

Chapter III

3. Performance reviews relating to Statutory corporations

Punjab Scheduled Castes Land Development and Finance Corporation

3.1 Sanction, Disbursement and Recovery of Loans

Highlights

Out of 3.18 lakh below poverty line (BPL) families of SC community, the Corporation could provide financial assistance to only 0.23 lakh families during 2003-08 which consisted only 7.23 per cent of the total BPL families of the State.

(Paragraph 3.1.1)

Against the targets for disbursement of Rs. 196.43 crore to 1,11,080 beneficiaries, the Corporation disbursed only Rs. 37.18 crore to 25,576 beneficiaries during 2003-08, which reflected its poor performance in rendering assistance to SC community.

(Paragraph 3.1.10)

Lack of proper monitoring, delayed action and poor pursuance by the Corporation resulted in increase of overdue amount of recovery from Rs. 28.91 crore in 2002-03 to Rs. 43.50 crore (including interest of Rs. 19.98 crore) in 2006-07.

(Paragraph 3.1.31)

The Corporation had to refund Rupees four crore due to non utilisation of funds under Economic Venture scheme during 2003-07.

(Paragraph 3.1.20)

The failure of the Corporation to invoke the provision of loan regulations led to misutilisation of loan amount by 607 loanees involving Rs. 2.86 crore under Direct Lending scheme and National Scheduled Castes Finance and Development Corporation's schemes during 2002-07.

(Paragraphs 3.1.19 & 3.1.24)

Against the norm of 35 days for sanction and disbursement of loan, the Corporation took period ranging from 50 days to more than two years in 1,277 cases during 2003-07.

(Paragraph 3.1.16)

The Corporation failed to evolve an effective monitoring and evaluation system which affected the efficiency and effectiveness of various loan schemes.

(Paragraph 3.1.30)

Introduction

3.1.1. Punjab Scheduled Castes Land Development and Finance Corporation (Corporation) was incorporated on 18 January 1971 under the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970 (Act) with the object of economic upliftment of the scheduled castes (SC) community in the State. The Corporation advances loans to the members of SCs under various schemes approved by the State Government either directly or/and in collaboration with National Scheduled Castes Finance and Development Corporation (NSFDC), National Safai Karamcharis Finance and Development Corporation (NSKFDC) and banks.

The State Government had recognised 37 castes as SCs in the State. As per 2001 census, out of total population of 2.44 crore in the State, 70 lakh {including 3.18 lakh Below Poverty Line (BPL) families[♦]} were SC. The Corporation extended financial assistance of Rs. 275.09 crore to 4.99 lakh SC beneficiaries under various schemes since its inception (from January 1971 to March 2008). As on 31 March 2007, loans amounting to Rs. 23.52 crore and interest of Rs. 19.98 crore were overdue for recovery. During the five years period ended 31 March 2008, the Corporation had earned aggregate profit of Rs. 0.99 crore^{*}.

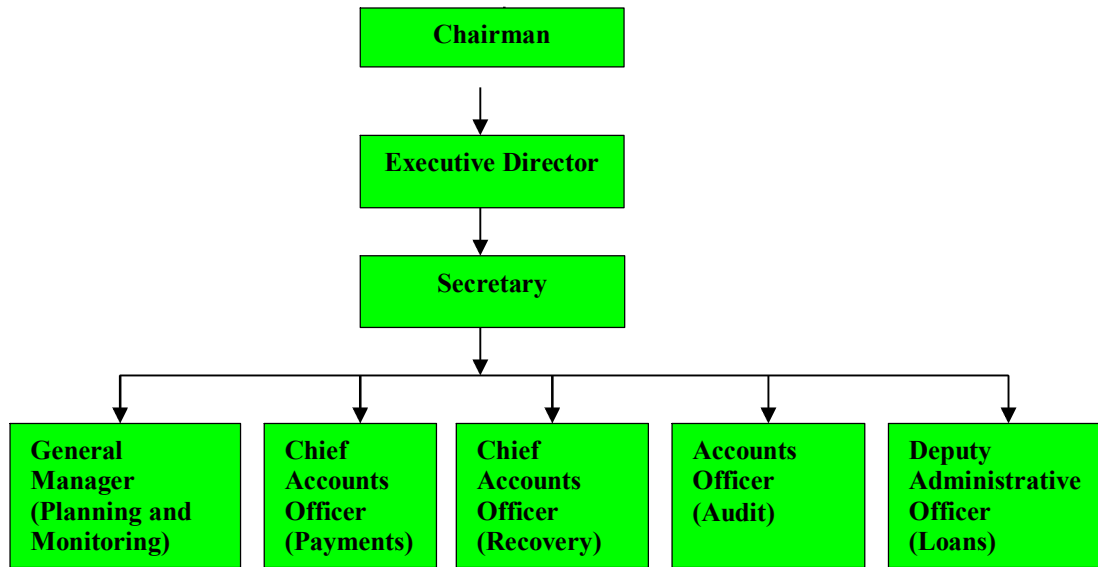
Out of 3.18 lakh BPL families of SC community, the Corporation had provided financial assistance (subsidy) of Rs. 22.51 crore to 0.23 lakh BPL families (7.23 *per cent* of total BPL families) and Rs.14.30 crore to only 0.03 lakh SCs above the poverty line during 2003-08. Though the population of SCs had increased by 22.39 *per cent* during 1991 to 2001, the number of targeted beneficiaries decreased from 1.38 lakh (1997-02) to 1.11 lakh (2003-08).

The Management of the Corporation is vested in a Board of Directors consisting of 13 Directors including five non-officials belonging to SC community nominated by the State Government.

[♦] Families having annual income below Rs. 20,000 (rural) and Rs. 27,000 (urban) were categorised (April 2002) as BPL.

^{*} Based on the provisional figures for 2006-07 and 2007-08.

The organisation chart of the Corporation is given below:



The working of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for 2002-03 (Commercial), Government of Punjab. This review is yet to be discussed by the Committee on Public Undertakings (September 2008).

Scope of Audit

3.1.2 The present review conducted during October 2007 to February 2008 covers the performance of the Corporation with regards to sanction, disbursement and recovery of loans during 2003-08 under various schemes.

The audit findings are based on a sample of eight[♦] district offices (47 per cent) out of 17[♦] district offices selected on random sampling basis in addition to the head office of the Corporation. The total sample covers 58.79 per cent of the transactions relating to disbursement of loans during 2002-07.

Audit objectives

3.1.3. The objectives of the review were to ascertain whether:

- the Corporation planned and executed its activities successfully to cover the entire targeted population in an effective and efficient manner and whether it periodically reviewed the impact of its activities and took remedial measures wherever required;

[♦] Amritsar, Bathinda, Fatehgarh Sahib, Hoshiarpur, Jalandhar, Mansa, Patiala and Sangrur.

[•] Amritsar, Bathinda, Faridkot, Fatehgarh Sahib, Ferozepur, Gurdaspur, Hoshiarpur, Jalandhar, Kapurthala, Ludhiana, Mansa, Moga, Mukatsar, Nawanshahar, Patiala, Ropar and Sangrur.

- the targets set for sanction and disbursement of loans were achieved;
- adequate funds were received for implementation of the schemes and these funds were properly utilised;
- the loans were sanctioned and disbursed as per terms and conditions of the schemes and instructions of the State Government/Central Government and NSFDC/ NSKFDC;
- the loans were recovered as per terms and conditions of the schemes; and
- the monitoring system evolved by the Corporation was adequate and effective enough to achieve the desired objectives.

Audit criteria

3.1.4. The following audit criteria were adopted:

- targets fixed for loans sanctioned and disbursed;
- policies of the State/Central Government for upliftment of SCs;
- terms and conditions of the schemes;
- guidelines issued by NSFDC and NSKFDC; and
- terms of the agreements executed with the beneficiaries.

Audit methodology

3.1.5. Audit followed the following mix of methodologies:

- analysis of Corporation's procedure in respect of selection of beneficiaries, sanction, disbursement, utilisation and recovery of loans;
- scrutiny of data/record in respect of sanction, disbursement and recovery of loans;
- analysis of annual administrative reports and annual accounts of the Corporation;
- examining of various reports, returns and utilisation certificates submitted to the State/Central Government; and
- scrutiny of minutes/agenda of meetings of Board of Directors (BOD), instructions issued by the State Government and progress reports received from district offices of the Corporation.

Audit findings

3.1.6. The audit findings were reported (April 2008) to the State Government/Management and discussed in the meeting (24 June 2008) of Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting was attended by the Executive Director of the Corporation and Deputy Controller

(Finance and Accounts), Government of Punjab. The views of the representatives of the State Government and the Corporation have been considered while finalising the review.

Audit findings are discussed in the succeeding paragraphs:

Fund sources and utilisation

3.1.7. The Corporation submits proposals for five year special component plan and annual plan (formulated exclusively for the welfare of Scheduled Castes) to the State Government for obtaining required funds under Share Capital and Special Central Assistance (SCA). After assessment of these proposals the State Government provides funds in the State budget. Share capital is utilised for providing loans under Direct Lending scheme and margin money for various loan schemes of NSFDC and NSKFDC whereas SCA is utilised for granting subsidy to BPL families under Bank-Tie-up scheme and various loan schemes.

Financial budget

3.1.8 The Corporation prepared annual budget to keep a watch over receipts and expenditure. Audit observed that against budgeted receipt of Rs. 197.17 crore during 2003-08, the actual receipt was only Rs. 71.50 crore constituting 36.26 *per cent* of the budget which resulted in depriving of the benefits to the SC community in the State. Audit scrutiny revealed the following:

- Government of India (GOI) and State Government had been participating in the share capital of the Corporation in the ratio of 49:51. The Corporation had received Rs.6.86 crore (State Government: Rs.3.50 crore and Centre Government: Rs.3.36 crore) as share Capital against the budget provision of Rs. 16.17 crore during 2003-08. It was observed in audit that since 51 *per cent* share was not released by the State Government, GOI also did not release its share of Rs.4.56 crore during 2003-04 to 2005-06.
- Under Special Central Assistance, the State Government released Rs.19.71 crore only against the budget provision of Rs. 106.83 crore. Audit noticed that no funds were released by the State Government during 2003-05 due to non submission of information by the Corporation relating to:
 - proper procedure for identification of beneficiaries, their training and follow up for next five years after disbursement of loan;
 - regular monitoring and evaluation of loans disbursed from an independent agency/NGO; and
 - utilisation of earlier capital subsidy disbursed.

The Management stated (May 2008) that the State Government had not released share capital due to its own financial crisis. The reply is not tenable as the State Government in a pre-budget meeting (January 2005) observed that the Corporation is getting loan at the rate of 2.5 *per cent* to 3 *per cent* from the Government of India for the upliftment of needy and poor persons belonging to

Poor recovery performance coupled with demand of share capital without justification and non fulfillment of conditions led to non release of share capital of Rs. 4.56 crore and SCA of Rs. 87.12 crore.

SC, whereas the Corporation further disburses this loan at the rate of 6 *per cent* to 8 *per cent* and as such, the Corporation has no justification in demanding funds from the State Government by way of Share Capital contribution and should be self sustaining. It was further observed that the recovery of loans was not upto the mark.

Similarly, against budgeted expenditure/payment of Rs. 196.55 crore for the five year period from 2003-08, the actual expenditure/payment was only Rs. 37.18 crore constituting 18.92 *per cent* of the budget which indicated unsatisfactory results in achievement of physical and financial targets as discussed in paragraphs 3.1.12, 3.1.18, 3.1.20 and 3.1.23 *infra*.

Procedure for sanction and disbursement

3.1.9. The Corporation had been providing financial assistance under the following schemes for the benefit of the SC community in the State.

- Bank Tie-up scheme (BTS),
- Other loaning schemes:
 - Direct Lending scheme,
 - Economic Venture scheme,
 - Goat Rearing scheme,
 - Loans under National Scheduled Castes Finance and Development Corporation (NSFDC) and National Safai Karamcharis Finance and Development Corporation (NSKFDC).

Applications received from prospective beneficiaries are appraised by district offices of the Corporation and then placed before the district level Screening Committee* for recommendations. The recommendations of the committee are forwarded to head office for sanction of loan. After sanction of loan, agreement is entered into between the Corporation and the beneficiary.

