Chapter IV

4. Transaction audit observations

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

Government companies

Punjab State Civil Supplies Corporation Limited (PUNSUP) and Punjab State Grains Procurement Corporation Limited (PUNGRAIN)

4.1 Less reimbursement of interest and custody and maintenance charges

Failure of the companies to take up the matter regarding reimbursement of interest and custody and maintenance charges for average period of holding of stock of paddy with the State Government/FCI resulted in loss of Rs.53.76 crore.

The Companies procure paddy from the *mandis* at the minimum support price for the central pool and after getting it milled from the millers deliver the resultant rice to the Food Corporation of India (FCI) at the custom milled rates (CMR) fixed by the Government of India. The final rates of CMR fixed (October 2004) for the crop year 2003-04 included the element of interest and custody and maintenance charges at Rs.11.93 and Rs.1.84 per quintal of paddy, respectively, for a period of two months only.

It was observed, that, the, custom milling policy (CMP) of the State Government, as, well as, the standard agreements executed with the millers, require the millers to deliver 10 *per cent* of the quantity of rice each in the months of October and November and 20 *per cent* each in the months of December, January, February and March. Accordingly, the average period of holding of paddy stocks by the Companies worked out to 3.9[#] months. As such, the Companies were entitled for reimbursement of interest as well as custody and maintenance charges for a period of 3.9 months, i.e., Rs.23.26 per quintal and Rs.3.59 per quintal respectively, worked out on proportionate basis. Resultantly, the Companies had to bear extra interest of Rs.11.33 per quintal and custody and maintenance charges of Rs.1.75 per

[#] Worked out on the basis of month wise milling of paddy prescribed in the agreements.

quintal of paddy. The Companies, however, did not take up the matter for reimbursement of interest and custody and maintenance charges on the basis of average holding period of paddy stocks as admissible under CMP and agreements with the millers immediately during the season either with the State Government or with the FCI.

Thus, failure of the Companpies to take up the matter for reimbursement of interest and custody and maintenance charges as per average stock holding period of paddy resulted in less reimbursement of Rs.53.76 crore as detailed below:

(Rupees in crore)

Sl. No.	Name of the Company	Crop year	Interest charges	Custody and maintenance charges	Total
1.	Punjab State Civil Supplies Corporation Limited.	2003-04	25.72	3.97	29.69
2.	Punjab State Grains Procurement Corporation Limited	2003-04	20.85	3.22	24.07
Total					**53.76**

PUNSUP while admitting, the facts stated, (July 2007) that, a very meagre sum was incurred on custody and maintenance of stock of paddy and the matter had been taken up with the GOI. The reply is not tenable as the amount involved is not meagre, but, substantial one, keeping in view the accumulated losses (Rs.429.35 crore up to March 2006) suffered by the Company and further the amount has not been reimbursed, so far, and the Company should have taken up the matter with the GOI immediately during the season.

The matter was referred to the Government/Management (PUNGRAIN) in April 2007; their replies had not been received (September 2007).

Punjab State Civil Supplies Corporation Limited

4.2 Avoidable payment of transportation charges

Non-recovery of transportation charges from the millers in respect of paddy transported within eight kilometres resulted in loss of Rs.13.85 crore to the Company.

The Company procures paddy from *mandis* on behalf of FCI for central pool, gets it milled from the allotted rice millers and delivers resultant rice to FCI as per the CMP of the State Government in respect of each crop year. The GOI fixes the rates of CMR for each crop year on the basis of which sale bills are raised by the procuring agencies on FCI.

It was observed, that, up to the crop year 2002-03, the transportation charges incurred by the Company from *mandis* to mills were included in the rates of CMR. However, GOI fixed (December 2003, October 2004 and November 2005) CMR for the crop years 2003-04 and onwards, by including transportation charges within eight Kms, in "milling charges" and allowing payment of transportation charges

beyond eight Kms, on the basis of rates fixed by the District Collectors of the State, or, at FCI rates or actuals, whichever were the least. Since the transportation charges up to eight Kms were included in the milling charges, these were required to be borne by the millers. For the crop years 2003-06, the Company incurred Rs.13.85 crore on transportation of paddy within eight Kms in respect of eight[#] district offices which were required to be borne by the millers, but, the Company did not recover this amount from the millers while settling their accounts.

Thus, non-recovery of transportation charges from the millers resulted in loss of Rs.13.85 crore to the Company.

The matter was referred to Government/Management in April 2007; their replies had not been received (September 2007).

Punjab State Grains Procurement Corporation Limited

4.3 Avoidable payment of penal interest

Failure of the Company/F&SD to submit stock statements to SBI in time resulted in avoidable payment of penal interest of Rs. 1.33 crore on the outstanding cash credit.

The Company was incorporated (March 2003) for carrying out the activity of procurement of foodgrains for central pool which was earlier handled by the Food & Supplies Department, Punjab (F&SD). The procurement activity was funded through cash credit (CC) from with the State Bank of India (SBI) arranged by F&SD. As per the agreement for CC, the monthly stock statements were to be furnished within ten days, after expiry of each calendar month and outstanding CC account to be fully matched by the hypothecated stock of foodgrains, failing which, higher rate of interest at the rate of two *per cent* in excess of the prevailing CC rate was to be charged.

Scrutiny of records revealed that there was a minus gap[$], i.e., irregularity of Rs.4,510.95 crore which was under consideration of the Union Ministry of Food and Reserve Bank of India (RBI) for decision on the issue and RBI/SBI desired to get conducted the stock audit of food credit account of procuring agencies of the Punjab State. Accordingly, the stock statements for the month of October 2004 were sent (January 2005) to Finance department of the State Government for a decision regarding irregularity. The Finance department, however, intimated (January 2005) F&SD, that, the stock statements might be submitted to SBI as per earlier practice till the irregularity was cleared. It was, however, noticed, (May 2005) that, SBI charged (December 2004) Rs.1.33 crore extra on account of higher rate of interest, as, the Company had not submitted stock statements (October and

[#] Bathinda, Fatehgarh Sahib, Faridkot, Gurdaspur, Kapurthala, Ludhiana, Mansa and Patiala.

[$] Represents the accumulated value of shortfall of stock available with reference to the cash credit outstanding.

November 2004) to the Bank in time. Since the Company/F&SD were aware that non-submission of stock statements would attract higher rate of interest on the entire amount of CC outstanding, the Company/F&SD should have submitted the stock statements (October and November 2004) in time while separately taking up the matter regarding decision on irregularity of Rs.4,510.95 crore with the Finance department.

Thus, failure of the Company/F&SD to submit stock statements to SBI in time resulted in avoidable payment of higher interest of Rs.1.33 crore.

The Management admitted, (June 2006) that, the lapse occurred due to administrative reasons and has assured for non-recurrence of such mistake in future.

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

4.4 Loss of interest

Failure of the field staff to submit despatch documents in time resulted in delayed submission of bills to FCI for payment with consequent interest loss of Rs.18.52 lakh to the Company.

The Company procures wheat for the central pool on behalf of FCI and gets reimbursement of its cost along with incidentals and carry over charges from FCI after delivery of stock. The rates of incidentals and carry over charges are fixed by the GOI for each crop year.

As per the instructions (July 1985/September 1997) of the F&SD of the State, field staff was required to submit despatch documents to district offices of the Company, within three days of despatch of wheat stock to FCI, so, that, the sale bills could be prepared and submitted to FCI in time. FCI was required to make the payment within 24 hours of the submission of the bills. In case, the time taken in submission of despatch documents to district offices of the Company was more than three days from the date of delivery of wheat stock to FCI, strict action against the delinquent officials was to be taken.

Audit scrutiny revealed, that, in Amritsar district office of the Company, there were delays ranging from four to 121 days[#] in submission of despatch documents by the field staff between July 2003 to February 2006 in respect of wheat for crop years 2003-06. The amounts involved ranged between Rs.0.39 lakh to Rs.1.98 crore.

The failure of the field staff in submitting the despatch documents in time resulted in delay in preparation/submission of bills and subsequent realisation of dues from the FCI. The delay resulted in loss of interest of Rs.18.52[*] lakh to the Company.

[#] After allowing margin of required period of three days.

[*] Worked out at 9.10 *per cent*, i.e., the rate of interest paid on cash credit availed by the Company during the said period.

The matter was referred to the Government/Management in January 2007; their replies had not been received (September 2007).

4.5 Avoidable payment of transportation charges

Non-recovery of transportation charges from the millers in respect of paddy transported within eight kilometers resulted in loss of Rs.5.25 crore to the Company.

The Company procures paddy from *mandis* on behalf of the FCI for central pool, gets it milled from the allotted rice millers and delivers the resultant rice to the FCI as per the custom milling policy of the State Government in respect of each crop year. GOI fixes provisional rates of custom milled rice (CMR) for each crop year on the basis of which claims are raised by the procuring agencies on FCI which in turn is required to make payment within 24 hours of the receipt of claims.

