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 and Statutory corporations

Punjab Scheduled Castes Land Development and Finance Corporation

3.1 Disbursement and Recovery of Financial Assistance

The actual receipts of the Corporation was only ₹ 64.85 crore against planned financial resources of ₹ 145.56 crore during 2013–16 which impaired its capacity to implement welfare schemes. The Corporation's physical achievement of targets ranged from four *per cent* to 28 *per cent* in schemes undertaken in collaboration with re-finance institutions. There were pending applications from intending beneficiaries while it parked ₹ 6.83 crore in fixed deposits instead of disbursing assistance to eligible beneficiaries.

3.1.1 Introduction

As per the 2011 census, 88.60 lakh (31 *per cent*) out of the total population of 2.77 crore of the State belonged to communities designated as Scheduled Castes (SC). With the objective of economic upliftment of the SC community, the Punjab Scheduled Castes Land Development and Finance Corporation (Corporation) was incorporated in January 1971. The State Government and Government of India (GoI) hold equity in the share capital of the Corporation in the ratio of 51:49.

The Corporation advances loans to the members of the SC community under various schemes either directly through 'Direct Lending Scheme' or in collaboration with three National Re-finance Institutions (NFIs)[1] by acting as State channelising agency to implement their welfare schemes in the State. The Corporation also extends subsidy to Below Poverty Line (BPL) SC families under the Special Central Assistance (SCA) scheme of GoI through its Bank Tie-up Scheme.

Against a target of disbursement of loan of ₹ 65.64 crore to 4,200 beneficiaries, the Corporation disbursed ₹ 27.14 crore to 1,907 beneficiaries (excluding subsidy of ₹ 3.29 crore disbursed to 3,291 beneficiaries under the Bank Tie-up Scheme) out of 8,635[2] loan applications received under all the *ibid* four schemes during 2013-16. This worked out to 41.35 *per cent* and 45.40 *per cent* of the financial and physical targets fixed respectively during

[1] National Scheduled Castes Finance and Development Corporation (NSFDC), National Safai Karamcharis Finance and Development Corporation (NSKFDC) and National Handicapped Finance and Development Corporation (NHFDC).

[2] Excluding applications of beneficiaries under the Bank Tie-up Scheme as the information regarding number of applications is not available with the Corporation.

the period. The Corporation had extended loan of ₹ 151.22 crore to 0.72 lakh SC beneficiaries under various schemes since its inception in January 1971 to March 2013. In addition to this, the Corporation had also extended subsidy of ₹ 157.71 crore to 4.50 lakh SC BPL beneficiaries under SCA scheme during the same period.

3.1.2. Planning

3.1.2.1 Non preparation of strategic plan

A strategic plan provides an organisation with a framework to enunciate its goals, strategies and work plan for implementing target schemes, deploying resources, setting performance indicators and monitoring progress vis-a-vis targets.

Audit observed that the Corporation had not prepared any strategic/ long term plan for coverage of targeted beneficiaries in a phased manner nor had it undertaken any micro level survey to identify the target groups (except for Bank Tie up scheme) and for identification of viable professions and trades for various blocks/districts. As a result, the Corporation was fixing targets on ad-hoc basis.

Management stated (May 2016) that Corporation prepares five year plan for achieving its objective. Audit however observed that the Corporation had just compiled data of its annual plans of the years 2012-17 and presented the same as a five year plan. In the absence of a strategic long term plan, need based annual targets to cover the beneficiaries in a phased manner could not be fixed.

3.1.2.2 Mobilisation of resources for implementation of schemes

In order to implement the schemes, the Corporation raises funds through equity (from GoI/State Government), loans from NFIs, Special Central Assistance and recovery of loans from beneficiaries. Table 3.1 below summarises the planned financial resources and actual resources mobilised to implement the various schemes during 2013-16:

Table 3.1 - Planned financial and actual resources

(Figures: ₹ in crore)

Particulars	2013-14		2014-15		2015-16 (upto January 2016)	
	Planned	Actual	Planned	Actual	Planned	Actual
Equity	10.63	11.74[3]	10.63	5.42	10.63	10.53[4]
- GoI share	5.21	6.32	5.21	Nil	5.21	5.11
- GoP share	5.42	5.42	5.42	5.42	5.42	5.42
Loan from NFIs	11.25	2.53	11.25	1.78	11.25	0.01
Subsidy/ (SCA)	5.00	1.00	8.00	-	5.00	2.50
Recovery of loans	14.00[5]	10.46	23.92[4]	9.92	21.00[4]	9.73
Other Sources	1.00	0.75	1.00	1.22	1.00	1.33
Total	**41.88**	**26.48**	**54.80**	**18.34**	**48.88**	**24.10**

Source: Information supplied by the Corporation

[3] Including ₹ 3.72crore pertaining to central share for the year 2012-13 and ₹2.60 crore relating to 2013-14.

[4] Including ₹35.40 lakh pertaining to central share for the previous years.

[5] Planned recovery of loan include ₹ 3 crore, ₹12.92 crore and ₹11 crore during 2013-16 on account of recovery from introduction of One Time Settlement Scheme (OTS).

As can be seen from above, the actual receipt was only ₹ 64.85[6] crore (44.55 *per cent*) against planned receipt of ₹ 145.56 crore during April 2013 to March 2016. This adversely impacted its ability to implement the schemes. Audit scrutiny of the welfare schemes brought out the following:

- The Corporation had received ₹ 23.62 crore (74 *per cent*) as share capital as against the budget provision of ₹ 31.89 crore during April 2013 to March 2016. The State Government released its share of the equity at the fag end of each financial year. Consequently, there were delays of 11 to 15 months in release of central share during 2013-15 as prior release of State's share is a pre-condition for release of central share by GoI.

- The delay in release of central share by the State Government resulted in its delayed utilisation. This caused the GoI not to release its further share of ₹ 8.26 crore (2014-15: ₹ 3.05 crore and 2015-16: ₹ 5.21 crore) up to March 2016.

- Three NFIs had allocated ₹ 60.97 crore for 12,205 beneficiaries during 2013-16 for their respective schemes[7]. Against this, the Corporation had fixed the target of disbursement of loan of ₹ 33.75 crore for 2,700 beneficiaries (22 *per cent*) which was not commensurate with allocations made by the NFIs. Audit noticed that the Corporation had been slow in implementing the schemes of NFIs as the rate of recovery was about 60 to 65 *per cent* whereas the NFIs were insisting on 100 *per cent* recovery from the Corporation. The Corporation had not repaid the outstanding loan dues of ₹ 28.61 crore of the NFIs during 2013-16.

- Under SCA, the State Government released only ₹ 3.5 crore against the budget provision of ₹ 18 crore during 2013-16. Audit noticed that the GOI releases consolidated amount of SCA to State Government for various schemes relating to SC and the State Government further allocates these funds to different department/agencies. During 2013-15, GOI did not release any funds to State Government due to non-utilisation of previous year's SCA by the State Government. Consequently, 14,500 BPL families were deprived of the benefit of SCA during 2013-16.

