Chapter-III
Audit of Transactions

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Audit of Transactions

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

Government companies and Statutory corporations

Punjab State Power Corporation Limited

3.1 Repair of Damaged Distribution Transformers

Total cost of repair per transformer was more in Transformer Repair Workshops as compared to repair through private parties which led to extra expenditure of ₹24.13 crore. 2,238 transformers valuing ₹13.43 crore were not returned after repair and 551 transformers valuing ₹3.14 crore which failed within warranty period were not lifted by the contractors.

3.1.1 Introduction

Punjab State Power Corporation Limited (Company) carries out repair of damaged distribution transformers through its seven[1] Transformer Repair Workshops (TRWs)[2] and also outsources work to private parties. Audit undertook an exercise to assess the efficiency of Company's operations of repair of damaged distribution transformers spanning the period 2014-17. The audit examination involved scrutiny of records at four[3] out of the seven TRWs, covering 62.27 *percent* of expenditure involved.

The details of transformers repaired in house at TRWs and through outsourcing to private parties and expenditure incurred thereon are as under:

Table no.1: Details of total transformers repaired

Year	Transformers Repaired (Nos.)		Expenditure incurred (₹ in crore)	
	In house[4]	Through outsourcing	In house	Through outsourcing
2014-15	6326	27415	30.52	83.26
2015-16	4821	25338	23.96	70.46
2016-17	5676	22419	26.31	58.51

Source: Information provided by the Company

[1] Amritsar-1, Amritsar-2, Patiala, Kotkapura, Jagraon, Nakodar and Jalandhar.
[2] The TRWs repair the damaged transformers received from Transformer Receiving Yards (TRYs) of central stores. After carrying out the repair, these are returned to stores.
[3] Amritsar-1, Amritsar-2, Patiala and Jalandhar selected through probability proportional to size method.
[4] Excluding minor repairs done on healthy transformers dismantled under APDRP scheme etc.

Scrutiny of records revealed:

3.1.2 Repair by private parties

3.1.2.1 Award of Repair Contract

The following table indicates the details of the three repair contracts awarded to private parties for repair of 25 KVA, 63 KVA and 100 KVA transformers, involving financial outlay of ₹92.02 crore, ₹105.14 crore and ₹68.18 crore by the Company during 2013-16[5]:

Table no.2: Details of the three repair contracts awarded to private parties

(Quantity in nos.)

Particulars	2013-14# QW-198	2014-15 QW-214	2015-16 QW-241
Total Quantity allocated under Repair contract	35000	35000	25000
Number of firms to whom allocation of repair work was made	34	34	27
Quantity quoted by L-1 firm	10000	35000	6000
Quantity allocated to L-1 firm	2150	1000	2200
Highest quantity allocated (Ranking[6] of firm)	3800(L-5)	4400(L-25)	3100(L-11)
Quantity quoted by firm to whom highest allocation is made	7000	4000	10000
No. of firms (no. of transformers) where allotment for repairs of transformers was more than quantity offered	0	4(1400)	1(700)

Source: Information supplied by the Company
Executed during 2013-16

Audit observed that though the allotment of repair works to various bidders was made at L 1 rates but the allocation lacked transparency as the Company did not announce any methodology of apportionment of repairable transformers amongst the different bidding parties in the NIT/ tender document. It, therefore, made allocation of repair of transformers among various bidders in an ad hoc manner.

The Management/ Government stated (June/ October 2017) that in future the full tendered quantity would be allocated at the time of entering repair contracts. The reply is not acceptable as in fresh repair contract (QW 261) also the quantity offered by the bidders and past performance was not considered. Thus, the fact remains that there was lack of transparency in the tendering and allotment process for which a documented procedure must be framed and implemented.

3.1.2.2 Execution of repair contracts

The repair contracts provide that in case a damaged transformer is not returned after repair within stipulated period by the contractor, full cost[7] of the transformer shall be recovered from the contractor. The repair contractors are

[5] Execution of QW-261 entered into 2016-17 for repair of 25,000 transformers is still in initial stages as only 5,452 transformers have been repaired upto March 2017.

[6] For 25 KVA transformers with DPC wire.

[7] 70 *percent* of the cost of equivalent transformer as per latest purchase order plus 22 *per cent* of cost as scrap.

responsible for repairing free of cost those transformers which get damaged within warranty period and their repair has to be effected within three months from the intimation of damage. The repair contract also stipulates that if the firm fails to replace the transformer damaged within warranty period, it shall be liable to pay interest at the rate of 12 *per cent* per annum from the date of its damage up to the date of its receipt in store. Further, in case of any contravention of the repair contract, 21 days' notice was to be served and in case of non-compliance, firm was to be blacklisted or business dealings were to be suspended/ terminated.

Audit scrutiny revealed that:

- There were 635 transformers of various categories with 13 firms valuing ₹2.27 crore which were lifted during 1999-2014 but not returned to stores till March 2017 i.e. even after three to 18 years of expiry of their scheduled delivery period. Audit observed that the Company failed to invoke clauses of repair contract against the defaulting firms. No meaningful action was taken except filing of arbitration cases during the year 2015-16 after lapse of four to 18 years against six firms. No legal action had been initiated against the remaining firms. Five firms were not traceable and no firm had been blacklisted. As a result, chances of cost recovery of these transformers were remote.

- At the end of March 2017, 1603 transformers valuing ₹11.16 crore[8], which were damaged within warranty period were lying with the contractors for more than three months after their lifting but not returned. Of these, 1231 transformers valuing ₹8.57 crore were lying with firms who were no longer active. Further, 551 transformers valuing ₹3.14 crore[9], which were damaged within warranty period were not lifted by the contractors even after lapse of three months of intimation of their damage. Of these, 418 transformers valuing ₹2.38 crore were to be lifted by the firms, which became non-active with the passage of time. Audit observed that the Company failed to take action against the defaulter firms as per the terms of contract. Audit further observed that the Company had no centralised records indicating the capacity-wise and age-wise details of the damaged transformers, still within warranty, sent for or awaiting repair. It, therefore, had no means of actively monitoring the status of transformers requiring repair and those sent for repair. The Management admitted and stated (June 2017) that arbitration cases against 17 firms had been filed and filing of arbitration cases against remaining defaulting firms was in progress. The reply is not acceptable as the arbitration cases have been filed belatedly during the year 2015-17 and no legal action has been initiated against the remaining firms. Resultantly, the chances of recovery from the firms are remote. Thus, due to poor monitoring, the Company failed to ensure timely lifting and return of transformers by the private firms.

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[8] Valued at ₹69,601 per transformer (70 *per cent* of cost of 63 KVA transformer during 2016-17 plus 22 *per cent* as scrap value was considered due to non-availability of category wise details)

[9] Valued at ₹57,050 per transformer (70 *per cent* value of cost of 63 KVA transformer during 2016-17 was considered due to non-availability of category wise details)

- There was no mechanism to ensure recovery of the interest from the contractors. Resultantly, the Company could not recover an amount of ₹6.52 crore from various firms on account of delayed return of transformers that needed repair within warranty period (March 2017). Audit further observed that the Company had not enforced the clauses of contract regarding negligence and default against the defaulting firms.

3.1.2.3 Performance of repaired transformers

- The damage rate of transformers repaired by private firms was higher by 2.2 *per cent* to 12.3 *per cent* than the damage rate of transformers repaired at TRWs of the Company during the period 2014-17.
- The damage rate of transformers repaired by firms was 30.3 *per cent* in Border Zone during 2016-17 out of which damage rate of transformer repaired by firms which were installed in Amritsar suburban circle under Border Zone was 62.7 *per cent* whereas damage rate of transformers repaired at TRWs was 10.1 *per cent* and 9.6 *per cent* in Border Zone and Amritsar sub-urban circle respectively. Similarly, in Central Zone, the damage rate of transformers repaired by firms was 30.6 *per cent* during 2016-17 out of which damage rate of transformer repaired by firms which were installed in Ludhiana West circle under Central Zone was 60.7 *per cent* whereas damage rate of transformers repaired at TRWs was 6.8 *per cent* and 1.3 *per cent* in Central Zone and Ludhiana West circle respectively.
- The Company had neither analysed the reasons for excessive rate of damage of transformers repaired by private parties nor evolved any mechanism to identify and take action by invoking negligence and default clause of repair contract against the firms whose repaired transformers had higher incidence of damage. Audit further noticed that power utilities of Haryana State, had as a measure of ensuring quality work, inserted a penalty clause for excessive damage rates in the repair contract entered into by them. However, no such clause was included in the repair contracts entered into by the Company, in the absence of which the quality of repair work could not be ensured.
- The Company had not done any comparative cost benefit analysis between purchase of new transformers vis.a vis. repair of transformers.

The Management/ Government assured (June/ October2017) to investigate the reasons and advise the firms for better quality repairs.

3.1.3 Repair by Transformer Repair Workshops

A review of the repair of transformers by transformer repair workshops revealed the following:

3.1.3.1 Cost of repair of transformers in TRWs vis-à-vis repairs undertaken through outsourcing contracts

The total cost of repair per transformer was much higher in TRWs (between 37.74 *per cent* and 61.93 *per cent*) as compared to repairs undertaken through outsourcing contracts with private parties during April 2014 to March 2017. The Company incurred an extra expenditure of ₹24.13 crore on repair of transformers in TRWs during 2014-17 **(*Annexure–5*).** The element wise comparison showed that the establishment cost was much higher in TRWs than the labour cost included in the repair contracts.

Audit observed that the main reason for the higher labour cost was vacancies (72 *per cent*[10] shortage) in the workshop staff at junior level (i.e. regular team mates) , in the absence of which their functions too were carried out by senior workshop staff (i.e. fitters) who were limited in number and drawing higher pay scales than the lower staff. Further, unlike the power utilities in the neighbouring state of Haryana who were outsourcing the manpower required in their TRWs, this was not being done in the Company.

The Management/Government stated (June/October 2017) that in repair contract cost, establishment charges of staff who issue and receive the transformers and maintain its record had not been accounted. The reply is not tenable as no exercise was undertaken to compute and compare the cost of repair of transformers by TRWs vis-à-vis those undertaken through private parties.

