Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Punjab had 31 working PSUs (27 companies and 4 Statutory corporations) and 22 non-working PSUs (all companies), which employed 0.71 lakh employees. The working PSUs registered a turnover of ₹ 24,431.81 crore for 2010-11 as per their latest finalised accounts. This turnover was equal to 10.68 per cent of the State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of ₹ 1,498.07 crore in 2010-11 and had accumulated losses of ₹11,921.16 crore.

Investments in PSUs

As on 31 March 2011, the investment (Capital and long term loans) in 53 PSUs was ₹14,341.28 crore. It grew by over 9.92 per cent from ₹13,046.77 crore in 2005-06. The thrust of investment in the State was mainly in power sector. Power Sector accounted for 83.23 per cent of the total investment in 2010-11. The Government contributed ₹ 3,689.80 crore towards equity and grants /subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 31 working PSUs, 14 PSUs earned profit of ₹ 58.30 crore and 11 PSUs incurred loss of ₹ 1,556.37 crore. Three working PSUs prepared their accounts on 'no profit no loss' basis; two working PSUs have not started commercial activities and one working PSU has not prepared its first account. The major contributors to profit were Punjab Small Industries and Export Corporation Limited (₹ 15.94 crore), Punjab Genco Limited (₹ 13.35 crore) and Punjab State Container and Warehousing Corporation Limited (₹ 11.40 crore). The heavy losses were incurred by Punjab State Electricity Board (₹ 1,301.52 crore), Punjab State Grains Procurement Corporation Limited (₹ 137.21 crore) and Punjab State Warehousing Corporation (₹84.58 crore).

The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of three years Audit Reports (2008-09 to 2010-11) of CAG shows that the state PSUs losses of ₹ 4,650.77 crore and infructuous investments of ₹ 8.25 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 25 accounts of working companies finalised during October 2010 to September 2011, the statutory auditors had given unqualified certificates for 13 accounts, qualified certificates for nine accounts, adverse certificates for two accounts and disclaimer certificate for one account. There were 28 instances of non-compliance with Accounting Standards. All three accounts of Statutory corporations finalised during October 2010 to September 2011 received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty four working PSUs had arrears of 39 accounts as of September 2011. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 22 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

2. Performance audit of Government Companies

2.1 Performance audit of "Procurement, Storage and Delivery of Wheat" by **Punjab State Grains Procurement Corporation Limited** was conducted. Executive summary of the Audit findings is given below:

The Punjab State Grains Procurement Corporation Limited (Company) was incorporated on 10 March 2003 and it is one of the five State procuring agencies entrusted with procurement of foodgrains such as wheat and paddy for the central pool. Performance audit of procurement, storage and delivery of wheat by the Company was taken up in the context of food security, wastage of grains, shortage of storage facilities and other risks including persistent loss incurred by the Company. Eight out of twenty district offices of the Company were selected for detailed check on the basis of Statistical Sampling. The audit findings are summarised below:

(I) Financial Management

The Company was not able to recover its cost of operations. The accumulated losses of the Company increased year after year. The accumulated losses increased by 196.20 percent from ₹ 269.27 crore in 2006-07 to ₹ 797.57 crore in 2009-10, mainly due to high incidence of interest payments, failure to get reimbursement of all elements of the cost and delay in claiming the incidental charges from FCI.

(II) Procurement of wheat

The Company procured 75.76 LMT wheat at the cost of ₹ 7,191.45 crore during 2006-11. Wheat procurement was less than the targets during the audit period. The Company had not devised proper system to ensure that all the elements of cost were included in the claims..

(III) Storage of wheat

The Company had neither ensured storage of wheat in covered godowns/on scientific plinths nor evolved any mechanism to ensure timely hiring of plinths of prescribed specifications. The Company also failed to get the storage space thoroughly cleaned and disinfested before storage of wheat procured leaving to deterioration in the quality of stored foodgrains.