- During 2013-16, the Corporation had planned to receive ₹ 26.92 crore from introduction of OTS scheme. However, due to delay in approval of the scheme from the State Government, the Corporation had not received any sum against the same.

Management confirmed (May 2016) the facts and figures and stated that the financial position of the Corporation is deteriorating day by day. The rate of recovery was about 60 to 65 *per cent* only and Corporation is availing loans judiciously.

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[6] ₹ 68.92 crore - ₹ 3.72 crore – ₹ 0.35 crore (pertaining to previous years).

[7] Loans for various trades from NSFDC, Loans for safai karamchari/ scavengers and their dependents from NSKFDC and Loans for persons with disabilities from NHFDC.

3.1.3. Implementation of the schemes

On the basis of budgetary allocation made by the State Government for different schemes, the Corporation was fixing targets for disbursement of loans each year. A summary of financial and physical targets and achievements there against during 2013-16 is given in table 3.2 below:

Table 3.2 - Financial and physical targets/achievements

(Financial: ₹ in crore and Physical: in numbers)

		Bank Tie-up Sch.		Direct lending		NSFDC		NSKFDC		NHFDC	
		T	A	T	A	T	A	T	A	T	A
2013-14	Financial	5.00	1.00	10.00	7.61	7.13	0.49	1.90	0.74	2.85	1.63
	Physical	5,000	1000	500	603	500	42	200	83	200	85
2014-15	Financial	8.00	Nil	10.00	6.05	7.13	0.03	1.90	0.08	2.85	0.38
	Physical	8,000	Nil	500	387	500	1	200	8	200	16
2015-16*	Financial	5.00	2.29	10.00	8.47	7.13	0.19	1.90	0.20	2.85	1.27
	Physical	5,000	2291	500	573	500	19	200	24	200	66
Total	**Financial**	**18.00**	**3.29 (18)**	**30.00**	**22.13 (74)**	**21.39**	**0.71 (3.32)**	**5.70**	**1.02 (17.89)**	**8.55**	**3.28 (38.36)**
	Physical	**18,000**	**3291 (18)**	**1,500**	**1563 (104)**	**1,500**	**62 (4.13)**	**600**	**115 (18)**	**600**	**167 (27.83)**

***** T: Target, A: Achievement. Figures in bracket indicate percentage achievement.

Analysis of performance of the schemes brought out the following:

3.1.3.1 Under **Bank Tie-up scheme**, loan applications received from BPL[8] SC families are forwarded to banks for approval. After approval of cases, the Corporation releases subsidy to banks (equal to 50 *per cent* of the total project cost subject to a maximum of ₹ 10,000) for further disbursement to beneficiaries along with loan. There was shortfall in achievement of targets due to less release of funds by State Government in comparison to budget provisions.

Audit noticed that the Corporation did not disburse any subsidy from April 2014 to March 2016 but invested ₹ 6.83 crore in fixed deposits in banks thus denying 6,830 SC BPL families of the benefit of subsidy. Management stated (May 2016) that amount received as Special Central Assistance (SCA) has been fully released for disbursement to the beneficiaries and this amount represented undisbursed subsidy refunded by Banks. The reply is not correct as ₹ 6.83 crore was undisbursed amount invested in FDRs which was to be disbursed to beneficiary SC BPL families.

3.1.3.2 Under the **Direct lending scheme**, loans of upto ₹ 5 lakh (except land purchase where maximum limit is ₹ 20 lakh) are granted to SC beneficiaries having income of not more than ₹ 1 lakh per annum for various income generating schemes. The loan is either interest free or at concessional rates of interest of up to a maximum of 8 *per cent* per annum and is disbursed out of the share capital of the Corporation. As of March 2016, there were 3,134 pending loan applications.

[8] As per survey conducted by the Department of Rural Development and Panchayats of GoP. for rural areas in 2002 and State Urban Development Agency (SUDA) for urban areas in 2004, there were 3.21 lakh BPL families which were from SC communities.

3.1.3.3 The Corporation in **collaboration with NSFDC provides loan** for various trades to beneficiaries having income upto double the poverty line (Rural: ₹ 81,000 and Urban: ₹ 1,03,000 per annum). Loan upto ₹ 30 lakh is advanced by raising term loan (upto 90 *per cent*) from NSFDC and remaining 10 *per cent* is to be contributed equally by the Corporation and beneficiaries.

Audit observed that the Corporation had fixed the targets under this scheme without taking into consideration the funds allocated by NSFDC. As a result, it failed to fully utilise the allocated funds. It was observed that the Corporation had virtually stopped financing under the scheme and was diverting the beneficiaries towards its Direct Lending Scheme which carries interest rate higher by 2 *per cent*[9] per annum than term loan under the NSFDC schemes. Hence, the marginal SC beneficiaries were not only saddled with additional interest burden but their coverage also remained far from optimal. As on 31 March 2016, 1827 loan applications were pending while funds of ₹ 0.98 crore were lying unutilised for more than three years.

3.1.3.4 The Corporation, **in collaboration with NSKFDC**, provides loans to the safai karmacharis, manual scavengers and their dependents for taking up any income generating activity of their choice. Loan upto ₹ 5 lakh is advanced by raising term loan (upto 90 *per cent*) from NSKFDC and remaining 10 *per cent* is contributed equally by the Corporation and beneficiary.

The Corporation actually extended loan of only ₹ 1.02 crore to 115 beneficiaries against the allocation of ₹ 17.56 crore due to reasons discussed in Paragraph 3.1.3. GoI recommended (2013) to speed-up the implementation of the NSKFDC schemes in the State. As on 31 March 2016, 552 loan applications were pending approval and funds of ₹ 0.55 crore were lying unutilised for more than one year.

3.1.3.5 The Corporation, in **collaboration with NHFDC**, extends loans of upto ₹ 7.50 lakh to Persons with Disabilities (PWDs) for self-employment, having income upto ₹ 5.00 lakh per annum in urban area and ₹ 3.00 lakh per annum in rural area.

As of March 2016, 214 loan applications were pending due to less availing of refinance facilities from NHFDC owing to less recovery under the scheme and non repayment of outstanding loan dues of NHFDC.

3.1.4 Efficiency and economy in disbursement of loans

Test check of 285 loan cases relating to Direct Lending, NSFDC, NSKFDC and NHFDC schemes disbursed during 2013-16 revealed the following:

- The Corporation had taken an average time of 394 days in disbursement of loans against the target period of 45 days set by the Corporation for itself.

[9] Interest rate under direct lending scheme for term loan above ₹ 30000 is 8 *per cent* per annum whereas loan upto ₹ 5 lakh under NSFDC scheme carries interest rate of 6 *per cent* per annum.

- Audit noticed that the Corporation was under financing the loanees in order to achieve higher physical target inspite of having parked funds (e.g. equity, SCA funds etc.) ranging from ₹ 10.50 crore to ₹ 15.67 crore in fixed deposits with banks. This led to non achievement of disbursement targets fixed by the Corporation. In 191 cases (67 *per cent*), it had reduced the amount applied for by the beneficiaries.
- The Corporation had not obtained utilisation certificates from 203 loanees (73 *per cent*) out of 277 test checked cases.

