

Chapter III

3. Performance reviews relating to Statutory corporations

Punjab State Warehousing Corporation

3.1 Procurement, Storage and Milling of Paddy for central pool

Highlights

Allotment of paddy to a defaulting miller against its policy coupled with delayed action against him for non-delivery of full rice resulted in doubtful recovery of Rs.49.86 crore as the claim became time barred.

(Paragraph 3.1.15)

Against the specified period ranging between 60 and 175 days for which the GOI provided interest in the rates for the crop years 2001-06, the Corporation took average period of 102.15 to 232.74 days for milling and delivery of rice to FCI. Failure of the Corporation to get the paddy milled within the stipulated period resulted in loss of interest of Rs.45.66 crore in six district offices.

(Paragraph 3.1.22)

Instead of allowing driage at one *per cent* of minimum support price, the Corporation allowed driage at one *per cent* on quantity of paddy delivered for milling for the crop years 1999-2003. This resulted in extension of undue benefit to the millers and loss of Rs.7.56 crore to the Corporation.

(Paragraph 3.1.20)

Despite being pointed out through cases in the Audit Reports of Comptroller and Auditor General of India from time to time the Corporation failed to take remedial measures to ensure delivery of full quantity of rice by the millers resulting in further misappropriation of 6,548.44 metric tonne of rice costing Rs.7.07 crore in six district offices.

(Paragraph 3.1.14)

Inclusion of depreciation on lower number of gunny bags in the rates of rice for the crop years 2003-06 resulted in short recovery of Rs.5.24 crore from FCI.

(Paragraph 3.1.24)

Non framing of a system to obtain legally binding commitments from the millers, before allotment of paddy, resulted in avoidable payment of Rs.2.52 crore on transportation of paddy to other districts for milling.

(Paragraph 3.1.18)

Failure of the Corporation to match the value of hypothecated stock of paddy with cash credit outstanding, as required under agreement with the bank, and delayed submission of stock statements by the Food and Supplies Department to the bank resulted in additional interest payment of Rs.1.49 crore during 2001-06 to the Bank.

(Paragraph 3.1.8)

Introduction

3.1.1 Punjab State Warehousing Corporation (Corporation) was established (November 1967), under section 18(1) of the Warehousing Corporations Act, 1962 (read with Punjab Re-organisation Act, 1966) with the main objectives of construction and maintenance of warehouses in the State for the storage of agricultural produce, agricultural inputs and other notified commodities. The State Government entrusted (1993) the Corporation, with the activity of procurement of foodgrains under the minimum support price (MSP) announced by the Government of India (GOI). The Corporation along with other procurement agencies in the State procures paddy from various *mandis* allotted to it by the Food and Supplies Department (F&SD) of the State Government. Paddy procured by the Corporation is got milled from the selected rice millers at the specified rates under custom milling policy (CMP)* framed by the State Government for each year. The resultant rice is delivered to the Food Corporation of India (FCI) for the central pool at the rates fixed by GOI for each crop year. The procurement, storage and milling operations of paddy and sale of rice is carried out by the Corporation through its district offices.

The Management of the Corporation is vested in a Board of Directors (BOD). As on 31 March 2007, the BOD comprised 10 directors, five of whom were nominated by Central Warehousing Corporation (CWC) and five including the Chairman & Managing Director by the State

* It is a policy relating to activities of procurement, storage and milling of paddy finalised by F&SD for each crop year.

Government. The Managing Director is the Chief Executive who is assisted by Additional Managing Director followed by Manager (Procurement) and Manager (Finance & Accounts). As on 31 March 2007, there were 17[^] district offices headed by District Managers (DMs) for carrying out the procurement, storage and milling operations.

The working of the Corporation was last reviewed in the Report of Comptroller and Auditor General of India for the year 1999-2000 (Commercial), Government of Punjab, which was under discussion in the Committee on Public Undertakings (July 2007).

Scope of Audit

3.1.2 The present performance review, conducted during October 2006-April 2007, evaluates the performance of the Corporation relating to procurement, storage and milling of paddy for the central pool for the period of five years upto 2005-06[#]. The audit findings are based on audit procedures applied to a sample of eight[@] (47 per cent) out of 17 district offices selected on random sampling basis covering more than 50 per cent of the transactions relating to procurement, storage and milling of paddy during 2001-06.

Audit objectives

3.1.3 The audit objectives were to ascertain whether the:

- functions relating to procurement, storage and milling of paddy were executed in an efficient, effective and economical manner and as per the prescribed procedures/norms;
- Corporation delivered rice to FCI within the stipulated period/extended period as fixed by GOI and raised bills accurately and within the stipulated period in accordance with the rates fixed by GOI;
- sanctioned cash credit limit was utilised efficiently and economically;
- Corporation obtained from the FCI full reimbursement of guarantee fee and other statutory levies imposed by the State Government;

[^] Amritsar, Bathinda, Fatehgarh Sahib, Faridkot, Ferozepur, Gurdaspur, Hoshiarpur, Jalandhar, Kapurthala, Ludhiana, Moga, Muktsar, Mansa, Nawanshahar, Patiala, Ropar and Sangrur.

[#] The figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

[@] Amritsar, Fatehgarh Sahib, Gurdaspur, Jalandhar, Ludhiana, Mansa, Patiala and Sangrur.

- Corporation had devised and made operational a reliable system of monitoring at the highest level to ensure that the objectives were achieved in an efficient and economic manner; and
- internal Control System prevalent was effective and Internal Audit was commensurate with the size and nature of business of the Corporation.

Audit criteria

3.1.4 The following audit criteria were adopted:

- targets fixed for procurement, milling of paddy and time schedules prescribed by GOI/FCI for delivery of resultant rice to FCI;
- milling capacity of the allotted millers *vis-à-vis* targets fixed for procurement of paddy;
- custom milling policies and instructions issued by the State Government in this regard;
- time prescribed for raising of bills for rice and other related expenses at the rates fixed by GOI; and
- terms and conditions of handling & transport contracts.

Audit methodology

3.1.5 Audit followed a mix of the following methodologies:

- scrutiny of minutes/agenda of meetings of the Board of Directors and milling progress reports received from district offices;
- examination of records relating to delivery of rice to FCI, raising of claims for sale of rice, differential claims[#], interest claims and receipt of payments thereagainst;
- scrutiny of records relating to cash credit, payment of guarantee fee and other charges and their reimbursement from FCI;
- examination of Internal Audit Reports and action taken thereagainst; and

[#] Difference between provisional and final rates of rice.

- interaction with the Management and issue of audit queries.

Audit findings

3.1.6 The audit findings were reported (May 2007) to the Government/ Management and discussed in the meeting (20 June 2007) of Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting was attended by the Manager (F&A) of the Corporation and Under Secretary (Agriculture), Government of Punjab. The views of representatives of the State Government and the Corporation have been considered while finalising the review. The audit findings are discussed in the succeeding paragraphs:

Procurement of paddy

Procurement targets and achievements

3.1.7 The details of the targets for the procurement of paddy and actual procurement thereagainst during 2001-06 is given below:-

Crop Year	Targets of Corporation's share of total procurement in the State		Total Quantity procured by Government Agencies (Lakh MT)	Actual procurement by Corporation		Excess Procurement	
	Per cent	Lakh MT		Per cent	Lakh MT	Per cent	Lakh MT
2001-02	14	16.25	94.34	16.39	15.46	2.39	---
2002-03	8	9.00	103.24	10.91	11.26	2.91	2.26
2003-04	8	9.00	98.46	11.69	11.51	3.69	2.51
2004-05	12	13.20	100.23	12.11	12.14	0.11	---
2005-06	12	13.20	115.97	12.24	14.20	0.24	1.00
2006-07 [∇]	-	-	-	-	-	-	-

The above table revealed that total quantity of paddy stock procured by the Corporation during 2001-06 was more (ranging between 0.11 *per cent* to 3.69 *per cent*) than the targets fixed by the State Government. In view of excess procurement of paddy, the Corporation had not taken any action to get the targets revised from the State Government.

The Corporation does not prepare activity wise working results. As such activity wise (i.e., procurement, storage and milling of paddy) profit/loss could not be commented.

Financial arrangement

3.1.8 The Corporation was availing cash credit (CC) facility from the State Bank of India (SBI) for procurement of paddy against hypothecation of stock on guarantee given by the State Government. The agreement between SBI and the State Government (on behalf of State procuring

[∇]The figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

agencies) provided that the value of hypothecated stock should fully match with the CC outstanding failing which the Corporation was liable to pay additional interest at the rate of two *per cent* per annum on the shortfall. The details of CC limit sanctioned, availed and outstanding and value of closing stock at the end of each year during 2001-06 were as under:

(Rupees in crore)					
Crop year	CC Limit sanctioned	Maximum CC limit availed	Outstanding at the end of the year	Value of closing stock at the end of the year	Excess of CC outstanding over closing stock
2001-02	1,088.00	1,088.00	1,455.63	579.74	875.89
2002-03	671.00	671.00	810.86	171.73	639.13
2003-04	753.00	753.00	427.61	21.90	405.71
2004-05	908.00	908.00	491.36	42.39	448.97
2005-06	1,028.00	1,028.00	625.33	75.89	549.44
2006-07 ^v	-	-	-	-	-

The Corporation paid additional interest of Rs.1.49 crore as value of hypothecated stocks was not matching with outstanding CC limit and submission of stock statements to the bank was also delayed.

The table above shows that there was mismatch between the closing stocks and CC outstanding, which ranged between Rs.405.71 crore and Rs.875.89 crore during 2001-06. Consequently, the SBI charged additional interest of Rs.71.44 lakh during the period 2001-06. The Corporation failed to take any action to match the stock with the CC outstanding limits to avoid payment of penal interest. Audit scrutiny further revealed that the SBI also charged penal interest of Rs.77.60 lakh for the year 2004-05 due to delayed submission of stock statements to the bank by the F&SD.

The Management stated (June 2007) that mismatching was due to the fact that substantial amount was recoverable from GOI/FCI. It was further stated that the matter had been taken up (June 2006) by the State Government with the GOI for waiving of penal interest. The reply is not tenable as the SBI had charged additional interest as per terms and conditions of the agreement. The mismatch could have been minimised by proper planning and monitoring in timely raising of claims.

Guarantee fee

3.1.9 The guarantee fee worked out on the basis of sanctioned limit, is being paid by the Corporation to the State Government, on account of availing of CC for procurement of paddy. It is, however, reimbursed by the FCI on actual basis subject to maximum of 1/8 *per cent* of the minimum support price (MSP) of paddy on the quantity equivalent to rice delivered to the central pool. No interest on delayed payment of guarantee fee was admissible. The following table shows the guarantee fee paid by the Corporation to the State Government and reimbursed by FCI during 2001-06:

^vThe figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

(Rupees in crore)

Crop year	CC limit sanctioned	Guarantee fee paid to the State Government	Guarantee fee reimbursed by FCI
2001-02	1,088.00	1.36	1.00
2002-03	671.00	0.84	0.75
2003-04	753.00	0.94	0.82
2004-05	908.00	1.13	0.89
2005-06	1,028.00	1.29	1.02
2006-07 [∇]	-	-	-
Total		5.56	4.48

Audit scrutiny revealed as under:

- Up to 1998-99, the guarantee fee was paid by the Corporation to the State Government against actual CC limit utilised*. The guarantee fee paid was, however, reimbursed by the FCI on submission of treasury challans of the guarantee fee paid to the State Government subject to 1/8 per cent of MSP only on paddy procured. The GOI decided (October 1999) to reimburse guarantee fee at 1/8 per cent of MSP (calculated on the quantity of paddy against which rice was actually delivered to FCI). As a result of these instructions, the Corporation had to bear interest burden for delayed reimbursement of guarantee fee on account of delayed milling or raising of bills.

Against payment of guarantee fee on sanctioned cash credit limit, reimbursement by FCI was on the basis of quantity of paddy for which rice actually delivered resulting in less reimbursement of Rs.1.08 crore.

The Corporation paid (September 2001 to November 2005) guarantee fee of Rs.5.56 crore to the State Government for the crop years 2001-06 on actual CC limit sanctioned, whereas FCI reimbursed Rs. 4.48 crore only (based on MSP) on the quantity of paddy for which rice was delivered during the above period. This resulted in less reimbursement of guarantee fee of Rs. 1.08 crore.

The Management stated (June 2007) that the matter had been taken up (July 2004) with the F&SD and GOI for further issue of directions/instructions to FCI for reimbursement of guarantee fee on the basis of cash credit limit sanctioned instead of MSP basis. The reply is not tenable as the Corporation should have taken up the issue with the GOI in 1999 itself instead of taking up the matter belatedly in July 2004. Further, the decision of the State Government to charge guarantee fee on actual CC limit instead of based on MSP without the consent of FCI was not justified.

