

## Chapter III

### 3. Transaction Audit Observations

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

#### Government companies

#### Punjab State Grains Procurement Corporation Limited and Punjab State Warehousing Corporation

##### 3.1 Loss of interest

**Failure of the Company/Corporation to take up the matter with Government of India/State Government regarding reimbursement of interest on the elements of drought relief, transportation of wheat and gunny bags resulted in loss of interest of Rs. 2.79 crore.**

Punjab State Grains Procurement Corporation Limited (Company) and Punjab State Warehousing Corporation (Corporation) procure wheat from *mandis* on behalf of Food Corporation of India (FCI) for the central pool and store it till its delivery to FCI. The delivery of wheat to FCI is made at the rates approved by the Government of India (GOI) for each crop year, which include Minimum Support Price (MSP), incidental charges and cost of gunny bags and carry over charges representing interest and storage charges. Incidental charges include interest charges for a specific period at the prevailing rate of interest on cash credit.

As per the extant policy, GOI was allowing interest on MSP, statutory levies and *mandi* labour charges. The GOI, while finalising the rates of Rabi Marketing Season (RMS) for the years 2001-02 and 2002-03, felt (July 2004) that interest charges must cover all the expenses incurred during the procurement except administrative charges and proposed to consider the case for amendment of principles separately. While fixing (February 2005) the final rates for the RMS 2003-04, GOI, however, included interest charges amounting to Rs. 16.23 per quintal for a period of two months and 15 days on the amount invested by the procuring agencies at the time of procurement on the elements of MSP, statutory charges and *mandi* labour charges only.

Audit observed that the procuring agencies/State Government had no system to ensure that the GOI had reimbursed all the actual expenses incurred by the agencies including interest portion on all the items of expenses. The funds

invested by the Company/Corporation during the procurement for meeting expenditure on drought relief (Rs. 10.00 per quintal), transportation/internal movement of wheat (Rs. 14.07 per quintal) and purchase of gunny bags (Rs. 41.38 per quintal\*) though included in the final rates, were not considered for calculation of interest charges even though the State Government demanded (December 2004) interest charges on procurement cost and all incidental charges except administrative charges. Resultantly, the interest charges on transportation, drought relief fund and on landed cost of bags were not reimbursed by GOI in the final rates for which the Company/Corporation had not pursued the matter with the State Government/GOI.

Thus, failure of the Company/Corporation/State Government to take up the matter for reimbursement of interest on the elements of drought relief, transportation/internal movement of wheat and gunny bags specifically before / immediately after finalization of the rates of wheat for 2003-04 resulted in loss of interest of Rs. 2.79 crore as detailed below:

Sl. No.	Name of the Company/Corporation	Quantity of wheat delivered (in quintals)	Loss of interest @ Rs. 1.51 per quintal (on the transportation, drought relief fund and cost of gunny bags) (Rs. in crore)
1.	Punjab State Grains Procurement Corporation Limited	80,51,320	1.22
2.	Punjab State Warehousing Corporation	1,04,05,621	1.57
<b>Total</b>			<b>2.79</b>

The Management of the Company stated (October 2008) that it was regularly pursuing the matter with GOI but GOI had linked the issue with the case of audited accounts. The reply is not correct as the Company had not taken up the matter for reimbursement of interest immediately before/after finalization of the rates for the year 2003-04.

The Company/Corporation / State Government need to evolve a system to ensure that GOI reimburses all the expenses incurred by them on procurement of foodgrains for the central pool as procurement activity has been undertaken on behalf of GOI.

The matter was referred to the Corporation/ Government in December 2008 and June 2009; their replies had not been received (September 2009).

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\* wheat is supplied in 50 kg gunny bags and FCI reimburses cost of 50 kg bags @ Rs. 20.69 which comes to Rs. 41.38 per quintal i.e. Rs. 20.69 x2.

<b>Punjab State Civil Supplies Corporation Limited and Punjab State Warehousing Corporation</b>
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### 3.2 Loss due to non-analysis of the increased cost of rice

<b>Failure of the Company/Corporation to analyse the increased cost of rice due to reduced outturn ratio of custom milled rice and to take up the matter with Government of India for providing the correct increased cost resulted in loss of Rs. 75.14 lakh.</b>
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Punjab State Civil Supplies Corporation Limited (Company) and Punjab State Warehousing Corporation (Corporation) procure paddy from *mandis* on behalf of Food Corporation of India (FCI) for the central pool and after getting it milled, deliver the resultant rice to FCI and claim the cost of rice from FCI at the rates of custom milled rice (CMR) fixed by the Government of India (GOI) which includes purchase tax also. GOI reduced the outturn ratio\* of raw rice (Grade A) from 67 per cent to 66 per cent for the crop year 2005-06. GOI while fixing (23 November 2005) the rates of CMR, which included the increased cost of rice due to reduced outturn ratio, decided to share 50 per cent of this increase in cost with the State Government.

Audit noticed that the Company/Corporation had no system to verify the correctness of the rates of the foodgrains fixed by GOI on the basis of which the payment was made by the FCI. The Value Added Tax (VAT) was introduced in the State from the year 2005-06 and it was to be paid on the total sale price after adjusting the purchase tax, being input tax already paid. FCI correctly worked out (December 2005) the cost of raw rice as Rs. 1,046.51 per quintal<sup>♥</sup> on the basis of revised outturn ratio, by excluding the purchase tax (Rs. 24.80 per quintal). In order to work out the share to be borne by GOI and State Government, the Company/Corporation did not exclude the purchase tax and worked out the increase in cost as Rs. 16.18<sup>∞</sup> per quintal whereas the actual increase in cost worked out to Rs. 15.62 per quintal. FCI deducted Rs. 8.09 per quintal from the rates in place of Rs. 7.81 per quintal which was actually reimbursable from the State Government towards their share of 50 per cent. This resulted in less payment of Rs. 0.28 per quintal of raw rice and loss of Rs. 75.14 lakh to the Company/Corporation as detailed below:

Sl. No.	Name of the Company/Corporation	Quantity of wheat delivered (in quintals)	Loss (Rs. in lakh)
1.	Punjab State Civil Supplies Corporation Limited	1,78,66,490	50.03
2.	Punjab State Warehousing Corporation	89,66,600	25.11
	<b>Total</b>		<b>75.14</b>

\* Outturn ratio: ratio that the resultant rice bear to the paddy

♥ Rs. 1,030.89 per quintal on the basis of 67 per cent of the old out turn ratio

∞ Difference between Rs. 1,134.10 and Rs. 1,150.28 per quintal worked out in audit on the basis of pre- revised and revised ratio.

Thus, failure of the Company/Corporation to analyse the increased cost of rice due to reduced outturn ratio provided in the rates of CMR and to take up the matter with GOI for providing correct increased cost of rice resulted in loss of Rs. 75.14 lakh. The Company/Corporation should have evolved a system to verify and analyse the correctness of the rates circulated by GOI before implementation.

The Management of the Corporation stated (April 2009) that the matter had been referred to Director, Food and Civil Supplies, Punjab for further taking up the matter with GOI for allowing reimbursement of incidentals without any deduction of 50 per cent amount on account of reduction in out turn ratio by one per cent. The reply is not correct as the point relates to incorrect working of 50 per cent share relating to the State Government and not reimbursement of share of the State Government and the amount of Rs. 25.11 lakh pointed in the para could have been recovered earlier from GOI/FCI by correct computation of the share of the State Government.

The matter was referred to the Government/Management of the Company in January 2009 and August 2009; their replies had not been received (September 2009).

