Chapter IV

4. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations have been included in this chapter.

Government companies

Punjab Agro Foodgrains Corporation Limited

4.1 *Deterioration of paddy due to inept handling*

Failure to take timely and appropriate action for milling of the paddy led to deterioration of 9,881 MTs of paddy valuing ₹ 9.15 crore.

To mill the paddy procured for the central pool, selection of the millers is done by the District level committee comprising of representatives of the procuring agencies and Food & Supplies Department (FSD). After expiry of the specified date i.e. 25 September 2007 for the Kharif marketing season of 2007-08, allotment / change in allotment of the millers was done by the Director, Food & Supplies.

The paddy procured (28,492 MT during October – November 2007) by the Company at Khamano mandi in Fatehgarh Sahib was planned to be stored for milling in the premises of Lakshmi Energy & Foods Limited (LEFL). However, due to declaration of LEFL as defaulter by the procuring agencies, the Company stored the paddy in its own custody. LEFL offered (19 November 2007) to mill the entire paddy by the due date (28 February 2008) provided the Company agreed to accept the pattern of advance rice[ℵ]. However, the Company did not take any decision on the proposal of LEFL. Meanwhile, FSD after obtaining temporary 'No Due certificate' from the procuring agencies allotted (22 November 2007) 7,500 MT of paddy to LEFL. The Company did not approach FSD for shifting of the balance 20,992 MTs of unmilled paddy lying at Khamano Mandi to Ludhiana district.

LEFL after completing the milling of allotted paddy of 7,500 MT reiterated (7 February 2008) its earlier proposal to mill the entire paddy against delivery of advance rice. Again the Company did not decide the matter. The FSD allotted (28 February 2008) three millers i.e. LEFL (9,963 MTs), HR Trading (6,000 MTs) and Naveen Rice Mill (5,029 MTs) for milling of the paddy.

ℵ A scheme under which the miller delivers the rice in advance to FCI on his own and then claims paddy from procuring agencies

LEFL milled the allotted paddy of 9,963 MTs. The miller HR Trading did not lift any quantity of the paddy and Naveen Rice Mill lifted only 1,147.60 MTs of paddy. As a result 9,881 MTs of paddy remained unmilled (June 2008). The Company did not get the paddy milled at the risk and cost of the defaulted millers. LEFL after initial refusal offered (September 2008) to mill the balance paddy provided some compensation was given on the ground that the *percentage* of damaged and discoloured rice was expected to be much more. The Company did not agree to the proposal of LEFL. A team of personnel of the Company visited (December 2008) the storage area for physical verification and observed that almost all the stocks of paddy were broken, and lying uncovered and scattered in heaps.

To dispose of the unmilled damaged paddy of 9,881 MT valuing ₹ 9.15 crore, the Company decided (November 2009) to invite open tenders/auction. However, disposal of paddy was still awaited (September 2010).

Thus, non-seriousness and failure to take timely and appropriate actions by the Company for milling of the paddy led to deterioration of 9,881 MTs of paddy valuing ₹ 9.15 crore. The exact amount of loss would be known only after disposal of the deteriorated paddy.

It is unacceptable on whatever grounds that in the midst of poverty in the country, food grains are allowed to become waste. It is necessary that Government investigate the issue to fix accountability and take appropriate disciplinary action against the errant officials.

We referred the matter to the Management and Government in December 2009, reply to which is awaited (September 2010).

Punjab Agro Industries Corporation Limited

4.2 *Injudicious release of funds*

Injudicious release of ₹ 4.00 crore by the MD of the Company, without prescribing the terms of payment and ascertaining the actual requirements resulted in blocking of funds with consequential loss of interest ₹ 1.26 crore.

The Company makes investment in the equity shares of different industrial units to promote the agro-based industry in the State. The investment is made after approval of the project by the Project Approval Board (PAB) of the State Government.

In November 2006, the Company approached PAB seeking approval for setting up of a winery project at Talwandi Sabo in Bhatinda District at an estimated cost of ₹ 4.00 crore. On the grounds of lack of inhouse expertise and manpower in the Company, the project was proposed to be managed by the Viticulture Council of Punjab (VCP), a society formed under the Societies Act, 1860 wherein the Managing Director of the Company (MD) was also a member. Neither any detailed project report regarding feasibility of the winery project was presented to the PAB by the Company nor the matter was brought to the notice of the Board of Directors of the Company. The PAB decided (January 2007)

that a smaller winery unit with a cost of ₹ 4.00 crore be set up to catch the forthcoming grape season in April 2007. It was contended that as the VCP had applied for grant under the National Horticulture Mission Scheme, the grant if received, would be paid back to the Company. In case of non receipt of the grant, a new Company be registered and share equivalent to the investment made by the Company be got allotted. The PAB also approved that the winery unit be implemented and managed by the VCP.

The VCP requested (January 2007) for immediate release of funds to undertake the processing of grapes in the month of April 2007. The MD of the Company, without seeking approval of the Board of Directors and without considering the desirability of releasing funds in proportion to the actual requirements, released (February 2007) the entire amount of ₹ 4.00 crore as advance to the VCP. The Company did not enter into any formal agreement with the VCP, prescribing the terms of advance payment. Subsequently, the VCP, without the knowledge of the Company transferred the funds of ₹ 4.00 crore as unsecured loan to another Council named the Council for Citrus and Agri juicing. Incidentally, the Chief Executive of both the councils was the same person.

The Company enquired (January 2008) from the VCP about the status of the project to which the VCP intimated (April 2008) that the project would be implemented shortly. Thereafter, as the communication received from the VCP did not give clear picture of the status of the funds, the Company asked for (June 2008) refund of the amount of ₹ 4.00 crore. The VCP did not refund the amount and intimated (February 2009) that the amount would be refunded as and when funds were made available by the State Government. In July 2009, the VCP intimated that the State Government had not provided funds on the plea that the Citrus Council would come into a surplus fund situation by 2012-13 and out of those surplus funds it would return the loan to all Government agencies.

