Chapter-VII

Compliance Audit Observations
(State Public Sector Enterprises)

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Compliance Audit Observations
(State Public Sector Enterprises)

Important audit findings emerging from test-check of transactions of State Government companies and statutory corporations have been included in this chapter. This chapter contains 12 audit observations having financial implication of ₹ 95.95 crore.

POWER DEPARTMENT

Punjab State Power Corporation Limited

7.1 Delay in charging capital expenditure on terminated projects

Delay in charging capital expenditure of ₹ 3.37 crore on terminated projects in tariff led to interest loss of ₹ 2.31 crore.

The Manual on Capital Expenditure and Fixed Assets of Punjab State Power Corporation Limited (Company), at Chapter X, provides that expenditures incurred on a project which have been rejected, be charged to revenue expenditure as and when the project is rejected.

The erstwhile Punjab State Electricity Board (now Company) had decided (June 2008) to develop 2x250 MW power plants at Guru Nanak Dev Thermal Plant (GNDTP), Bathinda and Guru Hargobind Thermal Plant (GHTP), Lehra Mohabbat each. The consultancy works for development of the two thermal plants were awarded (September 2008) to a firm for ₹ 7.50 crore *plus* taxes each. The Company also made payment of ₹ 3.37 crore on issuance of letter of award. Subsequently, owing to difficulties in obtaining environmental clearance for GNDTP Bathinda and land acquisition for GHTP Lehra Mohabbat, the consultancy works were first put on hold (November 2008) and then finally terminated (August 2012) under 'Drop Dead Fee' clause *i.e.* without any further payment.

However, despite rejection of the two projects and termination of consultancy works, the expenditure of ₹ 3.37 crore incurred was not timely charged to revenue as specified in the Rules. The same was finally charged to revenue in February 2021 *i.e.* after a lapse of more than eight years from the rejection/ termination of the project and accordingly claimed by the Company. The Punjab State Electricity Regulatory Commission allowed the same in tariff for the year 2022-23[1].

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[1] True-up for the year 2020-21 carried out based on audited financial statements in tariff order for the year 2022-23.

The delay of more than eight years in charging the capital expenditure incurred on terminated projects to revenue and consequent delay in cost recovery through tariff has led to interest loss of ₹ 2.31 crore[2].

The Government replied (March 2023) that the case for deciding about the expenditure incurred on terminated consultancy works was taken up during 2018-19 and the expenditure was booked (February 2021) in losses after obtaining approval (February 2021) of BoD.

The reply was not acceptable as the decision to write off the expenditure incurred on terminated consultancy works was taken after a delay of more than eight years in non-observance of the Company's own manualised instructions on the topic.

Recommendation: The Company must follow its manualised instructions in relation to accounting of income and expenditure in a timely manner.

7.2 Lapse of grant

The Company delayed initiating action to get forest clearance leading to DDUGJY projects remaining incomplete and lapse of grant amounting to ₹ 2.44 crore. The Company also made wrongful claim of grant amounting to ₹ 1.57 crore in these projects.

Government of India (GoI) launched (December 2014) Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) for (i) separation of agriculture and non-agriculture feeders facilitating judicious rostering of supply to agricultural and non-agricultural consumers in the rural areas and (ii) strengthening and augmentation of sub-transmission & distribution infrastructure in rural areas including metering at distribution transformers/feeders/consumers end.

Rural Electrification Corporation Limited (REC), a GoI public sector enterprise, was the nodal agency for operationalisation and implementation of the scheme under the overall guidance of Ministry of Power, GoI. The Company was the State project implementing agency, responsible for implementation of the scheme within the scheduled completion period. The Government of Punjab was to provide required land for sub-stations and facilitate in obtaining other statutory clearances *viz*, right of way, forest etc. The funding mechanism for DDUGJY was sixty *per cent* of the project cost to be provided as financial support in the shape of grant by GoI and the balance to be from internal resources.

[2] Calculated at rate of interest on working capital allowed by PSERC in the tariff orders for the years 2016-17 to 2021-22.

REC sanctioned (February 2018) projects valuing ₹ 191.19 crore for segregation of feeders/ agricultural consumer metering in five districts, viz. Gurdaspur, Hoshiarpur, Rupnagar, SAS Nagar and SBS Nagar of Kandi area of Punjab. Accordingly, work contracts valuing ₹ 72.20 crore were awarded (March/April 2018) for Ropar and SAS Nagar districts. These contracts included work for load segregation of existing mixed load 11 KV feeders at Bassi (Anandpur Sahib) and Ghanauli (Rupnagar) with construction/ erection of new proposed feeders at Barwa (Anandpur Sahib) and Saho Majra (Rupnagar) respectively. The construction work of these feeders could not be completed mainly due to pending forest clearances even up to the extended timeline of 31 March 2022, by which time expenditure of ₹ 2.61 crore had been incurred. The Company decided (March 2022) to short close these incomplete works and also decided (April 2022) to get the balance works amounting to ₹ 4.07 crore completed from own resources.