### **Punjab Agro Foodgrains Corporation Limited**

#### **3.3 Avoidable loss**

#### **Non-execution of marketing agreements well before the commencement of crop season and failure to obtain bank/corporate guarantee from the firms resulted in loss of Rs. 98.08 lakh to the Company.**

With a view to provide alternative to wheat cultivation, the State Government assigned (2002-03) to the Company the programme of diversification of agriculture in the State by Contract farming. The programme envisaged supply of high yielding varieties of seeds of different crops, including hyola\*, to the farmers and buy back the produce at the pre determined Minimum Support Price on behalf of the Government agencies like National Agricultural Cooperative Marketing Federation of India.

In order to have value addition and to maintain the confidence of the farmers in contract farming, the Company decided (June 2005) to process hyola oil seeds into hyola refined oil. The Company further decided to market hyola oil under its own brand name through its network though it was aware that it does not have adequate marketing network and it was difficult to create new infrastructure for a single product.

The Company, during the crop year 2005-06, procured 892 MT of hyola oil seeds and processed them into 296 MT of hyola oil. The Company could sell only 121 MT of oil upto March 2006 and the balance quantity had to be sold in the

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\* Hybrid Rapeseed Mustard.

subsequent years. To promote the hyola oil further, after the start of Rabi Marketing Season 2006-07, the Company entered into agreements on 13 April and 28 April 2006 with Polaris International Private Limited, Noida (PIL) and Punjab Agro Food Parks Limited, Chandigarh (PAFL) respectively. As per the agreement, the PIL was to procure 4,000 MT of refined hyola oil (equivalent to 12,000 MT of hyola oil seed) per annum starting with 300 MT per month from the Company at the rate of Rs. 65 per litre. The PIL was to provide bank guarantee equivalent to lifting of three months average stock (i.e. Rs. 6.50 crore). The PAFL was to procure 6,000 MT of hyola oil seeds at the rate of Rs. 1,715 per quintal plus applicable charges and the firm was to provide corporate guarantee equivalent to the cost and carry over charges of the oil seeds purchased on behalf of the firm. In the event of non lifting of hyola oil/oil seeds by the firms, the additional cost incurred on holding the stocks and the losses, if any, on the disposal of such stocks were to be borne by the firms.

It was noticed in audit that despite having bitter experience in processing of hyola oil seeds and marketing the oil during the crop year 2005-06, the Company without obtaining bank/ corporate guarantee from the firms, procured (May 2006) 2,628 MT of hyola oil seeds on behalf of the firms.

Meanwhile, due to limited procurement, the Company informed both the firms that around 3,000 MT of hyola oil seeds would be available which would be split between both the firms. PAFL objected to the splitting of oil seeds with another firm, asked for the details of actual expenditure and did not issue the release orders for delivery of hyola seeds. Left with no option, the Company got crushed (June 2006) the hyola oil seeds into raw oil. Meanwhile, the Company reduced (August 2006) the price of hyola oil from Rs. 65 per litre to Rs. 58 per litre for supply to the firms. PAFL asked for the details of price of Rs. 58 per litre and the manner of payment to which the Company did not respond. PIL also did not issue any release orders for hyola oil.

The dispute with the firms persisted and both the firms did not lift any quantity and the Company had to resort to distress sale (October 2007) of the crushed oil, part of which had become discoloured due to long period of storage. In the process, the Company incurred a loss of Rs. 98.08 lakh\*. After being pointed out in audit, the Company after a gap of about two years issued (May 2009) legal notices on the firms for recovery of the loss. None of the firms responded to the legal notices and the due period of 30 days had since elapsed (June 2009). The Company failed to take immediate legal action against the firms for not lifting the hyola oil from the Company.

Thus, non execution of marketing agreements well before the commencement of crop season 2006-07, failure to obtain requisite guarantees from the firms and non resolving of points of dispute with the firms forced the Company to get the hyola

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\* Loss of Rs 38.08 lakh on sale of 8.52 MT oil at Rs. 4.47 per KG {difference of cost (Rs. 50.97 per KG) and sale price (Rs. 46.50 per KG)} plus inventory carrying costs (Rs. 60 lakh).

oil seeds crushed at its own risk and cost and the delay in disposal of the crushed oil resulted in loss of Rs. 98.08 lakh to the Company.

The Company should enter into marketing of any consumer product only after establishing/ensuring marketing network and creating complete infrastructure. Further, the Company should also ensure compliance to all the terms of agreement so as to avoid such losses in future and safeguard the financial interest of the Company.

The matter was referred to the Management/Government in April 2009; their replies had not been received (September 2009).

### 3.4 Non recovery of transportation charges

**The Company incurred transportation charges of Rs. 54.49 lakh required to be borne by rice millers and did not recover the amount.**

The Company procures paddy from *mandis* for the Central Pool on behalf of Food Corporation of India (FCI) and get the paddy milled from rice millers for onward delivery of rice to FCI. As per the milling policy of each crop year approved by the State Government, the Company procures paddy from *mandis* through its district offices and stores it directly in the millers' godowns/premises for milling purpose under the joint custody of the millers and the Company. Government of India (GOI) initially fixes the provisional rates of custom milled rice (CMR) for each crop year for reimbursing the cost to the Company for the rice delivered to FCI.

The Ministry of Food, Consumer Affairs and Public Distribution, GOI clarified (June 2006) that the milling charges of paddy (included in the rates of CMR for 2006-07) i.e. Rs. 15 and Rs. 25 per quintal for raw rice and parboiled rice, respectively, payable to the millers were inclusive of Rs. five per quintal towards the cost of transportation of paddy as well as rice up to eight kms. However, the Company did not circulate the clarification to its field offices directing them not to incur any expenditure on transportation of paddy within eight kms or to recover/adjust the proportionate cost of transportation of paddy within eight kms i.e. Rs. 2.99<sup>♦</sup> per quintal from the millers' account.

It was noticed in audit that in four districts<sup>♦</sup> the Company incurred Rs. 91.96 lakh for transportation of 19.35 lakh quintals of paddy to the premises of 75 millers. After delivery of rice to FCI, the Company paid the milling charges/settled the accounts of millers without deducting Rs. 54.49 lakh, i.e. the proportionate cost of transportation of paddy within eight kms. Since the element of transportation charges upto eight kms was included in the milling charges receivable by the millers, the Company was not required to incur the

<sup>♦</sup> Out turn ratio of paddy is 67 per cent. So out of Rs. five per quintal (included in milling charges) transportation charges of paddy from *mandi* to miller would be Rs.  $5 \times 100 / 167 =$  Rs. 2.99 per quintal.

<sup>♦</sup> Amritsar, Ferozpur, Ludhiana and Jalandhar.

transportation expenses within eight kms and the same were to be borne by the millers.

The Management stated (July 2009) that the Company had taken up (August 2008) the matter with the Director, Food Civil Supplies & Consumer Affairs, Punjab in this regard and the Department informed (September 2008) that recovery from the millers on this account might be kept in abeyance as the matter had already been taken up with GOI by the State Government. The reply is not acceptable as GOI had specifically clarified (June 2006) that milling charges of paddy were inclusive of transportation charges incurred within eight Kms and the Company should not have released the amount/settled the accounts of the millers on this item in the first instance.

Thus, the Company not only unauthorisedly incurred the transportation charges of paddy within eight kms in the first instance but also failed to effect recovery at the time of settling the millers account which resulted in an avoidable expenditure and non recovery of Rs. 54.49 lakh from the millers.

The Company should adhere to the instructions/clarifications of GOI to avoid loss and extra expenditure on procuring activity, which is carried out by it on behalf of GOI.

The matter was referred to the Government in May 2009; their reply had not been received (September 2009).

