Chapter IV

4. Transaction Audit Observations

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

Government companies

Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab Agro Foodgrains Corporation Limited (PAFCL) and Punjab State Warehousing Corporation (PSWC)

4.1 Non – reimbursement of interest on the cost of gunny bags

Non inclusion of interest on the cost of gunny bags purchased by the Companies/Corporation for procurement of paddy on behalf of Food Corporation of India in the rates of custom milled rice resulted in loss of Rs. 4.43 crore.

The Companies/Corporation procure paddy from *mandis* on behalf of Food Corporation of India (FCI) for the central pool and after getting it milled, deliver the resultant rice to FCI and claim the cost of rice from FCI at the rates of custom milled rice (CMR) fixed by the Government of India (GOI) which included minimum support price (MSP), statutory levies, incidental charges including interest charges[#].

The rates of CMR from the crop year 2003-04 fixed by the GOI also included the cost of gunny bags delivered to FCI along with rice as well as 40 *per cent* cost thereof towards depreciation charges in respect of bags remained with the millers after milling of paddy. While fixing (October 2004) the final rates of CMR for the crop year 2003-04[♣], GOI allowed the cost of bags at the rate of Rs.19.56 per bag. Audit observed that this was almost equal to/less than the landed cost[♥] of gunny bags which included interest up to September 2003 but excluded expenditure on internal movement of gunnies. Even though the GOI had included the interest for

[#] On the cost of minimum support price, statutory charges, *mandi* labour charges except gunny bags.

[♣] The rates for the crop years 2004-05 onwards have not been finalised so far (December 2007).

[♥] landed cost of Punjab State Civil Supplies Corporation limited -Rs. 19.53 per bag, Punjab Agro Foodgrains Corporation Limited - Rs. 19.74 per bag and Punjab State Warehousing Corporation - Rs. 19.67 per bag .

two months in the rates of CMR on the amount invested by the procuring agencies at the time of procurement towards MSP, statutory levies and *mandi* labour charges, it did not allow interest on the cost of gunny bags utilised upto the delivery of rice to FCI which was also an element of cost and remained locked up. This resulted in loss of Rs. 4.43 crore as detailed below:

Sl. No. (1)	Name of the Company/Corporation (2)	Cost of 4.264 bags♥ (In Rs.) (3)	Interest on Rs.83.40♦ (4)	Quantity of rice delivered during 2003-04 (in quintals) (5)	Total (Rs. in crore) (6=4x5)
1.	Punjab State Civil Supplies Corporation Limited	83.40	1.52	1,50,76,930	2.29
2.	Punjab Agro Foodgrains Corporation Limited.	83.40	1.52	64,36,640	0.98
3.	Punjab State Warehousing Corporation	83.40	1.52	76,59,166	1.16
Total					**4.43**

Thus, non inclusion of interest in the cost of gunny bags, purchased by the Companies/Corporation for procurement of paddy on behalf of FCI, in the rates of CMR resulted in loss of Rs. 4.43 crore. The Companies/Corporation had not taken up the matter with the State Government/GOI regarding reimbursement of interest charges on the cost of gunny bags utilised upto the delivery of rice.

The Management (Punjab Agro Foodgrains Corporation Limited) admitted (April 2008) the facts and stated that in view of the observation of the audit, a detailed case for considering the payment of interest charges had been taken up with the State Government.

The matter was referred to the Government/management in April 2008; their replies had not been received (September 2008).

Punjab State Civil Supplies Corporation Limited

4.2 Avoidable expenditure on transportation of paddy

Failure of the Company to direct its field officers not to incur expenditure on transportation of paddy within 8 km in first instance and effect recovery at the time of settling the millers' accounts resulted in avoidable loss of Rs. 3.58 crore to the Company and non-recovery of Rs. 3.26 crore from the millers.

The Company procures paddy from *mandis* for central pool on behalf of Food Corporation of India (FCI) and get it milled from rice millers for onward delivery of resultant rice to FCI. As per the milling policy of each crop year as approved

♥ For procurement of paddy, 4.264 bags of 50 Kg. are required per quintal of resultant rice delivered to FCI and the rate per bag is Rs. 19.56. So the cost of 4.264 bags required for one quintal of rice is 19.56 x4.264=Rs.83.40.

♦ Calculated at the Cash Credit (CC) rate of 10.95 *per cent* for two months.

by the State Government, the Company procures paddy from *mandis* through its district offices and stores it directly in the millers godowns/premises for milling purpose under the joint custody of the miller as well as the Company. Government of India (GOI) initially fixes the provisional rates of custom milled rice (CMR) for each crop year for raising claims of rice delivered to FCI.

Ministry of Food, Consumer Affairs & Public Distribution, GOI clarified (June 2006) that the milling charges of paddy (included in the rates of CMR for 2006-07) i.e. Rs. 15 and Rs. 25 per quintal for raw rice and parboiled rice, respectively, were inclusive of Rs. 5 per quintal towards cost of transportation of paddy as well as rice up to 8 kms.

Audit observed that since the element of transportation charges upto 8 kms was included in the milling charges receivable by the millers, the Company was not required to incur transportation expenses within 8 kms at all. These expenses were to be borne by the millers. However, in case of incurring expenditure in the first instance, the Company would be entitled to recover transportation charges at the maximum rate of Rs. 2.99 per quintal[♣] for one side transportation of paddy. Head Office of the Company did not issue any directions to its field offices to deal with the situation arising as a result of the *ibid* clarification given by GOI. Scrutiny of the records in 12 district offices test checked in Audit revealed that whereas the district offices of the Company incurred expenditure of Rs. 6.84 crore on transportation of 108.90 lakh quintals of paddy to the millers premises within 8 kms for the crop year 2006-07, the Company was entitled to recover only a sum of Rs. 3.26 crore from the millers at the rate of Rs. 2.99 per quintal included in the milling charges. However, this recovery was also not effected from the millers by the Company while settling the millers' accounts.

Thus, the failure of the Company to issue appropriate directions to the field offices not to incur expenditure on transportation of paddy within 8 kms in first instance and effect recovery at the time of settling the millers' accounts resulted in avoidable loss of Rs. 3.58 crore to the Company and non-recovery of Rs. 3.26 crore from the millers.

The matter was referred to the Government/Management in March 2008; their replies had not been received (September 2008).

4.3 Loss of interest

Failure of the Company to take up the matter with Government of India/State Government regarding reimbursement of interest on the elements of drought relief, transportation/movement of wheat and cost of gunny bags resulted in loss of interest of Rs. 2.60 crore.

The Company procures wheat from *mandis* on behalf of Food Corporation of India (FCI) for central pool and stores it till its delivery to FCI. The delivery of

[♣] Out turn ratio of paddy is 67 *per cent* so out of Rs. 5 per quintal (included in milling charges), transportation charges from *mandi* to miller would be Rs. 5 x 100/167 = Rs. 2.99 per quintal.

wheat to FCI is made at the rates approved by the Government of India (GOI) for each crop year, which include Minimum Support Price (MSP), incidental charges and cost of gunny bags and carry over charges representing interest and storage charges. Incidental charges include interest charges for a specific period at the prevailing rate of interest on cash credit.

As per extant policy, GOI was allowing interest on MSP, statutory levies and *mandi* labour charges. The GOI, while finalising the rates of Rabi Marketing Season (RMS) for the years 2001-02 and 2002-03, felt (July 2004) that interest charges must cover all the expenses incurred during the procurement except administrative charges and proposed to consider the case for amendment of principles separately. While fixing (February 2005) the final rates for the Rabi Marketing Season (RMS) 2003-04, GOI, however, included interest charges amounting to Rs. 16.23 for a period of 2 months and 15 days on the amount invested by the procuring agencies at the time of procurement on the elements of MSP, statutory charges and *mandi* labour charges only.

Audit observed that the funds invested by the Company during the procurement for meeting expenditure on drought relief (Rs. 10.00 per quintal), transportation/internal movement of wheat (Rs. 14.07 per quintal) and purchase of gunny bags (Rs. 41.38 per quintal[f]) though included in the final rates, were not considered for calculation of interest charges even though the State Government demanded (December 2004) interest charges on procurement cost except administrative charges. The GOI fixed the cost of gunny bags @ Rs. 20.69 per 50 Kg bag whereas the landed cost[♣] including interest upto 15 April 2003 as worked out by the audit comes to Rs. 20.67 per bag which is indicative of the fact that interest charges on cost of bags for the period 16 April to June 2003 (as being paid on MSP, statutory charges etc.) were not included in the cost of bags. Resultantly, the interest charges on above elements i.e. transportation, drought relief fund and landed cost of bags were not reimbursed by GOI in the final rates for which the Company had not pursued the matter with the State Government/GOI.

Thus, failure of the Company to take up the matter for reimbursement of interest on the elements of drought relief, transportation/internal movement of wheat and gunny bags specifically even after a lapse of three years (from the finalisation of rates) with the GOI for the RMS 2003-04 resulted into loss of interest of Rs. 2.60 crore[♦] to the Company.

The matter was referred to Management/Government in April 2008; their replies had not been received (September 2008).

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[f] Wheat is supplied in 50 kg gunny bags and FCI reimburses cost of 50 kg bags @ Rs. 20.69 which comes to Rs. 41.38 per quintal i.e. Rs. 20.69 x 2

[♣] Landed cost included basic cost of gunny bags plus interest up to 15 April 2003 thereon.

