

**Chapter-VI**  
**Compliance Audit Observations**



## Chapter-VI

### Compliance Audit Observations

Important audit findings emerging from test-check of transactions of State Government Companies and Statutory Corporations have been included in this Chapter. This Chapter contains eight audit observations having financial implication of ₹ 158.03 crore.

#### POWER DEPARTMENT

##### Punjab State Power Corporation Limited

### 6.1 Metering Operations

**Prescribed time-limits for metering of new connections/replacement of defective/burnt meters were not being adhered to in violation of statutory provisions resulting in revenue loss of ₹ 1.03 crore. Energy consumption valuing ₹ 64.37 crore in respect of AP consumers fed from urban feeders was not considered for calculating AP consumption by Punjab State Electricity Regulatory Commission due to unmetered connections/incomplete and invalid meter readings. The Company was unable to compute distribution losses of AP feeders despite incurring an expenditure of ₹ 2.88 crore. Long delayed replacement of electro-mechanical meters with non-smart electronic meters resulted in injudicious expenditure of ₹ 13.75 crore. The Company incurred avoidable expenditure of ₹ 22.44 crore on procurement of conventional meters, despite mandatory requirement of smart meters.**

#### 6.1.1 Introduction

Section 55 of the Electricity Act, 2003 provides that no licensee shall supply electricity, except through installation of a correct meter in accordance with the regulations. Punjab State Power Corporation Limited (Company/Discom) has been entrusted with the functions and activities relating to generation and distribution of electricity in the State of Punjab as a sole distribution licensee. The electricity pumped into an electricity distribution network and delivered to the ultimate consumers through energy meters over a defined time period has to be measured and billed. This exercise is conducted during metering operations by the Company.

#### 6.1.2 Audit Findings

An audit exercise was conducted to assess the efficiency of metering operations of the Company and the findings are discussed as follows:

## Metering of consumers

### 6.1.2.1 Provision of new connections

Electricity Act, 2003 provides for Discoms to give supply of electricity within one month after receipt of the application. The Punjab State Electricity Regulatory Commission (Electricity Supply Code and Related Matters) Regulations 2014 (Supply Code 2014) provides for supply of electricity to domestic and non-residential supply (DS and NRS) consumers within seven days from the date of compliance of demand notice failing which the Discom is liable to pay a compensation of ₹ 200 per day for each day of default to the affected consumers subject to a maximum compensation limit of ₹ 20,000. Supply Code 2014 also provides for the Discom to furnish information annually, to the Punjab State Electricity Regulatory Commission (Commission), on levels of performance achieved with reference to specified standards. The Punjab Transparency and Accountability in Delivery of Public Service Act, 2018, also provides similar time-limits for release of new electricity connections.

Analysis of data<sup>78</sup> relating to metering of 1.21 lakh new DS and NRS consumers in five distribution circles<sup>79</sup> during 2019-22 revealed that only 26 per cent of new connections (31,291 connections) had been released within prescribed time, with delays in release of remaining 74 per cent connections ranging up to more than one year (**Appendix 6.1**). Circle-wise analysis revealed disproportionately higher proportion of delays in Tarn Taran (97 per cent) and Hoshiarpur (91 per cent) circles (**Appendix 6.1**).

Thus, the prescribed time-limits for metering of new connections were not being adhered to by the Company in violation of statutory provisions resulting in revenue loss for the delayed period. The *ibid* delays in releasing new connections to DS and NRS consumers in five distribution circles during 2019-22 has resulted in revenue loss of ₹ 1.03 crore on account of fixed energy charges alone. Besides, *ibid* delays also make the Company liable to pay compensation of ₹ 58.25 crore to the affected consumers, which though was not paid in the absence of related claims, implying lack of consumer awareness.

It is pertinent to mention here that despite large scale delays noticed in release of connections, the Company was showing 99 per cent of connections as having been released within prescribed time-limits in the annual reports on standards of performance furnished to the Commission for the years 2019-20 and 2020-21. Thus, the Company was not only violating the applicable

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<sup>78</sup> For SAP sub-divisions provided by the Company.

<sup>79</sup> Hoshiarpur, Ludhiana West, Muktsar, Sangrur and Tarn Taran.

regulations but also submitting inconsistent data to the Commission.

### 6.1.2.2 Replacement of defective and burnt meters

Regulation 21.4, 22, 26 of Supply Code 2014 provides for replacement of defective/dead stop and burnt meters within ten and five working days respectively of receiving the complaint or its detection by distribution licensee failing which, Discom is liable to pay a compensation of ₹ 200 and ₹ 300 per day respectively for delays to the affected consumers subject to a maximum compensation limit of ₹ 10,000 per consumer. Supply Code 2014 also provides for Discom to furnish half yearly and annual information to the Commission on levels of performance achieved with reference to specified standards.

Analysis of data<sup>80</sup> relating to replacement of 1.49 lakh defective/dead stop and burnt meters in five distribution circles during 2019-22 revealed that only 38 *per cent* of defective/dead stop and burnt meters had been replaced within laid down time<sup>81</sup> frame. The delays in replacement of remaining 62 *per cent* defective/dead stop and burnt meters were ranging up to more than two years (*Appendix 6.2*). Circle-wise analysis of data revealed disproportionately higher proportion of delayed replacement in Tarn Taran (80 *per cent*) and Muktsar (71 *per cent*) circles (*Appendix 6.2*). Analysis of data<sup>82</sup> relating to defective/dead stop and burnt meters pending replacement in five distribution circles as on 31 March 2022 revealed that 95 *per cent* defective/dead stop and burnt meters were pending replacement for more than fifteen and ten days respectively. The *ibid* delays in replacement of defective/dead stop and burnt meters in five distribution circles during 2019-22 makes the Company liable to pay compensation of ₹ 70.41 crore to the affected consumers, which though was not paid in the absence of related claims, implying lack of consumer awareness.

It is pertinent to mention here that despite inordinate delays in replacement of large number of defective/dead stop and burnt meters, the Company has been showing 96.69 *per cent* and 98.47 *per cent* of such meters as having been replaced in time in the annual reports furnished to the Commission for the years 2019-20 and 2020-21 respectively.

Thus, the Company not only violated the timeframe prescribed for replacement of defective/dead stop and burnt meters but also did not submit a realistic picture to the Commission.

<sup>80</sup> For SAP sub-divisions provided by the Company.

<sup>81</sup> After providing a margin of five days over prescribed time frame of ten and five working days for replacement of defective/dead stop and burnt meters respectively to compensate for intervening holidays.

<sup>82</sup> Data provided by the Company for five selected circles.

### **6.1.2.3 Metering of Agricultural Pumpset consumers**

Section 55(1) of Electricity Act 2003 provides that no Discom shall supply electricity without installation of a correct meter. Accordingly, the Commission has been directing (since 2007) the Company to prepare a time bound roadmap and submit the plan to achieve 100 *per cent* metering of Agriculture Pumpset (AP) consumers as per the mandate of the Act against which, the Company has not made any progress.

The consumption of electricity by AP consumers is fully subsidised by the State Government and in the absence of 100 *per cent* metering, AP consumption is being estimated by the Commission on the basis of pumped energy data.

In this connection, Audit observed as under:

#### **(i) Non-metering of AP consumers fed from urban feeders**

The Commission has been specifically directing the Company since 2013-14, to ensure compliance of already standing instruction of metering all AP connections fed from urban feeders for counting energy consumption of such connections in metered AP sale regularly. Owing to lapse of the Company in ensuring compliance, the Commission, while finalising tariff orders for the year 2017-18 had decided that unmetered AP load fed from urban feeders shall not be considered for calculating AP consumption.

Audit observed that 14 *per cent* AP consumers (1,291 out of 8,956) fed from urban feeders were yet to be metered (September 2022). Resultantly, their energy consumption was not being considered for calculating AP consumption. Analysis of metered AP consumption fed from urban feeders approved by the Commission in the true-up of tariff for the years 2019-20 to 2021-22 revealed that:

- The energy consumption of unmetered AP consumers fed from urban feeders was not being considered for calculating AP consumption. Resultantly, 209.53 lakh units valuing ₹ 11.44 crore could not be included in the AP consumption for 2019-22 due to non-metering leading to revenue loss.
- The Company could not provide complete, accurate and valid meter readings, even for the metered AP consumers fed from urban feeders to support its claimed consumption. The Company could provide only 60 *per cent* to 73 *per cent* of valid meter readings during 2019-22. Resultantly, metered AP consumption of 986.30 lakh units valuing ₹ 52.93 crore was disallowed by the Commission for 2019-22 solely

due to non-maintenance and submission of incomplete, inaccurate and invalid meter readings.

Thus, disallowance of energy consumption in respect of AP consumers fed from urban feeders by the Commission resulted in loss of ₹ 64.37 crore.