Management attributed (May 2016) the delay in disbursement of loan to non appointment of regular Executive Director. It added that it had forwarded a proposal to increase the loan limits to the State Government. The reply does not address the core issued raised in audit of undue delays which cannot be attributed only to the non appointment of regular Executive Director.

3.1.5. Recovery Position

Table 3.3 below depicts the details of consolidated targets of recovery, total amount recoverable and recoveries effected during April 2013 to March 2016.

Table 3.3 – Targets of recovery and achievements

(Figures: ₹ in crore)

Sl. no.	Particular	2013-14	2014-15	2015-16
1	Amount overdue for recovery at the beginning of the year	93.21	96.36	100.53
2	Recovery due during the year	13.19	14.10	5.86
3	Total recoverable amount	106.40	110.46	106.39
4	Target of recovery	11.00	11.00	10.00
5	Recovery effected during the year	10.04	9.92	9.73
6	Closing balance of overdue amount	96.36	100.53	96.66
7	Percentage of recovery to recoverable amount	9.44	8.98	9.14

As evident from above, the Corporation could not achieve the target of recovery in any year during 2013-16 and the overdue amount had increased from ₹ 96.36 crore to ₹ 96.66 crore. Audit observed that poor performance of recoveries was due to not ensuring the proper utilisation of loan amount, non-conducting of physical verification of assets and inadequate pursuance of recovery by the district offices.

In case of continued default, Sections 24 and 25 of the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970, empowers the Corporation to recover the entire outstanding amount from the defaulters as arrears of land revenue by issuing a recovery certificate to the Collector of district concerned. 10,831 cases involving ₹ 47.99 crore were sent to the Collectors for effecting recoveries and the recoveries amounting to ₹ 25.35 crore in 7,190 cases only were made upto March 2016.

Management stated (May 2016) that it had made all out efforts to recover the outstanding loan amount from the loanees. However, Audit noted that the recovery position had deteriorated from 9.44 *per cent* (2013-14) to 9.14 *per cent* (2015-16) which shows that measures taken to improve its recovery position were inadequate.

Thus, delay in sanction of loans, low volume of disbursements, non-receipt of share capital in time and poor recovery performance resulted in failure of the Corporation to recycle the funds, which in turn affected wider coverage of beneficiaries.

The matter was referred to the Government (March 2016), their replies were awaited (September 2016).

Punjab State Industrial Development Corporation Limited

3.2 Issue and Redemption of Bonds

Poor operational performance in investment in equity and loans and extension of guarantees to the loanee units led the Company to default in redemption of bonds. As the bonds in default are guaranteed by the State Government, the financial liability of redemption may eventually devolve onto the State exchequer. There were delays ranging from six months to over 19 years in initiating effective action to recover loans from defaulters while poor record keeping of details of guarantors resulted in non-recovery of ₹ 197.70 crores in just two out of five cases test checked in audit.

Introduction

The Punjab State Industrial Development Corporation Limited (Company) was incorporated (January 1966) with the objective of promoting, assisting and financing industries through equity investment and disbursement of loans. The Company stopped its equity investment activity in 2003-04 and loan disbursement activity in 2006-07 as the liquidity position was strained due to declining trend in recovery of term loan portfolio as well as in retrieval of investment in equity of promoted units. The net worth [10] of the Company was negative at (-) ₹ 535.63 crore as on 31 March 2013 which dipped further to (-) ₹ 577.98 crore and (-) ₹ 615.54 crore as on 31 March 2014 and 2015 respectively.

To finance industries and to meet its financial commitments, the Company issued (1997) non-convertible, unsecured bonds (Bonds) guaranteed by the State Government. It raised funds amounting to ₹ 1,217.28 crore through sixteen number of issues by private placement[11] during 1997 to 2013. The Company, to raise the funds, incurred incidental expenses in the shape of fee to the Arrangers (₹ 3.41 crore) and guarantee fee (₹ 26.63 crore) & stamp duty (₹ 10.11 crore) payable to the GoP on the bonds issued by it.

[10] Paid up capital (+) reserve and surplus(–) accumulated losses (–) miscellaneous expenditure.

[11] From Provident Funds, Superannuation Funds and Gratuity Funds.

3.2.1 Sources of funds

The percentage of redemption of bonds during the period 2012-13 to 2015-16 ranged between 0.59 and 65.05 *per cent* of the cash inflow but was 0.81 to 59.74 *per cent* of cash outflow as brought out in table 3.4 below.

Table 3.4 : Cash flow of the Company

(₹ in crore)

Year	Opening balance	Cash inflow					Cash outflow				Closing balance
		Bonds	OTS	Sale of Assets	Others	Total	Redemption of bonds and interest		Others	Total	
							Bonds	Interest			
2012-13	41.03	119.84	Nil	9.72	6.26	135.82	88.35	52.44	7.11	147.90	28.95
2013-14	28.95	Nil	Nil	10.37	2.31	12.68	2.40	0.49	38.18	41.07	0.56
2014-15	0.56	Nil	6.73	47.17	2.40	56.30	0.33	11.98	28.29	40.60	16.26
2015-16 (projected)	16.26	Nil	22.70	0.86	2.62	26.18	1.49	14.05	25.70	41.24	1.20

3.2.2 Unrealistic projections

In view of its poor performance and continuing losses, the Reserve Bank of India (RBI), issued (July/December 2014) a show cause notice (SCN) to the Company for cancellation of its registration as a Non Banking Financial Company (NBFC). In reply to the SCN, the Company submitted (February 2015) a road map for financial recovery spread over 2014-17. However, the road map did not have the approval of State Government (Finance Department) and consequently no provision was made in the State Budget. It was also noticed that against the projected receipt of ₹ 25 crore and ₹ 85 crore from one time settlement (OTS) cases of loans during 2014-15 and 2015-16, the Company could recover only ₹ 6.73 crore and ₹ 22.70 crore. Though, the Company had projected financial support of ₹ 100 Crore from the State Government (2014-15: ₹ 50 Crore and 2015-16: ₹ 50 Crore) which was never received as the road map did not have the approval of the Finance Department and therefore necessary provision were never made in the Budgets.

The Company stated (June 2016) that even after its best efforts, the Company could not make much recovery under OTS and could not receive financial support from State Government.

The reply is not acceptable as the projections submitted in the roadmap for recovery of the Company were unrealistic and the projections of assistance from State Government did not materialise as the roadmap did not have the approval of the State Government in the first instance.

3.2.3 Investment of funds in equity

The Financial Collaboration Agreement (FCA) with collaborators provided that after the expiry of specified period (upto five years), the collaborator was to purchase the equity share holding of the Company.

Audit observed that as per the data of Value Added Tax (VAT) department for the years 2012-14, nine units were working and had a consistent turnover ranging between ₹ 11.44 crore to ₹ 1037.81 crore. As per Company's records, 30 Units out of 107 were earning profits as on 31 March 2015. Inspite of that the Company failed to persuade these units to buy back their equity shareholding.

