Report of the

Comptroller and Auditor General of India

on

Public Sector Undertakings

(Social, General and Economic Sectors)

for the year ended 31 March 2015

Government of Punjab

Report No.2 of the year 2015

TABLE OF CONTENTS

Annexures

PREFACE

This report deals with the results of audit of Government companies and Statutory corporations for the year ended 31 March 2015.

The accounts of Government companies (including companies deemed to be government companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of the Companies Act enacted from time to time. The accounts certified by the Statutory auditors (Chartered Accountants) appointed by the Comptroller and Auditor General are subject to supplementary audit by officers of the CAG and CAG gives his comments or supplements the reports of the Statutory auditors. In addition, these companies are also subject to test audit by the CAG.

Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG for laying before State Legislature under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

In respect of two Statutory corporations, PEPSU Road Transport Corporation and Punjab Scheduled Castes Land Development & Finance Corporation, the CAG is the sole Auditor.

The instances mentioned in this Report are those which came to notice in the course of test audit for the period 2014-15 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; matters relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

Overview

This Report contains 18 paragraphs and two performance audits i.e. ‘Procurement, Storage and Custom Milling of Paddy’ and ‘Purchase and Inventory Control’ involving amount to the extent of ₹ 844.86 crore due to non-compliance with rules, directives and procedures; non safeguarding their financial interests; defective/ deficient planning and inadequate/ deficient monitoring etc. Some of the major findings are mentioned below:

1. About the State Public Sector Undertakings

Investments in PSUs

As on 31 March 2015, the investment (capital and long-term loans) in 54 PSUs was ₹ 22536.71 crore consisting of ₹ 7,939.64 crore as capital and ₹ 14597.07 crore as long term loans. The total investment has grown by 57.15 *per cent* from ₹ 14341.28 crore in 2010-11 to ₹ 22536.71 crore in 2014-15. The thrust of investment in the State was mainly in power sector. The Government contributed ₹ 3,099.42 crore towards equity/ loans and grants/ subsidies during 2014-15.

(Paragraphs 1.6 to 1.8)

Performance of PSUs

During the period from October 2014 to September 2015, 32 accounts were received in respect of 24 working Companies. Of these 11 accounts reflected profit of ₹ 683.07 crore and 15 accounts reflected loss of ₹ 863.64 crore. Three accounts were prepared on ‘no profit no loss’ basis and for three accounts in respect of two PSUs profit and loss account were not prepared. One working PSU has not prepared its first accounts. The major contributors to profit were PSUs viz. PSPCL (₹ 249.31 crore), Punjab State Transmission Corporation Limited (PSTCL) (₹ 380.52 crore) Punjab Financial Corporation (PFC) (₹ 30.26 crore), Punjab State Container and Warehousing Corporation Limited (₹ 16.74 crore), Punjab Small Industries and Exports Corporation Limited (₹ 6.79 crore) and Punjab State Forest Development Corporation Limited (₹ 3.11 crore). Heavy losses were incurred by Punjab State Grains Procurement Corporation Limited (₹ 491.17 crore), Punjab State Warehousing Corporation (PSWC) (₹ 277.04 crore), Punjab State Industrial Development Corporation Limited (PSIDC) (₹ 42.35 crore) and PEPSU Road Transport Corporation (PRTC) (₹ 11.11 crore).

(Paragraph 1.16)

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 32 accounts in respect of 24 working companies, forwarded to Audit during the period 1 October 2014 to 30 September 2015, the statutory auditors had given unqualified certificates for 14 accounts, qualified certificates for 16 accounts, adverse certificates (which mean that accounts do not reflect a true and fair position) for two accounts. Two accounts of Statutory corporations (PFC and PSWC) received qualified certificates.

(Paragraphs 1.21 and 1.22)

Arrears in accounts and winding up

25 working PSUs had arrears of 38 accounts as on 30 September 2015.

(Paragraph 1.10)

2. Performance audit of Government Companies

Performance audit of 'Procurement, Storage and Custom Milling of Paddy' in Punjab Agro Foodgrains Corporation Limited and 'Purchase and Inventory Control' in Punjab State Power Corporation Limited (PSPCL) was conducted. Important Audit findings are as under:

Procurement, Storage and Custom Milling of Paddy in Punjab Agro Foodgrains Corporation Limited

Company did not consider the desirability to fix the transportation rate on per quintal per km basis to bring uniformity which resulted in extra burden of ₹ 4.03 crore on the Company during 2010-14.

(Paragraph 2.1.8.2)

Expenditure amounting to ₹ 20.71 crore on transportation of paddy to rice mills within 8 kms was not recovered from the millers though these were inbuilt in the milling charges.

(***Paragraph 2.1.8.3)***

Against the weighted average period of two months allowed by GoI for milling of paddy, the State Government without compensating the Company allowed excess milling period in the CMPs resulting in loss of interest of ₹ 188.87 crore during crop years 2010-14.

(Paragraph 2.1.9.1)

An amount of ₹ 143.11 crore was recoverable from the millers on account of short delivered/ misappropriated rice, cost of gunnies and other recoveries.

(Paragraph 2.1.9.2)

The Company neither preferred reimbursement of ₹ 13.07 crore, the remaining cost of bags from FCI as per the guidelines nor took up the matter with GoI for finalisation of rates for once used gunny bags.

(Paragraph 2.1.10.3)

Purchase and Inventory Control in Punjab State Power Corporation Limited

Purchase of transformers in excess of requirement valuing ₹ 15.46 crore and excess stock of cables without required accessories worth ₹ 3.81 crore were noticed.

(Paragraphs 2.2.7 a and 2.2.7 b)

Inefficient tendering process resulting in failure to place purchase order within the original validity period resulted in extra expenditure of ₹ 16.58 crore.

(Paragraph 2.2.8.1)

Material valuing ₹ 5.45 crore remained un-utilised even after five years of the corporatisation of the two Companies (PSPCL and PSTCL), due to non-finalisation of modalities.

(Paragraph 2.2.9.2)

No MIS mechanism had been evolved to ensure timely rendering of material at site accounts and finalisation thereof within the stipulated period. Accounts of 4788 works, involving material worth ₹ 103.05 crore, had not been finalised.

(Paragraph 2.2.10.1)

Company had neither framed its own internal audit manual nor updated the internal audit manual of the erstwhile Board, which it had adopted, to match with the size and nature of its business.

(Paragraph 2.2.10.5)

3. Transaction audit observations

Gist of important audit observations is given below:

Punjab State Power Corporation Limited, Punjab State Transmission Corporation Limited and Government of Punjab

- While unbundling the erstwhile Punjab State Electricity Board, Government of Punjab placed a financial burden of ₹ 25097.64 crore on the two successor entities – PSPCL and PSTCL - by passing unfunded liabilities to them. The State Government sought to refurbish their balance sheets by (i) inflating its equity capital in the two entities by ₹ 3741.34 crore by reflecting consumer contributions and grants and subsidies as equity capital and (ii) including revalued land assets of ₹ 4874.41 crore whose ownership was not vested in the two successor entities.

(Paragraph 3.1)

Punjab State Power Corporation Limited

- After accounting for the impact of Auditors' qualifications, the Company incurred huge loss during 2010-13. It had a long-term debt of ₹ 15953.88 crore at the end of 2013-14. Non transfer of correct balances of assets and liabilities, incorrect accountal of loss and failure to limit expenditures within the fixed norms resulted in Company contracting loans much above the investment plan loans and working capital loans approved by the PSERC. It incurred heavy finance and interest cost of ₹ 1914.52 crore and avoidable payment of penal interest of ₹ 20.86 crore which affected the fund position. Failure to implement measures suggested by the Regulatory Commission resulted in non-recovery of ₹ 4373.64 crore.

(Paragraph 3.2)

- Failure to get the bank guarantee renewed timely resulted in the Company extending undue benefit of ₹ 20.09 crore to a firm.

(Paragraph 3.3)

- Company shut down its own thermal plants and purchased short term power at higher rates resulting in an avoidable expenditure of ₹5.73 crore.

(Paragraph 3.6)

Punjab State Bus Stand Management Company Limited

- Concessionaires were allowed longer concession period which enabled them to earn higher than reasonable return of 16 *per cent*, determined by PIDB. A concessionaire was given undue benefit of ₹ 28.26 crore, by not reducing the concession period for failure to develop infrastructure facilities and passengers' amenities as per the concession agreements.

(Paragraph 3.7)

Pepsu Road Transport Corporation

- Despite huge financial support from the State Government, the Corporation was unable to discharge even its committed liabilities. Weak fund management resulted in revenue loss of ₹ 6.87 crore and loss of interest of ₹ 11.30 crore.

(Paragraph 3.9)

Punjab State Civil Supplies Corporation Limited, Punjab Agro Foodgrains Corporation Limited, Punjab State Warehousing Corporation Limited and Punjab State Grains Procurement Corporation Limited

- The State Procurement Agencies (SPA) had accumulated losses of ₹3268.77 crore by 2013-14 and were showing ₹16356.33 crore as recoverable, of which ₹11385.18 crore had been qualified as doubtful. There was a mismatch of ₹21562.82 crore between outstanding CC limit and stock of foodgrains held by these Agencies. The SPAs were financing their losses and nonoperational expenditure from cash credit limits. Inefficiencies in milling operations, non recovery of costs from millers, delayed/ non raising of claims on FCI/ millers, failure to enforce terms of contracts, damages to stocks, etc. contributed to deteriorating financial health.

(Paragraph 3.12)

- Filling of 35 kg of paddy in a 50 kg bag against the GoI norm of 37.5 kg paddy per 50 kg bag resulted into excess consumption of gunny bags and extra cost of ₹ 125.49 crore to the SPAs.

(Paragraph 3.13)

Punjab Agri Export Corporation Limited

- Purchase of onions without considering the commercial and safety angle of the operation caused a loss of ₹ 2.79 crore.

(Paragraph 3.14)

Chapter-1
Functioning of State Public Sector Undertakings

Chapter-1

Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2015, there were 54 PSUs. Of these, one company[1] was listed on the stock exchange(s). During the year 2014-15, one PSU[2] was incorporated whereas no PSU was closed down. One PSU viz., Punjab Thermal Generation Limited was incorporated during 2013-14[3]. The details of the State PSUs in Punjab as on 31 March 2015 are given below.

Table 1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs[4]	Total
Government Companies	27	23	50
Statutory Corporations	4	-	4
Total	**31**	**23**	**54**

The working PSUs registered a turnover of ₹ 52,733.04 crore as per their latest finalised accounts as of 30 September 2015. This turnover was equal to 15.07 *per cent* of State Gross Domestic Product (GDP) for 2014-15. The working PSUs incurred loss of ₹ 5,747.15 crore as per their latest finalised accounts as of 30 September 2015. They had 53380 employees as at the end of March 2015.

Accountability framework

1.2 Audit of Government companies is governed by Section 143 (6) of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, a Government company is the one in which not less than 51 *per cent* of the paid up capital is held by Government(s) and includes a subsidiary of a Government company. Further, as per Section 139 (5) of the Act, any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is also subject to audit by the Comptroller and Auditor General of India (CAG). Further, CAG if considers necessary, he may, by an order, cause test audit to be conducted of the accounts of such companies under sub-section (7) and provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to such test audit. Audit of the

[1] Punjab Communications limited
[2] Greater Mohali City Bus Services limited
[3] Intimation for incorporation of the Company was received during 2014-15.
[4] Non-working PSUs are those which have ceased to carry on their operations.

financial statements in respect of the financial years that commenced earlier than 01 April 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

1.3 The financial statements of the Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Companies Act, 2013. These financial statements are also subject to supplementary audit conducted by CAG within sixty days from the date of receipt of the audit report under sub-section (5) as per the provisions of Section 143 (6) of the Companies Act, 2013.

Audit of Statutory corporations is governed by their respective legislations. Out of four statutory corporations, CAG is the sole auditor for the Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation. In respect of Punjab State Warehousing Corporation and Punjab Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG in respect of State Government companies, and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature within three months of their finalisation or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Punjab

1.5 The State Government has huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans**- In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.

- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.

- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

1.6 As on 31 March 2015, the investment (capital and long-term loans) in 54 PSUs was ₹ 22536.71 crore as per details given below.

Table 1.2: Total investment in PSUs

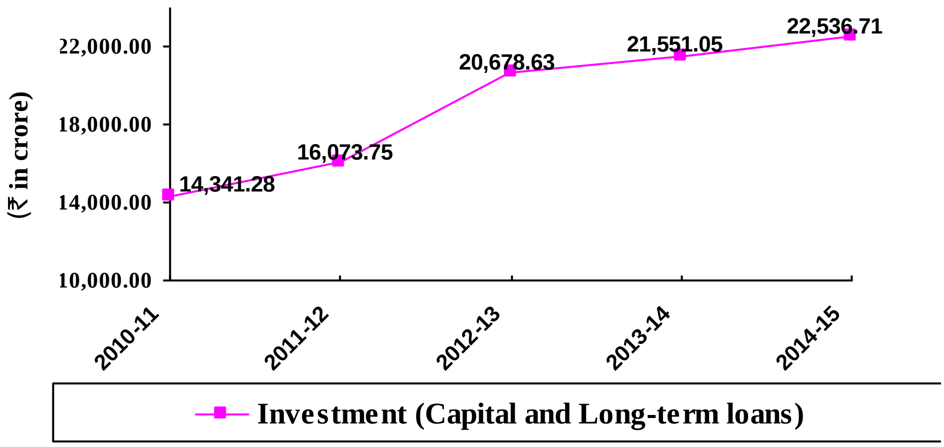
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	7443.53	14238.80	21682.33	471.16	323.12	794.28	22476.61
Non-working PSUs	24.95	35.15	60.10	-	-	-	60.10
Total	**7468.48**	**14273.95**	**21742.43**	**471.16**	**323.12**	**794.28**	**22536.71**

Source: Annual accounts of PSUs

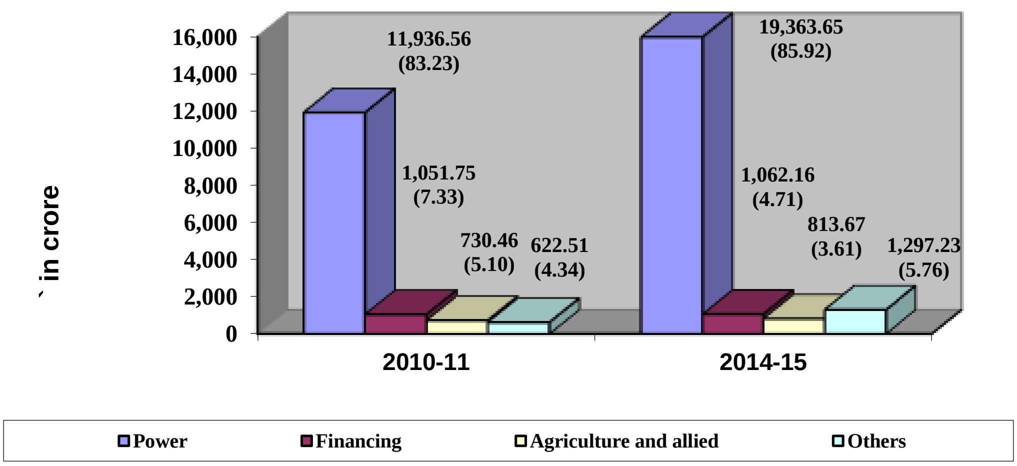
As on 31 March 2015, of the total investment in State PSUs, 99.73 *per cent* was in working PSUs and the remaining 0.27 *per cent* in non-working PSUs. This total investment consisted of 35.23 *per cent* towards capital and 64.77 *per cent* in long-term loans. The investment has grown by 57.15 *per cent* from ₹ 14341.28 crore in 2010-11 to ₹ 22536.71 crore in 2014-15 as shown in the graph below.

Chart 1.1: Total investment in PSUs



1.7 The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the bar chart. The thrust of PSU investment was mainly in power sector which increased from 83.23 *per cent* to 85.92 *per cent* during 2010-11 to 2014-15.

Chart 1.2: Sector wise investment in PSUs



Special support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs are given below for three years ended 2014-15.

Table 1.3: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	2	15.91	2	22.35	3	72.07
2.	Loans given from budget	2	38.75	1[5]	15.00	-	-
3.	Grants/Subsidy from budget	5	3689.21	6	3129.82	4	3027.35
4.	**Total Outgo (1+2+3)**	**7[6]**	**3743.87**	**8**	**3167.17**	**6**	**3099.42**
5.	Waiver of loans and interest	-	-	-	-	-	-
6.	Guarantees issued	9	35379.50	7	28895.45	9	31271.89
7.	Guarantee Commitment	11	44899.21	11	44012.74	11	49058.42

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee under Punjab Fiscal Responsibility and Budget Management Act, 2003 subject to the limits prescribed by the Constitution of India, for which a guarantee fee is charged. The State Government charged guarantee fee at the rate of $^1/_8$ *per cent* in case of PSUs engaged as procuring agencies and 0.5 to 2 *per cent* from the other PSUs. The guarantee commitment increased to ₹ 49058.42 crore during 2014-15 from ₹ 44012.74 crore in 2013-14. Further, during the year, five PSUs paid guarantee fee of ₹ 28.15 crore (excluding ₹ 40.67 crore pertaining to previous years) out of ₹ 141.45 crore payable,

[5] PEPSU Road Transport Corporation (PRTC) @ 12 *per cent* per annum
[6] Actual number of PSUs which received budgetary support.

leaving a balance of ₹ 72.63 crore. The major defaulters were Punjab State Power Corporation Limited (PSPCL) (₹42.49 crore) and Punjab State Industrial Development Corporation Limited (PSIDC) (₹26.63 crore).

Reconciliation with Finance Accounts

1.9 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is stated below.

Table 1.4: Equity, loans, guarantees outstanding as per finance accounts vis a vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	3609.48	7801.54	4192.06
Loans	1580.78	359.33	1221.45
Guarantees	49058.42	49058.42	-

Audit observed that the differences occurred in respect of 15 PSUs and some of the differences were pending reconciliation since 1985-86. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Companies Act, 2013. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2015.

Table 1.5: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working PSUs	31	31	31	29	31
2.	Number of accounts finalised during the year	28	29	31	26	35[7]
3.	Number of accounts in arrears	39[8]	41	41	42[9]	38
4.	Number of Working PSUs with arrears in accounts	24	24	24	26	25
5.	Extent of arrears (numbers in years)	1 to 4	1 to 5	1 to 4	1 to 4	1 to 4

The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up-to-date. The PSUs should also

[7] It represents 32 accounts of working Companies and three accounts of Statutory Corporation
[8] Excluding 13 accounts of three Companies which became non-working during the year.
[9] Excluding 4 accounts of two Companies which became non-working during the year.

ensure that atleast one year's accounts are finalised so as to restrict further accumulation of arrears. In respect of Statutory Corporations, one[10] had arrears of account for three years and three had arrears of account for one year.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed half yearly by the Principal Accountant General (Audit), Punjab, of the arrears in finalisation of accounts, adequate remedial measures were not taken. As a result of this, the net worth of these PSUs could not be assessed in audit.

1.11 The State Government had invested ₹ 3439.76 crore in seven PSUs (equity: ₹ 99.33 crore, and grants/subsidy ₹ 3340.43 crore) during the years for which accounts have not been finalised as detailed in ***Annexure 1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of 23 non-working PSUs, eight[11] were in the process of liquidation whose accounts were in arrears for 1 to 37 years. One non-working company viz. PCL Telecom Limited has been dissolved (January 2012) by the orders of Punjab and Haryana High Court. Of the remaining 14 non-working PSUs, 12 had arrears of accounts ranging from one to 24 years.

Table 1.6: Position relating to arrears of accounts in respect of non-working PSUs

No. of non-working PSUs	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	1991-92 to 2014-15	24
1	1992-93 to 2014-15	23
1	1995-96 to 2014-15	20
1	2001-02 to 2014-15	14
1	2002-03 to 2014-15	13
1	2006-07 to 2014-15	9
2	2012-13 to 2014-15	3
2	2013-14 to 2014-15	2
2	2014-15	1

Placement of Separate Audit Reports

1.13 The position depicted below shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

[10] Punjab Scheduled Castes Land Development and Finance Corporation.
[11] Companies at Sl. No. C-2,7,8,10,11,13,14 and 23 of ***Annexure 2***

Table 1.7: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government/Present Status
1.	Punjab Financial Corporation	2011-12	2012-13	03 February 2014
2.	Punjab Scheduled Castes Land Development and Finance Corporation	2011-12	-	-
3.	PEPSU Road Transport Corporation	2011-12	2012-13	20 May 2014
4.	Punjab State Warehousing Corporation	2012-13	-	-

Impact of non-finalisation of accounts

1.14 As pointed out above (Table 1.7)**,** the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statues. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**

- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Performance of PSUs as per their latest finalised accounts

1.15 The financial position and working results of working Government companies and Statutory Corporations are detailed in ***Annexure 2*.** A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for a period of five years ending 2014-15.

Table 1.8: Details of working PSUs turnover vis-a vis State GDP

(₹ in crore)

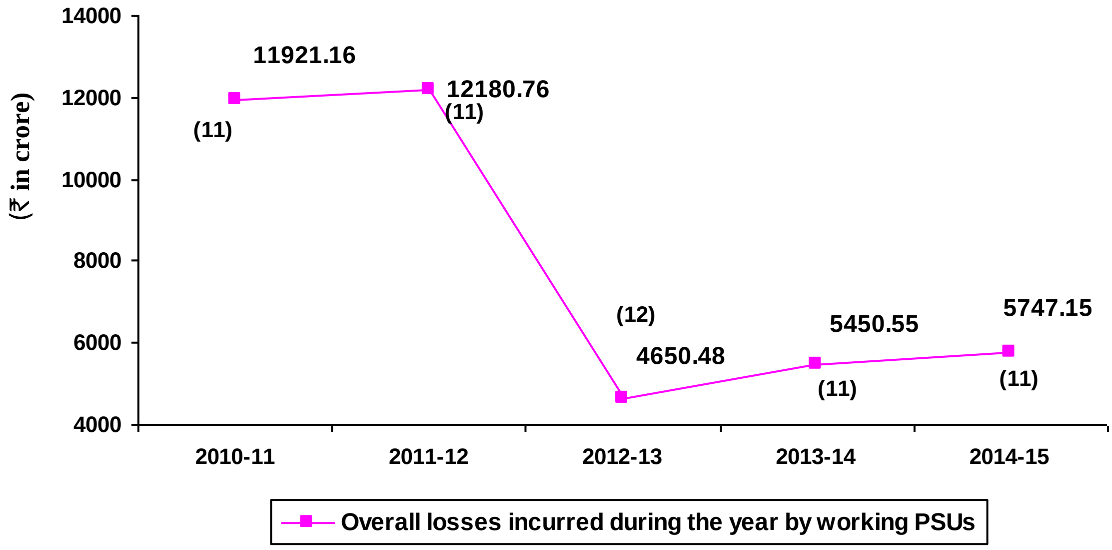
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[12]	24,431.81	29,841.98	37,090.63	44,746.29	52,733.04
State GDP	2,26,204	2,56,374	2,85,119	3,17,556	3,49,826
Percentage of Turnover to State GDP	10.80	11.64	13.01	14.09	15.07

[12] Turnover as per the latest finalised accounts as of 30 September 2015.

The turnover of State PSUs to the State GDP in percentage terms increased from 10.80 in 2010-11 to 15.07 in 2014-15. The turnover of PSUs did not increase in proportion to increase in State GDP.

1.16 Overall losses incurred by State working PSUs during 2010-11 to 2014-15 are given below in the graph.

Chart 1.3 : Profit/ losses of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

The summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised are given in ***Annexure 2***. During the period from October 2014 to September 2015, 32[13] accounts were received in respect of 24 working companies. Of these 11 accounts reflected profit of ₹ 683.07 crore and 15 accounts reflected loss of ₹ 863.64 crore. Three[14] accounts were prepared on 'no profit no loss' basis and for three[15] accounts in respect of two PSUs profit and loss account were not prepared. One[16] working PSU has not prepared its first accounts. The major contributors to profit were Punjab State Transmission Corporation Limited (PSTCL) (₹ 380.52 crore), Punjab State Power Corporation Limited (PSPCL) (₹ 249.31 crore), Punjab Financial Corporation (PFC) (₹ 30.26 crore), Punjab State Container and Warehousing Corporation Limited (₹ 16.74 crore), Punjab Genco Limited (₹ 12.51 crore), Punjab Small Industries and Export Corporation Limited (₹6.79 crore) and Punjab State Forest Development Corporation Limited (₹ 3.11 crore). Heavy losses were incurred by Punjab State Grains Procurement Corporation Limited (₹ 491.17 crore), Punjab State Warehousing

13 For the year 2010-11 (three accounts); 2011-12 (two accounts); 2012-13 (five accounts); 2013-14 (16 accounts) and 2014-15 (six accounts).

14 Punjab Police Housing Corporation Limited, Punjab Police Security Corporation Limited and Punjab Municipal Infrastructure Development Company

15 Punjab Agro Power Corporation Limited and Punjab Thermal Generation Limited.

16 Greater Mohali City Bus Service Limited incorporated on 26 December 2014.

Corporation (PSWC) (₹ 277.04 crore), Punjab State Industrial Development Corporation Limited (PSIDC) (₹ 42.35 crore), and PEPSU Road Transport Corporation (PRTC) (₹ 11.11 crore).

1.17 Some other key parameters of PSUs are given below.

Table 1.9: Key Parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (*Per cent*)	4.69	5.13	3.73	11.00	13.28
Debt	10459.81	11992.79	12839.83	13683.58	14597.07
Turnover[17]	24431.81	29841.98	37090.63	44746.29	52733.04
Debt/ Turnover Ratio	0.43:1	0.40:1	035:1	0.30:1	0.28:1
Interest Payments	2925.97	3408.29	4522.37	5918.58	6442.72
Accumulated losses	12192.08	12492.46	5011.15	5870.08	6236.66

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

The percentage of return on capital employed of all PSUs increased from 4.69 in 2010-11 to 5.13 in 2011-12 but decreased to 3.73 in 2012-13. It, however, increased to 11.00 *per cent* in 2013-14 and further increased to 13.28 in 2014-15.

The ratio of the debts to the turnover which was 43 *per cent* in 2010-11 decreased gradually and reached 28 *per cent* in 2014-15.

1.18 The State Government had formulated (April 1999) a dividend policy under which all PSUs are required to pay a minimum return of four *per cent* on the paid up share capital contributed by the State Government. Further it has directed (July 2011) all the PSUs to pay a minimum return of five *per cent* on the funds invested by the State Government. As per their latest finalised accounts, 11 PSUs earned an aggregate profit of ₹ 703.14 crore and four PSUs declared a dividend of ₹ 3.91 crore at the rate ranging from four *percent* to hundred *per cent*. The remaining seven PSUs did not declare dividend despite earning profit of ₹ 670.25 crore.

Winding up of non-working PSUs

1.19 There were 23 non-working PSUs (all Companies) as on 31 March 2015. Of these, eight PSUs have commenced liquidation process.

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, therefore, these PSUs are required to be closed down. During 2014-15, non-working PSUs incurred an expenditure of ₹ 0.46 crore towards salary and establishment expenditure. This expenditure was met through the sale of assets of these PSUs and other resources viz. borrowings from common pool fund of PSUs under liquidation, interest on investments etc.

[17] Turnover of working PSUs as *per* the latest finalised accounts as of 30 September.

1.20 The stages of closure in respect of non-working PSUs are given below.

Table 1.10: Closure of Non working PSUs

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	23
2.	Of (1) above, the No. under	
(a)	Liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	8
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	7

One non-working Company, namely PCL Telecom Limited, was dissolved (January 2012) by the orders of Punjab & Haryana High Court. The companies which have taken the route of voluntary winding up under the Companies Act are under liquidation for a period ranging from 2 months[18] to 32 years. During the year 2014-15, no company was finally wound up. The Government may take a decision regarding winding up of the remaining seven non-working PSUs which have become defunct. The Government (Directorate of Disinvestment)[19] may expedite the process of closing down of the non-working companies.

Accounts Comments

1.21 Twenty four working companies forwarded their 32 audited accounts to Principal Accountant General (PAG) during the year 2014-15. Of these, 24 accounts of 21 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table 1.11: Impact of audit comments on working Companies

(Amount ₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of instances	Amount	No. of instances	Amount	No. of instances	Amount
1.	Decrease in profit	3	1498.83	3	450.45	7	3313.96
2	Increase in profit	-	-	-	-	1	4.30
3.	Increase in loss	5	1204.08	5	17082.61	3	102.65
4.	Non-disclosure of material facts	6	16950.10	9	14816.61	9	166.29
5.	Errors of classification	7	1693.07	8	211.49	11	1271.36

During the year, the statutory auditors gave unqualified certificates for 14 accounts, qualified certificates for 16 accounts, adverse certificates (i.e. accounts do not reflect a true and fair position) for two accounts.

[18] Electronic Systems Punjab Limited ordered to be wound up and Official Liquidator has been appointed (January 2015) by orders of Punjab & Haryana High Court.

[19] A cell established for disinvestment of State Government equity in State PSUs/ Subsidiaries and for restructuring/privatisation, etc. of these PSUs.

Qualifications by Statutory auditors had the effect of decreasing the profit of PSPCL by ₹ 248.12 crore and PSTCL by ₹ 24.57 crore for the year 2012-13. In addition to the above after taking into consideration the effect of CAG's qualifications in respect of PSPCL profit for the year 2012-13 worked out (after Statutory Auditors qualification) of ₹ 12.43 crore would turn into a loss of ₹ 1,219.42 crore. Similarly, qualification by Statutory auditors and CAG also had the effect of turning the reported profit in PUNSUP[20] into a loss of ₹ 1,762.88 crore for the year 2012-13. The compliance of companies with the Accounting Standards remained poor, there were 26 instances of non-compliance in seven accounts during the year.

