Chapter-4

Audit of Transactions

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 State Power Corporation Limited

4.1 Avoidable loss

Failure of the Company to carry out proper inspections during the installation of the plant to ensure that the equipments have been erected in accordance with prescribed specifications of the Contract/ Bill of Materials, resulted in avoidable loss of ₹ 64.92 crore.

Punjab State Power Corporation Limited[1] (Company) awarded (April 2004) a contract for design, erection, testing & commissioning of 2x250MW Guru Hargobind Thermal Plant (GHTP) Stage-II (Unit-III and IV), Lehra Mohabbat on turn-key basis to Bharat Heavy Electricals Limited (BHEL). The terms and conditions of the contract *inter alia* provided that the Engineer/ Inspector appointed by the Company shall have at all reasonable time access to the contractor's premises or work and shall have the power at all reasonable times to inspect drawings or any portion of the equipment or examine the materials and workmanship of the equipment being manufactured to ensure that the materials and equipments have been erected in accordance with prescribed specifications of the Contract/ Bill of Materials. The warranty period was for a period of 12 months for respective units, commencing immediately from the date of commissioning of the equipment or 15 months from the date the unit was ready for commissioning, whichever was earlier. The contractor was also liable to repair or replace any defective workmanship that may develop in the plant of his own manufacture or those of his Sub-Contractor's under conditions provided by the Contract and under proper use and arising solely from faulty design, materials or workmanship, provided that notice of any such defects or failure to confirm to the specifications and satisfactory proof thereof was promptly given by the purchaser to the contractor.

Unit-IV of the plant was commissioned on 25 January 2010. Within three months from its commissioning, the Unit tripped on 20 April 2010 due to

[1] The erstwhile Punjab State Electricity Board was unbundled on 16 April 2010 and two companies viz. Punjab State Power Corporation Limited and Punjab State Transmission Corporation Limited were formed. The word Company also refers to the Board for the period prior to formation of the Company.

bursting of a pipe[2] of HP Turbine. BHEL itself accepted (21 April 2010) that failure of the pipe was due to erection of carbon steel grade pipes in place of alloy steel pipes. Instead of initiating action under the warranty clause, the Company got repaired the damaged piping from BHEL at a cost of ₹ 2.90 crore and the Unit was resynchronised on 9 June 2010 (i.e. after a period of 50 days).

We observed that the Company did not carry out proper inspections during the installation of the plant. Consequently, it did not detect that piping of HP Turbine had been erected with carbon steel grade pipes in place of alloy steel pipes, which caused sudden bursting of these pipes and tripping of the Unit. The Unit remained shut down for 50 days (20 April 2010 to 9 June 2010) resulting in financial loss of ₹ 64.92 crore[3] on account of loss of generation of 300.58 MUs. It was also observed that the Company in the first instance did not initiate any action against BHEL, under warranty clause for bursting of HP Turbine piping due to utilisation of material not in accordance with the prescribed specifications of the contract/Bill of material. It was only after being pointed out (August 2010) in Audit that the Company adjusted (August 2011) ₹ 2.90 crore, the cost of repair, from BHEL. In the absence of enabling clause in the contract, the Company, however, could not initiate any action for the recovery of financial loss of ₹ 64.92 crore on account of loss of generation. Further, the Company had not fixed responsibility for the negligence of its officers/officials responsible for inspections during the installation of the plant.

Thus, had the Engineers/ Inspectors deployed by the Company carried out all the requisite inspections during the installation of the plant, the use of material in contravention of the specifications of the Contract/ Bill of Materials could have been noticed and the subsequent generation loss of 300.58 MUs avoided.

We recommend the Company to streamline its inspection processes and consider introduction of suitable clauses in its contracts to protect its financial interests.

The matter was reported to the Government and the Company in December 2011; their replies were awaited (December 2012).

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2 balancing leak off line to Cold Reheat

3 Realisation cost per unit - variable cost per unit * Loss of Generation
₹ 3.77 - ₹ 1.61 *300.58 MUs = ₹ 64.92 crore

4.2 Non-recovery of concessions granted to an ineligible firm

The lackadaisical approach of the Company in effecting the recovery of concessions granted to an ineligible firm resulted in non recovery of ₹ 98.67 lakh and consequential loss of interest of ₹ 47.48 lakh.

Electricity Supply Regulations (ESRs) of the Punjab State Power Corporation Limited (Company) *inter alia* provided that Captive Power Plant (CPP) owners, who were the consumers of the Company and also wanted to have interfacing with the Company's system shall be eligible for utilizing power for their self use and shall have option to run their plant in synchronization with Company's system. Further, such CPP owners were required to pay one time permission fee at ₹ 50 per KVA and provide transmission network (transmission lines, bay etc.) for interfacing/ injecting of power with Company's Grid at their own cost.

Government of Punjab formulated (November 2006) a "New and Renewable Sources of Energy (NRSE) Policy-2006" which provided a number of financial and fiscal incentives to develop and promote new and renewable sources of energy. Punjab Energy Development Agency (PEDA) was the nominated nodal agency for the implementation of the NRSE Policy-2006. The firms desirous of obtaining any benefit under the NRSE Policy were required to sign the implementation agreement with PEDA within one month from the approval of Project. For giving effect to this policy, necessary amendments in various enactments, where necessary, were to be made by the concerned departments. The Company also considered the issue of giving incentives to the projects covered under NRSE Policy-2006 and decided (July 2007) to waive off one time permission fee and install the bay and allied equipments in its Grid sub-station to evacuate power from NRSE projects at its cost.

Lakshmi Energy and Foods Limited (the firm) applied (May 2006) for setting up of a 30 MW (2 x 15 MW) Bio-mass Co-generation Plant at Khamano and deposited ₹ 67.47 lakh (December 2006 to August 2007) towards cost of 66 KV transmission lines from its premises to 66 KV sub-station at Khamano. Sub-station at Khamano being the radial sub-station, two bays were required to be constructed for evacuation of power generated by the firm. On the representation (April 2007) of the firm that the Company should not levy any charges on the ground that the project was being set up as per the State Government policy under which incentives were to be provided to encourage the public to generate power from bio-mass as non-conventional energy and it would also favour the Company by supplying the power to them to ease out the power crisis in the State, the Company waived off (April 2007) one time permission fee and cost of one bay. Permission for installation of 2x15 MW TG set was accorded by Chief Engineer (Commercial) of the Company in June 2007. Subsequently, the Company also waived of (March 2008) the cost of the second bay under NRSE Policy-2006.

The power plant of the firm was commissioned in July 2008. As per NRSE Policy 2006, the firm was required to sign the implementation agreement with the nodal agency, PEDA, within one month from the approval of the project. But the firm failed to do so. Consequently, PEDA decided (September 2008) that the project of the firm was not covered under NRSE Policy 2006 and thus was not entitled to any benefits under NRSE Policy. Chief Engineer, System Operations and Control of the Company also intimated (November 2008) that the firm has been allowed for sale of power under open access.

In view of clarifications given (September 2008) by the PEDA and the fact that the firm was selling its power under open access, the cost of concessions granted to the firm such as waival of one time permission fee and cost of two bays constructed at Khamano sub-station needed to be recovered from the firm. Accordingly, the Company decided (November 2009) that the concessions granted be recovered from the firm.

