Chapter IV

4. Transaction audit observations

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

Government companies

Punjab State Industrial Development Corporation Limited

4.1 Loss due to one time settlement with profit making units

Allowing one time settlement to profit making units resulted in a loss of Rs. 31.91 crore.

A reference is invited to paragraph 3.1 of the Report of the Comptroller and Auditor General of India (Commercial) – Government of Punjab for the year ended 31 March 2005 pointing out the loss of Rs. 26.58 crore due to application of a one time settlement scheme. Audit observed a further loss of Rs. 31.91 crore in five more cases as discussed below:

The Company entered (August 1991 to June 1999) into five financial collaboration agreements (FCAs) with four collaborators for setting up specific projects as detailed below:

Sl. No.	Name of Collaborator (Year of FCA)	Name of the Unit	Shareholding released to the collaborator (Rs. in crore) (Period of release)	Date of commercial production	Due date of buy back	Profit earned (Rs. in crore) (Period)	Buy back amount due as on 31 March 2003 (Rs. in crore)
1	Shushil Singhal (June 1999)	Fertichem Cotspin Limited (FCL)	0.63 (September 1999 to February 2000)	10 November 1999	10 November 2002	2.05 (2000- 04)	1.14
2	Sanjay Gupta (August 1995)	Supreme Yarns Limited (SYL*)	2.26 (September 1995 to February 1996)	20 March 1996	19 March 2001	2.10 (2001-04)	5.21

*Formerly named as Supreme Woolen Mills Limited.

Sl. No.	Name of Collaborator (Year of FCA)	Name of the Unit	Shareholding released to the collaborator (Rs. in crore) (Period of release)	Date of commercial production	Due date of buy back	Profit earned (Rs. in crore) (Period)	Buy back amount due as on 31 March 2003 (Rs. in crore)
3	Varindra Agro Chemicals Limited (August 1991)	Abhishek Industries Limited (AIL) (Project-I)	5.42 (September 1991 to December 1992)	1 April 1993	31March 1998	73.10 (2000-2003)	23.67
4	Varindra Agro Chemicals Limited (May 1997)	AIL (Project II)	10.84 (July 1997 to January 1998)	1 July 1999	30 June 2002	73.10 (2000-2003)	29.39
5	Rajinder Gupta (March 1996)	Abhishek Spinfeb Corporation Limited$ (AIL Project III)	14.56 (March 1996 to September 1997)	1 April 1998	31 March 2003	73.10 (2000-2003)	30.65

As per the terms of FCA the collaborators were required to buy back the shareholding of the Company in the units along with interest, after expiry of the agreed period of three to five years from the date of commencement of commercial production. In case the collaborators failed to buy back the shares, the Company was entitled to appoint its nominees as Managing Directors of the units or to sell its shareholding at the risk and cost of the collaborators.

Audit noticed that the collaborators failed to buy back the Company's shareholdings as per the terms of FCA. The Company, however, did not take any action to recover its dues. The State Government introduced (March 2003) a one time settlement scheme (OTS) under the Industrial Policy 2003, for facilitating buy back of shares by collaborators. The Company instead of invoking the provisions of the FCA to recover its dues from those profit making collaborators, offered (April 2003) OTS to the collaborators. The collaborators of the units accepted the offer (July 2003, July 2003 and May 2003) and paid Rs. 8.76 lakh, Rs. 40 lakh and Rs. 5.33 crore (for all the three projects of AIL- Project I: Rs. 1.11 crore, Project II: Rs. 1.74 crore and Project III: Rs. 2.48 crore) between July and August 2003 being 10 *per cent* of the OTS amount in respect of FCL, SYL and AIL, respectively. As per the OTS scheme, the balance 90 *per cent* amount was to be paid within three years from the date of acceptance of the offer.

In respect of AIL-Project I and II, the collaborator paid (June 2005) Rs. 10.37 crore and Rs. 18.89 crore, respectively, (including interest on OTS amount) towards total consideration and shares were transferred to the collaborators in June 2005. In respect of other units balance payments were not received (May 2006).

Audit noticed that OTS to these profit making wilful defaulters were not in the Company's interest as all these units were in sound financial position and earning profits whereas the Company on its part was paying interest to the financial institutions on the loans taken for the investment in the units and was running in

$ This unit was subsequently merged (May 1999) with AIL.

losses. Thus, offering OTS to these collaborators lacked justification and resulted in loss of Rs. 31.91[@] crore to the Company.

The management stated (March 2006) that it had implemented the scheme and programme of the Government without any deviation. The reply is not tenable as it does not explain why the Company did not enforce the agreed terms of the FCAs for periods up to five years. Further, covering profit making units capable of buying back shares without taking up the matter with the State Government was not in the Company's interest.

The matter was referred to Government in February 2006; reply had not been received (September 2006).

4.2 Loss due to one time settlement with a profit making rehabilitated unit

Allowing one time settlement to a profit making rehabilitated unit resulted in loss of Rs. 17.49 crore.

The Company entered (September 1993) into a financial collaboration agreement (FCA) with a collaborator[⊕] for setting up a vanaspati and refined oil unit[Σ]. As per the terms of the FCA, the collaborator was required to buy back the shareholding of the Company in the unit with interest[*] after the expiry of five years from the date of commencement of commercial production. In case the collaborator failed to buy back the shares, the Company was entitled to appoint its nominee as Managing Director of the unit or to sell its shareholding at the risk and cost of the collaborator.

The Company released Rs. 5.59 crore during February 1994-March 1995 towards equity of the unit. The unit started commercial production on 30 March 1995. Thus, buy back of Company's shareholding by the collaborator became due on 29 March 2000. The Collaborator failed to buy back the Company's shareholding as per the terms of the FCA. In the meantime (February 2001), the unit was provided rehabilitation by the Board for Industrial and Financial Reconstruction (BIFR).

The State Government introduced (March 2003) a one time settlement (OTS) scheme under the Industrial Policy 2003 for facilitating buy back of shares by collaborators. The Company offered (April 2003) OTS to the collaborator but he did not respond.

The State Government extended (June 2004) OTS scheme with some additional

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@ Buy back amount due on 31 March 2003 less OTS amount (FCL: Rs. 1.14 crore – Rs. 0.85 crore, SYL: Rs. 5.21 crore-Rs. 3.94 crore, AIL-Project I: Rs. 23.67 crore –Rs. 11.15 crore, AIL-Project II: Rs. 29.39 crore-Rs. 17.43 crore and AIL-Project III Rs. 30.65 crore- Rs. 24.78 crore).

⊕ Suraj Gupta.

Σ Suraj Solvent and Vanaspati Industries Limited.

*At the prevalent lending rate of the financial institutions/banks at the time of purchase of shares by the Company.

concessions for the units which were with BIFR, without making any distinction between the units which, though with BIFR, were earning profits after taking concessions/benefits under the rehabilitation scheme and those which were with BIFR but were not rehabilitated by the time of introduction of OTS. The Company offered (June 2004) to sell its shareholding to the collaborator as per the amended OTS scheme.

The collaborator opted (June 2004) to buy back the equity under the amended OTS scheme and paid Rs. 55.90 lakh (June 2004) at 10 *per cent* of the consideration amount. The balance amount of Rs. 5.03 crore was payable in ten half yearly interest free instalments with effect from June 2005.

Audit noticed that the unit had been rehabilitated and after availment of benefits under the rehabilitation scheme of BIFR, was earning profits continuously for the last two years (ended March 2004) and was also having positive net worth. Implementation of OTS without taking up the matter with the State Government for making a distinction between the units earning profits after rehabilitation by BIFR and those yet to be rehabilitated was not in the Company's interest because the unit was earning profit whereas the Company was paying interest on the loans taken for investment in the unit and was running in loss. Implementation of the scheme which covered profit making units also, resulted in loss of Rs. 17.49 crore to the Company.

The management stated (March 2006) that one of the main factors owing to which the unit showed profits was non-charging of future interest by the lending institutions and writing off of Rs. 30.33 crore of outstanding interest under BIFR scheme and that the unit was still with BIFR. The reply is not tenable as the Company had not taken up the matter with the State Government not to extend the OTS scheme to units that had already been rehabilitated after giving concessions under BIFR and that were now earning profit.