- Guarantee fee was to be reimbursed at the time of delivery of rice to FCI as per instructions issued by GOI. It was, however, noticed that the Corporation was belatedly raising guarantee fee claims with FCI and in eight district offices test checked. The delays

[∇]The figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

* Guarantee fee on the basis of cost of estimated quantity of paddy to be procured, i.e., MSP, cost of gunny bags, transportation charges and mandi charges, etc.

ranged between 6 and 1,034 days, which resulted in loss of interest of Rs.16.87 lakh for the period 2001-06.

The Management stated (June 2007) that the claims of guarantee fee were lodged with the FCI, but the same were returned by the latter on the plea that the payment would be made after making reconciliation of accounts at the close of the year. The reply is not tenable as it was the Corporation's responsibility and also in its interest to do reconciliation so that their claims are realised in time.

Non-recovery of transportation charges

3.1.10 Up to the crop year 2002-03, element of transportation charges was included in the rates of custom milled rice (CMR), as such the transportation charges incurred by the Corporation within eight Kms, i.e., from *mandis* to the mills were covered in these rates. The provisional as well as final rates for crop year 2003-04 and provisional rates for 2004-06 of CMR as fixed by GOI provide reimbursement by FCI of expenditure on transportation of paddy for a distance beyond eight Kms on the basis of the rates fixed by the District Collector, or at FCI rates or actuals, whichever were the least.

The expenditure on transportation beyond eight Kms, of seven selected district offices* is as below:

(Rupees in crore)

Sl. No.	District	Crop year	Expenditure on transportation beyond eight Kms	Month of raising of claim	Status of payment
1.	Patiala	2003-06	3.31	Not raised	
2.	Sangrur	-do-	6.70	Not raised	
3.	Ludhiana	-do-	3.77	Not raised	
4.	Mansa	-do-	1.39	Not raised	
5.	Gurdaspur	-do-	0.51	Not raised	
6.	Jalandhar	-do	3.99	February 2005 to March 2006	Payment awaited
7.	Fatehgarh Sahib	-do-	1.18	April 2004 to May 2006	Payment awaited
	Total		20.85		

The table reveals that though the Corporation incurred an expenditure of Rs.20.85 crore on transportation of paddy beyond eight Kms during the crop years 2003-06, yet, it did not claim reimbursement of Rs.15.68 crore from FCI in respect of five district offices. In remaining two district offices (Jalandhar and Fatehgarh Sahib) bills for Rs.5.17 crore were raised (April 2004 to May 2006) with the FCI, but, the payment had not been received (July 2007). It was, however, noticed that, in Moga district office, the claims (Rs. 1.41 crore for the crop year 2003-05) of transportation charges were preferred (February 2005) and payments received (February 2005) thereagainst from FCI.

* Except Amritsar district office.

Non-framing of any system to raise transportation claims immediately after the completion of paddy season resulted in loss of interest of Rs. 4.61 crore.

Thus, failure to ensure or devise any system to raise such claims, immediately after completion of paddy season, resulted in non-recovery of transportation charges of Rs.15.68 crore and also led to loss of interest of Rs. 4.61[#] crore (up to June 2007) calculated after allowing one month for raising bills (from the close of procurement season).

The Management stated (June 2007) that, field offices have been instructed to raise bills for transportation charges at the rates approved by the Deputy Commissioner. It further stated that FCI did not make any payment on the plea that it should be claimed strictly as per the approval of GOI. The reply is not tenable as the Management reiterated the procedure but did not give specific reply with regard to the audit observations on non/delayed raising of bills.

3.1.11 While fixing the rates for the crop years 2003-06 by GOI, separate rates of transportation charges within eight Kms were not fixed and these were included in the milling charges. As the transportation charges (within eight Kms) were included in the milling charges, these were required to be borne by the millers.

Non recovery of transportation charges from the millers also caused loss of interest of Rs.1.35 crore.

Audit scrutiny revealed that for transportation of paddy, as well as rice from purchase centre to mill and from mill to FCI godowns, the expenditure of Rs.6.29 crore incurred by six^{\$} district offices of the Corporation up to eight Kms for the crop years 2003-06, was required to be borne by the millers. The Corporation, however, failed to recover this amount from the millers, which amounted to extension of undue benefits to the miller, as well as loss of interest of Rs.1.35[^] crore on the unrecovered (June 2007) amount of transportation charges.

The Management stated, (June 2007) that, though the transportation charges upto eight Kms had been included in the milling charges rates (provisional), yet at the time of finalisation of incidentals for the crop year 2003-04 these would be allowed on weighted average basis and there would be no loss to the Corporation.

The plea of the Corporation is not tenable as the rates for the crop year 2003-04 were finalised by GOI in October 2004 and there was no change in these rates.

Procurement of gunny bags

3.1.12 On the basis of expected arrival/ purchase of paddy in the *mandis*, F&SD places consolidated indent on behalf of all the State procuring

[#] Worked out on Rs.15.68 crore at minimum cash credit interest rate of 9.1 *per cent* per annum, prevalent during the period.

^{\$} Except Amritsar and Fatehgarh Sahib districts.

[^] Worked out at 9.1 *per cent* minimum cash credit interest rate prevalent during the period.

agencies with the Director General of Supplies and Disposals (DGS&D), Kolkata for supply of gunny bags. The payment of gunny bags is made to the F&SD by the procuring agency, in advance, for onward transfer to the DGS&D. The field offices, on receipt of these bags, are required to carry out inspection of gunny bags at their end and necessary claims regarding short/damaged gunny bags are to be lodged by the Corporation with the Railways/DGS&D within six months of the despatch of the gunny bags.

Claims of 3.65 lakh damaged gunny bags valuing Rs.78.23 lakh were not lodged even after a delay ranging between one and five years from the stipulated period.

A scrutiny of records by Audit relating to procurement of gunny bags revealed the following:

- 3.65 lakh damaged gunny bags valued at Rs.78.23 lakh (worked out by the Corporation in December 2006) received during 2001-06[∇], were lying in 13 district offices*. No claims had been lodged even after a delay ranging between one and five years from the stipulated period. The Corporation had also not taken any action against the delinquent officials (September 2007).
- For 13.11 lakh damaged gunny bags (received during 2001-06) valued at Rs.2.81 crore in the above 13 district offices, the Corporation lodged claims (May 2003 to November 2006), but their inspection was not conducted by DGS&D/supplier even after a delay ranging between one and five years (March 2007).
- There was no system of conducting physical verification of damaged gunny bags.

The Management stated (June 2007) that action to issue show cause notices for recovery from the concerned employees who failed to lodge claim in respect of damaged gunnies within the stipulated period was being taken. The fact, thus, remains that the Corporation, however, not only failed to raise the claims on the authorities within the stipulated period of six months, but also failed to take any effective measures to recover the amount from delinquent officials.

[∇]The figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

* Amritsar, Bhatinda, Faridkot, Fatehgarh Sahib, Ferozpur, Hoshiarpur, Jalandhar, Kapurthala, Ludhiana, Mansa, Moga, Mukatsar and Patiala.

Storage of paddy

3.1.13 The paddy procured from *mandis* is stored in the premises of the millers under joint custody. Custom milling policy of the State Government for each year and standard terms of agreement between the rice millers and the Corporation, *inter-alia*, provide that:

- district level committee would allot paddy to rice millers and defaulting miller was not to be considered for allotment;
- no paddy was to be stored with the rice miller without executing the agreement;
- the Corporation was to issue paddy to rice millers in lots of 200 tonnes only after obtaining advance rice or bank guarantee equivalent to the cost of three rice consignments in lieu of advance rice before starting the milling of paddy;
- paddy was to remain in the joint custody of the miller and the procuring agency till its conversion into rice and delivery to FCI; and
- rice millers were to deliver CMR to FCI within the stipulated/extended period.

Audit scrutiny revealed, the following irregularities relating to storage of paddy:

Misappropriation/short delivery of rice

3.1.14 Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2004, Government of Punjab had pointed out misappropriation of 14,841.79 MT of rice valued at Rs.29.33 crore due to lack of control over milling operations and violation of custom milling policy. The State Government as well as the Corporation, however, did not take follow up remedial measures, resultantly, misappropriation of paddy/rice continued.

Audit scrutiny further revealed, that, 41,863.20 MT of paddy of crop years 2001 to 2005 was allotted to 15 millers for milling, falling under six district offices*, as per details given in *Annexure 12*. The millers short delivered/ misappropriated 6,548.44 MT of rice valued at Rs.7.07 crore during the above crop years. The main reasons contributing to misappropriation of paddy/rice as analysed by Audit were as under:

- The Corporation did not obtain bank guarantee/advance rice before

* Amritsar, Jalandhar, Gurdaspur, Ludhiana, Fatehgarh Sahib and Patiala

Violation of terms of custom milling policy facilitated misappropriation of paddy with consequential non-recovery of Rs. 7.07 crore.

delivery of paddy, as per the terms of agreements.

- The Corporation failed to conduct physical verification of paddy stocks on fortnightly basis in accordance with the custom milling policy.
- In the standard milling agreements (to be entered into by procuring agencies with the millers) for the crop year 2002-03 as finalised by F&SD, there was no clause to appoint an arbitrator in case of a dispute. The Corporation, however, failed to take up the matter with F&SD for incorporating the requisite clause in the agreements. Consequently, arbitration proceedings against two[@] millers involving Rs.56.21 lakh could not be initiated.
- Out of 15 defaulting millers (as per **Annexure 12**), the Corporation lodged (between March 2003 and April 2005) FIRs against 13 millers and in the remaining two[#] cases involving misappropriation of rice valued at Rs.84.63 lakh, no FIRs were lodged by the DM Gurdaspur and Ludhiana (March 2007). There were no reasons on record for not lodging the FIRs in these two cases. Thus, the misappropriation of rice/paddy was facilitated because the Corporation failed to follow CMP strictly and despite being pointed out time and again by Audit, no remedial measures had been taken by the Management to safeguard its interests.

The Management stated, (June 2007) that, advance rice was obtained from the millers and as such bank guarantee was not taken from them. Physical verification of paddy stored in millers' premises was conducted by the field officers. The reply is not acceptable as no documentary evidence in support of reply was shown to Audit. Besides, there would have been no misappropriation of paddy/rice had the advance rice been obtained by the Corporation strictly as per the terms and conditions of the agreements.

The following interesting cases of misappropriation/short delivery of paddy/rice were also noticed in addition to the above cases:

3.1.15 According to CMP for 2000-01, no defaulting rice miller was to be considered for allotment of paddy. The Corporation, however, delivered (October 2000 - February 2001) 1,14,854 MT of paddy to Laxmi Overseas Industries Limited, Khamano (miller) for the crop year 2000-01, a defaulter miller, though he had failed to deliver full rice (1999-2000). The Corporation also did not obtain the required security from the miller. The miller was required to deliver 2,447.94 MT (common) and 70,323.24 MT (grade 'A') rice, respectively, up to February 2001. The miller, however, delivered only 807.44 MT (common) and 41,339.08 MT (grade 'A') rice

[@] Sl. Nos. 6 and 10 of **Annexure 12**.

[#] Sl. Nos. 1 and 7 of **Annexure 12**.

Extending favour to a miller by delivering paddy unauthorisedly coupled with delayed action resulted in doubtful recovery of Rs. 49.86 crore.

(January 2001 to September 2001) and failed to deliver the balance 1,640.50 MT (common) and 28,984.16 MT (grade 'A') rice equivalent to 2,589.17 MT and 45,745.20 MT of common and grade 'A' paddy, respectively. It was, however, observed that though the miller failed to deliver rice as per laid down schedule, yet the Corporation did not take any action against him. Even the Corporation failed to get the entire paddy milled from the miller during the extended period (28 October 2002). Unmilled paddy (48,334.37 MT) was subsequently disposed (April 2004) of by the Corporation. The Corporation after a lapse of three years worked out (10 October 2005) Rs.49.86* crore (after adjusting sale proceeds of unmilled paddy) recoverable from the miller. The reasons for such a long delay were neither available on records nor intimated (August 2007) to audit though called for (February 2007). As per legal opinion (November 2005), the arbitration proceedings could have been initiated against the miller up to 27 October 2005 under the limitation period of three years. In spite of this the Corporation appointed (April 2006) the Arbitrator after a gap of more than five months of the expiry of limitation period and the claim was filed (May 2006) with the Arbitrator.

The Management stated (March and June 2007) that the miller was served a notice (27 October 2005 within the limitation period) intimating, that the matter was being referred to the Arbitrator. It further stated, that the claim with the Arbitrator had been filed and admitted in May 2006, the decision of which was awaited. The reply is not tenable, as the case was accepted by the Arbitrator to decide as to whether the same was within the limitation period or not. Further, in view of legal opinion (November 2005) obtained by the Corporation in this case, the claim was not likely to be entertained by the Arbitrator. It was also noticed that, in a similar other case filed by the Corporation, the Arbitrator dismissed (July 2004) the case in view of the same being time barred.

