Chapter-3
Audit of Transactions

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Audit of Transactions

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

Government companies

Punjab State Power Corporation Limited, Punjab State Transmission Corporation Limited and Department of Power, Government of Punjab

3.1 Punjab Power Sector Reforms Transfer Scheme

While unbundling the erstwhile Board, Government of Punjab placed a financial burden of ₹ 25097.64 crore on the two successor entities – PSPCL and PSTCL - by passing unfunded liabilities to them. The State Government sought to refurbish their balance sheets by (i) inflating its equity capital in the two entities by ₹ 3741.34 crore by reflecting consumer contributions and grants and subsidies as equity capital and (ii) including revalued land assets of ₹ 4874.41 crore whose ownership was not vested in the two successor entities.

3.1.1 Introduction

The erstwhile Punjab State Electricity Board (Board) was unbundled (16 April 2010) into two successor companies - Punjab State Power Corporation Limited (PSPCL) and Punjab State Transmission Corporation Limited (PSTCL).

Government of Punjab (GoP) framed (April 2010) Punjab Power Sector Reforms Transfer Scheme, 2010 (Scheme) for providing and giving effect to the transfer of functions, undertakings, assets, rights, liabilities, proceedings and personnel of the Board which was amended (December 2012) under the provisions of sub-sections (1) and (2) of Section 131 of the Electricity Act, 2003.

3.1.2 The GoP notified the opening balances of successor Companies – PSPCL and PSTCL in Amended Scheme (December 2012). The increase/ decrease in respective heads in the Balance Sheet as calculated by Audit are given in ***Annexure 6***. The audit findings pertaining to this vesting of assets and liabilities in Government of Punjab (GoP) and the re-vesting of the same in the successor entities are discussed below:

3.1.2.1 Transfer of unfunded liabilities to PSPCL and PSTCL

We observed that liabilities of erstwhile Board amounting to ₹ 25,097.64[1] crore were transferred to the two successor entities, either by incorrect

[1] Losses written off – ₹ 10751.64 crore + terminal benefits – ₹ 14346 crore

accounting or by not recognising clear liabilities in the opening Balance Sheet. Though from the time of conception of the scheme of unbundling, GoP had decided to provide clean balance sheet to the successor entities and not to transfer past accumulated losses yet the new entities were saddled with huge liability to begin with. These are discussed in following paragraphs:

3.1.2.2 Revaluation of land

The Land and Land Rights of the erstwhile Board were of the order of ₹ 546.53 crore in the closing financial statements. However, after revaluation, the opening balance of value of land in the successor entities were taken at ₹ 21,797.94 crore (PSPCL: ₹ 18,872.93 crore and PSTCL: ₹ 2,925.01 crore).

We observed that the balance sheets of the successor companies carried land assets valuing ₹ 4,874.41 crore (PSPCL - ₹ 4,704.34 crore and PSTCL - ₹ 169.72 crore), whose title/ ownership was not vested in the two companies. Revaluation of land at market value without proper/ clear transfer of title/ ownership of and adjustment of accumulated losses there against was not in order.

In its reply (July 2015), GoP stated that they were entitled to revalue any asset based on revenue potential of assets and it revalued the land to reflect the market price. The reply was silent on the matter of revaluation of land assets of 955.585 acres[2] valuing ₹ 807.84 crore, whose ownership was not vested in PSPCL and taking the effect of such revaluation to balance sheet. Though, Section 131(2) of the Electricity Act, 2003 provided for valuing the assets on the basis of their revenue potential, we note that land held by the Board was not a stock-in-trade for the two successor companies and capital reserve created on revaluation of land thus was not adjustable against accumulated losses as also advised in the guidance note (30 April 1982) of Institute of Chartered Accountants of India.

3.1.2.3 Setting off of accumulated losses against capital reserve

The erstwhile Board had accumulated losses of ₹ 10180.35 crores at the time of unbundling, which did not appear in the balance sheets provided to the two successor companies. This was done by setting off these losses against the capital reserve created by revaluation of land assets held by the erstwhile Board, as shown below:

	Particulars	**(₹ in crore)**
	General Reserve of erstwhile PSEB as on 16-4-2010	50.07
Add	Reserve created on Land Revaluation	21248.92
Add	Adjustment by Accounts Officer/ Banking	73.14
	Total	21372.13
Less	Losses written off (as determined in Financial Restructuring Plan)[3]	10751.64
	Balance (divided between successor companies as capital reserve)	10620.49

[2] Annual accounts of PSPCL for the financial year ended 31 March 2012. Similar information disclosed by PSTCL but without land area and its monetary value.

[3] The difference between the PSEB's accumulated losses as on 16.04.2010 (₹ 10180.35 crore) and those written off during FRP (₹ 10751.64 crore) was broadly on account of adjustment of interest on RBI Bonds (₹ 453.13 crore) + additional provision for bad and doubtful assets (₹ 100.00 crore) + adjustments made by the field offices (₹ 16.64 crore).

The adjustment of accumulated losses against reserve created on land revaluation was in violation of generally accepted accounting principles as the revaluation reserve does not represent a realised gain and is the result of a book adjustment.

GoP while agreeing (July 2015) that generally accepted accounting principles did not allow writing off accumulated losses of a commercial entity in the normal course of business as a going concern stated that the very purpose of providing for a statutory scheme of reorganisation was to enable such adjustment at the instance of sovereign State Government by exercise of statutory powers which were otherwise not available under normal commercial dealing or general accounting principles.

We do not agree with this argument as the statutory powers vested in the State Government under the Electricity Act, 2003 did not give carte blanche to the State Government to re-write accounting principles to suit its expedient requirements. The loss of ₹ 10751.64 crore should have been funded by the State Government if its intention was to make the successor entities financially viable instead of setting them off against gains arising out of a book adjustment.

3.1.2.4 Non-funding of terminal benefits

The erstwhile Board was not observing a system of accrual based accounting for terminal benefits and followed a policy of 'pay as you go'. Clause 6.8 of the Scheme (2010) provided that PSPCL and PSTCL would be responsible to ensure that Terminal Benefits would be progressively funded to meet their liabilities as per actuarial valuation as the State Government assumed the responsibility of making appropriate arrangement for funding the terminal benefits trusts. However, the Scheme was amended in 2012 which provided that funding of the terminal benefits trusts (including for retired employees) would be a charge on the tariff of the PSPCL and PSTCL respectively on yearly basis, to be decided by Punjab State Electricity Regulatory Commission (PSERC) in the ratio of 88.64:11.36 over a period of 15 financial years.

The liability on account of terminal benefits as on 16.04.2010 of erstwhile Board was valued on actuarial basis at ₹ 14346 crore but was not revested in the two successor companies.

PSERC also disallowed an amount of ₹ 914 crore and ₹ 117.05 crore, respectively while deciding the Annual Revenue Requirement of PSPCL and PSTCL for the year 2014-15 on the ground that the terminal benefits liability did not feature in the opening balance sheets of the two successor companies.

Accounting Standard 15 though requires providing for terminal benefits liability on actuarial valuation, the Transfer Scheme provision requiring for progressive funding of this liability through a charge on tariff was in violation of this Standard. Both PSPCL and PSTCL continue to not recognise this liability in their balance sheets.

GoP stated (July 2015) that it was only after reorganisation that the successor entities were required to maintain trust funds and the contribution of the past years was required to be made good, which could be done only over a period of time and could not be accomplished in one go to avoid tariff shock to the consumers. GoPs reply regarding noncompliance with Accounting Standard 15 is not acceptable as the Government at the time of unbundling should have provided for this liability instead of providing funding through a charge on tariff which has also been disallowed by PSERC.

3.1.2.5 Determination of equity share capital

The equity share capital of erstwhile Board was ₹ 2946.11 crore. GoP in the amended Scheme (December 2012) notified, after unbundling, the combined share capital of the two successor companies at ₹ 6687.26 crore[4] (PSPCL: ₹ 6081.43 crore and PSTCL: ₹ 605.83 crore). The abnormal increase in the equity capital of the successor companies was due to incorrectly treating consumer contributions and grants and subsidies amounting to ₹ 3741.34 crore shown in the last balance sheet of the erstwhile Board, as equity, instead of as liabilities.

GoP stated that adjustments made in equity were made at the level of the Government after the erstwhile Board's assets and liabilities were vested in the State Government and the vesting of the assets and liabilities in the successor companies was not from the erstwhile Board.

The contentions of the GoP are not acceptable as the vesting of assets and liabilities of the erstwhile Board in the State Government did not materially alter their nature and did not permit the Government to usurp money paid by consumers for creation of assets for their use as its own equity. The successor companies too are not recognising such consumer contributions collected, after their incorporation, as equity.

The treatment of consumer contribution and grants and subsidies as equity for the purpose of tariff calculation has also been struck down by the Appellate Tribunal on Electricity. PSPCL appeal against this order is now awaiting Supreme Court's decision.

3.1.2.6 Liability of RBI bonds

The Reserve Bank of India (RBI) had issued bonds amounting to ₹ 637.35 crore on behalf of the State Government in the year 2003-04 which was to be serviced by the State Government. Against the outstanding ₹ 637.35 crore, a liability of ₹ 1090.47 crore was passed on to PSPCL reflecting an increase of ₹ 453.12 crore[5]. This increase included an amount of ₹ 185.21 crore, which reflected interest on the principal and interest already paid off by the State

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[4] GoP equity in Board - ₹ 2946.11 crore (+) Consumer contributions for capital assets - ₹ 2599.32 crore (+) Subsidies/Grants for capital assets - ₹ 1142.02 crore (-) Equity contributed to PSPCL and PSTCL - ₹ 00.10 crore (-) Cost of land retained by GoP – ₹ 0.09 crore = ₹ 6687.26 crore

[5] Interest paid by Govt. of Punjab till 16-4-2010 - ₹ 406.41 crore (+)Interest on interest and principal paid till 16-4-2010 - ₹ 185.21 crore (-) Incentive and interest on incentive till 16-4-2010 - ₹ 138.50 crore = Net increase - ₹ 453.12 crore

Government in the discharge of these Bonds. Interest on past repayments already made by the State Government was an additional burden on PSPCL, which was contrary to the objective of ensuring long-term financial viability of the successor companies.

3.1.3 Conclusion

Thus, liabilities amounting to ₹ 25097.64 crore were transferred to the two successor entities viz. PSPCL and PSTCL, either by incorrect accounting or by not recognising liabilities in the opening Balance Sheet at all. Though the objectives of the reforms in the power sector was to unburden the new entities from the past liabilities and provide them with clean financials, the successor entities were saddled with this huge liability from the beginning.

Punjab State Power Corporation Limited

3.2 Financial health of Company

After accounting for the impact of Auditors' qualifications, the Company incurred huge loss during 2010-13. It had a long-term debt of ₹ 15953.88 crore at the end of 2013-14. Non transfer of correct balances of assets and liabilities, incorrect accountal of loss and failure to limit expenditures within the fixed norms resulted in Company contracting loans much above the investment plan loans and working capital loans approved by the PSERC. It incurred heavy finance and interest cost of ₹ 1914.52 crore and avoidable payment of penal interest of ₹ 20.86 crore which affected the fund position. Failure to implement measures suggested by the Regulatory Commission resulted in non-recovery of ₹ 4373.64 crore.

As discussed in Para 3.1.2.1 above, unfunded liabilities of ₹ 25097.64 crore at the time of unbundling of the erstwhile Board were passed on to the successor Companies. Since, opening balances of assets and liabilities of PSPCL as given by GoP did not reflect the issues, the Company reported an incorrect loss of ₹1639.77 crore in its first accounts for the year 2010-11 which were commented upon by the statutory auditors' and the Comptroller and Auditor General of India. The qualifications on the Accounts had an effect of increasing the loss by nearly 12 times for the year 2010-11 to ₹19428.71 crore.

