Chapter III

3. Transaction audit observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies and Statutory corporations have been included in this chapter.

Government companies

Punjab State Industrial Development Corporation Limited

3.1 Loss due to imprudent policy

Faulty Policy allowing one time settlement to profit making units resulted in a loss of Rs. 26.58 crore.

A reference is invited to paragraph 3.3 of Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 pointing out loss of Rs. 3.37 crore due to imprudent one time settlement policy. Audit observed a further loss of Rs. 26.58 crore in two more such cases as discussed below:

The Company entered (January 1993 and June 1997) into two financial collaboration agreements (FCAs), one with Rana Gurjit Singh & Associates (first collaborator) for setting up a spinning mill[*] and another with Rishi Oswal & Associates (second collaborator) for setting up a project for the manufacture of denim fabrics[#]. As per terms of FCAs, the first collaborator was bound to buy back the shareholding of the Company upon expiry of five years from the date of commencement of commercial production and the second collaborator was to buy back shareholding of the Company in three stages, i.e, before expiry of third (7.5 *per cent*), fourth (7.5 *per cent*) and fifth year (85 *per cent*) from the date of commencement of commercial production.

In case the collaborators failed to buy back the shares, the Company was entitled to appoint its nominee as Managing Director of the unit or to sell its shareholding at the risk and cost of the collaborators. The Company released total equity of Rs. 17.61 crore (Rs. 11.50 crore to first unit during January 1995-March 1996 and Rs. 6.11 crore to second unit during July - November 1997).

[*] Rana Polycot Limited at Abohar (First unit).
[#] Malwa Industries Limited at Ludhiana (Second unit).

The first unit started commercial production on 23 September 1996 and the second unit on 1 October 1998. Both the collaborators failed to buy back the Company's shareholding as per the FCAs on 23 September 2001 and 30 September 2001 respectively. The Company, however, did not take any action to recover its dues. The State Government introduced (March 2003) one time settlement scheme (OTS) under Industrial Policy 2003, for facilitating buy back of shares by collaborators. The Company instead of invoking the provisions of the FCA to recover its dues from the profit making collaborators offered (April 2003) OTS to these collaborators. Both the collaborators accepted the offer and made advance payments of 10 *per cent* of the OTS amounts of Rs.23.52 crore and Rs. 9.95 crore in June 2004 and July 2003 respectively. As per OTS, balance amount could be paid within three and two years in case of first and second collaborator, respectively, from accepting the offer.

Audit observed that OTS to these profit making wilful defaulters lacked financial prudence. The units earned profit of Rs. 8.86 crore (from 1996-2004) and Rs. 28.27 crore (from 2001-2003), respectively. Thus, offering OTS to these collaborators was highly irregular and resulted in loss of Rs. 26.58 crore (Rs.17.73 crore for first unit and Rs.8.85 crore for second unit) to the Company.

The management stated (March 2005) that the OTS announced by the State Government was only implemented by it and it had no right to challenge the policies of the Government.

The reply was not tenable as the Company failed to take remedial action for about one and a half year under the FCAs. Further, covering the profit making units capable of buy back of shares without taking up the matter with the State Government lacked financial prudence.

The matter was referred to Government in March 2005; reply had not been received (September 2005).

3.2 Relaxation of the terms of financial collaboration agreement

Equity contribution by the Company in a unit by relaxing the terms of agreement resulted in non recovery of Rs. 2.28 crore alongwith interest thereon.

The Company promoted (February 1986) a joint sector unit named Telephone Cables Limited by contributing towards its equity in collaboration with Ms Bubli Brar (collaborator). As per the terms of financial collaboration agreement (FCA), the collaborator was to buy back the equity of the Company after a specified period. At the time of buy back of equity in May 1992 a dispute arose between the collaborator and the Company over market price of the shares and a court case was pending.

Audit observed that though the collaborator was already in dispute, yet the Company again entered (August 1995) into an FCA with the same collaborator for setting up of a 100 *per cent* export oriented mushroom growing and canning complex under the name Dashmesh-Haegens Agro Tech Limited. The terms of the FCA provided that in case the project did not fructify within seven years from the date of signing of agreement, the collaborator would buy back the shareholding of the Company in the unit at acquisition price plus 24 *per cent* annual interest. The project was appraised by Commonwealth Development Corporation (CDC), London and Canara Bank, which estimated its cost as Rs. 46.13 crore including equity participation of Rs. 20.76 crore; by collaborator (Rs. 5.19 crore), technical collaborator (Rs. 0.19 crore), Company (Rs. 5.40 crore), CDC (Rs. 3.78 crore) and through public issue (Rs. 6.20 crore).

The terms of FCA further provided that the Company would invest in the equity on proportionate matching basis, only after the collaborator had contributed at least 50 *per cent* of its share of equity. The Company, however, relaxed this condition on the ground that the unit urgently required fund for placement of orders for purchase of machinery valuing Rs. 16 crore and released (March 1996) Rs. 2.28 crore to the unit against Rs. 2.29 crore, i.e., 44 *per cent* of its share of equity contributed by the collaborator including the cost of land (Rs. 1.03 crore) which had not been transferred in the name of the unit at that time reducing equity contribution by the collaborator to 24.10 *per cent.* Moreover, the Company neither ensured the placement of order for machinery nor as to how the unit would arrange balance fund of Rs. 13.72 crore before release of equity.

The collaborator failed to place orders for purchase of machinery and intimated (April 1997) that there was continuous decline in the global prices of canned mushroom and increase in the prices of imported machinery over the past one year or so. In the meantime, the cost of project increased to Rs. 54 crore (approx.) which also adversely affected the viability of the project. So, the funding from financial institutions could not materialise and the unit could not commence its operation. The Company decided (June 1997) to recover its equity but under the provisions of FCA it had to wait for seven years. Upon expiry of seven years, the Company issued (January 2003) notice to the collaborator for refund of its investment alongwith interest as per terms of agreement but the collaborator did not make payment thereagainst.

Resultantly, the Company invoked (March 2003) arbitration clause by appointing its arbitrator and also filed an application in the court for the appointment of second arbitrator. Further developments were awaited (May 2005).

Thus, release of equity in relaxation of terms of FCA for a unit, the collaborator of which was already in dispute with the Company and that too without ensuring the placement of order for machinery resulted in non-recovery of Rs. 2.28 crore and interest thereon. The chances of recovery were bleak as the viability of the unit had become doubtful.

The matter was referred to Government in February 2005; reply had not been

received (September 2005).

Punjab Agro Foodgrains Corporation Limited

3.3 Misappropriation of rice

Lack of control over milling operations and non adherence to milling policy by the Company resulted in misappropriation of 17,553.89 tonne of rice and non recovery of Rs. 23.84 crore.

The Company procures paddy and gets it milled from millers for delivery of rice to Food Corporation of India (FCI) in Central Pool.

The Reports of the Comptroller and Auditor General of India for the years 2000-01 and 2001-02 (Commercial), Government of Punjab had pointed out misappropriation of rice / paddy amounting to Rs. 5.18 crore due to lack of control over milling operations and violation of the milling policy. But the State Government as well as the Company failed to take remedial action. Resultantly, misappropriation of rice continued.

A test check of records of six district offices (Amritsar, Mansa, Sangrur, Jalandhar, Fatehgarh Sahib and Patiala) revealed that the Company had allotted 43,048.30 tonne paddy for the crop years 1999-2000 to 2001-02 to 14 millers for milling as per details given in ***Annexure 13***. Audit observed that contrary to the milling policy of the State Government:

- the Company did not obtain bank guarantee or advance rice from these millers;
- the Company failed to ensure delivery of rice to FCI against previous lots of paddy before issue of next lot; and
- the Company did not ensure insurance of paddy / rice lying with the millers.

So, against due quantity of 28,107.42 tonne of rice, the millers delivered only 10,553.53 tonne of rice and the balance 17,553.89 tonne was misappropriated for which Rs. 23.84 crore[#] were recoverable from them. Out of 14 defaulting millers, the Company lodged FIRs against 11 millers during December 2001-April 2003.

[#] This includes value of rice Rs.15.42 crore, interest of Rs. 7.63 crore (up to March 2004) and cost of material valuing Rs. 0.79 crore.

The results of police investigations were awaited. In case of one miller[*] who misappropriated rice and other storage material valuing Rs.3.23 crore, even the FIR could not be lodged, it being a joint venture unit of the Company. In case of another miller[®] FIR was not lodged as the balance rice due was available with the miller but it was not accepted by FCI being below specification and was subsequently auctioned. In case of the third miller,[©] FIR could not be lodged as the owner of the mill had expired but arbitration proceedings for recovery of amount against all the legal heirs of the miller had been initiated. The Company also initiated arbitration proceedings against all the 14 millers for recovery of claims as per terms of agreement. Of these in 10 cases, awards had been given (July 2002 - December 2004) by the arbitrators in favour of the Company but execution of award for recovery of amount from millers was awaited (June 2005).

The management while admitting the facts stated (June 2005) that practically the Company did not have effective control as the paddy was stored in the godowns of the millers and keys of the godown remained with the millers and steps were taken in the event any misappropriation of paddy was reported. The reply was not tenable as the Company had not taken up the matter with the State Government for suitable amendments in terms of milling policy and standard agreement to safeguard its financial interest through effective and preventive control over milling operations. The fact, however, remains that the Company suffered loss due to failure on the part of management to strictly enforce the terms of the milling policy and agreement.

The matter was referred to Government in March 2005; reply had not been received (September 2005).

3.4 Recovery of rice at low outturn ratio

The Company instead of seeking clarification about cut off date for obtaining reduced outturn ratio obtained rice from the millers at lower outturn ratio for the entire crop of 2000-01, which resulted in non-recovery of Rs. 2.15 crore.

The Company as one of the agencies for the procurement of paddy delivers rice to Food Corporation of India (FCI) for Central Pool after getting it milled from allotted millers. The percentage of rice required to be obtained from the millers against paddy delivered to them, i.e., outturn ratio, is determined by the Government of India (GOI).

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[*] Serial No. 14 of ***Annexure 13.***
[®] Serial No. 8 of ***Annexure 13.***
[©] Serial No. 7 of ***Annexure 13.***

The GOI fixed (12 October 2000) the provisional rates of rice for the crop year 2000-01 on the basis of outturn ratio of 67 and 68 *per cent* for raw and parboiled[#] rice, respectively. Due to unseasonal rains, the paddy for the crop year 2000-01 was damaged. So, the GOI, decided (15 October 2000) to obtain rice at outturn ratio of 64/65 *per cent* instead of 67/68 *per cent* for all purchases of paddy from 21 September 2000 onwards. Accordingly, GOI also conveyed (27 November 2000) the provisional rates of rice based on revised outturn ratio. The GOI, subsequently, restored (June 2001) the rates of rice as also the original outturn ratio of 67 and 68 *per cent*.