The matter was referred to Government in January 2006; reply had not been received (September 2006).

Punjab State Tubewell Corporation Limited

4.3 Excess EPF contribution

Failure to limit employer's contribution towards Employees Provident Funds as prescribed in the Employees' Provident Funds Scheme, 1952 resulted in excess contribution of Rs. 7.03 crore.

Para 29(1) of the Employees' Provident Funds Scheme, 1952 provides that the contribution payable by an employer under the Scheme shall be 12 *per cent* of the basic wages, dearness allowance and retaining allowance payable to each employee. Para 26 A (2) of the Scheme provides that where the monthly pay of an employee

exceeds Rs. 6,500 (Rs. 5,000 up to May 2001), the contribution payable by the employer shall be limited to the amount payable on a monthly pay of Rs. 5,000 or Rs. 6,500, as the case may be. Section 29(2) of the Scheme also provides that the contribution payable by an employee to whom the Scheme applies, if he so desires, could be an amount exceeding the above limit subject to the condition that employer shall not be under obligation to pay contribution over and above the amount of contribution payable under the Scheme. Accordingly, all Public Sector Undertakings covered under the Scheme were required to restrict their contribution to the prescribed limit.

Test check of records of the Company for the period April 2001-March 2006 revealed that the Company contributed employer's share at the rate of 12 *per cent* of the pay without applying the prescribed limit of Rs. 5,000 or Rs. 6,500 in contravention of the provisions of the Scheme, *ibid*. This resulted in excess contribution of Rs. 7.03 crore during April 2001 - March 2006 by the Company in contravention to the provisions of the Scheme.

The management stated (April 2006) that the employer's contribution in excess of the wage limit of Rs. 6,500 is being made on the analogy of some other corporations. The reply is not tenable as such contribution was in violation of the Employees Provident Funds Scheme, 1952.

The matter was referred to Government in January 2006; reply had not been received (September 2006).

4.4 Loss due to poor fund management

The Company kept its surplus funds in non interest bearing accounts instead of interest bearing accounts which resulted in interest loss of Rs. 15.68 lakh.

The Company receives funds from the State Government in the shape of seed money and subsidy for the operation and maintenance of tubewells and lining of water courses. The Company distributes funds to its District offices for the above purpose and also receives funds collected by District offices on account of sale of water. The Company was maintaining 11 current accounts in three banks[µ] at Chandigarh.

Audit noticed that fortnightly balances relating to four[$] bank accounts ranging between Rs. 1.99 lakh and Rs. 45.54 crore were lying idle in these accounts during April 2002-April 2006. The Company did not evolve any cash management system to assess its surplus funds to optimise returns. Since the current accounts do not earn any interest, it would have been financially prudent for the Company to assess the surplus funds and invest them in term deposits which earn interest. Due to parking of surplus

[µ] Punjab and Sind Bank, Punjab National Bank and State Bank of India

[$] State Bank of India account No. 70490 (new account No. 1050669548) and 70484 (new account No. 1050669526) and Punjab National Bank account Nos. (19276 and 19434).

funds in current accounts, the Company suffered loss of interest of Rs.15.68 lakh during April 2002-April 2006 calculated at the interest rate applicable on short term deposits for 15 days on minimum fortnightly balance ranging between Rs 0.06 lakh and Rs. 9.21 crore (after allowing minimum required balance of Rs. 10 lakh in each account).

Thus, unprofessional cash management by the Company resulted in loss of Rs. 15.68 lakh (April 2006) to the Company when it was already incurring heavy losses.

The management stated (May 2006) that State Bank of India (SBI) was asked (March 2005) to open Corporate Liquid Term Deposit account with short term fixed deposit of all the amount lying in the current account except Rs. 10 lakh. It further stated that in other bank accounts, the amount was kept for emergency needs like expenditure on telephone bills, electricity bills, court cases and timely deposit of EPF, etc. The reply is not tenable because the interest loss has been worked out by Audit on actual minimum fortnightly balances lying in these accounts after allowing a margin of Rs. 10 lakh. For meeting miscellaneous expenses the Company has separate Bank accounts.

The matter was referred to Government in March 2006, reply had not been received (September 2006).

Punjab State Grains Procurement Corporation Limited

4.5 Loss due to delay in raising claims of transportation charges

Failure of the Company to promptly raise claims of transportation charges on Food Corporation of India resulted in blockage of Rs. 32.94 crore and consequential loss of interest of Rs. 3.97 crore.

The Company procures paddy from *mandis* on behalf of Food Corporation of India (FCI) for Central Pool, gets it milled from the allotted rice millers and delivers the resultant rice to the FCI as per the State Government's custom milling policy[@] in respect of each crop year. Government of India (GOI) initially fixes provisional rates of custom milled rice (CMR) for each crop year on the basis of which claims are raised by the procuring agencies on FCI which in turn is required to make payment within 24 hours of receipt of claims or pay additional incidentals for the delay, if any. Supplementary claims are raised on FCI on the basis of final rates fixed by the GOI.

Up to the crop year 2002-03, expenditure incurred on the transportation of paddy for

[@] Custom milling policy is a policy relating to the activities of procurement, storage and milling of paddy finalised by F&SD for each crop year.

the rice delivered was reimbursed to the Company at the final rates specified. From the crop years 2003-04 onwards, however, separate rates of transportation were not fixed. The transportation charges within eight Km were included in the milling charges and transportation charges beyond eight Km were recoverable from FCI on the basis of the rates fixed by the District Collectors of the State or at FCI rates or actuals[♣] whichever were lower.

Test check of records of nine[*] (out of 17) district offices of the Company revealed that the Company incurred an expenditure of Rs. 32.94 crore for the crop years 2003-05 on transportation of paddy beyond eight Km. Audit noticed that whereas four[#] district offices had raised the claims of their own, the other four[Φ] district offices raised the same, after delays ranging between 73 and 865 days (calculated after allowing a margin of one month after the procurement season) after this was pointed out by Audit. District office, Amritsar had not raised the claim (Rs. 29.13 lakh) so far (June 2006). Audit further noticed that district office, Mansa short claimed Rs. 0.93 crore from FCI.

Thus, delay in raising claims and short claims resulted in blockage of Rs. 32.94 crore and consequential loss of interest of Rs. 3.97 crore[α] to the Company.

The matter was referred to the Government/ management in March 2006; their replies had not been received (September 2006).

4.6 Short reimbursement of cost of gunny bags

Inclusion of depreciation of less quantity of gunny bags in the rates of rice resulted in short reimbursement of Rs. 2.49 crore to the Company.

The Company procures paddy from the mandis in gunny bags on behalf of Food Corporation of India (FCI) for the central pool and delivers the rice to FCI after getting it milled from the allotted rice millers. As per the prevailing policy/ agreements, the outturn[*] ratio is 67 *per cent* for raw rice and 68 *per cent* for parboiled[@] rice. From the year 2003-04, both paddy and rice are filled in 50 Kg bags. Paddy being lighter in weight than rice, only 35 Kg paddy can be filled in a bag as

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♣ The Company adopted transportation rates as approved by the District Collector.
* Amritsar, Faridkot, Ferozepur, Gurdaspur, Ludhiana, Moga, Mansa, Patiala and Sangrur.
\# Faridkot, Gurdaspur, Patiala and Sangrur.
Φ Ferozpur, Ludhiana, Moga and Mansa.
α Calculated from one month after the procurement season (i.e. from January of each crop year) and at 9.10 *per cent* per annum being the minimum interest rate on cash credit limit availed by the Company during 2003-05.
* Outturn ratio: ratio that the resultant rice bear to the paddy.
@ Partly cooked by heating.

against 50 Kg of rice. Resultantly, 46.9 *per cent*[$] (raw rice) and 47.6 *per cent* (parboiled rice) gunny bags are delivered to FCI along with rice and remaining 53.1 and 52.4 *per cent* gunny bags, respectively, remain with the millers for which 60 *per cent* cost (in the form of depreciation) is recoverable from the millers and 40 *per cent* from FCI.

