that due to shortage of manpower, its divisional level offices could not be strengthened. However, all efforts were being made to recover the dues of loan from beneficiaries.

Educational Loan Scheme

2.2.12 NMDFC introduced the Scheme of Educational Loan in 2003-04 for the students of weaker section of the minorities having income under double the poverty line¹⁷ for professional and technical courses. The Scheme provides that 10 per cent of annual allocations under Term loans should be earmarked for educational loan. At the end of the moratorium period i.e. six months after completion of the course, the principal amount and interest was to be repaid by the loanee in maximum of 60 Equated Monthly Instalments (EMIs). The Company had received an amount of ₹ 2.13 crore out of which ₹ 1.46 crore had been disbursed during the period 2008-13.

We observed that educational loan could not be disbursed during the year 2009-10 as funds were not released by NMDFC. However, during the year 2011-12 despite availability of funds for the Scheme (10 per cent of allocation under Term Loan Scheme) disbursement was not made by the Company.

¹⁷ ₹40,000 for rural area and ₹ 55,000 for urban area.

Due to deficient monitoring system, repayment of ₹ 1.29 crore had not been commenced

It was further observed that recovery of loan under the Scheme was not pursued effectively which is evident from the fact that 37 and 65 beneficiaries to whom loan of ₹ 34.06 lakh and ₹ 94.94 lakh were sanctioned and final instalment paid upto March 2009 and December 2011 respectively, repayment in respect of such loan had not commenced (August 2013). The beneficiaries neither informed the Company of their completion of course and/or self employment nor did the Company make endeavour to ascertain this aspect from the loanees which indicated the failure of the system with respect to the monitoring and effective implementation of the Scheme.

The Management/Government accepted the fact and stated (October 2013) that due to shortage of manpower notices for recovery of loan under Education Loan Scheme were not issued in time. Further, the monitoring mechanism was being created and notices being issued after receipt of audit observations in this regard.

Micro Credit Scheme

2.2.13 Under the Micro Credit Scheme, micro credit is extended to the members of Self Help Groups (SHGs), especially the Minority women scattered in remote villages and urban slums who are not able to take advantage of formal banking credit as well as under the NMDFC programmes. Under the Scheme, micro-credit loan up to a maximum of ₹ 25,000 per beneficiary was extended to the poorest among the poor. Under the Scheme, the Company was required to take-up the Scheme on its own or through NGOs identified by the Company. Under the Micro Credit Scheme, the Company received a fund of ₹ 48.21 lakh as loan in 2007 from NMDFC.

Release of fund without verifying the credibility of NGOs resulted in non-recovery of ₹ 43.50 lakh

We observed that, the Company without verifying the financial credibility/track record, released a sum of ₹ 48.21 lakh to three NGOs¹⁸ on their request for 305 beneficiaries. However, out of ₹ 48.21 lakh disbursed to the beneficiaries by these NGOs, a sum of ₹ 43.50 lakh could not be recovered for over four years. Audit observed that the Scheme was discontinued by the Company from 2009-10.

The Management stated (October 2013) that legal suits had been filed against all three NGOs. The fact, however, remains that the funds were disbursed to NGOs without verifying their financial credibility which shows lack of monitoring mechanism in the Company.

Financial Assistance under Scholarship, Coaching and Skill Development Schemes

2.2.14 In addition to implementing the lending schemes of NMDFC, the Company was also responsible for implementation of scholarship schemes and other schemes of assistance of Central/State Government. Related audit findings are discussed in succeeding paragraphs.

¹⁸ Human Advancement Society, Saharsa, Manav Vikas Shilp Kala Kendra, Saran, M/s Buniad, Patna.

Post Matric Scholarship Scheme (Central)

2.2.15 Post Matric Scholarship Scheme (Central) was introduced in June 2006 with an objective to provide better opportunities to meritorious students belonging to economically weaker sections of minority communities, the annual income of whose guardian does not exceed ₹ two lakh. Under this Scheme, the course fee/tuition fee for higher education and the maintenance allowance was to be credited to the schools/colleges/institutions' Bank accounts and Students' Bank account, respectively. Besides, the Scheme provides for discontinuance of the benefit under the Scheme if a student failed to secure *50 per cent* marks or equivalent grade in the previous final examination. Under the said Scheme, the Company received a sum of ₹ 50.74 crore from Central Government during the period 2008-13. Year-wise details of receipt and utilisation thereagainst are given below:

Table No: 2.2.5

(₹ in lakh)

Year	Post Matric Scholarship Scheme (Central)					
	Opening Balance	Funds received	Funds available for disbursement	Disbursed	Unutilised	Percentage of unutilised funds against funds available
2008-09	2.81	645.27	648.08	574.80	73.28	11.31
2009-10	73.28	605.86	679.14	587.51	91.63	13.49
2010-11	91.63	1596.22	1687.85	1320.54	367.31	21.76
2011-12	367.31	2227.09	2594.40	1193.54	1400.86	54.00
2012-13	1400.86	-	1400.86	-	1400.86	100
Total		5074.44		3676.39		

(Source: Information furnished by the Company)

It would be seen from the table that the percentage of unutilised fund during the period 2008-09 to 2011-12 ranged from 11.31 to 54 *per cent*. No fund under the Scheme was received during the year 2012-13. From the year 2013-14, the Minority Welfare Department, Government of Bihar changed the disbursement process and decided to transfer the funds directly to DWOs.

Audit observed that:

- The funds were requisitioned by the Company from Government of India on submission of application forms of the beneficiaries received by the Company. In the absence of proper mechanism to scrutinise the received forms within scheduled time, the Company had to make requisition for funds on the basis of unscrutinised forms. Due to requisition of funds on the basis of unscrutinised applications of the beneficiaries, the applications found ineligible for extending the benefit were subsequently rejected. Thus, all the received funds could not be disbursed which resulted in accumulation of unutilised fund of ₹ 14.01 crore.

Due to non-verification of authenticity of colleges/institutes, an amount of ₹ 25.02 lakh was disbursed to four non-existent private colleges

- There was no system to maintain District-wise data bank pertaining to schools/colleges/institutions, their affiliation status, etc. As a result disbursement was made to non-existent colleges/ institutes¹⁹. The Company disbursed a sum of ₹ 25.02 lakh in the year 2010-11 to four non-existent private colleges without ascertaining their authenticity and without verifying the bonafide of the institutes before disbursement of funds. It was seen in audit that though the Company had detected the above case, no remedial measures were taken to avoid the recurrence of such incidence.

The Management stated (October 2013) that a system for checking institutes had now been instituted for which lists of institutes recognised by various boards were obtained and applications were being vetted before recommendation. The reply of the Company is not acceptable as vetting of colleges/institutes was done earlier also. The Company should evolve a system to get the physical verification of the colleges/institutions through DWOs to avoid such recurrence.

- As the work of preparation of list of beneficiaries and their permissible amount of scholarships was outsourced by the Company, the Company was required to verify the same before actual disbursement. Failure on the part of the Company to verify the permissible limit of each students from the list as prepared (2008-09) by the outsourced data entry operator, resulted in excess disbursement than the maximum permissible limit amounting to ₹ 4.29 lakh for 133 students out of which ₹ 2.20 lakh from 95 students was still to be recovered (August 2013).

The Management accepted the fact and stated (October 2013) that efforts were being made to realise the balance amount.

- As per direction of the Company the DWO was required to issue two separate crossed cheques to colleges/institutions, one for tuition fee and another for maintenance allowance (student-wise). We observed that, eight DWOs²⁰, in violation of directives of the Company, released the consolidated cheques amounting to ₹ 16 crore towards tuition fee and maintenance allowance to the colleges/institutions. Besides, the Company /DWO also failed to obtain utilisation certificates from these colleges/institutions. As a result of this, it could not be ensured whether the intended beneficiaries were actually benefited or it was lying with the colleges/institutions.
- DWO, Siwan, in violation of the guidelines, undertook disbursement of the maintenance allowance amounting to ₹ 31.35 lakh directly to 1337 students during the period 2010-12, instead of disbursement of the

¹⁹ 1. International Para Medical Institute, Bailey Road, Raja Bazar, 2. RLS College, Bailey Road, Raja Bazar, 3. Rahmat Latif Sah college, Bailey Road, Raja Bazar, 4. Al Saad Industrial Training Institute, Bailey Road, Raja Bazar (Source: Company's own report).