**(ii) Unfruitful expenditure on metering for assessment of distribution losses**

To accurately assess distribution losses for AP feeders, the Commission directed (May 2015) the Company to cover at least five *per cent* of AP feeders under 100 *per cent* metering by December 2015 and to engage an independent agency to collect data of pumped and billed energy to calculate losses of these feeders on regular basis. Subsequently, in a meeting with the Commission, it was decided (October 2016) to install 100 *per cent* meters on one *per cent* pure AP feeders for assessing distribution losses within that year. The Commission had also suggested 55 AP feeders (out of total 5,671 AP feeders) in different zones for above purpose.

However, the Company decided (April 2017) to provide 100 *per cent* metering on 82 AP feeders with estimated expenditure of ₹ 4.37<sup>83</sup> crore and completed (January 2018) the work in 76 AP feeders (14,892 connections) (involving expenditure of ₹ 2.88 crore). Since, 100 *per cent* metering on more than one *per cent* pure AP feeders had been completed, the Company decided (June 2018) to initiate tendering process for engaging an independent agency for meter reading to calculate distribution losses on a quarterly basis.

The tendering process to engage an independent agency to take meter readings of 11,143 AP consumers of 60 AP feeders commenced (May 2019) after a lapse of around one year due to non-availability of technical data regarding name of feeders and number of connections, *etc.* The tender enquiry had to be dropped (September 2019) due to poor response of bidders and high rates quoted by the sole bidder. A fresh tender enquiry floated (November 2019) with amended clauses had to be dropped (June 2020) again due to poor response of bidders and it was decided (July 2020) to club the *ibid* work with spot billing of DS/NRS consumers. Two Firms were finally engaged (March 2022) for taking meter readings of 11,143 AP consumers of 60 AP feeders. However, the meter reading work could not be commenced (October 2022) by Firms due to non-providing of complete master data of AP feeders and AP consumers by the Company and it was decided (October 2022) to carry out data collection for five feeders only.

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<sup>83</sup> 22,575 AP consumers to be metered at the rate of ₹ 1,933.60 each (cost of meter, meter cup board, wires and accessories, *etc.*)

The Commission had also directed (May 2019) the Company to record monthly readings of AP consumers on AP feeders covered under 100 *per cent* metering departmentally till engagement of independent agency and provide loss computation to it. The directive was regularly reiterated in the subsequent tariff orders, but the Company did not provide departmental computation of distribution losses even after a lapse of more than four years of having installed (January 2018) 100 *per cent* meters in 76 feeders.

Audit observed that the Company could not compute distribution losses of AP feeders even after lapse of more than seven years of regular directives of the Commission and despite incurring an expenditure of ₹ 2.88 crore.

**(iii) *Non-completion of Automatic Meter Reading of AP feeders***

In order to minimise the error on account of human intervention while recording the pumped energy data of AP feeders, the Commission has been regularly directing the Company since 2013-14, to ensure that Automatic Meter Reading (AMR) meters are installed on all AP feeders and monthly AMR data of all AP feeders is supplied regularly along with feeder-wise sanctioned load of AP consumers. However, the Company could not complete the installation of AMR meters on all AP feeders and ensure regular supply of AMR data of all AP feeders despite repeated directives for last 10 years.

While carrying out the true up<sup>84</sup> of tariff for the years 2019-20 to 2021-22, the Commission observed that the AMR data was partially available for only about 1,400 to 2,500 AP feeders against a total of about 6,000 to 6,500 AP feeders and did not contain true feeder-wise sanctioned load of AP consumers. Thus, it could not be used for accurately estimating the AP consumption of the State as a whole. Resultantly, the Commission continued with the estimation of the AP consumption on the basis of pumped energy data supplied by the Company.

While finalising (March 2022) the tariff order for the year 2022-23, the Commission again directed the Company to ensure regular and timely availability of monthly AMR data as well as monthly AP ledger data of all AP feeders along with the updated sanctioned load of AP consumers connected to respective feeders, as the same was not commensurate with AP energy for some feeders. The Commission also directed the Company to make the existing AMR system functional within three months and operationalise AMR facility on remaining AP feeders within one year failing which it would be constrained to revisit the methodology for computing AP consumption.

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<sup>84</sup> True Up is the process of reconciling and revising the provisional tariff for a financial year initially based on estimated expenses and income with actual expenses and income based on the audited accounts for the year.

However, instead of improvement, the availability of AMR data had reduced (June 2022) to only 29 feeders out of 6,580 AP feeders.

Thus, the Company could not complete installation and operationalisation of AMR meters on all AP feeders and ensure regular supply of AMR data of all AP feeders despite repeated directives of the Commission.

#### **6.1.2.4 Replacement of electro-mechanical meters**

Regulation 4 of Metering Regulations 2006 had provided for all meters to be of static type (electronic) and the meters not complying with *ibid* regulations to be replaced. Accordingly, the Commission had also been regularly directing the Company since 2011-12 to complete replacement of all the electro-mechanical consumer meters with electronic meters which are known for sustained accuracy and anti-tampering features.

Audit observed that 4.37 lakh electro-mechanical consumer meters were yet to be replaced (December 2019) with electronic meters despite a lapse of more than 13 years of the regulations and repeated Commission directives for more than eight years.

In December 2019, the amended Metering Regulations 2019 provided for replacement of existing non-smart meters with smart meters with prepayment feature for which the Government of India (GoI) notified (August 2021) a final timeline of March 2025.

Audit observed that despite *ibid* amendment, the Company kept replacing the electro-mechanical meters with non-smart electronic meters. During January 2020 to September 2022, the Company had replaced 2.10 lakh electro-mechanical meters with non-smart electronic meters by incurring an expenditure of ₹ 13.75<sup>85</sup> crore which could be avoided by prioritising the replacement of existing electro-mechanical meters directly with smart meters. Thus, continuation of long delayed electro-mechanical meter replacement work with non-smart electronic meters even after change of regulations has resulted in injudicious expenditure of ₹ 13.75 crore.

#### **6.1.2.5 Non-shifting of meters outside consumers premises**

Regulation 7 of Metering Regulations 2006 provide for consumer meter to be installed either at the consumer premises or outside the consumer premises. Electricity Supply Instructions Manual 2011 (ESIM) provides that the energy meters of DS, NRS and Small Power connections shall only be installed in Meter Cup Board or pillar boxes on the pole/under the distribution

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<sup>85</sup> Rate of electronic meters taken from purchase order placed during November 2019.

transformers or outer wall of the consumer premises and not inside the consumer premises. The Commission has been regularly directing the Company since 2010-11 to complete the shifting of meters outside consumer premises in a time bound manner so as to reduce the distribution losses.

Audit observed that 4.24 lakh consumer meters were yet (September 2022) to be shifted outside consumer premises despite lapse of more than 11 years, which was not only a violation of ESIM and the Commission directives but was also adversely affecting the reduction in distribution losses.

#### **6.1.2.6 Real time display units**

Regulation 7 of Metering Regulations 2006 provides that where the meters are installed outside the consumers' premises, then Real Time Display Unit (RTDU) are required to be provided at the consumers' premises on his request for information of electricity consumption. ESIM 2011 had made the Company responsible for ensuring installation of RTDU in consumers' premises wherever the meters are installed outside the consumers' premises in a time bound manner.

Audit observed that no action to install RTDU in consumers' premises had been taken despite a lapse of more than 11 years which indicates deficiency in consumer services.

### **Procurement of meters**

Central Electricity Authority (CEA) amended (December 2019) Metering Regulations<sup>86</sup> providing for all new consumer meters to be smart meters with prepayment feature and the existing meters to be replaced with such meters within a specified time frame. The GoI notified (August 2021) a final timeline of March 2025 for *ibid* replacement. The GoI also notified (December 2020) Electricity (Rights of Consumers) Rules, 2020 providing that no connection shall be given without a smart/prepayment meter and any exception shall have to be duly approved by the Commission, which shall record proper justification for the same.

In this connection, Audit observed as follows:

#### **6.1.2.7 Additional expenditure due to delay in procurement of smart energy meters**

A tender enquiry for procurement of three lakh single phase smart energy meters was floated (August 2021) in which four Firms participated. After

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<sup>86</sup> CEA (Installation and Operation of Meters) Regulations 2019

sample testing and techno-commercial evaluation of bids, only two Firms were found (March 2022) eligible for price bid opening and a Firm quoting a price of ₹ 5,555 per meter emerged (March 2022) as lowest bidder. In negotiation, the lowest bidder Firm reduced (April 2022) the price to ₹ 5,550 per meter (₹ 5,325.43 per meter without polycarbonate meter box).