Thus, favour to a defaulter miller by delivering paddy unauthorisedly in contravention of CMP and delayed action in filing arbitration case resulted in doubtful recovery of Rs.49.86 crore.

3.1.16 The Corporation purchases paddy from the *mandis* and after allotment of the millers by the F&SD, on the basis of their milling capacity, delivers it to the allotted millers for milling. The resultant rice is delivered to the FCI by the millers on behalf of the Corporation. The concerned DM is required to conduct fortnightly physical verification of stock. As per CMP for the crop year 2004-05, Khalsa Rice Mills, Qadian was allotted maximum of 1,250 MT of paddy on the basis of its milling

* Cost of rice not delivered (Rs.32.77 crore, i.e., 16,404.97 qtls at Rs.1,017.18 per qtl and 2,89,841.60 qtls at Rs.1,072.95 per qtl), interest (Rs.25.67 crore), gunny bags (Rs.3.61 crore) and incidentals (Rs.0.62 crore) =Rs.62.67 crore - (amount received on auction of paddy (Rs.11.35 crore) and milling charges (Rs.1.46 crore)= Rs.49.86 crore.

capacity. The Corporation, however, delivered 2,091.21 MT (during September and October 2004) of paddy for the crop year 2004-05 to the miller due to shortage of space available with the Corporation. The miller acknowledged (May 2005) receipt of only 1,534.65 MT of paddy.

Audit scrutiny revealed the following:

- The Corporation failed to conduct fortnightly physical verification of stocks as per laid down procedure which facilitated the officials in defrauding the remaining quantity of 556.56 MT of paddy by preparing fake receipts of the miller.
- FIR against the official was got registered (May 2006) and the final outcome of which was awaited. During departmental enquiry, though the charges against the official were not established, yet the competent authority on the basis of his dissenting note held (February 2007) the official responsible and ordered for recovery of Rs.63.95 lakh from him. Since, the official had already been dismissed from service (September 2005), the chances of recovery were remote.

The Management stated, (June 2007) that, the defaulting official was arrested and the matter was in the court. The fact, however, remains that the misappropriation could have been avoided if the Corporation had conducted required fortnightly physical verification of stocks.

3.1.17 F&SD allotted (October 2000) SKVK Rice Mills, Rajpura (miller) for milling of Corporation's paddy for the crop year 2000-01. Initially, the Corporation was allotted entire three-tonne* capacity of the miller and as such maximum of 10,000 MT of paddy could be stored with him. The Corporation stored 4,765.80 MT of paddy up to 18 October 2000 with the miller, when F&SD diverted (18 October 2000) two tonne capacity (equivalent entitlement for 6,000 MT paddy) of the miller to another procuring agency and thus leaving only one tonne capacity with the Corporation and against which only 4,000 MT of paddy could be issued to the miller. In spite of revised allotment made by F&SD, the Corporation continued (October –November 2000) storing paddy with the miller and total stored paddy accumulated to 10,544.793 MT. Out of the above quantity, the Corporation could get milled 8,035.573 MT of paddy (December 2000 to January 2002) and obtained due rice thereagainst. The miller failed to mill the balance 2,509.22 MT paddy. Unmilled paddy was disposed (May 2002) of by the Corporation to a private party and as a

* As per Custom Milling Policy for the crop year 2000-01, millers having one tonne per hour capacity were entitled for 4,000 MT of paddy for milling. For every additional tonne 3,000 MT of more paddy could further be stored. Thus, for three tonne capacity of the milling 10,000 MT of paddy was worked out.

result the Corporation suffered loss of Rs.47.68 lakh (worked out by the Corporation) in its disposal. Two officials responsible for the lapse were served (May 2003) chargesheets for causing loss of Rs.71.52 lakh (including incidental charges: Rs.23.84 lakh). The Corporation, however, ordered (23 November 2005) to recover Rs.47.68 lakh only (excluding incidental charges) from both the officials equally. As one official had already been dismissed (November 2005) from service, a court case was filed (11 August 2006) against him for recovery, the decision of which was still awaited (March 2007). The recovery from other official was in progress and only Rs.0.95 lakh had been recovered up to August 2007.

Thus, failure of the Corporation to discontinue storing of paddy after the diversion (18 October 2000) of milling capacity of the miller to other procuring agency by the F&SD resulted in unnecessary litigation/loss due to unmilled paddy.

The Management admitted, (May 2007) that further storage of paddy could have been avoided with effect from 19 October 2000, but storage remained in progress because of non - allotment of alternative milling capacity. As regards non - recovery of incidental charges of Rs.23.84 lakh, it was replied that the competent authority decided not to recover the same from the concerned officials. The reply is not tenable as the Corporation failed to get the paddy milled by getting the alternative milling capacity and to furnish the reasons for waiving of the recovery of incidental charges.

Shifting of paddy

3.1.18 As per custom milling policy and Procurement Manual of the Corporation, barest minimum paddy stocks should be shifted from one storage point to the next storage point and in case, paddy was to be transferred to other district for milling, prior approval must be obtained from the competent authority.

Audit scrutiny revealed, that there was no system to legally bind the allotted millers before delivery of paddy for milling. It was noticed, that DM Amritsar shifted 82,182 MT and 55,396 MT of paddy, for the crop years 2001-02 and 2002-03, respectively, to other districts due to refusal by the allotted millers to accept the paddy for milling and incurred Rs.4.49 crore on transportation of the paddy to other districts against which only Rs.1.97 crore were reimbursed by FCI. Thus, the Corporation suffered loss of Rs. 2.52 crore. In spite of this, it failed to take up the matter with F&SD for taking necessary action against the defaulting millers.

Failure to devise a system to bind the millers for milling the allotted paddy led to transfer of stock by incurring avoidable expenditure of Rs. 2.52 crore towards transportation costs.

The Management stated, (March and June 2007) that, paddy had to be shifted to other districts, as allotted millers of the district as well as of adjoining districts refused to accept paddy for milling because of heavy power cuts and labour problems. The reply is not tenable as the Corporation had not devised any system to bind the allotted millers through agreements, etc., before allotment of paddy to avoid transportation charges in case of refusal by them to accept the allotted paddy. The Corporation also failed to take any action against the defaulting millers either to blacklist them or to recover the loss incurred on this account.

In the ARCPSE meeting (June 2007), the Management stated that the paddy had to be shifted to other districts as the allotted millers of the district as well as of adjoining districts were not having adequate milling capacity. It was also stated that the Managing Director was competent to order for shifting of paddy. The above contention of the Management is not correct, as the allotted millers in the district had available capacity for milling of paddy. Besides, the prior approval of the F&SD for shifting of paddy to other districts was not obtained.

Non-enforcing of risk and cost clause

3.1.19 The terms and conditions of notice inviting tenders (NIT) for auction of unmilled paddy provided that the successful bidder should make full payment within the stipulated time, i.e., 30 days. In case the bidder failed to do so, the Corporation was entitled to adjust/recover all losses incurred by it from his earnest money and by sale of stock at his risk and cost.

The Corporation disposed of 4,531 MT of unmilled paddy lying with the millers during 2001-03 to three successful bidders. Out of this quantity, only 357.035 MT of paddy was lifted by one bidder. The Corporation cancelled (May 2003) the sale orders and forfeited the security (Rs.3.90 lakh) deposits of the bidders. The Corporation resold (October 2002-November 2003) the paddy and suffered loss of Rs.36.35 lakh. It did not invoke risk and cost clause to recover the loss from the defaulting parties.

The Management stated, (June 2007) that, security deposited by the defaulting buyers had been forfeited and arbitration proceedings had been initiated against the defaulting millers. The reply is not tenable as the loss on account of resale of auctioned paddy was required to be recovered from the defaulting buyers and not from the defaulting millers. Besides, the defaulting buyers were also not blacklisted.

Non enforcing of risk and cost clause of the contract resulted in loss of Rs.36.35 lakh.

Driage allowed to the millers

Allowing driage on quantity of paddy instead of MSP resulted in loss of Rs.7.56 crore.

3.1.20 GOI while fixing final rates of CMR for the crop years 1999-2003^{\$} allowed driage at one *per cent* on MSP of paddy. Audit scrutiny revealed that the Corporation allowed driage to the millers at one *per cent* on the quantity of paddy delivered to them, instead of MSP of the respective crop years. Driage allowed on the quantity of paddy as compared to MSP was on the higher side. Thus, by allowing excess driage to the millers, the Corporation suffered loss of Rs.7.56 crore[#] during 1999-2003 and benefited the millers to that extent. Audit further noticed, that, the Corporation had booked this amount in the accounts during 2004-05 under the head recoverable from millers on account of driage, but the same was subsequently withdrawn in the accounts for the year 2005-06 without any recorded reasons.

The Management stated, (March 2007) that, the amount of excess driage allowed would be recovered from the millers while finalising the milling accounts. It was further stated, (June 2007) that, one *per cent* driage on the quantity of paddy was allowed as per directions (March 2006) of F&SD which, in turn, had taken up the matter with GOI and till final decision by GOI, driage was to be allowed as per the instructions of the State Government. The reply is not tenable as non - implementation of rates approved by GOI in the absence of any commitment from GOI to the contrary lacked justification.

Milling of paddy

3.1.21 The paddy stored in the premises of millers under joint custody, is got milled from the millers, as per the terms of CMP of the State Government and agreements executed with the millers for each crop year. The main provisions of CMP issued by the State Government and agreements executed with the millers were as follows:

- Millers were to be paid milling charges for custom milling of paddy as fixed by GOI. As per CMP all the by- products, viz., broken rice, rice husk and rice bran, etc., were to be the property of rice miller.
- The millers were required to deliver raw rice at the prescribed rates of 67 and 66 *per cent* during 2001-04 and 2005-06, respectively.
- Month wise delivery of rice was to be made by the millers at the prescribed percentage after commencement of the season.

^{\$} From the crop year 2003-04 onwards driage was allowed as per CMR rates.

[#] As worked out by the Corporation.

- The millers were required to insure at their own cost the paddy/rice lying in their premises against fire, theft or any other accidental loss, for an amount equivalent to the value of the quantity of stocks. In case the miller fails to insure the paddy stock, he will be liable to make good the losses.

3.1.22 The table below gives the details of paddy procured, rice delivered/short delivered and value of rice short delivered during 2001-06:

(Quantity in lakh MTs)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06 [∇]	Total
Paddy procured	15.46	11.26	11.51	12.14	14.20	64.57
Rice due	10.31	7.50	7.60	8.09	9.38	42.88
Rice delivered	10.21	7.47	7.59	8.08	9.33	42.68
Percentage of rice delivered	99.03	99.60	99.87	99.90	99.47	99.53
Rice not delivered	0.10	0.03	0.01	0.01	0.05	0.20
Value of rice short delivered (Rs.in crore)	10.66	3.19	1.08	1.10	5.75	21.78

Following instances of inadequate monitoring by the Corporation over milling operations were noticed:

- During 2001-06, the Corporation took weighted average period of delivery of rice ranging between 102.15 to 232.74 days, whereas, GOI had specified weighted average period ranging between 60 and 175 days for delivery of rice for which interest as well as custody and maintenance charges had been provided in the rates of the respective crop years. Failure of the Corporation to get the paddy milled within the stipulated period resulted in loss of interest amounting to Rs.45.66 crore in eight district offices* during 2001-06.
- Similarly, excess time taken in milling and delivery of rice also resulted in short reimbursement of custody and maintenance charges of Rs.12.36 crore by FCI in eight district offices test checked in Audit.

Excess time taken for delivery of rice resulted in interest loss of Rs.45.66 crore.

Excess time taken in milling of paddy resulted in short reimbursement of custody and maintenance charges of Rs.12.36 crore.

The Management stated (June 2007) that for the crop years-2001-03, interest and custody and maintenance charges were allowed on the weighted average period. It further stated that the rates for the crop years 2003-06, were still provisional and there would be no loss to the Corporation on the finalisation of the rates. The reply is not tenable as the FCI reimbursed interest to the Corporation for the days fixed by GOI and not on actual days taken by the Corporation for milling of paddy. Moreover, the FCI did not reimburse the interest and custody and

[∇]The figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

* Amritsar, Fatehgarh Sahib, Grdaspur, Jalandhar, Ludhiana, Mansa, Patiala and Sangrur

maintenance charges for the actual days taken for milling during the crop years 2002-04 where the rates were finalised by the GOI.

Audit further noticed the following:

- The Corporation was not maintaining any consolidated record to show the quantity of rice delivered within the stipulated/extended period.
- The Corporation was not obtaining approval of the competent authority for inter- district shifting of paddy (refer paragraph 3.1.18 supra).
- The Corporation was not monitoring whether the paddy/rice lying in the premises of the millers was being insured by the millers as per the terms of agreements to safeguard its interests.