Audit observed, that, up to the crop year 2002-03, transportation charges incurred by the Company from *mandis* to mills were included in the rates of CMR. However, for the rates of CMR fixed by GOI for the crop years 2003-04 and onwards, rates of transportation within eight Kms were included in the milling charges. The transportation charges beyond eight Kms were recoverable from FCI on the basis of rates fixed by District Collectors or, at FCI rates or actuals, whichever were the least. It was observed, that, the Company incurred Rs.5.25 crore on transportation of paddy from *mandis* to mills, for the crop years 2003-06, in respect of eight [$] district offices which were required to be borne by the millers, as, these were included in the milling charges. The Company, however, failed to adjust, or, recover the amount of transportation charges upto eight Kms while making payment of milling charges at the time of settling the accounts of the millers.

Thus, non-claiming of transportation charges from the millers resulted in loss of Rs.5.25 crore to the Company.

The matter was referred to Government/Management in March 2007; their replies had not been received (September 2007).

[$] Amritsar, Bathinda, Faridkot, Ferozepur, Gurdaspur, Ludhiana, Mansa and Moga.

Punjab Small Industries and Export Corporation Limited

4.6 Loss due to non revision of reserve prices

Non revision of reserve prices of big size plots resulted in loss of Rs.4.95 crore to the Company on allotment of four plots.

The Company develops and allots industrial plots of various sizes, in different focal points in Punjab, at reserve price fixed on the basis of uniform rate of per square yard (PSY) irrespective of the size of plot.

The Company, keeping in view the upward trend in prices of industrial plots, revised (November 2005) the reserve prices from Rs.400 to Rs.1,000 PSY to Rs.750 to Rs.2,000 PSY in 11 focal points as per its policy, i.e., irrespective of their size. However, for Mohali focal point, the reserve prices of plots were not revised uniformly and the reserve price of only one size of plots (500 square yards) was revised (December 2005) from Rs.2,700 to Rs.6,000 PSY.

Audit scrutiny revealed, that, the reserve price of industrial plots fixed in Mohali focal point, was, not only against the practice prevailing in the Company, but, was also against financial prudence. It was noticed that due to revision of reserve prices the cost of 500 square yards plot worked out to Rs.30 lakh, whereas, it was only Rs.27 lakh for 1,000 square yards plot which was not logical. Non-revision of reserve prices uniformly for all sizes of plots at Mohali focal point, resulted in loss of Rs.4.95 crore[$] to the Company where it allotted (January/June 2006) four plots of higher sizes (two plots each of 2,500 square yards and 5,000 square yards at the rate of Rs.2,700 PSY). On being pointed out, the Company revised (April 2006) the rates of 1,000 square yard plots only from Rs.2,700 to Rs.4,500 PSY, but, still, not bringing these and other higher sized plots at par with the price (Rs.6,000 PSY) of 500 square yards plot.

The Management stated, (April 2006) that, differential rate of allotment of plots was in operation in 1984. Moreover, the development and running maintenance cost of bigger sized plots was comparatively less than that of small sized plots.

The reply is not tenable, as the uniform rate of plots irrespective of their size being in operation for more than previous 20 years had become an established practice of the Company. Moreover, the Company while fixing reserve prices of plots in 11 other focal points had followed this practice of uniform rates for all sizes of plots.

The matter was referred to the Government in October 2006; their reply had not been received (September 2007).

[$] Rs.6,000 – Rs.2,700= Rs.3,300 x 15, 000 square yards = Rs.4.95 crore.

4.7 Injudicious procurement

Procurement of material without any specific orders from the SSI units resulted in loss of Rs.1.32 crore to the Company on its sale at lower rates.

The Company was engaged in the procurement and sale of iron and steel in the open market. As per the laid down policy of the Company, procurement of the material should be made on the basis of demands received from the interested small scale industrial (SSI) units along with 0.5 *per cent* earnest money to avoid the accumulation of inventory with the Company. In the event of violation of these terms by the SSI units, the Company was at liberty to forfeit in full, or, part of the earnest money.

Audit scrutiny revealed, that, the Company requested (November 2003), Ludhiana Branch of Indian Iron and Steel Company Limited (IISCO), to supply one rake (3,393.020 MT) of pig iron for the main market at Batala, mentioning that the SSI units were facing severe shortage of pig iron. The request was made without any schedule of supplies and specific requests from the SSI units. IISCO, in turn, offered (December 2003) to supply the material at Rs.15,333 per metric tonne (PMT) excluding octroi and sales tax with the condition, that, in case there was an upward revision in the price, rate prevailing on the date of despatch would be charged. While accepting (December 2003) the prevailing price of Rs.15,816 PMT, the Chief General Manager of the Company observed, that, it was not a very sound commercial preposition and the Company should have booked pig iron from SSI units in advance considering frequent increase in the rates of pig iron. IISCO, while informing (January 2004) the latest revised rate of pig iron at Rs.18,827 PMT, requested the Company to confirm the acceptability of the condition regarding supply of material, at rate prevailing on the actual date of despatch, otherwise booking of the material was to be cancelled without any penalty. The Company accepted (February 2004) this condition and finally procured the material (3,393.20 MT) at the rate of Rs.23,739 PMT (excluding octroi) prevailing on the date of despatch (25 March 2004) and paid Rs.8.05 crore towards cost of the material. When the material reached (26 March 2004) Batala, the prices had crashed to Rs.23,000 PMT. The prices further crashed to Rs.19,000 PMT (April 2004) and ultimately the Company in absence of any firm demand from SSI units, decided (June 2004) to dispose off the material in club deals[ϒ] with other steel items. Accordingly, the Company disposed (April 2005) off 3,315.70 MT of material and sustained a loss of Rs.1.32 crore on 2,774.93 MT.[*]The balance material had not been disposed of so far (July 2007).

It was observed that the Company purchased the material without taking any earnest money/commitment from the SSI units in violation of the laid down policy. In the absence of any buy back arrangements with SSI units, the Company was

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[ϒ] Means sale of IISCO pig iron with other iron and steel items (enjoying premium) in a suitable ratio.

[*] The actual disposal was 3,315.70 MT but the rate in respect of disposal of 540.772 MT was not made available to Audit.

compelled to dispose of the procured material at lower rates resulting in loss of Rs.1.32 crore.

Thus, injudicious decision of purchase of pig iron by the Company without definite delivery schedule and also without assessing the market demand and taking any firm commitment/ earnest money from SSI units as per its policy when the issue rate of IISCO was frequently fluctuating resulted in loss of Rs.1.32 crore to the Company.

The Management stated (March 2007) that issue of taking earnest money in the policy guidelines were only for steel material which was being followed in letter and spirit. The reply is not tenable as the policy guidelines related to both raw material (pig iron) and steel material.

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

Punjab State Industrial Development Corporation Limited

4.8 Undue favour to loanee

Acceptance of inadequate and defective collateral security before disbursement of loan resulted in doubtful recovery of Rs.2.06 crore.

The Company sanctioned (January/February 1999) a term loan of Rs.1.30 crore (repayable up to October 2007) and direct subscription of Rs.15 lakh in the equity of S.K.Woolfab Private Limited, for setting up a worsted spinning unit at village Araich, Ludhiana at a projected cost of Rs.1.90 crore. The terms of the sanction, *inter alia*, provided, that, before release of first instalment, the promoter would (i) give collateral security to the tune of 150 *per cent* of term loan and direct subscription by the Company and (ii) equity contribution of 75 *per cent* amounting to Rs.91.22 lakh. Besides, the Company was to inspect the unit. The quantum of collateral security was, however, reduced (October 1999) to 100 *per cent* of direct subscription and term loan on the request of the promoter.

The promoter offered a building (Rs.85.38 lakh) as collateral security, part of which (Rs.34.16 lakh) was already leased out (1981 to September 2001) to a bank and the Company released (May 2000) the first instalment of loan (Rs.76 lakh). The inspection carried out (March 2000) by the inspecting official, did not substantiate the full utilisation of loan amount by the unit, as it indicated that machinery (Rs.16.45 lakh) was lying at site and advance of Rs.15.65 lakh was given to machinery suppliers. Immediately after the release of first instalment, the Company received (June 2000) an anonymous complaint regarding installation of second hand machinery instead of new one. On the basis of this, case was filed (July 2000) in the Court by the Company. The Judicial Magistrate sentenced (March 2004) the

promoters to two years rigorous imprisonment. Meanwhile, the Company took over (August 2002) the assets of the unit under section 29 of the State Financial Corporations Act, 1951 and realised (December 2003) Rs.23.60 lakh on their disposal. The lien on collateral security was got marked by the Company as late as in August 2003, but, the Company had not taken over the same for auction, so far (August 2007).

Audit scrutiny revealed, that, even though the inspection report of the unit was not clearly substantiating the incurring of actual expenditure for the purpose and the collateral security received was also inadequate (Rs.51.22 lakh as against Rs.1.45 crore) as well as defective, yet the Company released the loan to the unit, by considering the availability of total security at Rs.91.76 lakh, including prime security of Rs.40.54 lakh. This deviation, however, from the terms of the sanction letter was not brought to the notice of the sanctioning authority.