In the meantime, Information Technology (IT) wing of the Company had informed (25 April 2022) that procurement of single Meter Data Management<sup>87</sup> (MDM) was being considered for catering to all conventional AMR systems as well as smart meters. A Committee constituted by the Chairman-cum-Managing Director recommended (May 2022) procurement of single MDM. Resultantly, procurement of smart meters was held up as the tender enquiry had been floated for procurement of meters along with MDM. After, resolving the issue of procuring smart meters without MDM, the Company placed (August 2022) purchase order for three lakh single phase smart energy meters at a price of ₹ 4,975.43 per meter valuing ₹ 149.26 crore on the Firm after a lapse of more than one year from floating of tender. In the meantime, the Company had twice amended<sup>88</sup> (May/July 2022) existing purchase orders for supply of additional quantity of 3.30 lakh conventional meters<sup>89</sup> valuing ₹ 22.44 crore citing field requirements and non-finalisation of *ibid* tender enquiry.

Audit observed that due to delay in finalisation of tender enquiry for procurement of single phase smart energy meters, despite smart meters having been made (December 2019) mandatory, the Company incurred additional expenditure of ₹ 22.44 crore on procurement of conventional meters, which would have to be replaced in near future in view of the GoI mandated timelines.

#### **6.1.2.8 Irregular procurement of single-phase static energy meters**

A tender enquiry for procurement of 7.50 lakh single phase static energy meters was floated (January 2021) based on the field requirements, minimum inventory requirements and pending supplies against existing purchase orders. Based on lowest negotiated price of ₹ 680 per meter, purchase orders for procurement of four lakh energy meters were placed (October 2021) on three Firms. The purchase orders were later amended (March/May 2022) for procuring additional quantity (20 *per cent* of original ordered quantity) of 80,000 meters in accordance with Purchase Regulations 2017 of the Company. Subsequently, observing critical stock position of single-phase meters, the

<sup>87</sup> Software that performs long term data storage and management for the vast quantities of data delivered by smart metering system

<sup>88</sup> Amended after April 2022

<sup>89</sup> Static intelligent energy meters

Company decided (July/September 2022) to procure 2.70 lakh additional single phase meters from these three Firms by describing the same as unallocated quantity of original tender *i.e.*, tendered quantity of 7.50 lakh meters *minus*: 4.80 lakh procured meters.

Audit observed that the Purchase Regulations provide only for variations in the quantities at tendered rates up to 20 *per cent* of the original order value and there was no provision for allocating additional quantities over and above 20 *per cent* of original order value. Thus, procurement of 2.70 lakh additional meters from these three Firms by describing the same as unallocated quantity of original tender was irregular and resulted in irregular procurement of ₹ 18.36 crore without tendering.

#### ***6.1.2.9 Irregular procurement of three-phase bi-directional energy meters***

A tender enquiry was floated (July 2021) for procurement of 10,000 three-phase bi-directional consumer energy meters for net metering of grid interactive roof-top solar power plants. Only one Firm out of the three participating Firms met (February 2022) the technical specifications. In view of nil stock position, price bid of sole qualified bidder was opened (February 2022) and after negotiations, purchase order for procurement of 10,000 meters valuing ₹ 2.10 crore was placed (March 2022).

Audit observed that the tender enquiry for procurement of three-phase bi-directional consumer energy meters had been floated after more than 19 months and the purchase order had been placed after more than 27 months from smart meters having been made (December 2019) mandatory. No exception/exemption for procurement of conventional meters, with proper justification for deviation, had been sought/obtained from the Commission. Audit further observed that the final price of single eligible bidder was 17 *per cent* higher from the previous procurement (October 2020). However, despite higher price, usage constraints and mandatory replacement requirements in near future, the Company procured full quantity required over a period of 12 to 15 months. This has resulted in irregular and avoidable expenditure of ₹ 2.10 crore.

#### ***6.1.2.10 Delay in finalisation of tender enquiries***

The Punjab Transparency in Public Procurement Act, 2019 provides for every procuring entity to pre-determine a reasonable time frame for completion of various stages of procurement process and to endeavor to adhere to such time frame.

The systems, procedures, rules and regulations for purchase of various

items/materials in the Company are contained in its Purchase Regulations. However, no time-limit for finalisation of tenders has been fixed, though Purchase Regulations mandate that all offers received from the bidders are to be valid for a period of at least 120 days.

Scrutiny of 18 tenders floated/finalised during 2021-22 for procurement of various metering equipment revealed that an average of eight months had been taken to finalise procurements valuing ₹ 258.33 crore from the date of Notice Inviting Tender to issuance of purchase order. The time taken to finalise these tenders had ranged from two months to 23 months with 12 tenders taking six months to one year and three tenders taking more than a year. Further, on an average seven months had been taken to finalise procurements from the last date/revised last date of bid submission to issuance of purchase order.

Thus, the Company was taking inordinately long time in finalisation of tenders and could not finalise the purchase proposals within the original validity period of 120 days in most of the cases. The routine delays in finalisation of tenders exposes the Company to risk attached with non-availability of stocks in emergent situations.

#### **6.1.2.11 Maintenance of minimum stock levels**

An efficient inventory management requires an organisation to maintain optimum levels of inventory at all times to keep inventory costs at minimum and prevent stock-out which may result in loss of sale. For this purpose, various stock levels *viz.* minimum level, maximum level, re-ordering level, danger level, *etc.* are fixed. The minimum stock level represents the quantity below which the stock should not fall, to ensure that the work of an organisation is not stopped due to shortage of materials.

Energy meter, particularly single-phase energy meter, is the primary inventory item required by Discoms to ensure release of power connections to new consumers and replacement of dead/defective and burnt meter of existing consumers in a timely manner to ensure maximisation of revenue from sale of power.

The minimum stock level of single-phase energy meters had been fixed at 1.10 lakh units. A review of fortnightly stock position of single-phase energy meters during 2021-22 revealed that the stock position during June 2021 to March 2022 had remained low and ranged between 7,991 meters (December 2021) to 81,490 meters (June 2021).

Audit observed that the inventory levels were grossly insufficient for meeting these requirements, indicating insufficient procurement, which was leading to delayed release of connections and replacement of dead/defective and burnt

meters, ultimately resulting in revenue loss to the Company (as discussed in paragraphs 6.1.2.1 and 6.1.2.2).

## **Compliance and Control Issues**

### **6.1.2.12 Accreditation of metering equipment laboratories**

Regulation 17 of Metering Regulations 2006 and Regulation 21 of Supply Code 2014 provided for setting up appropriate number of accredited testing laboratories or utilise services of other accredited testing laboratories and take immediate action to get the accreditations of existing meter testing laboratories from National Accreditation Board for Testing and Calibration Laboratories (NABL). The Commission has also been regularly directing the Company since May 2019 to get accreditation of its existing meter testing labs from NABL.

Audit observed that as on January 2023, the Company had got accreditation for only one metering equipment (ME) laboratory (Jalandhar) out of its 14 ME laboratories spread across Punjab. The process for accreditation of metering equipment laboratories at Patiala and Ludhiana was initiated during 2020-21 and for Amritsar and Bathinda was initiated during 2021-22 but the same were yet to be completed (January 2023) despite a lapse of 17 years of the Regulations. The status/proposal for accreditation of remaining nine laboratories was not on records.

The matter was referred (July 2023) to the State Government and the Company; their replies were awaited (January 2025).

### **6.1.3 Conclusion**

**The Company did not adhere to the prescribed time-limits for metering of new connections/replacement of defective/burnt meters in violation of statutory provisions. Energy consumption valuing ₹ 64.37 crore in respect of AP consumers fed from urban feeders was not considered for calculating AP consumption by Punjab State Electricity Regulatory Commission due to unmetered connections/incomplete and invalid meter readings. The Company could not compute distribution losses of AP feeders despite incurring an expenditure of ₹ 2.88 crore. Long delayed replacement of electro-mechanical meters with non-smart electronic meters resulted in injudicious expenditure of ₹ 13.75 crore. The Company incurred avoidable expenditure of ₹ 22.44 crore on procurement of conventional meters, despite mandatory requirement of smart meters. The Company did not maintain minimum stock levels of energy meters.**

#### 6.1.4 Recommendations

The Company may:

- adhere to the prescribed time-limits for metering of new connections/replacement of defective/burnt meters; and
- ensure compliance with the directives of the Punjab State Electricity Regulatory Commission with respect to installation of meters at Agricultural Pumpset consumers.

#### 6.2 Avoidable expenditure due to delay in taking over SAP system

**Delayed deployment of adequate and trained manpower to take over outsourced work of Facility Management Services of SAP system from the Firm and consequent extensions of the work order resulted into an avoidable expenditure of ₹ 3.23 crore.**

Punjab State Power Corporation Limited (Company) awarded (29 April 2010) a work order to M/s SPANCO for implementation of Information Technology (IT) works in 47 towns under the Restructured Accelerated Power Development and Reform Programme (R-APDRP) of Ministry of Power, Government of India. As M/s SPANCO failed to complete the work, the work order was terminated and another work order for completion of the remaining work *i.e.*, closure of open issues and deployment of System Applications and Products (SAP<sup>90</sup>)/Industrial Solution for Utilities (ISU) in all R-APDRP towns was placed (12 June 2014) on M/s Accenture Services Private Limited (The Firm). All the towns covered under the R-APDRP were declared Go-live in April 2015.