Sale of rice

3.1.23 The millers, after milling of paddy, deliver rice directly to FCI. The concerned District Manager (DM) of the Corporation, on receipt of despatch documents from the millers through its field staff, raises bills on FCI. Initially, the Corporation raises the sale bills at provisional rates fixed by the GOI. On receipt of final rates, the Corporation raises supplementary bills for recovery of differential amount. Audit scrutiny revealed the following:

Fixation of depreciated cost of gunny bags

3.1.24 Paddy was delivered to the millers in gunny bags out of which some bags were passed on to FCI at the time of delivery of resultant rice. According to CMR rates for each crop year issued by GOI, cost of gunny bags delivered with rice and 40 *per cent* of the cost of gunny bags retained by the millers was paid by FCI to the procuring agencies. Further, as per CMP for respective crop year issued by the State Government the cost of remaining 60 *per cent* gunny bags retained by the millers is required to be recovered from the millers.

Audit scrutiny revealed that for every 1,000 paddy filled gunny bags supplied to the millers, 469 (resultant rice filled) gunny bags were delivered to FCI and balance 531 empty gunny bags were retained by the millers in case of raw rice. In case of parboiled[#] rice, 476 (resultant rice filled) gunny bags were delivered to FCI and balance 524 empty gunny bags were retained by the millers. GOI while fixing rates of CMR for the crop years 2003-04 (final) and 2004-06 (provisional) erroneously provided depreciation on the cost of 469 gunny bags instead of on the cost of 531 gunny bags in case of raw rice and 476 gunny bags instead of 524 gunny

[#] Partly cooked by boiling.

Inclusion of depreciation on lower number of gunny bags in the rates of rice by GOI resulted in short recovery of Rs. 5.24 crore.

bags in case of parboiled rice for every 1,000 bags. Thus, fixation of depreciated cost of gunny bags retained with the millers on lower side resulted in short recovery of Rs 5.24 crore from FCI in respect of gunny bags actually retained by the millers for crop years 2003-06.

In ARCPSE meeting the Management while accepting the audit findings stated (June 2007) that the matter had been taken up with the State Government for finalisation of incidentals. Further developments were awaited (September 2007).

Non-recovery on account of reduction of outturn ratio[@]

Non-release of its share by the State Government on account of reduction in the outturn ratio resulted in blockage of funds with loss of interest of Rs. 57.26 lakh.

3.1.25 While conveying (November 2005) the provisional rates of custom milled rice for the crop year 2005-06, the GOI reduced the outturn ratio of rice from 67 to 66 *per cent*. It was further provided that the financial burden on account of reduction in the outturn ratio by one *per cent* was to be shared by the State Government and GOI in equal ratio of 50:50. The GOI made (December 2005) the provision of its share of 50 *per cent* in the rates of CMR and as such payment was made by FCI at the time of delivery of rice for crop year 2005-06. The State Government, however, had not released its share of 50 *per cent* amounting to Rs.7.55 crore on this account to the Corporation (June 2007). Non release of Rs.7.55 crore by the State Government would also result in loss of interest of Rs.57.26 lakh (June 2007) to the Corporation.

Thus, non taking up the matter for reimbursement of its due share with the State Government resulted in non - recovery of Rs.7.55 crore from the State Government and resultant loss of interest of Rs.57.26 lakh thereon.

The Management stated (June 2007) that decision in this regard was taken at the level of State Government without associating the Corporation and the State Government has been requested (December 2005) to reimburse the loss to the Corporation on this account. The reply is not tenable, as the Corporation, in the aforesaid letter, requested the State Government to take up the matter with GOI for reimbursement of entire loss. No response was, however, received from GOI (July 2007).

Recovery of rice at low outturn ratio

3.1.26 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 kept in the joint custody of millers and the Corporation for the crop year 2000-01 was damaged. Consequently, GOI decided (October 2000) to obtain rice at respective outturn ratio of 64 and 65 *per cent* effective from

[@] Outturn ratio denotes quantity of rice obtained after milling of paddy.

21 September 2000 and conveyed (November 2000) the rates of rice based on revised outturn ratio. GOI, however, again revised (June 2001) the rates of rice based on original outturn ratio of 67 and 68 *per cent*. The final rates for the crop year 2000-01 fixed on 27 January 2004 were as under:

Particulars	Rates of rice (per quintal)	
	Raw rice (Outturn ratio)	Parboiled (Outturn ratio)
Paddy procured up to 15 October 2000	Rs.1, 025.65 (67 <i>per cent</i>)	Rs.1,017.84 (68 <i>per cent</i>)
Paddy procured after 15 October 2000	Rs.1, 072.95 (64 <i>per cent</i>)	Rs.1, 064.08 (65 <i>per cent</i>)

The Corporation suffered loss of Rs.16.65 crore due to recovery of rice at lower outturn ratio from the millers.

Audit noticed that the Corporation obtained rice at outturn ratio of 64 and 65 *per cent* instead of 67 and 68 *per cent* even against paddy procured up to 15 October 2000, without seeking clarification of cut off date for obtaining rice at reduced outturn ratio. FCI, however, made payment only at the rates based on higher outturn ratio of 67 and 68 *per cent* for paddy procured up to 15 October 2000. These rates were lower than the rates fixed for lower outturn rates. This resulted in loss of Rs.16.65 crore on account of short recovery of 3.63 lakh MT of rice from the millers.

The Management stated (June 2007) that the matter had been taken up (March 2007) with the GOI in this regard. The reply is not tenable as GOI had conveyed revised provisional rates prescribing higher outturn ratio of 67 and 68 *per cent* in June 2001, but the Corporation continued to get the rice from the millers at reduced outturn ratio for the period prior to 15 October 2000 even thereafter, without seeking clarification from GOI regarding cut off date for obtaining the yield from the millers.

Non claiming of interest

3.1.27 In terms of instructions issued (December 1970) by FCI and reiterated by the Government of India from time to time, payments for the rice supplied were to be made within 24 hours of the presentation of the sale bills. F&SD also conveyed (December 2001) instructions of the GOI under which FCI was liable to pay interest at bank rate in case of delay in release of payment beyond the prescribed period.

It was noticed that the Corporation had not devised any system to ensure claiming of interest in this regard from FCI, as the bills for interest for the delayed payments were not raised. The position of interest claims not raised for the crop years 2001-06[∇] in respect of five district offices test checked in Audit was as indicated in the following table:

[∇]The figures for 2006-07 will be available only after activities relating to the procurement, storage and milling of paddy for the crop year 2006-07 are completed during 2007-08.

(Rupees in lakh)

District Office	Claims for interest not raised	
	Crop year	Amount
Patiala	2001-06	203.28
Ludhiana	2002-04 and 2005-06	46.20
Sangrur	2002-03 and 2004-06	89.04
Fatehgarh Sahib	2001-03	8.18
Gurdaspur	2005-06	7.87
Total		354.57

Due to non-evolving of a system, the Corporation did not raise claims of interest of Rs. 3.55 crore for delayed payments.

Audit scrutiny further revealed that though the Corporation received payments of sale bills from FCI after delays up to 253 days (computed after allowing a margin of 48 hours) yet it failed to raise claims for interest on delayed payments. Thus, failure of the Corporation to evolve a system to raise claims for interest on the delayed payments resulted in non-recovery of interest of Rs. 3.55 crore.

The Management stated (June 2007) that there was no provision in the incidentals for payment of interest by the FCI on account of delayed payments on this account and the claims preferred by other procuring agencies were not entertained. The reply is not tenable as interest due to delayed payments was to be paid by FCI as per GOI instructions (December 2001). Further, some[#] district offices of other procuring agencies had received such payments (Rs. 2.05 crore).

Arbitration cases

3.1.28 As per the terms of agreements with the millers, all disputes were to be referred to the sole Arbitrator, i.e., Managing Director of the Corporation or any other person appointed by him. Award of Arbitrator would be final and binding on both the parties.

Non-adherence of the provisions of custom milling policy encouraged the millers to misappropriate paddy/rice. Consequently, the Corporation had to refer the claims to Arbitrators for recovery of due amount from the defaulter millers. The following table shows year-wise position of Arbitration cases for the crop years 1994-95 to 2005-06.

[#] Sangrur (PUNSUP) crop years 1999-2003, Ferozepur and Sangrur (Punjab Agro Foodgrains Corporation Limited) crop years 2000-03.

(Amount: Rupees in lakh)

Crop year	Number of cases	Amount involved	Cases decided				Cases pending	
			In favour of the Corporation		Against the Corporation		Number	Amount
			Number	Amount	Number	Amount		
1994-95 to 2001	326	20,121.51	211	6,232.59	53	4527.90	62	9,361.02
2001-02	30	1,163.67	21	756.44	-	-	9	407.23
2002-03	4	301.60	-	-	-	-	4	301.60
2003-04	9	177.37	7	144.89	-	-	2	32.48
2004-05	8	382.69	5	110.12	-	-	3	272.57
2005-06	1	14.41	-	-	-	-	1	14.41
Total	378	22,161.25	244	7,244.04	53	4,527.90	81	10,389.31

Some interesting cases which were decided against the Corporation are detailed in *Annexure 13*. A perusal of *Annexure* would reveal that these cases were decided against the Corporation due to following reasons:

- Execution of incomplete agreements.
(Rs.3.93 crore; Sl. Nos. 1 and 2 of *Annexure 13*)
- Filing of claims after expiry of time limitation.
(Rs.37.95 lakh; Sl. Nos. 3 and 4 of *Annexure 13*)
- Non taking of action against the miller as per agreement.
(Rs.1.78 crore; Sl. No. 5 of *Annexure 13*)
- Non production of documentary evidence by the Corporation in support of its contention.
(Rs.89.51 lakh; Sl. No. 6 of *Annexure 13*)
- Late execution of agreement with the miller.
(Rs.19.79 lakh; Sl. No. 7 of *Annexure 13*)
- Court case filed after the limitation period.
(Rs.6.61 crore, Sl. No. 8 of *Annexure 13*)
- Non initiation of action in three cases decided against the Corporation due to dispute of payment of Arbitration fees.
(Rs.9.62 crore; Sl. No. 9, 10 and 11 of *Annexure 13*)

It was further noticed that agreements with the millers involving Rs.12.66 crore were not executed in 25 cases pertaining to crop years 1994-2000 and 2004-05. The Corporation stated (June 2007) that suits for recovery had been filed in the courts and action against defaulting officials taken. The nature of action taken in each case was, however, not furnished to Audit.

Internal control/internal audit

Internal control

3.1.29 Internal control is an essential pre-requisite for efficient and effective management of the Corporation. The internal control system in the Corporation in relation to the activity covered in the performance review was deficient as it lacked a reliable mechanism to ensure:

- strict implementation of custom milling policy framed by the State Government;
- timely raising of bills for reimbursement of guarantee fee and recovery thereof from FCI;
- physical existence of paddy lying in the millers' premises;
- rendition of information to the Management regarding raising of sale bills against date wise rice delivered and payment received thereagainst, receipt of sale proceeds and transfer of funds to cash credit account; and
- maintenance of consolidated record to show quantity of rice delivered within the stipulated period/extended period.

Internal audit

3.1.30 Internal audit of the Corporation was being conducted through the firms of Chartered Accountants. A review of internal audit system in the Corporation revealed as under:

- the Corporation did not have internal audit manual defining the scope of work,
- duties and responsibilities of internal audit;
- there was no prescribed system to prepare action plans for internal audit resulting in internal audit of the units being conducted without deciding the priorities;
- unit wise number of inspection report paras outstanding was not being compiled to monitor overall position of pending audit observations; and
- results of internal audit were not brought to the notice of the Board of Directors for perusal and remedial actions.

The Management stated that due to shortage of staff, internal audit was being got conducted from the Chartered Accountants. It was further stated that reports of internal audit were brought to the notice of AMD/MD/BOD. The reply is not tenable as reports were not put up to the BOD for further necessary action.

Conclusion

The performance of the Corporation with regard to procurement, storage and milling of paddy was sub optimal due to lack of business like approach, control over milling operations and failure to follow the terms of the custom milling policy and agreements with the millers which facilitated misappropriation of paddy/rice by the millers. There was no system to obtain legal binding commitments from the millers before allotment of paddy to them and therefore on refusal by such millers to mill the paddy, the Corporation had to transfer allotted paddy to other districts and incur transportation charges. The Corporation's hypothecated stock of paddy was not matching with the outstanding cash credit limit resulting in payment of additional interest. There was no system in the Corporation to ensure raising of claims of interest due to delay in making payment by Food Corporation of India.