Thus, failure of the Company to protect its interest, by accepting inadequate and defective collateral security before disbursement of loan, resulted in doubtful recovery of Rs.2.06 crore (including interest of Rs.1.53 crore up to January 2007) after adjusting the sale proceeds of the unit.

The Management stated (July 2007) that the collateral security was reduced from 150 *per cent* to 100 *per cent* on the request (July 1999) of promoter. The value of total security was Rs.125.96 lakh including collateral security of Rs.51.22 lakh. The deemed possession of collateral security had been taken in August 2002 along with the prime security and the process is on for taking physical possession of the collateral security. The reply is not correct, as, the Company has already disposed of the prime security held against the loan. Further, present market value of the collateral security (Rs.51.22 lakh) is also not known in absence of its valuation by the Company through valuers.

The matter was referred to Government in January 2006; their reply had not been received (September 2007).

4.9 Undue favour to a unit

The Company extended undue favour to a unit by irregular adjustment of Rs.57.19 lakh from the recoverable amount worked out under OTS policy.

The Company disbursed (March 1990 to November 1992) two term loans of Rs.82 lakh at a concessional interest rate for setting up a roller flour mill at Goindwal, District Amritsar to a unit[*] which was refinanced from the IDBI. The loans were to be repaid by 31 October 1997. The unit was not regular even in payment of interest since inception (31 October 1991). Even after rescheduling (August 1996) of payment of principal and interest as per the guidelines of Reserve Bank of India (RBI) on riot affected cases, the unit continued to make default.

[*] Kartar Roller Flour Mills Private Limited

For facilitating settlement of term loans, the Company introduced (March 2003) the following two schemes of one time settlement (OTS):

- as per RBI guidelines already in operation for banks with some modifications; and
- the new OTS policy of the Company.

The unit, however, opted for the first policy effective from April 2003 to June 2003. Audit scrutiny revealed, that, the Company, without working out the actual amount recoverable under OTS asked (June 2003) the unit to deposit Rs.20.50 lakh, i.e., 25 *per cent* of principal amount of term loan of Rs.82 lakh. As against the total dues of Rs.2.94 crore (including interest of Rs.2.12 crore) as on 31 March 2003, the Company worked out (July 2003) the amount recoverable under OTS up to the date of categorising the debt as non performing assets (NPA), i.e.,31 March 1994 as Rs.1.01 crore. The unit deposited (June 2003) Rs.20.50 lakh. Since the unit neither submitted any proposal for balance payment nor remitted any amount, the Company cancelled (December 2003) the OTS allowed to the unit.

The unit, however, requested (November and December 2004) the Company to reduce the amount of Rs.57.19 lakh paid after 31 March 1994 from the OTS amount and the Board of Directors agreed (December 2004) to the proposal as a special case, the promoter being a riot victim of 1984 and the unit being located in border area. The unit deposited (January 2005) balance amount of Rs.22.91 lakh without any interest and the Company settled (January 2005) the accounts of the unit.

The following points were noticed:

- there was no ground for opening the OTS case (December 2004) after its cancellation (December 2003);
- the unit had already been benefited to the extent of Rs.1.93 crore, by fixing the OTS amount at Rs.1.01 crore, against total dues of Rs.2.94 crore, as, on 31 March 2003. Further, the amount of Rs.57.19 lakh adjusted against the repayments of loans by the unit after 31 March 1994 included subsidy granted to the unit by IDBI (Rs.14.72 lakh) being a riot victim of 1984 and Punjab Government (Rs.10.97 lakh) being a unit located in Goindwal. As such, further concession given on this account was not justified and not covered under the approved OTS policies of the Company; and
- even the State Government had not extended any new benefits to the units located at Goindwal. Hence allowing adjustment of Rs.57.19 lakh was unwarranted and amounted to extension of undue favour to the unit.

The Management stated, (April 2007) that, since as per RBI guidelines, no interest was to be charged after declaration of an asset as NPA, the adjustment of Rs.57.19 lakh was justified. The reply is not tenable, as, the Company had adopted the OTS policy with certain amendments, thereby excluding the above condition. Moreover, as per OTS policy, in no case the Company could recover less than the outstanding

principal amount and expenses on the date of settlement. However, in this case even the cost of borrowing had not been recovered by the Company.

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

Punjab State Seeds Corporation Limited

4.10 Avoidable payment

Inclusion of retrenchment compensation in Voluntary Retirement Scheme without prior approval of the State Government resulted in avoidable payment of Rs.45.88 lakh to the employees.

The State Government framed the Punjab State Renewal Fund Rules, 1993 for restructuring, winding up, disengagement or closure of the State Public Sector Undertakings. The compensation admissible under the rules consisted of gratuity, pay in lieu of three months notice, leave encashment, six months salary and retrenchment compensation.

In the light of the above scheme and to make the Company viable, the Board of Directors (BOD) decided (November 1999) to reduce the staff strength of the Company by offering Voluntary Retirement Scheme (VRS) and to retrench those who do not opt for VRS.The benefits provided under VRS scheme included gratuity, pay in lieu of three months notice, leave encashment, six months salary and retrenchment compensation equivalent to 15 days pay for each completed year of service whereas benefits to the retrenched employees included all the above elements except six months salary. Accordingly, the Company disbursed (February and April 2000) Rs.1.92 crore to 49 employees who opted for VRS (including Rs.45.88 lakh as retrenchment compensation) and Rs.89.74 lakh to 39 employees who were retrenched by the Company. The State Finance department conducted (July 2001) the audit of benefits given by the Company under VRS/retrenchment of employees and pointed out, that, the payment of Rs.45.88 lakh on account of retrenchment compensation, made to those employees who opted for VRS, was not covered under the Punjab State Renewal Fund Rules, 1993, as, the same was given under Industrial Disputes Act, 1947. The Company agreed (January 2004) to bear Rs.45.88 lakh given as retrenchment compensation from its own funds.

Audit scrutiny revealed, that, in case VRS offered by the Company had not included the element of retrenchment compensation, its benefits payable would

have been lesser than the benefits payable under the retrenchment[$] and should not have been an attractive proposal for the employees. As such to get this element included in the VRS and entitled for its reimbursement from State Government, the Company should have taken its prior approval. In case, the State Government had not agreed to reimburse the retrenchment compensation, the Company should not have implemented the same and instead retrenched the employees because in that case it was entitled for the retrenchment compensation and resultantly, avoided the extra expenditure of Rs.45.88 lakh. It was further noticed that, even after implementation of VRS, the Company failed to impress upon the State Government to reimburse at least the VRS amount equivalent to the amount reimbursable to the retrenched employees so as to avoid extra payment by Rs.12.08 lakh[*]. The Company, however, did not take any action against the officials responsible for this lapse.

Thus, inclusion of retrenchment compensation in VRS without prior approval of the State Government had resulted in avoidable payment of Rs.45.88 lakh to the employees.

The Management stated, (April 2007) that, though VRS was not covered under Punjab Government Rules, yet BOD made the VRS attractive, so that, restructuring plan of the Company is implemented. The reply is not tenable, in view of the fact, that, the Company was to obtain reimbursement of VRS expenditure from the State Government and therefore, it should have taken the prior approval of the State Government in respect of benefits to be paid to the employees under VRS.

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

Punjab Agro Foodgrains Corporation Limited

4.11 Blocking up of funds

Release of amount to the Associate against the LCs without ensuring the actual quantity and quality of stocks available for shipment resulted in blocking up of funds of Rs.16.90 crore.

The Company in order to augment its revenue and find out alternate source of income, decided (November 2003) to export iron ore on the lines of export by National Agricultural Cooperative Marketing Federation of India Limited (NAFED). The export was to be made through Associates, who were to secure

[$] Under VRS, the Company was entitled for reimbursement of six months salary paid to employees whereas under the retrenchment compensation it was entitled for 15 days salary for each completed year of service which works out to about 14 months salary for an employee who had completed 28 years service.

[*] Retrenchment compensation-Six months salary =Rs.45.88 lakh-Rs.33.80 lakh =Rs.12.08 lakh.

export orders and the Company was to earn service charges from this activity. On the lines of the agreement executed by NAFED, the Company entered (April 2004) into an agreement with the Associate (Reliance Polycrete Limited) for export of iron ore. The terms of the agreement, *inter-alia,* provided that:

- the Company would finance 90 *per cent* of the value of goods to be exported by availing Export Packing Credit (EPC) from its bank on the basis of Letter of Credit (LC) opened by the foreign buyer in the name of the Company. The Company would charge additional one *per cent* interest above the bank rate on EPC and one *per cent* minimum service charges from the Associate on the value of goods to be exported. The Associate would pay all financing charges on actual basis;
- the Associate would furnish 10 *per cent* security on the investment of the Company by pledging its assets/property in favour of the Company; and
- the Associate would insure the goods in the name of the Company covering the risks from mines to the loading of the ship.