The Firm developed the main modules of the SAP-ISU and integrated the same with other modules, however, in view of the non-availability of manpower who could be trained for the requisite skills to monitor and to maintain the application for IT implementation, the Company amended (22 January 2016) the said work order and awarded the work of Facility Management Services (FMS<sup>91</sup>) of the SAP-ISU to the Firm for a period of five years *w.e.f.* 01 February 2016 to 31 January 2021 with FMS charges amounting to ₹ 15.43 crore. As per provisions of the amended work order, the Firm was to deploy 9.5 manpower resources in the Company and whenever such resources of the Firm were available, the Company was to utilise its time for internal training of its officials. Besides, the Firm was also required to do

<sup>90</sup> SAP framework comprises of several modules which covers, for all intents and purposes, in every perspective of Business Administration.

<sup>91</sup> Services which are dedicated to supporting people. It ensures the functionality, comfort, safety, sustainability, and efficiency of the built environment.

knowledge transition of the SAP-ISU application deployed in the Company.

Audit, however, observed that the Company decided to prepare the roadmap for creating in-house IT team to take over the work of FMS from the Firm only in December 2020 *i.e.*, two months before the expiry of the contract. A Committee<sup>92</sup> constituted (December 2020) by the Company to prepare the roadmap concluded (January 2021) that the complete take over may take at least 9-10 months and would require a team of additional six or seven Assistant Managers, IT. It further recommended (January 2021) to extend the work order by one year and reduce the annual manpower deployed by the Firm from 9.5 to 7.5. In view of the recommendation, the Company extended (29 January 2021) the work order for the period from 01 February 2021 to 31 January 2022 along with reducing manpower resources of the Firm from 9.5 to 7.5.

After expiry of six months from the date of recommendation of the Committee, a team comprising of nine members<sup>93</sup> was constituted (July 2021) to take over the SAP work from the Firm by December 2021. The team was strengthened (December 2021) by including three additional officers. However, as the task of SAP takeover from the Firm was not found feasible due to strikes/lockdowns and election duty of the team members, the Company extended (March 2022) the work order by another six months *i.e.*, up to 31 July 2022. In April 2022, the Company further supplemented the SAP takeover team by deputing additional four officials, making the total team strength to 16 members (nine existing officers and seven newly recruited officers). Finally, the team of the Company took over the SAP system from the Firm on 31 July 2022.

Audit observed (December 2022) that though the Company had sufficient timeframe of five years (period of amended work order for FMS) to arrange the required manpower and get them trained for taking over the SAP work from the Firm, it did not take timely action in this regard. Due to delay in deploying the team to take over the SAP related work from the Firm, it had to extend the work order for another 18 months which resulted into avoidable expenditure of ₹ 3.23 crore (₹ 5.03 – ₹ 1.80<sup>94</sup> crore *i.e.*, FMS charges paid to the Firm for the period February 2021 to July 2022 *minus*: corresponding salary of the employees designated to take over SAP system).

The State Government/Company stated (November 2024/September 2024) that the staff requirement could not be met by the Company from the

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<sup>92</sup> Comprising of Director (Finance), Director (Distribution) and Chief Engineer, Information Technology of the Company

<sup>93</sup> Five old and four newly recruited officials of the Company

<sup>94</sup> Salary of 16 employees designated for taking over SAP

commencement of the SAP FMS work in the year 2016 due to various additional crucial activities being looked after by IT manpower. Besides, taking over the SAP work from M/s Accenture was also affected by the resignation of five Assistant Managers of the IT wing. Further, the SAP system being very complex and not directly taught during university education, new staff requires exhaustive on the job training for handling SAP related work.

The reply was not acceptable as the Company did not utilise the available resources of the Firm for internal training of its officials as a part of knowledge transition process of the SAP-ISU application deployed in the Company. Further, nine out of 16 members of the subsequently constituted SAP takeover team were working with the Company since the year 2012/2016 and the Company had sufficient time frame of five years to constitute a team from its existing IT officers and get these members trained, particularly, when the Firm was handling the SAP/ISU work with manpower of 9.5/7.5 only. Further, of the 28 ITs personnel recruited up to 2016, seven were posted<sup>95</sup> out of IT wing of the Company. Besides, the Company could have assigned the routine operational activities pertaining to IT to non-IT staff, as was done later (August 2022) by deputing seven officers/officials from accounts/clerical cadre to take over the routine day to day SAP related operational activities of field issues and enable the SAP takeover team to focus on module development work.

**Recommendation: The Company may devise a robust governance framework to monitor and ensure training of its staff in relevant field to avoid delays in taking over outsourced works in the overall financial interests of the Company.**

### 6.3 Under billing due to incorrect application of tariff

**Non-levy of fixed energy charges in energy bills of a co-generation power plant during the period January 2018 to March 2023 resulted in under billing of ₹ 1.68 crore and interest loss of ₹ 0.57 crore.**

Punjab State Power Corporation Limited (Company) had entered (December 2012) into a Power Purchase Agreement (PPA) with a Firm<sup>96</sup> for purchase of 20 MW surplus power from their 23 MW co-generation power plant established at their sugar mill for a period of 20 years from its date of commissioning (October 2007).

The terms of PPA governing purchase of energy by the generating company

<sup>95</sup> Office of Director (Distribution) at Patiala: 3 and outside Patiala: 4.

<sup>96</sup> M/s AB Sugars Limited, New Delhi.

provided that if the generating company *i.e.*, the Firm is also a consumer of the Company, then the agreement setting out the terms and conditions for sale of power by the Company to the Firm will be treated as distinct and separate from this agreement for all intents and purposes *i.e.*, all charges such as advance consumption deposit, service connection charges or any other charges payable by the Firm as a consumer of the Company as per relevant tariff will continue to be paid by it without reference to this agreement during the construction period and the crushing season of co-generation sugar mill. The energy supplied to the Firm during this period as measured on export meter of the Company (import meter of the Firm) is to be billed by the Company at the tariff applicable to Large Supply industrial consumers (General Category) or sale rate of energy generated from the project applicable for that period, whichever is higher.

Punjab State Electricity Regulatory Commission (Commission) had introduced (October 2017) two-part tariff structure comprising of fixed energy charges and variable energy charges for all categories of consumers from January 2018 onwards. In case of consumers covered under contract demand system, the tariff structure provided for levy of fixed charges<sup>97</sup> apart from variable energy charges. While approving the two-part tariff structure<sup>98</sup>, Commission observed that since the requirement of the load/contract demand for utilisation by the co-generation power plants has to be met by the Company, it has to tie up the power and keep its capacity reserved, for which it has to commit the fixed costs. Therefore, co-generation power plants are also liable to pay the fixed charges for the same to the Company.

Audit observed (March 2023) that the Firm had consumed (imported) 47.58 lakh units of power from the Company's system during January 2018 to March 2023 for which separate energy bills, comprising of variable energy charges alone amounting to ₹ 3.86 crore had been raised and recovered by the Company. Since the Company had not obtained the requirement of the load/contract demand from the Firm, it had not levied the applicable fixed charges.

Thus, non-obtaining of the contract demand from the Firm and consequent non-levy of applicable fixed charges during January 2018 to March 2023 resulted in under billing of the Firm to the extent of ₹ 1.68 crore<sup>99</sup> and interest loss of ₹ 0.57 crore (up to September 2024) thereon.

The matter was referred (September 2023) to the State Government and the

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<sup>97</sup> Calculated at the rate of 80 *per cent* of the sanctioned contract demand or actual demand recorded during the billing cycle/month, whichever is higher, restricted to sanctioned demand.

<sup>98</sup> Tariff order for Multi Year Tariff Control Period from 2017-18 to 2019-20.

<sup>99</sup> Excluding demand surcharge.

Company; their replies were awaited (January 2025).

**Recommendation: The Company may ensure billing of its consumers as per tariff structure approved by the Commission to safeguard its financial interests.**

#### 6.4 Avoidable interest loss due to unjustified delay in payments

**Withholding of principal amount of deferred tax materialisation payments in violation of tariff regulations and without any objections thereagainst resulted in avoidable interest loss of ₹ 6.81 crore.**

Punjab State Power Corporation Limited (Company) receives power from NHPC Limited (NHPC) under long term Power Purchase Agreements (PPAs) as per allocations issued by the Ministry of Power, Government of India. The tariff of hydroelectric power stations of NHPC is determined by the Central Electricity Regulatory Commission (CERC) based on applicable tariff regulations issued by it from time to time. Tariff regulations issued by the CERC for control periods 2009-14<sup>100</sup>, 2014-19<sup>101</sup> and 2019-24<sup>102</sup> provide that the deferred tax liabilities for the period up to 31 March 2009, whenever they materialise, shall be recoverable directly by the generating companies from the beneficiaries and the long-term customers. The tariff regulations for control periods 2009-14<sup>103</sup>, 2014-19<sup>104</sup> and 2019-24<sup>105</sup> also provide for levying Late Payment Surcharge (LPS) at the rate of 1.25 *per cent* to 1.50 *per cent* per month for payments of any bill for charges payable under these regulations delayed beyond a period of 45 to 60 days from the date of billing.