Audit noticed that for the crop year 2003-04, Government of India (GOI) fixed provisional and final rates (December 2003 and October 2004) of raw and parboiled rice including depreciation of gunny bags (Rs.15.65 per quintal rice) which represented 40 *per cent* of those bags which were delivered (46.9 and 47.6 *per cent*) to FCI but did not cover bags actually retained (53.1 and 52.4 *per cent)* by the millers. Consequently, when the Company raised the claims on FCI for the quantity of rice delivered for the crop year 2003-04, it claimed depreciation for 46.9/47.6 *per cent* of gunny bags which were delivered to FCI along with resultant rice (raw and parboiled) and not on 53.1/52.4 *per cent* of gunny bags which remained with the millers. This resulted in short reimbursement of depreciation of gunny bags worth Rs. 2.49 crore[*] on 11.46 lakh MT raw rice and 0.75 lakh MT parboiled rice delivered to FCI.

The Government/management while admitting the facts stated (June 2006) that the Government of India had been requested (June 2006) to revise gunny bags depreciation for the crop year 2003-04 and the differential amount of depreciation would be claimed from FCI after revision of rates.

4.7 Avoidable payment of interest

Retention of funds in the current account by the district office of the Company instead of transferring the same to headquarters office to liquidate cash credit account resulted in avoidable payment of interest of Rs. 20.43 lakh.

The Company procures wheat and paddy from *mandis* in the State on behalf of Food Corporation of India (FCI) for the central pool. The Company had been availing cash credit facility from State Bank of India against hypothecation of stock and guarantee given by the State Government. After delivery of stock to FCI, district offices of the Company raise sales bills on FCI and receive payments thereagainst. The sales proceeds are deposited in the current accounts maintained at field level banks. The district offices are required to transfer the funds promptly to the head office of the Company so as to enable the latter to liquidate cash credit to that extent to minimise interest liability.

[$] In 1,000 gunny bags, 350 quintals of paddy is filled. Due to 67 *per cent* out-turn ratio, 350 quintals of paddy will be converted into 234.5 quintals of raw rice, for which out of 1,000 bags, 469 bags (one bag contains 50 Kg rice) will be required, i.e., 46.9 *per cent* bags are sent to the FCI along with raw rice and 53.1 *per cent* bags remain with millers.

[*] At Rs. 2.07 (Rs. 15.65/46.9x53.1) and Rs. 1.58 (Rs. 15.65/47.6x52.4) per quintal for 11.46 lakh MT raw and 0.75 lakh MT parboiled rice, respectively.

Test check of records of the District Manager, Mansa of the Company for the period April 2004-March 2005 revealed that the district office had been retaining huge daily balances ranging between Rs. 10 lakh and Rs.16.91 crore in current account during this period. The minimum closing balance for each month during this period ranged between Rs. 10 lakh and Rs. 12 crore. Retention of such huge balances in current account instead of transferring the same to the cash credit account resulted in avoidable payment of interest of Rs. 20.43 lakh[♣] during April-September 2004 and December 2004 to March 2005.

The matter was referred to the Government/management in March 2006; their replies had not been received (September 2006).

Punjab State Civil Supplies Corporation Limited

4.8 Short reimbursement of cost of gunny bags

Inclusion of depreciation of less quantity of gunny bags in the rates of rice resulted in short reimbursement of Rs. 3.05 crore to the Company.

The Company procures paddy from the *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. As per the prevailing policy/agreements, the outturn ratio[#] is 67 *per cent* for raw rice and 68 *per cent* for parboiled rice. From the year 2003-04, both paddy and rice are being filled in 50 Kg bags. Paddy being lighter in weight than rice, only 35 Kg paddy can be filled in a bag as against 50 Kg of rice. Resultantly, 46.9 *per cent* (raw rice) and 47.6 per *cent* (parboiled rice) gunny bags are delivered to FCI along with the rice and remaining 53.1 and 52.4 *per cent* gunny bags, respectively remain with the millers for which 60 *per cent* cost (in the form of depreciation) is recoverable from the millers and 40 *per cent* cost is recoverable from FCI.

Audit noticed that for the crop year 2003-04, the Government of India (GOI) fixed the provisional and final rates (December 2003 and October 2004) of raw and parboiled rice including element of depreciation on bags (Rs.15.65 per quintal) which represented 40 *per cent* of those bags which were delivered (46.9 and 47.6 *per cent*) to FCI and not those which remained (53.1 and 52.4 *per cent)* with the millers. Consequently, when the Company raised claims on FCI for the quantity of rice delivered for the crop year 2003-04, it claimed depreciation for 46.9 and 47.6 *per cent* of gunny bags, respectively, which were delivered to FCI along with the resultant rice (raw and parboiled) and not on 53.1 and 52.4 *per cent* bags which remained with the millers. This resulted in short reimbursement of depreciation of gunny bags of

[♣] Worked out @ 9.1 *per cent* cash credit rate on minimum balances retained in each month during above period and after allowing four days for transfer of funds.
[#] Outturn ratio: ratio that the resultant rice bear to the paddy.

Rs. 3.05 crore* on 13.37 lakh MT raw rice and 1.79 lakh MT parboiled rice delivered to FCI.

Thus, inclusion of depreciation in the rates of rice on less quantity of gunny bags resulted in short reimbursement of Rs. 3.05 crore. The Company had not taken up the matter with the FCI (February 2006).

The matter was referred to Government/management in February 2006; their replies had not been received (September 2006).

4.9 Loss of interest due to delay in raising claims of transportation charges

Failure of the Company to promptly raise claims of transportation charges on Food Corporation of India resulted in blockage of Rs. 29.13 crore and consequential loss of interest of Rs.2.34 crore.

The Company procures paddy from *mandis* on behalf of Food Corporation of India (FCI) for the central pool, gets it milled from the allotted rice millers and delivers the resultant rice to FCI as per the State Government's custom milling policy in respect of each crop year. Government of India (GOI) initially fixes provisional rates of custom milled rice (CMR) for each crop year on the basis of which claims are raised by the procuring agencies on FCI. The procuring agencies raise supplementary claims when final rates are fixed by the GOI. Up to the crop year 2002-03, the expenditure incurred on the transportation of paddy for the rice delivered was reimbursed to the Company through the final rates fixed by GOI.

From the crop years 2003-04 onwards, however, separate rates of transportation were not fixed. The transportation charges within eight kilometers were included in the milling charges and transportation charges beyond eight kilometers were recoverable from FCI on the basis of the rates fixed by the District Collector of the State or at FCI rates or actuals♣ whichever were the least.

Test check of records of ten* districts of the Company revealed that the Company incurred an expenditure of Rs. 29.13 crore for the crop years 2003-04 (Rs.13.13 crore) and 2004-05 (Rs. 16 crore) for transportation of paddy beyond eight Km. Whereas five district offices (Bathinda, Gurdaspur, Ludhiana, Mansa and Ropar) raised (February 2004 to November 2005) claims (Rs. 11.36 crore) at the instance of Audit, the remaining four district offices raised (November 2005 to May 2006) the claims (Rs. 17.35 crore) of their own, after delays ranging between 55 and 866 days (computed after allowing a margin of one month after the procurement season). One district office (Kapurthala) had not raised the claims (Rs. 42.28 lakh) for 2004-05 so

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*At Rs. 2.07 and Rs. 1.58 per quintal for 13.37 lakh MT raw and 1.79 lakh MT parboiled rice, respectively.

♣ Transport expenditure actually incurred was as per rates approved by the District Collector.

* Amritsar, Ludhiana, Patiala, Faridkot, Kapurthala, Gurdaspur, Ropar, Mansa, Sangrur and Bathinda.

far (April 2006). Thus, delayed submission of claims to FCI resulted in blockage of Rs. 29.13 crore and consequential loss of interest of Rs. 2.34 crore.[@]

The matter was referred to the Government/ management in February 2006; their replies had not been received (September 2006).

4.10 Loss due to lack of system

The Company had no system of obtaining legally binding commitments from the millers before allotment of paddy, which resulted in loss of Rs. 78.46 lakh by way of transportation of paddy to other districts on refusal by the millers to accept the allotted paddy for milling.