The Company instead of seeking clarification about cut off date for obtaining outturn ratio of 64/65 *per cent* in view of the decision of GOI continued accepting rice at lower outturn ratio for the entire crop of 2000-01 and raised the bills on FCI accordingly.

The GOI intimated (February 2004) two final rates of rice for the crop year 2000-01, with cut off date of 15 October 2000. The district offices of the Company raised (April-October 2004) the final bills of rice for the crop year 2000-01 at the outturn ratio of 64/65 *per cent.* FCI, however, while making payment deducted the excess amount already paid on account of lower outturn ratio of rice obtained from the rice millers for paddy procured up to 15 October 2000 as it was getting the paddy milled at the outturn ratio of 67/68 *per cent*. Test check of record of Sangrur and Ludhiana district offices of the Company revealed that the deduction made by the FCI for crop year 2000-01 on this account was Rs. 2.15 crore which was not recoverable from the millers as well.

Thus, failure of the management to seek clarification in the matter had resulted in non recovery of Rs.2.15 crore from millers due to acceptance of rice at lower outturn ratio for the crop year 2000-01.

The matter was referred to Government/management in March 2005; replies had not been received (September 2005).

3.5 Extra expenditure

Non claiming of deductions of sales tax in respect of goods which were already subjected to tax resulted in extra expenditure of Rs. 95. 55 lakh.

The Company procures raw materials such as battens and nails through competitive bidding for manufacturing of wooden crates for its own use as well as for sale to other State agencies.

[#] Partly cooked by boiling.

Audit observed that out of 15.84 lakh wooden crates manufactured during 2000-03, the Company sold 7.44 lakh wooden crates to various organisations during these years. The Company purchased battens at a total cost of Rs. 20.99 crore inclusive of sales tax of which material costing Rs. 10.85 crore purchased from within the State was used in the manufacture of wooden crates sold during the aforesaid period. While assessing the sales tax (July 2000-April 2003), the Company, however, failed to claim deduction amounting to Rs. 95.55 lakh under Rule 29 (xii) of Punjab General Sales Tax (PGST) Rules, for purchase value (Rs. 10.85 crore) of goods which had already been subjected to tax and used in manufacturing of end product (wooden crates) sold during these years. This resulted in extra payment of sales tax amounting to Rs. 95.55 lakh and consequential loss to the Company to that extent.

The management stated (February 2005) that the crates were sold to other Government agencies against sales tax which was deposited with Sales Tax Department and no loss was incurred by the Company on account of sales tax. The reply was not tenable because the Company was entitled to sales tax deduction as provided in the PGST Rules in respect of tax paid on purchases and thus could have avoided the extra expenditure of Rs.95.55 lakh.

The matter was referred to Government in December 2004; no reply had been received (September 2005).

Punjab Agro Industries Corporation Limited

3.6 Loss due to imprudent policy

One time settlement policy introduced by the State Government was deficient because financial health of a unit was not considered for covering it under the policy. As a result, allowing one time settlement to a profit making unit resulted in loss of Rs. 14.08 crore.

The Company entered (June 1991) into a financial collaboration agreement (FCA) with a collaborator[*] for setting up a Sugar Mill[®]. As per terms of FCA, the collaborator was to buy back shareholding of the Company in the unit with interest at the rate at which the unit had availed loan from the financial institutions, after the expiry of five years from the date of commencement of commercial production. In case the collaborator failed to buy back the shares, the Company was entitled to appoint its nominee as Managing Director of the unit or to sell its shareholding at the risk and cost of the collaborator.

[*] Rana Gurjeet Singh and Associates
[®] Rana Sugars Limited, Amritsar

The Company released Rs. 6.10 crore during September 1991-September 1993, towards equity of the unit. The unit started commercial production on 15 December 1993. Thus, buy back of Company's shareholding by collaborator became due from 15 December 1998. Against the amount of Rs. 21.15 crore due on 30 June 2001, the collaborator paid only Rs. 7.33 crore during May 1999-June 2001. The collaborator failed to buy back Company's shareholding as per the terms of FCA. The Company, however, did not take any action to recover its dues. Company's inaction continued for 22 months.

The State Government introduced (March 2003) one time settlement scheme (OTS) under Industrial Policy 2003, for facilitating buy back of shares by collaborators. The Company, instead of invoking the provisions of the FCA to recover its dues from this profit making collaborator offered (May 2003) OTS. The collaborator accepted (July 2003) the offer and agreed to pay Rs. 11.36 crore under OTS (including Rs. 7.33 crore already paid by him) against total outstanding dues of Rs. 25.44 crore (principal: Rs. 6.10 crore and interest: Rs. 19.34 crore) as on 31 March 2003.

Audit observed that the offer of OTS to this profit making wilful defaulter lacked financial prudence. The unit was earning profit since going into commercial production and its total profit after tax during 1993-2003 was Rs. 19.23 crore. Thus, offering OTS to this collaborator resulted not only in loss of Rs. 14.08 crore to the Company but also sent out unhealthy message to other collaborators to resort to wilful default for availing undue benefit under OTS.

The management stated (April 2005) that it had disinvested in the unit only after taking approval of the State Government. The Government stated (April 2005) that the OTS scheme was consciously made applicable to all the units to facilitate equity disinvestment and that the Company could not adopt a different course even if the unit availing OTS earned profits. The replies were not tenable as the Company failed to take remedial action for about two years under the FCA. Further, covering the profit making unit capable of buy back of shares without taking up the matter with the State Government lacked financial prudence.

Punjab Communications Limited

3.7 Avoidable over payment

Buy back of shares at 58.31 *per cent* higher than the average market price resulted in avoidable over payment of Rs.5.77 crore and also adversely affected the profitability of the Company.

The Company decided (July 2003) to buy back 25 *per cent* (40,07,855 shares) of its existing equity shares (1,60,31,420 shares) from the shareholders in terms of

Section 77 A of the Companies Act, 1956 with the intent to return surplus cash to the shareholders and to increase the underlying value of shares in the market. This was approved by the shareholders in September 2003. The Board of Directors of the Company fixed (September 2003) the price per share at Rs. 90 on book value on the basis of accounts for the year ended 31 March 2003. Audit observed that price of share fixed by the Company was not co-related with average market price which ranged between Rs. 40.02 and Rs. 56.85 per share during April-September 2003. The Company paid Rs. 36.07 crore in June and August 2004 for buy back of 40,07,855 shares. Despite reduction in share capital, the market share price remained between Rs. 34.50 and Rs. 55 per share during June 2004-January 2005 even though there was upward trend in the stock market. Evidently, the rate offered for buy back of shares was on higher side and not based on market trends. Audit further observed that after outflow of cash from the Company, the other income during the year ended March 2005 at Rs. 6.31 crore, was substantially lower than Rs. 7.96 crore earned during the year ended March 2004. This also adversely affected the working results of the Company and the profit of Rs. 1.78 crore during 2003-04 was converted into a loss of Rs. 9.51 crore during 2004-05.

Thus, buy back of shares at Rs. 90 per share instead of Rs. 75.61[*] per share resulted in avoidable over payment of Rs. 5.77 crore besides defeating the purpose of increasing the market price of the shares.

The management/Government stated (May/September 2005) that there were no prescribed guidelines for the pricing of shares in the case of buy back. The reply was not tenable as the audit pointed out the injudicious decision of the Company to buy back shares at an exorbitant price of Rs. 90 per share as against Rs. 75.61 per share, i.e., the maximum expected increase in the market price of the share worked out on the basis of prevailing average market price, ranged between Rs. 40.02 and Rs. 56.85 per share during that time.

3.8 Avoidable payment of interest and liability for penalty

Non compliance with Central Sales Tax Act resulted in avoidable payment of interest of Rs. 24.93 lakh and liability for penalty of Rs. 19.20 lakh.

The Company is engaged in the business of manufacturing and sale of telecommunication equipment. The State Government granted (May 2002) six months concession (from January-June 2002) to the Company whereby the Central Sales Tax (CST) leviable at the rate of 10 *per cent* for inter State sales to Bharat Sanchar Nigam Limited (BSNL) was reduced to two *per cent*, without production of Form 'C'. The Company, therefore, continued to deposit CST at two *per cent* up to June 2002.

[*] Average market price Rs. 56.85 +Rs. 18.76 per share being 33 *per cent* expected rise in average market price of share due to 25 *per cent* reduction in share capital.

Audit observed that Government of India vide Finance Act, 2002 had amended (13 May 2002) the Central Sales Tax Act from 11 May 2002. As a result, CST was chargeable at 10 *per cent* without production of Form 'C'. Accordingly, the notification issued by Punjab Government was infructuous *ab-initio* which was widely published (18 June 2002) in the newspapers and thus, action of the Company to continue depositing (July 2002) CST at two *per cent* was not justified. So, the Excise and Taxation Department issued (27 January 2003) a demand notice to the Company for payment of Rs. 2.17 crore on account of differential amount of CST (Rs.1.92 crore) for 11 May 2002 to 30 June 2002 and interest (Rs. 24.93 lakh) for July 2002 to January 2003. The Company deposited the amount in January 2003. The Excise and Taxation Department also imposed (January 2003) penalty of Rs. 19.20 lakh for delayed deposit of tax. The Company deposited Rs. 4.80 lakh (25 *per cent* of penalty) in March 2003 and filed (May 2003) an appeal before Financial Commissioner (Taxation), Punjab for waiver of penalty. Further developments were awaited (April 2005).

Thus, failure of the Company to deposit requisite amount of CST as per Central Sales Tax Act resulted in avoidable payment of interest of Rs. 24.93 lakh for delayed deposit of sales tax, besides liability of penalty of Rs. 19.20 lakh.

The management stated (May 2005) that the Company made a request for cancellation of rollback of incentives to the Excise and Taxation Department as per directions of the then Chairman (also holding the charge of Financial Commissioner (Taxation)- State Government) and for deferment of deposit of tax pending clearance of above request. It was also stated that the Taxation Department did not raise demand and only show cause notice was issued after seven months and had the demand been raised, the amount would have been paid immediately. The reply was not tenable as the notification (20 May 2002) of the State Government was infructuous being contradictory to the amended CST Act and the Company should have deposited the statutory sales tax at the prevalent rate of 10 *per cent* instead of waiting for raising of demand by the Department.

The matter was referred to the Government in March 2005; reply had not been received (September 2005).

Punjab State Civil Supplies Corporation Limited

3.9 Loss due to non-inclusion of enabling clause in the agreement

Non-inclusion of suitable clause in the agreements with the millers to recover ID cess on misappropriated paddy resulted in loss of Rs. 56.33 lakh.

The Company procures paddy from mandis and gets it milled from the millers for

delivery of resultant rice to Food Corporation of India (FCI) as per the rates fixed by Government of India (GOI). The millers were liable as per standard milling agreement, to make good the loss to the Company at the custom milled price (CMP) of rice plus interest and penalty in case of misappropriation, theft, etc., of paddy by the miller.