3.1.3.2 Excess consumption of transformer oil

The Company fixed (March 2009) norms of consumption of transformer oil in repair of transformers in TRWs. Audit noticed, in selected TRWs, that transformer oil valuing ₹1.22 crore was used in excess of the norms during 2014-16. As per instructions contained in the Manual on damaged transformers, no handling losses are allowable and only one *per cent* dehydration loss of fresh oil is allowed as per consumption norms of transformer oil. However, TRWs were providing for wastage ranging between one to four *per cent.* The Company did not record reasons for consumption and wastage beyond norms.

The Management/Government stated (June/October 2017) that the consumption norms were based on average quantity which varied in each capacity, make/model of transformer. The reply is not acceptable since Audit has calculated the excess consumption of transformer oil by subtracting total transformer oil to be consumed (based on norms of usage and number of transformers repaired during the period) from actual total consumption of transformer oil during the period.

3.1.3.3 Shortages of transformer oil and missing parts

As per instructions contained in Manual on damaged transformers, whenever the damaged transformers are sent to workshops for repairs, the cost of shortage of transformer oil and missing parts, if any, is to be recovered from

[10]Against 93 sanctioned posts of Regular Team Mates, only 26 were filled and 67 were vacant.

the responsible officials after investigation, which is to be completed within a period of one month from receipt of information. Audit observed that shortages of transformer oil and missing parts amounting to ₹21.53 crore were pending investigation at the beginning of April 2014, which increased to ₹30.11 crore at the end of March 2017. Further scrutiny revealed that in four operation circles of Central Zone, Ludhiana, shortage of transformer oil and missing parts at the beginning of April 2014 was ₹ 2.15 crore. There was accrual of ₹ 1.68 crore during the period out of which only ₹0.35 crore was cleared leaving a closing balance of ₹3.48 crore in March 2016. Out the amount of ₹0.35 crore cleared, ₹ 0.33 crore was written off and only ₹0.02 crore was recovered which is indicative of weak enforcement mechanism.

3.1.3.4 Accumulation of repairable transformers

At the end of March 2017, there was accumulation of 2000 repairable transformers valuing ₹6.59 crore[11]of different capacities at various Transformer Receiving Yards. These had neither been sent to TRWs nor to contractors under repair contracts. Also, there was no standing contract for repair of transformers of 200 KVA capacity. This coupled with limited capacity of TRWs, caused by manpower shortage in the junior levels resulted in 209 transformers remaining unrepaired. It was also noticed that the Company had placed purchase orders for 1200 new 200 KVA transformers between the period 2015 and 2017 and had the Company repaired an adequate number of damaged 200 KVA transformers it could have saved an amount of ₹3.66 crore[12] spent on this purchase.

The Management/Government stated (June/October 2017) that efforts were being made to retain the stock of repairable transformers at minimum level and a parallel arrangement of repair of 200 KVA transformers by private parties will be started in the times to come. The fact remains that the Company did not realise the need to make timely and adequate arrangements for repair of the damaged transformers due to which it had to resort to avoidable purchases.

3.1.3.5 Non handing over of material after closure of TRW Malerkotla

There were 12 TRWs of which five[13] workshops were closed down (December 2013) due to staff shortage and low performance. At TRW Malerkotla, no arrangements were made to hand over or transfer material in stock to other TRWs and Stores at the time of its closure. There were 687 transformers having estimated value of ₹3.95 crore and material valuing ₹0.23 crore at TRW Malerkotla which had not been transferred to the working TRWs till date.

[11] Valued at ₹32960.46 per transformer (70 *per cent* value of cost of 25 KVA transformer during 2016-17 was considered due to non-availability of category wise details and audit has adopted the value of lowest capacity transformer)

[12] 209 transformers at the rate of ₹1,75,153 per 200 KVA transformer for 2016-17.

[13] Doraha, Malerkotla, Fatehgarh Churian, Amritsar 3 and capital maintenance workshop at Alamagir.

The Management/Government stated (June/October 2017) that useable surplus machinery had been transferred from closed workshop. The reply is incomplete as no mention regarding shifting of transformers and other material was made.

3.1.4 Monitoring and control

- As per instructions contained in Chapter 2 of Manual on damaged transformers, transformer movement cards containing full history of the transformers were to be maintained. Audit, however, observed that no transformer movement cards were maintained in the selected TRWs. Further, neither any unique identity number was allotted to the transformers nor any centralised database of all transformers was maintained which would have enabled Company to monitor performance of vendors and repair contractors as also control over the inventory of transformers.
- Timely return of dismantled transformers by the field staff was not ensured as 217 healthy transformers valuing ₹1.12 crore[14], which had been dismantled (during April 2014 to September 2015) after system augmentation[15], had not been returned to stores (March 2017).
- There was un-reconciled difference of 53,699 transformers valuing ₹306.35 crore[9] between transformers issued by Controller of stores and received by the operations organisation during 2014-17. We also observed that out of the difference of 31,728 transformers during 2016-17, a difference of 24,300 transformers (77 *per cent*) pertained to border and west operation zones. Despite instructions (January 2012) by the CMD that such difference should not be more than 100 transformers per zone, no exercise had been undertaken. Audit also observed that the difference of each year was not being carried forward in next years' Management Information Report and reconciliation thereof was not being reported to the Management which is reflective of poor internal controls besides the fact that timely non reconciliation carries the risk of misappropriation.

  The Management/Government stated (June/October 2017) that a software application for accounting of inventory was in an advanced stage of preparation and the audit observations would be considered while implementing it.
- 100 *per cent* physical verification of stock had not been done by Company in any of the selected TRWs during 2014-17.

3.1.5 Conclusion

There was lack of transparency in allocation of damaged transformers for repairs to private firms. The Company did not have an adequate mechanism to ensure the timely return of the repaired transformers. Neither transformer movement cards were maintained nor were unique identity numbers given to individual transformers. As many as 2,238 transformers valuing ₹13.43 crore were not returned after repair and 551 transformers valuing ₹3.14 crore which

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[14] Valued at ₹51,800 per transformer (70 *per cent* of the cost of 63 KVA transformer for the year 2015-16)

15 involves installation of higher capacity transformer in place of low capacity transformer due to increase in load.

failed within warranty period were not lifted by the contractors. The repair work carried out in TRWs was not cost competitive and an extra expenditure of ₹24.13 crore was incurred due to higher cost of repair in TRWs as compared to repair through private parties. 2,000 transformers remained unrepaired at TRYs indicating that the arrangements for timely repair of damaged distribution transformers were not adequate.

3.2 Renovation and Modernisation of Stage-II (Unit-III and IV), Guru Nanak Dev Thermal Power Plant, Bathinda and utilisation of the plant post R&M

Delay at tendering and execution stage led to cost escalation by 30.24 *per cent* in Renovation and Modernisation (R&M) works of Units III and IV. The R&M work was taken up in isolation without taking into account commitment towards long term power purchase agreements. As a result, the Company was unable to derive benefits from expenditure of ₹552 crore incurred on the project.

Introduction

3.2.1. Guru Nanak Dev Thermal Plant (GNDTP), Bathinda of Punjab State Power Corporation Limited (Company) had installed capacity of 440 MW from four identical generating Units of 110 MW each. The Central Electricity Authority (CEA), in consultation with the Company, identified (March 2003) all the four units of GNDTP, Bathinda for carrying out life extension works during 10th Five Year Plan period. The Renovation & Modernisation (R&M) of Stage-I (Unit I & II) was completed in May 2007 and was reviewed in the Report no.4 of 2009-10 (Commercial) of CAG of India. R&M of Stage II was completed in September 2014 at a cost of ₹552 crore. It was expected to uprate the capacity of the units from 110 MW to 120 MW, improve plant availability and plant load factor, extend life of the units and reduce fuel cost and auxiliary power consumption.

The present audit was conducted to review the execution of R&M works of Stage-II (Unit III & IV), utilisation of the plant subsequent to its renovation and to examine whether this investment yielded the benefits envisaged**.**

Execution of the project

3.2.2. The Company prepared a detailed project report (DPR) (December 2002) for R&M works of Stage-II (cost of ₹290.20 crore). It was approved by the Company and CEA in April 2003 and October 2003, respectively. However, against the scheduled dates of commissioning of 21 August 2008 and 21 July 2009, Unit III and Unit IV were commercially commissioned on 7 December 2012 and 27 September 2014 respectively, i.e. with delay of 52 and 62 months.

The reasons for delay are as under:

- The Company took 18 months to revise the initially approved DPR and finalise the tender documents. The revision (March 2005) in the DPR was

necessitated as the original DPR was based on residual life assessment[16] (RLA) studies conducted more than three years back. As a result, the tenders could only be floated in April 2005.

- To address the queries and observations of bidders during pre-bid conference, the commercial terms and technical specifications were amended (August 2005) and bids were submitted (October 2005) by bidders in three parts (i.e. Earnest Money Deposit, commercial & technical bids and price bids). The commercial and technical bids were opened in November 2005. As per tender specifications, bidders were required to submit their tenders under two methods of furnace firing system i.e. Direct firing and Indirect firing. The Company took the decision to adopt the Direct firing option by March 2006 i.e. after one year of the bid invitation. The bidders were thereafter asked to submit price implication relating to additions/deletions necessitated in compliance to now firmed up specifications. The revised price bids were opened in March 2006 wherein M/s Bharat Heavy Electricals Limited, New Delhi (BHEL) emerged as the lowest bidder. The Company decided (June 2006) to place the work order on it after holding negotiations. Finally, work order valuing ₹465.36[17] crore was placed during November 2006. Thus, delay in arriving at the decision regarding adoption of the furnace firing system, led to delay of 19 months in finalisation of tenders.
- As a result, there was delay of 31 months[18] in the award of work order as compared to time frame of six months provided in Central Electricity Authority (CEA) guidelines (January 2004) for the award of work orders for R&M of thermal plants. The delay in award of work order resulted in escalation in cost from ₹291.15 crore (as per revised DPRs: March 2005) to ₹379.20 crore (30.24 *per cent*), even though the scope of work and material required for R&M works remained the same.
- There was a further delay of 26/35 months in shutdown of the two units from the scheduled date and a further delay of 26/27 months in execution of R&M works and commissioning against scheduled time of eight-nine months from its actual shut down. Audit observed that these delays were due to late receipt of critical spares of turbine, delay in finalisation of sub-contractors by BHEL, slow progress of site activities and non-availability of cranes for lifting of boiler drum and erection works of Electrostatic Precipitators (ESP).
- The project report envisaged post R&M benefit of ₹54.44 crore annually on account of sale of additional power generation, increased efficiency and reduced coal consumption. The delay in carrying out R&M works deprived the Company of financial gains of ₹119.24[19] crore.