Implementation of schemes

3.1.10. The Corporation had implemented various schemes during 2003-08 as mentioned in paragraph 3.1.9 *supra*.

Keeping in view the budgetary allocation made by the State Government for different schemes, the Corporation was fixing the targets (physical and financial) for disbursement of loans each year under all the schemes. A summary of physical and financial targets and achievements thereagainst during 2003-08 was as follows:

* Consists of Additional Deputy Commissioner, General Manager (Industries), District Welfare Officer, Lead Bank Officer, Deputy Economic and Statistical Advisor, two members nominated by the State Government and District Manager of the Corporation.

Against the targets for disbursement of Rs. 196.43 crore to 1,11,080 beneficiaries, the Corporation disbursed only Rs. 37.18 crore to 25,576 beneficiaries during 2003-08.

Year	Targets		Achievements		Percentage of achievement to targets	
	Physical	Financial	Physical	Financial	Physical	Financial
	Number	Amount (Rs. in crore)	Number	Amount (Rs. in crore)		
2003-04	26,300	38.12	3,493	4.41	13.28	11.57
2004-05	24,330	45.38	1,024	1.86	4.21	4.09
2005-06	23,200	37.00	6,424	8.02	27.69	21.67
2006-07	23,400	37.93	7,392	9.44	31.59	24.88
2007-08	13,850*	38.00*	7,243	13.45	52.30	35.39
Total	1,11,080	196.43	25,576	37.18	23.02	18.93

Source: Budget and Annual administrative reports.

The above table shows that the Corporation failed to achieve the targets in any of the five years ending March 2008. The physical and financial performance ranged between 4.21 - 52.30 *per cent* and 4.09 - 35.39 *per cent* during 2003-08, respectively. The Corporation had never analysed the reasons for shortfall in performance despite availability of some funds so as to take corrective measures for improving its achievements.

Audit further observed that out of the subsidy of Rs.22.52 crore released to the banks under Bank Tie-up scheme during 2003-08, Rs.1.64 crore was received back (upto March 2007) due to non disbursement of loans to 1,640 beneficiaries by the banks but this amount and number of beneficiaries were included in the financial achievements. Thus, the actual physical and financial achievements during 2003-08 were 23,936 and Rs. 35.54 crore instead of 25,576 and Rs. 37.18 crore, respectively.

The Management stated (February 2008) that percentage of achievement was low due to paucity of share capital funds as the State Government had not released funds regularly. The reply is not tenable as the Corporation had retained unutilised funds ranging between Rs. 11.49 crore and Rs. 22.23 crore parked in short term deposit which could have been effectively utilised to improve the achievement of the target.

Some of the major loan schemes implemented by the Corporation are discussed in the succeeding paragraphs:

* The quantum of loan amount under the Direct Lending and NSFDC scheme was enhanced from Rs. 0.50 lakh to Rs. one lakh during 2007-08.

Bank Tie up scheme

3.1.11 The funds received under Special Central Assistance are utilised for granting subsidy to BPL families of SCs under Bank Tie-up and other schemes. Under the Bank Tie-up scheme (BTS), the Corporation identifies beneficiaries among SCs living below poverty line for providing them financial assistance in the form of loan up to Rs. 35,000 for income generating schemes[♦] and sponsoring their cases to banks. Subsidy equal to 50 per cent of the total project cost subject to a maximum of Rs. 10,000 is provided to the beneficiary by the Corporation. The loan applications duly appraised in the district offices of the Corporation are sent to banks for approval. After approval of cases, the Corporation releases subsidy to banks for further disbursement to the beneficiary along with loan within 30 days of release of subsidy.

Targets and achievements

3.1.12 Physical and financial targets vis-à-vis achievements of subsidy disbursement under Bank Tie-up scheme during 2003-08 were as under:

Year	Targets		Achievements		Percentage of achievements to targets	
	Physical	Financial	Physical	Financial	Physical	Financial
	Number	Amount (Rs. in lakh)	Number	Amount (Rs. in lakh)		
2003-04	20,000	2,000.00	3,283	315.99	16.41	15.80
2004-05	20,000	2,000.00	814	80.44	4.07	4.02
2005-06	13,000	1,300.00	5,969	590.94	45.91	45.46
2006-07	20,000	2,000.00	6,780	675.02	33.90	33.75
2007-08	10,000	1,000.00	5,906	589.35	59.06	58.93
Total	83,000	8,300.00	22,752	2,251.74	27.41	27.13

Source: Budget and Annual administrative reports.

The above table shows that in none of the years the Corporation could achieve physical as well as financial targets and the total physical and financial achievements were 27.41 and 27.13 per cent, respectively during 2003-08.

The Management stated (May 2008) that the shortfall in achievement of targets was due to non-release of budgeted funds by the State Government. The reply is not tenable as there was an unutilised balance amount of Rs. 620.34 lakh as on 31 March 2008 under the scheme and the Corporation had not only failed to utilise the available funds but also deprived 6,203 prospective beneficiaries for upliftment.

Deficiencies in implementation of the scheme

3.1.13. Audit noticed the following deficiencies in implementation of the scheme.

[♦] Dairy farming, karyana shop, piggery, poultry farming, barbar shop, sheep rearing, horse cart etc.

- **Unrealistic fixation of targets**

No scientific approach was adopted in fixation of the district wise targets during 2003-05 as actual BPL population in that district was not taken into consideration as detailed in the *Annexure 9*. In five districts viz. Amritsar, Sangrur, Kapurthala, Ferozepur and Mansa the percentage of targets to total BPL population was fixed on lower side during 2003-05 which deprived the beneficiaries of the intended benefits of the scheme.

The Management stated (February 2008) that data regarding BPL families was available from 2005-06 and targets were being fixed on BPL basis from that year. The reply is not tenable as the survey of BPL families was completed by the State Government in August 2002.

- **Delay in disbursement of subsidy**

The State Government issued (January 2002) instructions to the Corporation for timely disbursement of subsidy. Accordingly, the Corporation issued (July 2002) instructions to its district offices to ensure disbursement of subsidy by the banks within 30 days of release of subsidy by the Corporation. Audit, however, observed that inspite of instructions issued to the district offices, the banks had taken three to nineteen months for the release of subsidy during 2003-07. Though, the Corporation directed the District Managers from time to time to ensure timely disbursement of subsidy by banks and in case of non disbursement, recover the undisbursed subsidy from the banks along with interest, however, no arrangement was made to recover the interest in case the banks delayed remittance of the undisbursed subsidy to the Corporation.

Scrutiny of records of selected eight districts[♥] revealed abnormal delays by the banks to return the undisbursed subsidy as detailed in the following table:

(Rupees in lakh)

Year in which subsidy sent to the bank	Year in which undisbursed subsidy received back from the banks					
	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Prior to 1997	0.48	1.12	1.68	0.76	0.29	4.33
1997-98	3.14	-	-	-	-	3.14
1998-99	0.70	-	-	-	-	0.70
1999-00	1.22	2.73	-	-	0.22	4.17
2000-01	0.74	2.33	-	-	-	3.07
2001-02	1.83	3.57	0.25	-	-	5.65
2002-03	11.07	25.44	8.23	0.90	0.06	45.70
2003-04	-	2.41	9.26	1.38	0.16	13.21
2004-05	-	-	0.30	0.40	3.06	3.76
2005-06	-	-	-	2.27	14.15	16.42
Total	19.18	37.60	19.72	5.71	17.94	100.15

Source : Information obtained from the selected districts.

The above table shows that undisbursed subsidy was received back from the banks after the delay ranging between one to 10 years. Audit observed that the Corporation had neither maintained any records regarding undisbursed subsidy

[♥] Amritsar, Bathinda, Fatehgarh Sahib, Hoshiarpur, Jalandhar, Mansa, Patiala and Sangrur.

Undisbursed subsidy was received back from banks with the delay ranging between one to ten years.

lying with the banks nor evolved any other mechanism to monitor timely disbursement of subsidy by banks to the beneficiaries and prompt return of the undisbursed money. In the absence of monitoring system, the Corporation was not even aware of the extent of subsidy recoverable from the Banks.

The Management stated (February 2008) that the Corporation had been collecting monthly reports on disbursement of subsidy and pending subsidy in banks. The reply is not tenable as mere collection of monthly reports does not serve any purpose unless effective mechanism is evolved to avoid delay in disbursement/refund of subsidy by the banks.

Other schemes

Status of loan applications received

3.1.14 The following table shows the position of loan applications in the beginning of each year, received during the year, loans sanctioned during the year, applications rejected/withdrawn and pending at head office under all the loan schemes except BTS (discussed in paragraph 3.1.11 *supra*) during 2003-08:

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08 (Provisional)
1.	Applications pending at the beginning of the year.	6,163	5,624	5,739	5,862	6,092
2.	Applications received during the year	371	371	930	964	2,694
3.	Total applications (1+2)	6,534	5,995	6,669	6,826	8,786
4.	Loan applications sanctioned	250	150	727	641	1,760
5.	Applications rejected/withdrawn	660	106	80	93	204
6.	Application pending at the close of the year	5,624	5,739	5,862	6,092	6,822
7.	Percentage of applications sanctioned to total applications	3.82	2.50	10.90	9.39	20.03

Source: Information supplied by the Management.

As per instructions issued (April 2003) by the State Government, the Corporation should give loan on the basis of seniority- cum- merit. It was, however, observed in audit that no seniority was being maintained and loans were granted on pick and choose basis. The Management while admitting the facts, stated (May 2008) that the loans were disbursed out of turn keeping in view the genuine hardship of the applicant. The reply is not tenable as no parameter has been prescribed by the State/ Corporation to determine the genuineness of the applicant.

The percentage of number of loans sanctioned was very low and ranged between 2.50 and 20.03 during 2003-08. Audit observed that the Corporation had not maintained any consolidated records to show the age-wise analysis of pending applications and reasons for their non-processing. A test check of 338 pending loan cases of Direct Lending scheme and schemes of NSFDC of selected district offices revealed that the period of pendency ranged between 3 and 1,673 days during 2003-07. Though the Corporation had sufficient number of pending loan applications, availability of funds for Direct Lending scheme and sufficient allocation/sanction from NSFDC and NSKFDC yet it failed to sanction/disburse

loans. The Corporation issued instructions from time to time prescribing the time limits for finalising of loan cases. Audit scrutiny, however, revealed cases of delays in finalising loan cases at various levels which are discussed in the succeeding paragraphs:

Delay at district level

3.1.15 After approval of the loan application, the district offices of the Corporation were required to submit the same to the Screening Committee within 30 days. A test check of 1,310 loan cases of selected districts revealed that only 735 loan cases (56 per cent) were submitted by the district offices to the Screening Committee within the prescribed period. The district offices, however, took 36 to 100 days in 382 cases, 101 to 365 days in 171 cases, one year to two years in ten cases and more than two years in 12 cases.

Delay at head office

3.1.16 On receipt of recommendations of the Screening Committee, the Corporation was required to sanction and release loans within 35 days. A test check of 1,307 cases, however, revealed that the Corporation sanctioned/ disbursed loans with delays ranging from 50 days to more than two years in 1,277 cases (97.70 per cent) as detailed in the following table:

Sl. no.	Name of the loan scheme/Period of disbursement	Time taken at head office	No. of loan cases sanctioned
1.	Direct Lending scheme (during 2003-07)	50 to 100 days	53
		101 to 200 days	74
		201 to 365 days	64
		One year to two year	50
		More than two years	29
		Total no. of loan cases	270
2.	NSFDC loan schemes (during 2004-07)	50 to 100 days	30
		101 to 200 days	391
		201 to 365 days	346
		One year to two year	78
		More than two years	5
		Total no. of loan cases	850
3.	NSKFDC loan schemes (during 2004-07)	50 to 100 days	10
		101 to 200 days	67
		201 to 365 days	58
		One year to two year	17
		More than two years	5
		Total no. of loan cases	157

Source: Minutes of screening committee, diary register of head office and cheque register.

The Corporation did not evolve any mechanism to analyse the delay and to monitor the timely disbursement of loan which affected the working of the Corporation as well as implementation of the above mentioned loan schemes.