The State Government levied (January 1999) infrastructure development (ID) cess at the rate of one per cent on minimum support price (MSP) of all agriculture produce including paddy. Since the GOI did not include the element of ID cess in CMP despite claims lodged by the procuring agencies, FCI did not reimburse this amount to the Company. However, on pursuance, GOI decided (March 2004) to reimburse the same from the crop year 2002-03. The State Government was still pursuing the matter with GOI for reimbursement of ID cess in respect of earlier years.

Audit observed that the ID cess could not be recovered from the millers also in respect of paddy/ rice misappropriated by them because in spite of levy of ID cess in January 1999, the agreements with the millers continued to be on the earlier lines and were not modified to enable the Company to recover ID cess from them. Such ID cess on misappropriated paddy (rice not delivered thereagainst) valuing Rs. 56.33 crore for the crop years 1999-2002 not recoverable in the absence of provision in the agreement from the millers, amounted to Rs. 56.33 lakh.

The management stated (August 2005) that the matter for recovery of ID cess paid prior to July 2002 was being pursued vigorously with the Government of India. The reply was not tenable because the Government at the most can reimburse ID cess in respect of the rice which was delivered to the FCI and not on the rice which was misappropriated by the rice millers.

Thus, non-inclusion of suitable enabling clause in the agreements with the millers to recover the ID cess on misappropriated paddy/rice resulted in loss of Rs. 56.33 lakh.

The matter was referred to the Government in April 2005; reply had not been received (September 2005).

3.10 Loss of carry over charges

Rejection of wheat stock in an unacceptable condition by Food Corporation of India (FCI) resulted in loss of carry over charges of Rs. 49.17 lakh to the Company.

Punjab State Civil Supplies Corporation Limited (Company) procures wheat for the Central Pool on behalf of the Food Corporation of India (FCI) and stores the same till its despatch/disposal as per instructions of FCI. The Company is responsible for the good health of foodgrains stored till despatch of stock to FCI.

The wheat is delivered on the arrangement of wheat specials railway wagons by FCI. The quality of wheat is checked and accepted by quality control wing of FCI at respective storage centres of the Company before loading into wagons. The payment of carry over charges comprising interest, handling and storage charges are claimed by the Company from FCI at the specified rates for each crop year till delivery of the stock. In case of rejection of stock, being not in acceptable condition, FCI does not allow carry over charges from the date of rejection till despatch thereof after upgradation of quality.

A test check of records of the District Offices at Jalandhar and Amritsar revealed that FCI rejected the wheat of crop years 1999-2000 and 2000-01 in respect of Nurmahal centre (inspected in February 2001) and Rayya centre (inspected in November and December 2002) because it was not considered fit due to damaged condition of wheat. Audit observed that this wheat was damaged due to improper storage by field staff of the Company. The stock (Nurmahal: 3,516 tonne and Rayya: 5,480 tonne) was despatched during April 2001-July 2003 after upgradation. So, FCI deducted Rs. 49.17 lakh* from the sale bills on account of carry over charges for the period from the dates of rejection till the dates of despatch of stock after upgradation.

Thus, failure of the Company to deliver wheat stock to FCI in acceptable condition at the first instance resulted in loss of Rs. 49.17 lakh.

The matter was referred to Government/management in February 2005; replies had not been received (September 2005).

3.11 Loss of interest due to delay in raising supplementary bills

Delay in raising supplementary bills on Food Corporation of India on account of cost of gunny bags and depreciation thereon resulted in loss of interest of Rs. 38.90 lakh.

The Company procures paddy from mandis and delivers rice to Food Corporation of India (FCI) after getting paddy milled from the millers. The Company claims its dues from FCI on the basis of rates fixed by Government of India (GOI). For kharif season of 2001-02, GOI approved (November 2001) provisional rates of rice, gunny bags and depreciation on gunny bags for recovery from FCI when paddy was packed in 75 kg bags and rice delivered in 50 kg bags. GOI also fixed in June 2002 (received by the Company in July 2002) rates of rice, gunny bags and depreciation thereon when paddy and rice both were packed in 75 kg bags.

A test check of record of district office of the Company at Moga for the kharif season of 2001-02 revealed that the Company used 75 kg bags both for paddy and rice, but in the absence of rates, the claims for these bags were raised at the rates

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* Nurmahal: Rs.19.59 lakh and Rayya: Rs.29.58 lakh.

applicable for kharif season 2000-01 and depreciation thereon was not claimed alongwith cost of rice from FCI. However, even after receipt of rates in July 2002, the Company continued to claim the cost of rice, bags and depreciation at pre-revised rates up to October 2002. It also failed to raise bills on FCI for depreciation and differential cost of gunny bags promptly. Supplementary bills valuing Rs. 4.41 crore were raised by the Company in June 2003 after a delay ranging between seven and 10 months. Delay in raising supplementary bills resulted in avoidable loss of interest of Rs. 38.90 lakh* during August 2002-June 2003.

The management admitted the facts and stated (August 2005) that the delay was caused due to large volume of work of delivery of paddy as the delivery period was extended up to August 2002 for crop year 2000-02. The fact remains that the Company suffered loss due to inordinate delay in raising the bills.

The matter was referred to Government in January 2005; reply had not been received (September 2005).

Statutory corporations

Punjab State Electricity Board

3.12 Loss due to non-clubbing of connections

Non-clubbing of connections running in the same premises coupled with delayed action resulted in revenue loss of Rs. 5.19 crore.

Sales Manual of the Board provided that when any person whether or not a member of the family, partner, director, etc., of an existing consumer applied for a new connection in the same premises or in a contiguous premises by carving out from existing one or by purchasing an adjoining land/premises in his own name or in the name of new firm/company, it was to be allowed only if there was a physical separation and in case premises in question were legally transferred, sold or leased to a new unit and an appropriate entry existed in the municipal record. The Board's instructions (January 1991) also provided that a consumer having sanctioned load exceeding 5000 KW and getting supply at 11 KV line was to convert his supply to 33 KV line with immediate effect failing which surcharge at the rate of 17.5 *per cent* would be levied till supply was converted to 33 KV.

Amrit Banaspati Company Limited, Rajpura, a consumer, was having a load of

* Worked out, after allowing one month for preparation of revised bills, at minimum interest rate of 11.05 *per cent* per annum paid by the Company on cash credit during the period.

4,899.197 KW from 11 KV line in November 1992. Another consumer, Amar Gases (P) Limited (Now Amba Agro Private Limited), situated in the same premises also applied (February 1993) for a load of 489.640 KW as a separate connection. Since separate connection in the same premises was not permissible, the load was sanctioned (August 1993) with the specific condition of ensuring separate premises before actual release of connection. The connection was, however, released (December 1993) without ensuring separate premises. As a result both the consumers were billed separately and escaped 17.5 *per cent* surcharge. In July 2000 the Enforcement staff of the Board found that there was no physical separation between the two premises and some of the electrical wiring was inter-mixing between the connections. The combined sanctioned load of the two connections was 5,388.837 KW (4,899.197 KW+ 489.640 KW), which exceeded 5,000 KW and attracted a surcharge at 17.5 *per cent* from December 1993. The Board, however, took 22 months to issue (29 May 2002) notice to the consumer to deposit rupees four crore on this account.

The consumer challenged the demand before Dispute Settlement Authority (DSA) of the Board in July 2002. During the pendency of the case, the Board decided (March/ August/December 2002) to give one time package to all pending cases of clubbing of connections up to July 2002 whereby 3 *per cent* transformation losses were to be recovered instead of 17.5 *per cent* surcharge. The consumer opted (July 2002) for conversion to 66KV which was allowed on 9 August 2002 after receiving requisite amount of Rs. 75 lakh and charging Rs. 9.34 lakh being 17.5 *per cent* surcharge from 30 May 2002-8 August 2002. The DSA, keeping in view that the clubbing had not been detected up to previous checking of 12 August 1999 decided (January 2003) to permit one time package by charging Rs. 30 lakh, i.e., only 3 *per cent* transformation losses from September 1999-May 2002.

Audit observed that during the pleadings before DSA, it was established in respect of second connection that there was no separate entry for the premises, the lease deed was never registered as required and there was no agreement of commercial separation between the two consumers because both the consumers were using common boiler and their premises were inter dependent. Both the connections were, therefore**,** required to be clubbed *ab initio*. The DSA, however, ignored it and covered the consumer under the instructions of clubbing after August 1999. Further, inordinate delay of 22 months to issue a notice to the consumer facilitated the consumer to pay less charges (3 *per cent* instead of 17.5 *per cent*) by taking benefit of the one time package which was introduced later on.

Thus, non-clubbing of the connections of the two consumers *ab initio* and thereafter delay in issuing notice to the consumer resulted in loss of revenue of Rs. 5.19 crore to the Board of which loss of Rs. 3.17* crore could have been

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* As per Board's sales manual recovery for a minimum period of three years is to be made from date of checking/detection of case of clubbing. Accordingly, voltage surcharge recoverable at 17.5 *per cent* from August 1997-May 2002: Rs. 3.47 crore less transformation losses actually recovered at 3 *per cent* from September 1999 - May 2002: Rs. 0.30 crore = Rs. 3.17 crore.

avoided had the Board taken timely action to issue notice on detection of irregularity in July 2000 itself. No responsibility for the loss had been fixed by the Board so far (July 2005).

The matter was referred to the Government/Board in September 2004; replies had not been received (September 2005).

3.13 Acceptance of defective conductor

Improper inspection of conductor by Board's authorities at firm's premises coupled with non-conducting of random checking resulted in utilisation of defective material valuing Rs. 2.98 crore.

Punjab State Electricity Board (Board) placed (December 2001 and June 2003) two purchase orders on a firm* for supply of 2,240 Km of conductor (Rabbit: 1,600 Km and Dog:640 Km). As per provisions of the purchase orders, the material was to be inspected by Board's official at firm's premises before despatch. In addition, random testing of material on its receipt in the stores was also to be done by the Board. In case of failure of material during random testing, the entire lot was to be rejected at the risk and cost of the supplier. The firm supplied 1,791.867 Km of conductor (Rabbit: 1,359.921 Km and Dog: 431.946 Kms) during February 2002-February 2004 in seven lots after inspection by Boards' authorities. Besides, the firm also supplied 79.376 Km of Rabbit conductor in February 2004 on behalf of another firm# (order placed in May 2001).