NHPC had raised (June 2018) supplementary bill of ₹ 31.88 crore which included an amount of ₹ 29.59 crore on account of deferred tax up to 31 March 2009 which materialised during 2017-18. This amount of ₹ 29.59 crore comprised of deferred tax materialisation (DTM) of ₹ 19.35 crore *plus*: grossing up of ₹ 10.24 crore. The Company objected (July/August 2018) grossing up of DTM stating that the same was not provided under the tariff regulations and consequently withheld payment of entire bill despite having reservations only over the grossed up amount of ₹ 10.24 crore. Resultantly, NHPC filed (September 2019) a petition<sup>106</sup> before the CERC for adjudication of dispute regarding payment of deferred tax materialised during 2017-18 wherein the Company had raised objections only on the issue of grossing up of DTM. After hearing both the parties, the CERC decided (February 2021) the

<sup>100</sup> Regulation 39 of CERC (Terms and Conditions of Tariff) Regulations, 2009

<sup>101</sup> Regulation 49 of CERC (Terms and Conditions of Tariff) Regulations, 2014

<sup>102</sup> Regulation 67 of CERC (Terms and Conditions of Tariff) Regulations, 2019

<sup>103</sup> Regulation 35 of CERC (Terms and Conditions of Tariff) Regulations, 2009

<sup>104</sup> Regulation 45 of CERC (Terms and Conditions of Tariff) Regulations, 2014

<sup>105</sup> Regulation 59 of CERC (Terms and Conditions of Tariff) Regulations, 2019

<sup>106</sup> Petition no. 294/MP/2019

case in favour of NHPC and allowed its claim of DTM with grossing up. Meanwhile, NHPC had also raised (June 2019/July 2020) supplementary bills of ₹ 23.20 crore and ₹ 17.73 crore on account of deferred tax up to 31 March 2009 which materialised during 2018-19 and 2019-20 respectively. Pending the CERC decision in *ibid* case, these bills, comprising of original DTM of ₹ 26.62 crore *plus* grossing up of ₹ 14.31 crore, had also been withheld in full by the Company.

Based on legal opinion, the Company decided (March 2021) to file an appeal in the Appellate Tribunal for Electricity (APTEL) and release principal amount of DTM without grossing up, which had not been contested, so as to avoid further levy of LPS. Accordingly, an amount of ₹ 45.97 crore representing principal amount of deferred tax materialised during 2017-18 to 2019-20, without grossing up was provisionally paid (April 2021) to NHPC. Subsequently, apprehending accumulation of further LPS owing to delay in decision by the APTEL, the Company provisionally paid (September 2021) balance amount of ₹ 24.54 crore also, representing grossing up of deferred tax materialised during 2017-18 to 2019-20 subject to outcome of appeal filed (June 2021) in the APTEL. After clearance of principal outstanding dues relating to DTM including its grossing up, NHPC requested (October 2021) the Company for payment of LPS. After obtaining (November 2021) legal opinion, LPS amounting to ₹ 24.50 crore on delayed payment of DTM bills of ₹ 70.51 crore (including grossing up) for the years 2017-18 to 2019-20 was also paid (November/December 2021) by the Company at rates ranging from 1.25 *per cent* to 1.50 *per cent* per month.

Audit observed (August 2022) that the decision of the Company to withhold principal amount of DTM bills for the period up to three years when it had objection on the issue of grossing up of DTM only, was neither justified nor financially prudent in view of penal LPS obligations. Consequently, the Company had to incur ₹ 14.94 crore as LPS on principal amount of DTM at interest rates ranging from 15 *per cent* to 18 *per cent per annum* during 2018-21, when the effective rate of interest on working capital of the Company had ranged from 8.01 *per cent* to 10.13 *per cent* only, which resulted in avoidable interest loss of ₹ 6.81 crore.

The State Government/Company in their replies (May 2024/April 2024) stated that the bills were kept pending as the matter was *sub judice* before the CERC and that the deferred tax liability cannot be considered as ascertained liability. The State Government/Management further replied (January 2025/October 2024) that timely payment for the supplementary bills of deferred tax materialisation bills was being made from 2022 onwards, under protest.

The reply was not acceptable since the Company had objection only over the grossing up of amount and not the principal amount of DTM, therefore,

withholding of the entire bill of DTM was not justified and ultimately, the Company had to pay the billed amount along with LPS.

**Recommendation: The Company may ensure payment of its undisputed dues in a timely manner to avoid the payment of penal charges thereagainst, in the overall financial interests of the Company.**

## INDUSTRIES AND COMMERCE DEPARTMENT

### Punjab State Industrial Development Corporation Limited

#### 6.5 Undue favour to the collaborator

**Non-initiation of action for sale of shares in the market and settling the outstanding dues of the collaborator under One Time Settlement resulted into loss of ₹ 4.21 crore.**

Punjab State Industrial Development Corporation Limited (Company) entered (August 1986) into a Financial Collaboration Agreement (FCA) with a collaborator for setting up a unit<sup>107</sup> for the manufacturing of drug intermediates. As per the terms of FCA, the collaborator was bound to buy back the equity shareholding of the Company in the unit after expiry of five years from the date of commencement of commercial production. In case of failure of the collaborator to buy back the shares, the Company was entitled to sell its shareholding in the market at the risk and cost of the collaborator.

Further, as per Clause 35 of the agreement with Collaborator, the agreement becomes null and void if the shareholding of the Company fell below 10 *per cent* at any time. The Company invested (January 1987 to February 1991) ₹ 3.29 crore in the equity of the unit. The unit commenced commercial production in July 1992. Thus, the collaborator was to buy back its share in June 1997. The controlling interest of the unit was transferred (July 1997) from the collaborator to M/s DSM Adeno BV with the knowledge of the Company and the shareholding of the Company and collaborator got reduced to 8.69 *per cent* and 6.34 *per cent* respectively.

The Company could not safeguard its financial interest as its shareholding fell below 10 *per cent* which made FCA null and void as per clause 35. The Company took up (February 1999, January 2000, September 2001 and April 2003) the matter with the collaborator for buy back of shares. The unit was

<sup>107</sup> M/s Alpha Drugs India Limited (merged with M/s Punjab Chemicals and Crop Protection Limited)

later merged (March 2006) with another unit<sup>108</sup> and the Company got 1,22,027 shares in that merged unit. Since the collaborator did not buy back the shares, the Company invoked (December 2007) arbitration clause as per FCA. The Arbitrator decided (September 2011) in favour of the Company but the collaborator challenged the award in the High Court which set aside (December 2016) the award of the Arbitrator. Against this, the Company filed (April 2017) a special leave petition before the Supreme Court which was pending for final disposal. Meanwhile, the State Government announced (December 2021) One Time Settlement Scheme 2021 (OTS) for equity. The collaborator opted for OTS (18 January 2022) offered (December 2021) by the Company and the Company accepted (19 January 2022) the OTS amount of ₹ 14.70<sup>109</sup> crore. Upon receipt of OTS amount (April 2022), the Company transferred (June 2022) the shares to the collaborator.

Audit observed (August 2022) that the shares of the merged unit were quoting at rates above ₹ 1,745 during 31 August 2021 to 15 September 2021 in the National Stock Exchange. Instead of selling its shareholding in the open market, the Company settled the account at OTS amount of ₹ 14.70 crore against recoverable dues of ₹ 45.10 crore (as per the FCA). The rate per share was ₹ 1,550<sup>110</sup> as on the date of acceptance of OTS valuing the shareholding of the Company at ₹ 18.91 crore.

Thus, the Company did not safeguard its financial interest and passed on undue favour of ₹ 4.21 crore<sup>111</sup> to the Collaborator by accepting the settlement in OTS below market value.

The State Government/Company replied (January 2025/November 2023) that the OTS is sacrosanct and its financial interest would be protected. The reply of the Company is not satisfactory as audit has not questioned the OTS but pointed out that the Company has not protected its financial interests by offering OTS to the collaborator instead of selling shares in the market which could have fetched a higher amount than the amount realised in OTS.

**Recommendation: The Company may judiciously protect its financial interests while recovering its outstanding dues.**

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<sup>108</sup> M/s Punjab Chemicals and Crop Protection Limited

<sup>109</sup> Calculated at simple interest rate of 11 per cent per annum and deduction of ₹ 0.16 crore on account of dividend received from the unit during September 2007 to August 2021 as per the terms of the OTS.