1.22 Similarly, three working Statutory Corporations forwarded their three accounts to PAG during the year 2014-15.

Of these, one account of Statutory Corporation (PRTC) pertained to sole audit by CAG which was under Audit as on 30 September 2015. Of the remaining two accounts (PSWC and PFC), supplementary audit was conducted. The Audit Reports of Statutory Auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table 1.12 : Impact of audit comments on Statutory Corporations

(Amount ₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of instances	Amount	No. of instances	Amount	No. of instances	Amount
1.	Decrease in profit	1	0.47	-	-	-	-
2.	Increase in loss	4	173.81	2	185.92	-	-
3.	Non-disclosure of material facts	5	16.72	6	17.05	-	-
4.	Errors of classification	3	235.11	1	1.55	-	-

During the year, two accounts of Statutory corporations (PFC and PSWC) received qualified certificates.

Response of the Government to Audit

Performance Audits and Paragraphs

1.23 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, two performance audits and 18 compliance audit paragraphs were issued to the Principal Secretaries/ Secretaries of the respective Departments with request to furnish replies within six weeks. However, replies in respect of one performance audit and 16 compliance audit paragraphs were awaited from the State Government (30 September 2015).

[20] Punjab State Civil Supplies Corporation Limited

Follow up action on Audit Reports

Replies outstanding

1.24 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The State Finance Department, Government of Punjab issued (August 1992) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the COPU.

Table No.1.13: Explanatory notes not received (as on 30 September 2015)

Year of the Audit Report (Commercial /PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	**Paragraphs**	**PAs**	**Paragraphs**
2008-09	March 2010	3	19	-	6
2009-10	March 2011	2	16	-	4
2010-11	March 2012	2	13	1	6
2011-12	March 2013	2	17	1	11
2012-13	July 2014	3	12	3	9
2013-14	March 2015	2	17	2	16
Total		**14**	**94**	**7**	**52**

From the above, it could be seen that out of 94 paragraphs/ 14 performance audits, explanatory notes to 52 paragraphs/ 7 performance audits in respect of six departments, which were commented upon, were awaited (30 September 2015).

Discussion of Audit Reports by COPU

1.25 The status as on 30 September 2015 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under.

Table No.1.14: Reviews/Paras appeared in Audit Reports vis a vis discussed as on 30 September 2015

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	**Paragraphs**	**PAs**	**Paragraphs**
2008-09	3	19	1	4
2009-10	2	16	-	4
2010-11	2	13	-	3
2011-12	2	17	-	-
2012-13	3	12	-	-
2013-14	2	17	-	-
Total	**14**	**94**	**1**	**11**

Compliance to Reports of Committee on Public Undertakings (COPU)

1.26 Action Taken Notes (ATN) to 67 paragraphs pertaining to 8 Reports of COPU presented to the State Legislature between March 2008 and March 2015 had not been received (30 September 2015) as indicated below:

Table No.1.15 : Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2007-08	1	8	2
2008-09	1	6	2
2010-11	2	9	8
2012-13	2	14	14
2013-14	2	18	18
2014-15	3	23	23
Total	**11**	**78**	**67**

These Reports of COPU contained recommendations in respect of paragraphs pertaining to six departments, which appeared in the Reports of the CAG of India for the years 2001-02 to 2011-12.

It is recommended that the Government may ensure: (a) sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Disinvestment, Restructuring and Privatisation of PSUs

1.27 The State Government established (July 2002) the Directorate of Disinvestment under the Department of Finance, with the function relating to disinvestment of State Government equity held in Public Sector Undertakings and their subsidiaries/promoted companies and restructuring/ privatisation etc. of the PSUs. During the year 2014-15, disinvestment in three PSUs was under the consideration of the Government. The Government of Punjab decided not to disinvest Punjab Agro Juices Limited. No PSU was completely disinvested by the Directorate during the year 2014-15.

1.28 Coverage of this Report

This Report contains 18 paragraphs and two performance audits i.e. “Procurement, Storage and Custom Milling of Paddy in Punjab Agro Foodgrains Corporation Limited” and “Purchase and Inventory Control in Punjab State Power Corporation Limited” involving financial effect of ₹844.86 crore. The managements of five Companies/ Corporations did not reply to three paragraphs having financial effect of ₹23.57 crore. Similarly, Government of Punjab did not give replies to 16 paragraphs having financial effect of ₹240.36 crore.

Chapter-2
Performance Audit

Chapter - 2

Performance Audit of Government Companies

Punjab Agro Foodgrains Corporation Limited

2.1 Procurement, Storage and Custom Milling of paddy

Executive Summary

Punjab Agro Foodgrains Corporation Limited was incorporated in July 2002 as a wholly owned subsidiary of Punjab Agro Industries Corporation Limited mainly for handling the activities relating to the procurement of foodgrains. The important findings are as under:

Company did not consider the desirability to fix the transportation rate on per quintal per km basis to bring uniformity which resulted in extra burden of ₹ 4.03 crore on the Company during 2010-14.

(Paragraph 2.1.8.2)

Expenditure amounting to ₹ 20.71 crore on transportation of paddy to rice mills within 8 kms was not recovered from the millers though these were inbuilt in the milling charges.

(***Paragraph 2.1.8.3)***

Against the weighted average period of two months allowed by GoI for milling of paddy, the State Government without compensating the Company allowed excess milling period in the CMPs resulting in loss of interest of ₹ 188.87 crore during crop years 2010-14.

(Paragraph 2.1.9.1)

An amount of ₹ 143.11 crore was recoverable from the millers on account of short delivered/ misappropriated rice, cost of gunnies and other recoveries.

(Paragraphs 2.1.9.2)

The Company neither preferred reimbursement of ₹ 13.07 crore, the remaining cost of bags from FCI as per the guidelines, nor took up the matter with GoI for finalisation of rates for once used gunny bags.

(Paragraphs 2.1.10.3)

Introduction

2.1.1 Punjab Agro Foodgrains Corporation Limited (Company) was incorporated in July 2002 as a wholly owned subsidiary of Punjab Agro Industries Corporation Limited (holding company) mainly for handling the activities relating to the procurement of foodgrains. The Company is one of the five[1] State foodgrains procurement agencies entrusted with procurement of foodgrains in the State and its share was nine *per cent* of paddy procured in the State during the year 2014-15. It procures paddy from various mandis allotted to it by the Food, Civil Supplies & Consumers Affairs Department (FS&D) of the State at Minimum Support Price (MSP) fixed by the Government of India (GoI) for each crop year, which is then got milled from the authorised rice millers at specified rates under Custom Milling Policy (CMP) framed by the State Government for each year. The resultant rice is delivered to Food Corporation of India (FCI) for central pool at rates fixed by GoI for each crop year.

The Company procured 60.40 lakh metric tonne (MT) of paddy of ₹ 9141.38 crore during crop years 2010-15 and delivered 39.31 lakh MT resultant rice valued at ₹ 8941.76 crore to FCI during the same period.

Organisational set up

2.1.2 The management of the Company is vested in a Board of Directors (BOD). As on 31 March 2015, the Board comprised five directors including Chairman and Managing Director (CMD), who is the Chief Executive of the Company. All the Directors including the CMD are appointed by the State Government. There are 20 district offices[2] carrying out the procurement and milling operations.

Audit Objectives

2.1.3 The objectives of the performance audit were to ascertain whether:

- The Company utilised the sanctioned cash credit limits efficiently and received reimbursement of guarantee fees and other statutory levies imposed by the State Government;
- The Company executed functions relating to procurement, storage, transport, custom milling of paddy and delivery of resultant rice in an efficient, effective and economical manner and as per the prescribed norms;

---

[1] Punjab Agro Foodgrains Corporation Limited (PAFCL), Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Warehousing Corporation (PSWC) and Punjab State Co-operative Supplies and Marketing Federation Limited (MARKFED).

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

- The Company delivered rice to FCI within the stipulated / extended period fixed by GoI and raised bills within the stipulated period;
- The Company had an effective internal control system.

Scope of Audit and Methodology

2.1.4 The issue regarding procurement and milling of paddy for central pool by Punjab Agro Foodgrains Corporation Limited was last reviewed in the Report of the Comptroller and Auditor General of India, Government of Punjab (Commercial) for the year 2005-2006. The Performance Audit was discussed (February 2015) by the Committee on Public Undertaking and was remitted to the Administrative Secretary for taking further action at their level. No further action has been initiated by the Administrative Department so far (September 2015). Audit observed that no concrete action was taken on issues such as use of cash credit facility and guarantee fee, delayed raising of claims/ non-recovery/ delayed recovery of receivables from millers/ FCI, losses in procurement and milling operations, etc. and are still continuing.

The present performance audit conducted between November 2014 and March 2015 covers the activities of procurement and milling of paddy for central pool during the years 2010-11 to 2014-15. The audit examination involved scrutiny of records at the head office and seven[3] out of 20 district offices selected on the basis of Probability Proportional to Size sampling method, which covered 53.10 *per cent* of the total paddy procured by the Company during 2010-15. We explained the audit objectives to the Company and representative of the Administrative Department during an entry conference (January 2015). Audit findings were reported to the Company and the State Government (June 2015) and discussed in the exit conference (August 2015). The exit conference was attended by the representatives of the Company. The views expressed by the Company along with the replies received from Management have been considered while finalising this performance audit report.

We acknowledge the co-operation and assistance extended by the Company at various stages of conducting this performance audit.

Audit methodology consisted of:

- Scrutiny of agenda and minutes of meetings of Board of Directors, custom milling policies, instructions issued by the State Government and milling progress reports of district offices;
- Scrutiny of records relating to cash credit limits, payment of guarantee fee and other charges and their reimbursement from FCI;
- Examination of records relating to delivery of rice to FCI, raising of claims and receipt of payment there against;
- Examination of Internal Audit Reports and their follow up; and
- Issue of observations and queries with the officers and staff of the Company.

[3] Fatehgarh Sahib, Jalandhar, Ludhiana, Moga, Mohali, Patiala and Sangrur

Audit Criteria

2.1.5 The audit findings were evaluated against audit criteria which is sourced from the following:

- Instructions/guidelines issued by the GoI/State Government/FCI with regard to activities of procurement and custom milling of paddy and CMPs issued by the State Government of respective crop years;
- Terms and conditions of the cash credit limits availed by the Company;
- Instructions of GoI for re-imbursement of cost, incidentals and differential claims;
- Terms and conditions of handling and transportation contracts;
- Norms/rates for timely raising of bills for rice and other related expenses fixed by the GoI and their reimbursement from FCI;
- Provisions in the accounting manual and internal control mechanism in the Company.

Audit Findings

2.1.6 The audit findings are discussed in the subsequent paragraphs.

Working Results and Financial Arrangement

2.1.7.1 The Company has not prepared its financial statements for the year 2014-15 by October 2015, which were required to be completed within six months of the close of the financial year i.e. by September 2015 in accordance with Section 96(1) of the Companies Act 2013. The Company finalised and submitted its financial statements for all the years from 2010-11 to 2013-14 with delay ranging between nine and 18 months; 2010-11 (15 March 2013), 2011-12 (6 January 2014), 2012-13 (11 August 2014) and 2013-14 (25 June 2015). The working results of the Company for the four years ending 31 March 2014 and impact of audit comments are given below.

(₹ in crore)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14
1.	Sales and other income	5630.29	3315.15	3871.75	4988.78
2.	Expenditure	5630.07	3315.10	3871.89	4989.08
3.	Reported Profit (+)/Loss (-) after tax	0.22	0.05	(-)0.14	(-)0.30
4.	Impact of comments of Statutory Auditor and CAG	(-)390.97	(-)445.36	(-)734.87	(-)901.42
5.	Loss after impact of comments	390.75	445.31	735.01	(-)901.72

Statutory Auditors' have consistently remarked that the financial statements of the Company do not reflect a true and fair view of the state of affairs of the Company. The table above shows that after considering the qualifications of the Statutory Auditors and those of CAG, the reported profits of the Company will convert into huge losses. There was an accumulated loss of ₹ 3763.88 crore as against the reported accumulated surplus of ₹ 4.90 crore at the close of the year 2013-14. The Company has been showing interest (₹ 983.32 crore), custody and maintenance charges (₹ 390.94 crore), transportation charges (₹ 380.20 crore), etc. as recoverable without their confirmation.

Management stated (August 2015) that claims are booked on the basis of past practice with the hope that these will mature on finalisation of rates by GoI pending since 2004. The reply is not acceptable as the Company has been booking receivable without any confirmation/rules of GOI/FCI etc. and contrary to the principles of accounting and applicable accounting standards on recognition of revenue.

2.1.7.2 Utilisation of cash credit facility

The Company was availing cash credit (CC) facility from State Bank of India (SBI) for procurement of foodgrains and related incidental expenses against hypothecation of stocks on guarantee given by the State Government. Agreement between SBI and the State Government on behalf of the procuring agencies provided that the value of hypothecated stocks should fully match with the CC outstanding. However, we observed that the Company was availing CC much above the value of closing stock i.e. the value of closing stock was not adequate to cover CC outstanding. The cumulative CC outstanding at the close of the year 2010-11 was ₹ 2090.32 crore against which the value of closing stock was ₹ 929.44 crore i.e. outstanding cumulative CC exceeded the value of stock by ₹ 1160.88 crore. This gap increased to ₹ 2799.36 crore by the financial year 2013-14. The year wise position is placed below:-

(₹ in crore)

Position as on	Value of closing stock	Cumulative CC outstanding	Gap
31 March 2011	929.44	2090.32	1160.88
31 March 2012	867.57	2542.51	1674.94
31 March 2013	950.49	3356.07	2405.58
31 March 2014	716.73	3516.09	2799.36

The banks charged (December 2014) a penalty of ₹0.59 crore on the Company for its CC exceeding the value of closing stock which was reversed (June 2015) by them.

Management while admitting the facts stated (August 2015) that this mismatch was due to non-reimbursement of various elements of cost by State Government/ GoI/ FCI and due to huge recoverable from defaulter millers. The reply is not acceptable as the gap arose due to Company taking into account its unconfirmed receivables for supporting its CC limits. The banks had taken cognizance of this gap and had accordingly requested (January 2015) the GoP to arrange for the payment of ₹20920.36 crore of all procurement agencies including the above gap of ₹2799.36 crore to regularise the cash credit account.

2.1.7.3 Reimbursement of Guarantee Fee

The CC limit was availed in accordance with requirement of funds assessed on the basis of minimum support price (MSP) of paddy, cost of gunny bags, transportation and other incidental charges etc. During 2010-14, the State

Government charged guarantee fee at the rate of 1/8 *per cent* from the Company for CC limit actually availed whereas GoI allowed guarantee fee subject to maximum of 1/8 *per cent* of MSP of quantity of paddy equivalent to rice delivered to FCI (Central Pool). The gap between these two remains unrecovered.

We noticed that:

- The Company paid guarantee fees of ₹ 8.96 crore to the State Government for the crop years 2010-14 whereas FCI reimbursed/ will reimburse guarantee fee of ₹ 7.22 crore only leaving a gap of ₹ 1.74 crore. The State Government reduced the guarantee fee to 1/8 *per cent* of MSP of paddy from KMS 2014-15. However, the Company had not approached the State Government for refund of the excess guarantee fee paid for the KMS 2010-14.

- During the scrutiny of seven selected district offices, we noticed that in five district offices[4] there were instances of not claiming reimbursement of guarantee fee amounting to ₹ 0.34 crore for the crop years 2011-14. This indicated inadequacy of internal control to ensure timely raising and proper follow up of the claims lodged with FCI.

Management while admitting the facts stated (August 2015) that district offices are in touch with FCI for getting reimbursement of guarantee fee.

Procurement and Transportation of Paddy

2.1.8.1 *Irregularities in distribution of additional relief bonus*

The State Government declared (October 2010) an additional relief bonus to the farmers at the rate of ₹ 9.13 per quintal of paddy procured in crop year 2009-10. The Company received its share of ₹ 12.05 crore in November 2010/January 2011 for distribution to the farmers. The State Government directed (December 2010) all the State Procuring agencies to ensure[5] that bonus was actually distributed among the farmers.
In audit of seven selected district offices, we noticed that while disbursing (December 2010) the bonus amounting to ₹ 6.18 crore for 67.69 lakh MT paddy procured during KMS 2009-10, six district offices, except Jalandhar, distributed bonus amounting to ₹ 5.28 crore to the *arhtias*[6] for disbursement amongst farmers who did not give any documentary evidence in support of bonus disbursement to eligible farmers. Thus, the Company had no means to assure itself that the bonus was actually distributed among the farmers.

Management while admitting the facts (August 2015) assured to make inquiry into the matter.

[4] Sangrur - ₹ 0.07 crore , Moga - ₹ 0.11 crore, Mohali - ₹ 0.09 crore, Ludhiana - ₹ 0.02 crore and Fatehgarh Sahib - ₹ 0.05 crore.

[5] To ensure distribution of additional relief bonus to eligible farmers the Company was required to obtain the farmer-wise detail and receipt of bonus duly countersigned by joint committee of F&SD representatives, the Company and Secretary, Market Committee.

[6] Arhtia – Middleman in the grain market

2.1.8.2 *Abnormal variation in transportation rates*

We noticed that the contracts for transportation of paddy from mandis to storage points were awarded after calling tenders by allowing certain *per cent* enhancement over the previous years' rates. The rates for transportation were fixed on per quintal basis and no weightage was given to the distance involved. We analysed the transportation rates paid in five[7] selected district offices and found wide variations in the rates per quintal per kilometer (km) with reference to rates fixed on per quintal basis which ranged from ₹ 0.51 to ₹ 5.11 during 2010-14. Though the distance to be covered would be a key element in determining the cost of transportation, the Company never considered the desirability to fix the transportation rate on per quintal per km basis to bring uniformity in the transportation rates. Thus, there was a lack of sound basis for determining the rates for transportation of paddy thereby resulting in flawed bidding. This resulted in extra burden of ₹ 4.03 crore[8] on the Company during 2010-14. It is worth mentioning that in the state of Haryana, the 'Schedule of rates' were fixed on the basis of per quintal per kilometer thus factoring in the distance element.

2.1.8.3 *Non recovery of transportation charges from millers*

While fixing the rates of custom milled rice (CMR) for the crop years 2010-2014, GoI did not fix any separate rates of transportation charges for transportation within eight kms and these were already included in the milling charges. In a meeting held in July 2013, GoI reiterated its orders that expenditure for transportation of paddy from purchase centre/ mandi to mills and also delivery of rice to FCI godowns upto eight kms was to be borne by millers as the same was inbuilt in the rates itself. Audit of seven selected district offices of the Company revealed that for transportation of paddy from purchase centres to rice mills within eight kms, expenditure of ₹ 20.71 crore incurred by district offices for crop years 2010-14 was not recovered from the millers.

Management while admitting the facts stated (August 2015) that transportation charges from the millers were not recovered as per the instructions of the State Government.

Milling of Paddy

2.1.9.1 *Milling of paddy*

The paddy procured from mandis was stored in the premises of millers under joint custody of the millers and the Company up to the year 2012-13. From 2013-14 onwards, paddy was stored in the sole custody of concerned rice miller. CMPs of the State Government for each crop year and standard terms of agreement between the rice millers and the Company, *inter alia*, provided that rice millers would deliver the custom milled rice to FCI within the stipulated/ extended period.

---

[7] Sangrur, Ludhiana, Patiala, Jalandhar and Fatehgarh Sahib.

[8] Rate per quintal per kilometer = Actual rate incurred per kilometer divided by distance in kilometers. Further, taking least rate as base and subtracting it from Rate per quintal per kilometer (calculated for each mandi). Extra burden of ₹ 4.03 crore was calculated by multiplying difference of rate per quintal per kilometer with the actual quantity transported in the five selected districts. Jalandhar – ₹1.67 crore + Ludhiana – ₹1.35 crore + Sangrur – ₹0.90 crore + Fatehgarh Sahib – ₹0.10 crore + Patiala ₹0.01 crore = ₹4.03 crore

The following table gives details of the paddy procured, rice due and rice delivered by the Company during the crop years 2010-15:

(Quantity in lakh MT)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Paddy procured and stored	11.21	11.50	13.18	12.34	12.17	60.40
Rice due	7.51	7.71	8.70	8.19	8.12	40.23
Rice delivered	7.25	7.43	8.34	8.17	8.12	39.31
Rice not delivered	0.26	0.28	0.36	0.02	0.00	0.92
Rate of rice per MT (₹)	19,089.50	20,675.30	23,284.20	24,554.70	25511.40	-
Value of rice not delivered (₹in crore)	49.63	57.89	83.82	4.91	0.00	196.25
Stipulated dates[9]	31 March 2011	30 June 2012	31 March 2013	31 March 2014	31 March 2015	-
Dates of extended period[10] (No. of months)	30 June 2012 (15 months)	31 December 2012 (6 months)	17 January 2014 (9.5months)	30 September 2014 (6 months)	30 June 2015 (3 months)	-

The above table shows that as against 40.23 lakh MT of rice due, the millers delivered only 39.31 lakh MT during crop years 2010-15. We observed that as against the weighted average period of two months allowed by GoI, in the CMPs the State Government, without compensating the Company, allowed weighted average period of 3.75 months in 2010-11, 4.70 months in 2011-12, 4.15 months in 2012-13 and 4.52 months in 2013-14 & 2014-15 to the millers for delivery of rice which resulted in loss of interest of ₹ 188.87 crore during crop years 2010-15.

We further observed that due to non-delivery of rice within stipulated period given in the CMP, the GOI, on requests made by the State Government extended the delivery period from time to time. The Company took weighted average period ranging between 4.89 months to 8.84 months during 2010-15 for delivery of rice.

a) It was noticed that during crop year 2010-11, in case the millers failed to adhere to the schedule prescribed in CMP, there was a provision of payment of penal interest at the rate of 12 *per cent* of the cost of short delivered rice. However, the State Government dispensed with (October 2010) this clause for KMS 2010-11 and did not incorporate (September 2011) this clause in CMP for 2011-12. Hence, the loss of interest of ₹ 62.29 crore[11] (₹ 42.86 crore for 2010-11 and ₹ 19.43 crore for 2011-12) could not be recovered from the millers. The Company also did not take up

9 Stipulated dates as per custom milling policy of the State Government.

10 Reasons on the basis of which the State Government requested GoI to extend the stipulated dates of delivery of rice were not made available to Audit.

11 Calculation of penal interest has been made after the end of stipulated delivery date i.e. 31 March 2011 and 30 June 2012 respectively.

the matter for making a provision of compensation in lieu of waiver of interest for the extended/delayed period of milling of paddy with the State Government.

b) Though there was a provision in the CMP for the year 2012-13 and 2013-14 for recovery of penal interest from the millers for delayed milling of paddy/delivery of rice, however, the Company did not impose penal interest on the millers. Audit calculated such penalties at ₹8.14 crore.

The Company thus ended up bearing the cost of decisions taken by the State Government to extend milling periods in excess of period allowed by FCI without any commitment of reimbursement of associated costs.

Management accepted the audit observation and stated (August 2015) that the extension was granted by the GOI on State Government request and the cost sheet does not permit the reimbursement of interest on delayed milling by the millers.

2.1.9.2 *Non delivery of rice/ misappropriation of paddy by millers*

Upto KMS 2012-13 the paddy stored in the premises of the millers remained in the joint custody of the millers and the Company. Both the parties were responsible for maintaining the quality and quantity of the paddy stored[12].

We observed that 1.36 lakh MT of paddy of crop years 2010-11 to 2013-14 was stored with 20 millers in eight districts offices[13] (as per details given in ***Annexure 3)***. Of this, the millers short delivered/ misappropriated 0.48 lakh MT of rice valued at ₹ 120.82 crore during the above crop years and the security obtained from them as per the CMP was insufficient. The total amount recoverable from the millers as on March 2015 on account of short delivered/ misappropriated rice, cost of gunnies and other recoveries (after adjustment of amount deposited by millers and milling charges payable to them) was to the extent of ₹ 143.11 crore.

Misappropriation of rice/paddy was facilitated due to violation of CMP and other irregularities as given below:

- The Company failed to conduct timely physical verification of paddy stocks in accordance with the CMP during the years when paddy was stored in joint custody. 0.43 lakh MT paddy was found missing from 14 millers (Sl. No. 3 to 14, 18 and 20 of ***Annexure 3***) of the crop years' 2010-11 to 2012-13. The Company filed FIRs against these millers.
- The millers who had not delivered requisite quantity of rice of previous crop years' were not to be considered for allotment of paddy yet the Company allotted 0.25 lakh MT of paddy to four such millers (Sl. No. 3, 14, 15 and 19 of ***Annexure 3***) who had not delivered 0.12 lakh MT rice valuing ₹ 31.43 crore.

[12] For the year 2013-14 and 2014-15 paddy was in the custody of millers.
[13] includes district office Mukatsar in addition to the seven selected district offices

- The Company stored 0.38 lakh MT paddy with 12 millers (Sl. No. 3 to 7 and 10 to 16 of ***Annexure 3***) over and above the allotted capacity/permissible quantity. These millers did not deliver 0.38 lakh MT rice valuing ₹ 96.67 crore.
- The Company stored 1559.35 MT paddy of crop year 2010-11 with an unalloted miller (Sl. No. 1 of ***Annexure 3***) without entering into an agreement who did not deliver 265.83 MT rice valuing ₹ 0.70 crore. The case was terminated (May 2014) by the arbitrator due to absence of written agreement with the miller.

Management in its reply stated (August 2015) that action against the defaulter millers was being taken as per the terms of CMP.

2.1.9.3 *Undue favour to the defaulting millers*

In case the miller fails to deliver rice by the due date, the recovery is to be made from the miller at the rates fixed by the State Government for recovery of unmilled paddy, considering various elements of cost along with interest. However, we observed that:

a) District office, Moga and Ludhiana stored 22945.97 MT of paddy of crop years 2010-11 and 2011-12 with five millers (as per detail given in ***Annexure 4)*** who were required to deliver 15358.31 MT rice as per outturn ratio. However, they delivered only 11117.01 MT rice. The balance 4241.30 MT rice was not delivered upto the extended period (June 2012/ December 2012) for which an amount of ₹ 11.45 crore was required to be recovered. However, we observed that district offices settled the millers' accounts for ₹ 7.92 crore, thereby favouring them to the tune of ₹ 3.53 crore[14] and interest of ₹ 1.02 crore as on March 2015.

b) Similarly, district office, Moga stored 12988.07 MT paddy of crop years 2010-11 and 2011-12 with a miller who was required to deliver 8702 MT rice. However, the miller delivered only 7364.04 MT, a shortfall of 1337.98 MT rice equivalent to 1996.99 MT paddy valuing ₹ 3.65 crore. As on March 2015, an amount of ₹ 4.59 crore (₹ 3.65 crore + interest ₹ 0.95 crore) was recoverable from the miller.

Though a period of more than two years had elapsed since the last date of delivery of rice in these cases, the Company had neither raised any claim against the millers nor initiated any legal action for the recovery of due (September 2015).

Management replied (August 2015) that district offices have been directed to recover the amount as per terms of CMP.

2.1.9.4 *Arbitration cases*

As per the terms of agreement with the millers, all disputes are to be referred to the sole arbitrator, i.e. Managing Director of the Company or any other

[14] Calculated @ 12 *per cent* penal interest as provided in CMPs.

person appointed by him. Award of the Arbitrator is to be final and binding on both the parties.

As on June 2015, the Company was pursuing 37 arbitration cases[15] involving ₹ 190.11 crore on account of shortage of paddy/ short delivery of rice by millers. We observed that during 2010-11 to 2013-14, the arbitration proceedings were initiated with delays of upto 32 months from the extended date of milling.

Management accepted the audit contention and assured (August 2015) to inquire the reasons for the delay in each case

Delivery of Rice

2.1.10.1 *Delayed raising of claims and receipt of payment*

Audit noticed that the Company did not evolve a system at its head office to ensure and monitor that the district offices were raising claims timely. During test check of records of selected district offices during 2010-15, instances of delayed raising of claims were noticed:

a) Custom Milling Policy states that it will be the responsibility of the miller to supply 'Acceptance Note', 'weight check memo' and all other relevant documents to the concerned agency within seven days of delivery of rice for claiming payments from FCI. Despite Company issuing instructions (June 2008) that delayed raising of claims against rice delivered, will invite penalty of interest at the rate being paid on CC limit, there was no enabling provision in the agreements entered with the millers for penalty in case dispatch documents were not submitted within the stipulated time.

Audit observed, the Company raised claims in consolidated form with delays of upto 378 days (after allowing a margin of 10 days from the date of delivery of last consignment of rice) in 8202 sale bills (71 *per cent*) out of 11480 sale bills reviewed. Resultantly, an extra payment of interest of ₹ 1.72 crore on CC limit for the years 2010-11 to 2014-15 was incurred, but in the absence of details of date of submission of dispatch documents by the millers and receipt of dispatch documents the responsibility for delays could not be fixed.

b) Government of India (GoI) (July 2013) decided to pay the arrears on account of enhancement of VAT/purchase tax from 11 April 2011. In five district offices (Moga, Ludhiana, Patiala, Jalandhar and Fatehgarh Sahib) the supplementary claims of differential VAT for the crop year 2011-12 and 2012-13 were raised with delays ranging between three to 14 months resulting in delay in receipt of amount of ₹ 10.23 crore and excess payment of interest of ₹ 0.98 crore.

