Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Punjab had 33 working PSUs (28 companies and 5 Statutory corporations) and 17 non-working PSUs (all companies), which employed 0.80 lakh employees. The working PSUs registered a turnover of Rs. 19,138.60 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 12.04 per cent of the State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of Rs. 1,590.59 crore in 2008-09 and had accumulated losses of Rs. 9,181.22 crore.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 50 PSUs was Rs. 15,587.54 crore. It grew by over 12 per cent from Rs. 13,824.64 crore in 2003-04 mainly because of increase in investment in power sector. Power Sector accounted for nearly 86 per cent of the total investment in 2008-09. The Government contributed Rs. 2,720.94 crore towards equity and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, out of 33 working PSUs, 15 PSUs earned profit of Rs. 40.24 crore and 13 PSUs incurred loss of Rs. 1,630.83 crore. Two working PSUs prepared their accounts on 'no profit no loss basis' while other two working PSUs were under construction. Besides, first accounts of one working PSU had not been received. The major contributors to profit were Punjab Genco Limited (Rs. 11.30 crore) and Punjab State Container and Warehousing Corporation Limited (Rs. 10.12 crore). The heavy losses were incurred by Punjab State Electricity Board (Rs. 1,389.60 crore) and Punjab State Warehousing Corporation (Rs. 79.67 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of Rs. 1,358.50 crore and infructuous investments of Rs. 21.56 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 35 accounts of working companies finalised during October 2008 to September 2009, 22 accounts received qualified certificates and three accounts received adverse certificates. There were 21 instances of non-compliance with Accounting Standards. All three accounts of Statutory corporations finalised during October 2008 to September 2009 received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty five working PSUs had arrears of 57 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 17 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 1997-98 onwards are yet to be fully discussed by COPU. The 11 pending Audit Reports contained 35 reviews and 231 paragraphs of which 26 reviews and 110 paragraphs were pending for discussion.

2. Performance reviews relating to Statutory Corporations

Performance reviews relating to 'Construction and commissioning of Stage II (Unit III and IV) of Guru Hargobind Thermal Plant, Lehra Mohabbat' and 'Information Technology Audit of Large Supply billing software' of **Punjab State Electricity Board** and 'Functioning of the **State Transport Undertakings**' were conducted. Executive summary of the Audit findings is given below:

Construction and commissioning of Stage II (Units III and IV) of Guru Hargobind Thermal Plant, Lehra Mohabbat

On the basis of 15th Electric Power Survey of India (July 1995), Punjab State Electricity Board estimated demand gap of 1,111 MW and 947 MW at the end of ninth Five Year Plan period (1997-2002) and tenth plan period (2002-07) in the State of Punjab. To reduce this gap of power, the State Government decided in January 1999 to add generating capacity of 500 MW by setting up two additional units of 250 MW each under Stage II at Guru Hargobind Thermal Plant, Lehra Mohabbat which had an installed capacity of 420 MW under Stage I. The performance audit was conducted to assess economy and efficiency in project planning, execution and commissioning of the units against envisaged standards.

Project planning

The Board/State Government failed to decide the mode of execution of the project for more than three years since the date of techno economic clearance of the project by Central Electricity Authority in September 2000. It was only in December 2003 that the State Government decided to implement the project. Audit scrutiny indicated that the indecisiveness on the part of Board/State Government in deciding the mode of execution of the project resulted in abnormal delay in installation/commissioning of the project with consequential increase in project cost and other avoidable payments. Delay in placement of order for execution of the project resulted in huge time and cost overrun.

Award of contract

The turn key contract for construction of the project was awarded (May 2004) to BHEL on single quotation basis without inviting competitive bidding which deprived the Board of getting competitive rates. Due to improper analysis of BHEL offer, the Board had to incur excess expenditure of Rs 47.40 crore on price escalation on inadmissible items and wrong application of price variation formula.

Execution of the project

There was cost and time overrun. The expenditure incurred on the project was Rs. 2,353.86 crore as of March 2009 against the estimated project cost of Rs. 1,789.67 crore. Due to substantial time overrun in execution of both the units, the Board was saddled with additional capital costs of Rs. 564.19 crore coupled with avoidable extra expenditure of Rs. 2,061.16 crore (mainly towards purchase of power at very high rates).

Commissioning of the project

The scheduled dates for commissioning of the units-III and IV were December 2006 and March 2007. The Unit-III was synchronised for trial operation in February 2008 and the Unit-IV in August 2008. Due to synchronisation of the units without ensuring completion of all the works, the period of trial operation prolonged abnormally. The Unit-III was commercially commissioned only in October 2008 and the Unit-IV had not been commissioned so far (August 2009). Prolonged period of trial run resulted in excess consumption of inputs of Rs. 18.17 crore, which could not be recovered from BHEL in the absence of enabling clause in the contract.

Conclusion and Recommendations

The Board failed to fulfill the primary objective of bridging the demand gap and also deprived itself of the benefit of interest rebate and interest subsidy.