The Management stated (May 2008) that the State Government did not release funds regularly as per budget provisions and loanees did not complete the formalities well in time. The reply is not tenable as the Corporation had sufficient

Against the norm of 35 days for sanction and disbursement of loan, the Corporation took 50 days to more than two years in 1,277 cases during 2003-07.

funds for disbursement under ‘Direct Lending Scheme’ and sufficient allocation for disbursement under NSFDC and NSKFDC loan schemes as discussed in paragraphs 3.1.18, 3.1.23 and 3.1.28 *infra*. Further, as per State Government’s instructions (April 2003), it was made obligatory on the part of the district manager (DM) to get the requisite formalities completed within prescribed time.

Direct lending scheme

3.1.17. Under this scheme, the loans ranging between Rs. 0.10 lakh and Rs.10 lakh were advanced to the SCs for various income generating schemes either interest free or at a very nominal rate of interest up to a maximum of 8 *per cent* per annum. These loans were being granted out of the share capital of the Corporation and recoverable in a maximum of fifteen years in quarterly/six monthly instalments. A beneficiary was required to give utilisation certificate of loan within two months of the disbursement.

Targets and achievements

3.1.18 Physical and financial targets *vis-à-vis* achievements under this scheme during 2003-08 were as follows:

Year	Targets		Achievements		Percentage of achievement of targets	
	Physical	Financial [∞]	Physical	Financial	Physical	Financial
	Number	Amount (Rs. in lakh)	Number	Amount (Rs. in lakh)		
2003-04	200	100	111	58.35	55.50	58.35
2004-05	200	100	39	23.18	19.50	23.18
2005-06	200	100	23	11.14	11.50	11.14
2006-07	200	100	86	46.29	43.00	46.29
2007-08	600 [^]	600 [^]	394	234.15	65.67	39.02
Total	1,400	1,000	653	373.11	46.64	37.31

Source: Budget and Annual administrative reports.

The above table shows that overall percentage of achievement of physical and financial targets ranged from 11.50 to 65.67 *per cent* and 11.14 to 58.35 *per cent*, respectively during 2003-08.

Against the availability of Rs. 11.80 crore, the Corporation could disburse only Rs. 4.28 crore during 2003-08.

The Management stated (May 2008) that the targets could not be achieved due to non/less release of share capital by the State Government. Reply is not tenable as the Corporation could utilise only Rs. 4.28 crore (including margin money) as against the disbursement of share capital amounting to Rs. 11.80 crore during 2003-08 which shows that it did not fully utilise the funds earmarked for the scheme for the upliftment of economic condition of SCs. Moreover, it had 2,836 loan applications pending under this scheme as on 31 March 2008.

[∞] Loan limit which was Rs. 50,000 upto 2006-07 was increased to Rs. One lakh in 2007-08.

[^] Targets were enhanced drastically in anticipation of receipt of Share Capital during 2007-08.

Deficiencies in implementation of scheme

3.1.19 Audit scrutiny of records of eight selected districts revealed the following deficiencies:

The District Managers admitted that 220 loanees involving Rs. 1.10 crore had misutilised the loan amount under Direct Lending scheme during 2002-07.

- Utilisation certificates from 270 loanees involving Rs. 1.44 crore were not obtained from those to whom loans were disbursed during 2002-07. Out of these loanees, the District Managers admitted that 220 loanees had misutilised the loan amount involving Rs. 1.10 crore. Audit observed that the Corporation had failed to check the misutilisation of loan amount by invoking provisions contained in Loan Regulations.
- Out of 303 loanees in default (involving Rs.1.61 crore), only 71 cases (involving Rs.42.74 lakh) were sent to the Sub Divisional Officer (Civil) and 50 cases (involving Rs.29.40 lakh) to the Collector for effecting recovery during 2002-07. The Corporation had not taken any action against the remaining defaulters (March 2008).
- The Corporation had not evolved any system to conduct post disbursement inspection of the loanee units due to which the status of loanee's business was not known to the Corporation.

The Management stated (May 2008) that the beneficiaries are charged penal interest in case of misutilisation of loan and lump sum recovery notices are also issued. The reply is not tenable as merely debiting of penal interest to the loanee account does not serve purpose unless actual recovery is made from the loanees. Moreover, most of the loanees who misutilised the loan amount had not repaid principal and interest.

Economic venture scheme

3.1.20 To improve the socio-economic conditions of SCs living below poverty line and to modernise their traditional profession, Economic Venture scheme (EVS) was introduced during 1991-92. The table below indicates the physical and financial targets *vis-à-vis* actual achievements under Economic Venture scheme during 2003-08.

Year	Purpose of loan	Targets			Achievements					
		Physical	Financial (Rs. in lakh)		Physical	Financial (Rs.in lakh)		Percentage of achievement to targets		
		Number	Loan	Subsidy	Number	Loan	Subsidy	Physical	Loan	Subsidy
2003-04	Plot	2,500	-	200	-	-	-	-	-	-
	Venture	3,000	900	300	27	7.81	0.97	0.90	0.86	0.32
2004-05	Plot	1,877	-	282	-	-	-	-	-	-
	Venture	3,000	900	300	7	2.31	-	0.23	0.25	-
2005-06	Plot	1,000	-	150	-	-	-	-	-	--
	Venture	2,000	600	200	8	2.43	-	0.40	0.40	-
2006-07	Plot	1,000	-	150	12	-	1.80	1.20	-	1.20
	Venture	2,000	600	200	4	1.42	0.10	0.20	0.23	0.05
2007-08	Plot	500	-	75	-	-	-	-	-	-
	Venture	1,000	500	100	3	1.04	0.08	0.30	0.21	0.08

The above table shows that the percentage of achievement in respect of venture set up was far below the physical and financial (loan and subsidy) targets and

ranged from 0.20 to 1.20 and 0.05 to 1.20, respectively during 2003-08. For purchase of plots the achievement remained nil during all the five years except 2006-07 which was only 1.20 *per cent* (physical as well as financial). Audit noticed that funds ranging between Rs 4.74 crore and Rs.4.98 crore for this scheme were available during 2003-07. Due to non utilisation of funds, the Corporation had to refund (August 2006) Rupees four crore to the State Government.

The Management stated (May 2008) that the performance was poor mainly due to the fact that the subsidy amount of Rs.15,000 for the purchase of plots was inadequate due to exorbitant increase in the prices of land in the State and sufficient applicants were not coming forward to avail the loan. The reply is not tenable as the Corporation did not take up the matter with the State Government to enhance the Capital subsidy and it was only in September 2007, the Corporation approached the State Government for enhancing capital subsidy to Rs. 50,000 for the purchase of plots. Further, more than 2,655 applications remained pending with the Corporation under this scheme during 2003-08.

Deficiencies in implementation of the scheme

3.1.21 The following deficiencies in implementation of the scheme were noticed:

- Out of the loan accounts of 85 beneficiaries (involving loan amount of Rs. 29.07 lakh) test checked, 57 loanees (involving Rs.22.74 lakh) had misutilised loan amount and had not submitted utilisation certificates which shows that the Corporation had not disbursed loan to genuine beneficiaries. Audit observed that neither the Corporation disbursed the loan amount in instalments as provided in the Loan Regulations nor monitored the proper utilisation of loan amount by the loanees.
- Out of 59 defaulter loanees, the Corporation had sent only five cases (involving Rs.1.83 lakh) to SDO(C) during May 2002 to February 2006 and three cases to Collector (Rs. 0.86 lakh) during October 2004 to September 2005 for effecting recovery. No recovery has, however, been effected so far (May 2008). This shows that the Corporation had not taken action against the remaining defaulters under Sections 24 and 25 of the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970.

Loans in collaboration with NSFDC

3.1.22 The Corporation implemented six schemes from 2002-03 in collaboration with NSFDC *viz.* karyana shop, handloom, electric shop, cycle and scooter repair shop, cloth shop and shoe making. Beneficiaries having income upto double the poverty line* were eligible for taking loan under these schemes. Loan upto

* SC families whose annual income was upto Rs.40,000 in rural areas and Rs.55,000 in urban areas.

Rs. 0.50 lakh was advanced by raising term loan (upto 90 per cent) from NSFDC and remaining 10 per cent was to be contributed by the Corporation out of its share capital. BPL beneficiaries were to be given subsidy out of SCA at the rate of Rs. 10,000 or 50 per cent of the unit cost, whichever was less.

Against the allocation of Rs. 33.62 crore, the Corporation could disburse loan of Rs. 7.59 crore only due to lower fixation of targets which were not commensurate with allocation made by NSFDC.

3.1.23 NSFDC had allocated Rs. 33.62 crore during 2003-08 under these schemes but the Corporation had fixed the target of disbursement of loan of Rs. 15.62 crore to 1,950 beneficiaries during 2003-08 which was not commensurate with the allocations made by NSFDC. The Corporation actually extended loan of Rs.7.59 crore to 1,517 beneficiaries during 2003-08.

Audit observed that the Corporation had fixed the targets under this scheme without taking into consideration the funds allocated by NSFDC. As a result, it failed to fully utilise the allocated funds. It was further observed that the Corporation had 901 loan applications awaiting disbursement of loan and 694 applications pending for sanction of loan (March 2008).

The Management stated (May 2008) that due to less recovery of loans, it raised the term loan from NSFDC very cautiously. The reply is not tenable as the Company had disbursed Rs. 3.27 crore to 589 beneficiaries during 2007-08 (out of Rs. 7.59 crore to 1,517 beneficiaries during 2003-08) without any increase in recovery. Moreover, it had not taken any steps to improve the recovery position and the beneficiaries were thus deprived of the intended benefits of the scheme.

Deficiencies in implementation of the schemes

3.1.24 Scrutiny of 686 loan cases involving Rs. 3.31 crore of eight selected district offices revealed the following deficiencies in the implementation of the scheme :

Due to poor pursuation by the Corporation, 387 loanees had misutilised the loan of Rs. 1.76 crore during 2003-07.

- 387 loanees (involving Rs. 1.76 crore disbursed during 2002-07) had not submitted utilisation certificates as required under loan regulation of the Corporation and misutilised the loan amount. Audit observed that neither the Corporation disbursed the loan in instalments as provided in the Loan Regulations nor kept close watch over the proper utilisation of loan amount by the loanees resulting thereby in the doubtful recovery.
- Though 381 loanees involving Rs. 1.63 crore had committed default in repayment of loan yet the Corporation had not taken any action against the defaulting loanees (February 2008).

The Management stated (May 2008) that instructions have been issued to the district offices in April 2008 to ensure compliance of loan regulations.

Mahila samridhi yojna

3.1.25 Mahila Samridhi yojna introduced in October 2003 by NSFDC to finance need-based short term loan to SC women through State agencies was implemented by the Corporation during 2005-06. As per financing pattern of the scheme, loan upto Rs.25,000 was advanced to women beneficiaries for viable income generating activities viz. karyana shop, dairy farming, stitching, beauty

parlour etc. Ninety *per cent* of the loan was to be contributed by NSFDC and the remaining 10 *per cent* was to be extended by the Corporation. BPL beneficiaries were eligible for subsidy upto Rs. 10,000 or 50 *per cent* of the loan, whichever was less. Women with income upto double the poverty line were eligible under this scheme at four *per cent* rate of interest.

Targets and achievements

3.1.26 Physical and financial targets *vis-a-vis* achievements under the scheme during 2005-08 were as follows:

Year	Targets		Achievements		Percentage of achievement to targets	
	Physical	Financial	Physical	Financial	Physical	Financial
	Number	Amount (Rupees in lakh)	Number	Amount (Rupees. in lakh)		
2005-06	100	25	20	4.69	20	18.76
2006-07	100	25	37	8.79	37	35.16
2007-08	100	25	29	6.70	29	26.80

Source: Budget and Annual administrative reports.

Audit observed that the dismal achievement of targets ranging between 20 and 37 *per cent* had defeated the purpose of upliftment of needy SC women.

The Management stated (May 2008) that the beneficiaries were not coming forward due to inadequate loan amount. The reply is not tenable as the Corporation had 27 loan applications awaiting disbursement and 30 applications pending for sanction of loan (March 2008). Moreover, the Corporation had not taken up the matter with NSFDC for enhancing the loan amount under this scheme.