### **3.5 Loss due to non availing of the short term loan**

**Failure of the Company to avail the sanctioned short term loan within the validity period of offer resulted in loss of an opportunity to reduce the interest burden by Rs. 31.53 lakh.**

With a view to reduce the interest cost on cash credit limit and to meet the day to day business, the Company had been raising short term loans from banks. The Company approached (14 December 2007) the United Commercial bank (UCO) for availing short term loan of Rs. 100 crore. The Board of Directors (BOD) of the Company authorized (28 December 2007) the Managing Director (MD) to raise loans within the limit fixed by BOD from time to time. The MD of the Company was transferred on 18 January 2008 and the post was vacant till 17 June 2008. The UCO bank sanctioned (16 February 2008) the loan of Rs. 100 crore at the rate of 9.50 *per cent* per annum for three months as against the cash credit interest rate of 11.60 *per cent* per annum (reduced to 11.10 *per cent* from March 2008) with the condition that the loan was to be availed within 30 days (i.e. by 17 March 2008) from the date of sanction.

It was noticed in audit that in the absence of MD, the Company did not take decision to avail the loan within the validity period of offer by opting for availing the loan and then obtaining *ex post facto* approval of the BOD, which it had resorted to in the past (December 2007). The Company after expiry of the validity period approached the bank on 24 March 2008 for disbursement of the loan and intimated that the loan would be drawn by the Executive Director,

Finance & Accounts (ED) and this action would be got approved in the meeting of BOD scheduled on 27 March 2008. The bank intimated (31 March 2008) that the sanction had lapsed and hence it did not disburse the loan. As a result, the Company had to bear extra interest cost of Rs. 31.53 lakh due to availing the short term loan of Rs. 100 crore on 29 April 2008 from an alternative source (viz. Union Bank of India) at higher rate of interest of 9.75 *per cent*.

Thus, failure of the Company to take appropriate action to avail the loan offered by the UCO bank within the stipulated period of 30 days resulted in loss of an opportunity to reduce the interest cost by Rs. 31.53 lakh.

The Management stated (June 2009) that the Company did not suffer any loss due to non availing of loan from the UCO Bank as it had taken short term loan of Rs. 100 crore from the Punjab National Bank (PNB) at 9.50 *per cent* on 17 March 2008. The reply is not convincing as the loan raised from PNB was not a substitute to the planned loan from the UCO Bank and the Management was considering (March 2008) raising of both of these short term loans in order to reduce the interest burden of the Company.

The Company should evolve a system to run the operations/manage finances smoothly so that important decisions are not delayed.

The matter was referred to the Government in May 2009; their reply had not been received (September 2009).

### ***3.6 Undue favour to a firm***

**Award of advertisement work to a firm without entering into any agreement and undue favour extended by continuous grant of advances without obtaining any security resulted in loss of interest of Rs. 28.11 lakh.**

The State Government assigned (2002-03) to the Company the activity of contract farming in the State. In order to bring awareness in the farmers' community, the Company launched a massive campaign from the year 2003 through electronic and print media.

The Company initiated (February 2003) action to advertise on the television channels 'Punjab Today' and 'Balle Balle' of STV Enterprises Limited (firm) without entering into any agreement or fixing the terms and conditions. Upon request by the firm for advance payments on the plea to install new equipment and other problems, the Company started (February 2003) releasing advance payments without obtaining any security. Meanwhile, the Company engaged some more private channels for advertisements, but payments to them were made against actual claims only.

Between October and December 2004, the Company released advance payments of Rs. 1.21 crore to the firm for issuing advertisement during January and March 2005. The Company stopped the advertisements campaign in March 2005 due to non-availability of funds. Resultantly, the expenditure on advertisement for the period January to March 2005 was reduced to Rs. 48.87 lakh leaving an



unadjusted balance amount of Rs. 72.34 lakh with the firm.

The Company asked (August 2005) the firm to remit back the outstanding amount. The firm initially declined (December 2005) and stated that the advance would be adjusted against the advertisement bills. After a long persuasion, the firm furnished (February 2007) 20 post-dated cheques encashable from February 2007 to September 2008 against the outstanding amount. On presentation, only six cheques worth Rs. 17.00 lakh were honoured by the bank during February 2007 to July 2007. Two cheques of Rs. five lakh each were dishonoured in August 2007 and September 2007 due to insufficient funds. The firm wrote (September 2007) to the Company that it was passing through zero revenue period and could not honour these cheques due to non-availability of funds. The remaining 12 cheques for Rs. 45.34 lakh were also dishonoured (October 2007 to September 2008) due to insufficient funds. On being pointed out (July 2005) by Audit, the Company filed (October 2007 to December 2008) cases in the District Court, Chandigarh for recovery of the outstanding amount of Rs. 55.34 lakh from the firm. The Company received Rs. 40.34 lakh (March 2009 to June 2009) leaving a balance of Rs. 15 lakh.

Thus, award of the advertisement work to the firm without entering into any agreement and undue favour shown by continuous grant of advance payments without obtaining any security resulted in delayed recovery of Rs. 40.34 lakh and outstanding dues of Rs. 15.00 lakh. In addition, the Company had suffered a loss of interest of Rs. 28.11 lakh (April 2005 to August 2009) by way of interest paid on Cash Credit limit availed from the bank(s) for making payments to the firm.

The Management/Government stated (July/August 2009) that out of Rs. 55.34 lakh it had already recovered Rs. 40.34 lakh and expected to recover the balance amount. However, the Company had no security/post dated cheques to recover the interest loss of Rs. 28.11 lakh (up to August 2009) and grant of advance at the first stage without any security was irregular.

The Company should ensure obtaining formal agreement and proper security before extending advance payments to the contractors to avoid such losses in future. Accountability needs to be fixed against the persons who released advance payments in the past without obtaining security and entering into formal agreement.

### **Punjab Information and Communication Technology Corporation Limited**

#### ***3.7 Loss in allotment of the plots***

#### **Allotment of industrial plots by the Company at less than the cost price resulted in loss of Rs. 2.10 crore.**

For promotion of the electronics, information technology and related industries, the Company developed industrial plots of various sizes at the Industrial Estate,

Mohali. To maintain uniformity, the Company decided (February 1998) to follow the terms and conditions of allotment of land as were being adopted by the Punjab Small Industries and Exports Corporation Limited (PSIEC), another Government Company engaged in development of industrial areas in the State.

The Punjab Urban Development Authority transferred (December 2000) 15.726 acres of land in Sector 67, Mohali to the Company at the rate of Rs. 1,924 per square yard (PSY) for setting up an IT park. The park could not be set up and the Project Approval Board allowed (November 2004) the Company to set up IT related projects on the land partitioned into smaller plots of one acre or more. The Company invited (November 2005) applications for allotment of eight to ten plots of one acre each at Rs. 2,700 PSY, the rate fixed in November 2004 by PSIEC. The Company received 21 applications and issued (August 2006) allotment letters to seven firms for the land measuring 34,965.89 square yards at the rate of Rs. 2,700 PSY.

Audit observed that before going for the advertisement/allotment of the plots, the Company did not assess the cost, which worked out to Rs. 3,300\* PSY. The intention of the Company, while adopting the rates of PSIEC was to maintain uniformity in the terms and conditions of allotment with PSIEC and not to allot the plots at less than the cost price. The allotment of plots at the rate of Rs. 2,700 as against the cost of Rs. 3,300 PSY resulted in loss of Rs. 2.10 crore to the Company.

The Management stated (April 2009) that the allotments were made to attract leading IT firms. The contention of the Company does not hold good as the Company should have recovered at least the cost to safeguard its financial interest.

The matter was referred to the Government in November 2008; their reply had not been received (September 2009).