The Associate arranged two LCs for Rs.27.53 crore against which the Company released Rs.22 crore, by availing EPC/cash credit. As against this, the Company could adjust only Rs.6.34 crore and the balance amount of Rs.15.66 crore was still recoverable from the Associate as detailed below:

Date of LC	Amount of LC (expiry date of LC) (Rs.in crore)	Stock to be exported (Rate per MT)	Amount released through EPC/ Cash credit		Amount adjusted (Rs. in crore)	
			Amount (Rs. in crore)	Date of release	Amount adjusted	Date of adjustment
14 July 2004	10.97 (15 October 2004)	45,000 MT (Rs.2,438)	9.65	(26 July 2004)	6.34	(19 October 2004)
5 August 2004	16.56 (20 November 2004)	60,000 MT (Rs.2,760)	5.35 2.10 4.90	(11 September 2004) (through cash credit on 17 September 2004) (3 November 2004)		
Total	**27.53**		**22.00**		**6.34**	

It was observed, that, the Company released (July 2004 to November 2004) payments, without ensuring the actual quantity and quality of the stocks available for shipment, either through obtaining consignment-wise insurance of stock in Company's name, as per terms of agreement, or, physically verifying the stocks at port as per practice followed by NAFED. It was further noticed, that, for the scheduled shipment of 45,000 MT at the rate of Rs.2,438 per MT, against first LC, the Associate submitted (19 October 2004) documents for Rs.6.34 crore for shipment of 34,890 MT at the rate of Rs.1,817 per MT. The Company, instead of investigating the reasons for short shipment and considering release of further payment only after complete verification of stock to be exported, released (3 November 2004) Rs.4.90 crore against second LC. This resulted in total release of Rs.15.66 crore (EPC: Rs.13.56 crore and cash credit: Rs.2.10 crore), i.e., 94.6 *per cent* of the second LC.

Audit scrutiny further revealed, that, the Associate had confirmed (28 March 2005) the probable anchoring of vessel M V Ocean Gulf at Karwar Port, Karnataka or any

Goan port on 3 April 2005, for shipment of 30,000 MT iron ore. The inspecting official of the Company, however, could neither locate (April 2005) the vessel at Karwar Port, nor, the stocks of iron ore. Thus, the Associate not only failed to execute the order against the second LC, but, also failed to pay the dues of the Company amounting to Rs.16.90 crore.

On the other hand, the bank charged interest/penal interest to the CC account of the Company and recovered (June to August 2005) the EPC loan of Rs.13.56 crore from the Company, as, per RBI guidelines. The cheques (Rs.14.50 crore) submitted (March to December 2005) by the Associate for repayment of dues were also dishonoured and the case was filed (April 2006) under Section 138 of the Negotiable Instruments Act against the Associate which was pending (July 2007). The Company, however, had not filed any civil/criminal case against the Associate for the recovery of its dues. After adjustments of other dues payable to the Associate, Rs.16.90 crore (including interest) were recoverable as on 9 April 2007. Under a new agreement entered (9 April 2007), the Associate, undertook to repay the dues of the Company along with interest at the rate of 13 *per cent* per annum by 31 October 2007.

The Management, while admitting the facts stated, (May 2007) that, the activity was initiated to create alternate sources for generating income and the Associate selected had a clean track record (balance sheet had good net assets and operating cash profits). Further, the Company's interest have now been safeguarded by registering lien/charge with the Registrar of Companies under Section 125 of the Companies Act, 1956 against the collateral securities of Rs.20.18 crore and obtaining general power of attorneys of the said properties in favour of the Company. However, the fact remains, that, though the Company has safeguarded its interest to an extent by getting the lien/charge created on collateral securities valuing Rs.20.18 crore and also obtained general power of attorneys in its favour, yet the funds of Rs.16.90 crore were blocked up and the same have not been repaid (September 2007) by the Associate even after signing of the new agreement (April 2007).

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

4.12 Loss in disposal of wheat

Failure of the Company in providing adequate number of polythene covers for wheat stored on open plinth coupled with delay in initiating action for its disposal resulted in loss of Rs.2.23 crore.

The Company procures wheat from *mandis* for central pool on behalf of the FCI and stores it till its despatch/disposal as per instructions of FCI. As per the prescribed procedure for procurement of wheat, the District Manager (DM) of the Company was responsible:

- for proper maintenance of the health of wheat;

- to ensure periodical inspection of the stock and also take appropriate action for maintaining the quality of stock stored at each centre; and
- to send the monthly reports regarding the condition of the stock at each centre to the Head Office of the Company at Chandigarh.

Scrutiny of records of Ludhiana district office, revealed, that, 53,209.50 quintals of wheat stock of the crop year 1999-2000, was stored at Budhewal centre in 40 stacks on open plinths. As against the requirement of 40 polythene covers, the godown incharge was provided with only 12 covers. Accordingly, 28 stacks remained uncovered. Though the godown incharge had been repeatedly expressing apprehension about the deterioration of wheat in the absence of covers, the required covers were not provided. Ultimately, the said wheat stock got drenched and damaged (July 2001). Despite the fact of damaged wheat being pointed out repeatedly, by the godown incharge in the monthly reports, no action was initiated by the Company for its early disposal. Resultantly, FCI refused (November 2002) to lift the wheat stock, being not in good condition, but, no action was taken for its segregation/upgradation for making the wheat fit for delivery.

Finally, 11,528.70 quintal of wheat was lifted (January to February 2004) by FCI and 31,649.80 quintal of wheat was disposed of (June to September 2004) by the Company under the Open Market Sale Scheme (OMSS) of the GOI. The Company could realise Rs.1.67 crore and Rs.1.17 crore against sale through FCI and market respectively, against the aggregate cost of the stock of Rs.3.86 crore. During disposal, the Company also observed shortage of 10,031 quintal of wheat valuing Rs.1.21 crore. This resulted in loss of Rs.1.23 crore.

The Management stated, (April 2007) that, the wheat stocks got damaged due to long storage of five years, as the stocks were not taken by FCI. As regards shortages in wheat stacks, it was stated, that, action had been initiated against the defaulting officials. The reply is not correct, as, the wheat stock which pertained to crop year 1999-2000 got damaged in July 2001, i.e., just after two years due to non-providing of polycovers, despite demand (May 1999) of 28 polycovers by the plinth incharge.

Thus, failure of the Company in providing adequate number of polythene covers coupled with delay in initiating the action for its disposal resulted in loss of Rs.2.23 crore including shortage of wheat valuing Rs.1.21crore.

The matter was referred (March 2007) to the Government; their reply had not been received (September 2007).

4.13 Avoidable payment of income tax

Payment of income tax on the basis of overstated profit for the year 2004-05 resulted in avoidable payment of income tax of Rs.1.09 crore.

The Company was incorporated (July 2002) with the main objective of taking up activities relating to foodgrains, agriculture, horticulture and other related activities.

As per Section 139(1) of the Income Tax Act, 1961, the Company was required to file the return of income by 31 October of the concerned assessment year.

It was noticed, that, the Company filed (October 2005) its return of income for the assessment year 2005-06, showing profit before tax of Rs.1.51 crore on the basis of provisional accounts for the year 2004-05, in which provision for income tax of Rs.55.16 lakh was made. The Company prepared its final accounts (September 2006) for the year 2004-05 creating provision for income tax of Rs.2.05 crore. The statutory auditors, however, while certifying (October 2006) the accounts for the year 2004-05 stated, that, the accounts of the Company do not exhibit true and fair view as against the reported net profit of Rs.92.51 lakh in hand, there should have been loss of Rs.34.71 crore mainly on account of irregular booking of interest income on the dues/expenditure not accepted by the Government/FCI. Despite this, the Company did not revise its Annual Accounts as per qualifications given by the statutory auditors, before the same were adopted in the Annual General Meeting, so, as to avoid payment of income tax. The Company filed its return of income (final) for 2004-05 in March 2007 and made payment of tax of Rs.2.05 crore (including Rs.0.96 crore for delayed deposit of tax deducted at source).

Thus, overstatement of profit resulted in avoidable payment of income tax of Rs.1.09 crore.

The Management stated (April 2007) that the Company has followed matching concept of accounting, i.e., the expenditure and income should be shown against each other. In case, the Company does not follow the matching concept, there will be distortion in the accounts and there would be loss in the year of expenditure, whereas there would be profit in the year of its realisation. The reply of the Company is not tenable, as, the Company had not followed the accounting principles and accounting standards to exhibit a true and fair view in its accounts and there was sufficient time available with the Company to revise the accounts for the year 2004-05 and pay the income tax accordingly.

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

4.14 Export of Foodgrains

4.14.1 The GOI advised (July 2001) the State Government/ procuring agencies to approach FCI for export of foodgrains, with a view to ease the shortage of storage space being faced in Punjab, due to accumulation of stock over the years. Accordingly, in response to the request (June 2002) of Punjab Agro Industries Corporation Limited (PAICL), the GOI allowed (July 2002) PAICL at par with other public sector undertakings* (PSUs) to export foodgrains.

* Punjab State Cooperative Supply and Marketing Federation Limited (MARKFED) and Punjab State Warehousing Corporation.