The review contains five recommendations which includes strengthening of the monitoring mechanism to ensure completion of the projects within the stipulated time.

Information Technology Audit of Large Supply Billing Software

The Board has got developed (November 2005) the Large Supply (LS) Billing software from Department of Electronics Accreditation for Computer Courses (DOEACC) for raising of bills through three Centralised Billing Cells (CBC) located at Patiala, Ludhiana and Jalandhar in respect of the LS and Bulk Supply consumers. The officials at the sub division level after recording the monthly meter readings manually from the premises of the consumers transmit the same to the concerned CBC through a messenger for preparation of the bills

Software related issues

No clause for ownership of source code was incorporated in the work order for development of LS Billing software from DOEACC which was not in the interest of the Board as the system design, algorithm, source codes of such critical system was vulnerable to misuse and the Board had to depend on the firm perennially. The Software was deficient as checks to watch and control the delay in issue of bills through generation of MIS reports and a provision for giving alerts in case of short recovery of Advance Consumption Deposit were not incorporated in the software. The database generated by the software contained invalid entries or inconsistent data pointing towards lack of validation checks and input controls. Data captured was partial even in crucial fields. Data entry pertaining to mandatory fields was not done in many cases. Besides making the database unreliable, any analysis or reports for Management Information System (MIS) based on such an incomplete database was likely to furnish incomplete and misleading information. Though the Board had developed various IT applications since 1986, it was observed during the IT audit that there were inadequate and deficient general IT controls to ensure the accrual of true benefits of computerisation of billing in terms of confidentiality, availability and accuracy and completeness of the data to serve some fruitful purpose to the Management

Implementation issues

Audit observed that main features of the software like preparation of LS consumer ledgers and preparation and monitoring of computerised Revised Bill Statement (RBS) and billing of mixed load/seasonal consumers were not yet functional. The Board could not penalize the vendor due to absence of any penalty clause in the work order for delay or incomplete execution of the software.

Other issues

The Board did not utilise the budget to the full extent during the years 2005-06 to 2008-09 and the percentage of utilisation ranged between 3.87 and 16.94. Audit observed that the decision to implement the online computerisation project in a single go not only delayed implementation of the project but also resulted in a wasteful expenditure of Rs. 7.50 lakh paid to PUNCOM. The Board failed to achieve the desired level of computerisation of its activities due to lack of clear cut IT strategy/policy.

Audit observed that 18 out of the 40 Engineers trained in IT had been posted in the offices where there were no substantial IT activities. Non inclusion of clause regarding passing of financial benefit in case of deviation in supply of material deprived the Board of benefit of Rs. 45.50 lakh.

Conclusion and Recommendations

Even after a lapse of more than five years since the project of on-line computerization was envisaged, the Board failed to achieve the desired level of computerization of its activities due to lack of clear cut IT strategy/policy. A proper IT policy should be formulated and documented. There is an urgent need to incorporate security controls and application controls to the various business applications through validation checks.

Performance audit on performance of the State Transport Undertakings

The Punjab Roadways (Roadways), Punjab State Bus Stand Management Company Limited (PUNBUS) and Pepsu Road Transport Corporation (PRTC) provide public transport in the State through their 45 depots. These State Transport Undertakings (STUs) had fleet of 2,578 buses (including 35 hired buses) as on 31st March 2009 and carried an average of 8.01 lakh passengers per day during 2004-05 to 2008-09. They accounted for a share of 39.46 per cent in public transport with the rest coming from private operators. The performance audit of the STUs in Punjab for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of their operations, ability to meet their financial commitments, possibility of realigning the business model to tap non conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the STUs.

Finances and Performance

The STUs suffered a loss of Rs. 462.03 crore during 2004-09. The STUs earned Rs. 20.57 per kilometre and spent Rs. 23.65 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of their affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve better.

Declining Share of STUs

Out of 6,429 buses licensed for public transport in 2008-09, about 39.46 per cent belonged to the STUs. The percentage share declined from 48.12 per cent in 2004-05. Vehicle density (including private operators' buses) per one lakh population in the State increased from 21.66 in 2004-05 to 22.80 in 2008-09.

Vehicle profile and utilisation

The STUs were not able to achieve the norm of right age buses as out of 2,543 owned buses 1,210 buses were overaged. During 2004-09, the PRTC and PUNBUS purchased 379 and 887 new buses at a cost of Rs. 40.95 crore and Rs. 118.44 crore respectively. The expenditure was funded through commercial loans. The fleet utilization of STUs in 2008-09 was higher than the all India average (AIA) of 92 per cent. The overall vehicle productivity at 281 kilometres per bus was less than the AIA of 313 kilometres. The vehicle productivity of Roadways had been on the lower side for all the years under review, while vehicle productivity of PUNBUS was more than the AIA during 2005-09. The vehicle productivity of PRTC was higher than AIA in three out of five years under review except in 2004-05 and 2008-09. The passenger load factor of Roadways, PRTC and PUNBUS varied from 62 to 84 per cent, 72 to 76 per cent and 79 to 83 per cent, respectively during the period under review against the AIA of 63 per cent.