[15] Prior to crop year 2010-11: 10 cases (₹ 13.62 crore), 2010-11: 5 (₹ 7.70 crore), 2011-12: 12 (₹ 33.26 crore), 2012-13: 8 (₹ 128.40 crore) and 2013-14: 2 (₹ 7.13 crore).

c) FCI issued (July 2013) instructions to release withheld gunny depreciation[16] in respect of new gunnies utilised for procurement of paddy during crop year 2011-12 and started releasing depreciation in respect of crop year 2012-13. We noted that except in Ludhiana, supplementary claims of gunny depreciation in respect of new gunnies for the crop year 2011-12 amounting to ₹ 8.69 crore were raised by other selected district offices with delays ranging between 4 months to 14 months. Similar delays were noticed, for crop year 2012-13 in four district offices (Moga, Sangrur, Jalandhar, and Patiala) in raising the supplementary claim of gunny depreciation in respect of new gunnies amounting to ₹ 8.04 crore, between seven to 12 months. Two district offices (Mohali and Fatehgarh Sahib) had not raised (March 2015) the claim of gunny depreciation of ₹ 57.80 lakh for the crop year 2012-13 at all. This delayed or non claiming of gunny depreciation resulted in excess payment of interest of ₹ 1.52 crore upto March 2015.

d) The audit of selected district offices of the Company showed that the district offices received payments of sale bills from FCI after delays ranging from one to 268 days (after allowing a margin of three days after raising of sale bills) resulting in a loss of interest of ₹ 5.57 crore for the crop years 2010-15, for which no claim was raised on FCI.

2.1.10.2 *Incorrect raising of claims*

The provisional rates of CMR for the KMS 2011-12 and 2012-13 were issued by GoI on 21 December 2011 and 23 November 2012 respectively. However, the district offices of Ludhiana, Moga, Fatehgarh Sahib and Mohali continued (February to May 2012) to raise the claim for KMS 2011-12 at the rates of crop year 2010-11. As a result, supplementary claims of ₹ 12.11 crore on account of rate differential of crop year KMS 2011-12 were raised with delays ranging between two to 21 months. Further, district office Fatehgarh Sahib continued to raise the claim of rice delivered for KMS 2012-13 at the rate of KMS 2011-12. As a result, it raised a supplementary claim of ₹ 6.06 crore on account of rate differential of crop year KMS 2012-13 in April 2013 after a delay of five months, without any recorded reasons, though other district offices were raising the claim as per the cost sheet issued by the GoI. This resulted in a loss to the Company due to excess payment of interest of ₹ 1.39 crore.

2.1.10.3 *Non recovery of cost of once used gunny bags*

During audit of gunny records of the five[17] selected district offices, we noticed that the district offices utilised 134.13 lakh once used gunny bags valuing ₹ 32.69 crore for the procurement of paddy in KMS 2010-11 to KMS 2014-15. The district offices recovered ₹ 19.62 crore as 60 *per cent* of depreciated cost of the once used gunny bags from the millers and remaining 40 *per cent* cost amounting to ₹ 13.07 crore was to be recovered from FCI. However, the Company neither preferred any claim for reimbursement of the

[16] It is 40 *per cent* cost of new bags reimbursed by FCI which were used during paddy procurement and were retained by the miller after delivery of rice to FCI.

[17] Jalandhar, Sangrur, Ludhiana, Mohali and Fatehgarh Sahib

remaining cost of bags from FCI as per the guidelines (May 2013) nor took up the matter with GoI for finalisation of rates for once used bags.

2.1.10.4 *Non-reimbursement of interest on the cost of gunny bags and arhtia commission*

In the CMR rates for 2010-11 to 2014-15, the Company paid arhtia commission and invested its funds in the purchase of gunny bags at the time of procurement of paddy out of the cash credit. These cost of bags and arhtias charges are reimbursed to the Company at the time of delivery of rice. The interest element on the amount invested by the procuring agencies on these elements of cost is not reimbursed. This resulted in a cost of ₹ 36.56 crore to the Company during 2010-15, out of which ₹ 16.76 crore[18] was recoverable from FCI and ₹ 19.80 crore from the State Government in lieu of allowing longer period of milling as discussed in paragraph 2.1.9.1 supra.

2.1.10.5 *Non-recovery against delivery of 'beyond rejection limit' rice*

FCI deducted (April 2011 to June 2013) ₹ 4.09 crore in three district offices (Moga, Jalandhar and Sangrur) from sale bills of rice on account of 'beyond rejection limit' (BRL) rice supplied by rice mills. However, the Company could recover only ₹ 1.18 crore from the defaulting millers and ₹ 2.91 crore was still recoverable (March 2015). It was also observed that in district office, Moga, FCI deducted ₹ 0.13 crore against the millers which were not even allotted to the Company. The district office had not raised (March 2015) any supplementary claim with FCI against this deduction.

2.1.10.6 *Non finalisation of millers accounts*

We observed that the district offices had not recovered an amount of ₹ 11.73 crore for the crop years 2010-11 to 2012-13 from 205 millers due on account of gunny bags retained, quality cuts etc while finalising their accounts. The district offices had not finalised the accounts of 212 millers for the crop year 2013-14 though the extended delivery period of rice for the crop years 2013-14 had already expired in September 2014. Further scrutiny revealed that district offices had recovered the outstanding amount of ₹ 11.49 crore from 126 millers after delays ranging between one to 36 months from finalisation of accounts/completion of milling which resulted in loss of interest of ₹ 0.42 crore.

Management while admitting the facts stated (August 2015) that actions are being taken to curb the deficiency in future.

Internal Control

2.1.11.1 Internal control is a tool for efficient and effective management of the Company. An essential part of internal controls is an accounting manual but the Company has not prepared any accounting manual. We observed that

[18] Interest calculated at CC rate for two months, the period for milling allowed by FCI

internal control system in the Company in relation to the activities covered in the performance audit were deficient. It lacked a reliable mechanism to ensure:

- Implementation of terms of CMP framed by State Government such as storage and physical verification of paddy, timely delivery of rice, etc.;
- Adherence of agreement terms with the millers and timely finalisation of their accounts;
- Timely raising of claims, differential/ supplementary claims and recovery thereof from FCI; and
- Rendering of information to the Management of activity wise working results etc.

2.1.11.2 The Company has an internal audit wing under the control of a General Manager (Monitoring/ Audit and Recovery). The Company has been appointing firms of chartered Accountants for conducting the internal audit. A review of the internal audit system of the Company revealed that:

- No internal audit manual defining the scope of work, duties and responsibilities of internal audit wing was devised;
- There was no prescribed system to prepare action plans for Internal Audit resulting in the audit of units being conducted without deciding the priorities; and
- Reports of Internal Audit were neither brought to the notice of the Board of Directors for perusal nor any monitoring system to take corrective remedial action on the reports was evolved.

Management while admitting the facts (August 2015) assured for future compliance.

Conclusion

The operations of the Company from the procurement of paddy to the delivery of rice to FCI were plagued by inefficiencies. As a result the Company continued to make huge losses. The cash credit limit availed by the Company was not backed by an equivalent value of stock of foodgrains. There was a lack of control in milling operations with the result that there was misappropriation of paddy. Non-recovery of costs from millers and delay in raising bills on FCI with consequential loss of interest were noticed. Similarly, there were costs associated with the CMR operations which are neither reimbursed by FCI nor compensated by the State Government which affected the Company adversely.

Recommendations

We recommend the Company:

i. to evolve a mechanism to ensure that millers deliver due rice to FCI within the stipulated period;

ii. **to recover claims of undelivered rice and transportation charges from millers;**

iii. **to prefer claims timely with FCI/ millers and effect and monitor timely recovery of its dues;**

iv. **to fix time limit for initiating arbitration cases; and**

v. **to strengthen internal controls such as implementation of terms of CMP, adherence of agreement with the millers, timely raising of claims.**

The matter was referred to the Government (July 2015), their replies were awaited.

Punjab State Power Corporation Limited

2.2 Purchase and Inventory Control

Executive Summary

Consequent upon unbundling of Punjab State Electricity Board, Punjab State Power Corporation Limited (PSPCL) was entrusted the business of generation and distribution of power and Punjab State Transmission Corporation Limited (PSTCL) was made responsible for transmission of power. The important findings noticed in PSPCL while conducting the performance audit on 'Purchase and Inventory Control' are as under:

Purchase of transformers in excess of requirement valuing ₹ 15.46 crore and excess stock of cables without required accessories worth ₹ 3.81 crore were noticed.

(Paragraphs 2.2.7 a and 2.2.7 b)

Inefficient tendering process resulting in failure to place purchase order within the original validity period resulted in extra expenditure of ₹ 16.58 crore.

(Paragraph 2.2.8.1)

Material valuing ₹ 5.45 crore remained un-utilised even after five years of the corporatisation of the two Companies, due to non-finalisation of modalities.

(Paragraph 2.2.9.2)

No MIS mechanism had been evolved to ensure timely rendering of material at site accounts and finalisation thereof within the stipulated period. Accounts of 4788 works, involving material worth ₹ 103.05 crore, had not been finalised.

(Paragraph 2.2.10.1)

Company had neither framed its own internal audit manual nor updated the internal audit manual of the erstwhile Board, which it had adopted, to match with the size and nature of its business.

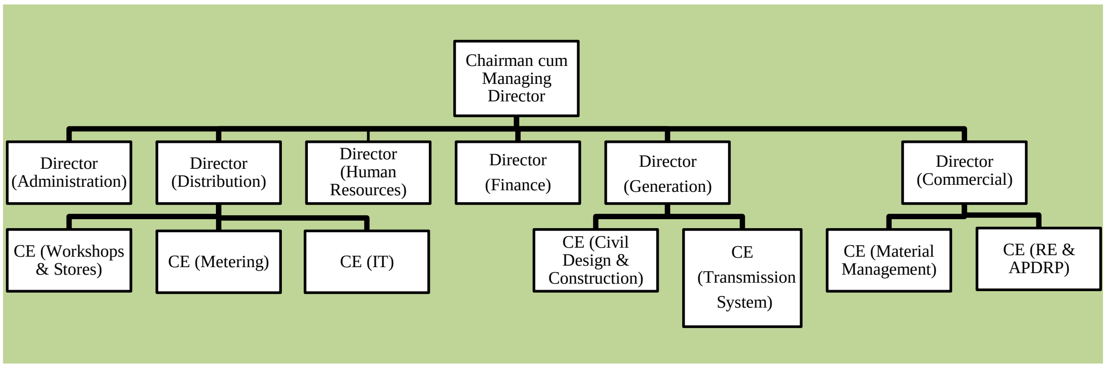
(Paragraph 2.2.10.5)

Introduction

2.2.1 Punjab State Electricity Board (PSEB) was unbundled on 16 April 2010 into two companies *viz.* Punjab State Power Corporation Limited (PSPCL) and Punjab State Transmission Corporation Limited (PSTCL). Consequently, business of distribution and generation of power was entrusted to PSPCL and PSTCL was made responsible for transmission of power.

Organisational set-up

2.2.2 The organisation hierarchy of PSPCL is given below:



Audit Objectives

2.2.3 The audit objectives of the performance audit were to ascertain whether;

- the regulatory framework for purchases has been framed and approved by the competent authority;
- purchase requirements were assessed on realistic basis and variance analysed;
- laid down criterion were followed for placing purchase orders and were executed as per terms and conditions of the contract/ purchase order; and
- internal control systems were commensurate with the size of the activities.

Scope of audit

2.2.4 Performance of activities of "Purchases and Inventory Control" in the erstwhile Punjab State Electricity Board (Board) were reviewed and included in the Report of Comptroller and Auditor General of India for the year 2007-08 (Commercial) - Government of Punjab. The Committee on Public Undertaking (COPU) of the State Legislature could not discuss this Report and had decided (June 2015) to send the whole Report, including the review, to the concerned Administrative Secretaries to take appropriate action at their own level. COPU is yet to be informed (September 2015) of the action taken.

The present performance audit of 'Purchase and inventory control in PSPCL' conducted during January 2015 to April 2015 covered the activities relating to purchase of materials and inventory control during the period 2010-2015 in five[1] out of seven offices of Chief Engineers of PSPCL. During the last five years ending March 2015, these five Chief Engineers offices had placed purchase orders for materials worth ₹ 3993.91 crore. We examined 157 tender enquiries (31 *per cent*) out of 508 tender enquiries floated by these CEs, selected on the basis of Circular Systematic Sampling[2] and Judgemental Sampling technique. In addition to this, records of four[3] central stores out of 12 central stores of PSPCL, selected on the basis of probability proportionate to size sampling technique, were examined.

We explained the audit objectives, methodology and criteria to the Management of PSPCL in an entry conference (February 2015). Audit findings were reported to them and the State Government (July 2015) and discussed in the exit conference (August 2014) which was attended by the senior management of PSPCL and the Government. The views expressed/ replies received by/ from the Management/ Government have been considered while finalising this performance audit report.

We acknowledge the co-operation and assistance extended by the staff and the Management of the PSPCL at the various stages of conducting this performance audit.

Audit Criteria

2.2.5 The audit criteria were sourced from:

- purchase regulations and instructions issued from time to time by the Board/ PSPCL;
- work plan/ basis for assessment of requirement of material;
- terms and conditions of purchase orders/ contracts/ agreements;
- norms fixed by the PSPCL for holding inventory; and
- procedure prescribed for receipt, issue and verification of stock.

Audit findings

Regulatory framework for purchases

2.2.6 Procurement of Material

2.2.6.1 Purchase procedure of Material Management organisation of PSPCL

The system, procedures, rules and regulations for purchase of materials in PSPCL are derived from its Purchase Regulations and the Commercial

[1] Chief Engineer (Material Management), Chief Engineer (Metering), Chief Engineer, (Workshop and Stores), Chief Engineer (Transmission System), Chief Engineer, (IT)

[2] One fourth of total tender enquires floated were selected through Circular Systematic Sampling technique and judgmental sampling. Judgmental Sampling was used to pickup interrelated tender enquires

[3] Bathinda, Ludhiana, SAS Nagar (Mohali) and Verka (Amritsar)

Accounting System. Chief Engineer/Workshop & Stores (CE/W&S) intimates the requirements to CE/Material Management (MM)for initiating the purchase process. CE/MM determines the net annual requirement. The proposals for purchase of material worth upto ₹ four crore are decided by a Central Purchase Committee (CPC) and purchases above ₹ four crore are decided by a committee of Whole Time Directors (WTDs).

2.2.6.2 Non revision of Purchase Regulations

Erstwhile PSEB, exercising powers conferred by Clause (g) of Section 79 of the Electricity (Supply) Act 1948 had framed PSEB Purchase Regulations, 1981. These purchase regulations have been amended from time to time and a compilation printed (Oct 2005).

We observed that:

- Though Electricity (Supply) Act 1948 was repealed and the Electricity Act 2003 had come into force, the erstwhile Board and the PSPCL did not revise the Purchase Regulations by mapping it to the requirements[4] of the Electricity Act, 2003.

- After unbundling of erstwhile Board, PSPCL adopted the PSEB Purchase Regulations, 1981 and had not framed its own purchase regulations as per its nature of business, requirements of the latest laws and best procurement practices.

Management replied (August 2015) that action has been initiated to frame purchase regulations.

2.2.6.3 Material Budget

An efficient material management system must have a proper estimate of material requirements, to be prepared in the form of a Material Budget. The actual purchases and utilisation thereof compared against estimates and variances analysed for taking corrective action.

We observed that an Annual Material budget for the ensuing year was not being prepared by PSPCL. The non-preparation of a comprehensive material budget led to funds for procurement of material being allocated on *adhoc* basis in the annual financial budget.

Management accepted (August 2015) that no separate annual Material Budgets were being prepared and assured that the issue will be addressed.

---

[4] Central Electricity Authority has made regulations acting on Section 55(1), 73(e), 177(2) of Electricity Act, 2003 for regulating the installation and operation of meters. These have not been included in the purchase regulation by the companies. Also guidelines issued by CVC from time to time regarding procurement, best practices as adopted by neighboring states have not been included in the purchase regulations

Assessment of requirement of material

2.2.7 Material Procurement Plan were not being prepared on a yearly basis or after consolidating requirements of different user departments. Purchase proposals were processed on receipt of requirements of individual items.

In PSPCL, consumption of material during previous three or four years, pending purchase orders and minimum stock level were being considered for preparing purchase proposals for individual items. Audit noticed, however, that the net requirements submitted by the MM organisation were being reduced/changed substantially by the WTDs at the time of approval of purchase proposal. Hence, the requirements of material were finalised by the WTDs on *adhoc* basis and without considering these factors.

Audit observed the following, amongst other cases indicated in ***Annexure 5.***

(a) Purchase of 10 KVA transformers in excess of requirement

PSPCL issued (October 2012) tender (Q 3901) for procurement of 43,000 numbers of 10 KVA distribution transformers (after considering residual quantity of 15900 nos. of an earlier tender), for meeting requirement of 'Accelerated Release of Tubewell Connections (ARTC) scheme'. The offers of all the 25 participating firms were valid upto 7 March 2013. During processing time of tender, residual quantity of the earlier tender enquiry was awarded and work of ARTC was decided to be executed on turnkey basis. In view of this, the Chief Purchase Officer (CPO) recommended to drop the tender enquiry (Q 3901). The Director (Commercial), however, directed to proceed with the tender enquiry citing forthcoming paddy season.

The price bids were opened on 31 May 2013 and the validity period of all the firms was extended upto31 December 2013 as the purchase proposal could not be finalised within the validity period. The CPC in its proposal updated the requirement to 23,000 transformers[5] for the period up to December 2014 but the committee of Whole Time Directors (WTDs), decided to continue with procurement of 43,000 transformers and allocated the same amongst 13 bidders at L_1 rate of ₹ 28,625.47 per transformer. The purchase orders were issued in January 2014 with deliveries up to January 2015. The CPO noticed (May 2014) that stock was 9766 numbers against minimum/ maximum level of 3000/ 6000 and another 2150 transformers were ready for inspection with the suppliers decided to defer further receipts. CPO again assessed (12 February 2015) the stock position at 11,400 transformers and deferred supplies up to 15 March 2015.

We observed that though the Director (Commercial) had advised to continue with the purchase in view of the forthcoming paddy season, the tender enquiry could not be finalised when the transformers were needed. We also observed

[5] considering supplies in pipeline, minimum level, general requirements and additional requirements on previous consumption basis

that even after deferment of the supply, PSPCL had excess stock of transformers, which caused blockade of funds to the extent of ₹ 15.46 crore[6].

Management replied (August 2015) that the agenda for procurement of transformers could not be finalised due to certain observations and introduction of advance tax by Government of Punjab. The reply is not acceptable as provisions of advance tax were introduced in October 2013 by GoP and were never the cause for non-finalisation of the purchase proposal. It was due to continuous change in the proposal of quantity that the purchase order was not finalised.

(b) Procurement of Aerial Bunched (AB) Cables without Accessories

CE (MM), PSPCL floated (September 2011) a tender enquiry (QQ-151) for procurement of 1280 kilometres (kms) of 11 KV XLPE Aerial Bunched (AB) cables of assorted sizes for erection of independent feeders. The WTDs after considering the purchase proposal decided (January 2012) to procure 450 kms[7]. Subsequently, due to very low consumption of these AB cables, the supply of the cables was deferred time and again. The deferment of supply of cable-1 was revoked in April 2013 considering increase in consumption of cable and the suppliers were asked to supply the remaining quantity. However, the supply of cable-2 remained deferred due to its low consumption and stock position in excess of minimum limit.

We observed that at the time of procurement of AB cables, the procurement of mandatory accessories was not considered due to non-availability of technical specifications. In the absence of required accessories and purchase in excess of requirements, 18.651 kms of cable-1 and 70.585 kms of cable-2 valuing a total of ₹ 3.81 crore[8] remained excess in stock (January 2015), over and above maximum stock level of 55 kms and 35 kms of the cable -1 and cable-2 respectively.

Management replied (August 2015) that there is no requirement of specific accessories and no difficulty was being experienced by field staff. Also from 2013-14, consumption of cable-1 had increased. The reply is not acceptable because as per records of the Company difficulties were being faced by field staff in use of AB cables due to non-availability of accessories. Further, consumption levels regarding cable-2 were not commented in reply and audit has taken for valuation purposes, stock levels of cables in excess of maximum levels fixed by Company.

[6] Figure worked out for 5400 transformers (11400 – 6000) @₹ 28,625.47after giving maximum stock level margin of 6000 transformers.

[7] 250 kms of 3Cx150+150 mm^2 (Cable-1) and 200 kms of 3Cx95+70 mm^2(Cable-2)

[8] 70.585 kms of 3Cx95+70mm^2AB cable @ ₹ 398073.50 per Km and 18.651 kms of 3Cx150+150 mm^2 AB cable @ ₹ 5,38,208.53 per Km (After allowing margin for maximum level).

Tendering process and execution of tenders

2.2.8.1 Efficiency of tendering process

The Purchase Regulations mandate that all offers received from the bidders are to be valid for a period of at least 120 days. However, no time limit has been fixed within which tenders are to be finalised.

In many cases**,** PSPCL failed to finalise the purchase proposals within the original validity period of 120 days and had to get the validity of their offers extended. The delay in finalisation of tenders ranged between four and 170 days after the expiry of original validity period. There were also instances where L_1 bidders had refused to extend the validity of their offers and Company purchased the material at higher cost subsequently.

Management expressed (August 2015) that fixing of time frame was not feasible in view of time taken in getting clarifications on technical aspects and conducting work appraisal of new firms. However, they assured to address the issue.

Audit noticed delay in finalisation of purchase proposals with concomitant implication of higher cost to PSPCL:

(a) PSPCL invited (June 2013) online tenders (Q-3913) under three part bid system[9] for procurement of 5000 numbers of 63 KVA distribution transformers. Seventeen firms participated in the tender and their offers were valid upto 6 November 2013. Part III of the bids of 14 eligible firms were opened on 19 September 2013 in which M/s Shree Balaji Industries, Baddi with offered quantity of 5000 transformers was L_1 with the equated rate of ₹ 52903.86 per transformer. However, PSPCL could not finalise the tenders within the validity period and approached the tenderers for extension of validity citing that GoP had notified (October 2013) imposition of advance tax on purchases from outside the State. All the firms except, M/s Shree Balaji Industries, Baddi (L_1) extended the validity of their offers.

On refusal of L_1 party to extend its offer, MM organisation proposed (January 2014) to the WTDs to procure the material at the L_2 rates. The WTDs observed (February 2014) that there had been inordinate delay in submission of the agenda after the finalisation of advance tax and decided to scrap tender Q-3913 and retender. Accordingly, the tender was cancelled and the quantity was associated with the subsequent tender Q-3926 which was finalised (July 2014) for procurement of 8,000 transformers at fresh L_1 rates of ₹ 67,488 per transformer quoted by M/s Hi-tech Transformers, Jammu.

[9]Three part bid system comprises of Part-I as Earnest Money Deposit; Part-II as Technical and Commercial bid; and Part-III as Price bid.

Thus, PSPCL had to incur extra expenditure of ₹7.29 crore[10] due to delay in finalising the tender.

(b) PSPCL invited (June 2013) online tenders (Q-3914) for procurement of 5000 number of 100 KVA Distribution Transformers. After opening of Part I and II of the bids on 5 July 2013, Part III of the bids of all the 19 participating firms was opened on 3 October 2013. Shree Balaji Industries, Baddi emerged L_1 with equated[11] rate of ₹ 72093.86 per transformer. The difference between price of L_1 and L_2 was as high as ₹ 12697.39 per transformer. However, PSPCL did not place the Purchase Order within the validity period (1 November 2013) of price bid and L_1 firm also not agreeing to extend validity of their offer, the tender was scrapped (February 2014).

PSPCL invited (May 2014) on-line tenders (Q-3927), with enhanced requirement, for procurement of 10000 numbers of 100 KVA transformers which was finalised (July 2014) to at the rate of ₹ 90667.01 per transformer. Thus, the Company had to incur an additional expenditure of ₹9.29 crore[12] in procurement of 5000 DTs due to delay in placing the Purchase Order.

The Management replied (August 2015) to the above cases that L_1 firm had quoted unrealistically low rates and finalisation of tender enquiry was delayed due to introduction of Advance tax. The Management reply is not acceptable because each bidder quotes their own rates after checking their cost components. Further, due to any change in structure of payment of taxes etc., the purchase process should have not been delayed and that there was no change in total rates of taxes imposed, only the procedure of payment of taxes had been changed.

2.2.8.2 Splitting ordered quantity without valid reasons

As per Purchase Regulation 20(iv), the competent authority may distribute the quantity to be procured on more than one firm after recording reasons thereof. We noticed that allocated quantity was distributed amongst different bidders at L_1 rates without recording any reasons. There was no disclosure made in the NIT/ tender document of any pre-determined ratio for such distribution. The CVC had also issued instructions (March 2007) that the quantity being finally ordered should be distributed among the bidders in a manner that is fair, transparent and equitable.

A number of cases were noticed during the audit period 2010-15 where finalised quantity was split amongst different bidders without recording reasons and in the process L_1 bidder was awarded quantity lesser than the quantity offered. Instances of refusal by the other bidders to accept the counter offer at L_I rate were also noticed leading to Company incurring higher costs for their purchase in subsequent tenders.

[10] 5000 T/Fs x (₹67,488 – ₹52903.86) = ₹ 7,29,20,700

[11] Equated rate is arrived at by adding applicable taxes and duties to ex-work rate quoted by the bidder.

[12] 5000 DTs X (₹ 90667 - ₹ 72093) = ₹ 9,28,65,750

Management replied (August 2015) that distribution of quantity amongst bidders increase the reliability of supply. They also assured that internal guidelines would be framed.

A case of splitting the ordered quantity on *ad-hoc* basis and not taking up the full offered quantity with costly results is presented below as illustration:

Non-placement of purchase order on L_1 firm for full offered quantity

Against tender enquiry Q-3917 floated by CE (MM), PSPCL, for procurement of 13,000 distribution transformers, the WTDs decided (April 2014) to procure 2,000 transformers each from the L_1 firms (two) and 6,000 transformers from other next five firms in the merit list at the L_1 rates. Accordingly, Letter of Award (LOA) was issued to both the L_1 firms and Letter of Intent (LOI) to other five firms for the decided quantity at the L_1 rates. However, the other five firms (other than L_1) did not accept/ respond to the counter offer at L_1 rates. The purchase orders were placed (May 2014) for 4,000 transformers on both the L_1 firms at ₹ 63,728.20 against their offered quantity of 9000 transformers.

Due to not placing the purchase order (PO) for full offered quantity (9000 transformers) on L_1 firms, PSPCL had to purchase (July 2014) the balance quantity of 5000 transformers against a subsequent tender at the rate of ₹ 67,488 per transformer, which was higher than the L_1 rate of earlier tender enquiry by ₹ 3759.80 per transformer. This resulted in PSPCL incurring extra cost of ₹1.88 crore.

PSPCL stated (August 2015) that all the firms to whom counter-offers were made, refused the L_1 rates. Management reply is not acceptable because the Company did not place order on L_1 firms even for the full offered quantity which they were bound to accept.

2.2.8.3 Inaction against defaulting firms

The Committee of WTDs of PSPCL desired (August 2012) a memorandum from MM organisation alongwith the seniority list of firms who had defaulted in supply of material and directed that action of blacklisting be taken under Negligence & Default clause of Purchase Regulations, within one month.

(i) Audit noticed that a seniority list of 29 firms, who had defaulted in supply of material within contractual delivery periods (CDPs) up to 31 July 2012, was prepared and submitted belatedly to the WTDs in December 2014. Further, out of the 47 firms who had not supplied the material within CDP upto 31 December 2013, no action had been taken against 31 firms (April 2015). PSPCL, though added (December 2012) a new clause in its purchase regulation according to which the defaulter firm was not to be eligible for participation in any new tender enquiry for a period of two years from the date of issue of purchase order (PO) in which it had defaulted. We observed that reckoning the ineligibility from the date of placement of PO instead of from the date of default defeated the very purpose of addition of the clause as in most of the cases the CDP goes beyond one year.

(ii) PSPCL in pursuance of on-line tenders for procurement of Distribution Transformers (DTs) of various sizes, awarded M/s Shree Balaji Industries, Baddi (firm) contracts for supply of 800 nos. 25KVA capacity (Tender enquiry Q-3903); 3000 nos. 6.3 KVA capacity (Tender enquiry Q-3904); 2700 nos. 16 KVA capacity (Tender enquiry Q-3905) and 1500 nos. 63 KVA capacity (tender enquiry Q-3906) valuing ₹ 27.76 crore. The firm did not supply material in any of the said Purchase Orders except in case of TE Q-3904 wherein supplied only 466 DTs. Thus, the firm had defaulted in all the four POs.

The firm was to deposit a total security of ₹ 55.51 lakh against all the four Purchase Orders, which was not taken in terms of notice inviting tender (NIT). PSPCL made payments of ₹ 1.03 crore to the firm during the period September 2013 to November 2013 against 466 DTs delivered without deducting security amount. This non-enforcement of terms of NIT/ negligence on the part of the Company to obtain security led to non-forfeiture of Permanent Earnest Money deposit (PEMD) of ₹ 10 lakh and non-recovery of remaining ₹ 45.51 lakh from the bills of the defaulter firm.

PSPCL informed (August 2015) that the suggestions of Audit have been noted and suitable amendment in the clause is under consideration for making the defaulter clause more comprehensive and effective. The point stays that the Management could not effect any recovery against the defaulter firm.