[♦] Calculated on 17,21,7200 quintal of wheat delivered x 1.51 per quintal (Interest charges on above said elements i.e. transportation, drought relief fund and cost of gunny bags).

4.4 Loss of interest

Failure of the Company to correctly ascertain its requirement of gunny bags and accordingly reduce the indented quantity resulted in loss of interest of Rs. 1.07 crore.

Food and Supplies Department (F&SD) of the State Government assesses the likely availability of food crops in the *mandis* during ensuing rabi/kharif marketing season (RMS/KMS) and fixes the targets for procurement of wheat/paddy for the central pool by all the state procuring agencies. It also assesses the requirement of gunny bags and places a consolidated indent on the Director General, Supplies and Disposals (DGS&D) for the supply of gunny bags.

Based on procurement target of 26 lakh metric tonne (MT) paddy (20 *per cent* of the total target of the State) of the Company during KMS 2006-07, F&SD included (April 2006) a requirement of 1,34,550 bales of gunny bags for the Company in the consolidated indent for all the state procuring agencies (33,670 gunny bales per month for May to July 2006 and 33,540 for August 2006). While working out the requirement, F&SD had considered the opening stock as 14,000 bales. Though the company had opening stock of 33,335 gunny bales instead of 14,000 bales considered by F&SD, it did not assess the actual requirement of gunny bags and assumed (April 2006) that the indented quantity would be sufficient for procurement of 27 lakh MT paddy as against 27.71 lakh MT procured in previous kharif season. Thereafter, F&SD asked (May 2006) the procuring agencies to intimate for any change in the requirement of gunny bags so that indent could be revised. However, even after receipt (June 2006) of request of F&SD to reassess actual requirement of gunny bags, the Company did not reduce indented quantity of gunny bales.

Further, F&SD reduced (26 July 2006) the procurement target of the Company from 26 lakh MT to 20.40 lakh MT of paddy and proposed (28 July 2006) to reduce the indented quantity of gunny bales for the month of August 2006 from 33,540 bales to 14,300 bales. But the Company ignored the advice despite likely availability of stock of gunny bags sufficient for procurement of 26 lakh MT as against the target of 20.40 lakh MT and requested (July 2006) the F&SD to maintain the initial allocation of gunny bags of 1,34,550 bales as it had procured 27.71 lakh MT paddy during KMS 2005-06 against the target of 22 lakh MT. The company also released (August 2006) the payment of Rs. 38.56 crore towards the cost of 33,540 gunny bales received in August 2006. Though, the Company had procured 27.22 lakh MT paddy during KMS 2006-07 even then it had closing stock of 48,130 gunny bales (April 2007) which was subsequently utilised during RMS 2007-08.

Thus, failure of the Company to correctly ascertain its requirement of gunny bags (May 2006) and reduce the indented quantity from 33,540 to 14,300 for August 2006 (when advised by F&SD) resulted in locking up of Rs. 22.12 crore (cost of

19,240 gunny bales) for more than six months (September 2006 to March 2007) and consequential loss of interest of Rs. 1.07 crore[♦].

The matter was referred to the Government/Management in December 2007; their replies had not been received (September 2008).

Punjab Agro Foodgrains Corporation Limited

4.5 Loss due to non-analysis of the increased cost of rice

Failure of the Company to analyse the increased cost of rice due to reduced outturn ratio provided in the rates of custom milled rice and to take up the matter with Government of India for providing correct increased cost resulted in loss of Rs. 25.28 lakh.

The Company procures paddy from mandis on behalf of Food Corporation of India (FCI) for central pool and after getting it milled, delivers the resultant rice to FCI and claims the cost of rice from FCI at the rates of custom milled rice (CMR) fixed by the Government of India (GOI) which includes purchase tax also. GOI reduced the outturn ratio[♣] of raw and parboiled[♠] rice from 67 and 68 *per cent* to 66 and 67 *per cent,* respectively for the crop year 2005-06. GOI while fixing (23 November 2005) the rates of CMR, which included the increased cost of rice due to reduced outturn ratio also decided to share 50 *per cent* of this increased cost with the State Government. The increased cost included in the CMR rates of Grade A raw rice and parboiled rice was Rs. 16.18[f] and Rs.15.79[♥]per quintal, respectively which was worked out by including purchase tax. Accordingly, 50 *per cent* of said increased cost i.e. Rs.8.09 and Rs.7.90 per quintal was to be borne each by GOI and the State Government.

Audit noticed that the Value Added Tax (VAT) in the State was introduced from the year 2005-06 and it was to be paid on the total sale price after deducting purchase tax, being input tax paid. Accordingly, FCI, while working out (December 2005) the cost of raw and parboiled rice as Rs.1,112.70 per quintal and Rs.1,103.05, respectively, correctly excluded the purchase tax. As against this, the cost of raw rice and parboiled rice at the old outturn ratio worked out to Rs. 1,097.08 and Rs. 1,087.81, respectively. Thus, the increased cost (due to reduced outturn ratio) of raw and parboiled rice worked out to Rs. 15.62 and Rs.15.24 per quintal instead of Rs. 16.18 and Rs. 15.79 per quintal as included in the rates of CMR. Accordingly, 50 *per cent* share of the State Government worked out to Rs. 7.81 and Rs. 7.62 per quintal as against Rs.8.09 and Rs. 7.90 per quintal deducted by FCI while working out the total cost of rice to be paid to

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[♦] Worked out at 9.70 *per cent* per annum, the minimum cash credit rate prevailing during the period.

[♣] Outturn ratio: ratio that the resultant rice bear to the paddy.

[♠] Partly cooked by heating.

[f] Rs.1,084.09; revised cost of rice - Rs.1,067.91; pre revised cost of rice.

[♥] Rs.1,073.88; revised cost - Rs.1058.09; pre revised cost per quintal.

the procuring agencies. This resulted in less payment of Rs. 0.28 per quintal of raw and parboiled rice and loss of Rs. 25.28 lakh to the Company on 90,30,030 quintal of rice delivered to FCI for the crop year 2005-06.

Thus, failure of the Company to analyse the increased cost of rice due to reduced outturn ratio provided in the rates of CMR and to take up the matter with the GOI for providing correct increased cost of rice resulted in loss of Rs. 25.28 lakh.

The Management stated (April/May 2008) that matter has been taken up with the FCI to reconsider the case which had been rejected by FCI on the plea that payment has been made in accordance with GOI's instructions and the case of full reimbursement of 50 *per cent* share of State Government is yet to be finalised by the Government of India which would be considered at the time of finalisation of rates of crop year 2005-06. The Management further stated (August 2008) that the matter has now been referred to Director, Food, Civil Supplies and Consumer Affairs, Punjab for further taking up the matter with GOI. The reply is not tenable as point relates to incorrect working of 50 *per cent* share relating to the State Government and not reimbursement of share of the State Government, as this amount of Rs. 25.28 lakh as pointed out in the para could have been recovered earlier from GOI/FCI by correct computation of share of the State Government.

The matter was referred to the Government in December 2007, its reply had not been received (September 2008).

Punjab Small Industries and Export Corporation Limited

4.6 Injudicious payment

Failure of the Company to obtain guarantee from the State Government before releasing payment for delayed land references by Collector Land Acquisition (CLA), resulted in injudicious payment of Rs. 3.78 crore.

The Company acquires land through the Collector, Land Acquisition of the State Government who further acquires the land under the Land Acquisition Act, 1894 (Act) and awards compensation to the land owners. Section 18 of the Act provides that any person interested, who has not accepted award may, by written application to the Land Acquisition Collector, require that the matter be referred by the Collector for determination of the Court in respect of the amount of compensation. Every such application was to be made within six weeks of the receipt of the notice from the Collector under Section 12, sub-section (2) or within six months from the date of the Collector's award, whichever period would first expire.

While deciding (January 2001) the matter relating to delay in sending the land references pertaining to the Industrial Focal Point Phase VIII A & B and IX, expansion, Mohali, the Additional District Judge, Rupnagar did not hold the Company liable for the delay in sending the references but held the State Government (Land Acquisition Collector, Department of Industries) liable to pay

the interest for the period for which the references were sent to the Court after expiry of limitation period. It was, however, also decided that the State Government could fix the liability of the defaulting officers/officials and could recover the interest from them.

Audit, however, noticed that the State Government, instead of making the payment itself, asked (September 2003) the Company to make payment for the time being in compliance with the Court orders as the State Government was filing additional and counter affidavits in Punjab and Haryana High Court and it had also appointed an enquiry officer to fix the responsibility of the defaulting officers/officials. The Company, without getting any further assurance/guarantee for reimbursement of the amount from the State Government, released payment of Rs. 3.78 crore during November 2003 and March 2005. Even though the Company had claimed (February to June 2005) reimbursement of Rs. 3.78 crore from the State Government, it neither received any response nor took steps to get the results of the enquiry instituted by the State Government against the defaulting officers/officials (February 2008). Meanwhile, in total disregard of the spirit of the Court decision, the Company decided (June 2005) to recover the amount from the allottees by revising the cost of plots.

Thus, failure of the Company to obtain assurance/guarantee from the State Government before releasing the payment in violation of court orders by which the State Government (Land Acquisition Collector, Department of Industries) was liable to pay the interest for the period for which the references were sent to the Court, resulted in injudicious payment of Rs. 3.78 crore.

The matter was referred to the Government/Management in March 2008; their reply had not been received (September 2008).