(i) Damage and storage of wheat stock

Against the total storage requirements, the shortfall in covered storage capacity ranged between 66.25 (2006-07) and 82.64 (2010-11) per cent. Resultantly, the Company had to resort to store the wheat in open which led to deterioration of stocks. 18,272 MT of wheat costing ₹ 18.41 crore was damaged due to improper storage. Shortages of 3,480.81 MT of wheat costing ₹ 3.74 crore were also noticed. However, the Management failed to finalise the departmental actions against the officers concerned even after lapse of three to five years of detection of shortages.

(ii) Short accountal of storage gain

The district offices, Patiala and Ferozepur did not pass on the required storage gain and in lieu of that the FCI had deducted ₹ 1.66 crore from the sale bills of wheat. Non passing of storage gain smacks of pilferage by the officials. However, the Company had neither recovered the amount from the officials responsible nor initiated any action to fix the responsibility of delinquent officials.

(IV) Delivery of wheat to FCI

The Company was put to huge financial losses due to either delay or non raising of claims on the FCI/State Government.

(i) Delay in preparation of sale bills

During 2006-11, there were delays of one to 125 days in submission of the dispatch documents which led to delay in submission of bills and subsequent realisation of dues from FCI, resulting in loss of interest of ₹ 1.51 crore.

(ii) Non claiming of interest on delayed payments

FCI was required to make payments within 24 hours of the presentation of the sale bills. Though, there were delays up to 226 days in receipt of payments from FCI, the Company did not raise interest claims of ₹ 4.01 crore on delayed payments by FCI.

(iii) Non claiming of cost of polypropylene bags

Due to non fixation of rates of PP bags in the provisional rates for the crop year 2010-11, the Company did not claim cost of 40.87 lakh PP bags used for delivery of wheat to FCI during the crop year 2010-11 even at the rates of previous year which resulted in non-recovery of ₹5.66 crore.

(iv) Non reimbursement of interest charges for wheat directly delivered from mandis

The Company failed to take up the matter with GOI resulting in non reimbursement of interest charges of ₹3.33 crore in respect of 13.53 lakh MTs of wheat directly delivered from the mandis.

(v) Delayed/less/non raising of claims of incidental charges

Delayed/less/non raising of claims of incidental charges resulted in loss of interest of ₹1.73 crore.

(vi) Avoidable payment of infrastructure development (ID) cess

Despite specific instructions not to deposit ID cess in respect of wheat required under Above Poverty Line scheme of Targeted Public Distribution System, eight selected district offices of the Company deposited ₹ 2.81 crore during August 2009 to February 2010 on account of ID cess which has not yet been recovered from FCI (March 2011).

(vii) Transportation of wheat

The contracts for transportation of wheat from mandis to storage points were awarded on the basis of rates per quintal basis and no weightage was given to the distance involved. The fixation of rates with reference to per quintal instead of per quintal per kilometer resulted in extra expenditure of ₹ 19.09 crore during 2006-11.

Conclusion and Recommendations

The performance of the Company with regard to procurement, storage and delivery of wheat was sub-optimal due to inadequate covered storage capacity and non devising of a system to analyse the rates fixed by GOI to ensure that all elements of its cost are reimbursed. There was no effective system to ensure timely raising of sale bills to FCI. The Company has not finalised the actions against persons responsible for damages and shortages of wheat even after lapse of 3 to 5 years. The accumulated losses of the Company increased year after year and it failed to identify the loss making areas for taking corrective measures.

We have made seven recommendations to improve the working of the Company. Setting up of the infrastructure for covered storage of wheat in the State, devising a regular system to ensure that all elements of its legitimate cost are reimbursed by GOI, finalisation of the departmental action for damages and shortages of wheat stocks, timely raising of bills of various incidental charges with FCI etc. are some of the recommendations

2.2 Performance audit on the working of **Punjab State Power Corporation Limited (erstwhile Punjab State Electricity Board)** was conducted. Executive summary of the Audit findings is given below:

Power is an essential requirement for all facets of life. The distribution system of the power sector constitutes the final link between the power sector and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. National Electricity Policy aims to bring out reforms in the Power Distribution sector with focus on system upgradation, controlling and reduction of Transmission and Distribution losses and power thefts and making the sector commercially viable.