Thus, the injudicious release of funds by the MD of the Company, without keeping in view the actual requirements *vis a vis* status of the project and without obtaining approval of the project from the Board of Directors had resulted in blocking of funds with consequential loss of interest of ₹ 1.26[♦] crore besides, jeopardizing the recovery of the amount.

The Management and Government stated (May / June 2010) that ₹ 4.00 crore was released as approved by the PAB and the Company persistently took up the matter with the VCP for refund with interest. The reply, however, does not justify the action on the part of MD to release the fund without formal approval of the Board and also without ascertaining the actual requirement of funds *vis a vis* the status of the winery project. In the absence of any formal agreement prescribing the terms of advance payment, the Company could not recover the principal amount and suffered a loss of interest of ₹ 1.26 crore till July 2010.

♦ calculated at the minimum rate of interest of 9.25 *per cent* earned by the Company on the fixed deposits kept with the banks for a period of 41 months i.e. from March 2007 to July 2010

Punjab State Industrial Development Corporation Limited

4.3 *Loss due to non-charging of interest*

Due to wrong interpretation of OTS policy, the Company did not charge interest from the cut off date to the date of acceptance of OTS, which resulted in loss of ₹ 94.33 lakh.

To facilitate development of industries in the State, the Government of Punjab/ Company formulated (March 2009) One Time Settlement (OTS) policy for recovery of equity and loans advanced by the Company to the industrial units. As per terms and conditions of the policy, interest on the OTS amount was to be charged at the rate of 13.20 *per cent* per annum (compounded quarterly) from the cut off date[♣] except where allowed otherwise. The industrial units opting for lump sum payment of the OTS amount within 90 days of conveying of acceptance by the Company were eligible for rebate of five *per cent* on the OTS amount. No interest was to be charged on the lump sum OTS amount, if it was paid within 90 days of the date of acceptance of the OTS by the Company.

We noticed that due to wrong interpretation of the OTS policy, the Company did not charge interest for the period between the cut-off date and the date of acceptance of OTS, from the loanees who opted for lump-sum payment of the OTS amount. Test check of records of the Company revealed that six units[ℵ] opted (March to May 2009) for lump sum payment of the OTS amount of ₹ 38.48 crore. The Company took 49 to 108 days in conveying its acceptance. But it did not charge interest of ₹ 94.33 lakh for the period between the cut off date and the date of acceptance in terms of the policy ibid. Thus, failure of the Company to charge interest from the cut off date to the date of acceptance of OTS resulted in loss of ₹ 94.33 lakh.

The Government stated (June 2010) that for delay on part of the Company in conveying acceptance of OTS to the units, interest need not be charged from the units as it would defeat the very purpose of the policy and also contrary to the spirit and provisions of the policy and without any lapse on the part of entrepreneurs. The audit objection brings out non charging of interest as per the OTS policy, which clearly states that interest will be charged from the cut off date. Any relaxation to the approved policy needs prior approval of the State Government and Board of Directors of the Company. Further, for delay, if any, in acceptance of OTS, the Government / Management could take action against the erring officials. It is also pertinent to mention here that Punjab Financial Corporation, a sister PSU has charged interest for the said period for the cases settled under OTS scheme.

♣ Cut off date for applications received on or before 15th of a month would be the last date of the preceding month and for applications received from 16th till last date of the month would be 15th of the month.

ℵ Brahma Steyr Tractors Limited, A.P. Enzymes (India) Limited, S.N. Paper Mills Private Limited, Fazilka Cotton and Synthetics Limited, Garg Forgings & Castings Limited and Satia Synthetics Limited.

Punjab State Civil Supplies Corporation Limited

4.4 *Loss of interest due to belated raising of claims*

Absence of mechanism to monitor raising of bills resulted in loss of interest of ₹ 4.67 crore to the Company.

The Company procures paddy for the central pool on behalf of Food Corporation of India (FCI) by availing cash credit limit from the banks and stores paddy at the millers' premises in joint custody of the Company and the miller. After getting the paddy milled, the resultant rice is delivered to FCI by the miller/Company as per the movement plan conveyed by the FCI and the FCI in turn reimburses to the Company the cost of rice, which includes the minimum support price, bonus and other elements of incidentals as per the provisional/final rates conveyed by the Government of India (GOI) for each Kharif Marketing Season (KMS).

The provisional rates of custom milled rice issued by the GOI in October 2008 for the KMS 2008-09 included incentive bonus[€]. To regulate the payments for rice delivered by the State procuring agencies, the Regional Office of FCI in Punjab prepared the cost sheet and circulated (November 2008) to its field offices with copy to the State procuring agencies *inter alia* indicating that the provisional rate of rice was inclusive of bonus of ₹ 74.63 and interest on bonus of ₹ 1.44 per quintal[♣]. Reimbursement of bonus and interest thereon was to be made on delivery of rice to FCI and on production of documentary evidence of payment of bonus to the farmers.

We observed that the Company had no system to ensure timely raising of supplementary bills. Though the Company had made payment of bonus upto March 2009, the amount on account of bonus was not claimed immediately on delivery of rice to FCI. One district office (Ferozpur) raised supplementary bills for bonus and interest thereon in time. Three district offices[ϒ], after being pointed out during local audit (August 2009 to November 2009) raised the bills of ₹ 25.10 crore after a delay of 7 days to 476 days. Remaining 13 district offices raised the bills of ₹ 90.89 crore after a delay of 8 days to 492 days.

Thus, due to weak internal control mechanism the Company failed to monitor the timely raising of bills for bonus and interest thereon by the district offices. The delayed raising of bills resulted in loss of interest of ₹ 4.67 crore[*] to the Company.

The Management stated (June 2010) that for the KMS 2008-09, the State Government made arrangement for payment of bonus direct to the farmers in the form of payment

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€ An additional payment to minimum support price fixed by the Government of India

♣ For an average holding period of two months

ϒ Kapurthala, Ludhiana and Gurdaspur

* Worked out with effect from the April 2009 (for deliveries upto March 2009) / from the month next to the month of delivery to the month preceding the month of raising the bills @ 11.25 *per cent*, the minimum rate of interest on cash credit payable by the Company during the period of delay

warrants through public sector banks. Since these could not be encashed for one reason or other, it was decided to make payment through Arhtias (mediators) against receipt of time barred warrants. The payment of bonus through Arhtias continued upto 15 March 2009. The reply is not acceptable as the Company had made payment of bonus to the farmers upto March 2009 and did not raise supplementary bills promptly.

