

Chapter III

3. Transaction audit observations

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

Government companies

Punjab Agro Foodgrains Corporation Limited

3.1 Loss due to improper maintenance of quality of wheat

The Company suffered a loss of Rs. 6.45 crore on the disposal of wheat damaged due to improper maintenance and failure of the Company to upgrade the damaged wheat.

The Company procures wheat for Central Pool and delivers it to the Food Corporation of India (FCI). Godown incharge of the Company was to maintain the health of stock of wheat till its delivery. District Manager (DM) of the Company was to inspect every storage centre at least twice a month and to send monthly report regarding condition of stocks to the Company's head office.

A scrutiny of records of the district office, Kapurthala of the Company revealed that 83,968 quintal wheat of crop year 1999-2000 was stored in kachcha and open plinths at Phagwara centre. The district office intimated (October 1999 onwards) regularly to the Company's head office that bottom layers of wheat had been affected by moisture and needed early disposal. The Company, however, did not take action for its disposal or avoiding its further deterioration. The Company delivered 60,668 quintal wheat to FCI up to January 2000. The balance 23,300 quintal wheat, being damaged could not be delivered to FCI.

Further, the Company stored 1,09,522 quintal wheat for the crop year 2000-01 on open plinth. The DM reiterated (May 2001) the damaged condition of wheat for the crop year 1999-2000. He also pointed out that due to improper maintenance by the Plinth Incharge 85,665 quintal wheat for the crop year 2000-01 was also damaged and needed immediate upgradation[#], segregation and fumigation. The

[#]Upgradation is the process of mixing good quality foodgrains with the damaged foodgrains to bring it to the level of acceptable norms.

Company did not take any action to save the wheat. The Company could deliver only 13,883 quintal wheat to FCI (up to December 2001). The balance stock of 71,782 quintal wheat could not be delivered to FCI. Thus, 95,082 quintal wheat for the crop years (1999-2001), remained undelivered to FCI.

The Company disposed of (March to October 2003) 81,713 quintal damaged wheat valuing Rs. 8.73 crore for Rs. 3.71 crore leaving a shortage of 13,369 quintals valuing Rs. 1.43 crore, resulting in loss of Rs. 6.45 crore. The Company issued (October 2001) charge sheet to the Plinth Incharge for damage of wheat due to his carelessness in case of wheat for the crop year 1999-2001 and appointed (June 2002), an Inquiry Officer for the loss of wheat. Final action was, however, awaited (July 2004).

The management/Government stated (June/ August 2004) that the Plinth Incharge was under suspension and responsibility for the shortage was being fixed.

3.2 Loss of interest due to delay in raising bills

Delay in raising bills on Food Corporation of India on account of cost of gunny bags and depreciation thereon resulted in loss of interest of Rs. 32.50 lakh.

The Company procures paddy from mandis and delivers rice to Food Corporation of India (FCI) after getting paddy milled from the millers. The Company claims its dues from FCI on the basis of rates fixed by Government of India (GOI). For kharif season 2001-02, GOI approved (November 2001) provisional rates of rice, gunny bags and depreciation on gunny bags for recovery from FCI when paddy was packed in 75 kg bags and rice delivered in 50 kg bags. GOI also fixed in June 2002 (received by the Company on 10 July 2002) rates of gunny bags and depreciation thereon when paddy and rice both were packed in 75 kg bags.

A test check of records of three[#] district offices of the Company for the kharif season 2001-02 revealed that the Company had also used 75 kg bags both for paddy and rice but in the absence of rates, the claims for these bags and depreciation thereon were not raised while claiming cost of rice from FCI. The Company, however, after receipt of rates of June 2002, failed to raise bills on FCI for depreciation and cost of gunny bags promptly. The Company raised bills varying from Rs. 1.79 lakh to Rs. 1.79 crore during September 2002 to July 2003 after a delay ranging between 68 and 375 days. Delay in raising bills resulted in avoidable loss of interest of Rs. 32.50 lakh[@] (worked out, after allowing one month for preparation of bills).

The management/Government stated (July/August 2004) that the bills were

[#] Amritsar, Jalandhar and Ludhiana

[@] Calculated at minimum interest rate of 11.05 per cent paid by the Company on cash credit during the period

raised in July 2002 but FCI district offices did not accept the same as the instructions from their Regional Office were not received by them. Even after receipt of instructions in August 2002, bills were not accepted on the plea that bills of all procuring agencies would be considered simultaneously.

Reply was not tenable as the similar claims raised (August 2002) by district offices of the Company at Sangrur and Patiala were accepted by FCI.

Punjab State Industrial Development Corporation Limited

3.3 Loss due to imprudent one time settlement policy

One time settlement policy introduced by the State Government was deficient because financial health of a unit was not considered for covering it under the policy. As a result, allowing one time settlement to a profit making unit resulted in loss of Rs. 3.37 crore.

The Company entered (December 1995) into a financial collaboration agreement (FCA) with a collaborator* for setting up a Sterile Antibiotics Bulk Drugs Unit in the name of Surya Medicare Limited. As per terms of FCA, the collaborator was bound to buy back the shareholding of the Company in the unit with interest at which the unit had availed loan from financial institutions after the expiry of five years from the date of commencement of commercial production. In case of failure of the collaborator to buy back the shares, the Company was entitled to appoint its nominee director as Managing Director of the unit or to sell its shareholding at the risk and cost of the collaborator.

The Company released Rs. 3.33 crore during January - July 1996 towards equity of the unit. The unit started commercial production on 9 April 1997. Thus buy back of Company's shareholding by collaborator became due from 9 April 2002.

The collaborator failed to buy back Company's shareholding on the ground that the profits earned were re-ploughed into business leaving no fund with promoters for buy back. Despite that, the Company did not take any action available under FCA to appoint its nominee as Managing Director or to sell its shareholding at the risk and cost of the collaborator. The Company received Rs. 95 lakh towards buy back of equity shares from May 2002 to March 2003 against the due amount of Rs. 7.27 crore as on 9 April 2002.

The State Government introduced (March 2003) one time settlement (OTS) under Industrial Policy 2003 for facilitating buy back of shares by collaborators. Accordingly, the Company offered (April 2003) OTS to the collaborator also. The collaborator accepted (April 2003) the offer and paid Rs. 5.48 crore by 30 April 2003 under OTS as against dues of Rs. 8.85 crore (principal: Rs. 3.33 crore and interest: Rs. 5.52 crore) as per terms of FCA.

* Shri Sanjeev Goyal

Audit observed that OTS policy introduced by the Government lacked financial prudence because it had laid no criterion (based on the performance/working results of the unit) to judge the genuineness of default. In its absence, no distinction was made between wilful and genuine defaulters for availing OTS. In the said case, the unit was earning profit since going into commercial production and its total profit after tax during 1997-2002 was Rs. 22.66 crore. Thus, imprudent OTS policy resulted, not only in loss of Rs.3.37 crore to the Company but also encouraged collaborators to default in their commitment for availing undue benefit under OTS.

The management stated (May 2004) that OTS policy was applicable to all the units irrespective of their status and was announced by the State Government under the Industrial Policy 2003 and the Company only implemented the policy.

The reply was not tenable as the Company neither took action available under FCA to force the unit to buy back the shareholding of the Company nor pursued the matter with the State Government for not covering profit making units in the OTS policy.

The matter was referred to Government in April 2004; reply had not been received (September 2004).

3.4 Favour to a loanee

Acceptance of unit's proposal for one time settlement (OTS), which was different from the OTS policy approved by the Board of Directors in the same meeting, resulted in loss of Rs. 26.15 lakh to the Company.

The Company sanctioned (April 1998) a term loan of Rs.2.50 crore (increased to Rs. 4 crore in March 1999) to Kamesh Bhargava Hospital and Research Centre Private Limited, Mohali (unit) for setting up a multi-speciality hospital at Mohali. The Company disbursed the loan of rupees four crore during March 1999 to January 2000. The repayments of interest and principal were to commence from July 1999 and October 2000, respectively.

The unit defaulted in payment of interest (Rs. 34.90 lakh) from July 2000 and of repayment of principal (Rs. 30.50 lakh) from October 2000. Even after rescheduling of principal and deferment of payment of interest, the unit continued to make default. The Company asked (January 2003) the unit to pay the default amount of Rs. 3.05 crore (principal: Rs. 1.23 crore and interest: Rs. 1.82 crore) by 31 January 2003.

Instead of making payment, the unit submitted in March 2003 a proposal of OTS and offered to pay Rs.4.82 crore (principal: Rs. 4 crore and Rs. 82.29 lakh towards 60 *per cent* of simple interest) within 60 days of acceptance of proposal. Although no OTS policy of the Company was operative, yet the Company accepted (March 2003) the proposal of the unit. The unit paid the agreed amount in April 2003.

Audit observed that in the same meeting where unit's proposal of OTS was accepted, the Board of Directors had approved an OTS policy as per the guidelines of Reserve Bank of India. Under the approved OTS policy, Rs. 5.08 crore was recoverable from the unit as against Rs. 4.82 crore actually recovered.

The action of the Company in accepting proposal of the unit with lesser settlement in comparison with the OTS policy approved on the same date amounted to favour to the unit and resulted in loss of Rs. 26.15 lakh.

The management stated (August 2004) that the OTS proposal of the unit was accepted by the Board of Directors and the unit remitted the OTS dues within the stipulated time.

The reply was not tenable because acceptance of unit's proposal of OTS in the same meeting where new OTS policy with higher yield was approved was indicative of favour to the unit.

The matter was referred to the Government in January 2004; reply had not been received (September 2004).

3.5 Loss on transfer of shares under one time settlement policy

The Company allowed one time settlement to a unit under new policy effective from a prospective date and adjusted the dues already received towards buy back of shares prior to announcement of new policy. This resulted in loss of Rs. 15.72 lakh.

The Company made (1997-98) equity contribution of Rs. 25 lakh to Parabolic Drugs Limited (unit) for setting up a project to manufacture drugs at Derabassi in Patiala district under its direct subscription scheme. The promoter of the unit was to buy back the shares held by the Company in three stages, i.e., in February 2003 (Rs.8.30 lakh), February 2004 (Rs.8.30 lakh) and February 2005 (Rs.8.40 lakh) with 18.5 *per cent* compound interest.