Recommendations

- **Custom Milling Policy should be adhered to strictly by the Company in word and spirit and its financial interests should not be compromised.**
- **Exercising effective control over stock and milling operations and misappropriation of paddy should be viewed seriously and dealt with expeditiously.**
- **Legal agreements with the millers should also cover the commitment from the millers to bear the transportation costs in the event of shifting of paddy due to the refusal to mill the paddy.**
- **Cash Credit limits should be managed in accordance with the efficient commercial practices to eliminate interest burden.**
- **Raising of bills/claims should be monitored and delays should be viewed seriously.**

The above matter was referred to Government in May 2007; their reply had not been received (September 2007).

Punjab State Electricity Board

3.2 Power Sector Reforms – signing of Memorandum of Understanding and implementation thereof

Highlights

In spite of decision (December 2004) of the Empowered Committee of the State Government, the Board had not been restructured by forming a generation company, a transmission company and three distribution companies as per the provisions of the Electricity Act, 2003.

(Paragraph 3.2.1)

PSERC did not allow the amount of Rs. 1,296.28 crore to be passed on to the consumers while fixing the tariff for the years 2002-07 due to excessive transmission and distribution (T&D) losses, employees cost and diversion of funds.

(Paragraphs 3.2.10, 3.2.14 and 3.2.15)

PSERC approved levy of voltage surcharge on all large supply consumers catered at 11 KV line and having specified contract demand. The Board failed to levy voltage surcharge on all such consumers resulting in under billing of Rs.266.24 crore.

(Paragraph 3.2.9)

The State Government did not restructure its loans which deprived the Board of saving of interest liability of Rs.229.65 crore during 2004-06.

(Paragraph 3.2.11)

Due to mismatch between funds released by the GOI (Rs.178.74 crore) and counterpart funds arranged (Rs.148.78 crore) by the Board, the GOI did not release next installment for implementation of APDRP schemes even though there was provision of Rs.90.56 crore under investment component during 2005-06.

(Paragraph 3.2.24)

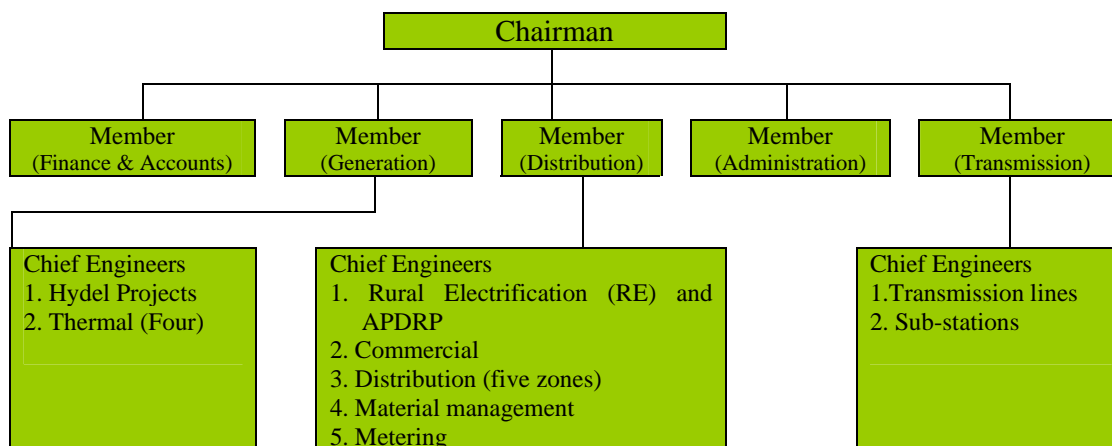
Introduction

3.2.1 Punjab State Electricity Board (Board) was reconstituted (May 1967) under the Electricity (Supply) Act, 1948. The Board is responsible for the activities of generation, transmission and distribution of power in the State. To accelerate power

sector reforms Government of India (GOI) approved (February 2001) Accelerated Power Development Programme (APDP) and renamed (June 2003) it as Accelerated Power Development and Reforms Programme (APDRP). Funds under APDRP were, however, to be released by GOI only if the State Government signed Memorandum of Understanding (MOU) with the Union Ministry of Power (MOP). Accordingly, an MOU was signed (30 March 2001) between GOI and the State Government, as a measure of joint commitment to undertake the power sector reforms in a time bound manner with the main objective to provide commercial viability to power sector, reliable and quality power at competitive rates to all the consumers. Under MOU certain commitments were made by the State Government and GOI was to provide support for implementation of power sector reforms. The MOU was valid for a period of five years, i.e., up to 31 March 2006 and subject to review annually. For implementation of various schemes under APDRP, GOI entered (August 2002-August 2006) into five Memoranda of Agreements (MOAs) with the Board.

In the meantime, the erstwhile Electricity (Supply) Act, 1948 was repealed and a new Act viz., the Electricity Act, 2003 (Act) came into existence. The Act mandated reorganisation of the State Electricity Boards and required that the transmission function be separated from rest of the activities. The State Government constituted (December 2002) an Expert Group⁶ for recommending a comprehensive reform strategy and a road map for unbundling and corporatisation of the Board. On the recommendations (August 2003) of the consultants appointed by the Expert Group, the empowered committee of the State Government decided (December 2004) to form a generation company, a transmission company, three distribution companies and a holding company. It was observed that the process of restructuring had not been implemented so far (September 2007) and the Board has been granted extension till December 2007 by the State Government to continue to function as Transmission Utility in the State.

The organisational chart relating to the activities covered under the performance review is given below:



⁶ Consisting of Director, National Council of Applied Economics Research (NCAER); Managing Director (MD), Infrastructure leasing & Financial Services (IL&FS); MD, Feed Back Ventures; Partner, Jagdish Sagar Associates; Chairman, PSEB; Member (Distribution) PSEB; Senior Energy Economist, World Bank; MD, Punjab Infrastructure Development Board (PIDB); Joint Secretary, Plan Finance I (GOI) and a former Joint Secretary, MOP (GOI).

A review on 'Power Sector Reforms- signing of MOU and implementation thereof last appeared in the Report of Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial)- Government of Punjab. The review is yet to be discussed by the Committee on Public Sector Undertakings (July 2007).

Scope of Audit

3.2.2 The present performance review conducted during the period November 2006-March 2007 covered implementation of the Memorandum of Understanding by the Board including the schemes taken up under APDRP during April 2002-March 2007. Besides the head office, four^s (out of nine) generating stations and 13[@] (out of 26) schemes of APDRP were selected for review on random sampling basis.

Audit objectives

3.2.3 The performance review was conducted to ascertain whether the:

- commitments made by the State Government were adhered to;
- T&D and aggregate technical and commercial (ATC) losses were reduced in accordance with the benchmarks and targets specified in the MOU and MOAs;
- support rendered by the GOI was properly utilised;
- APDRP schemes were carefully designed with adequate planning and were efficiently implemented;
- funding requirements were realistically assessed, the sources identified and funds were sanctioned and released in time at all levels;
- expected benefits had accrued in accordance with the targets fixed in the MOU and detailed project reports (DPRs) of APDRP schemes;
- funds released were used efficiently, economically and effectively for the achievement of the objectives of the schemes; and
- satisfaction level of consumers had improved in terms of quality, regularity and cost of power supplied.

Audit criteria

3.2.4 The implementation of MOU and APDRP was assessed with reference to:

- the benchmarks specified in the MOU/MOAs/DPRs;
- the area and content covered in the DPRs for the schemes;
- minutes of meetings of the Distribution Reforms Committee;
- the terms and conditions of utilisation of funds received from GOI and Financial Institutions (FIs);

^s Guru Nanak Dev Thermal Plant (GNDTP), Bathinda, Mukerian Hydel Project (MHP), Microhydel at Guru Gobind Singh Super Thermal Plant (GGSSTP) and Upper Bari Doab Canal (UBDC).

[@] Amritsar city, Amritsar suburban, Bathinda, Ludhiana West, Mohali, Abohar, Fazilka, Muktsar, Malerkotla, Barnala, Sangrur, Dhuri and TarnTaran.

- tendering and evaluation process for purchase of material and execution of works;
- status reports on the implementation of MOU; and
- guidelines issued (June 2003) by MOP in respect of APDRP.

Audit methodology

3.2.5 Audit followed a mix of the following methodologies:

- scrutiny of records relating to meetings of Steering Committee[#], Whole Time Members (WTMs) and the Board;
- scrutiny of relevant records relating to project execution, procurement of material, receipt of funds and expenditure thereagainst;
- review of records of nodal officers appointed for monitoring the implementation of reform schemes;
- examination of reports of surveys conducted by independent agencies;
- review of proposals drawn up for submission to GOI and detailed project reports; and
- interaction with the Management and issue of audit queries.

Audit findings

3.2.6 The audit findings were reported to the Government/Management in April 2007 and discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 25 June 2007 and attended by the Member (F&A) of the Board and Deputy Chief Engineer (Power Sector Reforms), Government of Punjab. Views expressed by the representatives of the Government/ Management in the meeting have been kept in view while finalising the performance review.

The Audit findings are discussed in the succeeding paragraphs:

Implementation of reforms programme

Commitments by the State Government

3.2.7 The main commitments made by the State Government in the MOU for speeding up the power sector reforms were to:

- provide commercial viability to power sector, reliable and quality power to consumers;
- set up an independent State Electricity Regulatory Commission by June 2001 and ensure implementation of its tariff orders including timely payment of subsidy;

[#] Headed by Chief Secretary of the State to monitor implementation of MOU.

- ensure that operations on distribution achieve break-even by 31 March 2003 and positive returns thereafter;
- undertake energy audit at all levels to reduce system losses to the level of 18 *per cent* by March 2003. In order to achieve this, steps envisaged were to:
 - provide energy meters on grid & generating stations and all 11 KV feeders by 30 September 2001;
 - provide meters to all consumers latest by 30 June 2002;
 - remote monitoring of energy consumption of consumers having load above 100 KW by December 2001; and
 - undertake computerised billing at all major towns/consumption centres by 31 March 2002.
- securitise outstanding dues of Central Public Sector Undertakings (CPSUs) as per the scheme approved by GOI.

As envisaged in the MOU, the State Government constituted (August 2001) a Steering Committee, under the Chief Secretary, to supervise and monitor the efforts made by the Board for implementation of power sector reforms. The Committee was to meet at least once in three months. It was, however, observed that the Committee held only six meetings till March 2007. The status of implementation of the reforms programme with reference to the commitments made by the State Government in the MOU is discussed in the succeeding paragraphs:

Non compliance to directives of Punjab State Electricity Regulatory Commission

3.2.8 Punjab State Electricity Regulatory Commission (PSERC) was set up on 31 March 1999 under Section 17 of the Electricity Regulatory Commission Act, 1998* and had issued five tariff orders upto 2006-07. PSERC fixed the tariff keeping in view a return of three *per cent* of net fixed assets at the beginning of the year (capital base) for 2002-06 and 14 *per cent* on equity capital for 2006-07. The actual surplus/deficit *vis-à-vis* that allowed by PSERC during 2002-07 was as under:

(Rupees in crore)			
Year	Surplus to be generated as per tariff order[†]	Actual surplus (+) / deficit (-) as per accounts	Surplus (+)/ deficit (-) as percentage of capital base
2002-03	228.70	(-) 435.99	(-) 5.68
2003-04	222.76	(+) 174.92	(+) 2.39
2004-05	213.70	(-) 3,833.58*	(-) 54.07
2005-06	205.57	(+) 12.89	(+) 0.19
2006-07	412.46	(-) 1,622.30 (Provisional)	(-) 23.25 (provisional)

The table above shows that the Board could not achieve the required return mainly due to non compliance of the directives of PSERC as discussed in the following paragraphs:

* Since replaced with Section 82 (1) of Electricity Act, 2003.

[†] Surplus has been worked out in tariff orders on the basis of provisional figures of capital base supplied by the Board to PSERC.

* The abnormal loss during 2004-05 was due to writing off of RE subsidy of Rs.3,242.40 crore relating to the period 1998-2002.

Under billing of energy

3.2.9 Board's instructions (July 2000) provided that the supply to large supply (LS) consumers with contract demand (CD) above 2,500 KVA was to be given at 33/66KV and in case of supply to such consumers at 11 KV, they were required to pay voltage surcharge at 17.5 *per cent*. The Board revised (June 2003) the rates of levy of voltage surcharge at 10 *per cent* from those LS consumers having CD exceeding 2,500 and upto 4,000 KVA and at 17.5 *per cent* from those with CD exceeding 4,000 KVA on the existing tariff. PSERC also approved in the tariff orders (2004-07) the continuation of levy of above said surcharge. It was noticed, that the Board was not implementing the provision of tariff orders as it was not levying 17.5 *per cent* high voltage surcharge on all the LS consumers with CD above 4,000 KVA. Further, it was only enhancing consumption of a few LS consumers having CD of 2,500 KVA and upto 4,000 KVA by 10 *per cent*, corresponding to CD above 2,500 KVA instead of entire consumption, without approval of PSERC.

Under billing of large supply consumers by Rs. 266.24 crore due to non-levy of surcharge.