Schemes in collaboration with NSKFDC

3.1.27 National Safai Karamcharis Finance and Development Corporation (NSFKDC) extended (June 2001) various schemes to provide term loan to the Corporation for taking up any income generating activity of the choice of the beneficiaries i.e., safai karmacharis including scavengers and their dependents, costing upto Rs.5 lakh and sanitation related economic activities costing upto Rs.10 lakh at the interest rate of six *per cent* per annum. Ninety *per cent* of the project cost was to be provided by NSKFDC and balance 10 *per cent* (including subsidy to BPL families at the rate of 10 *per cent* of the loan amount or Rs. 10,000 whichever is less) was to be provided by the Corporation. The Corporation implemented various schemes*.

**Viz.* karyana stores, automobile shop, cycle shop, dairy farming, fruit vegetable shop, general provision store, electrical repair shop, meat shop, readymade garment shop, tailoring shop etc in collaboration with NSKFDC from the year 2002-03.

Targets and achievements

3.1.28 Physical and financial targets *vis-à-vis* actual achievement during 2003-08 were as follows:

Year	Targets	Achievements			Percentage of achievements Physical
	Number	Number	Amount (Rs. in lakh)		
			NSKFDC share	Corporation share	
2003-04	200	-	-	-	-
2004-05	200	31	11.38	0.63	15.50
2005-06	300	39	16.29	0.91	13.00
2006-07	300	88	36.40	2.02	29.33
2007-08	300	119	53.87	-	39.67
Total	1,300	277	117.94	3.56	21.31

Source: Budget and annual administrative reports.

It would be seen from the table that the achievement was far below the targets during 2003-08. No loan under this scheme was sanctioned and disbursed during 2003-04 for which there was no reason on record. The Corporation disbursed loan to only 277 safai karamcharis against the targets of 1,300 beneficiaries during 2003-08. The Corporation disbursed Rs.1.18 crore only during 2003-08 against Rs. 2.98 crore sanctioned by the NSKFDC.

The Management stated (May 2008) that the beneficiaries were not coming forward as they had inadequate security to provide against the loan. The fact, however, remains that the objectives of the scheme were defeated. In view of the poor response of beneficiaries, the company should take up the matter with NSKFDC either to review the scheme or to work out some alternative arrangement for upliftment of the deserving cases.

Deficiencies in implementation of the scheme

3.1.29 The following deficiencies in implementation of the scheme were noticed in audit:

- As on March 2008, 168 loan applications duly sanctioned were awaiting disbursement of loan and 316 loan applications were pending for sanction of loan which shows poor implementation of the scheme. Resultantly, the Corporation failed to achieve the objective of empowering targeted safai karamcharies including scavengers and their dependants to break their depressed social and economic conditions.
- Sixty three loanees (involving Rs.29.98 lakh) had committed default in repayment of loan and no action was taken by the Corporation for recovery.
- A test check of record relating to these schemes of selected district offices revealed that out of 177 beneficiaries (involving Rs. 80.81 lakh), 70 beneficiaries (40 per cent) had misutilised the loan amount of Rs. 32.07 lakh and utilisation certificates from 47 beneficiaries (involving Rs. 20.94 lakh) were awaited (February 2008). Audit observed that neither the Corporation disbursed the term loan amount in instalments as provided in

the Loan Regulations nor kept close watch over the proper utilisation of the loan amount by the loanees.

The Management stated (May 2008) that the beneficiaries are charged penal interest in case of misutilisation of loan and lump sum recovery notices were also issued. The reply is not tenable as merely debiting the penal interest to the loanee account without actual recovery thereof from the loanee did not serve the purpose since most of the loanees who misutilised the loan amount had not been repaying principle and interest. Further, the Corporation has no monitoring mechanism after disbursement to ensure the proper utilisation and timely recovery of loan.

Monitoring and evaluation of schemes

3.1.30 The Corporation had not evolved any system to monitor the benefits derived by the beneficiaries out of the subsidy/loan disbursed to them. The State Government before releasing the subsidy for 2002-03 directed (February 2003) the Corporation for conducting regular monitoring and evaluation of loans disbursed, through an independent agency/NGO as per approval of the State Government. No such study was, however, got conducted by the Corporation and subsidy from 2002-03 onwards was not released (March 2008) by the State Government.

It was, *inter alia*, envisaged in the State Government's notification (April 2003) that the evaluation and monitoring of the loans so disbursed would be done by the Corporation. No such exercise was, however, being done by the Corporation. The Corporation conducted (January 2006) a sample survey through district field staff under the supervision of District Managers covering 181 beneficiaries (95 out of 1,593 Direct Lending scheme and 86 out of 170 of Economic Venture scheme) who were given assistance during 1998-03. According to this survey, 36 and 34 out of 95 and 86 beneficiaries, respectively under these two schemes misutilised the loan amount. The survey further revealed that out of the above, 72 and 71 beneficiaries, respectively had defaulted in repayment of loans. Audit observed that the survey report was neither submitted to the Board nor any action plan was proposed for improving the efficacy of the schemes. In its absence, the role played by the Corporation in bringing improvement in the economic status of the SC families could not be assessed. The failure of the Corporation to evolve an effective monitoring and evaluation system had thus defeated the very objectives of loan schemes.

The Corporation failed to evolve an effective monitoring and evaluation system which effected the efficiency and effectiveness of various loan schemes.

Recovery position

3.1.31 The Corporation had not maintained any record to show scheme wise recovery as such, it had fixed consolidated targets for recovery of principal and interest. The following table shows the details of consolidated targets of recovery, total amount recoverable and recoveries effected during the last five years ending March 2007:

(Rupees in crore)

Sl.No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1	Target of recovery	10.00	6.00	6.50	6.00	6.00
2	Amount overdue for recovery at the beginning of the year	27.43	28.91	34.25	39.76	41.28
3	Recovery due during the year	8.22	11.75	10.88	6.63	6.33
4	Total recoverable amount (2+3)	35.65	40.66	45.13	46.39	47.61
5	Recovery effected during the year	6.74	6.41	5.37	5.11	4.11
6	Closing balance of overdue amount (4-5)	28.91	34.25	39.76	41.28	43.50
7.	Percentage of recovery to recoverable amount	18.91	15.76	11.90	11.02	8.63

Source: Annual administrative report.

The above table shows that recovery performance of the Corporation had declined from 18.91 *per cent* to 8.63 *per cent* of the recoverable amount. Audit observed that 1,881 loanees involving a recoverable amount of Rs. 5.06 crore failed to repay even a single instalment of principal/ interest upto September 2007*. Further, as a result of lower fixation of targets for recovery as compared to the amount due, the overdue amount had increased from Rs.28.91 crore to Rs.43.50 crore (including interest amount of Rs. 19.98 crore) during 2002-07.

In case of continued default, Sections 24 and 25 of the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970, empower the Corporation to recover the entire outstanding amount from the defaulters as arrears of land revenue by issuing a recovery certificate to the Collector of district concerned. Before the issue of recovery certificate, the case is required to be sent to the SDO(C) for giving an opportunity to the defaulter loanee for being heard and to deposit the requisite amount with the Corporation. Audit, however, observed that no follow up action was taken in respect of referred cases to SDO (C)/Collector. As per data made available to Audit, 15,414 cases (involving Rs. 57.24 crore) were sent to SDOs(C) since inception to March 2007. Of these, 8,039 cases (involving Rs. 31.34 crore) could be sent to the Collectors for effecting recoveries. The recoveries in 3,488 cases amounting to Rs. 11.11 crore only {Rs.6.28 crore through SDOs(C) and Rs.4.83 crore through Collector} were made. The Corporation had not made any periodical analysis of such cases.

Audit further observed that poor performance of recoveries was due to misutilisation of loan amount by the loanees, non conducting of physical verification of assets created from the loan amount, non pursuance of recovery by the district offices and non/delayed action against the defaulters. The poor recovery performance resulted in failure of the Corporation to recycle its funds, which in turn affected wider coverage of beneficiaries of SC community.

The Management stated (February 2008) that the Corporation deals with the poorest strata of the society and hundred *per cent* recovery is not possible even in the ideal conditions. The reply is not tenable because recovery position of the Corporation had come down from 18.91 *per cent* (2002-03) to 8.63 *per cent* (2006-07) which shows that it had not taken effective measures to improve its performance. Moreover, there does not exist any mechanism in the Corporation to monitor overdue amount.

* The Corporation had compiled figures upto September 2007 so far (March 2008).

Internal audit/Internal control

Internal audit

3.1.32 The Corporation functions as a financial institution for granting loans/subsidies to the member of the scheduled castes for their upliftment. In a financial institution, internal audit is an important tool in the hand of Management to keep proper control over its working.

The internal audit wing of the Corporation was created in March 1990 (after 10 years of its coming into existence) which was required to conduct internal audit of every district office annually. Audit, however, observed that no internal audit was conducted during 2002-07. The staff posted in internal audit wing was assigned other duties. Further, the Corporation had also not prepared Internal Audit Manual (February 2008).

Internal control

3.1.33 Internal control is an essential pre-requisite for efficient and effective Management of the organisation. The internal control in the Corporation was deficient in regard to the following:

- there was no system to ascertain as to whether the banks had actually disbursed the subsidy/loan to the beneficiaries within the stipulated period and in case the subsidy remain undisbursed, the same was refunded immediately;
- the Corporation did not evolve any system to ensure that the beneficiaries had already not obtained financial assistance from the banks for the same project;
- there was no system to ascertain whether the loanees had submitted utilisation certificates within the prescribed period;
- the Corporation did not maintain any record regarding age wise pending loan applications;
- there exist no system to ensure post disbursement inspection of the loanee units together with follow up action thereon;
- the Corporation had not maintained any record to ascertain age wise analysis of defaulting loanees; and
- the frequent transfer of Executive Director impeded the efficiency of the Corporation.

Conclusion

The overall performance of the Corporation with regards to socio-economic upliftment of SC population in the State was poor because the Corporation could cover only a small fraction of the targeted population. The achievement of targets in physical and financial terms in all the schemes was very low. In the majority of cases, loans disbursed were misutilised due to wrong selection of beneficiaries, delayed disbursement of loans, non conducting of physical verification of assets created by the beneficiaries and non/delayed obtaining of utilisation certificates of loans. The Corporation had not evolved any system to monitor the benefits derived by the scheduled castes community out of the assistance provided to them. The recovery performance of loans was not satisfactory due to lack of monitoring, poor persuasion and delayed action against the defaulters. There was constant increase in the overdue recoverables resulting in inadequate generation of internal resources. Thus, the Corporation largely failed to achieve its objective of economic upliftment of scheduled castes community of the State. Internal audit was found to be inadequate and internal control systems were deficient in many areas.

Recommendations

- The system of identification of beneficiaries needs to be streamlined.
- The Corporation should take steps to improve its performance in achieving the set targets of disbursement of loans and subsidy instead of parking its funds in fixed deposits.
- Physical verification and post disbursement inspection needs to be carried out meticulously to avoid misutilisation of loan amount.
- The Corporation should ensure timely disbursement of loan/subsidy.
- The Corporation should evolve a system to monitor the benefits derived by the SC community out of the assistance provided to them.
- The recovery mechanism needs to be strengthened to ensure recycling of funds and consequently maximise coverage of beneficiaries.

The above matter was referred to the Government in April 2008; their reply had not been received (September 2008).

Punjab State Electricity Board

3.2 Purchases and Inventory Control

Highlights

Failure of the Board to plan its requirements of material before start of financial year due to delay in finalisation of transmission works list resulted in extra expenditure of Rs. 6.40 crore on procurement of power transformers.

(Paragraph 3.2.9)

The Board failed to safeguard its interest in the Purchase orders in event of default by the suppliers. Absence of risk and purchase clause in purchase orders resulted in extra expenditure of Rs. 3.79 crore to the Board.

(Paragraphs 3.2.12 to 3.2.14)

The Board paid price variation amounting to Rs. 1.20 crore by making payments against firm prices in contravention of terms of purchase orders.

(Paragraphs 3.2.19 & 3.2.20)

Due to placement of orders on lowest bidders for lesser quantity than the offered quantity, the Board incurred extra expenditure of Rs. 1.84 crore.