The Company needs to strengthen its monitoring mechanism so that all claims are raised promptly.

We referred the matter to the Government in April 2010; their reply had not been received (September 2010).

4.5 *Extra contribution to the employees provident fund*

The Company, in contravention of the statutory provisions, deposited the employer's contribution to Provident fund in excess by ₹ 7.07 crore.

As per section 6 of the Employees Provident Funds and Miscellaneous Provisions Act, 1952, the employers were under obligation to contribute to the fund at the rate of 12 *per cent* of basic pay, dearness allowance, cash value of food concession and retaining allowance payable to each employee. However, the prescribed rate of contribution was 10 *per cent* in respect of establishments which had at the end of any financial year accumulated losses equal to or exceeding the net worth*. Further, para 26A (2) of the Employees Provident Funds Scheme, 1952 provides that where the monthly pay of an employee exceeds ₹ 6,500, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of ₹ 6,500.

The accumulated losses of the Company continued to exceed its net worth during the years 2006-07, 2007-08 and 2008-09 and stood at ₹ 450.43 crore as on 31 March 2009.

We observed (May 2009) that the Company in contravention of the statutory provisions, instead of restricting the employer's contribution to 10 *per cent* of the emolument of the employees, had deposited the contribution at the rate of 12 *per cent* and also without limiting the contribution to the amount payable on the monthly pay of ₹ 6,500. These lapses resulted in excess deposit of employer's contribution of ₹ 7.07 crore by the Company during the years 2006-07, 2007-08 and 2008-09.

The Management *inter alia* stated (June 2010) that the rate of contribution once adopted under this scheme could not be reduced under rule 12. Management contention is however, not based on fact as this rule deals with the wages to which the employee is entitled and not the employers' contribution payable under the Act.

The Company should follow the applicable rules and regulations in order to avoid unnecessary payments and to minimise the losses.

We referred the matter to the Government in April 2010; their reply had not been received (September 2010).

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* Net worth represents paid up capital plus free reserves less intangible assets.

Punjab Small Industries and Export Corporation Limited

4.6 *Loss of revenue in leasing out a Business Centre*

The imprudent decision to lease out the Business Centre to NIIFT at a token lease amount of ₹ one per annum resulted in loss of revenue of ₹ 33.60 lakh.

As a part of the Export Promotion Industrial Park at Ludhiana, set up by the Company, it constructed (March 2001) a Business Centre having a conference hall, exhibition hall and a club at a cost of ₹ 4.04 crore. The centre was to be used for convenience of the exporters**.** The Company decided (November 2002) to invite offers from reputed organisations/individuals for taking over the building on lease basis. Accordingly advertisements were issued (January 2003 and April 2003) and three offers were received. The highest offer was from Ram Krishan & Sons for lease rent of ₹ 1.10 lakh per month in the first year which was to increase to ₹ 1.40 lakh per month from the second year. The offer was rejected on the ground that the rents quoted were less than the assessed rate of ₹ 1.86 lakh per month (as assessed by Public Works Department). Thereafter, the Company received offers between April 2003 and January 2006 for outright purchase and for rent/ lease basis which were also not accepted.

The Principal Secretary Industries and Commerce, Government of Punjab (PSIC), who was also the Chairman of Northern India Institute of Fashion Technology (NIIFT), Mohali[♣] desired (August 2007) that NIIFT should open a centre at Ludhiana before the academic session of 2008-09. Accordingly, the Director General of NIIFT approached (September 2007) the Company and desired to take over the Business Centre so that necessary modifications of the centre for the purpose of NIIFT could be carried out. The Company submitted (December 2007) a proposal to its Board of Directors to lease out the centre to NIIFT on "as is where is basis" at a rent of ₹ 2.16 lakh per month (as assessed by Public Works Department). However, the Board under the Chairmanship of PSIC and in the presence of a Director, who happened to be the Director General of NIIFT, decided (December 2007) to lease out the centre on a token lease amount of ₹ one per annum for two years on the ground that the primary objective of the Company was to encourage and provide all possible assistance to export oriented industries/institutes of the State and fashion designing in the modern age was also required to be strengthened. Accordingly, possession of the centre was handed over to NIIFT in August 2008. NIIFT has been using the centre to impart education in the field of Fashion Design and Technology.

We observed that while handing over the centre by sacrificing the potential monthly rental income of ₹ 2.16 lakh, the Company neither prescribed any terms and conditions nor entered into any Memorandum of agreement. The Company should have negotiated with NIIFT so that atleast the rent offered by Ram Krishan & Sons (₹ 1.40 lakh per month) could have been recovered. Failure of the Company to negotiate with NIIFT and

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♣ A registered Society of Government of Punjab under the Societies Registration Act, 1860

lease out the premises at a token lease amount of ₹ one per annum resulted in loss of revenue of ₹ 33.60 lakh to the Company during the period August 2008 to July 2010.

The Management stated (April 2010) that in the light of audit observation, the Company had taken up the matter with the Administrative Department proposing either to direct NIIFT to make payment of rent at the rate of ₹ 2.16 lakh per month, or to ask them to vacate the Business Centre building immediately. The Management further stated (May 2010) that proceedings to decide the rent required to be collected from NIIFT was under process.

The Company, being a commercial organisation, should allot / lease out its properties at commercial / reasonable rates.

We communicated our observations to the Government in December 2009; their reply had not been received (September 2010).

Statutory corporations

Punjab State Electricity Board

4.7 *Avoidable expenditure in purchase of HT steel wire*

Imprudent decision of the Board to reject the lowest offer on the plea that the rates were not in line with the detailed tender document resulted in avoidable expenditure of ₹ 1.47 crore.