The Punjab Agro Foodgrains Corporation Limited (Company) was incorporated (July 2002) as a wholly owned subsidiary of PAICL, mainly for handling the activities relating to the procurement of foodgrains including export thereof, which were transferred (October 2002) by PAICL to this Company. The Company started the export activity in the name of PAICL in association with export associates. The export activity undertaken by the Company was examined in audit and the observations emanating there from are discussed in the succeeding paragraphs:

Execution of activity

4.14.2 The Company had not fixed any specific targets for export of foodgrains. The Company signed MOUs and agreements with 11 export associates (October 2002 to July 2003). As against various agreements for export of 11.82 lakh MT of wheat/rice, Associates lifted 9.19 lakh MT wheat and 0.98 lakh MT rice valuing Rs.490.11 crore and Rs.63.80 crore, respectively, (September 2002 to August 2004) and actually exported 9.17 lakh MT wheat and the entire rice of 0.98 lakh MT. The export activity was closed by GOI from 31 August 2004 without intimating any reasons to the Company. The accounts of all the Associates had, however, not been finally closed and settled even after a gap of over three years (April 2007). As per the accounts prepared by the Company, Rs.43.94 crore were over-due for recovery (as on 31 March 2007) from eight Associates.

A test check of records of five* district offices of the above transactions revealed the following:

Loss due to defective agreements

Application of export price

4.14.3 The agreements entered (October 2002 to July 2003) into by the Company with the Associates, *inter alia*, provided, that, the issue price of wheat would be as applicable on the date of release order issued by FCI. The instructions issued (January/June 2003) by FCI envisaged, that, the effective price of release order would be valid for lifting of stock for a period upto 30 days after the end of the quarter. Accordingly, the Associates were required to lift the stocks upto 30 days, after the end of quarter, or, pay the export price of wheat at the rates applicable thereafter. The Company, however, failed to incorporate the relevant clause in the agreements, with the Associates, in consonance with the instructions of FCI, by amending the agreements already entered.

Recovery of export price of wheat applicable on the date of release order instead of date of delivery resulted in short recovery of Rs. 70.66 lakh.

Test check of records of Ludhiana district office, revealed, that, two Associates had lifted (April 2003 to February 2004)the stock (four cases) after a lapse of 30 days from the end of quarter. The Company, however, received export price from these two Associates at the rates ranging from Rs.4,600 to Rs.4,810 per MT, i.e., the rates prevailing on the date of release order instead of applicable rates ranging from Rs.4,950 to Rs.6,085 per MT prevailing on the date of delivery. This resulted in

* Amritsar, Ferozepur, Kapurthala, Ludhiana and Patiala.

short recovery of Rs.70.66 lakh from the Associates, as the said amount could not be recovered from the Associates due to defective agreements.

The Management stated (June 2007) that the matter has been taken up with the FCI for reimbursement of the deducted amount. Further developments were awaited (September 2007).

Loss of interest on differential amount.

4.14.4 As per instructions of FCI, the Associates were required to submit export documents of wheat within 45 days, from the first lifting against each release order, to the concerned district office of the Company. The district office was to claim from FCI the differential amount between FCI rates of wheat on the date of delivery and the export price. The FCI rates included, interest element up to the date of delivery and not for the period, from the date of delivery till the date of raising claim.

It was, however, observed that, the agreements entered into with the Associates, did not include any clause, enabling the Company to recover interest for the intervening period, i.e., from the date of delivery of stock to the Associates to the date of submission of claim of differential amount to FCI. Records of four district offices (Ferozepur, Kapurthala, Ludhiana and Patiala) test checked revealed, that, the Company could not recover the interest of Rs.32.16[#] lakh from the associates for the intervening period ranging from one to 122 days (October 2002-August 2004).

Loss due to non-implementation of terms of agreements

Non-claiming of interest

4.14.5 The terms of agreements, *inter-alia*, provided, that, the Associates would bear (a) the interest cost on the claims raised by the Company for export of wheat from the date of raising claim of differential amount on FCI till the date of release of payment by FCI and (b) all costs relating to export of wheat including handling and transportation charges (HTC), upgradation, storage, bank charges, etc. FCI clarified (October 2002 and December 2002) that railway freight would not be incurred by it in the first instance. Further, railway freight by the shortest route from the loading point to port station would be reimbursed by the FCI after submission of export documents without any additional financial liability on account of interest for delay in reimbursement by FCI. As regards claiming of differential amount, FCI instructions (September 2003) provided that the Company could claim differential cost on the basis of Railway Receipt (RR), by submitting indemnity bonds.

[#] Calculated at minimum simple interest rate of 8.15 *per cent* of CC availed from the bank during the relevant period after allowing a margin of six days.

Audit scrutiny of records of five district offices[£] of the Company revealed the following:

The Company had not availed the facility of claiming differential amount by furnishing indemnity bonds. There were delays ranging between one to 660 days, in receiving payment of claims of differential amount of cost of foodgrains from FCI, due to delayed/incomplete export documents furnished by the Associates. Consequently, interest amounting to Rs.3.71[*] crore for the delayed period was recoverable from the Associates. It was observed, that the Company had not claimed the interest amount from the concerned Associates as per terms of agreements.

The Company incurred expenditure on railway freight (Rs.40.69 crore) and HTC, (Rs.4.74 crore) for export of wheat in the first instance and claimed reimbursement thereof from FCI. FCI reimbursed railway freight amounting to Rs.38.36 crore and HTC amounting to Rs.3.76 crore after delays ranging from one to 1,015 days and 274 to 1,406 days respectively. An amount of Rs.2.23 crore (Rs.2.09 crore of railway freight and Rs.0.14 crore of HTC) was disallowed by the FCI, on account of transportation of wheat through longer routes and unutilised space of open wagons and expenditure on HTC at higher rates. The balance amount of Rs.1.08 crore is yet (May 2007) to be paid by FCI. Interest on the delayed payment of railway freight and HTC worked out to Rs.2.32[*] crore which was not claimed from the Associates as of July 2007. The Company had debited the amount short reimbursed by FCI (Rs.2.23 crore) to the accounts of the Associates.

Action of the Company to incur expenditure on railway freight and HTC in the first instance and non-raising of claim of interest on the Associates resulted in loss of interest of Rs. 6.03 crore.

Thus, the action of the Company to incur expenditure on railway freight and HTC in the first instance, as, well as non-raising of claim of interest of Rs.6.03 crore (differential amount: Rs.3.71 crore; freight and HTC: Rs.2.32 crore) on the Associates, resulted in loss of Rs. 6.03 crore to the Company.

The Management stated, (June 2007) that, the payments of differential amounts, were delayed by FCI due to procedural delays and as such, interest loss could not be claimed from the Associates. The reply is not tenable, as delay was on the part of the Associates in submission of complete documents and the interest loss was to be recovered from them as per terms of agreement. The Management had, however, not justified incurring of expenditure on railway freight and HTC by them in the first instance.

Doubtful recovery from an Associate

4.14.6 The Company entered (June 2003) into three agreements with Commodities Intertrade (India) Limited, New Delhi (CITL), an Associate, for export of 0.70 lakh MT of wheat to three foreign buyers of Sudan, Dubai and Singapore. The Company got allocations, (June 2003, December 2003 and March 2004) of 0.70 lakh MT of

[£] Amritsar, Ferozepur, Kapurthala, Ludhiana and Patiala

[*] Including Rs.2.51 crore worked out by Audit at minimum simple interest rate of 8.15 *per cent* of CC availed from the bank during the relevant period after allowing a margin of six days.

[*] Calculated at minimum simple interest rate of 8.15 *per cent* of CC availed from the bank during the relevant period after allowing a margin of six days.

wheat from FCI, on behalf of CITL, without obtaining the required bank guarantee from the Associates. As per terms of allocation, the financial arrangements were to be made by the Associates before actual issue of stock. The Associates submitted two LCs (dated 15 January 2004) for Rs.27.79 crore, (expiry date: 21 April 2004) and another LC for Rs.13.25 crore (dated 16 March 2004, expiry date: 14 June 2004) issued on behalf of BRM Trading Limited, London and Gulf Crystal Trading LLC, Dubai, respectively (both the buyers not included in the agreements). The Company availed EPC against these LCs and allowed the Associate to lift 0.65 lakh MT of wheat (February to April 2004).

Before shipment of the stocks, as the foreign buyers were demanding for reduction in the rates on account of delay and inferior quality of stock, the Associates requested (30 April 2004) the Company to allow to sell the stocks to another foreign buyer under a fresh contract on 90 days direct acceptance[#] (DA) basis. The Company instead of insisting for fresh LC from the Associates, agreed to the proposal and raised five ante-dated sale bills (27 March to 21 April 2004) against the bills of lading (20 May to 22 June 2004) on the new buyer mentioning the payment on DA basis. The Associate, however, did not clear its accounts with the Company, on one pretext, or the other. As on 31 March 2007, Rs.28.65 crore were recoverable from the Associate. The foreign buyer and the Associate submitted (November 2006) a revised payment schedule extending up to 30 June 2007. Further developments were awaited (September 2007).

Failure of the Company to obtain bank guarantee of Rs.2.51 crore coupled with deviation from the terms of agreement resulted in doubtful recovery of Rs. 28.65 crore.