Audit observed that during random testing of last lot of conductor, the Board authorities found that the material was defective. So, out of this lot of 159.145 Km of conductor inspected at firm's works in February 2004, the Board's technical audit wing and quality control engineers of the firm conducted random joint testing of two samples of 47.967 Km of conductor (Rabbit: 31.934 Km and Dog: 16.033 Km) in March 2004 and found that both types of conductors were defective because of their failure in wrapping test. Besides, both the conductors also failed during resistance test conducted subsequently which showed 17.3 *per cent* higher resistance than normal, contributing towards higher line losses to that extent. So, the Chief Engineer (Technical Audit and Inspection) informed (March 2004) the Chief Engineer (Stores and Disposal) not to accept the material at any cost. In order to resolve the issue of defective supply, the Chairman constituted a Committee of three Chief Engineers. The Committee took decision (23 June 2004) in respect of only 677.191 Km of material valuing Rs. 1.70 crore received against last two lots of December 2003 and February 2004. According to this decision, 374.441 Km conductor lying in stores was to be returned to the firm in lots of Rs.20-25 lakh for replacement against bank guarantee and for 302.750 Km

* Deora Wires N Machines Private Limited, Ahmedabad.
# Elecon conductors, Meerut.

already used, penalty of 17 *per cent* was proposed. The firm had not (September 2004) agreed for payment of penalty. However, it lifted 191.124 Km of conductor up to January 2005 for replacement. Further developments were awaited (February 2005).

Since both the samples drawn for random checking failed, the inspection conducted at firm's works in respect of earlier five lots (1,194.052 km) could not be relied upon and could be termed defective. This is also corroborated by the fact that the Board declared the conductor of sixth lot as defective without random testing. The Board had not so far (February 2005) taken any action against its officials for improper inspection of material at firm's works.

Thus, improper inspection by the Board's authorities at firm's premises coupled with non-conducting of random checking of all the lots after their receipt in stores resulted in receipt and utilisation of 1,496.802[$] Km of defective conductor valuing Rs.2.98 crore which contributed towards unquantified higher line losses.

The matter was referred to Government/ Board in March 2005; replies had not been received (September 2005).

3.14 Loss due to violation of its own regulations

Allowing a consumer to make payment of energy bills in instalments instead of disconnecting power supply resulted in accumulation of unpaid bills for Rs. 66.18 lakh, the chances for the recovery of which were remote.

Sales Regulations of the Board provide for disconnection of power supply of defaulting consumer after seven days if a consumer failed to make payment of energy bills by due date. Sales Regulations further provide that the current energy bills should not be paid in instalments. The Chief Engineer (Commercial) of the Board also reiterated (October 2000) that field officers should not accept the current energy bills in instalments.

A large supply consumer[*] under operation division suburban Lalton Kalan sought (May 2001) permission of the Board to pay the energy bills of April 2001 amounting to Rs. 20.24 lakh in 12 monthly instalments on the ground of financial crunch. Instead of disconnecting power supply as per provisions ibid, Chief Engineer (Commercial) allowed (June 2001) the consumer to make 50 *per cent* payment of energy bill by due date and balance payment alongwith late payment surcharge and 0.5 *per cent* interest per week in four equal monthly instalments. The consumer deposited (May 2001) Rs. 10.50 lakh but failed to deposit balance amount of Rs. 11.70 lakh (including surcharge). Besides, the consumer also failed to pay the regular energy bills for the months of May, June and July 2001.

[$] 1,194.052 km conductor of five lots fully used and 302.750 km conductor of sixth lot.
[*] Midland Alloys and Steels (P) Limited, Ludhiana.

The consumer's supply was disconnected temporarily on 26 June 2001 and permanently on 25 July 2001 when the default amount had accumulated to Rs. 66.18 lakh.

The Board filed (23 May 2002) recovery suit in the court of Civil Judge, Ludhiana. The recovery suit could not be proceeded because whereabouts of the directors of the consumer company were not known. Audit observed that one of the three directors of the consumer company had died, second had recorded wrong residential address and the third director had already left the country. The ownership of the land on which the industrial unit was located did not vest with the consumer company and the machinery of the industrial unit was removed by consumer.

Thus, allowing payment of current energy bills in instalments in contravention of the instructions of the Board followed by not disconnecting the supply of the consumer permanently at the time of first default resulted in accumulation of arrears of Rs. 66.18 lakh. The chances of the recovery of dues were remote.

The matter was referred to Government/Board in June 2005; replies had not been received (September 2005).

3.15 Loss of interest

Delay in taking decision to recover arrears of revised tariff in instalments resulted in delay in raising bills for Rs. 38.36 crore and loss of interest of Rs. 43.46 lakh.

Electricity Regulatory Commissions Act, 1998 provided that both State Government and State Electricity Board were required to implement the electricity tariff decided by the State Electricity Regulatory Commission (SERC).

Punjab State Electricity Regulatory Commission (PSERC) revised electricity tariff from 1 August 2002 vide tariff order dated 6 September 2002. After clearance of tariff order by the State Government on 16 October 2002, the Punjab State Electricity Board (Board) issued order for implementation of tariff on 18 October 2002. As per order, arrears of difference of tariff from 1 August 2002 - 18 October 2002 were to be recovered in the next billing cycle. However, the Board though aware of the revised tariff on 13 September 2002, decided belatedly (23 October 2002) to work out arrears for deciding the issue of recovery in instalments. So, the average arrears were worked out (November 2002) and the Board felt that the arrears as percentage of cyclic revenue were higher in respect of large supply, bulk supply, medium supply and small supply consumers and therefore issued fresh instructions on 4 December 2002 to recover the arrears in respect of these consumers in two instalments.

Checking of record of three[*] Centralised Billing Cells revealed that arrear bills in respect of such consumers amounting to Rs. 38.36 crore were raised (November 2002) in two instalments (first instalment: Rs. 18.55 crore and second instalment: Rs. 19.81 crore). Audit observed that the revised tariff was considered by the Whole Time Members of the Board in its meeting held on 13 September 2002. Since tariff issued by SERC was to be implemented without any change as per the provision of SERC Act**,** the Board had sufficient time to collect data about arrears and take decision to make recovery in instalments while implementing revised tariff on 18 October 2002 instead of on 4 December 2002. Had the Board decided to workout arrears on 13 September 2002 itself and took timely decision to make recovery in instalments, it could have avoided delay of 1.5 months (18 October 2002 to 04 December 2002) in raising arrear bills involving heavy amount of Rs. 38.36 crore and thereby could avoid loss of interest of Rs. 43.46 lakh.[**]

The Board/Government stated (May 2005) that it was decided (18 October 2002) that Director (Billing) should workout the arrears first and then he should put up the proposal in the next WTM meeting. The reply was not relevant. A timely decision could have avoided the interest loss.

3.16 Avoidable expenditure

Failure to detect actual cause of damage of a power transformer during its three repairs resulted in avoidable expenditure of Rs. 32.33 lakh.

A power transformer of 16/20 MVA was installed and commissioned in June 1989 at 132 KV Sub-Station(S/S), Dhilwan. It got damaged (11 January 1997) due to defect in red phase winding. The transformer was repaired at Board's workshop (Jamsher) at a cost of Rs.12.77 lakh. The repaired transformer was installed (30 April 1998) at S/S, Ropar where it again got damaged (14 August 2001) and was repaired at Board's workshop at a cost of Rs.9.98 lakh. After repair, it was installed and commissioned (30 September 2001) at S/S, Pathankot. It again got damaged (10 May 2002) when its high voltage-yellow-phase coil got damaged. The oil sample of this transformer was sent (17 September 2002) to National Thermal Power Corporation (NTPC), Noida for Dissolved Gases Analysis (DGA) test. The DGA test results diagnosed thermal fault of high temperature leading to local overheating of the transformer core due to concentration of flux.

The transformer was sent for repair to ECE Limited, Sonepat (supplier of transformers) which repaired it at a cost of Rs.9.58 lakh. After installation (20 September 2002) at S/S, Nurmahal, the transformer was again damaged on 14 October 2003.

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[*] Jalandhar, Patiala and Ludhiana
[**] Worked out at interest rate of 9 *per cent* per annum.

A Committee of three officers comprising one Engineer-in-Chief and two Chief Engineers was constituted (14 January 2004) for investigating the cause of damage. The Committee, *inter alia*, found (March 2004) local overheating of transformer core due to concentration of flux, thus confirming the diagnoses by NTPC. It further observed that damage to the core of transformer had occurred in 1997 but remained undetected during subsequent repairs. The Committee also observed that ECE limited should have checked the core before replacing the winding of the transformer and therefore, the firm was responsible for it. The Committee recommended to take up the matter with the firm. The transformer was got repaired from the firm during March 2004 at a cost of Rs.11.75 lakh. The repaired transformer was installed (25 July 2004) at S/S, Ropar. Evidently, improper repairs done prior to March 2004 resulted in infructuous expenditure of Rs. 32.33 lakh[*]. The Board had not taken any action against the firm/ officials at fault (June 2005).

The Board/Government stated (June 2005) that the findings of the Investigating Committee were not correct. The reply was not tenable in view of the fact that the report of the Committee was not contested at any stage by the authorities. Moreover, the report of the Committee was corroborated by results of test by NTPC.

3.17 Avoidable loss

Energisation of power transformer without waiting for detailed report of Protection Division resulted in loss of Rs. 11.46 lakh due to damage to a power transformer.

Grid Construction Division, Patiala installed (July 2003) a power transformer at newly constructed sub-station at village Arno. Before energisation of this transformer, it was tested by Protection Division, Patiala between 15 and 31 July 2003 and certain defects were pointed out. The detailed report (28 September 2003) of Protection Division stated that incoming cables were of inferior quality as their insulation resistance (IR) value was lower than required.

However, without waiting for the detailed report of Protection Division, Assistant Executive Engineer, Grid Construction Sub division, Mohali energized (4 August 2003) the power transformer. The transformer control breaker tripped immediately and damaged the power transformer. The protection team identified (August 2003) poor IR value of the cable as the cause of damage. This was also corroborated (June 2004) by a committee constituted by the Board to investigate the cause of damage to the transformer. The damaged transformer was shifted (August 2003) to Power Transformer Repair Workshop of the Board at Malerkotla, where it was declared (December 2003) irreparable. Depreciated

[*] (Rs. 12.77 lakh + Rs.9.98 lakh + Rs.9.58 lakh).

value of the power transformer on the date of damage (August 2003) was Rs. 12.19 lakh and the Board also had to incur Rs. 0.94 lakh on its dismantling and transportation.

Thus, energisation of power transformer without waiting for detailed report of Protection Division and removing the defects pointed out therein resulted in loss of Rs 11.46 lakh[*] to the Board for which the Board had not fixed any responsibility.

Government/Board admitted (September 2005) that the damage to the transformer was due to poor quality of cables supplied by the supplier. It was stated that since damaged transformer had been disposed off for Rs. 16.61 lakh, there was no loss to the Board. The reply was not tenable because the amount realised was against the realisable residual value of Rs. 1.67 lakh assessed on the basis of purchase value (1989) of the damaged transformer so it cannot set off the loss as pointed out. Moreover, the above lapse of the Board's official resulted in total damage to the transformer due to which it could not be utilised for 11 more years of its service life as per revised estimated life span and the Board had to purchase a new transformer valuing Rs. 64.75 lakh.