<sup>110</sup> As on 19 January 2022

<sup>111</sup> ₹ 18.91 crore (equity shares 1,22,027 \* ₹ 1,550 per share) minus ₹ 14.70 crore

## Punjab Small Industries and Export Corporation Limited

### 6.6 Undue favour to an allottee

**Disregard of the terms and conditions of the allotment letter resulted in an undue favour to the allottee and a resultant revenue loss of ₹ 71.63 lakh.**

Punjab Small Industries and Export Corporation Limited (Company) allots industrial plots on leasehold basis in its industrial estates for setting up industries as per the land allotment policy of the State Government. As per the provisions of the land allotment policy, 2013 which was partially amended in January 2019, after an applicant is declared successful in the bidding process, the concerned developing agency shall issue a regular allotment letter with detailed terms and conditions.

The Company allotted (28 January 2021) an industrial plot measuring 4,333.33 square yards located in SAS Nagar for Information Technology Services to an allottee<sup>112</sup> at total cost of ₹ 9.50 crore which was revised to ₹ 9.55 crore based on actual measurement of the plot sold<sup>113</sup>. The allottee was required to pay 10 *per cent* of cost of plot as earnest money along with the application, down payment amounting to 15 *per cent* of the cost of plot payable within 30 days of allotment and remaining 75 *per cent* in five yearly equated installments along with interest at the rate of 9.5 *per cent per annum*. If lump sum payment of remaining 75 *per cent* was made within 60 days of allotment, the allottee was entitled to 10 *per cent* rebate. The allotment letter clearly mentioned that the site was to be allotted on “as is where is basis” and the Company was not responsible for leveling of uneven site or removing the structure, if any thereon. The only basis of change in the date of allotment mentioned was in case the basic development works related to allotted plot were completed on a later stage.

The allottee deposited ₹ 95.43 lakh as earnest money and ₹ 1.43 crore towards the down payment in January 2021 and February 2021 respectively within the prescribed time-limit. However, to claim the rebate of 10 *per cent* of the remaining payment, the allottee was required to make the entire balance payment of ₹ 7.16 crore within 60 days (up to 29 March 2021) from the issue of the allotment letter. The allottee after lapse of 42 days from date of allotment requested (12 March 2021) the Company to remove grown up trees from the site. It was also informed that no payment of the interest or penal interest on the balance payment of the plot would be made till the site was free from all types of encumbrances. In the meantime, allottee took possession of

<sup>112</sup> M/s Mohali Techspace later M/s A.S. Enterprises.

<sup>113</sup> Actual measurement of plot was 4,355 square yards.

the plot on 27 April 2021 by signing on the possession certificate which mentioned that there was no encroachment on the plot and four trees were standing on the front side of the plot.

The Company considered (May 2021) the request of the allottee by referring to the internal guidelines<sup>114</sup> (August 2003) and directed its Horticulture wing to remove the trees by 30 May 2021. The Company intimated (11 May 2021) to the allottee that the period from 28 January 2021 to 30 May 2021 was to be treated as zero period for all intents and purposes *i.e.*, any interest, penal interest *etc.* shall not be charged. Further, the allottee was allowed to deposit the balance 75 *per cent* of the cost of plot in lumpsum on or before 30 May 2021. The allottee made the payment of ₹ 6.46 crore after availing the rebate of ₹ 71.63 lakh<sup>115</sup> on 28 May 2021.

Audit observed (July 2023) that relaxation in the clearly mentioned condition of “as is where is basis” of allotment letter was granted on the basis of the guidelines issued twenty years ago by the then Managing Director. It is pertinent to mention that these guidelines were neither approved by the Board of Directors of the Company nor by the State Government. Moreover, there is no mention of existence of trees to be considered as lack of encumbrance free land in the said guidelines. Audit further observed (November 2024) that the Horticulture wing has not taken any action to cut the trees which were the very basis to allow the relaxation in payment terms and allowing rebate.

Thus, treating the period from 28 January 2021 to 30 May 2021 as zero period for all intents and purposes by disregarding the terms of the allotment letter resulted in undue favour to the allottee and loss of revenue amounting to ₹ 71.63 lakh to the Company.

The matter was referred (March 2024) to the State Government and the Company; their reply was awaited (January 2025).

**Recommendation: It is recommended that the Company may ensure compliance with all the terms and conditions of the allotment letter so as to safeguard the financial interest of the Company.**

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<sup>114</sup> Approved by Managing Director of that time stating that in cases where Company could not provide the clear possession of the plot due to the operation of the stay by the Court/encroachment/encumbrances/dispute *etc.*, the contentious period was to be treated as zero period for all intent and purposes.

<sup>115</sup> Total value of plot after increase in area = ₹ 9,55,13,860  
75 *per cent* of the total value (after depositing 10 *per cent* earnest money and 15 *per cent* down payment) = ₹ 7,16,35,395. Therefore, rebate of 10 *per cent* = ₹ 71,63,539.50

**FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS  
DEPARTMENT**

**Punjab State Grains Procurement Corporation Limited**

**6.7 Loss of interest due to avoidable deductions from subsidy claims**

**The Company could not prepare annual accounts for the years 2018-19 to 2022-23 and submit the same along with the supporting documents for claiming the provisional subsidy from the Government of India. This resulted in avoidable deduction of ₹ 94.79 crore from the provisional subsidy claims by the Government of India and consequential interest loss of ₹ 8.05 crore to the Company.**

The Government of India (GoI) enacted the National Food Security Act (NFSA), 2013 to provide food and nutritional security to identified households by ensuring access to adequate quantity of quality food at affordable prices. Punjab State Grains Procurement Corporation Limited (Company) was nodal agency in the State of Punjab for procuring food grains for NFSA and distributing it under the decentralised procurement (DCP) to the beneficiaries at the rate of ₹ two per kg through Fair Price Shops. The GoI fixes provisional rates of incidentals<sup>116</sup> of wheat *i.e.*, Rabi Marketing Season (RMS) for DCP of each crop year separately. Based on these provisional rates, the Company claims the provisional subsidy on account of differential amount *i.e.*, cost of incidentals fixed by the GoI less ₹ two per kg received from the beneficiaries on the basis of delivery of wheat on quarterly basis from the GoI.

The GoI while considering (24 February 2020) the long delay in submission of the annual audited accounts (including supporting documents) and non-adherence to the timeliness by some of the State Governments, withheld a part of provisional subsidy for long defaulting States *w.e.f.* 31 March 2021 and stated that the States which failed to submit the annual accounts beyond five years, five *per cent* of the admissible provisional subsidy in the 6<sup>th</sup> year and further by two *per cent per annum* would be deducted. The withheld subsidy would be released only at the time of settlement of final subsidy of the concerned year. The GoI further stated (December 2021 and May 2022) that the State Government should send its claims for final rates of incidentals along with accounts audited by the auditors appointed by the Comptroller and Auditor General of India (CAG) and documentary proof as well as detailed justification for each item at the earliest after the end of the season and in any

<sup>116</sup> Several items of expenditure on procurement/distribution are called procurement incidentals such as statutory charges, Dami/Arthia Commission, Mandi Labour charges, cost of new gunny/HDPE bags, Transportation charges, Custody and Maintenance charges, Interest charges and Handling/Forwarding charges.

case not later than 12 months from the end of the financial year in which the season was ended.

The Company has finalised (January 2020) its annual accounts only up to the year 2017-18 and annual accounts for the years 2018-19 to 2022-23 have not been finalised despite appointment (October 2018 to September 2022) of the statutory auditors for the years 2018-19 to 2022-23 by the CAG.

Audit observed (July 2023) that while making payment of provisional subsidy for the period April 2021 to December 2021 and April 2022 to December 2022, the GoI deducted ₹ 47.39 crore (March 2022) and ₹ 47.40 crore (March 2023) respectively on account of five *per cent* on gross amount of subsidy claim raised by the Company due to non-submission of annual accounts/supporting documents as per the *ibid* instruction of the GoI. Records produced to Audit revealed that the Company submitted the Balance Sheet and supporting documents pertaining to the crop year 2014-15 and 2015-16 as late as in April 2020 and the requisite annual audited accounts/documents for crop year 2016-17 onwards were not sent to the GoI.

Thus, lapse on the part of the Company to submit annual audited accounts/supporting documents resulted in avoidable deduction of ₹ 94.79<sup>117</sup> crore from the provisional subsidy claims from the GoI and consequential interest loss of ₹ 8.05 crore<sup>118</sup> to the Company.

The matter was referred (October 2023) to the State Government and the Company; their reply was awaited (January 2025).