Audit observed that the FCA allowed the Company to nominate Directors on the Board of Directors of the units to exercise control over the affairs. In case of equity investment, the Company did not appoint its nominees as Managing Director on the Board of Directors of the units. The outstanding dues increased to ₹ 2,538.47 crore as on 31 March 2016.

3.2.4 Recovery of loans

As on 31 March 2016, almost 70 *per cent* of the amount of default in loan cases was in the category of loanee units taken over under Sections 29 and 32 G of the State Financial Corporations (SFC) Act, 1951.

Section 29 of the SFC Act empowers the Company to take over the management or possession of loanee units and to sell the assets or both, in case of default in repayment of loans. Section 32 G of the SFC Act provides that where the dues had not been fully recovered after sale of assets/ collateral guarantees under section 29, the Company may invoke the personal guarantees of guarantors as arrears of land revenue and Recovery Certificates (RCs) will be sent by the Company to the concerned District Collectors (DCs) for recovering dues under Punjab Public Money (Recovery of Dues) Act, 1983.

Audit noticed 14 cases where there were delays ranging between six months to 236 months in taking over the units under section 29 (March 2015) and of 56 units, involving ₹2,652.62 crore, where proceedings were pending under section 32 G, RCs had been issued in 46 cases only where ₹ 1,592.27 crore was outstanding for recovery (March 2016).

Audit observed that the details of properties of guarantors were not verified at the time of sanctioning of loan and there was also no mechanism to keep track of the ownership of the assets. Out of five[12] cases test checked in audit, in two[13] cases, the guarantors and their assets were found to be untraceable resulting in non-recovery of ₹ 197.70 crore (March 2016).

The Company stated (June 2016) that the provisions of Section 29 of SFC Act were used mainly as pressure tactic to speed up the recovery from defaulting units. The recoveries from the guarantors under Section 32 of SFC Act were to be made by District Collectors by attaching personal assets of the guarantors. The Company further stated that it was not possible for it to keep track of personal assets of promoters as these were not mortgaged with the Company.

The reply of the Company is not acceptable as there was delay in taking over the assets affecting disposal of assets for revenue realisation. As regards, recoveries under Section 32 of SFC Act, no uniform policy/procedure were followed for perusal of cases with District Collectors and monitoring of recovery cases at higher level. The failure of the Company to evolve any mechanism to keep track of assets of guarantors contributed to non-recoveries under Section 32 of SFC Act.

3.2.5 Extension of guarantees to loanee units

Although there was no policy, the Company extended guarantees of ₹ 71 crore on behalf of six loanee units till July 1999. Due to default by four of the units

[12] Anco Papers Limited, BDS Fabrics Limited, Punjab Drugs Limited, Royal Cements Limited, Universal Fashions (Private) Limited.

[13] BDS Fabrics Limited and Royal Cements Limited.

in repayment of dues, the financial institutions invoked guarantees and the Company had to pay ₹ 52.38 crore during July 2002 to September 2013.

Audit also observed that the Company did not charge any guarantee fee from these loanee units for extending guarantees. Settling guarantees of ₹ 52.38 crore with the financial institutions on behalf of four loanee units was against the financial interest of the Company. While undertaking these guarantees, the Company neither restricted the period nor the maximum amount to be repaid in the event of default, which exposed it to unlimited liability. The Company had also extended guarantee for loan of ₹ 1.40 crore from banks to two units who defaulted in repayment and the Company had to pay ₹ 3.81 crore against principal and interest. It was also noticed that guarantee of ₹ 0.72 crore was extended to another defaulter loanee unit[14] for which the Company had to pay ₹ 0.50 crore. Thus, action of the Company was against principles of financial prudence.

The Company stated (June 2016) that the guarantee documents were finalised as per the terms of the concerned financial institutions/banks and the Company had not accepted any unlimited liability on its own. However, it had dispensed with the practice of extension of guarantees on behalf of the promoted Companies.

The reply of the Company is not acceptable as extension of guarantees without first safeguarding its own financial interest was imprudent.

3.2.6 Conclusion

Thus, poor performance in recovery of investments made in equity and loans and extension of guarantee to the loanee units etc. led to the Company defaulting in redeeming bonds. Its efforts to raise fresh funds were unsuccessful pushing it further into debt trap. Since the bonds in default are guaranteed by the State Government, the financial liability of redemption of these bonds may eventually devolve on the State exchequer.

The matter was referred to the Government (February 2016), their replies were awaited (September 2016).

Punjab Small Industries and Export Corporation Limited

Inaction on the part of Company in alloting a plot valuing ₹ 10.20 crore resulted in loss of interest of ₹ 1.66 crore while failure to cancel/resume industrial plots due to non-fulfillment of allotment conditions by the allottees and their unjustified transfer led to loss of ₹ 4.47 crore.

3.3 (a) Loss of interest due to delay in allotment of plot

The Punjab Small Industries and Export Corporation Limited **(**Company) allotted (January 1994) a plot measuring 19.63 acre located in the Industrial Growth Centre, Bhatinda, to a firm for setting up of a container freight station

[14] Punjstar Standard Electronics Limited.

on 99 years leasehold basis. In September 2005, the allottee informed the Company that out of the total plot area of 19.63 acre, 8.55 acre was lying unutilised and offered to surrender it to the Company.

The Company accepted (April 2006) the proposal and took possession of the land (June 2007) and refunded (August 2007) the required amount of ₹ 21.26 lakh to the allottee. The Company, however omitted to include this plot in its inventory of unallotted plots of land and as a result, no action could be taken for allotment of this surrendered plot till its existence came to notice during an internal inspection in July 2013.

In February 2014, the Company invited applications for allotment of plots measuring above two acres for various locations including this plot. The allotment committee of the State Government allotted (February 2014) this plot for ₹ 10.20 crore at the rate of ₹ 2,500 per sq. yard. The Company received (April 2015) the full payment of ₹ 10.20 crore against this allotment.

Audit noticed (October 2015) that although there was demand for such plots, the Company had not included this plot while advertising other plots of Bathinda in September 2011. Had the Company kept its land records upto date, it could have sold the plot earlier i.e. in 2011 itself. The delay by the Company in allotting of plot valuing ₹ 10.20 crore for 26 months (from December 2011 to January 2014) resulted in a loss of interest of ₹ 1.66[15] crore to the Company.

The matter was referred to the Company and the Government (January 2016), their replies were awaited (September 2016).

3.3(b) Loss due to unjustified transfer of plots

The Company was established to promote setting up of industries in the State. Towards this end, the Company allots industrial plots on lease hold basis at various focal points developed by the Company at reserve price fixed from time to time.

As per the terms and conditions of the allotment policy of industrial plots, the allottees are required to bring the unit into production within a period of three years. Extension for another two years is allowed subject to payment of extension fee. Transfer of plots is allowed only after three years of commencement of production by the original allottee on submission of valid proof thereof. In the event of the allottee failing to bring the unit into production within prescribed/ extended period, the Company was empowered to resume the plot/site and take its possession and the allotment was liable to be cancelled with forfeiture of 30 *per cent* of the price of the plot. Any fees paid for granting extension were also to be forfeited.

