



**Report of the  
Comptroller and Auditor General of India  
on  
Public Sector Undertakings  
(Social, General and Economic Sectors)  
for the year ended 31 March 2016**



**Government of Punjab**  
Report No. 3 of the year 2016

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## PREFACE

This report deals with the results of audit of Government companies and statutory corporations for the year ended 31 March 2016.

The accounts of Government companies (including companies deemed to be government companies as per the provisions of the Companies Act, 2013) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of the Companies Act as amended 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 the CAG for placing before the 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 viz. 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 2015-16 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 2015-16 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 17 paragraphs and two performance audits viz. on 'Working of Punjab Water Resources Management & Development Corporation Limited' and on 'Billing and Collection of Revenue by Punjab State Power Corporation Limited' having a financial implication of ₹ 1,712.97 crore due to non-compliance with rules, directives and procedures, injudicious decision-making and deficient planning and ineffective monitoring. Some of the major findings are highlighted below.

### 1. Financial management of State Public Sector Undertakings

#### Investments in PSUs

As on 31 March 2016, the investment (capital and long-term loans) in 53 PSUs was ₹25,556.43 crore consisting of ₹ 7,976.79 crore as capital and ₹17579.64 crore as long term loans. The investment has grown by 58.99 per cent from ₹ 16,073.75 crore in 2011-12 to ₹ 25,556.43 crore in 2015-16. The thrust of investment in the State was mainly in the power sector. The Government contributed ₹5,387.69 crore towards equity/loans and grants/subsidies during 2015-16.

*(Paragraphs 1.6 to 1.8)*

#### Performance of PSUs

During the period from October 2015 to 30 September 2016, 28 accounts were received in respect of 23 working PSUs. Of these, eight accounts reflected book profit of ₹ 231.44 crore and 15 accounts reflected loss of ₹ 877.32 crore. Two accounts were prepared on 'no profit no loss' basis while no profit and loss account was prepared for three accounts in respect of three PSUs. The major contributors to profit were Punjab State Power Corporation Limited (₹ 165.91 crore), Punjab Small Industries and Export Corporation Limited (₹ 42.21 crore) and Punjab State Container and Warehousing Corporation Limited (₹ 14.40 crore). Heavy losses were incurred by Punjab State Grains Procurement Corporation Limited (₹ 370.76 crore), Punjab State Warehousing Corporation (₹ 189.19 crore), Punjab Agro Foodgrains Corporation Limited (₹ 96.44 crore) and Punjab State Civil Supplies Corporation Limited (₹ 90.51 crore).

*(Paragraph 1.16)*

#### Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 25 accounts in respect of 21 working companies forwarded to Audit during the period 1 October 2015 to 30 September 2016, the statutory auditors had given unqualified certificates for 16 accounts, qualified certificates for seven accounts and adverse certificates (which mean that accounts do not reflect a true and fair position) for two accounts. One account of a statutory corporation (PSWC) received a qualified certificate.

*(Paragraphs 1.21 and 1.22)*

### **Arrears in accounts and winding up**

Twenty six working PSUs had arrears of 42 accounts as on 30 September 2016.

*(Paragraph 1.10)*

## **2. Performance audit of Government Companies**

A performance audit of the Working of Punjab Water Resources Management & Development Corporation Limited and Billing and Collection of Revenue by Punjab State Power Corporation Limited (PSPCL) brought out, *inter alia*, the following:

### **Working of Punjab Water Resources Management & Development Corporation Limited**

NABARD and Government of India had released ₹ 1,101.09 crore to the State Government for installation of tubewells and lining of water courses projects. The State Government in turn released only ₹ 940.98 crore to the Company with delays ranging from three to 973 days which resulted in delay in execution of projects.

*(Paragraph 2.1.6)*

The Company had not framed any procedure for identification of beneficiaries, selection of sites, prioritisation of project sites and for ensuring involvement of beneficiaries at the time of project planning.

*(Paragraph 2.1.7)*

The Company procured items valuing ₹ 9.87 crores through short term tenders and repeat orders from single qualified bidders without inviting fresh tenders thereby forgoing the benefit of competitive rates.

*(Paragraph 2.1.9)*

The operation and maintenance of tube wells was not handed over to the Water User Associations and its outsourcing resulted in avoidable committed expenditure of ₹ 34.41 crore.

*(Paragraph 2.1.10.2)*

During 2011-16, the Company handed over 1,291 water courses (covering 4.01 lakh hectares) to WUAs and an amount of ₹ 36.07 crore became due for release to the Associations as one time functional grant (OTFG) but such amount was neither asked from GoI (central share) nor released to the WUAs.

*(Paragraph 2.1.12.1)*

### **Billing and Collection of Revenue by Punjab State Power Corporation Limited**

Mandatory replacement of electro-mechanical meters with electronic meters was not completed in violation of provisions of Electricity Act, 2003 and defective/ burnt meters were not replaced within prescribed time.

*(Paragraphs 2.2.9.1 and 2.2.9.2)*

Prescribed time periods for issue and for payment of energy bills were not being adhered to leading to loss of interest amounting to ₹ 24.32 crore during 2011-16.

*(Paragraphs 2.2.9.3 to 2.2.9.6)*

Consumers were not paid interest on their security deposits. This short payment was to the extent of ₹ 385.26 crore during 2011-15.

*(Paragraph 2.2.9.8)*

Company had not completed 100 *per cent* metering of agricultural pump-set consumers though this was required under the Electricity Act, 2003. This resulted in the PSERC disallowing ₹ 10.00 crore in its tariff orders for the years 2014-16.

*(Paragraph 2.2.10.1)*

Outstanding dues against the defaulting consumers had increased from ₹ 705.67 crore to ₹ 1,083.56 crore during 2012-16.

*(Paragraph 2.2.10.3)*

### 3. Audit of Transactions

#### **Punjab Scheduled Castes Land Development and Finance Corporation**

- The actual receipts of the Corporation was only ₹ 64.85 crore against planned financial resources of ₹ 145.56 crore during 2013–16 which impaired its capacity to implement welfare schemes. The Corporation's physical achievement of targets ranged from four *per cent* to 28 *per cent* in schemes undertaken in collaboration with re-finance institutions. There were pending applications from intending beneficiaries while it parked ₹ 6.83 crore in fixed deposits instead of disbursing assistance to eligible beneficiaries.

*(Paragraph 3.1)*

#### **Punjab State Industrial Development Corporation Limited**

- Poor operational performance in investment in equity and loans and extension of guarantees to loanee units led the Company to default in redemption of bonds. As the bonds in default are guaranteed by the State Government, the financial liability of redemption may eventually devolve onto the State exchequer. There were delays ranging from six months to over 19 years in initiating effective action to recover loans from defaulters while poor record keeping of details of guarantors resulted in non-recovery of ₹ 197.70 crores in just two out of five cases test checked in audit.

*(Paragraph 3.2)*

#### **Punjab Agro Industries Corporation Limited**

- Under valuation of the Company's equity holding in a unit while disinvesting resulted in undue benefit of ₹ 4.08 crore to the collaborator.

*(Paragraph 3.4)*

### **Punjab Financial Corporation**

- The Corporation extended irregular benefit of ₹ 1.91 crore to a loanee by settling its case under an expired One Time Settlement policy.  
(Paragraph 3.5)

### **Punjab State Civil Supplies Corporation Limited**

- Poor preservation and maintenance of wheat stock coupled with not initiating timely action to upgrade the same resulted in a loss of ₹ 93.29 crore.  
(Paragraph 3.7)

### **Punjab Water Resources Management & Development Corporation Limited**

- Delay in settlement of retirement dues of superannuated employees resulted in the Company having to bear additional expenditure of ₹ 1.07 crore on interest payments.  
(Paragraph 3.9)

### **Punjab State Warehousing Corporation**

- Allotment of paddy to a miller against the provisions of the Customs Milling Policy and failure to shift the un-milled paddy to other millers resulted in loss of ₹ 5.94 crores.  
(Paragraph 3.10)

### **Punjab State Power Corporation Limited**

- The Company had to purchase power from traders/unscheduled interchange due to low plant loads factor at its own thermal stations resulting in higher financial burden of ₹ 374.96 crore. It also failed to avail of rebate amounting to ₹ 22.33 lakh for timely payment of power purchased. The Company made excess payment of ₹ 2,249.61 crore of which ₹ 1,427.84 crore was passed to consumers.  
(Paragraph 3.11)
- Failure to take definitive action or disconnect electric supply of a defaulting consumer as provided for under the PSERC's (Electricity Supply Code and Related Matters) Regulations for non-deposit of security of ₹ 14.48 crore along with penal interest of ₹ 9.74 crore undermined its ability to ensure submission of deposits by consumers as well as led to accumulation of outstanding dues of ₹ 53.36 crore.  
(Paragraph 3.12)
- The Company paid additional levy of ₹ 391.46 crore though it was to be paid by a Joint Venture Company which was a separate legal entity.  
(Paragraph 3.13)

**Chapter-1**  
**Functioning of**  
**State Public Sector**  
**Undertakings**

## Chapter-1

### Functioning of State Public Sector Undertakings

#### Introduction

**1.1** State Public Sector Undertakings (PSUs) are established to carry out activities of commercial nature and occupy an important place in the State economy. As on 31 March 2016, there were 53<sup>1</sup> PSUs. Of these, one company<sup>2</sup> was listed on the stock exchange(s). During the year 2015-16, no PSU was incorporated and two PSUs<sup>3</sup> were dissolved. The details of the State PSUs as on 31 March 2016 are given in table 1.1 below.

**Table 1.1: Total number of PSUs as on 31 March 2016**

Type of PSUs	Working PSUs	Non-working PSUs <sup>4</sup>	Total
Government Companies	27	22	49
Statutory Corporations	4	-	4
<b>Total</b>	<b>31</b>	<b>22</b>	<b>53</b>

The working PSUs registered a turnover of ₹ 55,693.63 crore as per their latest finalised accounts as of 30 September 2016. This turnover was equal to 13.62 *per cent* of the State's Gross Domestic Product (GDP) for 2015-16. The working PSUs incurred loss of ₹ 5,983.86 crore as per their latest finalised accounts as of 30 September 2016. They had 49,765 employees as at the end of March 2016.

#### 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 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 143 (7) of the Act, in case of 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, the Comptroller and Auditor General of India (CAG) may, if considered necessary, cause test audit to be conducted of the accounts of such companies 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 financial statements in respect of the financial years that commenced earlier

<sup>1</sup> Excluding PCL Telecom Limited which stands dissolved (January 2012).

<sup>2</sup> Punjab Communications limited.

<sup>3</sup> Punjab Power Products Limited and Punjab Export Corporation Limited which are included in 53 PSUs.

<sup>4</sup> Non-working PSUs are those which have ceased to carry on their operations.

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 the CAG as per the provisions of Sections 139 (5) or (7) of the Companies Act, 2013. As per provisions of Section 143 (6) of the Act *ibid*, these financial statements are also subject to supplementary audit to be conducted by CAG within sixty days from the date of receipt of the audit report under section 143 (5).

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 very substantial financial stake in these PSUs. This is mainly of 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 2016, the investment (capital and long-term loans) in 53 PSUs was ₹ 25,556.43 crore as given in table 1.2 below.

**Table 1.2: Total investment in PSUs**

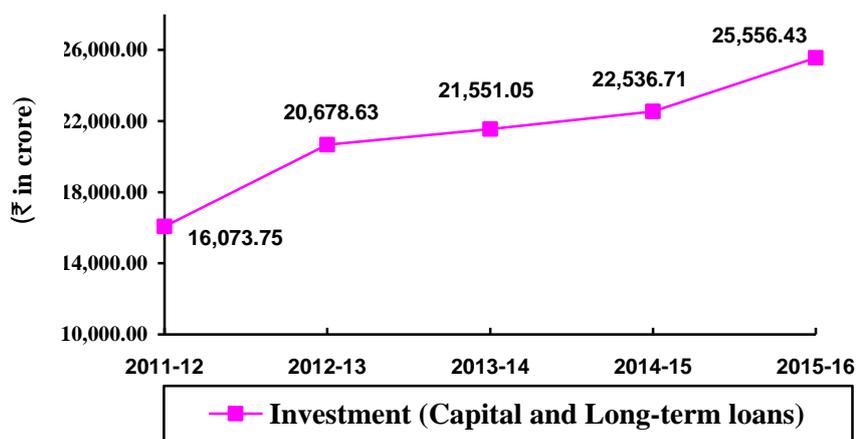
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	7,470.35	17,213.98	24,684.33	481.69	330.84	812.53	25,496.86
Non-working PSUs	24.75	34.82	59.57	-	-	-	59.57
<b>Total</b>	<b>7,495.10</b>	<b>17,248.80</b>	<b>24,743.90</b>	<b>481.69</b>	<b>330.84</b>	<b>812.53</b>	<b>25,556.43</b>

Source: Annual accounts of PSUs

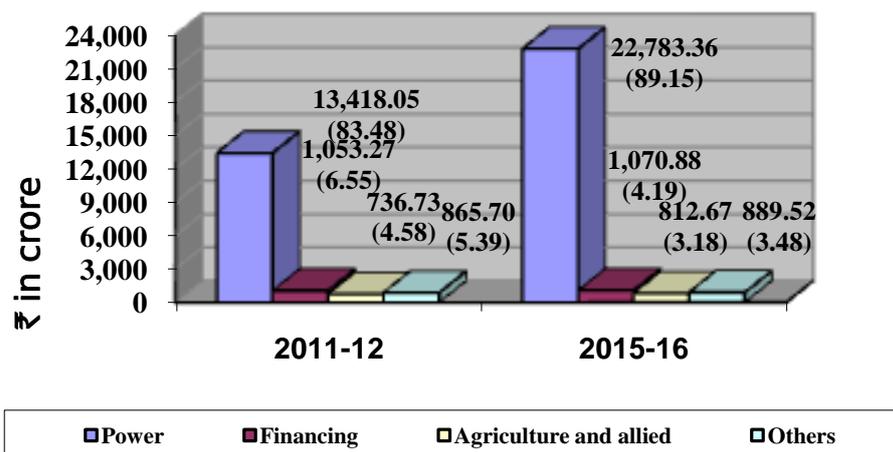
As on 31 March 2016, of the total investment in State PSUs, 99.77 per cent was in working PSUs and the remaining 0.23 per cent in non-working PSUs. This total investment consisted of 31.21 per cent towards capital and 68.79 per cent in long-term loans. The investment has grown by 58.99 per cent from ₹ 16,073.75 crore in 2011-12 to ₹ 25,556.43 crore in 2015-16 as shown in chart 1.1 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 2012 and 31 March 2016 are indicated in chart 1.2 below. The thrust of PSU investment was mainly in power sector, which increased from 83.48 per cent of the total investments during 2011-12 to 89.15 per cent during 2015-16.

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 in table 1.3 below for three years ended 2015-16.

Table 1.3: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	2	22.35	3	72.07	2	32.24
2.	Loans given from budget	1 <sup>5</sup>	15.00	-	-	-	-
3.	Grants/Subsidy from budget	6	3,129.82	4	3,027.35	6	5,355.45
<b>4.</b>	<b>Total Outgo (1+2+3)</b>	<b>8</b>	<b>3,167.17</b>	<b>6</b>	<b>3,099.42</b>	<b>7</b>	<b>5,387.69</b>
5.	Waiver of loans and interest	-	-	-	-	-	-
6.	Guarantees issued	7	28,895.45	9	31,271.89	4	6,282.68
7.	Guarantee Commitment	11	44,012.74	11	49,058.42	12	38,658.45

In order to enable PSUs to obtain financial assistance from banks and financial institutions, the State Government gives guarantee under the 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  $\frac{1}{8}$  per cent in case of PSUs engaged as procuring agencies and 0.5 to 2 per cent from the other PSUs. The guarantee commitment decreased to ₹ 38,658.45 crore during 2015-16 from ₹ 49,058.42 crore in 2014-15. During the year, three PSUs paid guarantee fee of ₹ 96.15 crore (excluding

<sup>5</sup> PEPSU Road Transport Corporation (PRTC) @ 12 per cent per annum

₹ 47.00 crore pertaining to previous years) out of ₹ 171.74 crore payable, leaving a balance of ₹ 28.59 crore. The major defaulter was Punjab State Industrial Development Corporation Limited (PSIDC) (₹26.63 crore). The other defaulters were Punjab State Power Corporation Limited (PSPCL) and Punjab Agro Industries Corporation Limited (PAICL).

### 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 2016 is given in table 1.4 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	3,636.60	7,833.78	4197.18
Loans	7,171.09	10,131.49	2960.40
Guarantees	38,659.88	38,658.45	1.43

Audit observed that the differences occurred in respect of 29 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) read with Section 129 (2) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act *ibid*. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table 1.5 below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2016.

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

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of Working PSUs	31	31	29	31 <sup>6</sup>	31
2.	Number of accounts finalised during the year	29	31	26	35 <sup>7</sup>	28
3.	Number of accounts in arrears	41	41	42 <sup>8</sup>	39	42
4.	Number of Working PSUs with arrears in accounts	24	24	26	25	26
5.	Extent of arrears (numbers in years)	1 to 5	1 to 4	1 to 4	1 to 4	1 to 5

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 ensure that at least one year's accounts are finalised so as to restrict further accumulation of arrears. In respect of statutory corporations, all the four had arrears of accounts 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 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 ₹ 6,099.01 crore in eight PSUs (equity: ₹ 121.24 crore and grants/subsidy ₹ 5,977.77 crore) during the years for which accounts have not been finalised as detailed in *Annexure I*. 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 was arrears in finalisation of accounts by non-working PSUs. Out of 22 non-working PSUs, six<sup>9</sup> were in the process of liquidation whose accounts were in arrears for two to 24 years. Two non-working companies viz. Punjab Power Products Limited and Punjab Export Corporation Limited have been dissolved (February 2016) under orders of the Punjab and Haryana High Court. Of the remaining 14 non-working PSUs, 11 had arrears of accounts ranging from one to 25 years.

### Placement of Separate Audit Reports

**1.13** Table 1.6 below depicts the status of placement of Separate Audit Reports (SARs) issued by the CAG on the accounts of statutory corporations in the Legislature.

<sup>6</sup> It includes one company which was incorporated in 2013-14 but the intimation of incorporation was received in 2014-15.

<sup>7</sup> It represents 32 accounts of working Companies and three accounts of Statutory Corporation

<sup>8</sup> Excluding four accounts of two companies which became non working during 2013-14.

<sup>9</sup> Companies at Sl. No. C-2,7,8,9,10 and 12 of *Annexure 2*

**Table 1.6: 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	2013-14	-	-
2.	Punjab Scheduled Castes Land Development and Finance Corporation	2012-13	2013-14	-
3.	PEPSU Road Transport Corporation	2012-13	2013-14	-
4.	Punjab State Warehousing Corporation	2012-13	2013-14	4 August 2016

### Impact of non-finalisation of accounts

**1.14** Delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

### 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 1.7 below provides the details of turnover of working PSUs and State GDP for a period of five years ending 2015-16.

**Table 1.7: Details of working PSUs turnover vis-a vis State GDP**

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover	29,841.98	37,090.63	44,746.29	52,733.04	55,693.63 <sup>10</sup>
State GDP	2,56,374	2,85,119	3,17,556	3,49,826	4,08,815
Percentage of Turnover to State GDP	11.64	13.01	14.09	15.07	13.62

The turnover of State PSUs to the State GDP in percentage terms increased from 11.64 in 2011-12 to 15.07 in 2014-15. However, it decreased to 13.62 in 2015-16.

**1.16** Overall losses incurred by State working PSUs during 2011-12 to

<sup>10</sup> Turnover as per the latest finalised accounts as of 30 September 2016.

2015-16 are given in chart 1.3 below:

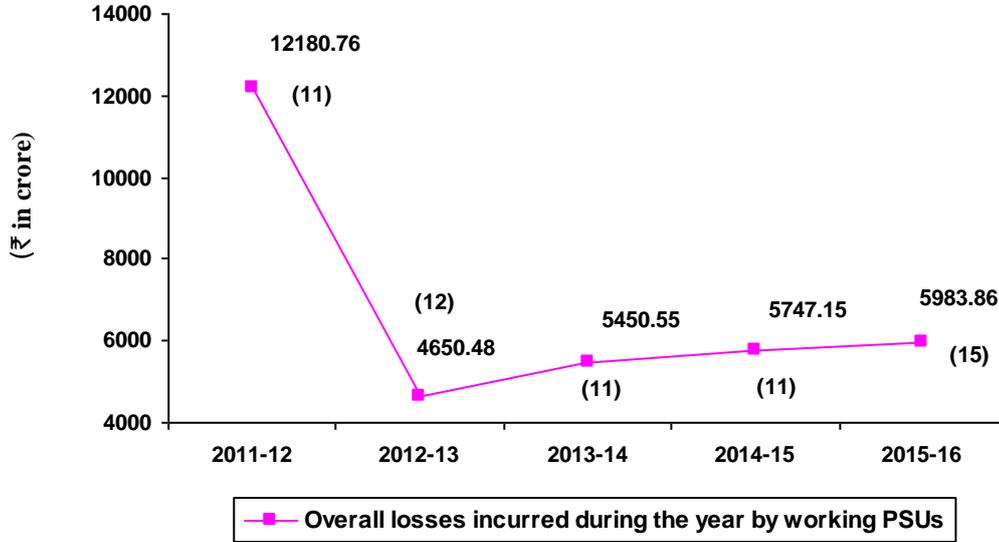


Chart 1.3 : Losses of working PSUs

(Overall losses is net effect of accumulated profit/loss during the year for which accounts were finalised and figures in brackets show the number of working PSUs in respective years which had accumulated losses)

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 2015 to 30 September 2016, 28<sup>11</sup> accounts were received in respect of 23 working PSUs. Of these, eight accounts reflected profit of ₹ 231.44 crore and 15 accounts reflected loss of ₹ 877.32 crore. Two<sup>12</sup> accounts were prepared on ‘no profit no loss’ basis and for three<sup>13</sup> accounts in respect of three PSUs, profit and loss account was not prepared. The major contributors to profit were the Punjab State Power Corporation Limited (₹ 165.91 crore), the Punjab Small Industries and Export Corporation Limited (₹ 42.21 crore) and the Punjab State Container and Warehousing Corporation Limited (₹ 14.40 crore). Heavy losses were incurred by Punjab State Grains Procurement Corporation Limited (₹ 370.76 crore), Punjab State Warehousing Corporation (₹ 189.19 crore), Punjab Agro Foodgrains Corporation Limited (₹ 96.44 crore) and Punjab State Civil Supplies Corporation Limited (₹ 90.51 crore).

<sup>11</sup> For the year 2011-12 (one account); 2012-13 (two accounts); 2013-14 (four accounts); 2014-15 (16 accounts) and 2015-16 (five accounts).

<sup>12</sup> Punjab Police Housing Corporation Limited and Punjab Police Security Corporation Limited.

<sup>13</sup> Gidderbaha Power Limited (2014-15), Punjab Thermal Generation Limited (2014-15) and Greater Mohali City Bus Services Limited (2014-15).

1.17 Some other key parameters of PSUs are given in table 1.8 below.

**Table 1.8: Key Parameters of State PSUs**

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (Per cent)	5.13	3.73	11.00	13.28	13.16
Debt	11,992.79	12,839.83	13,683.58	14,597.07	17,579.64
Turnover	29,841.98	37,090.63	44,746.29	52,733.04	55,693.63 <sup>14</sup>
Debt/ Turnover Ratio	0.40:1	0.35:1	0.30:1	0.28:1	0.32:1
Interest Payments	3,408.29	4,522.37	5,918.58	6,442.72	7,154.12
Accumulated losses	12,492.46	5,011.15	5,870.08	6,236.66	6,473.81

(₹ in crore)

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

The percentage of return on capital employed of all PSUs decreased from 5.13 in 2011-12 to 3.73 in 2012-13 but increased to 11.00 per cent in 2013-14 and further increased to 13.28 per cent in 2014-15. It, however, slightly decreased to 13.16 per cent in 2015-16.

The ratio of the debts to the turnover which was 40 per cent in 2011-12 decreased gradually to 28 per cent in 2014-15 and thereafter increased to 32 per cent in 2015-16.

**1.18** The State Government had directed (July 2011) all its PSUs to pay a minimum return of five per cent on the funds invested by the State Government. As per their latest finalised accounts, 10 PSUs earned an aggregate profit of ₹ 263.00 crore and four PSUs declared a dividend of ₹ 3.96 crore at the rate ranging from four per cent to hundred per cent. The remaining six PSUs did not declare dividend despite earning profit of ₹ 243.44 crore.

### Winding up of non-working PSUs

**1.19** There were 22 non-working PSUs (all companies) as on 31 March 2016. Of these, six<sup>15</sup> PSUs have commenced liquidation process.

During 2015-16, non-working PSUs incurred an expenditure of ₹ 0.61 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.

<sup>14</sup> Turnover of working PSUs as per the latest finalised accounts as of 30 September 2016.

<sup>15</sup> Excluding Punjab Power Products Limited and Punjab Export Corporation Limited, which were dissolved (February 2016).

**1.20** The stages of closure in respect of non-working PSUs are given in table 1.9 below.

**Table 1.9: Closure of Non working PSUs**

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	22
2.	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	6
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	7

Two non-working companies, namely Punjab Power Products Limited and Punjab Export Corporation Limited, were dissolved (February 2016) under 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 one to 22 years. During the year 2015-16, no company was wound up. The Government (Directorate of Disinvestment)<sup>16</sup> may expedite decisions regarding winding up of the non-working PSUs which have become defunct.

#### Accounts Comments

**1.21** Twenty one working companies forwarded their 25 audited accounts to Principal Accountant General (PAG) during the year 2015-16. Of these, 20 accounts of 17 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 in table 1.10 below.

**Table 1.10: Impact of audit comments on working Companies**

(Amount ₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of instances	Amount	No. of instances	Amount	No. of instances	Amount
1.	Decrease in profit	3	450.45	7	3,313.96	3	1,760.39
2	Increase in profit	-	-	1	4.30	2	1.36
3.	Decrease in loss	-	-	-	-	1	0.05
4..	Increase in loss	5	17,082.61	3	102.65	4	1,602.09
5.	Non-disclosure of material facts	9	14,816.61	9	166.29	5	27.05
6.	Errors of classification	8	211.49	11	1,271.36	5	11,207.25

During the year, the statutory auditors gave unqualified certificates for 16 accounts, qualified certificates for seven accounts and adverse certificate (i.e. accounts do not reflect a true and fair position) for two accounts. Qualifications by statutory auditors had the effect of increasing the reported

<sup>16</sup> A cell established for disinvestment of State Government equity in State PSUs/ Subsidiaries and for restructuring/privatisation etc. of these PSUs.

loss (₹ 96.44 crore) of PAFC<sup>17</sup> by ₹ 1,252.84 crore for the year 2014-15. In addition to the above, after taking into consideration the effect of CAG's qualifications on the account of PAFC, the loss for the year 2014-15 (after statutory auditor's qualification) of ₹ 1,349.28 crore would increase to ₹ 1,604.91 crore. Similarly, qualifications by statutory auditors and of the CAG had the effect of turning the reported profit (₹ 42.41 crore) of PSIEC<sup>18</sup> for the year 2013-14 into a loss of ₹ 75.12 crore. The compliance of companies with the Accounting Standards remained poor. There were 26 instances of non-compliance in 12 accounts during the year.

**1.22** Similarly, two working statutory corporations<sup>19</sup> forwarded their three accounts to PAG during the year 2015-16. Of these, two accounts of Punjab Scheduled Castes Land Development and Finance Corporation pertained to sole audit. Supplementary audit was conducted of the remaining account (PSWC). The Audit Reports of statutory auditors and the sole/supplementary audit of CAG indicated the need to improve the quality of maintenance of the accounts. The details of money value of comments of CAG on accounts audited during the last three years are given in table 1.11 below.

**Table 1.11 : 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	2	1.07
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, accounts of PSWC received qualified certificate.

### 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 2016, two performance audits and 17 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 two performance audits and 17 compliance audit paragraphs were awaited from the State Government as of September 2016.

<sup>17</sup> Punjab Agro Foodgrains Corporation Limited

<sup>18</sup> Punjab Small Industries and Export Corporation Limited.

<sup>19</sup> Punjab Scheduled Castes Land Development and Finance Corporation (two accounts) and Punjab State Warehousing Corporation (one account).