Audit observed (June 2022) that:

- As per contract the Company was responsible for acquiring and providing legal and physical possession of the site and access thereto, including all requisite rights of way. However, the Company submitted proposals for diversion of forest land in its favour after more than three and half years (September 2021) of sanction for construction of these lines.

- REC had expressly clarified (December 2020) that only items installed and commissioned in the project be included in closure. However, the closure proposals submitted (March 2022) by the Company to REC included expenditure of ₹ 2.61 crore incurred up to March 2022 on those feeders also, which were yet to be commissioned. This amount was got approved (March 2022) from REC by wrongly certifying that the assets created under the scheme were erected, tested, commissioned and energised. These incomplete, non-energised and non-commissioned works had been included in closure proposals by the Company solely for the purpose of getting grant from REC.

Thus, delay in initiating action to get forest clearance had not only resulted in lapse of grant amounting to ₹ 2.44 crore (60 *per cent* of ₹ 4.07 crore) but also wrongful claim of grant amounting to ₹ 1.57 crore (60 *per cent* of ₹ 2.61 crore) under DDUGJY.

The Government replied (June 2023) that to minimise the expenditure and delay under DDUGJY project, the Company adopted the approach of rerouting/re-engineering the feeders and erection of composite lines wherever possible to avoid confrontation with the Forest department. The reply was not acceptable as the Company could not complete the work within stipulated

period since it submitted proposal for forest clearance after more than three and half years of sanction for construction of these lines.

Recommendation: The Company may initiate timely action for obtaining statutory clearances and ensure regular follow up to safeguard its financial interests.

7.3 Loss of revenue on account of fixed charges

Indecision on the part of the Company to release extension of load to a consumer resulted in losing the opportunity to earn revenue of ₹ 1.87 crore on account of fixed charges.

Regulation 9.3.1 of Supply Code, 2014 provides that the distribution licensee *i.e.* the Company shall be entitled to get security (works) deposited from an applicant against estimated expenditure for providing electric line or electrical plant, as the case may be, worked out on the basis of standard cost data and communicated to the applicant through demand notice. However, where multi-circuit towers/supports are used for erecting a single circuit (SC) line/feeder for the applicant, the cost of only SC towers/supports shall be recoverable.

An existing industrial consumer[3] under large supply (LS) category applied (February 2020) for extension[4] in load. Central Zone, PSPCL, Ludhiana proposed (April 2020) to release the connection from the existing line by stringing a new circuit on the existing double circuit (DC) towers. However, Feasibility Clearance Committee (FCC) of the Company decided (September 2020) to allow extension of load by erecting six new multi-circuit towers in place of the existing five DC towers and erecting new 66 KV bay & 66 KV line on these multi-circuit towers. As per feasibility clearance (September 2020), the consumer was asked (October 2020) to bear the actual cost of dismantling five existing DC towers and SC line and erection of six new multi-circuit towers and DC line. Accordingly, a demand notice amounting to ₹ 2.03 crore was issued (01 March 2021) to consumer.

Aggrieved by this, the consumer filed (February 2021) a petition in the Punjab State Electricity Regulatory Commission (Commission) which directed (July 2021) for recalculation of charges recoverable for release of extension in load/demand as per provisions of Supply Code, 2014. The Company issued (13 September 2021) a revised demand notice for deposit for works of ₹ 1.44 crore which was deposited (17 September 2021) by the consumer.

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3 M/s. G O Steels Private Limited.

4 Existing sanctioned load of 2197 KW and contract demand of 2000 KVA and applied for extension in load for 5054 KW and contract demand of 4252 KVA.

The Company, however, shelved its plans to issue the connection through new multi-circuit towers and instead decided (May 2022) to provide connection to the consumer from already existing idle circuit on DC towers. For this, the Company issued (September 2022) a revised feasibility clearance and increased the load with effect from 11 January 2023.

Audit observed (August 2022) that the Company, which was aware of the idle circuit lying unutilised since the last 15 years, decided to erect six new multi-circuit towers to extend the load. This was done despite the Transmission Planning wing of the Company confirming (December 2020) that they had no plans to use the idle circuit in the future, yet the Company remained undecided as to how it would cater to the pending load extension request of the consumer.

The delay of 20 months in granting feasibility clearance for extension of load to the consumer *i.e.* period between the first feasibility clearance (01 October 2020) and revised feasibility clearance (23 May 2022) resulted in the Company losing the opportunity to earn revenue of ₹ 1.87 crore[5] on account of fixed charges[6].

The Government stated (June 2023) that fixed charges loss has been calculated for the period of 01 October 2020 to 23 May 2022, during which the case was not even pending with the Company as feasibility had already been granted to the consumer. They added that if the consumer had done the compliance of feasibility letter and demand notice timely, the connection could have been released in time. The reply was not acceptable as the Company had asked the consumer to bear the cost of dismantling five existing DC towers and SC line and erecting six new multi-circuit towers. Aggrieved by this demand, the consumer approached Commission who ordered to reassess the position as per extant rules and orders. Thus, had the Company acted according to its own Supply rules, the connection could have been released earlier and revenue of ₹ 1.87crore on account of fixed charges earned.