We observed that the Company took more than one year in deciding the recovery of concessions after the withdrawal by PEDA. Further, no serious efforts were made by the Company for the recovery of concessions granted to the firm to which it became ineligible in view of the orders passed by PEDA. The recovery has not been effected so far (December 2012).

We conclude that the lackadaisical approach of the Company resulted in non recovery of concessions granted to an ineligible firm of ₹ 98.67 lakh (₹ 16.67 lakh[4] on account of one time permission fee and ₹ 82.00 lakh on account of cost of construction of two bays) and consequential loss of interest of ₹ 47.48 lakh[5].

We recommend the Company to initiate urgent steps to recover its dues from the firm and protect its financial interests.

The matter was referred to the Government and the Company (December 2011); their replies were awaited (December 2012).

4.3 Non recovery of arrears of dry fly ash

Failure of the Company to enter into agreements/taking legal assurance from the concerned firms to give pragmatic effect to its Board's decision for retrospective recovery of the arrears coupled with abnormal delay in finalisation of rates of dry fly ash resulted in non recovery of ₹ 10.61 crore.

Ministry of Environment & Forests (MOE&F), Government of India (GOI) issued (14 September 1999) a notification regarding utilisation of dry fly ash (DFA) which *inter alia* provided that ash from every coal or lignite based thermal power plant shall be made available free of cost upto 13 September

4 Calculated at the rate of ₹ 50.00 per KVA (30 MW x 1,000 ÷ 0.90 x ₹50).

5 Calculated at CC limit interest rates varying from 12.25 *per cent* to 13.25 *per cent* payable on CC limit.

2009 except handling charges for the purpose of manufacturing ash based products. Punjab State Power Corporation Limited (Company) entered into long term agreements at various intervals with a number of firms for lifting of DFA. Accordingly, all the three[6] thermal power stations of the Company were providing DFA to the firms free of cost and were collecting only normal handling charges at the rates prescribed by the Company. The firms were also lifting DFA in excess of the quantities allocated as per respective long term agreements from time to time. The Company before the expiry of the validity period of the ibid notification constituted (August 2009) a committee for fixation of rates of DFA with effect from 14 September 2009.

The Committee submitted its report on 17 September 2009 and recommended that excess quantity over and above the quantity covered in long term agreements be disposed off by calling tenders for sale. The MOE&F, GOI also allowed (November 2009) all the coal and lignite based thermal power stations to sell DFA to the user agencies.

While considering the Committee's recommendation, the Board of Directors of the Company fixed (January 2010) the provisional rates for sale of excess quantity of DFA beyond the long term allocations @ ₹ 125/- per MT for the large scale manufacturers and ₹ 50/- per MT for small scale manufacturers with effect from 14 September 2009. These rates were subject to the condition that in case the tendered rate was more than these rates then the same rate shall be charged retrospectively along with arrears and if the tender rate was less than the present rate being offered then the same shall continue to be paid by the parties to the Company. But to give pragmatic effect to its Board's decision neither any agreement was entered into with the concerned firms nor any legal assurance was taken in the form of bank guarantee/ security/undertaking from the firms in this regard.

The Company after ascertaining (31 March 2010) the quantities of DFA for the GGSSTP Ropar and GHTP Lehra Mohabbat[7] to be sold through open tenders, directed the Chief Engineer (CE) (Thermal Design) to float tenders immediately. Tenders were invited and opened in May 2010. The tender process could not mature because of discrepancies[8] in the formula for calculation of the rates based on the Cement Price Index. The tenders were re-invited and opened on 26 November 2010 i.e after a period of more than six months which brought out quoted rates of ₹ 558/- per MT and ₹ 315/- per MT for GGSSTP Ropar and GHTP Lehra Mohabbat respectively.

In the meantime ACC, a firm already getting DFA from GGSSTP Ropar, filed (December 2010) a civil suit and obtained status quo restraining the Company

[6] Guru Gobind Singh Super Thermal Plant (GGSSTP) Ropar, Guru Hargobind Thermal Plant (GHTP) Lehra Mohabbat and Guru Nanak Dev Thermal Plant (GNDTP) Bathinda

[7] In case of GNDTP Bathinda, no excess quantity of DFA beyond long term allocation was available because of shut down of one unit for renovation and modernisation.

[8] As per stipulation, the offered rates were to be increased every financial year with wholesale cement price index for the month of March of every financial year whereas it was mentioned in the numerator of the formula that the wholesale price index of one month prior to the month of next year of allotment was to be taken which was contradictory in itself.

from disrupting in any manner the smooth supply of DFA as per terms & conditions of the long term agreement. Since the quantity available for allocation of DFA through open tender process at GGSSTP Ropar depended on the order of the Court, the Company decided not to finalise the rates for GGSSTP Ropar and approved the rates for GHTP Lehra Mohabbat (March 2011).

In compliance to the Company's decision (January 2010) to charge the newly approved rates with effect from 14 September 2009, the GHTP Lehra Mohabbat authorities raised (May 2011) arrear bills on four firms amounting to ₹ 9.88 crore (Jay Pee Cement: ₹ 2.43 crore, Ambuja Cement: ₹ 2.40 crore, Binani Cement: ₹ 1.92 crore and ACC: ₹ 3.13 crore) for the period from 14 September 2009 to February 2011. However, the firms refused (May/June 2011) to pay the arrear bills as there was neither any MOU nor an agreement with them in this regard. In addition to this, ACC has not paid the bills amounting to ₹ 72.89 lakh for March and April 2011.

We observed (July 2011) that in spite of the decision to charge a different rate from user firms and conveying the same, the Company could not initiate legal action against them to effect the recovery of arrears of DFA cost of ₹ 10.61 crore in the absence of any agreement/legal assurance.

We suggest the Company to take steps to enforce its dues and to initiate remedial steps in drawing its agreements so as to safeguard its financial interests.

The matter was reported to the Government and the Company (March 2012); their replies were awaited (December 2012).

4.4 Unfruitful expenditure

Awarding of consultancy work without concrete planning and subsequent foreclosure of the same resulted in unfruitful expenditure ₹ 6.27 crore coupled with non-achievement of envisaged target of meeting shortage of power in the State.

Ministry of Power (MOP), Government of India (GOI) issued (January 2005) guidelines under Section 63 of the Electricity Act, 2003 for determination of tariff by bidding process for procurement of power by distribution licensees through the following mechanisms:

(i) Where the location, technology or fuel is not specified by procurer (Case 1) and

(ii) Location specific projects with specific fuel allocation such as captive mines available which the procurer intends to set up under tariff based bidding process (Case 2).

Initially MOP notified standard bidding documents (SBD) under Case 2 only, SBD under Case I were notified in April 2009.