(Paragraphs 3.2.15 & 3.2.17)

Delayed finalisation of tenders resulted in extra expenditure of Rs.77.66 lakh on account of cost escalation due to increased price variation.

(Paragraph 3.2.11)

The overall inventory increased from Rs. 56.98 crore in 2002-03 to Rs. 143.08 crore in 2006-07. There was absence of scientific inventory management involving fixation of stock and reorder level, handling of non/slow moving items and physical verification of inventories at regular interval.

(Paragraphs 3.2.24, 3.2.30 & 3.2.31)

Ineffective inventory management by the Board resulted in shortage of material valuing Rs. 3.69 crore besides blockage of Rs. 14.97 crore in inventories lying in the stores without any use.

(Paragraphs 3.2.26 to 3.2.31)

Introduction

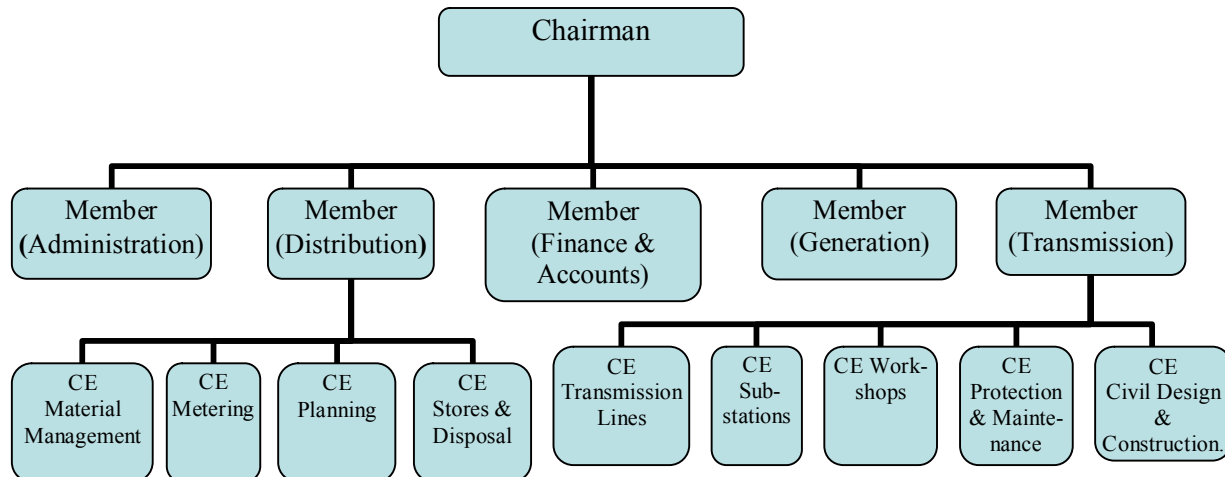
3.2.1 Punjab State Electricity Board (Board) follows centralised system of purchase in respect of major items of materials required for its projects and maintenance. The Board has constituted three Central Purchase Committees (CPCs) headed by Chief Engineers. The functioning of CPCs is as follows:

- Chief Engineer (Material Management) is responsible for procurement of centrally purchased items* as per requirements of Distribution Organisation;
- Chief Engineer (Metering) is responsible for the purchase of energy meters & metering equipments; and
- Chief Engineer, (Workshops) is responsible for the purchase of workshop items.

In addition, two project purchase committees (PPCs) are responsible for procurement of all major transmission equipments for transmission lines and sub stations.

The material procured is stored in 18 stores (12[#] central stores having 23 store outlets and 6^φ construction stores).

The organisational chart of the Board relating to Purchases and Inventory Control is as follows:



Performance of the Board relating to “Purchases (excluding transformers) and inventory control in respect of Operation and Maintenance Organisation” and “Procurement, performance and repair of energy meters” of the Board were last reviewed in the Reports of Comptroller and Auditor General of India for the

* Twenty four items as per Schedule A of Purchase Regulations, 1981.

Bathinda, Ferozepur, Hoshiarpur, Jalandhar, Kotkapura, Ludhiana, Mohali, Pathankot, Patiala, Sangrur, Verka and Malout.

φ Jalandhar, Mandi Gobindgarh, Moga and Verpal (Grid stores), Ablowal and Jamsher (Transmission lines stores).

year 1998-99 (Commercial) and 2002-03 (Commercial)- Government of Punjab, respectively. Both reviews are under discussion with the Committee on Public Undertakings (September 2008).

Scope of Audit

3.2.2 The present performance review conducted during October 2007 to March 2008 covered the matters relating to purchase of materials and inventory control during 2003-08. The records of seven* out of nine Chief Engineers under Member (Transmission) and Member (Distribution) were checked. Out of 18 stores, 11[^] were selected on Simple Random Sampling method for audit scrutiny.

Audit objectives

3.2.3 The audit objectives of the performance review were to ascertain whether:

- requirement of material was assessed on realistic basis keeping in view the stock available, stock in pipeline and plans for works;
- proper tendering procedure was followed and orders were placed on lowest tenderers;
- appropriate procedure existed for the procurement of materials to minimise delay, ensure quality and avoid extra / excess expenditure in procurement;
- various procurement activities were well synchronised and coordinated and there was no blocking of funds;
- payments were released as per terms and conditions of contracts/purchase orders; and
- inventory control system was adequate and effective.

Audit criteria

3.2.4 The following audit criteria were adopted:

- work plan prepared by Planning Department forming basis for assessment of requirement of material;
- purchase regulations and instructions issued from time to time by the Board;
- terms and conditions of purchase orders/contracts/agreements;

* 1.CE/ Material Management (MM) 2.CE/ Transmission Lines (TL) 3.CE/ Sub-stations (SS) 4.CE/ Workshops 5.CE/Metering 6.CE/Planning; and 7.CE/ Stores and Disposal.

[^] Central stores : Bathinda, Jalandhar, Ludhiana, Patiala and Verka; Grid Stores : Jalandhar, Mandi Gobindgarh, Moga and Verpal; Transmission lines stores: Ablowal and Jamsher.

- norms fixed by the Board for holding inventory; and
- procedure prescribed Material Accounting Manual for receipt, issue and verification of stock.

Audit methodology

3.2.5 Audit followed the following mix of audit methodologies:

- scrutiny of agenda and minutes of meetings of Whole Time Members (WTMs) of the Board;
- examination of files regarding tendering and placement of Purchase Orders (POs);
- examination of records relating to execution of POs;
- scrutiny of records relating to payments for procurement of material;
- examination of records relating to receipt and issue of material; and
- scrutiny of physical verification reports.

Audit findings

3.2.6 The audit findings were reported (April 2008) to the Government/Management and discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 19 June 2008. The State Government was represented by Additional Secretary (Power) and the Board was represented by Member (Distribution) and Chief Engineers. The views of the Government/Management have been considered while finalising the performance review.

The audit findings as a result of Performance Review on purchases and inventory control are discussed in the succeeding paragraphs:

Procurement of material

3.2.7 The Board has laid down the system, procedures, rules and regulations for purchase of materials in its Purchase Regulations and the Commercial Accounting System. The purchase of material upto Rupees one crore (revised to Rupees two crore in August 2007) is decided by Central Purchase Committees*/Project Purchase Committees^β. The cases above Rupees one crore (revised to Rupees two crore in August 2007) and above Rupees four crore are decided by WTMs and the full Board, respectively. The respective Chief

* (1) Comprising of Chief Engineer (Material Management), Financial Advisor cum Chief Accounts Officer/Procurement and Chief Purchase Officer.

(2) Chief Engineer (Metering), Financial Advisor cum Chief Accounts Officer/Procurement and Superintending Engineer (Metering).

(3) Chief Engineer (Workshop), Financial Advisor cum Chief Accounts Officer/Procurement and Superintending Engineer (Transformer Repair Workshop).

^β Chief Engineer concerned, Deputy Chief Accounts Officer concerned and Director/SE concerned.

Engineers assess their requirements for materials keeping in view the targets fixed by the Board for release of connections, augmentation of lines/sub-stations and submit indents for their annual requirements to the CPC/PPC which works out the quantities of material to be procured considering availability of funds, stock position and expected deliveries.

Placement of purchase orders

3.2.8 During the last five years ending March 2008, five^φ Chief Engineers had placed 1,705 purchase orders at an aggregated value of Rs. 2,838.62 crore. Audit examined 1,062 purchase orders of the aggregate value of Rs. 2,423.39 crore and the major deficiencies noticed during placement of purchase orders are discussed in succeeding paragraphs:

Incorrect assessment of requirements

3.2.9 Procurement of heavy equipments like power transformers generally takes 8-9 months for their receipt after issue of notice inviting tender (NIT). Therefore, in order to ensure timely delivery of power transformers for execution of planned works, the Board directed (August 2005) its Planning Organisation to assess their requirement for the year 2006-07. Based on a tentative transmission works list for the year 2006-07 collected from Planning Organisation, the Chief Engineer (Sub-stations) invited (August 2005) tenders for procurement of 15 numbers 20 MVA 66/11 KV power transformers. The purchase order was placed (January 2006) on ECE Limited, the lowest tenderer at its quoted variable rate of Rs. 1.13 crore^Σ per transformer. The firm supplied (March 2006 to November 2006) 15 transformers at a total cost of Rs. 21.08 crore (including all). In the meantime, the planning organisation of the Board finalised (May 2006) list of transmission works for the year 2006-07 in which total requirement of 53 power transformers was assessed. After considering the availability of power transformers in pipeline and requirement for replacement of damaged transformers, the Chief Engineer (Sub-Stations) assessed (May 2006) additional requirement of 41 transformers for which a fresh tender enquiry was floated (May 2006). The Board, however, decided (September 2006) to procure only 26 transformers instead of 41 transformers without any recorded reasons. These 26 transformers were also procured from ECE Limited at lowest 'variable' rates of Rs. 1.47 crore per transformer at a total cost of Rs. 44.72 crore.

Failure to finalise the works list before start of financial year resulted in extra expenditure of Rs. 6.40 crore.

Thus, failure of the Planning Organisation of the Board to finalise the transmission works list of 2006-07 before the commencement of year 2006-07 resulted in avoidable extra expenditure of Rs. 6.40* crore on the procurement of 26 power transformers.

The Board admitted (June 2008) that assessment of requirement in August 2005 was not based on the transmission works list for 2006-07 as transmission works

^φ 1.CE(MM) 2.CE(TL) 3.CE/(SS) 4.CE(Workshops) 5.CE(Metering).

^Σ Variable-Ex. works Rs. 1.13 crore + Excise Duty (ED) 16.32 per cent + Central Sales Tax (CST) 4 per cent + Freight and Insurance (F&I) Rs. 2.00 lakh.

*(Rs.1.72 crore – Rs.1.41 crore) x 26 transformer=Rs.8.06 crore less saving in interest of Rs.1.66 crore.

list for 2006-07 was issued in May 2006 and stated that it was not technically possible to issue the transmission works list for a particular financial year in advance. The reply is not tenable as finalisation of list of transmission works after commencement of financial year defeats the very purpose of planning. Further, the Board had never prepared the list of works before the commencement of the financial year. During ARCPSE meeting the Member (Distribution) assured (June 2008) to speed up the planning process.

Delay in finalisation of tenders

3.2.10 A short term tender enquiry for procurement of workshop items was opened on 18 October 2004. The purchase proposal was placed before the CPC three times (January to July 2005). In the absence of necessary concurrence of Member (Distribution), the CPC, however, time and again deferred the decision at the instance of Member (Distribution) for watching performance/supply position of a firm* which was to supply substantial material against the previous POs. After obtaining the concurrence of the Member (Distribution), CPC finally recommended (August 2005) placement of purchase orders for the workshop items on this firm. WTMs issued (September 2005) orders for purchase of the material valuing Rs. 4.16 crore. WTMs while deciding on the purchase of the workshop items had observed that delay in putting the purchase proposal caused financial implication as in the meantime, Value Added Tax (VAT) was made applicable from April 2005. The total extra expenditure incurred due to imposition of VAT worked out to Rs. 16.64 lakh (Four per cent of Rs. 4.16 crore). The WTMs (December 2005) sought explanation from the officers responsible for causing delay. No responsibility was, however, fixed by competent authority against the officers involved in the case.