Punjab State Warehousing Corporation

3.18 Export of foodgrains

3.18.1 The Government of India (GOI) advised (July 2001) the State Government/procuring agencies to approach Food Corporation of India (FCI) for export of foodgrains with a view to easing the space crunch being faced in Punjab due to accumulation of stock over the years. Accordingly, Punjab State Warehousing Corporation (Corporation) approached (March 2002) the FCI which declared (July 2002) it as a canalizing agency for export of foodgrains.

Arrangement for exports

3.18.2. As per memorandum of understandings (MOUs) and agreements with 20 associates signed during September 2002 to November 2003, following mechanism was established for export of foodgrains:

- Export was managed by the Corporation through Associates selected by it.
- Associates would identify the overseas buyers and secure export contracts in the name of the Corporation at negotiated international market prices.

[*] Depreciated cost (Rs.12.19 lakh) + cost of dismantling and transportation (Rs.0.94 lakh) -residual value (Rs.1.67 lakh).

- After identification of stocks by the Associates, the Corporation would send requirements to FCI for allocation.
- FCI would fix the export price payable by Associates to the Corporation.
- FCI would reimburse the difference between the rates recoverable by the Corporation as procuring agency (as per Government of India rates) and export price to the Corporation.
- Whenever required, finance could be arranged by the Corporation on behalf of the Associates from the banks in the form of export packing credit (EPC) for which the cost of financing (EPC interest plus one *per cent*) would be recovered from the Associates.
- After the export, the Corporation would be entitled to recover the export price, related costs and service charges from the sale proceeds and the balance was to be transferred to the Associates.
- Associates were entitled to claim all export benefits.
- The Associates were to submit export documents within 45 days (wheat) and 90 days (rice) to the Corporation after lifting the stock. In case, documents were not submitted within the stipulated period, domestic price of the stock was recoverable from the Associates.

Though specifically directed by FCI yet the Corporation did not include in the MOUs and agreements with Associates a clause to ensure that cost of grains was received from the Associates by FCI (in case of rice) and by the Corporation itself (in case of wheat).

Execution of the activity

3.18.3 During September 2002 -August 2004 the Associates lifted 15.12 lakh MT wheat and 5.60 lakh MT rice valuing Rs. 803.40 crore and Rs. 467.58 crore respectively. Test check of record during audit of above transactions revealed the following:

Loss due to faulty agreement

3.18.4 According to instructions of FCI (June 2001), the Associates were required to submit letters of credit (LC) for grains alongwith the contracts with foreign buyers. Audit observed that for export of 0.35 lakh MT of rice to Belgium and Singapore, the Corporation entered into (May and June 2003) two agreements with Emmsons International Limited (EIL), an associate.

The clause regarding furnishing LC alongwith the contract was, however, not included but instead the Corporation included a clause in the agreement asking EIL to submit LC for the cargo on 100 *per cent* readiness for shipment.

EIL was also required to furnish bank guarantee (BG) equal to five *per cent* of the value of goods which worked out to Rs 91.62 lakh. EIL, however, furnished BG of Rs. 60 lakh only and did not submit LC. The Corporation revised (August 2003) the value of BG (5 *per cent* of Rs. 10,000 per MT of grain) necessitating furnishing of additional BG of Rs. 1.19 crore (including Rs. 31.62 lakh already short received) from EIL. This was not given by EIL.

In terms of allocation made by the FCI, the Corporation deposited (May/June 2003) Rs. 23.09 crore being the cost of 0.35 lakh MT of rice and got the release order (RO) in favour of the Corporation.

The Corporation allowed it to lift 0.23 lakh MT of rice valuing Rs. 16.58 crore during September-November 2003. Upon failure of EIL to submit the BG and LC as required, the Corporation stressed upon (November 2003) the former to submit the documents. The Corporation further observed (November 2003) that the value of stock despatched to the party had exceeded the bank guarantee. Consequently, the Corporation cancelled (November 2003) the indents for the remaining quantity of 0.12 lakh MT of unlifted rice.

EIL paid (February 2004) Rs. 10 crore to the Corporation in addition to Rs. 50 lakh already paid by it and intimated that because of unilateral decision by the Corporation to cancel the part contract, EIL had suffered huge losses. The Corporation, while justifying the termination of the part contract on the ground of violation of terms and conditions of agreement, asked EIL to remit the balance amount. EIL did not agree to (March 2004) pay the balance. The Corporation**,** thus, invoked bank guarantee of Rs. 60 lakh in March 2005.

EIL, however, furnished (February-September 2004) documents in support of export of 0.23 lakh MT of rice. As on 31 May 2005, Rs. 5.25 crore[@] (including interest and service charges, etc.) were recoverable from EIL against which no payment was received (June 2005)**.**

Failure of the Corporation to obtain Letter of Credit and release of rice without obtaining adequate bank guarantee resulted in non-recovery of Rs. 5.25 crore.

Thus, failure of the Corporation to obtain LC at the time of contract and release of rice without ensuring adequate BG resulted in non-recovery of Rs 5.25 crore and legal complications (March 2005). The management stated (June 2005) that the matter had been referred to arbitrator and was also pending in court. The reply was not tenable because had the Corporation ensured the compliance of the terms and conditions of the agreement with the associate, non recovery/legal complications could have been avoided.

3.18.5 FCI issued (October 2002) instructions that expenditure on railway freight would be incurred by the Corporation in the first instance and FCI would reimburse it after submission of export documents. FCI was not to bear any additional financial liability including interest on the delayed reimbursement of freight. However, the Corporation did not cover the loss that might arise due to

[@] as worked out in audit.

Delay in obtaining reimbursement of freight charges resulted in loss of Rs. 1.08 crore.

delay in reimbursement of freight by FCI by inserting a suitable clause in the agreements with Associates as was done by MARKFED (another exporting agency of the State Government) in their agreements. Audit observed that in four districts test checked, there was delay of 21-512 days in getting reimbursement of freight charges ranging between Rs.15.68 lakh and Rs. 38.15 lakh due to delay on the part of Associates**.** The loss of interest on the delayed reimbursement of railway freight in the four districts as worked out in Audit amounted to Rs.1.08^ crore**.** In the absence of enabling condition in the agreements, the Corporation could not pass on the loss of interest to the Associates.

The management stated (June 2005) that the reimbursement of freight from FCI was regularly obtained. The reply was not relevant as the para brings out loss of interest on delayed reimbursement of railway freight.

The Corporation suffered loss of Rs. 98.24 lakh on freight as the transportation was made by longer routes.

3.18.6 As per instructions (December 2002) of FCI, the freight from the loading point to the port station was to be reimbursed for the shortest route. The Corporation did not include clause to recover the difference from the associates due to less reimbursement as was done by the MARKFED in its agreements. During November 2002-July 2004, the FCI deducted Rs. 98.24 lakh from the claims of freight charges of the Corporation as the transportation of wheat was made by longer routes in two districts test checked. This amount was neither recoverable from FCI nor any clause existed in the agreements with the Associates to enable the Corporation to recover the same from them.

The management stated (June 2005) that the matter for the reimbursement of actuals had been taken up with FCI. The chances of recovery were remote due to lack of enabling clause.

3.18.7 The Corporation had been incurring expenditure on handling and transportation charges (HTC) of wheat for export from the godowns to railheads since October 2002 without settling clear terms with the FCI for its reimbursement. Before lodging the actual claims of HTC, however, the Corporation noticed (December 2002) that FCI would reimburse part of HTC incurred by it. It took up (December 2002) the matter with FCI for reimbursement of HTC on actual basis but no reply was received from FCI. Audit observed from test check of record of four districts* that the Corporation incurred (October 2002-August 2004) HTC of Rs. 7.20 crore out of which, FCI released Rs. 3.63 crore during December 2004-May 2005. GOI, however, while issuing (September 2004) the final rates of wheat for Central Pool for the crop years 2001-02 and 2002-03 clarified that HTC in respect of wheat delivered from the State godowns to rail heads would be reimbursed to procurement agencies on actual basis or at State Agency rates or at FCI rate whichever was least. The Corporation had not yet (July 2005) worked out the loss on account of short reimbursement of HTC as compared to the actual expenditure already incurred by it in view of above GOI's

^ Calculated at the prevailing minimum cash credit rate of 9.1 *per cent* per annum.

* Patiala, Sangrur, Mansa and Moga

directions. Audit noticed that FCI deducted Rs. 17.99 lakh in view of GOI directions and an amount of Rs. 3.39 crore was yet (July 2005) to be received from FCI. The Corporation had not taken up the matter with FCI for short reimbursement of HTC. Thus, non-settlement of clear terms with FCI regarding reimbursement of HTC also resulted in loss of interest of Rs. 96.69[#] lakh (up to May 2005) on delayed reimbursement made and on balance recoverable amount. The loss was also not recoverable from the Associates in the absence of any provision in the agreements with them.

The management stated (June 2005) that expenditure on HTC had been got reimbursed. The reply was not tenable as Rs. 3.39 crore was still recoverable in four districts test checked in Audit.

Non inclusion of clause in the agreement regarding recovery of interest from the Associates from the date of RO resulted in loss of Rs. 67.31 lakh.

3.18.8 As per the instructions of the FCI, before issue of Release order (RO) it was to be ensured by the Corporation that cost of grain was received from the Associates. In such cases, where associates had made payments at the time of actual despatch, FCI was not paying interest on the export price from the date of RO to the date of actual despatch of wheat. The Corporation was, however, charging interest from the Associates from the date of despatch of wheat. Accordingly**,** Corporation was not getting any interest on the export price from the date of RO to actual date of despatch as was in the case for delivery of wheat to FCI in Central Pool. This was not taken care of by the Corporation while executing agreements with the Associates. In 20 cases (test checked in Audit) involving despatch of 4.41 lakh MT of wheat valuing Rs. 1,703.39 crore during October 2002 to January 2004, the Corporation suffered loss of interest of Rs. 67.31 lakh. (from the date of RO to the actual despatch). The loss could not be recovered from the Associates in the absence of any provision in the agreements for recovery of this amount.

The management stated (June 2005) that interest from the date of RO to Railway receipt as deducted by FCI has been charged to the concerned Associates. The reply was factually incorrect as the amount was not debited to the concerned associates so far (June 2005).

Export packing credit

3.18.9 For funding the export activity, the Corporation availed EPC of Rs. 250 crore and Rs. 300 crore from Oriental Bank of Commerce (OBC) and Punjab National Bank (PNB), respectively, at the rate of 7.5 *per cent* per annum. Scrutiny of record relating to EPC revealed the following:

3.18.10 In the case of EPC sanctioned by OBC, export credit guarantee premium (premium) was to be borne by the Corporation whereas as per terms and conditions of PNB, this facility was at bank's cost. Charging of premium on EPC

[#] Calculated at the prevailing minimum cash credit rate of 9.1 *per cent* per annum after allowing grace period of six days.

by the banks was neither foreseen by the Corporation at the time of entering into agreements with Associates nor any unforeseen expenses were guarded against by inclusion of suitable clause in the agreements, as was done by MARKFED while executing agreements with Associates.