Punjab Venture Capital Limited

4.7 Doubtful recovery

Release of financial assistance to a unit ignoring the recommendations of IMC was tantamount to undue favour to the unit with consequential doubtful recovery of Rs. 55.53 lakh.

The main objectives of the Company are to provide venture capital/seed capital/promoters capital to the existing/proposed industrial enterprises. Investment Management Committee (IMC) of the Company, meant for examining the investment proposals initially, recommended (April 2001) that before equity participation in M/s S.M. lawdigest.com Limited (unit), the promoters should demonstrate the *modus operandi* to bridge the gap of Rs. 25 lakh. Though, the promoters had not tapped any specific sources to meet the gap, the Company, ignoring the recommendations of IMC, approved (June 2001) and invested (July – August 2001) Rs. 20 lakh in equity shares of the unit for setting up a law portal at Jalandhar at a projected cost of Rs. 88.61 lakh with the stipulation that the unit

would purchase the shareholding of Punjab Infotech Venture Fund♠ (PIVF) in two equal instalments at the end of the fourth and fifth year. The subscription agreement provided that in the event of the unit's failure to secure the listing of its equity shares on the stock exchange for any reason whatsoever, within 48 months from date of first allotment of shares, the Company was entitled to call upon the promoters to buy back its shares at a strike price♣. Further, the unit was also to provide security against the amount of subscription by way of hypothecation of all present and future fixed assets of the unit to the company.

Since the promoters failed to mobilise funds to meet the shortfall in resources for completing the project, they approached the Company for term loan (Rs. 10 lakh) against State subsidy sanctioned to the unit by the Directorate of Industries & Commerce, Punjab. The subsidy was, however, to be disbursed subject to availability of funds and on seniority provided the unit was found in working condition/ in operation at the time of disbursement. Audit observed, though the unit had already failed to meet the gap as per its proposal submitted in May 2001, the Company released (December 2003) a term loan of Rs. 10 lakh to the unit against state subsidy which was to be disbursed at a later unspecified date and against deposit of post dated cheques.

When the cost of the project increased to Rs. 2 crore due to broadening of the scope/contents, the unit once again approached (February 2004) the Company for additional funding of Rs. 68 lakh, IMC observed (April 2004) that the unit's demand for additional funds was not acceptable. However, the Company again ignoring the recommendations of IMC, sanctioned Rs. 15 lakh (August 2004) towards equity participation and Rs. 25 lakhs (April 2005) towards additional term loan.

Audit further observed that the unit could not purchase the share holding of the PIVF by July 2006, the stipulated date. The unit was continuously incurring losses for the three financial years ending March 2006 and had eroded its equity of Rupees one crore. As on 31 March 2008, a sum of Rs. 55.53 lakh was outstanding against the unit. Whereas, the present (31 March 2008) depreciated value of fixed assets purchased upto 31 March 2006 was Rs. 40.05 lakh including data processing machines valuing Rs. 18.54 lakh. However, the realisable value of these depreciated assets could not be ascertained in audit. Apparently, the assets hypotheticated with the Company were inadequate. The unit could not clear its dues inspite of extensions granted by the Company time and again upto 30 September 2007. No action was initiated against the unit i.e., to take over the Management of unit or sell it to a third party at the risk and cost of the promoters as per terms and conditions of agreement to recover its dues.

♠ A Rs 200 million, ten year closed ended venture capital fund dedicated to IT sector promoted by Punjab Government (Small industries Development Bank of India as the major contributor), with PVCL as its Assets Management Company.

♣ price determined on the basis of a fair valuation of the Company's shares arrived at by an independent valuer appointed for the purpose or face value at which the investment has been made by the Company plus 20 *per cent* annual compounded appreciation for the period minus dividends, if any, paid during the intervening period, whichever is higher.

Thus, release of equity contribution, bridge loan, additional short term loan without verifying the status / seniority of payment of state subsidy by the State Government, that too by ignoring the recommendations of IMC was tantamount to undue favour to the unit with consequential doubtful recovery of Rs. 55.53[♦] lakh.

The Management stated (June 2008) that IMC had given its concurrence to the decisions of BOD by taking note of the decisions of BOD in its subsequent meetings and that the final decision with respect to retrieving of investment made from the PIVF will be taken in the joint meeting of Board of directors and IMC in its next meeting. The reply is not tenable as mere taking note of decisions of BOD by IMC can not be termed as its concurrence.

The matter was referred to the Government in October 2007, its reply had not been received (September 2008).

Punjab Information and Communication Technology Corporation Limited

4.8 Favour to the allottee

Failure of the Company to resume plot of an allottee who did not implement the project even after a long period of 25 years amounted to favour to the allottee and resulted in loss of Rs. 43.89 lakh.

The Company allotted (November 1978) an industrial plot measuring 1,000 square yards at SAS Nagar, Mohali to an allottee on 99 years lease for the manufacture of electronic equipment, component and raw material etc. The lease deed executed, *inter alia,* provided that the lessee was not to transfer his rights in the site for a period of 15 years, complete the building within two years and to show positive evidence of steps taken for placing orders for machinery etc., within six months from the date of allotment. In the event of default or breach of any terms and conditions of allotment, the Company was to cancel the lease, take back the possession of the site and the entire amount paid by the lessee was to be forfeited.

The allottee did not implement the project and the Company cancelled (November 1982) the allotment of the plot. The allottee approached (May 1983) the Court and the Arbitrator reversed (October 1986) the order of cancellation of allotment subject to the condition that the allottee would construct the factory building and put the unit to operation within a period of one year. However, the allottee failed to implement the project and the Company cancelled (June 1991) the allotment of the plot. The allottee once again approached (December 1993) the Company for restoration of the plot as it wanted to launch a new product and the plot was restored (March 1994). Though, the allottee did not implement the project, no action was taken against him except issue (June 1997)

[♦] As on 31.03.2008 Rs. 55.53 lakh(equity contribution of Rs. 20 lakh excluding interest , bridge loan 16.78 lakh including interest,18.75 lakh short term loan) was due for repayment.

of a show cause notice for breach of conditions of lease deed. After a lapse of more than six years the allottee through his general power of attorney (GPA) sought (December 2003) transfer of plot in favour of another person and the Company allowed (December 2003) the same by receiving transfer fee of Rs. 3,200 only. Although, the project was not implemented within the stipulated period of two years, the plot was transferred (July 2006) in favour of another firm.

Audit observed that since the allottee had not implemented the project even after more than 25 years from its allotment, it was liable to be cancelled and resumed when the allottee had approached the Company for its transfer in December 2003 through GPA. However, allowing its transfer amounted to favour to the allottee which resulted in loss of revenue of Rs. 43.89 lakh[♣] to the Company.

The Management stated (May 2008) that the allottee could not go into production at this plot inspite of best efforts, the resumption of plot would have led to prolonged litigation. It was also stated that the loss at the rates prevailing on the date of transfer was Rs. 9.16 lakh only and not Rs. 43.89 lakh as worked out by audit. Reply is not tenable as the allottee could not implement the project as per the terms and conditions of the lease deed even after a period of 25 years although he was allowed extension time and again. Further, the contention of the Company regarding the loss was not tenable as the Company, instead of allowing transfer of land, should have cancelled the allotment in terms of lease agreement and resorted to sale at the prevailing market rate.

The matter was referred to the Government in January 2008; its reply had not been received (September 2008).

Punjab State Container and Warehousing Corporation Limited

4.9 Loss due to unwarranted extension of bank guarantee

Extension of bank guarantee despite exemption granted to the Public Sector Undertakings from furnishing the same, resulted in loss of Rs. 36.15 lakh by way of bank charges and payment of higher rates of interest on loans obtained.

The Company set up (June 1999) a Container Freight Station (CFS) at Navi Mumbai for handling transport containers containing the exported/imported goods. Among other conditions to be fulfilled for the start of CFS, the Company was required to furnish to the Custom Department a continuity bond based on the traffic projections of the containers to be handled from the port and a bank guarantee (BG) equivalent to 20 *per cent* value of the continuity bond.

Accordingly, the Company furnished (July 1999) BG of Rs. 1.20 crore to the Custom Department which was extended from time to time upto June 2007. This guarantee was to be returned within 15 days from the date it ceased to be in force

[♣] Reserve price at the rate of Rs. 4,500 square yards less Rs. 1.11 lakh transfer/extension fee received from the allottee.

otherwise it was deemed to be automatically cancelled. Due to increased turnover, the amount of BG was enhanced (June 2006) to Rs. 7.50 crore. In the meantime, Government of India, Ministry of Finance and Company Affairs (GOI) exempted (April 2003) all Central Government and State Government Undertakings from the requirement of furnishing BG.

Audit noticed that though the GOI had exempted all Central Government and State Government Undertakings from the requirement of furnishing BG, the Company continued to extend the BG from May 2003 to June 2007. To obtain the BG from the bank, the Company was required to keep the funds in the fixed deposits (FDs) as margin money besides payment of other requisite charges to the bank for the issue of BG. On the other hand, the Company had obtained loans from the banks at higher rate of interest than the interest earned on FDs. Thus, due to keeping funds in FDs, the Company suffered loss of interest of Rs. 27.53 lakh[♦] during June 2003[♣] to December 2007. Besides, the Company had also paid Rs. 8.62 lakh as bank charges for obtaining BG from the banks during the aforesaid period.

Thus, failure to take cognizance of the *ibid* decision of the GOI had put the Company to a loss of Rs. 36.15 lakh due to injudicious furnishing of BG to the Custom Department.