**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 without waiting for any questionnaires from the COPU. However, explanatory notes were not received in over 44 *per cent* of the performance audits and 49 *per cent* of the audit paragraphs as on 30 September 2016 as depicted in table 1.12 below.

**Table No.1.12: Explanatory notes not received (as on 30 September 2016)**

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	-	1
2010-11	March 2012	2	13	1	3
2011-12	March 2013	2	17	-	2
2012-13	July 2014	3	12	2	9
2013-14	March 2015	2	17	2	16
2014-15	March 2016	2	18	2	18
<b>Total</b>		<b>16</b>	<b>112</b>	<b>7</b>	<b>55</b>

*Discussion of Audit Reports by COPU*

**1.25** The status as on 30 September 2016 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as given in table 1.13 below.

**Table No.1.13: Reviews/ Paras appeared in Audit Reports vis a vis discussed as on 30 September 2016**

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	3	19	3	10
2009-10	2	16	-	6
2010-11	2	13	1	5
2011-12	2	17	-	4
2012-13	3	12	-	1
2013-14	2	17	-	-
2014-15	2	18	-	-
<b>Total</b>	<b>16</b>	<b>112</b>	<b>4</b>	<b>26</b>

***Compliance to Reports of Committee on Public Undertakings (COPU)***

**1.26** Action Taken Notes (ATN) to 82 paragraphs pertaining to 12 Reports of COPU presented to the State Legislature between March 2009 and March 2016 had not been received (30 September 2016) as indicated in table 1.14 below:

**Table No. 1.14 : 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
2008-09	1	6	2
2010-11	2	9	8
2012-13	2	14	6
2013-14	2	18	18
2014-15	3	23	22
2015-16	2	26	26
<b>Total</b>	<b>12</b>	<b>96</b>	<b>82</b>

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 2003-04 to 2012-13.

In order to strengthen legislative oversight and accountability, Government may ensure sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule and recovery of loss/ outstanding advances/ overpayments within the prescribed period.

**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 objective of disinvestment of State Government equity held in PSUs and their subsidiaries/promoted companies and restructuring/ privatisation of PSUs. During the year 2015-16, no PSU was completely disinvested by the Directorate.

**Coverage of Report**

**1.28** This Report contains 17 paragraphs and two performance audits i.e. “Working of Punjab Water Resources Management & Development Corporation Limited” and “Billing and Collection of Revenue in Punjab State Power Corporation Limited” involving financial effect of ₹ 1,712.97 crore. The managements of seven companies/ corporations did not reply to seven paragraphs while the response of the Government of Punjab was awaited to 17 paragraphs and two performance audits.

# **Chapter-2**

## **Performance Audit**

## Chapter-2

### Performance Audit of Government Companies

#### Punjab Water Resources Management & Development Corporation Limited

#### 2.1 Working of Punjab Water Resources Management & Development Corporation Limited

##### Highlights

The Punjab Water Resources Management & Development Corporation Limited was incorporated in December 1970 to provide irrigation facilities to the farmers by installation of deep tube wells. A performance audit of the working of the Corporation for the period 2011-16 brought out, *inter alia*, the following important audit findings:

NABARD and Government of India had released ₹ 1101.09 crore to the State Government for installation of tube wells and lining of water courses projects. The State Government in turn released only ₹ 940.98 crore to the Company with delays ranging from three to 973 days which resulted in delay in execution of projects.

*(Paragraph 2.1.6)*

The Company had not framed procedure for identification of beneficiaries, selection of sites, prioritisations of project sites and for ensuring involvement of local governing bodies and beneficiaries at the time of project planning.

*(Paragraph 2.1.7)*

Competitiveness was not ensured as purchases worth ₹ 5.73 crore were made through placing repeat orders without undertaking the process of discovering fresh rates.

*(Paragraph 2.1.9)*

The operation and maintenance (O & M) of 112 tube wells was outsourced and not handed over to the WUAs as envisaged which resulted in avoidable committed expenditure of ₹ 34.41 crore.

*(Paragraph 2.1.10.2)*

During 2011-16, the Company handed over 1,291 water courses (covering 4.01 lakh hectares) to WUAs and an amount of ₹ 36.07 crore became due for release to the Associations as one time functional grant (OTFG) but such amount was neither asked from GoI (central share) nor released to the WUAs.

*(Paragraph 2.1.12.1)*

## **Introduction**

**2.1.1.** The Punjab Water Resources Management & Development Corporation Limited<sup>1</sup> (Company) was incorporated in December 1970 to provide irrigation facilities to farmers by installation of deep tube wells. The Company is engaged in installation, operation and maintenance of tube wells under State Government schemes and lining of watercourses by executing projects approved by the Government of India (GoI) under the Command Area Development and Water Management (CADWM) programme and State Government schemes through financial assistance from the National Bank for Agriculture and Rural Development (NABARD).

## **Organisational Set-up**

**2.1.2.** The management of the Company is vested with a Board of Directors (BOD). As on 31 March 2016, there were nine directors. The Managing Director is the Chief Executive Officer of the Company and is assisted by one Superintending Engineer at the Head Office and four Superintending Engineers in field offices.

## **Audit Objectives**

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

- the planning process was comprehensive and consistent with the policies of the State Government and the Government of India (GoI);
- installation, operation and maintenance of tube wells was carried out in an efficient, effective and economical manner;
- functions relating to lining of water courses were carried out as per priorities and norms prescribed by the State Government and GoI;
- the funds were arranged timely and utilised efficiently and economically; and
- internal control and internal audit mechanisms in the Company were adequate and effective.

## **Scope of Audit**

**2.1.4.** The working of the Company for the period 2005-09 was reviewed in the Report of the Comptroller and Auditor General of India, Government of Punjab (Commercial) for the year 2009-10. The Committee on Public Undertakings (COPU) had given recommendations which have been taken into account during this performance audit.

The present performance audit, conducted during December 2015 to April 2016, assessed the performance of the Company for the period 2011-16. The

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<sup>1</sup> Formerly known as Punjab State Tubewell Corporation Limited and was renamed as Punjab Water Resources Management & Development Corporation Limited in February 2008.

audit examination involved scrutiny of records of the head office, circle offices, and nine<sup>2</sup> out of 16 divisional offices of the Company selected on the basis of Probability Proportional to Size (PPS) method of sampling. The selected divisional offices covered 74 *per cent* of expenditure on installation of tube wells and 51 *per cent* of the expenditure on lining of water courses incurred during 2011-15. Entry Conference was held in January 2016. The audit findings were reported to the Company and the State Government (May/June 2016) and discussed in the Exit Conference (July 2016) which 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 report. The reply of Government was awaited (September 2016).

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

### Audit Criteria

**2.1.5.** The audit findings were evaluated against audit criteria sourced from the following:

- annual plans of the Company;
- project reports for various schemes for installation of tube wells and lining of watercourses; and
- rules and regulations framed/adopted by the Company.

### Audit Findings

### Financial Management

#### 2.1.6. Financial position and working results

The Company has finalised its accounts upto 2012-13. The accounts for the years 2013-14 and 2014-15 are in arrears. The financial position and working results for the four years ending 31 March 2015<sup>3</sup> are given in **Annexure 3**. The Company had continuously incurred losses during the period 2011-15. The accumulated losses increased from ₹ 88.86 crore as on 31 March 2012 to ₹ 101.57 crore as on 31 March 2015.

We observed delay in release of funds by the State Government which resulted in delay in execution of various schemes as detailed below:

- NABARD released ₹ 114.81 crore to the State Government for 280 tubewell scheme during the period 2010-16, out of which the State Government released ₹ 110.10 crore to the Company upto 31 March 2016 after a delay of 30 to 826 days. Audit noticed that the State Government

<sup>2</sup> Lining Divisions : Bathinda- 8 division, Bathinda-7 division, Ludhiana and Mansa;

Tube well Divisions: Hoshiarpur L/F, Hoshiarpur OPM, Mohali, Pathankot and Jalandhar.

<sup>3</sup> Including provisional figures for the year 2013-14 and 2014-15.

released only ₹ 5.80 crore of its share upto 31.03.2016 against the due amount of ₹ 6.04<sup>4</sup> crore.

- The State Government released ₹ 594.14 crore out of ₹ 701.73 crore released by GoI and NABARD for CADWM schemes for lining projects to the Company during 2008-16 after a delay of three to 973 days.
- NABARD released ₹ 284.55 crore to the State Government for State Government Schemes for lining projects<sup>5</sup> out of which the State Government released only ₹ 236.74 crore to the Company with delays ranging from 22 to 644 days.

The Management stated (July 2016) that the progress of installation of tubewells was not affected due to late release of funds. The delay in release of funds was only a procedural delay and it did not affect the progress of lining of watercourses as works were executed through contractors and payments were released after completion of work. The reply is not tenable as the Company itself had informed BOD that delay in release of funds by the State Government was one of the reasons for delay in execution of projects and the GoI guidelines (July 2010) on CADWM provide that the grant component along with the State share must be released to the project authorities by the State Government within 15 days of its release by the GoI.

### Planning process

**2.1.7** According to the National Water Policy-2012, planning, development and management of water resources should reflect a common integrated perspective factoring in local, regional, state and national context as well as environmental concerns and social and economic needs.

We reviewed the planning process and implementation of the National Water Policy in the Company and observed that while the Company had prepared (July 2013) a master plan for irrigation works containing details of ongoing projects and projects to be undertaken in future, it did not include any strategy for achievement of the plans. We also noted that:

- The Company did not have any comprehensive data base indicating area-wise availability of water resources in the State in terms of irrigation potential which can be tapped, irrigation assets created by other departments/organisations and gap between the irrigation assets created and utilised which could have helped it to devise comprehensive plans; and
- The Company had not codified the procedure to be adopted for identification of beneficiaries, selection of sites, prioritisation of project sites and social and environmental aspects in addition to techno-economic considerations so as to ensure involvement of local governing bodies like Village Panchayats, Water User Associations (WUAs) and beneficiaries at the time of planning and finalisation of any project.

<sup>4</sup> ₹ 114.81 crore \*5/95= ₹ 6.04 crore.

<sup>5</sup> Ninety five *per cent* of the State share of cost of project has been financed by the NABARD under RIDF programme.

Management stated (July 2016) that the priority for installation of tube wells was being given in areas with erratic and inadequate rain fall where other sources of irrigation were not available. Management agreed to codify procedure for identification of beneficiaries.

The reply is not adequate as lack of a data base indicating area wise availability of water resources would undermine its efforts to properly plan and prioritise deployment of resources.

### Installation of tube wells

**2.1.8.** Installation of a tube well involves identification of site, collection of geological and hydrogeological data followed by drilling and development, construction of pump house, installation of pump set, laying of underground pipe line for distribution of water and energisation of tube well.

### Installation of deep tube wells in Kandi Area

**2.1.8.1** To mitigate the hardships of agriculturists in the backward Kandi area<sup>6</sup>, the Company prepared (March 2009) project estimates for installation of 280 deep tube wells (101 alternative<sup>7</sup> tube wells and 179 new tube wells) at a total cost of ₹ 130.06 crore. The primary objective of the project was to restore the irrigation potential of 12,500 acres and to create an additional irrigation potential of 22,000 acres approximately. NABARD sanctioned (October 2009) a loan of ₹ 123.56 crore under RIDF-XV<sup>8</sup> and the balance amount ₹ 6.50 crore was to be contributed by the State Government.

#### 2.1.8.1(a) Deficient project planning

We observed the following deficiencies in preparation of the project report:

- The Company prepared (March 2009) project estimates based on classification of blocks (safe / critical/ over-exploited zones<sup>9</sup>) made by the Central Ground Water Board (CGWB) as on March 2004. No fresh details were subsequently collected to update the category classification before actual commencement of the project. As a result, 78 tube wells were installed/ being installed in over-exploited zones without any effort to recharge the ground water. COPU had recommended (March 2013) to install alternative tube wells in over-exploited zones only after making arrangement of recharge of the ground water.
- Detailed surveys were not conducted before selection of sites, preparation of Detailed Project Report (DPR)/ project estimate. There were 73 cases where sites had to be changed either due to non-clearance of sites by

<sup>6</sup> Kandi area is semi- mountainous area which runs along the Shivalik foothills ranges of Himalayas.

<sup>7</sup> Tube wells installed/ to be installed in place of abandoned tube wells.

<sup>8</sup> Rural Infrastructure Development Fund (RIDF) was instituted in NABARD with the sole objective of giving low cost fund support to State Govts. and State Owned Corporations.

<sup>9</sup> Safe – areas which have ground water potential for development. Semi-critical – areas where cautious ground water development is recommended. Critical areas and Over exploited areas where there should be intensive monitoring and evaluation and future ground water development to be linked with water conservation measures.

hydrological wing after resistivity survey or due to non-provision of land by the farmers.

- COPU had recommended (March 2013) that panchayat of the concerned villages should be involved in planning of tube wells. The involvement of local governing bodies like panchayats, WUAs and beneficiaries was not ensured.
- Out of 232 tube wells in selected divisional offices, 101 tube wells were installed/ being installed in non - kandi areas though the project was meant for Kandi area only. Resultantly, farmers of the Kandi areas were deprived of the development of irrigation benefit to that extent.

Management stated (July 2016) that CGWB did not prohibit the installation of deep tube wells in over exploited areas. It added that the main thrust was given to install tube wells in both Kandi and non-Kandi areas where same topography exists. The contention of Management was not acceptable as deep tube wells would serve no purpose in over exploited area without any plan for ground water recharging. Further, funds under this project was for kandi area only and hence tube wells installed in non-kandi area was irregular.

#### 2.1.8.1(b) Delays in execution

The plan (approved by NABARD in October 2009) envisaged completion by 31 March 2012. The Company, however, could not complete the installation of even a single tube well up to March 2012. We observed delays in approval of estimates (of 53 to 555 days in 118 tube wells), in calling of tenders (of 344 to 601 days in 29 tube wells) and in approval of tenders (of 165 to 336 days in 129 tube wells) involving expenditure of ₹ 38.52 crore.

In comparison to the target of completion of work by March 2012, the year-wise progress in installation of tube wells is given in table 2.1 below:

Table 2.1: Stage wise/ year wise installation of tube wells

Sr. No.	Component of work	Progress during the year (figures in number of tube well sites)						Total
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
1.	Drilling	18	68	52	24	79	27	268
2.	Development	4	79	49	26	83	23	264
3.	Construction of Pump House and Delivery Tank	Nil	27	64	55	66	42	254
4.	Underground pipeline	Nil	5	28	64	50	84	231
5.	Energisation	Nil	Nil	19	24	41	55	139

Source: Progress reports and information as provided by the Company

Against the target of installation of 280 deep tube wells by the end of March 2012, only 139 tube wells (49.64 per cent) could be energised by March 2016.

We observed the following:

- Though the project was approved in October 2009, the first tender for Drilling and Development work was floated in December 2010 and work taken up in January 2011;

- The Chairman of the BOD desired (August 2009) that installation of deep tube wells in some areas be outsourced to avoid delay in their installation. However, the Company could finalise the “Expression of Interest” document containing detailed terms and conditions, eligibility criteria etc., for outsourcing of installation work of tube wells only in June 2013 i.e. after a lapse of over three years;
- In addition to the delay in execution of works attributable to the change of sites as discussed in para 2.1.8.1(a) above, there were delays by contractors in execution of work of construction of pump house and delivery tank, laying of underground pipe line for distribution of water ranging from one to 1,331 days in respect of 179 tube wells;
- Delays of upto 625<sup>10</sup> days in compliance of demand notices of PSPCL and delays upto 545<sup>11</sup> days in submission of test reports for energisation of tube wells in selected divisional offices.

In March 2014, the National Green Tribunal imposed a stay on energisation of new tube wells in the State. The stay was vacated in July 2015 and 55 tube wells were energised thereafter upto March 2016.

It was also noticed that in contravention of General Conditions<sup>12</sup> and the terms of the contracts, extension of time was granted in 87 cases though the contractors applied for extension much after (one to 979 days) the expiry of the contract. Consequently, the Company had to forgo liquidated damages of ₹ 98.18 lakh<sup>13</sup> from the defaulting contractors.

Management, while admitting (July 2016) the facts, stated that water balance was not available on some of the sites proposed in the project estimate and there was refusal by the farmers to provide land which resulted in change of potential tube well sites.

Thus, delays at each stage of planning and execution of works coupled with laxity in enforcing contractual terms relating to timely execution of works had a cascading effect resulting in denial of irrigation facilities to the beneficiary areas.

#### **2.1.8.1(c) Outsourcing of installation of tube wells**

In order to expedite the work, the Company invited (January 2014) tenders for installation of 75<sup>14</sup> tube wells in Hoshiarpur and S.A.S. Nagar districts on turnkey basis in two parts. Part-I was related to drilling and development of tube wells (including material) while Part-II related to construction of pump houses, delivery tank, fencing, installation of pump sets and control panels and laying of pipelines (including material) and operation and maintenance of tube wells for seven years.

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<sup>10</sup> Calculated after giving margin of 15 days.

<sup>11</sup> Calculated after giving margin of 15 days.

<sup>12</sup> The contractors were liable to pay liquidated damages in case of delay in completion of works. Further, the contractor were to request extension within one month of the cause of delay and in any case before expiry of the contract period.

<sup>13</sup> Hoshiarpur L/F: ₹ 39.46 lakh, Hoshiarpur OPM: ₹ 51.26 lakh and Pathankot: ₹ 7.46 lakh.

<sup>14</sup> Part of 280 tube well scheme.

We observed the following:

- Against the estimated cost of ₹ 18 crore for Part I and ₹ 25 crore for Part II, the work of part I was awarded in February 2014 for ₹ 28.69 crore while work relating to part-II was awarded in the same month for ₹ 38.22 crore. This resulted in an overall escalation in estimated cost by ₹ 23.91 crore.
- The cost awarded for Part-II was on the higher side as operation of tube wells for 24 hours a day and posting of two operators was considered against the Company's own approved norm of operation of tube wells for 1,500 hours a year and one operator per tube well. The departure from the norm while awarding the tender was not apprised to BOD.
- The Company allowed about two weeks period for opening of tenders in violation of guidelines of Central Vigilance Commission (CVC) of four to six weeks and tender of single qualified bidder in both Part-I and Part-II was accepted in the first instance.
- The Company had not codified instructions to ensure reasonableness of rates. Despite the rates of single qualified bidder (Part-I) of ₹ 28.69 crore being higher than the estimated cost of ₹ 18 crore, the Company did not analyse the market rates. For instance, the rates of V-wire wound screen pipes<sup>15</sup> were more than double of the rates approved for the same item by Director General, Supplies and Disposal (DGS&D), Haryana.

The Company awarded (November 2015) the work of installation of remaining 37 tube wells<sup>16</sup> on turnkey basis under two part system. The work for part-I was awarded for ₹ 11.16 crore against estimated cost of ₹ 9.10 crore and the work relating to part-II was awarded for ₹ 19.67 crore against updated estimated cost of ₹ 18.04 crore.

Management stated (July 2016) that comparison of rates quoted by the agency was made with the estimated cost and worked out in a realistic and objective manner and the rates were not on higher side. The reply is not acceptable as work was awarded on much higher rates than the cost as per project estimates without a justified analysis.

#### **2.1.8.1(d) Deficiencies in monitoring**

To ensure the quality of works undertaken, the DPR provided for appointment of an Independent Quality Assurance Consultant (IQAC) in the interest of efficiency, cost reduction, quality and timely completion of works and projects. We observed that IQAC was not engaged by the Company to ensure the quality of works though an amount of ₹ 1.17 crore was provided for in the project estimate.

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<sup>15</sup> ₹ 15750 against ₹ 7200 in case of 200\*8\*0.50 size and ₹ 14750 against ₹ 6807 in case of 200\*8\*0.75 size.

<sup>16</sup> Under 280 tube well scheme in Ropar, S.B.S. Nagar, Gurdaspur and Pathankot Districts.

### Installation of 10 deep tube wells in Talwara block

**2.1.8.2** The Company started (2011-12) work for installation of 10 deep tube wells in Talwara block of district Hoshiarpur under State Plan at an estimated cost of ₹ 6.05 crore for irrigating an area of 1,000 acres. Though the Company had incurred expenditure of ₹ 2.92 crore, only one tube well could be energised upto 31 March 2016 against the scheduled date of completion of 31 March 2012.

Audit analysis revealed that non-completion of the project was attributable to:

- delay in submission of site selection papers and non-suitability of selected sites;
- delay in drilling and development work ranging from three to 662 days<sup>17</sup> in respect of six tube wells; and
- delay in construction of pump house and delivery tank, laying of underground pipe line for distribution of water ranging from 163 to 539<sup>18</sup> days.

Further, delays of 44 to 304 days to comply with demand notices of PSPCL for energisation in respect of two tube wells and delays of 308 days in submission of test reports in respect of one tube well were also noticed.

Thus, deficient selection of sites coupled with delay in execution of work ultimately resulted in depriving the farmers of envisaged irrigation benefits.

Management stated (July 2016) that work of selection of sites for installation of tube wells was delayed due to topography of the area and shortage of staff. The reply is not tenable as selection of sites and availability of manpower should have been factored in at the time of preparation of project estimate.

### 2.1.9 Purchase of Material

The Company procured items valuing ₹ 9.87 crores viz. PVC pipes and fittings valuing ₹ 7.33 crore and V-wire wound screens valued at ₹ 2.54 crores during 2012-14 and 2011-12 respectively through short term tenders and repeat orders without inviting fresh tenders. All the purchase orders for the PVC pipes and fittings as well as that of V-wire screens were placed on single qualified bidders.

Audit observed the following:

(i) The guidelines issued by the Central Vigilance Commission (CVC) in April 2008 stated *inter alia* that in order to have fair and adequate competition, sufficient time of about four to six weeks should be allowed in case of

<sup>17</sup> Period of delay in Drilling and Development has been calculated after giving a margin of 45 days.

<sup>18</sup> Period of delay in construction of Pump House and Delivery Tank (including laying of underground PVC pipeline) work has been calculated after a margin of 75 days.

advertised tenders and three to four weeks in case of limited tenders except in cases of recorded emergencies. However, the Company allowed time of only two weeks for responding to the tenders for procurement of both the PVC pipes and V-wire screens.

(ii) Out of the total purchases of ₹ 7.33 crore for pipes and fittings, the Company purchased material valuing ₹ 3.19 crore through repeat orders. The reason cited for not inviting fresh tenders was imposition of code of conduct for Assembly elections. The reply was not tenable as purchases of ₹ 2.07 crores were made between October 2012 to April 2013 after the elections to the Punjab Assembly were over and the model code of conduct had been withdrawn on 6 March 2012.

(iii) The Company inserted a new clause in the tender notice dated 1 November 2013 for procurement of the PVC pipes providing for purchase preference to be given to Punjab based small scale units. By adding such a clause, all non-State based firms were rendered ineligible for participation in the tendering process and supply order valuing ₹ 2.40 crore was again placed on the same firm.

Management stated (July 2016) that to avoid delays in laying of underground pipe lines, it was decided to place the supply orders on already approved rates. The reply is not tenable as the procedures adopted deprived the Company of the benefit of competitive rates.

### Running and maintenance of the tube wells

#### 2.1.10.1 Operation of tube wells

As per norm, a tube well is required to be used for approximately 1,500 hours a year. The year wise operational performance of tube wells is given in table 2.2 below:

**Table 2.2 : Year wise operational performance of tube wells**

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Number of tube wells available for operation (cumulative figure)	1587	1587	1551	1581	1686
Operational hours as per norms	2380500	2380500	2326500	2371500	2529000
Actual operation in hours	1210454	1168105	849435	1046471	1892283
Percentage of actual operation to norm	50.85	49.07	36.51	44.13	74.82
Hours operated per tube well	763	736	548	662	1122

Source: Progress reports of running tube wells

We observed that the operation of tube wells ranged between 37 per cent and about 75 per cent during the period under report. Further, the Company had not evolved any regime of preventive maintenance of the tube wells in the absence of which uninterrupted operation of tube wells could not be ensured.

Management stated (July 2016) that less operation of tube wells was due to less demand. The Management contention is not acceptable in audit as there were no records maintained regarding demands received from the farmers.

### 2.1.10.2 Maintenance of tube wells

A Water Users Association (WUA) comprising of all beneficiary farmers was to be formed by the Company for maintenance of the tube wells. The State Government decided (November 1995) to hand over the operation and maintenance (O&M) of tube wells to the WUA. The project report of 280 tube wells scheme also envisaged the formation of WUAs and handing over of running and maintenance work of tube wells to WUAs.

We observed that the Company had not formed WUAs for maintenance of tube wells and instead outsourced the work of O&M of 112<sup>19</sup> tube wells installed/ to be installed under the scheme for ₹ 34.41 crore for seven years period despite undertakings/affidavits given by the beneficiaries regarding their willingness for formation of WUAs and to incur all expenditure on the salary of operators, payment of electricity bills and all types of repairs. Thus, outsourcing the work of O&M resulted in avoidable committed expenditure of ₹ 34.41 crore.

We further noticed that the Company had incurred an expenditure of ₹ 8.82<sup>20</sup> crore during 2012-15 on O&M of 1,579 tube wells by not forming WUAs despite the willingness given by beneficiary to bear all expenses relating to running and maintenance including salary of operators.

### Construction of field channels - Lining of watercourses

2.1.11.1 GoI provided (July 2010) 50 *per cent* of the cost of lining of field channels<sup>21</sup> as grant while the State Government was to contribute 40 *per cent* of the cost. The remaining 10 *per cent* was to be contributed by the beneficiary farmers. The financing pattern was changed in December 2013 with the GoI and the State Government contributing in the ratio of 50:50. The estimated cost as per guidelines issued by GoI in July 2010, December 2013 and September 2015 was ₹ 15,000, ₹ 25,050 and ₹ 35,000 per hectare respectively.

The Company undertook ten projects of water lining of field channel costing a total of ₹ 2,357.44 crores that was to benefit 12,76,719 hectares. As on 31 March 2016, the Company had incurred an expenditure of ₹ 1,295.26 crore on the ten ongoing schemes (*Annexure 4*).

Audit noticed that the Company had not conducted any survey to identify the priority areas for lining of the watercourses. COPU had also recommended (March 2014) that Company should give priority to the areas where farmers are purely dependent upon the canal water or those not having any other source of irrigation.

<sup>19</sup> Operation and maintenance of 75 tube wells outsourced for ₹ 22.86 crore in February 2014 and 37 tube wells for ₹ 11.55 crore in November 2015.

<sup>20</sup> 2011-12: ₹ 2.19 crore, 2012-13: ₹ 2.50 crore, 2013-14: ₹ 1.95 crore and 2014-15: ₹ 2.18 crore.

<sup>21</sup> Field channels convey water from the outlet of the Government controlled distributaries to the individual farmer's land. The field channels are lined to avoid seepage, leakage in conveyance system, evaporation losses and water loss through cuts and breaches which creates water logging in adjoining lands reducing their production capacity.

### 2.1.11.2 Cost escalation due to delays in execution

A detailed review of three of the ten schemes viz. lining of watercourses of (i) Sirhind Feeder Part II, (ii) Bathinda Branch part II and (iii) Bhakra Main Branch brought out cost escalation of ₹ 236.79 crore and delays ranging from 24 to 72 months as brought out in table 2.3 below:

**Table 2.3 : Statement showing time and cost over runs of projects reviewed**

(Amount : ₹ in crore)

Name of Scheme	Original Cost	Stipulated Completion Date	Expenditure Now Projected	Expenditure Now Incurred (upto March 2016)	Additional Cost (upto March 2016)	Extent of Delay (upto March 2016)	Extent of Coverage (upto March 2016)
Sirhind Feeder Part II	412.74	31.03.2010	856.39	416.22	154.83	6 years	63.33 %
Bathinda Branch Part II	241.72	31.03.2011	505.74	193.00	74.92	5 years	48.85 %
Bhakhra Branch Part II	209.55	31.03.2014	Not Available	118.78	7.04	2 years	53.32 %
<b>Total</b>					<b>236.79</b>		

The reasons for the time and cost over-runs were analysed to be as under:

- Estimates for 37 works of ₹ 5.76 crore were approved after delays ranging from four to 336<sup>22</sup> days for reasons not found on records.
- Tenders for 82 works of ₹ 13.01 crore were invited after approval of estimates with delays ranging from three to 220<sup>23</sup> days and also tenders rates for works amounting to ₹ 6.83 crore were approved after a delay of one to 204<sup>24</sup> days.
- Divisional Office, Ludhiana, commenced 87 works of ₹ 17.56 crore after delays ranging from 32 to 733 days and 19 number of works of ₹ 3.57 crore on which expenditure of ₹ 2.70 crore have been incurred (January 2016), had not been completed yet.