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[16] Residual life assessment is a method by which the type of degradation of equipment and its materials is determined to ascertain the remaining life of equipment.

[17] Lump sum price for material and services : ₹379.20 crore + Taxes : ₹77.00 crore + Freight & insurance: ₹9.16 crore.

[18] October 2003 to November 2006 *less* six months.

[19] Unit III: ₹58.54 crore (54.44/2 x 785/365 days) +Unit IV**:** ₹60.70 crore (54.44/2 x 814/365 days).

- The delayed commissioning/commercial operation of units after R&M resulted in generation loss[20] of 3,684.10 MUs of power. To compensate the shortfall in generation, the Company had to procure power through power purchase agreements. The avoidable expenditure on account of purchase of power through short term power purchase agreements was assessed at ₹632.29 crore (considering the difference in rate of short term power purchase and variable cost of generation of power at GNDTP). Even after adjustment of liquidated damages of ₹43.57 crore claimed and recovered by the Company from BHEL, the Company was put to extra financial burden of ₹588.72 crore which ultimately was passed on to the consumers of the State through tariff.
- Punjab State Electricity Regulatory Commission (PSERC), while truing up (August 2014) tariff for the year 2010-11 and 2011-12, noted lower thermal generation of GNDTP Stage-II as compared to the generation approved in the tariff orders for the respective years to the extent of 546 MUs and 449 MUs by Unit-III & Unit-IV and determined a disincentive of ₹58.02 crore and ₹56.52 crore respectively due to increase in power purchase. Thus, the Company had to bear a total extra burden of ₹114.54 crore.

Benefit realisation from the renovated plant

3.2.3. Audit observed that though the rationale for renovating the plant was to improve its availability and its plant load factor[21] (PLF). However, there was a steep fall in the plant load factor of both the units. Year wise plant availability and plant load factor after R&M of Stage-II are given in ***Annexure-6***.

It was observed that:

- Before R&M, PLF of Unit-III was 55.75 *per cent* against the plant availability[22] of 72.72 *per cent* during 2009-10. Similarly, the PLF of Unit-IV was 30.45 *per cent* against the plant availability of 56.66 *per cent* during 2011-12. During post R&M period, PLF of the Unit-III ranged between 29.83 to 54.23 *per cent* only as against the plant availability ranging between 71.85 to 99.90 *per cent* during 2013-17 (upto December 2016). Similarly, the PLF of Unit-IV ranged between 2.94 to 36.92 *per cent* against the plant availability ranging between 53.13 to 99.10 *per cent* during 2015-17 (up to December 2016). Audit noted that the low PLF of the units was mainly due to reserve outages[23] resorted to by the Company due to purchase of power from outside sources.This aspect was also highlighted in Paragraph number 3.11.2.1 of the Audit Report of the Comptroller and Auditor General of India on Public Sector Undertakings

[20] Calculated at minimum 80 *per cent* plant load factor envisaged in the project report for Stage-II.

[21] Plant load factor refers to the ratio between the actual generation and the maximum possible generation at installed capacity.

[22] Plant availability means the ratio of actual hours of operation of the plant to the maximum possible hours available during a certain period.

[23] Reserve outages is a technical term used for a unit shut down due to lack of demand.

(Social, General and Economic Sectors) for the year ended 31 March 2016 - Government of Punjab (Report no.3 of year 2016). The reasons stated for under utilisation of thermal plants were no demand or units stopped as per instructions of Power Controller, Patiala. Audit observed that in view of the own surplus generation capacity available with the Company and the average cost of power purchased during 2015-16 and 2016-17 (up to September 2016) being higher than the variable cost of generation of power at GNDTP Bathinda, there was need to review the power purchase agreements entered into by the Company.

- Actual heat rate of both units after R&M ranged between 2588.66 and 2858.69 Kcal/kwh against the expected post R&M heat rate[24] of 2400 Kcal/Kwh during 2012-16. The higher heat rate resulted in excess consumption of 1.32 lakh MTs of coal valuing ₹53.08 crore.

- All the four units of GNDTP, Bathinda having 460 MW capacity were completely shut down from October 2016 to March 2017 and the Company had to bear fixed cost to the tune of ₹83.79 crore. Due to uneconomical operations, the Government has decided (December 2017) permanent closure of all the units of plant with effect from 1 January 2018. Thus, within three years of the completion of renovation and modernisation of Stage II of project at a cost of ₹552 crore, the plant has been permanently closed.

  Audit analysed the reasons for this and observed as under:

  The maximum peak demand (during paddy sowing season) of power in the State was around 11,408 MW in 2016-17. During the period from January 1994 and January 2010, the Company entered into 35 long term power purchase agreements (PPAs) from 47 sources with a total contracted capacity of 8,446 MW[25]. The Company's own generation capacity was 4,801 MW. Thus, the total available capacity with the Company was 13,247 MW. In the DPR prepared for Stage II of Renovation and Modernisation work of GNDTP, Bathinda, the long term perspective of demand and availability of power in the State was not considered at all while building a case for R&M, especially when the Company was committing itself to a number of PPAs during this period. This becomes more glaring in the light of the fact that the whole purchased capacity of 8,446 MW had been contracted (last PPA signed in January 2010 for 1320 MW) around the same time when the shutdown of the first of the two units was obtained (January 2010). It is, therefore, evident that the matter of renovation, modernisation and augmentation of capacity of GNDTP, Bathinda was considered in isolation, without taking a holistic view.

  The DPR also did not consider the financial viability of the project as it did not work out the cost of generation from the two units post renovation and modernisation. Thus, the project was undertaken without evaluating the cost of generation from GNDTP, Bathinda post R&M *vis-à-vis* cost of power available from outside. After the completion of Stage II of R&M

[24] Heat Rate refers to the heat energy input in kilo calorie for generating one unit of electric energy at generator terminals.
[25] Out of this, 1,073 MW is yet to be commissioned.

works, the fixed cost of GNDTP, Bathinda increased substantially from ₹ 1.12 per KWH during 2013-14 to ₹4.24 per KWH during 2015-16 due to increase in depreciation and interest costs, which in turn increased the total cost of generation from ₹ 4.14 per KWH during 2013-14 to ₹7.98 per KWH during 2015-16 thus bringing the power generated from GNDTP, Bathinda to the tail end of the merit order in terms of cost of power from various sources.

With regard to delay on part of BHEL in execution of R&M works, the Management stated (August 2017) that the issue of delay was taken up with BHEL at all levels regularly. Keeping in view the quantum and nature of work which involved lot of custom built equipment, the scheduled time given in the work order was very short. Fabrication of material by BHEL took unexpectedly higher time and maximum applicable penalty had already been recovered from BHEL. The losses calculated are deemed losses only and actual loss cannot be ascertained due to dynamic nature of power sector. Availability of cheap power from units at pitheads forces imposition of back down or shut down of thermal units and the same is done in commercial interests.

The reply is not acceptable as the audit observations are based on the guidelines/operating framework provided by the concerned regulatory authorities and time schedule of execution of works itself allotted by the Company to the contractor. The aspect regarding equipment to be custom made, direct firing etc. should have been considered and factored in by the Company while framing tender specifications for the R&M works. The losses calculated by Audit are indicative and the same could have been avoided had the R&M works been completed in time. Further, though the backing down/shut down of own thermal units were done in commercial interests of the Company but the fact remains that the Company could not derive benefits envisaged from the expenditure of ₹552 crore incurred on the R&M works of Stage-II and this expenditure will continue to burden the consumers through tariff.

Conclusion

3.2.4. Delay in tendering and execution stage led to delay of 52/62 months in completion of R&M works of Stage–II which resulted in substantial increase in the project cost. Due to inadequate consideration of issues at the time of preparing the business case for Stage II of Renovation and Modernisation works of GNDTP, Bathinda and consideration of the matter in isolation, without taking into account commitment of the company towards 35 long term power purchase agreements (PPAs), the Company failed to get value for the ₹552 crore spent on renovation works besides burdening the consumers with increased tariffs due to the interest cost of loan taken for the project. Due to its unviability, the Government has decided to shut operations of the plant permanently with effect from 1 January 2018, in just a little over three years from the completion of the R&M work.

The matter was referred to the Government (May 2017); their reply was awaited (October2017).

3.3 Avoidable interest payment

Retaining funds in non-interest bearing current accounts at sub-division instead of transferring to main account led to the Company facing loss of interest of ₹1.43 crore due to availing of excess cash credit.

Government of Punjab instructed (May 2008) all Public Sector Undertakings not to keep money in non-interest bearing current account when competitive options were available to earn better returns. Chapter 13 of Commercial Accounting Systems (Volume IV) - Cash and Bank Manual of Punjab State Power Corporation Limited (Company) also states that there should be regular transfer of funds by field bank branch to Company's main bank account at Patiala.

Audit observed that at distribution system of the Company at city east circle, Ludhiana for the period 2015-16, the Focal point sub-division retained balances of as high as ₹42.17 crore (on 29 May 2015) in its current account. The closing balance in this account remained above ₹five crore for 229 days during 2015-16 and 2016-17 (upto September 2016).

Simultaneously, the Company was availing cash credit limit from four banks[26] on which it was paying interest at rates ranging between 11.70 *per cent* per annum to 12.70 *per cent* per annum. The Finance Division of the Company had also reiterated (March/April 2015) the instruction to field branches to ensure that funds deposited in their bank branches were transferred daily to the main bank branch at Patiala, to reduce the interest burden.

Had the Focal point sub-division, city east circle, Ludhiana transferred the amounts retained in the current account on daily basis to Company's main bank account in Patiala, payment of ₹1.15 crore[27] as interest on the overdraft drawn could have been avoided . Similarly, in CMC sub-division in the same circle, local bank branches were also not transferring balances to main bank account on daily basis which could have saved an interest payment of ₹0.28 crore[27].

Thus, retaining funds in non-interest bearing current accounts at sub-divisions instead of transferring them to the main account led to the Company availing excess cash credit at Head Office, on which interest on daily balance had to be paid. This resulted in avoidable interest payment of ₹1.43 crore.