To fulfill the deficit in the planned capacity addition programme, the Punjab State Power Corporation Limited (Company) decided (October 2007) to procure 2,000 MW power from an independent power producer selected through competitive tariff based bidding as per the guidelines of MOP. The Company, without following the due procedure of competitive bidding, appointed (November 2007) REC Power Distribution Company Limited as a consultant for selection of developer through international competitive bidding process for supply of 2,000 MW on tariff based bidding under Case 1 of MOP guidelines at a cost of ₹ 12.5 crore (plus service tax and education cess). The scope of work included assistance in filing petition for taking approval of Punjab State Electricity Regulatory Commission (PSERC) for procurement of power as per the guidelines of MOP and the National Tariff Policy, petition/review petitions for approval of bidding documents, evaluation and finalisation of the bids and signing of power purchase agreement etc.

As per terms of contract, the Company made (December 2007) payment of ₹ 3.51 crore, as first installment of the consultancy fee on issue of letter of award of contract. The work was scheduled to be completed in 12 months (i.e. upto November 2008) from the date of issue of work order which was subsequently extended upto 13 October 2010.

The consultant filed the petitions from time to time (December 2007 to December 2008) for taking approval of the PSERC for procurement of power and petitions/review petitions for approval of documents to be issued to the bidders. PSERC granted (September 2008) approval for procurement of power to the extent of 1,800 ± 10 *per cent* MW power under Case 1 through competitive bidding but the bid documents for the tender enquiry were not approved. PSERC directed (December 2008) the Company to await the finalisation of SBD by MOP under Case 1 before proceeding further. Finally, the consultant prepared (July 2009) the bidding documents along with notice inviting tenders on the basis of SBD issued by MOP in April 2009. Global tender enquiry for procurement of 2,000 MW of power was issued in July 2009. Second installment of ₹ 2.76 crore (i.e. 20 *per cent*) of the consultancy fee was paid (October 2009) to the consultant on issue of tender enquiry.

In response to the tender enquiry, seven bids with quoted power of 2300 MW were received and their non-financial bids were opened on 9 October 2009. The tender enquiry was dropped because of the failure of the bidders in either of the key evaluation parameters such as availability of fuel, land, water and environmental clearances and non-responsiveness/non-compliance of the bidders thereto. In view of this, the consultant offered (5 February 2010) to provide services for fresh tender enquiry under the present consultancy contract which was valid upto 13 October 2010 without any additional financial liability. However, the Board decided (9 February 2010) to drop the tender enquiry of July 2009 as non financial bids of all the bidders were non-responsive as per the requirement of bidding documents and to foreclose the existing consultancy agreement with the consultant.

We observed that the Company in rejecting the bids also rejected the offer of the Consultant to give services without any financial liability. The Company had placed the work order in haste without following the due procedure of competitive bidding, thus depriving the Company of the benefit of market derived rates. Despite being aware of the fact that MOP had not notified the SBD for procurement of power under Case 1, the placement of the work order on consultant and making payments with a stipulation to complete the work in 12 months indicates unrealistic and deficient planning on the part of the Company. Ineffectiveness of one of the tender enquiry when the consultant had offered to provide services for fresh tender enquiry without any additional financial implications did not warrant to keep the whole project in abeyance after spending a lot of time and money.

Thus, award of the consultancy work in haste without undergoing any concrete planning and subsequent foreclosure of the same resulted in unfruitful expenditure ₹ 6.27 crore coupled with non-achievement of envisaged target of meeting shortage of power in the State when the power deficit in the State had since been increased from 8,304 MUs in 2008-09 to 15,518 MUs in 2010-11.

The matter was reported to the Government and the Company (January 2012); their replies were awaited. (December 2012).

4.5 Avoidable damage of two power transformers

Failure of CMC Operation Division, Ludhiana to take remedial measures to make the 11 KV lines of outgoing feeders as trouble free up to two Km from the sub station, despite specific instructions in this regard, caused damage of two power transformers resulting in avoidable expenditure of ₹ 2.87 crore.

The Indian Electricity Rules, 1956, *inter-alia*, makes provisions for the testing, operation and maintenance of Electric Supply lines, system and apparatus for High & Extra-High voltages (HV[9] & EHV[10]). It *inter alia* provided that it shall be the responsibility of the owner of all HV and EHV installations to maintain and operate the installations in a condition free from danger.

Two power transformers i.e. T-1 of 16/20 MVA capacity and T-2 of 20 MVA capacity and their allied equipments which were installed in June 1998 and October 1999, respectively at 66 KV sub-station at Transport Nagar under Grid Maintenance City Division, Ludhiana got damaged on 11 September 2010 due to fire. These power transformers were replaced at a cost of ₹ 2.87 crore. A Committee consisting of three Deputy Chief Engineers[11] constituted (24 September 2010) to investigate the cause of damage of the power transformers observed that prior to its damage the T-2 power transformer tripped on HSU indications 38 times during last one year i.e. from October

9 Where the voltage does not exceed 33,000 volts.
10 Where the voltage exceeds 33,000 volts.
11 Protection and Maintenance Circle, Ludhiana, Grid Construction Circle, Ludhiana and Operation City East Circle, Ludhiana.

2009 to September 2010. Out of these trippings it tripped 32 times during May 2010 to September 2010 which was quite high. Six 11 KV outgoing breakers of the said power transformer tripped for 501 times during last one year, which was also very high. The Committee also observed that protection system of this transformer had operated correctly and efficiently and concluded that severe faults in 11KV outgoing feeder caused fire to T-2 power transformer and subsequently caused fire to T-1 power transformer due to its close proximity with it.

We observed that Senior Executive Engineer, CMC Operation Division, Ludhiana was advised time and again (May 2010 to August 2010) by Senior Executive Engineer, Grid Maintenance City Division, Ludhiana to make the 11 KV lines of the outgoing feeder upto two kms from the sub-station as trouble free so that faults in the zone be avoided for safety of the Grid equipments. Superintending Engineer, East Operation Circle, Ludhiana also directed (June 2010) the Senior Executive Engineer, CMC Operation Division, Ludhiana to constitute the special maintenance teams in a planned way to ensure the completion of distinctive patrolling of all the 11 KV lines of outgoing feeders within one month to make these lines as trouble free up to two KM from the sub-station. But CMC Operation Division authorities did not pay heed to the advice of Senior Executive Engineer, Grid Maintenance City Division, Ludhiana and directions of the Superintending Engineer, East Operation Circle, Ludhiana and also failed to take remedial measures to make the 11 KV lines of outgoing feeder as trouble free up to two kms from the sub station which ultimately caused damage to two power transformers.

Thus, violation of the concerned directions/regulations and advice of Protection staff by Operations staff and improper maintenance of 11 KV lines resulted in damage of two costly power transformers and avoidable expenditure of ₹ 2.87 crore.

We recommend the company to strengthen its internal control mechanism to ensure compliance of provisions for the testing, operation and maintenance of Electric Supply lines, system and apparatus to maintain and operate the installations in a condition free from danger.

The matter was referred to the Government and the Company (April 2012); their replies were awaited (December 2012).

4.6 Excess payment of price variation charges

Company's failure to keep track of the latest developments/IEEMA's decision regarding replacement of wholesale price index (WPI) of 'Iron & Steel' with new WPI of 'Ferrous Metals' resulted in excess payment of price variation charges of ₹ 1.92 crore in purchase of metal meter boxes.