Recommendation: The Company should follow the Supply Code for providing any service to the consumers.

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5 4252 KVA x 80 *per cent* x ₹ 260 per KVA per month x 8 months *plus* 4252 KVA x 80 *per cent* x ₹ 285 per KVA per month x 12 months.

6 Fixed charges are charged as 80 *per cent* of the sanctioned contract demand or actual demand recorded during the billing cycle/month (restricted to sanction contract demand), whichever is higher.

7.4 Delay in issuance of sale confirmation order

Delay in issuance of sale confirmation order by the Company resulted in avoidable interest burden of ₹ 1.55 crore.

Government of Punjab decided (December 2017) to phase out Stage-1 units of Guru Gobind Singh Super Thermal Power Plant (GGSSTP) of Punjab State Power Corporation Limited (Company). Accordingly, two units of 210 MW each of Stage-1 of GGSSTP, Ropar were permanently closed with effect from 01 January 2018. The Board of Directors (BOD) of the Company constituted (January 2018) a committee to monitor disposal of the closed units. The BoD resolved (February 2021) for e-auction of assets of both the above units inclusive of surplus spares in a single lot on "As is where is basis" at a reserve price (based on consultant report) of ₹ 135 crore and authorised the Chief Engineer /Stores and workshop of the Company to carry out process of e-auction and place the sale order.

The tender for e-auction was floated (September 2021) and a firm with bid price of ₹ 150.45 crore *plus* GST was declared (28 October 2021) as the highest bidder. As per terms and conditions of the bid document, if the purchaser were to deposit the entire amount in a single instalment (along with all taxes) at the time of paying the first instalment, discount at the rate of five *per cent* on the total sale order value (without taxes) was to be given. The Company issued (06 January 2022) the sale confirmation order after 69 days from date of bid completion and the firm made (19 January 2022) full payment of ₹ 170.34 crore including GST.

Audit observed (May 2022) that the Company which manages its day-to-day activities by availing working capital loans from different banks/financial institutions and incurring huge amount on interest thereon, took 69 days for issuing the sale confirmation order. It was of utmost importance to receive sale proceeds at the earliest to save on interest cost. Though receipt of funds of ₹ 142.93 crore (after discount) was involved still the Company took more than two months to issue the sale order and get the assured revenue. In a similar case of disposal (September 2020) of four scrapped units of Guru Nanak Dev Thermal Plant (GNDTP), Bathinda, the Company took 28 days from bid completion date to the issuance of sale confirmation order involving ₹ 164.10 crore.

Thus, the delay in issuance of the formal sale order resulted in avoidable interest burden of ₹ 1.55 crore[7].

[7] Calculated (after giving cushion of 30 days for placing the sale confirmation order after going through all the formalities) for 39 days at rate of 10.13 *per cent* per annum being interest on working capital allowed by PSERC in the tariff orders for the years 2021-22.

The Government stated (May 2023) that agenda for the sale order was required to be approved by BoD but as the meeting of BOD was not scheduled, the agenda for the sale order was approved by Whole Time Directors subject to ratification by BOD. The fact, however, remains that the delay in this case resulted in the Company incurring avoidable interest cost.

Recommendation: The Company should initiate action immediately in cases of receipt of revenue to safeguard its financial interest.

7.5 Non-clubbing of multiple connections

The Company released multiple connections at a single address to firms having same GST number and in the process lost revenue of ₹ 0.82 crore due to non-clubbing of connections.

Supply Code 2014 of the Punjab State Power Corporation Limited (Company) provides that there should be only one electricity connection in one premise. Electricity Supply Instruction Manual, 2018 of the Company also provides that consumers should not take more than one connection in the same premise to avoid conversion of supply to higher voltage and application of different schedule of tariff. However, another electricity connection in the same premise may be allowed to a separate entity if it satisfies the following conditions:

(a) it is a separate unit in duly partitioned premise owned or taken on lease/ rent;

(b) it is registered as a separate entity/ firm under the relevant law;

(c) it holds a separate GST number and is independently assessed for income tax, as may be applicable.

When a consumer is found to have more than one connection in the same premises (in same or different names), the distribution licensee shall, after serving a notice of not less than 15 days or on request by the consumer for clubbing of connections, effect supply at one point in case the consumers located in the same premises are entitled to one connection only and switch over to HT supply at the consumer's cost if the connected load of all such entities in the same premises exceeds 100 KW/KVA. All such consumers shall from the date of expiry of notice be billed under the relevant tariff category applicable to the total connected load /contract demand. Further, voltage surcharge shall be levied as per General Conditions of Tariff in the event of supply not being converted to voltage levels within the specified period.