Management stated (July 2016) that necessary approvals would be taken in time in future.

### Maintenance of water courses

**2.1.12.1** Government of India (GoI) guidelines on CADWM (July 2010) provide for One Time Functional Grant (OTFG) to registered water user associations (WUAs) at the rate of ₹1,000 per hectare (₹ 1,200 per hectare from December 2013) in the ratio of 45:45:10 to be contributed by the GoI, the State Government and the beneficiaries for maintenance of constructed water courses. The amount is to be kept in the fixed deposit account of WUAs

<sup>22</sup> Calculated after giving margin of 30 days.

<sup>23</sup> Calculated after giving margin of 30 days.

<sup>24</sup> Calculated after giving margin of 45 days.

in the bank and interest accrued thereon is to be used for maintenance of water courses.

During 2011-16, the Company handed over 1,291 water courses (covering 4.01 lakh hectares) to WUAs and an amount of ₹ 36.07 crore (90 per cent of ₹ 1000 per hectare for 4.01 lakh hectare) became due for release to the Associations as OTFG. However, such amount was neither sought from GoI (central share) nor released to the WUAs.

A test check of records relating to OTFG at selected division offices brought out that three selected division offices submitted demand of ₹6.92<sup>25</sup> crore (upto 31 March 2014) to head office but the head office did not raise demand with the State Government and GoI. The Bathinda- 8 division office did not also have details of scheme wise/ outlet wise amount of OTFG due. Resultantly, no work of repair and maintenance of watercourses was undertaken in the selected division offices during 2012-15.

Management stated (July 2016) that no project pertaining to Command Area Development Programme had been completed during 2011-16 and hence no funds had been demanded. The reply is not tenable as 1,291 water courses had been handed over to WUAs and the Company as such should have raised demand for funds and not wait for their completion to enable their maintenance.

## Monitoring and Oversight mechanism

### 2.1.13.1 Internal Control

Internal control is a management tool used to provide reasonable assurance that objectives are being achieved in an economical, efficient and orderly manner. The internal control in the Company was deficient in regard to the following:

- The head office as well as division offices do not keep scheme wise accounts and head office also does not send scheme wise funds to the division offices. Hence, it could not be vouchsafed that the funds of a particular scheme were spent on that scheme. The Company while accepting the audit contention stated (July 2016) that instructions would be sent to divisional offices to maintain accounts according to expenditure incurred scheme wise.
- The Company booked works expenditure on tube well schemes which were already completed and closed.
- The expenditure incurred on lining of watercourses reported to the Chief Engineer (Planning), Department of Irrigation and reported in the annual accounts were not reconciled.

<sup>25</sup> Mansa : ₹ 92.03 lakh, Ludhiana : ₹ 182.34 lakh and Bathinda 7 : ₹ 417.31 lakh.

### **2.1.13.2 Internal Audit**

Internal Audit is recognised as an independent appraisal activity within an organisation to examine and evaluate the activity of the organisation. Besides assisting in financial control, it is expected to help in the achievement of organisational objectives by improving the effectiveness of control and governance processes within the organisation.

We observed that the Company has not framed any Internal Audit Manual. The internal audit of the Company was last conducted upto 2011-12 by a firm of chartered accountants. Though the Reports of the internal audit for the years 2010-11 and 2011-12 pointed out irregularities of high risk categories like non-maintenance of control registers, wrong classification, negative balances, non-compliance with the provisions of Income Tax Act, 1961 and those of the Companies Act, 1956, these reports were yet to be presented to BOD as of March 2016.

The Management stated (July 2016) that framing of internal audit manual would be considered by competent authority in due course and internal audit for the year 2014-15 was in progress.

### **Corporate Governance issues**

**2.1.14.1** Corporate Governance is a system of structuring, operating and controlling an organisation with a view to achieve long term strategic goals to satisfy the stakeholder and comply with the legal and regulatory requirements. We noticed:

- the Government of Punjab is yet to nominate directors as per provisions of the Companies Act, 2013.
- the audit committee meetings for approval of Financial Statements were not attended by the auditors and the Financial Advisor as required under Section 292 A of Companies Act 1956. The Management while accepting the audit contention, assured (July 2016) for future compliance of the same.

### **Conclusion**

The Company suffered from delay in release of funds by the State Government for tube well schemes and projects for lining of water courses. The planning process was deficient as there was no procedure for identification of beneficiaries, selection of sites, prioritisation of projects or for ensuring involvement of beneficiaries at the time of project planning. Poor project implementation and delays in installation of tube wells resulted in cost escalations and deprived the farmers of the envisaged irrigational benefits. A detailed review of three out of 10 schemes brought out cost escalation of ₹ 236.79 crore and delays ranging from two to six years at various stages of project definition and implementation. The operation and maintenance of tube

wells was outsourced despite willingness of the beneficiaries to incur all expenditure related which resulted in avoidable committed expenditure of ₹ 34.41 crore. Lastly, the monitoring mechanism, internal control and internal audit systems were weak.

### **Recommendations**

In light of the audit findings, it is recommended that the Company and Government consider:

- Codifying procedure for identification of beneficiaries, selection of sites, prioritisations of project sites and for ensuring involvement of beneficiaries at the time of project planning;
- Ensuring proper planning and timely project execution of installation of tube wells;
- Form water users associations for maintenance of tube wells and constructed water courses; and
- Strengthen the monitoring mechanism, internal controls and audit system.

## Chapter-2.2

### Punjab State Power Corporation Limited

#### Billing and Collection of Revenue

#### Highlights

Sale of power by Punjab State Power Corporation Limited (Company) is regulated with reference to the tariff approved by the Punjab State Electricity Regulatory Commission (PSERC) from time to time. A performance audit of the activities of the Company relating to billing and collection of revenue during 2011-16 brought out, *inter alia*, the following:

Mandatory replacement of electro-mechanical meters was not completed in violation of provisions of Electricity Act, 2003 and defective/ burnt meters were not replaced within prescribed time.

*(Paragraphs 2.2.9.1 and 2.2.9.2)*

Prescribed time periods for issue and for payment of energy bills were not being adhered to leading to loss of interest of ₹ 24.32 crore during 2011-16.

*(Paragraphs 2.2.9.3 to 2.2.9.6)*

Consumers were not paid interest on their security deposits. This short payment was to the extent of ₹ 385.26 crore during 2011-15.

*(Paragraph 2.2.9.8)*

Company had not completed 100 *per cent* metering of agricultural pump sets consumers though this was required under the Electricity Act, 2003. This resulted in the PSERC disallowing ₹ 10 crore in its tariff orders for the years 2014-16.

*(Paragraph 2.2.10.1)*

Outstanding dues against the defaulting consumers had increased from ₹ 705.67 crore to ₹ 1,083.56 crore during 2012-16.

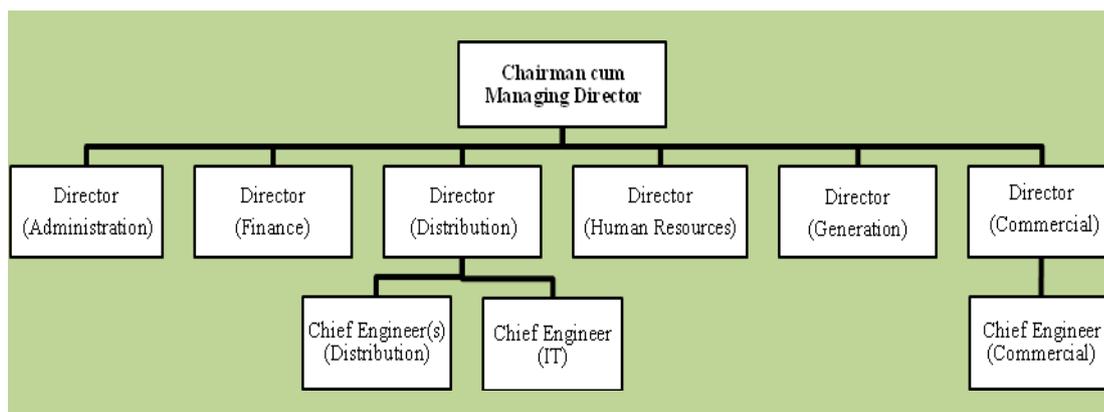
*(Paragraph 2.2.10.3)*

## Introduction

**2.2.1.** Sale of power by the Punjab State Power Corporation Limited (Company) is regulated with reference to tariff approved by the Punjab State Electricity Regulatory Commission (PSERC) from time to time. The procedure for issue, delivery of bills to consumers<sup>1</sup> and payment thereof is laid down in the PSERC's (Electricity Supply Code and Related Matters) Regulations, 2007 (Supply Code, 2007) and Supply Code, 2014.

## Organisation set-up

**2.2.2.** The organisational hierarchy of the Company is given below:



## Audit Objectives

**2.2.3.** The objectives of the performance audit were to ascertain whether:

- tariff orders and commercial circulars were issued timely and with the approval of competent authority i.e. PSERC;
- billing was done timely and accurately;
- collection and accounting of revenue against energy billed was prompt and efficient;
- efforts were made to realise and reduce the revenue arrear/losses; and
- internal audit and internal control system was efficient and effective.

## Scope and Methodology of Audit

**2.2.4.** The performance audit covering the Company's activities relating to billing and collection of revenue from all the categories of consumers against energy sold during 2011-16 was conducted during October 2015 to May 2016. The performance audit assessed areas of outstanding arrears of consumers, non-overhauling of consumer's accounts, delay in billing, incorrect

<sup>1</sup> Consumers are categorised as Agriculture Pump-sets (AP), Large Supply (LS), Bulk Supply (BS), Medium Supply (MS), Small Power (SP), Public Lighting (PL), Railway Traction (RT), Domestic Supply (DS) and Non Residential Supply (NRS) consumers.

implementation of tariff orders, non-downloading of data and non-observance of codal procedures. Entry Conference was held in February 2016. The audit findings were conveyed to the Company and the State Government (June 2016) and discussed in the exit conference (July 2016) which was attended by senior management of the Company. The views expressed in the exit conference/ replies received from the Company have been considered while finalising this performance audit report. The reply of Government was awaited (September 2016).

**2.2.5.** Besides examining the records maintained at the Head Office of the Company, records of two circles from each zone (total 10 circles out of 21 circles) selected through simple random sampling without replacement (SRSWOR) method, 25 per cent operation divisions falling under each selected circle (total 12 divisions) through probability proportion to size without replacement (PPSWOR) method, then 25 per cent sub-divisions falling under each selected operation division (total 15 sub-divisions) selected through SRSWOR method were examined. In addition, two centralised billing cells (CBCs) viz. CBC, Ludhiana (being highest billing/ revenue centre) and CBC, Patiala (being lowest billing/revenue center) were also selected.

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

#### **Audit Criteria**

**2.2.6.** The audit criteria adopted for assessing the achievement of audit objectives was derived from the following:

- The Electricity Act, 2003;
- Tariff orders issued by the PSERC;
- Guidelines/ instructions/circulars issued by the State Government and PSERC;
- Electricity Supply Instructions Manual (ESIM), Supply Code and General Conditions of Tariff and Schedules of Tariff; and
- Instructions/Commercial/Sale circulars issued by the Company.

#### **Audit Findings**

##### **Excessive sub transmission and distribution losses**

**2.2.7.** When energy is carried from the generation sources to the consumers, some energy is lost in the network. The losses at 33/66 KV transmission stations and lines are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. The losses are computed based on the difference between the energy received by the Company and energy sold to the consumers. The percentage of losses to power available indicates the

effectiveness of distribution system. Table 2.4 below depicts energy losses vis-à-vis losses allowed by PSERC during 2011-12 to 2015-16.

**Table No. 2.4 – Sub Transmission and Distribution Losses**

(in MUs)

Sl. No	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Power/energy available for sale	41,532.30	43,548.21	44,966.76	47,640.25	48,413.85
2.	Metered sale	24,051.55	25,462.48	27,123.23	29,761.42	29,815.78
3.	Un-metered /assessed sale	10,248.63	10,779.03	10,223.57	10,641.40	11,513.88
4.	Total sale/energy sold (2+3)	34,295.18	36,241.51	37,346.80	40,402.82	41,329.66
5.	Energy losses (1-4)	7,235.12	7,306.70	7,619.96	7,237.43	7,084.15
6.	Percentage of losses to energy available for sale (5/4*100)	17.42	16.78	16.95	15.19	14.63
7.	Percentage of losses allowed by PSERC	16.92	15.90	15.22	14.08	13.51
8.	Excess losses	207.65	382.53	776.02	529.68	542.23
9.	Average realisation rate per unit (in ₹)	2.93	3.41	4.09	4.01	4.01 <sup>#</sup>
10.	Value of excess losses (₹ in crore)	60.84	130.55	317.31	212.38	217.44
11.	Percentage of unmetered sale to energy sold (3/4*100)	29.88	29.74	27.37	26.34	27.88

Source: Statistical data provided by the Company and Tariff orders.

<sup>#</sup> As average realisation rate per unit for year 2015-16 was not available, hence the same rate of 2014-15 was considered for 2015-16.

The energy losses ranged between 14.63 per cent and 17.42 per cent during 2011-16 which were higher than those approved by the PSERC. The excess loss aggregated to 2,438.11 MUs valued at ₹ 938.52 crore during 2011-16.

Management stated (July 2016) that distribution losses were lower than the losses allowed by PSERC. The reply is not tenable as transmission losses (2.5 per cent) allowed by PSERC in tariff orders<sup>2</sup>, wrongly taken credit of by the Company for comparison are transmission losses approved by PSERC for Punjab State Transmission Corporation Limited (PSTCL) and hence are not applicable to the Company.

### Compliance of tariff orders and related regulations

#### 2.2.8. Delay in raising arrear bills on revision of tariff

While approving (August 2014) the revision of tariff for the year 2014-15 effective from 1st of April 2014 for supply of power, PSERC instructed the Company to effect the recovery of arrears on this account in suitable installments.

<sup>2</sup> For the year 2011-12 – True up in tariff order 2014-15 (22 August 2014), For 2012-13 & 2013-14 – True up in tariff order 2016-17 (27 July 2016), For 2014-15 – review in tariff order 2015-16 (5 May 2015) and 2015-16 – review in tariff order 2016-17 (27 July 2016).

Audit observed that energy bills prepared at CBC Ludhiana and Patiala as per revised tariff were issued from October 2014. However, the Company took six months to decide (March 2015) on method of effecting recovery of arrears in six equal monthly installments. An amount of ₹ 35.08 crore was recoverable from various consumers which was raised in bills from March 2015 onwards. The delay of six months in taking decision of commencing the recovery of arrears resulted in loss of interest of ₹ 2.05 crore.<sup>3</sup>

Management replied (July 2016) that it had started charging arrear in bills after amending changes in software during October 2014. However, based on consumer's demand to not charge arrears in one go, it had decided (March 2015) to recover arrear in six installments. The fact remains that the delay in effecting recovery of arrears was against its financial interest when it is dependent on working capital loans for running its day to day operations.

### **Billing of energy supplied**

#### **2.2.9.1 Non-replacement of electro-mechanical meters with static meters**

The Central Electricity Authority (Installation and Operation of Meters) Regulations, 2006, provide that all interface meters, consumer meters and energy accounting and audit meters shall be of static type (commonly known as electronic meters) and meters not complying with these regulations shall be replaced by the licensee on his own or on request of the consumer or as per the directions of the appropriate Commission.

It was observed that despite receiving regular directives from PSERC for completing the replacement of existing electro-mechanical meters with the static meters in a time bound manner, the Company had failed to complete the work of replacement. Out of 73.33 lakh consumer meters (excluding agriculture pumpset (AP) consumers) installed as on 31 March 2016, 7.14 lakh electro mechanical meters (ten *per cent*) were yet to be replaced with static meters. The electronic meters are intelligent meters known for sustained accuracy, anti tamper features, wide current range and low effects of influence parameters. Thus, the replacement of electro-mechanical meters would help the Company in earning more revenue through a more precise accounting of energy consumption.

Management replied (July 2016) that owing to huge financial implications, the work of replacement had been regulated in a phased manner. The reply of phased replacement was not acceptable as the Company has regularly defaulted in adhering with the time schedule laid down by PSERC despite repeated extensions due to which the work directed to be completed by March 2013 in the tariff order for the year 2012-13 (July 2012), was not yet completed (March 2016).

#### **2.2.9.2 Non replacement of defective/ burnt meters in time**

The Supply Code, 2007 and 2014 provides for replacement of defective/burnt meter within ten/five working days respectively. Audit observed that

<sup>3</sup> Calculated @ 11.71 *per cent* per annum (rate allowed by PSERC for 2014-15).

percentage of defective and burnt meters ranged from 0.71 *per cent* to 2.91 *per cent* during 2011-16. Consequently, bills of around 0.73 lakh consumers (average consumers with defective/burnt meters) were being prepared on average basis during this period.

Audit observed that the defective/burnt meters were not being replaced within the prescribed time and the percentage of defective and burnt meters lying un-replaced for more than three months ranged from 22 *per cent* to 78 *per cent* of the total defective/burnt meters during 2011-16. PSERC had also expressed concerns on Company's failure to meet the time frame for replacing such meters.

Management replied (July 2016) that the replacement of defective/ burnt meters within the stipulated period depended upon the availability of meters. The reply was not acceptable as it was incumbent upon Management to ensure sufficient availability of meters to enable replacement of defective/ burnt meters within the prescribed time frame.

### **2.2.9.3 Non adherence to the billing periodicity**

Regulation 30 (Electricity Bills) of the Supply Code 2007, provides for issuance of monthly bills to Large Supply (LS) consumers and bi-monthly bills to Domestic Supply (DS) and Non-Residential Supply (NRS) consumers with loads less than 50KW. Further, when supply to a new consumer is commenced in the middle of a billing cycle, all fixed charges including minimum charges, are to be levied on pro rata basis for the number of days for which supply is given during the billing cycle. Adherence to the billing periodicity is imperative for timely realisation of energy charges.

**2.2.9.3(a)** Audit observed that bill duration for 0.70 lakh bills (twenty six *per cent*<sup>4</sup>) valuing ₹ 7,128.12 crore, ranged between 32 to 500 days indicating that the meter readings were not taken regularly. Delayed preparation of these bills resulted in loss of interest of ₹ 3.70 crore<sup>5</sup> and affected the cash flow of the Company.

Management replied (July 2016) that billing periodicity exceeded one month period mostly in case of new connections and where readings were sent late for billing. The reply is not acceptable as only 457 of the above bills pertained to new connections.

**2.2.9.3(b)** The Company prepares bills of DS and NRS categories of consumers with connected load upto 20 KW through spot billing machines whereby the bills are prepared and delivered on the spot after recording meter reading by meter readers/outsourcing agency staff.

Audit observed that bill duration for 8.02 lakh bills (thirty one *per cent*<sup>6</sup>) valuing ₹ 216.61 crore, ranged from 63 to 99 days, implying that the meter readings were not taken regularly. The delayed preparation of these bills affected the cash flow and resulted in loss of interest of ₹ 0.26 crore<sup>5</sup>.

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<sup>4</sup> Out of 2.69 lakh bills prepared by CBC Ludhiana and Patiala during 2011-16.

<sup>5</sup> Calculated @ 10.67 *per cent* per annum (rate allowed by PSERC in true up for 2011-12).

<sup>6</sup> Out of 26.07 lakh bills of DS/NRS consumers prepared in nine sub-divisions during 2011-15.

Management replied (July 2016) that excess bill period was only for accounting actual reading date where previous period average bill issued on bi-monthly basis was adjusted when reading was available. The reply is not acceptable as adjustment of bi-monthly bills issued on average basis, as per Managements' contention, would produce bills with a minimum period of 120 days and not in the range of 63 to 99 days.

#### **2.2.9.4 Delay in issuance of bills**

**2.2.9.4(a)** The Manual of Instructions, Sale of Power of the Company provides for preparation of energy bills of LS Consumers (connected load in excess of 100 KW) immediately after taking the meter reading.

Audit observed that a period of six to 128 days<sup>7</sup> had been taken for issuance of 1.23 lakh bills (forty six *per cent*<sup>4</sup>) amounting to ₹ 13,423.33 crore. The delay in issuance of these bills resulted in loss of interest of ₹ 15.04 crore<sup>5</sup>.

Management replied (July 2016) that bills were generally prepared by CBCs within two to three days of receipt of billing data from sub-divisions and most of the bills had been issued within 15 days of meter reading. The reply is not acceptable as the delay has been calculated after allowing a period of five days from reading date for bills which are to be prepared immediately.

**2.2.9.4(b)** Regulation 30 (Electricity Bills) of the Supply Code 2014, provides for delivery of bills to consumers within fifteen days from the date of meter reading (excluding cases of spot billing).

Audit observed that a period of 16 to 121 days had been taken for issuance of 1.16 lakh bills (seventy seven *per cent*<sup>8</sup>) amounting to ₹ 200.61 crore. The delay in issuance of these bills resulted in loss of interest of ₹ 0.29 crore<sup>5</sup>.

#### **2.2.9.5 Excess time allowed for payment of bills**

Regulation 31 (Payment of Electricity Bills) of the Supply Code 2007 provides for payment of bills to be effected within a period of ten days in case of Large Supply (LS), Medium Supply (MS) and Small Power (SP) industrial consumers; twenty one days in case of Railways and fifteen days in case of all other categories of consumers, from the date of delivery of the bills. If the due date indicated in the bill is a holiday, the succeeding working day is to be treated as the due date.

Audit observed that in violation of the prescribed time period allowed for payment of bills, a period of:

- 13 to 26 days was given to LS consumers for payment of 0.93 lakh bills (42 *per cent*) amounting to ₹ 9,930.39 crore,

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<sup>7</sup> Calculated after allowing a period of five days for preparation of the electricity bill.

<sup>8</sup> Out of 1.51 lakh bills of DS/NRS/SP/MS consumers prepared in nine sub-divisions during 2011-15.

- 24 to 27 days had been given to Railways for payment of 115 bills (41 *per cent*) amounting to ₹ 114.64 crore, and
- 18 to 28 days had been given to DS, NRS and BS consumers for payment of 0.20 lakh bills (43 *per cent*) amounting to ₹ 620.48 crore.

The excess time allowed for payment of these 1.13 lakh bills<sup>4</sup> resulted in a loss of interest of ₹ 5.03 crore<sup>5</sup>.

Management replied (July 2016) that the holidays falling on last date resulted in enhancing due date beyond the stipulated period. The reply is not acceptable as excess time period ranging up to 14 days cannot be attributed to holidays on the last due date alone. Further, Supply Code stipulates automatically treating the succeeding working day as due date when the due date indicated in the bill for payment is a holiday which in no way allows Company to unilaterally extend due date on its own.

#### **2.2.9.6 Issuance of back dated bills**

The bills of consumers with connected load in excess of 100 KW being prepared at CBCs were being generated based on server date and time of preparation of bill. However, the date of issue of bill was being entered manually into the system.

Audit observed that the issue dates in 0.60 lakh bills (twenty two *per cent*<sup>4</sup>) valuing ₹ 8,369.79 crore were prior to generation dates by a period ranging from one to 305 days. We further observed instances of errors in manual entry of dates as under:

- in 16 bills valuing ₹ 0.59 crore, the bill issue date had been entered prior to the new reading date by one to 27 days,
- in 10 bills valuing ₹ 0.34 crore, the date of connection was found to be later to the date of previous meter reading by four to 61 days, and
- in 16 bills valuing ₹ 0.25 crore, the year had been wrongly entered as 2103 and 2130 in place of 2013 in the bill issue date.

The above instances indicated a lack of validation checks and input controls in the system, exposing the system to risk of manipulation.

Management replied (July 2016) that back dated bills were issued to adjust monthly revenue targets. The reply is not acceptable as it results in allowing less time for payment to consumers.

#### **2.2.9.7 Incorrect application of tariff.**

As per General Conditions of Tariff and Schedules of Tariff contained in Electricity Supply Instructions Manual (ESIM), supply to Government hospitals and dispensaries would be classified as domestic supply and tariff be charged accordingly. It was observed at CBC, Patiala that 22 Government hospitals/ dispensaries were classified under NRS category by the Company. As the tariff rate for NRS category was higher than DS category by ₹ 0.13 to

₹ 0.41 per unit during 2011-16, these consumers were charged in excess due to incorrect classification.

Management while admitting the audit point, stated (July 2016) that the category of consumers could only be changed on receipt of advice from the concerned sub-division.

#### **2.2.9.8 Short payment of interest on security to consumers**

Regulation 17 (Interest on Security) of the Supply Code, 2007, as amended (December 2011) provides for payment of interest<sup>9</sup> on Security (Consumption) by licensee.

Audit observed that the interest on security deposit of consumers was not being fully paid to all the consumers (*Annexure 5*) and there was short payment of ₹ 385.26 crore on this account during the period 2011-15.

We further observed that interest on security to consumers had also not been paid from six *per cent* to 16 *per cent* of consumers at CBC, Ludhiana due to non-updation of the amount of security in the system during 2011-16. The short/ non-payment of interest on security to a large number of consumers made the Company liable to pay penal interest for the actual period of delay.

PSERC had also, while finalising tariff petitions for the years 2014-15 (August 2014) and 2015-16 (May 2015), directed the Company to ensure updation of consumer's security register and to submit a certificate that annual interest on security payable up to financial year 2014-15 had been paid to all consumers. However, on continued violations by the Company, PSERC while finalising (July 2016) tariff petition for the year 2016-17, directed the Company to ensure up to date payment of interest to all the consumers and submit certificate within one month failing which proceedings under relevant sections of the Act would be initiated.

Management admitted the facts and stated (July 2016) that an exercise to update the security of consumers was underway.

### **Collection of Revenue**

#### **2.2.10.1 Non-metering of agricultural pump-set (AP) supply consumers**

Sale of energy to consumers of the Company consists of two parts *viz.* metered units and assessed units. The assessed units refer to the units billed to consumers without meter reading i.e. unmetered supply to AP consumers. Audit observed that during 2011-16, the unmetered supply to AP consumers ranged from 26.34 *per cent* to 29.88 *per cent* of electricity supplied as brought out in Table No. 2.4 above.

<sup>9</sup> At State Bank of India's base rate prevalent on first April of relevant year plus two *per cent*.

As on 31<sup>st</sup> March 2016, out of 12.46 lakh agriculture pump-set consumers, only 1.15 lakh (9.23 *per cent*) connections had been metered while the remaining 11.31 lakh (90.77 *per cent*) consumers had unmetered connections. While finalising (August 2014) tariff order for the year 2014-15, PSERC directed the Company to submit its plan to achieve 100 *per cent* metering of AP consumers, within three months. At the same time, the PSERC decided to disallow ₹ 5.00 crore on this account each during 2013-14 and 2014-15 which would continue till the Company achieved 100 *per cent* metering as mandated under the Electricity Act (Act), 2003. It also stated that Company was violating the provisions of the Act by citing financial and administrative constraints. Failure to achieve 100 *per cent* metering of AP consumers thus led to disallowance of ₹ 10.00 crore in tariff orders 2014-16, besides the Company continuing to be in violation of Electricity Act, 2003.

Management replied (July 2016) that 100 *per cent* metering of AP consumers was neither practically feasible nor financially viable. The fact remains that this was a violation of Electricity Act, 2003, besides leading to disallowance of ₹ 10.00 crore in tariff during 2014-16.

#### **2.2.10.2 Realisation of outstanding dues**

ESIM provides that every consumer is expected to make the payment of dues by the 'due date'. In case he does not discharge the liability, his premise is liable for disconnection. The amount outstanding to be collected from consumers at the close of 2011-12 was ₹ 2,467.47 crore which increased to ₹ 3,646.65 crore at the close of 2014-15 representing an increase of 48 *per cent* over a period of three years<sup>10</sup>.