The Management admitted (April 2008) the facts.

The above matter was referred to the Government in February 2008; its reply had not been received (September 2008).

Punjab Land Development and Reclamation Corporation Limited

4.10 Undue favour to a private party

Failure of the Company to lease the land at prevailing market lease rent and insist upon the lease rent of Rs. 8,000 per acre subsequently when the lease was revised resulted in loss of Rs. 27 lakh.

Field Fresh Food Private Limited (firm) through Financial Commissioner, Development, Punjab expressed (March 2005) interest in lease of land identified by it at Ladhowal for the purpose of setting up state of the art model farm and Research and Development centre at a nominal lease rent of Rupee one per acre per annum. Financial Commissioner, Development, Punjab asked the Company (March 2005) to report the reasonable rate (being a non commercial project) at which the land could be given to the firm on lease. The Company, after visiting the site and consulting revenue authorities reported the rate of Rs. 8,000 to 10,000 per annum and arbitrarily proposed to give the land at the rate of Rs. 5,000 per

[♦] Difference of interest paid to the banks on loans availed and interest received on FDs prepared for issue of BG as these FDs were not released by the Company from the bank (December 2007).
[♣] After giving margin of one month from the exemption given by GOI.

acre per annum. The State Government of its own framed (May 2005) terms and conditions regarding handing over of 300 acres of land at Ladhowal on lease basis to the firm at the rate of Rs. 2,000 per acre per annum initially for a period of four years renewable after every four years and sent (May 2005) it to the Company. Accordingly the Board of Directors ratified (May 2005) the leasing of land. Audit observed that at the time of ratification, the Board of Directors neither insisted for the project report for non commercial use of land nor for minimum prevailing rate of Rs. 8,000 per acre per annum. It was further observed in Audit that the company did not conduct any post-lease inspection of site to ensure non-commercial use of the land leased to the firm. The lease was subsequently revised (December 2006) to 33 years with an increase of five *per cent* in lease rent after four years period for the balance extended period.

Thus, failure of the Company to lease initially at the prevailing minimum market lease rent coupled with its inaction to insist for a minimum rent of Rs. 8,000 at the time of revision of agreement especially when there was an offer of Rs. 16,000 per acre per annum for lease of similar land in same location put the Company to a loss of Rs. 27 lakh[♣] for the period from January 2007 to June 2008. The loss would further increase during the remaining lease period.

The Management stated (July 2008) that the said land was lying barren and uncultivable for many years. The reply is not tenable as the Company at time of intimating the lease rate of land to the Punjab Government had mentioned the condition of only 25-30 acres of land as uncultivable in its present form.

The matter was referred to the Government in October 2007; its reply had not been received (September 2008).

Statutory corporations

Punjab State Electricity Board

4.11 Generation loss

Failure of the Board to repair its spare runner for use in case of emergency alongwith delay in placing order for the repair of damaged runner resulted in generation loss of Rs. 10.96 crore.

Power House (PH) I, Stage I of the Upper Bari Doab Canal (UBDC) Hydel project was shut down on 7 September 2006 after observing excessive vibration. PH authorities during joint inspection (22 September 2006) conducted alongwith engineers of Bharat Heavy Electricals Limited (BHEL) noticed that a portion of a blade of runner was cut off and drained out in the water. BHEL offered (25 September 2006) to overhaul and repair the runner assembly at a cost Rs. 1.39 crore. After taking (3 October 2006) revised offer, a detailed job order for overhauling including repair of runner of UBDC (PH-I) Stage –I was issued to

[♣] Calculated w.e.f. January 2007 to June 2008 at the rate of Rs. 6,000 (8,000-2,000) per acre per annum for 300 acre.

BHEL on 6 December 2006 for Rs. 1.38 crore after a delay of more than two months. As per the job order, BHEL was to repair the runner within 130 days from the commencement of work♠ i.e. upto 30 April 2007. The unit was, however, re-commissioned on 2 July 2007 after a delay of 62 days from the scheduled date of recommissioning.

Audit observed that an identical spare runner though available with the Board at PH 3, stage I was also not completely repaired for utilisation as its 20 *per cent* repair work was left incomplete since 1994-95 without any reasons on record. The Board had not taken any action to get it completely repaired for keeping it ready for emergency use. Had the balance 20 *per cent* repair work was got done as per offer of BHEL, this spare runner had been repaired timely at a cost of Rs. 78 lakh and it could have been used in emergency situation and the generation loss of 445.07 lakh units valued at Rs. 10.96 crore suffered during 21 December 2006♣ to 1 July 2007 could have been avoided.

The Board in its reply stated (April 2008) that the spare runner had developed porosities on the total area of the blades. If the runner had been repaired and fitted at PH-I stage –I, it might not have withstood the stresses and it was apprehended that blades may have developed some serious defects and abnormalities which may have led to adverse effect on turbine, generator shaft and allied equipments as a result of which there could have been huge generation loss. The reply is not correct as engineers of BHEL during the joint inspection (30 April 2008) recommended to shift the spare runner to the works/ancillary for dismantling and detailed inspection for deciding the scope of repair. The Board had not taken concrete action to get it transported to BHEL works for repairs or procuring a new one during 1995-96 when cost was Rs. 1.64 crore (cost of which is now Rs. 6 crore) for keeping it spare as was kept for stage II for emergency use. Moreover, as a prudent spares management practice, an entity engaged in generation of electricity should have spare runner because of its strategic importance to power generation plant.

The matter was referred to the Government in January 2008; its reply had not been received (September 2008).

4.12 Loss due to inadequate power factor surcharge

Fixation of inadequate power factor surcharge recoverable from the consumers resulted in loss of Rs. 26.31 lakh to the Board.

The monthly average power factor (PF) is the ratio expressed as percentage of total power consumption (KWH)♠ recorded to total power supplied (KVAH)[f]

♠ As per job order the date of commencement of work was to be reckoned 15 days from the date of job order.

♣ After allowing 90 days margin required for replacement of defective runner with the spare one (as intimated by Resident Engineer UBDC).

♠ Kilowatt Hour.

[f] Kilovolt Ampere per Hour.

during the month. The tariff adopted by the Board for Medium Supply (MS), Large Supply (LS) and railway traction provides for billing on KWH basis plus penalty for low power factor. The Board in its tariff policy (April 2005) provided for levy of power factor surcharge in respect of MS, LS and Railway Traction at the rate of one *per cent* on consumption charges for each 0.01 fall in power factor below 0.90 and up to 0.80 and two *per cent* for each 0.01 fall in power factor below 0.80 applicable with effect from July 2005.

Audit scrutiny of the energy bills of LS consumers in centralised billing cell, Ludhiana revealed that though the Board provided for the surcharge for low power factor but rates of PF surcharge were inadequate as in most of the cases, the Board was not being compensated for the 90 *per cent* of the KVAH units supplied to the consumers whose PF was lower than 90 *per cent*. It was observed in audit that with the same KVAH consumption, the consumers with low power factor, even after levy of PF surcharge were paying less than the consumers with PF of 90 *per cent*[•]. During July 2005- March 2007, the Board suffered loss of Rs. 26.31 lakh due to inadequate PF surcharge levied. Thus, by not adopting adequate PF surcharge, the Board had to bear extra burden of Rs. 26.31 lakh on inefficient consumers having low power factor.

The Management stated (March 2008) that the Board is charging tariff as decided by Punjab State Electricity Regulatory Commission (PSERC). Reply is not tenable as Board itself proposed these limits of PF penalties in tariff petition for FY 2004-05 to which PSERC agreed and passed the tariff order. Thus, Board was not able to protect its financial interest by not pursuing and proposing PF penalties which could compensate it for inadequate power factor.

The matter was referred to Government in January 2008; its reply had not been received (September 2008).

4.13 Avoidable loss

Non verification of facts by the Board regarding type of connection required to be sanctioned and sanctioning permanent connection bearing lower tariff instead of temporary connection resulted in loss of Rs. 16.02 lakh to the Board.

Electricity Supply Regulation No. 9.1.1 issued (March 1999) by the Board provides for temporary supply of electricity to the consumers in case of temporary needs. Since the tariff of temporary connections is higher than the permanent connections so as to safeguard the interests of the Board, these regulations provide that the Assistant Engineer/Assistant Executive Engineers/Executive Engineer (Operation) in doubtful cases, particularly Domestic Supply (DS) and Non Residential Supply (NRS), should ascertain that the application for the

[•] For example an efficient consumer who achieves PF of 0.90(90 KWH/100 KVAH) was paying Sale of Power of Rs. 335(90x3.72) with tariff rate of Rs. 3.72 per KWH whereas an inefficient consumer who achieved PF of 0.80 (80 KWH/100 KVAH) paid SOP Rs. 328(298+10 % x 298) only indicating inadequate compensation to the extent of seven Rupees.

permanent connection is genuine, the consumer would not ordinarily get the supply disconnected after a short period, the wiring of the installation has been designed for permanent application for a permanent connection and not for evading higher charges.