The following table shows the position in subsequent years:

Table 3.1: Financial position of the Company

(₹ in crore)

Year	2010-11	2011-12	2012-13	2013-14 (unaudited figures)
Profit/(-) Loss reported by Company	(-)1639.77	(-)537.05	260.55	249.31
Effect of Statutory Auditor (SA) comment	(-)72.28	(-)17022.01	(-)248.12	(-) 3076.89
Effect of CAG comment	(-)17716.66	1885.88	(-)1231.85	Accounts under audit
Loss after considering the effect of CAG and SA comments	(-)19428.71	(-)15673.18	(-)1219.42	(-) 2827.58
Long term loans	10940.53	9538.06	15789.40	15698.88
Short term loans	5800.00	5060.00	50.00	255.00
Interest and Finance charges	1594.88	1970.36	2429.79	2381.95

Source: Annual Accounts of the Company. The Company has not finalised its accounts for the year 2014-15 which were due by 30 September 2015.

The main sources of fund inflow of the Company are revenue from sale of power, subsidy from State Government and borrowings from Banks/ Financial Institutions. Fund outflow mainly comprises expenditure incurred on generation of power, purchase of power, establishment functions, capital works and repayment of loans and interest.

Audit noticed:

- The effect of the non transfer of correct balances of assets and liabilities and incorrect accountal of loss continued to affect the finances of the Company in the subsequent years. Company in the years 2011-12 and 2012-13, reported loss of ₹ 537.05 crore and profit of ₹ 260.55 crore which after considering the effect of qualifications of statutory auditors and those of the CAG turned into a loss of ₹ 15673.18 crore and ₹ 1219.42 crore, respectively.

- To meet this actual gap between income and expenditure, the Company took loans to discharge its obligations. The outstanding loans stood at ₹ 16740.53 crore, ₹14598.06 crore, ₹15839.40 crore and ₹15953.88 crore at the end of the years 2010-11, 2011-12, 2012-13 and 2013-14 respectively. The interest and finance charges increased from ₹ 1594.88 crore in the year 2010-11 to ₹ 1,970.36 crore in 2011-12, ₹ 2,429.79 crore in 2012-13 and marginally declined to ₹ 2381.95 crore in 2013-14. The Company was highly leveraged. Its debt-equity ratio stood at 2.40 in 2011-12 rose to 2.66 in 2013-14, as against the maximum advised norm of 2.33 for power companies given by PSERC.

- The cash flow from operating activities decreased from ₹ 3468.44 crore in 2011-12 to ₹ 2053.64 crore in 2012-13 and increased to ₹ 4014.78 crore in 2013-14 *(details given in **Annexure 7**).*

- The short term loan which stood at ₹ 7057.45 crore (16 April 2010) came down to ₹ 5800 crore in 2010-11, ₹ 5060 crore in 2011-12 and to ₹ 50 crore in 2012-13. The banks swapped (May-June 2012) the short term loans of the Company with new loans of longer tenure of equal amount to avoid these loans becoming Non-Performing Assets (NPAs).

Non recovery of cost of loans – interest and finance charges

3.2.1 Regulation 30 of PSERC (Terms and conditions for determination of Tariff) Regulations, 2005 direct the Company to assess its working capital requirements on normative basis. Upto 2011-12, it comprised fuel cost for two months; power purchase cost, employee cost, repair & maintenance cost, administration & general cost each for one month and maintenance spares @ 15 *per cent* of operation & maintenance expenses. With effect from 2012-13, PSERC revised Regulation 30 under which working capital was to be assessed as fuel cost for two months, operation & maintenance expenses for one month, receivables for two months, maintenance spares @ 15 *per cent* of operation & maintenance expenses less consumer security deposit. Capital requirements for investment plan was to be assessed on the basis of funds required for works during the year as reduced by consumer contribution, grants and subsidies received against the related works.

As against the directions, we noticed that the Company was not assessing its working capital requirements on normative basis and requirements of capital for investment plan was assessed without taking into account consumer contribution, grants and subsidies received against the related works. The position of loans approved by Commission vis-à-vis loans availed by the Company during the years 2011-12 to 2013-14 is tabulated below:

Table 3.2: Position of loans approved by PSERC vis-à-vis loans availed

(₹ in crore)

Year	2011-12	2012-13	2013-14
Investment Plan Loans approved by Commission (Source: Tariff orders of the Commission)			
Loan approved	1303.06	1050.08	1077.79
Investment Plan Loans availed by the Company (Source: Information supplied by the Company)			
Loan availed	1602.02	675.05	1172.39
Working Capital Loans approved by Commission (Source: Tariff orders of the Commission)			
Loan approved	2008.47	3414.93	2990.66
Working Capital Loans availed by the Company (Source: Information supplied by the company)			
Loan availed	5673.93	9197.82	1920.17

- The PSERC approved investment plan loan of ₹ 1303.06 crore for the year 2011-12 whereas the Company availed ₹1602.02 crore. The investment plan loans of ₹ 1050.08 crore and ₹ 1077.79 crore for the years 2012-13 and 2013-14 were provisionally approved by the Commission against which the Company availed ₹ 675.05 crore and ₹ 1172.39 crore respectively which were subject to true up of tariff for these years after disallowing consumer contribution, grants and subsidy, loans availed under R-APDRP as the loans were to be converted into grant on completion of programme.

- Against approved working capital loan of ₹ 2008.47 crore for the year 2011-12, the company availed loan of ₹ 5673.93 crore. During the years 2012-13 and 2013-14, the Commission provisionally approved working capital loans of ₹ 3414.93 crore and ₹ 2990.66 crore respectively whereas the company availed of ₹ 9197.82 crore and ₹ 1920.17 crore. The company was availing new long term loans for repayment of existing loans. Consequently, the Company could not recover cost of raising of finance i.e. interest and finance charges during the years 2011-12, 2012-13 and 2013-14 of ₹ 511.63 crore, ₹ 826.66 crore and ₹ 576.23 crore respectively in respect of loans drawn in excess of the norms which also included guarantee fee paid/payable to State Government on working capital loans to the extent of ₹ 2.62 crore, ₹ 91.20 crore and ₹ 49.28 crore respectively. The Company had availed medium term loans having repayment period ranging between three years and seven years besides short term loans having repayment period of one year to meet its working capital demand, which was not sound fund management.

Contracting of loans much above the limits fixed by the Commission can be traced to the Company's failure to limit its various other expenditures to norms specified by the Commission. Till 31 March 2014, the aggregate of such expenditures disallowed by the Commission while considering the tariff applications of the Company had risen to ₹ 13,222.00 crore.

We noticed that the Commission has been stressing the need for improvement in the working of the Company by reducing its work force, upgrading performance parameters and exercising economy. The Commission has also been laying down a road map for improving financial health of the Company through directives in each Tariff Order aiming at improving its technical, managerial and financial parameters. As the Company failed to implement these measures, it could not recover cost of its operations to the extent of ₹788.68 crore for 2011-12, ₹1,592.58 crore for 2012-13 (provisionally) and ₹1,992.38 crore for 2013-14 (provisionally) mainly on account of excess employee cost (₹538.36 crore), high power purchase cost (₹844.01 crore), excess depreciation (₹166.64 crore), higher fuel cost (₹642.73 crore), repair & maintenance (₹100.87 crore), administration & general expenditure (₹57.14 crore), interest & finance (₹1914.52 crore) and other expenses (₹109.37 crore).

In addition to aforementioned disallowances, the Commission disallowed ₹ 107.27[6] crore in their review of the tariff order for the year 2013-14 due to non-achievement of milestones as set out in the directives.

The Management while admitting the facts replied (August 2015) that the losses of the Company were funded by arranging working capital loans resulting in increase in loans.

Avoidable payment of penal interest

3.2.2 The company obtained Medium Term Loans (MTL) of ₹ 4,400 crore during April 2009 to December 2012 and Short Term Loans (STL) of ₹ 3,400 crore during February 2011 to March 2012 from various banks/ financial institutions to meet its working capital requirements. As per terms and conditions of loan agreements, principal amounts of MTL were to be paid in quarterly installments after expiry of prescribed moratorium period and of

[6] ₹ 10.00 crore on account of delay in shifting of meters outside premises in non-APDRP (rural areas), ₹ 72.27 crore on account of non implementation of Demand Side Management Regulations, ₹ 5.00 crore on account of non achievement of 100 per cent AP metering, ₹ 20.00 crore on account of non rationalisation of manpower.

STL in single installment after expiry of one year from the date of each drawl. Interest on principal amounts was to be paid on monthly basis. In case of any default, penal interest @ two *per cent* per annum was to be paid over and above the normal rate of interest.

We noticed that as the Company failed to generate necessary funds and defaulted in repayment of principal amounts during 2011-12 to 2012-13, it had to pay penal interest of ₹ 20.86 crore (₹16.40 crore on STL and ₹ 4.46 crore on MTL), resulting in increase in cost of debt.

The Management admitted (August 2015) that the loans could not be repaid in time after February 2012 as the banks had stopped providing new loans to the Company since September 2011 and the situation improved by May-June 2012 when banks restarted providing long term loans to the Company to repay its STL/MTL. The reply confirms that the debt position of the Company was unsustainable.

Poor monitoring of outstanding dues

3.2.3 The Company bills its consumers as per provisions of Electricity Supply Instruction Manual. It is obligatory on the part of the consumers to pay their electricity bills on or before due date of payments. Electricity Supply Instruction Manual of the Company provides that in case a consumer fails to discharge his liability, his premises will be liable for disconnection under Section 56 of the Electricity Act, 2003.

The table below indicates position of assessment and realisation of Company's revenue from sale of energy to consumer during the years 2011-12 to 2013-14:

Table 3.3: Position of assessment and realisation of revenue

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14
(i)	Arrear of revenue from sale of power at the beginning of the year	2,153.21	2,467.47	2697.54
(ii)	Revenue assessed during the year	15,668.45	19,191.90	20932.93
(iii)	Total revenue realisable during the year	17,821.66	21,659.37	23630.47
(iv)	Amount realised during the year	15,354.19	18,961.83	20539.12
(v)	Arrear at the end of the year	2,467.47	2,697.54	3091.35
	Percentage realisation	86.15	87.55	86.92

Source: Annual Accounts of the Company

The age-wise details of consumers whose payments were in arrears were not available with the Company which indicated lack of internal control.

The Management replied (August 2015) that the effective measures are taken to reduce outstanding dues to the minimum. Reply is not acceptable as concrete efforts should be taken to reduce the outstanding arrears.

Conclusion

Efficient fund management helps in optimum utilisation of available resources. However, the non-transfer of correct balances of assets and liabilities and incorrect accountal of loss coupled with the inability of the

Company to control its costs within the norms of PSERC, forced the Company to resort to borrowings beyond approved limits. The non-timely repayment of loans made the Company pay penal interest which further adversely affected the financial health of the Company.

The matter was referred to the Government (April 2015), their replies were awaited (September 2015).

3.3 Undue benefit to the firm

Failure on the part of the Company to get the bank guarantee renewed timely resulted in the Company extending undue benefit of ₹ 20.09 crore to the firm

The Punjab State Power Corporation Limited (Company) appointed (April 2010) M/s Spanco Limited, Gurgaon (firm) as Information Technology Implementation Agency (ITIA) for implementation of IT infrastructure under Re-structured Accelerated Power Development and Reforms Programme (RAPDRP) Scheme of Government of India. The Scope of work included supply, installation, integration, testing, commissioning and facility management service of System Integration Project covering software/hardware, field survey and networking of Company. The work order required the firm to complete the pilot town[7] implementation within a period of 12 months and enterprise wide[8] implementation within 18 months from the date of award followed by three months of successful running of the system i.e. work was required to be completed by 28 January 2012. The total cost of contract was ₹ 284.06 crore (₹ 232.54 crore for RAPDRP areas and ₹ 51.52 crore for non RAPDRP areas).

As per the terms of agreement, the firm was to be given 10 *per cent* of the project cost (excluding facility management service) as advance payment on issuance of Letter of Award against an equivalent amount of bank guarantee (BG). The firm was also to furnish a performance security bank guarantee (PSBG) for 10 *per cent* of contract value and. an additional performance security bank guarantee (APSBG) of 15 *per cent* of contract value.