2.2.8.4 E- tendering system for procurement of material

PSPCL decided (August 2010) to select M/s (n) code Solutions, Ahmedabad, IT Division of Gujarat Narmada Valley Fertilizers Co. Ltd. (GNFC), Gujarat, deeming it to be a State Government Undertaking, for implementation of e-tendering in PSPCL. Accordingly, a work order cum contract agreement was entered into (September 2010) with (n) code Solutions and e-tendering was implemented in PSPCL with effect from 20 September 2010. The decision of the WTDs was ratified (December 2010) by the BoD of PSPCL. The agreement with M/s. (n) code was initially for one year which was extended time and again up to September 2015. At the time of grant of extension for the year 2014, WTDs discussed that e-tendering was part of MM module under SAP/ERP solution being implemented in PSPCL. Hence, extension was given to M/s (n) code up to 20 September 2014 and again up to 20 September 2015 for implementation of SAP/ERP in PSPCL whichever was earlier. However, SAP/ERP has not been implemented in PSPCL so far (September 2015). We observed that:

- PSPCL outsourced (September 2010) the work without inviting open competitive bids. This departure from the standard practice of inviting competitive bids deprived PSPCL from getting alternative competitive rates. The extensions were also granted without resorting to the process of open competitive tenders.
- M/s (n) code Solution, Ahmedabad which was considered a Gujarat Government undertaking/ agency was not even a deemed Government Company.

- As per agreement, (n) Code Solutions was to provide payment gateway integration for payment towards tender fees and EMD, free of cost. Though e-tendering is under implementation for four years, payments towards tender fee and EMD are being received manually in the form of bank drafts and the payment gateway has not been made operational so far.

PSPCL replied (August 2015) that open competitive bids have now been invited for hiring e-tender vendor.

2.2.8.5 Non-adoption of good practices for procurement of material

There was no mechanism in the PSPCL to research and adopt good procurement practices followed by other peer utilities. The following are some of the good practices adopted by some of the power utilities of neighboring States:

- In some power utilities[13], there is a vendor rating mechanism. The philosophy of vendor rating[14] aims to help a utility to procure equipment/stores from vendor who is able to deliver the products of good quality at competitive prices with deliveries at a stipulated pace for achieving planned and operational targets. The vendor getting the highest rating is regarded as V_1 (similar to L_1) and the others in the descending order of their rating for the purpose of distribution of quantities of equipment/material to be ordered. However, the ordering rate (price) for procurement is the lowest evaluated price out of the rates quoted by the vendors selected for ordering on Vendor Rating basis.

- In some utilities[15], the purchase department has created vendor development cell (VDC).The VDC maintains item wise/ supplier wise details of quantity and rates and supplies the rates of items which are purchased by the various other utilities ensuring the reasonability of rates before placing orders.

Management of PSPCL while accepting the facts replied (August 2015) that there was no such formal mechanism but they had regulations for development of new firms and Punjab based firms.

Inventory Control

2.2.9 An efficient inventory control plays a key role in material management so as to avoid unnecessary holding of material leading to blockade of funds, more inventory carrying cost and lack of space etc.

[13] Dakshin Haryana BijliVitran Nigam Limited and West Bengal State Electricity Distribution Company Limited.
[14] Assessment of the qualifications of a vendor, on a single point scale, to help grading the performance of a vendor is called Vendor Rating.
[15] Dakshin Haryana BijliVitran Nigam Limited and Rail Coach Factory, Rai Bareli.

The inventory of PSPCL[16] was ₹ 233.10 crore as on 31 March 2011 which increased to ₹ 365.03 crore at the end of March 2015.

We observed following deficiencies in the inventory control in the selected stores of PSPCL:

- Inventory items had not been segregated into critical and non-critical items.
- ABC analysis as per value of store items was not done.
- In PSPCL, the minimum and maximum levels of inventories were not fixed at the store level. Though the maximum and minimum levels had been fixed at head office level based on consumption of 2011-12 but there is need to revise the levels due to ever changing consumption patterns.

Management of PSPCL while accepting the facts replied (August 2015) that ABC analysis was being carried out on quarterly basis. The reply is not acceptable as no evidence was seen on records.

2.2.9.1 Non-adherence to inventory levels

Chief Engineer (Stores and Workshop), PSPCL had prescribed minimum and maximum levels of major store items which were fixed keeping in view the annual requirement for the year 2011-2012 and no revision in these inventory levels had been made thereafter considering actual consumption of these major store items.

A review of the stock position ending March 2015 of the Central Stores of PSPCL revealed that out of total 53 major store items, prescribed inventory levels were not adhered to in as many as 26 items (49 *per cent*) like ACSR, Stay sets, Earth rods, Cables and transformers, etc. The maximum level had exceeded in case of 9 items and stock level of 17 items was below the minimum level fixed. The excess of material ranged between 16.93 *per cent* and 717.62 *per cent* of the maximum level fixed and shortfall of material ranged between 4.74 *per cent* and 97.33 *per cent* of the minimum level fixed.

Management replied (August 2015) that heavy stock of distribution items had to be maintained in summer due to heavy demand in paddy season. The reply is not supported by facts as in 17 out of 26 items, the stock level were below the minimum level.

2.2.9.2 Lack of co-ordination between PSPCL and PSTCL

After unbundling, PSPCL was made responsible for procurement of transmission equipment and sub-stations up to 66 KV and PSTCL for above 66 KV.

[16] In respect of three Chief Engineer i.e. Chief Engineer/Transmission Systems, Chief Engineer/Stores& Workshop and Chief Engineer/Metering

We observed that material valuing ₹ 11.77 crore relating to 66 KV transmission lines and Grid Sub-stations was lying in PSTCL store, which was of no use to it. The PSTCL decided (March 2014) to ask PSPCL to lift the material at the offered price or at PSPCL recent procurement price with a rebate of 10 *per cent*, whichever was lower. Out of the material worth ₹ 11.77crore, PSPCL after scrutiny of the material at stores, identified suitable material valuing ₹ 2.10 crore. Similarly, material worth ₹ 3.35 crore relating to 132 KV and 220 KV transmission lines and sub-stations was lying in PSPCL stores.

We further observed that PSPCL and PSTCL could not finalise the modalities for transfer of this material to each other and resorted to fresh purchases instead. Resultantly, material valuing ₹ 5.45 crore remained un-utilised even after five years of the corporatisation of the two Companies, with further chances of its deterioration, misappropriation and lapse of warranties.

Management replied (August 2015) that they have now finalised the modalities for transfer of materials and action would be taken for transfer the materials.

2.2.9.3 Non return/ non-lifting of transformers damaged within warranty period

In PSPCL, we noticed that at the end of March 2015, 488 transformers valuing ₹ 1.92 crore[17]which were damaged within warranty period, were not lifted by the suppliers even after lapse of three months[18] of intimation of their damage and 2,393 transformers valuing ₹ 9.42 crore were lying with suppliers for more than three months but not returned. The timely repair of these damaged transformers within the warranty period and recycling of these for operation within reasonable period could have reduced the fresh purchases of transformers to that extent.

Management replied (August 2015) that this was a continuous process and interest was chargeable for period of delay. Reply is not acceptable because recycling of these transformers could have reduced the fresh purchase of transformer to that extent.

2.2.9.4 Non-disposal of irreparable transformers

Damaged distribution transformers are sent to Central Store for repair in Transformer Repair Workshops of PSPCL. The healthy parts of irreparable transformers are extracted and irreparable portion is surveyed off for sale.

---

[17] 488 T/Fs x ₹ 39376.61 (Average cost of transformer) = ₹ 1.92 crore

[18] The warranty clause of the purchase orders for transformers provides that the supplier shall be responsible to replace free of cost, the whole or any part of the transformer which gets damaged within twelve months from the date of commissioning or 18 months from the date of dispatch whichever is earlier, within three months of intimation of failure/damage.

We noticed that in PSPCL 16,765 irreparable transformers valuing ₹ 27.92 crore were lying un-disposed at various Central Stores at the end of March 2015 and no mechanism had been evolved for disposal of such transformers. We also noted that parts valuing ₹ 0.41 crore extracted from damaged transformers were lying at the end of March 2015.

Management of PSPCL replied (August 2015) that accumulation of irreparable transformers was due to not receiving bids for whole lot. Management reply is not acceptable as PSPCL should make concrete efforts for disposal of irreparable transformers.

2.2.9.5 Blockade of funds due to slow moving/ non-moving items

The Controller of Stores, PSPCL (now CE/ Workshop and Stores) issues directions from time to time to all its Central Stores regarding issue of slow moving/non-moving items to other offices of PSPCL where these items can be used or consider these items for disposal if these are not required any more.

We noticed that as on 31 March 2015, 304 slow moving and non-moving items valuing ₹ 0.65 crore were lying in 12 central stores of PSPCL since long. No action had been taken to identify these items for disposal or issue to other organisations for their utilisation.

Management of PSPCL while accepting the facts replied (August 2015) that list of usable slow moving/ non-moving items have been circulated for identification and early utilisation. Audit also noticed that the Company had circulated the list only in August 2015.

Internal Control System

2.2.10 Internal control is a management tool used to provide reasonable assurance that objectives are being achieved in an economical, efficient and orderly manner.

The following points indicating weak internal control have been noticed:

2.2.10.1 Non rendering/ finalisation of material at site (MAS) accounts

The Company (erstwhile Board) had issued instructions from time to time that concerned JEs should render the accounts of material-at-site (MAS) within one month from the completion of work. The accounts rendered were to be finalised in the divisional office within three months of the completion of works.

We observed that no MIS mechanism had been evolved by PSPCL to ensure timely rendering of accounts and finalisation thereof within the stipulated period. At the end of March 2015, accounts of 4,788 works completed up to March 2014 involving material worth ₹ 103.05 crore had either not been submitted by the concerned JEs or had not been finalised by the concerned divisions. It was observed that the works completed as early as 1998 had not been closed. The breakup of MAS accounts, not rendered by JEs and those awaiting finalisation at the divisional offices, was not available with the head office of PSPCL.

Management while accepting the facts replied (August 2015) that it reviews the position of pending MAS accounts through Management Information Reports (MIR) and instructs the officers to clear the pending MAS account at the earliest. However, it was observed that MIR were deficient as they did not depict the executing units to which these pending MAS accounts pertain.

2.2.10.2 Physical verification of stock

Materials Accounting Manual prescribes continuous stock taking by stock verifier so that all the material items are covered at least once in a year and random checks by the Sub – divisional officer/ officer in-charge of the store.

We observed that in selected stores of PSPCL, stock verifiers did not conduct physical verification of stock during the period under audit as prescribed and were not conducting verifications so as to be able to cover all materials at least once a year. There was no provision for annual physical verification of stock on the closing date of accounting year to depict correct picture of inventories in the financial statements. The consolidated position of shortages/excesses detected during physical verifications by stock verifier/the Sub-divisional officer/ Divisional officer was not being compiled and analysed at head office level.

Management while accepting the facts stated (August 2015) that instructions have been issued to get the 100 *per cent* physical verification of all stock items. However, it was observed that the orders were only iterating the existing instructions of verification of all stores at least once a year and continues to be silent about institutionalising a system of year end stock verification.

2.2.10.3 Reconciliation of store ledger with financial accounts

We observed in selected Central Stores of PSPCL that value ledger cards as per Materials Accounting Manual were not being maintained, in the absence of which reconciliation of store ledger with financial accounts could not be ensured. The difference of inventory of ₹ 13.56 crore between control ledger and trial balance upto 2013-14 had not been reconciled.

2.2.10.4 Inter-unit transfer

During the scrutiny of records of CE/W&S, PSPCL, Ludhiana it was noticed that 583 number Inter Unit Transfer (IUT) bills valuing ₹ 51.55 crore were pending for adjustment at the end of March 2015. Out of these, bills of ₹6.62 crore pertained to the year 2010-11. Thus, PSPCL did not have adequate means to ensure that the materials issued from one store to other store were acknowledged in time by the recipient stores.

Management replied (August 2015) that pending IUT bills up to March 2014 have been cleared except the bills of ₹ 6.62 crore pertaining to year 2010-11.

2.2.10.5 Internal audit manual

We observed that PSPCL had adopted the Internal Audit Manual (2004) of erstwhile Board and neither had framed its own Manual nor updated it as per the nature and size of its business, requirements of the latest corporate laws and best auditing practices.

In PSPCL, Office of Chief Auditor is responsible for internal audit. The internal audit of CE/MM and CE/IT had been conducted upto 2013-14. At the end of December 2014, 1648 paras relating to the period 1973-2014 were outstanding in respect of these CEs.

The Statutory Auditors of the PSPCL also reported that internal audit system of the PSPCL was not commensurate with the size of the company and the nature of its business.

Management stated (August 2015) that the internal audit was being strengthened.

Conclusion

The system of Purchases and Inventory control in PSPCL was found deficient. The requirements of material were finalised on *adhoc* basis. There were delays in finalisation of tenders in original validity period leading to subsequent purchases at higher rates. The basis for distribution of purchase quantity amongst various bidders were not disclosed and transparent. Instances of non-initiation of action against defaulter firms were also noticed. Inventory items had not been segregated into critical and non-critical items. The minimum and maximum levels of inventories were not fixed at the store level. Material at site accounts were not rendered/ closed timely after completion of works. Internal Controls were weak.

Recommendations

We recommend PSPCL:

i. **to update procurement procedures for proper assessment of requirement of materials, timely finalisation of tenders and allocation of quantity amongst various bidders.**

ii. **to review inventory levels periodically considering past consumption trend of material, review re-order levels and evolve mechanism to ensure adherence to the inventory levels.**

iii. **to adopt good procurement practices of peer utilities.**

iv. **to strengthen internal control systems to ensure timely rendering of materials at site accounts, periodic physical verification of stock and reconciliation of stock ledger with financial accounts.**

Chapter-3
Audit of Transactions

Chapter-3

Audit of Transactions

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

Government companies

Punjab State Power Corporation Limited, Punjab State Transmission Corporation Limited and Department of Power, Government of Punjab

3.1 Punjab Power Sector Reforms Transfer Scheme

While unbundling the erstwhile Board, Government of Punjab placed a financial burden of ₹ 25097.64 crore on the two successor entities – PSPCL and PSTCL - by passing unfunded liabilities to them. The State Government sought to refurbish their balance sheets by (i) inflating its equity capital in the two entities by ₹ 3741.34 crore by reflecting consumer contributions and grants and subsidies as equity capital and (ii) including revalued land assets of ₹ 4874.41 crore whose ownership was not vested in the two successor entities.

3.1.1 Introduction

The erstwhile Punjab State Electricity Board (Board) was unbundled (16 April 2010) into two successor companies - Punjab State Power Corporation Limited (PSPCL) and Punjab State Transmission Corporation Limited (PSTCL).

Government of Punjab (GoP) framed (April 2010) Punjab Power Sector Reforms Transfer Scheme, 2010 (Scheme) for providing and giving effect to the transfer of functions, undertakings, assets, rights, liabilities, proceedings and personnel of the Board which was amended (December 2012) under the provisions of sub-sections (1) and (2) of Section 131 of the Electricity Act, 2003.

3.1.2 The GoP notified the opening balances of successor Companies – PSPCL and PSTCL in Amended Scheme (December 2012). The increase/ decrease in respective heads in the Balance Sheet as calculated by Audit are given in ***Annexure 6***. The audit findings pertaining to this vesting of assets and liabilities in Government of Punjab (GoP) and the re-vesting of the same in the successor entities are discussed below:

3.1.2.1 Transfer of unfunded liabilities to PSPCL and PSTCL

We observed that liabilities of erstwhile Board amounting to ₹ 25,097.64[1] crore were transferred to the two successor entities, either by incorrect

[1] Losses written off – ₹ 10751.64 crore + terminal benefits – ₹ 14346 crore

accounting or by not recognising clear liabilities in the opening Balance Sheet. Though from the time of conception of the scheme of unbundling, GoP had decided to provide clean balance sheet to the successor entities and not to transfer past accumulated losses yet the new entities were saddled with huge liability to begin with. These are discussed in following paragraphs:

3.1.2.2 Revaluation of land

The Land and Land Rights of the erstwhile Board were of the order of ₹ 546.53 crore in the closing financial statements. However, after revaluation, the opening balance of value of land in the successor entities were taken at ₹ 21,797.94 crore (PSPCL: ₹ 18,872.93 crore and PSTCL: ₹ 2,925.01 crore).

We observed that the balance sheets of the successor companies carried land assets valuing ₹ 4,874.41 crore (PSPCL - ₹ 4,704.34 crore and PSTCL - ₹ 169.72 crore), whose title/ ownership was not vested in the two companies. Revaluation of land at market value without proper/ clear transfer of title/ ownership of and adjustment of accumulated losses there against was not in order.

In its reply (July 2015), GoP stated that they were entitled to revalue any asset based on revenue potential of assets and it revalued the land to reflect the market price. The reply was silent on the matter of revaluation of land assets of 955.585 acres[2] valuing ₹ 807.84 crore, whose ownership was not vested in PSPCL and taking the effect of such revaluation to balance sheet. Though, Section 131(2) of the Electricity Act, 2003 provided for valuing the assets on the basis of their revenue potential, we note that land held by the Board was not a stock-in-trade for the two successor companies and capital reserve created on revaluation of land thus was not adjustable against accumulated losses as also advised in the guidance note (30 April 1982) of Institute of Chartered Accountants of India.

3.1.2.3 Setting off of accumulated losses against capital reserve

The erstwhile Board had accumulated losses of ₹ 10180.35 crores at the time of unbundling, which did not appear in the balance sheets provided to the two successor companies. This was done by setting off these losses against the capital reserve created by revaluation of land assets held by the erstwhile Board, as shown below:

	Particulars	**(₹ in crore)**
	General Reserve of erstwhile PSEB as on 16-4-2010	50.07
Add	Reserve created on Land Revaluation	21248.92
Add	Adjustment by Accounts Officer/ Banking	73.14
	Total	21372.13
Less	Losses written off (as determined in Financial Restructuring Plan)[3]	10751.64
	Balance (divided between successor companies as capital reserve)	10620.49

[2] Annual accounts of PSPCL for the financial year ended 31 March 2012. Similar information disclosed by PSTCL but without land area and its monetary value.

[3] The difference between the PSEB's accumulated losses as on 16.04.2010 (₹ 10180.35 crore) and those written off during FRP (₹ 10751.64 crore) was broadly on account of adjustment of interest on RBI Bonds (₹ 453.13 crore) + additional provision for bad and doubtful assets (₹ 100.00 crore) + adjustments made by the field offices (₹ 16.64 crore).

The adjustment of accumulated losses against reserve created on land revaluation was in violation of generally accepted accounting principles as the revaluation reserve does not represent a realised gain and is the result of a book adjustment.

GoP while agreeing (July 2015) that generally accepted accounting principles did not allow writing off accumulated losses of a commercial entity in the normal course of business as a going concern stated that the very purpose of providing for a statutory scheme of reorganisation was to enable such adjustment at the instance of sovereign State Government by exercise of statutory powers which were otherwise not available under normal commercial dealing or general accounting principles.

We do not agree with this argument as the statutory powers vested in the State Government under the Electricity Act, 2003 did not give carte blanche to the State Government to re-write accounting principles to suit its expedient requirements. The loss of ₹ 10751.64 crore should have been funded by the State Government if its intention was to make the successor entities financially viable instead of setting them off against gains arising out of a book adjustment.

3.1.2.4 Non-funding of terminal benefits

The erstwhile Board was not observing a system of accrual based accounting for terminal benefits and followed a policy of 'pay as you go'. Clause 6.8 of the Scheme (2010) provided that PSPCL and PSTCL would be responsible to ensure that Terminal Benefits would be progressively funded to meet their liabilities as per actuarial valuation as the State Government assumed the responsibility of making appropriate arrangement for funding the terminal benefits trusts. However, the Scheme was amended in 2012 which provided that funding of the terminal benefits trusts (including for retired employees) would be a charge on the tariff of the PSPCL and PSTCL respectively on yearly basis, to be decided by Punjab State Electricity Regulatory Commission (PSERC) in the ratio of 88.64:11.36 over a period of 15 financial years.

The liability on account of terminal benefits as on 16.04.2010 of erstwhile Board was valued on actuarial basis at ₹ 14346 crore but was not revested in the two successor companies.

PSERC also disallowed an amount of ₹ 914 crore and ₹ 117.05 crore, respectively while deciding the Annual Revenue Requirement of PSPCL and PSTCL for the year 2014-15 on the ground that the terminal benefits liability did not feature in the opening balance sheets of the two successor companies.

Accounting Standard 15 though requires providing for terminal benefits liability on actuarial valuation, the Transfer Scheme provision requiring for progressive funding of this liability through a charge on tariff was in violation of this Standard. Both PSPCL and PSTCL continue to not recognise this liability in their balance sheets.

GoP stated (July 2015) that it was only after reorganisation that the successor entities were required to maintain trust funds and the contribution of the past years was required to be made good, which could be done only over a period of time and could not be accomplished in one go to avoid tariff shock to the consumers. GoPs reply regarding noncompliance with Accounting Standard 15 is not acceptable as the Government at the time of unbundling should have provided for this liability instead of providing funding through a charge on tariff which has also been disallowed by PSERC.

3.1.2.5 Determination of equity share capital

The equity share capital of erstwhile Board was ₹ 2946.11 crore. GoP in the amended Scheme (December 2012) notified, after unbundling, the combined share capital of the two successor companies at ₹ 6687.26 crore[4] (PSPCL: ₹ 6081.43 crore and PSTCL: ₹ 605.83 crore). The abnormal increase in the equity capital of the successor companies was due to incorrectly treating consumer contributions and grants and subsidies amounting to ₹ 3741.34 crore shown in the last balance sheet of the erstwhile Board, as equity, instead of as liabilities.

GoP stated that adjustments made in equity were made at the level of the Government after the erstwhile Board's assets and liabilities were vested in the State Government and the vesting of the assets and liabilities in the successor companies was not from the erstwhile Board.

The contentions of the GoP are not acceptable as the vesting of assets and liabilities of the erstwhile Board in the State Government did not materially alter their nature and did not permit the Government to usurp money paid by consumers for creation of assets for their use as its own equity. The successor companies too are not recognising such consumer contributions collected, after their incorporation, as equity.

The treatment of consumer contribution and grants and subsidies as equity for the purpose of tariff calculation has also been struck down by the Appellate Tribunal on Electricity. PSPCL appeal against this order is now awaiting Supreme Court's decision.

3.1.2.6 Liability of RBI bonds

The Reserve Bank of India (RBI) had issued bonds amounting to ₹ 637.35 crore on behalf of the State Government in the year 2003-04 which was to be serviced by the State Government. Against the outstanding ₹ 637.35 crore, a liability of ₹ 1090.47 crore was passed on to PSPCL reflecting an increase of ₹ 453.12 crore[5]. This increase included an amount of ₹ 185.21 crore, which reflected interest on the principal and interest already paid off by the State

---

[4] GoP equity in Board - ₹ 2946.11 crore (+) Consumer contributions for capital assets - ₹ 2599.32 crore (+) Subsidies/Grants for capital assets - ₹ 1142.02 crore (-) Equity contributed to PSPCL and PSTCL - ₹ 00.10 crore (-) Cost of land retained by GoP – ₹ 0.09 crore = ₹ 6687.26 crore

[5] Interest paid by Govt. of Punjab till 16-4-2010 - ₹ 406.41 crore (+)Interest on interest and principal paid till 16-4-2010 - ₹ 185.21 crore (-) Incentive and interest on incentive till 16-4-2010 - ₹ 138.50 crore = Net increase - ₹ 453.12 crore

Government in the discharge of these Bonds. Interest on past repayments already made by the State Government was an additional burden on PSPCL, which was contrary to the objective of ensuring long-term financial viability of the successor companies.

3.1.3 Conclusion

Thus, liabilities amounting to ₹ 25097.64 crore were transferred to the two successor entities viz. PSPCL and PSTCL, either by incorrect accounting or by not recognising liabilities in the opening Balance Sheet at all. Though the objectives of the reforms in the power sector was to unburden the new entities from the past liabilities and provide them with clean financials, the successor entities were saddled with this huge liability from the beginning.

Punjab State Power Corporation Limited

3.2 Financial health of Company

After accounting for the impact of Auditors' qualifications, the Company incurred huge loss during 2010-13. It had a long-term debt of ₹ 15953.88 crore at the end of 2013-14. Non transfer of correct balances of assets and liabilities, incorrect accountal of loss and failure to limit expenditures within the fixed norms resulted in Company contracting loans much above the investment plan loans and working capital loans approved by the PSERC. It incurred heavy finance and interest cost of ₹ 1914.52 crore and avoidable payment of penal interest of ₹ 20.86 crore which affected the fund position. Failure to implement measures suggested by the Regulatory Commission resulted in non-recovery of ₹ 4373.64 crore.

As discussed in Para 3.1.2.1 above, unfunded liabilities of ₹ 25097.64 crore at the time of unbundling of the erstwhile Board were passed on to the successor Companies. Since, opening balances of assets and liabilities of PSPCL as given by GoP did not reflect the issues, the Company reported an incorrect loss of ₹1639.77 crore in its first accounts for the year 2010-11 which were commented upon by the statutory auditors' and the Comptroller and Auditor General of India. The qualifications on the Accounts had an effect of increasing the loss by nearly 12 times for the year 2010-11 to ₹19428.71 crore.

The following table shows the position in subsequent years:

Table 3.1: Financial position of the Company

(₹ in crore)

Year	2010-11	2011-12	2012-13	2013-14 (unaudited figures)
Profit/(-) Loss reported by Company	(-)1639.77	(-)537.05	260.55	249.31
Effect of Statutory Auditor (SA) comment	(-)72.28	(-)17022.01	(-)248.12	(-) 3076.89
Effect of CAG comment	(-)17716.66	1885.88	(-)1231.85	Accounts under audit
Loss after considering the effect of CAG and SA comments	(-)19428.71	(-)15673.18	(-)1219.42	(-) 2827.58
Long term loans	10940.53	9538.06	15789.40	15698.88
Short term loans	5800.00	5060.00	50.00	255.00
Interest and Finance charges	1594.88	1970.36	2429.79	2381.95

Source: Annual Accounts of the Company. The Company has not finalised its accounts for the year 2014-15 which were due by 30 September 2015.

The main sources of fund inflow of the Company are revenue from sale of power, subsidy from State Government and borrowings from Banks/ Financial Institutions. Fund outflow mainly comprises expenditure incurred on generation of power, purchase of power, establishment functions, capital works and repayment of loans and interest.

Audit noticed:

- The effect of the non transfer of correct balances of assets and liabilities and incorrect accountal of loss continued to affect the finances of the Company in the subsequent years. Company in the years 2011-12 and 2012-13, reported loss of ₹ 537.05 crore and profit of ₹ 260.55 crore which after considering the effect of qualifications of statutory auditors and those of the CAG turned into a loss of ₹ 15673.18 crore and ₹ 1219.42 crore, respectively.

- To meet this actual gap between income and expenditure, the Company took loans to discharge its obligations. The outstanding loans stood at ₹ 16740.53 crore, ₹14598.06 crore, ₹15839.40 crore and ₹15953.88 crore at the end of the years 2010-11, 2011-12, 2012-13 and 2013-14 respectively. The interest and finance charges increased from ₹ 1594.88 crore in the year 2010-11 to ₹ 1,970.36 crore in 2011-12, ₹ 2,429.79 crore in 2012-13 and marginally declined to ₹ 2381.95 crore in 2013-14. The Company was highly leveraged. Its debt-equity ratio stood at 2.40 in 2011-12 rose to 2.66 in 2013-14, as against the maximum advised norm of 2.33 for power companies given by PSERC.

- The cash flow from operating activities decreased from ₹ 3468.44 crore in 2011-12 to ₹ 2053.64 crore in 2012-13 and increased to ₹ 4014.78 crore in 2013-14 *(details given in **Annexure 7**).*

- The short term loan which stood at ₹ 7057.45 crore (16 April 2010) came down to ₹ 5800 crore in 2010-11, ₹ 5060 crore in 2011-12 and to ₹ 50 crore in 2012-13. The banks swapped (May-June 2012) the short term loans of the Company with new loans of longer tenure of equal amount to avoid these loans becoming Non-Performing Assets (NPAs).

Non recovery of cost of loans – interest and finance charges

3.2.1 Regulation 30 of PSERC (Terms and conditions for determination of Tariff) Regulations, 2005 direct the Company to assess its working capital requirements on normative basis. Upto 2011-12, it comprised fuel cost for two months; power purchase cost, employee cost, repair & maintenance cost, administration & general cost each for one month and maintenance spares @ 15 *per cent* of operation & maintenance expenses. With effect from 2012-13, PSERC revised Regulation 30 under which working capital was to be assessed as fuel cost for two months, operation & maintenance expenses for one month, receivables for two months, maintenance spares @ 15 *per cent* of operation & maintenance expenses less consumer security deposit. Capital requirements for investment plan was to be assessed on the basis of funds required for works during the year as reduced by consumer contribution, grants and subsidies received against the related works.