#### **2.2.10.3 Huge accumulation of defaulting amount**

An analysis of the increasing outstanding dues during 2011-14 showed that around 23 *per cent* to 33 *per cent* of the arrears were recoverable from defaulting consumers. Further analysis based on category and nature of consumers (*Annexure 6*) showed that the amounts due against defaulting consumers increased from ₹ 705.67 crore to ₹ 1,083.56 crore during 2012-16. The dues against defaulting Government Departments increased sharply from ₹ 58.86 crore to ₹ 530.14 crore during 2011-16. The increase was also attributable to the industrial consumers whose dues had increased from ₹ 229.66 crore to ₹ 705.00 crore during 2011-16.

Further, test check of records showed that due to default in payment of electricity dues of ₹ 10.92 crore, the Company had permanently disconnected the electricity supply of five defaulting firms of Ludhiana East and Khanna Distribution Circles during December 1999 to May 2002. Civil suits for recovery were filed (May 2000 to September 2010) against these firms after a delay of five to 36 months and the execution petitions for recovery were filed after a delay of three to 43 months (November 2009 to March 2016) from the respective decisions (October 2008 to April 2015) in favour of the Company. The above delays indicated laxity in following up of outstanding amounts.

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<sup>10</sup> Annual accounts finalised upto 2014-15.

Management replied (July 2016) that executions were pending and no case had been dismissed due to delay of the Company. The reply is not acceptable as non-dismissal of execution petitions cannot be taken as justification for continuing delays in follow up of recoverable amounts.

#### **2.2.10.4 Revenue collection modes**

The Company provides multiple bill payment options to consumers viz. e-payment, bill payment machines, Easy Bill Collection Suvidha facility, collection at cash counter and door to door collection by spot billing staff. Audit observed that the total revenue received through 35 bill payment machines ranged between 4.56 *per cent* and 6.56 *per cent* of the total revenue realised during 2013-16. Due to lower average monthly transactions ranging from 27 to 1811, the average cost per transaction was between ₹ 12.26 and ₹ 809.73 during 2014-15. The same was attributed to installation of machines at inconvenient sites and lack of publicity/awareness. Further, collection of bill payment through e-payment mode also remained on lower side (1.24 *per cent* to 6.31 *per cent*) during 2011-16 due to non-uploading of billing data to e-payment server, resulting in difficulty in making payment by the consumers.

Management, while accepting the facts, stated that (July 2016) it had shifted the locations of two machines in the years 2014-16 and efforts were being made to shift the machines to locations which would attract maximum consumers. It had also taken various steps regarding uploading of billing data for making e-payments.

#### **2.2.10.5 Periodical checking of connections**

The ESIM of the Company had prescribed a quantum of checks<sup>11</sup> for its field officers to check the consumer premises (bi-annually/annually) to ensure that the consumers were not indulging in unauthorised use/ theft of energy. The quantum and the level of checks to be undertaken vary as per nature of connection.

A review of the inspections conducted by operation and enforcement staff during 2011-16 (*Annexure 7*) showed that the percentage of checking of consumer premises conducted by operation staff had reduced from 22 *per cent* to 14 *per cent* during 2011-16. Similarly, the percentage of inspections by enforcement staff ranged between three *per cent* and seven *per cent* during 2011-16. The percentage of amount realised against the amount assessed on account of theft of energy, and unauthorised use of electricity ranged from 46 *per cent* to 69 *per cent* during 2011-16 which indicated ineffective follow up of the cases detected.

Management replied (July 2016) that as random checking without identifying doubtful consumers causes unnecessary harassment to the innocent consumers, it was decided not to carry out the checking of domestic consumers. The reply is not acceptable as ESIM instructions for checking of

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<sup>11</sup> Please refer *Annexure 7*.

connected load of consumers have not been followed in all categories of consumers.

#### **2.2.10.6 Non monitoring of free electricity facility**

In compliance with the instructions of State Government, the Company provides free electricity of up to 200 units per month to Scheduled Caste (SC) DS consumers and non-SC DS consumers belonging to below poverty line (BPL) with connected load up to one KW. PSERC allowed ₹ 3,411.25 crore as subsidy on this account in tariff orders for the years 2011-16.

In order to check the misuse of free electricity, 100 *per cent* checking of connections by employees of the Company was prescribed. Further, surprise/ random checking by technical audit/ enforcement was also required to be carried out and if any consumer was found utilising more than one KW load, free electricity facility was to be withdrawn.

Supply Code, 2007 and 2014 provides the calculation formula (Connected Load x Number of Days x Supply Hours x Demand Factor) for assessment of electricity consumption wherein the demand factor for domestic consumers was taken as 30 *per cent*. We noticed that even by considering the demand factor at 100 *per cent*, the maximum bi-monthly consumption at one KW connected load would be 480 units only (1 KW x 60 days x 8 hours x 100 *per cent*).

Audit observed that out of 11.26 lakh electricity bills of 3.71 lakh consumers in 47 towns during October 2015 to March 2016, the bi-monthly consumption in 1.10 lakh bills (10 *per cent* bills) of 0.85 lakh consumers (23 *per cent* consumers) was higher than 480 units which was not commensurate with the sanctioned load of the consumers. Further, the prescribed checking of connected load of SC/ Non SC BPL consumers was not on record due to which extension of free electricity facility to ineligible consumers could not be ruled out.

Management replied (July 2016) that random checking without identifying doubtful consumers causes unnecessary harassment to the innocent consumers and it was decided not to carry out the checking of domestic consumers. The reply is not acceptable as even the instructions cited also state that the connected load of DS category consumers shall be checked where energy consumption is higher than the consumption commensurate with the sanctioned load of the consumer.

#### **Internal Control System**

**2.2.11.** Internal control is a management tool used to provide reasonable assurance that objectives are being achieved in an economic, efficient and effective manner. Audit observed that:

- The variations in energy consumption of consumers were not being monitored/ examined by maintaining 'energy variation register' as

required<sup>12</sup> in ESIM due to which the chances of unauthorised use/ theft remaining undetected could not be ruled out.

- The consumer security registers required for monitoring the adequacy of security deposited by the consumers were not being properly maintained.
- Cross checking of work done by the outsourcing spot billing agencies by getting the reading of each consumer/status of meter checked, once a year by the Company was not found on record in selected sub-divisions.
- Internal Audit Manual of the Company prescribes 100 *per cent* checking of bills of Industrial, Bulk Supply and Public Lighting consumers; 50 *per cent* of NRS consumers; 8.33 *per cent* of DS consumers and 16.66 *per cent* of AP consumers. However, manpower in internal audit wing had decreased from 248 to 179 during 2011-16 with vacancy percentage increasing from 20 *per cent* to 42 *per cent* during 2011-16. Further, there was no internal audit staff in four operation divisions and only one person each in 36 operation divisions affecting the quality of audit.

### Conclusion

The performance audit thus brings out the need for greater operational efficiency with T&D losses being outside the range approved by PSERC during 2011-16. The Company had not completed replacement of electro-mechanical meters required under the provisions of Electricity Act, 2003. Delay in issuing energy bills and not enforcing the time period for payment of bills led to loss of ₹ 24.32 crore<sup>13</sup> during 2011-16. The interest on security deposits of consumers was not fully paid resulting in short payment of ₹ 385.26 crore during 2011-15. The outstanding dues against the defaulting consumers had increased from ₹ 705.67 crore to ₹ 1,083.56 crore during 2012-16.

### Recommendations

We recommend that the Company:

- Incorporate adequate IT controls and validation checks in the billing software for accurate and timely issuance of energy bills;
- Update the consumer security registers for payment of interest to all consumers;
- Complete 100 *per cent* metering of agricultural pump set consumers;
- Take steps for effective monitoring and follow up of recovery of outstanding dues; and

<sup>12</sup> ±10 *per cent* in case of LS/BS consumer, ± 20 *per cent* in case of MS/SP/Street Lighting and ± 25 *per cent* in case of GSC consumers.

<sup>13</sup> for 30.26 lakh energy bills test checked in audit.

- Take steps to increase periodical checking of connections so as to reduce theft and unauthorised use of electricity.

The matter was referred to the Government (July 2016); its reply was awaited (September 2016).

# **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 and Statutory corporations

#### Punjab Scheduled Castes Land Development and Finance Corporation

### 3.1 Disbursement and Recovery of Financial Assistance

**The actual receipts of the Corporation was only ₹ 64.85 crore against planned financial resources of ₹ 145.56 crore during 2013–16 which impaired its capacity to implement welfare schemes. The Corporation's physical achievement of targets ranged from four *per cent* to 28 *per cent* in schemes undertaken in collaboration with re-finance institutions. There were pending applications from intending beneficiaries while it parked ₹ 6.83 crore in fixed deposits instead of disbursing assistance to eligible beneficiaries.**

#### 3.1.1 Introduction

As per the 2011 census, 88.60 lakh (31 *per cent*) out of the total population of 2.77 crore of the State belonged to communities designated as Scheduled Castes (SC). With the objective of economic upliftment of the SC community, the Punjab Scheduled Castes Land Development and Finance Corporation (Corporation) was incorporated in January 1971. The State Government and Government of India (GoI) hold equity in the share capital of the Corporation in the ratio of 51:49.

The Corporation advances loans to the members of the SC community under various schemes either directly through 'Direct Lending Scheme' or in collaboration with three National Re-finance Institutions (NFIs)<sup>1</sup> by acting as State channelising agency to implement their welfare schemes in the State. The Corporation also extends subsidy to Below Poverty Line (BPL) SC families under the Special Central Assistance (SCA) scheme of GoI through its Bank Tie-up Scheme.

Against a target of disbursement of loan of ₹ 65.64 crore to 4,200 beneficiaries, the Corporation disbursed ₹ 27.14 crore to 1,907 beneficiaries (excluding subsidy of ₹ 3.29 crore disbursed to 3,291 beneficiaries under the Bank Tie-up Scheme) out of 8,635<sup>2</sup> loan applications received under all the *ibid* four schemes during 2013-16. This worked out to 41.35 *per cent* and 45.40 *per cent* of the financial and physical targets fixed respectively during

<sup>1</sup> National Scheduled Castes Finance and Development Corporation (NSFDC), National Safai Karamcharis Finance and Development Corporation (NSKFDC) and National Handicapped Finance and Development Corporation (NHFDC).

<sup>2</sup> Excluding applications of beneficiaries under the Bank Tie-up Scheme as the information regarding number of applications is not available with the Corporation.

the period. The Corporation had extended loan of ₹ 151.22 crore to 0.72 lakh SC beneficiaries under various schemes since its inception in January 1971 to March 2013. In addition to this, the Corporation had also extended subsidy of ₹ 157.71 crore to 4.50 lakh SC BPL beneficiaries under SCA scheme during the same period.

### 3.1.2. Planning

#### 3.1.2.1 Non preparation of strategic plan

A strategic plan provides an organisation with a framework to enunciate its goals, strategies and work plan for implementing target schemes, deploying resources, setting performance indicators and monitoring progress vis-a-vis targets.

Audit observed that the Corporation had not prepared any strategic/ long term plan for coverage of targeted beneficiaries in a phased manner nor had it undertaken any micro level survey to identify the target groups (except for Bank Tie up scheme) and for identification of viable professions and trades for various blocks/districts. As a result, the Corporation was fixing targets on ad-hoc basis.

Management stated (May 2016) that Corporation prepares five year plan for achieving its objective. Audit however observed that the Corporation had just compiled data of its annual plans of the years 2012-17 and presented the same as a five year plan. In the absence of a strategic long term plan, need based annual targets to cover the beneficiaries in a phased manner could not be fixed.

#### 3.1.2.2 Mobilisation of resources for implementation of schemes

In order to implement the schemes, the Corporation raises funds through equity (from GoI/State Government), loans from NFIs, Special Central Assistance and recovery of loans from beneficiaries. Table 3.1 below summarises the planned financial resources and actual resources mobilised to implement the various schemes during 2013-16:

**Table 3.1 - Planned financial and actual resources**

(Figures: ₹ in crore)

Particulars	2013-14		2014-15		2015-16 (upto January 2016)	
	Planned	Actual	Planned	Actual	Planned	Actual
Equity	10.63	11.74 <sup>3</sup>	10.63	5.42	10.63	10.53 <sup>4</sup>
- GoI share	5.21	6.32	5.21	Nil	5.21	5.11
- GoP share	5.42	5.42	5.42	5.42	5.42	5.42
Loan from NFIs	11.25	2.53	11.25	1.78	11.25	0.01
Subsidy/ (SCA)	5.00	1.00	8.00	-	5.00	2.50
Recovery of loans	14.00 <sup>5</sup>	10.46	23.92 <sup>4</sup>	9.92	21.00 <sup>4</sup>	9.73
Other Sources	1.00	0.75	1.00	1.22	1.00	1.33
<b>Total</b>	<b>41.88</b>	<b>26.48</b>	<b>54.80</b>	<b>18.34</b>	<b>48.88</b>	<b>24.10</b>

Source: Information supplied by the Corporation

<sup>3</sup> Including ₹ 3.72crore pertaining to central share for the year 2012-13 and ₹2.60 crore relating to 2013-14.

<sup>4</sup> Including ₹35.40 lakh pertaining to central share for the previous years.

<sup>5</sup> Planned recovery of loan include ₹ 3 crore, ₹12.92 crore and ₹11 crore during 2013-16 on account of recovery from introduction of One Time Settlement Scheme (OTS).

As can be seen from above, the actual receipt was only ₹ 64.85<sup>6</sup> crore (44.55 *per cent*) against planned receipt of ₹ 145.56 crore during April 2013 to March 2016. This adversely impacted its ability to implement the schemes. Audit scrutiny of the welfare schemes brought out the following:

- The Corporation had received ₹ 23.62 crore (74 *per cent*) as share capital as against the budget provision of ₹ 31.89 crore during April 2013 to March 2016. The State Government released its share of the equity at the fag end of each financial year. Consequently, there were delays of 11 to 15 months in release of central share during 2013-15 as prior release of State's share is a pre-condition for release of central share by GoI.
- The delay in release of central share by the State Government resulted in its delayed utilisation. This caused the GoI not to release its further share of ₹ 8.26 crore (2014-15: ₹ 3.05 crore and 2015-16: ₹ 5.21 crore) up to March 2016.
- Three NFIs had allocated ₹ 60.97 crore for 12,205 beneficiaries during 2013-16 for their respective schemes<sup>7</sup>. Against this, the Corporation had fixed the target of disbursement of loan of ₹ 33.75 crore for 2,700 beneficiaries (22 *per cent*) which was not commensurate with allocations made by the NFIs. Audit noticed that the Corporation had been slow in implementing the schemes of NFIs as the rate of recovery was about 60 to 65 *per cent* whereas the NFIs were insisting on 100 *per cent* recovery from the Corporation. The Corporation had not repaid the outstanding loan dues of ₹ 28.61 crore of the NFIs during 2013-16.
- Under SCA, the State Government released only ₹ 3.5 crore against the budget provision of ₹ 18 crore during 2013-16. Audit noticed that the GOI releases consolidated amount of SCA to State Government for various schemes relating to SC and the State Government further allocates these funds to different department/agencies. During 2013-15, GOI did not release any funds to State Government due to non-utilisation of previous year's SCA by the State Government. Consequently, 14,500 BPL families were deprived of the benefit of SCA during 2013-16.
- During 2013-16, the Corporation had planned to receive ₹ 26.92 crore from introduction of OTS scheme. However, due to delay in approval of the scheme from the State Government, the Corporation had not received any sum against the same.

Management confirmed (May 2016) the facts and figures and stated that the financial position of the Corporation is deteriorating day by day. The rate of recovery was about 60 to 65 *per cent* only and Corporation is availing loans judiciously.

<sup>6</sup> ₹ 68.92 crore - ₹ 3.72 crore – ₹ 0.35 crore (pertaining to previous years).

<sup>7</sup> Loans for various trades from NSFDC, Loans for safai karamchhari/ scavengers and their dependents from NSKFDC and Loans for persons with disabilities from NHFDC.

### 3.1.3. Implementation of the schemes

On the basis of budgetary allocation made by the State Government for different schemes, the Corporation was fixing targets for disbursement of loans each year. A summary of financial and physical targets and achievements there against during 2013-16 is given in table 3.2 below:

**Table 3.2 - Financial and physical targets/achievements**

(Financial: ₹ in crore and Physical: in numbers)

		Bank Tie-up Sch.		Direct lending		NSFDC		NSKFDC		NHFDC	
		T	A	T	A	T	A	T	A	T	A
2013-14	Financial	5.00	1.00	10.00	7.61	7.13	0.49	1.90	0.74	2.85	1.63
	Physical	5,000	1000	500	603	500	42	200	83	200	85
2014-15	Financial	8.00	Nil	10.00	6.05	7.13	0.03	1.90	0.08	2.85	0.38
	Physical	8,000	Nil	500	387	500	1	200	8	200	16
2015-16*	Financial	5.00	2.29	10.00	8.47	7.13	0.19	1.90	0.20	2.85	1.27
	Physical	5,000	2291	500	573	500	19	200	24	200	66
Total	Financial	18.00	3.29 (18)	30.00	22.13 (74)	21.39	0.71 (3.32)	5.70	1.02 (17.89)	8.55	3.28 (38.36)
	Physical	18,000	3291 (18)	1,500	1563 (104)	1,500	62 (4.13)	600	115 (18)	600	167 (27.83)

\* T: Target, A: Achievement. Figures in bracket indicate percentage achievement.

Analysis of performance of the schemes brought out the following:

**3.1.3.1 Under Bank Tie-up scheme**, loan applications received from BPL<sup>8</sup> SC families are forwarded to banks for approval. After approval of cases, the Corporation releases subsidy to banks (equal to 50 per cent of the total project cost subject to a maximum of ₹ 10,000) for further disbursement to beneficiaries along with loan. There was shortfall in achievement of targets due to less release of funds by State Government in comparison to budget provisions.

Audit noticed that the Corporation did not disburse any subsidy from April 2014 to March 2016 but invested ₹ 6.83 crore in fixed deposits in banks thus denying 6,830 SC BPL families of the benefit of subsidy. Management stated (May 2016) that amount received as Special Central Assistance (SCA) has been fully released for disbursement to the beneficiaries and this amount represented undisbursed subsidy refunded by Banks. The reply is not correct as ₹ 6.83 crore was undisbursed amount invested in FDRs which was to be disbursed to beneficiary SC BPL families.

**3.1.3.2 Under the Direct lending scheme**, loans of upto ₹ 5 lakh (except land purchase where maximum limit is ₹ 20 lakh) are granted to SC beneficiaries having income of not more than ₹ 1 lakh per annum for various income generating schemes. The loan is either interest free or at concessional rates of interest of up to a maximum of 8 per cent per annum and is disbursed out of the share capital of the Corporation. As of March 2016, there were 3,134 pending loan applications.

<sup>8</sup> As per survey conducted by the Department of Rural Development and Panchayats of GoP. for rural areas in 2002 and State Urban Development Agency (SUDA) for urban areas in 2004, there were 3.21 lakh BPL families which were from SC communities.

**3.1.3.3** The Corporation in **collaboration with NSFDC provides loan** for various trades to beneficiaries having income upto double the poverty line (Rural: ₹ 81,000 and Urban: ₹ 1,03,000 per annum). Loan upto ₹ 30 lakh is advanced by raising term loan (upto 90 *per cent*) from NSFDC and remaining 10 *per cent* is to be contributed equally by the Corporation and beneficiaries.

Audit observed that the Corporation had fixed the targets under this scheme without taking into consideration the funds allocated by NSFDC. As a result, it failed to fully utilise the allocated funds. It was observed that the Corporation had virtually stopped financing under the scheme and was diverting the beneficiaries towards its Direct Lending Scheme which carries interest rate higher by 2 *per cent*<sup>9</sup> per annum than term loan under the NSFDC schemes. Hence, the marginal SC beneficiaries were not only saddled with additional interest burden but their coverage also remained far from optimal. As on 31 March 2016, 1827 loan applications were pending while funds of ₹ 0.98 crore were lying unutilised for more than three years.

**3.1.3.4** The Corporation, **in collaboration with NSKFDC**, provides loans to the safai karmacharis, manual scavengers and their dependents for taking up any income generating activity of their choice. Loan upto ₹ 5 lakh is advanced by raising term loan (upto 90 *per cent*) from NSKFDC and remaining 10 *per cent* is contributed equally by the Corporation and beneficiary.

The Corporation actually extended loan of only ₹ 1.02 crore to 115 beneficiaries against the allocation of ₹ 17.56 crore due to reasons discussed in Paragraph 3.1.3. GoI recommended (2013) to speed-up the implementation of the NSKFDC schemes in the State. As on 31 March 2016, 552 loan applications were pending approval and funds of ₹ 0.55 crore were lying unutilised for more than one year.

**3.1.3.5** The Corporation, **in collaboration with NHFDC**, extends loans of upto ₹ 7.50 lakh to Persons with Disabilities (PWDs) for self-employment, having income upto ₹ 5.00 lakh per annum in urban area and ₹ 3.00 lakh per annum in rural area.

As of March 2016, 214 loan applications were pending due to less availing of refinance facilities from NHFDC owing to less recovery under the scheme and non repayment of outstanding loan dues of NHFDC.

### **3.1.4 Efficiency and economy in disbursement of loans**

Test check of 285 loan cases relating to Direct Lending, NSFDC, NSKFDC and NHFDC schemes disbursed during 2013-16 revealed the following:

- The Corporation had taken an average time of 394 days in disbursement of loans against the target period of 45 days set by the Corporation for itself.

<sup>9</sup> Interest rate under direct lending scheme for term loan above ₹ 30000 is 8 *per cent* per annum whereas loan upto ₹ 5 lakh under NSFDC scheme carries interest rate of 6 *per cent* per annum.

- Audit noticed that the Corporation was under financing the loanees in order to achieve higher physical target inspite of having parked funds (e.g. equity, SCA funds etc.) ranging from ₹ 10.50 crore to ₹ 15.67 crore in fixed deposits with banks. This led to non achievement of disbursement targets fixed by the Corporation. In 191 cases (67 per cent), it had reduced the amount applied for by the beneficiaries.
- The Corporation had not obtained utilisation certificates from 203 loanees (73 per cent) out of 277 test checked cases.

Management attributed (May 2016) the delay in disbursement of loan to non appointment of regular Executive Director. It added that it had forwarded a proposal to increase the loan limits to the State Government. The reply does not address the core issued raised in audit of undue delays which cannot be attributed only to the non appointment of regular Executive Director.

### 3.1.5. Recovery Position

Table 3.3 below depicts the details of consolidated targets of recovery, total amount recoverable and recoveries effected during April 2013 to March 2016.

**Table 3.3 – Targets of recovery and achievements**

(Figures: ₹ in crore)

Sl. no.	Particular	2013-14	2014-15	2015-16
1	Amount overdue for recovery at the beginning of the year	93.21	96.36	100.53
2	Recovery due during the year	13.19	14.10	5.86
3	Total recoverable amount	106.40	110.46	106.39
4	Target of recovery	11.00	11.00	10.00
5	Recovery effected during the year	10.04	9.92	9.73
6	Closing balance of overdue amount	96.36	100.53	96.66
7	Percentage of recovery to recoverable amount	9.44	8.98	9.14

As evident from above, the Corporation could not achieve the target of recovery in any year during 2013-16 and the overdue amount had increased from ₹ 96.36 crore to ₹ 96.66 crore. Audit observed that poor performance of recoveries was due to not ensuring the proper utilisation of loan amount, non-conducting of physical verification of assets and inadequate pursuance of recovery by the district offices.

In case of continued default, Sections 24 and 25 of the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970, empowers the Corporation to recover the entire outstanding amount from the defaulters as arrears of land revenue by issuing a recovery certificate to the Collector of district concerned. 10,831 cases involving ₹ 47.99 crore were sent to the Collectors for effecting recoveries and the recoveries amounting to ₹ 25.35 crore in 7,190 cases only were made upto March 2016.

Management stated (May 2016) that it had made all out efforts to recover the outstanding loan amount from the loanees. However, Audit noted that the

recovery position had deteriorated from 9.44 *per cent* (2013-14) to 9.14 *per cent* (2015-16) which shows that measures taken to improve its recovery position were inadequate.

Thus, delay in sanction of loans, low volume of disbursements, non-receipt of share capital in time and poor recovery performance resulted in failure of the Corporation to recycle the funds, which in turn affected wider coverage of beneficiaries.

The matter was referred to the Government (March 2016), their replies were awaited (September 2016).

## **Punjab State Industrial Development Corporation Limited**

### **3.2 Issue and Redemption of Bonds**

**Poor operational performance in investment in equity and loans and extension of guarantees to the loanee units led the Company to default in redemption of bonds. As the bonds in default are guaranteed by the State Government, the financial liability of redemption may eventually devolve onto the State exchequer. There were delays ranging from six months to over 19 years in initiating effective action to recover loans from defaulters while poor record keeping of details of guarantors resulted in non-recovery of ₹ 197.70 crores in just two out of five cases test checked in audit.**

#### **Introduction**

The Punjab State Industrial Development Corporation Limited (Company) was incorporated (January 1966) with the objective of promoting, assisting and financing industries through equity investment and disbursement of loans. The Company stopped its equity investment activity in 2003-04 and loan disbursement activity in 2006-07 as the liquidity position was strained due to declining trend in recovery of term loan portfolio as well as in retrieval of investment in equity of promoted units. The net worth <sup>10</sup> of the Company was negative at (-) ₹ 535.63 crore as on 31 March 2013 which dipped further to (-) ₹ 577.98 crore and (-) ₹ 615.54 crore as on 31 March 2014 and 2015 respectively.

To finance industries and to meet its financial commitments, the Company issued (1997) non-convertible, unsecured bonds (Bonds) guaranteed by the State Government. It raised funds amounting to ₹ 1,217.28 crore through sixteen number of issues by private placement<sup>11</sup> during 1997 to 2013. The Company, to raise the funds, incurred incidental expenses in the shape of fee to the Arrangers (₹ 3.41 crore) and guarantee fee (₹ 26.63 crore) & stamp duty (₹ 10.11 crore) payable to the GoP on the bonds issued by it.

<sup>10</sup> Paid up capital (+) reserve and surplus(-) accumulated losses (-) miscellaneous expenditure.

<sup>11</sup> From Provident Funds, Superannuation Funds and Gratuity Funds.

### 3.2.1 Sources of funds

The percentage of redemption of bonds during the period 2012-13 to 2015-16 ranged between 0.59 and 65.05 *per cent* of the cash inflow but was 0.81 to 59.74 *per cent* of cash outflow as brought out in table 3.4 below.

**Table 3.4 : Cash flow of the Company**

(₹ in crore)

Year	Opening balance	Cash inflow					Cash outflow				Closing balance
		Bonds	OTS	Sale of Assets	Others	Total	Redemption of bonds and interest		Others	Total	
							Bonds	Interest			
2012-13	41.03	119.84	Nil	9.72	6.26	135.82	88.35	52.44	7.11	147.90	28.95
2013-14	28.95	Nil	Nil	10.37	2.31	12.68	2.40	0.49	38.18	41.07	0.56
2014-15	0.56	Nil	6.73	47.17	2.40	56.30	0.33	11.98	28.29	40.60	16.26
2015-16 (projected)	16.26	Nil	22.70	0.86	2.62	26.18	1.49	14.05	25.70	41.24	1.20

### 3.2.2 Unrealistic projections

In view of its poor performance and continuing losses, the Reserve Bank of India (RBI), issued (July/December 2014) a show cause notice (SCN) to the Company for cancellation of its registration as a Non Banking Financial Company (NBFC). In reply to the SCN, the Company submitted (February 2015) a road map for financial recovery spread over 2014-17. However, the road map did not have the approval of State Government (Finance Department) and consequently no provision was made in the State Budget. It was also noticed that against the projected receipt of ₹ 25 crore and ₹ 85 crore from one time settlement (OTS) cases of loans during 2014-15 and 2015-16, the Company could recover only ₹ 6.73 crore and ₹ 22.70 crore. Though, the Company had projected financial support of ₹ 100 Crore from the State Government (2014-15: ₹ 50 Crore and 2015-16: ₹ 50 Crore) which was never received as the road map did not have the approval of the Finance Department and therefore necessary provision were never made in the Budgets.

The Company stated (June 2016) that even after its best efforts, the Company could not make much recovery under OTS and could not receive financial support from State Government.

The reply is not acceptable as the projections submitted in the roadmap for recovery of the Company were unrealistic and the projections of assistance from State Government did not materialise as the roadmap did not have the approval of the State Government in the first instance.