Corporation could not recover export credit guarantee premium of Rs. 1.54 crore from Associates.

Thus, premium of Rs. 1.54 crore charged by OBC during January 2003-July 2004 could not be recovered from the Associates. The Management stated (June 2005) that the matter had been taken up with OBC for not levying the above charge as done by PNB. The decision of the bank was awaited (June 2005).

3.18.11 As per Reserve Bank of India guidelines, in case the EPC was adjusted out of rupee fund by the borrower, the interest was to be charged at higher rate of 16 *per cent* as against the normal rate of 7.5 *per cent*. Audit observed that EPC amount of Rs 70 crore (PNB) and Rs 43.65 crore (OBC), respectively, was diverted during June 2003 and August 2003 by the Corporation for repayment of cash credit (CC) and subsequently adjusted the same out of rupee fund and thus attracted interest at 16 *per cent*. OBC, however, agreed (August 2004) to charge interest at 11 *per cent* per annum from the date of advance whereas negotiations for reducing the rate of interest with PNB were in progress (June 2005).

The Corporation made extra payment of Rs. 91 lakh.

The Corporation had been availing cash credit from the State Bank of India at interest rates ranging between 9.35 and 11.05 *per cent* as against 11 *per cent* charged on EPC on diverted fund and thus resulted in extra payment of interest of Rs. 91 lakh during June 2003 to June 2004.

The management stated (February 2005) that it had earned Rs. 3.41 crore as one *per cent* additional charge on EPC and had thus compensated the above loss. The reply was not tenable as additional one *per cent* formed cost of financing and was not meant to cover expenses incurred due to lapses of the Corporation.

3.18.12 The Corporation also opened current accounts in three banks (PNB, OBC and CITI Bank). Receipts on account of exports lying unadjusted for want of acceptance of export documents by the banks remained unutilised in the above current accounts without earning any interest. Such unadjusted balances varied between Rs. 0.19 lakh and Rs. 6.13 crore during October 2002-September 2004. Inspite of internal instructions (March 2004) of the Corporation the unadjusted balances continued in the current accounts and the total of unadjusted balance in these banks stood at Rs. 24.17 lakh at the end of September 2004. Thus, delay in issue of instructions to profitably utilize the non-interest-bearing balance coupled with non adherence to instructions resulted in avoidable payment of interest of Rs. 15.95[#] lakh on the CC availed during October 2002 - September 2004.

The management stated (June 2005) that accounts were opened exclusively for routing the export transactions. To meet out emergent needs, however, minimum of rupees six to seven lakh were kept in the account. The reply was not tenable

[#] Worked out on fortnightly minimum balances after giving margin of Rs. 0.50 lakh, by applying prevailing minimum cash credit rate of 9.1 *per cent* per annum.

because the Corporation was already having various current accounts for normal transactions and these current accounts were never utilised for purposes other than routing the export transactions.

Loss due to non lifting of allocated quantity of rice

3.18.13 FCI was obtaining advance payment from the Corporation for the entire quantity of rice export before issue of RO whereas, the Corporation was getting the payment from the Associate for lifted quantity only. In case of unlifted quantity, Corporation's fund was blocking for which there was no arrangement for recovery of interest either from the Associates or the FCI. In this regard, Audit observed as follow:

The Corporation suffered interest loss of Rs. 3.85 crore on the unlifted quantity of rice.

3.18.14 The Corporation deposited (February and June 2003) Rs. 102.12 crore with the FCI and got ROs issued for 1.51 lakh MT of rice in favour of two Associates (Emmsons International Limited: 0.35 lakh MT and LMJ International Limited: 1.16 lakh MT). The Associates were required to submit export documents within 90 days from the date of RO. The Associates lifted only 1.18 lakh MT of rice (Emmsons International Limited: 0.23 lakh MT and LMJ International Limited: 0.95 lakh MT) during May 2003 and July 2004. The Associates submitted export documents of rice during May 2003 and May 2005, respectively. The Corporation had so far (May 2005) received refund of Rs. 10 crore and Rs.12.73 crore were yet (May 2005) to be received from FCI. Thus, due to delayed/non-receipt of refunds, the Corporation suffered loss of interest of Rs. 3.85 crore[*]. The Corporation, however, stated (June 2005) that claim for payment of interest had been raised with the FCI in February and March 2005. Due to absence of any arrangement for recovery of interest either from Associates or the FCI, the chances of recovery were remote. Further developments were awaited (June 2005).

Delay in refund by FCI in respect of unlifted rice resulted in loss of Rs. 38.33 lakh

3.18.15 In other five cases, the Corporation received refunds of Rs 3.95 crore in respect of unlifted rice from FCI after 30 to 816 days from the date of payment resulting in loss of interest of Rs. 38.33 lakh[@].

The management stated (June 2005) that the matter for reimbursement of interest had been taken up with FCI in February/March 2005. Due to absence of arrangement for recovery of interest either from Associates or the FCI, the chances of recovery were remote.

The above matters were reported to Government in January 2005 and May 2005; reply had not been received (September 2005).

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[*] Interest loss has been worked out @ 9.1 *per cent* after taking into account refund received from time to time.

[@] Interest loss has been worked out @ 9.1 *per cent* on amount of unlifted quantity from the date of payment to the date of refund after giving grace period of three days.

General

3.19 Corporate governance

3.19.1 Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for governance of their companies.

3.19.2 The Companies Act, 1956 was amended in December 2000 by providing, *inter alia*, Directors' Responsibility Statement (Section 217) to be attached to the Directors' Report to the shareholders. According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting record; for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Further, according to Section 292A of the Companies Act, 1956, notified in December 2000, every public limited company having paid up capital of not less than rupees five crore shall constitute an Audit Committee at the Board level. The Act also provides that the statutory auditors, internal auditors, if any, and the Director in charge of finance should attend and participate in the meetings of the Audit Committee.

3.19.3 A similar provision has also been introduced through clause 49 of the Listing Agreement for listed companies issued by Securities and Exchange Board of India (SEBI). The Listing Agreement provides that listed companies having paid up capital of rupees three crore and above or net worth of Rs. 25 crore or more at any time in history should have a qualified and independent Audit Committee.

3.19.4 Main components of Corporate governance are:

- matters relating to the Board of Directors;
- Directors' Report; and
- constitution of the Audit Committee.

Out of 24 working Government Companies, Audit reviewed one listed company (viz. Punjab Communications Limited) and 11 unlisted companies ***(Annexure 14)*** with paid up capital of rupees five crore and above, during April 2001-March 2005 with the objective of assessing the compliance of various provisions of the Companies Act, 1956 and clause 49 of SEBI Listing agreement that affect the corporate governance and matters related thereto.

Listed Government Company

Board of Directors

3.19.5 Since the Board of Directors is the agency for the implementation of corporate governance provisions, it is imperative that the Board devotes adequate attention to these issues. Moreover, the Board must be equipped with the requisite representation and the members of the Board should meet regularly.

Attendance of directors in the meetings of the Board

Attendance of non-executive directors in Board's meetings was not regular.

3.19.6 The meetings of the Board suffered inadequate attendance during 2001-05. While two non-executive directors did not attend any of the five and seven meetings held in their respective tenure during 2001-02, one such director attended only one out of eight meetings held during that year. Similarly, while three non-executive directors attended less than 40 *per cent* of the meetings held during 2002-03, one independent director and three non-executive directors did not attend any meeting during 2003-04. Further, two non-executive directors did not attend any of the three meetings held during their tenure during 2004-05.

Absence of Government nominee directors in Board's meetings of PCL where vital financial decisions involving Rs. 58.56 crore were taken.

Audit observed that in three meetings of the Board of Directors held between January and September 2003, although vital decisions, such as, writing off of debts/ obsolete stock (Rs.7.89 crore), provision against debtors (Rs.3.74 crore), voluntary retirement scheme of employees (Rs. 10.86 crore), buy back of Company's shares (financial involvement: Rs. 36.07 crore) were taken yet no State Government's nominee director (other than Managing Director and Chairman of the Company) attended these meetings.

The management stated (July 2005) that minutes of these meetings were circulated to all directors and were also confirmed in the subsequent meetings of the Board without any comments where most of the Government nominee directors were present. The reply was not tenable as their absence not only violated the legal provisions but also defeated the objective of utilising their experience and wisdom in the best interest of the company/State Government.

Vacancy position of directors

3.19.7 Section 252(1) of the Companies Act, 1956 provides that a public company having a paid up capital of rupees five crore or more and one thousand or more small shareholders* may have a director elected by such small shareholders. The Board of the Company in its meeting held on 20 April 2001 decided to appoint such director and authorised the Company Secretary to take necessary steps in this regard. However, the Company did not take action.

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* Small shareholder means a shareholder holding shares of nominal value of Rs. 20,000 or less in a public company.

The Company did not appoint any director to represent small shareholders.

The management stated (May 2005) that this provision of Companies Act was not mandatory in nature and the procedure to appoint director for small shareholders was lengthy, time consuming and expensive. The reply was not tenable as the Company neither complied with the decision of the Board nor apprised (June 2005) it of non compliance thereof.

Holding of Committee positions by directors

3.19.8 As per clause 49 of listing agreement of SEBI, every director was to inform the company about his position in the committees of other companies. The directors of the Company, however, did not comply with this requirement and the Company itself was obtaining this information from the management of the companies in which they were directors.

The management stated (July 2005) that since most of its directors were engaged heavily in the day to day affairs of their respective occupations and it became difficult to obtain Committee membership from them. The reply was not tenable as listing agreement made it incumbent to obtain information from the directors.

Audit Committee

Meetings of Audit Committee

3.19.9 As against the requirement of holding three meetings in a year mentioned in clause 49 of the listing agreement only two meetings were held in 2001-02.

Presence/attendance of directors in Audit Committee Meetings

3.19.10 Listing Agreement (clause 49 II) provides that the quorum for the Audit Committee shall be either two members or one third of the members of the Audit Committee whichever is higher and minimum of two independent directors. Audit observed that only one independent director was present in two Audit Committee meetings held in October 2001 and July 2003.

The attendance of internal Auditors in Audit Committee meetings was very poor.

3.19.11 The Internal Auditors of the Company were invited to attend seven out of 10 Audit Committee meetings in which the matter relating to Internal Audit was discussed. Audit observed that the Internal Auditors attended only two such meetings.

The Company did not take any action on matters advised by the Audit Committee.

3.19.12 The Company did not implement the recommendations of the Audit Committee (October 2003) with regard to review of penalty (Liquidated Damages- LD) imposed and mitigation of supply time as per customer orders. The management stated (May 2005) that another Committee had been constituted to review cases of the penalty and recommend writing off the penalty to the Board. The reply was not tenable as this Committee did not meet the requirement of Audit Committee of suggesting mitigation in the supply time to avoid imposition of penalty (LD) on the Company.