Audit scrutiny revealed, that, the Company had not obtained bank guarantee (Rs.2.51 crore) from the Associate and allowed the Associate to export the foodgrains on DA basis in contravention of the provisions of the agreement which resulted in doubtful recovery of Rs.28.65 crore.

The Management stated, (June 2007) that, the request of the Associate, for acceptance of delivery on DA basis was accepted, as, the wheat stocks had already been lifted/exported by the Associate and there was no chance to take back the material. Further, the matter had been reported to the RBI, Directorate of Revenue and Intelligence and other agencies so that the payment could be recovered at the earliest. The reply is not tenable, as, the provisions of the agreement do not allow the export of stocks without obtaining LCs from the foreign buyers and the Company should have insisted upon the Associate either to arrange fresh LCs from the new buyers or furnish other tangible securities to protect its financial interests.

Other irregularities

Loss due to payment of road transportation expenses

4.14.7 As per practice followed by the Company, the transportation expenses for road movement of wheat for export were being paid initially by the Associates. After receipt of export documents, the Company submitted the claims of transportation expenses to FCI for reimbursement. After receipt of payment from FCI, the amount was reimbursed to the concerned Associates.

[#] It means allowing of credit facility for a specified number of days.

Scrutiny of records of district office at Ferozepur, Amritsar, Kapurthala and Bathinda revealed, that, the Company made payment of transportation expenses amounting to Rs.1.54 crore on behalf of an Associate, during the year 2003-04 by debiting the amount to FCI. The payment, however, had not yet been received (May 2007) from FCI for want of documents.

Thus, payment of transportation expenses (Rs.1.54 crore) on behalf of the Associate resulted in undue favour to the Associate and loss of interest of Rs.48.08[#] lakh from August 2003 to May 2007.

The Management stated (June 2007) that the payment was yet to be received from FCI. The Company, however, did not justify as to why the payment was made in contravention of the practice being followed in this regard.

Non-recovery of interest portion of carry over charges

4.14.8 As per instructions of FCI (June 2003) for export of wheat, payment of interest included in the carry over charges (COC) was to be made to the procuring agencies upto the date of issue of Release Order (RO). FCI, however, subsequently allowed (September 2003/September 2004) payment of full COC including interest portion upto the date of delivery.

Test check of records, of five district offices at Amritsar, Ferozepur, Kapurthala, Ludhiana and Patiala revealed, that, FCI while making payment of differential amount deducted (February 2003 to December 2004) interest of Rs.13.56 crore (from the date of RO to the date of actual delivery). Subsequently, in view of instructions of September 2004, FCI made (October 2005 and November 2006) payment of Rs.2.66[#] crore relating to two district offices (Amritsar and Ludhiana) leaving a recoverable balance of Rs.10.90 crore for which the concerned district offices had not raised fresh claims on FCI.

Non-claiming of interest portion of carry over charges as per the instructions of the FCI resulted in non-recovery of Rs.10.90 crore with consequential loss of interest of Rs. 2.44 crore.

Thus, failure of the Company to get timely payment of COC (interest portion) resulted in loss of Rs.2.44[*] crore towards interest on the recoverable amount of Rs.10.90 crore.

The Management stated, (June 2007) that, carry over charges (interest portion) which were not reimbursed by the FCI was being debited to the Associate's account. The Company, however, had not justified the reasons for not raising the fresh claims on FCI as per their instructions/ clarifications of September 2004. This resulted in non recovery of Rs.10.90 crore with consequential loss of interest of Rs.2.44 crore to the Company.

Liquidation of new stock against the objective of export of foodgrains

4.14.9 The scheme for export of foodgrains was introduced (July 2001) by the GOI with a view to ease out shortage of storage space being faced in Punjab due to

[#] Calculated at 8.15 *per cent* minimum simple interest of CC availed from the bank during the relevant period.

[#] Amritsar: Rs.2.12 crore received out of Rs.8.06 crore and Ludhiana: Rs.54.14 lakh.

[*] Calculated at minimum simple interest rate of 8.15 *per cent* of CC availed from the bank on recoverable amount of Rs.10.90 crore from September 2004 to May 2007.

accumulation of stock over the years. While entering into the export activity, one of the objectives envisaged (June 2002) was to avoid national loss due to deterioration in quality and consequential reduction in value of food stocks. Further, the instructions issued (December 2002) by FCI specifically directed the procuring agencies to ensure that stocks of new crops were not issued for export. As against this, the agreements entered into with the Associates provided that the exporters would identify the suitable stock of wheat for export. Accordingly, the Company got allocation of wheat of even new crops from FCI and out of total export of 9.19 lakh MT of wheat, 6.25 lakh MT (68 *per cent*) was exported from wheat of crop years 2002-03 (3.49 lakh MT) and 2003-04 (2.76 lakh MT).

Audit observed, that, the objective of export was to ease out shortage of storage space by disposal of old stock which was being achieved by export as well as regular lifting of old stock by FCI. Thus, the export of 6.25 lakh MT wheat of new crop years was not only unnecessary but also against the ibid instructions of FCI.

To sum up:

- **Though the activity of export of foodgrains was closed in August 2004, the Company had not finally closed the accounts of all the Associates so far (April 2007) and as per accounts of the Company, Rs.43.94 crore were overdue for recovery from the Associates.**
- **The Company failed to raise claim of interest of Rs.6.03 crore on the Associates. Further, non-raising of fresh claims of carry over charges deducted by FCI as per instructions of FCI resulted in non-recovery of Rs.10.90 crore with consequential loss of interest of Rs.2.44 crore.**
- **The objective of the scheme was to ease out storage space by only exporting of old wheat stock which was defeated because the exported quantity includes substantial quantity of new crops.**

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

Statutory corporations

Punjab State Electricity Board

4.15 Avoidable payment

Mobilising funds through arrangers instead of directly from the commercial banks resulted in avoidable payment of arranger's fee of Rs.1.62 crore.

The Board constituted (September 2004) a committee comprising Chairman, Member (Finance & Accounts), Administrative Member and General Manager (Finance) to decide whether the funding for its projects during 2004-05 should be mobilised directly from the banks or through arrangers. The committee opted (October 2004) funding from the banks. Accordingly, the Board, after inviting offers (January 2005) from various banks availed loan of Rs.200 crore directly from the Oriental Bank of Commerce (OBC), Patiala at 7.25 *per cent* per annum interest from January 2005 with the revision of rate after every three years.

Audit scrutiny revealed, that, for requirement of Rs.250 crore during 2005-06, the Board did not stick to its earlier decision of arranging funds directly from the banks and decided (July 2005) to approach both commercial banks as well as the arrangers to mobilise funds. Accordingly, the Board approached (July 2005) 30 banks and nine arrangers for submitting their offers by 16 August 2005. The offers of six[#] banks and eight[∇] arrangers received were opened on the same day. It was found that three banks (including Punjab National Bank (PNB)) had requested the Board for extension in time up to 20/22 August 2005 as the proposal was under consideration of their head office. The Board agreed to the requests, but, none of the three banks submitted any offer up to 22 August 2005. The Board evaluated the offers of other three banks and arrangers and found that lowest annualised cost[$] was 8.57 *per cent* and 6.77 *per cent* in respect of banks and arrangers respectively. After negotiations, the Board asked (September 2005) three arrangers[@] to arrange long term loan of Rs. 300 crore by 30 November 2005 at lowest offered interest rate of 7.16 *per cent* with monthly rests (7.40 *per cent* annualised cost), with the condition to reset the interest rate after five years at arranger's fee of 0.49 *per cent*

[#] Bank of India, Dena Bank, Oriental Bank of Commerce, Punjab National Bank, UCO Bank and Union Bank of India.

[∇] Allianze Securities Limited, A.K. Capital Services Limited, UTI Bank Limited, SBI Capital Market Limited, R.R. Financial Consultants Limited, ICICI Securities, Centrum Capital Limited and SPA Merchant Bankers Limited.

[$] The interest is reset after five years by adding 75 points (i.e., paise) or 100 points (as the case may be) to average bidding rates of Government securities for the seven preceding days from the end of five years period and these rates are to be valid for next five years.

[@] A.K.Capital Services Limited, Centrum Capital Limited and SPA Merchant Bankers Limited.

plus service tax. The offer (September 2005) of one arranger (A.K. Capital Services Limited) for arranging the term loan of Rs.300 crore at 7.16 *per cent* payable monthly from PNB was accepted (September 2005) by the Board. The entire term loan was availed by the Board by 9 January 2006 and arrangers fee of Rs.1.62 crore was paid (26 December 2005) to A.K. Capital Services Limited.

As the Board had already obtained (January 2005) loan directly from OBC on the similar terms and conditions during previous year without any payment to the middleman, the Board should have resorted to the same practice during 2005-06 also and especially when the arrangers had clearly indicated during negotiations (23 August 2005) that, the loan would be arranged by them through commercial banks. Non mobilisation of funds directly from the banks resulted in avoidable payment of arrangers fee of Rs.1.62 crore.