Audit observed (March 2022) that four Medium Supply (MS) industrial connections having collective load of 399 KVA were running at 400-Volt supply level in the same premises and being billed individually as detailed below:

Sr. No.	Name of Consumer	Name of the Firm	GST No.	Account Number	Contract Demand (KVA)	Date of release of connection
1.	Sh. Lekh Raj S/o Sh. Ram Chand	Jyoti Plastic	03xxxxxxxxxx1Z3	3002802382	100	30-04-2005
2.	Sh Vijay Kumar S/o Sh. Ram Chand	Jyoti Plastic	03xxxxxxxxxx1Z3	3002802387	100	25-04-2006
3.	Sh. Rohit Arora S/o Sh. Lekh Raj	Shivam Plastic	03yyyyyyyyyy1ZT	3002802407	100	25-06-2012
4.	Sh. Vijay Kumar S/o Sh. Ram Chand	Jyoti Plastic	03 xxxxxxxxxx1Z3	3015075297	99	07-02-2018
Total					**399**	

Source: Information provided by the Company

All the above four connections taken in individual names appeared to belong to members of the same family. Scrutiny of lease documents provided to Audit showed that all the connections were running from the same premises/address. Three of these connections even catered to a single firm having the same GST number. Thus, the Company should have clubbed and billed these four different connections as one as per extant regulations.

Thus, the Company lost revenue of ₹ 0.82 crore[8] due to non-adherence to the extant regulations regarding clubbing of load and will continue to lose revenue as no action has been taken (June 2023) to club these connections.

The matter was referred (March 2023) to the Company and the Government; their replies were awaited (February 2024).

Recommendation: The Company should ensure the compliance of supply code regulations while releasing connections and fix responsibility on its officers/officials.

7.6 Non-recovery of revenue

Delay in billing of a single point consumer by more than three years and consequential litigation resulted in non-recovery of revenue of ₹ 3.09 crore with associated interest cost of ₹ 2.03 crore.

Regulation 30 of Punjab State Electricity Regulatory Commission (Electricity Supply Code and Related Matters) Regulations, 2014 provides for issuance of bi-monthly bills to domestic and non-residential supply consumers with

[8] For the period April 2018 to June 2023.

connected loads less than 50 KW and monthly bills to all other category of consumers. The adherence to the prescribed billing periodicity is imperative for timely realisation of energy charges.

The Company released (July 2004) a single point electricity supply connection to a consumer[9] for his colony under Kharar Division. As per prevalent instructions, residents of the colony were provided individual electricity connections by the Company and the consumer was billed for the difference of energy consumed by single point connection supply meter and sum of all individual consumer meters installed in the colony. The consumer paid bills regularly up to October 2014. However, after introduction of new SAP based billing system by the Company, the monthly bills could not be raised to the consumer due to non-availability of consumption data for individual consumers from November 2014 onwards. The billing issue got resolved after more than three years when the Company issued (March 2018) a bill of ₹ 1.06 crore to the consumer for the period November 2014 to October 2017.

The consumer did not pay the bill and approached Forum for Redressal of Grievances of Consumers (CGRF), Patiala which decided (May 2019) that the amount be recovered in 18 equal monthly installments without any interest/ surcharge. The Company further issued (June 2019) a bill of ₹ 2.04 crore to the consumer for the subsequent period from November 2017 to April 2019. However, the consumer filed an appeal before Court of Lokpal (Ombudsman), Electricity, Punjab which decided (November 2019) the case against the Company. Aggrieved by this, Company filed a writ petition before the Punjab and Haryana High Court against the decision. The High Court concluded that the officials of the Company had not issued the bills promptly and remitted (August 2020) the matter back to Lokpal for deciding it afresh. The Lokpal set aside (December 2020) the demand for ₹ 1.06 crore and directed the Company to recalculate the bill as per applicable regulations. Accordingly, a fresh bill of ₹ 3.09 crore[10] for the period November 2014 to April 2019 was raised (October 2021) which, however, was not realised (June 2023).

Audit observed (January 2021) that due to failure of the Company to issue monthly bills to the consumer, it could not realise ₹ 3.09 crore even after lapse of three to eight years. Further, billing for the period May 2019 to September 2021[11] was yet to be carried out leading to further loss.

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9 M/s Bajwa Developers Private Limited.

10 after adjusting ₹ 42.61 lakh deposited by the consumer during the Court proceedings.

11 Date of takeover of system from consumer by the Company.

Thus, inordinate delay in billing of the consumer by more than three years and consequential litigation have resulted in non-recovery of at least ₹ 3.09 crore even after lapse of three to eight years with associated interest[12] cost of ₹ 2.03 crore on the outstanding amount, as the Company is dependent on loans from banks for its working capital requirements. Disciplinary action initiated against erring officials was yet to be finalised (June 2023).

The matter was referred (February 2023) to the Company and the Government; their replies were awaited (February 2024).

Recommendation: The Company should strengthen its billing and monitoring system to promptly detect any omission or non-billing of any consumer to realise its revenue in time, across all its circles.