A consumer♣, engaged in plant construction work, instead of applying for temporary connection for plant construction activities, applied (August 2003) for regular NRS connection. Audit noticed that although the consumer, itself a power generation company, was likely to disconnect electricity connection after the completion of construction of the plant, the Board failed to verify as to whether the connection to be sanctioned should be temporary or permanent and released the consumer a regular NRS connection of 10.83 KW in September 2003. The sanctioned load was subsequently increased to 90 KW up to January 2004 as per demand requirements. In August 2004, the connection of the consumer was checked by Additional Superintending Engineer (Enforcement), Batala and found that the connection was being utilised for plant construction work, dewatering, etc. for which higher tariff applicable to temporary connections was leviable. Resultantly, Assistant Executive Engineer (Operations), Tibber issued a notice (August 2004) to the consumer for depositing Rs. 9.61 lakh. The consumer did not deposit the amount and instead approached (October 2004) Dispute Settlement Authority (DSA). The DSA while deciding the case though admitted (October 2005) that there was negligence on the part of the concerned officials/officers of the Board in releasing the load, it allowed only 10.83 KW as temporary load and allowed balance load of 79.17 as regular load under NRS category without assigning any reasons. Accordingly, the Sub Division Office waived off (March 2006) Rs.15.71 lakh. After commissioning (October 2006) of power generation by its own plant, the consumer got its electricity connection permanently disconnected (December 2006).

Audit observed that the consumer itself was a power generation company and the Board's authorities should have foreseen that the consumer would not require any permanent electricity connection after commissioning of its own plant. The Board authorities failed to defend its case properly in DSA by highlighting the nature of project and future power requirements of consumer.

Thus, non verification of the facts by the Board regarding the type of connection required to be sanctioned and sanctioning permanent connection instead of temporary connection resulted in loss of Rs. 16.02 lakh♥ to the Board for which no responsibility had been fixed by the Board.

The Board while admitting the facts stated (December 2007) that the disciplinary proceedings against the delinquents had been initiated.

The matter was referred to the Government in May 2007; its reply had not been received (September 2008).

♣ Gill Power Generation Company (P) Limited, Gurdaspur.

♥ Differential tarrif (including surcharge) on the total consumption of the consumer on balance load of 79.17 KW.

4.14 Avoidable payment

Allowing payment of five *per cent* of the basic pay in lieu of rent free accommodation, in addition to normal house rent allowance, to the employees who did not opt for allotment of quarters of the Board resulted in avoidable payment of Rs.13.46 lakh.

The instructions (May 1989) of the Board provide that the employees of the Board entitled to rent free accommodation, in case they were not provided/ allotted such accommodation, were to be allowed payment of five *per cent* of the basic pay in addition to the normal house rent allowance (HRA).

Audit noticed that there were 448 houses/quarters of various types available in four colonies of Upper Bari Doab Canal (UBDC) project, Malikpur during April 2004 - March 2008 out of which 212 houses/quarters remained vacant. However, during the above period though entitled type of houses/quarters were available for the employees ranging between 3 and 109, they did not opt for allotment of these houses/quarters as they had their own accommodation arrangements. The Board, instead of allotting the available housing accommodation to the employees, allowed these employees the payment of five *per cent* of their basic pay in addition to the normal house rent allowance. This resulted in avoidable payment of Rs. 13.46 lakh.

The Board stated (October 2007) that the quarters remained vacant as after the completion of civil works of UBDC project its 150 employees were either posted elsewhere or promoted or retired. Further, most of the employees had constructed their own houses. The reply is not tenable because as per the instructions of the Board five *per cent* additional payment was to be made to the employees only if the Board was unable to allot them quarters and not if employees did not require quarters.

The matter was referred to the Government in October 2007; its reply had not been received (September 2008).

4.15 Embezzlement of funds

Deployment of a lower division clerk (LDC) as cashier inspite of his previous record of involvement in the embezzlement, resulted in further embezzlement of Board's funds of Rs. 12.06 lakh.

Commercial Accounting System of the Board provides that where the billing is computerised but cash is not received through Registrex Machine, a cash receipt (RO – 4) is required to be made and its original copy is to be handed over to the consumer. The amount collected through RO – 4 is required to be entered in the Consumer Cash Receipt (CCR) Book.

A lower division clerk (LDC) while working as cashier under Sub Division, Arniwala was chargesheeted (May 2000) and an FIR was also lodged (October 2001) against him for embezzlement of cash (Rs. 1.32 lakh). He was suspended

(August 2002) after his arrest in the above case but was reinstated (October 2002) as LDC and not as cashier. Even though the case was still pending in the Court and the embezzled amount remained unrecovered, he was again deployed (September 2004) as cashier in the City Sub Division, Malout. While working in City Sub Division Malout, he was issued (March 2006) a chargesheet for issuing a fake cash receipt (May 2005) amounting to Rs. 1706 to a consumer. Although, the consumer complained in this regard to the concerned authorities through newspaper yet the Board neither transferred him from the sensitive seat nor took any other precautionary measure to avoid recurrence of such instances. Further, during August - October 2006, he embezzled Board's money by collecting cash of energy bills from the consumers without issuing RO-4 (as there was no Registrex machine in use) as acknowledgement of receipt of cash thereagainst, not entering the cash collected in the CCR Book and destroying cash stubs. The embezzlement came to notice when the consumers complained that despite making payment of energy bills on due dates, the amount of pending bills alongwith surcharge was being demanded from them as arrear in the subsequent bill. The delinquent employee was placed under suspension in November 2006 and an FIR was lodged with the police (January 2007). The embezzled amount was subsequently assessed at Rs. 12.06 lakh. The employee was issued chargesheet in May 2007. Further developments were awaited.

Audit observed that despite availability of adequate staff with the Sub Division to handle the work of cashier, knowledge of his earlier involvement in an embezzlement case and the fact that he was issued a charge sheet in March 2006 for issuing a fake receipt, the Board authorities neither transferred the cashier nor took any other precautionary measure that facilitated embezzlement of Rs.12.06 lakh.

Thus, non-following of the approved system of internal control coupled with lack of supervision on the activities of the cashier with dubious credentials facilitated the embezzlement.

The Board while admitting the above facts stated (April 2008) that Sub Divisional Officer, City Sub Division, Malout had been held responsible and a show cause notice had been issued against him (November 2007). Final action against the official and the employee was awaited (April 2008).

The matter was referred to the Government in April 2007; its reply had not been received (September 2008).

4.16 Loss of interest due to blockage of funds

Despite disputed land, the Board continued acquisition proceedings and deposited Rs. 45.27 lakh thereagainst. Subsequently, the Board had to withdraw acquisition proceedings which resulted in loss of interest of Rs. 10.95 lakh on blocked amount.

The Board approved the construction of 220 KV Sub Station Landran at village Jhanjeri, Ropar under Accelerated Power Development Programme (APDP)

scheme and directed (January 2002) the Land Acquisition Collector of the Board for acquisition of 60 kanal of land as per rules and regulations of the State Government.

Scrutiny of records revealed that out of land measuring 60 kanals, 49 kanals 18 marla earmarked for acquisition was Panchyat Shamlat Deh (common land of the village Jhanjeri) which was of two types, i.e., Chahi (Irrigated) and Barani (unirrigated). The cost per acre of 8 kanals-Chahi and 52 kanals-Barani land was fixed by the District Collector at Rs. 4.25 lakh and 4 lakh, respectively. It was, however, noticed in Audit that the said land was under dispute and court case was pending between Panchyat and other members of the village and the khewatdars[♣] of the village Jhanjeri had served (January 2003) legal notice to the Secretary and Land Acquisition Collector of the Board stating that the above mentioned land belonged to them and not to the Panchyat. Despite this, the Board continued the acquisition proceedings and took the possession of the land on 26 June 2003 by depositing (22 May 2003) Rs. 24.32 lakh into the treasury as the land owners refused to receive the payment. Meanwhile, landowners approached the High Court and got (February 2004) stay orders regarding dispossession of land. The appeal filed by the Board in this regard was rejected (May 2004) by the High Court. The balance payment of Rs. 20.95 lakh (including interest of Rs. 1.21 lakh) was also deposited (20 August 2004) by the Board in the Government Treasury. The Board, finally decided (January 2006) to drop the acquisition of the above mentioned land and to install (May 2006) 220 KV Sub Station at Mohali instead of at Landran (Village Jhanjeri). The payment of Rs. 45.27 lakh was got refunded (28 August 2006) from the Government Treasury.

Instead of making payment of Rs. 24.32 lakh, had the Board changed its plans for construction of the Sub Station Landran at Jhanjeri immediately after the fact of land being under dispute came to its notice (January 2003) and did not further deposit (August 2004) Rs. 20.95 lakh after its appeal was rejected (May 2004), blockage of Rs. 45.27 lakh and consequential loss of interest of Rs. 10.95 lakh[*] could be avoided.

The matter was referred to the Government/Board in December 2006; their replies had not been received (September 2008).

[♣] Co-owners of the said land.

[*] Worked out at 9 *per cent rate of interest* from 22 May 2003 to 28 August 2006 on Rs.24.32 lakh and from 20 August 2004 to 28 August 2006 on Rs. 20.95 lakh.

Punjab State Warehousing Corporation

4.17 Loss of rental income

Construction of godown at Chenarthal instead of at Sirhind for Food Corporation of India (FCI), under seven year guarantee scheme deprived the Corporation of rental income of Rs. 7.20 crore.

To meet with the requirement of Food Corporation of India (FCI), the Board of Directors of the Corporation approved (December 2000) the proposal for additional construction programme under seven year guaranteed utilisation scheme. This programme included construction of covered capacity of 40,000 Metric Tonne (MT) at Sirhind by 30 April 2001 under the scheme. As per the scheme, FCI was to pay storage charges for full capacity of the godowns irrespective of actual storage. The guarantee would expire on 31 December 2008 irrespective of the date of taking over of the godowns by FCI.