²⁰ Buxar, Bhojpur, Darbhanga, Gaya, Patna, Siwan, Saran and Samastipur.

same through colleges /institutions to the beneficiaries. Similarly, in violation of the said guidelines, DWO, Samastipur sent the cheques of ₹ 28.89 lakh pertaining to maintenance allowance to Block Development Offices (BDOs) for its disbursement to the students. We noticed that neither any confirmation nor any utilisation certificate in respect of the actual disbursements by the BDOs was furnished and as such, the disbursement of ₹ 28.89 lakh could not be verified.

The Management stated (October 2013) that it was the failure on the part of the DWO who did not follow the instructions of the Company and did not procure utilisation certificates from BDOs. The reply of the Management confirms that the Company being the implementing agency for implementing the Scheme, had not ensured that disbursement was made as per the provisions of the guidelines.

Post Matric Scholarship Scheme (State)

2.2.16 Post Matric Scholarship Scheme (State) was introduced by Government of Bihar in 2007-08 to provide scholarship amounting to ₹ 4000 to every student who had passed the matric/intermediate examination with at least 50 *per cent* marks for pursuing higher studies. The eligibility criteria and disbursement mechanism for the Scheme were similar to those prescribed for the Post Matric Scholarship Scheme (Central) and the scholarship amount was to be distributed through schools/colleges/institutions. Under this Scheme ₹ 4.06 crore was disbursed during the period 2008-11.

Further, as per terms and conditions of the Post Matric Scholarship Scheme (Central), the student obtaining benefit under the Scheme shall not be allowed to avail of benefits under any other scholarship scheme for the same purpose.

We noticed during audit scrutiny in 10 Districts test checked, ₹ 1.09 crore was released for 2714 students during the year 2009-10 and 2010-11, under Post Matric Scholarship Scheme (State). Scrutiny of list containing names of students of nine districts revealed that ₹ 18.24 lakh²¹ was released to 456 students by the Company under Post Matric Scholarship Scheme (State) against whom funds had already been released under Post Matric Scholarship Scheme (Central). Thus, prior to release of fund under Post Matric Scholarship Scheme (State), the Company failed to verify the disbursement made earlier to 456 students under Post Matric Scholarship Scheme (Central), as a result of which the other eligible students were deprived of the benefits under this Scheme.

The Management stated (October 2013) that no check could be applied as the Company had not been provided with any mechanism or software by Ministry of Minority Affairs for identification of those students, who had availed scholarship in other scheme. The reply of the Company is not acceptable as both the scholarship schemes were implemented by Company and thus check

Due to non-verification of data, ₹ 18.24 lakh was released to those 456 students who had already availed scholarships under Post Matric Scholarship Scheme (Central)

²¹Araria:16, Bhagalpur:38, Bhojpur: 03, Darbhanga:19, Gaya: 181, Patna: 133, Saran:37, Samastipur:28, Siwan: 1, Total: 456 students x ₹ 4000 =18.24 lakh.

could have been exercised with details of disbursement by the Company. The Company should have evolved a system of verification to avoid availing of double benefit under both the scholarship schemes.

Non-achievement of objective under Coaching Scheme

2.2.17 In order to provide opportunity to the students of minority community by preparing them for various competitive examinations, a Coaching Scheme was introduced in March 2007 by Government of Bihar. To monitor implementation of the Scheme, the administrative department had constituted a Committee²² which was required to submit inspection report to the department at the end of last week of the month stating the status of implementation of the Scheme. Further, the onus of selection of students and coaching institutes was vested with the Committee constituted by the department. Thus, timely and adequate actions were required on the part of the Committee to ensure selection of eligible students each year so that the amount released could be utilised for the purpose envisaged under the Scheme.

Out of a sum of ₹ 4.67 crore received for the Scheme, only ₹ 0.98 crore was utilised

We noticed that coaching was provided only in 2007-08 and 2009-10 to 2661 students, as a result of which out of a sum of ₹ 4.67 crore received by the Company during 2007-11, only ₹ 0.98 crore was utilised and the balance unutilised amount to the tune of ₹ 3.69 crore was refunded by the Company to the department in January 2013.

The Committee constituted by the department failed to monitor the implementation of the Scheme effectively as no inspection report on status of implementation was submitted to the department. The payment to the institutes was stopped by the Company. Further, the Company also did not pursue the matter for continuance of the Scheme. Thus, the very objective of the Scheme could not be achieved and the same was discontinued in 2011-12.