The Company is one of the procuring agencies that procures paddy from the *mandis* for the Central Pool for delivery of rice to Food Corporation of India (FCI). Food and Supplies Department (FSD), Government of Punjab receives requests from the millers for allotment of paddy for milling. FSD then allots paddy to millers from various *mandis* according to their milling capacity and keeping in view procurement targets of various procuring agencies. Thereafter, FSD issues to all the procuring agencies custom milling policy and draft agreements for each kharif season to be executed with the millers. Though the Company has a representative in the committee for allotment of paddy to the millers yet it has not devised any system to bind the millers through agreement, etc., to avoid loss of transportation charges in case of refusal by the miller to accept the allotted paddy.

Detailed scrutiny of the records of district office, Amritsar for the crop year 2002-03 revealed that the district office had to transport 5,84,460 quintals (68.6 *per cent* of the total quantity) of paddy procured to other districts due to refusal of the millers to accept allotted paddy and spent Rs. 78.46 lakh on transportation over and above Rs. 86.09 lakh which were reimbursable by FCI on the transportation from *mandis* to miller's premises within the allotted districts.

Audit noticed that due to non-formulation of any system of converting requests of millers for allotment of paddy into legally binding commitments before delivery, the Company had to transport paddy to other districts at farther places and suffered a loss of Rs. 78.46 lakh. Inspite of this it failed to take up the matter with FSD/State Government.

The management stated (May 2006) that the millers allotted to the Company in Amritsar district did not come forward to execute the agreement/store paddy and with the shifting of paddy to other districts, it got the paddy milled well before the extended period resulting in saving of Rs. 1.20 crore towards interest after deducting the excess transportation cost incurred. The reply is not relevant as the Audit has pointed out the

[@] Calculated at 9.10 *per cent* per annum being minimum interest rate on cash credit limit availed by the Company during 2003-05.

lack of a system of conversion of requests of the millers for allotment of paddy into legally binding commitments before delivery of paddy to them. Had the requests of the millers been so converted prior to delivery of paddy, both the delay in milling and consequent loss of Rs. 78.46 lakh on transportation could have been avoided.

The matter was referred to Government in November 2005; reply had not been received (September 2006).

4.11 Loss due to excess purchase of gunny bales

Non consideration of stock of gunny bales already in hand while working out future requirement resulted in blockage of Rs. 5.64 crore and consequential loss of interest of Rs. 38.51 lakh besides extra expenditure of Rs. 22.80 lakh as the subsequent order for bales was placed at a lower rate.

The Company purchases gunny bales through the Director, Food, Civil Supplies and Consumer Affairs, (DFCSCA) Punjab who places consolidated indent on behalf of all the State procuring agencies, with the Director General of Supplies and Disposals (DGS&D), Kolkata for supply of gunny bales. The payment for the gunny bales is made to the DFCSCA by the procuring agencies in advance for onward transfer to the DGS&D.

The DFCSCA placed (December 2003) an indent on the DGS&D for supply of 3,18,500 gunny bales[*] of 50 Kg capacity bags (including 83,980 bales for the Company) to be supplied during December 2003 to March 2004 for use in the Rabi[$]-2004 season and requested (December 2003) the procuring agencies to intimate change, if any, in their requirement of bales. The Company paid (December 2003) Rs. 24.97 crore on account of 25,220 bales allocated for the month of December 2003 at the rate of Rs. 9,900 per bale.

Audit scrutiny revealed that the Company already had a balance of 5,700 gunny bales and the requirement of 83,980 bales had been determined on the basis of the procurement target without taking into account the stock in hand. Whereas the target for procurement was subsequently reduced (March 2004), corresponding reduction in the requirement of bales was not worked out and intimated to DFCSCA to avoid accumulation of unnecessary stock. The Company's closing stock in May 2004 rose to 16,249 bales.

Thus, non consideration of stock of bales already available with the Company while assessing requirement as also not reviewing the requirement on reduction of procurement target resulted in blockage of Rs. 5.64 crore (5,700 bales at Rs. 9,900 per

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[*] One gunny bale contains 500 bags.
[$] Procurement for Rabi season is from April to May and Kharif season from September to December.

bale) and consequential loss of interest of Rs. 38.51[#] lakh up to September 2004[*].

Audit further noticed that the subsequent purchase of 1,25,580 gunny bales was made (May 2004) at Rs. 9,500 per bale against the earlier (December 2003) rate of Rs. 9,900 per bale entailing extra expenditure of Rs. 22.80[@] lakh on excess procurement of 5,700 bales during December 2003.

The matter was referred to Government/management in February 2006; their replies had not been received (September 2006).

4.12 Loss of interest

Failure of the field staff to submit despatch documents in time resulted in loss of Rs. 28.05 lakh for which no action against the delinquent officials was taken by the Company.

The Company procures wheat for the Central Pool on behalf of Food Corporation of India (FCI) and gets reimbursement of its cost along with incidentals and carry over charges from FCI after delivery of stock. The rates of incidentals and carry over charges are fixed by the Government of India for each crop year.

As per the instructions (April 1981) of the Company, field staff was required to submit despatch documents to district offices within four days of despatch of wheat stock to FCI so that the sale bills could be prepared and submitted to FCI in time. FCI was required to make payment within 24 hours of the submission of the bills. In case, the time taken in submission of despatch documents to district offices of the Company was more than four days from the date of delivery of wheat stock to FCI, the interest lost was to be recovered from the delinquent officials.

Audit scrutiny revealed that in Ferozepur and Amritsar district offices of the Company there were delays ranging from three to 55 days[#] in submission of despatch documents by the field staff. The amounts involved ranged from Rs. 0.21 lakh to Rs. 3.90 crore during 2003-06[$].

The failure of the field staff in submitting the despatch documents in time resulted in delay in preparation/submission of bills and subsequent realisation of dues from FCI. The delay resulted in loss of interest of Rs. 28.05[*] lakh to the Company, which was recoverable from the officials responsible for the delay. The Company, however, had

[#] Worked out at the cash credit rate of 9.1 *per cent* per annum.
[*] Excess purchase of gunny bags was utilised thereafter.
[@] 5,700 bales x Rs. 400 (Rs. 9,900-Rs. 9,500).
[#] After allowing margin of required period of four days.
[$] Period for Amritsar district is 2004-06.
[*] Worked out at 9.35 *per cent* for 2003-04 and at 9.10 per cent for 2004-05, i.e., the rate of interest paid on cash credit availed by the Company during the said period.

not taken any action so far (August 2006).

The matter was referred to the Government/management in March 2006; their replies had not been received (September 2006).

Punjab Agro Foodgrains Corporation Limited

4.13 Loss of interest

Delay in transfer of funds by the holding company earmarked for the contract farming programme resulted in interest loss of Rs. 0.81 crore to the Company.

The Company implemented (December 2002) the scheme of diversification of agriculture on behalf of the State Government through contract farming plan for various crops in the State. Under the contract farming scheme, the Company was to purchase the harvested crop at a guaranteed price and to bear all expenses on mass awareness, publicity, etc. For this, purpose the State Government was to provide Rs. 25 crore.

Audit scrutiny revealed that the holding company received (June -August 2003) Rs. 15 crore for the above scheme. Out of this, the holding company transferred (June 2003-February 2006) Rs. 6.82 crore only to the Company and the balance amount was invested in short term deposits instead of transferring the entire amount to the Company for implementing the scheme. The holding Company further transferred (April 2006) Rs. 2.18 crore alongwith interest of Rs. 0.98 crore earned on short term deposits to the Company and rupees six crore to three[#] councils formed (February 2006) by the State Government. The Company, without taking up the matter with the holding company for full release of interest free loan/grant, incurred expenditure above Rs. 25 crore on the contract farming scheme from its own funds (*i.e.,* sale proceeds of foodgrains) instead of depositing the same in the cash credit account to avoid interest payment on cash credit availed. Consequently the Company suffered an interest loss of Rs. 0.81[*] crore.

The management stated (August 2006) that out of revolving fund of Rs. 10 crore received for implementation of comfort price mechanism Rs. 8.18 crore were not transferred as there was a proposal to transfer funds to other schemes of the State Government. Later on Rs. six crore were transferred (April 2006) to three councils and balance amount of Rs. 2.18 crore along with interest earned was also transferred to the Company and as such there is no interest loss.