The Punjab State Electricity Board (Board) invited sealed tenders in April 2008 to purchase 1015 MT of 4 mm diameter HT steel wire. The prices quoted in the tenders were to be on variable price[€] basis and the tenders were to be accompanied by earnest money. In response, the Board received three tenders which were opened on 30 April 2008. The offer of Orissa Concrete and Allied Industries Limited, Kolkata was not accompanied by earnest money and hence it was not considered. The offer of Usha Martin Limited, Hoshiarpur at ₹ 61,088.36 per MT (with base price of ₹ 51,000 per MT) was at firm price basis and the UIC Udyog Limited, Kolkata offered the price on variable basis (with base price of ₹ 51,000 per MT as on January 2008). Before finalisation of the tenders, the Hoshiarpur firm intimated (6 June 2008) that it had worked out the quoted rate on the basis of basic price prevalent in February 2008 and it would not demand any increase in price and would pass on the benefit of decrease in basic price, if any, in future to the Board. Thus, in effect, the rate offered by this firm also became variable within the ceiling of ₹ 61,088.36 per MT computed with reference to the basic price prevalent in February 2008.

[€] linked with the price of wire rods sold by Rashtriya Ispat Nigam Limited, a Government of India enterprises

To bring the tenders on equal footing, the Project Purchase Committee (PPC) calculated (June 2008) the rate payable on 22 May 2008 to the Kolkata firm as ₹ 68,784.82 per MT and the Hoshiarpur firm as ₹ 61,088.36 per MT. The PPC recommended to the Board for purchase of 1,015 MT of HT wire at the rate of ₹ 61,088.36 per MT from the Hoshiarpur firm at a total cost of ₹ 6.20 crore. The Board, however, rejected (23 June 2008) the offer of Hoshiarpur firm on the plea that the rates quoted by it were firm whereas variable rates were sought in the tender and it decided to place the order on the Kolkata firm for the entire quantity at their quoted variable rates. The Board issued letter of intent in June 2008 to the Kolkota firm and confirmed the same by issue of purchase order in July 2008 for supply of the material within three months. The entire quantity of HT wire was received between June and November 2008 at a total cost of ₹ 7.67 crore.

Audit observed that the Board's decision to ignore the recommendation of PPC, which was beneficial to the Board, was not prudent. In the instant case, though the tender specified the price to be quoted as variable, the Hoshiarpur firm which had initially quoted firm price subsequently agreed for passing on the benefit of reduction in prices, if any, to the Board. It was further noticed in audit that the Board in the past also had finalised tenders on firm rates, though the bids were invited at variable rates. Failure to adopt the similar strategy in the instant case cost the Board dearly. The injudicious decision of the Board not to consider the offer of Hoshiarpur firm thus resulted in avoidable expenditure of ₹ 1.47 crore.

The Board stated (February 2010) that its decision to place the order on UIC Udyog Limited, Kolkata was in line with the provisions of the Detailed Notice Inviting Tender, according to which 'telephonic and conditional tender would not be accepted'. It further stated that the offer of Hoshiarpur firm was subject to the condition that the entire ordered quantity (1,015 MT) shall be lifted in the month of June and July 2008 against the prescribed delivery period of three months. The above reply of the Board is an after thought and was not the subject matter before the Board of Directors while deciding to reject the offer of Hoshiarpur firm. The PPC had also recommended lifting the entire quantity in two months instead of three months.

We referred the matter to the Government in November 2009; their reply had not been received (September 2010).

4.8 *Failure to recover the line charges*

Unnecessary linking of recovery of the line charges for new connection with recovery of default amount from the previous owner resulted in non recovery of charges of ₹ 1.24 crore.

The Board's Sales Regulations provided that an application for new electricity connection in a premises that had defaulted payments in the past can not be registered till such time the defaulted amount is paid. After the expiry of six months of permanent disconnection, the service line if found to exist is deemed to have been dismantled for all

intents and purposes. Further, the Electricity Act, 2003 prohibits the Board to grant any concession without the approval of Regulatory Commission.

Khushi Ram Bihari Lal Limited, Dhuri (KRBL) bought (December 2003) the premises of Oswal Agro Furane Limited (OAFL) through the official liquidator. The electricity connection of the premises stood permanently disconnected since May 1996 as OAFL did not pay its dues to the Board and went into liquidation. The firm (OAFL) had dues of ₹ 1.26 crore on account of energy charges, payable to the Board. As per the Regulation cited above, service connection charges had to be collected while giving new connection to this premises that defaulted payment to the Board and the previous connection stood disconnected.

KRBL applied (February, 2004) for new electricity connection in the said premises. The Empowered Committee of the Government of Punjab directed (September 2004) the Board not to impose the line charges of (₹ 1.24 crore) on KRBL on the ground that the line had already existed and OAFL had made payment for the same. The relief was approved to KRBL on the understanding that the Board would be able to recover its pending claims of ₹ 1.26 crore against OAFL from the official liquidator in full. The decision of the Empowered Committee was subject to revision if the actual recovery from the liquidator was found less. The Board did not contest the decision of the Committee for unnecessary linking of levy of line charges for new connection with recovery of past dues from OAFL. The Board released the connection to KRBL in March 2005 without collecting the line charges of ₹ 1.24 crore.

Subsequently, while considering the request of KRBL for extension in electricity load, the Empowered Committee decided (September 2008) that KRBL would pay the original line charges as applicable at the time of signing their project with the State Government. After a period of one year since decision of the Empowered Committee, the Board issued a demand notice to KRBL in September 2009 for payment of the line charges within 21 days. KRBL did not make the payment and till date no action was taken by the Board.

We observed that the decision taken by the Empowered Committee in September 2004 was against the provisions of the Board's Sales Regulations and the Electricity Act 2003 to which the Board did not contest. Further, even after the decision of the Empowered Committee taken in September 2008 to recover the line charges from KRBL, the Board made no serious efforts to recover the charges or to disconnect the service connection. Thus, failure of the Board to effectively pursue the case resulted in non-recovery of the line charges of ₹ 1.24 crore from KRBL.

The Board stated (February 2010) that disconnection of the supply of electricity to the premises was not effected as per directions of the higher authorities.