The Management accepted the fact and stated (October 2013) that from the year 2012-13, the State Government had appointed “Maulana Mazharul Haque Arabic and Farsi University”, Patna as nodal agency for the Scheme. However, the fact remains that ₹ 3.69 crore remained idle and as a result, the desired benefits of the Scheme could not be extended to targeted beneficiaries.

Merit cum Means Scholarship Scheme

2.2.18 The Merit cum Means Scholarship Scheme was introduced (June 2007) by the Government of India with an objective to provide financial assistance to the poor and meritorious students belonging to minority communities to enable them to pursue professional and technical courses. 30 per cent scholarship was to be reserved for girl students for under-graduate and post-graduate courses. Continuation of the scholarship in subsequent years under this Scheme depended on the successful completion of the just preceding year of the course and after receipt of the utilisation certificate. The

²² Three Deputy Secretaries- Minority Welfare Department, GoB; Executive Officer of Bihar Rajya Haj Samiti, Patna; Deputy Secretary, Minority Commission, Bihar, Patna; Managing Director, BSMFCL.

Scheme was assigned (June 2010) by the Government to the Company for implementation. The year-wise target and achievement was as follow:

Table No: 2.2.6

Year	Targeted number of beneficiaries (Fresh)	Amount sanctioned ²³ (₹ in crore)	Achievement in number of beneficiaries			Amount disbursed (₹ in crore)
			Fresh	Renewal	Total	
2010-11	1458	9.46	1458	1661	3119	9.46
2011-12	1458	6.74	1457	1950	3407	6.74
2012-13	4353	11.96	4555 ²⁴	1478	6033	16.59
Total	7269	28.16	7470	5089	12559	32.79

Source: Information furnished by the Company

We observed that:

- Out of a sum of ₹ 28.16 crore received during the period 2010-13, the Company had disbursed a total of ₹ 32.79 crore till December 2013 of which ₹ 4.63 crore was disbursed by the Company from funds available for other schemes.
- The percentage of female candidates who benefited under this Scheme ranged from 8.98 to 17.77 *per cent*.
- Merit list for providing financial assistance under this Scheme was not prepared by the Company.
- The Company, in violation of the prescribed guidelines, released the scholarship fund for subsequent years without securing the utilisation certificate in respect of the scholarship fund disbursed in the previous years.

The Management stated (October 2013) that the Company was trying its best to procure utilisation certificate from the institutions. The reply of the Company itself proved that the provisions of guidelines were not being adhered to before release of fund.

Mukhya Mantri Shram Sakti Yojna (MMSSY)

2.2.19 Mukhya Mantri Shram Sakti Yojna (MMSSY) was introduced in 2008-09 for upliftment of the unemployed persons of minority community belonging to the age group of 18 to 45 years by giving them various vocational training of skill development so as to enable them for self employment. We observed that the department issued an advertisement in February 2009 for imparting training under various trades to the unemployed persons of minority community. Out of 3453 applications received, 2921 beneficiaries were found eligible for training.

²³ The amount sanctioned and disbursed was for fresh and renewal beneficiaries.

²⁴ 202 additional beneficiaries sanctioned by Ministry of Minority Affairs for the year 2012-13. However, additional funds were not received by the Company till December 2013.

₹ 14 lakh only was utilised out of ₹ three crore received under the Mukhya Mantri Shram Shakti Yojana

The Company had received a grant of ₹ two crore and ₹ one crore during 2008-09 and 2009-10 respectively from the State Government. Out of ₹ three crore received, the Company utilised only ₹ 14 lakh during 2012-13 in organising training programme through CIPET²⁵, Hajipur and no further action thereafter was taken by the Company for imparting training to the said eligible beneficiaries. Thus, ₹ 2.86 crore remained unutilised for more than four years. As such, the intended benefits of providing training for self employment as envisaged under the Scheme did not percolate to the targeted beneficiaries.

The Management accepted the fact and stated (October 2013) that due to lack of guidelines, the funds could not be utilised up to 2012. Thereafter to ensure effective and proper implementation of the Scheme, CIPET and Raymond had been selected for imparting training.