Punjab State Transmission Corporation Limited

7.7 Injudicious waiver of Late Payment Surcharge

Waiver of Late Payment Surcharge of ₹ 67.32 crore recoverable for 2014-20 resulted in loss of ₹ 37.46 crore on account of financing cost.

Punjab State Transmission Corporation Limited (Company) is entitled to recover transmission charges from Punjab State Power Corporation Limited (PSPCL) as per the annual transmission tariff finalised by the Punjab State Electricity Regulatory Commission (Commission) in accordance with applicable tariff regulations[13]. These regulations and the transmission agreement (February 2014) between the Company and PSPCL provide that in case the payment of bills for transmission charges is delayed by PSPCL beyond the prescribed period from the date of billing, a Late Payment Surcharge (LPS) at the rate of 1.25 *per cent* per month or part thereof on the unpaid amount shall be levied.

Audit observed (November 2021) that during the period 2014-20, PSPCL had made delayed payment of transmission charges amounting to ₹ 3,548.95 crore beyond the prescribed time limit. The period of delays ranged up to 124 days. The Company, from time to time, raised bills for LPS amounting to ₹ 67.32 crore up to March 2020 against delayed payments. Subsequently, the Company waived off (June 2021) this amount and further decided to reduce the rate of LPS charged in bills to one *per cent* per month or part thereof with

[12] Calculated at rate of interest on working capital allowed by Punjab State Electricity Regulatory Commission in the tariff orders for the year 2014-15 to 2022-23.

[13] "The Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014" and "The Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2019".

effect from April 2020 as against the prevalent rate of 1.25 *per cent* per month or part thereof for the days of delay.

Audit further observed that the decision of the Company to completely waive off the LPS recoverable from PSPCL and reduction in rate of LPS was not prudent as the Company was legally entitled to recover it from PSPCL in accordance with tariff regulations and the *ibid* transmission agreement.

Further, the waiver of LPS was mainly based on the premise that the Company would not benefit since the entire income from LPS would be treated as non-tariff income for the purpose of determination of tariff. PSPCL, on the other hand would suffer as payments of LPS would be disallowed in its tariff determination.

This justification/reasoning of the Company was not correct as only net revenue from LPS (LPS of ₹ 67.32 crore less financing cost of LPS of ₹ 37.46 crore) would be treated as non-tariff income as per extant tariff regulations. Hence, the financing cost of ₹ 37.46 crore was a clear and explicit loss borne by the Company.

Thus, the injudicious and imprudent decision of the Company to waive off LPS bills from PSPCL resulted in loss of ₹ 37.46 crore on account of financing cost.

The Government stated (February 2024) that PSPCL had requested (June 2017) to withdraw LPS bills while also claiming interest on outstanding balances under Inter Corporation Transaction (ICT) accounts up to March 2016. In order to resolve the issue, a meeting was held (April 2021) between top management of both the companies and it was decided to waive off the LPS receivable from PSPCL up to March 2020.

The reply was not acceptable as there were no regulations/contractual arrangements regarding interest obligations on ICT accounts and the same were unenforceable, unrelated and irrelevant to the statutory and contractual obligations under transmission agreement and tariff regulations.

Recommendation: The Company should safeguard its financial interest by strictly working as per extant guidelines/regulations issued by the Commission.

INDUSTRIES AND COMMERCE DEPARTMENT

Punjab State Industrial Development Corporation Limited

7.8 Irregular payment of gratuity

The Company did not follow the Punjab Civil Services Rules, 2016 for payment of gratuity on retirement of employees leading to excess/ irregular payment of gratuity of ₹ 86.26 lakh during the period July 2019 to December 2021.

Clause 6.16-AA (3) of The Punjab Civil Services Rules, 2016 (Volume-II) of Government of Punjab (GoP) provides that in case of Government employees retiring on or after the first day of January 2006, the amount of gratuity shall be one fourth of the monthly emoluments[14] of the employee for each completed six monthly period of qualifying service subject to 16.5 times (i.e. for maximum 33 years) the emoluments in case of Group-A, Group-B and Group-C employees and 17.5 times (i.e. for maximum 35 years) the emoluments in case of Group-D employees, provided that in no case such gratuity shall exceed ten lakh rupees. Department of Finance, GoP while implementing recommendations of the Sixth Punjab Pay Commission revised (October 2021) the maximum limit of Retirement-cum-Death Gratuity from ₹ 10 lakh to ₹ 20 lakh *w.e.f.* January 2016. As per directions (May 2002) of GoP, the State Public Sector Enterprises (SPSEs) are required to maintain parity of pay, allowances and perquisites of their employees with that of State Government employees.

Punjab State Industrial Development Corporation Limited (Company) took up (July 1979) Group Gratuity Insurance Scheme with the Life Insurance Corporation of India (LIC) to meet contractual obligations in respect of gratuity due to its employees under the Gratuity Act, 1972. The Company is paying premium towards Group Gratuity Insurance Scheme to LIC which is charged as business expenditure in the year of payment. The Company works out the amount of gratuity payable to an employee at the time of retirement and sends the case to LIC. LIC credits the amount towards claim of gratuity to the bank account of the Company which is subsequently paid to the retiring employee.