### 3.2.3 Investment of funds in equity

The Financial Collaboration Agreement (FCA) with collaborators provided that after the expiry of specified period (upto five years), the collaborator was to purchase the equity share holding of the Company.

Audit observed that as per the data of Value Added Tax (VAT) department for the years 2012-14, nine units were working and had a consistent turnover ranging between ₹ 11.44 crore to ₹ 1037.81 crore. As per Company's records, 30 Units out of 107 were earning profits as on 31 March 2015. In spite of that the Company failed to persuade these units to buy back their equity shareholding.

Audit observed that the FCA allowed the Company to nominate Directors on the Board of Directors of the units to exercise control over the affairs. In case of equity investment, the Company did not appoint its nominees as Managing Director on the Board of Directors of the units. The outstanding dues increased to ₹ 2,538.47 crore as on 31 March 2016.

### 3.2.4 Recovery of loans

As on 31 March 2016, almost 70 per cent of the amount of default in loan cases was in the category of loanee units taken over under Sections 29 and 32 G of the State Financial Corporations (SFC) Act, 1951.

Section 29 of the SFC Act empowers the Company to take over the management or possession of loanee units and to sell the assets or both, in case of default in repayment of loans. Section 32 G of the SFC Act provides that where the dues had not been fully recovered after sale of assets/ collateral guarantees under section 29, the Company may invoke the personal guarantees of guarantors as arrears of land revenue and Recovery Certificates (RCs) will be sent by the Company to the concerned District Collectors (DCs) for recovering dues under Punjab Public Money (Recovery of Dues) Act, 1983.

Audit noticed 14 cases where there were delays ranging between six months to 236 months in taking over the units under section 29 (March 2015) and of 56 units, involving ₹2,652.62 crore, where proceedings were pending under section 32 G, RCs had been issued in 46 cases only where ₹ 1,592.27 crore was outstanding for recovery (March 2016).

Audit observed that the details of properties of guarantors were not verified at the time of sanctioning of loan and there was also no mechanism to keep track of the ownership of the assets. Out of five<sup>12</sup> cases test checked in audit, in two<sup>13</sup> cases, the guarantors and their assets were found to be untraceable resulting in non-recovery of ₹ 197.70 crore (March 2016).

The Company stated (June 2016) that the provisions of Section 29 of SFC Act were used mainly as pressure tactic to speed up the recovery from defaulting units. The recoveries from the guarantors under Section 32 of SFC Act were to be made by District Collectors by attaching personal assets of the guarantors. The Company further stated that it was not possible for it to keep track of personal assets of promoters as these were not mortgaged with the Company.

The reply of the Company is not acceptable as there was delay in taking over the assets affecting disposal of assets for revenue realisation. As regards, recoveries under Section 32 of SFC Act, no uniform policy/procedure were followed for perusal of cases with District Collectors and monitoring of recovery cases at higher level. The failure of the Company to evolve any mechanism to keep track of assets of guarantors contributed to non-recoveries under Section 32 of SFC Act.

### 3.2.5 Extension of guarantees to loanee units

Although there was no policy, the Company extended guarantees of ₹ 71 crore on behalf of six loanee units till July 1999. Due to default by four of the units

<sup>12</sup> Anco Papers Limited, BDS Fabrics Limited, Punjab Drugs Limited, Royal Cements Limited, Universal Fashions (Private) Limited.

<sup>13</sup> BDS Fabrics Limited and Royal Cements Limited.

in repayment of dues, the financial institutions invoked guarantees and the Company had to pay ₹ 52.38 crore during July 2002 to September 2013.

Audit also observed that the Company did not charge any guarantee fee from these loanee units for extending guarantees. Settling guarantees of ₹ 52.38 crore with the financial institutions on behalf of four loanee units was against the financial interest of the Company. While undertaking these guarantees, the Company neither restricted the period nor the maximum amount to be repaid in the event of default, which exposed it to unlimited liability. The Company had also extended guarantee for loan of ₹ 1.40 crore from banks to two units who defaulted in repayment and the Company had to pay ₹ 3.81 crore against principal and interest. It was also noticed that guarantee of ₹ 0.72 crore was extended to another defaulter loanee unit<sup>14</sup> for which the Company had to pay ₹ 0.50 crore. Thus, action of the Company was against principles of financial prudence.

The Company stated (June 2016) that the guarantee documents were finalised as per the terms of the concerned financial institutions/banks and the Company had not accepted any unlimited liability on its own. However, it had dispensed with the practice of extension of guarantees on behalf of the promoted Companies.

The reply of the Company is not acceptable as extension of guarantees without first safeguarding its own financial interest was imprudent.

### **3.2.6 Conclusion**

Thus, poor performance in recovery of investments made in equity and loans and extension of guarantee to the loanee units etc. led to the Company defaulting in redeeming bonds. Its efforts to raise fresh funds were unsuccessful pushing it further into debt trap. Since the bonds in default are guaranteed by the State Government, the financial liability of redemption of these bonds may eventually devolve on the State exchequer.

The matter was referred to the Government (February 2016), their replies were awaited (September 2016).

## **Punjab Small Industries and Export Corporation Limited**

**Inaction on the part of Company in allotting a plot valuing ₹ 10.20 crore resulted in loss of interest of ₹ 1.66 crore while failure to cancel/resume industrial plots due to non-fulfillment of allotment conditions by the allottees and their unjustified transfer led to loss of ₹ 4.47 crore.**

### **3.3 (a) Loss of interest due to delay in allotment of plot**

The Punjab Small Industries and Export Corporation Limited (Company) allotted (January 1994) a plot measuring 19.63 acre located in the Industrial Growth Centre, Bhatinda, to a firm for setting up of a container freight station

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<sup>14</sup> Punjstar Standard Electronics Limited.

on 99 years leasehold basis. In September 2005, the allottee informed the Company that out of the total plot area of 19.63 acre, 8.55 acre was lying unutilised and offered to surrender it to the Company.

The Company accepted (April 2006) the proposal and took possession of the land (June 2007) and refunded (August 2007) the required amount of ₹ 21.26 lakh to the allottee. The Company, however omitted to include this plot in its inventory of unallotted plots of land and as a result, no action could be taken for allotment of this surrendered plot till its existence came to notice during an internal inspection in July 2013.

In February 2014, the Company invited applications for allotment of plots measuring above two acres for various locations including this plot. The allotment committee of the State Government allotted (February 2014) this plot for ₹ 10.20 crore at the rate of ₹ 2,500 per sq. yard. The Company received (April 2015) the full payment of ₹ 10.20 crore against this allotment.

Audit noticed (October 2015) that although there was demand for such plots, the Company had not included this plot while advertising other plots of Bathinda in September 2011. Had the Company kept its land records upto date, it could have sold the plot earlier i.e. in 2011 itself. The delay by the Company in allotting of plot valuing ₹ 10.20 crore for 26 months (from December 2011 to January 2014) resulted in a loss of interest of ₹ 1.66<sup>15</sup> crore to the Company.

The matter was referred to the Company and the Government (January 2016), their replies were awaited (September 2016).

### **3.3(b) Loss due to unjustified transfer of plots**

The Company was established to promote setting up of industries in the State. Towards this end, the Company allots industrial plots on lease hold basis at various focal points developed by the Company at reserve price fixed from time to time.

As per the terms and conditions of the allotment policy of industrial plots, the allottees are required to bring the unit into production within a period of three years. Extension for another two years is allowed subject to payment of extension fee. Transfer of plots is allowed only after three years of commencement of production by the original allottee on submission of valid proof thereof. In the event of the allottee failing to bring the unit into production within prescribed/ extended period, the Company was empowered to resume the plot/site and take its possession and the allotment was liable to be cancelled with forfeiture of 30 *per cent* of the price of the plot. Any fees paid for granting extension were also to be forfeited.

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<sup>15</sup> Interest has been calculated on ₹ 10.20 crore for 26 months i.e. December 2011 (previous allotment at Bathinda) to January 2014, at rate of 7.5 per cent per annum (minimum rate of Bank Fixed Deposits of the Company).

A test check of records of the Company revealed (January 2016) that in 14 cases, industrial plots were transferred during the period May 1991 to October 2015 but till date neither any building had been constructed nor commercial production started. In none of these cases had the allottees fulfilled the conditions<sup>16</sup> required to be met within one year of allotment and in 12 cases, even the permissible extension periods had expired. On the dates of transfer, the reserve price of the plots ranged between ₹ 400 per sq yard to ₹ 5,500 per sq yard which was much higher than the original allotted price ranging between ₹ 53 per sq yard to ₹ 4,400 per sq yard charged from the original allottees. Instead of taking any action to cancel/resume the plots as per terms and conditions of allotment and re-allotting them at the current prevailing reserve price to entrepreneur for setting up of industries, they were allowed multiple transfers. The failure of the Company to initiate actions of cancellation and resumption of plots where production had not started defeated the purpose of promoting industry and creating employment in the State and also resulted in a loss of ₹ 4.47<sup>17</sup> crore to the Company.

The Management stated (June 2016) that allotment/transfer of industrial plots have been rightly allowed under “General Scheme” Policy notified by the Government of Punjab and there is no violation of the instructions of the Government. The transfer of plots has been allowed after charging the prescribed transfer fee as stipulated in the policy notified by Government.

The reply is not acceptable as Allotment Policy 2008 clearly provided that in the event of an applicant failing to bring the unit into production, the allotment was liable to be cancelled and plots resumed. Failure to do so defeated the very objective of the policy as well as resulted in loss of ₹ 4.47 crore to the Company.

The matter was referred to the Government (March 2016), their replies were awaited (September 2016).

### **Punjab Agro Industries Corporation Limited**

#### **3.4 Under valuation of assets**

#### **Under valuation of the Company’s equity holding in a unit while disinvesting resulted in undue benefit of ₹ 4.08 crore to the collaborator.**

To promote milk processing projects in the State, the Punjab Agro Industries Corporation Limited (Company) invited public offers (March 2003) for financial collaboration for setting up an integrated milk processing project. Subsequently, the Company signed (June 2004) a Financial Collaboration

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<sup>16</sup> (i) Sanction of building plan (ii) Construction at site at least at damp proof course (DPC) level (iii) placement of orders for plant and machinery (iv) obtain provisional registration of the unit (v) obtain consent from financial institution/ bank to advance loan for project (vi) obtain consent from Punjab Pollution Control Board.

<sup>17</sup> Calculated after deducting 70 per cent of the original cost of the plot from the price of plot based on reserve price of plot during last transfer.

Agreement (FCA) with an entrepreneur who had responded to the public offer to set up a unit at a total cost of ₹ 15.27 crore. The Company invested (September 2005 to August 2007) ₹ 92.58 lakh as its share in the equity capital of the Unit.

The FCA provided *inter alia* that the Company could offload its shareholding in the Unit partially or fully, at any time, after the unit went into commercial production and/ or its share were listed on a Stock Exchange in a manner as it deemed fit. The collaborator though was given pre-emptive right to buy shareholding of the Company at the price determined by the Company.

The unit commenced commercial operations in 2007 and the collaborator approached (October 2012) the Company for buy back of its shareholding in the Unit. The Board of Directors (BODs) of the Company decided (November 2012) to (a) call public offers by way of publications in the newspapers for sale of shares and (b) compute interest on the amount invested at the rate of one *per cent* above the prime lending rates (PLR) of State Bank of India (SBI) to get the best possible price of the shares. The higher of these two was to be fixed as the sale price and offered to the Collaborator after getting the approval of Project Approval Board<sup>18</sup>. In the event of collaborator's non-acceptance, the shares were to be offered to any other interested party.

Audit observed (December 2015) that while the Company conveyed (December 2012) its decision to the Collaborator, it did not invite any public offers for the disinvestment. After a lapse of a year, the collaborator requested (November 2013) the Company to compute the amount of disinvestment by charging only interest and not by inviting public offers as it may disturb the ongoing project. The BODs agreed to the proposal and referred (September 2014) the matter for opinion to the Directorate of Public Enterprises and Disinvestment, Government of Punjab (GoP) who recommended (November 2014) to get the share holding valued from an independent transaction advisor/valuer and take action for disinvestment as per the price arrived at by the advisor/valuer or the price determined by the Company by charging interest whichever was higher.

The Company thereafter asked the Collaborator to get the valuation done from one of the Company's empanelled valuers. The Valuer engaged by the Collaborator valued (July 2015) the unit at ₹ 12.86 crore. Based on the valuation, shareholding of the Company was assessed as ₹ 2.02 crore (as on June 2015) as against value of ₹ 1.95 crore arrived at by charging interest. The Company considering the higher amongst these transferred (August 2015) its shareholding in the unit for ₹ 2.02 crore.

In his valuation of ₹ 12.86 crore of the unit, the Valuer assessed the value of the fixed assets of the unit as ₹ 11.83 crore as on June 2015 (land ₹ 4.89 crore<sup>19</sup>, buildings ₹ 3.04 crore and plant and machinery ₹ 3.90 crore) and that of the Current Assets as ₹ 1.03 crore. The stated basis of the valuation of the fixed assets of the unit was; (a) plinth area rate for construction in conformity

<sup>18</sup> A board of the State Government for approving the investments made by the Company.

<sup>19</sup> Land at Mandi Gobindgarh - ₹ 4.37 crore and land at Madhya Pradesh - ₹ 0.52 crore.

with the rates of the Public Works Department for buildings; (b) the prevailing market rate for land, and (c) the basis of valuing plant and machinery was not mentioned.

In examining the valuation, Audit observed as under:

- As against the assessed value of ₹ 11.83 crore of fixed assets, their depreciated value as in June 2015 was ₹ 43.88 crore. Out of these, net fixed assets amounting to ₹ 18.84 crore were added only during 2013-14 and 2014-15.
- The land measuring 5.86 acres at Mandi Gobindgarh was valued at ₹ 0.75 crore per acre whereas the same collaborator in his own new proposal (August 2013) to set-up a bread plant and flour plant at Focal Point, Mandi Gobindgarh had taken ₹ 2.0 crore per acre as the cost of land. At this rate, the valuation of 5.86 acres should have been ₹ 11.66 crore instead of ₹ 4.37 crore assessed by the Valuer.
- The unit's net worth was ₹ 38.82 crore as on June 2015. On this basis, the value of the shareholding of the Company should have been ₹ 6.10 crore.

Thus, there was under valuation of holding of the Company by ₹ 4.08 crore. Even if only the value of land was to be reckoned, the under valuation was to the tune of ₹ 1.14 crore.

Management stated (February/May 2016) that disinvestment was made as per the approval of BODs and Directorate of Disinvestment, GoP after getting the valuation done from the approved valuer. The fact remains that while valuing its share holding in the unit, the financial position was not considered appropriately which resulted in undue benefit to the collaborator.

The matter was referred to the Government (December 2015), their reply was awaited (September 2016).

### **Punjab Financial Corporation**

#### **3.5 Irregular settlement under One Time Settlement Policy (OTS)**

**The Corporation extended irregular benefit of ₹ 1.91 crore to a loanee by settling its case under an expired OTS policy.**

The Government of Punjab notified (March 2009) an One Time Settlement (OTS) policy for settling the outstanding amounts of loanee units of Punjab Financial Corporation (Corporation) categorised as Non Performing Asset (NPA) as on 31 March 2008. The OTS amount was to consist of principal plus expenses along with interest at the rate of 12 *per cent* compounded half yearly. The scheme was open for receipt of applications from eligible units up to 30 May 2009 subsequently extended up to 16 February 2011.

The Corporation separately approved (December 2012) an OTS policy for units located in the Border Districts valid up to 27 March 2013. The OTS amount in this scheme consisted of principal plus expenses along with six *per cent* simple interest. Both these OTS policies i.e. OTS Policy-2009 and OTS for Border Districts were further extended (March 2013) up to 15 May 2013. Subsequently, the Corporation extended the OTS Policy-2009 up to 20 January 2014 invited (December 2013) expressions of interest from interested borrowers.

A defaulter loanee unit who had availed (December 1993) of a loan of ₹ 42.75 lakh and had run up an outstanding of ₹ 17.17 crore as on 15 December 2013 applied twice (July/November 2013) under OTS scheme for Border Districts for settling its loan account. However, as the scheme was valid upto 15 May 2013, these applications were rejected (August/December 2013) by the Corporation.

In response to the advertisement of expression of interest called by the Corporation for the extended OTS Policy-2009, the loanee unit once again applied (January 2014) for settlement of its account and deposited ₹ 24 lakh as upfront fee, being 25 *per cent* of the payable OTS amount. The case of the loanee was settled (March 2014) under the OTS Policy for Border Districts by the Corporation for ₹ 0.98 crore involving a financial sacrifice of ₹ 16.19<sup>20</sup> crore for the Corporation.

Audit observed (November 2015) that no OTS policy for Border Districts was in operation at the time when the application of loanee was considered. The amount recoverable from the loanee under the valid option i.e. OTS Policy-2009 was ₹ 2.89 crore. Thus, the Corporation extended irregular benefit of ₹ 1.91 crore (₹ 2.89 crore - ₹ 0.98 crore) to the loanee by settling its case under an expired OTS policy.

Management stated (April 2016) that the minutes of the meeting of Board of Directors (BODs) inadvertently mentioned extension of benefits to these units under OTS 2009 Policy only instead of OTS 2009/ OTS under Border Districts Policy and that the rectification to extend the benefit under Border Districts policy in this case shall be placed before the BOD. The Management reply is not borne out by facts as the agenda before the BOD was for review and extension of OTS policy 2009 and not for OTS policy for Border Districts.

The matter was referred to the Government (December 2015), their reply was awaited (September 2016).

<sup>20</sup> Amount outstanding as per ledger – ₹17.17 crore less amount payable by concern as per OTS policy for border districts – ₹0.98 crore = ₹16.19 crore.

**Punjab State Grains Procurement Corporation Limited, Punjab State Warehousing Corporation and Punjab Agro Foodgrains Corporation Limited**

**3.6 Disallowance of carry over charges**

**Failure of the State Procurement Agencies to comply with instructions of Food Corporation of India regarding direct delivery of wheat from mandis to its godowns resulted in disallowance of ₹ 2.79 crore.**

The State Procuring Agencies<sup>21</sup> (SPAs) procure wheat for the Central Pool on behalf of Food Corporation of India (FCI) at rates determined by the Government of India (GoI) for each Rabi Marketing Season (RMS). The wheat stocks are moved either directly from mandis to FCI godowns/ railheads for further transportation or to the SPAs godowns and the same are taken over by the FCI from time to time. FCI reimburses the procurement price of wheat i.e. the minimum support price (MSP) and incidentals charges to the SPAs at the rates fixed by the GoI for the wheat delivered upto 30 June of the RMS. For wheat delivered thereafter, carry over charges (COC<sup>22</sup>) are paid by the FCI. No COC are paid by the FCI for wheat delivered directly by SPAs to FCI.

FCI intimated (March and May 2013) the Government of Punjab (GoP) to avoid storage of wheat of RMS 2013-14 at unscientific<sup>23</sup> locations and that it had abundant space at Sunam, Sangrur-I, BC Dhuri, Ahmedgarh, Moonak, Tapa, Barnala centres to accept direct delivery of wheat. PUNGRAIN, PSWC and PAFC, however, stored 95,969 MTs of wheat at their locations at these towns and thereafter transferred the wheat to FCI after 30 June 2013. Consequently FCI disallowed the carry over charges of ₹ 2.79<sup>24</sup> crore of 69527.11<sup>25</sup> MTs wheat which had to be borne by the SPAs.

Thus, failure of the SPAs to comply with the instructions of FCI regarding direct delivery of wheat from mandis to its godowns due to availability of adequate FCI storage space resulted in SPAs being disallowed claim of ₹ 2.79 crore as carry over charges.

The matter was referred to the SPAs and the Government (February 2016), their replies were awaited (September 2016).

<sup>21</sup> Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Warehousing Corporation (PSWC), Punjab Agro foodgrains Corporation Limited (PAFC) and Punjab State Co-operative Supply & Marketing Federation Limited (Markfed). Markfed is not under audit purview.

<sup>22</sup> COC includes inventory carrying cost and storage charges of wheat.

<sup>23</sup> Grain is not stored with adequate safeguards against elements of nature and safe against attacks of rodents and pests i.e. not in cover and raised plinth level or metal or concrete silos or godowns.

<sup>24</sup> Amount deducted in respect of PUNGRAIN- ₹ 1.32 crore, PSWC- ₹ 0.20 crore and PAFC- ₹ 1.27 crore = ₹ 2.79 crore.

<sup>25</sup> PUNGRAIN- 43078.36 MTs, PSWC- 7319.35MTs, PAFC- 19129.40 MTs.

### Punjab State Civil Supplies Corporation Limited

#### 3.7 Loss due to poor preservation

**Poor preservation and maintenance of wheat stock coupled with not initiating timely actions to upgrade the same resulted in loss of ₹ 93.29 crore to the Company.**

The Punjab State Civil Supplies Corporation Limited (Company) procures wheat for central pool of Government of India (GoI) on behalf of Food Corporation of India (FCI). It is the responsibility of the Company to maintain the health of stock of wheat till its delivery to FCI. The District Managers are to inspect every storage centre at regular intervals (one third storage centres are to be checked in a month) and inspection report regarding the condition of stocks sent to the head office of the Company.

Audit observed (March 2015) that District Office, Muktsar of the Company had stored 1,60,785 MTs wheat of crop year 2011-12 at its various locations. Out of this, FCI declared (April 2012) that 81,978 MTs of wheat<sup>26</sup> had deteriorated due to poor maintenance and preservation, and needed to be upgraded. GOI guidelines (May 2013) stipulate that the stock found to be upgradable were to be upgraded within a period of one month from date of their so categorisation failing which the stock would be declared as damaged by FCI.

FCI intimated (April 2012 to February 2014) the Head Office and District Office of the Company regarding poor maintenance of wheat stocks and requested for its timely upgradation. In spite of extensions allowed by FCI upto December 2013 for upgradation of wheat, the Company could offer only 19,863 MTs out of which FCI accepted 9,133 MTs. The balance wheat stock of 72,845 MT valuing of ₹149.60 crore<sup>27</sup> was declared (August/September 2014) as damaged by FCI. Audit also observed that the incharge District Manager did not inspect wheat stocks at advised intervals and submit inspection reports.

GOI guidelines (July 2014) had directed that the damaged wheat was to be disposed off within a maximum period of six months from the date of declaration of stocks as damaged. Though, the wheat stock of 72,845 MTs was declared as damaged in August/September 2014, the Company could dispose off (July/September 2015) only 15,843 MTs of damaged wheat. During disposal of wheat, a further shortage of 3,116 MTs valuing ₹ 6.40 crore was detected. The Company realised ₹ 10.27 crore from disposal of balance 12,727 MT wheat against ₹ 26.13 crore being the value of 12,727 MTs resulting in a loss of ₹ 15.86 crore. At this proportion of loss on 12,727 MTs, the projected loss on entire damaged quantity of 69,729 MT (72,845 MTs - 3,116 MTs shortage) works out to ₹ 86.89 crore.

<sup>26</sup> 44,219 MT in April 2012 and 37,759 MT from May 2012 to February 2015.

<sup>27</sup> Calculated on basis of rate of ₹20,537 per MT (MSP: ₹11,200, bonus: ₹500 and incidentals: ₹2,224 and carry over charges: ₹6,613).

Although FCI had continuously brought the deteriorating status of wheat stocks to the attention of the Company at all levels, the Management failed to take steps to remedy the situation and check further deterioration of held stocks. The damaged wheat accounted for as much as 45 per cent of the stored wheat in the district for the crop year 2011-12.

Thus, poor preservation and maintenance of wheat stock coupled with non-initiation of timely actions to upgrade the same resulted in a loss of ₹ 93.29 crore (₹ 86.89 crore + ₹ 6.40 crore) to the Company.

The matter was referred to the Company and the Government (April 2016), their replies were awaited (September 2016).

### 3.8 Delayed raising of claims

**Lack of a system for monitoring of timely raising of bills resulted in delayed raising of claims by the district office and consequential loss of interest of ₹ 8.94 crore.**

The Punjab State Civil Supplies Corporation Limited (Company) procures food grains for the Central Pool of Government of India (GOI) by availing cash credit limit from banks and delivers it to the Food Corporation of India (FCI). GOI issues some of these foodgrains to various categories of beneficiaries under its Targeted Public Distribution System<sup>28</sup> (TPDS). The Company, designated as a nodal agency by the State Government for centrally sponsored schemes, delivers foodgrains under TPDS schemes and claims reimbursement from FCI as per rates<sup>29</sup> intimated by GOI. The State Government had issued instructions (April 2008) requiring all procurement agencies to submit their claims to FCI within eight days from the delivery of foodgrains.

While discussing (March 2016) a previous audit observation (Audit Report No.2 of 2014 relating to the Government of Punjab) on loss of interest due to delay in claiming of incidentals by State Procurement Agencies, the Committee on Public Undertakings of the Punjab Legislative Assembly had directed that claims on FCI should be raised immediately so as to avoid interest loss. However, no system was evolved by the Company to monitor and ensure timely raising of claims.

Test check of records of the district office, Amritsar revealed that during April 2009 to March 2013, the district office delivered 1,09,554 MTs (TPDS: 25,912 MT and central pool: 83,642 MT) of wheat. The Company was required to lodge the claim of differential<sup>30</sup> cost with FCI amounting to ₹ 18.59 crore under TPDS and ₹ 4.18 crore towards bonus<sup>31</sup> on wheat procured for the central pool immediately after delivery of foodgrains.

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<sup>28</sup> Such as Antyodaya anna yojna, below poverty line and above poverty line.

<sup>29</sup> Includes minimum support price and incidentals.

<sup>30</sup> Differential cost is the total value of foodgrains less amount realised from the beneficiaries.

<sup>31</sup> Bonus is an incentive in addition to the MSP paid to the farmers. During RMS 2011-12, bonus of ₹ 500 per MT was declared by GOI.

However, the claims were lodged with FCI during December 2013 and January 2014 i.e. after a delay<sup>32</sup> of 54 months and nine months respectively. The payment was received from FCI in April 2014 and May 2015. Delayed raising of bills by the district office resulted in delay in receiving claims and consequential loss of interest of ₹ 8.94 crore<sup>33</sup> to the Company.

The matter was referred to the Company and the Government (November 2015), their replies were awaited (September 2016).

### **Punjab Water Resources Management & Development Corporation Limited**

#### **3.9 Avoidable interest payments**

**Delay in settlement of retirement dues of superannuated employees resulted in the Company having to bear additional expenditure of ₹ 1.07 crore on interest payments.**

According to the 'Employees Service Bye Laws – 1977' (as amended<sup>34</sup>) of the Punjab Water Resources Management & Development Corporation Limited (Company), payment of gratuity is governed by the Payment of Gratuity Act, 1972 (Act). Sections 7 (3) and 3 (A) of the Act provides that the employer shall arrange to pay the amount of gratuity within thirty days from the date it becomes payable and if the amount of gratuity is not paid within the specified period, the employer shall be liable to pay interest to the employee for the period of delay.

Audit observed (April 2016) that the Company was not regular in payment of retirement dues (gratuity and leave encashment) to its retired employees though amounts ranging between ₹ 65.54 lakh to ₹ 15.76 crore were available in the Current Accounts of the Company during April 2012 to March 2015 while the liability towards retirement dues ranged between ₹ 6.52 lakh to ₹ 1.38 crore during this period.

Subsequently, retired employees approached the Punjab and Haryana High Court who directed (April 2015) the Company to pay interest at the rate of seven *per cent* per annum on leave encashment and 12 *per cent* per annum on gratuity. This amounted to ₹ 1.07 crore (on test check basis at head office and selected<sup>35</sup> division offices) for late payment of retirement dues ranging between 151 to 806 days during the period April 2012 to March 2015.

<sup>32</sup> Stocks under TDPS were delivered from April 2009 to June 2009 and under central pool from April 2012 to March 2013. The period of delay has been calculated taking the respective last month of delivery i.e. June 2009 in the first case and March 2013 in the second case.

<sup>33</sup> Calculated at the rate of 10.30 *per cent* per annum on ₹ 18.59 crore for 54 months and on ₹ 4.18 crore for nine months on minimum rate of interest on cash credit during the year 2009-10 to 2013-14.

<sup>34</sup> September 2010.

<sup>35</sup> OPM Mohali, Hoshiarpur L/F, Ludhiana (tubewell), Malout, Abohar, OPM Hoshiarpur, Ferozepur, Rampura Phul, Malerkotla, Pathankot, Bathinda 8.