The Company obtained PSBG of ₹ 28.40 crore (April 2010) and BG of ₹ 20.53 crore against advance of ₹ 20.53 crore paid (June 2010) from the firm. However, the firm did not furnish the 15 *per cent* APSBG and on request (May 2010) of the firm, it was reduced (October 2010) to five *per cent* (₹ 14.20[9] crore). However, Company did not take even the reduced amount

[7] Patiala city

[8] Includes all Urban areas covered in R-APDRP and all Urban, Semi-Urban and rural areas covered in non- R-APDRP

[9] Five *per cent* of contract value of ₹ 284.06 crore = ₹14.20 crore

and finally took an undertaking (March 2011) from the firm that it would submit the same before the payment stage of "User Acceptance Testing" (UAT).

We observed that when the BG of ₹ 20.53 crore expired in February 2012, the Company failed to get it renewed. After a gap of fifteen months, the Company decided (June 2013) to build up the BG by deducting 16 *per cent* from the due payments (₹ 129 crore) to the firm along with accepting a corporate guarantee[10] (₹ 23.27 crore). However, the Company could deduct only ₹ 0.44 crore (3.05 *per cent*) from the invoices of ₹ 14.41 crore raised by the firm.

On the scheduled date of completion (28.01.2012) of the project, the firm could only integrate (not Go-live) seven towns out of 47 towns along with setting up of Data centre and Disaster Recovery centre. The project had come to a standstill in December 2013. In view of this, the Company terminated (April 2014) the contract with the firm. The Company decided to encash the PSBG, corporate guarantee and to suspend business with the firm for three years.

We observed that the Company could only encash (April 2014) the PSBG amounting to ₹ 28.40 crore. The corporate guarantee of ₹ 23.27 crore accepted by the Company in lieu of BG could not be invoked even after serving (June/ July 2014) legal notice to the firm.

Thus, the successive dilution of the safeguards initially instituted by the Company to protect its interests in the event of failure by the firm to discharge its obligations and allowing the BG to lapse was tantamount to extending undue benefit to the firm which led the Company to forego ₹ 20.09 crore (₹20.53 crore – ₹0.44 crore).

The matter was referred to the Company and the Government (May 2015), their replies were awaited (September 2015).

3.4 Irregular exemption of octroi

Failure to carry out checks before allowing exemption from payment of octroi on electricity bills, obtained through submission of fake documents, and delay in withdrawal of the irregular exemption burdened the Company by at least ₹ 0.91 crore alongwith interest

The Company collects octroi imposed by the State Government on the electricity bills on behalf of Municipal Councils (MC) from its consumers in the area of MC and deposits it with the MC.

[10] A corporate guarantee is a guarantee in which a Company agrees to be held responsible for completing its duties and obligations.

M/s Patiala Casting Private Limited[11], Mandi Gobindgarh (firm) informed (June 2006) the Company that its power connection was outside the limits of MC, Mandi Gobindgarh and requested for exemption of octroi on its electricity bills. In support, firm produced a certificate purportedly issued by MC, Mandi Gobindgarh. The Company without verifying the facts from the MC, regarding actual location of the unit, decided (July 2006) to exempt the firm from charging of octroi on its electricity bills.

The firm further requested (November 2006) the Company for refund of octroi of ₹ 0.96 crore of the period June 1994 to June 2006 which was already deposited with MC from time to time by the Company. On investigation (March 2008) of matter of refund, Internal Audit Wing found that the certificate issued by the MC was not genuine. This fact was also confirmed from MC, Mandi Gobindgarh. The Internal Audit pointed out a recovery of ₹ 0.18 crore from the firm on account of outstanding octroi for the period July 2006 to February 2008 and rejected the demand of refund of octroi paid for the period from June 1994 to June 2006. However, the amount was not charged to ledger of the firm and consumer continued to get irregular exemption even after Company establishing the fact that the certificate based on which the exemption had been granted was not genuine.

The Company served (November 2009) a notice to the firm for paying outstanding octroi of ₹ 0.48 crore (From July 2006 to October 2009) but inexplicably the exemption allowed was not withdrawn even then and continued till the disconnection of power supply to the firm in March 2011 owing to non-payment of electricity dues.

The firm filed (January 2010) a Civil Writ Petition (CWP) in Punjab & Haryana High Court for restraining the Company from recovery of octroi. The CWP was decided (February 2012) against the firm on the ground that the firm had wrongfully obtained exemption. By April 2011, the amount of default had grown to ₹ 0.67 crore.

Meanwhile, the MC filed (April 2013) a case for recovery of octroi of ₹ 0.91 crore on the Company that the firm consumed electricity within the MC limits and it was the responsibility of the Company to collect octroi and deposit the same with the MC. The case was allowed (October 2014) against the Company along with interest of 12 *per cent* per annum, though the amount is yet to be paid (September 2015).

We observed that the Company extended irregular benefit as it allowed exemption to the firm based on a certificate, without verifying its authenticity, which turned out to be fabricated. The chances of recovery are bleak as the firm is a sick[12] company though a recovery suit for ₹ 2.55 crore[13] had been filed (August 2013) against the firm by the Company.

[11] having cluster connection with its sister concern M/s Patiala Steel Rolling Mills.

[12] Registered with the Bureau of Industrial and Financial Reconstruction (BIFR)

[13] Sale of Power: ₹ 1.26 crore, excise duty: ₹ 0.05 crore, octroi: ₹ 0.91 crore, late payment surcharge: ₹ 0.11 crore and interest upto March 2013: ₹ 0.22 crore

Thus, failure to carry out proper checks before allowing exemption and delay in withdrawal of exemption burdened the Company by at least ₹ 0.91 crore alongwith interest.

The matter was referred to the Company and the Government (July 2015); their replies were awaited (September 2015).

3.5 Injudicious procurement of licenses of MS Office Suite 2010

1525 licenses of MS Office Suite 2010 were procured without proper assessment of requirement by the Company resulting in an avoidable expenditure of ₹ 1.34 crore

The Punjab State Power Corporation Limited (Company) placed a work order (April 2010) for supply of 3209 personal computers under the Information Technology (IT) implementation project of Re-structured Accelerated Power Development and Reforms Programme (RAPDRP) scheme of Government of India. As the procurement of Office Suites software was not covered under the RAPDRP Scheme, Company decided (June 2011) to bear the cost of procurement of Office Suites software to be installed on these PCs. As recommended by its consultant, M/s Wipro, the Company assessed its requirement for 1525 licenses (for work stations in Sub-Division offices) of Microsoft Office Suite 2010 licenses against supply order of 3209 PCs and placed (September 2011) a purchase order on M/s Innovative Secure Technologies Private Limited, Chandigarh (firm) for their supply for ₹ 1.32 crore (@ ₹ 8633.73 per license), to be supplied in three bimonthly lots, tentatively each of 500 nos., within four weeks after the dispatch instructions.

The first lot of 500 licenses was supplied in October 2011, out of which only 200 licenses were used by the Company in PCs received for IT Implementation Project. The remaining 300 licenses were used in Thermal Plants and for use in-house developed salary/ pension software. Since only 965 PCs were received against 3209 PCs, no further dispatch instructions were issued to the firm till August 2012. The firm requested (September 2012) the Company to seek supply of the remaining quantity of 1025 licenses stating that it would not be able to supply the licenses at the agreed price after September 2012 as prices were likely to increase by 25 to 30 *per cent*.

In view of this, the Company justified (September 2012) the purchase of the remaining 1025 licenses on the ground that it would require about 1000 licenses for 965 PCs received by it under the RAPDRP project and for 485 desktops and 60 laptops already procured or likely to be procured. It was further contended that the delivery of the remaining licenses would obviate the need for further tendering. Firm supplied the remaining 1025 licenses during October 2012.

We noticed that M/s Wipro (IT consultants under R-APDRP), suggested to procure MS office 2010 Standard version or MS office Home & Business Edition to have uniformity in the Company rather than actual requirement of these software under RAPDRP project. Acting on consultant's opinion, Company procured MS office 2010 Standard Edition OLP INDIC licenses whereas open office/ Libre office license (open source/free office suites) were available to serve the basic purpose of generating reports from SAP. We further observed that the Company did not use these 1025 licenses for IT Implementation project. Instead, these were used on other computers for general office automation. The Company also did not apprise the Board of Directors regarding the diversion of software licenses for uses other than the project for which purchase order was placed.

Even, the subsequent tender enquiry floated (September 2014) by the Company for procuring 1500 licenses of MS Office was cancelled on the recommendation of Director (Distribution) to use Libre Office software which is a free-ware, in place of MS Office.

Thus, the injudicious procurement of 1525 licenses of MS Office Suite 2010 without proper assessment of their requirement by the Company resulted in an avoidable expenditure of ₹ 1.34 crore.

The Management in its reply stated (September 2015) that the remaining MS Office licenses were procured as the supplier firm had intimated that the prices were likely to rise by 25 to 30 *per cent.* It also stated that the additional licenses were used for other works of PSPCL. Reply is not acceptable as the additional MS Office were used for office automation and for Thermal/in-house software for online salary/pension etc. for which exclusively MS office licenses were not required. The Management admitted that the software licences were rendered surplus due to stalling of R-APDRP work.

The matter was referred to Government (May 2015); their replies were awaited (September 2015).

3.6 Avoidable expenditure on purchase of short term power

Shutting down of own thermal plants and purchasing of short term power at higher rates resulted in Company incurring an avoidable expenditure of ₹5.73 crore.

As per Regulation 11 of Punjab State Electricity Regulatory Commission (PSERC) (Power Purchase and Procurement Process of Licensee) Regulations, 2012, a distribution licensee is required to prepare short term power procurement plan every year and get it approved from PSERC. After approval, the Distribution Licensee shall be free to procure power through transparent open competitive bidding as per the guidelines of the Ministry of Power, Government of India, or through Power Exchange, or bilateral banking arrangements. In case of emergency conditions arising due to outage of a generator etc. which necessitates emergency procurement of power, efforts shall be made to carry out such emergency purchases through Power Exchange.

During examination of records of Punjab State Power Corporation Limited (Company), Audit noticed that during the month of April 2014, the Company purchased 70.22 MU of power amounting to ₹ 28.60 crore at an average rate of ₹ 4.07 per unit, by bidding, through power exchange. The reason adduced for the purchase was the boxing up[14] of units of thermal power plants in order to conserve coal.

We noted that during this period, Units 3 and 4 of Guru Hargobind Thermal Plant (GHTP), Lehra Mohabbat and Units 2, 4 and 6 of Guru Gobind Singh Super Thermal Plant (GGSSTP), Ropar had indeed remained shut down for a period of 24 days 19 hours, 15 days 15 hours, 2 days 7 hours, 22 days 15 hours and 24 days 5 hours respectively. In response to specific enquiries from these two thermal plants regarding the reasons for the shutdown of the five units during April 2014, it was intimated that the units had not been operated due to lack of demand. The scrutiny of coal stock records showed that there was availability of sufficient coal stocks for 10.92 to 17.3 days at GHTP, Lehra Mohabbat and for 23.46 to 26.97 days at GGSSTP, Ropar, during the same period.

Thus, shutting down of own thermal plants on account of no demand of power on one hand and purchasing of power at higher rates on grounds of conserving coal even though there were sufficient coal stocks available, caused an avoidable extra expenditure of ₹5.73 crore[15] on short term purchase of power during the month of April 2014.

The Management replied (July 2015) that purchase of power from power exchange instead of running own thermal units has resulted in saving of ₹ 6.79 crore. Reply is not acceptable as it is an afterthought. The thermal units were shut down on the ground of lack of demand during that period. The Company has taken the sale value of extra units (generated in case of running own thermal units) to power exchange at the rate of ₹ 1 per unit only whereas at the same time the Company had purchased the power at a rate of ₹ 4.07 per unit.

The matter was referred to the Government (March 2015), their replies were awaited (September 2015).