In Punjab, distribution of power upto 15 April 2010 was carried out by the erstwhile Punjab State Electricity Board (PSEB). Consequent to unbundling of PSEB from 16 April 2010, the same is now carried out by the Punjab State Power Corporation Limited (Company). The performance audit covering period from 1 April 2006 to 31 March 2011 was conducted to ascertain whether the aims and objectives stated in the National Electricity Policy and Plan were adhered to and how far the distribution reforms have been achieved.

Financial Position and Working Results

The Company was not able to recover its cost of operations and the accumulated losses increased year after year. The average realisation per unit ranged between ₹ 3.12 and ₹ 3.77 against average cost per unit of ₹ 3.70 to ₹ 4.18 during 2006-10.

Distribution network planning

Against the planned additions of 525 sub-stations over the audit period, only 136 sub-stations were actually added. Further, increase in transformation capacity was not commensurate with the increase in connected load. During the audit period, the connected load increased from 19,688 MW to 27,385 MW (39.09 per cent) whereas transformation capacity increased from 15,287 MVA to 20,199 MVA (32.13 per cent).

Implementation of Centrally Sponsored Schemes

Upgradation of the rural electrical infrastructure by erecting 7,014 pole mounted 25 KVA substations and providing 1.49 lakh single point free electricity connections to below poverty line (BPL) households were taken up (March 2008) under the Rajiv Gandhi Grameen Vidyuitikaran Yojna at a cost of ₹ 183.91 crore. The work was required to be completed by October 2010. However, upto March 2011, the Company could install only 2,108 (30.05 per cent) pole mounted 25 KVA sub-stations and could release only 0.60 lakh (40.27 per cent) BPL service connections. In order to carry on the power sector reforms, the Restructured Accelerated Power Development Reforms Programme was launched in July 2008 which aimed at establishment of IT enabled system for achieving reliable and verifiable baseline data alongwith strengthening of regular sub-transmission & distribution system and upgradation projects. However, in this respect, the Company could utilise only ₹ 18.19 crore (12.09 per cent) against ₹ 150.40 crore received from GOI as of March 2011.

Operational efficiency

The operational performance of the Distribution Companies is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimising line losses, detection of theft of electricity, etc. Audit of operations of the Company revealed the following:

a) The Company was not able to meet the requirement of power in the State and the power deficit increased by 188.65 per cent from 5,376 MUs to 15,518 MUs during 2006-11. To meet the deficit of power, the Company resorted to unplanned purchase of power through short term and panic measures at exorbitant rates, at an average cost of ₹ 5.75 per unit against its average realisation of revenue of ₹3.50 per unit of energy sold.

b) Though the overall transmission and distribution losses decreased from 23.92 to 17.96 per cent during 2006-11, they were still on the higher side as compared to maximum level of 15.5 per cent fixed by the Central Electricity Authority (CEA). Against the ideal ratio of 1:1, the ratio of transformation capacity to the total connected load ranged between 0.43:1 and 0.46:1 during 2006-11. Percentage of failure of DTRs ranged between 7.74 and 12.44 per cent during 2006-11. Further, the Company failed to devise proper internal control mechanism and effective managerial control to ensure timely return of damaged transformers after repair.

Billing and Revenue Collection Efficiency

As revenue from sale of energy is the main source of income, the efficiency lies in timely billing of energy sold to consumers and prompt collection of revenue in time. During audit period energy billed on the basis of meter readings ranged between 68.41 to 78.09 per cent of the total energy available for sale within the State. Outstanding dues increased from ₹ 1,331.37 crore to ₹ 1,728.30 crore during 2006-10. The Company failed to initiate effective pursuance for recovery of outstanding dues. There was no established and conclusive methodology for determination of AP consumption.