The matter was referred to the Company and the Government (December 2016); their replies were awaited (November 2017).

[26] State Bank of Patiala, Punjab National Bank, Indian Overseas Bank and State Bank of India.
[27] Calculated at the rate 11.70 *per cent* per annum (minimum rate) on daily closing bank balance during April 2015 to March 2017 .

3.4 Financial benefit to washery firm

To improve the lifting of coal by washery firm, the Company amended its agreement with the firm and waived off its past claims there against. Additionally, the Company waived off past under loading and over-loading charges, resulting in extending of undue financial benefit of ₹ 15.40 crore to the firm.

Punjab State Power Corporation Limited (Company) entered (August 2002) into an agreement (valid for 20 years) with M/s Monnet Daniels Coal Washeries Private Limited (firm) for setting up of a washery of capacity of 35 lakh metric tons (MT) per annum for beneficiation[28] of coal supplied by Central Coalfields Limited (CCL) from Jharkhand. The agreement *interalia* provided that the Company was to pay beneficiation charges and surface transportation charges (STC) to the firm. The firm was liable to pay commitment charges to the Company if it failed to lift raw coal from CCL or load the beneficiated coal to the extent of at least upto 80 *per cent* of the monthly scheduled quantity (MSQ)/annual contracted quantity (ACQ). Further, the firm was to pay full under-loading charges and 50 *per cent* overloading charges, if charged by Railways at any time.

The lifting of coal by the firm ranged between 44.34 *per cent* and 65.43 *per cent* of the ACQ during October 2009 to March 2015. Due to under performance of the firm, penalties on account of commitment charges, shortages, overloading, under-loading were imposed by the Company and no payments for beneficiation[29] were made to it during 2009-15. The firm's account had reached a negative balance of ₹51.03 crore[30] as of March 2014. With a view to improve the lifting of coal, the Company amended (June 2015) the contract (retrospectively from 1 April 2015) whereby penalties (except compensation charges payable to CCL, if any and service tax) for the past period were limited to the remuneration, if any, payable to the firm. Further, there was to be no claim on either side upto March 2015 and the firm was to improve the lifting of coal by at least 20 *per cent* so as to ensure adequate supply of coal. However, the clauses relating to recovery of under-loading and overloading charges paid to Railways were not changed.

Audit observed (June 2016) that while waiving off the penalties, the Company had also waived under-loading and over loading charges amounting to ₹ 15.40 crore which had been paid by it to Railways during November 2009 to March 2014. Since the clause regarding recovery of under-loading and overloading charges had been retained *in toto* in the amended agreement, waiving off these charges was not justified and resulted in financial benefit of ₹15.40 crore to the washery firm.

[28] The process of washing raw coal of inferior quality at washery in order to remove coal dust, stones and shells and cutting the coal into proper size is called beneficiation.

[29] Except ₹1.63 crore given for STC during 2011.

[30] Commitment charges for short lifting/loading: ₹20.53 crore, under-loading/ over loading charges of Railways: ₹15.40 crore and other penalties ₹15.10 crore. Further, ₹15.90 crore were payable to the firm for STC.

The Management/Government stated (April/October 2017) that negative remuneration of the firm was worked out due to imposition of various penalties as per terms of contract agreement and that in spite of constraints affecting the movement of raw coal to the washery and dispatch of washed coal to the Company, the firm managed to achieve some improvement in lifting of raw coal.

The reply is not acceptable as the very purpose of amended agreement was to improve lifting of coal and the clause of under-loading and over loading charges had been retained. Hence there was no justification in waiving off the pending amounts due from the firm on this account. Further, even after the amended agreement, the firm failed to increase the quantity of coal lifted to the agreed level and could achieve only 54.80 *per cent* lifting of coal during 2015-16 as against required 80 *per cent*.

3.5 Non levy of voltage surcharge

Non-levy of the stipulated voltage surcharge required under Electricity Supply Instruction Manual resulted in loss of revenue of ₹2.37 crore besides transformation and incremental line losses.

Conditions of Supply[31] of electricity to consumers in the State as approved by the Punjab State Electricity Regulatory Commission (PSERC) provide that consumers with contract demand exceeding 2500 Kilo Volt Ampere (KVA) and upto 20 Mega Volt Ampere (MVA) are to be supplied electricity at supply voltage of 33 KV/66 KV. Further, the Electricity Supply Instruction Manual (ESIM) of Punjab State Power Corporation Limited (Company) provides that large supply consumers with contract demand exceeding 2,500 KVA and upto 4,000 KVA catered at 11 KV against the admissible supply voltage of 33KV/66KV are liable to pay a voltage surcharge of seven *per cent* on the consumption charges as compensation for transformation and incremental line losses. The Company was to ensure that existing consumers getting supply at lower voltages would be provided supply at the specified voltage within a period of 18 months. In case of constraints in converting the supply voltage, the supply was to be continued at a lower voltage on the condition of payment of voltage surcharge.

Audit observed (June 2015/March 2016) that a consumer with contract demand of 4,000 KVA was being supplied power at a lower supply voltage of 11 KV against specified supply voltage of 33 KV/66 KV. Accordingly, voltage surcharge was being levied on the consumer in view of *ibid* instructions. Subsequently, the Company discontinued (December 2008) the levy of voltage surcharge on the ground that the consumer had deposited (June 2008) the total cost of line/bay amounting to ₹1.72 crore for conversion of supply voltage to 66KV. However, the Company could not provide 66 KV line to the consumer as the execution of the work at site was opposed by the

[31] applicable w.e.f. 1st April 2010

farmers on whose land towers were to be erected. The Punjab & Haryana High Court directed (October 2010) the Company not to install any high tension electric wire/poles in the land of farmers without paying adequate compensation to their satisfaction or to explore the possibility of alternate route. The Company/consumer could not reach (August 2013) an agreement with the farmers and an alternate route plan for the 66 KV line was not found technically feasible.

The Company continued to supply power at 11 KV to the consumer but without levying any voltage surcharge as stipulated under ESIM at the rate of seven *per cent* on the consumption charges[32] during April 2011 to November 2016, incurring a loss of revenue of ₹2.37 crore[33], besides incurring transformation and incremental line losses.

The matter was referred to the Company and the Government (February 2017); their replies were awaited (November 2017).

3.6 Release of dues to Independent Power Producer without recovery of claims as advised by Legal Counsel

Due to non-recovery of ₹202.30 crore from the amount payable to Independent Power Producer (IPP) as advised by the Counsel of the Company, it could not save interest cost of ₹1.42 crore.

The Punjab State Power Corporation Limited (Company) filed (July 2013) a petition in Punjab State Electricity Regulatory Commission (PSERC) for issuing directions to Talwandi Sabo Power Limited, an Independent Power Producer (IPP), to pass on the financial benefits of concessional custom duty etc. accruing due to its being declared as a Mega Power Project[34], to the Company. PSERC allowed (December 2013) the prayer of the Company.

The IPP filed (February 2014/January 2015) an appeal, against the decision, before the Appellate Tribunal Authority of Electricity (APTEL) for stay on recovery[35] which was dismissed (April 2015). The Special Leave Petition (SLP) (April 2015) filed by the IPP in the Hon'ble Supreme Court of India was also subsequently dismissed (06 February 2017).

In the meanwhile, IPP submitted (09 January 2017) bill of ₹411.13 crore for power supplied for the month of December 2016. As per article 1 of the Power Purchase Agreement (PPA), bills have to be paid within 30 days from the date of raising of invoice i.e. in this case by 08 February 2017. Audit observed that the Counsel of the Company while communicating the decision of the Apex

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[32] Energy charges plus fuel cost adjustment surcharge levied in the electricity bills of consumer

[33] After deducting the amount deposited by the consumer for deposit work - ₹1.72 crore from due voltage surcharge of ₹4.09 crore

[34] An interstate thermal power plant of capacity of 1000 MW or more.

[35] The Company recovered the amount of benefits under Mega Power Status from the monthly bills of IPP upto the month of February 2015.

Court to the Company at 12:48 hours on 06 February 2017 stated that the Company was entitled to adjust the amount due from IPP and that the copy of order would be available on the website of Hon'ble Supreme Court by next morning and the Company should wait before making payment of the current dues to IPP. This was also communicated to the concerned bill paying authority[36] in the Company at 13:12 hours on same day. However, without taking immediate cognizance of the advice of the Counsel, the Company released the dues at 16:10 hours on the same day without deducting the claim of ₹202.30 crore, being the value of benefits[37]on account of Mega Power Status. The recovery was eventually effected (1 March 2017) from the bill of January 2017.

Audit observed that the releasing of the current dues of the IPP without recovering the amount of ₹202.30 crore as advised by their Counsel was injudicious. Had the Company recovered ₹202.30 crore from the payment of the bill of December 2016, instead of recovering it from the bill of January 2017, it could have saved an interest cost of ₹1.42 crore[38]. As the Company is dependent on working capital loans to meet its routine expenses, failure to recover its dues at the first available opportunity was a poor reflection of the financial management practices.

The matter was referred to the Company and the Government (May 2017); their replies were awaited (November 2017).

[36] Superintending Engineer, Inter State Billing of the Company

[37] From March 2015 to December 2016

[38] Calculated at the rate of 11.10 *per cent* per annum being interest on working capital loans claimed by Company in its Annual Revenue Requirement and Tariff Petition for the year 2016-17 (₹202.30 crore x 11.10 *per cent* x 23 days).

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

3.7 Gunny bales/Poly Propylene bales on loan basis.

Non-reconciliation/settlement of bales exchanged on loan basis against the directives of DFSC resulted in non-recovery of ₹ 132.62 crore, interest loss of ₹ 58.07 crore to SPAs, shortage of bales worth ₹ 1.19 crore, excess deductions of ₹ 9.30 crore made by FCI and non-deposit of VAT of ₹ 4.15 crore.

The Director, Food, Civil Supplies and Consumer Affairs (DFSC), Punjab, places consolidated indents on behalf of all the five[39] State foodgrain procuring agencies (SPAs) with the Director General of Supplies and Disposal (DGS&D), for the supply of gunny/ poly propylene (PP) bales[40] for each crop, after receipt of advance payments from the procuring agencies {arranged on basis of cash credit limit (CCL) from banks}. During the three year period 2013-16, gunny bales worth ₹ 4,208.54 crore[41] were procured. As these purchases are made by using CCL, it is imperative that the SPAs recover the cost of gunny bags exchanged amongst themselves at the earliest, as every delay entails associated interest cost.