The promoter opted (January 2002) for prevailing one time settlement (OTS) scheme of the Company and agreed (February 2002) to buy back equity of Rs. 25 lakh prematurely with interest in equal monthly instalments during April-December 2002. The Company accepted nine post dated cheques of Rs. 6.04 lakh each towards liquidation of equity contribution. The promoter honoured the cheques for Rs. 24.16 lakh up to October 2002 towards buy back of shares and replaced five earlier cheques with new cheques payable from 30 November 2002 to 22 March 2003. The Company realised only Rs. 36.24 lakh from the promoter up to March 2003. Remaining cheques of Rs. 18.12 lakh were dishonoured.

In March 2003, State Government announced new OTS policy for buy back of equity shares to be implemented by the Company from April 2003 whereunder simple interest of 10 *per cent* was to be recovered on the equity held by the Company. The promoter claimed (May 2003) that since the shares had not been transferred to him against amount already received, he was eligible to

buyback the shares under new OTS policy and gave cheque of Rs. 2.40 lakh towards full and final settlement of dues. The Company accepted (June 2003) the plea of the promoter and allowed him to buy back all the shares under new policy.

As the promoter had already opted for buy back of shares and had bound itself by giving cheques for the total amount, transfer of shares under new policy lacked justification. Had the Company transferred the shares under earlier commitment of the promoter, it could have realised Rs. 54.36 lakh as against Rs. 38.64 lakh actually realised and thus avoided loss of Rs. 15.72 lakh.

The management stated (January 2004) that the promoter was covered under new policy because the shares had not been transferred to the promoter.

The reply was not tenable as the promoter was bound to buy back the shares under earlier commitment before announcement of new policy.

The matter was referred to Government in December 2003; reply had not been received (September 2004).

Punjab Agro Industries Corporation Limited

3.6 Avoidable payment of interest

Keeping the fund in fixed deposits instead of depositing in cash credit account to avoid payment of higher rate of interest on cash credit resulted in loss of Rs. 33.63 lakh.

The Company procures wheat and paddy from mandis and delivers the same (resultant rice in case of paddy) to Food Corporation of India in Central Pool at the price fixed by Government of India. The procurement of wheat and paddy is financed through cash credit availed of from State Bank of India. During June 2002 to August 2003, the interest rate on cash credit ranged between 11.05 and 11.40 *per cent*. All payments for procurement activities were made from cash credit account and all the realisation of sale proceeds of foodgrains were to be deposited in cash credit account.

Audit observed that out of sale proceeds of foodgrains, the Company deposited (June 2002) Rs. 25 crore in fixed deposits (FDRs) with Bank of Punjab for 12 months at interest rate of 8.60 *per cent* instead of depositing the same in cash credit account to avoid payment of higher rate of interest. In August 2002, the Company withdrew Rs. 16.80 crore from the fixed deposit account and reinvested (August 2002) Rs. 2.97 crore in fixed deposits with HDFC Bank at interest of 7.5 *per cent* for 12 months and encashed the same in August 2003. There was no justification available on record for pre-mature encashment (August 2002) of fixed deposits and reinvestment in the same month with other bank at lower rate.

The Company earned interest of Rs. 57.72 lakh by keeping the amount in fixed deposits during June-December 2002 against interest of Rs. 91.35 lakh paid on cash credit equal to the amount of FDRs during the same period. This resulted in avoidable payment of interest of Rs. 33.63 lakh.

The management stated (May and June 2004) that decision (June 2002) of keeping Rs. 25 crore in fixed deposit out of sale proceeds of foodgrains was taken in the light of transferring foodgrains and marketing activities from the Company to a newly formed subsidiary company. Further, the Company was not preparing activity-wise account and each activity was funded through a common pool of fund received by the Company from different sources. The management further stated (September 2004) that the fund drawn pertained to the Company only and had been rightly withdrawn in phases.

The reply was not tenable as the Company was operating the foodgrain activity till December 2002 and it was more prudent for it to liquidate higher interest bearing cash credit instead of keeping the fund in fixed deposits.

The matter was referred to Government in February 2004; reply had not been received (September 2004).

Punjab Small Industries and Export Corporation Limited

3.7 Loss due to delayed assessment of demand for plots

Drawal of excess loan on unrealistic assessment of demand for plots by ignoring Government's directions for fresh survey resulted in loss of Rs. 17.81 lakh due to extra payment of interest.

Based on demand survey (May 1995) to develop industrial focal point at Amritsar, the Company initiated (September 1998 to April 1999) process for purchase of 319.89 acres of land through Collector Land Acquisition (CLA)-Industries Department. The Company got sanctioned (July 2000) a loan of Rs. 35 crore at 12.5 *per cent* from Small Industries Development Bank of India (SIDBI) on payment (June 2000) of upfront fee of Rs. 17.50 lakh.

Loan was sanctioned on the condition of providing Government guarantee by the Company. Before giving guarantee, the Government asked the Company to get the demand of plots reassessed through fresh survey or by calling application money of 10 *per cent* on cost of plot as against rupees two per square yard already obtained at the time of demand survey. The Company, instead of conducting fresh survey or obtaining 10 *per cent* application money, apprised (December 2000) the Government that Amritsar being a popular focal point had tremendous scope for industrial development.

State Government issued (March 2001) provisional guarantee with the condition that final guarantee would be issued on receipt of information about the adequate demand for plots. The Company received 214 applications up to 5 April 2001 against 985 plots in response to advertisement of 25 February 2001.

In the meantime, without waiting for public response, the Company requested (28 March 2001) SIDBI to release Rs. 17.50 crore. SIDBI released the loan on 31 March 2001 after obtaining provisional guarantee from Government. The Company paid (30 March 2001) guarantee fee of Rs. 35 lakh at 2 *per cent* to Government and also deposited (April 2001) Rs. 29.08 crore (including Rs. 11.58 crore from own sources) with CLA for acquisition of land.

Due to receipt of poor response, the Company retained 184 acres out of 314.27 acres land and remaining 130.27 acres of land was got denotified in May 2001. Keeping in view immediate requirement, the Company refunded Rs. 6.50 crore to SIDBI in June 2001.

Thus, due to drawal of excess loan on unrealistic assessment of demand for plots, the Company suffered a loss of Rs. 17.81 lakh^s due to extra payment of interest.

The management stated (July 2004) that the Bureau of Public Enterprises desired in December 2000 that fresh demand survey be carried out. So, advertisement for fresh survey was issued on 25 February 2001; closing date for which was extended up to 5 April 2001 due to receipt of inadequate demand. Incidentally, as last date for deposit of fund with the CLA was also 5 April 2001, the fund were availed from SIDBI on 31 March 2001.

Management's reply was not tenable as the advertisement for demand survey could have been issued much earlier to assess the actual demand by the time the fund were to be actually availed to avoid the loss of interest.

The matter was referred to Government in May 2004; reply had not been received (September 2004).

Punjab Agro Industries Corporation Limited, Punjab State Industrial Development Corporation Limited and Punjab Communications Limited

3.8 Excess EPF contribution

Failure of the companies to limit employer's contribution towards employees provident fund as prescribed in the Employees' Provident Fund Scheme, 1952 resulted in excess contribution of Rs. 1.84 crore.

Para 29(1) of the Employees' Provident Fund Scheme, 1952 provides that the

^s Worked out on Rs. 6.50 crore at 12.5 *per cent* for the period from 1 April to 19 June 2001 (80 days).

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 26 A (2) of the Scheme further provides that where the monthly pay of an employee exceeds Rs. 6,500 (Rs. 5,000 up to May 2001), the contribution payable by the employer shall be limited to the amount payable on a monthly pay of Rs. 5,000 or Rs. 6,500 as the case may be. Section 29(2) of the Scheme also provides that the contribution payable by an employee to whom the Scheme applies, if he so desires, could be an amount exceeding the above limit subject to the condition that employer shall not be under an obligation to pay contribution over and above the amount of contribution payable under the Scheme. Accordingly, all Public Sector Undertakings covered under the Scheme were to restrict their contribution to the prescribed limit.

Test check of records of three companies for March 2001 to September 2003 revealed that these companies contributed employer's share at the rate of 12 *per cent* of the pay without limiting to the prescribed limit of Rs. 5,000 or Rs. 6,500 in contravention of the provisions of the Scheme, *ibid*. This resulted in excess contribution of Rs. 1.84 crore, as detailed below:

Sl. No.	Name of the Company	Period of payment	Excess contribution (Rs. in lakh)
1	Punjab Agro Industries Corporation Limited (PAIC)	March 2001 to February 2003	69.33
2	Punjab State Industrial Development Corporation Limited (PSIDC)	June 2001 to September 2003	19.90
3	Punjab Communications Limited (PCL)	June 2001 to September 2003	94.48
Total			183.71

PAIC/Government stated (June/August 2004) that contribution beyond mandatory limit was got approved from the Board of Directors of the Company. The reply was not tenable as the Company had failed to follow the provisions of EPF scheme.

PSIDC stated (September 2004) that under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the employees not covered under the Scheme could also become members of the Scheme on a joint request to the concerned authority wherefor the employer's contribution would be 12 *per cent* without limit. However, the Company failed to produce any record relating to joint request.

For PSIDC and PCL, the matter was referred to companies/Government in December 2003 and April 2004, respectively; replies of PCL and Government had not been received (September 2004).

**Punjab Poultry Development Corporation Limited and
Punjab State Industrial Development Corporation Limited**

**3.9 Implementation of Voluntary Retirement Scheme by State
Government companies**

The State Government framed the Punjab State Renewal Fund Rules, 1993 (Renewal Fund Rules) for restructuring the State Public Sector Undertakings (PSUs). These rules remained operative till introduction (February 2003) of Voluntary Retirement Scheme (VRS) by the State Government for State PSUs. The State Renewal Fund created under these Rules was to be funded by assistance from Government of India, contributions by the State Government as per budget, annual contribution by State PSUs, as determined by State Government and proceeds from disinvestment/winding up of PSUs. The compensation admissible under the rules consisted of three months pay in lieu of notice period, six months gross salary, retrenchment compensation at 15 days salary for each completed year of continuous service, admissible leave encashment and gratuity.

In supersession of these Rules, Directorate of Disinvestment under the Finance Department of the State Government issued (February 2003) more liberal Voluntary Retirement Scheme (VRS) for implementation by the PSUs. The benefits payable under the scheme consisted of 35 days salary for each completed year of service, 25 days salary for each year of balance service and payment of admissible leave encashment and gratuity.

Audit observed that two[@] Government companies implemented Renewal Fund Rules, six[§] companies implemented the VRS and one* company had introduced (December 2001) its own VRS.