[#] Organic Farming Council of Punjab, Council of Value Added Horticulture in Punjab and Viticulture Council of Punjab

[*] Rs. 1.79 crore, worked out at the prevailing cash credit rate of 9.10 per cent from April 2004 when the Company started incurring expenditure on the scheme to March 2006 less Rs. 0.98 crore interest received from the holding Company.

The reply is not tenable as there was only proposal for constitution of councils and transfer of funds to other programmes in June 2005 whereas councils for these programmes were actually constituted in February 2006. Until the constitution of these Councils non transfer of these funds for the scheme for which these were originally provided was not justified and resulted in interest loss to the Company.

Thus, the failure of the Company to obtain the earmarked funds from the holding Company resulted in avoidable interest payment of Rs. 0.81 crore.

The matter was referred to the Government in February 2006; the reply had not been received (September 2006).

4.14 Loss of interest due to delay in recovery of carry over charges

Failure of the Company to deliver wheat stock to FCI in acceptable condition in the first instance resulted in delayed payment of carry over charges of Rs. 2.20 crore and loss of interest of Rs. 33.37 lakh.

The Company procures wheat for the Central Pool on behalf of the Food Corporation of India (FCI) and stores the same till its despatch/disposal as per the instructions of FCI. The Company is responsible for the good health of wheat stored till despatch to FCI. The wheat is delivered when wheat specials (railway wagons) are arranged by FCI. The quality of wheat is checked and accepted by the quality control wing of FCI at the respective storage centres of the Company before loading into the wagons. The carry over charges comprising interest, handling and storage charges are claimed by the Company from FCI at the rates specified for each crop year after the delivery of the stock. In case of rejection of stock, due to its not being in acceptable condition, FCI does not allow carry over charges from the date of rejection till despatch thereof after upgradation of quality.

Test check of records of the Amritsar District office of the Company revealed that FCI had rejected (February-May 2003) 3,04,980 quintals of wheat of crop years 1998-99 to 2001-02 as damaged wheat. Audit noticed that the wheat was damaged due to improper maintenance by the Company. The stock was desptached after upgradation during February 2003 to May 2004. Consequently, FCI deducted (March 2003 to July 2004) Rs. 2.20 crore (on the basis of final rates) from the sales bills on account of carry over charges for the period from the dates of rejection till the dates of despatch of the stocks after upgradation. FCI later released (June 2006) Rs. 2.20 crore on a request made by the Company.

Audit noticed that failure of the Company to deliver wheat stocks to FCI in acceptable condition in the first instance resulted in delayed payment and consequential loss of interest of Rs. 33.37[@] lakh to the Company.

[@] Calculated on Rs. 2.20 crore at the prevailing cash credit rate from August 2004 to March 2006.

The Company had called for (July 2004) the explanation of officials. No responsibility had, however, been fixed (December 2005).

The matter was referred to Government/management in October 2005; their replies had not been received (September 2006).

Punjab Communications Limited

4.15 Loss due to incurring voluntary retirement expenses of subsidiary company without taking prior approval

Failure to fulfill basic conditions for getting funds from the State Government for implementation of voluntary retirement scheme in its subsidiary resulted in loss of Rs. 24.38 lakh.

Punjab Digital Industrial Systems Limited (PDISL) was a wholly owned subsidiary of the Company. The assets and liabilities of PDISL were taken over (2002-03) by the Company as it was under winding up. The State Government announced (2002-03) a voluntary retirement scheme (VRS) for the State public sector undertakings (PSUs). As per the VRS, resolution of the Board of Directors (BOD) to implement the scheme was to be approved by its Administrative Department. PSUs, requiring budgetary or any other external support, were required to obtain the approval of Finance Department also. Further, under the scheme, the budgetary support was to be provided only if bank credit was not available to the PSU.

Audit analysis revealed that PDISL was running in losses (accumulated losses Rs. 54.86 lakh upto 2002-03) and bank credit was not available to it. As such, the BOD of the PDISL was required to pass a resolution to implement the VRS and obtain approval of the Administrative Department and Finance Department to get requisite funds from the State Government to meet VRS expenses. PDISL, however, did not take the requisite action. Instead the Company decided (January 2003) to implement the VRS in the subsidiary company at its own cost. Accordingly, the Company paid (2002-03) Rs. 56.84 lakh towards VRS expenses. The Company belatedly took up (March 2003) the matter with the State Government for reimbursement of VRS expenses followed by reminders (January - June 2004). The Company finally closed (October 2004) the matter considering that there was no probability of getting reimbursement of VRS expenses from the State Government.

Audit noticed that since PDISL had not fulfilled the basic conditions to seek prior approval of the Administrative and Finance Departments for funding of the VRS expenses, no response from the State Government was received. Another Company[@] which had obtained prior approval of the Government for implementation of VRS had

[@] Punjab Recorders Limited (PRL).

received funds from the Government. Had the Company advised its subsidiary Company to obtain prior approval for implementation of VRS it could have received VRS expenses and avoided expenditure of Rs. 24.38[#] lakh.

Thus, due to belated action of the Company for reimbursement without having followed the prescribed procedure, the Company could not obtain funds from the Government which resulted in loss of Rs. 24.38 lakh.

The management stated (July 2006) that the VRS of PDISL was an independent VRS and the State Government's VRS was taken as a base model duly adopted with modifications as approved by its BOD, which was competent for the same. It was further stated that the main purpose of VRS was to attract favourable bids for the disinvestment of the Company, which was also closely monitored by the State Government, hence the decision of VRS was duly approved by the State Government and the reimbursement claim was still pending with the Finance Department. The reply is not tenable as the VRS adopted by the Company was the same as announced by the State Government. Further, close monitoring of disinvestment of the Company by the State Government does not constitute specific prior approval of the State Government of the VRS of PDISL.

The matter was referred to the Government in April 2006; reply had not been received (September 2006).

4.16 Overpayment of daily allowance

Despite recommendation of the Committee on Public Undertakings for recovery of overpayment of Rs. 10.92 lakh from 27 officers as pointed out in Audit Report for 2000-01, the Company continued making such payments resulting in overpayment of Rs. 19.06 lakh during 2001-04.

Finance Department, Bureau of Public Enterprises of the Government of Punjab issued (March/October 1980 and August 1998) directions to all Financial Commissioners and Administrative Secretaries stipulating that public sector undertakings would pay the same rates of travelling allowance as sanctioned by the State Government to its employees and the rates of daily allowance (DA) for tour to abroad would be the same as prescribed by the GOI for its comparable ranks. Besides laying down the normal daily rates for various countries, GOI had also prescribed reimbursement of actual room rentals of hotels on the approved panel including service charges, taxes and other charges but excluding tips.

The Report of the Comptroller and Auditor General of India for 2000-01 (Commercial)-Government of Punjab had pointed out overpayment of daily allowance

[#] Rs. 56.84 lakh VRS expenses less Rs. 32.46 lakh proportional expenses which were likely to be incurred on the salary of employees for eight months, the time for obtaining VRS benefits from the State Government as in the case of Punjab Recorders Limited.

of Rs. 10.92 lakh to 27 officers of the Company who had made trips to various countries during 1996-99. The Committee on Public Undertakings (COPU) recommended (May 2005) that the Company should make recoveries from the concerned officers. The Company, while considering recommendations of COPU decided (July 2005) to regularise these overpayments because most of the employees (24) had left the Company and it was not possible to effect recovery from them.

Audit noticed that besides non-recovery of overpayment from the employees while they were in service, the Company continued making overpayments on this account to its other employees. During 2001-04, the Company paid excess DA to 15 officers for their 28 foreign tours resulting in overpayment of Rs. 19.06 lakh.

The management stated (June 2006) that higher DA paid included actual expenses such as hotel rentals, conveyance expenses, etc. The reply is not tenable as proof in support of actual expenses which was a pre-condition for reimbursement of actual expenses was not obtained. In the absence of any proof in support of actual expenses, such expenditure was not reimbursable.

The matter was referred to the Government in April 2006; reply had not been received (September 2006).