It was further observed that though the aggregate value of purchase of material exceeded delegated financial authority of Rs. four crore, decision taken by WTMs (August & September 2005) was not got ratified from the Board.

Thus, failure to process the purchase proposal in a timely manner after opening of tenders in October 2004 i.e. before April 2005 (when the VAT was made applicable) resulted in extra expenditure of Rs. 16.64 lakh.

The Board admitted (June 2008) the facts that finalisation of the tenders was delayed due to correspondence between CPC and higher authorities and further stated that ratification of the case from the Board was inadvertently not done and action was being taken.

3.2.11 The Board opened (10 May 2007) a tender enquiry for procurement of 1,250 kms ACSR Panther conductor. As per tender conditions, the tenderers were required to quote 'variable' rates of raw material of aluminum and steel with base date as 1 February 2007. The price adjustment was to be made on the basis of prices prevailing on first working day one month prior to the date of offer of material for inspection. Validity of the offers was for 120 days from the date of opening of tenders. Though the tenders received from 23 firms were opened on 10 May 2007 but Transmission line (TL) Organisation of the Board did not evaluate the tenders within validity (7 September 2007) of offers which was extended up to 31 October 2007. The Board approved (29 October 2007) procurement of ACSR conductor after a delay of 52 days from original validity

* Hi-tech Engineers.

Delay in finalising purchase proposal resulted in extra expenditure of Rs. 16.64 lakh on account of VAT.

of offers (7 September 2007) at the lowest ‘variable’ rate. After obtaining consent of the firms for acceptance of counter offered rates, the TL Organisation placed four^φ orders between December 2007 and January 2008 for supply of 1,175 kms ACSR conductor. Of the total quantity of 1,175 kms conductor, 827.634 kms conductor was received and paid for upto May 2008 and supplies were in progress.

Delayed finalisation of tender resulted in additional liability for cost escalation of Rs. 77.66 lakh.

Thus, the Board had to incur an additional expenditure of Rs. 77.66 lakh in procurement of 827.634 kms conductor towards cost escalation due to delay of 52 days in finalisation of tenders (29 October 2007) from the original validity period (7 September 2007). Cost escalation would further increase when balance supply of 347.366 kms conductor is received.

The Management stated (June 2008) that extra time taken in processing of tenders was due to receipt and evaluation of more offers as compared to previous tender enquiry and works appraisal of four new firms. Reply is not tenable because work appraisal of the new firms had already been carried out by 11 July 2007 i.e., well within initial validity period of 120 days. As in the case of variable prices, extension in initial period of tender validity would involve risk of cost escalation, the Board should have finalised tenders within the initial period of tender validity of 120 days which was sufficient for evaluation of tenders, obtaining necessary approval of Board and placing of orders within that period.

Insufficient safeguards in purchase orders

3.2.12 In order to safeguard the interest of the Board in the event of default by the suppliers in supply of material, sufficient amount of earnest money/security deposit is required to be obtained from the suppliers in addition to inclusion of “risk and purchase clause” in the purchase order. The Purchase Regulations of the Board, however, provide for receipt of earnest money at the rate of two *per cent* of tendered value subject to maximum of Rs. one lakh (enhanced to Rs. 10 lakh from August 2007) along with tenders and also require the successful tenderers to submit security deposit at the rate of two *per cent* of the order value within 30 days from the date of placement of order which is forfeited in case of default. The practice of inserting the “risk and purchase clause” in the purchase orders was discontinued by the Board in June 1995 on the plea of prolonged litigation of the cases with defaulting suppliers and unfavourable decisions in most of such cases. The earnest money/security deposit as revised (August 2007) in the purchase orders were also not sufficient to safeguard interest of the Board in case of default considering the high money value of orders.

In the cases where tenderers had deposited requisite earnest money but failed to deposit security at the rate of two *per cent* of the ordered value, the Board had to incur extra expenditure in subsequent procurement of the material at higher rates which also could not be recovered from the defaulting suppliers in the absence of risk and purchase clause. The cases came to notice are discussed in the following paragraphs:

^φ1. Mahavir Transmission Udyog Limited, New Delhi. 2. Rajasthan Cables and Conductors Pvt. Limited, Jaipur, 3. Venketeshwar Wires Pvt. Limited, Jaipur and 4. Aggarwal Gen. And Engg works Pvt. Limited, Jaipur.

3.2.13 A purchase order for supply of two 12.5 MVA power transformers was placed (August 2004) on Transformers & Rectifiers (India) Limited, Ahmedabad at 'firm' price of Rs. 65.50 lakh per transformer aggregating to Rs. 1.37 crore (including transportation & spares but excluding ED & CST) to be supplied upto March 2005. The firm, however, did not supply the transformers by scheduled delivery date and WTMs decided (July 2005) to cancel the above mentioned PO, forfeit the earnest money deposit (EMD) of Rs. one lakh, encash Bank Guarantee of Rs. 2.73 lakh and to suspend business dealing with the firm for a period of five years. Subsequently, the Board had to purchase (July 2005) two transformers from ECE at a higher rate of Rs. 81.00 lakh per transformer. Since, the purchase order did not contain the "risk and purchase clause", the extra cost incurred on purchase of the transformers could not be recovered from the defaulting supplier.

Extra expenditure of Rs. 27.27 lakh due to not providing proper safeguards in purchase order.

Thus, due to not providing proper safeguards in purchase order, the Board had to incur extra expenditure of Rs. 27.27³ lakh on the purchase of two power transformers.

3.2.14 The Board placed (April 2005) a purchase order for supply of 2,000 distribution transformers of 100 KVA on Victory Electricals Limited, Hyderabad at 'variable' price of Rs. 63,203.40 per transformer at an aggregate value of Rs. 12.64 crore to be supplied upto March 2006. The purchase order issued did not contain the "risk and purchase clause". The firm supplied (March 2006) only eight transformers and failed to supply balance quantity of 1,992 transformers. The firm did not deposit requisite amount of security of Rs. 25.28 lakh. WTMs of the Board decided (August 2006) to cancel the order and forfeit the permanent earnest money deposit (PEMD) of Rs. one lakh of the firm and adjust the amount of Rs. 5.06 lakh payable for the supply of eight transformers towards security and suspend business dealings with the firm for a period of five years.

Non-providing sufficient safeguards in purchase order resulted in extra expenditure of Rs. 3.52 crore and loss of Rs. 19.22 lakh due to non recovery of security deposits.

Subsequently, the Board procured 1,500 transformers by placing additional orders on seven firms at higher 'variable' rate of Rs. 70,678.32 per transformer at a total cost of Rs. 16.27 crore (including price variation). The Board, however, had no legal option regarding recovery of additional expenditure from the defaulting supplier in absence of "risk and purchase clause" in the purchase order of April 2005. Further, due to not obtaining the required security deposit of 2 per cent, the Board was deprived to recover the loss to the extent of Rs. 19.22 lakh.

Thus, due to not providing safeguards in tender conditions/purchase order, the Board had to incur extra expenditure of Rs. 3.52 crore*.

Non placement of orders at lowest rates

3.2.15 Clause 21 of Purchase regulations of the Board provides that no negotiation affecting prices or basic feature of notice inviting tender/Specifications shall be conducted with the tenderers after opening of tenders except under specific orders of the Competent Authority with reasons to be recorded and the negotiations can only be held with lowest tenderer (L-1).

³ Rs. 31,00,000 [(Rs.81 lakh- Rs.65.50lakh) x2] – 3,73,400 (Rs 1,00,000+Rs. 2,73,400).

* Difference between actual purchase price of 1,500 transformers and the cost as per original purchase order of April 2005 after providing the price variation

Further, Central Vigilance Commission (CVC) also prohibited (November 1998) the post tender negotiations except with L-1.

It was observed that the Board floated tenders for procurement of 1,200 MT of Sub-station structure and supporting structures against which four firms submitted their tenders with validity of offer upto 27 January 2004. While considering purchase proposal, WTMs decided (December 2003) to place order for 300 MT (25 per cent) on first lowest (L-1) firm (N. L. Engineers Private Limited) who offered full quantity (1,200 MT) and to call (12 January 2004) all the remaining three firms for negotiations to offer them L-1 rates. No reasons for calling the firms for negotiations were recorded. Without ensuring acceptance of lowest rate by other tenderers, purchase order placed (9 January 2004) on N.L. Engineers was restricted for supply of 300 MT sub-station structure material only at their offered 'variable' rate of Rs. 31,428 per MT. The firm supplied the material during February to July 2004.

The other three firms which were called (12 January 2004) for negotiations by the Committee to supply the material at the rates offered by L-1 firm did not agree. Subsequently, the Chief Engineer (SS) issued (17 January 2004) LOI on N. L. Engineers but the firm refused to accept additional quantity of 900 MT at its earlier offered rates.

On refusal by N. L. Engineers, purchase order was issued (March 2004) on Unique Structures & Towers limited (L-2 firm) for 500 MT at a negotiated 'variable' rate of Rs. 33,666.36 per MT. The firm supplied the quantity (500 MTs) during June 2004 to May 2005 at a total cost of Rs. 2.02 crore (inclusive of price variation). The requirement of remaining quantity of 400 MT was met by procuring (May 2005) material from Unique Structures & Towers limited at the variable rate of Rs.48,990.81 per MT against fresh tender enquiry.

Placement of order on lowest firm for lesser quantity from the offered quantity, resulted in extra expenditure of Rs. 96.87 lakh.

Thus, failure to place purchase order on L-I firm for supply of full tendered quantity of 1,200 MT in the first instance and procurement of material at higher rate from other firm resulted in extra expenditure of Rs. 96.87 lakh (inclusive of price variation).

The Board stated (June 2008) that it was decided to split up the order so as to ensure regular supply of material for on going/emergent works. The reply is not tenable because placement of order on lowest firm for lesser quantity than the offered quantity should have been done only after ensuring supply of the remaining quantity of 900 MT from next lowest tenderers at the lowest rates, which was not done in the instant case. Further, this was in violation of purchase regulations and also instructions of CVC.

3.2.16 The Chief Engineer (Sub-stations) invited tenders for procurement of three and nine 20 MVA, 132/11KV power transformers in September 2003 and February 2004 respectively. In all, four bids were received (19 November 2003) against first tender in which offer of ECE Limited (ECE) was lowest at Rs. 95.15 lakh. The Board decided (February 2004) to place the order for three transformers on ECE subject to stage inspection and short circuit test. The purchase order was placed in March 2004. Against the second tender, the Board approved (March 2004) to short-list only six firms* out of the offers of 14 firms (including ECE) ignoring ECE from shortlisting on account of their

*BHEL, Crompton Greaves Limited, Alstom, BBL, TELK and ABB.

unsatisfactory performance. The tender documents against second enquiry were issued only to the short listed firms and price bids were opened in April 2004.

Audit observed that the lowest quoted rate (Rs.1.84 crore) of BBL (L-1) was 57.9 per cent higher than the updated rate of previous order placed on ECE in March 2004. Though ECE offered (June 2004) to supply additional quantities of transformers at the same rate (with price escalation) of Rs. 1.04 crore per unit quoted in POs placed on them, yet the Board, after negotiations, placed (September 2004) orders for two number of transformers each on BBL, BHEL and ABB at the negotiated all inclusive 'firm' rate of Rs. 1.51 crore per unit.

Audit further observed that on one hand ECE was ignored from short listing of second enquiry on the ground of their unsatisfactory performance and on the other hand, the Board had placed (March 2004) two POs on ECE for procurement of six 12.5 MVA, 132/11 KV power transformers and three 20 MVA, 132/11 KV power transformers at a total price of Rs. 3.40 crore and Rs. 2.38 crore, respectively. These orders were placed in favour of ECE on the basis of stringent pre-bid qualification introduced by the Board i.e. after reviewing the technical and commercial parameters and past performance of the firm. The firm also supplied the material as per time schedule and specifications prescribed in the purchase order. As such, the exclusion of this firm against second tender enquiry was not justified.

Ignoring the lowest firm from short listed firms lead to extra financial burden of Rs. 95.04 lakh.

Had the Board procured minimum of two additional 20 MVA transformers from ECE at its offered rate, the extra expenditure of Rs. 95.04 lakh* in procurement of transformers could have been avoided.