The Management/Government stated (June/August 2007) that the case was kept pending up to 22 August 2005, but, the banks showed their inability to give offers. The reply is not tenable because the Board did not approach the head office of the bank and considering the huge loan amount of Rs.300 crore, the Board should have approached the head office of the bank (PNB) instead of local branch office for prompt sanction of loan. Moreover, it was clear to the Board that the arrangers would arrange funds through the banks and so the Board should have taken up the matter with the banks even after 22 August 2005.

4.16 Avoidable expenditure

Failure of the Board to terminate the contract of outsourcing as per provision of the contract promptly without prolonging it resulted in avoidable expenditure of Rs. 42.41 lakh.

With a view to provide better consumer service and increase the revenue, as, well as gaining experience in outsourcing consumer related activities, the Board decided (January 2003) to outsource the activities of meter reading and bill distribution, by, implementing a pilot project in two[#] divisions at Ludhiana. Accordingly, the offers called for (October 2003) were evaluated and the concerned Chief Engineer of the Board observed (December 2003) that as outsourcing was economical, the existing staff deployed for this purpose would be transferred to other divisions against vacancies. The Board after issuing Letter of Acceptance (January 2004) and work order-cum-agreement (May 2004) signed (May 2004) the contract with the lowest bidder-Meeting Point, Ludhiana (Contractor). The contract was to remain in operation for two years subject to yearly review. Clause 21 of the contract provided, that, the contract could be terminated by any party by serving three months notice and on terms to be mutually agreed upon which might include suitable compensation for losses.

[#] 1. Special Model Town Division.
2. Special West Division.

The activity of bill distribution by the contractor commenced from 13 February 2004 and after evaluation (August 2004) of the infrastructure developed for the activity of meter reading, the contractor was allowed (August 2004) to carry on this activity along with simultaneous meter reading by the Board's staff for two months, only to ensure smooth change over to the new system. After the contractor commenced the activity (September 2004), the Superintending Engineer/City West Circle, Ludhiana reported (September 2004) agitation amongst the employees on this account. Thereafter, the Chief Engineer/Central Zone terminated (November 2004) the contract abruptly on the plea that this work was not in arrears, which was not the basis for engaging the contractor.

The contractor submitted (November 2004) a representation to the Chairman inviting attention to clause 21 of the contract. The Chairman directed (November 2004) withdrawal of the termination of the contract and also sought a report from the Chief Engineer. Accordingly, the contract was revived (November 2004) immediately. It was decided that meter reading by the staff of the Board be continued along with the reading by the contractor and discrepancies/differences between two readings may be checked and verified.

The Deputy Chief Engineer/City West Circle, Ludhiana decided (April 2005) to start utilising the data collected by the contractor and transfer the Board's staff. However, the orders issued for posting of 13 meter readers, were held in abeyance (April 2005) due to agitation by the employees. Then, after a meeting (August 2005) between the Board Management and employees the contract was ultimately terminated (September 2005) after serving a three month's notice up to 8 December 2005.

Audit scrutiny revealed, that, the Board had ultimately terminated the contract keeping in view the demands of the employees which were already in the notice of the Board, but, was not cited when it terminated the contract (November 2004) on the basis of some other unrelated grounds. Keeping in view the demands of the employees, the Board should have terminated the contract at the first instance by applying correct provisions (clause 21) of the contract instead of unnecessarily prolonging the issue. Had the contract been terminated by giving three months notice in the first instance, it would have finally been closed (February 2005).

Thus, failure of the Board to terminate the contract of outsourcing as per provision of the contract promptly and without prolonging it unnecessarily resulted in avoidable expenditure of Rs.42.41 lakh on the service (March 2005 to 8 December 2005).

The Management stated, (June 2007) that, delay in termination of the contract was due to pursuance of Management to keep pressure on the employees unions constantly and to persue the trade union to get time to keep this project alive, so there was no loss to the Board. The reply is not tenable as the Board tried to terminate the contract earlier (November 2004) due to agitation amongst the employees, but, the contract was revived only because it was not terminated as per

the terms and conditions of the contract, i.e., by serving three months notice and not to keep pressure on the employees union.

The above matter was referred to the Government in December 2006; their reply had not been received (September 2007).

4.17 Avoidable loss

Mistake in connections of tubes during capital maintenance of thermal plant caused tripping of the unit and consequential generation loss of Rs. 39.85 lakh due to forced outages for repair.

For the capital maintenance of Unit 1 of Guru Nanak Dev Thermal Plant (GNDTP), Bathinda, the Board placed (March 2003) a work order for replacement of damaged HP tubes and bends in high pressure parts of furnace, on United Engineering Enterprises, Bathinda for Rs.9.89 lakh. The work was to be executed under the supervision of Senior Executive Engineer (Sr. XEN), Boiler Maintenance II (BM-II) and Additional Superintending Engineer (Addl. SE)/C&E of the plant. After completion of the work, the Unit was lighted up and synchronized (April 2003), but the Unit tripped thrice (15 to 19 April 2003) as the main steam temperature was not improving and reheat temperature was showing sudden falling tendency. After thorough inspection of the boiler, Addl. SE, BM II reported (April 2003) that 13 No. water- wall tubes were wrongly welded to wall-super heater tubes. The departmental enquiry also pointed out, (May 2003) that, the mistake occurred due to wrong connections of tubes, as, the tubes were not properly numbered on both end with paint before cutting them particularly in goose neck area having both water-wall and wall superheater tubes. It was concluded, that, the mistake could have been avoided if the tubes had been numbered with paint just above and below the point where these were to be cut. It also recommended, that, in future painting of tube numbers should be made mandatory and after welding of the tubes, boiler drum should be filled through one circuit and drains of other circuits should be opened to ascertain that no cross connection had taken place.

It was noticed, that, despite daily checking/supervision of work of the contractor by the Sr. XEN and Additional SE, requisite precautionary measures for correct welding of the tubes were neither taken by the contractor nor by the plant authorities. This negligence caused forced outages of the unit for 211.41 hours (April 2003) for rectification of wrong connection of tubes resulting in loss of generation of 15.35 MUs valuing at Rs.39.85 lakh. The Board had neither fixed the responsibility for the negligence of its officials, nor, issued directions to avoid recurrence of such mistake in future, as recommended in the departmental enquiry report (July 2007).

The Management/Government while admitting (July/August 2007) the facts, stated, that, the tubes of water-wall and superheaters were almost of identical size and the mistake occurred inadvertently and since the officials had worked in most difficult situations no responsibility could be fixed as this would affect their moral. The

reply is not tenable because as per departmental enquiry the mistake was avoidable and the Board should have fixed responsibility and issued directions to avoid such mistakes in future.

4.18 Loss of revenue

Non-application of appropriate tariff due to non-clubbing of load resulted in revenue loss of Rs. 23.93 lakh.

Electricity Supply Regulations (ESR) provides, that, not more than one connection be allowed within the same premises in the same or different names, to avoid loss of revenue on account of higher tariff applicable, in case the connected load of the consumer falls in higher category of tariff.

The Board allowed (September 1995) the existing consumers having connections (in one premises) time up to December 1995 for getting their loads clubbed, beyond which these were to be charged tariff as per one connection. Thereafter, the instructions issued (July 2002) by the Board prescribed the charging of higher tariff with effect from 1 January 1996 or date of release of connection or three years (backward) from the date of detection, whichever was lesser.

It was observed that, the Enforcement Wing of the Board detected (October 2004) actual load of 48.218 KW and 107.670 KW against sanctioned load of 39.50 KW and 99.25 KW respectively, in respect of two medium supply (MS) consumers*. It was further noticed, by the Enforcement Wing, that, both the connections were in the same premises. In view of these, the Enforcement wing directed, (October 2004) that, both these connections be clubbed. Accordingly, the sub-divisional office was required to initiate action for clubbing and also charging tariff for large supply (LS) category as the clubbed load of these connections would have been more than 100 KW. It was, however, noticed, that, the AEE, Operation Sub-Division, Banur sought (8 November 2004) the permission from the Additional Superintending Engineer (Operation) Division, Zirkpur for sending notice of recovery of Rs.12.80 lakh (the difference of higher tariff and voltage surcharge) only for the period from October 2001 to October 2004 and also for initiating action for clubbing of connections of these MS consumers for which he was permitted to charge the amount as per instructions of the Board without any delay. No further action towards the recovery and clubbing of the load of these consumers had, however, been taken till date (July 2007) and both the consumers were being billed separately as MS consumers. As a result, total short recovery from the consumers has accumulated to Rs. 23.93 lakh (October 2001 to June 2007).

Thus, non-application of appropriate tariff, due to non-clubbing of load has resulted in revenue loss of Rs. 23.93 lakh to the Board.

* Kulwinder Cold Storage (Account No. MS-12) and Lal Sons Cold Storage (Account No. MS-13)

The matter was referred to Government/Management in March 2007; their replies had not been received (September 2007).

Punjab Scheduled Castes Land Development and Finance Corporation

4.19 Avoidable expenditure due to non-construction of office building

Despite having sufficient surplus funds the Corporation did not construct its own office building and continued to pay rent for rented office premises which resulted in avoidable expenditure of Rs.69.71 lakh on rent.