## **Punjab Communications Limited**

### ***3.8 Irregular payment of ex-gratia***

**The Company made irregular payment of *ex gratia* of Rs. 33.45 lakh to the employees in contravention of the instructions of Department of Public Enterprises.**

The Government of Punjab, Directorate of Public Enterprises (DPE) issued (October 1998) a composite policy for payment of bonus/*ex gratia* to the employees of State Public Sector Undertakings (PSUs). The policy, *inter alia*, envisaged that *ex gratia* should be allowed only if the financial health of the PSU

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\* Worked out by adding interest at Prime Lending Rate for the period April 2001 to July 2006 to the cost.

was sound, i.e. it had adequate allocable surplus<sup>\*</sup>, as defined in the Payment of Bonus Act, 1965 (Act), after discharging its statutory bonus and other repayment liabilities. Further, prior payment of dividend should be a pre-condition for sanction of *ex gratia*. Prior approval of the Administrative Department was to be taken for payment of any *ex-gratia*.

Audit observed that the Company had suffered a loss of Rs. 9.42 crore during 2004-05 and Rs. 6.17 crore during 2005-06, and had not paid dividend during these two years. Despite this, on the plea to motivate the morale of the employees, the Company decided (October 2005 and October 2006) to pay *ex gratia* of Rs. 33.45 lakh to its employees for the years 2004-05 (Rs. 17.41 lakh) and 2005-06 (Rs. 16.04 lakh) without obtaining approval of the Administrative Department. The policy guidelines of DPE regarding payment of *ex-gratia* were not brought to the notice of the Board of Directors (BOD) at the time of taking approval for release of *ex-gratia*. The payments of *ex gratia* were made to the employees in November 2005 and October 2006. Thus, payment of *ex gratia* amounting to Rs. 33.45 lakh in violation of the instructions issued by DPE was irregular and also against the financial interest of the Company.

The Management stated (April 2009) that payment was made to the employees in accordance with Section 12 of the Act from the amount 'Set on'<sup>♦</sup> from the previous years. The reply is not acceptable as it is based on incorrect interpretation of the Act. The 'employee' under the Act means persons employed on a salary or wage not exceeding Rs. 3,500 per month and the amount 'Set on' from the previous years can be used only for payment of bonus to the eligible employees as statutory obligation under the Act and not for payment of *ex-gratia*. Thus, payment of *ex gratia* from the 'Set on' amount to all the employees irrespective of any monetary limit and in disregard to the instructions of DPE was irregular.

The Company should ensure compliance with all the policy guidelines and instructions of the State government issued on payment of bonus/*ex gratia*. The Government (DPE) needs to have effective mechanism to watch proper compliance by the PSUs to the instructions issued from time to time.

The matter was referred to the Government in February 2009; their reply had not been received (September 2009).

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<sup>\*</sup> Allocable surplus represents 60 *per cent* of the available surplus, which is gross profit for the year, after deducting depreciation admissible under the Income Tax Act, development rebate or investment allowance or development allowance etc.

<sup>♦</sup> 'Set on' represents 'allocable surplus' carried forward for use in subsequent years for payment of bonus in accordance with the Act.

**Punjab Agro Juices Limited**

**3.9 Loss due to avoidable procurement and poor storage of carrots**

**Failure of the Company to synchronise the procurement of carrots with commissioning of the processing plants and poor storage of the produce resulted in loss of Rs. 29.62 lakh.**

The Company proposed to set up two multi fruits and vegetable processing units; one at Hoshiarpur and the other at Abohar, which was approved (November 2006) by the Project Approval Board of the State Government. The critical plant and machinery for these units was to be supplied by Rossi and Catelli Engineering of Italy. The Board of Directors (BOD) of the Company noted (December 2006) that the plants would start operation in January 2007. In tune with that expectation, the Company entered (December 2006) into a Memorandum of Understanding (MOU) with the Council for Value Added Horticulture in Punjab\* (Council) for procurement of carrots for these plants. However, the Company did not sign the formal agreement envisaged in the MOU.

As per the Project Report, carrots could be stored for 1-3 days under normal warehousing conditions and 3-4 months under cold-storage conditions.

Pending commissioning of the plants, the Company after holding discussion with the Council decided to procure initially 1,000-1,500 metric tonnes (MTs) of carrots for scheduled trial run in the last week of January 2007. The Council started procuring carrots from 11 January 2007 at Sirhind. Meanwhile, the team of engineers of Rossi and Catelli Engineering of Italy, supplier of the plant and machinery, arrived on 11 January 2007 to commission the plants. However, due to late arrival of evaporator, resin which was a major component of de-bittering system and delay in getting approval of the Punjab Electricity Board for power load, the plant was ready for operation/trial run only on 23 March 2007. The Company did not apprise the Council the likely delay in commissioning of the plant. Meanwhile, the Council procured 366.584 MTs of carrots up to 27 January 2007 at Sirhind and also started procurement of carrots at Hoshiarpur with effect from 28 January 2007. To store the carrots, the Council entered into agreements with the cold storage owners for storage of carrots up to 28 February 2007. The Council procured 936.489 MTs of carrots up to 17 February 2007. Simultaneously, the Company noticed (13 and 22 February 2007) that the carrots procured and stored in different cold stores were not being maintained properly, stocked without pallets^ and some lots were even lying outside open in the rain which had made the carrots badly rotten by fungus. The Company did not impress upon the Council to take remedial steps either to improve the storage condition or consider disposal of the stocks to avoid loss due to deterioration in health of the carrots with passage of time. Before the Company could commission the plants (23 March 2007), the Council intimated (21 March 2007)

\* A society promoted by Government of Punjab

^ A small platform on which goods are placed for storage.

that the carrots procured by it had all rotten/spoilt and were destroyed. The Board of Directors, instead of investigating the reasons for continued procurement, poor storage of carrots and asking the council for compensating the loss, decided (May 2007) to write off the loss of Rs. 29.62 lakh.

Thus, failure of the Company to stop continued procurement of carrots despite delay in commissioning of the plants and not claiming the loss from the Council for want of formal agreement resulted in loss of Rs. 29.62 lakh to the Company.

The Government stated (June 2009) that the Council procured the carrots in view of scheduled commissioning of the plant in January 2007 and it stored the material in cold storage under ideal conditions but the carrots deteriorated due to long storage. The reply of the Government is not convincing. The Company should have stopped/deferred the procurement that took place after the Company became aware that commissioning of the plants would get delayed and it should have claimed the loss from the Council as the condition of carrots deteriorated within one to two months of procurement.

The Company needs to evolve a mechanism so as to ensure entering into formal agreements for significant transactions and initiate available legal course of action for recovery of losses caused due to the negligence of the contracting agencies. The Company also needs to fix responsibility for the lapse and initiate disciplinary action against the erring officials.

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

### ***3.10 Sale of wheat to Food Corporation of India***

The Company procures wheat for central pool at the Minimum Support Price (MSP) fixed by the Government of India (GOI) and delivers the same to the Food Corporation of India (FCI). FCI reimburses the cost of wheat and incidental charges to the Company at the rates fixed by GOI from time to time. The Company procures wheat by availing loans from banks and gets the expenditure reimbursed subsequently from FCI. During 2003-08, the Company procured 93.41 lakh metric tonnes (LMT) of wheat and delivered 108.70 LMT of wheat (including stocks of previous years) to FCI.

Sales records of eight\* districts of the Company which supplied 52.27 LMT (48.09 *per cent* of the total 108.70 LMT) of wheat to FCI during the period 2003-08 were examined in audit. The observations emanating therefrom are discussed in the succeeding paragraphs:

#### ***Delivery of wheat to FCI***

**3.10.1** The Company delivers the wheat to FCI from different mandis, plinths and godowns as per the movement plan of FCI. Immediately after the delivery of wheat to FCI, the field staff sends the dispatch documents to the concerned

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\*Amritsar, Bathinda, Kapurthala, Ludhiana, Moga, Nawanshahar, Patiala & Sangrur

district office of the Company to raise the sale bills on FCI at the provisional rates fixed by Government of India.