Audit observed delay/ non-release of fund leading to avoidable payment of idle salary, over payment of notice period pay, non-stipulation of condition in the scheme leading to avoidable expenditure and extra payment of terminal benefits in two Government companies, as discussed in the succeeding paragraphs.

Punjab Poultry Development Corporation Limited

Avoidable payment of salary due to non release of fund

3.9.1 The Company introduced (December 1996) Golden Handshake Scheme (GHS) under Renewal Fund Rules, 1993. But under GHS, the Company did not retrench/ retire any employee till April 1999. The Company declared all its 157 employees surplus and sent (May 1999) a proposal to Government seeking fund of Rs. 1.92 crore for terminal benefits for 63 employees. The Government did not release the fund. The Company again sent (September

[@] Punjab Poultry Development Corporation Limited and Punjab State Seeds Corporation Limited.

[§] Punjab Communications Limited, Punjab Recorders Limited, Punjab State Small Industries and Export Corporation Limited, Punjab Tourism Development Corporation Limited, Punjab Digital Industrial Systems Limited and Punjab Information and Communication Technology Corporation Limited

* Punjab State Industrial Development Corporation Limited

2001) a revised proposal seeking Rs.4.24 crore (Rs.2.48 crore terminal benefits to 76 employees who opted for the scheme and Rs.1.76 crore for retrenchment compensation to 71 employees who did not opt for the scheme).

The Government released (January 2002) payment towards terminal benefits for 76 employees after it decided (November 2001) to wind up the Company. So, the Company paid the terminal benefits to 73* employees relieved from service during January -February 2002. On receipt (December 2002) of additional fund from State Government, the Company paid terminal benefits to 12 employees (who opted for GHS in February 2002) in January 2003.

Retention of 57 employees without any productive work resulted in salary liability of Rs. 40.90 lakh.

The remaining 57** employees were still (July 2004) continuing with the Company without any productive work. The last activity of the Company was closed since July 2003. Continuance of employees even after closure of its activities resulted in avoidable liability of salary of Rs. 40.90 lakh (excluding the salary of four officials on deputation with another PSU) during August 2003 to July 2004.

The Government stated (September 2004) that Finance Department would release the balance payment on account of terminal benefits to the employees after sale of certain assets of the Company at Kharar and Gurdaspur, the process for which was underway. The Finance Department, however, had been requested to delink the case from sale of assets so as to save the monthly recurring liability.

Overpayment of notice period pay

3.9.2 Audit observed that terminal benefits paid to 77 out of 85 employees included Rs. 12.49 lakh towards three months pay in lieu of notice period. Since options from these employees were obtained much in advance of their actual termination of services, they were not entitled for notice period pay. Thus, there was an overpayment of Rs. 12.49 lakh.

Avoidable expenditure on implementation of scheme

3.9.3 The GHS introduced by the Company in 1996 was applicable to employees who had rendered at least five years service and their remaining service was not less than five years. The Company, however, declared (April 1999) all the employees surplus. The benefits under GHS were made applicable to all the employees without analysing its financial implications.

The Company paid terminal benefits in excess of salary for remaining service.

As the benefits under GHS were in addition to normal retirement benefits, total outgo under the scheme should not exceed the salary payable to an employee for the remaining period of service. Audit observed that out of 85 employees given retirement under GHS, eight employees having less than two years of balance service were also allowed terminal benefits of Rs. 14.82 lakh (in addition to gratuity and leave encashment) as against salary of Rs. 7.01 lakh# payable to these employees during remaining service. This resulted in

* Excludes three employees (one dismissed, one under suspension and vigilance enquiry in progress against the third).

** Two employees had retired on superannuation.

Calculated on the basis of last salary drawn

extra expenditure of
Rs. 7.81 lakh.

In reply to Audit inquiry, the management stated (April 2004) that there was no condition in the Rules that the scheme was not applicable to employees with less than two years of service. The reply was not tenable because the management not only failed in drafting a foolproof scheme but it was not applied judiciously to save its financial interest.

The Government stated (September 2004) that salary and arrears amounting to Rs. 13.03 lakh were still payable to employees and any excess amount given to these employees could be recovered/adjusted while making the final payment. The actual recoveries were, however, awaited.

Punjab State Industrial Development Corporation Limited

3.9.4 Renewal Fund Rules, 1993 applicable to all employees in State PSUs were operative till February 2003. Under Renewal Fund Rules, the Company was to pay six months salary and retrenchment compensation at 15 days salary for each completed year of continuous service besides leave encashment and gratuity. The Company, in disregard of these rules, got approved (December 2001) from administrative department its own VRS providing for higher compensation. Company's own VRS provided that the employees were entitled to two months salary for each completed year of service or salary for left over period of service whichever was lower besides leave encashment and gratuity. The Company allowed VRS to 32 employees and paid (May and September 2002) Rs. 2.32 crore (excluding leave encashment and gratuity) as against Rs.97.61 lakh payable under the existing Renewal Fund Rules. This resulted in avoidable extra expenditure of Rs.1.34 crore.

Introduction of own VRS scheme in spite of existing Renewal Fund Rules with lower benefits resulted in extra expenditure of Rs. 1.34 crore.

The management stated (April 2004) that under the objective of State Renewal Fund Rules, 1993, the State Government was to provide assistance to the enterprises in case of re-deployment, restructuring, winding up, disengagement or closure of wholly owned unit of such enterprises. The said objects did not apply to the Company as it had introduced the VRS for optimum utilisation of manpower in view of substantial decrease in its activities due to general recession.

The reply was not tenable as the facts regarding existence of Renewal Fund Rules which were applicable to all the State PSUs with lesser cost were not brought to the notice of the administrative department while seeking approval of the Company's own Voluntary Retirement Scheme.

The above matters were reported to Government in March 2004; reply had not been received (September 2004).

**Statutory
corporations**

**Punjab State Electricity
Board**

3.10 Fund Management

3.10.1 Management of fund involves projections for inflow and outflow of cash, financial requirements and strict cash control. The fund inflow of the Board comprises mainly revenue from sale of power, loans from the State Government, banks and other financial institutions, issue of bonds and subsidy from State Government. The fund outflow is by way of expenditure on capital works, operational and maintenance works, establishment, fuel, power purchase, stores, payment of interest and repayment of loans/bonds.

The fund management of the Board is looked after by the Member (Finance & Accounts).

3.10.2 The following table shows the summarised position of revenue and capital receipt alongwith expenditure during 1998-2003.

(Amount: Rupees in crore)

	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
A	Revenue receipt	3,607.30	3,970.59	4,599.31	4,857.31	5,701.78	22,736.29
B	Revenue expenditure	4,439.46	5,166.27	5,845.00	6,246.53	6,384.55	28,081.81
C	Revenue deficit	832.16	1,195.68	1,245.69	1,389.22	682.77	5,345.52
D	Percentage of revenue deficit to revenue receipt (percentage of C to A)	23	30	27	29	12	24
E	Capital receipt	1,806.17	1,616.82	1,649.00	1,385.00	948.28	7,405.27
F	Capital expenditure	1,054.57	546.77	939.53	396.26	272.87	3,210.00
G	Capital surplus	751.60	1,070.05	709.47	988.74	675.41	4,195.27
H	Percentage of capital surplus to capital receipt (percentage of G to E)	42	66	43	71	71	57
I	Total deficit (C-G)	80.56	125.63	536.22	400.48	7.36	1,150.25

Audit observed the following

- As per Section 59 of the Electricity (Supply) Act, 1948, the Board after taking credit of Government subsidy was required to achieve each year a minimum surplus of three *per cent* of value of fixed assets in service at the beginning of the year. This was not taken into account while preparing the budget estimates.
- The Board had been preparing its revenue budget estimates with deficit and capital budget estimates with surplus. Actual revenue deficit and capital surplus ranged between 12-30 *per cent* and 42-71 *per cent* of actual revenue receipts and capital receipts, respectively. During 1998-2003, there was actual revenue deficit of Rs. 5,345.52 crore

Borrowings were resorted to for meeting the revenue deficit. (including depreciation of Rs. 2,365.37 crore) as against excess capital receipt of Rs. 4,195.27 crore. Revenue deficit was met from capital receipt, financed by borrowings. This indicates that borrowings were resorted to meet revenue expenditure which is not a prudent practice.

The revenue deficit was attributable mainly to non payment of subsidy by the State Government for free supply of power to agriculture consumers (Rs. 1,680.09 crore) and to scheduled castes/backward classes families (Rs. 26.60 crore).

3.10.3 The Board did not make age-wise analysis of dues recoverable from individual consumers indicating lack of monitoring over receivables. Audit noticed that the arrear of revenue increased from Rs. 333.57 crore during 1998-99 to Rs. 451.03 crore during 2002-03.

Arrears of revenue of Rs. 79.38 crore pertained to consumers whose supply was permanently disconnected.

Audit analysis of arrears revealed that:

- Arrears of Rs. 79.38 crore pertained to consumers whose supplies were permanently disconnected. This included outstanding against industrial consumers (Rs. 24.73 crore), agricultural consumers (Rs. 1.39 crore), general service consumers (Rs. 53.08 crore) and others (Rs. 0.18 crore). Age-wise break up of outstanding amount was not centrally available.

A test check of records in three^s operation sub-divisions, however, revealed that out of total arrear of Rs. 77.22 lakh as on 31 March 2004, against permanently disconnected consumers, Rs. 60.51 lakh (78.36 *per cent*) was more than three years old. This indicates remote possibility of recovery from consumers whose connections were permanently disconnected. The Board had not taken any legal action against these consumers despite lapse of more than three years.

- Rs. 77.95 crore was recoverable from Municipal Corporation, Amritsar relating to the period prior to April 1995, assets of which were taken over from 1 April 1995 by the Board. Purchase price of the assets was yet to be decided (May 2004) by State Government.
- Cases involving recovery of Rs. 110.87 crore were pending in courts and Dispute Settlement Committee (DSC) of the Board.

Delay in revision of advance consumption deposit rates and loss of interest

3.10.4 Sales Manual of the Board (updated up to 31 October 1998) was substituted (March 1999) by the Sales Regulations and Conditions of Supply for Electric Energy to consumers. The Conditions of Supply *inter alia*, provides that the Board will charge interest free advance consumption deposit (ACD) from all types of consumers at specified rates before release of any electric connection or additional load which shall not be transferable, ACD will be normally equivalent to three months' electricity bill on the prevalent tariff and may be reviewed and refixed once a year after revision of tariff.