Punjab Tourism Development Corporation Limited

4.17 Avoidable payment of damages and interest

Delayed deposit of Employees' Provident Fund dues by the Company resulted in avoidable payment of damages and interest of Rs. 20.13 lakh.

The employees of the Company are covered under the Employees Provident Fund Scheme. As per Employees Provident Fund and Miscellaneous Provisions Act (Act), 1952, the Company was required to deposit provident fund contributions both towards employee's and employer's contribution to the Regional Provident Fund Commissioner (RPFC) within 15 days from the close of every month failing which damages and simple interest at the rate of 12 *per cent* per annum or at such higher rate as might be specified in the scheme, from the date the amount became due till the date of actual payment were payable.

Audit noticed that the Company was not regular in depositing the EPF dues. The Assistant Provident Fund Commissioner (AFC) levied damages of Rs. 2.19 lakh and interest of Rs. 0.46 lakh for delay in depositing of dues prior to April 2001 which were deposited by the Company in December 2003. Despite this, the Company failed to deposit Rs. 78 lakh during February 2003-December 2004 which were deposited during August 2003- February 2006 after delays ranging between 32 and 944 days. Resultantly, the RPFC imposed (March 2006) penalty of Rs. 17.48 lakh

(interest: Rs. 12.09 lakh and damages: Rs. 5.39 lakh) which were deposited (March 2006) by the Company.

Thus, delayed remittance of EPF dues by the Company resulted in payment of interest of Rs. 12.55 lakh and damages of Rs. 7.58 lakh.

The management, while admitting the facts, stated (June 2006) that the EPF dues could not be deposited in time due to precarious financial position. The reply is not tenable because the Company was liable to pay statutory dues in time and shortage of funds could not be a valid ground for committing default in payment of statutory dues.

The matter was referred to the Government in January 2006; reply was awaited (September 2006).

Statutory corporations

Punjab State Electricity Board

4.18 Loss due to favour to consumers

Deficient instructions of the Board in contravention of the Electricity Act resulted in discriminatory treatment with the consumers and loss of Rs. 7.74 crore.

The Board's instructions (July 2000) provided that the supply to large consumers with contract demand (CD) above 2,500 KVA was to be given at 33 KV or above according to their specified category and these consumers were required to construct their own sub-stations to get supply at 33 KV line or above.

Keeping in view the hardship to such consumers who had to invest money on construction of sub-stations and transmission lines, the Board issued (June 2003) instructions to allow them to take supply from 11 KV line provided they bore transformation losses, incremental line losses and service charges. For this purpose the energy recorded over and above 2,500 KVA was to be enhanced by 10 *per cent* for billing purposes.

Audit noticed that these instructions (June 2003) covered only those consumers who would apply (either existing or prospective) under these instructions and not to those who had not applied for the same though drawing power at more than 2,500 KVA CD from 11 KV line. As such, these consumers escaped from paying transformation losses, incremental line losses and service charges or 17.5 *per cent* surcharge. Audit further noticed that these instructions were in contravention of the provisions of the Electricity Act, 2003 which prohibits favour to some consumers of the same load factor, power factor, period and nature of supply. Consequently, six large supply

consumers under Central Billing Cells at Jalandhar, Ludhiana and Patiala were not charged transformation losses, incremental line losses, service charges or 17.5 *per cent* surcharge which resulted in inadmissible favour to such consumers and non-recovery of Rs. 7.74 crore[*].

The management stated (March 2006) that the existing consumers were not to be charged 17.5 *per cent* surcharge if they did not increase their CD, as per the instructions issued in 1999. The reply is not tenable because the instructions of July 2000 covered all the consumers, existing as well as new and exempted only consumers with CD up to 2,500 KVA. Since all the consumers pointed out in Audit had CD of above 2,500 KVA, they were liable to pay the surcharge. The instructions of June 2003 were discriminatory as these were in contravention of the provisions of the Electricity Act, 2003.

The matter was referred to the Government in February 2006; reply had not been received (September 2006).

4.19 Extra expenditure in purchase of PCC poles

The decision of the Board to insist on L-1 firms to supply material at quoted fixed rates instead of its variable rates was imprudent when price hike was indicated by the other participating firms and there was also no risk purchase clause in the agreements. This resulted in extra expenditure of Rs. 74.39 lakh in subsequent purchase at higher rates.

The Board invited (January 2004) tenders for the procurement of 1,10,000 PCC[#] poles of eight metre length. As per clause 11 of the tender documents, (Technical Specifications), bidders were required to quote variable rates based on average rate of steel and cement as on 1 December 2003 and those quoting fixed rates were likely to be ignored. In all 15 firms quoted (January 2004). Three firms with total offered quantity of 70,000 poles quoting fixed rate of Rs. 847 per pole were at L-1[$] and two firms which quoted fixed rates of Rs. 870 and Rs. 896.23 for 15,000 and 7,000 poles, respectively, were at L-2 and L-3 position. Eight firms with offered quantity of 91,000 poles quoting variable rate of Rs. 911 per pole were at L-4 position.

The Board placed (February 2004) letter of intent for procurement of 1,21,000 poles at the fixed rate of Rs. 847 per pole (70,000 poles on L-1 firms and 51,000 poles amongst all the remaining bidders, at L-1 rates) on the recommendation (January 2004) of the Central Purchase Committee. Due to steep rise in the rates of cement, steel wire and diesel, L-1 firms requested (February 2004) for variable rates instead of fixed rates as quoted earlier. The firms at L-2 and L-3 also refused (February 2004) to

[*] Worked out from July 2003 to December 2005.
[#] Prestressed cement concrete.
[$] Amar Cement (P) Limited, Kakrali, Punjab Construction Company, Kakrali, K.B. Concrete Fabs Panchkula.

accept the counter offer of the Board and offered variable rate of Rs. 950 per pole. The Board, ignoring the representation of L-1 firms issued (26 February 2004) purchase orders (POs) for 70,000 poles on them. Negotiations for balance 51,000 poles were held (19 March 2004) with other firms and the Board placed (7 April 2004) purchase orders for 30,500 poles at a variable rate of Rs. 911 per pole. Audit noticed that L-1 firms did not supply any pole though their delivery schedule expired on 10 April 2005. Major supplies against POs placed on variable rate were received. The L-1 firms were blacklisted (January 2006). The quantity of poles not received against these POs was purchased against subsequent enquiry floated in October 2004 at variable rate of Rs.1, 138 per pole.

Audit noticed that the Board was aware of the rising trend in prices of raw materials due to which it was specifically mentioned in the tender enquiry that variable rate based on latest average rates of raw materials should be quoted. Further, when L-1 firms had shown their inability to supply the material at their quoted fixed rates because of abnormal hike in the prices of raw material, it was not prudent on the part of the Board to insist on L-1 firms to supply the material at their quoted fixed rates especially in the absence of any risk purchase clause in the purchase order cum contract agreements.

Thus, imprudent decision of the Board to insist on L-1 firms for supply of material at fixed rates though there was abnormal hike in the prices of raw material and not revising the POs of these firms at variable rates, resulted in extra expenditure of Rs. 74.39 lakh[#] on the purchase of 54,837 poles up to October 2005.

The Government/management stated (March 2006) that all the L-1 firms had been blacklisted for five years. The fact remains that the Board suffered loss due to non acceptance of offer of variable rates of L-1 firms.

4.20 Non-recovery due to inaction

Failure of the Board to club connections resulted in accumulation of recoverable amount of Rs. 34.73 lakh.

Sales Manual of the Board provides that not more than one connection is to be allowed within the same premises in the same or different name to avoid loss of revenue on account of application of lower industrial tariffs on split connections. Board's instructions (May 1991) also provided that all general industrial consumers having load/demand above 5,000 KVA[@] (2,500 KVA from March 1999) and getting supply at 11 KV were to be levied 17.5 *per cent* (10 *per cent* from 24 June 2003) surcharge till conversion of their supply to 33 KV or higher voltage. In July and December 2002, the Board also issued One Time Settlement (OTS) scheme for consumers already identified for clubbing of their connections and for those who would opt for

[#] 54,837 poles x Rs. 135.66 (Rs. 1,138-Rs.1002.34)
[@] Kilo Volt Ampere.

clubbing of connections of their own. This OTS scheme provided for levy of three *per cent* transformation charges for a minimum period of three years instead of 17.5/10 *per cent* surcharge in addition to cost of conversion of their supply to higher voltage.