[14] Shut down

[15] 70.22 MUs power purchased through Power Exchange x 81.69 paisa per unit (407.30 paisa per unit cost of power purchased through Power Exchange – 325.61 paisa per unit total cost (fixed + variable) of power generated at own thermal power plants)

Punjab State Bus Stand Management Company Limited

3.7 Activities relating to 'Build, Operate and Transfer' of Bus terminals in PUNBUS

Concessionaires were allowed longer concession period which enabled them to earn higher than reasonable return of 16 *per cent,* determined by PIDB. A concessionaire was given undue benefit of ₹ 28.26 crore, by not reducing the concession period for failure to develop infrastructure facilities and passengers' amenities as per the concession agreements

3.7.1 Introduction

The Department of Transport (Department), GOP observing that the demand of traffic was outstripping the available facilities, decided to modernise and develop three bus terminals at Amritsar, Jalandhar and Ludhiana through Public Private Partnership (PPP) on Build, Operate and Transfer (BOT) basis. Punjab Infrastructure Development Board (PIDB), the nodal agency for developing infrastructure in the State, with the help of consultants, identified concessionaires[16], through competitive bidding. The successful concessionaire was to design, finance, develop, construct and commission the project in 18 months from the date of signing of agreement. During the operation and maintenance phase, the concessionaire was to operate and maintain the bus terminal facilities including collection and retention of revenue from adda fee charged to public buses, lease rental from the commercial spaces of the bus terminal, parking charges and sale of advertising rights. At the end of the concession period, the ownership of all the facilities of the bus terminal was to be transferred to the Department.

The brief profile of each of the projects is as follows:

Table 3.4 : Profile of PPP projects

Particulars	Amritsar	Jalandhar	Ludhiana
Name of the private concessionaire	**Rohan & Rajdeep Infrastructure Private Limited (RRIL)**	**MSK Projects (India) Limited (MSKPIL)**	**MSK Projects (India) Limited (MSKPIL)**
Date of signing of agreement	03 February 2004	22 June 2005	16 August 2005
Concession period	11 years 5 months	8 years 5 months 21 days	10 years 3 months
Date of expiry of concession period	21 August 2015	20 January 2015	16 January 2016
Total project cost	₹ 12.75 crore	₹ 11.60 crore	₹ 13.47 crore

In the meantime, the GOP transferred (November 2005) land and assets of the 19 bus terminals (including Amritsar, Jalandhar and Ludhiana) to Punjab State Bus Stand Management Company Limited (Company).

[16] The private party in whose favour concession is granted.

3.7.2 Audit findings

The Sectoral Sub-Committee, Transport Sector (SSC) of PIDB, while appraising the financial bids had observed (June 2003) that for such projects internal rate of return (IRR) of 16 *per cent* was reasonable. The audit findings on the activities relating to Build, Operate and Transfer of Bus terminals in the Company are discussed in the succeeding paragraphs:

3.7.2 (a) Amritsar bus terminal

The work of this terminal was awarded to Rohan & Rajdeep Infrastructure Private Limited (RRIL). Audit observed that while finalising the contract, the consultant assumed rental income in the range of ₹ 0.60 to ₹ 0.92 crore per annum (annual increase at the rate of 5 *per cent*) from the proposed commercial area of 17,000 sq. ft. in new terminal against an income of ₹ 0.35 crore per annum from the old structure (3050 sq. ft.). The consultant thus assumed an increase in rental income by 1.7 times whereas the commercial area increased by 5.5 times. We observed that against the assumed income of ₹ 0.60 crore to ₹ 0.92 crore during 2004-15, actual income was between ₹ 1.32 crore and ₹ 1.95 crore during 2010-14[17]. The consultant also did not consider depreciation on capital expenditure (₹12.29 crore) in case of RRIL funding. As a result, income tax payment was overestimated and cash inflows were underestimated by ₹ 2.95 crore[18].

The Company replied (August 2015) that while assumption regarding lease rental may have proven to be on lower side, the assumption of adda fees was taken much higher than the actual adda fees being collected. However, we observed minor variation ranging between (+) 6.46 *per cent* to (-) 6.44 *per cent* in adda fee whereas the variation in lease rental was between (+) 74 *per cent* and (+) 123 *per cent* during 2010-11 to 2013-14.

Thus, the under-pegging of these assumptions allowed the concessionaire to earn higher return against the reasonable return of 16 *per cent*, for which a shorter concession period would have sufficed.

3.7.2(b) Jalandhar and Ludhiana Bus terminal

The offer for minimum concession period for Jalandhar Bus terminal was 8 years and 9 months received from M/s MSKPIL. The SSC observed (January 2005) that the concession period would give post tax IRR of 31.64[19] *per cent* on equity invested by the concessionaire. Audit observed that the IRR of 16 *per cent* was achievable in a concession period of 6 and a half years, whereas the concession agreement was signed with M/s MSKPIL for a period of 8 years 5 months and 21 days. Similarly, in case of Ludhiana Bus terminal, the return of 16 *per cent* was achievable in concession period of 6 years, whereas

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[17] For years 2004-05 to 2009-10, accounts of the concessionaire were not made available for scrutiny of Audit.

[18] Depreciation on ₹ 12.29 crore @ 10 *per cent* on written down value basis for 10.5 years works out to ₹ 8.22 crore. (Income Tax on ₹ 8.22 crore X tax rate of 35.87 per cent)

[19] Based on project cost of ₹ 14.10 crore worked out by the architect and designer of project.

the concession agreement was signed with M/s MSKPIL for a period of 10 years and 3 months.

The Company replied (August 2015) that the decision regarding giving bus terminals for higher concession periods was taken by PIDB after considering all factors and after due deliberations. However, the fact remains that the concessionaires were allowed to earn returns higher than considered reasonable return of 16 *per cent* by PIDB itself.

3.7.3 Provision of infrastructure facilities/ passenger amenities

The concessionaires were required to develop the bus terminal facilities as per the specifications given in concession agreement/ request for proposal (RFP) documents. Audit observed that:

3.7.3.1 Ludhiana bus terminal

The concessionaire provided 12 alighting bus bays (against agreement of 19), 77 idle bays (against agreement of 100), covered parking space of 1000 sq. mt. (against agreement of 1475 sq. mt.) and did not provide the basement parking facilities (against agreement of 3150 sq. mt.). The financial impact of these variations was assessed at ₹ 4.93 crore by independent engineer/ Company. The Company accordingly reduced (February 2009) the concession period by 3 years and 9 months.

The concessionaire apprised (April 2012) the Company that Director State Transport (DST) cum Managing Director (MD) of the Company had already withdrawn the decision taken in February 2009 regarding reduction in concession period by 3 years and 9 months and had granted (May 2009) further extension of 6 months and 28 days and attached a copy of that office order. However, the Company informed (May 2012) the concessionaire that the order was not on their office records.

The Secretary, Department of Transport after discussion (June/ July 2012) with the concessionaire and the Company decided (August 2012) to withdraw the decision of February 2009 and office order of May 2009 (which was not on the records of the Company) and approved net reduction of merely four months.

We observed that the Company could not get the concession period readjusted as per original orders (3 years and 9 months), on account of variations, and that the Secretary Transport reduced the concession period by four months only. This extension of undue benefit to the concessionaire, of not reducing the concession period by 3 years and 5 months, led to a loss of ₹ 28.26[20] crore to the Company.

[20] Calculated on the basis of revenue and expenditure estimated in March 2004.

3.7.3.2 Jalandhar Bus terminal

We observed that the facilities and passenger amenities developed at the bus terminal were not as per specification envisaged in RFP:

Table 3.5 : Comparison of facilities to be created and actuals at Jalandhar

Sl. No.	Description	Area as per RFP (sq. mt.)	Actual facilities (sq. mt.)	Difference (sq. mt.)	Difference in percentage terms
1	Total covered area	15502	12642.41	(-) 2859.59	(-) 18.44
2	Passenger Concourse Area	8929	5297.12	(-) 3631.88	(-) 68.56
3	Disembarkation bays	1208	783.53	(-) 424.47	(-) 35.14
4	Total commercial area	1515	1729.80	(+) 214.80	(+) 14.18

The Company issued (October 2007) a notice of arbitration, as per agreement, to reduce the concession period by 3 years 3 months and 13 days. The arbitration award (December 2011) which went against the Company was challenged in the District Court which gave its decision (August 2014) in favour of the Company. The concessionaire appealed against the decision which is pending in the High Court. The concessionaire, meanwhile, handed over the bus terminal to the Company on 21 January 2015, availing the full concession period. The fact remains that the concessionaire was able to avail full concession period despite variation in infrastructural facilities and passenger's amenities.

3.7.4 Fulfilment of financial obligation by the concessionaire

PPPs involve long term agreement with private partner which may give rise to financial risk and contingent liability in case of non-performance by the private partner. Therefore, in order to secure the financial interest of government/ public entity, a concession agreement ensures minimum equity requirement by the private partner.

As per terms and conditions of the concession agreement, the concessionaire and lead member of the consortium for Amritsar bus terminal was required[21] to maintain minimum equity prescribed in the agreement. Non-compliance of the same was to be treated as 'concessionaire events of default' which may lead to termination of agreement.

We observed that concessionaire's equity component during the period from 23 March 2004 to 22 August 2006 was ₹ 0.50 crore against the requirement of ₹ 6.50 crore. The concession agreement was thus liable for termination in terms of the clause on 'concessionaire events of default'.

[21] clause 4.2 (a) of the agreement provided aggregate equity component of the consortium members in the total project cost shall not less than 51 *per cent* of the project cost during construction phase of the project and for a period of two years from after the issue of construction completion certificate and 26 *per cent* for the balance of operations and maintenance phase and till the transfer date.

3.7.5 Other Issues

- **Weak functioning of monitoring/ oversight mechanism**: A Maintenance Board (MB) for each bus terminal was to be constituted which was to meet at least once in a quarter for monitoring the operation and maintenance phase. We observed that as against the desired 38, 29, 29 numbers of meetings to be held, only 20, 12, 12 were held in respect of Amritsar, Jalandhar, Ludhiana respectively during September 2006 to March 2015.

The concessionaires for all the bus terminals also did not submit the audited annual accounts of the projects from the year 2003-04 to 2013-14 to the MBs for review as per terms and conditions of concession agreements. The concessionaire of Jalandhar and Ludhiana bus terminals never submitted traffic reports containing daily adda fee collected.

The Management replied (August 2015) that the MB meetings were held as per availability of time of the concerned members and that there was no loss due to non-submission of the annual accounts/ reports. The reply is not acceptable as due to lesser meetings monitoring/ oversight mechanism remained deficient. The Government was also deprived of data for formulating its transport policies, available through traffic data of buses and passenger traffic at the bus terminals.

- **Maintenance and upkeep of bus terminals**: The MBs of Amritsar and Ludhiana bus terminals during their meetings expressed concern on issues such as unauthorised encroachment in passenger's movement area by shop/ kiosk owners, unsatisfactory level of cleanliness, overcharging from passengers by shopkeepers etc. At Jalandhar bus terminal, the concessionaire was penalised (April 2011) for deficiencies in services.

Conclusion

The Company allowed the concessionaires to earn higher return than reasonable return of 16 *per cent* by giving them longer concession period. The Company failed to ensure development of infrastructure facilities and passengers' amenities as per the concession agreements. Even in case of non-development of infrastructure facility and passengers' amenities, the concession period was not reduced.

The matter was referred to the Government (July 2015); their reply was awaited (September 2015).

3.8 Undue favour to a contractor

Undue favour was extended to a contractor in reducing penalty by ₹3.68 crore and not recovering loss of route receipts in terms of the agreement.

Punjab State Bus Stand Management Company Limited (Company) purchased (August 2011) 210 chassis of ordinary buses and 25 of HVAC[22] buses. The Company entered (August 2011) into an agreement for the fabrication of bodies on these chassis with the lowest tenderer i.e. M/s Swami Coaches & Engineering Private Limited, Dera Bassi (contractor). As per the terms of the agreement, the contractor was to fabricate bus bodies on the chassis made over in one lot within the time cycle of 40 days. In the event of failure to complete the work, the contractor was liable to pay penalty at the rate of ₹ 2,500 per chassis per day and in case of delay beyond 55 days, further penalty equal to route receipts was also leviable.