^s Patran City, Patran Sub-urban and Khanauri

Based on prevalent tariff, the Board revised ACD from May 1996. In July 1997, when a proposal was mooted for revision of ACD, the Chief Engineer/Commercial agreed to revise the ACD alongwith next revision of tariff as the proposed increase at that time was not substantial. Thereafter, the Board revised tariff on 29 July 1998 and 1 July 2000 but did not revise the ACD after the revision of tariffs. The Board actually revised ACD from 10 May 2001.

Due to delay in revision of ACD interest free fund of Rs. 56.90 crore could not be generated.

Due to non revision of ACD immediately after the revision of tariff, the Board could not receive additional interest free fund of Rs. 56.90 crore* from the consumers on the connections/ additional load released during November 1998 to April 2001. This would have saved interest expenditure of Rs. 16.75 crore# up to March 2003.

The management stated (May 2004) that the revision of ACD was not mandatory with every revision of tariff and that the Electricity Act, 2003, required the Board to pay interest on security amount. The reply was not tenable because as per Board's regulations, ACD was required to be reviewed and refixed once in a year after revision of tariff. Besides, non-revision of ACD was not in Board's financial interest as it deprived it from availing interest free fund. The contention of the Board regarding interest payment under Electricity Act, 2003 was not relevant as the loss has been worked out up to March 2003 only whereas the Act was effective from June 2003. The delay in revision of rates of ACD was not a sound decision as it had deprived the Board of interest free fund whereas the Board had been continuously borrowing fund. Besides, it would cover three months' consumption charges and reduce the chances of default. Further, even after applicability of new Electricity Act, it would be beneficial to receive ACD as the borrowing interest rates are higher than that payable on ACD.

Collection and remittance of revenue

3.10.5 Revenue collected by the sub-divisions of the Board is remitted into collection accounts opened with the branches of 14 banks*. The procedure laid down in Board's Manual of Banking Operations provides that at the close of each day, net daily balances of collection accounts would be remitted to Patiala branch of the banks by mail transfers (MTs). Collections exceeding Rs. 25,000 on any day would be remitted by telegraphic transfers (TTs). The amounts so remitted to Patiala branch of banks would be transferred daily to State Bank of Patiala for credit to Board's main account. Cash transferred on the last day(s) at closing of the year i.e. on 31st March and credited in April at Patiala are treated as cash-in-transit. The Manual also provides that the Revenue Accountant/Assistant Revenue Accountant (RA/ARA) in the revenue collecting units would see the bank pass book daily to ensure that it is always

* Worked out on the basis of Board's calculations for average monthly consumption charges per kilowatt of load during 1998-99 and 2000-2001

Calculated at interest rates ranging between 9-13.50 *per cent* at which the Board raised fund during 1998-2003.

* 1. Oriental Bank of Commerce 2. UCO Bank 3. Bank of India 4. State Bank of India 5. Allahabad Bank 6. Punjab National Bank 7. Punjab and Sind Bank 8. Union Bank of India 9. The Patiala Central Cooperative Bank Limited 10. Central Bank of India 11. Canara Bank 12. Indian Overseas Bank 13. ICICI Bank 14. State Bank of Patiala.

updated and money deposited is transferred regularly by the bank to its main branch at Patiala daily.

A test check of the remittance transactions during 1998-2003 revealed the following:

Failure to ensure daily transfer of fund from field branches of banks resulted in loss of interest of Rs. 31.39 lakh.

Loss of interest due to retention of fund by field branches of banks

3.10.6 A review of bank statements of two units viz. Lalru sub-division and Technical Unit-I, Focal Point, Ludhiana for 1998-2003 revealed that the RAs/ARAs did not ensure transfer of fund as per prescribed procedure. The banks retained fund ranging between Rs. 1.26 lakh and Rs. 6.36 crore for the periods from one to 21 days. This resulted in loss of interest of Rs.31.39 lakh* to the Board. Financial implication of delayed transfer of fund would be much higher in all the 471 sub-divisions of the Board.

The management stated (May 2004) that earlier the Board was maintaining account with State Bank of Patiala at Lalru. There was no clearing house at Lalru and cheques of other banks deposited in State Bank of Patiala used to be got cleared through clearing house at Chandigarh/ Ambala which was much more time consuming and resulted in delayed transfer of fund. The reply was not tenable as the loss had been worked out from the dates of actual credit balances in the bank accounts to the dates of their transfer.

Interest loss due to delayed credits by Patiala branches of banks

3.10.7 Fund deposited in collection accounts were required to be transferred and credited in their respective banks at Patiala for onward transfer to main account of the Board with State Bank of Patiala, promptly. There was no arrangement with the banks for claiming interest for delayed period in case of any delay in credit to the accounts with various banks at Patiala after being transferred from the collection accounts.

Delay in crediting fund transferred from field to bank accounts at Patiala resulted in loss of interest of Rs. 1.68 crore.

Scrutiny of records for 1998-2003 in respect of fund transferred from respective collection accounts revealed that credits ranging between Rs. 4,000 and Rs. 3.16 crore were received in the respective banks at Patiala with delay ranging between 18-436 days (after allowing a margin of five days for providing credit in branches at Patiala). This resulted in loss of interest of Rs.1.68 crore*. The Board had not claimed interest from the banks for delayed credits given by them.

The management stated (May 2004) that there was no loss to the Board as the banks had been providing free service to the Board (except in case of State Bank of Patiala since July 2001). Reply was not tenable as the banks had been providing the service keeping in view their own interest and the Board was required to ensure timely transfer of fund to respective branches of banks at Patiala.

Delayed transfer of fund by banks to Board's main account with State Bank of Patiala

* Calculated at interest rates ranging between 9 - 13.50 per cent at which the Board raised fund during 1998-2003.

3.10.8 Test check of records of four banks[#] for 1998-2003 revealed that fund ranging between Rs. 5.78 lakh and Rs. 19.80 crore received from field branches to branches of these banks at Patiala were transferred to the Board's main account with delays from one day to 15 days (after allowing one day for transferring the fund to the Board's main account). This resulted in loss of interest of Rs. 1.89 crore*.

Delayed transfer of fund by banks to Board's main account resulted in loss of interest of Rs. 54.95 lakh.

The management stated (May 2004) that it takes normally two days to transfer the balance of a particular day and it takes more than two days when there is a holiday. The matter regarding revision of the system with the banks is under consideration. Reply was not tenable because even after providing two working days' margin the interest loss due to delayed transfer was Rs. 54.95 lakh.

Blocking of fund

3.10.9 'Deposit Works and Accounting Procedure' of Commercial Accounting Systems of the Board provides that the deposit work shall not be commenced until a written approval of the estimate and design is received from the party and the deposit amount is recovered in advance. Further, when the Board anticipates that the expenditure is likely to exceed the amount of original estimate, additional deposit will be called for from the party, which will be deposited within 30 days from the date of demand, failing which interest at prevailing market rate will be charged on the additional demand from the date of demand.

A test check of records of Transmission Line Structure and Construction (TLSC) divisions at Mohali and Patiala revealed that the Board received deposits of Rs. 6.21 crore for 12 works against estimates of Rs. 7.79 crore. The works were completed during August 1998 to September 2001 at an actual expenditure of Rs. 7.74 crore and the amount of Rs. 1.53 crore spent in excess of deposits had not been received by the Board so far (April 2004). Failure of the Board to receive the full deposit as per estimates resulted in non-recovery of Rs. 1.53 crore with interest loss of Rs. 69.11 lakh* during August 1998 to March 2004.

Besides, in three cases (including one case where estimate was not approved), though the advance received (Rs. 4.24 crore) was either equal to or more than the estimates, the works were completed at an expenditure of Rs. 5.36 crore. The balance amount of Rs. 1.12 crore had not been recovered (April 2004) on which the Board suffered further loss of interest of Rs. 11.40 lakh* from March 2002 to March 2004.

[#] 1. Punjab National Bank 2. Central Bank of India 3. Canara Bank 4. State Bank of India.

* Calculated at interest rates ranging between 9 - 13.50 per cent at which the Board raised fund during 1998-2003

The management stated (May 2004) that interest on excess expenditure was not recoverable from the parties as the Board had not started the works immediately on receipt of payment from the parties. The reply was not tenable as the deposit for works was to be received before the actual expenditure exceeded the deposit amount in accordance with Commercial Accounting Systems.

Payment of arranger fee at higher rate

3.10.10 During 1998-2002, the Board decided to pay arranger fee for mobilisation of fund after inviting limited/open tenders. The arranger fee paid during this period was up to 0.25 *per cent* on mobilising Rs. 1,344.65 crore. The Board also obtained earnest money deposit (EMD) of rupees five lakh from each arranger to ensure their seriousness in the matter.

To mobilise Rs. 250 crore by floating bonds, the Board decided (14 May 2002) to raise the arranger fee up to 0.50 *per cent* on the suggestion of arrangers to enable them to arrange fund in a short span. The Board did not invite open/limited tenders to judge the reasonability of arranger fee. The Board also appointed a Committee consisting of Chief Controller (Finance), Member (Transmission) and Member (Finance and Accounts), to decide the amount of EMD, appointment of arrangers, arranger fee and interest rate (May 2002).

The Committee invited (5 June 2002) first five parties listed in 'PRIME' magazine of March 2002. After holding negotiations, the Committee decided not to take EMD and to pay arranger fee at 0.40 *per cent* for arrangement of fund less than Rs. 50 crore and 0.50 *per cent* for arrangement of fund of Rs. 50 crore and above. All the five arrangers were appointed (7 August 2002) for mobilising fund.

The issue was floated on 16 August 2002 with closing date of 10 October 2002. Fund of Rs. 96.15 crore only could be mobilised up to 8 October 2002. The closing date was extended twice up to 21 December 2002. Rs. 181.80 crore were mobilised up to extended date on which the Board paid total arranger fee of Rs. 72.90 lakh. Had the arranger fee not been enhanced from 0.25 to 0.40/0.50 *per cent*, the Board would have paid Rs.45.34 lakh as arranger fee.

**Additional
arranger fee of
Rs. 27.56 lakh
was paid.**

Evidently, decision of the Board to pay arranger fee up to 0.50 *per cent* against previous rate of 0.25 *per cent* without invitation of tenders lacked justification and resulted in additional payment of Rs. 27.56 lakh. Even the purpose of mobilising the fund within short span was also not achieved as the closing date had to be extended twice. Decision of not taking EMD from arrangers was not prudent and was tantamount to favour to arrangers.

The management justified (May 2004) the arranger fee because Himachal Pradesh Infrastructure Development Board (HPIDB) had also launched a bond issue in March 2002 at the arranger fee of 0.50 *per cent*. The reply was not tenable as the interest rate of the bonds of HPIDB was 11.30 *per cent* against 11.50 *per cent* offered by the Board.