The manual on 'Policies and procedures for purchase of goods' issued (August 2006) by Ministry of Finance (Government of India), *inter alia* provided that where it was decided to conclude the contract with variable price, an appropriate clause incorporating suitable price variation formula should be provided in the tender enquiry documents. Further, the variations were to be calculated by using indices published by Ministry of Commerce and Industry (Government of India)/Chambers of Commerce periodically. Indian Electrical and Electronics Manufacturers' Association (IEEMA), being a national representative organisation of manufacturers of electrical, industrial electronics and allied equipments in India, evolved price variation clauses covering a wide range of products and also circulated price indices for the same from time to time.

Chief Engineer (Metering), Punjab State Power Corporation Limited (Company) placed (March and August 2010) three purchase orders (POs) [12]on two firms[13] for 7.61 lakh metal meter boxes of various sizes[14] for single and three phase energy meters at a total cost of ₹ 95.37 crore. As per 'Prices' clause of the purchase orders, the rates of metal meter boxes were variable and based on Wholesale Price Index (WPI) of iron and steel, copper wire and EC grade Aluminum as published by Ministry of Commerce and Industry (Government of India)/IEEMA.

Ministry of Commerce and Industry (Government of India) revised (September 2010) the base of WPI numbers from 1993-94 to 2004-05. Previously, IEEMA was using WPI for Iron and Steel by taking base year 1993-94 as 100 in price variation (PV) circulars. As the commodity of iron and steel which was present in old base WPI series no longer existed in the new WPI base series, IEEMA replaced (October 2010) WPI of 'Iron and Steel' with the new WPI of 'Ferrous Metals' for the purpose of payment of PV charges from June 2010.

Audit, however, observed that the Director (Distribution) of the Company without taking cognizance of the change of base metal from 'Iron & Steel' to 'Ferrous Metal', replaced (November 2010) the word 'Iron and Steel' with 'Billets' for the purpose of price variation formula and the prices clause of the above three purchase orders were amended (December 2010) accordingly. The Company continued making payments (January 2011 to January 2012) of PV charges for 'Iron and Steel' on the basis of WPI of 'Billets' in respect of the above mentioned three purchase orders for metal meter boxes. Audit further observed that the base rates of 'Billets' was higher than that of 'Ferrous Metals' which resulted in excess payment of ₹ 1.92 crore, as detailed in ***Annexure-16***, on account of PV charges.

After pointing out in audit, the Committee of Whole Time Directors decided (July 2012) to amend the indices from 'Iron and steel' to 'Ferrous Metals' with retrospective effect i.e. the date from which indices of 'Iron and steel'

[12] PO No. MH-196/ MQ-110 dated 31 March 2010 for 5,46,000 boxes, which was subsequently increased (November 2011) to 6,80,000 boxes, PO No. 6039/MQ-114 dated 26 August 2010 for 70, 000 boxes and PO No 6156/MQ-114 dated 30 August 2010 for 10,800 boxes.

[13] Arun Enterprises, Sahibabad and Pyramid Electronics, Manpura.

[14] One meter in one box, four meters in one box and 20 meters in one box.

was replaced with indices of ‘Billets’ and to adjust/recover the difference in price variation already paid. The Committee of Whole Time Directors also directed to initiate action against the delinquent officers/officials who failed to exercise due diligence by not referring to IEEMA notifications. However, necessary recovery has not been effected so far.

Thus, failure of the Company to keep track of the latest developments/IEEMA’s decision regarding replacement of WPI of ‘Iron & Steel’ with the new WPI of ‘Ferrous Metals’ resulted in excess payment of price variation charges of ₹ 1.92 crore in the purchase of metal meter boxes.

The Management while admitting the facts stated (November 2012) that recovery has been effected and disciplinary action has been initiated against the delinquent officers/officials. The contention of the Management, however, was not corroborated from the records produced to Audit.

The matter was referred to the Government (February 2012), their reply was awaited (December 2012).

4.7 Failure to enforce the warranty clause

Decision of the Company to operate the machine on contract basis for five years instead of ascertaining the reasons for premature damage of runners and failure to enforce the warranty clause of the purchase order cum contract agreement for replacement/repair of the damaged runners not only resulted in financial loss of ₹ 6.50 crore but also caused generation loss worth ₹ 25.09 crore.

Punjab State Power Corporation Limited (Company) purchased (April 2006) two Pelton Turbine spare runners of 50MW machine for its Shanan Power House at Joginder Nagar from Ganz Energetic Limited, Budapest, Hungary (supplier) through its Indian agent Technip Ganz Machinery Private Limited, New Delhi at a total cost of ₹ 6.50 crore. The firm supplied the runners in April 2007. As per the warranty clause of the purchase order, the firm was responsible to replace the whole or any part of the equipment free of cost which under normal and proper use and maintenance, proved defective in design/engineering materials or workmanship within 12 months from the date of commissioning or 5,000 working hours whichever is earlier.

One spare runner put in operation (March 2008) got damaged in October 2008 after running for 4,335 hours. As the runner was damaged within the warranty period, the matter for replacement or repair was taken up with the supplier who stated (January 2009) that without knowing the exact cause of breaking of the runner it could not provide a new runner free of cost. Consequently, the Company agreed (August 2009) for investigating the cause of damage to the runner at the negotiated price of € 54,000. The second runner installed (May 2009) also got damaged (October 2009) within the warranty period after running for 3,435 hours only. The supplier again advanced the same reasons for non replacement of this runner. Subsequently, the supplier came up

(January 2010) with a new proposal for running of 50 MW machine on contract basis and a contract agreement was signed (January 2010) with Ganz Energetics India Private Limited, agent firm, for running of machine for five years at a negotiated rate of ₹ 2,337 per running hour subject to minimum of 3,000 working hours per year. The scope of the work also included:

- examination and repair of all five[15] damaged runners with the Company and the first runner to be repaired and supplied within 60 days from the effective date of agreement (22 January 2010) and the subsequent runners to be supplied after repair in succession after 60 days from the supply of the previous one,
- two new runners were to be provided within 18 months from the effective date of agreement,
- maintenance and repair of the runners supplied and repaired by the agent firm and
- deputing the technical expert for finding out the cause of frequent damage of runners.

The agent firm authorised (January 2010) DSL Power Private Limited, Ludhiana (executing firm) to repair the damaged runners who lifted (January-March 2010) all the five damaged runners for repairs. The executing firm supplied these runners after repairs, however, four runners with delays of 9 to 240 days. All the five repaired runners could run only for 4,634 hours, 612 hours, 948 hours, 1,538 hours and one hour respectively indicating the poor quality of repair and handling of the runners by the executing firm. Frequent damage of runners and replacement thereof/non availability of repaired runners caused loss of generation of 65.35 MUs worth ₹ 25.09 crore in addition to the recurring expenditure on their replacement. The agent firm did not supply the new runners at site and also did not find out the cause of frequent damage of runners. The Company requested (March/April 2011) the agent and executing firms to supply two new runners and also to ensure availability of one healthy runner at site for use as and when required but no response was received. The Company terminated (September 2011) the contract and blacklisted the agent and executing firms for non-performance.