The Management stated (June 2008) that the Board did not choose to procure additional transformers from ECE as there was doubt of satisfactory performance of the transformers to be supplied and the firm was rightly refused the tender documents. The reply is not tenable as the firm was a regular supplier of 132 KV transformers and the transformers of the firm had already passed in their short circuit test. Moreover, the Board had placed (11 March 2004) the purchase order on ECE for procurement of three transformers of same category in first tender enquiry, and on the same day, ECE was ignored from the six firms short listed for the second tender.

3.2.17 In response to a tender enquiry for procurement of 32,000 kms 'Weasel' conductor, the Board received (14 January 2005) 48 bids which were valid upto 12 June 2005. The Board decided (May 2005) to place orders at the lowest 'variable' rate of Rs. 12,998 per km. Without ensuring acceptance of lowest rates by the bidders, the Chief Engineer (MM) placed (June 2005) orders on nine firms for supply of 32,000 Kms conductor at the lowest 'variable' rate of Rs. 12,998 per km. Delivery schedule of the orders stipulated supply of conductor during the period from July 2005 to May 2006 in five equal bi-monthly lots. After placement of the orders, the Board apprehended (July 2005) non-commencement/non-supply of conductor by the firms against whom orders for major quantity were placed and asked other tenderers, in order of merit, to offer conductor at the lowest 'variable' rate of Rs. 12,998 per km. Prem Cable, Jaipur offered (July 2005) to supply 11,000 kms conductor during the period from August to December 2005 at this rate against which the Board placed

* 2 X 47.52 lakh (Rs. 151.39 lakh – Rs. 103.87 lakh).

(July 2005) order only for 9,000 kms conductor on the firm. The firm supplied (July 2005 – January 2006) 8,827.890 kms at the offered rates which finally worked out to Rs. 13,611.90 per km.

Subsequently, Super Tech Forging Limited, Jalandhar, a Punjab based firm on whom order for supply of 6,000 kms conductor was placed (June 2005) and was required to commence supply by 13 July 2005 did not commence supply but offered (December 2005) to supply 7,500 kms (including additional quantity of 1,500 kms) conductor at lowest ‘variable’ rate of Rs. 12,998 per KM. in five equal monthly lots from the date of issuance of revised order provided full price variation was made according to amended schedule. The Board accepted the offer and placed (January 2006) a revised order at enhanced ordered quantity of 7,500 kms conductor and amended the delivery schedule as desired by the firm. Against this amended purchase order, the firm supplied 7,644.535 kms conductor (including 1,644.535 kms conductor received in July 2006) at ‘variable’ rate of Rs. 12,998 which after escalation finally worked out to Rs. 18,888.43 per km.

Had the Board placed (July 2005) the order on Prem Cable, Jaipur for entire quantity of 11,000 kms for which valid offer was available, additional 1,644.535 kms conductor could have been procured at Rs. 13,611.90 per km avoiding extra expenditure of Rs. 86.77^f lakh.

Placement of order for a lesser quantity than the offered quantity at lowest rate, resulted in extra expenditure of Rs. 86.77 lakh.

The Board stated (June 2008) that quantity placed on Prem Cables was based strictly on factual position/requirement of conductor at that stage and prior anticipation of timely delivery by any suitable firm alongwith anticipation of increase/decrease of raw material rates is not feasible. Reply is not tenable because the Board itself had apprehended (July 2005) non-supply of total 20,500 kms of conductor by four suppliers on whom orders were placed. As prices were variable, placement of order for lesser quantity than the tendered quantity on Prem Cables involved risk of cost escalation. It was in the interest of the Board to place order for the full tendered quantity so as to avoid price escalation in subsequent purchase of the conductor.

3.2.18 Out of eight firms who participated in tenders opened (April 2007) for procurement of 1,800 KL[•] transformer oil, Savita Chemicals Limited, Mumbai (L-1) offered to supply the entire quantity at Rs.42,850.96 (inclusive of taxes and freight) per KL. Rates were ‘firm’ for delivery up to 30 November 2007 and variable with base date 1 October 2007 for deliveries after 30 November 2007. Columbia Petro Chemicals Private Limited, Mumbai (L-2) offered to supply 1,800 KL oil at ‘variable’ rate of Rs.45,486.08 (inclusive of taxes and freight) per KL with price variation ceiling of plus 10 *per cent*^{*} with base date 1 January 2007.

Audit noticed that without seeking consent of the firms, the CPC (MM) recommended (7 September 2007) that in view of falling trend in prices of oil, order should be placed on equivalent[♦] rate of Columbia Petro Chemicals which worked out to Rs.41,187.97 (inclusive of taxes and freight) per KL with base

^f1,644.535 kms (Rs. 18,888.43-Rs. 13,611.90).

[•] Kilo litre.

^{*} It represents maximum price variation ceiling of 10 *per cent* on variable rate of Rs. 45,486.08.

[♦] Updated rate for price variation upto 1 July 2007.

date 1 July 2007 with a maximum price ceiling of firm price of Rs.42,850.96 per KL quoted by Savita Chemicals Limited. On the recommendation of the CPC, the Board decided (29 October 2007) to procure 900 KL each from Savita Chemicals Limited and Columbia Petro Chemicals at 'variable' rate of Rs.41,187.97 with base date 1 July 2007 subject to maximum ceiling of Rs.42,850.96 per KL. Accordingly, the Board issued (30 October 2007) letters of intent (LOI)/letter of acceptance (LOA) to both the tenderers. Savita Chemicals refused (31 October 2007) to accept the counter offered rates. Columbia Petro Chemicals did not accept the LOI stating that rate offered by the Board was not as per their offered prices as they had given price variation ceiling of plus 10 *per cent* with base date 1 January 2007 whereas Board was giving maximum price variation ceiling of Rs. 42,850.96 per KL.

Subsequently, Board decided (January 2008) to procure 900 KL oil from Apar Industries, Mumbai against another enquiry opened in December 2007 and accordingly issued purchase order on 5 February 2008 for supply of 900 KL oil at higher rate of Rs. 46,762.40 per KL.

Placement of order on lowest firm in deviation of its original offer resulted in extra expenditure of Rs. 48.62 lakh.

Audit observed that equivalent variable rate of Columbia Petro Chemicals with base date 1 January 2007 updated upto 1 November 2007 worked out to Rs. 41,359.90 (inclusive of taxes and freight) per KL against the 'variable' rate of Rs. 46,762.40 allowed against subsequent tender enquiry . Thus, due to non-placement of order on Columbia Petro Chemicals as per their offered prices, the Board had to incur an extra expenditure of Rs.48.62 lakh*.

The Management stated (March 2008) that due to downward trend in prices, offer of Columbia Petro Chemicals became lowest but ceiling of firm rates of Savita Chemicals Limited of Rs. 42,850.96 was imposed so as to avoid higher payment. The reply is not tenable because before placement of the order, the Board should have sought consent of the firm for the counter offer made by it regarding ceiling on price variation.

Execution of purchase orders

Undue favour to firms in purchase of cables

3.2.19 The Chief Engineer (MM) placed (May to December 2005) 19 purchase orders on 13 firms for supply of Single Core/Multi core L.T. XLPE cable and Twin Core PVC cables on 'firm' prices. While some quantity of cables was pending to be supplied by the firms as per Contractual Delivery Period (CDP) the representatives of 10 firms expressed (23 December 2005) their difficulties in supplying cables at 'firm' prices due to extraordinary increase in Aluminum prices. After examining the requests of the firms, CE (MM) recommended (January 2006) that major percentage increase in prices be borne by the firms. The Board, however, contrary to the recommendations of CE (MM), decided (January 2006) that the firms shall absorb escalation in the aluminum rates to the extent of five *per cent* and the balance aluminum price escalation shall be borne by the Board.

Out of 19 purchase orders, price variation (PV) in respect of 15 orders amounting to Rs. 1.04 crore was paid. It was, however, observed that against

* 900 KL x (Rs.46,762.40 –Rs.41,359.90).

remaining four purchase orders, no price variation was paid for the supply of material valuing Rs. 37.34 lakh effected after December 2005.

It was also observed in audit that against other purchase orders issued (July 2005), five major suppliers supplied similar material after December 2005 at their quoted firm price without claiming any price escalation.

3.2.20 Similarly, Chief Engineer (Workshops) entered into annual rate contract valid upto December 2005 for procurement of Super Enameled (SE) aluminum wire, double paper covered (DPC) wire with eight firms at 'firm' rates. Upto November 2005 the firms had been supplying the material at 'firm' rates but due to abnormal increase in aluminum rod prices the firms expressed (23 January 2006) their inability to supply the balance material. By taking into account balance supplies the additional financial liability was worked out to Rs. 17.52 lakh*. The Board constituted a negotiation committee which decided (March 2006) that supplier shall absorb 50 per cent price variations. As a result the Board had to pay an extra amount Rs 15.92 lakh on account of PV against the 'firm' rates.

Extra
expenditure of
Rs. 1.20 crore
due to payment
of price
variation
against the
firm price.

Audit observed that decision of the Board in allowing 'variable' rates in excess of five per cent (Para 3.2.19 *supra*) in aluminum rates in one case and 50 per cent in another case was not only in contravention of provision of the contract but amounted to extension of undue favour to the contractors particularly when other four firms supplied the material at the 'firm' prices. Moreover, the firms were contractually liable to supply the material at 'firm' prices and in case of decrease in price of raw material the suppliers would not have passed on the benefit of price reduction to the Board. Thus, allowing price variation against Firm prices resulted in extra expenditure to the extent of Rs. 1.20 crore.

The Management stated (August 2007) that in case the supplies had not been received against POs where variation was allowed the same quantities would have to be procured at higher rates received against subsequent tender enquiries. Reply is not tenable because as per contract entered into, notice was to be given by the Board to the suppliers to execute the contract at agreed rates and in case of failure, the suppliers were liable to be black listed apart from forfeiture of security. The Board's reply regarding procurement of material at higher rates was presumptive and erroneous only as the Board rejected (June 2006) the price variation in another similar case and the firms supplied the material at originally agreed rates.

Overpayment to firm

3.2.21 In response to a tender enquiry opened (August 2005) for procurement of V- shape X arms, Global Engineers, Jammu (the firm) quoted unit price of Rs. 294 (inclusive of ED at the rate of 16.32 per cent) against which the Chief Engineer (Workshops) placed (2 February 2006) a purchase order on the firm for the supply of 40,000 V shape X-arms at the lowest counter rate of Rs.288.45 (inclusive of ED and CST). As per terms and conditions of payment of PO, the firm was to certify that the transaction on which ED was claimed has been/shall be included in the return and the amount claimed from the Board has been/shall be paid to the Central Excise authorities. After the issue of PO, the firm intimated (4 February 2006) that the ED and CST were not applicable to it and

* Considering 50 per cent of price variation to be borne by the Board.

requested the Chief Engineer to amend the price clause. Accordingly, PO was amended (28 February 2006) thereby deleting the clause regarding CST/VAT and mentioning that the offered prices are “FIRM, FOR destination” inclusive of ED etc.

Audit observed that Global Engineers supplied (April 2006 to August 2006) 39,965 against ordered quantity of 40,000 V-shape X- arms. The Board released net payment of Rs. 1.13 crore (including payment of ED of Rs. 15.89 lakh) although the firm was not paying any ED. This resulted in overpayment of Rs. 15.89 lakh to the firm.

The Board stated (June 2008) that while making payment in case of ‘firm’ rates, no change in rates are made as and when there is any change in Excise duty, CST, VAT etc. and payment to the firm was made strictly according to the price clause of the PO. The reply is not tenable as while issuing amendment after receipt of representation of the firm, the Board should have amended the order clarifying that Payment of ED will be made only if the firm actually paid the same to the Excise authorities. Moreover, ED is a statutory levy and is payable only when the supplier actually pays it.

3.2.22 The material being purchased by the Board required for use in generation and distribution of electricity was exempted from the payment of Punjab Sales Tax. However, this exemption was withdrawn and VAT became applicable to Punjab based firms on material purchased by the Board from 1 April 2005 onwards. The Board decided (19 May 2005) that in view of imposition of VAT from 1 April 2005, Punjab based firms whose delivery period has not expired, shall be paid VAT by the Board and in the cases where delivery period has expired, the firms shall have to absorb VAT liability against pending orders.