As against the directions, we noticed that the Company was not assessing its working capital requirements on normative basis and requirements of capital for investment plan was assessed without taking into account consumer contribution, grants and subsidies received against the related works. The position of loans approved by Commission vis-à-vis loans availed by the Company during the years 2011-12 to 2013-14 is tabulated below:

Table 3.2: Position of loans approved by PSERC vis-à-vis loans availed

(₹ in crore)

Year	2011-12	2012-13	2013-14
Investment Plan Loans approved by Commission (Source: Tariff orders of the Commission)			
Loan approved	1303.06	1050.08	1077.79
Investment Plan Loans availed by the Company (Source: Information supplied by the Company)			
Loan availed	1602.02	675.05	1172.39
Working Capital Loans approved by Commission (Source: Tariff orders of the Commission)			
Loan approved	2008.47	3414.93	2990.66
Working Capital Loans availed by the Company (Source: Information supplied by the company)			
Loan availed	5673.93	9197.82	1920.17

- The PSERC approved investment plan loan of ₹ 1303.06 crore for the year 2011-12 whereas the Company availed ₹1602.02 crore. The investment plan loans of ₹ 1050.08 crore and ₹ 1077.79 crore for the years 2012-13 and 2013-14 were provisionally approved by the Commission against which the Company availed ₹ 675.05 crore and ₹ 1172.39 crore respectively which were subject to true up of tariff for these years after disallowing consumer contribution, grants and subsidy, loans availed under R-APDRP as the loans were to be converted into grant on completion of programme.

- Against approved working capital loan of ₹ 2008.47 crore for the year 2011-12, the company availed loan of ₹ 5673.93 crore. During the years 2012-13 and 2013-14, the Commission provisionally approved working capital loans of ₹ 3414.93 crore and ₹ 2990.66 crore respectively whereas the company availed of ₹ 9197.82 crore and ₹ 1920.17 crore. The company was availing new long term loans for repayment of existing loans. Consequently, the Company could not recover cost of raising of finance i.e. interest and finance charges during the years 2011-12, 2012-13 and 2013-14 of ₹ 511.63 crore, ₹ 826.66 crore and ₹ 576.23 crore respectively in respect of loans drawn in excess of the norms which also included guarantee fee paid/payable to State Government on working capital loans to the extent of ₹ 2.62 crore, ₹ 91.20 crore and ₹ 49.28 crore respectively. The Company had availed medium term loans having repayment period ranging between three years and seven years besides short term loans having repayment period of one year to meet its working capital demand, which was not sound fund management.

Contracting of loans much above the limits fixed by the Commission can be traced to the Company's failure to limit its various other expenditures to norms specified by the Commission. Till 31 March 2014, the aggregate of such expenditures disallowed by the Commission while considering the tariff applications of the Company had risen to ₹ 13,222.00 crore.

We noticed that the Commission has been stressing the need for improvement in the working of the Company by reducing its work force, upgrading performance parameters and exercising economy. The Commission has also been laying down a road map for improving financial health of the Company through directives in each Tariff Order aiming at improving its technical, managerial and financial parameters. As the Company failed to implement these measures, it could not recover cost of its operations to the extent of ₹788.68 crore for 2011-12, ₹1,592.58 crore for 2012-13 (provisionally) and ₹1,992.38 crore for 2013-14 (provisionally) mainly on account of excess employee cost (₹538.36 crore), high power purchase cost (₹844.01 crore), excess depreciation (₹166.64 crore), higher fuel cost (₹642.73 crore), repair & maintenance (₹100.87 crore), administration & general expenditure (₹57.14 crore), interest & finance (₹1914.52 crore) and other expenses (₹109.37 crore).

In addition to aforementioned disallowances, the Commission disallowed ₹ 107.27[6] crore in their review of the tariff order for the year 2013-14 due to non-achievement of milestones as set out in the directives.

The Management while admitting the facts replied (August 2015) that the losses of the Company were funded by arranging working capital loans resulting in increase in loans.

Avoidable payment of penal interest

3.2.2 The company obtained Medium Term Loans (MTL) of ₹ 4,400 crore during April 2009 to December 2012 and Short Term Loans (STL) of ₹ 3,400 crore during February 2011 to March 2012 from various banks/ financial institutions to meet its working capital requirements. As per terms and conditions of loan agreements, principal amounts of MTL were to be paid in quarterly installments after expiry of prescribed moratorium period and of

[6] ₹ 10.00 crore on account of delay in shifting of meters outside premises in non-APDRP (rural areas), ₹ 72.27 crore on account of non implementation of Demand Side Management Regulations, ₹ 5.00 crore on account of non achievement of 100 per cent AP metering, ₹ 20.00 crore on account of non rationalisation of manpower.

STL in single installment after expiry of one year from the date of each drawl. Interest on principal amounts was to be paid on monthly basis. In case of any default, penal interest @ two *per cent* per annum was to be paid over and above the normal rate of interest.

We noticed that as the Company failed to generate necessary funds and defaulted in repayment of principal amounts during 2011-12 to 2012-13, it had to pay penal interest of ₹ 20.86 crore (₹16.40 crore on STL and ₹ 4.46 crore on MTL), resulting in increase in cost of debt.

The Management admitted (August 2015) that the loans could not be repaid in time after February 2012 as the banks had stopped providing new loans to the Company since September 2011 and the situation improved by May-June 2012 when banks restarted providing long term loans to the Company to repay its STL/MTL. The reply confirms that the debt position of the Company was unsustainable.

Poor monitoring of outstanding dues

3.2.3 The Company bills its consumers as per provisions of Electricity Supply Instruction Manual. It is obligatory on the part of the consumers to pay their electricity bills on or before due date of payments. Electricity Supply Instruction Manual of the Company provides that in case a consumer fails to discharge his liability, his premises will be liable for disconnection under Section 56 of the Electricity Act, 2003.

The table below indicates position of assessment and realisation of Company's revenue from sale of energy to consumer during the years 2011-12 to 2013-14:

Table 3.3: Position of assessment and realisation of revenue

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14
(i)	Arrear of revenue from sale of power at the beginning of the year	2,153.21	2,467.47	2697.54
(ii)	Revenue assessed during the year	15,668.45	19,191.90	20932.93
(iii)	Total revenue realisable during the year	17,821.66	21,659.37	23630.47
(iv)	Amount realised during the year	15,354.19	18,961.83	20539.12
(v)	Arrear at the end of the year	2,467.47	2,697.54	3091.35
	Percentage realisation	86.15	87.55	86.92

Source: Annual Accounts of the Company

The age-wise details of consumers whose payments were in arrears were not available with the Company which indicated lack of internal control.

The Management replied (August 2015) that the effective measures are taken to reduce outstanding dues to the minimum. Reply is not acceptable as concrete efforts should be taken to reduce the outstanding arrears.

Conclusion

Efficient fund management helps in optimum utilisation of available resources. However, the non-transfer of correct balances of assets and liabilities and incorrect accountal of loss coupled with the inability of the

Company to control its costs within the norms of PSERC, forced the Company to resort to borrowings beyond approved limits. The non-timely repayment of loans made the Company pay penal interest which further adversely affected the financial health of the Company.

The matter was referred to the Government (April 2015), their replies were awaited (September 2015).

3.3 Undue benefit to the firm

Failure on the part of the Company to get the bank guarantee renewed timely resulted in the Company extending undue benefit of ₹ 20.09 crore to the firm

The Punjab State Power Corporation Limited (Company) appointed (April 2010) M/s Spanco Limited, Gurgaon (firm) as Information Technology Implementation Agency (ITIA) for implementation of IT infrastructure under Re-structured Accelerated Power Development and Reforms Programme (RAPDRP) Scheme of Government of India. The Scope of work included supply, installation, integration, testing, commissioning and facility management service of System Integration Project covering software/hardware, field survey and networking of Company. The work order required the firm to complete the pilot town[7] implementation within a period of 12 months and enterprise wide[8] implementation within 18 months from the date of award followed by three months of successful running of the system i.e. work was required to be completed by 28 January 2012. The total cost of contract was ₹ 284.06 crore (₹ 232.54 crore for RAPDRP areas and ₹ 51.52 crore for non RAPDRP areas).

As per the terms of agreement, the firm was to be given 10 *per cent* of the project cost (excluding facility management service) as advance payment on issuance of Letter of Award against an equivalent amount of bank guarantee (BG). The firm was also to furnish a performance security bank guarantee (PSBG) for 10 *per cent* of contract value and. an additional performance security bank guarantee (APSBG) of 15 *per cent* of contract value.

The Company obtained PSBG of ₹ 28.40 crore (April 2010) and BG of ₹ 20.53 crore against advance of ₹ 20.53 crore paid (June 2010) from the firm. However, the firm did not furnish the 15 *per cent* APSBG and on request (May 2010) of the firm, it was reduced (October 2010) to five *per cent* (₹ 14.20[9] crore). However, Company did not take even the reduced amount

[7] Patiala city
[8] Includes all Urban areas covered in R-APDRP and all Urban, Semi-Urban and rural areas covered in non- R-APDRP
[9] Five *per cent* of contract value of ₹ 284.06 crore = ₹14.20 crore

and finally took an undertaking (March 2011) from the firm that it would submit the same before the payment stage of "User Acceptance Testing" (UAT).

We observed that when the BG of ₹ 20.53 crore expired in February 2012, the Company failed to get it renewed. After a gap of fifteen months, the Company decided (June 2013) to build up the BG by deducting 16 *per cent* from the due payments (₹ 129 crore) to the firm along with accepting a corporate guarantee[10] (₹ 23.27 crore). However, the Company could deduct only ₹ 0.44 crore (3.05 *per cent*) from the invoices of ₹ 14.41 crore raised by the firm.

On the scheduled date of completion (28.01.2012) of the project, the firm could only integrate (not Go-live) seven towns out of 47 towns along with setting up of Data centre and Disaster Recovery centre. The project had come to a standstill in December 2013. In view of this, the Company terminated (April 2014) the contract with the firm. The Company decided to encash the PSBG, corporate guarantee and to suspend business with the firm for three years.

We observed that the Company could only encash (April 2014) the PSBG amounting to ₹ 28.40 crore. The corporate guarantee of ₹ 23.27 crore accepted by the Company in lieu of BG could not be invoked even after serving (June/ July 2014) legal notice to the firm.

Thus, the successive dilution of the safeguards initially instituted by the Company to protect its interests in the event of failure by the firm to discharge its obligations and allowing the BG to lapse was tantamount to extending undue benefit to the firm which led the Company to forego ₹ 20.09 crore (₹20.53 crore – ₹0.44 crore).

The matter was referred to the Company and the Government (May 2015), their replies were awaited (September 2015).

3.4 Irregular exemption of octroi

Failure to carry out checks before allowing exemption from payment of octroi on electricity bills, obtained through submission of fake documents, and delay in withdrawal of the irregular exemption burdened the Company by at least ₹ 0.91 crore alongwith interest

The Company collects octroi imposed by the State Government on the electricity bills on behalf of Municipal Councils (MC) from its consumers in the area of MC and deposits it with the MC.

[10] A corporate guarantee is a guarantee in which a Company agrees to be held responsible for completing its duties and obligations.

M/s Patiala Casting Private Limited[11], Mandi Gobindgarh (firm) informed (June 2006) the Company that its power connection was outside the limits of MC, Mandi Gobindgarh and requested for exemption of octroi on its electricity bills. In support, firm produced a certificate purportedly issued by MC, Mandi Gobindgarh. The Company without verifying the facts from the MC, regarding actual location of the unit, decided (July 2006) to exempt the firm from charging of octroi on its electricity bills.

The firm further requested (November 2006) the Company for refund of octroi of ₹ 0.96 crore of the period June 1994 to June 2006 which was already deposited with MC from time to time by the Company. On investigation (March 2008) of matter of refund, Internal Audit Wing found that the certificate issued by the MC was not genuine. This fact was also confirmed from MC, Mandi Gobindgarh. The Internal Audit pointed out a recovery of ₹ 0.18 crore from the firm on account of outstanding octroi for the period July 2006 to February 2008 and rejected the demand of refund of octroi paid for the period from June 1994 to June 2006. However, the amount was not charged to ledger of the firm and consumer continued to get irregular exemption even after Company establishing the fact that the certificate based on which the exemption had been granted was not genuine.

The Company served (November 2009) a notice to the firm for paying outstanding octroi of ₹ 0.48 crore (From July 2006 to October 2009) but inexplicably the exemption allowed was not withdrawn even then and continued till the disconnection of power supply to the firm in March 2011 owing to non-payment of electricity dues.

The firm filed (January 2010) a Civil Writ Petition (CWP) in Punjab & Haryana High Court for restraining the Company from recovery of octroi. The CWP was decided (February 2012) against the firm on the ground that the firm had wrongfully obtained exemption. By April 2011, the amount of default had grown to ₹ 0.67 crore.

Meanwhile, the MC filed (April 2013) a case for recovery of octroi of ₹ 0.91 crore on the Company that the firm consumed electricity within the MC limits and it was the responsibility of the Company to collect octroi and deposit the same with the MC. The case was allowed (October 2014) against the Company along with interest of 12 *per cent* per annum, though the amount is yet to be paid (September 2015).

We observed that the Company extended irregular benefit as it allowed exemption to the firm based on a certificate, without verifying its authenticity, which turned out to be fabricated. The chances of recovery are bleak as the firm is a sick[12] company though a recovery suit for ₹ 2.55 crore[13] had been filed (August 2013) against the firm by the Company.

[11] having cluster connection with its sister concern M/s Patiala Steel Rolling Mills.

[12] Registered with the Bureau of Industrial and Financial Reconstruction (BIFR)

[13] Sale of Power: ₹ 1.26 crore, excise duty: ₹ 0.05 crore, octroi: ₹ 0.91 crore, late payment surcharge: ₹ 0.11 crore and interest upto March 2013: ₹ 0.22 crore

Thus, failure to carry out proper checks before allowing exemption and delay in withdrawal of exemption burdened the Company by at least ₹ 0.91 crore alongwith interest.

The matter was referred to the Company and the Government (July 2015); their replies were awaited (September 2015).

3.5 Injudicious procurement of licenses of MS Office Suite 2010

1525 licenses of MS Office Suite 2010 were procured without proper assessment of requirement by the Company resulting in an avoidable expenditure of ₹ 1.34 crore

The Punjab State Power Corporation Limited (Company) placed a work order (April 2010) for supply of 3209 personal computers under the Information Technology (IT) implementation project of Re-structured Accelerated Power Development and Reforms Programme (RAPDRP) scheme of Government of India. As the procurement of Office Suites software was not covered under the RAPDRP Scheme, Company decided (June 2011) to bear the cost of procurement of Office Suites software to be installed on these PCs. As recommended by its consultant, M/s Wipro, the Company assessed its requirement for 1525 licenses (for work stations in Sub-Division offices) of Microsoft Office Suite 2010 licenses against supply order of 3209 PCs and placed (September 2011) a purchase order on M/s Innovative Secure Technologies Private Limited, Chandigarh (firm) for their supply for ₹ 1.32 crore (@ ₹ 8633.73 per license), to be supplied in three bimonthly lots, tentatively each of 500 nos., within four weeks after the dispatch instructions.

The first lot of 500 licenses was supplied in October 2011, out of which only 200 licenses were used by the Company in PCs received for IT Implementation Project. The remaining 300 licenses were used in Thermal Plants and for use in-house developed salary/ pension software. Since only 965 PCs were received against 3209 PCs, no further dispatch instructions were issued to the firm till August 2012. The firm requested (September 2012) the Company to seek supply of the remaining quantity of 1025 licenses stating that it would not be able to supply the licenses at the agreed price after September 2012 as prices were likely to increase by 25 to 30 *per cent*.

In view of this, the Company justified (September 2012) the purchase of the remaining 1025 licenses on the ground that it would require about 1000 licenses for 965 PCs received by it under the RAPDRP project and for 485 desktops and 60 laptops already procured or likely to be procured. It was further contended that the delivery of the remaining licenses would obviate the need for further tendering. Firm supplied the remaining 1025 licenses during October 2012.

We noticed that M/s Wipro (IT consultants under R-APDRP), suggested to procure MS office 2010 Standard version or MS office Home & Business Edition to have uniformity in the Company rather than actual requirement of these software under RAPDRP project. Acting on consultant's opinion, Company procured MS office 2010 Standard Edition OLP INDIC licenses whereas open office/ Libre office license (open source/free office suites) were available to serve the basic purpose of generating reports from SAP. We further observed that the Company did not use these 1025 licenses for IT Implementation project. Instead, these were used on other computers for general office automation. The Company also did not apprise the Board of Directors regarding the diversion of software licenses for uses other than the project for which purchase order was placed.

Even, the subsequent tender enquiry floated (September 2014) by the Company for procuring 1500 licenses of MS Office was cancelled on the recommendation of Director (Distribution) to use Libre Office software which is a free-ware, in place of MS Office.

Thus, the injudicious procurement of 1525 licenses of MS Office Suite 2010 without proper assessment of their requirement by the Company resulted in an avoidable expenditure of ₹ 1.34 crore.

The Management in its reply stated (September 2015) that the remaining MS Office licenses were procured as the supplier firm had intimated that the prices were likely to rise by 25 to 30 *per cent.* It also stated that the additional licenses were used for other works of PSPCL. Reply is not acceptable as the additional MS Office were used for office automation and for Thermal/in-house software for online salary/pension etc. for which exclusively MS office licenses were not required. The Management admitted that the software licences were rendered surplus due to stalling of R-APDRP work.

The matter was referred to Government (May 2015); their replies were awaited (September 2015).

3.6 Avoidable expenditure on purchase of short term power

Shutting down of own thermal plants and purchasing of short term power at higher rates resulted in Company incurring an avoidable expenditure of ₹5.73 crore.

As per Regulation 11 of Punjab State Electricity Regulatory Commission (PSERC) (Power Purchase and Procurement Process of Licensee) Regulations, 2012, a distribution licensee is required to prepare short term power procurement plan every year and get it approved from PSERC. After approval, the Distribution Licensee shall be free to procure power through transparent open competitive bidding as per the guidelines of the Ministry of Power, Government of India, or through Power Exchange, or bilateral banking arrangements. In case of emergency conditions arising due to outage of a generator etc. which necessitates emergency procurement of power, efforts shall be made to carry out such emergency purchases through Power Exchange.

During examination of records of Punjab State Power Corporation Limited (Company), Audit noticed that during the month of April 2014, the Company purchased 70.22 MU of power amounting to ₹ 28.60 crore at an average rate of ₹ 4.07 per unit, by bidding, through power exchange. The reason adduced for the purchase was the boxing up[14] of units of thermal power plants in order to conserve coal.

We noted that during this period, Units 3 and 4 of Guru Hargobind Thermal Plant (GHTP), Lehra Mohabbat and Units 2, 4 and 6 of Guru Gobind Singh Super Thermal Plant (GGSSTP), Ropar had indeed remained shut down for a period of 24 days 19 hours, 15 days 15 hours, 2 days 7 hours, 22 days 15 hours and 24 days 5 hours respectively. In response to specific enquiries from these two thermal plants regarding the reasons for the shutdown of the five units during April 2014, it was intimated that the units had not been operated due to lack of demand. The scrutiny of coal stock records showed that there was availability of sufficient coal stocks for 10.92 to 17.3 days at GHTP, Lehra Mohabbat and for 23.46 to 26.97 days at GGSSTP, Ropar, during the same period.

Thus, shutting down of own thermal plants on account of no demand of power on one hand and purchasing of power at higher rates on grounds of conserving coal even though there were sufficient coal stocks available, caused an avoidable extra expenditure of ₹5.73 crore[15] on short term purchase of power during the month of April 2014.

The Management replied (July 2015) that purchase of power from power exchange instead of running own thermal units has resulted in saving of ₹ 6.79 crore. Reply is not acceptable as it is an afterthought. The thermal units were shut down on the ground of lack of demand during that period. The Company has taken the sale value of extra units (generated in case of running own thermal units) to power exchange at the rate of ₹ 1 per unit only whereas at the same time the Company had purchased the power at a rate of ₹ 4.07 per unit.

The matter was referred to the Government (March 2015), their replies were awaited (September 2015).

[14] Shut down

[15] 70.22 MUs power purchased through Power Exchange x 81.69 paisa per unit (407.30 paisa per unit cost of power purchased through Power Exchange – 325.61 paisa per unit total cost (fixed + variable) of power generated at own thermal power plants)

Punjab State Bus Stand Management Company Limited

3.7 Activities relating to 'Build, Operate and Transfer' of Bus terminals in PUNBUS

Concessionaires were allowed longer concession period which enabled them to earn higher than reasonable return of 16 *per cent,* determined by PIDB. A concessionaire was given undue benefit of ₹ 28.26 crore, by not reducing the concession period for failure to develop infrastructure facilities and passengers' amenities as per the concession agreements

3.7.1 Introduction

The Department of Transport (Department), GOP observing that the demand of traffic was outstripping the available facilities, decided to modernise and develop three bus terminals at Amritsar, Jalandhar and Ludhiana through Public Private Partnership (PPP) on Build, Operate and Transfer (BOT) basis. Punjab Infrastructure Development Board (PIDB), the nodal agency for developing infrastructure in the State, with the help of consultants, identified concessionaires[16], through competitive bidding. The successful concessionaire was to design, finance, develop, construct and commission the project in 18 months from the date of signing of agreement. During the operation and maintenance phase, the concessionaire was to operate and maintain the bus terminal facilities including collection and retention of revenue from adda fee charged to public buses, lease rental from the commercial spaces of the bus terminal, parking charges and sale of advertising rights. At the end of the concession period, the ownership of all the facilities of the bus terminal was to be transferred to the Department.

The brief profile of each of the projects is as follows:

Table 3.4 : Profile of PPP projects

Particulars	Amritsar	Jalandhar	Ludhiana
Name of the private concessionaire	**Rohan & Rajdeep Infrastructure Private Limited (RRIL)**	**MSK Projects (India) Limited (MSKPIL)**	**MSK Projects (India) Limited (MSKPIL)**
Date of signing of agreement	03 February 2004	22 June 2005	16 August 2005
Concession period	11 years 5 months	8 years 5 months 21 days	10 years 3 months
Date of expiry of concession period	21 August 2015	20 January 2015	16 January 2016
Total project cost	₹ 12.75 crore	₹ 11.60 crore	₹ 13.47 crore

In the meantime, the GOP transferred (November 2005) land and assets of the 19 bus terminals (including Amritsar, Jalandhar and Ludhiana) to Punjab State Bus Stand Management Company Limited (Company).

[16] The private party in whose favour concession is granted.

3.7.2 Audit findings

The Sectoral Sub-Committee, Transport Sector (SSC) of PIDB, while appraising the financial bids had observed (June 2003) that for such projects internal rate of return (IRR) of 16 *per cent* was reasonable. The audit findings on the activities relating to Build, Operate and Transfer of Bus terminals in the Company are discussed in the succeeding paragraphs:

3.7.2 (a) Amritsar bus terminal

The work of this terminal was awarded to Rohan & Rajdeep Infrastructure Private Limited (RRIL). Audit observed that while finalising the contract, the consultant assumed rental income in the range of ₹ 0.60 to ₹ 0.92 crore per annum (annual increase at the rate of 5 *per cent*) from the proposed commercial area of 17,000 sq. ft. in new terminal against an income of ₹ 0.35 crore per annum from the old structure (3050 sq. ft.). The consultant thus assumed an increase in rental income by 1.7 times whereas the commercial area increased by 5.5 times. We observed that against the assumed income of ₹ 0.60 crore to ₹ 0.92 crore during 2004-15, actual income was between ₹ 1.32 crore and ₹ 1.95 crore during 2010-14[17]. The consultant also did not consider depreciation on capital expenditure (₹12.29 crore) in case of RRIL funding. As a result, income tax payment was overestimated and cash inflows were underestimated by ₹ 2.95 crore[18].

The Company replied (August 2015) that while assumption regarding lease rental may have proven to be on lower side, the assumption of adda fees was taken much higher than the actual adda fees being collected. However, we observed minor variation ranging between (+) 6.46 *per cent* to (-) 6.44 *per cent* in adda fee whereas the variation in lease rental was between (+) 74 *per cent* and (+) 123 *per cent* during 2010-11 to 2013-14.

Thus, the under-pegging of these assumptions allowed the concessionaire to earn higher return against the reasonable return of 16 *per cent*, for which a shorter concession period would have sufficed.

3.7.2(b) Jalandhar and Ludhiana Bus terminal

The offer for minimum concession period for Jalandhar Bus terminal was 8 years and 9 months received from M/s MSKPIL. The SSC observed (January 2005) that the concession period would give post tax IRR of 31.64[19] *per cent* on equity invested by the concessionaire. Audit observed that the IRR of 16 *per cent* was achievable in a concession period of 6 and a half years, whereas the concession agreement was signed with M/s MSKPIL for a period of 8 years 5 months and 21 days. Similarly, in case of Ludhiana Bus terminal, the return of 16 *per cent* was achievable in concession period of 6 years, whereas

[17] For years 2004-05 to 2009-10, accounts of the concessionaire were not made available for scrutiny of Audit.

[18] Depreciation on ₹ 12.29 crore @ 10 *per cent* on written down value basis for 10.5 years works out to ₹ 8.22 crore. (Income Tax on ₹ 8.22 crore X tax rate of 35.87 per cent)

[19] Based on project cost of ₹ 14.10 crore worked out by the architect and designer of project.

the concession agreement was signed with M/s MSKPIL for a period of 10 years and 3 months.

The Company replied (August 2015) that the decision regarding giving bus terminals for higher concession periods was taken by PIDB after considering all factors and after due deliberations. However, the fact remains that the concessionaires were allowed to earn returns higher than considered reasonable return of 16 *per cent* by PIDB itself.

3.7.3 Provision of infrastructure facilities/ passenger amenities

The concessionaires were required to develop the bus terminal facilities as per the specifications given in concession agreement/ request for proposal (RFP) documents. Audit observed that:

3.7.3.1 Ludhiana bus terminal

The concessionaire provided 12 alighting bus bays (against agreement of 19), 77 idle bays (against agreement of 100), covered parking space of 1000 sq. mt. (against agreement of 1475 sq. mt.) and did not provide the basement parking facilities (against agreement of 3150 sq. mt.). The financial impact of these variations was assessed at ₹ 4.93 crore by independent engineer/ Company. The Company accordingly reduced (February 2009) the concession period by 3 years and 9 months.

The concessionaire apprised (April 2012) the Company that Director State Transport (DST) cum Managing Director (MD) of the Company had already withdrawn the decision taken in February 2009 regarding reduction in concession period by 3 years and 9 months and had granted (May 2009) further extension of 6 months and 28 days and attached a copy of that office order. However, the Company informed (May 2012) the concessionaire that the order was not on their office records.

The Secretary, Department of Transport after discussion (June/ July 2012) with the concessionaire and the Company decided (August 2012) to withdraw the decision of February 2009 and office order of May 2009 (which was not on the records of the Company) and approved net reduction of merely four months.

We observed that the Company could not get the concession period readjusted as per original orders (3 years and 9 months), on account of variations, and that the Secretary Transport reduced the concession period by four months only. This extension of undue benefit to the concessionaire, of not reducing the concession period by 3 years and 5 months, led to a loss of ₹ 28.26[20] crore to the Company.

[20] Calculated on the basis of revenue and expenditure estimated in March 2004.

3.7.3.2 Jalandhar Bus terminal

We observed that the facilities and passenger amenities developed at the bus terminal were not as per specification envisaged in RFP:

Table 3.5 : Comparison of facilities to be created and actuals at Jalandhar

Sl. No.	Description	Area as per RFP (sq. mt.)	Actual facilities (sq. mt.)	Difference (sq. mt.)	Difference in percentage terms
1	Total covered area	15502	12642.41	(-) 2859.59	(-) 18.44
2	Passenger Concourse Area	8929	5297.12	(-) 3631.88	(-) 68.56
3	Disembarkation bays	1208	783.53	(-) 424.47	(-) 35.14
4	Total commercial area	1515	1729.80	(+) 214.80	(+) 14.18

The Company issued (October 2007) a notice of arbitration, as per agreement, to reduce the concession period by 3 years 3 months and 13 days. The arbitration award (December 2011) which went against the Company was challenged in the District Court which gave its decision (August 2014) in favour of the Company. The concessionaire appealed against the decision which is pending in the High Court. The concessionaire, meanwhile, handed over the bus terminal to the Company on 21 January 2015, availing the full concession period. The fact remains that the concessionaire was able to avail full concession period despite variation in infrastructural facilities and passenger's amenities.

3.7.4 Fulfilment of financial obligation by the concessionaire

PPPs involve long term agreement with private partner which may give rise to financial risk and contingent liability in case of non-performance by the private partner. Therefore, in order to secure the financial interest of government/ public entity, a concession agreement ensures minimum equity requirement by the private partner.

As per terms and conditions of the concession agreement, the concessionaire and lead member of the consortium for Amritsar bus terminal was required[21] to maintain minimum equity prescribed in the agreement. Non-compliance of the same was to be treated as 'concessionaire events of default' which may lead to termination of agreement.

We observed that concessionaire's equity component during the period from 23 March 2004 to 22 August 2006 was ₹ 0.50 crore against the requirement of ₹ 6.50 crore. The concession agreement was thus liable for termination in terms of the clause on 'concessionaire events of default'.

[21] clause 4.2 (a) of the agreement provided aggregate equity component of the consortium members in the total project cost shall not less than 51 *per cent* of the project cost during construction phase of the project and for a period of two years from after the issue of construction completion certificate and 26 *per cent* for the balance of operations and maintenance phase and till the transfer date.

3.7.5 Other Issues

- **Weak functioning of monitoring/ oversight mechanism**: A Maintenance Board (MB) for each bus terminal was to be constituted which was to meet at least once in a quarter for monitoring the operation and maintenance phase. We observed that as against the desired 38, 29, 29 numbers of meetings to be held, only 20, 12, 12 were held in respect of Amritsar, Jalandhar, Ludhiana respectively during September 2006 to March 2015.

The concessionaires for all the bus terminals also did not submit the audited annual accounts of the projects from the year 2003-04 to 2013-14 to the MBs for review as per terms and conditions of concession agreements. The concessionaire of Jalandhar and Ludhiana bus terminals never submitted traffic reports containing daily adda fee collected.