The Company had prescribed (May 1994) a time limit of four days for submission of the dispatch documents by the field staff after delivery of the wheat stocks to FCI. Relaxation could be given up to ten days provided the documents were delayed for no fault of the Company's staff. In the event of their failure, penal interest at the rate of 18 *per cent* was recoverable from the defaulting officials. GOI issued (December 2001) instructions as per which FCI was liable to pay interest at the bank rate in case of delay in release of payment beyond the prescribed period of 24 hours after raising of bills by the Company. Delayed raising of bills by the Company and delay by FCI in making the payments resulted in a loss of Rs. 6.30 crore to the Company as detailed below:

***Delayed raising of sales bills***

**3.10.2** To monitor the delay in raising of sales bills, the officials of the Company are required to record the reasons for the delay, if any. It was observed in audit that this system was not effective as no reasons for the delay were being recorded in the register, though out of 6,087 sales bills of wheat raised during the period 2003-08, 1249 bills (20.52 *per cent*) for Rs. 1,455.36 crore were not raised in time and the delay ranged between one and 100 days. The delayed submission of the bills resulted in loss of Rs. 1.65 crore\* on account of interest to the Company. The Company had neither analysed the reasons for delay nor fixed any responsibility against the officials who defaulted. The Company should strengthen the monitoring mechanism to ensure that dispatch documents in each case are received in time and sale bills are raised promptly.

**Delayed raising of bills of wheat on FCI resulted in interest loss of Rs. 1.65 crore**

***Delayed receipt of payments from FCI.***

**3.10.3** The Company has not devised any system to monitor the delayed receipt of payments from FCI and raise interest claims accordingly. Of the 6,087 sales bills raised for Rs. 4,768.33 crore during 2003-08, it was noticed that payment by FCI was delayed in 1,463 bills (24.03 *per cent* of the total bills paid) for an amount of Rs. 1,698.63 crore. The delay ranged between one day and 321 days. However, the Company did not raise any claim for loss of interest of Rs. 3.03 crore\* on FCI for the delayed payments. The Company should evolve a system to monitor the working of its district offices to ensure that interest claims on FCI in respect of all the payments received late are raised and pursued.

**Delayed receipt of payment from FCI against the wheat bills raised by the Company resulted in loss of Rs. 3.03 crore**

***Delayed reimbursement of bonus***

**3.10.4** The Government of India decided (April 2006) to pay an incentive bonus of Rs. 50 per quintal for procurement of wheat during the Rabi Marketing Season of 2006-07 over and above the MSP of Rs. 650 per quintal to the farmers. The payment of bonus was subject to the condition that the State Government would

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\* Calculated at the rate of 9.10 *per cent* per annum, the lowest rate of interest on cash credit applicable during 2003-04 to 2007-08, as procurement activity is totally funded by availing cash credit from bank.

issue a notification exempting the bonus amount from all the state taxes/levies and the state agencies would certify that the amount had actually been paid to the farmers. As per instructions regarding payment of bonus on wheat during Rabi 2006 as conveyed by the Director, Food, Civil Supplies and Consumer Affairs Department, Punjab, FCI was liable to pay interest at rates fixed from time to time by the Government for delayed payments.

**Delayed issue of notification by the State Government and delayed reimbursement of bonus by FCI resulted in loss of interest of Rs. 1.62 crore**

The Company made (June and July 2006) payments of bonus of Rs. 25.89 crore to the farmers. However, the State Government issued (January 2007) the requisite notification after a delay of six months and thereafter the Company raised (February 2007 to July 2007) the bill to FCI against the bonus payment of Rs. 25.89 crore. This delay resulted in loss of interest of Rs. 1.62 crore<sup>^</sup> (Rs. 1.12 crore from the date of payment to the date of notification by State Government and Rs. 0.50 crore from the date of notification to the date of realization of payments by the Company from FCI). The Company/State Government need to ensure timely compliance with the instructions of GOI to avoid the loss of interest to the Company.

#### ***Finalisation of the rates by GOI***

**3.10.5** The GOI finalises the rates and the procurement agencies claim/receive the differential amount between the provisional and final rates after the rates are finalised. As on May 2009, GOI had issued the final rates upto the crop year 2003-04. In the absence of any mechanism to check/analyse the final rates, the Company failed to notice discrepancies in the final rates which resulted in short realization of Rs. 9.47 crore as discussed below:

#### ***Finalisation of the rates for the Crop year 1999-2000***

**3.10.6** Carryover charges<sup>♦</sup> included in the final rates for the crop year 1999-2000 approved (February 2004) by GOI included interest charges of Rs. 6.79 per quintal per month for the period 1 July 1999 to 9 April 2000 and Rs. 6.30 per quintal per month for the period 10 April 2000 onwards. It was observed that while calculating the interest charges per quintal (as per the formula for calculating interest charges given in the final rates), the cost of one 50 kg gunny bag was taken into account whereas two 50 kg bags were used for delivery of one quintal of wheat. Had the cost of two bags been taken into account, the interest would work out to Rs. 6.98 per quintal per month for the periods 1 July 1999 to 9 April 2000 and Rs. 6.47 per quintal per month from 10 April 2000 onwards i.e. an increase of Rs. 0.19 and Rs. 0.17 per quintal, respectively. This discrepancy in computation of interest resulted in short realization of Rs. 0.97<sup>§</sup> crore by the Company. The Company should evolve a system to check correctness of the rates

**The discrepancy in computation of interest in the final rates of wheat resulted in short realization of Rs. 0.97 crore**

<sup>^</sup> Calculated at the rate of 9.10 *per cent* per annum, from payment of bonus till reimbursement by FCI.

<sup>♦</sup> Charges paid for wheat delivered after 30 June of respective crop year, and comprise of interest and storage charges.

<sup>§</sup> Worked out @ Re. 0.19 per quintal on 9,09,686 quintal of wheat supplied during 1 July 1999 to 9 April 2000 and @ Re. 0.17 per quintal on 22,81,347 quintal of wheat supplied from 10 April 2000 onwards.

conveyed by Government of India.

***Finalisation of the rates for the Crop year 2000-01***

**3.10.7** In the final rates for the crop year 2000-01, approved in February 2004 by GOI, the storage charges included in the incidental charges<sup>∨</sup> were Rs. 0.92 per quintal per month for CAP\* storage and Rs. 2.10 per quintal per month for covered storage. In the carry over charges, the same were, however, taken as Rs. 0.46 per quintal per month for CAP storage and Rs. 1.05 per quintal per month for covered storage. It was observed in audit that in the final rates of previous years and subsequent years, there was no difference in the storage charges included in the incidental charges and carry over charges. It was also noticed that in the final rates approved by GOI for the Haryana State for the crop year 2000-01, the rate of storage charges included in the incidental charges as well as carry over charges were the same. This discrepancy in fixation of the storage charges resulted in short realisation of Rs. 8.50 crore on 5.56 LMT of wheat delivered to FCI during the extended period of 2000-01.

**Discrepancy in fixation of storage charges in final rates of wheat resulted in short realization of Rs. 8.50 crore**

The Company failed to notice the above mentioned discrepancies in the final rates and approach GOI/FCI for rectifications thereof. The Company should evolve a system to check correctness of the rates conveyed by Government of India.

**To sum up, the Company has no effective system:**

- **To monitor the timely submission of dispatch documents by its field staff and timely realization of sale proceeds from FCI.**
- **To check discrepancies in rates fixed by Government of India.**

The matter was referred to the Government/Management in May 2009; their reply had not been received (September 2009).