We referred the matter to the Government in May 2010; their reply had not been received (September 2010).

4.9 *Incomplete works due to defective construction*

Due to defective stub setting for erection of towers, the work of the transmission line remained incomplete, though an expenditure of ₹ 83.15 lakh had been incurred.

The Board's instructions for construction of the transmission lines provided that before carrying out the stub setting for erection of towers, all the tower locations need to be inspected by the Sub Divisional Officer / Executive Engineer. Fifty *per cent* of the straight line locations should be concreted in the presence of Sub-Divisional Officer and another 25 *per cent* in the presence of Executive Engineer. All angle locations should invariably be concreted in presence of the Executive Engineer.

The work of 66 KV Madhir-Sukhna Ablu single circuit transmission line, to be used as a link line in case of emergency, was divided in two parts. The work of stub setting of the transmission line was to be done departmentally in three months time. The work of erection of towers and stringing and sagging of the transmission line was to be done through private party. The work of stub setting of the transmission line was carried out departmentally at a cost of ₹ 16.45 lakh and the work of erection, stringing, sagging and commissioning of transmission line was allotted (March 2007) to Jain Brothers, Ambala which was scheduled to be completed within two months.

On a complaint made by the contractor, the Additional Superintending Engineer (TLSC Division, Bathinda) inspected (May 2007) the site of work and found that certain tower locations were not in alignment and not in accordance with the approved route plan. Due to the wrong alignment, the stringing work was not possible and the foundations and towers might require reconstruction. The contractor refused to do the work and informed that in case erection and sagging was done on the stubs, the line would collapse. The Board constituted (February 2008) a Committee to look into the issue which confirmed (April 2008) that stub setting of the towers was not done as per the approved route plan.

Thus, due to failure of the Board officials to notice the defective stub setting during their inspections, the work of the transmission line which was to be completed in May 2007 remained incomplete after having spent ₹ 83.15 lakh[♣]. No steps have been taken (March 2010) by the Board to set right the defects, even though a period of two years has elapsed since noticing of the defects in stub setting.

The Board stated (June 2010) that inspections of the works were carried out, but no reports were kept. We observed that the authority which stated to have carried out the inspections failed to notice the defective stubbing and no records of inspections were kept.

♣ Civil works ₹ 16.45 lakh, tower material and conductor ₹ 44.06 lakh and overheads ₹ 22.64 lakh

Disciplinary action ought to be initiated to fix responsibility against the delinquent officials involved in the defective construction of the stub setting and ineffective inspections of the work.

We reported the matter to the Government in May 2010; their reply had not been received (September 2010).

4.10 *Extra expenditure in purchase of High Chrome Grinding Media*

Failure of the Board to place order within the extended validity period and as per the revised offer resulted in extra expenditure of ₹ 57.92 lakh in purchase of High Chrome Grinding Media.

High Chrome Grinding Media (Media) is the metallic balls used to crush the coal into pulverised form in the thermal power plants. As Bharat Heavy Electricals Limited (BHEL) was the sole supplier of metallic balls, the Board issued (March 2007) a tender enquiry to BHEL for purchase cum rate contract agreement for 1,000 Metric Tonnes (MT) of High Chrome Grinding Media, for supply over a period of four years from 2008 to 2011. BHEL offered (May 2007) to supply the material having wear rate guarantee of 150 grams per MT of grounded coal at the following ex-works rates:

For quantity ordered upto	Supply upto	Price per MT (₹)
30 September 2007	31 March 2008	62,906
30 September 2008	31 March 2009	67,312
30 September 2009	31 March 2010	72,025
30 September 2010	31 March 2011	77,075

The offer of BHEL was valid for 90 days i.e. upto 18 August 2007. As per the offer, the Board was to make advance payment of 10 *per cent* of the cost while placing the purchase order. The material was to be delivered by BHEL within 8 to 10 months from the date of receipt of order and the 10 *per cent* advance amount. On request of the Board, BHEL extended (7 August 2007) the validity of offer upto 31 October 2007. Just two days before expiry of the extended validity period, the Board decided (29 October 2007) to constitute a committee to negotiate with BHEL for reduction of the quoted rates and reduction of the wear rate guarantee from the offered 150 grams to 135 grams/MT. The Board also approached (30 October 2007) BHEL to extend the validity of offer upto 31 December 2007. BHEL agreed (30 October 2007) to extend the validity period upto 30 November 2007 and at the same time revised their offer as given below, on the ground of steep rise in input cost.

For quantity Ordered upto	Supply upto	Price per MT (₹)
30 November 2007	31 March 2008	62,906
30 September 2008	31 March 2009	67,312

During negotiation with the Board's Committee, BHEL agreed (22 November 2007) to give discount of two *per cent* in price and reduce the wear rate guarantee to 145 grams

per MT. However, the Board without taking cognizance of the revised offer of BHEL issued letter of intent (29 November 2007) and purchase cum rate contract agreement (17 December 2007) for supply of 1000 MT of Media in terms of BHEL initial offer of May 2007. Further, the Board issued supply cum purchase order (28 December 2007) for 250 MT of Media required by March 2008 by making advance payment of ₹ 15.41 lakh. BHEL did not accept (5 January 2008) the purchase cum rate contract agreement for 1000 MT and asked the Board to amend the same as it was not in line with its revised offer. However, the Board insisted (25 January 2008) for acceptance of the purchase cum rate contract agreement for 1000 MT. BHEL refused (February 2008) to honour the purchase cum rate contract agreement on the ground that it was not in line with its revised offer and validity of the revised offer also expired in November 2007. As a special case, it accepted the order for 250 MT of Media for supply by March 2008 at its quoted rate of ₹ 62,906 per MT and supplied the material in March 2008.

Subsequently, the Board issued (10 July 2008) tender enquiry for supply of 250 MT of Media and procured 249.430 MT from BHEL during January to March 2009 at the rate of ₹ 87,000 per MT.

We observed that against the initial validity period of three months, the Board took four months just to constitute a committee for negotiation and further during the extended validity period, it did not place the order as per the revised offer of BHEL. These failures resulted in extra expenditure of ₹ 57.92 lakh[ϒ] in the purchase of 249.430 MT of Media, which the Board was constrained to procure subsequently at high cost.