Audit scrutiny of Centralised Billing Cell, Ludhiana revealed that billing of 45 LS consumers falling under the above said categories was not being done as per the above tariff orders which resulted in under billing and consequent non-recovery of Rs. 266.24[#] crore from the concerned consumers during 2002-07 as per details given in *Annexure 14*.

The Board stated (June 2007) that it had started levying voltage surcharge from 11 April 2007 and issue of recovery of arrears from April 2004 as per directions of PSERC in the tariff order 2004-05 was under consideration. The contention of the Board is not correct as PSERC's order for 2004-05 allowed the Board to continue levy of surcharge as per existing instructions in this regard, as such the arrears should have been recovered from July 2000 onward instead of April 2004.

Transmission & distribution losses

3.2.10 The State Government committed in the MOU to reduce transmission and distribution (T&D) losses from 26.25 *per cent* (2001-02) to 18 *per cent* by March 2003. PSERC in its tariff orders fixed the limit of T & D losses at 25.52 *per cent* for 2002-03 to be reduced to 20.75 *per cent* by 2006-07. The targets fixed by the PSERC vis-à-vis actual T&D losses during 2002-07 were as under:

Year	Targets of T&D losses fixed by PSERC (<i>per cent</i>)	Actual T&D losses (<i>per cent</i>)
2002-03	25.52	24.67
2003-04	24.50	25.35
2004-05	23.25	24.27
2005-06	22.00	25.07
2006-07	20.75	23.91

The above table shows that the Board failed to reduce the losses to the targeted level of 18 *per cent* as set in the MOU and even to the higher limit fixed by PSERC (except during 2002-03).

[#] Including six consumers with non-recovered amount of Rs.7.74 crore already pointed in Audit Report (Commercial) for 2005-06, Government of Punjab (Paragraph No. 4.1.8).

The expenditure of Rs. 274.86 crore could not be passed on to the consumers due to non-reduction of T&D losses as prescribed by PSERC.

It was noticed that, while issuing tariff orders, the PSERC decided (June 2005/May 2006) that financial burden due to non-reduction of T&D losses to the extent of targets fixed and consequential additional power purchased, would not be passed on to the consumers. Resultantly, it disallowed the expenditure of Rs. 274.86 crore incurred on excess purchase of power (Rs. 164.37 crore and Rs. 110.49 crore for 2003-04 and 2004-05, respectively) while fixing the tariff.

In the ARCPSE meeting (June 2007), the Audit pointed out that non-reduction of T & D losses to the desired level resulted in double loss to the Board, as lesser amount of energy was available for sale and lower tariff was fixed by the PSERC. The Member (F&A) admitted, that the Board could not achieve the targets due to lack of matching investments and assured that during next five years they would give much better results. The reply is, however, not tenable as PSERC, while disallowing expenditure on this account observed, that there was no credible evidence that the Board had taken serious steps to reduce T&D losses by formulating medium and long term plan for strengthening the T&D system. This was evident from the fact, that there was wide disparity of such losses in different circles of the Board.

Non restructuring of loans

3.2.11 In the MOU, the State Government committed to provide commercial viability to the Board. PSERC in its tariff orders for 2003-06, directed the Board to explore the possibility of restructuring its loans and negotiate with the State Government and Financial Institutions (FIs) to reduce the interest burden due to downward trend in the interest rates. Accordingly, the Board restructured all the existing loans taken from Life Insurance Corporation (LIC), Rural Electrification Corporation (REC), Commercial Banks and Power Finance Corporation (PFC) except those from the State Government. Out of the State Government loans of Rs.4,537.53 crore outstanding as on 31 March 2005, loans of Rs.3,826 crore carried interest rate ranging between 12 and 15 *per cent* per annum, which was much higher as compared to the prevalent market rates. It was noticed that the rate of interest on loans raised from LIC was cheaper by one to four *per cent* than that availed from the State Government. Due to non-restructuring of the State Government loans, the Board was deprived of the saving in interest liability of Rs.229.65[#] crore during 2004-06. The Board requested (July 2005) the State Government to restructure its loans by suitably reducing the interest rates. In spite of its commitment in the MOU, the State Government did not restructure the loans and stated, (December 2005) that, a comprehensive financial restructuring plan of the Board was under consideration and it would address this issue at that time.

Non-restructuring of the State Government loans deprived the Board of saving of interest liability of Rs. 229.65 crore.

In the ARCPSE meeting (June 2007) the representative of the State Government reiterated its earlier stand. Further developments were awaited (September 2007).

Metering of agricultural pumping supply consumers

3.2.12 As per MOU, all consumers were to be provided with energy meters latest by 30 June 2002. The Board had installed meters in respect of all the consumers except agricultural pumping (AP) supply consumers (who are being provided free power

[#] Worked out on the basis of difference of interest rate (11 *per cent*) at which the Board restructured its loans in case of LIC and interest rates (12 to 15 *per cent*) at which the State Government advanced the loans to the Board.

Metering of all the agricultural pumping consumers was not done by the stipulated date.

supply from 1 September 2005). PSERC directed (tariff order 2005-06) the Board to prepare a revised metering plan and take requisite action to provide correct meters (including replacement of defective meters) to all the consumers latest by 31 March 2007. The industrial consumers filed an appeal before the appellate Tribunal on the issue of cross subsidy of tariff provided in the tariff order 2005-06. While deciding (May 2006) the appeal, the Appellate Tribunal directed the Board that the metered supply of power be given to all the consumers by stipulated date. The Tribunal further directed PSERC that a limit of consumption be specified in the tariff order for the next year, for consumers who were being cross subsidised and once the limit is exceeded they should be charged normal tariff.

Audit scrutiny revealed, that, out of 9.70 lakh agriculture pumping consumers (as on March 2007), only 1.08 lakh (11 *per cent*) consumers were provided meters. The Chief Engineer (Metering) floated (August 2005) tenders for procurement of 8.50 lakh three phase meters for installation on AP consumers. The procurement process was, however, postponed (October 2005) indefinitely due to proposed changes in the specifications of meters in view of reported problems of theft of energy by the consumers by using abnormal voltage/frequency devices. The Board decided (December 2006) to take up the matter with the State Government/PSERC, for extension in providing meters on all the AP connections, because metering of AP consumers was an onerous task that could not be achieved within the given time limit (31 March 2007).

The Board stated (June 2007) that it had a unique system, wherein separate metered feeders have been provided to the AP consumers and agricultural consumption can be easily measured. Further, a special leave petition was filed (August 2006) by the Board in the Supreme Court against the judgment of the Appellate Tribunal, which is yet to be decided. Further developments were awaited (September 2007).

The Board, thus failed to achieve the purpose of accurate realization of subsidy from the State Government due to non-metering of all consumers.

Non-achievement of positive results

3.2.13 As envisaged in the MOU, the Board was to achieve break-even by 31 March 2003 and positive results thereafter. The Board, however, failed to achieve break-even by the stipulated date and positive results consistently thereafter as is evident from the following table:

(Rupees in crore)

Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07 (Provisional)
1.	Revenue receipt (including subsidy)	6,433.17	7,121.24	7,167.57	8,326.24	8,755.65
2.	Revenue expenditure	6,869.16	6,946.32	11,001.15	8,313.35	10,377.95
3.	Profit /Loss (-)	(-)435.99	174.92	(-) 3,833.58[#]	12.89	(-) 1,622.30

Audit noticed, that, the main reasons for non-achievement of positive results consistently were under billing of energy sold and high T&D losses (as discussed in

[#] The abnormal loss during 2004-05 was due to writing off of Rs.3,242.40 crore on account of Rural Electrification subsidy pertaining to the years 1998-2002.

Paragraphs 3.2.9 and 3.2.10 *supra*). Besides, the following factors also contributed to non achievement of positive results.

High employees' cost

Excess employees' cost of Rs. 621.42 crore over the limit fixed by PSERC could not be passed on to the consumers.

3.2.14 PSERC while approving (September 2002 to May 2006) tariff orders for 2002-07 consistently observed that employees' cost in the Board was one of the highest in the country. It was noticed that employees' cost of the Board ranged between 19.48 and 21.00 *per cent* of total cost during 2002-06. Audit further noticed that the employees' cost in six* other SEBs ranged between 3.91 and 13.59 *per cent* during 2003-04 as against between 19.48 and 21 *per cent* in the Board. PSERC disallowed (November 2004 to May 2006) the excess employees' cost of Rs. 621.42 crore, incurred during 2001-06, while fixing the tariff, as the Commission felt that the Board had not tried to fix higher targets of productivity for its employees, with a view to provide better quality services to its consumers, which could justify granting of additional emoluments to the employees.

The Board stated (June 2007) that the strength of employees had decreased from 80,549 (March 2005) to 74,273 (March 2007) but the employees cost had increased due to normal increase in pension and salary. It further stated that comparison with other states was misleading as in the PSEB, there was very little outsourcing as compared to other progressive states like Karnataka. The reply is not tenable as the PSERC while disallowing the employees cost had observed, that the Board had highest number of employees whereas its performance parameters were way below the all India averages. Moreover, the Commission had approved the highest level (more than 19 *per cent*) of employees cost as percentage of total cost whereas the other seven SEBs were allowed less than 13 *per cent*.

Diversion of funds

Interest of Rs. 400 crore on the funds provided for capital assets could not be passed on to the consumers due to diversion of funds for revenue purposes.

3.2.15 The Board received funds from the State Government in the form of equity, loans, subsidy and grants for capital assets. The Board, however, diverted the funds meant for capital expenditure towards revenue expenditure during 2003-07. Due to this diversion, PSERC, while fixing (May 2003 to May 2006) the tariff, did not allow the carrying cost of Rs. 400 crore by way of interest (out of total amount of interest of Rs.4,040.79 crore for 2003-07) on the capital funds diverted, to be passed on to the consumers in tariff orders for the years 2003-07. Thus, diversion of funds resulted in lower fixation of tariff by PSERC.

The Board stated (June 2007) that the main reasons for diversion of funds was inadequate revision of tariff and subsidised/free supply to AP consumers, without adequate compensation from the State Government during 1997-2002. The reply is not tenable, because, PSERC due to above reasons, had allowed passing of the bulk of interest to the consumers leaving only a part of interest.

Non-recovery of interest

3.2.16 Ranjit Sagar Dam Project (RSDP) was funded by raising loans from the State Government and FIs. The total expenditure of Rs.5,414.44 crore on this project, was apportioned (June 2000) between the State Government, being irrigation share (20.9

* SEBs of Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu.

per cent) and the Board being power component (79.1 *per cent*). The irrigation share recoverable from the State Government during 2000-01 was Rs.1,131.62 crore which was reimbursed (February 2006) to the Board i.e. after a period of five and half years. As the State Government had delayed the adjustment/ reimbursement of its share, the Board had to pay interest of Rs.759.32^{xx} crore (on Rs.1,131.62 crore) for this period to the State Government/FIs on loans taken for RSDP.

Delay in adjustment of irrigation share in the cost of RSDP resulted in excess payment of interest of Rs.512.88 crore on the State Government loans.

It was noticed that the Board adjusted (during 2003-06) Rs.210.01 crore, without sanction, from interest payable on the State Government loans towards interest on irrigation share. Further, an amount of Rs.36.43 crore was recovered by the Board while working out revised irrigation share (Rs.1,322.62 crore) during 2005-06 leaving a recoverable balance of Rs.512.88[#] crore unclaimed (June 2007).

In the ARCPSE meeting (June 2007), the Board stated, that, the matter regarding excess payment of interest would be taken up with the State Government. Further developments were awaited (July 2007).

Energy audit

3.2.17 In the MOU (March 2001), the State Government committed to undertake energy audit at all levels to reduce system losses. For conducting energy audit, the Board was required to provide energy meters on generating/grid stations and 11 KV distribution feeders latest by September 2001. Further, meters to all the consumers were to be provided latest by June 2002. The Board had installed energy meters on all generating/grid stations and 11KV distribution feeders and all consumers except AP consumers.

Despite commitment in the MOU, the Board failed to introduce energy audit at all levels.

It was noticed that the energy accounting up to 11KV level was started from April 2003, and division/circle /zone wise T&D losses were being worked out, but it was deficient to the extent that there was no feed back to fix responsibility in cases of major variations. An analysis of energy accounting reports (April to September 2004) revealed that in 20 Operation Divisions, the T&D losses were very high and ranged between 30.27 and 51.67 *per cent*. In 17 cases, these losses increased by 5.32 to 19.87 *per cent* as compared to the corresponding period during the previous year (April-September 2003).

Thus, the Board had neither evolved the system for energy audit at all levels, i.e., generation, transmission and distribution, nor devised employee productivity scheme wherein penalty/incentives could be linked to the T&D loss reduction.