The contractor was not able to fabricate and deliver the buses and faltered on the delivery schedule resulting in backlog. The contractor explained (January 2012) their financial constraints and requested the Company not to deliver more chassis for fabrication of bodies for the time being as also for either waiver of the penalty or to take back their remaining chassis. The Company had also made (January 2012) advance payment of ₹ 40 lakh (@ ₹ 50,000 per chassis against 80 chassis) to the contractor in accordance with the terms of the agreement. In view of slow pace of fabrication of bus bodies, the Company decided (20 March 2012) to take back 112 chassis of ordinary buses and 20 chassis of HVAC buses from the contractor and handed over the work of fabrication of bodies of the remaining buses to other contractors at the same rates but at a reduced rate of penalty of ₹ 500 per chassis per day.

We observed that instead of invoking penal provisions of the agreement, the Company subsequently accepted (30 March 2012) the request (28 March 2012) of the contractor to reduce penalty for already fabricated and delivered buses with delay, for chassis taken back and for chassis still under fabrication, in tandem with agreements entered with other contractors. In extending undue benefits, against the penalty of ₹ 4.64 crore, the Company imposed and recovered a penalty of ₹ 96.25 lakh only. Penalty on account of loss of route receipts due to delayed delivery of completed buses were not worked out at all which were also due in terms of the agreement.

Thus, subsequent reduction of penalty by ₹ 3.68 crore and non-recovery of loss of route receipts in terms of the agreement resulted in undue favour to the contractor.

The management in its reply (April 2015) stated that the decision for reduction in penalty was taken keeping in view the financial interest of the Company to avoid unnecessary litigation so that the buses could be plied on route at the earliest. The reply is not acceptable as subsequent reduction of penalty was not justified as even after reduction of quantum of penalty and payment of due advance, the contractor was unable to fabricate the bus bodies.

[22] Heating, Ventilation and Air Conditioning 3x2 seating buses

The matter was referred to the Government (February 2015), their reply was awaited (September 2015).

Pepsu Road Transport Corporation

3.9 Financial health of Corporation

Despite huge financial support from the State Government, the Corporation was unable to discharge even its committed liabilities. Weak fund management resulted in revenue loss of ₹ 6.87 crore and loss of interest of ₹ 11.30 crore.

Pepsu Road Transport Corporation (Corporation) was established (October 1956) under the Road Transport Corporation Act, 1950 to provide transport service to the general public. The main sources of inflow of funds are ticket sales to passengers, adda fee and rent of shops located at bus stands, loans from banks/ State Government, etc. and the outflow of funds are towards operation, repair & maintenance of buses, interest on loans, establishment, general & administrative expenses, construction of bus stands and purchase of buses. The Corporation has 10 depots[23] in the State and operated 804, 726 and 737 owned buses and 290, 256, 256 hired buses during 2011-12, 2012-13 and 2013-14 respectively. The audit was conducted to analyse the financial health of the Corporation during the period 2011-12 to 2013-14. The audit findings have been discussed in the following paragraphs.

The financial position, working results and other related financial indicators of the Corporation are as below:

Table 3.6 : Financial position

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14
1	Equity Share Capital	306.44	306.44	306.44
2	Depreciation Reserve Fund (accumulated)	65.96	72.01	79.62
3	Profit (+)/ Loss (-) before tax for the year	(-) 2.39	(-) 10.97	(-) 11.11
4	Depreciation during the year	4.04	6.05	7.61
5	Cash profit (+)/ loss (-) for the year (Sl. no.3+4)	(+) 1.65	(-) 4.92	(-) 3.50
6	Accumulated Losses	354.22	365.19	376.30
7	Loans - a. State Government/others	--	8.75	23.75
	b. Term Loan (Banks)	36.91	38.84	25.45
	c. Cash Credit Limit availed	10.00	10.00	23.77
8	Bank Interest paid/payable	6.79	6.40	6.63
9	Free/ concessional transport services			
	a. Received	38.59	107.34	80.35
	b. Recoverable	69.31	34.86	38.41
10	Debt Equity Ratio	0.15:1	0.19:1	0.24:1

Source : Annual accounts of the Corporation

[23] Patiala, Sangrur, Kapurthala, Bathinda, Budhlada, Barnala, Ludhiana, Faridkot, Chandigarh and special cell for kilometre scheme buses

Out of the three years, the Corporation made cash losses in two years and thus had a negative cash flow. This severely impaired the capacity of the Corporation to even fund its day to day operations from internal resources.

3.9.1 Factors contributing to dismal financial health

The major reasons which affected the financial health of the Corporation are summarised as under :

- Introduction (1992) of pension scheme by the Corporation has saddled the corporation with a huge liability. The yearly contribution (September 2014) to this fund was ₹ 3.60 crore (approx.) whereas the pension/family pension payment is ₹ 63.00 crore (approx). By October 2010, the Corporation had exhausted its pension funds and started making pension payments from its daily route receipts. As on January 2015, the Corporation/ GPF/ CPF Trusts had outstanding liability of ₹ 191.08[24] crore (approx.) to its working/ retired employees.

- The Corporation could operate only 1076.58 lakh kilometers against the scheduled 1294.40 lakh kilometers which resulted into non-achievement of targets and into deficit of revenue of ₹ 52.75 crore (target: ₹ 328.50 crore, achievement: ₹ 275.75 crore) during the year 2013-14. No revenue targets had been fixed for the year 2011-12 and 2012-13.

- GoP though had issued (August 2013) notification for automatic future revision of fares at the rate of 3 *per cent* on 1st April every year, no increase was made by the Corporation during 2014-15 resulting in non-realisation of revenue of ₹ 6.87 crore (January 2015).

- 39 buses of the 81 HVAC buses purchased at an average cost of ₹ 29.11 lakh after taking loans from banks during 2008-13 were still unoperational.

In order to assist the Corporation overcome its financial difficulties, the GoP converted (June 2012) its loan and capital contribution of ₹ 104.42 crore along with interest payable of ₹ 128.98 crore upto 31.03.2011 into Share Capital. GoP also decided (November 2014) to pay ₹ 4.50 crore per month (from October 2014) on monthly basis for a period of 18 months to meet committed liabilities like pension etc. by the Corporation. The State Government also decided to defer repayment of Special Road Tax (SRT) etc. recoverable from the Corporation for a period of one year.

[24] Gratuity (₹ 18.77 crore), GPF of retired employees (₹ 3.26 crore), GPF Trust (₹ 78.65 crore), CPF Trust (₹ 14.65 crore), commutation of pension (₹ 27.50 crore), leave encashment (₹ 13.24 crore) and arrears of revised pay and pension (₹ 24.51 crore) and unpaid pension for the month of December 2014/ January 2015 (₹ 10.50 crore)

3.9.2 Availment of loans and their utilisation

3.9.2.1 Diversion of loans availed from banks and State Government

The Corporation availed term loans of ₹ 31.25 crore from the State Bank of Patiala (SBOP) for purchase of 200 new buses in August 2010 (₹ 17.25 crore:100 buses) and November 2012 (₹ 14.00 crore:100 buses) at an interest of 14.25 *per cent* per annum. Of the loan ₹ 15.99 crore was diverted for making payments of salaries and retirement dues of employees/pensioners. Consequently, 90 buses could not be purchased.

Similarly, GoP sanctioned (December 2012) a loan of ₹ 35.00 crore for purchase of new buses (₹26.00 crore) and construction of new bus stands (₹ 9.00 crore), out of which ₹ 13.75 crore was released during January 2013 to March 2013. The Corporation intimated utilisation of ₹ 13.75 crore for purchase of buses and requested for release of ₹ 10.00 crore during 2013-14. The State Government released (October 2013) ₹ 10.00 crore to the Corporation and asked for its Utilisation Certificate (UC). We observed that the Corporation had not fully utilised ₹ 13.75 crore for the purchase of new buses and had diverted part of it for meeting its routine expenses. Similarly, loan of ₹ 10.00 crore was not utilised for purchase of new buses and was diverted for meeting revenue expenditures, salary/pension etc. GoP stopped disbursement of balance loan of ₹ 11.25 crore. Thus, by diverting the loans for creation of capital assets towards revenue expenditure, the Corporation lost an opportunity to increase its revenues.

The Management stated (August 2015) that the term loans availed from Banks and State Government were also utilised for payment of pension/pensionary benefits to the retirees in view of various directions from the Punjab & Haryana High Court. The fact remains that the Corporation diverted the loans arranged for purchase of buses due to its weak financial planning.

3.9.2.2 Keeping of funds in Current Account with banks vis-a-vis cash credit limit

GoP instructed (May 2008) all PSUs not to keep any money in non-interest bearing current account when competitive options were available to earn better returns. As per Para 1.3 of Corporation's Accounting Rules and Procedures, the depots were to deposit their route receipts in Head Office's bank account. We observed that Corporation had a Cash Credit Limit account with SBOP on which interest @ 14 *per cent* per annum was being charged whereas its depots were maintaining separate current accounts with SBOP through which they incurred expenditure after taking funds from the Head Office and retention of some route receipts. Test check of records of five[25] selected depots and Head Office revealed that the depots kept funds ranging between ₹ 0.35 lakh to ₹ 5.79 crore in these current accounts during the period April 2012 to November 2014. Similarly, funds ranging between ₹ 0.16 lakh to ₹ 13.68 crore were kept during the period April 2012 to January 2015[26] at Head Office

[25] Bathinda, Chandigarh, Ludhiana, Patiala & Special Cell
[26] Except for the period 06.04.2014 to 30.04.2014 and from 18.07.2014 to 31.07.2014

Level. Thus keeping funds in non-interest bearing current account led to avoidable excess availment of CCL maintained at Head Office on which interest on daily balance had to be paid. This resulted into avoidable payment of interest of ₹ 79.69 lakh.

The Management admitted and stated (August 2015) that due to shortage of staff it was not possible to monitor daily balance in current account. Efforts are being made to avoid the loss of interest by informing the depots in advance regarding payments and thereafter funds are being released.

3.9.3 Loss of interest due to delay/non release of reimbursement of free/concessional transport services

The Corporation provides free/ concessional travelling services to employees of eligible departments and for beneficiaries of social welfare schemes for which the reimbursement claims are raised with the concerned department on quarterly basis. We observed that these claims were not paid/ adjusted on timely basis. Resultantly, ₹ 69.29 crore, ₹ 34.86 crore, ₹ 38.41 crore and ₹ 48.70 crore remained unrecovered as on 31 March 2012, 31 March 2013, 31 March 2014 and January 2015 respectively.

This delayed reimbursement of claims resulted in excess availment of CCL loan to that extent in the respective years and avoidable payment of interest of ₹ 10.50 crore[27] on non/delayed receipt of funds.

The Management stated (August 2015) that there is a procedure of lodging claims on quarterly basis after getting the same audited from the internal audit organisation of Finance department due to which payment gets delayed. Further, the State Government is providing financial assistance to PRTC to overcome financial crisis. Reply is not acceptable as the Corporation should have taken up the matter with the State Government for timely reimbursement of claims.

3.9.4 Conclusion

Despite financial support from the State Government, the Corporation was unable to discharge even its committed liabilities indicating poor financial control leading to increased dependence of the Corporation on State budgetary support. Weak fund management of the Corporation has resulted into revenue loss of ₹ 6.87 crore and loss of interest of ₹ 11.30 crore.

The matter was referred to the Government (April 2015), their replies were awaited (September 2015).

[27] Calculated from April 2011 to December 2014

Punjab Financial Corporation

3.10 Non recovery of compensation for use and occupation of plot

Failure of the Corporation to act against the defaulting purchaser for recovery of its legitimate claim resulted in a loss of ₹ 2.03 crore

Punjab Financial Corporation (Corporation) auctioned (February 1996) the mortgaged assets[28] of a defaulter loanee to M/s Leisure Wear Exports Limited, Ludhiana (purchaser) for ₹ 1.32 crore. A sale agreement in this regard was entered into (May 1996) on payment of earnest money of ₹ 0.33 crore (25 *per cent* of sale price). The balance was to be paid in twelve equated quarterly instalments i.e. within a period of three years. The purchaser did not pay any instalments and instead filed a number of petitions on one or the other ground[29] against the Corporation. The Punjab and Haryana High Court (High Court) adjudicated (May 2010) against the purchaser directing him to pay the entire balance of amount[30] within three months of the date of decision. In case of non-payment, the Corporation was entitled to resume the plot in accordance with law. The Corporation was also given liberty to take steps to recover compensation, if found due, on account of use and occupation of plot by the purchaser.