Audit observed that against nine purchase orders placed on Punjab based firms during March 2004 to July 2004 for purchase of various items, though the firms had supplied material during 1 April 2005 to 24 May 2007 i.e. after expiry of their scheduled delivery dates, the Board allowed VAT of Rs.13.17 lakh on delayed supplies of material which was not justified because the Board was not liable to pay VAT had the firms supplied material within delivery schedule upto 31 March 2005.

The Management, while admitting the facts, intimated (June 2008) about recovery of Rs. 1.94 lakh already effected against one case and has assured to recover the balance amount as well. Responsibility for overpayments, however, has not been fixed so far.

3.2.23 The Board placed (December 2006 to June 2007) orders on 17 firms for supply of 23,600 kms of conductor (final product) at ‘variable’ rates ranging between Rs. 16,710.49 and Rs. 56,016.25 per km. Base price of input material (i.e. Aluminium and Steel) included 4 *per cent* CST. Price adjustment was to be made on the basis of price of raw material prevailing one month prior to the date of offer of material for inspection.

Price adjustment allowed without considering reduction in rate of CST resulted in non claiming benefit of Rs. 35.47 lakh by the Board.

Audit observed that though CST on input raw material was applicable at the reduced rate of 3 *per cent* from 1 April 2007 yet price adjustment in respect of 14,658.576 kms conductor offered between May 2007 to November 2007 for inspection was not made by considering the reduced CST rates thereby resulting in over payment of Rs.35.47 lakh.

The Management stated (June 2008) that CST at reduced rates of 3 *per cent* have been paid while updating the price variation rate. Reply is not factually correct as the benefit of reduction in CST on input material in respect of 14,658.576 kms of final product (conductor) was not passed on to the Board by way of adjustment in the price of conductor. Further, it was observed in audit that in similar cases of orders placed for procurement of conductor required for transmission system, the Board had availed the benefit of reduction in rates of CST and there was no uniformity in this regard.

During ARCPSE meeting, it was assured that the Management would effect recoveries after due verification.

Inventory control

3.2.24 In order to ensure uniform flow of materials of requisite quantity at the appropriate time with the minimum storage cost, various inventory levels *viz.* minimum, maximum and re-ordering level are essential to be fixed. The Board, however, has not fixed any minimum, maximum, ordering/reordering level etc. for an effective inventory control system at its Central Stores/Construction Stores. Requirement for material is being assessed by the Board keeping in view the targets fixed by the Board for transmission and distribution works. The table given below shows the position of inventory requirement *vis a vis* actual inventory thereagainst during the last five years ending March 2008:

(Rupees in crore)

Sl. No.	Organisation	2002-03		2003-04		2004-05		2005-06		2006-07	
		Pro-jected	Actual	Pro-jected	Actual	Pro-jected	Actual	Pro-jected	Actual	Pro-jected	Actual
1	CE/Transmission Lines	11.00	10.54	11.00	12.29	N.A*	15.13	13.00	14.59	15.00	18.59
2	CE/Sub-station	12.00	11.88	12.00	14.97	N.A.	13.34	14.00	14.31	15.00	21.38
3	CE/Stores & Disposal	25.00	16.15	25.00	33.82	N.A.	43.95	35.00	67.16	40.00	83.04
4	CE/Workshops	2.55	1.83	2.50	2.16	N.A	4.25	3.00	4.33	4.50	8.44
5	CE/Metering Meters	6.00	15.17	6.00	4.20	N.A	19.28	21.00	15.14	20.00	10.99
	Spares	1.50	1.41	1.50	1.62	N.A	2.92	2.50	0.66	1.00	0.64
	Total	58.05	56.98	58.00	69.06		98.87	88.50	116.19	95.50	143.08

(Figures for the year 2007-08 are not available.)

From the above table it can be seen that overall inventory increased from Rs. 56.98 crore in 2002-03 to Rs. 143.08 crore in 2006-07. The holding of inventory in excess of projected targets resulted in blockage of scarce funds of the Board.

*Not available.

Stores Management

3.2.25 The material purchased by CE (MM), CE (Sub-Station) and CE (TL) is delivered in various central stores and construction stores from where material is issued to various works of construction and for maintenance. Efficient store management requires issue of material without delay after its receipt and ensuring safety and security of stores material at all times.

A test check of the stores management revealed the following deficiencies:

Blockage of funds

3.2.26 A 100 MVA auto power transformer installed at 220 KV Sub-station Jalandhar under the control of Bhakra Beas Management Board (BBMB) was damaged on 12 July 2004. BBMB intimated (22 July 2004) that the transformer would be replaced only at the cost of the Board. Accordingly, WTM of the Board decided (23 August 2004) to procure this 100 MVA auto power transformer and placed (11 October 2004) a purchase order on ABB Limited with scheduled date of delivery within 12 months (September 2005). In the meantime, considering urgency of the work, BBMB procured (April 2005) the power transformer from Rajasthan Vidyut Prasaran Nigam. The power transformer ordered in October 2004 was also received in December 2005 at a cost of Rs. 3.71 crore. This transformer is still lying uninstalled though its 30 months warranty period has expired in June 2008. The failure of the Board to make arrangement for utilisation of the costly transformer by diversion or installation resulted in blockage of Rs. 3.71 crore (including ED, CST, Spares etc.) for 30 months and interest loss of Rs. 83.48 lakh² thereon apart from deterioration in the quality of the equipment and lapse of warranty period.

The Board stated (June 2008) that BBMB had replaced its damaged transformer by making its own arrangement, therefore, the transformer is kept as spare for emergency use and the spare transformer is likely to be commissioned at Goraya in future. The reply is not tenable as lack of coordination with BBMB led to avoidable procurement of transformer. Further, the Board had not been able to utilise the transformer even after 30 months of its receipt.

3.2.27 In order to give relief to over loaded 220 KV Grid Sub Station, Dhuri, the Board planned (2006-07) to augment the capacity of the sub station by installing one additional 100 MVA, 220/66 KV power transformer. Power transformer procured for this purpose at a cost of Rs. 5.39 crore received at site in January 2007 could be commissioned only in June 2008 due to non inclusion of the work in the list of works planned during 2007-08. Thus, defective planning led to blockage of funds of Rs. 5.39 crore for 16 months resulting in loss of interest of Rs. 64.62 lakh.

3.2.28 Similarly, a purchase order was placed (August 2005) on ABB Limited for supply of five 50 MVA, 132/66-33KV power transformers at the rate of Rs.3.44 crore per transformer. These transformers were received during October-December 2006. Four of these transformers were put to use immediately but one transformer received in December 2006 could be put to use only in March

Procurement of power transformer without ensuring its requirement resulted in blockage of Rs. 3.71 crore and interest loss of Rs. 83.48 lakh thereon.

Non-installation of a power transformer resulted in blockage of Rs. 5.39 crore and loss of interest of Rs. 64.62 lakh.

² Calculated at the rate of 9 per cent p.a. for the period January 2006 to June 2008.

2008 after a delay of 14 months, thereby, resulting in blockage of Rs. 3.44 crore and interest loss of Rs. 36.14 lakh thereon.

3.2.29 A scrutiny of inventory position of Grid Store, Jalandhar revealed that 12 bus couplers were received in the store during January to May 2006 out of which only one coupler was issued (January 2007) and remaining 11 bus couplers valuing Rs.55.72 lakh were lying in the store without any use resulting in blockage of Rs. 55.72 lakh.

Material valuing Rs. 1.01 crore procured during 2004-06 was lying in stores without any use.

Similarly, 33 KV PTs (66 nos.) valuing Rs. 9.81 lakh and 33 KV Capacitor banks (4 nos.) valuing Rs. 35.56 lakh received in Grid store, Mandi Gobindgarh in March 2004 and April 2005, respectively were lying unutilised since their receipt and chances of their utilisation in future were also remote. Thus, procurement of material without any requirement resulted in blockage of funds of Rs. 1.01 crore with consequential loss of interest of Rs. 23.97 lakh thereon.

The Management stated (June 2008) that all the bus couplers lying at Jalandhar stood allocated to various offices for utilisation, whole quantity of 33 KV capacitor banks (4 Nos) and 33 KV PTs (66 Nos) lying at Grid Store Mandi Gobindgarh were awaiting/ allocation to end users. The fact remains that the utilisation of the material is awaited.

Non-moving, slow moving and obsolete items of stores

3.2.30 The Board has not made any age-wise analysis of inventory. Effective control is required to be exercised over the slow moving/ non-moving items by either uplining these items or identifying these items for disposal, if not required in future.

Slow moving items valuing Rs. 1.42 crore were lying in stores.

Scrutiny of bin cards maintained in the six^H stores of the Board revealed that store items having value of Rs 1.42 crore were lying unused for the period ranging between June 1981 to March 2002. Out of these, items valuing Rs. 1.18 crore were lying in Grid Store, Jamsher since 2002-03 and were never issued since their receipt. With the passage of time the chances of these items becoming obsolete could not be ruled out.

The Board stated (June 2008) that the said material was purchased by the CE (MM) for Stores and Transport Organisation and the matter has been taken up with field offices to get the items issued as per their requirements at the earliest. The facts, however, remain that the stores are still lying unutilised.

Shortage of material detected during stock verification

3.2.31 Material Accounting Manual of the Board provides for random check of store items, weekly by officer incharge (SDO) of the store, bi-monthly by Divisional officer and physical verification of all the store items by stock verifier at least once in a year. The shortage/ discrepancies noticed during physical verification were to be reported to higher authorities by the verifier on very next day through stock verification reports. The instructions further provide that the shortages were to be investigated within one month by the

^H Central stores: Ludhiana and Patiala, Grid stores : Mandi Gobindgarh and Verpal , Transmission lines stores : Ablowal and Jamsher.

circle office concerned indicating the causes of shortages, the person held responsible for the same, decision regarding recovery/ write off of shortage and remedial measure to be taken for minimising the incidence of shortages.

Audit noticed that physical verification of stores is not being conducted regularly by Board authorities. This involves risk of shortages going unnoticed and pilferage.

No responsibility has been fixed for shortage of material valuing Rs. 3.69 crore detected during stock verification.

During the course of stock verification (5-9 July 2007) of Transformer Repair Yard (TRY) Doraha under the control of Central Store, Ludhiana, the stock verifier detected a shortage of 11,540 litres of transformer oil valuing Rs. 3.59 lakh and 8,463 Kgs LT/HT coil scrap valuing Rs. 8.89 lakh. The Stock verifier also noticed (26 February 2008) that 775 transformers (costing Rs. 3.57 crore) of different capacity were short/missing.

Audit observed that though the Junior Engineer / Incharge TRY Doraha retired on 31 October 2007, neither any charge sheet has been issued nor the reconciliation of physical balance of inventory with stock cards has been done so far (March 2008).

The Board stated (June 2008) that show-cause notices were issued (February 2008) to three officers/officials for shortage of 11,540 litres of transformer oil and 8,463 kgs of LT/HT coil scrap. Final action for recovery of shortage is still awaited. Further, against the reported shortage of 775 transformers, the Board confirmed the shortage to the extent of 458 transformers evaluation of cost of which is stated to be under process.

Conclusion

The performance of the Board with regard to purchases and inventory control was sub optimal as system of procurement lacked efficient and scientific material management in assessment of requirement and utilisation of material. The Board incurred extra expenditure in procurement of material due to incorrect assessment of requirement, non placement of orders at lowest acceptable tendered rates, delay in finalisation of tenders leading to increase in prices, undue benefit to suppliers, payment of price escalation and statutory levies in contravention of the terms of orders. Further, scientific inventory management involving fixation of stock and re-order levels, handling of non/slow moving items and physical verification of inventories at regular intervals were not in existence.

Recommendations

The Board should:

- **evolve a system for proper assessment of requirements of material with a view to plan adequately for future operations;**
- **strengthen the system for timely finalisation of tenders to avoid cost escalation;**

- **strengthen the system of compliance with terms and conditions of purchase orders; and**
- **ensure physical verification of inventories regularly.**

The above matter was referred to Government in April 2008; their reply had not been received (September 2008).