Manpower

2.2.20 There was shortage of manpower in the Company. As against the sanctioned manpower strength of 73 persons, actual men-in-position as on March 2013 was only 31 indicating a shortfall of 58 *per cent*. Due to shortage of manpower, the Company was not in a position to have district level set up. The matter of shortage of manpower was not effectively dealt with by BoD of the Company. No recruitment policy has been formulated so far by the Company. Further, the Company had not prepared any personnel manual for establishment matters, recruitment, training, etc. During the period 2008-13, no training was imparted and there was no system of Annual Performance Appraisal of the employees. These deficiencies affected the Company's working with respect to implementation of the schemes.

Internal Control mechanism

2.2.21 Internal Control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and orderly manner. As a part of effective internal control system provision of efficient Management Information System (MIS) is a pre-requisite to facilitate decision making and control. Further, an efficient and effective internal audit wing should also be in existence for better control. Audit noticed the following deficiencies in Internal Control system and Internal Audit:

- The Company did not have any operational and functional manual. Further, no periodic reports/returns regarding disbursement was prepared and sent by the DWO/Division to the top management for effective monitoring which indicated that there was no MIS prevalent in the Company.
- No system was evolved by the Company to monitor the receipt of utilisation certificate regarding disbursement of fund from

²⁵ Central Institute of Plastic Engineering and Technology, Hajipur.

DWOs/DEOs²⁶. Further, data regarding year-wise/scheme-wise/District-wise utilisation certificate to be obtained were not maintained by the Company.

- There was no system of verification of the list of the eligible students prepared by outsourced agency/contractual staffs.
- The accounts of the Company were in arrear since 2010-11. The delay was mainly due to delayed preparation of accounts for the years 1984-85 to 1998-99 which was initiated from 2001.
- The Company failed to file the annual returns with Registrar of Companies for the years 2007-08 to 2009-10, as a result of which it was included in the list of Defaulting Companies published by Ministry of Company Affairs.

The aforementioned deficiencies were indicative of poor internal control and monitoring mechanism prevalent in the Company.

Internal audit

2.2.22 There was no separate internal audit wing in the Company. Further, Internal Audit Manual was not prepared by the Company. Chartered Accountants were engaged for updating of accounts and carrying out internal audit functions. Internal audit of the Accounts was done upto 2010-11. No corrective action was taken by the Company on the observation made by the internal auditor which included, *inter alia*, follow up for recovery of due amount from the beneficiaries, non-verification of the documents of loan, etc.

Conclusion

The Performance audit on financing and recovery activities of the Company revealed that implementation of various Central and State schemes was far from satisfactory. The detailed plan for disbursement of loan/scholarship fund to the intended beneficiaries and recoveries thereof was not prepared by the Company. As a result it failed to meet its objective of providing financial assistance to the targeted religious minorities in the State. The role of the Government in the functioning of the Company was deficient. Besides, there was poor control of the Department on the performance of Selection Committee constituted for monitoring of Coaching Scheme. The benefits of various loans/scholarship schemes did not percolate smoothly to the intended beneficiaries.

No system existed in the Company to ensure effective and timely utilisation of funds and for the purpose it was received. Instances of poor recovery and non/under utilisation of funds pertaining to various

²⁶ District Welfare Office (DWO), Additional Director Social Security (ADSS), District Education Office (DEO).

loan/scholarship Schemes were noticed. This was indicative of deficient financial management of the Company.

There were procedural lapses in identification of intended beneficiaries and disbursement of financial assistance. Besides, there was no system to ensure whether the loan/scholarship fund was indeed disbursed to the beneficiaries and the same was being utilised for the purpose for which it was disbursed. The system for follow-up of the recoveries from the beneficiaries was also not satisfactory.

The internal control in the Company was deficient in many areas.

Recommendations

- The Company needs to evolve a detailed plan for disbursement of loan/scholarship fund to the intended beneficiaries and recovery thereagainst. Besides, there is a need to develop a system by which the funds are utilised in a time bound manner and for the purpose it is received;
- Data base of the eligible beneficiaries ought to be developed. The Company also needs to develop a system to monitor and evaluate the achievement of its objective of upliftment of targeted groups and other social economic aspects;
- The Company should evolve a system of securing utilisation certificates from DWOs/colleges/institutes/beneficiaries prior to release of the subsequent scholarship/loan fund as well as ensure that the scholarship/loan fund disbursed to beneficiaries were being utilised for the purpose for which it was disbursed;
- Recovery mechanism needs to be strengthened; and
- Internal control and monitoring mechanism prevalent in the Company must be streamlined and strengthened.