The Corporation decided (April 1995) to construct its office building on the plot measuring 4,837 Sq. yards (43,533 sq. feet) acquired (November 1979) at Mohali. The total cost of construction of 32,818.5 square feet of covered area was estimated (July 1998) at Rs.1.81 crore. It was further decided, (July 1998) that, foundation of the building be laid in such a way that other offices of the State, viz. Director, Welfare Department and Punjab Backward Classes Land Development and Finance Corporation be accommodated there, on the upper storey at their cost, whenever they decide to construct their offices at that site. The building plan was got approved from the Punjab Urban Development Authority and the foundation stone of the building laid (August 2000). The Corporation decided, (August 2000) that, expenditure on construction of the office building be met first out of surplus funds and if more funds were required, these be met out of the Bad Debt Fund temporarily and recouped thereafter. As per the balance sheet of the Corporation, for the year ended 31 March 2000, there were surplus funds of Rs.17.18 crore. The Corporation, however, did not construct the building at the vacant plot even for the covered area of 13,197 square feet equivalent to its present rented office premises and continued to pay rent at Rs.180 per square feet per annum with annual increase at five *per cent*.

Audit observed, that, it was prudent for the Corporation to get its own building constructed (at least equivalent to the covered area hired by it, i.e., 13,197 sq ft) on priority basis and shifted there, instead of investing its surplus funds in the fixed deposits as the interest earned (Rs.51.22 lakh) on the funds (Rs.72.58 lakh) to be utilised on construction of the building was less than the payment made on account of rent (Rs.120.93 lakh).

Thus, had the company constructed its own building and shifted its office there (March 2002) after a period of 18 months, extra expenditure of Rs.69.71 lakh on rent (after adjusting the interest income of Rs.51.22 lakh) from April 2002 to January 2007 could have been avoided.

The Management in its reply (April 2007) stated, that, the building could not be constructed due to paucity of funds, as, there were no surplus funds on the dates mentioned in the para and specific reserve funds available with the Corporation could not be diverted for any other purpose. The reply is not tenable as the audited annual accounts of the Corporation showed accumulated profits of Rs.17.18 crore as on 31 March 2000 and sufficient surplus funds were available even during subsequent years. Further, there was no bar in the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970 on utilisation of these funds (which were created out of the profits of the Corporation and contribution of the State Government), for the purpose other than for which these were created.

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

Punjab State Warehousing Corporation/ Punjab State Container and Warehousing Corporation Limited

4.20 Loss due to belated surrender of plot

Belated action of the Corporation/CONWARE to surrender the plot resulted in avoidable interest loss of Rs.1.34 crore and wasteful expenditure of Rs.four lakh on account of consultancy charges.

Mention was made in paragraph 4 B.3.3 of the Report of the Comptroller and Auditor General of India – Government of Punjab for the year ended 31 March 1998-No.2 (Commercial), regarding acquiring of plot at reserve price, for construction of Punjab Bhawan at New Bombay, as offered by the City and Industrial Development Corporation of Maharashtra Limited (CIDCO) without finalising terms and conditions and making cost benefit analysis which resulted in loss of Rs.45.65 lakh.

When the Committee on Public Undertakings (COPU) discussed (November 2000) the paragraph, it was informed by the Corporation, that, the price of plot had appreciated substantially and other Corporations/Boards were also taking interest in it. Accordingly, COPU dropped the paragraph. Audit scrutiny disclosed, that, as per the terms and conditions of allotment letter, the Corporation could not use the plot for the purpose other than construction of Punjab Bhawan and as such, the appreciation of land was of no effect to the Corporation. This fact was, however, not brought to the notice of COPU.

Further scrutiny of the records revealed that Punjab State Container and Warehousing Corporation Limited (CONWARE) engaged (May1998) Tata Economic Consultancy Services for preparing a techno-feasibility report for commercial exploitation of the site at a fee of Rs. four lakh.

As the terms and conditions of allotment of plot provided, that, the building was to be constructed for the State Guest house only and the use of ground floor was to be restricted to show room and State emporia only, the lessee was not allowed to transfer or assign his rights in the plot. Finally, when CIDCO categorically disallowed (January 2003) the use of land for other purposes, CONWARE surrendered (January 2003) the plot and received (June 2003) Rs.2.45 crore being 95 *per cent* of price of plot under new policy of surrender of plots. CONWARE passed on Rs.2.41 crore to the Corporation after adjusting the fee paid to the consultants.

Thus, belated action of the Corporation/CONWARE to surrender the plot (January 2003) instead of earlier (May 1998) not only resulted in avoidable interest loss of Rs.1.34 crore[*] but also in wasteful expenditure on consultancy charges of Rs. four lakh.

CONWARE stated, (May 2007) that, the decision to surrender the land was taken in 2003 keeping in view the recommendations of the core group of officers of the State Government for total disinvestment of shares of the Company. The reply is not tenable, because, the terms and conditions of allotment did not provide for transfer or assign the lessee's rights in the plot and as such the Company instead of getting techno feasibility conducted for commercial use of land should have surrendered the land immediately.

The matter was referred to the Corporation/Government in April 2007, their replies had not been received (September 2007).

General

4.21 Follow-up Action on Audit Reports

Explanatory Notes Outstanding

4.21.1 Audit Reports of the Comptroller and Auditor General of India, represent the culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The State Finance Department, issued instructions (August 1992) to all the Administrative Departments to submit detailed notes, duly vetted by Audit indicating the corrective / remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports, within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

[*] Worked out at cash credit interest of 11.05 *per cent* per annum for the period from May 1998 to June 2003 calculated on Rs.235.20 lakh after deducting 22.40 lakh on account of forfeiture of plot from Rs.257.60 lakh.

Audit Reports for the years 1998-99, 2002-03, 2003-04, 2004-05 and 2005-06 featuring 121 paragraphs/reviews relating to PSUs under 12 departments were placed in the State Legislatures on the dates as indicated in the following table. No replies in respect of 47 paras/reviews have been received from nine departments of the State Government by 30 September 2007.

Year of the Audit Report (Commercial)	Date of Presentation	Total No. of paragraphs/ reviews in Audit Report	Number of paragraphs/ reviews for which detailed notes were not received.
1998-99	September 2000	26	1
2002-03	June 2004	23	2
2003-04	March 2005	22	5
2004-05	March 2006	23	14
2005-06	March 2007	27	25
Total		**121**	**47**

Department-wise analysis is given in ***Annexure 15.*** The departments largely responsible for non-submission of detailed notes were Agriculture, Power, Food and Supplies, Industries and Irrigation. The Government did not respond to important reviews highlighting delay in taking action against defaulting millers/ loanees, recovery of timber from standing trees, operational performance of PRTC and performance of workshops.

Action taken on the persistent irregularities

4.21.2 With a view to assist and facilitate discussions of the irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the concerned auditee organisations. The results thereof in respect of Government Companies and Statutory Corporations are included in the ***Annexures 16 and 17*** respectively.

Government Companies

Irregularities having financial implication of Rs.61.77 crore (Punjab Agro Industries Corporation Limited/Punjab Agro Foodgrains Corporation Limited-(PAIC/PAFCL)), Rs.79.35 crore (Punjab State Industrial Development Corporation Limited-PSIDC), Rs.2.23 crore (Punjab State Civil Supplies Corporation Limited-PUNSUP) and Rs.0.30 crore (Punjab Communications Limited) were included in the Reports of Comptroller and Auditor General of India for the years 2000-01 to 2005-06 (Commercial) - Government of Punjab. These include Rs.29.02 crore and 29.95 crore in respect of PAIC/PAFCL and PSIDC respectively, already mentioned in para 4.25.3 of Audit Report (Commercial) 2005-06. These irregularities had been persisting for periods ranging between three and six years. Scrutiny in Audit

revealed that action taken by the Companies/State Government on the irregularities was inadequate as per details given in ***Annexure 16.***

Statutory Corporations

Various irregularities having financial implication of Rs.184.47 crore (Punjab State Electricity Board) including Rs.184.12 crore in respect of persistent irregularities mentioned in Para 4.25.3 of Audit Report (Commercial) 2005-06 were included in the Reports of Comptroller and Auditor General of India (Commercial) - Government of Punjab for the year 2001-02 to 2005-06. These irregularities were persisting for periods ranging between three and five years. Scrutiny in Audit revealed that action taken by the Board/State Government on the irregularities was inadequate as per details given in ***Annexure 17.***

The matter was referred to Government/Management in May 2007; their replies had not been received (September 2007).

Response to Inspection Reports, Draft Paras and Reviews

4.21.3 Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2007 revealed that 3, 412 paragraphs relating to 1,114 Inspection Reports pertaining to 32 PSUs were outstanding at the end of 30 September 2007. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2007 is given in ***Annexure 18***.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit, however, observed that 22 draft paragraphs and four draft performance reviews forwarded to the various departments during October 2006 to May 2007 as detailed in ***Annexure 19*** had not been replied so far (September 2007).

It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who failed to send replies to inspection reports/draft

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

CHANDIGARH **(R.P.Singh)**
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Countersigned

NEW DELHI **(Vijayendra N.Kaul)**
The Comptroller and Auditor General of India