For execution of foodgrains (wheat and paddy) procurement operations, the gunny/ PP bales are exchanged on loan basis between SPAs. DFSC, Punjab had issued (May 2009) instructions to all SPAs to return the bales obtained on loan basis to the concerned SPAs after procuring their own bales. Otherwise cost of bales was to be paid by the loanee SPA. DFSC further directed (September 2011 - September 2014) that all SPAs should settle the accounts of gunny/ PP bales by booking sale/ purchase, at the rates declared by DGS&D alongwith interest and applicable Value Added Tax (VAT). However, the SPAs continued the exchange of bales on loan basis during 2012-16 instead of booking sale/ purchase. As on 31 March 2016, the SPAs were to recover cost of 89631 bales (valuing ₹ 246.92 crore[42]) and to pay for 70673 bales (valuing ₹ 202.52 crore[42]) as detailed in ***Annexure-7***.

Audit analysed the exchange of gunnies/poly propylene bales on loan basis amongst the SPAs and deficiencies observed in the process are discussed below:

3.7.1 Non-settlement of bales exchanged

Neither DFSC nor the SPAs evolved system of timely reconciliation and settlement of bales given and taken on loan basis between SPAs after the close

[39] Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab Agro Foodgrains Corporation Limited (PAFCL), Punjab State Warehousing Corporation (PSWC) and Punjab State Cooperative Supply and Marketing Federation Limited (MARKFED – is not under Audit jurisdiction).

[40] Containing 500 bags of 50 kilograms each.

[41] ₹1486.43 crore in 2013-14, ₹ 1158.30 crore in 2014-15 and ₹ 1563.81 crore in 2015-16.

[42] As on 31 March 2016: Gunny bales the valued at the rates of KMS 2016-17: ₹30884.85 per bale and PP bales at the rates of RMS 2013-14:₹ 12780 per bale.

of procurement season. This resulted in non-settlement/non-recovery of gunny bales between SPAs even after a lapse of 12 to 126 months as tabulated hereunder:

Table no. 3: Statement showing bales recoverable, amount recoverable and interest burden due to non-settlement of bales given by SPAs

(Amount: ₹ in crore)

Name of the SPA	Crop Year	SPA to whom bales given on loan basis	Gunny bales including PP bales	Recoverable amount (August 2017)	Period of delay (month)	Interest burden[43]
PUNGRAIN[44]	RMS 2006-07 to KMS 2015-16	PUNSUP, PAFCL and PSWC	27,055 (including 12,228 bales upto year 2011-12)	53.19 (including ₹24.31 crore upto year 2011-12)	12 to 126	20.84
PUNSUP[45]	RMS 2011-12 to KMS 2015-16	PAFCL, PUNGRAIN and PSWC	5,532 (including 1,156 bales upto year 2011-12)	11.86 (including ₹2.43 crore upto year 2011-12)	12 to 51	3.03
PAFCL[46]	RMS 2012-13 to KMS 2015-16	PUNSUP, PSWC and PUNGRAIN	1,342	2.64	12 to 43	0.91
PSWC[47]	RMS 2012-13 to KMS 2015-16	PUNSUP and PAFCL	1,482	3.07	12 to 43	0.88
PUNSUP, PUNGRAIN, PAFCL and PSWC	RMS 2008-09 to KMS 2015-16	MARKFED[48]	25,252 (including 12,516 bales upto year 2011-12)	49.91 (including ₹25.47 crore upto year 2011-12)	12 to 51	19.84
Total			**60,663**	**120.67**		**45.50**

Source: Information provided by SPAs.

Audit observed that the SPAs (Pungrain and PUNSUP) were to recover (December 2016) cost of 25900 bales valuing ₹ 52.21 crore given on loan basis during RMS 2006-07 to KMS 2011-12 but the concerned SPAs (Pungrain, PAFCL, PSWC, PUNSUP and Markfed) did not return the bales although there was sufficient stock of bales with the district offices of the loanee SPAs at the close of years 2012-13 to 2015-16[49]. Despite the *ibid* directives of DFSC for settlement of gunny/ PP bales loan accounts by booking sale/ purchase, the four SPAs (Pungrain, PAFCL, PUNSUP and PSWC) continued to provide 34763 bales valuing ₹ 68.46 crore to other SPAs on loan basis instead of booking sale/purchase during the RMS 2012-13 to KMS 2015-16. This resulted in further accumulation of bales and non-recovery amounting to ₹ 120.67 crore (August 2017) with a concomitant

[43] Calculated for respective months of delay at minimum simple interest rate of 11.01 *per cent* of CCL availed by SPAs during the period February 2011 to July 2016.

[44] Seven district offices of Pungrain: Amritsar, Bathinda, Jalandhar, Mansa, Muktsar, Patiala and Sangrur.

[45] Five district office of PUNSUP: Amritsar, Ludhiana, Jalandhar, Muktsar and Sangrur.

[46] Three district office of PAFCL: Fatehgarh Sahib, Moga and Muktsar.

[47] Four district office of PSWC: Jalandhar, Faridkot, Ferozepur and Sangrur.

[48] Twelve district offices: Amritsar, Barnala, Bathinda, Ferozepur, Jalandhar, Kapurthala, Mansa, Moga, Muktsar, Patiala, Sangrur and Tarn Taran.

[49] Except PAFCL where stock statements of the years 2012-13 & 2015-16 were not available.

interest cost of ₹ 45.50 crore to the SPAs (calculated for respective months of delay at minimum simple interest rate of 11.01 *per cent* of CCL availed by SPA during February 2011 to July 2016).

3.7.2 Treatment of sale of bales as a loan

The State Government decided (July 2010) to reallocate seven *per cent* and 11 *per cent* share of the procurement and milling of paddy to PAFCL and PSWC which was earlier allotted to Pungrain. Accordingly, Pungrain decided (July 2010) to transfer surplus gunny bales to these agencies on sale basis against advance payment at the rate of ₹ 20700 per bale plus VAT upto July 2010 and with interest at the rate of 11.25 *per cent* after July 2010 on monthly compounded basis.

Despite this decision, the district offices, Mansa, Patiala and Bathinda of Pungrain gave 4997 gunny bales to PAFCL and 778 gunny bales to PSWC without obtaining the advance payment of ₹ 11.95 crore and VAT of ₹ 0.72 crore thereon and treated it as on loan basis. The payments there against had still (August 2017) not been recovered even after a lapse of 85 months. This resulted in non-recovery of ₹ 11.95 crore and interest burden of ₹ 12.57[50] crore to Pungrain.

3.7.3 Non-reconciliation of bales.

There was un-reconciled difference (January 2017) of 8185 gunny bales and 4913 PP bales valuing ₹ 31.56 crore[42] between the four SPAs (Pungrain, PAFCL, PUNSUP and PSWC). On being pointed out by Audit, SPAs started the reconciliation process and reconciled the difference, which reduced to 1040 gunny bales and 488 PP bales valuing ₹ 3.84 crore pertaining to crop year 2006-07 to 2015-16 (March 2017) (Out of four SPAs, Pungrain has reconciled the bales).

The delayed reconciliation/ non-reconciliation of bales on loan basis between SPAs and eventual non-settlement of account of bales further led to shortage of bales of ₹1.19 crore pertaining to crop year 2008-09 to 2014-15 as discussed below:

Table no. 4: Statement showing shortage of bales

(Amount: ₹ in crore)

District office of the loanee SPA	Crop Year	District office of the SPA to whom bales given on loan	Shortage of bales	Value of shortage of bales
Pungrain, Patiala	RMS 2012-13	PAFCL, Patiala	325	0.62
	RMS 2010-11		80 (including 50 PP bales)	0.10
	RMS 2014-15	PUNSUP, Patiala	30	0.07
Pungrain, Tarn Taran	RMS 2008-09	Markfed, Tarn Taran	43	0.09
PUNSUP, Amritsar	RMS 2008-09	PAFCL, Amritsar	150	0.31
Total			**628**	**1.19**

Source: Information provided by SPAs.

[50] Calculated at monthly compound interest rate of 11.25 *per cent* on ₹ 11.95 crore from August 2010 to December 2016.

The claims of ₹ 0.62 crore of 325 gunny bales raised (July 2014) by Pungrain, Patiala after delay of 19 to 33 months were rejected by PAFCL, Patiala as no evidence showing receipt of bales were available. A charge sheet for imposing major penalty under Rule 8 of the Punjab Civil Services (Punishment and Appeals) Rules, 1970 was issued (September 2016) to the official in-charge of the storage centre by Pungrain. Further developments were awaited (August 2017).

The claims raised (February 2014 and May 2015) for the remaining 303 bales (including 50 PP bales) valuing ₹ 0.57 crore given on loan basis by respective SPAs during RMS 2008-09 to RMS 2014-15 were not accepted (September 2014 and August 2015) by the borrowing SPAs in the absence of any document. The shortage of 303 bales valuing ₹ 0.57 crore had not been investigated so far (August 2017).

3.7.4 Non-accountal and deposit of Value Added Tax.

The Punjab VAT Act, 2005 *inter-alia* provides that sale is completed when right to use of goods is transferred, and seller of the goods is liable to levy and deposit VAT on the sale effected. Further, Sections 56 and 57 of Punjab VAT Act, 2005 provides that in case of concealment of sale or purchase transactions from the books of accounts, in addition to the tax and interest, a sum equal to twice the amount of tax assessed is to be paid as penalty.

Audit, however, observed that inspite of the *ibid* directives issued by DFSC, Punjab for treating the lending and borrowing of gunny and PP bales as sale and purchase respectively, only PUNSUP raised (January 2017) sale bills (including applicable VAT) for gunny bales given to other SPAs and deposited the VAT due there-against. Although, eight[51] district offices of Pungrain and PSWC raised (July 2013 - July 2016) sale bills of ₹ 68.33 crore and VAT of ₹ 4.15 crore, they had not deposited the VAT amount.