[15] Interest has been calculated on ₹ 10.20 crore for 26 months i.e. December 2011 (previous allotment at Bathinda) to January 2014, at rate of 7.5 per cent per annum (minimum rate of Bank Fixed Deposits of the Company).

A test check of records of the Company revealed (January 2016) that in 14 cases, industrial plots were transferred during the period May 1991 to October 2015 but till date neither any building had been constructed nor commercial production started. In none of these cases had the allottees fulfilled the conditions[16] required to be met within one year of allotment and in 12 cases, even the permissible extension periods had expired. On the dates of transfer, the reserve price of the plots ranged between ₹ 400 per sq yard to ₹ 5,500 per sq yard which was much higher than the original allotted price ranging between ₹ 53 per sq yard to ₹ 4,400 per sq yard charged from the original allottees. Instead of taking any action to cancel/resume the plots as per terms and conditions of allotment and re-allotting them at the current prevailing reserve price to entrepreneur for setting up of industries, they were allowed multiple transfers. The failure of the Company to initiate actions of cancellation and resumption of plots where production had not started defeated the purpose of promoting industry and creating employment in the State and also resulted in a loss of ₹ 4.47[17] crore to the Company.

The Management stated (June 2016) that allotment/transfer of industrial plots have been rightly allowed under "General Scheme" Policy notified by the Government of Punjab and there is no violation of the instructions of the Government. The transfer of plots has been allowed after charging the prescribed transfer fee as stipulated in the policy notified by Government.

The reply is not acceptable as Allotment Policy 2008 clearly provided that in the event of an applicant failing to bring the unit into production, the allotment was liable to be cancelled and plots resumed. Failure to do so defeated the very objective of the policy as well as resulted in loss of ₹ 4.47 crore to the Company.

The matter was referred to the Government (March 2016), their replies were awaited (September 2016).

Punjab Agro Industries Corporation Limited

3.4 Under valuation of assets

Under valuation of the Company's equity holding in a unit while disinvesting resulted in undue benefit of ₹ 4.08 crore to the collaborator.

To promote milk processing projects in the State, the Punjab Agro Industries Corporation Limited (Company) invited public offers (March 2003) for financial collaboration for setting up an integrated milk processing project. Subsequently, the Company signed (June 2004) a Financial Collaboration

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[16] (i) Sanction of building plan (ii) Construction at site at least at damp proof course (DPC) level (iii) placement of orders for plant and machinery (iv) obtain provisional registration of the unit (v) obtain consent from financial institution/ bank to advance loan for project (vi) obtain consent from Punjab Pollution Control Board.

[17] Calculated after deducting 70 *per cent* of the original cost of the plot from the price of plot based on reserve price of plot during last transfer.

Agreement (FCA) with an entrepreneur who had responded to the public offer to set up a unit at a total cost of ₹ 15.27 crore. The Company invested (September 2005 to August 2007) ₹ 92.58 lakh as its share in the equity capital of the Unit.

The FCA provided *inter alia* that the Company could offload its shareholding in the Unit partially or fully, at any time, after the unit went into commercial production and/ or its share were listed on a Stock Exchange in a manner as it deemed fit. The collaborator though was given pre-emptive right to buy shareholding of the Company at the price determined by the Company.

The unit commenced commercial operations in 2007 and the collaborator approached (October 2012) the Company for buy back of its shareholding in the Unit. The Board of Directors (BODs) of the Company decided (November 2012) to (a) call public offers by way of publications in the newspapers for sale of shares and (b) compute interest on the amount invested at the rate of one *per cent* above the prime lending rates (PLR) of State Bank of India (SBI) to get the best possible price of the shares. The higher of these two was to be fixed as the sale price and offered to the Collaborator after getting the approval of Project Approval Board[18]. In the event of collaborator's non-acceptance, the shares were to be offered to any other interested party.

Audit observed (December 2015) that while the Company conveyed (December 2012) its decision to the Collaborator, it did not invite any public offers for the disinvestment. After a lapse of a year, the collaborator requested (November 2013) the Company to compute the amount of disinvestment by charging only interest and not by inviting public offers as it may disturb the ongoing project. The BODs agreed to the proposal and referred (September 2014) the matter for opinion to the Directorate of Public Enterprises and Disinvestment, Government of Punjab (GoP) who recommended (November 2014) to get the share holding valued from an independent transaction advisor/valuer and take action for disinvestment as per the price arrived at by the advisor/valuer or the price determined by the Company by charging interest whichever was higher.

The Company thereafter asked the Collaborator to get the valuation done from one of the Company's empanelled valuers. The Valuer engaged by the Collaborator valued (July 2015) the unit at ₹ 12.86 crore. Based on the valuation, shareholding of the Company was assessed as ₹ 2.02 crore (as on June 2015) as against value of ₹ 1.95 crore arrived at by charging interest. The Company considering the higher amongst these transferred (August 2015) its shareholding in the unit for ₹ 2.02 crore.

In his valuation of ₹ 12.86 crore of the unit, the Valuer assessed the value of the fixed assets of the unit as ₹ 11.83 crore as on June 2015 (land ₹ 4.89 crore[19], buildings ₹ 3.04 crore and plant and machinery ₹ 3.90 crore) and that of the Current Assets as ₹ 1.03 crore. The stated basis of the valuation of the fixed assets of the unit was; (a) plinth area rate for construction in conformity

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18 A board of the State Government for approving the investments made by the Company.

19 Land at Mandi Gobindgarh - ₹ 4.37 crore and land at Madhya Pradesh - ₹ 0.52 crore.

with the rates of the Public Works Department for buildings; (b) the prevailing market rate for land, and (c) the basis of valuing plant and machinery was not mentioned.

In examining the valuation, Audit observed as under:

- As against the assessed value of ₹ 11.83 crore of fixed assets, their depreciated value as in June 2015 was ₹ 43.88 crore. Out of these, net fixed assets amounting to ₹ 18.84 crore were added only during 2013-14 and 2014-15.
- The land measuring 5.86 acres at Mandi Gobindgarh was valued at ₹ 0.75 crore per acre whereas the same collaborator in his own new proposal (August 2013) to set-up a bread plant and flour plant at Focal Point, Mandi Gobindgarh had taken ₹ 2.0 crore per acre as the cost of land. At this rate, the valuation of 5.86 acres should have been ₹ 11.66 crore instead of ₹ 4.37 crore assessed by the Valuer.
- The unit's net worth was ₹ 38.82 crore as on June 2015. On this basis, the value of the shareholding of the Company should have been ₹ 6.10 crore.

Thus, there was under valuation of holding of the Company by ₹ 4.08 crore. Even if only the value of land was to be reckoned, the under valuation was to the tune of ₹1.14 crore.

Management stated (February/May 2016) that disinvestment was made as per the approval of BODs and Directorate of Disinvestment, GoP after getting the valuation done from the approved valuer. The fact remains that while valuing its share holding in the unit, the financial position was not considered appropriately which resulted in undue benefit to the collaborator.

The matter was referred to the Government (December 2015), their reply was awaited (September 2016).

Punjab Financial Corporation

3.5 Irregular settlement under One Time Settlement Policy (OTS)

The Corporation extended irregular benefit of ₹ 1.91 crore to a loanee by settling its case under an expired OTS policy.