The management further stated (May 2004) that during 1996-97 to December 2002, the Board had mobilised Rs. 1,945 crore through non Statutory Liquidity Ratio (SLR) bonds. Arranger fee paid was between 0.20 - 0.50 *per cent*. For the year 2002-03, there was an estimated deficit of Rs. 932 crore. Arrangers individually had indicated their rates of 0.50 *per cent* to the Committee against which actual arranger fee paid worked out to 0.4009 *per cent*. Reply was not tenable as during 1998-2002, ten issues for Rs. 1,520 crore were arranged against which Rs. 1,344.65 crore (88.46 *per cent*) were mobilised and in all these cases fee up to 0.25 *per cent* was paid and average arranger fee (0.4009 *per cent*) was also higher than the fee paid against previous issues.

The above matters were reported to the Government in March 2004; the reply had not been received (September 2004).

3.11 Loss due to non clubbing of connections

Failure of the Board to implement instructions regarding clubbing of more than one connection running in the same premises resulted in loss of revenue of Rs. 17.53 crore due to non levy of surcharge.

Sales Manual of the Board provides that not more than one connection should be allowed in the same premises. In May 1991, the Board issued instructions regarding levy of 17.5 *per cent* surcharge on all general industrial consumers, having load/demand above 5,000 KW/KVA, which were getting supply at 11 KV till conversion of their supply to 33 KV or higher voltage. In January 1997, the Board had allowed the consumers to exercise option for clubbing their connections by 31 January 1997 failing which they were liable to pay surcharge with effect from 1 January 1996 in accordance with instructions of May 1991.

Test check (March 2003) of two[#] divisions revealed that five connections were running at 11 KV voltage in the premises of two[@] consumers whom the Board authorities had identified (July 1997 to October 2000) for clubbing. The Board failed to club two connections of first consumer despite consumer's request (April 1997) for clubbing. The Board clubbed (February 2002) only two (out of three) connections of second consumer and did not club the third connection till it was permanently disconnected in January 2003. Had the Board clubbed all the connections running at both the premises, the load/demand would have exceeded 5,000 KW/KVA and thus attracted surcharge at 17.5 *per cent* as consumers were getting supply at 11 KV.

Thus, failure of the Board to implement instructions regarding clubbing of connections resulted in loss of revenue of Rs. 17.53 crore to the Board during January 1996 to March 2003.

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

[#] Distribution Special Division, Mandi Gobindgarh and Industrial Estate (Special) Division, Ludhiana

[@] Jai Bharat Services and Vardhaman Steels Limited.

3.12 Favour to a consumer

A consumer involved in theft of energy was favoured by delay in communicating the decision of Dispute Settlement Authority and accepting the appeal without requisite deposit which resulted in non recovery of Rs. 1.03 crore.

Sales Regulations of the Board provided for disconnection of power supply of the consumer found indulging in theft of energy. The consumer in such a case was required to deposit compensation including additional advance consumption deposit (AACD) as per laid down instructions. If the consumer wanted to contest, the power supply was to be restored on deposit of 33 *per cent* of the total compensation (subject to a maximum of Rs. 50 lakh) or on such deposit as relaxed by the Spot Review Committee (SRC) of the Board and the case was to be referred to Dispute Settlement Committee (DSC). Before referring the cases for review to the Dispute Settlement Authority (DSA), deposit of 33 *per cent* of the disputed amount was to be ensured and before filing appeal against the decision of DSA in Board Level Review Committee (BLRC), 50 *per cent* of balance disputed amount was to be deposited.

Enforcement wing of the Board checked (20 September to 10 October 1996) the metering equipment of Oswal Alloys Limited under Estate (Special) Division, Ludhiana and found theft of energy. The supply of the consumer was disconnected. The Board asked (11 October 1996) the consumer to deposit compensation of Rs. 1.51 crore (including AACD of Rs. 33.53 lakh). Since the consumer contested the case, it was, therefore, referred to DSC after reconnection (16 October 1996) and getting deposit of rupees one lakh. The DSC recommended (September 1997) to charge only Rs. 11.32 lakh by overhauling[#] the account of the consumer for last six months.

The Board, however, reconsidered (October 1998) the case and decided to refer it to a Committee of Member (Finance & Accounts) and Member (Transmission). The Committee decided (September 1999) to refer the case to DSA for in-depth analysis. The DSA concluded (October 2000) that theft of energy took place and decided to recover Rs. 1.18 crore (excluding AACD being not recoverable as the connection had been permanently disconnected in December 1998).

The Board failed to convey the decision to the consumer immediately. The recommendations of DSA were first referred (December 2000) to BLRC, and then to the Board which again directed (February 2002) the DSA for specific decision and its communication to the consumer. The DSA confirmed (April 2002) its earlier decision but showed its inability to convey it to the consumer as most of its earlier members had been transferred. The decision was ultimately conveyed to the consumer in December 2002.

[#] Reworking the dues based on average consumption of six months after correcting the meter.

Against the decision, the consumer filed (December 2002) an appeal before BLRC without depositing Rs. 77.44 lakh (excluding rupees one lakh already recovered) as per provisions of the Sales Regulations. The Chairman of the Board accepted (December 2002) the appeal on the plea that ACD of Rs. 26 lakh of the consumer was lying unadjusted.

Audit observed that a sum of Rs. 12.47 lakh for energy bills was also pending against the consumer and the Board was actually left with unadjusted ACD of Rs. 13.53 lakh. Thus, there was a short deposit of Rs. 63.91 lakh. As such, the Board should not have accepted the appeal and recovered full amount of compensation. The appeal which was to be decided within 60 days from the date of appeal i.e. December 2002 was still pending (July 2004).

The delay in communicating the decision of the DSA for more than two years and accepting the appeal without requisite deposit was a favour to the consumer which resulted in non recovery of Rs. 1.03 crore (after adjusting pending bills and ACD) and consequential loss of interest of Rs. 10.82 lakh⁵ per annum.

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

3.13 Deficiencies in implementation of internal control/ internal audit system in Punjab State Electricity Board

Internal control

3.13.1 Internal control is a management tool used to provide reasonable assurance to achieve management's objectives. Therefore, responsibility for the adequacy and effectiveness of the internal control structure rests with the management. A good system of internal control should comprise proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure the accuracy and reliability of accounting data, efficiency in operation and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties and the review of the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

The Board has laid down the internal control procedures in Commercial Accounting Systems to ensure efficient and effective internal control, besides standing orders issued from time to time. Audit observed following cases of deficiencies in implementation of the system especially in respect of adjustment of inter unit transfer (IUT) bills, timely rendering/ finalisation of material at site (MAS) accounts and proper checking of the working of cashiers.

Non-adjustment of inter unit transfer bills

⁵ Worked out at minimum interest rate of 10.5 per cent at which Board had obtained loan from Power Finance Corporation.

3.13.2 Commercial Accounting Systems, (Volume VIII) of the Board provide that Inter Unit Transfer (IUT) bills be prepared for transactions of transfers by 10th of next month and bills be raised within a week by the material/asset transferring unit and be adjusted within a period of seven days by issue of U-Cheque[#] by material/asset receiving unit.

IUT bills for Rs. 25.32 crore were awaiting adjustment.

Audit observed that the Board has not prepared any system to monitor the delay in adjustment of IUT bills and analyse the reasons therefor to have effective control over their adjustments. In the absence of adequate control over adjustment of IUT bills, 610 IUT bills involving Rs. 25.32 crore pertaining to 1998-2003, were awaiting adjustment as on 31 March 2003. The year wise break up of the amount was not available with the Board centrally.

Since the outstanding IUTs included Rs. 19.56 crore in respect of one unit, a test check of records of the unit revealed that as against 652 IUT bills raised during 2002-03, only 218 U-cheques (33.44 *per cent*) were received in time. U-cheques for 388 IUT bills were received after a delay ranging from one day-30 days (139 bills), 31-180 days (210 bills), 181-587 days (39 bills). U-Cheques had not been received against 46 IUT bills involving an amount of Rs. 1.68 crore (July 2004).

Thus, non-adjustment of IUT bills for a long period may lead to misappropriation of material due to its non accountal in the relevant records of the receiving unit. The management attributed (June 2004) non adjustment of IUT bills to non removal of defects in assets as pointed out by the receiving units and non entering of material in Goods Receipt Notes of Central Stores.

Non rendering/ finalisation of material at site (MAS) accounts

3.13.3 To ensure timely submission of accounts of material drawn by the Junior Engineers (JEs) and to minimise the chances of misappropriation of material, the Board had issued (24 February 1971) instructions that JEs concerned should render the accounts of material within one month from completion of work. The accounts rendered were to be finalised in the divisional office within three months of the completion of works.

Audit observed that the instructions were not followed by the JEs and the divisional offices of the Board for timely rendering of accounts and finalisation thereof within stipulated period. Accounts of 2,521 works completed up to 31 March 2003 involving material valuing Rs. 131.79 crore, as detailed below, were

[#] This denotes non cashable cheque issued by a unit of the Board for adjustment of debits raised against it by another unit.

neither submitted by the concerned JEs nor finalised by the concerned divisions:

Accounts of material valuing Rs. 131.79 crore were not rendered.

Period	MAS accounts not rendered/finalised	
	Numbers	(Rs. in crore)
Prior to 31 March 1991	376	13.54
1 April 1991 to 31 March 1998	345	8.40
1 April 1998 to 31 March 2003	1,800	109.85
Total	2,521	131.79

The break up of MAS accounts, not rendered by the concerned JEs and those awaiting finalisation at the divisional office, was not available with the Board centrally.

Reasons for non-submission/finalisation of MAS accounts and non initiation of action against the defaulting officials/officers (April 2004) were not made available (July 2004).

Test check of records revealed as under:

Material at site accounts of Rs. 65.66 lakh were pending against five retired employees.

- MAS accounts for material (Rs.65.66 lakh) were pending against five JEs who retired from the service of the Board during May 1993 to September 2003. Two, out of five JEs, had expired after retirement without rendering the accounts for Rs.20.05 lakh, of which Rs. 13.03 lakh outstanding against one JE was written off by the Board.
- The accounts of material at site rendered by one JE in June 2000 and January 2003 for 13 works completed during 1990-91 to 1993-94 were checked and shortage of material valuing Rs.10.80 lakh was noticed. The Board had not initiated (July 2004) any action to recover the amount despite the fact that the concerned JE would retire in March 2005.