**Statutory corporations**

**Punjab State Electricity Board**

***3.11 Non-utilisation of the vacant land***

**Failure of the Board to take decision in time to get the work of plantation done in the vacant land resulted in idling of the land valuing Rs. 12.68 crore.**

Due to uncertainty in the construction of Sutluj Yamuna Link Project, 132 acres of land acquired in October 1995 for the Ropar Hydel Power project in three villages of the district Ropar remained vacant. As the land was not put to

<sup>∨</sup> These include statutory charges, establishment & administration charges, and interest and storage charges up to 30 June for each crop year.

\* CAP storage means wheat stored at plinth.



use by the Punjab State Electricity Board (Board), it was encroached by the farmers from whom it was purchased. It was got vacated in May 2000 with the help of police. To check further encroachment of the land, the Board fixed drums filled with earth all along the boundary line (May/June 2000), but the farmers removed them gradually and encroached the land again by cultivating it from December 2000.

As the construction work for the project was not expected to re-commence soon and in order to avoid encroachment and utilize the land, the Chief Engineer (Civil), after consultation with the forest department, submitted (July 2001) proposals to the Whole Time Members (WTM) of the Board seeking approval for undertaking plantation of trees on the land. The proposals contained two alternatives: (i) to carry out plantation of trees through the forest department on revenue sharing basis, and (ii) get the plantation through the forest department as deposit work. The WTM of the Board approved (August 2001) the proposal to get the plantation carried out through the forest department on revenue sharing basis without incurring any expenditure. Accordingly, the Board requested (August 2001) the forest department to take over the land and start the work of plantation. The forest department, however, could not start the work of plantation for want of allocation of funds by the State Government. The Board, after a lapse of seven years decided (October 2008) to get the work of plantation and its maintenance done as deposit work through the forest department at an estimated expenditure of Rs. 0.79 crore, after getting the planned eviction of the farmers and providing peripheral fencing of the land. Such a long spell of indecisiveness does not augur well to the Board. It failed to review and revise the decision at an appropriate time.

Thus, abnormal delay in taking the decision by the Management had not only resulted in idling of the land valuing Rs. 12.68 crore (land compensation payments made to the farmers upto December 2007) for such a long period but also resulted in illegal encroachments depriving the Board to make use of the land at this point of time. Had the decision of plantation of trees on the acquired land been taken in time, the Board could have avoided the encroachment besides making productive use of the land.

The matter was referred to the Government/Board in May 2009; their replies had not been received (September 2009).

### *3.12 Undue favour to a consumer*

**The Board extended undue favour to a consumer by non clubbing of connections resulting in loss of Rs. 3.81 crore to the Board.**

Electricity Supply Regulations (ESR) 1999 (amended upto December 2004) provide that wherever more than one industrial connection is running in the same premises in same or different names but industrial activities are carried out by one concern/proprietor, such consumer shall be asked to get the loads clubbed and get one connection in one name. The Board's instructions (July 2000) further provided that the supply to large supply consumers with contract demand above

2,500 KVA was to be given at 33 KV/66 KV and supply to such consumers at 11 KV, would attract voltage surcharge at 17.5 *per cent*. The Board revised (June 2003) the rate of levy of voltage surcharge at 10 *per cent* from those consumers having contract demand exceeding 2,500 KVA and up to 4,000 KVA and at 17.5 *per cent* from those consumers having contract demand exceeding 4,000 KVA. The Punjab State Electricity Regulatory Commission had approved the levy of the said surcharge in its tariff orders (2004-07). Further, Section 45 of the Electricity Act, 2003 requires the Board to recover the charges for supply of electricity as per tariff fixed by the State Electricity Regulatory Commission and prohibits the Board to favour any consumer.

Thapar Ispat Private Limited, Ludhiana (the consumer) under the Commercial Sub-division Focal Point, Ludhiana had two connections, each having sanctioned load of 1,800 KW (contract demand: 1,995 KVA) and was getting supply at 11 KV. These connections were running in the same premises, but the Board did not ask the consumer to get the loads clubbed. The consumer applied (December 2005) for extension of load by 450 KW (contract demand: 480 KV) in one of its connection. While considering the consumer's application, the feasibility Clearance Committee of the Board recommended (May 2006) to allow extension of load/contract demand subject to the condition that the consumer would pay the voltage surcharge at the rate of 17.5 *per cent* as per existing instructions or convert the supply voltage to 66 KV at his own cost as after the proposed extension the total clubbed load of these connections would be 4,050 KW (contract demand: 4,470 KVA). Accordingly, the Chief Engineer (Commercial) of the Board issued (25 May 2006) feasibility clearance to the consumer. On the representation of the consumer, the Whole Time Members of the Board decided (September 2006) to allow extension of load and waived off the condition for levying 17.5 *per cent* voltage surcharge or to convert the supply at 66 KV voltage.

The decision of the Whole Time Members tantamount to favour to the consumer and was in contravention of the provisions of Section 45 of the Electricity Act, 2003 which prohibits favour to any consumer. This decision resulted in loss of revenue to the Board from April 2004 to March 2009 to the extent of Rs. 3.81 crore.

In order to save the Board from recurring loss on this account, the two connections of the consumer should be clubbed and the tariff be recovered in accordance with provisions of the Electricity Supply Regulations.

The matter was referred to the Government/Management in December 2008; their replies had not been received (September 2009).

### 3.13 Avoidable payment due to failure to avail loan at lower rate of interest

**Failure of the Board to take decision to avail a short term loan immediately after evaluation of the offers resulted in avoidable payment of interest of Rupees three crore.**

The Board invited (16 July 2008) offers from banks to avail short term loan of Rs. 400 crore for making payments towards purchase of power, coal and freight to railway, etc. The tenure of the loan was to be one year and the loan was secured against post-dated cheques. The banks were asked to convey the sanction indicating therein the firm and final rate of interest by 25 July 2008. In response, the Board received offers from seven banks and the bids were opened on 25 July 2008. The Punjab National Bank (PNB), which offered Rs. 400 crore at variable rate of interest of 11.50 *per cent* per annum, after discussion with the Board, submitted (25 July 2008) an alternate offer of fixed rate of interest of 11.75 *per cent* per annum, which was the offer with lowest rate of interest. The Board did not take immediate decision, despite the fact that there was no validity period of offers available to the Board.

After evaluation of the offers, the Board of Directors (BOD) decided on 28 July 2008 to avail Rs. 400 crore from PNB at the fixed rate of interest of 11.75 *per cent* per annum. The Board asked (29 July 2008) the bank for sanctioning of the loan and requested for execution of documents. The PNB declined (1 August 2008) to sanction the loan and stated that the Board was required to respond on 25 July 2008 itself and the bank took up the matter over telephone on 25 July 2008 and again on 28 July 2008, but was informed that final decision in this regard was yet to be taken at the level of BOD. The bank offered the loan at the revised rate of interest (fixed) of 12.75 *per cent* per annum to which the Board did not agree.

However, the loan of Rs. 400 crore was subsequently got sanctioned from PNB on 25 August 2008 at the fixed rate of interest of 12.50 *per cent* per annum. The loan was drawn between 1 September and 26 September 2008. As compared to the offer of loan in July 2008, this loan led to an additional payment of interest of Rupees three crore.

Audit observed that the Board was aware of the increasing trend in the rate of interest on short term loans as the rate at which it was raising short term loans was increasing every month since February 2008. The Bank Prime Lending Rates of different banks were also expected to be revised upward in view of the hike in Cash Reserve Ratio (0.25 *per cent* on 5 July 2008 and 0.25 *per cent* on 19 July 2008). Even then, the Board did not decide acceptance of the loan immediately and to take *post facto* approval of BOD, which it had resorted to in the past.

Thus, failure of the Board to decide immediately after evaluation of the offers on 25 July 2008, particularly when the banks had not provided any validity period to avail the loan, resulted in subsequent availing of the loan at higher rate of interest and consequent avoidable payment of Rupees three crore.