The Government of Punjab notified (March 2009) an One Time Settlement (OTS) policy for settling the outstanding amounts of loanee units of Punjab Financial Corporation (Corporation) categorised as Non Performing Asset (NPA) as on 31 March 2008. The OTS amount was to consist of principal plus expenses along with interest at the rate of 12 *per cent* compounded half yearly. The scheme was open for receipt of applications from eligible units up to 30 May 2009 subsequently extended up to 16 February 2011.

The Corporation separately approved (December 2012) an OTS policy for units located in the Border Districts valid up to 27 March 2013. The OTS amount in this scheme consisted of principal plus expenses along with six *per cent* simple interest. Both these OTS policies i.e. OTS Policy-2009 and OTS for Border Districts were further extended (March 2013) up to 15 May 2013. Subsequently, the Corporation extended the OTS Policy-2009 up to 20 January 2014 invited (December 2013) expressions of interest from interested borrowers.

A defaulter loanee unit who had availed (December 1993) of a loan of ₹ 42.75 lakh and had run up an outstanding of ₹ 17.17 crore as on 15 December 2013 applied twice (July/November 2013) under OTS scheme for Border Districts for settling its loan account. However, as the scheme was valid upto 15 May 2013, these applications were rejected (August/December 2013) by the Corporation.

In response to the advertisement of expression of interest called by the Corporation for the extended OTS Policy-2009, the loanee unit once again applied (January 2014) for settlement of its account and deposited ₹ 24 lakh as upfront fee, being 25 *per cent* of the payable OTS amount. The case of the loanee was settled (March 2014) under the OTS Policy for Border Districts by the Corporation for ₹ 0.98 crore involving a financial sacrifice of ₹ 16.19[20] crore for the Corporation.

Audit observed (November 2015) that no OTS policy for Border Districts was in operation at the time when the application of loanee was considered. The amount recoverable from the loanee under the valid option i.e. OTS Policy-2009 was ₹ 2.89 crore. Thus, the Corporation extended irregular benefit of ₹ 1.91 crore (₹ 2.89 crore - ₹ 0.98 crore) to the loanee by settling its case under an expired OTS policy.

Management stated (April 2016) that the minutes of the meeting of Board of Directors (BODs) inadvertently mentioned extension of benefits to these units under OTS 2009 Policy only instead of OTS 2009/ OTS under Border Districts Policy and that the rectification to extend the benefit under Border Districts policy in this case shall be placed before the BOD. The Management reply is not borne out by facts as the agenda before the BOD was for review and extension of OTS policy 2009 and not for OTS policy for Border Districts.

The matter was referred to the Government (December 2015), their reply was awaited (September 2016).

[20] Amount outstanding as per ledger – ₹17.17 crore less amount payable by concern as per OTS policy for border districts – ₹0.98 crore = ₹16.19 crore.

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

3.6 Disallowance of carry over charges

Failure of the State Procurement Agencies to comply with instructions of Food Corporation of India regarding direct delivery of wheat from mandis to its godowns resulted in disallowance of ₹ 2.79 crore.

The State Procuring Agencies[21] (SPAs) procure wheat for the Central Pool on behalf of Food Corporation of India (FCI) at rates determined by the Government of India (GoI) for each Rabi Marketing Season (RMS). The wheat stocks are moved either directly from mandis to FCI godowns/ railheads for further transportation or to the SPAs godowns and the same are taken over by the FCI from time to time. FCI reimburses the procurement price of wheat i.e. the minimum support price (MSP) and incidentals charges to the SPAs at the rates fixed by the GoI for the wheat delivered upto 30 June of the RMS. For wheat delivered thereafter, carry over charges (COC[22]) are paid by the FCI. No COC are paid by the FCI for wheat delivered directly by SPAs to FCI.

FCI intimated (March and May 2013) the Government of Punjab (GoP) to avoid storage of wheat of RMS 2013-14 at unscientific[23] locations and that it had abundant space at Sunam, Sangrur-I, BC Dhuri, Ahmedgarh, Moonak, Tapa, Barnala centres to accept direct delivery of wheat. PUNGRAIN, PSWC and PAFC, however, stored 95,969 MTs of wheat at their locations at these towns and thereafter transferred the wheat to FCI after 30 June 2013. Consequently FCI disallowed the carry over charges of ₹ 2.79[24] crore of 69527.11[25] MTs wheat which had to be borne by the SPAs.

Thus, failure of the SPAs to comply with the instructions of FCI regarding direct delivery of wheat from mandis to its godowns due to availability of adequate FCI storage space resulted in SPAs being disallowed claim of ₹ 2.79 crore as carry over charges.

The matter was referred to the SPAs and the Government (February 2016), their replies were awaited (September 2016).

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[21] Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Warehousing Corporation (PSWC), Punjab Agro foodgrains Corporation Limited (PAFC) and Punjab State Co-operative Supply & Marketing Federation Limited (Markfed). Markfed is not under audit purview.

[22] COC includes inventory carrying cost and storage charges of wheat.

[23] Grain is not stored with adequate safeguards against elements of nature and safe against attacks of rodents and pests i.e. not in cover and raised plinth level or metal or concrete silos or godowns.

[24] Amount deducted in respect of PUNGRAIN- ₹ 1.32 crore, PSWC- ₹ 0.20 crore and PAFC- ₹ 1.27 crore = ₹ 2.79 crore.

[25] PUNGRAIN- 43078.36 MTs, PSWC- 7319.35MTs, PAFC- 19129.40 MTs.

Punjab State Civil Supplies Corporation Limited

3.7 Loss due to poor preservation

Poor preservation and maintenance of wheat stock coupled with not initiating timely actions to upgrade the same resulted in loss of ₹ 93.29 crore to the Company.

The Punjab State Civil Supplies Corporation Limited (Company) procures wheat for central pool of Government of India (GoI) on behalf of Food Corporation of India (FCI). It is the responsibility of the Company to maintain the health of stock of wheat till its delivery to FCI. The District Managers are to inspect every storage centre at regular intervals (one third storage centres are to be checked in a month) and inspection report regarding the condition of stocks sent to the head office of the Company.

Audit observed (March 2015) that District Office, Muktsar of the Company had stored 1,60,785 MTs wheat of crop year 2011-12 at its various locations. Out of this, FCI declared (April 2012) that 81,978 MTs of wheat[26] had deteriorated due to poor maintenance and preservation, and needed to be upgraded. GOI guidelines (May 2013) stipulate that the stock found to be upgradable were to be upgraded within a period of one month from date of their so categorisation failing which the stock would be declared as damaged by FCI.

FCI intimated (April 2012 to February 2014) the Head Office and District Office of the Company regarding poor maintenance of wheat stocks and requested for its timely upgradation. Inspite of extensions allowed by FCI upto December 2013 for upgradation of wheat, the Company could offer only 19,863 MTs out of which FCI accepted 9,133 MTs. The balance wheat stock of 72,845 MT valuing of ₹149.60 crore[27] was declared (August/September 2014) as damaged by FCI. Audit also observed that the incharge District Manager did not inspect wheat stocks at advised intervals and submit inspection reports.