Embezzlement of cash

3.13.4 As per chapter 26 of Commercial Accounting Systems (Volume II) of the Board, cashier was to receive the payment from the consumers and make a cash receipt (stub). The original cash receipt was to be handed over to the consumer and amount so collected entered in consumer cash receipt (CCR) book and totals of each column of CCR book were to be tallied by the cashier. Further, the upper division clerk (UDC) revenue/ assistant revenue accountant (ARA)/ revenue accountant (RA) was to see personally that the daily cash realisation statement received from the computer centre tallied with the CCR book and was also to ensure that all the receipts were taken in main cash book and to sign the statement in token of checking.

As per Commercial Accounting Systems (Volume IV) of the Board, the cashier was to record all money receipts in the cash book, the officer in charge was to check the entries in the cash book with money receipts and entry once made in the cash book should in no circumstances be erased. If any corrections were to be made, those were to be attested by the disbursing officer.

Non-observance of prescribed procedure facilitated embezzlement of Rs. 22.49 lakh.

A test check of records of four operation divisions*, revealed that the Internal Audit of the Board pointed out embezzlement of Rs. 22.49 lakh by the cashiers of concerned divisions during 2001-03. Further analysis in Audit showed that the embezzlements were facilitated due to non-observance of the relevant provision of the Commercial Accounting Systems (CAS) as detailed below:

Sl. No.	Particulars	Amount (Rs. in lakh)	Reference to the instructions not observed
1	Non posting of stubs in CCR book	9.79	Sl. Nos. 7 and 9 of Chapter-26 of CAS Vol-II
2	Non reconciliation of cash realisation statement received from computer centre	1.27	Note below Sl. No. 16 of Chapter 26 of CAS Vol-II
3	Forged receipts	0.33	Sl. No. 4(B) of Chapter-26 of CAS Vol-II
4	Non transferring of amount from CCR book to main cash book	1.26	Checks not exercised as printed on CCR book (Form no. SOP-10) and Sl. no. 16 of Chapter-26 of CAS Vol-II
5	By not writing cash book	2.56	Sl. No. 8 of Chapter 2 of CAS Vol IV and Sl. No. 16 of Chapter 26 of CAS Vol- II.
6	By making cuttings in cash book and carrying forward less amount	7.28	Sl. No. 9 of Chapter-2 of CAS Vol-IV
Total		22.49	

The Board had issued charge sheets to concerned officials/officers (cashier, UDC, ARA, RA and S.D.O. etc). In three divisions, Board had suspended the cashiers. Further developments were awaited (July 2004).

Had the prescribed checks been exercised by the functional authorities, the embezzlement of cash could have been avoided.

Irregular expenditure against unsanctioned estimates/in excess of sanctioned estimates

Irregular expenditure of Rs. 164.34 crore was incurred.

3.13.5 Chapter VI of Commercial Accounting Systems, Volume VI *inter alia*, provided that no expenditure was to be incurred on any work unless the technical estimate of the work was sanctioned by the competent authority and the expenditure incurred on the work should not exceed the sanctioned estimate. Audit observed that the instructions, *ibid*, were not being followed strictly. Resultantly, expenditure of Rs. 164.34 crore was incurred without getting sanction of the estimates/in excess of sanctioned estimates, as detailed below:

Sl. No.	Period	(Amount: Rupees in crore)			
		Expenditure against Unsanctioned estimates		Expenditure in excess of sanctioned estimates	
		No. of works	Amount	No. of works	Amount
1	More than 12 years old (up to 31 March 1991)	433	22.83	596	6.04
2	More than six years old but up to 12 years old (1 April 1991 to 31 March 1998)	367	15.83	1,319	12.66
3	Up to 6 years old (1 April 1998 to 31 March 2003)	479	63.45	2,153	43.53
	Total	1,279	102.11	4,068	62.23

The position of regularisation of the above irregular expenditure and reasons therefor called for (May 2004) were awaited (July 2004).

* Operation division, Jandiala Guru, City West (Special) division, Ludhiana, Sub-urban division, Lalton Kalan and Operation division, Badal

Internal audit

3.13.6 As provided under Section 69(1) of the Electricity (Supply) Act, 1948, the Board had established Internal Audit Wing (IAW) in March 1974 for checking receipts and expenditure in different offices of the Board. The IAW is headed by a Chief Auditor who is assisted by seven Deputy Chief Auditors and 10 Accounts Officers (Field). Against the sanctioned strength of 822 persons, the actual staff strength of IAW was 621 as on 31 March 2004.

Internal Audit Manual

3.13.7 Internal Audit Manual (Vol II) of the Board deals with the audit of revenue receipts. The Board had not prepared manual for audit of expenditure and the same was being conducted under Rules/Regulations contained in Commercial Accounting Systems of the Board and instructions issued from time to time.

Arrear of Internal audit

3.13.8 Standing orders relating to expenditure audit issued in May 1977 provided for framing of audit programmes for coverage of all divisions/offices of the Board at least once a year. The IAW had not prepared any consolidated position of arrears of expenditure audit.

There were heavy arrears of internal audit.

Audit observed that as on 31 March 2004, out of 336 units, up to date audit of 167 units was conducted and audit of balance 169 units was in arrear for more than one year. The arrears of expenditure audit were not being reported to the Board. Audit plan for expenditure audit was also not prepared to liquidate the arrears in audit.

Internal Audit Manual for Revenue Audit provided for audit of receipts on monthly basis. Audit observed that the average arrears in respect of revenue audit as on 31 March 2004 were of 11 months. In reply to an Audit inquiry, the Board attributed (April 2004) the accumulation of arrears to shortage of staff and increase in the volume of work. The reply was not tenable as the Board should have reviewed the staff position from time to time.

Delay in issue of internal audit inspection reports and inadequate follow up

3.13.9 The Board issued (May 1977) instructions that internal audit inspection reports (IRs) should be issued to the auditee units within 30 days from the conclusion of audit and followed up by the respective Deputy Chief Auditors till their compliance. A test check conducted during August 2003 and March 2004 of 400 files (200 in respect of expenditure audit and 200 in respect of revenue audit) relating to internal audits conducted during 2000-04 revealed that only 47 IRs (12 *per cent*) were issued within 30 days. Remaining 353 IRs (88 *per cent*) were issued after a delay ranging from one day - 30 days (160 IRs), 31-180 days (157 IRs) and 181-654 days (36 IRs). In reply to Audit inquiry, the management attributed (August 2003) the delay in issue of IRs to increase in number of auditee units, decrease in staff strength, modification of audit paras at headquarters and transit delay etc. The reply was not tenable as 30 days period include period for transit of nine days and 14 days for examination of

In 88 per cent cases, internal audit reports were issued after considerable delays.

IRs including modification of paras.

These IRs contained 4,703 audit observations with money value of Rs. 669.80 crore. Of these, 1,123 observations with money value of Rs.189.60 crore were settled during 2000-04 and 3,580 audit observations involving money value of Rs.480.20 crore were still pending as on 31 March 2004, as detailed below:

There was poor response to observations of internal audit.

Year of IR	Number of pending observations	Money value (Rs. in crore)
2000-01	723	53.35
2001-02	1,034	134.52
2002-03	929	143.45
2003-04	894	148.88
Total	3,580	480.20

This indicates that there was poor response from the auditee units for compliance of observations.

Deferment of revenue audit

3.13.10 The whole time Members of the Board decided (April 2000) to defer, till further decision, the conducting of audit of revenue transactions of units which were in arrears up to 31 March 1999. Audit observed that as on 31 March 1999 average of arrears of internal audit deferred was nine and 26 months in respect of industrial service connections and general service connections, respectively. The deferred audit had not been planned so far (July 2004).

Punjab State Warehousing Corporation

3.14 Misappropriation of rice

Misappropriation of rice/paddy amounting to Rs.194.46 crore by rice millers due to lack of control over milling operations and non-adherence to milling policy by the Corporation had been pointed out earlier in the Report of Comptroller and Auditor General of India for 1999-2000. Neither the State Government nor the Corporation took remedial measures to ensure delivery of full rice by the millers. Consequently, there was further misappropriation of 14,841.79 tonne of rice in five district offices with resultant non-recovery of Rs.29.33 crore.

The Corporation procures paddy from mandis and gets it milled from millers for delivery of rice to Food Corporation of India (FCI) in Central Pool. The milling policies of the State Government for milling of paddy during 1998-2002,

inter

alia provided as under:

- District Level Committee was to make the allotment of paddy to rice mills and defaulter miller was not to be considered for allotment;
- No rice miller was to be considered for allotment of paddy without executing the agreement;
- Rice millers having a capacity of one tonne per hour were to be allotted a maximum of 3,000 tonne of paddy during 1998-2000, 4,000 tonne during 2000-01 and 6,000 tonne during 2001-02;
- The Corporation was to issue paddy to the rice millers in lots of 100 tonne (200 tonne during 2000-02) and next lot of paddy was to be issued only after the delivery of resultant rice of previous lot to FCI; and
- Paddy was to remain in the joint custody of the miller and procuring agency till its conversion into rice and delivery to FCI.

Agreements executed with the millers, *inter alia*, provided that delivery of paddy was to be made to the millers against a bank guarantee or receipt of advance rice. If miller failed to supply rice within the stipulated period, the miller was liable to pay cost of rice fixed by the FCI alongwith interest at the rate of 21 *per cent* for the first year of default and 30 *per cent* for subsequent period.

The Report of the Comptroller and Auditor General of India for the year 1999-2000 (Commercial), Government of Punjab had pointed out misappropriation of rice/ paddy amounting to Rs.194.46 crore pertaining to crop year 1994-95 to 1998-99 due to lack of control over milling operations and violation of the milling policy. But the State Government as well as the Corporation had failed to take remedial action. Resultantly, misappropriation of rice continued.

A test check of records of five district offices (Patiala, Bathinda, Moga, Muktsar and Ferozepur) revealed that the Corporation had allotted 51,157.06 tonne paddy for the crop years 1998-99 to 2001-02 to 17 millers for milling as per details given in **Annexure 10**. Scrutiny of records revealed that:

- Three[@] millers were not entitled to milling during 1999-2000 being defaulters for the previous years;
- Two[#] millers were not allotted to the Corporation;
- The Corporation had not entered into agreements with three^{\$} millers ;
- Paddy was issued in excess of their entitlements to nine[&] millers;
- The Corporation did not obtain bank guarantee or advance rice from these millers; and
- The Corporation also failed to ensure delivery of rice to FCI against previous lots of paddy before issue of next lot.