Financial Management

A review of financial management of the Company revealed that dependence on borrowed funds increased during the audit period and the borrowings increased from ₹ 11,285.24 crore to ₹17,336.68 crore (53.62 per cent) during 2006-10.

Tariff fixation

The Company failed (except 2006-07 and 2010-11) to file the Annual Revenue Requirement (ARR) petitions within the prescribed period of 120 days before the commencement of the respective year. Non-filing of the ARR petition for 2007-08 resulted in rejection of interest claim of ₹115.19 crore on non/delayed receipt of subsidy from the State Government during 2007-08.

Conclusion and recommendations

The Company was not able to recover its cost of operation and its accumulated losses increased by 62.41 per cent during 2006-11. It could not meet the demand of power in the State and power deficit increased by 188.65 per cent during 2006-11. For strengthening of distribution network in the State, though the Company had been initiating schemes from time to time, there are many schemes which had been abnormally delayed or remained to be completed. The Company consistently failed to achieve its performance parameters and the targets.

We have made seven recommendations to improve the distribution segment of the power sector in the State. Making of plans for reduction of T&D losses and power theft, explore the additional sources of availability of power at economical rates, ensure timely completion of all the schemes, achievement of performance parameters and targets, installing of 100 per cent metering and fixing yearly targets/ milestones for energy audit, etc. are some of these recommendations.

3. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications.

The irregularities pointed out are broadly of the following nature:

Loss of ₹ 0.50 crore in one case due to non compliance with rules, directives and procedures.

(Paragraph 3.8)

Loss of ₹ 9.68 crore in one case due to non-safeguarding the financial interests of PSUs.

(Paragraph 3.1)

Loss of ₹ 52.69 crore in four cases due to defective/deficient planning.

(Paragraphs 3.2, 3.7, 3.10 and 3.12)

Loss of ₹ 0.56 crore in one case due to injudicious decision in award of the contract.

(Paragraph 3.3)

Loss of ₹ 53.01 crore in three cases due to inadequate/deficient monitoring.

(Paragraphs 3.4, 3.9 and 3.11)

Unfruitful expenditure of ₹ 7.72 crore in two cases due to non-realisation/ partial realisation of objectives.

(Paragraphs 3.5 and 3.6)

Gist of some of the important audit observations is given below:

Punjab State Power Corporation Limited failed to swap the high cost outstanding loans with the new loans carrying lower rate of interest resulting in avoidable payment of interest of ₹ 9.68 crore.

(Paragraph 3.1)

Punjab State Power Corporation Limited decided to allot consultancy services without ensuring availability of the land and not taking cognizance of the hurdles in obtaining environmental clearance which resulted in unfruitful expenditure of ₹ 3.37 crore.

(Paragraph 3.2)

Punjab Agro Foodgrains Corporation Limited failed to deliver the wheat stocks on FIFO basis which coupled with inadequate fumigation and improper storage resulted in damage of wheat stock of 55,412 MT valuing ₹ 64.91 crore.

(Paragraph 3.7)

Punjab Agro Foodgrains Corporation Limited, Punjab State Grains Procurement Corporation Limited and Punjab State Warehousing Corporation failed to establish effective internal control mechanism to monitor timely raising of the bills for reimbursement from FCI which resulted in loss of interest of ₹ 7.11 crore to these procuring agencies.

(Paragraph 3.9)

Punjab State Warehousing Corporation failed to take up the matter with the State Government for making a provision of compensation in lieu of waiver of interest clause for the extended period of milling and delivery of rice which resulted in financial loss of ₹ 45.15 crore.

(Paragraph 3.11)

Punjab State Warehousing Corporation also failed to initiate action to shift the unmilled paddy to other millers at the risk and cost of the defaulted miller which resulted in non milling of 7,750 MT of paddy valuing ₹ 9.37 crore and consequential loss of interest of ₹ 1.41 crore.

(Paragraph 3.12)