3.7.5 Non-settlement of claims for bales on loan basis with FCI.

The SPAs had given and taken gunny bales on loan basis to FCI also which were required to be returned physically. However, it was noticed that despite availability of sufficient stock of gunny bales with the SPAs, the gunny bales taken on loan by SPAs during the period 2012-16 were not returned to FCI. Consequently, FCI deducted ₹ 65.43 crore along with VAT of ₹ 1.49 crore and interest of ₹ 3.80 crore (January 2014 to January 2017) from sale bills of seven[52] district offices of the SPAs. Audit noticed that FCI had made the recovery at rates higher than approved by the Government of India for bales resulting in excess deductions of ₹ 4.01 crore by FCI against cost of bags. The SPAs had not taken up the matter with FCI for excess deductions valuing ₹ 9.30 crore[53] so far (February 2017). Further, 5774 gunny bales valuing ₹ 13.30 crore were still returnable to FCI by the district office, Moga of Pungrain (August 2017).

[51] Bathinda, Jalandhar, Kapurthala, Ludhiana, Mansa, Moga, Patiala and Tarn Taran.
[52] Amritsar, Bathinda, Gurdaspur, Ludhiana, Patiala, Sangrur and Tarn Taran.
[53] Cost of bags ₹ 4.01 crore plus VAT of ₹ 1.49 crore and interest ₹ 3.80 crore.

3.7.6 Conclusion.

Thus, non-reconciliation/ settlement of bales exchanged on loan basis against the directives of DFSC resulted in non-recovery of ₹ 132.62 crore, interest loss of ₹ 58.07 crore to the SPAs, shortage of bales of ₹ 1.19 crore, excess deductions of ₹ 9.30 crore made by FCI and non-deposit of VAT of ₹ 4.15 crore. This also indicated that DFSC which controls the affairs of foodgrains activities was unable to obtain compliance to its directives by the SPAs.

The matter was referred to the SPAs and the Government (May 2017); their replies were awaited (November 2017).

3.8 Delay in raising of supplementary bill claims

Delay in forwarding the final rates of Custom Milled Rice by the Department, coupled with delay in raising claims by district offices of State Procurement Agencies with FCI led to avoidable interest burden of ₹7.49 crore.

The State Procurement Agencies (SPAs)[54], procure paddy on behalf of Government of India (GoI) for Central Pool financed by cash credit limit (CCL) availed from banks. The SPAs deliver the rice to Food Corporation of India (FCI) after getting it milled from the millers.

The GoI initially fixes the provisional rates of Custom Milled Rice (CMR) for each Kharif Marketing Season (KMS) and later after taking into consideration actual costs incurred by the SPAs, fixes the final rates. GoI fixed and conveyed (January 2013 to January 2015) the final rates of CMR for KMS 2003-04 to 2008-09 to Food, Civil Supplies & Consumer Affairs Department (Department), Punjab. Audit observed that the Department instead of forwarding the rates to the four SPAs for claiming the difference between final rates and provisional rates, kept the same on hold on the ground that GoI had been requested to review the rates as rates of some of the incidentals were not acceptable. The GoI in review (July 2015) rejected the claims of the State Government for review of rates and stated that the representations were not supported by basic documents.

Taking note, the Department forwarded (August 2015) the already finalised rates of different procurement seasons to the SPAs for claiming the differential amount with a delay of 197 to 917[55] days. Audit analysis of delay in raising claims revealed that in Moga and Ludhiana districts alone the SPAs could have avoided interest burden of ₹6.69[56] crore

[54] Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab Agro Foodgrains Corporation Limited (PAFCL), Punjab State Civil Supplies Corporation Limited (PUNSUP) and Punjab State Warehousing Corporation (PSWC).

[55] After allowing margin of 15 days.

[56] Calculated at the rate of 11.13 *per cent* i.e. minimum rate of interest applicable on CCL during this period.

Even after receipt of final rates from the department, delay of upto 60 days was noticed in raising the supplementary bills, of differential amounts, by the SPAs of the above mentioned two districts. This led to further avoidable interest burden of ₹0.80 crore.

Thus, due to delay in forwarding the final rates by Department and further delay in filing of claims by the District Offices, the SPAs had to bear an avoidable interest burden of ₹7.49 crore (₹6.69 crore + ₹0.80 crore) in these two districts.

The Government stated (August 2017) that the claims were not raised as Department was hopeful that final rates would be reconsidered. The reply is not acceptable as SPAs could have avoided the interest burden had the rates been communicated on time. The differential amount, if any, could have been claimed by the SPAs subsequently whenever they would have been accepted.

3.9 Avoidable cost burden due to delay in raising claims in respect of value cut for under relaxed specification wheat

Due to delayed/non-submission of claims for reimbursement of differential value cut and Minimum Support Price (MSP) of wheat by the district offices, the State Procuring Agencies had to bear avoidable interest burden of ₹ 4.77 crore.

The State Procuring Agencies[51] (SPAs) procure wheat on behalf of Government of India (GoI) for Central Pool through cash credit limit availed from banks and store the same in their godowns and thereafter deliver to Food Corporation of India (FCI) as per the movement plan given by FCI. GoI / FCI had prescribed norms for fair average quality (FAQ) of wheat for its acceptance at MSP. If quality of wheat is below the prescribed FAQ norms, the GoI/ FCI imposes value cut on MSP.

In order to reduce hardship of farmers due to unseasonal rainfall in the State during Rabi Marketing Season (RMS) 2015-16, GoI decided (April 2015) to procure wheat under relaxed specifications (URS) and fixed the rate of value cut to be imposed on different categories of URS wheat during RMS 2015-16. The State Government decided (April 2015) to give full value of minimum support prices (MSP) to the farmers and bear the amount of value cut on URS wheat. Subsequently, GoI agreed (June 2015) to bear this difference and decided that where full value of MSP had been paid to farmers, the value cut will be reimbursed to SPAs by FCI at the end of procurement operation on submission of bills along with supporting documents.

The SPAs purchased 58.97 lakh MT[57] of URS wheat and paid the full value of MSP to the farmers. Audit observed (May/ August/ December 2016 and July 2017) that the district offices of SPAs raised the claim for value cut/compensation for URS wheat procured at the rate of ₹ 10.88 per quintal amounting to ₹ 56.74 crore (PUNGRAIN: ₹ 16.54 crore[58], PAFCL: ₹ 9.85 crore, PUNSUP: ₹ 18.92 crore and PSWC: ₹ 11.43 crore) between August 2015 and November 2016 after delays[59] ranging between 9 and 470 days[60]. The SPAs received payment of ₹ 46.64 crore (PUNGRAIN: ₹ 10.09 crore, PAFCL: ₹ 8.65 crore, PUNSUP: ₹ 16.92 crore and PSWC: ₹ 10.98 crore) as FCI withheld partial payment of ₹ 10.09 crore of SPAs (PUNGRAIN: ₹6.44 crore, PAFCL: ₹ 1.20 crore, PUNSUP: ₹ 2.00 crore and PSWC: ₹ 0.45 crore). The FCI did not assign any reason for withholding this amount.

Further, PUNGRAIN in violation of the *ibid* instructions which required raising of claim for total procured quantity at the end of procurement operations, raised the claim only for the quantity delivered to FCI. Against the procurement of 20.95 lakh MT, the Sangrur District Office raised the claim of 0.99 lakh MT on timely basis and other District Offices raised claim for 15.03 lakh MT with a delay. The claim for undelivered quantity of 4.93 lakh MT valuing ₹5.36 crore was not raised (May 2017). This resulted in interest burden of ₹ 1.08 crore[61] (August 2015 to May 2017).

Thus, due to delay in submission of claim on account of value cut on URS wheat by the district offices, SPAs had to bear avoidable burden in the form of interest of ₹ 4.77 crore (PUNGRAIN: ₹ 0.89 crore + ₹ 1.08 crore, PAFCL: ₹ 0.75 crore, PUNSUP: ₹ 1.20 crore and PSWC: ₹ 0.85 crore) on cash credit limit availed.

PUNSUP (March 2017) and PSWC (October 2017) stated that supplementary claims were not accepted by FCI at district offices level for want of instructions from their regional office. Their reply is not acceptable as the PSUs themselves had delayed the raising of claims and most of the claims were raised after February 2016. PUNGRAIN while admitting (October 2017) the facts, assured to make recovery from the responsible staff.

The matter was also referred to PAFCL and the Government (December 2016); their replies were awaited (November 2017).

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[57] PUNGRAIN: 20.95 lakh MT,PAFCL: 9.65 lakh MT, PUNSUP: 17.83 lakh MT and PSWC: 10.54 lakh MT

[58] District Offices of PUNGRAIN raised partial claim for 15.03 lakh MT (except Sangrur which raised the claim of 0.99 lakh MT timely) URS wheat delivered only as against 20.95 lakh MT URS wheat procured and claim for 4.93 lakh MT undelivered wheat was not raised.

[59] Computed by taking 1 August 2015 as the base date as the procurement operations of every RMS end on 30th June every year and one month's grace period has been allowed to the SPAs to claim their bills from FCI.

[60] PUNGRAIN: 29 and 470 days; PAFCL: 131 and 342 days; PUNSUP: nine and 325 days; and PSWC: 130 and 452 days respectively.

[61] Interest calculated at the rate of 11.01 *per cent* per annum (minimum rate of interest applicable during the period February 2016 to July 2016).

Punjab State Civil Supplies Corporation Limited and Punjab Agro Foodgrains Corporation Limited

3.10 Damage of wheat

Non observance of storage instructions of FCI regarding storage of fresh wheat resulted in damage of 20,209 MTs of wheat valuing ₹ 47.06 crore.

Punjab State Civil Supplies Corporation Limited (PUNSUP) and Punjab Agro Foodgrains Corporation Limited (PAFCL) procure wheat for Central Pool of Government of India (GoI) on behalf of Food Corporation of India (FCI). It is the responsibility of the Companies to arrange for the safe storage of wheat procured and to maintain the health of the wheat stock till its delivery to FCI.

As per instructions issued (December 2004) by FCI, the damaged/non-issuable stock is required to be stored in a separate area to avoid the possibility of their infecting fresh stocks. GoI guidelines (July 2014) direct that stocks found upgradable, are to be upgraded within a period of three months, failing which the stock would be declared as damaged by FCI.