We observed that the Company erred by not investigating the reasons for premature damage of the runners and by not insisting upon the firm to replace the runners as per the warranty clause of the purchase order cum agreement and the firm was given the contract for running of machine for five years. The contract agreement was also deficient as there was no provision with regard to performance guarantee, inspection of the repaired runners and penalty for delayed delivery and non availability of the repaired runners to protect its financial interests. As a result, the Company could not initiate action against the agent/executing firm for poor workmanship, delay in delivery of the repaired runners and consequential loss of generation.

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[15] Two runners supplied with the machine in March 1982, one procured in March 1999 and two procured in April 2006.

Thus, the decision of the Company to give the running of the machine on contract basis for five years instead of ascertaining the reasons for premature damage of runners and enforcing the warranty clause of the purchase order cum contract agreement for replacement /repair of the runners damaged within the warranty period not only resulted in financial loss of ₹ 6.50 crore but also caused generation loss of 65.35 MUs worth ₹ 25.09 crore.

The matter was referred to the Government and the Company (May 2012); their replies were awaited (December 2012).

Punjab State Grains Procurement Corporation Limited

4.8 Embezzlement of paddy

Entering of an agreement with unallotted miller and storage of paddy at his premises even in excess of the milling capacity of the mill in violation of the terms of CMP coupled with failure of the Company for conducting physical verifications of paddy stocks on fortnightly basis had facilitated the miller to embezzle the paddy worth ₹ 8.53 crore.

The Punjab State Grains Procurement Corporation Limited (Company) is one of the State procuring agencies to procure foodgrains on behalf of the Government of India. The Company procures paddy from mandis and gets it milled from the millers for delivery of rice to FCI in the central pool. The Custom Milling Policy for kharif marketing season 2009-10 *inter alia* provided that:

- District Level Committee, comprising district heads of all the procuring agencies headed by the Deputy Director (Field) of the division concerned, was to make the allotment of paddy to rice millers;
- After allotment of the miller to the procuring agency, the rice miller was to enter into an agreement with the concerned procuring agency failing which the allotment was liable to be cancelled. Paddy was to be allotted as per the milling capacity of the mill and
- Paddy procured by agency was to be stored in the premises of the allotted rice mills and would remain in the joint custody of the miller and procuring agency. The agency staff was required to conduct physical verifications of the paddy stock on fortnightly basis and had to submit the copies of the physical verification reports containing the quantity and quality of stocks regularly to the district offices.

During the kharif marketing season 2009-10, Noor Rice Mills, Kassu Begu, Ferozepur Cantt (miller) was allotted to another procuring agency i.e. Punjab Agro Foodgrains Corporation Limited (PAFCL), Ferozepur. The District Manager of PAFCL requested (October 2009) the District Controller, Foods Civil Supplies and Consumer Affairs Department (F&SD), Ferozepur to reallot this miller to any other procuring agency due to non-availability of paddy with it.

We observed that District Manager, Ferozpur of the Company entered (30 October 2009) into an agreement for milling of paddy with Noor Rice Mills, Kassu Begu, though the said miller was not allotted by the F&SD to the Company. The District Office, Ferozepur of the Company stored 2,05,558 bags containing 71,945.30 quintals of paddy in the premises of the miller at Kassu Begu during October/November 2009 against 25,000 quintal of paddy as per its milling capacity. Further, the staff of the Company did not conduct physical verifications of the paddy stock on fortnightly basis and District Office authorities of the Company failed to monitor and ensure the submission thereof at regular intervals. At the time of sole physical verification conducted (December 2009) by the District Manager, Ferozepur of the Company, it was found that out of 2,05,558 bags of paddy only 12,193 bags containing 4,213.06 quintals were available at the miller's premises and 1,93,365 bags having 67,732.24 quintals of paddy were misappropriated by the miller. The Company filed an FIR (December 2009) against the miller. Even after passage of more than two years of filing of FIR no tangible results have taken place.

Thus, entering an agreement with unallotted miller and storage of paddy at his premises even in excess of the milling capacity of the mill in violation of the terms of CMP coupled with failure of the Company for conducting physical verifications of paddy stocks on fortnightly basis had facilitated the miller to embezzle the paddy worth ₹ 8.53 crore.

The management stated (April 2012) that the delinquent officials have been charge sheeted for major punishment besides recovery of loss and the case was under investigation with crime branch of police, Bathinda. Further developments were awaited (December 2012).

The matter was reported to the Government in April 2012; their reply was awaited (December 2012).

4.9 Non-recovery/loss of interest due to delay in claiming of incidentals

Failure of the district office Nawansahar of PUNGRAIN to claim the reimbursement of full cost i.e. MSP, bonus and incidental charges at the first instance in the sale bills lodged with FCI after delivery of wheat to them resulted in non recovery of incidental charges of ₹ 2.29 crore for the crop year 2010-11 and delay in recovery of incidental charges of ₹ 5.99 crore for the crop year 2011-12 and consequential loss of interest of ₹ 63.88 lakh.

Punjab State Grains Procurement Corporation Limited (PUNGRAIN) is one of the State procuring agencies entrusted with procurement of foodgrains in the State for the central pool on behalf of the Government of India (GOI). PUNGRAIN procures wheat from *mandis,* stores in its godowns and subsequently delivers to the Food Corporation of India (FCI) as per their movement plan. FCI reimburses to the PUNGRAIN the cost of wheat i.e minimum support price (MSP), bonus and other incidental charges[16] as determined by GOI for each crop year. PUNGRAIN avails cash credit limit from banks to arrange funds for its procurement activities.

The district offices of the PUNGRAIN were required to raise the sale bills and claim the reimbursement of full cost of wheat i.e. MSP, bonus and incidental charges from the FCI immediately after delivery of wheat to them. Non claiming/abnormal delay in claiming the reimbursement of full cost of the wheat delivered to FCI results in loss of interest as payment against cash credit is made only after the reimbursement is received from the FCI.

We observed (May 2012) that the district office Nawanshahar had not ensured timely claiming of the full amount of MSP, bonus and incidental charges in the sale bills lodged with FCI for getting the reimbursement of the cost of wheat delivered to them. In respect of the crop year 2010-11 the district office failed to claim incidental charges of wheat in the sale bills lodged with FCI for 22,686.86 MT of wheat delivered during May 2010 to February 2011 without recording any reasons. District Office raised the supplementary claims of ₹ 2.29 crore for the same in March 2012 after a delay ranging from 458 to 731 days[17] and payment thereagainst was received in August 2012. Similarly, for the crop year 2011-12, the district office failed to claim the incidental charges in the sale bills lodged with FCI for 19,951.27 MT of wheat delivered during May 2011 to October 2011 however, it raised (December 2011) the supplementary claims of ₹ 5.99 crore for incidental charges after a delay of 71 to 208 days. The payment thereagainst was received in December 2011.

Thus, failure of the district office Nawansahar of PUNGRAIN to claim the full reimbursement of cost of wheat i.e. MSP, bonus and incidental charges of wheat at the first instance in the sale bills lodged with FCI after delivery of wheat resulted in non recovery of incidental charges of ₹ 2.29 crore for 2010-11 and delay in recovery of ₹ 5.99 crore for 2011-12 and consequential loss of interest of ₹ 63.88 lakh[18] (₹ 41.25 lakh for 2010-11 up to September 2012 and ₹ 22.63 lakh for 2011-12).