The purchaser did not pay the dues and instead filed a Special Leave Petition (SLP) in Supreme Court of India against the High Court decision which was dismissed (July 2011). The Corporation though resumed the plot (September 2011) but did not initiate action for recovering compensation for use and occupation of plot on the grounds that (i) there was no enabling clause in the sale agreement in this regard and (ii) the Corporation had been resuming the properties from the defaulting purchasers in the past and no compensation had been claimed in any of the cases. The Board of Directors of the Corporation decided (August 2012) that the case be legally examined for exploring the possibility of recovery. It was opined (October 2012) that the suit for damages can be filed to recover the amount which the said property might have fetched if given on rent.

We observed that the compensation for use and occupation of plot by the purchaser for more than fifteen years, could not be guided only by the terms and conditions of agreement and/or past cases, as compensation was allowed by the High Court considering the circumstances in this particular case. In view of the fact that a guiding principle for recovering compensation at the rate of six *per cent* per annum for use and occupation of plot by the purchaser

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[28] Plot of land measuring 6,556 Square Yards and machinery mortgaged by M/s Pretty Cycles Private Limited, Ludhiana to secure loan from the Corporation.

[29] Ownership title of the property in question, seeking refund of the earnest money, re-schedulement of the payment of the due instalments due to non-handing over of the entire possession of plot.

[30] Which comes to ₹ 34.52 crore as on 1 May 2010.

had been laid down by the Court in the proceedings of the case[31] itself, a compensation of ₹ 2.03 crore upto March 2015 (after setting off the payment of earnest money of ₹ 0.33 crore) was recoverable from the purchaser. The Corporation's failure to act against the defaulting purchaser for recovery of its legitimate claim inspite of High Court decision as well as dismissal of SLP filed by purchase resulted in loss of ₹ 2.03 crore.

The Management/ Government in their reply (May 2015) stated that in view of the judgment of the High Court, the Corporation has initiated the process for recovery of ₹ 2.03 crore with further interest. The reply was not acceptable as even after lapse of more than five years, the Corporation has not filed the suit for damages (September 2015) against the defaulters.

3.11 Non-availing of opportunity to earn rental income

Laxity in leasing out surplus space in its building and fixation of excessive expected rent caused the Corporation to lose opportunity to earn rental income of ₹ 3.25 crore upto March 2014

The Punjab Financial Corporation (Corporation) to augment its income, decided (December 2007) to lease out part of the assessed vacant space of 17793.75 sq. ft. (basement – 5163.75 sq. ft., ground floor- 5385 sq. ft., top floor- 7245 sq. ft.) in its office building. The Corporation issued (January 2008) an advertisement for leasing out the vacant space against which three offers were received, including an offer from M/s Bajaj Travels Limited at monthly rent of ₹ 3.25 lakh for ground floor (@ ₹ 60.35 per sq. ft. for 5416 sq. ft.) and ₹ 2.00 lakh for the top floor (@ ₹ 27.60 per sq. ft. for 7142 sq. ft.) with 15 *per cent* increase in lease rent after every three years. However, the Corporation did not consider these offers finding them below expectation.

The Corporation subsequent attempts to lease out the space also did not materialise due to this reason. The Executive Committee resolved (November 2008) to quote a rate of ₹ 350 per sq. ft for ground floor and ₹ 300 per sq. ft. for top floor to the Export Import Bank of India, which was almost double the prevailing market rates.

The space remained vacant and part of the space to was finally leased out GoP at the rate approved by Central Public Works Department or ₹ 65 per sq. ft. whichever was higher with effect from 1st April 2014 and 11 April 2014.

Thus, due to laxity in leasing out its building and fixation of expected rent much above the prevailing market rates, the Corporation could not let out its building for more than six years (from January 2008 to March 2014) inspite of

[31] Where the court at the time, when the purchaser sought refund of the earnest money in 1996 at the rate of 18 *per cent* per annum, had observed that the reduction in rate of interest from 18 *per cent* to 12 *per cent* would compensate the Corporation for the use and occupation of the plot.

several offers and could not avail the opportunity to earn rental income of ₹ 3.25[32] crore upto March 2014.

Management in its reply (July 2015) stated that they tried level best to rent out the property from time to time at the maximum possible rates. However, the same could not materialise despite the best efforts due to market forces/position. The reply is not acceptable as the Corporation had not accepted various offers in view of high rental expectation fixed by them and could finally rent the building at much lower rates than even the market rates to GoP.

The matter was referred to the Government (July 2015), their replies were awaited (September 2015).

Punjab State Civil Supplies Corporation Limited, Punjab Agro Foodgrains Corporation Limited, Punjab State Warehousing Corporation and Punjab State Grains Procurement Corporation Limited

3.12 Financial health of procurement agencies

The State Procurement Agencies (SPA) had accumulated losses of ₹3268.77 crore by 2013-14 and were showing ₹16356.33 crore as recoverable, of which ₹11385.18 crore had been qualified as doubtful. There was a mismatch of ₹21562.82 crore between outstanding CC limit and stock of foodgrains held by these Agencies. The SPAs were financing their losses and non-operational expenditure from cash credit limits. Inefficiencies in milling operations, non recovery of costs from millers, delayed/ non raising of claims on FCI/ millers, failure to enforce terms of contracts, damages to stocks, etc. contributed to deteriorating financial health.

Government of India's (GoI) foodgrains management strategy involves procurement of foodgrains at Minimum Support Prices (MSP) from the growers, its storage and movement, maintenance of buffer stocks and ensuring availability of foodgrains to the public at reasonable prices. Under the existing procurement policy of GoI, procurement of foodgrains is handled primarily through the Food Corporation of India (FCI), State Procuring Agencies (SPAs)[33] and the private rice millers. In the state of Punjab, these SPAs handle the procurement and storage of foodgrains.

As the financial health of the procurement agencies had been deteriorating day

[32] Calculated for the period January 2008 to March 2014 on minimum rate (i.e. ₹ 27.60 per sq. ft.) for both the floors on the basis of ₹ 2.00 lakh offered by M/s Bajaj Travels Limited for top floor.

[33] Punjab Agro Foodgrains Corporation Limited (PAFC), Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Warehousing Corporation (PSWC) and Punjab State Cooperative Supply & Marketing Federation Limited (MARKFED)(Markfed not under audit purview)

by day, Audit analysed the factors contributing to adverse financial health of PAFC, PUNSUP, PSWC and PUNGRAIN in the following paragraphs:

The only source of funds of these SPAs is the income from sale of foodgrains to FCI and other associated income accruing as per GoI/ State Government orders. The funds are utilised for purchase of foodgrains (including gunny bags), interest on cash credit limit availed and other incidental expenses. The fund flow position of the SPAs for the year 2013-14 is given in ***Annexure 8*** and the working capital position for the years 2012-13 and 2013-14 has been given in ***Annexure 9***. It can be seen therefrom that Working Capital was negative in three agencies (PUNSUP, PUNGRAIN and PSWC) and positive for PAFC. The gap between the Current Assets and Current Liabilities had widened in three agencies which is indicative of the deteriorating funds position.

The aggregated key financial indicators of four SPAs for the years 2012-13 and 2013-14 [34] (accounts for the year 2014-15 being in arrears) are given in the following table.

Table 3.7 : Aggregate key financial indicators of four SPAs

(₹ in crore)

Particulars	2012-13	2013-14
Paid up Capital	17.78	17.78
Accumulated losses	(-) 2910.75	(-) 3268.77
Net worth[35]	(-) 2866.49	(-) 3224.51
Revenue from sale of foodgrains	24065.33	30093.70
Reported loss for the year indicated	(-) 567.17	(-) 516.78

Source : Annual accounts of PUNSUP, PUNGRAIN, PSWC and PAFC

The reported accumulated losses of the four SPAs (without the effect of qualifications of statutory auditors and those of the CAG) were ₹ 2910.75 crore upto 2012-13 which further increased to ₹ 3268.77 crore by 2013-14. The net worth of these four SPAs had been fully eroded and was negative to the extent of ₹ 3224.51 crore in 2013-14 from ₹ 2866.49 crore, an increase of 12.49 *per cent*.

As per their latest finalised Annual Accounts, the SPAs have been showing an amount of ₹ 16356.33[36] crore as recoverable from GOI/ FCI/ State Government/ millers. Of this ₹ 11385.18 crore had been qualified and commented as doubtful of recovery by Statutory Auditors or by Comptroller and Auditor General of India (C&AG) due to non/ improper implementation of rules and orders governing the procurement operations of foodgrains, milling of paddy, pending/ delayed/ non raising of claims with FCI/ GoP and millers, misappropriations and damage to stocks, etc as detailed below:

[34] Figures of PAFC & PSWC for 2013-14 are final and those of PUNSUP and PUNGRAIN are based on provisional balance sheets.

[35] Net worth=Paid up capital - Accumulated losses + free reserves

[36] As per final balance sheets of PUNSUP and PUNGRAIN for the year 2012-13 and PSWC and PAFC for the year 2013-14.

Table 3.8 : Recoverables being shown by SPAs in their financial statements

(₹ in crore and amount doubtful of recovery in brackets)

Sl. No.	Particulars	PUNSUP	PUNGRAIN	PSWC	PAFC
1.	Recoverable from FCI/ GoI (on account of rice, wheat, Guarantee fee, transportation charges on paddy etc.)	4700.21 (4498.16)	2672.07 (2672.07)	948.50 (22.75)	2787.45 (2162.58)
2.	Recoverable from State Government (on account of Atta Dal scheme, I.D. cess etc.)	987.49 (283.66)	-	175.89	197.73 (197.19)
3.	Recoverable from millers (on account of rice/paddy pending to be delivered, gunny bags retained, misappropriation etc.)	190.25 (190.25)	244.03 (244.03)	185.69 (163.74)	700.97 (507.91)
4.	Recoverable from staff (on account of shortage, misappropriation, festival advances taken etc.)	42.57 (42.57)	7.12	10.07	292.61 (279.84)
5.	Other recoverable	747.07	17.17	1203.34	246.10 (120.43)
	Total	**6667.59 (5014.64)**	**2940.39 (2916.10)**	**2523.49 (186.49)**	**4224.86 (3267.95)**

Source: Statutory Auditors' reports on latest annual financial statements of SPAs and CAG's Comments.

Had these claims recoverable exhibited by the agencies were provided for or written off, the accumulated losses would swell to ₹ 14653.95 crore. In fact the procurement agencies were financing their negative net worth and losses through their cash credit limits. The Statutory Auditors of PUNSUP too have consistently remarked that the annual accounts do not reflect a true and fair view of the state of affairs of the Company.

- Due to their inefficient operations, the SPAs had been financing even their non-operational expenditure from Cash Credit limits, which was secured by hypothecation of stock of foodgrains and Punjab Government's guarantee. The State Government too had not been compensating the agencies adequately and timely for the operations done on their behalf.

- The current ratio of the SPAs varied between 0.45:1 to 1:1 {PAFC (1:1); PUNGRAIN (0.84:1); PSWC (0.78:1) and PUNSUP (0.45:1)} for the year 2013-14 which showed that the SPAs had inadequate liquidity to meet their short term obligations, even as per their reported results.

Major factors contributing to poor financial health have been discussed in the succeeding paragraphs:

3.12.1 Mismatch between Cash Credit Limit outstanding and value of hypothecated stock of foodgrains resulting in levy of penal interest.

The procurement activity of SPAs is funded through Cash Credit (CC) limit availed from Reserve Bank of India (RBI) through State Bank of India (SBI), arranged by Food and Supplies Department (F&SD), Punjab. The CC limit is availed on the hypothecation of foodgrains procured and the SPAs are required to maintain stock levels at least equal to the CC limit outstanding.