Management attributed (August 2016) the delay in making payments of gratuity/leave encashment to delayed receipt of funds from the State Government. The reply is not tenable as payment of retirement benefits to superannuating staff was a statutory obligation that should have been made from available resources on first priority.

The matter was referred to the Government (June 2016), their reply was awaited (September 2016).

### **Punjab State Warehousing Corporation**

#### **3.10 Allotment of paddy to millers**

**Allotment of paddy to a miller against the provisions of the Custom Milling Policy and failure to shift the un-milled paddy to other millers resulted in loss of ₹ 5.94 crore.**

The Punjab State Warehousing Corporation (Corporation), a State Procuring Agency (SPA), procures paddy from mandis on behalf of the Government of India and gets it milled for delivery of rice to Food Corporation of India (FCI). These activities are governed by Custom Milling Policy (CMP) of GOI which for Kharif Market Season (KMS) 2012-13 provided *inter-alia* that:

- Paddy was to be allotted as per the milling capacity of the miller who shall mill the same as per the prescribed delivery schedule (100 *per cent* by March 2013);
- The miller who had delivered 70 *per cent* and above the Custom Milled Rice (CMR) of KMS 2011-12 was eligible for allotment of 70 *per cent* to 90 *per cent* of paddy;
- If the miller failed to adhere to this schedule, it was liable to make good the entire loss at the value of intended 67 *per cent* Custom Milled Rice (CMR) and prescribed interest from the date it became due till the date of actual realisation. In such case, the SPA was at liberty to launch proceedings for recovery of dues and at liberty to get the work executed at the risk and cost of defaulting miller.

The Tarn Taran district office of the Corporation entered (November 2012) into an agreement with a miller for milling of 4,495 MTs paddy (equivalent rice: 3,012 MTs) of KMS 2012-13. Audit observed (March 2016) that based on its milling performance during KMS 2011-12, the miller was eligible for allotment of 2,800 MTs of paddy (equivalent rice: 1,876 MTs) in KMS 2012-13 being 70 *per cent* of its milling capacity of 4,000 MTs. However, the miller was allotted 4,495 MTs paddy i.e. 1,695 MTs paddy in excess of eligibility and 495 MTs in excess of even its milling capacity. The miller could not adhere to the schedule and delivered only 1,319 MTs rice against the due 3,012 MTs rice.

Audit further observed that despite the miller not adhering to the scheduled period of milling, the Corporation did not initiate action to shift the un-milled paddy to other millers at the risk and cost of the defaulter miller when there were three millers available in Tarn Taran district who had milled almost 100 per cent of the allotted paddy by June 2013 for KMS 2012-13. Physical verification done at the premises of miller during May 2013 and onwards had indicated shortage in stocks of 1,693 MTs rice (3,012 MTs - 1,319 MTs) valuing ₹ 4.38 crore.

Thus, allotment of paddy to a miller against the provisions of CMP and failure to shift the un-milled paddy to other millers resulted in the Corporation incurring loss of ₹ 5.94 crore including interest of ₹ 1.56 crore.

The Management stated (August 2016) that the district office could store 20,186 MT paddy with six millers allotted to the Corporation against their allotted capacity of 21,800 MT as three millers accepted less quantity of paddy against their capacity. 42,296 MT unlifted paddy was shifted to the millers of other districts and in these circumstances 1,685 MT Paddy was also stored with this miller.

The reply is not acceptable as the miller was a defaulter in respect of KMS 2011-12 and was thus not entitled to the excess quantity of paddy of KMS 2012-13. Moreover, the District office failed to get the paddy of KMS 2012-13 milled from this miller and the Corporation could not recover the amount of ₹ 5.94 crore from him.

The matter was referred to the Government (June 2016), their reply was awaited (September 2016).

## **Punjab State Power Corporation Limited**

### **3.11 Purchase of power**

**Low plant load factor in the Company's own thermal stations led to purchase of power from traders/unscheduled interchange resulting in higher financial burden of ₹374.96 crore. Company also failed to avail of rebate amounting to ₹22.33 lakh for timely payment of power purchased. The Company made excess payment of ₹ 2,249.61 crore of which burden of ₹ 1,427.84 crore was passed to consumers.**

#### **3.11.1 Introduction**

The Punjab State Power Corporation Limited (Company) is vested with the activities of generation and distribution of electricity in the State. The Company meets its power requirements from both its own generating stations including the share from the Bhakra Beas Management Board as well as purchase from central generating stations, independent power producers, short term purchase/spot trade, and New and Renewable Sources of Energy (NRSE) projects.

The present audit was conducted to analyse the activity of purchase of power during the period from 2013-16. The position of power requirement, availability and purchases is given in table 3.5 below:

**Table 3.5 : Detail of power availability and purchases from various sources**

Energy in Million Units (MUs)				
Sl. No.	Particulars	2013-14	2014-15	2015-16 (upto January 2016)
1.	Requirement	46,962	46,516	51,057
2	Requirement met with from own resources	24,622	16,912	23,162
3.	Purchase			
I	Central Sector	16,954	18,860	17,200
	Percentage to total purchase	75.89	63.71	61.66
II	Private Sector			
A	IPPs (Long Term/Medium Term)	475	6,784	8,290
B	Short Term/Spot Trade	3,461	3,405	1,814
C	NRSE	661	738	795
	Total (Private Sector)	4,597	10,927	10,899
	Percentage to total purchase	20.58	36.91	39.07
III	Others (Banking, UI, UI Open Access)	789	(-) 183	(-) 204
	Percentage to total purchase	3.53	-0.62	-0.73
4	Total Purchase (I+II+III)	22,340	29,604	27,895
	Percentage of purchase of power to the total requirement (4)/(1)*100	47.57	63.64	54.64
	Percentage of purchase of power to requirement met with from own sources (4)/(2)*100	90.73	175.05	120.43
5	Number of PPAs			
A	Long Term (more than seven years)	29	29	29
B	Medium Term (more than one year to seven years)	-	-	-
C	Short Term ( up to one year)	10	7	7

Source: Information provided by inter-state billing cell of Company and Tariff orders.

As can be seen, the increase in requirement of power over the period 2013-16 was met almost exclusively by purchase of power from private independent power producers (IPPs) while the Company's own generation had decreased.

## Audit Findings

### 3.11.2 Shut down of own generation stations and purchase of power from traders/unscheduled interchange

The plant load factor<sup>36</sup> of the thermal generating stations of Company came down drastically, as shown in the Table 3.6, due to shutting down of plants. The percentage of reserve outages<sup>37</sup> to total Plant Availability Factor (PAF) ranged from 13.38 to 70.34 *per cent* during the period 2013-14 to 2015-16 in all the three thermal stations:

<sup>36</sup> Plant Load Factor refers to the ratio between the actual generation and the maximum possible generation at installed capacity.

<sup>37</sup> Reserve outages is a technical term used for a unit shut down due to lack of demand.

**Table 3.6 : Detail of Plant Load Factor (PLF) and Plant Availability Factor (PAF) of thermal stations**

Name of thermal station	2013-14		2014-15		2015-16		Increase(+)/decrease(-)	
	PLF <i>per cent</i>	PAF <i>per cent</i>	PLF <i>per cent</i>	PAF <i>per cent</i>	PLF <i>per cent</i>	PAF <i>per cent</i>	PLF <i>per cent</i>	PAF <i>per cent</i>
GNDTP Bathinda	54.91	84.64	37.40	89.18	22.73	93.75	(-) 58.60	(+) 10.76
GGSSSTP Ropar	72.53	89.84	52.11	92.50	35.77	94.68	(-) 50.68	(+) 5.39
GHTP Lehra Mohabbat	82.70	97.30	55.93	92.30	38.79	91.68	(-) 53.10	(-) 5.78

Source: Management Information Report prepared by Company.

Audit observed that not only did the PLF of the three major thermal stations (total generation capacity: 2640 MW) come down during the three year period under review but it also showed a drastic reduction from the average PLF of the these three plants in the immediately preceding five year period 2008-13 (GNDTP Bathinda: 67.72; GGSSTP Ropar: 87.14; GHTP Lehra Mohabbat: 91.77). Had these plants continued to operate at least at these PLFs, they would have, on an average, generated an extra 7,529.57 MUs annually during 2013-16.

The Punjab State Electricity Regulatory Commission (PSERC) had also determined an amount of ₹ 182.02 crore and ₹ 78.46 crore as disincentive on account of lower thermal generation during the true up of 2010-11 and 2011-12 respectively<sup>38</sup> and the Company had to bear an extra burden of ₹ 260.48 crore.

**3.11.2.1** As per PSERC's (Power Purchase and Procurement Process of Licensee) Regulations 2012, the Company is required to prepare a short term power procurement plan for approval of PSERC. After such approval, it is free to procure power through open bidding or through Power Exchange or bilateral banking arrangement.

Audit noticed that during the months of April to February of 2013-14 and April to September of 2014-15, the Company purchased between 62 lakh and 8,135 lakh units monthly at average monthly rates ranging between ₹ 2.86 per unit to ₹ 3.95 per unit and monthly units ranging between 702 lakh and 9,886 lakh at average monthly rates ranging between ₹ 3.30 per unit to ₹ 4.01 per unit respectively, by bidding through power exchange from traders. During the same period, the Company's thermal plants were having sufficient generation capacity to fully/ partially, meet its requirements at variable cost ranging between ₹ 2.52 per unit to ₹ 2.67 per unit and ₹ 2.74 per unit to ₹ 3.15 per unit respectively.

The reason for under utilisation of thermal plants was stated to be, 'no demand/units stopped as per instructions of Power Controller, Patiala'. Thus, shutting down of own thermal plants and purchase of power at higher rates caused an avoidable extra expenditure of ₹ 183.25 crore on short term purchase of power.

<sup>38</sup> No disincentive was determined by PSERC after true up of 2011-12.

**3.11.2.2** Unscheduled Interchange (UI) is the mechanism developed to improve grid efficiency, grid discipline, accountability and responsibility by imposing charges on those who deviate from their scheduled generation or drawal. These charges are payable depending upon the extent of deviation from the schedule and also subject to the grid condition at that point of time.

Audit observed that the Company had violated the UI mechanism and had overdrawn/under-drawn 17,543.52 lakh units (LUs) (10,637.64 LUs overdrawn + 6905.88 LUs under-drawn) of unscheduled energy during 2013-16 for which the Company will have to pay ₹ 548.20 crore as UI charges as detailed in table 3.7 below. The Company did not make available figures of payments made on this account.

**Table 3.7: Detail of UI Charges**

Sl. No.	Year	Scheduled Energy (LUs)	Actual Drawal (LUs)	Over-Drawal (LUs)	Under-Drawal (LUs)	UI Charges Payable (₹ in crore)
1	2013-14	263712.73	263162.24	2458.62	3009.12	40.77
2	2014-15	255458.36	257891.11	4982.86	2550.10	281.09
3	2015-16	267778.42	269646.22	3196.15	1346.66	226.34
	<b>Total</b>	<b>786949.51</b>	<b>790699.57</b>	<b>10637.63</b>	<b>6905.88</b>	<b>548.20</b>

Source: Information provided by Inter-State Billing Cell of Company

To meet the peak season demand, the Company also purchases power through short term agreements (bilateral agreement and through Power Exchange). These agreements ranged from one day to one year. The Company made UI over-drawals in 21 months during 2013-14 to 2015-16 out of which during 16 months UI over-drawals were costlier than variable cost of own generation and/or short term power purchase.

Audit observed that out of the above 16 months, in 12 months the Company had sufficient capacity of own generation to meet up its energy requirement at per unit variable cost ranging between ₹ 2.62 and ₹ 4.24, whereas the rate of UI over-drawal ranged between ₹ 3.30 and ₹ 26.62. In remaining four months, the energy requirement could have been met through short term power purchase available at per unit rate ranging between ₹ 3.45 and ₹ 4.01 against the rate of UI over-drawal ranging between ₹ 5.51 and ₹ 36.03. Thus, the Company resorted to meeting its energy requirement through costlier UI over-drawal instead of own generation and/or short term power purchase available at cheaper rate which resulted in extra expenditure of ₹ 191.71 crore.

PSERC also, while truing up of tariff for the year 2010-11, 2011-12, 2012-13 and 2013-14<sup>39</sup> stated that the additional power purchased through traders/UI at high cost was not commercially viable and disallowed ₹ 439.04 crore, ₹ 23.56 crore, ₹ 22.51 crore and ₹ 3.82 crore respectively. The Commission also disallowed ₹ 24.09 crore and ₹ 20.27 crore for 2010-11 and 2012-13 respectively on account of interest payable on delayed payments to UI account.

<sup>39</sup> True up for the year subsequent to 2013-14 (approved by PSERC on 27.07.2016) has not yet been finalised by PSERC.

### **3.11.3. Purchase of power at higher tariff than the capped tariff, non-recovery of Liquidated Damages and excess payments to EPPL.**

A Power Sale Agreement (PSA) was signed (March 2006) between PTC India Limited (PTC) and the Company for purchase of 100 Mega Watt (MW) power from Malana-II Hydro Electric Power (HEP) Project being set up by M/s Everest Power Private Limited (M/s EPPL), Shimla for a period of 40 years from Commercial Operation Date (COD). The PSA was based on the PPA entered into (July 2005) between PTC and M/s EPPL.

**3.11.3.1** As per the PSA, tariff was to be based on financial parameters and the capped rates as specified in the PPA which was to be determined by the PSERC.

PSERC approved (January 2007) the PSA subject to carrying out certain amendments relating to determination of tariff. The PSERC stated that although payments to PTC may vary on account of tariff credits, such payment would never in any given year exceed the capped tariff as per the agreement. However, Company neither incorporated the amendments as per directions of the PSERC in the PSA nor got the PSA approved from the PSERC.

PSERC, on a petition<sup>40</sup> filed by PTC for determination of tariff on completed cost of project, stated (August 2012) that the failure of Company to incorporate amendments as directed in its Order (January 2007) made the PSA non-implementable and further ordered (November 2013) that the capped tariff would not have any application. The Company challenged the orders of PSERC in Appellate Tribunal and the Supreme Court of India which were dismissed. Thus, due to non-incorporation of the amendments, the Company incurred excess expenditure of ₹ 181.28 crore (from July 2012 to March 2015) on purchase of power.

**3.11.3.2** As per clause 1 of Schedule-G of Power Purchase Agreement, in case the commissioning of the project was delayed due to reasons attributable to M/s EPPL beyond the required Commercial Operation Date (COD) then it would pay liquidated damages (LD) to PTC on monthly basis. If the commissioning delay was beyond six months from required COD then the liquidated damages would be calculated at the additional cost per Kwh incurred by PTC or Company for obtaining an equal amount of power from an alternate source for such period of delay. Audit observed that M/s EPPL failed to achieve the required commercial operation date (COD) (i.e. 5 September 2009) and after a delay of two years and 10 months, achieved COD on 12 July 2012. However, neither PTC nor Company raised demand notice for liquidated damages as per the PPA. PSERC also held (November 2013) that M/s EPPL was responsible for the delay in commissioning of project from October 2011 to July 2012. Despite this, the Company did not raise claims for liquidated damages of ₹ 77.52 crore till date.

<sup>40</sup> Petition no. 34 of 2011 for determination of tariff based on final completion cost of the project.

**3.11.3.3** M/s EPPL filed a petition (2014) before PSERC for approval of annual fixed cost (AFC) for the period from 2014-15 and truing up of AFC for 2012-14. As per CERC regulations, AFC forms the basis for determination of capacity charges which is a component of tariff. During hearing, M/s EPPL filed (May 2015) a request for determining provisional AFC for 2015-16 at the same level as sought for Financial Year 2014-15 under the above petition. PSERC decided (May 2015) that AFC of ₹ 167.11 crore as determined (December 2014) for 2013-14 would be provisionally applicable for 2014-16 subject to final determination of AFC. PSERC, however, in its final orders (August 2015), determined provisional AFC of ₹129.77 crore for the year 2014-15.

Audit noticed that the Company continued to make payment to M/s EPPL for the year 2015-16 at AFC of ₹ 167.11 crore in spite of the fact that PSERC had fixed the provisional AFC of ₹129.77 crore for 2014-15. Thus, by non-restricting AFC for 2015-16 to ₹ 129.77 crore, the Company made excess payments of ₹ 23.25 crore (from August 2015 to May 2016).

#### **3.11.4. Unjustified /Excess payments**

The Company along with other distribution companies entered into (April 2007) a PPA with M/s Coastal Gujarat Power Limited (CGPL), which had set up an Ultra Mega Power Plant (UMPP) at Mundra. The Company's share in the plant was 12.5 *per cent*.

As per the PPA, a unit was to be commissioned after all the procurers received a final test certificate of an independent engineer. The Unit was to operate at or above 95 *per cent* of the contracted capacity for 72 consecutive hours. It was further provided in the PPA that if any procurer availed any electrical output prior to the COD (Infirm Power<sup>41</sup>) of the unit, then such procurer was liable to pay only energy charges.

**3.11.4.1** Audit observed that the test reports of COD of all five units of UMPP revealed that except unit no. 10, the contracted capacity of the other four units (no. 20, 30, 40 and 50) fell below 95 *per cent* for eight to 46 hours during 72 hours of operation. The independent engineer, however, certified the units and accordingly CODs of the units were declared as unit 20: 30 July 2012; unit 30: 27 October 2012; unit 40: 21 January 2013 and units 50: 22 March 2013.

Audit further observed that energy was billed as per normal tariff (i.e. including energy charges and capacity charges) in view of declaration of COD and Company made the payment accordingly even though the testing of the units was not as per the PPA. Consequently, the payment of capacity charges of ₹ 766.78 crore (up to January 2016) was not in consonance with the provisions of the PPA. The Company failed to notice the discrepancy in the certificate and did not take up the matter with the developer of Mundra UMPP to safeguard its financial interest.

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<sup>41</sup> Power supplied by a Captive Power Plant (CPP) to a Licensee which is not committed and is not covered under any contract and will also include power from a standby plant.

**3.11.4.2** Audit noticed that the infirm power generated by M/s CGPL was injected in the grid instead of passing on to procurers as per the PPA. As a result, the procurers could not avail the same. M/s CGPL had received UI charges of ₹ 30.61 crore for this infirm power which should have been passed on to the procurers. However, the Company had neither raised a demand for its share of ₹ 3.83 crore<sup>42</sup> nor adjusted this amount in the payments made to M/s CGPL.

### **3.11.5. Non-availing of rebate**

The Company signed (July 2012) a short term PPA with a developer for getting 6.0 MW power from the developer's power plant. It was observed that a 'rebate clause' was not incorporated in the PPA, as done in other PPAs, which provides that if Company makes payment of energy bills within seven or 30 working days from the date of receipt of monthly invoice, it shall be entitled to a rebate of two or one *per cent* respectively.

Audit observed that during December 2012 to March 2014, the developer supplied 245.03 LUs valuing ₹11.16 crore for which payment was made/adjusted within seven days. However, due to absence of a rebate clause, the Company could not avail the rebate of two *per cent* amounting to ₹ 22.33 lakh.

### **3.11.6. Loss due to non-completion/non-functional micro hydel projects**

As per PSERC (Renewable Purchase Obligation and its Compliance) Regulations, 2011, the Company was required to purchase electricity from renewable energy sources under the Renewable Purchase Obligation (RPO). The RPO could also be fulfilled by purchase of Renewable Energy Certificate (RECs).

Scrutiny of records revealed that Company could not achieve the RPO targets fixed by the PSERC for 2013-15. The shortfall in RPO targets ranged from 335.51 MUs to 642.42 MUs during the period 2013-14 and 2014-15 respectively. In order to make up for the shortfall through purchase of RECs, Company proposed an amount of ₹ 239.00 crore (₹141.00 crore: 2013-14 + ₹ 98.00 crore: 2014-15) in the Annual Revenue Requirement (ARR). PSERC, however, observed that there was considerable delay in the completion of 18 MW MHP stage-II project and also that four Micro Hydel Plants of Company at Daudhar, Nidampur, Rohti and Thuhi (total capacity 3.90 MW) were lying non functional<sup>43</sup>. As these projects would have contributed renewable energy to tune of 180 MUs (90 MUs per year), the PSERC disallowed ₹ 28.00 crore (₹ 14.00 crore per year) for the years 2013-15.

<sup>42</sup> ₹ 30.61 crore (UI Charges received by CGPL) x 12.5 *per cent* (Company's share) = ₹ 3.83 crore.

<sup>43</sup> Reasons for delay in completion/non-functional micro hydel plants of Company were commented in para no. 2.2.8 of Audit Report (ES-PSU) for the year ended 31 March 2014.

### 3.11.7. Conclusion

The Company had to purchase power from traders/unscheduled interchange due to low plant load factor at its own thermal power stations. The Company also did not avail of the rebate available for making timely payment of power purchased. Delay in completion of its own hydel projects also resulted into disallowance by the PSERC. Due to these operational inefficiencies and lack of adherence to tariff regulations, the Company incurred excess payment of ₹ 2,249.61 crore out of which ₹ 821.77 crore was borne by it and the balance ₹ 1,427.84 crore passed on to the consumers.

The matter was referred to the Company and the Government (March 2016), their replies were awaited (September 2016).

### 3.12 Non-collection of due security for electricity connection

**Failure to take definitive action or disconnect electric supply of a defaulting consumer as provided for under the PSERC's (Electricity Supply Code and Related Matters) Regulations for non-deposit of security of ₹ 14.48 crore along with penal interest of ₹ 9.74 crore undermined its ability to ensure submission of deposits by consumers as well as led to accumulation of outstanding dues of ₹ 53.36 crore.**

As per regulation 15.1 of the Punjab State Electricity Regulatory Commission (Electricity Supply Code and Related Matters) Regulations 2007<sup>44</sup>, consumers are required to maintain as security an amount equivalent to consumption charges for one and a half month with the Punjab State Power Corporation Limited (Company). The consumption charges are to be based on the average monthly consumption of a consumer in the preceding twelve months. Regulation 16.1 provides that the Company is to review the adequacy of this security after every three years. Further, regulation 16.2 (e) provides for charging penal interest in case of delay in payment of security and right to disconnect the electricity supply of the consumer.

On the basis of these regulations, a demand notice for security (consumption) of ₹ 10.64 crore was raised (April 2011) by the Company on a firm<sup>45</sup>. However, no amount was deposited by the firm. In May 2011, the Department of Industries and Commerce (PSIC), Government of Punjab (GoP), requested the Company for dispensing with the condition of security. The request was not accepted by the Company and reminders were issued (March 2012 and September 2013) to the firm. PSIC, GoP again wrote (September 2013) to the Company for exempting/ deferring the payment of the security as the firm was facing financial problems. On this request, the Company issued a revised notice (October 2013) for depositing ₹ 9.21 crore<sup>46</sup> as security in 10 equal monthly installments though there was no provision in the regulations for payment of security amount in installments.

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<sup>44</sup> effective from 1 January 2008

<sup>45</sup> A public limited company with equity participation by PSIDC of 44.26 per cent.

<sup>46</sup> On the basis of revised average monthly consumption of the firm.

The firm did not deposit the amount and again requested (March 2014) for deferring the requirement of security deposit for one year which was not considered (July 2014) by the Company. Meanwhile, the PSERC notified (November 2014) the revised Electricity Supply Code and Related Matters Regulations, 2014<sup>47</sup>. As per regulation 16.4 of these regulations, the adequacy of the amount of security (consumption) for the firm being extra high tension consumer i.e. with a supply voltage exceeding 33 Kilo Volts was to be reviewed annually. Accordingly, demand notices for the revised security (consumption) of ₹ 11.94 crore (January 2015) and ₹ 14.48 crore (July 2015) were issued by the Company. However, no security amount had been deposited by the firm till date and the penal interest because of this delay had accumulated up to ₹ 9.74 crore till December 2015.

In spite of non-payment of the due security amount by the firm for four years (April 2011 to July 2015), the Company did not proceed to disconnect the electric supply of the firm as per its regulations. As a result, the security which acts as a cushion in the event of non-payment of electricity dues could not be arranged. The firm stopped paying its electricity dues from September 2015 to November 2015 and paid its monthly bill for December 2015. Thereafter, from January 2016 to August 2016 it made only part payments causing the recoverable electricity dues to swell to ₹ 53.36 crore, which could have been partially adjusted against the security amount to the extent of security deposit. PSERC had also held (Tariff order 2014-15) that no consumer including government undertakings could be exempted from the payment of security.

Thus, the non-enforcement of statutory regulations, resulted in the firm running up arrears of electricity dues of ₹ 53.36 crore.

The matter was referred to the Company and the Government (January 2016), their replies were awaited (September 2016).

### 3.13 Avoidable payment of additional levy

**The Company paid ₹ 391.46 crore as additional levy though it was to be paid by a Joint Venture Company which was a separate legal entity.**

To help identify, develop and operate a captive coal mine, the Company entered (March 2001) into a Joint Venture Agreement (JVA) with a partnership firm (firm) to form (April 2001) a joint venture company (JVC) with a 26 *per cent* share in the equity capital. The Company was allocated (December 2001) a coal block for mining at Pachwara (Central) Block in district Pakur of Jharkhand by the Union Ministry of Coal (MoC), Government of India (GoI). A Coal Purchase Agreement was entered (August 2006) into between the JVC and the Company for a period of 30 years wherein the entire quantity of coal produced was to be sold, transported and delivered exclusively to the Company.

<sup>47</sup> effective from 1 January 2015.

Adjudicating on a writ petition<sup>48</sup> challenging the allocation of coal blocks during the period 1993 to 2010, the Hon'ble Supreme Court of India held (August – September 2014) the allotment of coal blocks already made as arbitrary and illegal and quashed all the allotments including coal block allotted to the Company. The Court also directed to make compensatory payment of ₹ 295 per metric ton (MT) on the coal extracted since commencement upto 24 September 2014 as additional levy on or before 31 December 2014. The coal extracted thereafter till 31 March 2015 was also to attract this additional levy of ₹ 295 per MT. The burden of paying this additional levy was placed on the 'prior allottee'.

Consequent upon the judgement, the MoC notified (26 December 2014) the Coal Mines (Special Provisions) Second Ordinance, 2014 (Second Ordinance) for fresh allotment of coal mines which provided [section 3(1)(n)] that in case a mining lease was extended in the favour of a third party subsequent to allocation of coal mines, then such third party would be deemed to be the 'prior allottee'.

In the present case, as the mining lease was in the name of JVC, it was the 'prior allottee' who was responsible for payment of additional levy. The MoC raised (30 December 2014) a demand on the JVC for payment of additional levy a copy of which was sent to the Company. Taking notice of this, the Company asked the JVC to deposit the additional levy to MoC. As JVC did not deposit the additional levy with MoC, the Company itself deposited (31 December 2014) ₹ 391.46 crore<sup>49</sup> for the coal extracted up to 24 September 2014, after raising a loan<sup>50</sup> for this purpose.

Thereafter, the Company requested (May 2015) MoC to refund ₹ 391.46 crore deposited by it on the grounds that JVC was to pay the amount of additional levy. In response, the MoC stated (September 2015) that although JVC was the prior allottee and responsible for paying the additional levy, no payment had been made by it. The request of the Company seeking refund could be accepted only after JVC paid the full amount of additional levy.

Audit observed (June 2015) that:

- In the Second Ordinance, the definition of 'prior allottee' was amended only to put the burden of additional levy on third party in whose favour mining lease has been executed i.e. JVC, with the intention of saving the Public Sector Undertakings who had entered into a joint venture with third parties from payment of additional levy. Further, section 14 (3) provided that every liability of the 'prior allottee' in respect of any prior period was enforceable against the 'prior allottee' only.

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<sup>48</sup> Writ Petition (Crl.) Nos. 120 of 2012 (Manohar Lal Sharma Vs. Principal Secretary and others) and its judgment dated 25 August 2014 and 24 September 2014.

<sup>49</sup> As 26 percent of ₹ 1505.63 crore (on coal extracted upto 24 September 2014: 5,10,38,282.42 MT X ₹ 295 per MT) equivalent to its share in the share capital in the JVC.

<sup>50</sup> by way of loan of ₹ 195 crore each from the Rural Electrification Corporation and Power Finance Corporation at the interest rate of 12.50 percent per annum. The balance ₹ 1.46 crore was arranged by the Company's from its own funds.