The matter was referred to the Government and the Company (June 2012); their replies were awaited (December 2012).

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16 Statutory charges (Market fee, Rural Development Cess, Infrastructure Development Cess, Value Added Tax), Dami/Arhatia Commission, Mandi Labour Charges, Transportation and handling charges, Custody and Maintenance charges, Interest charges, Cost of gunny bags, etc.

17 Calculated from the 16th of the month in respect of sale bills lodged during 1st to 15th of the month and from the 1st of the succeeding month in respect of sale bills lodged during 16th to the last day of the month.

18 Interest calculated for crop year 2011-12 at the cash credit rate of 11.60 *per cent* and for crop year 2010-11at the rate of 11.25 *per cent*.

Punjab Agro Foodgrains Corporation Limited

4.10 Non recovery

Failure to carry out fortnightly physical verifications regularly and non initiation of timely action to shift the unmilled paddy to other millers at the risk and cost of the defaulting miller facilitated the miller of misappropriation of paddy and consequent non recovery of ₹ 2.06 crore.

Punjab Agro Foodgrains Corporation Limited (Company) procures paddy and delivers rice to Food Corporation of India (FCI) after getting the paddy milled. The Custom Milling Policy (CMP) for the Kharif Marketing Season 2008-09 issued by the State Government (September 2008) *inter alia* provided:

- Paddy procured by the Company was to be stored in the premises of the allotted rice mills and to be kept in the joint custody of the allotted millers and the Company;
- The Company's staff was required to conduct physical verifications on a fortnightly basis to ensure the quantity and quality of paddy stocks stored with the millers;
- The entire paddy allotted to the miller was to be milled as per the prescribed monthly milling schedule and the out-turn ratio of rice to paddy was fixed as 67 per cent. The quantity of the paddy not milled by the miller within the stipulated period was to be shifted to the other millers at the risk and cost of the defaulting miller after due notice in this regard;
- In case of any loss to the stored paddy stocks due to misappropriation/ theft etc., the miller was to make good the entire loss at the value of intended custom milled rice and interest at the rate of 12 per cent from the schedule date of delivery to the FCI till its actual realisation and
- Any dispute regarding milling was to be resolved through arbitration by an arbitrator to be appointed by the Managing Director of the Company.

The Company entered into (August 2008) an agreement with Thind Agro Foods Private Limited, Ferozepur (miller) and allotted 4,811 MT of paddy for milling equivalent to 3,223 MT[19] of rice. As per terms and conditions of the agreement the entire paddy was to be milled up to 31 March 2009 and rice delivered to the FCI, subsequently extended by the Government of India from time to time and finally up to 31 July 2010. Up to June 2009, the miller delivered only 1,801 MT of rice to FCI against 3,223 MT of rice actually due. Despite repeated reminders the miller neither delivered the remaining 1,422 MT rice nor deposited the recoverable amount of ₹ 2.50 crore to the Company up to the extended delivery schedule and deposited (July 2010) only ₹ 1.01 crore against the total cost of the remaining unprocessed paddy of ₹ 2.50 crore.

[19] Taking into account out-turn ratio of 67 *percent* of rice to paddy.

We observed that district office authorities of the Company did not carry out required fortnightly physical verification at regular intervals and also did not initiate action even by August 2009 for shifting of the unmilled paddy at the risk and cost of the defaulting miller to other millers (nine millers) who had exhausted milling 100 per cent of their allotted paddy by August 2009. The physical verification of paddy/rice remaining with the miller conducted (March 2011) by the district office i.e more than seven months from the expiry of extended milling period revealed, shortage of 343.49 MT of paddy and unauthorised milling of 825.69 MT of paddy. The Company lodged (May 2011) an FIR against the miller and sought arbitration claim of ₹ 2.00 crore (July 2011). Due to non appearance of any representative of the miller, the arbitrator awarded (November 2011) the ex-parte award in favour of the Company for ₹ 2.00 crore along with interest at the rate of 12 per cent from the date of claim petition (21 September 2011) till the date of realisation. However, no amount was realised on this account (November 2012).

Thus, failure of the Company to carry out required physical verification regularly and non initiation of timely action in accordance with the provisions of CMP for shifting of unmilled paddy to other millers at the risk and cost of the defaulting miller resulted in misappropriation of paddy and non delivery of 1,422 MT of milled rice by the miller and consequential loss of ₹ 2.06 crore.

The Management accepted the facts and stated (September 2011 and July 2012) that the unmilled paddy lying with the miller was not shifted by the district office as no miller agreed to shift the paddy from the defaulting miller because it was of poor quality. The reply was not verifiable in equal terms with facts on records. The Management further stated (July 2012) that case has been filed in District Court for execution of Arbitration award which is awaiting finality.

The matter was referred to the Government (May 2012); their reply was awaited (December 2012).

4.11 Avoidable extra expenditure

Failure of the Company to utilise once used gunny bags as per instructions of Government of India/ Food Corporation of India resulted in avoidable extra expenditure of ₹ 1.68 crore.

The Company procures paddy from *mandis* in gunny bags on behalf of Food Corporation of India (FCI) for the central pool and after getting it milled from the allotted rice millers delivers the resultant rice to FCI. Since paddy is being lighter in weight than rice, only 35 Kg paddy can be filled in a gunny bag as against 50 Kg of rice. Resultantly, only 46.9 *per cent* gunny bags in case of raw rice[20] and 47.6 *per cent* gunny bags in case of parboiled rice are delivered to FCI at the time of delivery of rice and the remaining 53.1 and 52.4 *per cent* gunny bags, respectively remain with the millers for which 60 *per cent* cost (in

[20] Outturn ratio of paddy into raw rice and parboiled rice is 67 and 68 *per cent* respectively.

the form of depreciation) is recovered from the millers and 40 *per cent* cost is recovered from FCI.

The Government of India (GOI) allowed (February 2006) the procurement of paddy in once used gunny bags in Kharif Marketing Season (KMS) 2005-06 wherein it was stated that the procurement of paddy may be made in new and once used gunny bags in 50:50 ratio but custom milled rice will be delivered to FCI only in new gunny bags. The Director Food, Civil Supplies and Consumer Affairs, Government of Punjab also issued (August 2006) a policy to utilise the surplus gunny bags left with the millers after the custom milling of KMS 2005-06 for purchase of paddy in the KMS 2006-07 which *inter alia* provided that physical verifications of the once used gunny bags will be conducted by the respective agencies through their Inspectors/Assistant Food and Supply Officers to ascertain the actual availability of surplus once used gunny bags conforming to the specifications laid down by the Government. These ibid instructions were reiterated (September 2008) by the GOI.