The Board, while admitting the above facts, stated (April 2007) that energy accounting reports were being prepared only for internal monitoring/control and the data/figures were yet to be stabilised. In ARCPSE meeting (June 2007), the Board stated that energy audit at all levels is not being done due to non existence of meters on distribution transformers and all AP consumers.

^{xx} Rs.1,131.62 crore x 12.2 *per cent* x 5 years 6 months

[#] Rs.759.32 crore less Rs.210.01 crore less Rs.36.43 crore

Remote monitoring of large supply consumers

Board failed to undertake remote monitoring of large supply consumers as committed in the MOU.

3.2.18 To check theft of energy, the Board committed (March 2007) in the MOU, that remote monitoring of energy consumption of large supply (LS) consumers (having load above 100 KW) would be completed by December 2001. A pilot project for remote monitoring of energy consumption of 120 LS consumers at Ludhiana was allotted (22 December 2000) to TGV Info System (P) Limited, Hyderabad for Rs.14.27 lakh. As per the delivery clause, the system was to be handed over to the Board within 90 days from the issue of purchase order (i.e., by 22 March 2001). The firm, however, failed to commission the remote monitoring system despite extension (June 2005). Purchase order was cancelled (August 2005) and the firm was blacklisted. No action to install the remote monitoring system was taken thereafter.

The Board stated (June 2007) that energy meter readings of LS consumers were already being recorded through SEMs* and data was being downloaded from these meters periodically and as such remote monitoring system was not felt necessary. The reply is not tenable, as the objective of installing remote monitoring system was not to download the data, but was to eliminate power thefts by conducting energy audit without visiting the consumer's premises, which could not be achieved. In ARCPSE meeting, the Board stated (June 2007) that, a fresh tender had been floated for remote monitoring of LS consumers. Further developments were awaited (September 2007).

Securitisation of dues of Central Public Sector Undertakings

Failure of the Board to securitise all its outstanding dues payable to Central Public Sector Undertakings resulted in retention of liability of Rs. 58 crore.

3.2.19 In compliance to the commitment made in the MOU, an Expert Group was constituted (March 2001) by GOI to recommend one-time settlement of dues of State Electricity Boards (SEBs) relating to electricity/fuels supplied by the Central Public Sector Undertakings (CPSUs) including Railways, Coal India Limited and its subsidiaries. The Expert Group recommended, (May 2001) securitisation of outstanding dues (as on 30 September 2001) of CPSUs, whereby the State Government was to issue tax-free bonds to the concerned CPSU and was liable to repay principal and interest on bonds. The Board reconciled (July 2003) the outstanding dues with four* CPSUs for supply of electricity and arrived at the amount of Rs.660.35@ crore which was to be securitised by issuance of bonds against which the Reserve Bank of India issued (August 2003) bonds on behalf of the State Government for Rs.637.35 crore.

Audit noticed that undisputed amount of Rs. 58 crore (Rs.49 crore of Railways and Rs.9 crore of Coal India Limited) which was also outstanding as on 30 September 2001, was not included in the above amount for securitisation and the Board failed to take the benefit of immediately squaring up of undisputed liability of Rs. 58 crore.

The Board stated (June 2007) that the dues of Railways and CIL could not be securitised due to non –conducting of joint reconciliation. The reply is not tenable as

* Special energy meters.

* National Hydro Power Corporation (NHPC), National Thermal Power Corporation (NTPC), Nuclear Power Corporation of India Limited (NPCIL) and Power Grid Corporation of India Limited (PGCIL).

@ It includes bonds valuing Rs.23 crore issued (December 2001) by the Board to NPCIL which were also eligible for conversion at the option of the State Government.

it was for the Board to get the reconciliation done on priority basis so that its financial interest is not compromised.

Unjustified adjustment of incentive by the State Government

3.2.20 GOI introduced (April 2002) OTS scheme, under which the CPSUs were to pay cash incentive to the SEBs, in case of non default by them, for ensuring timely payment of current dues after securitisation of old outstanding dues.

The Board failed to claim incentive of Rs.99 crore which was adjusted by the State Government without any justification.

Audit noticed that cash incentive of Rs.99 crore was received (November 2003 to March 2005) by the Board from CPSUs for complying with the above provisions of the scheme. This amount was adjusted (November 2005) by the State Government against subsidy payable to the Board for 2005-06 in lieu of free supply of electricity. Instead of making efforts to retain or reclaim this amount from the State Government, the Board, in reply, justified (January 2007) it by stating that as the payment of interest and repayment of principal of the bonds were the liability of the State Government, as such it had rightly adjusted the amount of incentive. The reply is not tenable as the scheme provided for payment of incentive by CPSUs to SEBs for prompt payment of current dues and there was no provision for passing on the same to the State Government.

In ARCPSE meeting (June 2007) Member (F&A) assured that the matter for refund of incentive amount would be taken up with the State Government.

Support from Government of India

3.2.21 As per the MOU (March 2001) the support to be extended by GOI for implementation of power reforms in the State was as under:

- Providing financial support through various schemes under APDP/APDRP.
- Assisting in arranging funds through Power Finance Corporation (PFC) and other financial institutions.
- Allocating additional power from new central sector generation stations.

The execution of schemes undertaken by the Board under APDRP is discussed below:

Accelerated power development and reforms programme

3.2.22 Union Ministry of Power (MOP) launched (February 2001) a nation wide programme called Accelerated Power Development Programme (APDP) for renovation and modernisation of old power plants and upgradation of sub-transmission and distribution network (below 33 KV or 66 KV). Against the sanctioned schemes of Rs.75.40 crore, MOP released (March 2001) Rs.37.70 crore under APDP. The schemes under APDP were short closed (2003-04) as MOP modified (June 2003) the ongoing APDP and the programme was renamed as Accelerated Power Development Reforms Programme (APDRP). Unutilised funds of Rs.17.67 crore (MOP share) under APDP were adjusted under APDRP. An expenditure of Rs.5.99 crore incurred on Renovation and Modernisation of Shanan

Power House under APDP was yet (June 2007) to be reconciled/reimbursed from MOP.

The main objectives of APDRP were to:

- reduce aggregate technical and commercial (ATC) losses;
- ensure reliability and quality of power supply; and
- ensure adequate consumer satisfaction by reducing outages and interruptions.

To achieve these goals, MOP was to provide additional Central assistance (25 per cent of the project cost as grant and 25 per cent as loan) for strengthening and upgradation of sub transmission network. The Board was to arrange remaining 50 per cent of the cost from Power Finance Corporation (PFC), Rural Electrification Corporation (REC) or other Financial Institutions (FIs) as matching fund. Besides, MOP was also to pay as grant, an incentive equal to the reduction in actual total losses, through the State Government.

The scope of APDRP was to upgrade the sub-transmission and distribution network in densely electrified zones in the urban and industrial areas and to improve the commercial viability of SEBs.

Implementation of these schemes was to be evaluated by an independent agency and the evaluation reports were to be taken into account at the time of approval of the new projects. The Board in consultation with National Thermal Power Corporation (NTPC), being advisor-cum-consultant, formulated (May 2002 to August 2005) detailed project reports (DPRs) for 26 schemes. The schemes covered three circles and 23 towns. For implementation of these schemes MOP entered into five MOAs (August 2002 to August 2006) with the Board. Steering Committee, set up by MOP, approved (October 2002-September 2005) an outlay Rs.715.57 crore for these schemes.

Funding

3.2.23 During March 2001-March 2007, the Board received Rs.288.16 crore from MOP towards investment component (Rs.178.74 crore) and incentive component (Rs.109.42 crore) and Rs.197.23 crore from FIs, as matching funds under APDRP.

As provided in the MOA, the Board was required to open a separate account in a scheduled/nationalised bank for the purpose of implementing the projects under APDRP. Funds from MOP, internal resources or from FIs earmarked for the purpose were to be credited to this account in the first instance. It was, however, observed that the Board had not maintained a separate bank account for routing the receipt of APDRP funds. The following shortcomings were noticed, on the release/arranging of funds.

Lapse of allocated funds

3.2.24 The ratio of matching funds utilised by the Board to APDRP fund released by MOP was to be 1:1. Due to mismatch between APDRP funds (Rs.178.74 crore)

Mismatch between funds released by GOI and counterpart funds arranged by the Board resulted in lapse of allocation of Rs. 90.56 crore.

released by MOP and matching funds (Rs.148.78 crore) arranged by the Board up to August 2005, MOP did not recommend release of next installment, even though there was provision of Rs.90.56 crore under investment component during 2005-06 and this allocation lapsed in March 2006.

The Board admitted (June 2007) that there was mismatch of funds but contested that the funds had not lapsed. The reply is not tenable as the funds had actually lapsed in March 2006 as per the communication (May 2006) of the Planning Commission.

Incentive component

3.2.25 APDRP provides that the Board would be eligible for incentive up to 50 per cent of the actual total loss reduction by taking 2000-01 as the base year. The grant received was to be utilised for improvement in the power sector only.

Government of India did not release incentive of Rs.142.52 crore as the State Government allowed free power supply to AP consumers.

Audit scrutiny revealed that the Board had submitted (March 2005) a claim of Rs. 251.94 crore under incentive scheme for the year 2003-04, against which the MOP released only Rs.109.42 crore on the plea that the State Government had decided to give free power to the farmers against the spirit of APDRP.

It was noticed that the amount of incentive received from MOP was not kept in a separate account, in the absence of which, its utilisation for improvement in power sector could not be ascertained.

Tender evaluation, procurement and execution

Extra expenditure on procurement of cables

3.2.26 Tenders for procurement of 3 core 6.35/11 KV XLPE cables of various sizes for consolidated requirement of Distribution Organisation and APDRP works for 2003-04 were opened in April 2003. The Chief Engineer (MM) recommended, (July 2003) that the requirement of 12 Kms. of 3 core x 185 mm² and 15 Kms. of 3 core x 240 mm² cable required for APDRP works be clubbed with the requirement of 3 core x 150 mm² and 3 core x 300 mm² cable, respectively, as these sizes were standardised and also there would be a saving of Rs.2.50 lakh. The Board accepted (July 2003) the recommendations and accordingly purchase orders were placed (August 2003) at the lowest rates.

Audit noticed that decision of the Board (July 2003) for clubbing of two sizes of cable meant for APDRP works was not based on facts, as neither the sizes of cables were standardised nor there was saving of Rs.2.50 lakh. The clubbing of the requirement of the cable instead resulted in extra expenditure of Rs.11.76 lakh, due to non placement of order on the first lowest and eligible firm for 3 core x 2.40 mm² size cable (extra expenditure was only due to the purchase of 3 core x 300 mm² size cable against this size).

The Board stated (June 2007) that by clubbing the sizes of cables it saved Rs.3.09 lakh. The reply is not tenable, as the saving had been worked out on the basis of comparison with the rates of fourth lowest firm, (which was lowest on the basis of combined rate of both sizes) whereas audit calculated extra expenditure on the basis of rates of the first lowest firm which was eligible for placement of purchase order.

Extra expenditure in construction of sub-stations

3.2.27 The Board invited (March 2004) tenders for outsourcing the construction of six sub-stations (66 KV) on turnkey basis. During evaluation (January 2005) of bids, the Board noticed that the total cost of construction of these sub-stations on turnkey basis at lowest rates worked out to Rs.20.17 crore against the estimated departmental cost of Rs.14.29 crore. The rates of equipment and civil works quoted by the bidders were higher by 40.34 and 64.16 *per cent*, respectively, than the departmental cost while erection charges (labour component) were lower by 0.92 *per cent*. The Board after negotiations allotted the work of four sub-stations (66 KV) on turnkey basis at a cost of Rs.12.52 crore.

Audit noticed that the Board had specialised wings for procurement of equipment for generation, transmission and distribution projects and execution of APDRP works was being done either departmentally or through outsourcing of labour component only. In this case, the Board had, however, decided to get the sub-stations constructed on turnkey basis. The cost of equipment included in the work orders for outsourced sub-stations was Rs.10.99 crore while the departmental cost of the same equipment was Rs.8.92[#] crore. By not procuring the equipment departmentally and getting it erected on labour rate contract, the Board incurred extra expenditure of Rs.2.07 crore. It was also observed, that time taken and expenditure incurred in respect of two works executed departmentally was lower than similar works executed on turnkey basis.

Extra expenditure of Rs.2.07 crore was incurred on construction of sub-stations on turnkey basis

The Board stated (February 2007) that in turnkey projects the comparison of equipment cost only had no relevance. The reply is not tenable as the Board had, except for the above said works, executed all the works under APDRP schemes either departmentally or through outsourcing labour component only with a view to ensure quality of material, utilisation of manpower and economy in expenditure. Moreover, the comparison between departmental and outsourcing costs was made by the Board authorities while submitting the above proposal to the Board.