GOI guidelines (July 2014) had directed that the damaged wheat was to be disposed off within a maximum period of six months from the date of declaration of stocks as damaged. Though, the wheat stock of 72,845 MTs was declared as damaged in August/September 2014, the Company could dispose off (July/September 2015) only 15,843 MTs of damaged wheat. During disposal of wheat, a further shortage of 3,116 MTs valuing ₹ 6.40 crore was detected. The Company realised ₹ 10.27 crore from disposal of balance 12,727 MT wheat against ₹ 26.13 crore being the value of 12,727 MTs resulting in a loss of ₹ 15.86 crore. At this proportion of loss on 12,727 MTs, the projected loss on entire damaged quantity of 69,729 MT (72,845 MTs - 3,116 MTs shortage) works out to ₹ 86.89 crore.

[26] 44,219 MT in April 2012 and 37,759 MT from May 2012 to February 2015.

[27] Calculated on basis of rate of ₹20,537 per MT (MSP: ₹11,200, bonus: ₹500 and incidentals: ₹2,224 and carry over charges: ₹6,613).

Although FCI had continuously brought the deteriorating status of wheat stocks to the attention of the Company at all levels, the Management failed to take steps to remedy the situation and check further deterioration of held stocks. The damaged wheat accounted for as much as 45 *per cent* of the stored wheat in the district for the crop year 2011-12.

Thus, poor preservation and maintenance of wheat stock coupled with non-initiation of timely actions to upgrade the same resulted in a loss of ₹ 93.29 crore (₹ 86.89 crore + ₹ 6.40 crore) to the Company.

The matter was referred to the Company and the Government (April 2016), their replies were awaited (September 2016).

3.8 Delayed raising of claims

Lack of a system for monitoring of timely raising of bills resulted in delayed raising of claims by the district office and consequential loss of interest of ₹ 8.94 crore.

The Punjab State Civil Supplies Corporation Limited (Company) procures food grains for the Central Pool of Government of India (GOI) by availing cash credit limit from banks and delivers it to the Food Corporation of India (FCI). GOI issues some of these foodgrains to various categories of beneficiaries under its Targeted Public Distribution System[28] (TPDS). The Company, designated as a nodal agency by the State Government for centrally sponsored schemes, delivers foodgrains under TPDS schemes and claims reimbursement from FCI as per rates[29] intimated by GOI. The State Government had issued instructions (April 2008) requiring all procurement agencies to submit their claims to FCI within eight days from the delivery of foodgrains.

While discussing (March 2016) a previous audit observation (Audit Report No.2 of 2014 relating to the Government of Punjab) on loss of interest due to delay in claiming of incidentals by State Procurement Agencies, the Committee on Public Undertakings of the Punjab Legislative Assembly had directed that claims on FCI should be raised immediately so as to avoid interest loss. However, no system was evolved by the Company to monitor and ensure timely raising of claims.

Test check of records of the district office, Amritsar revealed that during April 2009 to March 2013, the district office delivered 1,09,554 MTs (TPDS: 25,912 MT and central pool: 83,642 MT) of wheat. The Company was required to lodge the claim of differential[30] cost with FCI amounting to ₹ 18.59 crore under TPDS and ₹ 4.18 crore towards bonus[31] on wheat procured for the central pool immediately after delivery of foodgrains.

[28] Such as Antyodaya anna yojna, below poverty line and above poverty line.
[29] Includes minimum support price and incidentals.
[30] Differential cost is the total value of foodgrains less amount realised from the beneficiaries.
[31] Bonus is an incentive in addition to the MSP paid to the famers. During RMS 2011-12, bonus of ₹ 500 per MT was declared by GOI.

However, the claims were lodged with FCI during December 2013 and January 2014 i.e. after a delay[32] of 54 months and nine months respectively. The payment was received from FCI in April 2014 and May 2015. Delayed raising of bills by the district office resulted in delay in receiving claims and consequential loss of interest of ₹ 8.94 crore[33] to the Company.

The matter was referred to the Company and the Government (November 2015), their replies were awaited (September 2016).

Punjab Water Resources Management & Development Corporation Limited

3.9 Avoidable interest payments

Delay in settlement of retirement dues of superannuated employees resulted in the Company having to bear additional expenditure of ₹ 1.07 crore on interest payments.

According to the 'Employees Service Bye Laws – 1977' (as amended[34]) of the Punjab Water Resources Management & Development Corporation Limited (Company), payment of gratuity is governed by the Payment of Gratuity Act, 1972 (Act). Sections 7 (3) and 3 (A) of the Act provides that the employer shall arrange to pay the amount of gratuity within thirty days from the date it becomes payable and if the amount of gratuity is not paid within the specified period, the employer shall be liable to pay interest to the employee for the period of delay.

Audit observed (April 2016) that the Company was not regular in payment of retirement dues (gratuity and leave encashment) to its retired employees though amounts ranging between ₹ 65.54 lakh to ₹ 15.76 crore were available in the Current Accounts of the Company during April 2012 to March 2015 while the liability towards retirement dues ranged between ₹ 6.52 lakh to ₹ 1.38 crore during this period.

Subsequently, retired employees approached the Punjab and Haryana High Court who directed (April 2015) the Company to pay interest at the rate of seven *per cent* per annum on leave encashment and 12 *per cent* per annum on gratuity. This amounted to ₹ 1.07 crore (on test check basis at head office and selected[35] division offices) for late payment of retirement dues ranging between 151 to 806 days during the period April 2012 to March 2015.

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32 Stocks under TDPS were delivered from April 2009 to June 2009 and under central pool from April 2012 to March 2013. The period of delay has been calculated taking the respective last month of delivery i.e. June 2009 in the first case and March 2013 in the second case.

33 Calculated at the rate of 10.30 *per cent* per annum on ₹ 18.59 crore for 54 months and on ₹ 4.18 crore for nine months on minimum rate of interest on cash credit during the year 2009-10 to 2013-14.

34 September 2010.

35 OPM Mohali, Hoshiarpur L/F, Ludhiana (tubewell), Malout, Abohar, OPM Hoshiarpur, Ferozepur, Rampura Phul, Malerkotla, Pathankot, Bathinda 8.

Management attributed (August 2016) the delay in making payments of gratuity/leave encashment to delayed receipt of funds from the State Government. The reply is not tenable as payment of retirement benefits to superannuating staff was a statutory obligation that should have been made from available resources on first priority.

The matter was referred to the Government (June 2016), their reply was awaited (September 2016).

Punjab State Warehousing Corporation

3.10 Allotment of paddy to millers

Allotment of paddy to a miller against the provisions of the Custom Milling Policy and failure to shift the un-milled paddy to other millers resulted in loss of ₹ 5.94 crore.