The Corporation intimated FCI that capacity of 40,000 MT at Sirhind would be completed by April 2001. However, the Corporation without obtaining FCI's prior approval completed the construction of godowns of 39,300 MT capacity at Chenarthal at a cost of Rs. 4.50 crore in June 2001. District Manager (DM), Fatehgarh Sahib of the Corporation, in whose jurisdiction the godowns were constructed, intimated (June 2001) DM, FCI, Patiala that the construction of godowns under seven year guarantee scheme for the FCI had been completed and requested to conduct the inspection of these godowns. FCI did not conduct inspection of the godowns and intimated (July 2001) the Corporation that it had placed its requirement of covered capacity of 40,000 MT godowns at Sirhind and the Corporation had never disclosed that the covered space was being constructed at Chenarthal instead of at Sirhind. FCI declined (July 2001) to take over the godowns at Chenarthal under seven year guarantee scheme. Instead, it agreed to utilise the capacity of these godowns on actual utilisation basis and make payment accordingly.

Thus, construction of godowns at Chenarthal instead of at Sirhind without obtaining prior approval of FCI under seven year guarantee scheme deprived the Corporation of rental income of Rs. 7.20 crore during 2001-07 (after adjusting actual rent received on the utilisation of these godowns). The Corporation did not fix the responsibility for injudicious construction of godowns at Chenarthal instead of at Sirhind as per requirements of FCI which resulted in above loss.

The matter was referred to the Government/management in October 2007; their reply had not been received (September 2008).

4.18 Doubtful recovery

The Corporation allowed lifting of stock of wheat and rice for export without obtaining adequate letters of credit and bank guarantees, amounting to favour to the Associate which led to recovery of Rs. 3.88 crore being doubtful.

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

After inviting tenders, the Corporation entered (October 2002) into a Memorandum of Understanding (MOU) with M.K. International Limited, New Delhi (Associate) and signed eight agreements (under the MOU) between October 2002 and March 2004 with Associate for export of one lakh MT and 0.56 lakh MT of wheat and rice, respectively.

As per MOU/agreements the Associate was to:

- identify the overseas buyers and secure export contract in the name of the Corporation at negotiated international market price and obtain letter of credit (LC) from the foreign buyer to the value of goods to be exported.
- furnish performance bank guarantee (BG) equivalent to Rs. 500 per MT for wheat and rice in favour of the Corporation for ensuring fulfilment of obligations under the agreement and

The BG was to be retained by the Corporation till completion of export and submission of necessary documents relating to the export by the Associate. On receipt of documents, the Corporation was required to send the same to the bank alongwith LC for negotiation and after receipt of payment from the bank, the Corporation was to remit the balance amount to the Associate after deducting cost of cargo, service charges and all other charges borne by the Corporation.

Audit noticed that the Corporation included the clause in the agreement which required the Associate to establish LC in favour of the Corporation upon 100 *per cent* cargo readiness for shipment. The Associate lifted 51,530.10 MT and 77,172.66 MT of rice and wheat, respectively from December 2002 to September 2003, out of which the Corporation allowed the Associate to lift 30,190.10 MT of rice and 29,422.66 MT of wheat without furnishing the LC. The BG furnished was also for only Rs. 40.37 lakh against required Rs.6.44 crore (for rice Rs. 2.58 crore and for wheat Rs. 3.86 crore) and there was shortfall of BGs amounting to Rs. 6.04 crore. The Associate failed to make due payments, which worked out to Rs. 3.88 crore as on 31 March 2006. The Corporation invoked (April 2007) the Arbitration clause and filed the application in the High Court for appointment of the arbitrator which was got appointed (February 2008) from the Punjab and Haryana High Court. First arbitral hearing was scheduled for 12 July 2008.

Thus, failure of the Corporation to obtain adequate security in the form of LCs and BGs as per the terms of agreement before allowing the Associate to lift the stock amounted to favour to the Associate and resulted in doubtful recovery of Rs. 3.88 crore. Responsibility for the lapse has not been fixed.

The Management, while admitting the facts stated (February 2008) that major portion of amount recoverable related to variation on account of revision of quarterly rates by FCI, interest and other miscellaneous charges. The reply is not tenable as the major portion includes Rs. 2.08 crore on account of export price of goods exported and the Corporation had not explained the reasons for issue of stocks without obtaining sufficient LCs and BGs.

The matter was referred to the Government in October 2007; its reply had not been received (September 2008).

4.19 Disposal of damaged wheat under Open Market Sale Scheme

4.19.1 The State Government entrusted (1993) the Corporation the activity of procurement of foodgrains under the Minimum Support Price (MSP) along with other procurement agencies in the State to be delivered to the Food Corporation of India (FCI) for central pool.

FCI on the instructions of the Government of India (GOI) was resorting to sale of wheat at predetermined rates in the open market under Open Market Sale Scheme (OMSS) from time to time to achieve mainly the following objectives:

- to enhance the supply of foodgrains especially during the lean season so as to have a healthy impact on the open market prices; and
- to offload the excess stocks in the central pool so as to reduce the carrying cost of foodgrains and to save the foodgrains from deterioration in quality.

The stock of foodgrains which exceeds the specifications, i.e., extent of damaged grains (six *per cent*), foreign element (three *per cent*), weevilled grains (10 *per cent*), etc., prescribed for foodgrains fit for human consumption is to be termed as damaged foodgrains. Such stocks are required to be disposed of for purposes other than human consumption by offering the same to the State owned departments or agencies thereunder, without entering into trade channel. If such stocks still remain unsold then the same are to be sold through open tenders to the parties registered with FCI after obtaining undertaking that the stocks would not be diverted to the purposes other than for which these were purchased. The GOI authorised (July 2003) the State Government/procuring agencies to liquidate over three year old stocks relating to crop years upto 2000-01 under OMSS and later on it authorised (February 2005) the State Government/procuring agencies to dispose of damaged wheat for the crop year upto 2003-04.

Categorisation of damaged wheat stocks

4.19.2 All the procuring agencies in the State in association with FCI staff identified (January 2004) 4.21 lakh MT as non-issuable stock against total available wheat stock of 12.11 lakh MT available with all the procuring agencies

in the State. Out of this, non-issuable stock pertaining to the Corporation was 1.10 lakh MT. After reviewing the position of disposal of wheat stocks under OMSS in the State, the GOI decided (February 2004) that the State Government would set up technical committees for appropriate categorisation of damaged wheat and dispose of the entire stocks by 31 March 2004 through open tenders. It further clarified that no carry over charges[@] beyond 31 March 2004 would be admissible to procuring agencies in the State.

FCI was to reimburse to the Corporation, difference of economic price[K] of wheat and OMSS price fixed crop year wise. However, regarding reimbursement of difference of OMSS price and sale price of downgraded stocks, decision was to be taken by GOI after examining the justification based on requisite details submitted by the State procuring agencies/State Government.

During categorisation of wheat stock held by the Corporation, the quantity of damaged wheat increased from 1.10 lakh MT (January 2004) to 1.54 lakh MT (crop years 1995-96 to 2000-01) up to January 2005. Evidently, the Corporation could not save Fair Average Quality (FAQ) of its stock from deterioration by proper upkeep. Further, the wheat stocks 0.26 lakh MT for the crop years 2001-05 were also damaged and categorised up to February 2006. No quantity of stock of foodgrains after the crop year 2004-05 had been declared as damaged by the Corporation (April 2008).

The details of total stock of wheat of the Corporation categorised as non-issuable, quantity offered through tenders and quantity lifted as on April 2008 was as under:

(Quantity in Metric Tonnes)

Sr. No.	Crop year	Quantity categorised as non issuable	Quantity released through tenders.	Total gross weight lifted through tenders.	Net weight of stock released.	Shortage in weight as per net weight	Shortage as a *per cent* of total damaged stock
1	**2**	**3**	**4**	**5**	**6**	**7 = 3-6**	**8=7/3**
1	1995-96	848	848	639	630	218	26
2	1997-98	818	818	667	658	160	20
3	1998-99	10,846	10,846	8,255	8,177	2,669	25
4	1999-2000	91,594	91,538	72,789	71,712	19,882	22
5	2000-01	49,925	49,925	42,109	41,377	8,548	17
6	2001-02	10,255	10,255	4,931	4,796	5,459	53
7	2002-03	12,020	11,661	7,795	7,645	4,375	36
8	2003-04	3,571	3,571	2,521	2,446	1,125	31
9	2004-05	73	73	75	74	- 1	-
	G.Total	**1,79,950**	**1,79,535**	**1,39,781**	**1,37,515**	**42,435**	**-**

Source: Data supplied by the Corporation.

[@] It represents storage charges and interest cost.

[K] rates at which good wheat is delivered to FCI.

The Management in its reply (August 2008) had not intimated the reasons for increase in quantity of damaged wheat from 1.10 lakh MT to 1.54 lakh MT upto crop year 2000-01 thus admitting the contention of audit of further deterioration of stocks due to improper upkeep. The Management had admitted that the stocks were damaged due to negligence of field staff, storing of stocks in the open plinth/katcha ground, shortage of covered space and due to negligible movement of stocks out of State. The reply is not tenable as the Corporation had failed to get the old stocks liquidated as per FIFO principle. Audit's contention is further supplemented by the fact that the Senior Regional Manager, FCI in a meeting (28 March 2005) pointed out that it was the responsibility of the State Government to offload the old stocks first, but, this was not done by the procuring agencies.