Audit observed (April 2022) that the Company did not follow the Punjab Civil Services Rules in case of 12 employees who retired from service during the period July 2019 to December 2021 due to which excess amounts were paid to them. However, being a State PSE, the Company was required to pay gratuity

[14] Basic Pay + Grade Pay + Interim relief + Dearness Allowance.

as per rules and limits set by the State Government. This resulted in the excess/irregular payment of gratuity of ₹ 86.26 lakh by the Company.

The Management stated (February 2023) that the Company is following the LIC Group Trust rule executed with LIC and gratuity to each employee is being paid according to the said rules since 1979. Since the employees of the Company are not entitled to pension, the said clauses should not be applicable to the Company.

The reply was not acceptable as the Company have not adhered to the directives of the State Government regarding calculation and payment of gratuity to its retiring employees.

The matter was referred (November 2022) to the Government; their reply was awaited (February 2024).

Recommendation: The Company must follow the Punjab Civil Services Rules, 2016 for payment of gratuity to its retiring employees. It may also take steps to recover the excess paid and fix responsibility for this lapse.

FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS AND AGRICULTURE & FARMERS' WELFARE DEPARTMENTS

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

7.9 Avoidable interest burden due to deficient system for reconciliation of advance payments

Deficient system for adjustments/ refunds of advance payments and delay in the processing of the same resulted in delay in receipt of funds and blocking of funds led to avoidable interest burden of ₹ 7.39 crore.

State Procuring Agencies[15] (SPAs) are engaged in foodgrains procurement operations for central pool on behalf of Food Corporation of India (FCI)/ Government of India (GoI). The procured grain is collected and stored in gunny bags for delivery to FCI. GoI decided (August 2016) that the procurement of gunny bales for storage of procured foodgrain would be carried out by the office of Jute Commissioner (JCO) *w.e.f.* 1 November 2016. JCO circulated (October 2016) its guidelines according to which SPAs would generate the indent online and make advance payments in the escrow account opened by JCO in Kolkata on behalf of respective SPA. As and when JCO would place a purchase order for procurement of gunny bales on behalf of

[15] Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN) and Punjab State Warehousing Corporation (PSWC).

SPA, 90 *per cent* of the indent amount would be released as advance payment from escrow account. The balance 10 *per cent* payment will be released after 70 days from the date of first payment. In case of complaints received, the 10 *per cent* payment would be withheld and goods would have to be replaced by the respective seller of gunny bales. Further, the banks would on a real time basis reconcile the position of funds available, funds used and funds lying with them against every indent.

Audit observed (July/August 2022) that the Rabi Marketing Season (RMS) and Kharif Marketing Season (KMS) ends around 15 May and 15 November respectively of each year. Despite the availability of reconciled position of funds lying in the escrow accounts on real time basis against every indent, the SPAs had not taken steps to promptly adjust/ demand refund from JCO of the excess amount while placing the subsequent indents. Due to this, excess funds remained in the escrow account.

Further**,** after the end of one season and before start of the next season, the SPAs had ample time to reconcile/adjust the funds remitted to JCO. However, the SPAs did not evolve any system for reconciliation of advances given to JCO after the completion of the season. As a result, SPAs had recoverable amount of ₹ 265.05 crore[16] pertaining to crop years RMS 2019-20 to KMS 2021-22 from the JCO. The amount was adjusted after delays ranging from 55 days to 786 days[17] due to which the SPAs had to bear avoidable interest burden of ₹ 7.39 crore[18].

PUNSUP stated (April 2023) that they are in correspondence for refund/adjustment of excess amount lying with the JCO, Kolkatta. PUNGRAIN and PSWC stated (May 2023/January 2024) that the loss of interest in procurement of gunny bags is an operational issue and the Company has made all efforts to avoid the same and the matter has been raised at various levels. The State Government (Department of Food and Civil Supplies and Consumer Affairs) has endorsed (May 2023) the reply of PUNGRAIN. The replies were not acceptable as the advance amount pertaining to PSWC (₹ 102.27 crore), PUNSUP (₹ 38.33 crore) and PUNGRAIN (₹ 124.45 crore) got adjusted after delays of 61 to 192 days, 62 to 458 days and 55 to 786 days respectively.

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16 Information regarding reconciliation and refund received from JCO during RMS 2019-20 to KMS 2021-22 was sought from the Punjab State Grains Procurement Corporation Limited but the same was awaited (June 2023). Data was obtained by Audit from Jute Smart Portal (an online portal for placing indents related to procurement of jute bales).

17 Audit considered the delay beyond 45 days for reconciliation post completion of the season to the date of actual receipt of refund during RMS 2019-20 to KMS 2021-22.

18 Difference of interest paid on CCL limit (8.73 to 10.13 *per cent per annum*) and interest earned on escrow account. Highest rate of interest received on escrow account for the year has been considered. State Bank of India rates for fixed deposit of the year 2019-20 have been taken due to non-availability of rates.