The Board needs to evolve a system to make timely decisions on issues involving

urgency to avoid losses in future.

The matter was referred to the Government/Management in May 2009; their replies had not been received (September 2009).

### 3.14 *Undue favour to a consultant*

**Injudicious appointment of a consultant with the terms of sharing the expected waiver/reduction of surcharge and release of payments of Rs. 75 lakh did not bring any benefit to the Board.**

As per the Railways rules, 15 *per cent* surcharge was leviable on the value of coal transported, when the freight was paid at destination. Since it was not possible to pay the freight at loading points of coal by the Punjab State Electricity Board (Board), it agreed (1992) to an 'Advance Deposit Scheme' with the Railways wherein the Board was required to maintain a deposit amount equivalent to the value of one month freight, which worked out to Rs. 83.00 crore. The freight of coal was to be deducted from this deposit and required to be recouped on 10 days basis failing which surcharge at the rate of 15 *per cent* was to be levied. The Board due to its financial crunch failed to maintain the minimum deposit during August 1998 and August and September 2000 and the Railways levied surcharge of Rs. 24.92 crore. The amount of surcharge continued to swell because of cascading effect and increased to Rs. 194.77 crore on 31 October 2000.

Narayan Consultancy, Baroda (a consultant firm) working with the Board for dealing the Railways matters since 1997, offered (January 2001) their services to get the surcharge waived off by the Railways. The Board entrusted (March 2001) the work to the consultant at the service charge of 3.5 *per cent* of the surcharge amount expected to be reduced by the Railways. On the advice of the consultant, a writ petition against the Railways was filed in February 2002 in the Punjab and Haryana High Court. The consultant approached (May 2002) the Board for release of 50 *per cent* of the service charges as *ad hoc* payment which the Board declined as it was not permissible in terms of the agreement. Though the case was still pending in the Court, the Consultant again approached (August 2005) the Board for release of advance of Rs. 50.00 lakh, if the Board was interested to go ahead with the matter with the stipulation that if the case was lost, it would not be recoverable by the Board. The Board agreed and released Rs. 25 lakh (December 2005 and March 2006). The Consultant again approached (February 2008) the Board for release of two instalments of Rs. 50 lakh each on the plea of expenditure already made. The Board further released (March 2008) Rs. 50.00 lakh with the same stipulation of the consultant agreed earlier.

Audit observed that since the Railways is also a government agency like the Board, it should have explored the possibility of settling the issue mutually and in case of dispute, higher authorities in Government could have been involved. Thus, due to the injudicious appointment of a consultant and subsequent release of advance payments in disregard to the terms of agreement, the Board had extended undue favour to the consultant to the tune of Rs. 75.00 lakh, without any fruitful results and the dispute remained unresolved (July 2009).

The Management admitted (July 2009) that as per the terms and conditions of the contract, no payment was payable to the consultant and further stated that the amount was released to the consultant to keep its interest alive in the case. The reply is not convincing as the consultant was not entitled for any payment till the Board received any relief/waiver from the Railways.

The matter was referred to the Government in May 2009; their reply had not been received (September 2009).

### **3.15 Avoidable expenditure in the purchase of transformer oil**

**Failure on the part of Management to take note of the upward trend in base price of transformer oil resulted in avoidable expenditure of Rs. 72.90 lakh.**

The Board invited (November 2007) short term tenders for procurement of 1,800 kilo litres (KL) of EHV grade transformer oil. In response, the Board received four offers and the bids were opened on 17 December 2007. All the firms quoted variable rate with base date of 1 November 2007 and the offers were valid up to 14 May 2008. The offer of Apar Industries Limited, Mumbai of Rs. 38,000 per KL ex-works (Rs. 46,762.40 per KL FOR destination) was the lowest. While evaluating the bids, the Board observed that there was wide fluctuation in the prices of transformer oil base stock. It noted that the price of base stock oil decreased from Rs. 38,661 as on 1 March 2007 to Rs. 35,827 per KL as on 1 November 2007 but all the bidders had quoted higher rates against this tender. It was noticed in audit that the price of base stock oil showed an increasing trend after November 2007 and reached to Rs. 36,319 per KL in December 2007.

Ignoring the increasing trend in the price of base stock oil since December 2007, the Board decided (January 2008) to procure only 900 KL of transformer oil against the tendered quantity of 1,800 KL at the quoted rate of Rs. 46,762.40 per KL FOR destination. The Board limited the ordered quantity on the grounds of higher rates quoted by the bidders *vis-a-vis* the falling trend in price till November 2007. The Board placed the purchase order in February 2008 and the firm supplied the oil between February and July 2008.

Meanwhile, in March 2008 the Board invited another short term tender for procurement of 1,300 KL of transformer oil and placed (September 2008) the purchase order on Savita Chemicals Limited, Mumbai at variable rate of Rs. 58,837.90 FOR destination per KL (ex-works price of Rs. 49,500 per KL with base date of 1 March 2008).

Audit observed that the Board failed to take cognizance of the upward trend in base stock rate of transformer oil during December 2007 i.e. just before the time (January 2008) of finalising the tender. When the Board was aware of wide fluctuation in the price, it should have taken into consideration the trend of price for deciding the purchase. Had the Board procured the full tendered quantity of 1,800 KL of oil from Apar Industries, it could have avoided the extra expenditure resulting from the subsequent purchase at higher price.

Thus, failure on the part of Management to take note of the latest upward trend in base price of transformer oil, particularly when the offer of the firm was valid up to 14 May 2008, resulted in avoidable expenditure of Rs. 72.90 lakh.

The Board needs to consider the updated price of base stock oil at the time of taking decision to procure the transformer oil.

The matter was referred to the Government/Management in April 2009; their replies had not been received (September 2009).

## **Punjab Financial Corporation**

### ***3.16 Loss due to non-leasing of premises***

#### **Non-acceptance of the offer for leasing out the vacant premises resulted in a loss of Rs. 38.75 lakh to the Corporation.**

With a view to provide office accommodation for its District Office at Amritsar, the Punjab Financial Corporation (Corporation) constructed (April 2001) an office building comprising 8,167 square feet (sq. ft) at ground floor and 1,947 sq. ft. at basement at a cost of Rs. 48 lakh. However, due to decline in lending activity of the Corporation, the basement and 2,178 sq. ft. at ground floor could not be put to use. The Corporation did not initiate any action till April 2006 to let out the vacant space except that it submitted an offer (March 2004) to Industrial Development Bank of India and another offer (March 2005) to State Bank of India in response to their advertisements which could not be matured. The Corporation advertised (May and July 2006) to lease out the vacant space and received (July 2006) an offer for taking over the premises on 30 years lease at monthly rental of Rs. 24 per sq. ft. for ground floor and Rs. 10 per sq. ft. for basement. The District Manager, Amritsar of the Corporation reviewed the prevailing rentals in the area and observed (July 2006) that the then prevailing lease rental varied between Rs. 22 and Rs. 25 per sq. ft. In August 2006, Reliance Industries Limited (RIL) approached the District Manager for taking over the premises on lease and offered (September 2006) Rs. 35 per sq. ft. for ground floor with escalation of 10 *per cent* every three years. However, the District Manager, Amritsar informed (September 2006) that the rentals in the area had gone up to Rs. 50 per sq. ft. Accordingly, negotiations were held and RIL offered (October 2006) the rent of Rs. 40 per sq. ft. with escalation of 15 *per cent* after every three years. Thereafter, RIL also offered (November 2006) to take over both ground floor and basement at maximum lease rental of Rs. 1.25 lakh per month. Despite the fact that this offer was for the maximum lease rent and there was no other better offer available, the Corporation, instead of accepting the offer (November 2006), made a counter offer of Rs. 1.64 lakh per month. The RIL did not respond to it. The Corporation issued further advertisements (March 2007, June 2007 and September 2007) but no response was received. The building was still lying vacant (August 2009). As the Corporation was running in huge losses, renting out the building would have helped in improving its overall liquidity position.