[@]. Serial No.2, 8 and 13 of **Annexure 10**.

[#] Serial Numbers 5 and 7 of **Annexure 10**.

^{\$} Serial Numbers 4, 7 and 16 of **Annexure 10**.

[&] Serial Numbers 1,3,4,6,8,10,13,14 and 17 of **Annexure 10**.

Resultantly, against due quantity of 34,167.40 tonne rice, the millers delivered 19,325.61 tonne rice only and the balance 14,841.79 tonne rice was misappropriated for which Rs.29.33 crore* was recoverable from them. Out of 17 defaulter millers, the Corporation got registered FIRs against 15 millers during January 2000 to February 2003.

The Corporation also initiated arbitration proceedings against 13 millers for recovery of claims as per terms of agreement. Results of arbitration proceedings were awaited. The Corporation filed recovery suits (May 2003 to March 2004) in the courts against three millers where agreements were not entered, final outcome thereof were awaited; the arbitration proceedings could not be initiated against one miller (Sl. No.8) because the concerned file of district office had been misplaced for which two annual increments of concerned employee were stopped with cumulative effect. Recovery suit was filed (May 2003) in the court against the miller which was pending.

The management/Government while admitting the facts stated (August/September 2004) that suitable action against staff concerned and millers had been initiated. The fact, however, remains that the Corporation suffered loss due to failure on the part of the management to strictly enforce the milling policy.

3.15 Avoidable payment of godown rent

Modification in godown rent agreements to allow enhancement in rent to parties against fixed rates resulted in excess payment of Rs. 1.73 crore to private parties.

On the basis of offers invited (May, August and September 2000), the Corporation entered into agreements with 24 private parties for hiring their godowns located at various places in the State at the rates ranging between Rs. 2.25 and Rs. 2.75 per square foot per month. The agreements, provided that the parties would construct the godowns and lease out the same to the Corporation for seven years.

State Level Coordination Committee (SLCC), without any stipulation in the agreements for revision in rent, decided (September 2000) that rent rates would be revised as and when Food Corporation of India revised the rent rates payable to the Corporation. So, the Corporation revised agreements on the above lines with five parties up to 22 November 2000 when the SLCC approved a policy to allow uniform rates for godowns in urban and rural areas, respectively without any stipulation in the agreements for revision in rates.

The Corporation did not take corrective action by reversing the enhanced rent rate of above five parties. Instead the Corporation executed revised agreements to enhance the rent rate with remaining 17# parties (after 22 November 2000) ranging between Rs. 2.70 and Rs. 3.38 per square foot up to July 2002 against agreed rates of Rs. 2.25 to Rs. 2.75 per square foot.

* This includes value of rice (Rs. 14.54 crore), interest of Rs. 13.08 crore up to March 2004 and cost of material valuing Rs. 1.71 crore.

Excluding two parties who had not constructed the godowns.

Parties (other than above 22 parties), which were getting fixed rent without any condition for revision in the agreement, felt aggrieved. The Corporation, therefore, sought (July 2002) the advice of the Advocate General, Punjab, who observed that payment of enhanced rent was not justified when everything had been settled at negotiated rent without enhancement clause. Advocate General further advised that clause of enhancement of rate be withdrawn prospectively. So, the Corporation decided (September 2002) to withdraw the enhancement clause and executed fresh agreements with 22 parties with effect from 1 August 2002. Meanwhile the Corporation had already made excess payment of Rs. 1.73 crore to 21^s parties by that time. The Corporation had not fixed (March 2004) the responsibility for excess payment of rent.

The Corporation/Government stated (July/August 2004) that the rates were allowed earlier at the level of the SLCC/Board of Directors and similarly the subsequent enhancement had also been approved by the same authority. The reply was not tenable as the enhancement was allowed even after approval (November 2000) of uniform rates without any enhancement by the SLCC.

3.16 Loss of interest

Keeping the surplus fund in non-interest bearing accounts instead of transferring the same to cash credit account resulted in loss of interest of Rs. 20.14 lakh.

The Corporation was running five* container freight stations (CFSs) in the State for providing facilities to traders for dealing in import and export of goods. Every CFS was maintaining current account with a bank for its operation. The Corporation was also maintaining cash credit account at its head office at Chandigarh and availed cash credit facility during 2001-04 at interest rates ranging between 10.95 and 11.55 *per cent*.

The Corporation neither made any agreement with the banks at these CFSs to transfer surplus fund automatically to the head office cash credit account to avoid unnecessary blocking of fund in the current accounts nor laid down any system for monitoring transfer of fund to head office.

Review of the current accounts of CFS at Amritsar and Jalandhar for April 2001 to December 2003 revealed that monthly minimum and maximum balances ranging from Rs. 6.72 lakh to Rs. 81.47 lakh and Rs. 18.81 lakh to Rs. 1.18 crore, respectively had been lying unutilised in current accounts. As the Corporation was paying heavy amount of interest on cash credit availed, transfer of surplus amount available with CFS could have minimized the interest burden.

Non transfer of surplus fund from current accounts to cash credit account resulted in loss of interest of Rs. 20.14 lakh calculated on the minimum balances at the prevalent interest rate on cash credit availed by the

^s Payment at enhanced rates was not made to one party.
* Amritsar, Jalandhar, Ludhiana, Dappar and Bathinda

Corporation. On being pointed out in audit, head office of the Corporation directed (February 2004) all the heads of CFS to closely monitor the fund for their better utilisation. The Corporation has, however, not evolved any system so far for automatic transfer of surplus fund to cash credit account at head office (June 2004).

The management/Government stated (August/September 2004) that the proceeds of CFSs were not to be used for repaying cash credit and the cash credit was to be paid from the sale proceeds of the stock against which cash credit limit was availed.

The reply was not tenable as keeping of surplus fund in non-interest bearing account instead of repaying cash credit carrying interest thereon was not financially prudent.

Punjab Scheduled Castes Land Development and Finance Corporation

3.17 Excess EPF contribution

Failure of the Corporation to limit employer's contribution towards employees' provident fund as prescribed in the Employees Provident Fund Scheme, 1952 resulted in excess contribution of Rs. 31.09 lakh.

Employees' Provident Fund Scheme, 1952 (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. It further provides that where the monthly pay of an employee exceeds Rs. 5,000 (Rs. 6,500 with effect from June 2001), the contribution payable by the employer shall be limited to the amount payable on a monthly pay of Rs. 5,000 or Rs. 6,500, as the case may be. The contribution payable by an employee to whom the Scheme applies, if he so desires, could be an amount exceeding the above limit subject to the condition that employer shall not be under an obligation to pay contribution over and above his contribution payable under the Scheme.

Test check of records for June 2001 to November 2003 revealed that the Corporation contributed employers' share at the rate of 12 *per cent* of the pay without limiting to the prescribed limit of Rs. 6,500 in contravention of the provisions of the Scheme, *ibid*. This resulted in excess contribution of Rs. 31.09 lakh by the Corporation.

The management stated (June 2004) that other PSUs were also contributing their share without restricting it. Reply was not tenable as the Corporation was to follow the Scheme strictly.

The matter was referred to the Government in March 2004; reply had not been received (September 2004).

General

3.18 Delay in finalisation of accounts by working State Public Sector Undertakings

Statutory provisions for finalisation of accounts

3.18.1 According to the provisions of Section 210(3) read with Section 166 of the Companies Act, 1956, audited accounts of a company should be approved and placed in the annual general meeting (AGM) of the shareholders within six months of the close of its financial year. Further, as per provisions of Section 619A (3) of the Act, *ibid*, the State Government should place the Annual Report on the working and affairs of each State Government company together with a copy of Audit Report and comments thereon made by the Comptroller and Auditor General of India (CAG) before the State Legislature within three months of its AGM. In case of Statutory Corporations, their accounts are to be finalised, audited and presented to the State Legislature as per the provisions of their respective Acts.

Management's/Government's responsibility for preparation of accounts

3.18.2 Under the provisions of Section 210(1) read with Section 216 and 218 of the Companies Act, 1956, the Board of Directors of a company is required to lay in every AGM an audited copy of the annual accounts i.e. balance sheet and profit and loss account for the financial year along with the Auditors' Report and other specified annexures.

In case of Statutory corporations, the accounts are to be prepared as per provisions of their respective Acts.

Therefore, it was the responsibility of the management of respective PSUs to finalise the accounts in time. The Administrative Departments concerned have also to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period.

Procedure of finalisation of accounts

3.18.3 The annual accounts prepared by the companies are approved by its Board of Directors and the approved accounts are audited by the Statutory Auditors appointed by the CAG. As per the provisions of Section 619(4) of the Act, *ibid*, the CAG conducts supplementary audit of the accounts of the company. Such accounts alongwith the comments of the CAG and report of the Statutory Auditors are placed before the AGM of the Company for adoption.

Risk involved due to delay in finalisation of accounts

3.18.4 The finalised accounts of the PSUs reflect their overall financial health

and efficiency to conduct their business. If PSUs fail to finalise the accounts in time, the CAG cannot conduct the supplementary audit of the accounts and thus, Government investment remain outside the scrutiny of the State Legislature. Besides, delay also opens the system to risk of fraud and leakage of public money.

Extent of arrears

3.18.5 As on 30 September 2004, out of 21 working Government companies and five Statutory corporations, only six companies and none of the corporations had finalised their accounts for the year 2003-04. Accounts of 15 working Government companies and five statutory corporations were in arrears for the period ranging from one year to six years.

Comparative position of clearance of arrears

3.18.6 The table given below indicates the position of number of accounts in arrear and clearance thereof (up to September in each year) during the last five years ending 2003-04.

Year	Total No. of accounts due		No. of accounts cleared		Closing balance of Accounts in arrear		Percentage of accounts cleared to accounts due	
	Companies	Corp-orations	Companies	Corp-orations	Companies	Corp-orations	Companies	Corporations
1999-2000	73	11	29	4	44	7	40	36
2000-01	64	12	26	5	38	7	41	42
2001-02	58	12	17	7	41	5	29	58
2002-03	62	10	20	5	42	5	32	50
2003-04	63	10	31	4	32	6	49	40

The above table reveals that the percentage of clearance of arrears of accounts ranged between 29 and 49 in case of Government companies and between 36 and 58 in case of Statutory corporations during 1999-2004.

The accounts of seven companies and one corporation were in arrear for two years and above as on 30 September 2004. The detailed position of delay in finalisation of accounts by four PSUs (test checked in audit), holding of AGM and submission of Annual Reports to the State Legislature during the last five years is indicated in **Annexure 11**.