- As per the Company's JVA with the firm, the Company was not to make any financial contribution in JVC at any time. The Company's share holding (26 per cent) in JVC was also based on its rights in the coal mine and without any cash consideration in lieu thereof. The JVA further provided that the firm and its partners were to ensure that JVC was to raise the capital and other finances required for its business and the Company was not required to undertake or to be a party to any guarantee obligation or otherwise give any security or assurance for raising of finance and capital. The firm and partners were to indemnify and hold harmless the Company against any claim, suit or proceedings etc. arising from any default on the part of the firm and partners.

Hence, the liability of payment of additional levy was exclusively on JVC and the demand had been correctly raised (30 December 2014) on it by MoC. Despite being aware of this, the Company on its own paid ₹ 391.46 crore the very next day which it was not required to do resulting in blocking of its funds.

The Company stated (March 2016) that additional levy equivalent was paid by it to be eligible for bidding in the re-allotment of coal mine. The reply is not acceptable as Section 5 of the Second Ordinance provided that allotment of coal mine to Government companies was to be made by making an allotment order (i.e. nomination basis) and not by competitive bidding. This position has been borne out by the fact that some other public sector entities viz. West Bengal Power Development Corporation Limited and Damodar Valley Corporation, which had not paid additional levy, were again allotted coal mines under the *ibid* Ordinance.

The matter was referred to the Government (January 2016), their replies were awaited (September 2016).

### 3.14 Unfruitful expenditure on engagement of consultants

**The Company could not identify deficiencies in Detailed Project Reports and released payments without adequate scrutiny which rendered a payment of ₹1.24 crore to the consultants unfruitful and also led to overall delay in the execution of works.**

Ministry of Power (MoP), Government of India, launched (December 2008) the Re-structured Accelerated Power Development and Reforms Programme (R-APDRP) for strengthening of sub-transmission & distribution system in urban India. The scheme was divided into two parts - Part A<sup>51</sup> and Part B. Power Finance Corporation, New Delhi (PFC) was appointed as nodal agency for the scheme.

<sup>51</sup> Part-A was designed to introduce and implement IT applicability into distribution sector and Part- B was designed to bring down aggregate technical and commercial losses upto 15 per cent level.

Under Part- B of the scheme, Detailed Project Reports (DPRs) of 47 towns involving expenditure of ₹ 1,550 crore were prepared by the Punjab State Power Corporation Limited (Company) and submitted (March 2010) to PFC. The Steering Committee of MoP sanctioned (March 2010) DPRs of 15 towns amounting to ₹ 511.83 crore. Upon revision (June 2010) in the model DPR for Part-B, the Company decided to get the DPRs (including the 15 DPRs already sanctioned) revised by engaging consultants. Accordingly, after floating (June 2010) a tender enquiry, the Company placed (October 2010) work orders on two consultants for 29 and 18 towns respectively. The consultancy fee was to be paid as a percentage of final cost of DPRs sanctioned by MoP in four phases i.e. 35 per cent of the consultancy fee based on the cost of draft DPR submitted to the Company, 20 per cent on submission of DPR to PFC, next 20 per cent on sanction of DPR by Steering Committee of MoP and balance 25 per cent on completion of the work.

As per the terms of work order, the payments to the consultants were to be made on the basis of bills verified and approved by Senior Executive Engineer (Sr. Xen) and on the approval of related work (in the form of a certificate) from the Chief Engineer. The work of preparation/finalisation of DPRs was to be completed in four months i.e. by 04 February 2011. The consultants submitted the draft DPRs to the Company during the period 29 November 2010 to 04 December 2010 against which payments of ₹ 1.64 crore were released to the consultants from December 2010 to November 2011 after getting the requisite certificate from its Sr. Xen.

During July/August 2012, the Deputy Chief Engineer of the Company reported that the DPRs prepared by the consultants were not in line with the prescribed scope of work and had many deficiencies<sup>52</sup> due to which physical execution of the works was not possible and resultantly, the works of R-APDRP Part-B had been delayed. The consultants were requested (November 2012) to prepare revised DPRs in line with the scope of work, who replied (December 2012) that DPRs were prepared after incorporating the suggestions of the Company. As the consultants failed to revise the DPRs despite regular follow up, the Company revised the DPRs through its own officers. The Company cancelled (September 2013) the work orders, blacklisted the two firms, recovered a penalty of ₹ 25.04 lakh<sup>53</sup> from their security deposits and forfeited (February 2015) their security of ₹ 14.96 lakh<sup>54</sup> and decided (August 2013) to conduct an enquiry into the lapses to pinpoint the responsibility of its officers. The findings of the enquiry were awaited (June 2016).

Audit observed (August 2015) that the Company could not identify the deficiencies at the time the DPRs were initially submitted by the consultants. The payments were made without exercising checks such as certification of the satisfactory completion by CE which indicated lack of due diligence by the

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<sup>52</sup> The deficiencies were on account of non-preparation of details/drawings/sketches of new 66/33/11 KV substations, 66/33/11 KV/LT lines, non-providing of Bill of Material (BOQ) requirements as per site conditions and BOQ to be dismantled etc.

<sup>53</sup> Penalty deducted - ₹ 15,22,300 and ₹ 9,81,520.

<sup>54</sup> Security forfeited - ₹ 4,77,700 and ₹ 10,18,480.

Company while examining the DPRs and releasing the payments to consultants. These deficiencies were first noticed by the Company more than 20 months after the submission of draft DPRs. Further, the decision to cancel the work orders and forfeit the security was also taken after more than 30 months of the specified date of completion of work and 14 months after the deficiencies first came to the notice of the Company. As a result, the very purpose of engaging the consultants was defeated, which not only rendered the payment of ₹ 1.24 crore<sup>55</sup> to the consultants unfruitful but also led to overall delay in the execution of works.

Management stated (August 2016) that payment to the consultants was made in proportion to the work completed by them. However, since the performance of the consultants was not good, their contracts were terminated and the firms were blacklisted.

The reply is not convincing as the consultants had not completed all the activities relating to the preparation of DPRs and only 18 out of 25 activities had been carried out by them. Since the consultants had submitted incomplete DPRs, the DPRs were revised/prepared later on by the Company itself as brought out in Company's own memorandum submitted (August 2013) to its Whole Time Directors. Thus, even the payment of first installment of consultancy fee was not justified.

The matter was referred to the Government (February 2016), their replies were awaited (September 2016).

### 3.15 Transfer of land on lease

**Leasing of land for 99 years instead of transferring ownership to Government along with payment of compensation for construction of railway over bridge in Bathinda deprived it of compensation of ₹ 5.16 crore.**

As per Section 3A of National Highways Act (Act), 1956, when any land is required for the buildings, maintenance, management or operation of a national highway or part thereof, the Government of India (GoI) may, by notification in the Official Gazette, declare its intention to acquire such land. Section 3G of the Act says that where any land is acquired there shall be paid an amount which shall be determined by the competent authority who shall take into consideration, *inter alia*, the market value of the land.

The Secretary, Public Works Department (Bridge & Roads) (PWD, B&R), Punjab requested (August 2013) the Punjab State Power Corporation Limited (Company) for no objection certificate (NOC) for utilising 3,442 square yards land at Bathinda belonging to the Company for constructing a railway over bridge (ROB)/rotary on National Highway 15 for proper regulation of traffic. As the NOC for above said purpose involved permanent use of land, the

<sup>55</sup> After deduction of penalty and forfeiture of security.

Company decided (February 2014) to transfer the land at collector rate of Bathinda. In response, the Secretary, PWD requested (March 2014) the Company to transfer the said land free of cost or on nominal lease rent on the ground that in the approved estimate for construction of ROB, there was no provision for funds for acquiring land and therefore, the State Government was unable to make any payment to the Company.

Audit observed (March 2016) that the Ministry of Road Transport and Highways, GoI, sanctioned (January 2015) ₹ 1,769.24 crore for disbursement of compensation for land acquisition of 690.23 hectares of land for National Highway 15 in Punjab and same was deposited (March 2016) with the respective sub-divisional magistrates (SDMs). Out of this amount, the share of SDM, Bathinda was ₹ 364.57 crore. The terms of sanction provided that no compensation was payable for the Government land due to lack of clarity of its title and it was to be transferred free of cost. While submitting (October 2013) the estimate cost of ₹ 59.40 crore for construction of ROB, land acquisition cost was not incorporated by PWD, Punjab. As a result, the GoI while approving (February 2014) ₹ 57.85 crore there against, did not consider element of land acquisition citing that the proposal involved no land acquisition.

Subsequently, it was decided in a meeting (July 2015) that the Company would hand over the land immediately, either at a nominal lease of ₹ one per year or free of cost. In the instant case, the land was not Government land and its title rested with the Company. Moreover, the Company in the past also had transferred land to the Government for public use at collector rate only. However, the Company, instead of apprising the State Government of the whole position, agreed (August 2015) to lease the land for ninety nine years at ₹ one per year.

Being a commercial organisation and facing financial crunch, the Company should have apprised the State Government that the said land was not Government land and it should approach the Government of India for acquisition with payment of compensation as was done in case of other land acquired for the highway. Leasing of land for 99 years is tantamount to depriving the Company of its beneficial use for perpetuity for all practical purposes. Thus, leasing of land instead of transfer of ownership on payment of compensation deprived the Company of compensation of ₹ 5.16 crore<sup>56</sup> for the land.

Management stated (August 2016) that the land was taken by PWD for the construction of ROB to facilitate the general public and to solve the traffic problem. The fact remains that the Company being a commercial organisation should have approached the PWD for revising the estimate for ROB by incorporating acquisition along with compensation for the land.

The matter was referred to the Government (June 2016), their replies were awaited (September 2016).

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<sup>56</sup> Collector rate of ₹ 15,000 per square yards X 3,442 square yards.

### 3.16 Follow-up Audit on Performance Audit on working of Punjab State Power Corporation Limited

**Out of 17 recommendations of the Committee on Public Undertakings, two recommendations have been fully implemented; partial progress was made in nine cases and in six cases, the Company made no progress**

#### 3.16.1 Introduction

A Performance Audit (PA) on working of Punjab State Power Corporation Limited (Company) featured in the Report no. 4 (Commercial) of CAG of India - Government of Punjab for the year ended 31 March 2011 and was presented in the State Legislature on 28 March 2012. The highlights of PA were:

- Increase in transformation capacity was not commensurate with the increase in connected load;
- Delay in implementation of Centrally Sponsored Schemes;
- Increase in power deficit in the State;
- Higher transmission and distribution losses in comparison to maximum level fixed by Central Electricity Authority (CEA);
- Increase in outstanding dues of consumers; and
- Lack of established and conclusive methodology for determination of agriculture pump-set consumption.

#### 3.16.2 Objective, scope and methodology of audit

The Committee on Public Undertakings (COPU) discussed this PA in its meetings held during December 2013 to January 2016 and included its recommendations on the audit findings in its 104<sup>th</sup>, 111<sup>th</sup> and 113<sup>th</sup> Report, which were placed in the State Legislature in March 2014, March 2015 and March 2016 respectively. COPU made 17 recommendations, out of which the Company had not made progress in respect of six recommendations; partial progress was made in respect of nine recommendations and two recommendations had been fully implemented.

A follow up audit of the recommendations made by COPU was undertaken to ascertain whether the Company/Government has addressed the concerns raised and remedied the underlying conditions highlighted in the Audit Report and implemented the accepted recommendations relating to the audit observations during the period 2011-16.

#### *Audit findings*

#### 3.16.3 Implementation of audit recommendations

The status of action taken by the Company on the 15 important recommendations of COPU has been arranged in the three categories as follows:

**A. Insignificant/ no progress**

<b>Gist of observations made in earlier audit report</b>	<b>Recommendation made by COPU</b>	<b>Findings in Follow up audit and current status</b>	<b>Replies/ Comments of Department</b>	<b>Audit Comments</b>
<p>1. The Company had decided (June 2006) to convert 9.30 lakh AP<sup>57</sup> connections from low tension (LT) lines low voltage distribution system (LVDS) to 11 KV high voltage distribution system (HVDS) to improve the voltage profile, reduce theft of energy and LT line losses etc. However, after a lapse of about five years, it could convert (March 2011) only 1.82 lakh connections. <b>(Para 2.2.11 of Report 2010-11)</b></p>	<p>COPU (104<sup>th</sup> Report) recommended that PSPCL should ensure the completion of high level projects within specified time and fix the responsibility of concerned Company so as to compensate the losses arising out of the delay in completion of works</p>	<p>Upto March 2016, the Company could execute work of only 2.21 lakh connections against total 9.30 lakh connections in respect of 25 schemes at a cost of ₹ 1,231.52 crore even though Rural Electrification Corporation had sanctioned (September – November 2006) a loan of ₹ 2,176.30 crore for 40 schemes.</p>	<p>The Management replied (April 2016) that conversion of LVDS to HVDS in AP sector was highly capital intensive (₹ one lakh for conversion of one connection), however, all new connections were being released under HVDS only.</p>	<p>As no work order has been issued for the balance work, the envisaged benefits of conversion of LVDS to HVDS could not be achieved.</p>
<p>2. The Company had imposed (April 2008-March 2010) a penalty of ₹ 48.74 lakh on 164 consumers in seven operation divisions of Patiala circle for theft of electricity. However, these penalties could not be recovered from the defaulting consumers, as the Company could not establish theft of power at Consumer Disputes Redressal Forums/Civil Courts on the grounds that the laid down procedures were not properly followed by the field staff of the Company. <b>(Para 2.2.31 of Report 2010-11)</b></p>	<p>COPU (113<sup>th</sup> Report) recommended that it was the duty of the Company to make aware the divisional and sub-divisional authorities regarding standing instructions and monitor compliance thereof. COPU also recommended that responsibility of officials should be fixed.</p>	<p>The Company had not fixed the responsibility of officials. Further, during the period 2011-16, penalty of ₹ 31.58 lakh in 23 similarly placed cases in Patiala circle could not be recovered from the consumers.</p>	<p>As per Management's reply (January 2016) to COPU, the Company is performing its duty under the guidance of its rules and no officer/ official can be held responsible.</p>	<p>As such lapses still persist which indicate persistent non following of procedures.</p>

<sup>57</sup> Agriculture pump set

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
3. The Company needed to install meters on all the connections to attain 100 per cent billing based on meter readings. (Para 2.2.32 of Report 2010-11)	COPU (111 <sup>th</sup> Report) recommended that necessary efforts be made for 100 per cent metering by the Company.	The total energy billed on the basis of meter readings was still only 72.06 per cent <sup>58</sup> during the year 2014-15.	As per Management's reply to COPU, the non-meter billing was in respect of agriculture connections which could not be installed due to heavy capital expenditure of ₹ 1027 crore.	Besides COPU, PSERC in its tariff orders has also been repeatedly recommending for 100 per cent metering. Thus, there was no further action in this regard.
4. Due to absence of meters in respect of a large number of agricultural pump set (AP) consumers, the Punjab State Electricity Regulatory Commission (PSERC) was not convinced of the correctness of AP consumption and therefore, did not approve 2,909 million units (MUs) for the period 2007-10 costing ₹ 723.16 crore. This resulted in non-recovery of the AP subsidy from the State Government and increase in T&D losses to that extent. (Para 2.2.34 of Report 2010-11)	COPU (111 <sup>th</sup> Report) recommended that necessary efforts be made for 100 per cent metering on AP connections.	As on March 2016, out of 12.46 lakh AP consumers, meters <sup>59</sup> for only 1.15 lakh had been installed. PSERC again disallowed 3,246 MUs of AP consumption for the period 2010-14 costing ₹ 1,266.65 crore.	The Company replied (February 2016) that 100 per cent AP metering was not financially viable as it involved huge capital expenditure and the matter was taken up (October 2014) with State Government and PSERC not to insist for 100 per cent AP metering.	Further progress is awaited.
5. The revenue collection efficiency was only 85 per cent. The outstanding balance of the year	COPU (113 <sup>th</sup> Report) recommended that efforts should be made to get land	It was observed that collection efficiency had not improved and was still 85 per cent during 2011-14 and the Company	As per Management reply (March 2016), a land equivalent to net outstanding	Further progress in this regard shall be awaited.

<sup>58</sup> Balance 27.94 per cent was on account of unmetered supply to agriculture power (26.34 per cent); under assessed/ un billed units/ thefts detected (1.60 per cent).

<sup>59</sup> Sample meters which were only for assessing energy losses not for billing.

<b>Gist of observations made in earlier audit report</b>	<b>Recommendation made by COPU</b>	<b>Findings in Follow up audit and current status</b>	<b>Replies/ Comments of Department</b>	<b>Audit Comments</b>
2009-10 included an amount of ₹ 89.61 crore recoverable from MC, Amritsar, which was recoverable for more than 15 years. <b>(Para 2.2.38 of Report 2010-11)</b>	worth ₹ 16.38 crore <sup>60</sup> from Municipal Corporation (MC), Amritsar.	was yet to get the recovery or land from MC, Amritsar (March 2016).	amount of ₹ 16.38 crore will be handed over by MC, Amritsar to the Company	
6. The Company had not taken up the matter with PSERC to seek compensation amounting to ₹ 238.16 crore on account of differential cost of ₹ 2,600 per BHP <sup>61</sup> under the voluntary disclosure scheme wherein the AP consumers paid ₹ 1,000 per BHP for the extended load against the rate of ₹ 3,600 per BHP. <b>(Para 2.2.39 of Report 2010-11)</b>	COPU (111 <sup>th</sup> Report) recommended that the Company should approach PSERC to get the differential amount to safeguard its financial interest.	During follow up audit, it was observed that the Company had not taken up the matter with PSERC (March 2016) despite action being recommended.	Management in its reply (February 2016) to COPU stated that instead of loss, the Company has been benefitted on many fronts like additional service connection charges, reduced damage rates of transformers, reduction in T&D losses, less breakdown etc.	In absence of any cost benefit analysis, it was observed no action was taken in this regard.

**B. Partial implementation.**

<b>Gist of observations made in earlier audit report</b>	<b>Recommendation made by COPU</b>	<b>Findings in Follow up audit and current status</b>	<b>Replies/ Comments of Department</b>	<b>Audit Comments</b>
1. It was pointed out in audit that against the connected load of 27,385 mega watt (MW) as of March 2011, the transformation capacity <sup>62</sup> was only 20,199 Mega Volt Ampere (MVA) (49.33 per cent) against the required capacity	COPU (104 <sup>th</sup> report) recommended that the Company should make efforts to upgrade its sub-stations to supply electricity in proper manner as overloading of sub-stations	At the connected load of 31,858.784 MW (March 2015), the actual transformation capacity was 26,522.77 MVA.	Management stated (September 2014) that the increase in connected load is not put on the system at the same time and the transformation capacity based on connected load is decided	Though the transformation capacity had increased, still it was below the required capacity of 47635.74 MVA.

<sup>60</sup> An amount of ₹ 111.40 crore (including defaulting amount of ₹ 89.61 crore) was recoverable and ₹ 95.02 crore was payable to MC, Amritsar. Thus, the State Government in a meeting (November 2013) decided that land equivalent to the net recoverable amount of ₹ 16.38 crore was to be given to the Company.

<sup>61</sup> British Horse Power = 0.746 KW.

<sup>62</sup> The ideal ratio of transformer capacity to the connected load is 1:1.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
of 40,946 MVA. This led to overloading of network and failure to provide reliable electricity, besides failure to reduce transmission losses. (Para 2.2.9 of Report 2010-11)	causes damage to the machinery and disturbs supply.		technically as per peak demand on the system during the year.	
2. The work of R-APDRP <sup>63</sup> was delayed and was behind schedule. The slow progress of Part-B works would affect the outcome of the overall project as completion of some components of Part-A were dependent upon completion of Part-B works. (Para 2.2.15 (b) of Report 2010-11)	COPU (113 <sup>th</sup> report) recommended that the Company should avoid administrative delays so that work gets completed timely as conversion of loan <sup>64</sup> into grant depends on the completion and reduction of AT&C losses.	The work was still in progress (March 2016) as the scheme had been extended upto March 2017.	As per Management reply (January 2016) work orders for R-APDRP Part-B works are in progress except Patiala town where the works have been completed.	The delay in completion of work would affect the benefits <sup>65</sup> envisaged from the scheme.
3. The Company had not resorted to well-planned long term arrangements of power purchase and made short term purchase of power at high cost of ₹ 5,062.73 crore during 2006-11 which could have been reduced considerably. (Para 2.2.18 of Report 2010-11)	COPU (111 <sup>th</sup> report) recommended that the Company, while controlling its costs and reducing its losses, should assess available economical sources of power at the rates approved by PSERC, besides limiting its power purchase.	The long/medium term power purchase increased from 475 MUs (2013-14) to 8290 MUs (2015-16) <sup>66</sup> and short term power purchase decreased from 3461 MUs (2013-14) to 1814 MUs (2015-16). PSERC, while true-up (August 2014) the tariff for the year 2010-11 disallowed ₹ 439.04 crore for short term power purchase and in true-up of tariff for the year 2011-12 disallowed ₹ 23.56 crore for additional unscheduled	Management in its reply submitted (February 2016) to COPU stated that for a State like Punjab where load pattern is not consistent throughout the year, the purchases of power on short term basis has resulted into financial gains for Company instead of losses. However, the necessity to	There was still scope for reducing losses on purchase of power.

<sup>63</sup> Restructured Accelerated Power Development and Reforms Programme.

<sup>64</sup> As per terms of R-APDRP scheme, 50 per cent of loan is convertible to grant depending on extent of maintaining AT&C loss level at 15 per cent level continuously for five years.

<sup>65</sup> Reduction in AT&C losses to 15 percent on sustainable basis.

<sup>66</sup> Figures upto January 2016.

<b>Gist of observations made in earlier audit report</b>	<b>Recommendation made by COPU</b>	<b>Findings in Follow up audit and current status</b>	<b>Replies/ Comments of Department</b>	<b>Audit Comments</b>
		interchange charges and ₹ 18.06 crore for 50 MUs purchased due to non-achievement of the target of T&D losses prescribed by PSERC. Further, PSERC in the true up for the years 2012-13 and 2013-14, disallowed (July 2016) ₹ 22.51 crore and ₹ 3.82 crore for additional unscheduled interchange charges.	purchase power on short term basis shall be minimised.	
4. It was pointed out in audit that in the absence of system to compute the T&D losses separately, overall T&D losses were compiled based on the difference between total power available for sale and the power actually sold. <b>(Para 2.2.19 of Report 2010-11)</b>	COPU (111 <sup>th</sup> Report) recommended that the Company should make more efforts to reduce its distribution losses.	Although the distribution losses had decreased from 17.42 per cent to 14.63 per cent during 2011-16, these were still higher than those allowed by PSERC (13.51 per cent for 2015-16).	Management did not reply to the audit query.	The T&D losses were still higher than those allowed by PSERC which indicated that there was scope for reduction in T&D losses.
5. It was pointed out that damage rates of repaired DTRs from own workshops ranged between 20.82 per cent to 23.89 per cent as compared to damage rates of 8.96 per cent to 14.18 per cent of transformers got repaired from outside which indicated poor workmanship of in-house workshops. <b>(Para 2.2.22 of Report 2010-11)</b>	COPU (113 <sup>th</sup> report) recommended <sup>67</sup> that in future Management Information Report (MIR) should be prepared on basis of data provided by the workshop instead of the distribution organisation.	The position had improved during 2013-16 (upto December 2015) as damage rates of repaired DTRs of own workshops ranged between 12.5 per cent to 16.2 per cent as compared to damaged rates of 16.0 per cent to 18.8 per cent of repaired DTRs repaired from outside. However, MIR had not been prepared on the basis of data provided by the workshops.	Management in its reply (January 2016) submitted to COPU stated that it has requested to the concerned section to incorporate the data regarding damaged transformers as conveyed by respective Controller of Stores.	Further progress will be awaited.
6. It was pointed out in audit that 1,379 DTRs	COPU recommended (113 <sup>th</sup> report)	Out of 1379 DTRs, 460 DTRs had been received and out of	Management in its reply (January 2016)	Further progress will be awaited.

<sup>67</sup> The Company replied to the COPU that damage rates incorporated in the MIR were based on the data of distribution organisation instead of workshop which is incorrect.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
<p>valuing ₹ 4.61 crore were awaited from 41 firms, which had been declared as non-active/ dead firms whose whereabouts were not known. (Para 2.2.23 of Report 2010-11)</p>	<p>that efforts should be made to strengthen the internal control mechanism so as to devise a simplified system of timely lifting and return of damaged transformers after their repair and efforts should also be made to recover the outstanding amount.</p>	<p>total recoverable amount of ₹ 4.61 crore, ₹ 1.46 crore has been adjusted/recovered from 27 firms.</p>	<p>submitted to COPU stated that for recovery of balance amount, the matter is being pursued with firms besides lodging FIRs.</p>	
<p>7. The Company had filed (June/November 2008) three civil suits for recovery of the defaulting amount of ₹ 3.26 crore from three firms which were decided (July 2009 to November 2009) in favour of the Company. However, the Company had not filed the execution petition for recovery of the defaulting amount in the courts of law. (Para 2.2.41 of Report 2010-11)</p>	<p>COPU (111<sup>th</sup> Report) recommended that the Company should make efforts to recover the dues with the help of police.</p>	<p>The Company had filed (2013-14) the execution petitions in the courts. However, the amount was not recovered (March 2016).</p>	<p>Management replied (April 2016) that the execution petitions have been filed.</p>	<p>Further progress will be awaited.</p>

**C. Full implementation.**

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
<p>1. The Company had paid<sup>68</sup> interest on security deposit at the rate of 12.25 per cent during the years 2008-10 whereas it availed long term loans at a lower rate from the commercial banks. (Para 2.2.36 of Report 2010-11)</p>	<p>COPU (111<sup>th</sup> Report) recommended that the Company should take up matter with PSERC.</p>	<p>The Company had paid interest on security at a rate which was nearly equal to the rate of interest at which it availed long term loan.</p>	<p>-</p>	<p>The recommendation was fully implemented.</p>
<p>2. The National Tariff Policy envisaged that the tariff of all categories of consumers should range within plus or minus 20 per cent of the average cost of supply (ACOS) by the year 2010-11. The cross subsidies to the domestic and agricultural categories were more than 20 per cent of the ACOS during the years 2006-07 to 2009-10 and these were cross subsidised by the commercial and industrial consumers. (Para 2.2.46 of Report 2010-11)</p>	<p>COPU (111<sup>th</sup> Report) recommended that the imbalances in cross subsidies should be reduced by taking rationalised approach.</p>	<p>During the period 2013-16, the cross subsidies to all the categories of consumers remained within 20 per cent of the ACOS.</p>	<p>-</p>	<p>The recommendation was fully implemented.</p>

**3.16.4 Conclusion**

While the Company had taken remedial action in some areas, concrete action was still to be taken in many other areas. There was partial conversion from low voltage distribution systems to high voltage distribution systems in

<sup>68</sup> As per the PSERC (Electricity Supply Code and Related Matters) Regulations, 2007.

agricultural pump sets connections as a result of which the Company could not derive intended benefits of improving voltage profile, reducing theft of energy and LT line losses. There were deficiencies in adherence to prescribed procedure to establish theft of power. Non-installation of meters on all agriculture connections resulted in non-achievement of 100 *per cent* billing based on meter readings. Further, non-improvement in collection efficiency, non-recovery of service connection charges from AP consumers and non-adherence to the prescribed procedure in theft cases resulted in financial loss to the Company. There was partial improvement in distribution network resulting in overloading of distribution network. The Company should develop a well formulated plan for taking prompt action on the recommendations of COPU for further improving its performance.

The matter was referred to the Government and Company (May 2016), their replies were awaited (September 2016).