The Corporation disposed of 1.80 lakh MT of damaged wheat stocks by floating three tenders (March 2004, May 2004 and February 2006). The shortcomings noticed during test check by Audit of records of seven district offices[♣](out of 13 district offices) in the disposal of damaged wheat are discussed in the succeeding paragraphs**:**

Non offering of damaged stocks to the State Government Departments/Agencies

4.19.3 The damaged wheat stocks were not offered to the State Government departments/agencies, before selling to private parties through open tenders, on the plea that the stocks proposed to be disposed of were held by all State procuring agencies and wide publicity had been given to attract maximum number of buyers including the State Government agencies. The Decision Making Committee (DMC)[∝] accepted (March 2004) this plea and did not insist on offering these stocks specifically to the State Government departments/ agencies. Since these stocks were to be used by the State Government departments, i.e., Animal Husbandry, Municipal Corporation etc. and not by State procuring agencies, the Decision Making Committee should have insisted for specifically offering the stocks to these departments before allowing its sale through open tenders. This would have avoided the chances of diversion of damaged stocks by private parties for human consumption.

The Management stated (August 2008) that it was decided unanimously in the meeting of Inter Departmental Monitoring Implementation Committee to dispose off the stocks to bulk buyers registered with FCI and accordingly the disposal of stocks was made by following transparent procedure by inviting short term notice in the leading news papers. It was further stated that adequate care was taken to ensure that the damaged stocks were not diverted for human consumption. The reply is not tenable as the disposal of stocks was made in violation of directives of the GOI which clearly stated that the stocks were to be offered to the State owned departments or agencies thereunder without entering into trade channel. Besides, the Management did not produce documentary evidence in support of its

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[♣] Bathinda, Jalandhar, Kapurthala, Moga, Muktsar, Patiala and Sangrur.

[∝] Comprising Principal Secretary, Food and Supply Department, Senior Regional Manager, FCI and Managing Directors of all the procuring agencies in the State.

contention of taking care of utilisation of damaged stock not for human consumption.

Loss due to lower fixation of reserve price

4.19.4 A High Level Committee under the Chairmanship of Food & Civil Supplies Minister, Punjab decided (February 2004) to initially dispose off 25 *per cent* of the identified stock of non-issuable wheat (1.10 lakh MT) procured during procurement season[♠] of crop years 1995-96 to 2000-01 after its proper categorisation through FCI. Accordingly, tenders for disposal of 0.30 lakh MT of damaged wheat were invited and opened (March 2004). The DMC after scrutinising the offers decided (March 2004) that stocks should not be sold at rates less than Rs.3,500 per MT for Feed I (Group I[Π]) and Rs.3,400 per MT for all remaining categories (Group II). Keeping in view the above decision, the Corporation floated (27 May 2004) a tender for disposal of 3.79 lakh MT damaged wheat stocks (including Corporation's stock of 1.22 lakh MT, Group-I 0.46 lakh MT and Group-II 0.76 lakh MT pertaining to crop years 1997- 2001) held by all the procuring agencies of the State by fixing reserve price of Rs. 3,500 and Rs. 3,400 per MT for Group I and II stocks, respectively. The Inter–Departmental Monitoring and Implementation Committee decided (June 2004) to sell these stocks to Lakshmi Overseas Industries Limited, Chandigarh, the highest bidder at Rs.3,830 and Rs.3,512.50 per MT for Group I and Group II stocks, respectively.

Audit, however, observed that the fixation of reserve price of Rs. 3,500 per MT of Feed I stock (having 89.50 *per cent* average sound grain contents) was on lower side as compared to reserve price of Rs.3,400 of Group II (having average sound grains of 64.53 *per cent*). Even on the basis of reserve price fixation formula of GOI, the reserve price of Feed I was to be 103 *per cent* higher than the reserve price of Group II whereas the actual reserve price of Group I fixed was just three *per cent* higher than that of Group II. Based on sound grain contents of Group II and reserve price thereof, the reserve price of Group I category worked out to Rs. 4,715.60[Z] per MT. Due to fixation of lower reserve price not based on sound grain contents, the Corporation was deprived of the additional revenue.

The Management stated (August 2008) that the reserve price was fixed by the Decision Making Committee (DMC) comprising of Principal Secretary, Food and Supplies Department, Senior Regional Manger FCI and Managing Director of all the procurement agencies of the State and the former had implemented the decision of the DMC only. The reply is not tenable as the Corporation did not

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[♠] Procurement season is from April to June.

[Π] Group I consists of Feed -I (containing 85 to 94 *per cent* sound grains) category only while Group II consists of Feed-II (70 to less than 85 *per cent* sound grains), Feed-III (55 to less than 70 *per cent*), Industrial use (30 to less than 55 *per cent*) and Manure use (10 to less than 30 *per cent*) category.

[Z] Rs. 3,400/64.53 x 89.5 = Rs. 4,715.60.

secure its financial interest and could not get the reserve price fixed from the DMC based on sound contents of wheat contained in Group I category stocks.

Acceptance of lesser deposits against release order

Loss of interest of Rs. 25.17 lakh due to acceptance of lesser amount against release order.

4.19.5 The terms of the sale order issued to the party against tender invited in May 2004 provided that an amount (Rs.6.65 crore) equal to the cost of the minimum quantity of 15 *per cent* of total stocks against each release order (value Rs.44.32 crore) be deposited by the firm before issue of release order. The release orders were, however, issued to the party after accepting lesser amounts ranging between Rs.2.13 crore and Rs.6.12 crore in six out of seven lots during June–August 2004, resulting in loss of interest of Rs.25.17 [ό] lakh to the Corporation and undue favour to the party.

Delayed raising of differential claims

Delayed raising of differential claims on FCI resulted in interest loss of Rs. 50.22 lakh.

4.19.6 After the sale of damaged wheat under OMSS, the Corporation was to claim differential amount from the FCI, but the Corporation had not fixed the time limit for raising the differential claims on FCI after lifting of stock. A test check of records of seven district offices revealed that there was delay in raising of claims ranging between one and 244 days[ƒ] causing loss of interest of Rs. 50.22 lakh[Ω]. The Corporation had not analysed the reasons for delayed raising of claims.

The Management stated (August 2008) that as per instructions of FCI (February 2004), some time is taken for the completion of formalities to submit the claims of damaged wheat. It was also stated that the DM had been advised to raise the claims of interest with their counter part in FCI in all such cases wherever the payment had been delayed. The reply is not tenable as the Corporation had not devised any timeframe after taking into account time required for completion of formalities and there was delay upto 244 days which was computed after allowing a margin of seven days.

Non raising of interest claims

4.19.7 FCI instructions (December 1970) provide for payment of sale bills of wheat to the procuring agencies within 24 hours of presentation. Director, Food, Civil Supplies & Consumer Affairs, Punjab conveyed (December 2001) results of meeting with Joint Secretary, GOI in which it was clearly apprised that FCI was liable to pay interest at the bank rates in case of delay in release of payments beyond the prescribed period.

[ό] Worked out at the rate of 9.10 *per cent* per annum, the minimum CC rate.

[ƒ] Computed after allowing a margin of seven days from lifting of stock of a particular lot.

[Ω] Worked out at the rate of 9.10 *per cent* minimum CC rate of interest prevailing during April 2004 to April 2008.

Non recovery of Rs. 12.38 lakh on account of non lodging of interest claims with FCI.

A test check of records of seven district offices revealed that payments of differential claims were delayed by FCI ranging between one and 186 days after excluding the prescribed period. The Corporation had not lodged interest claims with the FCI resulting in non recovery of interest of Rs. 12.38 lakh for the period from May 2004 to February 2008.

The Management stated (August 2008) that as per instructions of FCI (February 2004), some time is taken for the completion of formalities to submit the claims of damaged wheat. It was stated that the payment of differential claims of damaged wheat could not be compared with those relating to delivery of wheat in ordinary manner. It was also stated that the DM had been advised to raise the claims of interest in all such cases where the FCI released the payment beyond 72 hours. The reply is not tenable as FCI had fixed time limit after taking into account all factors required for completion of formalities.

Shortage of wheat stocks

4.19.8 Due to improper upkeep of wheat stock over long period, it is obvious that not only quality will deteriorate, but shortage may also occur due to weight loss, pilferage and exposure to pests.

There were shortages of wheat stocks involving financial loss of Rs. 55.52 crore but the Corporation failed to take final action against the delinquent officials.

In the disposal of 1.80 lakh MT of damaged wheat, the Corporation noticed shortages of 0.42 lakh MT of stocks. The shortages ranged between 17 per cent and 53 *per cent*. Further, audit scrutiny of records of seven district offices of the Corporation revealed that during disposal of 1.17 lakh MT of damaged wheat during 2004-05 & 2006-07, 62 cases of shortages of 21,842.785 MT of damaged wheat involving financial loss of Rs. 55.52 crore were noticed and the shortages ranged upto 48.40 *per cent.* The Management did not analyse the reasons for shortages of wheat stock. Thus, the chances of pilferage cannot be ruled out. Out of 62 cases of shortages, scrutiny of 33 cases involving financial loss of Rs. 25 lakh or more in each case revealed that the Corporation issued (July 2005 to June 2007) recovery orders amounting to Rs. 24.37 crore against 31 officials, out of which, an amount of Rs. 4.72 lakh only was recovered from five officials so far (March 2008). The deficiencies noticed in audit were as under*:*

a) In four cases, the Corporation had filed recovery suits against the delinquent officials for recovery of Rs. 6.70 crore because the Corporation could not effect recovery from their salaries as the officials had already been drawing minimum carry home salary; and

b) In other four cases, the Corporation had not initiated action against the erring officials for the recovery of Rs. 5.25 crore.

c) While issuing recovery orders on account of shortages against erring officials for the disposal (May 2004) of damaged stocks, the shortages were worked out at warehouse price instead of economic cost. The value of stocks as per warehousing receipts were lower than the economic cost of the stocks. It resulted in under estimating the recoverable amount by Rs. 25.94 crore from the delinquent officials.