Scrutiny of records (April/May 2017) at Moga District Offices of PUNSUP and PAFCL revealed that in violation of these storage instructions, units stored fresh wheat of crop year 2014-15 in the same premises where damaged/infested wheat of previous crop years was stored. As a result, the wheat of the crop year 2014-15 also got infected. FCI declared (July/ September 2016) 20,772 MT and 20,045 MT wheat stock of PUNSUP Moga and PAFCL Moga, respectively, as upgradeable. However, the Companies could upgrade and deliver only 13,116 MT and 7,190.50 MT (PUNSUP and PAFCL respectively) upto March 2017. Out of balance[62] stock, 7,411 MT stock valuing ₹ 17.26 crore of PUNSUP and 12,798 MT valuing ₹ 29.80 crore of PAFCL was declared (April 2017) as damaged by FCI.

Thus, storage of fresh wheat in same premises with damaged/infested stock, in contravention of extant storage guidelines/ instructions, resulted in damage of 20,209 MT (7,411 MT + 12,798 MT) of wheat stock valuing ₹ 47.06 crore (₹ 17.26 crore + ₹ 29.80 crore).

The matter was referred to the Companies and the Government (May 2017); their replies were awaited (November 2017).

[62] PUNSUP had balance stock of 7656 MT (20772 – 13116), out of which there is shortage of 63 MT and 182 MT is under reconciliation. Due to infestation and high degrees of damage, wheat loses its weight and leads to shortage. Similarly, PAFCL had balance stock of 12854.5 MT (20045 – 7190.5), out of which, there was theft of 50 MT and difference of 6.5 MT is under reconciliation.

Punjab State Civil Supplies Corporation Limited

3.11 Misappropriation of paddy by the millers

Failure of procurement agencies to adhere to the safeguards provided in the Custom Milling Policy 2015-16 facilitated misappropriation of paddy by the millers and consequential non-recovery of rice worth ₹12.69 crore.

Punjab State Civil Supplies Corporation Limited (Company) procures paddy for Central Pool on behalf of the Government of India (GoI), stores it with allotted rice millers and gets it milled from them for delivery to Food Corporation of India (FCI).

The Custom Milling Policy (CMP) of the State Government for the kharif marketing season (KMS) 2015-16 required the State Procuring Agencies (SPAs) to obtain from each miller a bank guarantee, in the form of undated cheques, amounting to ₹ 25.00 lakh for every 2000 MT or part thereof of paddy stored with that miller. In case any rice miller failed to deliver custom milled rice within the stipulated schedule, the SPA was to shift the paddy stocks to other millers at the risk and cost of the defaulting miller. To ensure transparency, SPAs were to conduct videography of the initial storage and the physical verifications of paddy. The paddy was to be issued to the miller in lots of 200 MT each through release order after obtaining advance rice[63].

Scrutiny of records of KMS 2015-16 revealed that 32328.91 MT of paddy was stored with six millers in four district offices[64] against which the millers were required to deliver 21660.35 MT rice (at out-turn ratio of 67 *per cent*). However, these millers delivered only 18372.57 MT rice by the due date i.e. 31 May 2016 and misappropriated the balance paddy equivalent to 3287.78 MT of rice valued at ₹12.69 crore (including ₹2.97 crore being cost of gunnies, interest and other recoveries).

FIRs have been lodged (March-July 2016) with the police by the Company under various provisions of the Indian Penal Code relating to criminal breach of trust in all the six cases. The arbitration proceedings initiated in five cases were under process (June 2017) and in one case, award was given (March 2017) in favour of the Company against which recovery of ₹1.37 crore was awaited (July 2017).

Audit further observed that as per the CMP cheques amounting to ₹ 4.50 crore[65], encashable in case of shortage of delivery of paddy, were required to be obtained from the millers at the time of storage of paddy. However, in none of the cases the cheques were presented for encashment at the time shortages were noticed. On being pointed out (May 2017) by Audit, in three cases cheques were presented (May-June 2017) to the banks for encashment after a lapse of more than one year which were dishonored against which notices

[63] Advance rice denotes milled rice on the delivery of which the next lot of paddy is released for milling to the miller.
[64] Bathinda, Ferozepur, Gurdaspur and Jalandhar.
[65] ₹25 lakh for every 2000 MT paddy or part thereof stored with the miller.

under Section 138 of Negotiable Instruments Act, 1881 were issued to the millers. In two cases, cheques obtained from millers were not presented to the banks and in one case cheque was not obtained from the miller. Similarly, although these defaulting millers had failed to meet the milling schedule, the unmilled paddy was not shifted to other millers even though 21 millers were available who had already completed 100 *per cent* milling of their allotted paddy between 16 February 2016 to 25 April 2016. The system of videography and issue of paddy against advance rice was also not adhered to by the Company in the case of these millers.

Thus, failure on the part of the Company to adhere to the safeguards provided in the CMP 2015-16 to protect the interests of the SPAs facilitated misappropriation of paddy and consequential non-recovery of rice worth ₹ 12.69 crore. Had the Company obtained cheques from the millers, it could have at least cut its loss to the extent of ₹ 4.50 crore.

The matter was referred to the Company and the Government (June 2017); their replies were awaited (November 2017).

3.12 Blocking of funds due to non-utilisation of once used gunny bags

Non-observance of the directions of the GoI/State Government to utilise once used gunny bags lying with the millers resulted in blockade of funds of ₹ 60.09 crore and loss of interest to the tune of ₹ 6.50 crore.

Punjab State Civil Supplies Corporation Limited (Company) procures paddy on behalf of Government of India (GoI) through Cash Credit Limit (CCL) availed from bank and delivers it to the Food Corporation of India (FCI) after getting it milled from rice millers. Since paddy is lighter in weight and larger in volume than rice, only 37.50 kg paddy can be filled in a gunny bag as against 50 kg of rice. Resultantly, for every 150 kg of paddy four bags are used of which two bags are delivered to FCI by filling 50 kg[66] rice in each bag. For the remaining two bags with the millers, 60 *per cent* cost (in the form of depreciation) is recovered from the millers and 40 *per cent* cost is recovered from FCI. GoI /State Government had been issuing directions year after year to utilise the bags remaining with the millers during the subsequent crop year as once used gunny bags to the extent of 50 *per cent* of the total requirement in that year.

Audit observed (April/August 2016) that the Company had booked the cost of gunny bags recoverable from the millers in their inventory. It was further observed that the Company had neither evolved any system for ensuring the utilisation of these bags in the subsequent crop year nor fixed any time limit for recovery of cost of gunny bags from the millers. As per the financial statements of the Company as on 31 March 2016, 10.33 crore once used

[66] At an out-turn ratio of 67 *per cent*, 150 kg of paddy yields 100 kg rice.

gunny bags valuing ₹ 266.70 crore[67] (60 *per cent* cost) relating to the crop year 2012-13 and onwards were lying with the millers.

To validate this position, Audit further test checked the records of seven[68] district offices of the Company which revealed that once used gunny bags valuing ₹ 2.66 crore, of crop year 2012-13 to 2014-15, lying with the millers were not utilised in the subsequent year in contravention of extant directions of the Government of India/State Government. The depreciated cost of these gunny bags was adjusted/recovered from the millers after a lapse of one to 44 months, resulting in delay in recovery of ₹ 60.09 crore with a concomitant loss of interest to the tune of ₹ 6.50 crore **(*Annexure 8*).**

The Management replied (March 2017) that recovery was not made due to the pendency of a decision on a Civil Writ Petition (CWP) filed by the millers in the Court for taking back the once used gunny bags lying with the millers and for not recovering the value of once used gunny bags. The reply is not tenable because the case was dismissed in February 2016. The Company had in fact recovered the cost of gunny depreciation from those millers who were not party to the suit and which could have been effectively pursued even before the decision by the Court.

The matter was referred to the Government (November 2016); their reply was awaited (November 2017).

Punjab Agro Foodgrains Corporation Limited

3.13 Non-reimbursement of carry over charges due to delay in delivery of upgraded wheat

The Company failed to maintain the quality of wheat stock and delayed the delivery of upgraded wheat. Resultantly, it could not get reimbursement of carry over charges amounting to ₹2.32 crore.

Punjab Agro Foodgrains Corporation Limited (Company) procures wheat from mandis, stores in its godowns and subsequently delivers it to the Food Corporation of India (FCI) as per their movement plan. Carry over charges (COC) are paid to the Company by FCI for the storage of wheat. The Company is responsible for maintaining quality of wheat stored till its delivery to FCI. The quality of wheat is checked and accepted by the quality control wing of FCI at the respective storage centers of the Company before loading into the wagons. In case wheat stock is found to be in non-despatchable condition, COC thereof are stopped forthwith till the stock is segregated and offered for dispatch. In case such stock is finally dispatched, even then, the COC for the period the stock in question was declared non-despatchable till the time it is dispatched, are not reimbursed by FCI.

[67] Calculated as per custom milled rice (CMR) rates of the respective crop year.
[68] Amritsar, Fatehgarh Sahib, Jalandhar, Ludhiana, Patiala, Bathinda and Sangrur.

Mention was made in the paragraph 3.11 of the Audit Report (PSUs) Government of Punjab for the year 2012-13 about failure of the Company to maintain the quality of wheat stocks resulting in non-reimbursement of carry over charges in district offices of Fatehgarh Sahib, Ludhiana, Patiala and Ferozepur. The Committee on Public Undertakings (COPU) recommended (March 2016) that the Company should take timely and appropriate measures to ensure maintenance of quality of its stock. However, this irregularity still persisted as noticed in one of the district offices and pointed out in succeeding paragraph.

Audit observed (June 2017) that the FCI, during their monthly inspection (July/August 2015) of storage centers had noticed poor health of wheat stocks at district office Mansa and pointed out instances of atta formation, infestation, poor preservation and inadequate fumigation and urged for remedial measures.

Eventually, 52,881 MT wheat stock of Rabi Marketing Season (RMS) 2014-15 was determined (August 2015) as upgradable and carry over cost (COC) on this stock were restricted upto July 2015. Though, FCI requested (October/December 2015 and February/April/May 2016) the Company to upgrade these wheat stocks, the Company could complete the delivery of the upgraded stocks only by February 2017 (starting from October 2015). Only 49,013 MT of wheat stock could be delivered to FCI after segregation and upgradation and the remaining stock of 3,856 MT was lying as damaged[69]. FCI accepted the upgraded stock but did not reimburse COC of ₹ 2.32 crore for the period from which stock in question was declared as upgradable (August 2015) to the date of delivery thereof (February 2017).