The Board stated (April 2010) that BHEL backtracked from their business obligations in view of unexpectedly high rise in price of raw material. The contention of the Board is not acceptable as the Board despite knowing that BHEL was the sole supplier and it had no other option failed to place the order in time and in line with the revised offer of BHEL.

We referred the matter to the Government in February 2010; their reply had not been received (September 2010).

4.11 *Short levy of penalty on the contractor*

Defective amendment to the agreement resulted in fixation of lower target of generation of energy and short levy of penalty of ₹ 44.85 lakh.

The Board approved (March 2004) award of the contract for operation and maintenance (O&M) of four micro hydel power plants installed at Nidampur (800 KW), Daudhar (1500 KW), Thuhi (800 KW) and Rohti (800 KW) to DSL Powers (P) Limited for ten years. The agreement signed (May 2004) with the contractor provided that the contractor would be paid O&M charges of ₹ 6.27 crore during the period of ten years. The

[ϒ] Worked out on 249.430 MT at differential rate of ₹ 21,034 plus applicable rate of excise duty (8.24 *per cent*) and CST (two *per cent*).

contractor would operate and maintain the plants in an efficient manner to ensure that the quantum of energy generated would be as nearly as possible to the design energy* of each power station. The minimum annual generation would be 40 and 45 *per cent* of the design energy in the first and the subsequent years respectively. In the event of generation of energy lower than the specified minimum, the contractor would pay penalty at the rate of ₹ 2.50 per unit of power less generated. The contractor was to be paid monthly O&M charges after adjusting penalty, if any, for less delivered energy.

The plants were handed over to the contractor on 11 July 2005. Since Rohti plant required major repair and replacement work, it was decided (17 April 2006) that its design energy would not be considered for payment of the O&M charges. In the case of three other plants, the contractor failed to generate the specified quantity of energy and disputed (June 2007) the mode of working of the shortfall in generation. He stated that it was absolutely impossible to generate the design energy without ensuring availability of adequate water in the hydel power houses and requested that the design energy be calculated with reference to the actual water discharge. The Board considered (25 April 2008) the issue and amended (13 May 2008) the relevant clause of the agreement to the effect that in the event of average water discharge actually made available to the contractor is less than the historical water discharge, penalty would be levied as per actual availability of water.

The Board amended the agreement in May 2008 providing for revision of the generation targets on the basis of actual discharge of water during the periods when the actual discharge was lower than the historical discharge, but it did not provide for fixation of the generation target when the actual average availability of water would be higher than the historical discharge. In other words, in the amended agreement the actual water discharge was taken to fix the generation target when it was lower than the historical discharge but was ignored when it was higher than the historical discharge.

The three power plants generated 56.76 lakh and 46.10 lakh units of electricity during the third and fourth year respectively. The Board worked out the targeted energy of 60.82 lakh units and 67.08 lakh units for the third and fourth year respectively. Since the actual generation was less than the targeted generation with reference to the actual average water discharge or historical water discharge, whichever was less, the Board levied penalty of ₹ 10.15 lakh and ₹ 52.45 lakh during the third and fourth year respectively.

We observed that on the basis of actual flow of water, the targeted generation would be 70.80 lakh units and 75.04 lakh units for the third and fourth year, respectively instead of the Board's figures of 60.82 lakh and 67.08 lakh units, worked out on the basis of actual water discharge or historical water discharge, whichever was lower. Resultantly, the Board worked out the targeted energy short by 9.98 lakh units and 7.96 lakh units with consequential short levy of penalty of ₹ 44.85 lakh (₹ 24.95 lakh and ₹ 19.90 lakh for the third and fourth year respectively).

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* Possible energy generation worked out on the basis of the historical average flow of water during the period April 1992 to March 2002.

Thus, the defect in the amendment to the contract made in May 2008 resulted in short computation of the targeted energy for the third and fourth year and short levy of penalty of ₹ 44.85 lakh. When this was pointed out (January 2010), the Board and the Government stated (March 2010 and June 2010) that the Board had worked out the generation target on the basis of amendment of May 2008. The reply is not acceptable as the amendment itself was defective as pointed out above.

4.12 Unfruitful expenditure on construction of a Sub station

Failure of the Board to ensure the feasibility and non obtaining of clearance from the Forest Department before undertaking the work of a sub station resulted in unfruitful expenditure of ₹ 44.27 lakh besides the interest payment of ₹ 32.08 lakh.

The instructions issued by the Board provided for preliminary and detailed survey before undertaking construction of the transmission lines so as to eliminate the likely bottlenecks in advance. In the detailed survey, the proposed tower locations and span are marked and inspected to satisfy the requirements of Road and Railway Regulations and Forest and Environment Regulations. The instructions emphasised that utmost importance should be given to the survey part of the construction activity of a transmission line.

With a view to meet the additional demand for supply and conservation of energy, the Board got sanctioned (August 2000) a term loan of ₹ 2.40 crore carrying interest at the rate of 13.5 *per cent* per annum from Rural Electrification Corporation (REC) for erecting a new 66-33/11 KV sub station at Kiratpur Sahib. The sub station was to be fed from the existing 132 KV sub-station at Anandpur Sahib by erecting 19 Kilometers of transmission line. The project was to be completed within two years from the date of first disbursement of the loan and the entire loan was to be repaid within seven years.

The Board drew the first instalment of ₹ 48.10 lakh in January 2001. The Board did not initiate the work of transmission line and incurred ₹ 44.27 lakh (October 2001 to November 2007) on the construction of sub-station and continued to seek extensions from REC for completing the whole work. Keeping in view the poor progress of work, REC considered (January 2007) the project as a non-starter and asked the Board to refund the loan with penal interest.