The position of delay as per **Annexure** is summarised as under:

Name of PSUs	Number of accounts finalised during 1999-2004	Number of accounts in arrears	Range of delay in months		
			Finalisation of accounts	Holding of AGM	Submission of Annual Reports to the State Legislature
Punjab State Forest Development Corporation Limited	9	6	65-110	68-113	1-18
Punjab State Bus Stand Management Company Limited	4	5	47-64	52-68	26-32
Punjab State Tubewell Corporation Limited	3	5	35-58	41-48	Nil
Punjab State Warehousing Corporation	7	2	23-43	24-47	2-10

Factors responsible for delay/ arrears

3.18.7 The reasons for delay in liquidation of arrears of accounts by above PSUs are discussed hereunder:

Companies

Punjab State Forest Development Corporation Limited

3.18.8 The delay in finalisation of accounts ranged between 65 months (1997-98) and 110 months (1989-90). The management attributed (May 2004) the arrears in finalisation of accounts to lack of adequate and qualified staff for the purpose. The contention of the management was not tenable as there was one Chartered Accountant working as Finance Manager, an Accounts Officer (up to November 2003) and clerical staff including that employed on contract/daily wage basis for accounts work. Moreover, recruitment of qualified staff needed was to be done by the Company itself.

Reasons for delay in laying of accounts in the AGM and submission of Annual Reports to the State Legislature were awaited (September 2004).

Punjab State Bus Stand Management Company Limited

3.18.9 The delay in finalisation of accounts for 1995-96, 1996-97, 1997-98 and 1998-99 ranged between 47 and 64 months. The delay/arrears in finalisation of accounts were due to non-appointment of accounting staff with the result that the Company had to get its accounts compiled from an outside agency.

Audit observed that the accounts of the company for 1995-97 were compiled in May 1998 but the same were approved by the BOD in December 2000 after a delay of 31 months.

The management attributed (June 2004) the delay in approval of accounts to delay in taking up of audit by the Statutory Auditors. The reply was not tenable as the function of Statutory Auditors commences after the accounts are approved by the BOD.

Delay in submission of Annual Reports to the State Legislature was attributed (June /August 2004) by the management/Government mainly to procedural delays such as placement of fresh order for printing of Annual Reports as the earlier order was not executed by the printer for a considerable period. The reply was not tenable as more than nine months were taken in placing the order for printing with the first party. The Company also took about three months for sending the Annual Report (1996-97) for translation to the Language department.

Punjab State Tubewell Corporation Limited

3.18.10 The Company finalised the accounts for 1996-97, 1997-98 and 1998-99 after the delay of 35,39 and 58 months, respectively. The delay in finalisation of accounts was attributed (June 2004) to lack of qualified and trained staff. The reasons for delay in laying of accounts in the AGM were awaited (September 2004).

Corporation

Punjab State Warehousing Corporation

3.18.11 According to the provisions of Section 31 (10) and (11) of the State Warehousing Corporations Act, 1962, the annual accounts of the Corporation together with Audit Report thereon were to be placed before the AGM within six months of the close of the financial year and Audit Report placed in the State Legislature within one month of its being placed in the AGM. There was delay of 23-43 months in finalisation of accounts, 24-47 months in holding of AGM and 2-10 months in submission of Audit Reports to the State Legislature.

The management attributed (March 2004) the delay in finalisation of accounts to assignment of additional activity of foodgrains procurement during 1993-94 with no additional manpower, shortage of accounts staff and paucity of computer trained staff. The management further stated that strenuous efforts were being made to clear the accounts. Reasons for delay in laying of accounts in the AGM and submission of Annual Report to the State Legislature were not made available (September 2004).

Weakness in accounting management set up and functions

Accounts manual

3.18.12 Accounts manual contains guidelines and instructions for maintenance and preparation of accounts and acts as a vital document in guiding the efforts of the organisational units towards timely preparation of accounts in a uniform reporting format.

Audit observed that none of the four ^{*} PSUs test checked in audit had initiated any action for preparation of accounts manual.

Reconciliation system

3.18.13 To maintain accuracy and timely preparation of accounts, there should be periodical reconciliation of accounts between the accounting units at the primary level and middle/ corporate level. Reconciliation of cash and banking transactions should be conducted at least once in a month to ensure the accuracy of balances.

Further, such controls should be formulated which would ensure that the prescribed procedures are followed and mistakes rectified promptly.

The system of reconciliation, as it exists in the PSUs test checked in audit, was not supported by codified procedures, except in the form of administrative instructions. As a result, the work was not carried out regularly and there was no control to avoid delay or even omission of such an important function.

Reconciliation was being done monthly in Punjab State Tubewell Corporation

*

Punjab State Forest Development Corporation Limited, Punjab State Bus Stand Management Company Limited, Punjab State Tubewell Corporation Limited and Punjab State Warehousing Corporation.

Limited, six-monthly in Punjab State Warehousing Corporation and annually in case of other two PSUs. Absence of monthly reconciliation system of accounts also contributed to delay in finalisation of accounts.

Absence of trained staff

3.18.14 Though Punjab State Tubewell Corporation Limited and Punjab State Forest Development Corporation Limited attributed the delay in compilation of accounts to lack of trained staff, yet no efforts were made to provide any training to overcome their deficiency.

System of supervision

3.18.15 In accounting functions, supervision of the work of maintenance of books of accounts and other related work is a necessary control mechanism to ensure timeliness and quality of the work. None of the PSUs test checked in audit had prescribed any time-schedule at various levels for timely preparation of the accounts.

Steps taken by the Government

3.18.16 The State Government exercises its control over the PSUs through the concerned Administrative Department and the Finance Department. The Bureau of Public Enterprises (BPE) is the nodal agency, which reviews the working of the

PSUs on behalf of the Finance Department. In terms of the Memorandum/Articles of Association of the companies, the Government had the powers to issue directives to the companies in the interest of the companies. Besides, most of directors of the PSUs are nominees of the State Government. Accordingly, in case of failure of the companies to finalise their accounts, the Government was expected to take concrete steps to ensure that the accounts of the PSUs are finalised in time. Despite position of arrears being pointed out by the Audit regularly to the Administrative departments, the State Government had not taken any concrete steps. So, the position of arrears in accounts was almost static.

Assistance provided by audit in liquidation of arrears.

3.18.17 In order to expedite the clearance of pending accounts, the Audit suggested (February 2004) the State Government to take the help of professional institutes and also offered to conduct the audit of provisional accounts besides other required assistance. No such assistance was sought by the companies till date (July 2004).

The matter was referred (May 2004) to Government/management; replies had not been received (September 2004).

3.19 Follow-up Action on Audit Reports

Outstanding Action Taken Notes

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

Though the Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 were presented to the State Legislature in September 1999, September 2000, June 2002, June 2002 and March 2003 respectively, six out of 14 departments which were commented upon in these Audit Reports did not submit detailed notes on 31 paragraphs/reviews out of 121 paragraphs/reviews as

on 31 March 2004, as indicated below:

Year of the Audit Report (Commercial)	Total paragraphs/ reviews in Audit Report	Number of paragraphs/ reviews for which detailed notes were not received.
1997-98	26	3
1998-99	26	1
1999-2000	27	6
2000-01	21	4
2001-02	21	17
Total	121	31

Department-wise analysis is given in *Annexure 12*. Departments largely responsible for non-submission of detailed notes were, Industries, Agriculture and Power. The Government did not respond to important reviews highlighting investment/ disinvestment, delay in taking over of units in case of defaults by loanees and signing of Memorandum of Understanding for Power Sector Reforms and implementation thereof.

Outstanding Reports of Committee on Public Undertakings (COPU)

3.19.2 As per rule 25 of Internal Working Rules of COPU, Punjab Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of PSU within six months from the date of placement of Report of COPU in the State Legislature.

Replies to 31 paragraphs pertaining to three Reports of COPU presented to State Legislature between March 2001 and March 2003 had not been received (March 2004) as indicated below:

Year of Report of COPU (Report number)	Total number of Reports involved	Number of paragraphs where replies not received
2000-01 (68 th)	1	17
2002-03 (71 st and 73 rd)	2	14
Total	3	31

These Reports of COPU contained 31 recommendations in respect of paragraphs pertaining to Industries, Public distribution and Agriculture departments which appeared in Audit Reports for 1986-87 to 1988-89.

Action taken on the persistent irregularities

3.19.3 With a view to assist and facilitate discussion of paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in *Annexures 13 and 14*.

Government companies

The irregularities of various nature having financial implication of Rs.47.63 crore (Punjab State Civil Supplies Corporation Limited), Rs.16.85 crore (Punjab State Industrial Development Corporation Limited) and Rs.5.18 crore (Punjab Agro Industries Corporation Limited) were included in the Reports of the Comptroller and Auditor General of India for the years 1994-95 to 2002-03 (Commercial)-Government of Punjab. The irregularities were persisting with the companies over the period ranging between one and nine years. Action taken by the companies/ State Government on the irregularities as scrutinised in Audit revealed that action taken was inadequate as per details given in *Annexure 13*.

Statutory corporations

The irregularities of various nature having financial implication of Rs. 166.83 crore (Punjab State Electricity Board) were included in the Reports of the Comptroller and Auditor General of India for the years 1999-2003, (Commercial)-Government of Punjab as shown in *Annexure 14*. The irregularities were persisting with the Board over the period ranging between one and five years. Action taken by the Board/ State Government on the irregularities as scrutinised in Audit revealed that action taken was inadequate as per details given in *Annexure 14*.

The matter was referred (April 2004) to Government/management; replies had not been received (September 2004).

3.20 Response to Inspection Reports, Draft Paras and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to give replies to the Inspection Reports through respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2004 revealed that 4,540 paragraphs relating to 1,649 Inspection Reports pertaining to 38 PSUs remained outstanding at the end of September 2004. Of these, 20 Inspection Reports containing 132 paragraphs had not been replied to for more than one year. Department-wise break up of Inspection Reports and audit observations outstanding as on September 2004 is given in *Annexure 15*.

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 13 draft paragraphs and two draft reviews forwarded to the various departments during March to August 2004 as detailed in *Annexure 16* had not been replied to so far (September 2004).

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 the audit observations is revamped.

CHANDIGARH
The
Punjab

(Arijit Ganguly)
Principal Accountant General (Audit),

Countersigned

NEW DELHI
The
India

(Vijayendra N.Kaul)
Comptroller and Auditor General of