**Chandigarh**  
**Dated 19 December 2016**

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

**Countersigned**



**New Delhi**  
**Dated 27 December 2016**

**(Shashi Kant Sharma)**  
**Comptroller and Auditor General of India**

# **Annexures**

## Annexure – 1

(Referred to in paragraph 1.11)

**Statement showing investment made by State Government in PSUs, whose accounts are in arrears**

(Figures in column 4 & 6 to 8 are ₹ in crore)

Sl. No.	Sector & Name of the PSU	Year upto which accounts finalised	Paid up capital as per latest finalised accounts	Arrear years in which investment received	Investment made by the State Government during the year in which accounts are in arrear		
					Equity	Loan	Grants/ Subsidy
<b>A. Working Government Companies</b>							
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 and Development Corporation Limited	2012-13	307.16	2013-14	16.93	-	242.25
				2014-15	41.65	-	337.75
				2015-16	26.82	-	324.21
3	Punjab State Power Corporation Limited	2014-15	6,081.47	2015-16	-	-	4,847.00
4	Punjab State Civil Supplies Corporation Limited	2013-14	3.73	2015-16	-	-	178.00
5	Punjab Agri Export Corporation Limited	2014-15	5.00	2015-16	-	-	1.90
<b>Total A (Working Government Companies)</b>			<b>6,402.98</b>		<b>85.40</b>	<b>-</b>	<b>5,962.02</b>
<b>B. Working Statutory Corporations</b>							
1.	Punjab Scheduled Castes Land Development and Finance Corporation	2013-14	85.91	2014-15	5.42	-	-
				2015-16	5.42	-	-
2.	PEPSU Road Transport Corporation	2013-14	306.44	2014-15	25.00	-	-
<b>Total B (Working Statutory Corporations)</b>			<b>392.35</b>		<b>35.84</b>	<b>-</b>	<b>-</b>
<b>C. Non Working Government Companies</b>							
1.	Punjab Land Development and Reclamation Corporation Limited	1994-95	1.45	1995-96	-	-	4.98
				1996-97	-	-	-
				1997-98	-	-	-
				1998-99	-	-	2.50
				1999-00	-	-	1.12
				2000-01	-	-	-
				2001-02	-	-	1.30
2002-03	-	-	5.85				
<b>Total C (Non-working Government Corporation)</b>			<b>1.45</b>		<b>-</b>	<b>-</b>	<b>15.75</b>
<b>Total A+B+C</b>			<b>6,796.78</b>		<b>121.24</b>	<b>-</b>	<b>5,977.77</b>

**Annexure 2**

*(Referred to in paragraph 1.15 and 1.16)*

**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 31-03-16	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments <sup>1</sup>	Capital employed <sup>2</sup>	Return on capital employed <sup>3</sup>	Percentage return on capital employed	Manpower as on 31-03-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<b>A. Working Government Companies</b>													
<b>Agriculture &amp; Allied</b>													
1	Punjab Agro Foodgrains Corporation Limited	2014-15	2016-17	5.00	-	(-)91.55	4910.12	(-)96.44	(-)1508.47	(-)86.55	492.17	-	- (all employees are on deputation)
2	Punjab Agro Industries Corporation Limited	2014-15	2015-16	49.21	12.00	1.80	-	0.66	0.28	82.66	1.68	2.03	512
3	Punjab Agro Juices Limited	2015-16	2016-17	50.00	-	(-)62.29	1.94	(-)7.13	Under audit	(-)12.29	(-)7.04	-	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	2015-16	2016-17	0.25	10.35	52.59	42.57	2.45	-	67.38	2.45	3.64	185
6	Punjab State Grains Procurement Corporation Limited	2014-15	2016-17	1.05	-	(-)2312.19	11597.97	(-)370.76	Under audit	(-)2310.95	938.88	-	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	(-)3.26	21.22	0.53	2.50	43
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	-	1238
9	Punjab Agri Export Corporation Limited	2014-15	2015-16	5.00	-	(-)4.24	0.66	(-)3.61	-	19.50	(-)3.61	-	on deputation/ contract
<b>Sector wise Total</b>				<b>423.34</b>	<b>249.61</b>	<b>(-)2503.10</b>	<b>16641.98</b>	<b>(-)479.68</b>	<b>(-)1519.10</b>	<b>(-)1783.85</b>	<b>1419.68</b>	<b>-</b>	<b>1980</b>

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-16	Accumulated Profit (+) /Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments <sup>1</sup>	Capital employed <sup>2</sup>	Return on capital employed <sup>3</sup>	Percentage return on capital employed	Manpower as on 31-03-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<b>Financing</b>													
10	Punjab State Industrial Development Corporation Limited	2014-15	2016-17	78.21	609.11	(-)693.76	2.47	(-)37.55	(-)89.57	92.94	4.41	4.74	64
<b>Sector wise Total</b>				<b>78.21</b>	<b>609.11</b>	<b>(-)693.76</b>	<b>2.47</b>	<b>(-)37.55</b>	<b>(-)89.57</b>	<b>92.94</b>	<b>4.41</b>	<b>4.74</b>	<b>64</b>
<b>Infrastructure</b>													
11	Punjab Police Housing Corporation Limited	2014-15	2015-16	0.05	-	B	B	B	-	0.05	B	-	141
12	Punjab Small Industries and Export Corporation Limited	2013-14	2015-16	50.01	-	151.04	412.40	42.21	(-)117.33	210.94	42.87	20.32	708
<b>Sector wise Total</b>				<b>50.06</b>	<b>-</b>	<b>151.04</b>	<b>412.40</b>	<b>42.21</b>	<b>(-)117.33</b>	<b>210.99</b>	<b>42.87</b>	<b>20.32</b>	<b>849</b>
<b>Manufacture</b>													
13	Punjab Communications Limited	2015-16	2016-17	12.05	-	(-)1.52	21.65	(-)10.48	-	83.64	(-)10.43	-	230
<b>Sector wise Total</b>				<b>12.05</b>	<b>-</b>	<b>(-)1.52</b>	<b>21.65</b>	<b>(-)10.48</b>	<b>-</b>	<b>83.64</b>	<b>(-)10.43</b>	<b>-</b>	<b>230</b>
<b>Power</b>													
14	Gidderbaha Power Limited	2014-15	2015-16	0.05	10.13	D	D	D	-	12.06	D	-	Staff is on deputation from PSPCL
15	Punjab Genco Limited	2014-15	2015-16	22.90	-	102.13	17.70	2.18	(-)12.28	126.03	2.18	1.73	4(others are on contract)
16	Punjab State Power Corporation Limited	2014-15	2016-17	6081.47	11594.85	(-)1480.95	22622.48	165.91	Under Audit	31888.69	2589.74	8.12	39019
17	Punjab State Transmission Corporation Limited	2014-15	2015-16	605.88	4468.03	399.71	948.90	(-)62.71	(-)3.83	6646.35	311.28	4.68	3076
18	Punjab Thermal Generation Limited	2014-15	2015-16	0.05	-	D	D	D	-	0.05	D	-	-
<b>Sector wise Total</b>				<b>6710.35</b>	<b>16073.01</b>	<b>(-)979.11</b>	<b>23589.08</b>	<b>105.38</b>	<b>(-)16.11</b>	<b>38673.18</b>	<b>2903.20</b>	<b>7.51</b>	<b>42099</b>

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-16	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments <sup>1</sup>	Capital employed <sup>2</sup>	Return on capital employed <sup>3</sup>	Percentage return on capital employed	Manpower as on 31-03-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<b>Service</b>													
19.	Greater Mohali City Bus Services Limited	2015-16	2016-17	0.05	-	(-)0.04	-	(-)0.04	Under Audit	0.01	(-)0.04	-	(On deputation basis)
20	Gulmohar Tourist Complex (Holiday Home) Limited	2014-15	2016-17	0.02	-	(-)4.17	0.04	(-)0.26	-	(-)3.11	(-)0.26	-	-
21	Punjab Information & Communication Technology Corporation Limited	2015-16	2016-17	19.23	-	23.28	6.15	2.63	Under Audit	42.51	2.63	6.19	25
22	Punjab Police Security Corporation Limited	2014-15	2015-16	0.05	-	-	B	B	-	0.03	B	-	-
23	Punjab State Bus Stand Management Company Limited	2011-12	2014-15	56.15	35.22	4.06	314.83	1.77	(-)0.35	579.99	6.88	1.19	-
24	Punjab State Civil Supplies Corporation Limited	2014-15	2016-17	3.73	-	(-)537.00	9647.80	(-)90.51	Under Audit	11246.04	1496.88	13.31	1279
25	Punjab State Container and Warehousing Corporation Limited	2014-15	2015-16	25.00	-	100.56	21.88	14.40	1.08	125.56	14.41	11.48	(on contract/ deputation basis)
26	Punjab Tourism Development Corporation Limited	2012-13	2015-16	6.66	-	15.18	-	(-)0.15	0.05	21.84	(-)0.15	-	-
27	Punjab Municipal Infrastructure Development Company	2013-14	2015-16	0.05	247.03	B	B	B	-	106.25	B	-	(On contract basis)
<b>Sector wise Total</b>				<b>110.94</b>	<b>282.25</b>	<b>(-)398.13</b>	<b>9990.70</b>	<b>(-)72.16</b>	<b>0.78</b>	<b>12119.12</b>	<b>1520.35</b>	<b>12.55</b>	<b>1304</b>
<b>Total A (All sector wise working Government companies)</b>				<b>7384.95</b>	<b>17213.98</b>	<b>(-)4424.58</b>	<b>50658.28</b>	<b>(-)452.28</b>	<b>(-)1741.33</b>	<b>49396.02</b>	<b>5880.08</b>	<b>11.90</b>	<b>46526</b>

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-16	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments <sup>1</sup>	Capital employed <sup>2</sup>	Return on capital employed <sup>3</sup>	Percentage return on capital employed	Manpower as on 31-03-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<b>B. Working Statutory corporations</b>													
<b>Agriculture &amp; Allied</b>													
1	Punjab State Warehousing Corporation	2014-15	2016-17	8.00	37.45	(-913.15)	4647.67	(-189.19)	Under Audit	(-832.83)	539.00	-	1375
<b>Sector wise Total</b>				<b>8.00</b>	<b>37.45</b>	<b>(-913.15)</b>	<b>4647.67</b>	<b>(-189.19)</b>	<b>-</b>	<b>(-832.83)</b>	<b>539.00</b>	<b>-</b>	<b>1375</b>
<b>Financing</b>													
2	Punjab Financial Corporation	2013-14	2014-15	40.39	211.03	(-269.24)	19.78	30.26	8.96	311.45	45.96	14.76	139
3	Punjab Scheduled Castes Land Development and Finance Corporation	2013-14	2015-16	85.91	28.53	(-0.59)	6.53	(-5.70)	(-0.08)	107.97	(-5.02)	-	156
<b>Sector wise total</b>				<b>126.30</b>	<b>239.56</b>	<b>(-269.83)</b>	<b>26.31</b>	<b>24.56</b>	<b>8.88</b>	<b>419.42</b>	<b>40.94</b>	<b>9.76</b>	<b>295</b>
<b>Service</b>													
4	PEPSU Road Transport Corporation	2013-14	2015-16	306.44	53.83	(-376.30)	361.37	(-11.11)	(-54.03)	36.67	(-2.50)	-	1569
<b>Sector wise Total</b>				<b>306.44</b>	<b>53.83</b>	<b>(-376.30)</b>	<b>361.37</b>	<b>(-11.11)</b>	<b>(-54.03)</b>	<b>36.67</b>	<b>(-2.50)</b>	<b>-</b>	<b>1569</b>
<b>Total B (All sector wise working Statutory corporations)</b>				<b>440.74</b>	<b>330.84</b>	<b>(-1559.28)</b>	<b>5035.35</b>	<b>(-175.74)</b>	<b>(-45.15)</b>	<b>(-376.74)</b>	<b>577.44</b>	<b>-</b>	<b>3239</b>
<b>Grand Total (A+B)</b>				<b>7825.69</b>	<b>17544.82</b>	<b>(-5983.86)</b>	<b>55693.63</b>	<b>(-628.02)</b>	<b>(-1786.48)</b>	<b>49019.28</b>	<b>6457.52</b>	<b>13.17</b>	<b>49765</b>
<b>C. Non working Government companies</b>													
<b>Agriculture &amp; Allied</b>													
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 <sup>3</sup>	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	-
<b>Sector wise Total</b>				<b>4.79</b>	<b>4.08</b>	<b>(-9.23)</b>	<b>9.90</b>	<b>0.97</b>	<b>-</b>	<b>8.78</b>	<b>1.42</b>	<b>16.17</b>	<b>-</b>

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-16	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments <sup>1</sup>	Capital employed <sup>2</sup>	Return on capital employed <sup>3</sup>	Percentage return on capital employed	Manpower as on 31-03-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<b>Financing</b>													
4	Punjab Venture Capital Limited	2014-15	2015-16	0.05	-	(-)0.17	-	(-)0.33	-	(-)0.03	(-)0.33	-	-
5	Punjab Venture Investors Trust Limited	2015-16	2016-17	0.05	-	0.03	-	-	-	0.08	-	-	-
6	Punjab Film and News Corporation Limited	2000-01	2014-15	1.51	0.14	(-)1.79	-	0.23	-	(-)0.03	0.23	-	-
<b>Sector wise Total</b>				<b>1.61</b>	<b>0.14</b>	<b>(-)1.93</b>	<b>-</b>	<b>(-)0.10</b>	<b>-</b>	<b>0.02</b>	<b>(-)0.10</b>	<b>-</b>	<b>-</b>
<b>Manufacturing</b>													
7	Electronic Systems Punjab Limited <sup>3</sup>	2013-14	2014-15	3.00	6.09	(-)461.82	-	(-)67.86	-	(-)4.09	(-)0.13	-	-
8	Punjab Bio-Medical Equipments Limited <sup>3</sup>	1996-97	2001-02	0.43	0.41	(-)1.12	-	-0.03	-	0.19	(-)0.03	-	-
9	Punjab Digital Industrial Systems Limited <sup>3</sup>	2006-07	2007-08	0.25	0.26	(-)0.78	-	(-)0.71	-	(-)1.12	(-)0.71	-	-
10	Punjab Electro Optics Systems Limited <sup>3</sup>	1996-97	1997-98	0.12	0.87	(-)1.28	-	(-)0.01	-	(-)0.70	(-)0.01	-	-
11	Punjab Footweares Limited	1990-91	1995-96	0.15	0.04	(-)0.83	0.18	(-)0.10	-	(-)0.39	(-)0.05	-	-
12	Punjab Power Packs Limited <sup>3</sup>	1997-98	1999-2000	1.55	8.04	(-)5.53	1.97	(-)1.12	-	3.63	(-)1.03	-	-
13	Punjab Power Products Limited <sup>3</sup>	1982-83	1983-84	0.26	0.66	(-)0.27	Not Available	(-)0.12	-	1.05	(-)0.06	-	-
14	Punjab State Handloom and Textile Development Corporation Limited	2013-14	2016-17	3.63	2.79	(-)9.28	-	(-)0.12	-	(-)0.11	(-)0.12	-	2

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-16	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments <sup>1</sup>	Capital employed <sup>2</sup>	Return on capital employed <sup>3</sup>	Percentage return on capital employed	Manpower as on 31-03-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
15	Punjab State Hosiery and Knitwear Development Corporation Limited	2005-06	2006-07	3.91	10.13	(-)16.84	-	(-)0.06	-	0.88	(-)0.06	-	-
16	Punjab State Leather Development Corporation Limited	2003-04	2016-17	3.42	-	(-)7.72	-	(-)0.10	-	(-)0.24	(-)0.10	-	1
17	Punjab Tanneries Limited	1992-93	2016-17	0.52	-	(-)5.31	-	(-)0.33	Under Audit	0.62	(-)0.16	-	-
18	Consumer Electronics (Punjab) Limited	2015-16	2016-17	0.21	-	B	B	B	-	0.14	B	-	1
19	Punjab Recorders Limited	2015-16	2016-17	0.71	0.79	(-)8.82	-	-	-	(-)4.40	-	-	-
<b>Sector wise Total</b>				<b>18.16</b>	<b>30.08</b>	<b>(-)519.60</b>	<b>2.15</b>	<b>(-)70.56</b>	<b>-</b>	<b>(-)4.54</b>	<b>(-)2.46</b>	<b>-</b>	<b>4</b>
<b>Service</b>													
20	Amritsar Hotel Limited	2012-13	2015-16	0.02	-	41.00	-	(-)0.06	-	41.02	(-)0.06	-	-
21	Neem Chameli Tourist Complex Limited	2014-15	2016-17	0.02	-	0.08	-	0.01	-	0.10	0.01	10.00	-
22	Punjab Export Corporation Limited <sup>3</sup>	1977-78	1979-80	0.10	0.52	(-)0.27	-	(-)0.09	-	0.07	(-)0.06	-	-
<b>Sector wise Total</b>				<b>0.14</b>	<b>0.52</b>	<b>40.81</b>	<b>-</b>	<b>(-)0.14</b>	<b>-</b>	<b>41.19</b>	<b>(-)0.11</b>	<b>-</b>	<b>-</b>
<b>Total C (all sector wise non working Government companies)</b>				<b>24.70</b>	<b>34.82</b>	<b>(-)489.95</b>	<b>12.05</b>	<b>(-)69.83</b>	<b>-</b>	<b>45.45</b>	<b>-1.25</b>	<b>-</b>	<b>4</b>
<b>Grand (A+B+C)</b>				<b>7850.39</b>	<b>17579.64</b>	<b>(-)6473.81</b>	<b>55705.68</b>	<b>(-)697.85</b>	<b>(-)1786.48</b>	<b>49064.73</b>	<b>6456.27</b>	<b>13.16</b>	<b>49769</b>

**Notes:**

- B** Four companies (Sl. Nos. A-11, A-22, A-27 and C-19) functioning on 'no profit no loss' basis.
- D** Three Companies (Sl. No. A-4, A-14 and A-18) are under construction.
- Six non-working companies (Serial No.C-2, 7, 8, 9,10&12) are under liquidation. Two non-working Companies (Sr. No. C-13 & C-22) have been dissolved under the orders of Punjab & Haryana High Court.
- Loans outstanding at the close of 2015-16 represent long term loans only and do not include interest accrued and due.

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> Return on capital employed has been worked out by adding interest to net profit.



**Annexure-3**  
(Referred to in paragraph 2.1.6)  
**Statement showing Financial position and working results of PWRMDC**

(₹ in crore)

	Particulars	2011-12	2012-13	2013-14 (Provisional)	2014-15 (Provisional)
<b>Financial position</b>					
<b>A</b>	<b>Liabilities</b>				
	<b>Authorised Share capital</b>	<b>300.00</b>	<b>300.00</b>	<b>300.00</b>	<b>300.00</b>
a)	Share capital	269.00	278.00	278.00	300.00
b)	Share application money pending allotment	29.15	29.15	46.08	65.74
b)	Reserves and surplus	(-) 88.86	(-) 94.24	(-)98.40	(-) 101.57
d)	Non current liabilities	222.26	222.26	222.26	332.15
e)	Current liabilities and provisions	235.11	239.44	248.07	48.90
	<b>Total A (a to e)</b>	<b>666.66</b>	<b>674.61</b>	<b>696.01</b>	<b>645.22</b>
<b>B</b>	<b>Assets</b>				
a)	Fixed Assets				
	- Tangible assets	145.47	143.56	140.36	155.47
	- Capital work in progress	92.62	99.16	107.75	125.95
b)	Non current investments	-	-	-	-
c)	Long term Loans and Advances	0.95	0.95	0.98	0.48
d)	Current assets, loans and advances	427.62	430.94	446.92	363.32
	<b>Total B (a to d)</b>	<b>666.66</b>	<b>674.61</b>	<b>696.01</b>	<b>645.22</b>
<b>Working Results</b>					
<b>1</b>	<b>Income</b>				
a)	Revenue/Receipts	113.80	117.43	109.88	246.27
b)	Other income	4.00	2.02	3.31	5.03
	<b>Total (a to b)</b>	<b>117.80</b>	<b>119.45</b>	<b>113.19</b>	<b>251.30</b>
<b>2</b>	<b>Expenditure</b>				
	Direct Expenditure <sup>1</sup>				
	- Expenditure on lining of water courses	-	-	-	122.13
	- Expenditure on R&M of tubewells	-	-	-	2.18
a)	Administrative/ Operating Expenses	1.32	2.46	1.72	2.45
b)	Personnel Expenses	112.46	114.97	108.15	119.50
c)	Finance Costs	0.02	0.00	0.01	0.00
d)	Depreciation and amortisation expenses	7.87	7.40	7.47	8.21
	<b>Total (a to d)</b>	<b>121.67</b>	<b>124.83</b>	<b>117.35</b>	<b>254.47</b>
	<b>Net loss (2-1)</b>	<b>3.87</b>	<b>5.38</b>	<b>4.16</b>	<b>3.17</b>

<sup>1</sup>The company follows accounting policy of booking income to the extent of expenditure incurred during the year to give nil net effect in the Profit and Loss Account.

During the years 2011-12 to 2013-14, income and expenditure on account of lining of watercourses and R&M of tubewells was not depicted in Profit and Loss Account and only net effect was transferred towards Recoverable from Punjab Government- Lining of water courses and R&M of tubewells respectively under current assets. From the year 2014-15, the Company additionally showed the expenditure on Lining of water courses and R&M of tubewells in Profit and Loss also and booked income to the same extent giving nil net effect in the Profit and Loss Account. The difference in expenditure and actual receipts during the year was adjusted towards Recoverable from Punjab Government- Lining of water courses and R&M of tubewells respectively as was done in previous years.

**Annexure-4**

*(Referred to in paragraph 2.1.11.1)*

**Statement showing progress of lining schemes as on 31.03.2016**

**(₹ in crore)**

S. No	Name of Scheme	Original cost of project	Scheduled date of completion	Area to be benefitted in hectares as per project report	Area actually benefitted in hectares upto 31.03.2016 (Percentage)	Expenditure incurred upto 31.03.2016	Expenditure per hectare (As per original cost of project)	Actual Expenditure per hectare	Excess expenditure per hectare	Expenditure incurred in excess of project norms
<b>A) CADWM (AIBP) PROJECTS</b>										
1	U.B.D.C.	159.85	31.03.2008	184861	36419 (19.70 percent)	69.95	8647	19207	10560	38.46
2	Sirhind Feeder Part-II	412.74	31.03.2010	314496	199170 (63.33 percent)	416.22	13124	20898	7774	154.83
3	Bathinda Branch Part-II	241.72	31.03.2011	181707	88762 (48.85 percent)	193.00	13303	21744	8441	74.92
4	Kotla Branch Part II	929.17	31.03.2017	266339	61127 (22.95 percent)	202.39	34887	33110	--	--
<b>B) NABARD AIDED PROJECTS</b>										
5	Abohar Branch (Faridkot Distt.)	147.62	31.03.2012	100575	97640 (97.08 percent)	146.02	14678	14955	277	2.70
6	Abohar Branch (Other Distt.)	192.17	31.03.2013	130935	81060 (61.91 percent)	129.47	14678	15972	1294	10.49
7	B.M.B.	209.55	31.03.2014	56026	29874 (53.32 percent)	118.78	37402	39760	2358	7.04
8	Sirhind Feeder (above CADWM norms)	6.71	31.03.2016	3257	2927 (89.87 percent)	3.18	20602	10864	--	--
9	Bathinda Branch (above CADWM norms)	8.48	31.03.2016	5566	5380 (96.66 percent)	5.16	15235	9591	--	--
10	Rejuvenation/ upgradation/ Reconstruction of watercourses of Sirhind Feeder and Bathinda Branch of lambi constituency of Sri Muksar Sahib District	49.43	31.03.2017	32957	13487 (40.92 percent)	11.09	14998	8223	--	--
<b>TOTAL</b>		<b>2357.44</b>		<b>1276719</b>	<b>615846</b> <b>(48.24 percent)</b>	<b>1295.26</b> <b>(54.94 percent)</b>				<b>288.44</b>

## Annexure 5

(Referred to in Paragraph 2.2.9.8)

### Statement showing short payment of interest on security to consumers during 2011-15

(₹ in crore)

Year	Consumer security deposits during the year		Interest credited	Interest due (as per applicable SBI base rate plus two per cent)		Short credit of interest	Interest credited as proportion of interest due (in per cent)
	Opening balance	Closing balance		Interest rate per annum (per cent)	Amount		
2011-12	1587.45	1915.53	90.57	10.25	162.72	72.15	56
2012-13	1915.53	2092.04	126.22	12.00	229.86	103.64	55
2013-14	2092.04	2319.93	143.50	11.70	244.77	101.27	59
2014-15	2319.93	2539.96	170.19	12.00	278.39	108.20	61
<b>Total</b>			<b>530.48</b>		<b>915.74</b>	<b>385.26</b>	<b>58</b>

Source: Annual Accounts of PSPCL (finalised up to 2014-15)

Note: Interest due has conservatively been calculated on opening balance of Security Deposits only

## Annexure 6

(Referred to in Paragraph 2.2.10.3)

### Statement showing amount due against defaulting consumers during 2011-16

(₹ in Crore)

Category wise amount recoverable from defaulting consumers						
Sl. No.	Category of Consumer	Amount recoverable as on				
		31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
1	Industrial Supply	229.66	303.19	384.15	509.39	705.00
2	General Supply	325.64	384.79	324.25	325.37	364.94
3	Agriculture Pump Sets	244.34	4.45	2.71	2.80	2.62
4	Others	11.32	13.24	6.69	7.39	11.00
<b>Total</b>		<b>810.96</b>	<b>705.67</b>	<b>717.80</b>	<b>844.95</b>	<b>1083.56</b>

(₹ In Crore)

Nature wise amount recoverable from defaulting consumers						
Sl. No.	Nature	Amount Recoverable as on				
		31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
1	Court/ Dispute Settlement Committee Cases	219.51	244.55	249.98	269.47	297.16
2	Government Departments	58.86	120.60	218.67	340.62	530.14
3	Permanent Disconnection Order Cases	133.48	154.88	137.49	137.51	142.37
4	Others	399.11	185.64	111.66	97.35	113.89
<b>Total</b>		<b>810.96</b>	<b>705.67</b>	<b>717.80</b>	<b>844.95</b>	<b>1083.56</b>

Source: Statistical data provided by the Company

**Annexure 7**  
(Referred to in Paragraph 2.2.10.5)

**Statement showing shortfall in inspections by operation and enforcement staff during 2011-16**

<b>Checking conducted by operation staff</b>						
Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Total number of connections	7604644	7885076	8112286	8329976	8579764
2	Number of connections checked	1644818	1655281	1441894	1536257	1197881
3	Percentage of connections checked	21.63	20.99	17.77	18.44	13.96
4	Cases of theft of power, wrong metering and unauthorised use of electricity/ other charges detected	71309	61166	62053	95518	55255
5	Amount of revenue leakage assessed	75.96	88.56	93.27	123.84	76.11
6	Amount realised	40.58	49.20	56.36	84.33	46.83
7	Percentage of realisation	53.42	55.56	60.43	68.10	61.53
8	Equivalent units for theft of power and wrong metering (in lakh units)	1741.29	1910.33	1685.43	1902.91	1249.07
<b>Checking conducted by enforcement staff</b>						
Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Total number of connections	7604644	7885076	8112286	8329976	8579764
2	Number of connections checked	218406	242290	528875	525679	570438
3	Percentage of connections checked	2.87	3.07	6.52	6.31	6.65
4	Cases of theft of power, wrong metering and unauthorised use of electricity/ other charges detected	50170	58036	100731	92872	95723
5	Amount of revenue leakage assessed	85.96	113.76	107.15	205.06	169.26
6	Amount realised	33.89	43.15	56.71	142.83	109.86
7	Percentage of realisation	39.43	37.93	52.93	69.65	64.91
8	Equivalent units for theft of power and wrong metering (in lakh units)	1117.05	1348.15	1301.17	1535.59	1391.32

Source: Statistical data provided by Company

The provisions relating to the checking of connections contained in the ESIM of the Company provide for conducting periodical checking of connections by various authorities as under-

Authority	Nature of Connection	Periodicity of Checking
JE	DS/ NRS / industrial and Bulk Supply connections with load up to 50 KW	Once every six months
	All other three phase connections	Annual
	All other single phase connections	50 per cent per year

AE/AEE/XEN (DS)	All connections except LS/BS/RT (HT/EHT) with load more than 50 KW	Once every six months
	All small power connections	Annual
	All other three phase connections	50 <i>per cent</i> per year
	General Service Connections	10 <i>per cent</i> per year
Sr.XEN / Addl.SE (DS)	All connections except LS/BS/RT (HT/EHT) with load more than 100 KW	Annual
	Three phase industrial connections with load less than 100 KW.	5 <i>per cent</i> per year
Dy.CE/SE (DS)	All connections except LS/BS/RT (HT/EHT) with load more than 500 KW	Annual
	Three phase industrial connections with load less than 500 KW.	Random