Audit scrutiny (December 2011) of the records of the district office, Ferozepur for the crop year 2009-10 revealed that the district office procured the entire 6,86,925 quintals of paddy in 19,62,642 new gunny bags and did not utilise 9,81,321 once used gunny bags (pertaining to the crop year 2008-09) in contravention of the instructions of GOI/State Government. The depreciated value of once used gunny bags was ₹14.70[21] per bag whereas the Company used new bags valuing ₹ 31.77 per bag and thus incurred extra expenditure of ₹ 167.51 lakh[22]. FCI had also deducted ₹ 112.98 lakh (₹ 50.16 lakh for 2008-09 and ₹ 62.82 lakh for 2009-10) from the sale bills of District Manager Ferozepur of the Company due to non utilisation of once used gunny bags. We further observed that two other district offices of the Company (Sangrur and Hoshiarpur) had utilised the once used gunny bags for the crop year 2009-10.
Thus, failure of the Company to utilise once used gunny bags as per instructions of GOI/State Government at Ferozepur district office during the crop year 2009-10 for procurement of paddy resulted in avoidable extra expenditure of ₹ 1.68 crore.

The matter was referred to the Government and the Company in January 2012; their replies were awaited (December 2012).

[21] 60 *per cent* of ₹24.50 i.e. the cost of per gunny bag procured for the crop year 2008-09.

[22] Extra expenditure per bag in 2009-10 was ₹ 17.07 (₹ 31.77- ₹ 14.70) and total extra expenditure on 9,81,321 once used gunny bags that could have been used was ₹ 167.51 lakh

4.12 Loss due to non recovery of interest/waiver of interest clause

Failure of the Company to take up the matter with the State Government for making a provision of compensation in lieu of waiver of interest clause for Kharif Marketing Seasons (KMSs) 2008-09 and 2010-11 and to recover the penal interest from the millers for delayed milling/delivery of rice for KMS 2009-10 resulted in financial loss of ₹ 192.26 crore.

Punjab Agro Foodgrains Corporation Limited (Company) procures paddy for the central pool on behalf of Government of India (GOI). After getting the paddy milled from the rice millers in the State, the Company delivers the rice to the Food Corporation of India (FCI). The Company avails cash credit from the bank to manage procurement, storage and delivery of foodgrains, till its reimbursement from FCI.

The Custom Milling Policies (CMPs) and Draft Agreements with the millers for the Kharif Marketing Seasons (KMSs) 2008-09, 2009-10 and 2010-11 issued in September 2008, September 2009 and September 2010, respectively by the State Government required the millers to deliver the rice as per the following schedule:

Month	2008-09	2009-10	2010-11
October	10 *per cent*	10 *per cent*	5 *per cent*
November to February	20 *per cent* each month		
March	10 *per cent*	10 *per cent*	15 *per cent*

In case of failure to adhere to the above mentioned schedule, interest at the rate of 12 *per cent* of the cost of short delivery of rice was to be charged by the Company from the millers for the period of delay. In the provisional rates for the custom milled rice, GOI allowed interest for two months only on the amount invested by the Company for the procurement and milling of paddy. On the requests of the State Government, GOI extended the delivery period of rice from time to time up to 31 July 2010, 15 July 2011 and 30 November 2011 for the crop years 2008-09, 2009-10 and 2010-11, respectively. Subsequently, in June 2009 and October 2010, the State Government dispensed with the penal interest payable by the millers for the delay in milling for KMSs 2008-09 and 2010-11, without compensating the procuring agencies for their increased liability of interest on cash credit during the extended delayed period of milling of paddy and delivery of rice.

We observed (September 2011) that due to extension in delivery schedule, the milling operations for the KMSs 2008-09, 2009-10 and 2010-11 continued up to July 2010, July 2011 and November 2011. To safeguard its financial interest, the Company should have taken up the matter with the State Government for making a provision of compensation in lieu of waiver of interest for the extended/delayed period of milling of paddy and delivery of rice due to Government directions. However, the Corporation did not initiate any action in this regard. Further, the Company also did not initiate any action to recover the penal interest from the millers for delayed milling of paddy/delivery of rice for KMSs 2009-10 in spite of a provision of penal interest in this regard in the custom milling policy of that year. Failure of the Company to take up the matter with the State Government for making a provision of compensation in lieu of waiver of interest clause for KMSs 2008-09 and 2010-11 and to recover the penal interest from the millers for delayed milling/delivery of rice for KMSs 2009-10 resulted in financial loss of ₹ 192.26 crore (2008-09: ₹ 49.64 crore, 2009-10: ₹ 83.41 crore and 2010-11: ₹ 59.21 crore).

The matter was referred to the Government and the Company (May 2012); their replies were awaited (December 2012).

Punjab State Bus Stand Management Company Limited

4.13 Favour to a contractor

Failure of the Company to levy penalty in accordance with terms and conditions of the agreements for kilometers missed due to the absence of drivers and conductors led to favour to the contractor and consequential loss of ₹ 63.99 lakh.

To meet requirement of staff and to ensure smooth operation of its buses Punjab State Bus Stand Management Company Limited (Company) has been arranging drivers and conductors through outsourcing since December 2006. The Company entered (December 2009 and April 2010) into agreements with 'The Providers Management Informatics Private Limited", Chandigarh (contractor) for providing drivers and conductors for three years at the rates of ₹ 1.02 per kilometer and ₹ 0.90 per kilometer respectively. The terms and conditions of agreements *inter alia* provided that the contractor should always keep adequate reserve manpower with them to meet any exigency so that operational work of the Company would not suffer. Further, in case the mileage missed due to absence of drivers and conductors or breakdown due to their fault, then penalty at the rate of ₹ 1.50 per Km for mileage missed was recoverable from the contractor.

During test check of the records (April - November 2012) of all the depots of the Company, it was noticed that the contractor failed to provide staff during the period from 16 January 2012 to 28 January 2012 in terms of the contract. Consequently, the operation of buses of the Company was interrupted and 21.13 lakh kms and 21.53 lakh kms were missed due to the absence of the drivers and conductors respectively. As per terms and conditions of the agreement, the contractor was liable to pay penalty of ₹ 63.99 lakh[23], on account of kilometers missed due to non providing of operational staff.

We noticed that the Company, without assigning any reasons, decided (February 2012) in the meeting of Commercial Officers not to levy any

[23] 42.66 lakh (21.13 lakh + 21.53 lakh) missed KMs x ₹ 1.50 per KM

penalty for kilometers missed during the period of strike of drivers/conductors. Thus, the failure of the Company to levy penalty as per terms and conditions of the agreements for kilometers missed due to non providing of operational staff led to extending undue favour to the contractor of ₹ 63.99 lakh to the financial detriment of the Company. Besides, it also could not fulfill its social obligation of providing uninterrupted bus service to the commuters in the State.

The Management stated (September 2012) that the strike occurred during 16 January 2012 to 28 January 2012 was by the regular operational staff (drivers/ conductors) of the Company for their demands and they forced for non leaving of buses from the bus stand during that period. The drivers and conductors supplied by the contractor were present during the said period of strike and were willing to perform their duties, but regular operational staff of the Company forced them not to perform their duties. Resultantly, to maintain law and order buses were not operated.

The reply is not acceptable as during audit, the facts that the regular operational staff were on strike was not found correct. Further, while deciding about not to levy any penalty for missed KMs for strike period in the meeting of Commercial Officers held on 13 February 2012 no such reasons for non operation of buses were explained and such decision was beyond the competency of commercial officers.