**Recommendation: The Company may ensure timely finalisation and submission of annual audited accounts and supporting documents in compliance of the instructions of the GoI so as to avoid any deductions from subsidy claims by the GoI.**

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<sup>117</sup> ₹ 94.79 crore (₹ 47.39 crore and ₹ 47.40 crore deducted as per subsidy release order dated 21 March 2022 and 28 March 2023 of the GoI respectively).

<sup>118</sup> ₹ 8.05 crore (₹ 5.75 crore calculated conservatively at simple interest rate of 7.28 *per cent* on ₹ 47.39 crore for 20 months *i.e.*, April 2022 to November 2023 and ₹ 2.30 crore at 7.28 *per cent* on ₹ 47.40 crore for eight months *i.e.*, April 2023 to November 2023 availed on cash credit limit).

## AGRICULTURE AND FARMER'S WELFARE DEPARTMENT

### Punjab Agro Industries Corporation Limited

#### 6.8 Implementation of Mega Food Park Scheme

**The Detailed Project Report prepared by the Company was deficient as it did not include some of the facilities/services mandated by statute and under planned the required capacities. The land selected for Primary Processing Centre, Amritsar was unsuitable which increased the cost. Extension fees of ₹ 0.90 crore from allottees of the Mega Food Park was still pending and the silos were not lent out. Due to delayed implementation of the project, the Company could not avail maximum grant-in-aid from the Government of India and was also got penalised.**

##### 6.8.1 Introduction

Punjab Agro Industries Corporation Limited (Company) submitted expression of interest (July 2014) to set up a Mega Food Park (MFP), under MFP Scheme (February 2014) of the Ministry of Food Processing Industries (MoFPI), Government of India (GoI). MoFPI granted the in-principle approval for establishment of MFP in March 2015. The objective of the Scheme was to facilitate the establishment of a strong food processing industry backed by an efficient supply chain, which included Central Processing Centre (CPC), Primary Processing Centres (PPCs) and Collection Centres (CCs). The CPC was to be equipped with state of art infrastructure for setting up food processing units and PPC was to cater to the raw material requirements of the industrial units situated in CPC. Planning and Execution Committee<sup>119</sup> was to oversee and monitor the project.

The Company submitted (July 2015) Detailed Project Report (DPR) to establish a MFP comprising of one CPC (at Ladhawal, Ludhiana) and four PPCs (at Amritsar, Hoshiarpur, Talwandi Sabo and Abohar) under the Scheme. The GoI granted final approval of the Scheme in November 2015 with approved project cost of ₹ 117.61 crore. The Scheme was to provide a capital grant by MoFPI, at the rate of 50 *per cent* of the eligible project cost (EPC) in general areas and at the rate of 75 *per cent* of EPC in difficult and hilly areas<sup>120</sup> subject to a maximum of ₹ 50 crore per project. EPC included total project cost excluding cost of land, pre-operative expenses and margin money for working capital. However, interest during construction as part of preoperative expenses and fee to Project Management Consultant (PMC) up to

<sup>119</sup> Set up in September 2014 comprising Finance Commissioner (Development), Secretary Food Processing, Managing Director of the Company, Chief Engineer Public Works Department (Building and Roads), Chief Environmental Engineer, Punjab Pollution Control Board *etc.*

<sup>120</sup> North East Region including Sikkim, Jammu and Kashmir, Himachal Pradesh, Uttarakhand and ITDP notified areas of the States

two *per cent* of the approved grant was to be considered under eligible project cost.

The time schedule for completion and operationalisation of project as intimated by MoFPI was 30 months from the date of final approval of the project. As the final approval was received from MoFPI on 27 November 2015, the stipulated date of completion of project was May 2018. However, the financial closure of the project was still awaited (November 2024). An expenditure of ₹ 129.46 crore<sup>121</sup> had been incurred on the project (March 2023).

## **6.8.2 Audit Findings**

The Scheme, implemented by the Company was reviewed (June 2023 to August 2023). Audit findings are discussed below:

### **6.8.2.1 Planning**

Preparing an accurate and realistic DPR, after conducting detailed feasibility studies and survey of proposed project sites is the critical requirement at planning stage to ensure successful implementation of projects. Geo-technical investigation for a construction project needs to be undertaken with adequate understanding of the local and regional environment as it significantly impacts the design, construction, and operation of the project.

### **6.8.2.2 Claim and receipt of grant-in-aid under the MFP Scheme**

As per the conditions of the “In Principal Approval” to the Company to establish a MFP, a PMC was to be appointed and DPR for the project to be submitted to MoFPI for Final Approval. The DPR was also to include contour survey reports and plan/map of proposed land, site analysis for elements like soil analysis, flood history and onsite features for realistic cost estimates of the project.

Accordingly, the Company appointed a PMC<sup>122</sup> and a DPR was submitted (July 2015) for establishment of MFP. The DPR was approved for a project cost of ₹ 117.61 crore with eligible project cost of ₹ 101.90 crore. Based on this DPR, final approval was given (November 2015) by MoFPI. But, due to various changes made during the implementation of the project, a revised DPR (April 2022) of ₹ 112.80 crore was sent to MoFPI for approval. The MoFPI approved (August 2022) the revised DPR with eligible project cost at ₹ 75.46 crore. Hence, Grant-in-Aid (GIA) of ₹ 37.73 crore (50 *per cent* of eligible project cost) was admissible.

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<sup>121</sup> Including expenditure on operation and maintenance of MFP  
<sup>122</sup> M/s Grant Thornton India LLP (GT)

Audit observed (August 2023) that several components, though mandatory as per statutory requirements, were either left out from DPR or were not planned correctly in the original DPR. Due to these deficiencies in DPR, MoFPI rejected the claims of these components/revised capacities in revised DPR, and the Company could not avail the maximum benefit of GIA from GoI. However, no penalty thereagainst has been deducted from the bills of the PMC. Later on, these components were added/capacity increased by the Company at its own cost. The list of the works left out in the original DPR or wherein the capacities were not properly assessed is given in *Appendix 6.3*. Thus, deficient DPR led to the Company not being able to avail benefit of additional GIA from MoFPI to the extent of ₹ 4.46 crore.

The State Government/Management stated (February/August 2024) that reduction in the grant was due to receiving of lesser tender rates and deleting of a few components. The reply was not acceptable as the Company would have received additional grant had it included the statutory required components/correct capacities in the original DPR.

#### **6.8.2.3 Selection of unsuitable land for Primary Processing Centre, Amritsar**

As per the Scheme, the Implementing Agency was responsible to procure/purchase land and ensure external infrastructure linkages for the project. The Company approached (November 2016) the State Government for allotment of four acres of land lying at Verka Road for setting up PPC at Amritsar and took possession in July 2017. The PMC in their report (May 2018) stated that this land was about 15 feet below the service road of national highway due to which water used to get collected at the backside of the site. A portion of the site also had deposition of fly ash, garbage and *malba*. The soil bearing capacity of the land was very low as it contained deposition of fly ash, silt, *etc.* It recommended an alternate site and if that was not feasible, it advised soil compaction with good earth with an extra expenditure of up to ₹ four crore.

Audit observed (August 2023) that the Company did not conduct any survey of the proposed land for establishment of PPC before approaching the State Government. It was proposed (June 2018) to drop the project and to appraise the facts before the Planning and Execution Committee in their next meeting. The State Government asked (June 2018) the Company to fix responsibility for selection of unsuitable site. This matter was, however, neither brought before the Planning and Execution Committee nor any enquiry was conducted by the Company. The Company, however, went ahead with the project and took possession of the land for PPC (July 2017) and construction of the PPC was completed in April 2021. An expenditure of ₹ 8.26 crore was incurred (August 2023) on PPC, Amritsar and selection of unsuitable land was one of

the main reasons for huge increase of ₹ 4.88<sup>123</sup> crore in the cost of PPC.

Audit further observed (August 2023) that no metalled/*Pucca* road was available between PPC and the nearby national highway. The Company had applied multiple times (June 2021, April 2022) to the National Highways Authority of India (NHAI) for issuance of a “No Objection Certificate” (NOC) for laying of service road for getting access to national highway. However, the requests were rejected (June 2022, November 2022) by NHAI on the ground that the proposed entry/exit approach road of the PPC was not as per guidelines issued by the Ministry of Road Transport and Highway. This caused inconvenience due to non-availability of the approach road.



*(Picture-1: Non-availability of pucca road between NH and PPC, Amritsar (25 July 2023))*

The State Government/Management stated (February/August 2024) that the land was provided by the State Government and the Company had no role in allocation of land and it was the most sought after PPC among all the PPCs of Food Park. Further, the survey could be conducted only after possession of land given by the State Government.

The reply was not satisfactory as it contradicts the earlier stance of the State Government where it was admitted that the land was unsuitable and therefore, the Company was directed to fix the responsibility of official concerned for selecting unsuitable land.