We observed that the outstanding CC was not backed by the required stock levels (as per agreement) and the minus gap between the outstanding CC limit and value of hypothecated stocks was showing an increasing trend over the period covered under audit as depicted in the table below:

Table 3.9 : Position of stock vis-à-vis Cash credit outstanding

(₹ in crore)

Sr. No.	Name of the agency	As on 31 March 2013		As on 31 March 2014		As on 31 March 2015	
		Stock	CC	Stock	CC	Stock	CC
1.	PUNSUP	6079.99	10746.73	4265.59	10203.60	3031.58	10986.84
2.	PUNGRAIN	5404.16	9247.24	4956.25	9034.48	4614.78	9952.57
3.	PSWC	3072.64	5844.53	2060.47	4979.53	1728.69	5230.26
4.	PAFC	3286.24	6343.17	2497.76	5824.44	1709.45	6477.65
Total		**17843.03**	**32181.67**	**13780.07**	**30042.05**	**11084.50**	**32647.32**
Gap between stock and CC		**14338.64**		**16261.98**		**21562.82**	

Source: Monthly Stock Statements of SPAs to SBI.

The gap between the outstanding CC limit and the stock of foodgrains there against had widened from ₹ 14338.64 crore in 2012-13 to ₹ 21562.82 crore in 2014-15. The State Bank of India (SBI) observing this difference, asked (January 2015) the State Government to deposit the outstanding amount of ₹ 20920.36 crore (as on 30 November 2014) into the Food Cash Credit loan account to regularise the account lest it would risk slipping into 'Non Performing Asset' category as per RBIs prudential norms on assets classification and consequently the State Government would be in default. SBI stated that CC limit is sanctioned against stocks only and not against receivables of the SPAs also. The bank also charged (December 2014) ₹ 2.57 crore as penal interest on the four SPAs.

GoP identified the reasons for the mismatch between the outstanding CC and stocks held by SPAs as time gap between delivery of food grains and receipt of full payment from FCI, difference in provisional and actual expenses, non-settlement of pending disputes, non-reimbursement of expenses sanctioned in provisional cost sheet by FCI and structural weaknesses in the system of calculation of stocks of foodgrains. We, however, find that besides the above, other major causes which contribute to poor financial health of SPAs, include damage to foodgrains due to unscientific storage, shortage and misappropriation of foodgrains, delay in raising claims on FCI and other private stakeholders like millers, diversion of CC limit for procurement of foodgrains and non-receipt of subsidy claims of ₹ 1693.01[37] crore for the State's Atta-Dal scheme etc. as on 31 March 2015 and extension of milling period of paddy by the GoP at the cost and expense of the Company.

[37] Position ending March 2014 was commented in Para No.3.16.3 of AR (PSUs) for the year 31 March 2014

3.12.2 Inefficiency in operations

Custom milling policy (CMP) of the State Government and agreement between the rice millers and the SPAs, *inter alia*, provides that rice millers would deliver the custom milled rice within the stipulated/ extended period. However, the SPAs failed to get the paddy milled within stipulated period which resulted into loss of interest, custody and maintenance charges amounting to ₹ 2586.97[38] crore which reflects inefficient operations with consequential adverse impact on their financial position. The State Government also got extended the milling period from GOI without any cost or commitment to compensate the SPAs for cost to be incurred during extension period by them.

Table 3.10 : Position of extension of milling period and cost involved

(₹ in crore)

Particulars	PAFC	PUNGRAIN	PSWC	PUNSUP
Interest loss	182.75	415.50	468.33	1213.73
Custody and maintenance charges	---	--	88.11	218.55
Stipulated dates (Upto which paddy to be milled)	31 March of relevant crop year	31 March of relevant crop year	31 March of relevant crop year	31 March of relevant crop year
Actual extended period in which Paddy milled (No. of months)	3 to 15 months (KMS 2010-15)	9 to 15 months (KMS 2010-12)	6 to 15.5 months (KMS 2009-14)	6 to 16 months (KMS 2008 -13)

Source : Information from the SPAs and interest calculations

The SPAs also failed to initiate any action to recover the penal interest from the millers for delayed milling of paddy for Kharif Marketing Season 2009-10, 2012-13 and 2013-14 in spite of provision of penal interest @ 12 *per cent* in this regard in the CMP of those years.

3.12.3 Other reasons for deteriorating financial health of SPAs

The financial health also suffered from the following inefficiencies in the operations from the procurement of foodgrains upto delivery to FCI, which have been highlighted in Audit Reports of Government of Punjab – PSUs:

- Lack of control in milling operations resulting in misappropriation of paddy, non-recovery of costs from millers, and non/ delay in raising bills on FCI with consequential loss of interest of ₹59.30 crore in PSWC, PUNGRAIN and PUNSUP. (Para no. 3.7 of CAG Audit Report – PSUs-2012-13)
- Failure to recover transportation charges ₹103.01 crore in 2013-14 in PUNGRAIN from the millers where the costs are already included in the milling charges paid to them (Para no. 3.14 of CAG Audit Report – PSUs - 2013-14).

[38] PUNGRAIN (para 3.13 printed in AR (ES-PSUs) for the year 2013-14); PSWC (para 2.1.15 printed in AR (ES-PSUs) for the year 2013-14); PUNSUP (para no.2.1.15 of AR (ES-PSUs) for the year 2012-13) and PAFCL for AR (ES-PSUs) for the year 2014-15).

- Damage to wheat stocks valuing ₹ 64.91 crore in PAFC due to failure to deliver the wheat stock on FIFO principle and unscientific storage methods (Para no. 3.7 of CAG Audit Report (Commercial) - 2010-11)
- Failure to maintain the quality of wheat stocks of 49,865 MTs in PAFC and their timely delivery to FCI in acceptable condition resulting in disallowance of carry over charges.(Para no. 3.11 of CAG Audit Report – PSUs - 2012-13)

Conclusion

The SPAs had accumulated losses of ₹3268.77 crore by 2013-14 and were showing ₹16356.33 crore as recoverable, of which ₹11385.18 crore had been qualified as doubtful. There was a mismatch of ₹21562.82 crore between outstanding CC limit and stock of foodgrains held by the SPAs. They were financing their losses and non-operational expenditure from cash credit limits. Inefficiencies in milling operations, non recovery of costs from millers, delayed/ non raising of claims on FCI/ millers, failure to enforce terms of contracts, damages to stocks, interest losses due to delayed milling, non recovery of penal interest from the millers and non receipt of subsidy from the State Government contributed to the poor financial health.

The matter was referred to the Companies/ Corporation and the Government (July 2015); their replies were awaited (September 2015).

3.13 Loss due to excess consumption of gunny bags

Filling of 35 kg of paddy in a 50 kg bag by the procuring agencies against the GoI norms of 37.5 kg paddy per 50 kg bag resulted into excess consumption of gunny bags and extra cost of ₹ 125.49 crore to the procurement agencies

The procuring agencies[39] procure paddy on behalf of Government of India (GoI), for central pool. After getting it milled from the rice millers, the agencies deliver resultant rice[40] to FCI, the prescribed out turn ratios being 150 kg of paddy to yield 100 kg of rice. Both paddy and rice are filled in 50 kg bags. As per the rates of custom milled rice issued by the GoI for each crop year, FCI, for procurement of 100 kg rice, reimburses cost of four bags – full cost of two bags delivered with rice and 40 *per cent* cost of two bags remaining with millers. Accordingly, the procurement arrangement is required to be made in such a manner that 150 kg of paddy required to produce 100 kg of rice is filled in four gunny bags of 50 kg size, thereby implying that on an average 37.5 kg paddy is to be filled up in each bag. Further, in accordance

[39] Punjab State Grains Procurement Corporation Limited, Punjab State Civil Supplies Corporation Limited, Punjab Agro Foodgrains Corporation Limited and Punjab State Warehousing Corporation

[40] On the basis of out-turn ratio of 67 *per cent* for raw rice and 68 *per cent* for par-boiled rice.

with Custom Milling Policy for respective years issued by the State Government, 60 *per cent* of the bags remaining with the millers are to be recovered from the millers.

GoP ordered (07.9.2010) procuring agencies to fill 35 kg of paddy per bag instead of 37.5 kg which resulted in the usage of 4.26 bags[41] for procurement of 150 kg of paddy against GoI norms of four bags. The request of the GoP for allowing its procurement agencies to fill 35 kg paddy in each bag was turned down by GoI (July 2013 and October 2014).

This filling of 35 kg of paddy instead of 37.5 kg per 50 Kg resulted in excess consumption of 8.38 crore gunny bags valuing ₹ 125.49 crore without any reimbursement from GoP.

The matter was referred to the Company and the Government (June 2015), their replies were awaited (September 2015).

Punjab Agri Export Corporation Limited

3.14 Purchase of onions

Purchase of onions without considering the commercial and safety angle of the operation caused a loss of ₹ 2.79 crore

Ministry of Agriculture, Government of India (GOI) informed (May 2014) GoP that unfavourable weather conditions in the State of Maharashtra in February/March 2014 had damaged the standing onion crop and also resulted in increased moisture content in the harvested onion, thereby affecting its storability. Anticipating stress in onion prices they advised to consider the desirability of procuring and storing onions at current price and releasing them to the market during lean period when prices showed an upward trend.

Punjab Agri Export Corporation Limited (Company) decided (June 2014) to purchase about 1000 – 1500 metric tons (MT) onions from Maharashtra. The Company purchased (June and July 2014) 1500.413 MT of onions at a cost of ₹ 3.63 crore through handling & forwarding agent. The whole operation, exploration of the market at Nasik in Maharashtra and appointment of handling and forwarding agent, was done on the recommendations of only one officer i.e. General Manager of the Company in contravention of the Purchase Procedure[42] of the Company.

[41] One quintal of rice/out-turn ratio of 67 per cent/35 kg quantity of paddy filled in a bag

[42] In case of perishable items where the prices are quickly fluctuating and where the mode of tenders etc. is not practically possible and/or is not in the interest of the Company, purchase may be effected through the competent committee (consisting of minimum three members) as per delegation of powers.

The committees constituted for inspection of the quality, quantity and storage condition of the onions reported (July and September 2014) that due to lack of experience and adequate manpower for mandatory restacking of stocks after every two/three weeks and non sorting out of rotten onions from the healthy bulbs, unavailability of special stores for onions and poor storage conditions etc., the stocks were being damaged. The committee recommended that action be taken for liquidation of the stock regularly in order to avoid further damage as fresh onion has a shelf life of 2-3 weeks.

We observed that the Company before starting procurement did not consider its lack of experience and infrastructure for storing this commodity. The Company sold 716.787 MT onions for ₹ 0.84 crore incurring a loss of ₹ 0.89 crore. The balance quantity of 783.623 MT (52 *per cent* of the total purchase) valuing ₹ 1.90 crore was damaged.

The Company stated (August 2015) that though the activity did not yield profit but the objective of the procurement to keep the prices under control had been achieved. While appreciating the need for the State agencies to make market interventions to regulate prices of key commodities, we find that purchase was made without adequate experience and preparation. Further, the Company was also not able to release the stock of onions in the market during the period the prices were expected to peak as more than 50 *per cent* of the procured onions were damaged due to improper storage.

Thus, the decision to purchase onions without considering the commercial and safety angle of the operation caused a loss of ₹ 2.79 crore (₹ 0.89 crore + 1.90 crore) to the company.

The matter was referred to the Government (July 2015); the reply of the Government was awaited (September 2015).

Punjab State Industrial Development Corporation Limited

3.15 Undue favour to lessee

Undue favour to a lessee resulted in loss of opportunity to earn extra rental income of ₹ 1.22 crore during the period September 2009 to March 2015.

Punjab State Industrial Development Corporation Limited (Company) executed (August 2004) a lease deed with GAIL (India) Limited (lessee), a Government of India undertaking, for renting out 6,212 square feet area in its building at the rate of ₹ 30 per square foot with 5 *per cent* increase on the completion of third year, for a period of five years commencing from 18

September 2004, renewable further on mutually acceptable terms and conditions.