Unlisted Government Companies

Board of Directors

Meetings of Board of Directors

3.19.13 Section 285 of the Companies Act, 1956 provided that meeting of its Board shall be held at least once in every three months and at least four such meetings shall be held in a year. Audit observed that only three meetings of the Board were held in case of PUNBUS (2001-02), PTDC (2002-03), and INFOTECH (2003-04).

The attendance of non-executive Directors in the Board meetings was not regular.

Attendance of directors in the meetings of the Board

3.19.14 In none of the 11[$] companies attendance of non executive directors in Board meetings was regular.

Nominee director from Finance Department did not attend the Board meeting although decision regarding writing off of non-recoverable loans/ expenses (Rs. 8.66 crore) was taken.

3.19.15 In case of INFOTECH, nominee director from Finance Department of the State Government did not attend the Board's meeting held on 29 March 2005 where important decision regarding writing off of loans and advances to subsidiary companies, non recoverable expenses on projects etc., (total amount Rs.8.66 crore) was taken.

The management stated (July 2005) that due to pre occupation of Principal Secretary (Finance) he could not attend the Board's meeting and approved the minutes of meeting sent to him with no comments.

Discussion by Board of Directors

3.19.16 In case of PAIC, the Board of the Company desired (April 2004) that the report on contract farming programme of its subsidiary company, i.e., PAFC indicating its weaknesses, strengths and improvements required, be placed before next meeting of the Board. Audit, however, observed that the Board did not ensure action by the Company on its decision as no compliance report was placed by the Company in the subsequent meetings for the perusal of the Board.

Instructions of the State Government to review economy and austerity measures quarterly were not implemented by certain companies.

Bureau of Public Enterprises (BPE), Department of Finance, Government of Punjab directed (July1999) all companies/corporations to ensure that in every meeting of the Board of Directors, the agenda regarding implementation and quarterly review of its instructions regarding economy and austerity measures must be placed before the Board. Audit observed (January/June 2005) that seven companies (PAIC, PSIEC, CONWARE, PAFC, PTDC, PSIDC and INFOTECH) did not comply with the directive of BPE.

[$] INFOTECH (2001-03,2004-05), PSIEC (2001-02,2004-05), PSIDC (2001-05), PUNSEED (2001-02,2003-05), PUNBUS (2002-03), PTDC (2001-05), PAIC (2001-05), CONWARE (2001-02,2004-05), PSTC (2002-05), PAFC (2004-05) and GENCO (2004-05).

Decision to form Audit Committee was delayed for six months.

In case of PAFC, decision on formation of Audit Committee was delayed by six months (September 2003-March 2004) due to non holding of meetings (September-December 2003) for want of quorum.

PSIEC did not take appropriate decision for the last 11 years about the disposal of its closed work centre (present value rupees eight crore).

Government Hosiery Work Centre Ludhiana of PSIEC was closed in September 1992. The Board of the Company decided (March 1994) to constitute a Committee to examine various aspects of disposal of the Centre (having area of 1.85 acre land with approximate present value of rupees eight crore). However, it could not be disposed off (June 2005) even after a period of 11 years due to inappropriate decision about manner of disposal. Decision of the management to utilise this Centre for operation of handling agencies by the Company on behalf of Mineral and Metals Trading Corporation and Hindustan Copper Limited during 1997-98 to 2003-04 (activities stopped from October 2003) also resulted in loss of Rs. 35.83 lakh.

The weaknesses in Internal Audit System /Internal Control procedures were commented by Statutory Auditors in their Reports on annual accounts of two companies (PSIEC and PSTC). The Boards of both the companies did not discuss these points for taking corrective action.

Directors' Report to the shareholders

3.19.17 The Companies Act, 1956 (Section 217 (2AA) requires that a report of the Board of Directors including a Directors' Responsibility Statement is to be attached to every balance sheet laid before a company in general meeting. Three companies (INFOTECH (2000-04), PUNSEED (2000-03) and PSTC (1996-99)) did not comply with the above requirement of the Act.

3.19.18 Statutory Auditors of PUNSEED pointed out (2001-02 and 2002-03) non-existence of Internal Audit Wing and weakness in internal control procedure. The Company neither took remedial measures nor included these issues in Director's Report as required under the Companies Act.

Audit Committee

Composition of Audit Committee

3.19.19 PUNSEED had not constituted Audit Committee so far (May 2005) in violation of Section 292A of the Companies Act, 1956.

Terms of reference

3.19.20 The Board of two companies (GENCO and PAFC) did not fix any periodicity of meetings of Audit Committee in violation of the Companies Act.

Meetings of Audit Committee

3.19.21 Audit Committee of PUNBUS held (September 2004) only one meeting during 2001-05.

3.19.22 In spite of decision (October 2001) of the Board to hold at least one meeting every six months, only two meetings (May 2002 and December 2003) of Audit Committee were held by PTDC during 2001-05.

3.19.23 The statutory auditors/ internal auditors of three companies (GENCO, PAFC and PUNBUS) did not attend/participate in the Audit Committee meetings held during 2001-05 as required under the Companies Act.

Discussion by the Audit Committee

3.19.24 The internal audit reports for the quarter ended June 2001, September 2001 and December 2001 were discussed (May 2002) in the first Audit Committee meeting of PTDC and it was decided that Action Taken Report by the management be placed in the next meeting. However, no such report was placed in the subsequent meetings of the Audit Committee (March 2005).

3.19.25 The Audit Committee of CONWARE did not review the inadequacy of the internal audit system in its Mumbai unit as pointed out by the statutory auditors in their reports on the accounts for the years 2001-04.

General

3.19.26 The Companies Act (Section 383 A) prescribes that all companies having paid up capital of not less than rupees two crore shall have a whole time Company Secretary. Audit observed that six[*] companies did not comply with this provision of the Act.

Attendance in Annual General Meeting (AGM)

3.19.27 In six[#] companies the attendance of directors, other than the directors holding shares of the respective companies, in the AGMs was not satisfactory.

3.19.28 The Companies Act requires that the annual report shall disclose the composition of the Audit Committee. This was not complied with in the annual reports of CONWARE (1997-2003) and PUNBUS (1995-99).

Impact of poor corporate governance

3.19.29 Foregoing paras would reveal that the companies not only violated the legal provisions, there was a lack of seriousness with which these were governed.

[*] PSTC, PUNSEED, PUNBUS, GENCO, PAFC and CONWARE.
[#] PAIC, PSIEC, PSIDC, INFOTECH, PTDC and CONWARE.

Deficient corporate governance contributed to the following:

- Six[$] companies incurred loss of Rs. 93.53 crore as per their latest finalised accounts up to September 2004.
- Eighteen accounts of nine[@] working companies were in arrears as on 30 September 2004 ranging from one to five years.
- Adequate steps were not taken to strengthen the internal audit and internal control system by CONWARE, PUNSEED, PSIEC and PSTC.
- Funds were diverted for the purpose other than for which approved by the Board of Directors of PCL.

Summary

- Non-executive Directors were not regular in attending the Board meetings.
- PSIEC did not take appropriate decision for the last 11 years about disposal of its closed Work Centre at Ludhiana (present value rupees eight crore).
- Audit Committees were either not formed by companies or were not functioning as per provisions contained in the Companies Act and did not have discussions with the statutory/internal auditors in a number of PSUs.

The matter was referred to the Government/companies in March 2005. Replies from the Government (except in case of PUNSEED and CONWARE) and companies (in case of GENCO and INFOTECH) had not been received (September 2005).

3.20 Delay in closure of non-operative State Government Companies

Companies registered under the Companies Act, 1956 (Act) can be closed through the processes of winding up, liquidation and getting the orders of dissolution of the company registered with Registrar of Companies (ROC). Alternatively, the names of the companies can be *suo-motu,* struck off from the register of companies by the ROC as defunct companies.

Closing the company through the process of winding up

3.20.1 This type of closure may be either by the Court (Tribunal from the year 2003 onwards) or voluntarily by the members/creditors as per Section 425 of the Act.

[$] PSTC, PUNSEED, PSIDC,INFOTECH, PTDC and PUNBUS.
[@] PUNBUS(5), PSTC(5), PSIEC (2), PSIDC, PAFC, PTDC, PUNSEED, GENCO, and CONWARE (one each).

3.20.2 Section 433 of the Act provides that a company may be wound up by the Court/Tribunal, *inter alia*, if the company has, by special resolution, resolved to be wound up by the Court/Tribunal and when the Court/Tribunal makes an order for winding up of a company it would intimate the same to the official liquidator (OL), i.e., an officer appointed by the Central Government and attached to the High Court, as well as to the ROC. Under Section 454 of the Act, the company under winding up is required to submit to OL a Statement of its Affairs* in the prescribed form within a maximum period of three months from the appointment of provisional OL or from the date of winding up orders of the Court/Tribunal. From 2003 onwards, it has been made mandatory under Section 446A of the Act for the directors and other officers of the company to ensure that the books of accounts of the company are completed, audited up to the date of winding up order and submitted to the Tribunal.

Voluntary winding up

Section 484 of the Act provides that a company can be wound up voluntarily by its members or creditors.

When the affairs of a company have been completely wound up, a copy of the documents to that effect as provided under Section 481, 497 and 509 of the Act, is to be sent to ROC for registration of the dissolution.

Striking off the name of the defunct Company by the ROC suo-motu

3.20.3 Section 560 of the Act empowers the ROC to strike off the names of defunct companies, on his own, after following the procedure prescribed in the Act. Ministry of Company Affairs, Government of India, have also introduced from time to time, various schemes for limited period for closure of defunct companies which were not carrying on any business and had no assets and liabilities. Under these schemes the concerned company, instead of following the procedure of winding up under Section 425, could approach ROC to get its name struck off under Section 560 of the Act.

Present status of the liquidation/winding up of the non-operative Government companies

3.20.4 As on 31 March 2005, 17 non-working Government companies registered under the Act were awaiting closure/winding up for a period ranging between one year and 22 years (up to March 2005) as detailed below:

A. Companies under liquidation

Out of 17 non working Government companies, the following six companies were

* Detailed information viz. assets, liabilities and debts etc. of the company.

under liquidation under Section 433 of the Act:

Sl. No.	Name of the company	Date of incorpo-ration	Date of decision for winding up and appointment of OL	Period of latest accounts finalised		Investment of the Government/holding company as on 31 March 2005		Period for which the company is under liquidation as on 31 March 2005
				Year	Year in which finalised	Equity	Loan	
						(Rs. in lakh)		
1	Punjab Power Packs Limited	28.9.81	1.2.2001	1997-98	1999-2000	154.97	65.18	4 years 2 months
2	Punjab Bio Medical Equipments Limited	4.1.77	4.10.2001	1996-97	2001-02	43.44	-	3 years 6 months
3	Punjab Electro Optics Systems Limited	12.1.78	4.10.2001	1996-97	1997-98	11.74	-	3 years 6 months
4	Punjab Micro Nutrients Limited	1.2.83	5.8.1994	1991-92	1994-95	25.00	35.58	10 years 8 months
5	Punjab Power Products Limited	13.3.79	11.11.1993	1982-83	1983-84	18.50	-	11 years 4 months
6	Punjab Export Corporation Limited	17.6.63	10.3.1983	1977-78	1979-80	9.40	51.91	22 years
Total						**263.05**	**152.67**	

Six companies were under liquidation for periods ranging between three and 22 years.