### **6.8.3 Execution of works**

#### **6.8.3.1 Delay in completion of works**

The Company decided (February 2016) to carry out the civil works of MFP through Public Works Department (Building and Roads) (PWD-B&R) on “deposit work” basis. However, the Company did not enter into a formal arrangement with PWD-B&R defining the timeframe for completion of various works and instead adopted the timelines of works as conveyed by the PWD-B&R. The copies of detailed notice inviting tenders and work orders

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<sup>123</sup> as actual cost arrived at ₹ 8.26 crore against the estimated cost of ₹ 3.38 crore.

issued by PWD-B&R to contractors for works were not made available to audit.

Audit observed (August 2023) that there was delays in completion of works, ranging from seven to 26 months, against the scheduled date of completion set by the execution agency. Reasons of delay were change in foundation designs of piles due to poor bearing capacity of the soil, delay in approval of plan of site, increase in scope of the works, late possession of site and change in approved plan at the later stage *etc.* Also, the issues of the land free of any charge and encroachment, were not addressed properly before starting the works. Thus, improper planning led to delayed execution of works which delayed realisation of envisaged benefits from the project.

The State Government/Management stated (February/August 2024) that MoFPI had given the time up to November 2019 for completion of MFP and all the works (except a few) had been completed till then. So, there was no delay in work. Further, if the Company would have installed these components without looking at the demand, the machinery would have been deteriorated besides the blockade of funds.

The reply is not tenable as MoFPI had given time up to November 2019 but the MFP was still not complete as of March 2024.

#### **6.8.3.2 Recovery of extension fees from allottees in MFP**

Scrutiny of records related to the allottees of industrial plots in CPC Ladhwal, revealed that only seven units out of 19 allotted units were made operational (December 2023) which showed a very slow progress in achieving the objectives of setting up the MFP. Due to not taking effective steps for implementation of project within one year from the date of issuance of Letter of Intent (LOI) and commencement of commercial production within a period of three years, an extension fee of ₹ 1.92 crore was recoverable from nine allottees of MFP as per conditions of LOI. However, notices for deposit of extension fee were issued with a lapse of 10 to 67 months from the due date of deposit of extension fees which shows lackadaisical approach of the Company.

The State Government/Management stated (February/August 2024) that on the basis of request of allottees for relaxation due to COVID-19 and delay by MoFPI for approval of their cases for subsidy under SAMPADA<sup>124</sup> scheme, case was sent to the State Government for issuance of notification.

The State Government had issued (March 2024) notification to change the

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<sup>124</sup> Pradhan Mantri Kisan Sampada Yojana

clause of allotment policy which will give relief to the allottees and waived off the interest for the period 01 March 2020 to 31 August 2020 on account of COVID-19 resulting into recoverable amount of ₹ 0.90 crore. Audit noticed that extension fees of ₹ 0.90 crore had not been recovered so far.

### **6.8.3.3 Non-utilisation of silos**

The Company floated (January 2021) an e-tender to lease out two silos constructed at CPC, Ludhiana. The tenders were opened (03 February 2021) and the highest bid (H-1) received<sup>125</sup> was ₹ 1.80 lakh per month (excluding GST and other taxes) for a contract period of five years. But, instead of issuing the acceptance letter to H-1 bidder, the Company decided to lease out these silos to MARKFED, being a government agency. Later on, MARKFED refused to take silos on lease. The Company then asked H-1 bidder to take possession of silos but H-1 bidder also refused (August 2021) as the Rabi Marketing Season was over. This led to non-utilisation of silos for the last 39 months and loss of opportunity to earn rental income of ₹ 70.20<sup>126</sup> lakh.

The State Government/Management stated (February/August 2024) that worldwide storage of foodgrains in silos was the latest and most scientific technology and Food Corporation of India had floated tenders to install silos at 66 locations. The *ibid* silos were rented out (June 2024) by the Company to a private party.

The reply was not tenable as audit has not raised the issue of the utility of silos but underscored the delay on the part of the Company in leasing these silos.

### **6.8.3.4 Penalties due to non-fulfillment of preconditions**

The time-schedule for completion and operationalisation of project was 30 months from the date of final approval of the project (November 2015). MoFPI prescribed timeline for release of GIA in four installments and each installment of GIA was to be released on fulfillment of the precondition prescribed in the MFP guidelines.

**Table 6.1** shows the eligible grants, grants released by the GoI, date of release of grants and penalty deducted/non-release of grants.

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<sup>125</sup> M/s Total Shipping Group

<sup>126</sup> ₹ 1.80 lakh for 39 months *i.e.*, from March 2021 to May 2024

Table 6.1: Details of grants

(₹ in crore)

Installments of grants	Details of grants				Penalty	
	Due date of release	Date of release	Eligible	Released by GoI	Deducted	Reasons for deduction/non-release of grant
1st installment (30 per cent)	27 May 2016	23 August 2016	15.00	15.00	Nil	Not applicable
2nd installment (30 per cent)	27 January 2017	27 September 2017	15.00	14.23	0.77	The Company could not submit documents related to title of land for PPC Amritsar and PPC Talwandi Saboo
3rd Installment (20 per cent)	27 September 2017	30 September 2019	10.00	8.39 <sup>127</sup>	1.00	The Company could not submit the proof of expenditure/proof of allotment of at least 25 per cent of total allottable plots.
4th Installment (20 per cent)	27 May 2018	Not released	10.00	0.00	NA	The Company could not submit the proof of expenditure/proof of allotment of at least 75 per cent of total allottable plots.
<b>Total</b>			<b>50.00</b>	<b>37.62</b>	<b>1.77</b>	

Source: Information provided by the Company

The MoFPI had prescribed penalty of one per cent of quantum of installment of GIA for each month of delay with maximum limit of 10 per cent in case of non-adherence of timeline. The first installment amounting to ₹ 15 crore was released by MoFPI on 23 August 2016 and next three installments were to be released as per the time schedule and conditions stipulated in MFP Scheme.

Audit observed the following:

- The second installment of GIA was due on 27 January 2017 and one of the pre-conditions for release of second installment was to submit the document related to possession of land in respect of all the PPCs. However, the Company could not submit documents related to title of

<sup>127</sup>

₹ 61 lakh deducted as interest on unspent balance of grant.

land for PPC at Amritsar and Talwandi Sabo before the due date of release of second installment. Due to this, the MoFPI released (September 2017) second installment of GIA of ₹ 14.23 crore against the due amount of ₹ 15 crore resulting in deduction of penalty of ₹ 0.77 crore.

- The third installment of GIA was due on 27 September 2017. However, due to non-compliance with the conditions of MFP guidelines 2014 for release of third installment viz. proof of expenditure of at least 40 per cent of total proposed cost for PPC as per approved DPR and proof of allotment of at least 25 per cent of total allottable plots, MoFPI deducted ₹ one crore on account of penalty and released (September 2019) an amount of ₹ 8.39 crore as third installment against the due amount of ₹ 10 crore.
- The fourth installment of GIA of ₹ 0.11<sup>128</sup> crore, has not been released so far due to non-compliance of conditions for release viz. allotment of at least 75 per cent of total allottable plots, proof of expenditure of 100 per cent envisaged contribution of the Company including term loan and equity and certificate from PMC confirming completion of the project as per approval.

The State Government/Management replied (August 2024) that the Company has used its own funds to develop MFP and deductions by MoFPI were regularly apprised to its Board of Directors.

The reply was not acceptable as the GoI had made deduction from GIA due to non-fulfillment of preconditions.

#### 6.8.4 Conclusion

**The Detailed Project Report prepared by the Company was deficient as it did not include some of the facilities/services mandated by the Statute and also underestimated the required capacities. The land selected for Primary Processing Centre, Amritsar was unsuitable which became one of the reasons for huge increase of ₹ 4.88 crore in the cost. Further, the Company was yet to recover extension fees of ₹ 0.90 crore from allottees of the Mega Food Park and could not lease out the silos. Besides, due to delay in implementation of the project, the Company could not avail maximum Grant in Aid from the Government of India and was also got penalised.**

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<sup>128</sup> As Ministry of Food Processing Industries, Government of India revised the eligible project cost at ₹ 75.46 crore in August 2022, the eligible grant-in-aid was ₹ 37.73 crore out of which ₹ 37.62 crore already received.

### 6.8.5 Recommendations

The Company may:

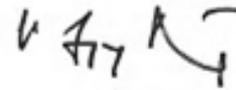
- strengthen its system of preparation of DPR so as to plan and implement the future projects more realistically.
- devise a plan to allot remaining plots in the Mega Food Park so that the infrastructure may be optimally utilised and envisaged benefits of the project may be realised.



Chandigarh  
The 26 June 2025

(NAZLI J. SHAYIN)  
Principal Accountant General (Audit), Punjab

Countersigned



New Delhi  
The 11 July 2025

(K. SANJAY MURTHY)  
Comptroller and Auditor General of India