Thus, the failure of the Company to take cognizance and action on the recommendation of COPU resulted in a loss of ₹2.32 crore on account of non-reimbursement of COC by FCI, besides incurring losses on account of damage to 3,856 MT of wheat stock.

The matter was referred to the Company and the Government (July 2017); their replies were awaited (November 2017).

Punjab Small Industries and Export Corporation Limited

3.14 Loss due to non-inclusion of all elements of cost in cost sheet

Due to preparing a cost sheet without including all its expenses, the Company had to bear loss of ₹1.84 crore.

To curb sand prices and help eliminate illegal mining by private mining contractors, Government of Punjab (GoP) entrusted (September 2014) the mining operations for 67 sand quarries to Punjab Small Industries and Export Corporation Limited (Company) on no profit no loss basis and asked (September 2014) the Company to prepare the costing for mining operations taking into account all costs including salary.

[69] Difference of 12 MT is loss during upgradation of wheat.

The Company prepared (November 2014) the cost sheet whereby the extracted sand was to be sold at the rate ₹180 per Metric Ton (MT) or ₹800 per 100 cubic feet. However, components of cost did not include 'Salary' despite being agreed to in terms and conditions *ibid*.

The Company received environment clearance (EC) for the mining of only 40 quarries out of 67 quarries transferred (September 2014) for extracting 34.14 lakh MT quantity valuing ₹61.45 crore. The Company undertook the work of mining from November 2014 to June 2015 in 11 quarries and excavated 2.27 lakh MT sand valuing ₹4.09 crore upto June 2015.

Audit noticed (November 2016) that the Company had to bear losses of ₹1.84 crore on the operation of these 11 quarries as it had failed to include the salary of the staff deputed at mines in the cost sheet despite being agreed to in the ministerial meeting held in September 2014.

Thus, the Company suffered a loss of ₹1.84 crore due to preparing a cost sheet which did not take into account all its expenses.

The Management stated (March 2017) that the purpose of curbing rising prices of sand in the State and to make sand available at a reasonable rate was fully achieved. The reply is not acceptable as the Company had to bear losses of ₹1.84 crore in the operation. Besides, quantity of sand mined by the Company was only 2.27 lakh MT from 11 quarries against the envisaged quantity of 34.14 lakh MT from 40 quarries.

The matter was referred to the Government (December 2016); their reply was awaited (November 2017).

3.15 Transfer of funds to Public Works Department

Company provided funds for public infrastructure project despite funds being available with the Government which was beyond its scope of activities and was not in its best financial interests.

The State Public Works Department (PWD), Buildings & Roads (B&R) undertook (August 2014) the work of up-gradation and repair of a road from Kalma Maur to Algara in district Roopnagar to provide connectivity to the town of Sri Anandpur Sahib under the Prime Minister's Gram Sadak Yojna (PMGSY) at an estimated cost of ₹5.19 crore (August 2014) which was revised to ₹7.72 crore (May 2015).

To bridge the gap of ₹2.53 crore in the available funds for the work, the State Government decided (April 2015) that Punjab Small Industries and Export Corporation Limited (Company) would arrange the same. The Company agreed (May 2015) and released (June 2015) ₹2.53 crore to PWD (B&R) as a onetime measure, noting that tangible and intangible benefits would accrue to the State from upgradation of a damaged road.

Audit observed (November 2016) that the Company was incorporated with the objective of aiding, promoting and protecting the interests of small scale industries in the State by developing industrial focal points. Providing funds for such infrastructure projects (up-gradation/repair of roads) was beyond its scope of activities. Even as per the *doctrine of ultravires* under The Companies Act, 2013, if a company does any act which is not covered within the framework of its Memorandum of Association and is not reasonably and fairly incidental to the attainment of its main objects, it is to be declared *ultra vires* of the memorandum of the company. Further, the work of up-gradation of roads was undertaken by PWD (B&R) under PMGSY for which the funds were to be allocated by the GoI. Scrutiny of funds available with the State under PMGSY, revealed that State had available balance of ₹ 1.47 crore as on 1 April 2015. Further, during the year 2015-16, an amount of ₹ 250.64 crore was released under Prime Minister Gram Sadak Yojana by Government of India/State Government.

Thus, providing own funds for public infrastructure project without accrual of benefit to the Company and despite availability of funds under PMGSY, was not only against its best financial interests but was also in violation of the Companies Act. As a result, an additional burden of ₹2.53 crore was put on the Company.

The Company in its reply (March 2017) stated that funds given to the State Government for the development of road would boost business and industry in the Industrial Focal Point Nangal and adjoining area. Moreover, it was a onetime measure and not to be taken as a precedent in future. The reply is not acceptable as funds were available with PWD (B&R) for development of roads under PMGSY.

The matter was referred to the Government (February 2017); their reply was awaited (November 2017).

Punjab Financial Corporation

3.16 Loss due to incorrect adjustment of sale proceeds of assets

Non-adjustment of sale proceeds of assets as per the mortgage deeds favoured the loanee units and resulted in loss of ₹2.45 crore to the Corporation.

Section 29 of the State Financial Corporations (SFCs) Act, 1951 empowers the Punjab Financial Corporation (Corporation) to take over the assets of defaulting unit mortgaged or hypothecated to it and realise its dues by sale of these assets. As per provisions of the mortgage deed, the Corporation was entitled to appropriate the payments received from the units, firstly towards liquidation of outstanding miscellaneous expenses and interest and the balance towards liquidation of principal. The State Government announced (August 2015) a One Time Settlement (OTS) policy, which was approved (November 2015) by the Board of Directors of the Corporation.

Audit noticed (February 2017) that in six cases dealt under OTS Policy 2015, where units were acquired and sold under section 29 of SFCs Act, the amount of sale proceeds were first adjusted towards expenses, then towards principal and remaining amount, if any, was adjusted towards interest. This was contrary to the provisions of the mortgage deeds. Due to incorrect adjustment of sale proceeds, the amount as per OTS in respect of these loanee units was worked out to ₹1.86 crore instead of ₹4.31 crore, resulting in loss of ₹2.45 crore (***Annexure 9***) to the Corporation. Audit further observed that another State PSU-Punjab State Industrial Development Corporation Limited, was following the correct practice of adjusting sale proceeds of mortgaged assets first towards the expenses, thereafter towards interest and then the principal.

Thus, non-adjusting the amount of sale proceeds as per the mortgage deeds favoured the loanee units and resulted in loss of ₹2.45 crore to the Corporation.

The Management stated (June 2017) that this practice was being followed as per advice of the Statutory Auditors who were of the opinion that in the case of banking industry where accrual method of accounting is used in doubtful cases, bank stops charging of interest in the account and the amount is kept in memoranda account. The reply is not tenable as objections raised were for Balance Sheet purpose and cannot be used for contravening the provisions of the mortgage deeds.

The matter was referred to the Government (April 2017); their reply was awaited (November 2017).

Punjab Agro Juices Limited

3.17 Non recovery of charges from private party

The Company failed to recover ₹ 0.68 crore from a private party despite binding terms in the agreement.

Punjab Agro Juices Limited (Company) has two multi fruit and vegetable processing units in Punjab at Hoshiarpur and Abohar to facilitate horticulture development in the State.

The Company decided (June 2014) to enter into an arrangement with private parties for job work processing of fruits and vegetables and after inviting (August 2014) tenders, accepted (October 2014) the H 1 offer of M/s Mrs. Bector's Food Specialties Limited (private party) for processing minimum committed quantity of 1000 metric tons (MTs) of tomatoes during the Season 2015 at its Hoshiarpur Plant with the condition that the private party shall be liable to pay ₹ 7.50 per kg for the short fall against the minimum committed quantity.

The private party thereafter requested (December 2014) the Company to waive off the condition of minimum committed quantity which was turned down (December 2014) by the Company citing it to be an essential part of the arrangement. The Company entered (March 2015) into an agreement with the

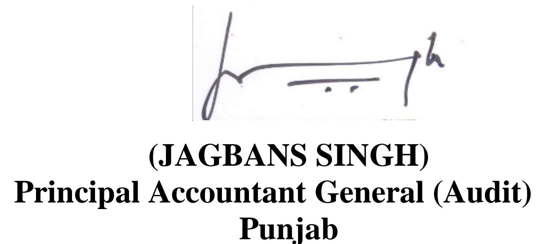
private party for processing of minimum 1000 MTs of tomato paste/crush[70] from May to June 2015.

Audit observed (April 2016) that the private party processed only 90 MTs during June 2015 of tomatoes against the minimum committed quantity of 1000 MTs. The Company did not raise its claim for short processed quantity of 910 MTs amounting to ₹ 0.68 crore (910 X ₹ 7.50 per kg) as per the terms of the agreement.

The Management stated (February/May 2017) that due to inclement weather, tomato crop of the year 2015-16 had failed and that the matter relating to crop failure was also reported (June 2016) in the media.

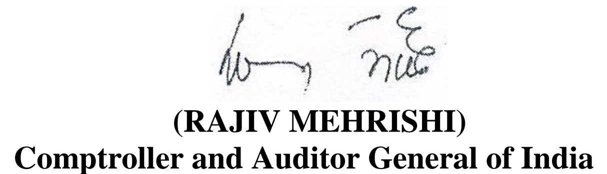
Data obtained from Director Horticulture, Punjab showed that tomato production in the State in 2015-16 was more than in 2014-15. Further, the matter reported in the newspaper referred to in the reply of the Company pertained to the year 2016-17 and not 2015-16.

The matter was reported to the Government (December 2016); their reply was awaited (November 2017).



Chandigarh **(JAGBANS SINGH)**
Dated 31 JAN 2018 **Principal Accountant General (Audit)**
Punjab

Countersigned



New Delhi **(RAJIV MEHRISHI)**
Dated 7 FEB 2018 **Comptroller and Auditor General of India**

[70] Tomato Paste 28 degree Brix - ₹20.60 per kg; Tomato Paste 24 degree Brix - ₹17.65 per kg and Tomato Crush - ₹13.55 per kg.