The matter was referred (January 2023) to the Government (Agriculture and Farmer's Welfare Department) in respect of PSWC and PUNSUP, their reply was awaited (February 2024).

Recommendation: The SPAs may monitor/ review the status of idle funds lying in the escrow account and take timely action to refund/adjust from the JCO.

FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

Punjab State Civil Supplies Corporation Limited

7.10 Embezzlement of Paddy

Violation of the Custom Milling Policy, agreement between the Company and the miller and lapses in monitoring led to embezzlement of paddy valuing ₹ 10.84 crore.

Punjab State Civil Supplies Corporation Limited (Company) procures paddy for the Central Pool on behalf of the Government of India (GoI), stores it with rice millers allotted by the Department of Food, Civil and Consumer Affairs (DFSC), Government of Punjab; gets it milled from the millers and delivers the resultant rice to Food Corporation of India (FCI) as per the Custom Milling Policy (CMP) of the State Government.

District Office, Gurdaspur of the Company stored (October 2021) 8,381.43 MT of paddy of Kharif Marketing Season (KMS) 2021-22 with a miller for milling and delivery of resultant 5,615.55 MT of rice to FCI up to 31 March 2022. In the physical verification (12 November 2021) of the rice mill conducted by the Company, shortage of 96,995 bags weighing 3,637.31 MT was detected initially which was later updated to 4,610.13 MT of paddy equivalent to 3,088.79 MT rice, valuing ₹ 10.84 crore.

Audit observed (March 2022) as follows:

- CMP provided that in no case shall paddy in excess of maximum permissible allocable quantity of paddy be allocated to any of the mills. However, against the permissible allotment limit of 5,037 MT of paddy, the total paddy stored with the miller was 8,381.43 MT i.e. 66 *per cent* in excess of the allotment limit.

- As per CMP, storage area of paddy was to be videographed and photographs of boundary wall, rice room and stored paddy were to be kept on record. The process of storage was also to be completely videographed. Subsequently, a fortnightly physical verification (PV) was

to be conducted which was to be videographed. However, none of these laid down checks was followed by the Company.

- CMP provided that the miller shall submit a cheque of 50 *per cent* value of the paddy prior to the start of storage . The miller shall submit a cheque for the remaining 50 *per cent* value of the paddy at the time of completion of storage of the entire allocated quantity in the mill premises. This was with the intention that these cheques could be encashed in case of default by the miller. However, the cheque amounting to ₹ 9.09 crore submitted by the miller was presented on 25 January 2022 *i.e.* 74 days after noticing the shortages and was dishonored.
- Clause 23 of the Milling agreement provided that a security amount of ₹ 125 for every MT of total paddy or part thereof (including additional paddy) was to be submitted online by 30 September 2021. Accordingly, the miller was required to deposit the security amounting to ₹ 6.29 lakh which also was not deposited by the miller.
- CMP also provided that miller was to install closed-circuit television (CCTV) cameras in the storage area/mill and if the same were not found present during PV, such rice mill was subjected to immediate allocation cut of 20 *per cent* in that present milling season and will face cancellation of registration from the next season. The miller was required to provide live feed of the storage area to the Managing Director/District Manager of the agency concerned and the live feed was to be linked to the portal of the Department. However, the same was not done.

All the above lapses *i.e.* storage of excess quantity of paddy above the allotted quantity, not videographing the stored paddy, presenting the cheques after a considerable delay, not taking additional security as mandated and not checking the installation and functioning of CCTV cameras at the miller's end indicates connivance of the officials/officers of the Company. These led to embezzlement of paddy amounting to ₹ 10.84 crore. The Company issued (January 2022) chargesheets to three of its inspectors and the District Manager concerned. The Company also initiated arbitration proceedings against the miller. However, no final action had been taken against the officials/officers or any recovery made from the miller till date (June 2023).

The Management admitted (April 2023) to the facts and stated that all efforts were being made to recover the loss.

The matter was referred (November 2022) to the Government; their reply was awaited (February 2024).

Recommendation: The Company may ensure adherence to the terms and conditions of Custom Milling Policy as well as the agreement entered into with the miller to safeguard its financial interests and fix the responsibility of its officials/officers.

7.11 Avoidable payment of wages

The Company made avoidable payment of wages amounting to ₹ 1.92 crore to the Service Provider due to inclusion of imprudent clause in the agreement.

Punjab State Civil Supplies Corporation Limited (Company) is engaged in the business of procurement, storage, supply & distribution of foodgrains, other foodstuff and essential commodities of common consumption. To carry out its activities, the Company engaged services of outsourced staff through a service provider who was selected based on competitive bidding. The Company entered (May 2020) into an agreement[19] with the service provider for availing the services[20] of outsourced staff for its Head Office (HO) located in Chandigarh and various districts offices in the State.