In May 2007, the Board observed that the proposed transmission line was to pass through excessive forest area and it would be very difficult to get clearance from the Forest Department and even if permission was granted, it would involve payment of huge compensation. Pending final decision, the Board requested (January 2008) REC for release of ₹ 39.74 lakh on the basis of utilisation certificate submitted by the Board. REC released (6 February 2008) the amount. The Board refunded the entire loan of ₹ 87.84 lakh alongwith interest of ₹ 32.08 lakh (which included penal interest of ₹ 2.41 lakh) to REC by 29 February 2008. The substation work completed to the extent of 80 *per cent* by March 2006 remained unused for want of the transmission line. The Board had since planned (2009-10) to upgrade the substation to 132 KV and feed it from an alternative transmission line. But this also remained to be materialised (September 2010).

Thus, failure of the Board to conduct the pre-requisite surveys and obtain mandatory clearance from the Forest Department for erecting the transmission line through forest before undertaking the construction of civil works for sub-station at Kiratpur resulted in unfruitful expenditure of ₹ 44.27 lakh, besides the interest payment of ₹ 32.08 lakh on the loan availed from REC. This also deprived the Board of the envisaged benefits of conservation of energy.

The Board, while undertaking such projects, should do proper planning and adhere to the laid down systems and procedures to make judicious utilization of borrowed funds.

We referred the matter to the Board / Government in December 2009; their reply had not been received (September 2010).

4.13 Wasteful expenditure

The Board incurred wasteful expenditure of ₹ 23.33 lakh by booking a box at the Mohali Cricket Stadium, despite being in losses.

In February 2005, the Punjab Cricket Association (PCA) offered the Board a 24-seator box at the Mohali Cricket Stadium to watch cricket matches at ₹ 10 lakh, for three years or three international matches whichever was later. The Chairman of the Board approved (February 2005) the offer, subject to *ex post facto* approval of the full Board. Payment of ₹ 10 lakh was made to PCA, Mohali in February 2005. The full Board approved (March 2005) the payment / proposal on the ground that under the encouragement policy of sports of the Board, the players and the officers concerned with the sports would be able to raise the standard of the game after witnessing international matches. Subsequently in October 2008, the Board again at the request of PCA booked a 40-seator box at the Mohali Cricket Stadium for three international matches by paying ₹ 20 lakh after obtaining approval of the full Board.

Audit observed that the Board had no policy / rules for making such expenditure. The Board had neither identified the players / officials for whom these bookings were intended nor had any records to substantiate that its officials had witnessed the international matches. Thus, the decision of the Board at the instance of PCA to incur this expenditure on the plea that witnessing of international matches would raise the standard of the game of PSEB players was not substantiated by facts and lacked justification, particularly when the Board had been in perennial and heavy losses.

After being pointed out by Audit (November 2008), the Board cancelled (November 2009) the booking and got refund of ₹ 6.67 lakh, the amount proportionate to the unexpired period of booking. Thus, by not observing propriety and economy even in difficult times, the Board incurred a wasteful expenditure of ₹ 23.33 lakh.

The Management stated (April 2010) that expenditure was made with the permission of full Board. The fact remains that the Board was in heavy losses since 2000-01 and should

not have incurred such wasteful expenditure. Subsequent cancellation of the booking of box vindicates the audit observation.

The Board needs to frame detailed guidelines for incurring such type of expenditure in future.

We referred the matter to the Government in November 2009; their reply had not been received (September 2010).

Punjab Financial Corporation

4.14 *Avoidable loss*

Disbursement of the NEF assistance by the Corporation without meeting the terms of SIDBI had resulted in loss of ₹ 25.97 lakh to the Corporation.

The Small Industries Development Bank of India (SIDBI) had been providing financial assistance to small entrepreneurs in the form of soft loan for investment as equity under the scheme of National Equity Fund (NEF assistance). The scheme was operated through the Prime Lending Institutions (PLIs) including the State Financial Corporations. The NEF assistance was to be provided to the entrepreneurs through the PLIs, levying service charges at the rate of five *per cent* per annum of which one *per cent* was to be retained by the PLIs and the remaining four *per cent* was to be passed on to SIDBI. The terms and conditions of NEF scheme as modified in May 2000 *inter alia* provided that availment of refinance by the PLIs from SIDBI in respect of term loan component of the project of the entrepreneurs would be a pre-requisite for lending the NEF assistance.

Our scrutiny of records of the Corporation revealed that it disbursed (June 2000 to October 2004) NEF assistance of ₹ 69.39 lakh to 14 entrepreneurs on the basis of sanctions issued by SIDBI for the term loan / NEF assistance, but without availing the refinance facility from SIDBI as per the modified terms and conditions. The Corporation was in losses since 1997-98 and its financial health was deteriorating. Despite this, the Corporation disbursed the NEF assistance from its own funds raised through high cost loans / bonds. Due to the poor financial health of the Corporation, SIDBI stopped regular refinance facility to the Corporation since 2003-04. Consequently, the Corporation could not get refinance for the term loan component of the projects of the 14 entrepreneurs to whom NEF assistance was given by it. The Corporation kept on pursuing SIDBI for reimbursing the NEF assistance given by it to the entrepreneurs. SIDBI refused to entertain the claims of the Corporation on the plea that availment of refinance against the term loan component was a prerequisite for extending the NEF assistance and finally declared (October 2007) the sanctions issued for the NEF assistance as lapsed. Thus, disbursement of the NEF assistance by the Corporation out of its own fund without meeting the terms of SIDBI had resulted in loss of ₹ 25.97 lakh[♣].

♣ Calculated at the lending rate of 13 *per cent* of SIDBI less interest rate of five *per cent* receivable under NEF scheme

The Management stated (September 2009) that the sanctions for refinance by SIDBI was the pre-requisite and not the disbursement and as such the Corporation released the assistance correctly. The reply is not correct because as per the modified terms and conditions of the NEF scheme, availment of refinance from SIDBI in respect of the term loan component of the projects was a pre-requisite for lending the NEF assistance and not the mere sanction for NEF assistance.

The Corporation needs to be more cautious in implementing the various schemes particularly when it is in heavy losses and its financial health is not sound.

We communicated the matter to the Government in November 2009 and their reply had not been received (September 2010).