Audit observed that four (Sl. Nos.1 to 4) out of the five companies had filed their 'Statement of Affairs' (as required under Section 454 of the Act), after delays ranging between two and seven months and one company (Sl. No. 5) had not filed its Statement of Affairs (June 2005) even after lapse of 11 years from due date. The five companies having Rs. 4.57 crore as realisable value of their assets on the date of filing of the Statements of Affairs were under liquidation for periods ranging between three and 22 years.

B. Companies where process of winding up/closure not started

Out of following 11 non-working Government companies, eight companies had not started the process of their winding up/closure (July 2005).

Sl. No	Name of the company	Date of incorporation	Date of decision for winding up	Year of closure of business	Period of latest accounts finalised		Investment of the Government /holding company as on 31 March 2005		Period elapsed since winding up decision
					Year	Year in which finalised	Equity	Loan	
							(Rs. in lakh)		
1	PCL Telecom Limited	6.4.1993	14.5.1997	1997-98	2004-05	2005-06	19.63	-	7 years 10 months
2	Reliance Hotels Limited	23.2.1987	20.9.2000	No business since inception	2002-03	2003-04	-	-	4 years 6 months
3	Sutlej Shoddy Spinners Limited	20.11.1982	28.8.2003	-do-	1983-84	1994-95	2.00	-	1 years 7 months
4	Punjab Tyres Limited	11.7.1974	Record not made available		No accounts finalised		5.50	-	

Sl. No	Name of the company	Date of incorporation	Date of decision for winding up	Year of closure of business	Period of latest accounts finalised		Investment of the Government /holding company as on 31 March 2005		Period elapsed since winding up decision
					Year	Year in which finalised	Equity	Loan	
							(Rs. in lakh)		
5	Punjab Footwears Limited	15.7.1969	09. 12.1993	1992-93	1990-91	1995-96	14.66	4.00	11 years 3 months
6	Punjab Tanneries Limited	29.10.1969	09.12.1993	1992-93	1991-92	1993-94	52.00	128.00	11 years 3 months
7	Punjab State Leather Development Corporation Limited	23.2.1981	26.9.1996	1996-97	1997-98	2005-06	341.90	-	8 years 6 months
8	Punjab State Handloom and Textile Development Corporation Limited	27.3.1976	26.11.1991	1992	2003-04	2005-06	363.00	233.51	13 years 4 months
9	Punjab Film & News Corporation Limited	26.6.1973	06.05.1991	Not made available	1997-98	2005-06	151.34	-	13 years 10 months
10	Punjab State Hosiery & Knitwear Development Corporation Limited	21.2.1977	17.11.1998	1997-98	2003-04	2004-05	390.70	1.09	6 years 4 months
11	Punjab Land Development & Reclamation Corporation Limited	22.3.1965	21.03.2001	2000-01	1994-95	2000-01	145.00	352.50	4 years
	Total						**1,485.73**	**719.10**	

Audit observed the following:

Directors unwilling to give affidavit to ROC

3.20.5 One company (Sl. No.1) had no assets and liabilities but it did not approach ROC under "Fast Track Scheme" from September 2000 to January 2001, "Simplified Exit Scheme 2003" from March 2003 to March 2004 or "Simplified Exit Scheme 2005" from February 2005 to July 2005 for striking off its name under Section 560 of the Act as its Managing Director/Directors did not give the required affidavit. The BOD of the Company rather chose (March 2005)

to wind up the company through Court/Tribunal and approached (July 2005) the Court for an order of winding up.

The management admitted (July 2005) that it had not opted for making an application under Section 560 of the Act as the signing of the affidavits and indemnity bonds by Directors held them personally responsible even after striking off the name of the Company by ROC.

Arrears in accounts caused delay in the application to ROC

3.20.6 Two companies (Sl. Nos. 2 and 3), which were decided to be wound up during September 2000 and August 2003, delayed approaching ROC till December 2003 and June 2005, respectively, alongwith requisite affidavits for striking off their names. Audit observed the delay of about two to three years from the date of decision was attributable mainly to non completion of accounts in time. The names of these companies had not been struck off by ROC so far (June 2005).

Record not made available

3.20.7 Three companies (Sl. Nos. 4 to 6) had not made available any information/ requisite details and in the absence of which progress made in closure of these companies could not be commented upon.

The management preferred disposal of assets at its level and not through the Court/OL.

3.20.8 Preparation of accounts of five companies (Sl. Nos. 7 to 11) and disposal of their assets and liabilities were pending and as such their management could not take action under various exit schemes to get their name struck off under Section 560 of the Act. These companies should have approached the court under Section 433 of the Act for closure of these companies by filing their Statements of Affairs[Ψ] as disposal of assets and liabilities and completion of accounts was not a pre-requisite for winding up of company under Section 433, prior to 2003. But the Government/ management of five companies (Sl. Nos. 7 to 11) decided (May 1991 to March 2001) for sale of assets and completion of accounts, before applying for closure under Section 433. This not only delayed the winding up process but also resulted in avoidable expenditure (for companies at Sl. Nos. 7, 8, 10 and 11) of Rs. 6.77 crore on pay & allowances of staff and Rs. 0.87 crore on administrative and other expenses (after allowing one year for winding up). The partial sale/transfer of assets of two companies (Sl. Nos. 7 and 8) fetched sale proceeds of Rs. 2.64 crore but assets valuing Rs. 36.97 crore of these four companies were pending (May 2005) for disposal.

[Ψ] With effect from 2003, submission of finalised annual accounts became mandatory under Section 446A, for winding up of a company under Section 433 of the Act.

Slow pace for clearance of arrears in accounts delayed start of winding up process

3.20.9 For expeditious winding up of defunct companies, Disinvestment Commission (under the Department of Finance) Punjab (DCP), which was appointed as coordinator for winding up of four companies (Sl. Nos. 7 to10) engaged (April 2003) the services of a private firms of Chartered Accountants at a cost of Rs. 9.50 lakh for the preparation of accounts and for getting the process of winding up completed, till the name of the company was also struck off from the register of ROC. The time allowed for completion of the job was one year. Audit observed that the accounts of two companies (Sl. Nos. 7 and 9) could not be completed and winding up process of all the four companies had also not yet started (June 2005).

The matter was referred to Government/ companies in July 2005; replies[#] had not been received (September 2005).

3.21 Follow-up Action on Audit Reports

Explanatory Notes Outstanding

3.21.1 Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny, starting with initial inspection of accounts and record maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Punjab issued instructions (August 1992) to all Administrative Departments to submit detailed notes, duly vetted by Audit indicating the corrective / remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03 and 2003-04 were presented to the State Legislature in September 1999, September 2000, June 2002, June 2002, March 2003, June 2004 and March 2005, respectively, six out of 14 departments which were commented upon in these Audit Reports did not submit detailed notes on 36 paragraphs/reviews out of 166 paragraphs/ reviews as on 30 September 2005, as

[#] Except from two companies i.e. PCL Telecom Limited and Punjab Land Development and Reclamation Corporation Limited.

indicated below:

Year of the Audit Report (Commercial)	Total paragraphs/ reviews in Audit Report	Number of paragraphs/ reviews for which detailed notes were not received.
1997-98	26	2
1998-99	26	1
1999-2000	27	1
2000-01	21	-
2001-02	21	3
2002-03	23	7
2003-04	22	22
Total	**166**	**36**

Department-wise analysis is given in ***Annexure 15.*** Departments largely responsible for non-submission of detailed notes were Industries, Agriculture Finance and Power. The Government did not respond to important reviews highlighting investment/ disinvestment, delay in taking action against defaulting millers/ loanees and lower recovery of timber from standing trees.

Action Taken Notes on Reports of Committee on Public Undertakings (COPU)

3.21.2 As per rule 25 of Internal Working Rules of COPU, Punjab Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of the PSU within six months from the date of placement of Report of COPU in the State Legislature. Replies to six paragraphs pertaining to 78th Report of the COPU presented to the State Legislature had not been received (September 2005). This Report contained six recommendations in respect of paragraphs pertaining to Power, Public distribution and Social Welfare departments which appeared in Audit Reports for 1997-98 to 1998-99.

Action taken on the persistent irregularities

3.21.3 With a view to assist and facilitate discussion of irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the concerned auditee organisation**.** The results are indicated in ***Annexures 16 and 17.***

Government companies

The irregularities of various nature having financial implication of Rs.80.55 crore (Punjab State Civil Supplies Corporation Limited) including Rs. 47.63 crore in respect of persistent irregularities already mentioned in Para 3.19.3 of Audit Report (Commercial) 2003-04 and Rs.0.47 crore (Punjab Agro Industries Corporation Limited) were included in the Reports of the Comptroller and

Auditor General of India for the years 2000-01 to 2003-04 (Commercial)-Government of Punjab. These irregularities were persisting with the companies over the period ranging between two and four years. Scrutiny in Audit revealed that action taken by the companies/ State Government on the irregularities was inadequate as per details given in ***Annexure 16.***

Statutory corporations

Various irregularities having financial implication of Rs. 183.01 crore (Punjab State Electricity Board) including Rs. 161.40 crore in respect of persistent irregularities mentioned in Para 3.19.3 of Audit Report (Commercial) 2003-04 were included in the Reports of the Comptroller and Auditor General of India for the years 1999-2004, (Commercial)-Government of Punjab. The irregularities were persisting with the Board over periods ranging between three and five years. Scrutiny in Audit revealed that action taken by the Board/ State Government on the irregularities was inadequate as per details given in ***Annexure 17***.

The matter was referred (May 2005) to Government/ management; replies had not been received (September 2005).

3.21.4 Response to Inspection Reports, Draft Paras and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of concerned PSUs and departments of State Government through Inspection Reports. The heads of PSUs are required to give replies to the Inspection Reports through respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2005 revealed that 3,814 paragraphs relating to 1,384 Inspection Reports pertaining to 36 PSUs remained outstanding at the end of September 2005. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2005 is given in ***Annexure 18.***

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit, however, observed that 16 draft paragraphs and one draft review forwarded to various departments during March to July 2005 as detailed in ***Annexure 19*** had not been replied to so far (September 2005).

It is recommended that the Government may ensure that:(a) procedure exists for action against the officials who failed to send replies to inspection reports/draft paragraphs/reviews and ATNs to recommendations of COPU, as per the

prescribed time schedule; (b) action to recover loss/outstanding advances/ overpayments is taken within prescribed period and (c) the system of responding to the audit observations is revamped.

CHANDIGARH **(Sunil Verma)**
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Countersigned

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The Comptroller and Auditor General of India