On expiry of period of lease (17 September 2009), the Company proposed a minimum rent of ₹ 100 per square foot to the lessee against the prevailing market rates[43] of ₹ 100 to ₹ 200 per square foot. The lessee refused to accept this increase in the rent and legal notice was issued (September 2009) for vacation of the premises. However, the Company agreed (29 October 2009) to charge a rent of ₹ 70 per square foot with effect from 18 September 2009 with an increase at the rate of 10 *per cent* on the completion of third year. Revised lease deed was executed (22 February 2010) commencing from 18 September 2009 which was again renewed (15 September 2014) for a further period of five years at the rate of ₹ 110 per square foot with an increase of 10 *per cent* on the completion of third year.

We observed that the space was initially leased in September 2004 without any quotations/ tenders. While renewing (September 2009) the lease, a rent of ₹ 70 per square foot was accepted against the prevailing market rates of ₹ 100 to ₹ 200 per square foot. We further observed that though the Company leased out (June 2014) a part of ground floor at the rate of ₹ 125 per square foot to a State Government department, it renewed (28 July 2014) the lease deed with the lessee, GAIL at ₹ 110 per square foot.

Thus, the decisions to renew the lease at rentals lower than the ruling market rates were not based on sound commercial considerations and resulted in undue favour to the lessee, resulting in loss of opportunity to earn extra rental income of ₹ 1.22 crore[44] to the Company during the period September 2009 to March 2015. This acquires further significance as the Company has been carrying huge accumulated loss year after year which stood at ₹ 656.20 crores as at 31 March 2014.

The Company/ Government in their reply (June/July 2015) stated that building was given on rent to a Government of India (GoI) undertaking being directly associated with acceleration of industrial growth in Punjab in association of PSIDC and it was on the safer side to give the building to a GoI undertaking and in the then prevailing market conditions it was a wise decision to let out the building at the rates mentioned above. The reply was not acceptable because leasing out premises to a GoI Navratna Company at rentals lower than the prevailing market rates was not in the financial interests of the Company.

[43] Rent rates of similar property collected by the Company from the local property dealers.

[44] Calculated at minimum market rates of`₹ 100 per square foot for the period of 18 September 2009 to 17 September 2014 and for the period from 18 September 2014 to 31 March 2015 at the rate of ₹ 125 per square foot charged from Punjab Bureau of Investment Promotion.

Punjab Information & Communication Technology Corporation Limited

3.16 Non-implementation of project

Decision to implement the project without waiting for environmental clearance and adequate financial arrangement resulted in infructuous expenditure of ₹ 2.32 crore and interest loss of ₹ 1.12 crore on ₹ 2.60 crores deposited for development of the project

The Punjab Information & Communication Technology Corporation Limited (Company) decided (June 2009) to develop an IT Park at Village Railmajra on land[45] measuring 12.11 acres. As this land was designated forest land, clearance from the Department of Forest, GoP was sought (June 2010).

The work of internal development of IT Park was assigned (March 2010) to Punjab Small Industries and Export Corporation Limited (PSIEC) at an estimated cost of ₹ 8.26 crore for which an advance payment of ₹ 2.60 crore was released. The Company allotted (January 2011) 11 plots @ ₹ 4000 per sq. yard and a total sum of ₹ 1.08 crore was received as earnest money deposit and instalments.

The Company deposited (January 2011) ₹ 45.55 lakh for compensatory afforestation and transferred (May 2012) 13.09 acres land costing ₹ 1.28 crore in District Gurdaspur to the forest department in terms of orders of Ministry of Environment and Forest (MOEF), GoI.

As environment clearance was getting delayed and PSIEC had not started ground level development work, most of the allottees expressed (August 2012) their intent to surrender the plots. The Company in accepting (September 2012) the cancellation of plots also allowed refund of earnest money without interest and decided to sell the land in one chunk, by auction, for commercial, mixed land use, IT Park and institutional use citing that with the estimated cost of developing the park had risen to around ₹ 10.00 crore against the earlier estimated cost of ₹ 8.26 crore for which Company did not have arrangement of funds.

Audit observed that the Company had initiated work without having clearance from the MOEF and spent ₹ 2.32 crore on purchase of equivalent area of land, cost of compensatory afforestation, bhoomi pujan etc. till the shelving of the project (September 2012). The MOEF gave clearance (November 2012) for setting up of IT Park project subject to conditions which included that the forest land would not be used for any other purpose than to set up an IT park and specified that it could be revoked/ suspended in case of non fulfilment of the stated conditions.

[45] This land was acquired by State Government in the year 1985-86 for setting up of project by M/s Intermagnetic India Limited (IIL) which was 100 *per cent* subsidiary of the Company. The assets and liabilities of IIL were transferred (December 2009) to the Company after it became defunct.

Thus, the decision to implement the project without prior planning, statutory clearances and adequate financial arrangement resulted in infructuous expenditure of ₹ 2.32 crore and loss of interest on ₹ 1.12 crore[46] on ₹ 2.60 crore advanced to PSIEC.

The Management replied (July 2015) that PSIEC had not incurred any expenditure on the project and amount deposited would be adjusted against the dues since the date of advance and there would not be any burden on the Company. It further stated that all the investments made have been debited to the project as well as land transferred to the Company.

The reply is not acceptable as the Company may not be able to get the land use changed and sell the land as one chunk and it has not adjusted the advance given to PSIEC till date (July 2015) though the project was dropped in September 2012. Further, debiting of investment is not a solution as the Company could not get permission from the Government to sell this land in whole chunk despite a lapse of 34 months since shelving of the proposal.

The matter was referred to the Government (May 2015), their reply was awaited (September 2015).

3.17 Loss due to improper planning

Establishment of an Incubation Centre without conducting due diligence with regard to its viability resulted in loss of ₹ 2.17 crore and misutilisation of ASIDE grant to the extent of ₹ 0.60 crore.

To provide initial support to start-up units in the field of Information Technology/Information Technology Enabled Services, Company decided (March 2009) to establish an Incubation Centre (Centre) at Mohali. The Company formed a Governing Council consisting of its officers, experts from the industry and Software Technology Parks of India (STPI), for implantation of this project. Though the proposal put before the Board of the Company for the establishment of the Centre stated that many SME units had expressed the need for an incubation facility in Mohali, the proposal was not backed by any survey or study indicating the need and demand for such a facility and its commercial viability.

The Centre was established (2010) in two phases; in first the Company took (June 2010) ground floor of a building of Punjab Communication Limited (PunCom) on rent for initial period of three years and in the second, it leased (May 2012) first floor of the same building. The renovation of building was completed at a cost of ₹ 1.37 crore (first phase - April 2011 at a cost of ₹ 0.75

[46] calculated on minimum bank FDR @ 9 *per cent* from February/June 2010 to March 2015

crore and second phase - May 2012 at a cost of ₹ 0.62 crore). A grant of ₹ 1.00 crore was received for the second phase under Assistance to State for Developing Export Infrastructure and other Allied Activities (ASIDE) Scheme.

The Company finding the Centre being unable to attract adequate number of incubates, closed the second phase and surrendered (July 2013) first floor of the building hired to PunCom. Even for space on ground floor, there were not enough incubates to occupy the entire space resulting in recurring losses for the Company. Against the total rent of ₹ 1.41 crore earned, the Company paid a rent of ₹ 2.22 crore during the period 2010-11 to 2014-15. In view of recurring losses and commercial unviability of the project, the Company decided (March 2014) to close even the first phase of the centre (May 2014).

Audit observed that before establishing the Centre, the Company had not conducted any survey to explore the business potential and to determine its economic and commercial viability. Instead it made an investment of ₹ 1.37 crore on renovation of rented premises. Further, while the guidelines issued by Ministry of Commerce & Industry stipulated that the grant under ASIDE Scheme was to be utilised only for creation of capital infrastructure, ₹ 0.60 crore of the amount sanctioned for second phase of incubation centre under ASIDE Scheme was utilised for renovation of the building, which was misutilisation of ASIDE grant and against the tenets of the scheme. On surrendering of renovated premises to PunCom, the Company also could not get any compensation in lieu of expenditure incurred on renovation due to the absence of an enabling clause in the agreement in this regard.

Thus, establishment of an Incubation Centre without conducting due diligence regarding its viability resulted in Company incurring of loss of ₹ 2.17 crore (₹ 1.37 crore on account of renovation of rented premises and ₹ 0.80 crore - deficit of rent received against rent paid to PunCom) besides misutilisation of ASIDE grant to the extent of ₹ 0.60 crore.

The Management stated (June 2015) that no such survey was required as the region is an established IT destination. The reply is not acceptable as the Company being a commercial organisation should have secured its financial interests too.

The matter was referred to the Government, their reply was awaited (September 2015).

Punjab Small Industries and Export Corporation Limited

3.18 Loss due to allotment of land free of cost in contravention of Land Allotment Policy

Allotment of land to SPV for setting up a CETP in contravention of New Land Allotment Policy has resulted into favour to SPV and a loss of ₹ 1.61 crore to the Company.

Jalandhar Effluent Treatment Society for Electroplating Industries (SPV) requested (April 2013) the GoP to allot a land for setting up a Common Effluent Treatment Plant (CETP) at Focal Point (Extension), Jalandhar, developed by Punjab Small Industries and Export Corporation Limited (Company). Director, Department of Industries and Commerce (DIC) informed (April 2013) the Company that in pursuance to an affidavit filed by the GoP in the Punjab and Haryana High Court in response to a Civil Writ Petition on controlling pollution, a CETP was to be set up in Jalandhar by 31 March 2014. The Company was to decide on the allotment of land to the SPV for setting up a CETP at Focal Point (Extension) Jalandhar.

The Company accordingly requested (April 2013) the Secretary, DIC to accord approval for allotment of a land measuring around 4,600 square yards[47] to the SPV at the existing land allotment reserve price of ₹ 3,500 per square yard. The said plot of land was kept reserved as green belt in the layout plan of focal point. During the pendency of the decision of DIC on the proposal, the Company observed that as establishment of CETP was in overall environmental interest of the area and to keep it pollution free, decided (May 2013) to de-reserve the said piece of land and allot this land to the SPV free of cost for public welfare purpose against previous consideration of allotment of land at the existing reserve price of ₹ 3,500 per square yard. It again approached (September 2013) DIC to approve the allotment of land free of cost to the SPV for setting up of CETP since the Land Allotment Policy of April 2008 did not have specific provisions for allotment of land for setting up CETP.

Meanwhile, the State Government notified (October 2013) a new policy for allotment of land in various industrial focal points which provided that the allotment of plots to SPVs for setting up of common facility centre shall be made at the reserve price fixed by the developing agency with the approval of the DIC.

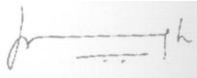
Audit observed that the Company, overlooking the provisions of the new policy, again requested (January 2014/March 2014) DIC to allot the land free of cost to the SPV, which was accorded (April 2014). The possession of land was handed over (June 2014).

[47] Lying vacant in the green belt at Focal Point (Extension), Jalandhar opposite to Plot No. E-41 to E-46 and on the backside of Plot No. E-54 to E-47 abutting Kala Sanghian drain on one side.

Audit observed that this allotment of land to SPV for setting up a CETP free of cost, in contravention of provisions of New Land Allotment Policy to allot land at reserve price, has resulted into favour to SPV and a loss of ₹ 1.61 crore[48] to the Company.

The management replied (March 2015) that the Company has provided the possession of said land on leasehold basis and the ownership of the land vests with the Company. The fact remains that the Company always makes allotment of plots on lease but based on payment and not free of cost. The management reply was silent on cost aspect.

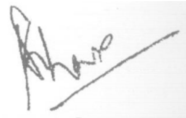
The matter was referred to the Government (January 2015), their reply was awaited (September 2015).



Chandigarh
The 18 December 2015

(Jagbans Singh)
Principal Accountant General (Audit),
Punjab

Countersigned



New Delhi
The 5 January 2016

(Shashi Kant Sharma)
Comptroller and Auditor General of India

48 Worked out at ₹ 3500 per square yard