The Management replied (August 2015) that the MB meetings were held as per availability of time of the concerned members and that there was no loss due to non-submission of the annual accounts/ reports. The reply is not acceptable as due to lesser meetings monitoring/ oversight mechanism remained deficient. The Government was also deprived of data for formulating its transport policies, available through traffic data of buses and passenger traffic at the bus terminals.

- **Maintenance and upkeep of bus terminals**: The MBs of Amritsar and Ludhiana bus terminals during their meetings expressed concern on issues such as unauthorised encroachment in passenger’s movement area by shop/ kiosk owners, unsatisfactory level of cleanliness, overcharging from passengers by shopkeepers etc. At Jalandhar bus terminal, the concessionaire was penalised (April 2011) for deficiencies in services.

Conclusion

The Company allowed the concessionaires to earn higher return than reasonable return of 16 *per cent* by giving them longer concession period. The Company failed to ensure development of infrastructure facilities and passengers’ amenities as per the concession agreements. Even in case of non-development of infrastructure facility and passengers’ amenities, the concession period was not reduced.

The matter was referred to the Government (July 2015); their reply was awaited (September 2015).

3.8 Undue favour to a contractor

Undue favour was extended to a contractor in reducing penalty by ₹3.68 crore and not recovering loss of route receipts in terms of the agreement.

Punjab State Bus Stand Management Company Limited (Company) purchased (August 2011) 210 chassis of ordinary buses and 25 of HVAC[22] buses. The Company entered (August 2011) into an agreement for the fabrication of bodies on these chassis with the lowest tenderer i.e. M/s Swami Coaches & Engineering Private Limited, Dera Bassi (contractor). As per the terms of the agreement, the contractor was to fabricate bus bodies on the chassis made over in one lot within the time cycle of 40 days. In the event of failure to complete the work, the contractor was liable to pay penalty at the rate of ₹ 2,500 per chassis per day and in case of delay beyond 55 days, further penalty equal to route receipts was also leviable.

The contractor was not able to fabricate and deliver the buses and faltered on the delivery schedule resulting in backlog. The contractor explained (January 2012) their financial constraints and requested the Company not to deliver more chassis for fabrication of bodies for the time being as also for either waiver of the penalty or to take back their remaining chassis. The Company had also made (January 2012) advance payment of ₹ 40 lakh (@ ₹ 50,000 per chassis against 80 chassis) to the contractor in accordance with the terms of the agreement. In view of slow pace of fabrication of bus bodies, the Company decided (20 March 2012) to take back 112 chassis of ordinary buses and 20 chassis of HVAC buses from the contractor and handed over the work of fabrication of bodies of the remaining buses to other contractors at the same rates but at a reduced rate of penalty of ₹ 500 per chassis per day.

We observed that instead of invoking penal provisions of the agreement, the Company subsequently accepted (30 March 2012) the request (28 March 2012) of the contractor to reduce penalty for already fabricated and delivered buses with delay, for chassis taken back and for chassis still under fabrication, in tandem with agreements entered with other contractors. In extending undue benefits, against the penalty of ₹ 4.64 crore, the Company imposed and recovered a penalty of ₹ 96.25 lakh only. Penalty on account of loss of route receipts due to delayed delivery of completed buses were not worked out at all which were also due in terms of the agreement.

Thus, subsequent reduction of penalty by ₹ 3.68 crore and non-recovery of loss of route receipts in terms of the agreement resulted in undue favour to the contractor.

The management in its reply (April 2015) stated that the decision for reduction in penalty was taken keeping in view the financial interest of the Company to avoid unnecessary litigation so that the buses could be plied on route at the earliest. The reply is not acceptable as subsequent reduction of penalty was not justified as even after reduction of quantum of penalty and payment of due advance, the contractor was unable to fabricate the bus bodies.

[22] Heating, Ventilation and Air Conditioning 3x2 seating buses

The matter was referred to the Government (February 2015), their reply was awaited (September 2015).

Pepsu Road Transport Corporation

3.9 Financial health of Corporation

Despite huge financial support from the State Government, the Corporation was unable to discharge even its committed liabilities. Weak fund management resulted in revenue loss of ₹ 6.87 crore and loss of interest of ₹ 11.30 crore.

Pepsu Road Transport Corporation (Corporation) was established (October 1956) under the Road Transport Corporation Act, 1950 to provide transport service to the general public. The main sources of inflow of funds are ticket sales to passengers, adda fee and rent of shops located at bus stands, loans from banks/ State Government, etc. and the outflow of funds are towards operation, repair & maintenance of buses, interest on loans, establishment, general & administrative expenses, construction of bus stands and purchase of buses. The Corporation has 10 depots[23] in the State and operated 804, 726 and 737 owned buses and 290, 256, 256 hired buses during 2011-12, 2012-13 and 2013-14 respectively. The audit was conducted to analyse the financial health of the Corporation during the period 2011-12 to 2013-14. The audit findings have been discussed in the following paragraphs.

The financial position, working results and other related financial indicators of the Corporation are as below:

Table 3.6 : Financial position

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14
1	Equity Share Capital	306.44	306.44	306.44
2	Depreciation Reserve Fund (accumulated)	65.96	72.01	79.62
3	Profit (+)/ Loss (-) before tax for the year	(-) 2.39	(-) 10.97	(-) 11.11
4	Depreciation during the year	4.04	6.05	7.61
5	Cash profit (+)/ loss (-) for the year (Sl. no.3+4)	(+) 1.65	(-) 4.92	(-) 3.50
6	Accumulated Losses	354.22	365.19	376.30
7	Loans - a. State Government/others	--	8.75	23.75
	b. Term Loan (Banks)	36.91	38.84	25.45
	c. Cash Credit Limit availed	10.00	10.00	23.77
8	Bank Interest paid/payable	6.79	6.40	6.63
9	Free/ concessional transport services			
	a. Received	38.59	107.34	80.35
	b. Recoverable	69.31	34.86	38.41
10	Debt Equity Ratio	0.15:1	0.19:1	0.24:1

Source : Annual accounts of the Corporation

[23] Patiala, Sangrur, Kapurthala, Bathinda, Budhlada, Barnala, Ludhiana, Faridkot, Chandigarh and special cell for kilometre scheme buses

Out of the three years, the Corporation made cash losses in two years and thus had a negative cash flow. This severely impaired the capacity of the Corporation to even fund its day to day operations from internal resources.

3.9.1 Factors contributing to dismal financial health

The major reasons which affected the financial health of the Corporation are summarised as under :

- Introduction (1992) of pension scheme by the Corporation has saddled the corporation with a huge liability. The yearly contribution (September 2014) to this fund was ₹ 3.60 crore (approx.) whereas the pension/family pension payment is ₹ 63.00 crore (approx). By October 2010, the Corporation had exhausted its pension funds and started making pension payments from its daily route receipts. As on January 2015, the Corporation/ GPF/ CPF Trusts had outstanding liability of ₹ 191.08[24] crore (approx.) to its working/ retired employees.

- The Corporation could operate only 1076.58 lakh kilometers against the scheduled 1294.40 lakh kilometers which resulted into non-achievement of targets and into deficit of revenue of ₹ 52.75 crore (target: ₹ 328.50 crore, achievement: ₹ 275.75 crore) during the year 2013-14. No revenue targets had been fixed for the year 2011-12 and 2012-13.

- GoP though had issued (August 2013) notification for automatic future revision of fares at the rate of 3 *per cent* on 1st April every year, no increase was made by the Corporation during 2014-15 resulting in non-realisation of revenue of ₹ 6.87 crore (January 2015).

- 39 buses of the 81 HVAC buses purchased at an average cost of ₹ 29.11 lakh after taking loans from banks during 2008-13 were still unoperational.

In order to assist the Corporation overcome its financial difficulties, the GoP converted (June 2012) its loan and capital contribution of ₹ 104.42 crore along with interest payable of ₹ 128.98 crore upto 31.03.2011 into Share Capital. GoP also decided (November 2014) to pay ₹ 4.50 crore per month (from October 2014) on monthly basis for a period of 18 months to meet committed liabilities like pension etc. by the Corporation. The State Government also decided to defer repayment of Special Road Tax (SRT) etc. recoverable from the Corporation for a period of one year.

[24] Gratuity (₹ 18.77 crore), GPF of retired employees (₹ 3.26 crore), GPF Trust (₹ 78.65 crore), CPF Trust (₹ 14.65 crore), commutation of pension (₹ 27.50 crore), leave encashment (₹ 13.24 crore) and arrears of revised pay and pension (₹ 24.51 crore) and unpaid pension for the month of December 2014/ January 2015 (₹ 10.50 crore)

3.9.2 Availment of loans and their utilisation

3.9.2.1 Diversion of loans availed from banks and State Government

The Corporation availed term loans of ₹ 31.25 crore from the State Bank of Patiala (SBOP) for purchase of 200 new buses in August 2010 (₹ 17.25 crore:100 buses) and November 2012 (₹ 14.00 crore:100 buses) at an interest of 14.25 *per cent* per annum. Of the loan ₹ 15.99 crore was diverted for making payments of salaries and retirement dues of employees/pensioners. Consequently, 90 buses could not be purchased.

Similarly, GoP sanctioned (December 2012) a loan of ₹ 35.00 crore for purchase of new buses (₹26.00 crore) and construction of new bus stands (₹ 9.00 crore), out of which ₹ 13.75 crore was released during January 2013 to March 2013. The Corporation intimated utilisation of ₹ 13.75 crore for purchase of buses and requested for release of ₹ 10.00 crore during 2013-14. The State Government released (October 2013) ₹ 10.00 crore to the Corporation and asked for its Utilisation Certificate (UC). We observed that the Corporation had not fully utilised ₹ 13.75 crore for the purchase of new buses and had diverted part of it for meeting its routine expenses. Similarly, loan of ₹ 10.00 crore was not utilised for purchase of new buses and was diverted for meeting revenue expenditures, salary/pension etc. GoP stopped disbursement of balance loan of ₹ 11.25 crore. Thus, by diverting the loans for creation of capital assets towards revenue expenditure, the Corporation lost an opportunity to increase its revenues.

The Management stated (August 2015) that the term loans availed from Banks and State Government were also utilised for payment of pension/pensionary benefits to the retirees in view of various directions from the Punjab & Haryana High Court. The fact remains that the Corporation diverted the loans arranged for purchase of buses due to its weak financial planning.

3.9.2.2 Keeping of funds in Current Account with banks vis-a-vis cash credit limit

GoP instructed (May 2008) all PSUs not to keep any money in non-interest bearing current account when competitive options were available to earn better returns. As per Para 1.3 of Corporation's Accounting Rules and Procedures, the depots were to deposit their route receipts in Head Office's bank account. We observed that Corporation had a Cash Credit Limit account with SBOP on which interest @ 14 *per cent* per annum was being charged whereas its depots were maintaining separate current accounts with SBOP through which they incurred expenditure after taking funds from the Head Office and retention of some route receipts. Test check of records of five[25] selected depots and Head Office revealed that the depots kept funds ranging between ₹ 0.35 lakh to ₹ 5.79 crore in these current accounts during the period April 2012 to November 2014. Similarly, funds ranging between ₹ 0.16 lakh to ₹ 13.68 crore were kept during the period April 2012 to January 2015[26] at Head Office

[25] Bathinda, Chandigarh, Ludhiana, Patiala & Special Cell
[26] Except for the period 06.04.2014 to 30.04.2014 and from 18.07.2014 to 31.07.2014

Level. Thus keeping funds in non-interest bearing current account led to avoidable excess availment of CCL maintained at Head Office on which interest on daily balance had to be paid. This resulted into avoidable payment of interest of ₹ 79.69 lakh.

The Management admitted and stated (August 2015) that due to shortage of staff it was not possible to monitor daily balance in current account. Efforts are being made to avoid the loss of interest by informing the depots in advance regarding payments and thereafter funds are being released.

3.9.3 Loss of interest due to delay/non release of reimbursement of free/concessional transport services

The Corporation provides free/ concessional travelling services to employees of eligible departments and for beneficiaries of social welfare schemes for which the reimbursement claims are raised with the concerned department on quarterly basis. We observed that these claims were not paid/ adjusted on timely basis. Resultantly, ₹ 69.29 crore, ₹ 34.86 crore, ₹ 38.41 crore and ₹ 48.70 crore remained unrecovered as on 31 March 2012, 31 March 2013, 31 March 2014 and January 2015 respectively.

This delayed reimbursement of claims resulted in excess availment of CCL loan to that extent in the respective years and avoidable payment of interest of ₹ 10.50 crore[27] on non/delayed receipt of funds.

The Management stated (August 2015) that there is a procedure of lodging claims on quarterly basis after getting the same audited from the internal audit organisation of Finance department due to which payment gets delayed. Further, the State Government is providing financial assistance to PRTC to overcome financial crisis. Reply is not acceptable as the Corporation should have taken up the matter with the State Government for timely reimbursement of claims.

3.9.4 Conclusion

Despite financial support from the State Government, the Corporation was unable to discharge even its committed liabilities indicating poor financial control leading to increased dependence of the Corporation on State budgetary support. Weak fund management of the Corporation has resulted into revenue loss of ₹ 6.87 crore and loss of interest of ₹ 11.30 crore.

The matter was referred to the Government (April 2015), their replies were awaited (September 2015).

[27] Calculated from April 2011 to December 2014

Punjab Financial Corporation

3.10 Non recovery of compensation for use and occupation of plot

Failure of the Corporation to act against the defaulting purchaser for recovery of its legitimate claim resulted in a loss of ₹ 2.03 crore

Punjab Financial Corporation (Corporation) auctioned (February 1996) the mortgaged assets[28] of a defaulter loanee to M/s Leisure Wear Exports Limited, Ludhiana (purchaser) for ₹ 1.32 crore. A sale agreement in this regard was entered into (May 1996) on payment of earnest money of ₹ 0.33 crore (25 *per cent* of sale price). The balance was to be paid in twelve equated quarterly instalments i.e. within a period of three years. The purchaser did not pay any instalments and instead filed a number of petitions on one or the other ground[29] against the Corporation. The Punjab and Haryana High Court (High Court) adjudicated (May 2010) against the purchaser directing him to pay the entire balance of amount[30] within three months of the date of decision. In case of non-payment, the Corporation was entitled to resume the plot in accordance with law. The Corporation was also given liberty to take steps to recover compensation, if found due, on account of use and occupation of plot by the purchaser.

The purchaser did not pay the dues and instead filed a Special Leave Petition (SLP) in Supreme Court of India against the High Court decision which was dismissed (July 2011). The Corporation though resumed the plot (September 2011) but did not initiate action for recovering compensation for use and occupation of plot on the grounds that (i) there was no enabling clause in the sale agreement in this regard and (ii) the Corporation had been resuming the properties from the defaulting purchasers in the past and no compensation had been claimed in any of the cases. The Board of Directors of the Corporation decided (August 2012) that the case be legally examined for exploring the possibility of recovery. It was opined (October 2012) that the suit for damages can be filed to recover the amount which the said property might have fetched if given on rent.

We observed that the compensation for use and occupation of plot by the purchaser for more than fifteen years, could not be guided only by the terms and conditions of agreement and/or past cases, as compensation was allowed by the High Court considering the circumstances in this particular case. In view of the fact that a guiding principle for recovering compensation at the rate of six *per cent* per annum for use and occupation of plot by the purchaser

[28] Plot of land measuring 6,556 Square Yards and machinery mortgaged by M/s Pretty Cycles Private Limited, Ludhiana to secure loan from the Corporation.

[29] Ownership title of the property in question, seeking refund of the earnest money, re-schedulement of the payment of the due instalments due to non-handing over of the entire possession of plot.

[30] Which comes to ₹ 34.52 crore as on 1 May 2010.

had been laid down by the Court in the proceedings of the case[31] itself, a compensation of ₹ 2.03 crore upto March 2015 (after setting off the payment of earnest money of ₹ 0.33 crore) was recoverable from the purchaser. The Corporation's failure to act against the defaulting purchaser for recovery of its legitimate claim inspite of High Court decision as well as dismissal of SLP filed by purchase resulted in loss of ₹ 2.03 crore.

The Management/ Government in their reply (May 2015) stated that in view of the judgment of the High Court, the Corporation has initiated the process for recovery of ₹ 2.03 crore with further interest. The reply was not acceptable as even after lapse of more than five years, the Corporation has not filed the suit for damages (September 2015) against the defaulters.

3.11 Non-availing of opportunity to earn rental income

Laxity in leasing out surplus space in its building and fixation of excessive expected rent caused the Corporation to lose opportunity to earn rental income of ₹ 3.25 crore upto March 2014

The Punjab Financial Corporation (Corporation) to augment its income, decided (December 2007) to lease out part of the assessed vacant space of 17793.75 sq. ft. (basement – 5163.75 sq. ft., ground floor- 5385 sq. ft., top floor- 7245 sq. ft.) in its office building. The Corporation issued (January 2008) an advertisement for leasing out the vacant space against which three offers were received, including an offer from M/s Bajaj Travels Limited at monthly rent of ₹ 3.25 lakh for ground floor (@ ₹ 60.35 per sq. ft. for 5416 sq. ft.) and ₹ 2.00 lakh for the top floor (@ ₹ 27.60 per sq. ft. for 7142 sq. ft.) with 15 *per cent* increase in lease rent after every three years. However, the Corporation did not consider these offers finding them below expectation.

The Corporation subsequent attempts to lease out the space also did not materialise due to this reason. The Executive Committee resolved (November 2008) to quote a rate of ₹ 350 per sq. ft for ground floor and ₹ 300 per sq. ft. for top floor to the Export Import Bank of India, which was almost double the prevailing market rates.

The space remained vacant and part of the space to was finally leased out GoP at the rate approved by Central Public Works Department or ₹ 65 per sq. ft. whichever was higher with effect from 1st April 2014 and 11 April 2014.

Thus, due to laxity in leasing out its building and fixation of expected rent much above the prevailing market rates, the Corporation could not let out its building for more than six years (from January 2008 to March 2014) inspite of

[31] Where the court at the time, when the purchaser sought refund of the earnest money in 1996 at the rate of 18 *per cent* per annum, had observed that the reduction in rate of interest from 18 *per cent* to 12 *per cent* would compensate the Corporation for the use and occupation of the plot.

several offers and could not avail the opportunity to earn rental income of ₹ 3.25[32] crore upto March 2014.

Management in its reply (July 2015) stated that they tried level best to rent out the property from time to time at the maximum possible rates. However, the same could not materialise despite the best efforts due to market forces/position. The reply is not acceptable as the Corporation had not accepted various offers in view of high rental expectation fixed by them and could finally rent the building at much lower rates than even the market rates to GoP.

The matter was referred to the Government (July 2015), their replies were awaited (September 2015).

Punjab State Civil Supplies Corporation Limited, Punjab Agro Foodgrains Corporation Limited, Punjab State Warehousing Corporation and Punjab State Grains Procurement Corporation Limited

3.12 Financial health of procurement agencies

The State Procurement Agencies (SPA) had accumulated losses of ₹3268.77 crore by 2013-14 and were showing ₹16356.33 crore as recoverable, of which ₹11385.18 crore had been qualified as doubtful. There was a mismatch of ₹21562.82 crore between outstanding CC limit and stock of foodgrains held by these Agencies. The SPAs were financing their losses and non-operational expenditure from cash credit limits. Inefficiencies in milling operations, non recovery of costs from millers, delayed/ non raising of claims on FCI/ millers, failure to enforce terms of contracts, damages to stocks, etc. contributed to deteriorating financial health.

Government of India's (GoI) foodgrains management strategy involves procurement of foodgrains at Minimum Support Prices (MSP) from the growers, its storage and movement, maintenance of buffer stocks and ensuring availability of foodgrains to the public at reasonable prices. Under the existing procurement policy of GoI, procurement of foodgrains is handled primarily through the Food Corporation of India (FCI), State Procuring Agencies (SPAs)[33] and the private rice millers. In the state of Punjab, these SPAs handle the procurement and storage of foodgrains.

As the financial health of the procurement agencies had been deteriorating day

[32] Calculated for the period January 2008 to March 2014 on minimum rate (i.e. ₹ 27.60 per sq. ft.) for both the floors on the basis of ₹ 2.00 lakh offered by M/s Bajaj Travels Limited for top floor.

[33] Punjab Agro Foodgrains Corporation Limited (PAFC), Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Warehousing Corporation (PSWC) and Punjab State Cooperative Supply & Marketing Federation Limited (MARKFED)(Markfed not under audit purview)

by day, Audit analysed the factors contributing to adverse financial health of PAFC, PUNSUP, PSWC and PUNGRAIN in the following paragraphs:

The only source of funds of these SPAs is the income from sale of foodgrains to FCI and other associated income accruing as per GoI/ State Government orders. The funds are utilised for purchase of foodgrains (including gunny bags), interest on cash credit limit availed and other incidental expenses. The fund flow position of the SPAs for the year 2013-14 is given in ***Annexure 8*** and the working capital position for the years 2012-13 and 2013-14 has been given in ***Annexure 9***. It can be seen therefrom that Working Capital was negative in three agencies (PUNSUP, PUNGRAIN and PSWC) and positive for PAFC. The gap between the Current Assets and Current Liabilities had widened in three agencies which is indicative of the deteriorating funds position.

The aggregated key financial indicators of four SPAs for the years 2012-13 and 2013-14 [34] (accounts for the year 2014-15 being in arrears) are given in the following table.

Table 3.7 : Aggregate key financial indicators of four SPAs

(₹ in crore)

Particulars	2012-13	2013-14
Paid up Capital	17.78	17.78
Accumulated losses	(-) 2910.75	(-) 3268.77
Net worth[35]	(-) 2866.49	(-) 3224.51
Revenue from sale of foodgrains	24065.33	30093.70
Reported loss for the year indicated	(-) 567.17	(-) 516.78

Source : Annual accounts of PUNSUP, PUNGRAIN, PSWC and PAFC

The reported accumulated losses of the four SPAs (without the effect of qualifications of statutory auditors and those of the CAG) were ₹ 2910.75 crore upto 2012-13 which further increased to ₹ 3268.77 crore by 2013-14. The net worth of these four SPAs had been fully eroded and was negative to the extent of ₹ 3224.51 crore in 2013-14 from ₹ 2866.49 crore, an increase of 12.49 *per cent*.

As per their latest finalised Annual Accounts, the SPAs have been showing an amount of ₹ 16356.33[36] crore as recoverable from GOI/ FCI/ State Government/ millers. Of this ₹ 11385.18 crore had been qualified and commented as doubtful of recovery by Statutory Auditors or by Comptroller and Auditor General of India (C&AG) due to non/ improper implementation of rules and orders governing the procurement operations of foodgrains, milling of paddy, pending/ delayed/ non raising of claims with FCI/ GoP and millers, misappropriations and damage to stocks, etc as detailed below:

[34] Figures of PAFC & PSWC for 2013-14 are final and those of PUNSUP and PUNGRAIN are based on provisional balance sheets.

[35] Net worth=Paid up capital - Accumulated losses + free reserves

[36] As per final balance sheets of PUNSUP and PUNGRAIN for the year 2012-13 and PSWC and PAFC for the year 2013-14.

Table 3.8 : Recoverables being shown by SPAs in their financial statements

(₹ in crore and amount doubtful of recovery in brackets)

Sl. No.	Particulars	PUNSUP	PUNGRAIN	PSWC	PAFC
1.	Recoverable from FCI/ GoI (on account of rice, wheat, Guarantee fee, transportation charges on paddy etc.)	4700.21 (4498.16)	2672.07 (2672.07)	948.50 (22.75)	2787.45 (2162.58)
2.	Recoverable from State Government (on account of Atta Dal scheme, I.D. cess etc.)	987.49 (283.66)	-	175.89	197.73 (197.19)
3.	Recoverable from millers (on account of rice/paddy pending to be delivered, gunny bags retained, misappropriation etc.)	190.25 (190.25)	244.03 (244.03)	185.69 (163.74)	700.97 (507.91)
4.	Recoverable from staff (on account of shortage, misappropriation, festival advances taken etc.)	42.57 (42.57)	7.12	10.07	292.61 (279.84)
5.	Other recoverable	747.07	17.17	1203.34	246.10 (120.43)
	Total	**6667.59 (5014.64)**	**2940.39 (2916.10)**	**2523.49 (186.49)**	**4224.86 (3267.95)**

Source: Statutory Auditors' reports on latest annual financial statements of SPAs and CAG's Comments.

Had these claims recoverable exhibited by the agencies were provided for or written off, the accumulated losses would swell to ₹ 14653.95 crore. In fact the procurement agencies were financing their negative net worth and losses through their cash credit limits. The Statutory Auditors of PUNSUP too have consistently remarked that the annual accounts do not reflect a true and fair view of the state of affairs of the Company.

- Due to their inefficient operations, the SPAs had been financing even their non-operational expenditure from Cash Credit limits, which was secured by hypothecation of stock of foodgrains and Punjab Government's guarantee. The State Government too had not been compensating the agencies adequately and timely for the operations done on their behalf.

- The current ratio of the SPAs varied between 0.45:1 to 1:1 {PAFC (1:1); PUNGRAIN (0.84:1); PSWC (0.78:1) and PUNSUP (0.45:1)} for the year 2013-14 which showed that the SPAs had inadequate liquidity to meet their short term obligations, even as per their reported results.

Major factors contributing to poor financial health have been discussed in the succeeding paragraphs:

3.12.1 Mismatch between Cash Credit Limit outstanding and value of hypothecated stock of foodgrains resulting in levy of penal interest.

The procurement activity of SPAs is funded through Cash Credit (CC) limit availed from Reserve Bank of India (RBI) through State Bank of India (SBI), arranged by Food and Supplies Department (F&SD), Punjab. The CC limit is availed on the hypothecation of foodgrains procured and the SPAs are required to maintain stock levels at least equal to the CC limit outstanding.

We observed that the outstanding CC was not backed by the required stock levels (as per agreement) and the minus gap between the outstanding CC limit and value of hypothecated stocks was showing an increasing trend over the period covered under audit as depicted in the table below:

Table 3.9 : Position of stock vis-à-vis Cash credit outstanding

(₹ in crore)

Sr. No.	Name of the agency	As on 31 March 2013		As on 31 March 2014		As on 31 March 2015	
		Stock	CC	Stock	CC	Stock	CC
1.	PUNSUP	6079.99	10746.73	4265.59	10203.60	3031.58	10986.84
2.	PUNGRAIN	5404.16	9247.24	4956.25	9034.48	4614.78	9952.57
3.	PSWC	3072.64	5844.53	2060.47	4979.53	1728.69	5230.26
4.	PAFC	3286.24	6343.17	2497.76	5824.44	1709.45	6477.65
Total		**17843.03**	**32181.67**	**13780.07**	**30042.05**	**11084.50**	**32647.32**
Gap between stock and CC			**14338.64**		**16261.98**		**21562.82**

Source: Monthly Stock Statements of SPAs to SBI.

The gap between the outstanding CC limit and the stock of foodgrains there against had widened from ₹ 14338.64 crore in 2012-13 to ₹ 21562.82 crore in 2014-15. The State Bank of India (SBI) observing this difference, asked (January 2015) the State Government to deposit the outstanding amount of ₹ 20920.36 crore (as on 30 November 2014) into the Food Cash Credit loan account to regularise the account lest it would risk slipping into 'Non Performing Asset' category as per RBIs prudential norms on assets classification and consequently the State Government would be in default. SBI stated that CC limit is sanctioned against stocks only and not against receivables of the SPAs also. The bank also charged (December 2014) ₹ 2.57 crore as penal interest on the four SPAs.

GoP identified the reasons for the mismatch between the outstanding CC and stocks held by SPAs as time gap between delivery of food grains and receipt of full payment from FCI, difference in provisional and actual expenses, non-settlement of pending disputes, non-reimbursement of expenses sanctioned in provisional cost sheet by FCI and structural weaknesses in the system of calculation of stocks of foodgrains. We, however, find that besides the above, other major causes which contribute to poor financial health of SPAs, include damage to foodgrains due to unscientific storage, shortage and misappropriation of foodgrains, delay in raising claims on FCI and other private stakeholders like millers, diversion of CC limit for procurement of foodgrains and non-receipt of subsidy claims of ₹ 1693.01[37] crore for the State's Atta-Dal scheme etc. as on 31 March 2015 and extension of milling period of paddy by the GoP at the cost and expense of the Company.

[37] Position ending March 2014 was commented in Para No.3.16.3 of AR (PSUs) for the year 31 March 2014

3.12.2 Inefficiency in operations

Custom milling policy (CMP) of the State Government and agreement between the rice millers and the SPAs, *inter alia*, provides that rice millers would deliver the custom milled rice within the stipulated/ extended period. However, the SPAs failed to get the paddy milled within stipulated period which resulted into loss of interest, custody and maintenance charges amounting to ₹ 2586.97[38] crore which reflects inefficient operations with consequential adverse impact on their financial position. The State Government also got extended the milling period from GOI without any cost or commitment to compensate the SPAs for cost to be incurred during extension period by them.

Table 3.10 : Position of extension of milling period and cost involved

(₹ in crore)

Particulars	PAFC	PUNGRAIN	PSWC	PUNSUP
Interest loss	182.75	415.50	468.33	1213.73
Custody and maintenance charges	---	--	88.11	218.55
Stipulated dates (Upto which paddy to be milled)	31 March of relevant crop year	31 March of relevant crop year	31 March of relevant crop year	31 March of relevant crop year
Actual extended period in which Paddy milled (No. of months)	3 to 15 months (KMS 2010-15)	9 to 15 months (KMS 2010-12)	6 to 15.5 months (KMS 2009-14)	6 to 16 months (KMS 2008 -13)

Source : Information from the SPAs and interest calculations

The SPAs also failed to initiate any action to recover the penal interest from the millers for delayed milling of paddy for Kharif Marketing Season 2009-10, 2012-13 and 2013-14 in spite of provision of penal interest @ 12 *per cent* in this regard in the CMP of those years.