The matter was referred to the Government in (June 2012); their reply was awaited (December 2012).

Statutory corporations

Punjab Financial Corporation

4.14 Short recovery of one time settlement amount

Adjustment of interest, already recovered from the loanee unit, against the principal in contravention of the One Time Settlement (OTS) policy resulted in short recovery of OTS amount to the extent of ₹ 28.40 lakh.

The Government of Punjab formulated (March 2009) One Time Settlement (OTS) policy 2009, for the loanee units of Punjab Financial Corporation (Corporation). The OTS policy *inter-alia* provided that:

- The OTS amount was to be outstanding principal, expenses plus interest[24] or principal plus expenses plus documented rate of interest from the date

[24] Ranging between 4 *per cent* to 12 *per cent* based on the category under which the loanee unit falls.

of disbursement till the cut off date less interest paid on reducing balance basis without adjustment against principal outstanding whichever is lower.

- In case of loanee units under Appellate Authority for Industrial and Financial Reconstruction/Board for Industrial and Financial Reconstruction, the interest at the rate of 10 *per cent* was to be charged since beginning on half yearly compounded basis.
- In no case, the OTS amount was to be less than outstanding principal plus expenses.

Initially, the policy was valid for 90 days from the date of 2 March 2009 and subsequently it was extended up to 16 February 2011. Before implementation of the OTS policy, the Corporation issued (March 2009) guidelines for calculating OTS amount wherein it was specified that if the payment made by the borrower exceeded the liability of expenses and interest at any point of time, the benefit of excess amount was to be given towards principal for calculating further interest in all the categories of the loanees. Audit observed that these guidelines were against the spirit and terms of the OTS policy 2009 of the State Government which clearly stipulated that while calculating the OTS amount, already paid interest was to be accounted for on reducing balance basis without adjustment against principal outstanding. Issuance of guidelines in contravention of OTS policy, 2009 resulted in short recovery of OTS amount from a loanee unit.

S N Paper Mills Private limited Ludhiana (unit) which was registered with the Board for Industrial and Financial Reconstruction (BIFR) opted (March 2009) for OTS for the settlement of the loan amount of ₹ 5.05 crore (principal ₹ 0.90 crore and interest ₹ 4.15 crore) as of 1 March 2009. The Corporation accepted (July 2009) the request of the unit and settled the loan amount at ₹ 90.08 lakh after adjusting the interest already paid on reducing balance basis and adjusting the excess than due, if any, arising out of calculation of interest at concessional rate, against the principal amount. The unit paid the full amount of ₹ 90.08 lakh from May 2009 to July 2009. The Corporation issued (October 2009) 'No Due Certificate' to the unit and also released its security documents.

We observed (April 2011) that the Corporation, while accounting the already recovered interest of ₹ 80.56 lakh for computing the OTS amount adjusted the excess amount, which arose due to calculation of interest at concessional rate of 10 *per cent* since start of the loan, against the principal amount. Adjustment of interest already recovered from the loanee unit against the principal in contravention of the OTS policy resulted in short recovery of OTS amount of ₹ 28.40 lakh (₹ 118.48 lakh[25] worked out by us less amount of ₹ 90.08 lakh calculated and recovered by the Corporation).

The Management stated (August 2012) that the OTS amount was worked out as per the notification of the Government of Punjab and guidelines issued by the Corporation from time to time and there was no case of adjustment of interest received against the principal as the calculations were done only on reducing

[25] Audit has worked out the OTS amount of ₹ 118.48 lakh on the basis of the crieteria adopted for calculation of the OTS amount of ₹ 90.08 lakh by the Corporation itself except adjustment of excess amount of interest recovered against the principal amount outstanding.

balance basis in terms of approved OTS Policy, 2009. The contention of the Company does not stand scrutiny as the guidelines issued by the Corporation and adjustment of interest already recovered from the loanee unit against the principal was in contravention of the OTS policy, 2009. Moreover, we observed that Punjab State Industrial Development Corporation Limited (PSIDC) another State PSU had settled the loan amount of the same loanee unit under similar OTS policy[26] without adjustment of excess amounts of already recovered interest from the loanee unit against principal and the loanee unit had also accepted the same. Thus, the incorrectly calculated concession and adjustment of interest already recovered from the loanee unit against the principal overlooking its financial interests resulted in loss of ₹ 28.40 lakh.

The matter was referred to the Government (January 2012); their reply was awaited (December 2012).

General

4.15 Follow-up Action on Audit Reports

Explanatory Notes Outstanding

4.15.1 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 to 2010-11 featuring 200 paragraphs/reviews relating to PSUs under the administrative control of 11 departments were placed in the State Legislature on the dates indicated in the following table. Replies in respect of 56 paras/reviews were awaited from six departments of the State Government by 30 September 2012.

[26] S N Paper Mills Private limited Ludhiana had taken loan of ₹ 0.90 crore from PFC and ₹ 0.60 crore from PSIDC. Both the loans were settled under similar OTS Policies at the same time. PSIDC settled the loan amount for ₹ 1.04 crore which was worked out without adjustment of excess amount of interest recovered from the loanee unit against principal outstanding. If it worked out according to PFC, the OTS amount would be ₹ 0.79 crore.

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	3
2005-06	March 2007	28	2
2006-07	March 2008	25	5
2007-08	March 2009	24	9
2008-09	March 2010	22	8
2009-10	March 2011	18	10
2010-11	March 2012	15	15
Total		**200**	**56**

The department-wise analysis is given in ***Annexure-17***. The departments largely responsible for non-submission of detailed notes were Agriculture, Power, Finance, Food and Supplies and Industries. The Government did not respond to important reviews that highlighted delay in taking action against defaulting millers for failure to get the paddy milled within the stipulated period, avoidable payment of transportation charges and failure to take up the matter regarding reimbursement of interest and custody and maintenance charges with State Government/ FCI and deficiencies in planning, construction and commissioning of projects and purchase of power.

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

4.15.2 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 two paragraphs pertaining to one Report of COPU (84^{th}) presented to State Legislature on 24^{th} March 2008, four paragraphs pertaining to one Report of COPU (89^{th}) presented to State Legislature on 6^{th} March 2009 and 11 paragraph pertaining to two Reports of COPU (95^{th} and 96^{th}) presented to State Legislature on 18^{th} March 2011 and three paragraphs pertaining to one report of COPU (98^{th}) presented to State Legislature on 25^{th} March 2011 had not been received as on 30 September 2012.

Response to Inspection Reports, Draft Paras and Reviews

4.15.3 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 up to March 2012 revealed that 2,722 paragraphs relating to 954 Inspection Reports pertaining to 44 PSUs were outstanding at the end of 30 June 2012. The department-wise break up of Inspection Reports and audit observations outstanding as on 30 June 2012 is given in ***Annexure-18***.

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, 17 draft paragraphs and two draft performance audit reports forwarded to the various departments during April 2012 to September 2012 as detailed in ***Annexure-19*** had not been replied so far (December 2012).

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/performance audit reports 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.

CHANDIGARH
The

(Amandeep Chatha)
Accountant General (Audit), Punjab

Countersigned

NEW DELHI
The

(Vinod Rai)
Comptroller and Auditor General of India