Senior Executive Engineer (XEN), Grid Maintenance Division, Khanna during checking of metres of large supply consumers found (September 2004) that two connections* under Commercial Sub-Division, Gobindgarh having sanctioned load of 1,729 KW (contract demand: 1,820 KVA) and 998.950 KW (contract demand: 995 KVA), respectively, were running in the same premises. The Enforcement Wing of the Board also confirmed (September 2004) this. Accordingly, the consumer was asked (October 2004) to get both the connections clubbed. Since the clubbed sanctioned load of the consumer was 2,727.950 KW (total contract demand 2,815 KVA) against the permissible limit of 2,500 KVA on 11 KV supply, the supply was required to be converted to 33/66 KV. The Sub-division overhauled the accounts of both the connections from October 2001-October 2004 as per OTS and asked (October 2004) the consumer to deposit a sum of Rs. 12.53 lakh (calculated at three *per cent* transformation charges). The consumer neither deposited the amount nor opted for converting his supply to 33/66 KV. The Board also did not take any further action to effect recovery or to disconnect the supply of the consumer (March 2006).

Audit noticed that as the consumer had not opted for the OTS the Board was required to levy 17.5/10 *per cent* surcharge which worked out to be Rs. 34.73 lakh.

Thus, failure of the Board to enforce its own rules resulted in accumulation of recoverable amount of Rs. 34.73 lakh from October 2001 to June 2003 whereas no surcharge was payable thereafter due to revised instructions circulated in October 2004.

The matter was referred to Government/management in April 2006; their replies had not been received (September 2006).

4.21 Doubtful recovery

Non finalisation of disputed cases for more than six years against prescribed period of 60 days resulted in accumulation of recoverable amount of Rs. 47.73 lakh, the recovery of which was doubtful as the connections of the consumers were permanently disconnected.

Sales Manual of the Board provides that not more than one connection is allowed within the same premises in the same or different name to avoid loss of revenue due to application of lower tariff on the split load. The Sales Manual further provides that in case a consumer challenges the compensation demanded by the Board arising out of malpractice on the part of the consumer, his representation is to be considered by the

* Patiala Strips (P) Limited and Patiala Cold Rolling Mill (P) Limited.

Dispute Settlement Committee/Dispute Settlement Authority (DSC/DSA). If the consumer is not satisfied with the decision of DSC/DSA, he will be at liberty to file an appeal before the Appellate Authority as constituted by the Board from time to time. All-out efforts are required to be made by the competent authority to ensure that no case remains pending for more than 60 days from the date of receipt of representation/appeal.

Audit noticed that three medium supply (MS) consumers[*] with connected load of 98.534 KW, 98.794 KW and 68.942 KW, respectively, were running their industries under Operation Division, Ahmedgarh. Flying Squad, Sangrur discovered (March 1993 and December1993) that all the three connections were running in the same premises. City Sub-Division, Ahmedgarh was accordingly directed to get these connections clubbed into one large supply (LS) connection. Accordingly, demands for Rs.0.29 lakh, Rs.0.28 lakh and Rs.0.30 lakh (difference of LS tariff and MS tariff plus surcharge) were raised (December 1994) and the consumers were asked to get their connections clubbed. The consumers approached (January1995) the Civil Court, Malerkotla which directed (August 1998) to obtain the decision from DSC. The case was, therefore, referred to DSC which referred (February 1999) the same to the clubbing committee. The clubbing committee in its report (April 2003) pointed out that all the three connections were clubbable as there was no partition wall in between the connections and intermixing of electric supply was possible. The Board worked out the recoverable amount of Rs.30.06 lakh for the period January 1994-April 2003 but since the disputed amount was above rupees five lakh, DSC referred (August 2003) the case to DSA. The consumers represented (January 2004) their case to DSA but before the decision in the case could be taken, the consumers were allowed (November/December 2005) to get their supply disconnected permanently without bringing the matter of disconnection of supply to the notice of DSA.

Audit noticed that the consumers had not submitted any document to substantiate their claims regarding distinct premises and resultantly DSC had referred the case to the clubbing committee in February 1999 for recommending the case after visiting the site. The clubbing committee, however, took four years to visit (February 2003) the site. DSA also failed to finalise the case even after more than two and a half years from the date of decision (April 2003) of the clubbing committee.

Thus, even after more than six years, against the stipulated period of 60 days, the Board failed to decide the case. The recoverable amount by the time of disconnection (October 2005) had accumulated to Rs. 47.73 lakh out of which Rs.18.25 lakh could have been avoided had the case been decided within six months. The recovery of outstanding amount is doubtful as connections of the consumers were disconnected permanently. Moreover, the purpose of constitution of DSC/DSA to have speedy decision, also got defeated in this case.

The Board while admitting the facts stated (May 2006) that show cause notices had been issued to the delinquent officers/officials. Further progress was awaited.

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[*] Bimal Kumar, Romashwer Dass and Balkrishan.

The mater was referred to the Government in February 2006; reply had not been received (September 2006).

4.22 Avoidable expenditure

Non-finalisation of purchase proposal within the validity period resulted in avoidable expenditure of Rs. 42.22 lakh.

The Board invited (August 2003) tenders for the procurement of two 100 MVA[@], 220/ 132 KV[#] Auto Transformers, which were opened on 18 November 2003. The offers of all the four eligible firms were valid up to February 2004. The all-inclusive rate of Rs. 336.23 lakh (ex works price Rs. 270 lakh) of ABB was the lowest.

Audit noticed that the Board did not finalise the purchase proposal within the validity period (February 2004) and requested (thrice: January/ February, April & June 2004) all the bidders to extend the period of validity of their offers. The first and the fourth lowest firms (ABB and ALSTOM)[*] refused to extend the validity beyond 30 April 2004 whereas second and third lowest firms (TELK[$] and BHEL[^]) extended their offers up to 31 July 2004. The Purchase Proposal Committee recommended (11 June 2004) procurement of only one transformer from the second lowest firm (TELK) at all inclusive rate of Rs. 368.90 lakh. The Board, however, decided (29 June 2004) to constitute a Committee to negotiate with TELK to accept the rates quoted by the lowest firm (ABB) and also to fix responsibility for letting the validity of the offer of the lowest firm to expire thereby causing financial loss to the Board. TELK did not accept the counter offer and, as a result, the Negotiation Committee recommended purchase from TELK at its quoted rates. The Board, however, instead of accepting the recommendations of the Negotiation Committee authorised (16 August 2004) the Whole Time Members (WTMs) to negotiate with ABB both for the rate and the terms of extending the validity of offer. ABB in turn offered (23 August 2004) the unit fixed ex-works price of Rs. 287.50 lakh (exclusive of ED & CST) against its original offer of Rs. 270 lakh. The WTMs accepted the revised offers and placed purchase order on 7 October 2004. The firm supplied the same within the stipulated period.

Thus, non-finalisation of the purchase proposal within validity period of offer resulted in avoidable expenditure of Rs. 42.22[Δ] lakh to the Board.

The Board, while admitting (April 2006) the facts, stated that they had decided to deduct five *per cent* pension of one officer for one year. The reply is not tenable as by

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[@] Mega Volt Ampere.
[#] Kilovolt.
[*] ABB Limited, ALSTOM Limited.
[$] Transformers and Electricals Kerala Limited.
[^] Bharat Heavy Electricals Limited.
[Δ] Rs. 287.50 lakh–270 lakh =Rs. 17.50 lakh x 2 No.= Rs. 35 lakh +Rs. 5.60 lakh (ED at 16 *per cent*)+Rs. 1.62 lakh (CST at 4 *per cent*).

taking action against a single official, the Board cannot absolve itself of its responsibility to devise a system to ensure that the purchase proposal was finalised within the validity period.

The matter was referred to the Government in November 2005; reply had not been received (September 2006).