3.12.3 Other reasons for deteriorating financial health of SPAs

The financial health also suffered from the following inefficiencies in the operations from the procurement of foodgrains upto delivery to FCI, which have been highlighted in Audit Reports of Government of Punjab – PSUs:

- Lack of control in milling operations resulting in misappropriation of paddy, non-recovery of costs from millers, and non/ delay in raising bills on FCI with consequential loss of interest of ₹59.30 crore in PSWC, PUNGRAIN and PUNSUP. (Para no. 3.7 of CAG Audit Report – PSUs-2012-13)
- Failure to recover transportation charges ₹103.01 crore in 2013-14 in PUNGRAIN from the millers where the costs are already included in the milling charges paid to them (Para no. 3.14 of CAG Audit Report – PSUs - 2013-14).

[38] PUNGRAIN (para 3.13 printed in AR (ES-PSUs) for the year 2013-14); PSWC (para 2.1.15 printed in AR (ES-PSUs) for the year 2013-14); PUNSUP (para no.2.1.15 of AR (ES-PSUs) for the year 2012-13) and PAFCL for AR (ES-PSUs) for the year 2014-15).

- Damage to wheat stocks valuing ₹ 64.91 crore in PAFC due to failure to deliver the wheat stock on FIFO principle and unscientific storage methods (Para no. 3.7 of CAG Audit Report (Commercial) - 2010-11)
- Failure to maintain the quality of wheat stocks of 49,865 MTs in PAFC and their timely delivery to FCI in acceptable condition resulting in disallowance of carry over charges.(Para no. 3.11 of CAG Audit Report – PSUs - 2012-13)

Conclusion

The SPAs had accumulated losses of ₹3268.77 crore by 2013-14 and were showing ₹16356.33 crore as recoverable, of which ₹11385.18 crore had been qualified as doubtful. There was a mismatch of ₹21562.82 crore between outstanding CC limit and stock of foodgrains held by the SPAs. They were financing their losses and non-operational expenditure from cash credit limits. Inefficiencies in milling operations, non recovery of costs from millers, delayed/ non raising of claims on FCI/ millers, failure to enforce terms of contracts, damages to stocks, interest losses due to delayed milling, non recovery of penal interest from the millers and non receipt of subsidy from the State Government contributed to the poor financial health.

The matter was referred to the Companies/ Corporation and the Government (July 2015); their replies were awaited (September 2015).

3.13 Loss due to excess consumption of gunny bags

Filling of 35 kg of paddy in a 50 kg bag by the procuring agencies against the GoI norms of 37.5 kg paddy per 50 kg bag resulted into excess consumption of gunny bags and extra cost of ₹ 125.49 crore to the procurement agencies

The procuring agencies[39] procure paddy on behalf of Government of India (GoI), for central pool. After getting it milled from the rice millers, the agencies deliver resultant rice[40] to FCI, the prescribed out turn ratios being 150 kg of paddy to yield 100 kg of rice. Both paddy and rice are filled in 50 kg bags. As per the rates of custom milled rice issued by the GoI for each crop year, FCI, for procurement of 100 kg rice, reimburses cost of four bags – full cost of two bags delivered with rice and 40 *per cent* cost of two bags remaining with millers. Accordingly, the procurement arrangement is required to be made in such a manner that 150 kg of paddy required to produce 100 kg of rice is filled in four gunny bags of 50 kg size, thereby implying that on an average 37.5 kg paddy is to be filled up in each bag. Further, in accordance

[39] Punjab State Grains Procurement Corporation Limited, Punjab State Civil Supplies Corporation Limited, Punjab Agro Foodgrains Corporation Limited and Punjab State Warehousing Corporation

[40] On the basis of out-turn ratio of 67 *per cent* for raw rice and 68 *per cent* for par-boiled rice.

with Custom Milling Policy for respective years issued by the State Government, 60 *per cent* of the bags remaining with the millers are to be recovered from the millers.

GoP ordered (07.9.2010) procuring agencies to fill 35 kg of paddy per bag instead of 37.5 kg which resulted in the usage of 4.26 bags[41] for procurement of 150 kg of paddy against GoI norms of four bags. The request of the GoP for allowing its procurement agencies to fill 35 kg paddy in each bag was turned down by GoI (July 2013 and October 2014).

This filling of 35 kg of paddy instead of 37.5 kg per 50 Kg resulted in excess consumption of 8.38 crore gunny bags valuing ₹ 125.49 crore without any reimbursement from GoP.

The matter was referred to the Company and the Government (June 2015), their replies were awaited (September 2015).

Punjab Agri Export Corporation Limited

3.14 Purchase of onions

Purchase of onions without considering the commercial and safety angle of the operation caused a loss of ₹ 2.79 crore

Ministry of Agriculture, Government of India (GOI) informed (May 2014) GoP that unfavourable weather conditions in the State of Maharashtra in February/March 2014 had damaged the standing onion crop and also resulted in increased moisture content in the harvested onion, thereby affecting its storability. Anticipating stress in onion prices they advised to consider the desirability of procuring and storing onions at current price and releasing them to the market during lean period when prices showed an upward trend.

Punjab Agri Export Corporation Limited (Company) decided (June 2014) to purchase about 1000 – 1500 metric tons (MT) onions from Maharashtra. The Company purchased (June and July 2014) 1500.413 MT of onions at a cost of ₹ 3.63 crore through handling & forwarding agent. The whole operation, exploration of the market at Nasik in Maharashtra and appointment of handling and forwarding agent, was done on the recommendations of only one officer i.e. General Manager of the Company in contravention of the Purchase Procedure[42] of the Company.

---

[41] One quintal of rice/out-turn ratio of 67 per cent/35 kg quantity of paddy filled in a bag

[42] In case of perishable items where the prices are quickly fluctuating and where the mode of tenders etc. is not practically possible and/or is not in the interest of the Company, purchase may be effected through the competent committee (consisting of minimum three members) as per delegation of powers.

The committees constituted for inspection of the quality, quantity and storage condition of the onions reported (July and September 2014) that due to lack of experience and adequate manpower for mandatory restacking of stocks after every two/three weeks and non sorting out of rotten onions from the healthy bulbs, unavailability of special stores for onions and poor storage conditions etc., the stocks were being damaged. The committee recommended that action be taken for liquidation of the stock regularly in order to avoid further damage as fresh onion has a shelf life of 2-3 weeks.

We observed that the Company before starting procurement did not consider its lack of experience and infrastructure for storing this commodity. The Company sold 716.787 MT onions for ₹ 0.84 crore incurring a loss of ₹ 0.89 crore. The balance quantity of 783.623 MT (52 *per cent* of the total purchase) valuing ₹ 1.90 crore was damaged.

The Company stated (August 2015) that though the activity did not yield profit but the objective of the procurement to keep the prices under control had been achieved. While appreciating the need for the State agencies to make market interventions to regulate prices of key commodities, we find that purchase was made without adequate experience and preparation. Further, the Company was also not able to release the stock of onions in the market during the period the prices were expected to peak as more than 50 *per cent* of the procured onions were damaged due to improper storage.

Thus, the decision to purchase onions without considering the commercial and safety angle of the operation caused a loss of ₹ 2.79 crore (₹ 0.89 crore + 1.90 crore) to the company.

The matter was referred to the Government (July 2015); the reply of the Government was awaited (September 2015).

Punjab State Industrial Development Corporation Limited

3.15 Undue favour to lessee

Undue favour to a lessee resulted in loss of opportunity to earn extra rental income of ₹ 1.22 crore during the period September 2009 to March 2015.

Punjab State Industrial Development Corporation Limited (Company) executed (August 2004) a lease deed with GAIL (India) Limited (lessee), a Government of India undertaking, for renting out 6,212 square feet area in its building at the rate of ₹ 30 per square foot with 5 *per cent* increase on the completion of third year, for a period of five years commencing from 18

September 2004, renewable further on mutually acceptable terms and conditions.

On expiry of period of lease (17 September 2009), the Company proposed a minimum rent of ₹ 100 per square foot to the lessee against the prevailing market rates[43] of ₹ 100 to ₹ 200 per square foot. The lessee refused to accept this increase in the rent and legal notice was issued (September 2009) for vacation of the premises. However, the Company agreed (29 October 2009) to charge a rent of ₹ 70 per square foot with effect from 18 September 2009 with an increase at the rate of 10 *per cent* on the completion of third year. Revised lease deed was executed (22 February 2010) commencing from 18 September 2009 which was again renewed (15 September 2014) for a further period of five years at the rate of ₹ 110 per square foot with an increase of 10 *per cent* on the completion of third year.

We observed that the space was initially leased in September 2004 without any quotations/ tenders. While renewing (September 2009) the lease, a rent of ₹ 70 per square foot was accepted against the prevailing market rates of ₹ 100 to ₹ 200 per square foot. We further observed that though the Company leased out (June 2014) a part of ground floor at the rate of ₹ 125 per square foot to a State Government department, it renewed (28 July 2014) the lease deed with the lessee, GAIL at ₹ 110 per square foot.

Thus, the decisions to renew the lease at rentals lower than the ruling market rates were not based on sound commercial considerations and resulted in undue favour to the lessee, resulting in loss of opportunity to earn extra rental income of ₹ 1.22 crore[44] to the Company during the period September 2009 to March 2015. This acquires further significance as the Company has been carrying huge accumulated loss year after year which stood at ₹ 656.20 crores as at 31 March 2014.

The Company/ Government in their reply (June/July 2015) stated that building was given on rent to a Government of India (GoI) undertaking being directly associated with acceleration of industrial growth in Punjab in association of PSIDC and it was on the safer side to give the building to a GoI undertaking and in the then prevailing market conditions it was a wise decision to let out the building at the rates mentioned above. The reply was not acceptable because leasing out premises to a GoI Navratna Company at rentals lower than the prevailing market rates was not in the financial interests of the Company.

[43] Rent rates of similar property collected by the Company from the local property dealers.

[44] Calculated at minimum market rates of`₹ 100 per square foot for the period of 18 September 2009 to 17 September 2014 and for the period from 18 September 2014 to 31 March 2015 at the rate of ₹ 125 per square foot charged from Punjab Bureau of Investment Promotion.

Punjab Information & Communication Technology Corporation Limited

3.16 Non-implementation of project

Decision to implement the project without waiting for environmental clearance and adequate financial arrangement resulted in infructuous expenditure of ₹ 2.32 crore and interest loss of ₹ 1.12 crore on ₹ 2.60 crores deposited for development of the project

The Punjab Information & Communication Technology Corporation Limited (Company) decided (June 2009) to develop an IT Park at Village Railmajra on land[45] measuring 12.11 acres. As this land was designated forest land, clearance from the Department of Forest, GoP was sought (June 2010).

The work of internal development of IT Park was assigned (March 2010) to Punjab Small Industries and Export Corporation Limited (PSIEC) at an estimated cost of ₹ 8.26 crore for which an advance payment of ₹ 2.60 crore was released. The Company allotted (January 2011) 11 plots @ ₹ 4000 per sq. yard and a total sum of ₹ 1.08 crore was received as earnest money deposit and instalments.

The Company deposited (January 2011) ₹ 45.55 lakh for compensatory afforestation and transferred (May 2012) 13.09 acres land costing ₹ 1.28 crore in District Gurdaspur to the forest department in terms of orders of Ministry of Environment and Forest (MOEF), GoI.

As environment clearance was getting delayed and PSIEC had not started ground level development work, most of the allottees expressed (August 2012) their intent to surrender the plots. The Company in accepting (September 2012) the cancellation of plots also allowed refund of earnest money without interest and decided to sell the land in one chunk, by auction, for commercial, mixed land use, IT Park and institutional use citing that with the estimated cost of developing the park had risen to around ₹ 10.00 crore against the earlier estimated cost of ₹ 8.26 crore for which Company did not have arrangement of funds.

Audit observed that the Company had initiated work without having clearance from the MOEF and spent ₹ 2.32 crore on purchase of equivalent area of land, cost of compensatory afforestation, bhoomi pujan etc. till the shelving of the project (September 2012). The MOEF gave clearance (November 2012) for setting up of IT Park project subject to conditions which included that the forest land would not be used for any other purpose than to set up an IT park and specified that it could be revoked/ suspended in case of non fulfilment of the stated conditions.

[45] This land was acquired by State Government in the year 1985-86 for setting up of project by M/s Intermagnetic India Limited (IIL) which was 100 *per cent* subsidiary of the Company. The assets and liabilities of IIL were transferred (December 2009) to the Company after it became defunct.

Thus, the decision to implement the project without prior planning, statutory clearances and adequate financial arrangement resulted in infructuous expenditure of ₹ 2.32 crore and loss of interest on ₹ 1.12 crore[46] on ₹ 2.60 crore advanced to PSIEC.

The Management replied (July 2015) that PSIEC had not incurred any expenditure on the project and amount deposited would be adjusted against the dues since the date of advance and there would not be any burden on the Company. It further stated that all the investments made have been debited to the project as well as land transferred to the Company.

The reply is not acceptable as the Company may not be able to get the land use changed and sell the land as one chunk and it has not adjusted the advance given to PSIEC till date (July 2015) though the project was dropped in September 2012. Further, debiting of investment is not a solution as the Company could not get permission from the Government to sell this land in whole chunk despite a lapse of 34 months since shelving of the proposal.

The matter was referred to the Government (May 2015), their reply was awaited (September 2015).

3.17 Loss due to improper planning

Establishment of an Incubation Centre without conducting due diligence with regard to its viability resulted in loss of ₹ 2.17 crore and misutilisation of ASIDE grant to the extent of ₹ 0.60 crore.

To provide initial support to start-up units in the field of Information Technology/Information Technology Enabled Services, Company decided (March 2009) to establish an Incubation Centre (Centre) at Mohali. The Company formed a Governing Council consisting of its officers, experts from the industry and Software Technology Parks of India (STPI), for implantation of this project. Though the proposal put before the Board of the Company for the establishment of the Centre stated that many SME units had expressed the need for an incubation facility in Mohali, the proposal was not backed by any survey or study indicating the need and demand for such a facility and its commercial viability.

The Centre was established (2010) in two phases; in first the Company took (June 2010) ground floor of a building of Punjab Communication Limited (PunCom) on rent for initial period of three years and in the second, it leased (May 2012) first floor of the same building. The renovation of building was completed at a cost of ₹ 1.37 crore (first phase - April 2011 at a cost of ₹ 0.75

[46] calculated on minimum bank FDR @ 9 *per cent* from February/June 2010 to March 2015

crore and second phase - May 2012 at a cost of ₹ 0.62 crore). A grant of ₹ 1.00 crore was received for the second phase under Assistance to State for Developing Export Infrastructure and other Allied Activities (ASIDE) Scheme.

The Company finding the Centre being unable to attract adequate number of incubates, closed the second phase and surrendered (July 2013) first floor of the building hired to PunCom. Even for space on ground floor, there were not enough incubates to occupy the entire space resulting in recurring losses for the Company. Against the total rent of ₹ 1.41 crore earned, the Company paid a rent of ₹ 2.22 crore during the period 2010-11 to 2014-15. In view of recurring losses and commercial unviability of the project, the Company decided (March 2014) to close even the first phase of the centre (May 2014).

Audit observed that before establishing the Centre, the Company had not conducted any survey to explore the business potential and to determine its economic and commercial viability. Instead it made an investment of ₹ 1.37 crore on renovation of rented premises. Further, while the guidelines issued by Ministry of Commerce & Industry stipulated that the grant under ASIDE Scheme was to be utilised only for creation of capital infrastructure, ₹ 0.60 crore of the amount sanctioned for second phase of incubation centre under ASIDE Scheme was utilised for renovation of the building, which was misutilisation of ASIDE grant and against the tenets of the scheme. On surrendering of renovated premises to PunCom, the Company also could not get any compensation in lieu of expenditure incurred on renovation due to the absence of an enabling clause in the agreement in this regard.

Thus, establishment of an Incubation Centre without conducting due diligence regarding its viability resulted in Company incurring of loss of ₹ 2.17 crore (₹ 1.37 crore on account of renovation of rented premises and ₹ 0.80 crore - deficit of rent received against rent paid to PunCom) besides misutilisation of ASIDE grant to the extent of ₹ 0.60 crore.

The Management stated (June 2015) that no such survey was required as the region is an established IT destination. The reply is not acceptable as the Company being a commercial organisation should have secured its financial interests too.

The matter was referred to the Government, their reply was awaited (September 2015).

Punjab Small Industries and Export Corporation Limited

3.18 Loss due to allotment of land free of cost in contravention of Land Allotment Policy

Allotment of land to SPV for setting up a CETP in contravention of New Land Allotment Policy has resulted into favour to SPV and a loss of ₹ 1.61 crore to the Company.

Jalandhar Effluent Treatment Society for Electroplating Industries (SPV) requested (April 2013) the GoP to allot a land for setting up a Common Effluent Treatment Plant (CETP) at Focal Point (Extension), Jalandhar, developed by Punjab Small Industries and Export Corporation Limited (Company). Director, Department of Industries and Commerce (DIC) informed (April 2013) the Company that in pursuance to an affidavit filed by the GoP in the Punjab and Haryana High Court in response to a Civil Writ Petition on controlling pollution, a CETP was to be set up in Jalandhar by 31 March 2014. The Company was to decide on the allotment of land to the SPV for setting up a CETP at Focal Point (Extension) Jalandhar.

The Company accordingly requested (April 2013) the Secretary, DIC to accord approval for allotment of a land measuring around 4,600 square yards[47] to the SPV at the existing land allotment reserve price of ₹ 3,500 per square yard. The said plot of land was kept reserved as green belt in the layout plan of focal point. During the pendency of the decision of DIC on the proposal, the Company observed that as establishment of CETP was in overall environmental interest of the area and to keep it pollution free, decided (May 2013) to de-reserve the said piece of land and allot this land to the SPV free of cost for public welfare purpose against previous consideration of allotment of land at the existing reserve price of ₹ 3,500 per square yard. It again approached (September 2013) DIC to approve the allotment of land free of cost to the SPV for setting up of CETP since the Land Allotment Policy of April 2008 did not have specific provisions for allotment of land for setting up CETP.

Meanwhile, the State Government notified (October 2013) a new policy for allotment of land in various industrial focal points which provided that the allotment of plots to SPVs for setting up of common facility centre shall be made at the reserve price fixed by the developing agency with the approval of the DIC.

Audit observed that the Company, overlooking the provisions of the new policy, again requested (January 2014/March 2014) DIC to allot the land free of cost to the SPV, which was accorded (April 2014). The possession of land was handed over (June 2014).

[47] Lying vacant in the green belt at Focal Point (Extension), Jalandhar opposite to Plot No. E-41 to E-46 and on the backside of Plot No. E-54 to E-47 abutting Kala Sanghian drain on one side.

Audit observed that this allotment of land to SPV for setting up a CETP free of cost, in contravention of provisions of New Land Allotment Policy to allot land at reserve price, has resulted into favour to SPV and a loss of ₹ 1.61 crore[48] to the Company.

The management replied (March 2015) that the Company has provided the possession of said land on leasehold basis and the ownership of the land vests with the Company. The fact remains that the Company always makes allotment of plots on lease but based on payment and not free of cost. The management reply was silent on cost aspect.

The matter was referred to the Government (January 2015), their reply was awaited (September 2015).

Chandigarh
The 18 December 2015

(Jagbans Singh)
Principal Accountant General (Audit), Punjab

Countersigned

New Delhi
The 5 January 2016

(Shashi Kant Sharma)
Comptroller and Auditor General of India

48 Worked out at ₹ 3500 per square yard

Annexures

Annexure 1

(Referred to in paragraph 1.11)

Statement showing investments made by State Government in PSUs whose accounts are in arrears

(Figures in columns 4 & 6 to 8 are ₹ in Crore)

Sl. No.	Name of the Public Sector undertaking	Year up to which accounts finalised	Paid up capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	**Working Government Companies**						
1.	Punjab State Seeds Corporation Limited	2010-11	5.62	2011-12	-	-	14.68
				2012-13	-	-	12.06
				2013-14	-	-	4.17
2.	Punjab Water Resource Management & Development Corporation Limited	2012-13	307.16	2013-14	16.93	-	242.25
				2014-15	41.65	-	337.75
3.	Punjab State Civil Supplies Corporation Limited	2012-13	3.73	2013-14	-	-	32.40
				2014-15	-	-	31.37
4.	Punjab State Power Cororation Limited	2013-14	6081.47	2014-15	-	-	2650.00
	Total A (Working Government Companies)		**6397.98**		**58.58**	**-**	**3324.68**
B	**Working Statutory Corporations**						
1.	Punjab Scheduled Castes Land Development and Finance Corporation	2011-12	68.26	2012-13	4.91	-	-
				2013-14	5.42	-	-
				2014-15	5.42	-	-
2.	PEPSU Road Transport Corporation	2013-14	306.44	2014-15	25.00	-	-
	Total B (Working Statutory Corporations)		**374.70**		**40.75**	**-**	**-**
C	**Non Working Companies**						
1.	Punjab Land Development and Reclamation Corporation Limited	1994-95	1.45	1995-96	-	-	4.98
				1996-97	-	-	-
				1997-98	-	-	-
				1998-99	-	-	2.50
				1999-2000	-	-	1.12
				2000-01	-	-	-
				2001-02	-	-	1.30
				2002-03	-	-	5.85
	Total C (Non working Companies)		**1.45**		**-**	**-**	**15.75**
	Grand Total (A + B + C)		**6774.13**		**99.33**	**-**	**3340.43**

Annexure 2

(Referred to in paragraph 1.15)

Summarised financial position and working results of Government companies and Statutory Corporations as per their latest finalised financial statements/accounts

(Figures in column 5 to 12 are ₹ in crore)

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-15	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Capital employed[2]	Return on capital employed[3]	Percentage return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Working Government Companies													
Agriculture & Allied													
1	Punjab Agro Foodgrains Corporation Limited	2013-14	2015-16	5.00	-	4.90	4956.85	(-)0.30	Under Audit	9.89	7.50	75.83	(all employees are on deputation)
2	Punjab Agro Industries Corporation Limited	2013-14	2014-15	49.21	-	1.13	-	-0.10	-	89.22	0.94	1.05	413
3	Punjab Agro Juices Limited	2014-15	2015-16	50.00	30.00	(-)55.16	6.45	(-)3.64	Under Audit	24.84	(-)3.63	-	All employees are on contract basis
4	Punjab Agro Power Corporation Limited	2014-15	2015-16	0.05	-	D	D	D	-	D	D	D	-
5	Punjab State Forest Development Corporation Limited	2014-15	2015-16	0.25	11.78	54.62	59.57	3.11	Under Audit	66.65	4.18	6.27	199
6	Punjab State Grains Procurement Corporation Limited	2013-14	2015-16	1.05	-	(-)1941.43	10824.84	(-)491.17	Under Audit	(-)1940.20	789.85	-	2 (others are on deputation/ contract)
7	Punjab State Seeds Corporation Limited	2010-11	2015-16	5.62	5.00	7.02	82.78	0.53	Under Audit	21.22	0.53	2.50	46
8	Punjab Water Resource Management & Development Corporation Limited	2012-13	2014-15	307.16	222.26	(-)94.24	5.94	(-)5.38	(-)**7.65**	435.18	(-)5.38	-	1380
9	Punjab Agri Export Corporation Limited	2014-15	2015-16	5.00	-	-4.24	0.66	-3.61	Under Audit	19.50	-3.61	-	on deputation/ contract
Sector wise Total				**423.34**	**269.04**	**-2027.40**	**15937.09**	**-500.56**	**-7.65**	**-1273.70**	**790.38**	**-**	**2040**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-15	Accumulated Profit (+) /Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Capital employed[2]	Return on capital employed[3]	Percentage return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Financing													
10	Punjab State Industrial Development Corporation Limited	2013-14	2014-15	78.21	610.60	(-)656.20	7.93	(-)42.35	(-)94.62	94.93	7.00	7.37	69
Sector wise Total				**78.21**	**610.60**	**(-)656.20**	**7.93**	**(-)42.35**	**(-)94.62**	**94.93**	**7.00**	**7.37**	**69**
Infrastructure													
11	Punjab Police Housing Corporation Limited	2013-14	2014-15	0.05	-	B	B	B	-	0.10	B	-	147
12	Punjab Small Industries and Export Corporation Limited	2012-13	2015-16	50.01	-	108.83	328.34	6.79	(-)**23.52**	168.73	6.93	4.11	767
Sector wise Total				**50.06**	**-**	**108.83**	**328.34**	**6.79**	**(-)23.52**	**168.83**	**6.93**	**4.10**	**914**
Manufacture													
13	Punjab Communications Limited	2014-15	2015-16	12.05	-	8.96	22.27	(-)10.26	-	94.35	(-)10.17	-	232
Sector wise Total				**12.05**	**-**	**8.96**	**22.27**	**-10.26**	**-**	**94.35**	**(-)10.17**	**-**	**232**
Power													
14	Gidderbaha Power Limited	2013-14	2014-15	0.05	10.13	D	D	D	-	12.06	D	-	Staff is on deputation from PSPCL
15	Punjab Genco Limited	2013-14	2014-15	22.90	-	102.15	20.75	12.51	(-)21.47	125.05	**12.51**	10.00	1(others are on contract)
16	Punjab State Power Corporation Limited	2013-14	2015-16	6081.47	8665.41	(-)1646.84	20932.93	249.31	Under Audit	30233.89	2631.26	8.70	41332
17	Punjab State Transmission Corporation Limited	2013-14	2015-16	605.88	3977.76	462.42	1316.47	380.52	Under Audit	6331.66	649.22	10.25	3817
18	Punjab Thermal Generation Limited	2013-14	2014-15	0.05	-	D	D	D	-	D	-	-	-
Sector wise Total				**6710.35**	**12653.30**	(-)**1082.27**	**22270.15**	**642.34**	(-)**21.47**	**36702.66**	**3292.99**	**8.97**	**45149**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-15	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Capital employed[2]	Return on capital employed[3]	Percentage return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Service													
19.	Greater Mohali City Bus Services Limited	----First Annual Accounts not prepared----											(On deputation basis)
20	Gulmohar Tourist Complex (Holiday Home) Limited	2012-13	2015-16	0.02	-	-3.94	0.06	-0.31	-	-2.88	-0.31	-	-
21	Punjab Information & Communication Technology Corporation Limited	2014-15	2015-16	19.23	-	20.65	5.22	0.65	Under Audit	39.88	0.65	1.63	30
22	Punjab Police Security Corporation Limited	2013-14	2014-15	0.05	-	-	B	B	-	(-)0.06	B	-	-
23	Punjab State Bus Stand Management Company Limited	2011-12	2014-15	56.15	11.15	4.06	314.83	1.77	(-)0.35	579.99	6.88	1.19	-
24	Punjab State Civil Supplies Corporation Limited	2012-13	2014-15	3.73	-	(-)447.49	8405.82	0.95	(-)1763.83	10748.05	1588.63	14.78	1483
25	Punjab State Container and Warehousing Corporation Limited	2013-14	2014-15	25.00	-	84.28	20.98	16.74	(-)1.37	109.28	16.74	15.32	(on contract/ deputation basis)
26	Punjab Tourism Development Corporation Limited	2010-11	2014-15	6.66	-	14.21	-	(-)0.91	-	22.12	(-)0.66	-	-
27	Punjab Municipal Infrastructure Development Company	2013-14	2015-16	0.05	694.71	B	B	B	Under Audit	106.25	B	-	(On contract basis
Sector wise Total				**110.89**	**705.86**	**-328.23**	**8746.91**	**18.89**	**-1765.55**	**11602.63**	**1611.93**	**13.89**	**1513**
Total A (All sector wise working Government companies)				**7384.90**	**14238.80**	**(-)3976.31**	**47312.69**	**114.85**	**-1912.81**	**47389.70**	**5699.06**	**12.03**	**49917**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-15	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Capital employed[2]	Return on capital employed[3]	Percentage return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Working Statutory corporations													
Agriculture & Allied													
1	Punjab State Warehousing Corporation	2013-14	2014-15	8.00	45.84	(-)1136.67	5033.05	(-)277.04	Under Audit	(-)1024.39	487.46	-	1440
Sector wise Total				**8.00**	**45.84**	**(-)1136.67**	**5033.05**	**(-)277.04**	**-**	**(-)1024.39**	**487.46**	**-**	**1440**
Financing													
2	Punjab Financial Corporation	2013-14	2014-15	40.39	211.22	(-)269.24	19.78	30.26	Under Audit	311.45	45.96	14.76	161
3	Punjab Scheduled Castes Land Development and Finance Corporation	2011-12	2013-14	68.26	28.66	11.37	6.15	(-)5.77	(-)2.03	97.49	(-)5.32	-	183
Sector wise total				**108.65**	**239.88**	**(-)257.87**	**25.93**	**24.49**	**(-)2.03**	**408.94**	**40.64**	**9.94**	**344**
Service													
4	PEPSU Road Transport Corporation	2013-14	2015-16	306.44	37.40	-376.30	361.37	-11.11	Under Audit	36.67	-2.50	-	1679
Sector wise Total				**306.44**	**37.40**	**-376.30**	**361.37**	**-11.11**	**-**	**36.67**	**-2.50**	**-**	**1679**
Total B (All sector wise working Statutory corporations)				**423.09**	**323.12**	**-1770.84**	**5420.35**	**-263.66**	**-2.03**	**-578.78**	**525.60**	**-**	**3463**
Grand Total (A+B)				**7807.99**	**14561.92**	**-5747.15**	**52733.04**	**-148.81**	**-1914.84**	**46810.92**	**6224.66**	**13.30**	**53380**
Non working Government companies													
Agriculture & Allied													
1	Punjab Land Development and Reclamation Corporation Limited	1994-95	2000-01	1.45	3.72	0.65	9.85	1.07	-	5.56	1.47	26.44	-
2	Punjab Micro Nutrients Limited[3]	1991-92	1994-95	0.25	0.36	(-)0.61	0.05	(-)0.12	-	0.13	(-)0.07	-	-
3	Punjab Poultry Development Corporation Limited	2011-12	2014-15	3.09	-	(-)9.27	-	0.02	-	3.09	0.02	0.65	-
Sector wise Total				**4.79**	**4.08**	**(-)9.23**	**9.90**	**0.97**	**-**	**8.78**	**1.42**	**16.17**	**-**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-15	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Capital employed[2]	Return on capital employed[3]	Percentage return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Financing													
4	Punjab Venture Capital Limited	2013-14	2014-15	0.05	-	0.16	-	(-)0.03	-	0.30	(-)0.03	-	-
5	Punjab Venture Investors Trust Limited	2013-14	2014-15	0.05	-	0.04	-	-	-	0.09	-	-	-
6	Punjab Film and News Corporation Limited	2000-01	2014-15	1.51	0.14	(-)1.79	-	0.23	-	(-)0.03	0.23	-	-
Sector wise Total				**1.61**	**0.14**	**(-)1.59**	**-**	**0.20**	**-**	**0.36**	**0.20**	**-**	**-**
Manufacturing													
7	Electronic Systems Punjab Limited[3]	2013-14	2014-15	3.00	6.09	(-)461.82	-	(-)67.86	-	(-)4.09	(-)0.13	-	**-**
8	Punjab Bio-Medical Equipments Limited[3]	1996-97	2001-02	0.43	0.41	(-)1.12	-	-0.03	-	0.19	(-)0.03	-	**-**
9	PCL Telecom Limited[3]	2004-05	2005-06	0.20	-	(-)0.59	-	-	-	(-)0.39	-	-	**-**
10	Punjab Digital Industrial Systems Limited[3]	2006-07	2007-08	0.25	0.26	(-)0.78	-	(-)0.71	-	(-)1.12	(-)0.71	-	**-**
11	Punjab Electro Optics Systems Limited[3]	1996-97	1997-98	0.12	0.87	(-)1.28	-	(-)0.01	-	(-)0.70	(-)0.01	-	**-**
12	Punjab Footwears Limited	1990-91	1995-96	0.15	0.04	(-)0.83	0.18	(-)0.10	-	(-)0.39	(-)0.05	-	**-**
13	Punjab Power Packs Limited[3]	1997-98	1999-2000	1.55	8.04	(-)5.53	1.97	(-)1.12	-	3.63	(-)1.03	-	**-**
14	Punjab Power Products Limited[3]	1982-83	1983-84	0.26	0.66	(-)0.27	Not Available	(-)0.12	-	1.05	(-)0.06	-	**-**
15	Punjab State Handloom and Textile Development Corporation Limited	2012-13	2015-16	3.63	1.71	(-)9.16	-	(-)0.11	(-)1.30	(-)0.02	(-)0.11	-	1