The STUs did not carry out the preventive maintenance as required in 23.40 per cent cases in the Roadways and 26.31 per cent in PUNBUS, affecting the roadworthiness of their buses. No records relating to this aspect were maintained by PRTC.

Economy in operations

The manpower and fuel constituted 69.54 per cent of the total cost in 2008-09. Interest, depreciation and taxes- the costs of which are not controllable in the short-term, accounted for 21.97 per cent. Thus, the major cost saving can come from manpower and fuel.

The manpower cost per effective Km of the STUs increased from Rs. 7.94 (2004-05) to Rs. 9.24 (2008-09). The reason for increase in manpower cost per effective Km was reduction in effective Kms due to reduction in fleet operation.

Two STUs (Roadways and PUNBUS) did not attain their own fuel consumption targets. PRTC did not fix internal targets for fuel consumption. The excess consumption of fuel by the STUs as compared to AIA resulted in loss of Rs. 52.72 crore during 2004-09.

The Roadways and PRTC had just 35 hired buses where the bus owners provide buses with drivers and incur all expenses.

The STUs provide conductors and make payment as per kilometres operated. These two STUs earned a net profit of Rs. 17.48 crore during the review period from hired buses. As this arrangement has the potential to cut down the cost substantially, the STUs need to explore possibility of hiring of more buses to increase/replace their fleet.

Revenue Maximisation

The Route planning in the STUs was deficient as no curtailment, extension and change in frequency of operation of routes during peak hours was done. PRTC and PUNBUS did not carry out any exercise to identify the profitable/unprofitable routes. The share of non-traffic revenue was nominal at 5.08 per cent of the total revenue during the period under review. The STUs were unable to tap sources of non-traffic revenue substantially. The PRTC and PUNBUS have about 8.48 lakh Square meters of land. As they mainly utilise ground floor/ land for their operations, the space above can be developed on public private partnership basis to earn steady income which can be used to cross-subsidise their operations.

Need for a regulator

The fare per kilometre stood at 49 paise from July 2006. Though the Government approves the fare increase, there is no scientific basis for its calculation. The STUs have also not formed norms for providing services on the uneconomical routes. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations in the uneconomical routes and address grievances of the commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The monitoring by top management fell short as it did not fix targets for various operational parameters.

Conclusion and Recommendations

Though the Roadways and PRTC are incurring losses, it is mainly due to their high cost of operations and negligible reliance on hired buses. The STUs can control the losses by resorting to hiring of buses and tapping non-conventional sources of revenue, besides controlling their cost of operations. This review contains ten recommendations to improve the STUs performance. Hiring of buses, creating a regulator to regulate fares and services and tapping of the non-conventional sources of revenue are some of these recommendations.

3. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of Rs. 0.88 crore in two cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.4 and 3.8)

Loss of Rs. 25.61 crore in six cases due to non-safeguarding the financial interests of PSUs.

(Paragraphs 3.1, 3.2, 3.7, 3.10, 3.12, and 3.16)

Loss of Rs. 13.71 crore in three cases due to defective/deficient planning

(Paragraphs 3.9, 3.11 and 3.15)

Loss of Rs. 1.03 crore in two cases due to lack of fairness/transparency and competitiveness in operations.

(Paragraphs 3.6 and 3.14)

Loss of Rs. three crore due to inadequate/deficient monitoring.

(Paragraph 3.13)

Unfruitful expenditure of Rs. 1.30 crore in two cases due to non-realisation/ partial realisation of objectives.

(Paragraphs 3.3 and 3.5)

Gist of some of the important audit observations is given below:

Punjab State Electricity Board in contravention of provisions of Electricity Act 2003, waived the condition for levying of voltage surcharge and extended undue favour to a consumer, which resulted in loss of revenue of Rs. 3.81 crore.

(Paragraph 3.12)

Punjab State Electricity Board failed to take decision to avail short term loan immediately after evaluation of the offers, which resulted in avoidable payment of interest of Rs. three crore due to subsequent raising of loan at higher rate of interest.

(Paragraph 3.13)

Punjab Agro Foodgrains Corporation Limited did not execute marketing agreement for hyola oil seeds/oil well before the commencement of crop season and failed to ensure compliance of the marketing agreements which resulted in loss of Rs. 0.98 crore.

(Paragraph 3.3)

Punjab State Civil Supplies Corporation Limited failed to check the correctness of final rates of wheat. Discrepancy in rates of wheat resulted in short realization of Rs. 9.47 crore.

(Paragraph 3.10.5)

Punjab State Grains Procurement Corporation Limited and **Punjab State Warehousing Corporation** failed to take up the matter with Government of India/State Government regarding reimbursement of interest on the elements of drought relief, transportation/movement of wheat and gunny bags, which resulted in loss of interest of Rs. 2.79 crore.

(Paragraph 3.1)

Punjab Information & Communication Technology Corporation Limited allotted industrial plots at less than the cost price resulting in loss of Rs. 2.10 crore.

(Paragraph 3.7)