Pepsu Road Transport Corporation

4.15 *Loss due to failure to enforce the terms of agreement*

Failure of the Management to enforce the terms of agreement resulted in loss of opportunities to recover the loss from the outsourcing agencies.

In December 2002, the Corporation decided to outsource the services of drivers to operate its buses. Clause 17 of the agreement entered with the outsourcing agencies provided that in the event of loss of property of the Corporation on account of negligence on the part of any driver of the outsourcing agencies, the agencies would be liable for making good such loss. The agreement further provided that a summary enquiry would be completed within 30 days of loss, by an officer deputed by the Corporation with a representative of the outsourcing agency for calculating the loss and fixing of responsibility.

We observed that during the period April 2006 to March 2010, 89 buses of the Corporation driven by drivers of eight[*] outsourcing agencies were damaged due to road accidents. During this period, the rate of accidents by the outsourced drivers was more than double the accidents by the own drivers of the Corporation. The ratio of drivers per accident was nine in respect of the outsourced drivers against 19 in respect of the drivers of the Corporation. However, the Corporation did not take any action as required under the agreement, i.e. no enquiry officer was ever appointed by the Corporation in any of the case to find out the cause of damage and to claim the loss after fixing responsibility. The damaged buses were repaired by the Corporation on its own in the Body Fabrication cell and Central Workshop, after incurring an expenditure of ₹ 65.50 lakh. Thus, due to continued failure of the management to enforce the terms of agreement, the Corporation lost opportunities to recover the loss from the outsourcing agencies. Further, had the Corporation conducted enquiries in terms of the agreements to recover the loss from the

[*] S.L. Bajaj; Virasat; Ex-servicemen, Patiala; The Providers, Chandigarh; ISS Ludhiana; Gursewak Singh, Sangrur; SSS Providers, Patiala; and PESCO, Chandigarh.

outsourcing agency, it could have acted as deterrent and made the drivers and the outsourcing agencies more careful.

The Corporation should enforce the contract terms on the outsourcing agencies to protect its interest.

We referred the matter to the Government / Management in May 2010; their reply had not been received (September 2010).

General

4.16 *Follow-up Action on Audit Reports*

Explanatory Notes Outstanding

4.16.1 The Audit Reports of the Comptroller and Auditor General of India, represent the culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The State Finance Department issued instructions (August 1992) to all the administrative departments to submit detailed notes, duly vetted by Audit indicating the corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports, within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

The Audit Reports for the years 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 featuring 167 paragraphs/reviews relating to PSUs under the administrative control of 13 departments were placed in the State Legislature on the dates indicated in the following table. No replies in respect of 66 paras / reviews have been received from eight departments of the State Government by 30 September 2010.

Year of the Audit Report (Commercial)	Date of Presentation	Total no. of paragraphs/ reviews in the Audit Report	Number of paragraphs/ reviews for which detailed notes were not received.
2002-03	June 2004	23	1
2003-04	March 2005	22	3
2004-05	March 2006	23	10
2005-06	March 2007	28	2
2006-07	March 2008	25	11
2007-08	March 2009	24	17
2008-09	March 2010	22	22
Total		**167**	**66**

The department-wise analysis is given in ***Annexure 18***. The departments largely responsible for non-submission of detailed notes were Power, Finance, Agriculture, Industries and Food and Supplies. The Government did not respond to important reviews that highlighted delay in taking action against defaulting millers/loanees, performance of workshops, purchase and inventory control, deficiencies in planning, construction and commissioning of power plant in power sector, loss in sale of damaged wheat, one time

settlement to profit making units, sanctions/disbursement/recovery of loans and operational deficiencies in working of State Transport Undertakings.

Action Taken Notes on Reports of Committee on Public Undertaking (COPU)

4.16.2 As per rule 25 of the Internal Working Rules of COPU, Punjab Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of the PSU within six months from the date of placement of Report of COPU in the State Legislature. Replies to 5 paragraphs pertaining to two Reports of COPU (84th and 85th) presented to the State Legislature on 24th March 2008 and 5 paragraphs pertaining to two Reports of COPU (88th and 89th) presented to the State Legislature on 6th March 2009 had not been received as on 30 June 2010.

Action taken on the persistent irregularities

4.16.3 With a view to assist and facilitate discussions of the irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the concerned auditee organisations. The results thereof in respect of Government companies and Statutory corporations are included in the ***Annexure 19.***

Government companies

Irregularities having financial implication of ₹ 1.39 crore in respect of Punjab Agro Foodgrains Corporation Limited and ₹ 7.74 crore relating to Punjab State Civil Supplies Corporation Limited were included in the Reports of Comptroller and Auditor General of India for the years 2003-04 to 2008-09 (Commercial) - Government of Punjab. These irregularities had been persisting for period ranging between two and five years.

Statutory corporations

Irregularities having financial implication of ₹ 27.12 crore pertaining to Punjab State Electricity Board were included in the Reports of Comptroller and Auditor General of India for the years 2003-04 to 2008-09 (Commercial) - Government of Punjab. These irregularities had been persisting for period ranging between one and five years.

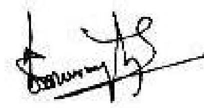
Response to Inspection Reports, Draft Paras and Reviews

4.16.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of four weeks. Inspection Reports issued upto March 2010 revealed that 2,752 paragraphs relating to 831 Inspection Reports pertaining to 40 PSUs were outstanding at the end of 30 June 2010. The department-wise break up of Inspection Reports and audit observations outstanding as on 30 June 2010 is given in ***Annexure 20***.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the

Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 13 draft paragraphs and two draft performance reviews forwarded to the various departments during April 2010 to July 2010 as detailed in ***Annexure 21*** had not been replied so far (September 2010).

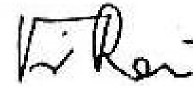
It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews as per the prescribed time schedule; (b) action to recover loss/outstanding advances/ overpayment is taken within prescribed period and (c) the system of responding to audit observations is revamped.



(S. Murugiah)
Principal Accountant General (Audit), Punjab

CHANDIGARH
The

Countersigned



(Vinod Rai)
Comptroller and Auditor General of India

NEW DELHI
The