4.23 Extra expenditure on purchase of GI Pins

Unjustified denial of the Board to accept bank guarantee for a long period forced the supplier to refuse the supply of material resulting in extra expenditure of Rs. 36.39 lakh in purchase of material subsequently at higher rates.

The Board placed (June 2004) a purchase order on Ashoka Galvanising Works (AGW), Kolkata for two lakh Galvanised Steel Pins (GI Pins) at FOR destination at the all inclusive fixed rate of Rs. 64.74 per piece. The supply was to be made as per the purchase order and an amount of Rs. 2.59 lakh equivalent to two *per cent* of total value of the purchase order (PO) was to be furnished by the supplier in the form of Bank Guarantee (BG) valid upto three months beyond the date of warranty period.

Audit noticed that AGW offered (17 July 2004) to furnish the requisite BG issued by Canara bank, but the Board refused (July 2004) to accept the BG issued by Canara bank due to un cooperative attitude of the Canara Bank in allowing encashment of BG in case of another PO. The issue remained unresolved up to March 2005, when the Board accepted the BG issued by the Canara bank and requested the firm to supply the material, but the firm refused (March 2005) to keep the offer alive for such a long period. The Board issued (March 2005) a notice to the firm for breach of contract as the delivery schedule was yet to expire on 30 June 2005. After negotiations (May 2005) the firm agreed (July 2005) to supply part quantity of material (*i.e.,* 50,000 GI Pins only) during the last quarter provided delivery period was extended up to November 2005. The Board, keeping in view mild punitive action of suspending business dealings with the firm available under the terms and conditions of PO, reduced (October 2005) the quantity of the PO to 50,000 GI pins and cancelled the order for the balance quantity. The balance quantity of 1,50,000 GI Pins not supplied by the firm was subsequently purchased by incurring additional expenditure of Rs. 36.39 lakh[#].

Audit noticed that the Board's refusal to accept the BG of a nationalised bank for a long period lacked justification. Besides, there was no condition in the tender document for furnishing the BG of a specific bank.

The Board stated (April 2006) that the decision of the Board not to accept the BG issued by Canara bank was a minor issue as all suppliers had supplied BGs issued by banks other than Canara bank of their own and so specific mention was not required to

[#] Rs. 89- Rs. 64.74= Rs. 24.26 x 1,50,000 = Rs. 36,39,000.

be made in the notice inviting tender. The reply is silent about why the Board did not accept the valid BG and incurred the loss.

The matter was referred to the Government in January 2006; reply had not been received (September 2006).

Punjab State Warehousing Corporation

4.24 Short accountal of storage gain

Non-accounting of 'storage gain' in wheat as per norms resulted in short accountal of stock valuing Rs. 59.17 lakh.

The Corporation procures wheat for the central pool on behalf of the Food Corporation of India (FCI) and stores the same till its delivery to FCI. During its storage, the wheat gains weight due to absorption of moisture for which FCI has to be compensated. Government of Punjab fixed (April 1999) the norms for such 'storage gain' in wheat as one *per cent* (for covered godowns) and 0.7 *per cent* (for open godowns) for the first year of storage. GOI approved (November 1999) the above 'storage gain' norms from Rabi marketing season 1999-2000 which was accepted by FCI and also adopted by the Corporation in December 1999.

Audit scrutiny revealed that whereas the officials of the Corporation had been accounting for less moisture gain than the norms approved (November 1999) by GOI, FCI made deductions on account of storage gain from the dues of the Corporation as per the norms. Although, these deductions on account of non delivery of moisture gain as per the norms amounted to pilferage by the officials yet the Corporation neither recovered the differential amount from the officials responsible nor took any action against them. Test check of record for 2004-05 revealed that the storage gain less delivered worked out to 9,392.37 quintals of wheat worth Rs. 59.17 lakh[#] for the recovery of which the Corporation had taken no action (June 2006).

The management stated (May 2006) that the Punjab and Haryana High Court had decided (July 1994) that action of the Corporation against the employees who failed to provide storage gain was unsustainable in law and leave petition of the Corporation against this decision was still pending in the court which had stayed (September 1994) recovery of storage gain. The reply is not tenable as there were further developments in the case and it was only on the directions (March 1998) of the Supreme Court, that the matter of storage gain was considered (August 1998 and December 1998) by the Council of Ministers and the norms of April 1999 fixed.

The matter was referred to Government in April 2006; reply had not been received

[#] Calculated at minimum support price of Rs. 630 per quintal.

(September 2006).

General

4.25 Follow-up action on Audit Reports

Explanatory Notes Outstanding

4.25.1 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. Finance Department, Government of Punjab issued instructions (August 1992) to all 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.

Though the Audit Reports for the years 1997-98, 1998-99, 2002-03, 2003-04 and 2004-05 were presented to the State Legislature in September 1999, September 2000, June 2004, March 2005 and March 2006, respectively, seven out of 12 departments which were commented upon in these Audit Reports did not submit detailed notes on 36 paragraphs/reviews out of 120 paragraphs/ reviews as on 30 September 2006, as indicated below:

Year of the Audit Report (Commercial)	Total no. of paragraphs/ reviews in Audit Report	Number of paragraphs/reviews for which detailed notes were not received.
1997-98	26	2
1998-99	26	1
2002-03	23	3
2003-04	22	10
2004-05	23	20
Total	**120**	**36**

Department-wise analysis is given in ***Annexure 12.*** The departments largely responsible for non-submission of detailed notes were Agriculture, Finance, Power, Industries and Food and Supplies. The Government did not respond to important reviews highlighting investment/ disinvestment, delay in taking action against defaulting millers/ loanees, lower recovery of timber from standing trees, delay in taking over defaulting units and performance of workshops.

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

4.25.2 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 the Report of COPU in the State Legislature. Replies to

nine paragraphs pertaining to the 78th, 81st and 82nd Reports of the COPU presented to the State Legislature had not been received (September 2006). These Reports contained 14 recommendations in respect of paragraphs pertaining to Power, Public distribution, Agriculture, Industries and Social Welfare departments which appeared in Audit Reports for 1997-98 to2002-03.

Action taken on persistent irregularities

4.25.3 With a view to assist and facilitate discussion of irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the concerned auditee organisations. The results are indicated in the ***Annexure 13*** and ***14.***

Government companies

Irregularities having financial implication of Rs.29.02 crore {Punjab Agro Industries Corporation Limited/Punjab Agro Foodgrains Corporation Limited (activities transferred to this company from October 2002)} including Rs.5.18 crore in respect of persistent irregularities already mentioned in Para 3.19.3 of the Audit Report (Commercial) 2003-04, and Rs. 29.95 crore (Punjab State Industrial Development Corporation Limited) were included in the Reports of the Comptroller and Auditor General of India for the years 2000-02 and 2003-05 (Commercial)-Government of Punjab. These irregularities had been persisting with the companies over periods ranging between two and five years. Scrutiny in Audit revealed that action taken by the companies/ State Government on the irregularities was inadequate as per details given in ***Annexure 13.***

Statutory corporations

Various irregularities having financial implication of Rs.184.12 crore (Punjab State Electricity Board) including Rs.178.93 crore in respect of persistent irregularities mentioned in Para 3.21.3 of Audit Report (Commercial) 2004-05 were included in the Reports of the Comptroller and Auditor General of India (Commercial)- Government of Punjab for the years 2001-05. The irregularities were persisting with the Board over periods ranging between two and four years. Scrutiny in Audit revealed that action taken by the Board/ State Government on the irregularities was inadequate as per the details given in ***Annexure 14.***

The matter was referred (April 2006) to Government/ management; their replies had not been received (September 2006).

Response to Inspection Reports, Draft Paras and Reviews

4.25.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the concerned PSUs and departments of the State Government through Inspection Reports. The heads of PSUs are required to give replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2006 revealed

that 3,865 paragraphs relating to 1,288 Inspection Reports pertaining to 33 PSUs were outstanding at the end of 30 September 2006. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2006 is given in ***Annexure 15.***

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. Audit, however, observed that 23 draft paragraphs and two draft reviews forwarded to various departments during October 2005 to May 2006 as detailed in ***Annexure 16*** had not been replied to (September 2006).

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

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Countersigned

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