The Management stated (August 2008) that wheat stocks were not damaged due to improper measures taken to maintain good condition of stocks and non following the FIFO method of delivery to FCI. The stocks were damaged due to their storage in open plinths/katcha ground level etc due to scarcity of covered vacant space. Further, the negligible movement of stocks out of the State resulted in accumulation over the years which consequently got affected due to weather vagaries etc. As regards status of cases pointed out in audit, it was stated that either court cases filed by the Corporation were in progress or in the process of being filing against the delinquent officials for effecting recovery. As regards audit query of projecting the under recovery of Rs. 25.94 crore on delinquent officials the Management stated that the financial loss had been worked out by the concerned DM on the basis of warehouse receipts price and subsequently, FCI had reimbursed differential amount (economic value minus OMSS value) and thus there was no less projecting of the recoverable amount on account of shortages from the officials. The reply is not tenable as the stocks were not moved on FIFO basis as a result of which the health of stocks deteriorated. Moreover, the recovery orders were issued (in case of disposal of damaged wheat during March and May 2004) on the basis of warehouse receipt price thus deflating the amount recoverable from delinquent officials.

Other topics of interest

Non monitoring of utilisation of disposal of damaged wheat

4.19.9 The Director, Food, Civil Supplies and Consumer Affairs, Punjab directed (June 2004) the Corporation to obtain a disposal plan for lifting of the damaged wheat stock from the parties lifting the stock along with an undertaking that these stocks would not be diverted/ sold for human consumption. Two parties[♣] lifted (June 2004 to April 2008) total quantity of 1.31 lakh MT of damaged wheat stock against total release orders for 1.64 lakh MT. While lifting the stock, the parties, however, did not submit the disposal plans which were mandatory. Both the parties stated (September 2004 and February 2008 respectively) that the stocks (1.31 lakh MT) were used strictly for the purpose as identified in the RO. In view of the fact that the successful bidders were not capable to use the entire lifted stock itself (its manufacturing capacity being 14,400 MT & 9,125 MT per annum respectively), the proof for disposal of the damaged stock and its utilisation by a subsequent buyer was essential.

The Management stated (August 2008) that the observation/issues raised in audit were by and large observed by the PSWC and noted for future compliance. The reply was not tenable in view of the fact that these were not observed by the Corporation. Had the Corporation observed the instructions issued by the GOI in regard to disposal of stocks there would not have been such deficiencies/irregularities.

[♣]Laxmi Oversees Industries Limited and Bajaj Rice Mills Jalalabad.

To sum up

- **The Corporation failed to get the old stock liquidated as per FIFO principle to avoid further deterioration of stock.**
- **The damaged wheat stocks were not offered to State Government departments/agencies before selling to private parties to avoid chances of diversion of damaged stock for human consumption.**
- **The Corporation did not fix the reserve price of damaged stock based on the sound grain contents.**
- **No time frame for raising differential claims on FCI was fixed.**

The above matter was referred to the Government in May 2008; its reply had not been received (September 2008).

Punjab Financial Corporation

4.20 Excess EPF contribution

Failure to limit employer's contribution towards employees' provident fund as prescribed in the Employees' Provident Fund Scheme, 1952 resulted in excess contribution of Rs. 1.59 crore.

The Corporation was managing the provident fund of its employees as per the rules framed by it under the State Financial Corporations Act (SFCs Act), 1951. From 1 January 2004, the Management, however, repealed the Punjab Financial Corporation (PFC) Employees Provident Fund Regulations framed under the SFCs Act and the amount of the Provident Fund accumulated upto 1 January 2004 was transferred to the Regional Provident Fund Commissioner. As such, the Corporation came under the Employees' Provident Fund (EPF) Scheme, 1952 from that date.

Para 29(1) of the EPF Scheme provides that the contribution payable by an employer under the Scheme shall be 12 *per cent* of the basic wages, dearness allowance and retaining allowance payable to each employee. Para 26A(2) of the Scheme further provides that where the monthly pay of an employee exceeds Rs. 6,500, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of Rs. 6,500. Accordingly, all Public Sector Undertakings covered under the Scheme were required to restrict their contribution to the prescribed limit.

During scrutiny of records of the Corporation for the period from January 2004 to March 2008, it was observed in audit that the Corporation had been contributing employer's share at the rate of 12 *per cent* of the pay without applying the prescribed limit of Rs. 6,500 in contravention of the provisions of the Scheme, *ibid*. This resulted in excess contribution of Rs.1.59 crore towards employees share to Provident Fund during January 2004 and March 2008 by the Corporation.

The Management stated (March 2008) that under its Provident Fund Rule 12, no employer to which scheme applies can reduce the wages of any employee or the total quantum of benefits to which the employee is entitled under the terms of his appointment. Further, Assistant commissioner of EPF, Chandigarh had granted (February 2008) permission for EPF contribution of full emoluments from January 2004. The reply is not tenable as under Para 26(6), the permission to contribute EPF in excess of the limit of 12 *per cent* of Rs.6,500 could be granted to employees only and not to the employers. Further, under the EPF scheme, the Corporation was under no obligation to pay contribution more than 12 *per cent* of Rs. 6,500. As the Corporation was incurring losses since 1997-98 and having accumulated losses of Rs. 266.47 crore (as on 31 March 2007), it was not financially prudent to contribute in excess of the requirement under the rules.

The matter was referred to the Government in January 2008; its reply had not been received (September 2008).

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).

Audit Reports for the years 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 featuring 121 paragraphs/reviews relating to PSUs under 13 departments were placed in the State Legislature on the dates as indicated in the following table. No replies in respect of 51 paras/reviews have been received from eight departments of the State Government by 30 September 2008.

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.
2002-03	June 2004	23	2
2003-04	March 2005	22	5
2004-05	March 2006	23	10
2005-06	March 2007	28	11
2006-07	March 2008	25	23
Total		**121**	**51**

Department-wise analysis is given in ***Annexure 10***. The departments largely responsible for non-submission of detailed notes were Power, Food and Supplies, Agriculture and Industries. The Government did not respond to important reviews highlighting delay in taking action against defaulting millers/loanees, recovery of timber from standing trees, performance of workshops, power sector reforms, loss in sale of damaged wheat and allowing one time settlement to profit making units.

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

4.21.2 As per rule 25 of the Internal Working Rules of COPU, Punjab Legislative assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of the PSU within six months from the date of placement of Report of COPU in the State Legislature. Replies to 15 paragraphs pertaining to the 84th and 85th Reports of the COPU presented to the State Legislature had not been received (September 2008). These Reports contained 15 recommendations in respect of paragraphs pertaining to Public distribution, Agriculture, Industries and Finance departments which appeared in Audit Reports for 1997-98 to 2002-03.

Action taken on the persistent irregularities

4.21.3 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 11 and 12*** respectively.

Government Companies

Irregularities having financial implication of Rs. 70.45 crore (Punjab Agro Industries Corporation Limited/Punjab Agro Foodgrains Corporation Limited- (PAIC/PAFCL)), Rs. 93.11 crore (Punjab State Industrial Development Corporation Limited-PSIDC) and Rs. 2.23 crore (Punjab State Civil Supplies Corporation Limited-PUNSUP) were included in the Reports of Comptroller and Auditor General of India for the years 2000-01 to 2006-07 (Commercial) - Government of Punjab. These include Rs. 61.77 crore, Rs. 79.35 crore and

Rs. 2.23 crore in respect of PAIC/PAFCL, PSIDC and PUNSUP respectively, already mentioned in para 4.21.2 of Audit Report (Commercial) 2006-07. These irregularities had been persisting for periods ranging between four 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 11*** .

Statutory Corporations

Various irregularities having financial implication of Rs.184.71 crore (Punjab State Electricity Board) including Rs.184.47 crore in respect of persistent irregularities mentioned in Para 4.21.2 of Audit Report (Commercial) 2006-07 were included in the Reports of Comptroller and Auditor General of India (Commercial) - Government of Punjab for the year 2001-02 to 2006-07. These irregularities were persisting for periods ranging between four 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 12***.

The matter was referred to Government/Management in April 2008; their replies had not been received (September 2008).

Response to Inspection Reports, Draft Paras and Reviews

4.21.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads 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 2008 revealed that 3,132 paragraphs relating to 1,105 Inspection Reports pertaining to 38 PSUs were outstanding at the end of 30 September 2008. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2008 is given in ***Annexure 13.***

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. However, 21 draft paragraphs (including two long draft paragraphs) and three draft performance reviews forwarded to the various departments during January 2008 to May 2008 as detailed in ***Annexure 14*** had not been replied so far (September 2008).

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
The

(R.P. Singh)
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Countersigned

NEW DELHI
The

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