Audit observed (September 2021) that Clause 14 of the agreement provided that the salary and wages of all personnel of the service provider shall be made as per rates notified by the Deputy Commissioner, Chandigarh (DC) for respective categories of employees, from time to time. Accordingly, the Company made payment to the service provider for all outsourced staff irrespective of their place of duty *i.e.* HO or district offices. The Service Provider had deployed from 55 to 155 personnel per month during the period April 2020 to March 2022. Out of these, 30 to 83 outsourced staff were deployed at district offices located outside Chandigarh during this period.

Audit further observed that the General conditions (No. 14) set out in the NIT (November 2018) for the work had envisaged separate rates of wages for the personnel engaged by the service provider and posted at its head office at Chandigarh and those posted throughout the State of Punjab. Salary and wages of the personnel of the service provider were to be paid as per the rates notified by Deputy Commissioner, Chandigarh in respect of categories of employees deployed in Chandigarh office and Labour Commissioner, Punjab in respect of employees posted throughout the state of Punjab and had accordingly called for the rates from prospective bidders. However, while entering into the agreement, this clause was changed and the final agreement provided for payment to all staff at rates notified by DC Chandigarh irrespective of their place of duty. It was also noticed that the Company had received (April 2020) staff requirement from district offices before entering into the agreement with the Service Provider. The rates notified by DC Chandigarh were higher than the rates notified by the Labour Commissioner, Punjab which resulted in the outsourced staff posted in various district offices being paid at rates higher than the applicable rates.

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[19] From 7 April 2020 to 6 April 2021 further extended up to 8 September 2024.

[20] Under various cadres viz. Secretarial Services, Managerial Services, Management Support, Accounting & Financial Services, Legal Support, Technical Support, Secretarial Housekeeping.

Thus, the Company made avoidable payment of wages amounting to ₹ 1.92 crore to the service provider due to inclusion of imprudent clause in the agreement.

The matter was referred (March 2023) to the Company and the Government; their replies were awaited (February 2024).

Recommendation: The Company should protect its financial interests by restricting its expenditure to the minimum without compromising on its working.

Punjab State Grains Procurement Corporation Limited

7.12 Extra expenditure due to distribution of wheat in 30 kg capacity bags

Failure of the Company to take up the matter with the State Government for reimbursement of extra expenditure incurred on distribution of wheat in 30 kg capacity bags resulted in extra expenditure of ₹ 21.80 crore.

Government of India (GoI) enacted (July 2013) the National Food Security Act, (NFSA) to provide food and nutritional security by ensuring access to an adequate quantity of quality food at affordable prices to the people. Government of Punjab (GoP) signed (August 2014) a Memorandum of Understanding (MOU) with GoI to procure wheat to be distributed to beneficiaries under this Act and made Punjab State Grains Procurement Corporation Limited (Company), the nodal agency. As per the MOU, the Company may procure wheat and distribute the same in 30 kg capacity bags but its reimbursement by GoI was to be made at lower of the two rates *i.e.*, actual expenses or the admissible amount as per the cost sheet approved by GoI for use of 50 kg capacity bags.

The State Government decided to distribute wheat to NFSA beneficiaries in 30 kg capacity bags once every six months from Rabi Marketing Season (RMS) 2014-15 onwards. GoP requested (November 2019) GoI to approve and reimburse the additional cost incurred in procuring more 30 kg capacity bags used by the Company in comparison to the 50 kg capacity bags. GoI approved (January 2020) use of 30 kg capacity bags but declined to reimburse any additional cost. GoP reiterated its request (July 2020) of reimbursement of the actual expenditure incurred on procurement of 30 kg capacity bags for RMS 2018-19, 2019-20 and 2020-21 which was not agreed to.

Audit observed (July 2022) that the Company distributed 20.17 lakh MT wheat to eligible beneficiaries in 30 kg capacity bags during RMS 2019-20, 2020-21 and 2021-22. The Company claimed the cost of 50 kg capacity bags as per the provisional cost sheets from GoI and got reimbursement of ₹ 92.88 crore while its actual cost was ₹ 114.68 crore. The Company was just

an implementing agency in NFSA scheme and it was acting as per the directions of GoP/GoI. The Company, being a commercial undertaking, has to safeguard its own financial interest, as such it should have claimed the extra cost incurred by it from the State Government which directed it to use 30 kg capacity bag.

Thus, due to the failure of the Company to take up the matter with the State Government for reimbursement of extra expenditure incurred on distribution of wheat in 30 kg capacity bags, resulted in extra expenditure of ₹ 21.80 crore.

The Government stated (April 2023) that it has discontinued the procurement of 30 kg capacity PP/HDPE bags for packing of wheat under NFSA with effect from RMS 2023-24. The fact, however, remains that the Company had to bear extra expenditure of ₹ 21.80 crore on account of distribution of wheat in 30 kg capacity bags.

Recommendation: The Company should raise the issue with GoP for reimbursing the extra cost incurred on 30 kg capacity bags to protect its financial interest.

Chandigarh
The 25 April 2024

(NAZLI J. SHAYIN)
Principal Accountant General (Audit), Punjab

Countersigned

New Delhi
The 6 May 2024

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India