Excess consumption of material

3.2.28 During scrutiny of progress reports of APDRP schemes, it was noticed that material valued at Rs.5.15 crore was used in excess of the provisions made in the approved DPRs of five* schemes as detailed below:

Material valuing Rs.5.15 crore was used in excess of the provisions in five schemes.

Sl. No.	Material	Provision in DPRs	Actual consumption	Excess consumption	Value (Rs.in crore)
1.	Single phase meters (no.)	32,196	62,991	30,795	2.58
2.	Three phase meters (no.)	7,217	13,873	6,656	0.93
3.	Distribution transformer meters (no.)	200	362	162	0.12
4.	Feeder meters (no.)	44	101	57	0.03
5.	Distribution transformers (no.)	610	735	125	1.07
6.	11 KV circuit breakers (no.)	40	47	7	0.27
7.	HT capacitors (no.)	7	45	38	0.14
8.	LT lines (kms)	200	201.926	1.926	0.01
Total					5.15

The Board stated (June 2007) that due to drastic reduction in the prices of some items like meters, it was decided to cover more works within the financial cap. The reply is not tenable as changes were not allowed as per APDRP guidelines (June 2003). In

[#] As worked out by Director, Design (Sub-Stations), of the Board.

* Amritsar suburban, Bathinda, Ludhiana (West), Mohali and TarnTaran.

such a situation, the Board should have short closed such items and new schemes should have been formulated and got approved with full justification.

Non-achievement of objectives of the programme

Targets vis-a-vis achievements of benchmarks

3.2.29 In order to improve the existing parameters like T&D losses[@], metering efficiency[§], collection efficiency[^], average revenue realised (ARR)^{*} and failure rate of distribution transformers (DTs), benchmarks were mentioned in the MOAs/DPRs. Actual achievements vis-à-vis the targets for above parameters in respect of selected schemes during 2002-07 are discussed below:

T&D and ATC losses

3.2.30 T&D loss is the excess of input energy over the energy billed for, whereas ATC loss represents the excess of input energy over the energy for which actual revenue is realised. While T&D loss evaluates only the billing efficiency, ATC loss also reflects the collection efficiency. The table below shows percentage of T&D and ATC loss, target provided in the MOA/DPR and actual in 2006-07 for 12 schemes:

Sl. No.	Name of scheme	T&D losses (per cent)			ATC losses (per cent)		
		Existing [§]	Target	Actual (2006-07)	Existing [§]	Target	Actual (2006-07)
1.	Abohar	23.00	12.00	30.76	24.47	11.88	28.89
2.	Amritsar City	28.69	23.00	29.02	29.37	23.00	29.77
3.	Amritsar Sub-Urban	37.75	10.00	36.19	37.99	23.00	36.24
4.	Barnala	13.98	9.98	8.39	13.98	9.98	9.84
5.	Bhatinda	10.50	5.00	11.87	11.41	5.00	11.95
6.	Dhuri	35.18	18.00	28.50	35.22	18.00	28.13
7.	Fazilka	16.82	12.00	31.15	17.16	11.88	34.13
8.	Ludhiana (West)	13.60	11.00	14.05	13.99	10.78	14.00
9.	Malerkotla	10.63	8.63	9.80	10.71	8.85	10.30
10.	Muktsar	22.98	9.00	40.85	23.64	8.91	41.11
11.	Sangrur	18.03	13.00	18.04	18.82	13.00	19.09
12.	Tarn Taran	31.70	8.00	31.58	32.41	8.00	31.95

Targets of T&D losses, Metering Efficiency, Collection Efficiency and Average Revenue Realised were not achieved. In most of the cases the position even deteriorated from the current level.

The above table shows that except in Barnala, the targets for reduction in T&D losses and ATC losses were not achieved in any of the schemes. In seven schemes these losses increased even from the existing level. Further, in nine schemes[√] ATC losses were higher than the T&D losses indicating that the revenue collection was not in tandem with billing.

Deterioration in commercial performance

3.2.31 Average revenue realisation (ARR) is the per unit revenue realised and average cost of supply (ACS) is the cost per unit. The gap between the two reflects per unit loss or profit as the case may be. The following table shows the existing gap between ARR and ACS, targets and achievement thereagainst in respect of seven out

[@] Excess of input energy over metered energy .

[§] Percentage of metered energy to the input energy.

[^] Percentage of revenue realised to energy billed .

^{*} Per unit realisation of revenue.

[§] At the time of DPRs/ MOAs

[√] Amritsar City, Amritsar Suburban, Barnala, Bhatinda, Fazilka, Malerkotla, Muktsar, Sangrur and Tarantaran

of 13 selected APDRP schemes:

(Amount: in rupees)

Sl. No.	Name of the scheme	Base year	Gap between ARR & ACS (ARR-ACS)		
			Existing ⁵	Target	Actual (2005-06)
1.	Amritsar, Sub-urban	2002-03	(-)1.67	(-)1.10	(-)1.92
2.	Bathinda	2002-03	(-)0.12	(-)0.05	(-)0.35
3.	Muktsar	2003-04	(-)0.82	(-)0.50	(-)1.03
4.	Abohar	2003-04	(-)0.80	(-)0.50	(-)0.91
5.	Tarn Taran	2003-04	(-)0.81	(-)0.40	(-)0.96
6.	Sangrur	2004-05	(-)0.01	0.10	(-)0.69
7.	Fazilka	2004-05	(-)0.33	(-)0.15	(-)0.57

The table above reveals that the targeted reduction of gap between ARR and ACS was not achieved in any of the schemes. The gap increased from the existing level (base year) in all the seven schemes showing deterioration in commercial performance of these schemes.

Reliability of supply and consumer satisfaction

3.2.32 To improve the reliability of supply of power, outages were to be reduced and failure rate of distribution transformers (DT) was to be brought down by installing 11KV/33KV circuit breakers as well as LT/HT capacitors and regular repairs and maintenance of DTs was to be ensured. The number of complaints lodged by the consumers indicated the level of consumer satisfaction.

The targets of failure rate of DTs, feeder outages and consumer complaints as per the MOAs and achievement thereagainst in respect of six schemes during 2006-07 were as follows:

Sl. No.	Name of scheme	Failure rate of DTs (per cent)			Feeder outages (in numbers)			Consumer complaints (in numbers)		
		Target	Actual (2006-07)	Excess	Target	Actual (2006-07)	Excess	Target	Actual (2006-07)	Excess
1.	Amritsar Sub-urban	10.00	24.13	14.13	2,500	7,444	4,944 (198)	5,100	1,97,760	1,92,660 (3,778)
2.	Abohar	3.00	2.27	-	80	1,222	1,142 (1,428)	2,190	7,831	5,641 (258)
3.	Dhuri	4.00	12.07	8.07	370	974	604 (163)	3,400	11,087	7,687 (226)
4.	Malerkotla	3.00	5.77	2.77	550	475	-	8,500	10,575	2,075 (24)
5.	Muktsar	5.00	12.62	7.62	100	541	441 (441)	5,475	8,254	2,779 (51)
6.	Tarn Taran	6.00	11.29	5.29	100	920	820 (820)	1,800	8,810	7,010 (389)

(The figures in brackets indicate percentage of excess over target.)

The table above shows that the failure rate of DTs exceeded the targets by 2.77-14.13 per cent in five schemes. Further, feeder outages exceeded the targets by 163-1,428 per cent and consumer complaints exceeded the targets by 24-3,778 per cent indicating that the reliability of power supply was far from satisfactory.

Execution of the schemes

Physical progress

3.2.33 As per approved DPRs, the schemes were to be completed within two years from the date of approval. Audit noticed that 25 out of 26 schemes (Rs.715.57 crore)

to be completed by June 2005 were still under execution (March 2007). The slow progress of these schemes was attributed by the Board to the following:

- preparation of DPRs in haste;
- delay in procurement of material; and
- insufficient training to the staff regarding implementation of schemes.

Financial progress

The status of execution of all the 26 schemes, on the basis of expenditure incurred (March 2007) was as under:

- six schemes incurred (Rs.1.88 crore to Rs.51.33 crore) more than 75 per cent of the sanctioned expenditure;
- eight schemes incurred (Rs.2.29 crore to Rs.44.89 crore) expenditure between 50 and 75 per cent of the sanctioned amount;
- ten schemes incurred (Rs. 0.96 crore to Rs.42.11 crore) expenditure between 30 and 50 per cent of the sanctioned amount; and
- two schemes incurred (Rs. 0.70 crore to Rs.0.90 crore) expenditure between 10 and 30 per cent of the sanctioned amount.

Due to non-completion of these schemes (26) in time, the expected benefits* could not be derived and the Board suffered annual potential loss of revenue of Rs.301.90 crore as envisaged in the DPRs.

Implementation of IT plan

3.2.34 A priority area of MOP under APDRP was introduction of comprehensive integrated information technology (IT) plan in distribution system rather than stand alone system for each APDRP town/circle as the cost of integrating the hardware and the data base at a later stage would be very high. As per DPRs of all the schemes, the integrated IT plan as scheduled to be completed during October 2004 to September 2007.

The consultancy work, including preparation and finalisation of bid document, evaluation of tenders and monitoring implementation of the entire project, was awarded (September 2004) to PUNCOM, Mohali in consortium with James Martin and Company at a total cost of Rs.40.90 lakh with completion schedule upto September 2006. The consultants submitted (January 2006) the 'Request for Proposal'[#] (RFP). Notice inviting tenders were issued (March 2006) and four firms participated in the bid. During evaluation of the bids, the consultants noticed major ambiguities/omissions in the pre-qualification bid documents of all the vendors. As RFP was devoid of practicability and implementation, the Board decided (December

* Expected benefits such as reduction in T&D and ATC losses, failure rate of DTs, Feeder outages, consumer complaints, etc.

[#] Document containing the office wise functional specifications.

2006) to terminate the services of the consultants, scrap the RFP and tender enquiry and implement IT applications in a phased manner in the form of smaller projects by engaging a reputed consultant. No further action was, however, taken in this regard (September 2007).

Board was lagging behind in introduction of comprehensive integrated IT plan.

Audit noticed that the Board had undertaken a few stand alone activities such as preparation of bills and stores inventory in deviation of the main objective of providing comprehensive integrated IT plan. Against the provision of Rs.64.31 crore for various IT packages⁵ in the DPRs of all the schemes, a sum of Rs.6.62 crore (10.29 per cent) was spent (March 2006) mainly for the purchase of computers etc. Further, Rs. 8.02 lakh (after deduction of penalty) paid to the consultants were rendered wasteful.

Non implementation of reforms

3.2.35 Five MOAs signed (August 2002-August 2006) between MOP and the Board covering 26 schemes provided distribution reforms to be undertaken. Audit noticed that following major commitments as provided in the MOAs were not fulfilled (March 2007):

- Distribution circles were to be declared (March 2003) as profit centres as independent administrative units having adequate delegation of technical, financial and commercial powers for operation, maintenance, project implementation and outsourcing. But no action was, however, taken in this regard even after a period of four years from the stipulated period (March 2007).
- MOU between the Board and Chief Executive Officer (CEO) of circle was to be signed within one month of the signing of MOA. No action was, however, taken even after a period ranging between six and 54 months from the stipulated period (March 2007).
- CEO was required to enter into an MOU with the feeder managers within one month of signing (August 2002) of MOA but no action was taken (March 2007).
- Due to non-undertaking of distribution reforms, effective monitoring of these projects could not be done.

Conclusion

The performance of the Board with regard to power sector reforms was sub optimal. The directives of PSERC were not fully complied with, due to which the Board was suffering losses on account of underbilling, higher interest on Government loans, etc. As committed under the MOU, the Board failed to achieve positive results consistently due to excessive employees' cost and

⁵ IT packages includes consumer indexing, Geographical Information System, System for meter data acquisition, Billing & Collection, energy audit, MIS Back office automation & customer management, distribution automation, etc.

diversion of funds. It failed to conduct energy audit to reduce system losses and conduct remote monitoring of large supply consumers to check thefts. It also failed to claim incentives from the State Government for timely payment of current dues of CPSUs. There were shortfalls in achievement of targets in the Accelerated Power Development and Reforms Programme. 25 out of 26 schemes were not completed as per the scheduled date stipulated in the Detailed Project Reports and the intended benefits under the schemes, thus, could not be achieved.

Recommendations

- **The Board should redefine its commitment and objectives to ensure strict compliance of PSERC directives, to avoid losses and also make effort to reduce the employees' cost to avoid their disallowance by PSERC, so that financial health of the Board improves.**
- **Energy audit, remote monitoring of large supply consumers should be ensured in word and spirit to reduce system losses and check thefts.**
- **The Board should persuade the State Government to claim incentive for timely payment of current dues of CPSUs.**
- **Effective implementation of APDRP schemes and full utilisation of funds therein is required to optimise results of power sector reforms.**
- **Effective steps need to be taken to complete IT plans on priority basis.**

The above matter was referred to Government in April 2007; their reply had not been received (September 2007).