Thus, non-acceptance of the offer of RIL and failure to act in the best financial interest of the Corporation resulted in loss of revenue of Rs. 38.75 lakh (January 2007 to July 2009).

The Management stated (January 2009) that RIL was paying lower rates in comparison to the prevailing rent in the market. The reply is not convincing as the RIL's offer was the highest one and there was no other better alternative offer available with the Corporation.

The matter was referred to the Government in December 2008; their reply had not been received (September 2009).

## General

### 3.17 Opportunity to recover money ignored

**Six Public Sector Undertakings did not either seize the opportunity to recover their money or pursue the matters to their logical end. As a result, recovery of money amounting to Rs. 28.38 crore remained outstanding.**

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 19 paras in respect of six Public Sector Undertakings (PSUs) involving recovery of Rs. 28.38 crore. The provisions of Manual of Standing Orders (Audit) *inter alia* provided that every query or observation made by Audit in relation to accounts or transactions should be promptly taken into consideration and returned with necessary documents to the Accountant General concerned within such period as may be prescribed by him. As per the extant instructions, the PSUs are required to furnish annotated replies to an IR within four weeks of issue and take necessary remedial action. However, in the case of 19 paras mentioned *ibid*, no effective action has been taken to take the matters to their logical end, i.e., to recover the money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money which could have augmented their finances.

The PSU wise details of paras and recovery amount are given below. The list of individual paras is given in the *Annexure 14*.

Sl. No.	PSU Name	No. of Paras	Amount for Recovery (Rupees in crore)
1	Punjab State Electricity Board	14	27.64
2	Punjab Agro Foodgrains Corporation Limited	1	0.45
3	Punjab State Grains Procurement Corporation Limited	1	0.16
4	Punjab State Forest Development Corporation Limited	1	0.02
5	Punjab Small Industries and Export Corporation Limited	1	0.05
6	Punjab State Handloom and Textiles Development Corporation Limited	1	0.06
	<b>Total</b>	<b>19</b>	<b>28.38</b>

The paras mainly pertain to recovery on account of shortages (Rs. 0.81 crore), sale of energy to consumers (Rs. 5.88 crore), theft of energy by consumers (Rs. 1.18 crore), overpayments (Rs. 0.08 crore) and non-receipt of old dues from other organizations (Rs. 20.43 crore).

The above cases point out the failure of respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

### 3.18 Lack of remedial action on audit observations

**Six Public Sector Undertakings did not either take remedial action or pursue the matters to their logical end in respect of 51 IR paras resulting in foregoing the opportunity to improve their functioning.**

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 51 paras in respect of six Public Sector Undertakings (PSUs), which pointed out deficiencies in the functioning of the PSUs. The provisions of Manual of Standing Orders (Audit) *inter alia* provided that every query or observation made by Audit in relation to accounts or transactions should be promptly taken into consideration and returned with necessary documents to the Accountant General concerned within such period as may be prescribed by him. As per the extant instructions, the PSUs are required to furnish annotated replies to an IR within four weeks of issue and take necessary remedial action. However, in the case of 51 paras mentioned *ibid*, no effective action has been taken to take the matters to their logical end, i.e., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

The PSU wise details of paras are given below. The list of individual paras is given in the **Annexure 15**.

Sl. No.	PSU Name	No. of Paras
1	Punjab State Electricity Board	43
2	Punjab Agro Foodgrains Corporation Limited	1
3	Punjab State Grains Procurement Corporation Limited	1
4	Punjab State Forest Development Corporation Limited	1
5	Punjab Small Industries and Export Corporation Limited	2
6	Punjab State Warehousing Corporation	3
	<b>Total</b>	<b>51</b>

The paras mainly pertain to non-finalisation of cases of shortages of material against employees; undue benefits extended to material suppliers, consumers and



employees; non-recovery of energy charges; non-finalisation /non-reconciliation of material at site accounts; misappropriation of materials; theft of energy and materials; loss of interest; delay in raising of bills; loss on disposal of damaged wheat and non recovery of sales tax from contractors, etc.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

### **3.19 Follow-up Action on Audit Reports**

#### ***Explanatory Notes Outstanding***

**3.19.1** The Audit Reports of the Comptroller and Auditor General of India, represent the culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The State Finance Department issued instructions (August 1992) to all the administrative departments to submit detailed notes, duly vetted by Audit indicating the corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports, within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

The Audit Reports for the years 2002-03, 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 featuring 145 paragraphs/reviews relating to PSUs under the administrative control of 13 departments were placed in the State Legislature on the dates indicated in the following table. No replies in respect of 52 paras/reviews have been received from seven departments of the State Government by 30 September 2009.

<b>Year of the Audit Report (Commercial)</b>	<b>Date of Presentation</b>	<b>Total no. of paragraphs/ reviews in the Audit Report</b>	<b>Number of paragraphs/ reviews for which detailed notes were not received.</b>
2002-03	June 2004	23	2
2003-04	March 2005	22	3
2004-05	March 2006	23	10
2005-06	March 2007	28	2
2006-07	March 2008	25	12
2007-08	March 2009	24	23
<b>Total</b>		<b>145</b>	<b>52</b>

The department-wise analysis is given in **Annexure 16**. The departments largely responsible for non-submission of detailed notes were Power, Finance, Agriculture Food and Supplies and Industries. The Government did not respond to important

reviews that highlighted delay in taking action against defaulting millers/loanees, performance of workshops, purchase and inventory control in power sector, loss in sale of damaged wheat, one time settlement to profit making units and sanctions/disbursement/recovery of loans.

***Action Taken Notes on Reports of Committee on Public Undertaking (COPU)***

**3.19.2** As per rule 25 of the Internal Working Rules of COPU, Punjab Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of the PSU within six months from the date of placement of Report of COPU in the State Legislature. Replies to 10 paragraphs pertaining to two Reports of COPU (84<sup>th</sup> and 85<sup>th</sup>) presented to State Legislature on 24<sup>th</sup> March 2008 and 9 paragraphs pertaining to two Reports of COPU ( 88<sup>th</sup> and 89<sup>th</sup> ) presented to State Legislature on 6<sup>th</sup> March 2009 had not been received as on 30 September 2009.

***Action taken on the persistent irregularities***

**3.19.3** With a view to assist and facilitate discussions of the irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the concerned auditee organisations. The results thereof in respect of Government companies and Statutory corporations are included in the ***Annexure 17***.

Irregularities having financial implication of Rs. 20.69 crore (Punjab State Civil Supplies Corporation Limited) and Rs. 40.24 crore (Punjab State Grains Procurement Corporation) were included in the Reports of Comptroller and Auditor General of India for the years 2005-06 to 2007-08 (Commercial) - Government of Punjab. These irregularities had been persisting for periods ranging between two and three years.

***Response to Inspection Reports, Draft Paras and Reviews***

**3.19.4** Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of four weeks. Inspection Reports issued up to March 2009 revealed that 2,546 paragraphs relating to 873 Inspection Reports pertaining to 40 PSUs were outstanding at the end of 30 September 2009. The department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2009 is given in ***Annexure 18***.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 19 draft paragraphs and three draft performance reviews forwarded to the various departments during January 2009 to August 2009 as detailed in ***Annexure 19*** had not been replied so far (September 2009).

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

**CHANDIGARH**  
The

**(S. Murugiah)**  
**Principal Accountant General (Audit), Punjab**

**Countersigned**

**NEW DELHI**  
The

**(Vinod Rai)**  
**Comptroller and Auditor General of India**