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-15	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Capital employed[2]	Return on capital employed[3]	Percentage return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
16	Punjab State Hosiery and Knitwear Development Corporation Limited	2005-06	2006-07	3.91	10.13	(-)16.84	-	(-)0.06	-	0.88	(-)0.06	-	-
17	Punjab State Leather Development Corporation Limited	2001-02	2009-10	3.42	-	(-)7.61	-	(-)0.05	-	0.22	(-)0.05	-	1
18	Punjab Tanneries Limited	1991-92	1993-94	0.52	1.41	(-)4.98	0.08	(-)0.93	-	0.33	(-)0.09	-	-
19	Consumer Electronics (Punjab) Limited	2014-15	2015-16	0.21	-	B	B	B	-	0.14	B	-	1
20	Punjab Recorders Limited	2014-15	2015-16	0.71	0.79	(-)8.82	-	-	Under Audit	(-)2.86	-	-	-
Sector wise Total				**18.36**	**30.41**	**-519.63**	**2.23**	**-71.10**	**-1.30**	**-3.13**	**-2.33**	**-**	**3**
Service													
21	Amritsar Hotel Limited	2011-12	2015-16	0.02	-	41.11	-	0.05	-	50.13	0.05	0.10	-
22	Neem Chameli Tourist Complex Limited	2012-13	2015-16	0.02	-	0.10	-	-0.13	-	0.12	(-)0.13	-	-
23	Punjab Export Corporation Limited[3]	1977-78	1979-80	0.10	0.52	(-)0.27	-	(-)0.09	-	0.07	(-)0.06	-	-
Sector wise Total				**0.14**	**0.52**	**40.94**	**-**	**-0.17**	**-**	**50.32**	**(-)0.14**	**0.16**	**-**
Total C (all sector wise non working Government companies)				**24.90**	**35.15**	**-489.51**	**12.13**	**-70.10**	**-1.30**	**56.33**	**-0.85**	**-**	**3**
Grand (A+B+C)				**7832.89**	**14597.07**	**-6236.66**	**52745.17**	**-218.91**	**-1916.14**	**46867.25**	**6223.81**	**13.28**	**53383**

Notes:

1 **B** Four companies (Sl. Nos. A-11, A-22, A-27 and C-19) functioning on ‘no profit no loss’ basis.

2 **D** Three Companies (Sl. No. A-4, A-14 and A-18) are under construction.

3 Eight non-working companies (Serial No.C-2, 7, 8, 10, 11,13, 14 & 23) are under liquidation. One non-working Company (Sr. No. C-9) has been dissolved by the orders of Punjab & Haryana High Court.

4 Loans outstanding at the close of 2014-15 represent long term loans only and do not include interest accrued and due.

[1] Include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit/decrease in losses (-) decrease in profit/increase in losses.

[2] Capital Employed represents shareholders funds plus long term borrowings, except in case of finance companies/corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds and borrowings (including refinance).

[3] Return on capital employed has been worked out by adding interest to net profit.

Annexure 3

(*Referred to in paragraph no. 2.1.9.2*)

Statement showing misappropriation of paddy and amount recoverable from millers

Sl. No.	District/Name of the miller	Crop year	Allocated milling quantity	Net paddy allotted (MT)	Rice to be delivered (MT	Rice actually delivered (MT)	Rice short delivered (MT)	Cost of balance rice after adjusting milling charges (₹ in lakh)	Cost of gunnies wooden crates etc (₹ in lakh)	Interest upto March 2015 (₹ in lakh)	Total amount recoverable (₹ in lakh)	Amount recovered from miller/disposal of stocks (₹ in lakh)	Date of FIR	Date of appointment of arbitrator	Date of arbitration award
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Jalandhar														
1	Ujaagar Mal Satpal, Nakodar	2010-11	Not allotted	1559.35	1044.75	778.92	265.83	70.03	4.93	19.47	94.43	9.00	N.A.	Arbitration proceedings terminated on 9-6-14 as agreement not entered	
2	Punjab Rice Mill,Mehatpur	2011-12	2725	2726.08	1826.47	483.97	1342.50	289.55	11.49	61.51	362.55	115.86	N.A.	28-11-13	Award awaited
3	Nurmahal Agro,Shankar	2011-12	10500	8628.97	5781.41	3550.93	2230.48	549.79	36.35	137.48	723.62	146.50	22-09-13	10-02-14	01-10-14 Execution pending
		2012-13	11200	17222.73	11539.23	2769.77	8769.46	2383.07	59.00	484.60	2926.67	311.97		10-02-14	01-10-14 Execution pending
4	V.K. Rice Mill, Nurmahal	2012-13	11200	20420.92	13682.02	8103.40	5578.62	1390.42	75.91	381.30	1847.63	327.24	21-09-13	10-02-14	01-10-14 Execution pending
5	Rishi Rice Mill, Dhanowali	2012-13	4300	5848.29	3918.35	644.81	3273.54	832.77	19.75	228.65	1081.17	162.56	21-09-13	25-02-15	Award awaited
	Patiala														
6	Bhalinder Rice Mill	2010-11	3000	4366.46	2918.52	700.89	2217.63	415.09	47.97	251.11	714.17	nil	20-10-11	13-02-12	14-05-14, Execution pending
7	Kamla Food	2011-12	2700	3257.97	2182.82	1428.46	754.36	177.76	18.03	116.48	312.27	12.00	29-01-13	18-03-14	Award pending
8	P.R. Rice G.U.S, Samana	2011-12	1980	1437.41	963.07	485.11	477.96	114.30	10.28	36.90	161.48	2.00	01-02-13	18-03-14	Award pending

Sl. No.	District/Name of the miller	Crop year	Allocated milling quantity	Net paddy allotted (MT)	Rice to be delivered (MT)	Rice actually delivered (MT)	Rice short delivered (MT)	Cost of balance rice after adjusting milling charges (₹ in lakh)	Cost of gunnies wooden crates etc (₹ in lakh)	Interest upto March 2015 (₹ in lakh)	Total amount recoverable (₹ in lakh)	Amount recovered from miller/disposal of stocks (₹ in lakh)	Date of FIR	Date of appointment of arbitrator	Date of arbitration award
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
9	Simran Foods	2011-12	5000	3317.61	2222.80	1508.70	714.10	168.27	19.64	48.44	236.35	50.00	13-02-13	18-03-14	29-09-14, Execution pending
	Moga														
10	Mahavir Agro Foods, Ajitwal	2012-13	10000	11786.84	7897.18	5377.20	2519.98	676.27	32.60	169.05	877.92	6.10	15-07-14	08-05-14	Award pending
11	Kwality Rice Mills, Dharamkot	2012-13	10918	20613.63	13811.13	5807.84	8003.29	2172.50	37.14	522.37	2732.01	51.76	07-12-14	29-04-14	Award pending
12	Mahadev Agro Foods, Dharamkot	2012-13	6300	8900.64	5963.43	2472.87	3490.56	947.95	21.03	230.63	1199.61	11.65	15-07-14	14-05-14	Award pending
	Mohali														
13	Jyoti Rice Mill	2010-11	1575	4188.66	2806.40	1724.60	1081.80	206.51	20.05	98.81	325.37		30-08-12	30-06-12	28-11-13 Execution pending
	Sangrur														
14	Amar Karan Rice Mills, Dirba	2010-11	1000	2122.50	1422.08	161.84	1260.24	251.99	9.85	146.66	408.5		1-7-11	15-11-11	30-07-12 Execution pending
15	Rising Star Oil and Rice mill P Ltd, Sunam	2010-11	1000	1866.13	1250.31	511.49	738.82	147.64	7.57	49.82	205.03	21.67	Not registered.	06-03-14	Award awaited
16	National Feed process	2010-11	1000	1494.45	1001.29	669.01	332.28	64.10	13.83	35.41	113.34		Not registered	12-02-14	Award awaited
	Ludhiana														
17	Malhotra Rice & Gen Mills	2010-11	1995	3176.88	2128.51	806.51	1322.00	259.69	12.04	58.49	330.22	32.50	N.A.	08-04-13	Award awaited

Sl. No.	District/Name of the miller	Crop year	Allocated milling quantity	Net paddy allotted (MT)	Rice to be delivered (MT)	Rice actually delivered (MT)	Rice short delivered (MT)	Cost of balance rice after adjusting milling charges (₹ in lakh)	Cost of gunnies wooden crates etc (₹ in lakh)	Interest upto March 2015 (₹ in lakh)	Total amount recoverable (₹ in lakh)	Amount recovered from miller/disposal of stocks (₹ in lakh)	Date of FIR	Date of appointment of arbitrator	Date of arbitration award
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
	Fatehgarh Sahib														
18	G.T.Rice Mill	2011-12	4160	2514.33	1684.60	1185.46	499.14	121.20	14.10	19.38	154.68	90.00	15-11-14	24-02-15	Award awaited.
		2012-13	6300	2320.29	1554.59	807.65	746.94	197.20	12.57	39.52	249.29	31.56	15-11-14	06-03-14	Award awaited.
19	Walia Rice Mill	2012-13	3500	3236.03	2168.14	1667.34	500.80	133.01	9.43	11.90	154.34	116.71	N.A.	11-10-14	Award awaited
		2013-14	5000	3453.45	2313.81	1130.65	1183.16	360.72	9.60	36.78	407.1	-	02-10-14	20-11-14	Award awaited
	Mukatsar														
20	S.R. Rice Mill, Malout	2012-13	1925	1925	1289.75	725.54	564.21	152.46	5.16	35.07	192.69	-	20-11-14	24-02-15	Award awaited
	Total			136384.62	91370.66	43502.96	47867.70	12082.29	508.32	3219.83	15810.44	1499.08			
	Total (₹ in crore)			1.36 lakh MT	0.91 lakh MT	0.43 lakh MT	0.48 lakh MT	120.82	5.08	32.20	158.10	14.99			

Net amount recoverable = ₹ 158.10 crore (-) ₹ 14.99 crore = ₹ 143.11 crore

Annexure – 4

(*Referred to in paragraph no.2.1.9.3*)

Statement showing less recovery from millers against undelivered rice

Sl. No.	District/Name of the miller	Crop year	Net paddy allotted (Qtls)	Rice to be delivered (Qtls)	Rice actually delivered (Qtls)	Rice short delivered (qtl) (5-6)	Amount recoverable (including VAT)		Amount recovered (including VAT)			Amount less recovered (9-10) (₹ in crore)	Further interest (upto March 2015) (₹ in crore)	Total Amount recoverable (13+14) (₹ in crore)
							Rate (with interest) (figure in ₹)	Amount (7 X 8) (₹ in crore)	Rate (figure in ₹)	Amount (7 X 10) (₹ in crore)	Date of receipt			
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
	District office - Ludhiana													
1	Dev Rice Mills	2010-11	93139.65	62403.56	57949.56	4454.00	2713.84	1.21	2004.40	0.82[4]	October 2012	0.39	0.11	0.50
2	Maha Laxmi Food Agro Mills	2010-11	23074.45	15305.28	4841.20	10464.08	2713.84	2.84	2004.40	2.10	September/ October 2012	0.74	0.22	0.96
3	Deshmesh Rice Mills	2011-12	7099.05	4756.36	537.30	4219.06	2626.29	1.11	2170.91	0.91	January to March 2013	0.19	0.05	0.24
4	Sidhu Rice &Gen Mills	2011-12	22711.50	15216.71	13985.46	1231.25	2567.15	0.31	2170.91	0.27	October 2012	0.05	0.01	0.06
	District office - Moga													
5	Kartar Agro Mills	2010-11	83435.10	55901.23	33856.59	22044.64	2713.84	5.98	1732.65	3.82	July 2012 to December 2012	2.16	0.63	2.79
	Total		**229459.75 (22945.97 MT)**	**153583.14 (153583.31 MT)**	**111170.11 (11117.01 MT)**	**42413.03 (4241.30 MT)**		**11.45**		**7.92**		**3.53**	**1.02**	**4.55**

[4] Sale bill raised for 408.63 MT only and no claim was raised for balance 36.77 MT

Annexure-5

(Referred to in paragraph 2.2.7)

Statement showing incorrect assessment of requirement of material

Sl. No	TE No.	Description of material	Quantity as per NIT	Quantity as per purchase proposal	Quantity approved by competent authority (CPC/WTD)	Quantity accepted by bidders	Quantity for which POs were issued	Percentage of POs quantity to NIT quantity
CE/Material Management, PSPCL								
1.	QQ 153	ACSR 100mm^2(Dog) (in Kms)	1000	1000	800	800	800	80
2.	QQ 2201	11 KV 75 Amp GO Switches (in Nos)	36500	43800	12000	11500	11500	32
3.	QQ 168	11KV X. L. P. E, AB Cable (in Kms)	200	200	100	100	100	50
4.	QQ 171	ACSR 80 mm^2 (Raccoon) (in Kms)	14000	14000	10000	10000	10000	71
5.	QQ 2225	Porcelain Insulators Disc (in Nos)	300000	125000	100000	80000	80000	27
6	QQ 159	ACSR 30 mm^2 (Weasel) in Kms	30000	7500	7500	7500	7500	25
7.	QQ 2192	11 KV 75 Amp GO Switches (in Nos)	37000	37000	25000	25000	25000	68
8.	QQ 1238	Multi core cable of different sizes (in Kms)	505	840	215	215	215	43
9.	QQ 1241	Multi core cable of different sizes (in Kms)	795	670	500	400	400	50
10.	QQ 1244	Multi core cable of different sizes (in Kms)	610	640	550	300	300	49
11.	QQ 1247	Multi core cable of different sizes (in Kms)	4900	5130	4280	2806	2806	57

12.	QQ 1256	Multi core cable of different sizes (in Kms)	6100	7320	2075	2022	2022	33
13	QQ 1253	Multi core cable of different sizes (in Kms)	5690	5075	4165	4165	4165	73
14	QQ 1262	Multi core cable of different sizes (in Kms)	5290	2570	2535	1935	1935	37
15	QQ 2213	GI Pins (in Nos)	650000	650000	500000	500000	500000	77
16	QQ177	MS black hexagon Bolt with nuts of various size (in MT)	3000	1606	425	425	425	**14**
17	QQ 180	ACSR 50mm^2 (Rabbit) (in Kms)	10000	5500	3000	3000	3000	30
18	QQ 2258	PCC Pole 10.97 Mtr (in Nos)	11000	9000	9000	9000	9000	82
19	QQ 1265	HT termination Kits (in Nos)	12000	10800	10800	10800	10800	90
20	Q 3920	10 KVA Distribution Transformer (in Nos)	11000	11000	5000	5000	5000	45
21	Q 3922	16 KVA Distribution Transformer (in Nos)	22000	13000	11000	11000	11000	50
22	Q 3925	500 KVA Distribution Transformer (in Nos)	90	90	60	60	60	67
23	Q 3926	63 KVA Distribution Transformer (in Nos)	10000	10000	8000	8000	8000	80
24	Q 3927	100 KVA Distribution Transformer (in Nos)	10000	9000	7000	7000	7000	70
25	Q 3933	Transformer Oil (in KL)	1400	1400	1400	900	900	64
26	Q 3934	200 KVA Distribution Transformer (in Nos)	700	700	500	500	500	71
27	Q 1268	11 KV HT XLPE Cables (in km)	750	790	600	600	600	80
CE/Metering, PSPCL								
1.	MQP-46	Polycarbonate Security Seal (in Nos).	4000000	3000000	3000000	3000000	3000000	75

2	MQP-58	11KV CTPT units(in sets)	2800	2309	2309	2309	2309	82
3.	MQP-62	LTAC 3phase 4 wire energy meter (in Nos).	125000	125000	100000	100000	100000	80
4.	MQP-66	DLMS compliant AC 3 phase, 4 wire CTPT HT energy meter (in Nos).	9000	5500	5500	5500	5500	61
CE/Transmission System/PSPCL								
1	TSQ-1002	Nuts & Bolts (in MTs)	288	288	252.5	252.5	252.5	88
2	TSQ-1006	Suspension clamps, Dead End Bodies, Straight Joints (in Nos)	6000	5500	5500	5500	5500	92
3	T. Spec.-14	Naphthenic base transformer oil (in Kilo Litres)	500	500	400	400	400	80
CE/Transmission System/PSTCL								
1	STQ-6005	Lightning Arresters (in Nos.)	130	100	100	100	100	77
2	STQ-6001	Neutral Current Transformers and supporting structures (in Nos.)	171	70	70	70	70	41
3	STQ-3019	AC SR Zebra (in Kms)	1800	1800	1550	1550	1550	86

Annexure – 6

(Referred to in Paragraph – 3.1.2)

Statement showing closing balances of erstwhile Board and opening balances of PSPCL & PSTCL alongwith the resultant increase/ decrease as on 16 April 2010

(₹ in crore)

Item of Balance Sheet		Balances as on 16-4-10	Financial Restructuring Plan dated 24-12-2012 (Opening balances as on 16-4-2010)			Increase/ (Decrease)
Sr no	**ASSETS**	**Erstwhile PSEB**	**PSPCL**	**PSTCL**	**Total**	**Total**
1	Gross Block	**21254.50**	37638.21	4822.11	**42460.32**	21205.82
	Less: Accumualted Depreciation	**8925.98**	7795.57	1032.91	**8828.48**	-97.50
	Net Fixed Assets	**12328.52**	29842.64	3789.20	**33631.84**	21303.32
2	Capital Expenditure In Progress	**2226.22**	1867.87	349.53	**2217.40**	-8.82
3	Assets Not in Use	**89.88**	89.23	0.69	**89.92**	0.04
4	Deferred Costs	**9.24**	7.75	0.60	**8.35**	-0.89
5	Intangible Assets	**7.00**	7.00	0.00	**7.00**	0.00
6	Investments	**328.44**	328.34	0.00	**328.34**	-0.10
7	**A.** Total Current Assets	**3774.87**	3471.24	161.79	**3633.03**	-141.84
	Less: *Current Liabilities*					
	a) Security Deposit from Consumers	**1502.34**	1501.32	0.00	**1501.32**	-1.02
	b) Other Current Liabilities	**3434.43**	3200.75	187.53	**3388.28**	-46.15
	B. Total Current Liabilities	**4936.77**	4702.07	187.53	**4889.60**	-47.17
	Net Current Assets (A-B)	**-1161.90**	-1230.83	-25.74	**-1256.57**	-94.67
8	Subsidy Receivable from Govt.	**0.01**	0.00	0.00	**0.00**	-0.01
	NET ASSETS	**13827.40**	**30912.00**	**4114.28**	**35026.28**	**21198.88**
Sr no	**FINANCED BY**					
1	Short/Medium Term Loans	**7657.44**	7057.45	600.00	**7657.45**	0.01
2	Payment due on Capital Liabilities	**8.28**	3.13	0.32	**3.45**	-4.83
3	Capital Liabilities	**7029.62**	6142.56	887.06	**7029.62**	0.00
4	Equity	**2946.11**	6081.43	605.83	**6687.26**	3741.15
5	Liability for RBI bonds	**637.35**	1090.47	0.00	**1090.47**	453.12
6	GPF and CPF Liability	**1937.54**	1764.30	173.24	**1937.54**	0.00
7	Reserves	**50.07**	8772.66	1847.83	**10620.49**	10570.42
8	Contribution, Grants & Subsidies	**3741.34**	0.00	0.00	**0.00**	-3741.35
9	Deficit from Appropriation Account	**-10180.35**	0.00	0.00	**0.00**	10180.35
	TOTAL FUNDS	**13827.40**	**30912.00**	**4114.28**	**35026.28**	**21198.88**

Annexure 7

(Referred to in paragraph 3.2)

Statement showing Cash Flow of PSPCL for the year 2011-12, 2012-13 and 2013-14

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14
A)	**Net profit as per Profit and Loss Account**	**(537.04)**	**260.55**	**249.31**
B)	**Additions**			
1	Less: Gain on Sale of Assets	(0.03)	(0.02)	0
2	Less: Interest on Staff Loans & Advances	(0.12)	(0.11)	(0.20)
3	Add: Loss on sale of assets	0	3.21	0.09
4	Add: Interest & Finance Charges except payable to consumer	1875.18	2303.75	2273.72
	Sub Total of B	**1875.03**	**2306.84**	**2273.60**
C)	**Net profit before tax and extra ordinary items**	**1337.99**	**2567.39**	**2522.91**
D)	**Adjustments**			
1	Depreciation	714.72	796.32	939.46
2	Interest on FD	(48.70)	(64.95)	(67.29)
3	Provision for bad & doubtful debts	8.06	7.32	14.20
4	Provision for loss on investment	(0.14)	(0.05)	(0.05)
	Sub Total of D	**674.22**	**738.64**	**886.32**
E)	**Cash flow from operating activities before working capital changes**	**2012.21**	**3306.03**	**3409.23**
F)	**Changes in working capital**			
1	(Increase)/Decrease in Loan and Advances	(15.86)	(6.33)	(66.50)
2	(Increase)/Decrease in Inventory	(16.46)	(79.16)	51.98
3	(Increase)/Decrease in Debtors	(314.26)	(230.07)	(213.31)
4	(Increase)/Decrease in Other Non-current assets	(222.04)	(488.73)	(124.10)
5	Increase/(Decrease) in Security from consumers	352.88	212.46	326.58
6	Increase/(Decrease) in short term provisions	12.08	40.05	7.71
7	Increase/(Decrease) in Other current liabilities	654.94	(370.07)	140.04
8	Increase/(Decrease) in Trade payable	1004.96	(330.54)	483.15
	Sub Total of F	**1456.23**	**(1252.39)**	**605.55**
G)	**Net Cash flow from operating activities**	**3468.44**	**2053.64**	**4014.78**
H)	**Cash flow from investing activities**			
1	Increase in fixed assets	(824.71)	(2018.72)	(1445.22)
2	Capital WIP	950.76	608.26	(623.97)
3	Increase in investment	(137.08)	(129.88)	284.04
4	Increase in long term loans & advances	(520.23)	(43.34)	16.29
5	Interest on FD & other investment	48.70	64.95	67.29
6	Interest on staff loan & advances	0.12	0.11	0.20
I)	**Net Cash used in investing activities**	**(2383.97)**	**(1518.63)**	**(1701.38)**
J)	**Cash flow from financing activities**			
1	Increase/(Decrease) in Short term loan	(740.00)	(5010.00)	175.00
2	Increase/(Decrease) in Long term loan	1090.93	5847.70	(199.06)
3	Interest and finance charges paid	(1875.18)	(2303.75)	(2273.72)
4	Consumer contribution	250.67	367.68	329.63
5	Increase in GPF	259.79	166.38	(249.70)
6	Short term provisions relating to borrowings	27.27	48.12	49.99
K)	**Net Cash flow from financing activities**	**(986.52)**	**(883.88)**	**(2167.86)**
L)	**Increase in cash and bank balance**	**97.95**	**(348.87)**	**145.53**
M)	**Opening Cash and bank balance**	**371.86**	**469.81**	**120.94**
N)	**Closing cash and bank balance**	**469.81**	**120.94**	**266.48**

Annexure 8

(Referred to in Paragraph 3.12)

Statement showing Fund Flow of the four State Procuring agencies for the year 2013-14

(₹ in crore)

Sources/ inflow	PAFC	PUNGRAIN	PSWC	PUNSUP	Applications/ Outflow	PAFC	PUNGRAIN	PSWC	PUNSUP
Funds from operations	-	-	-	2.05	Funds lost in operations	0.13	239.88	148.27	-
Sales of Fixed Assets	-	-	-	-	Purchase of Fixed Assets	0.09	5.98	47.97	1.15
Sales of Investments (long term only)	-	-	-	-	Purchase of Investments (long term only)	-	-	-	-
Issue of Shares	-	-	-	-	Redemption of preference share (including buy-back of shares)	-	-	-	-
Issue of Debentures	-	-	-	-	Redemption of Debentures	-	-	-	-
Loan and Advances taken/ recovered	-	23.81	52.33	-	Loan and Advances given (claims recoverable and security deposits	-	-	-	1498.91
Dividend received	-	-	-	-	Dividend paid	-	-	-	-
Non-operating income	-	-	-	-	Non-operating expenditure	-	-	-	-
Increase in long term provisions	-	-	-	3.31	Income Tax	-	-	-	-
Non-trading receipts	-	-	-	-	Non-trading Payments	-	-	-	-
Acceptance of deposits	-	-	-	-	Repayment of deposits	-	-	-	-
Decrease in working Capital	-	222.05	143.91	1494.70	Increase in working Capital	0.10	-	-	-
Decrease in Deferred Tax Assets	0.32	-	-	-	Others	-	-	-	-
Total	**0.32**	**245.86**	**196.24**	**1500.06**		**0.32**	**245.86**	**196.24**	**1500.06**

Annexure - 9

(Referred to in Paragraph – 3.12)

Statement showing the working capital position of the State Procuring Agencies as on 31 March 2013 and 31 March 2014[5]

(₹ in crore)

Particulars	PAFC		PUNGRAIN		PSWC		PUNSUP		Total	
	2013	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
Current Assets										
Inventories	3342	2554	5436	4993	3089	2076	6083	4277	17950	13900
Trade Receivables	1268	1516	2933	3708	2082	2273	1536	1449	7819	8946
Cash and Cash Equivalent	32	35	489	516	51	12	6	1	578	564
Short Term Loans and Advances	2310	2804[6]	48	16	228	251	112	29	2698	3100
Other Current Assets	0	0	1	3	0	0	0	0	1	3
Total	**6952**	**6909**	**8907**	**9236**	**5450**	**4612**	**7737**	**5756**	**29046**	**26513**
Current Liabilities										
Short Term Borrowings & CCL	6733	6642	9619	9905	6100	5373	12492	11894	34944	33814
Trade Payables	77	77	404	495	0	0	10	74	491	646
Other Current Liabilities	134	181	435	611	262	273	746	795	1577	1860
Short Term Provisions	1	1	0	0	224	247	0	0	225	248
Total	**6945**	**6901**	**10458**	**11011**	**6586**	**5893**	**13248**	**12763**	**37237**	**36568**
Working Capital	**7**	**8**	**(-) 1551**	**(-) 1775**	**(-) 1136**	**(-) 1281**	**(-) 5511**	**(-) 7007**		

5 Position as on 31 March 2015 is not yet available.

6 This includes ₹ 2416.20 crore on account of claims recoverable from GOI/FCI/State Government etc.