The Punjab State Warehousing Corporation (Corporation), a State Procuring Agency (SPA), procures paddy from mandis on behalf of the Government of India and gets it milled for delivery of rice to Food Corporation of India (FCI). These activities are governed by Custom Milling Policy (CMP) of GOI which for Kharif Market Season (KMS) 2012-13 provided *inter-alia* that:

- Paddy was to be allotted as per the milling capacity of the miller who shall mill the same as per the prescribed delivery schedule (100 *per cent* by March 2013);
- The miller who had delivered 70 *per cent* and above the Custom Milled Rice (CMR) of KMS 2011-12 was eligible for allotment of 70 *per cent* to 90 *per cent* of paddy;
- If the miller failed to adhere to this schedule, it was liable to make good the entire loss at the value of intended 67 *per cent* Custom Milled Rice (CMR) and prescribed interest from the date it became due till the date of actual realisation. In such case, the SPA was at liberty to launch proceedings for recovery of dues and at liberty to get the work executed at the risk and cost of defaulting miller.

The Tarn Taran district office of the Corporation entered (November 2012) into an agreement with a miller for milling of 4,495 MTs paddy (equivalent rice: 3,012 MTs) of KMS 2012-13. Audit observed (March 2016) that based on its milling performance during KMS 2011-12, the miller was eligible for allotment of 2,800 MTs of paddy (equivalent rice: 1,876 MTs) in KMS 2012-13 being 70 *per cent* of its milling capacity of 4,000 MTs. However, the miller was allotted 4,495 MTs paddy i.e. 1,695 MTs paddy in excess of eligibility and 495 MTs in excess of even its milling capacity. The miller could not adhere to the schedule and delivered only 1,319 MTs rice against the due 3,012 MTs rice.

Audit further observed that despite the miller not adhering to the scheduled period of milling, the Corporation did not initiate action to shift the un-milled paddy to other millers at the risk and cost of the defaulter miller when there were three millers available in Tarn Taran district who had milled almost 100 *per cent* of the allotted paddy by June 2013 for KMS 2012-13. Physical verification done at the premises of miller during May 2013 and onwards had indicated shortage in stocks of 1,693 MTs rice (3,012 MTs - 1,319 MTs) valuing ₹ 4.38 crore.

Thus, allotment of paddy to a miller against the provisions of CMP and failure to shift the un-milled paddy to other millers resulted in the Corporation incurring loss of ₹ 5.94 crore including interest of ₹ 1.56 crore.

The Management stated (August 2016) that the district office could store 20,186 MT paddy with six millers allotted to the Corporation against their allotted capacity of 21,800 MT as three millers accepted less quantity of paddy against their capacity. 42,296 MT unlifted paddy was shifted to the millers of other districts and in these circumstances 1,685 MT Paddy was also stored with this miller.

The reply is not acceptable as the miller was a defaulter in respect of KMS 2011-12 and was thus not entitled to the excess quantity of paddy of KMS 2012-13. Moreover, the District office failed to get the paddy of KMS 2012-13 milled from this miller and the Corporation could not recover the amount of ₹ 5.94 crore from him.

The matter was referred to the Government (June 2016), their reply was awaited (September 2016).

Punjab State Power Corporation Limited

3.11 Purchase of power

Low plant load factor in the Company's own thermal stations led to purchase of power from traders/unscheduled interchange resulting in higher financial burden of ₹374.96 crore. Company also failed to avail of rebate amounting to ₹22.33 lakh for timely payment of power purchased. The Company made excess payment of ₹ 2,249.61 crore of which burden of ₹ 1,427.84 crore was passed to consumers.

3.11.1 Introduction

The Punjab State Power Corporation Limited (Company) is vested with the activities of generation and distribution of electricity in the State. The Company meets its power requirements from both its own generating stations including the share from the Bhakra Beas Management Board as well as purchase from central generating stations, independent power producers, short term purchase/spot trade, and New and Renewable Sources of Energy (NRSE) projects.

The present audit was conducted to analyse the activity of purchase of power during the period from 2013-16. The position of power requirement, availability and purchases is given in table 3.5 below:

Table 3.5 : Detail of power availability and purchases from various sources

Energy in Million Units (MUs)

Sl. No.	Particulars	2013-14	2014-15	2015-16 (upto January 2016)
1.	Requirement	46,962	46,516	51,057
2	Requirement met with from own resources	24,622	16,912	23,162
3.	Purchase			
I	Central Sector	16,954	18,860	17,200
	Percentage to total purchase	75.89	63.71	61.66
II	Private Sector			
A	IPPs (Long Term/Medium Term)	475	6,784	8,290
B	Short Term/Spot Trade	3,461	3,405	1,814
C	NRSE	661	738	795
	Total (Private Sector)	4,597	10,927	10,899
	Percentage to total purchase	20.58	36.91	39.07
III	Others (Banking, UI, UI Open Access)	789	(-) 183	(-) 204
	Percentage to total purchase	3.53	-0.62	-0.73
4	Total Purchase (I+II+III)	22,340	29,604	27,895
	Percentage of purchase of power to the total requirement (4)/(1)*100	47.57	63.64	54.64
	Percentage of purchase of power to requirement met with from own sources (4)/(2)*100	90.73	175.05	120.43
5	Number of PPAs			
A	Long Term (more than seven years	29	29	29
B	Medium Term (more than one year to seven years	-	-	-
C	Short Term (up to one year)	10	7	7

Source: Information provided by inter-state billing cell of Company and Tariff orders.

As can be seen, the increase in requirement of power over the period 2013-16 was met almost exclusively by purchase of power from private independent power producers (IPPs) while the Company's own generation had decreased.

Audit Findings

3.11.2 Shut down of own generation stations and purchase of power from traders/unscheduled interchange

The plant load factor[36] of the thermal generating stations of Company came down drastically, as shown in the Table 3.6, due to shutting down of plants. The percentage of reserve outages[37] to total Plant Availability Factor (PAF) ranged from 13.38 to 70.34 *per cent* during the period 2013-14 to 2015-16 in all the three thermal stations:

[36] Plant Load Factor refers to the ratio between the actual generation and the maximum possible generation at installed capacity.

[37] Reserve outages is a technical term used for a unit shut down due to lack of demand.

Table 3.6 : Detail of Plant Load Factor (PLF) and Plant Availability Factor (PAF) of thermal stations

Name of thermal station	2013-14		2014-15		2015-16		Increase(+)/ decrease(-)	
	PLF *per cent*	PAF *per cent*	PLF *per cent*	PAF *per cent*	PLF *per cent*	PAF *per cent*	PLF *per cent*	PAF *per cent*
GNDTP Bathinda	54.91	84.64	37.40	89.18	22.73	93.75	(-) 58.60	(+) 10.76
GGSSTP Ropar	72.53	89.84	52.11	92.50	35.77	94.68	(-) 50.68	(+) 5.39
GHTP Lehra Mohabbat	82.70	97.30	55.93	92.30	38.79	91.68	(-) 53.10	(-) 5.78

Source: Management Information Report prepared by Company.

Audit observed that not only did the PLF of the three major thermal stations (total generation capacity: 2640 MW) come down during the three year period under review but it also showed a drastic reduction from the average PLF of the these three plants in the immediately preceding five year period 2008-13 (GNDTP Bathinda: 67.72; GGSSTP Ropar: 87.14; GHTP Lehra Mohabbat: 91.77). Had these plants continued to operate at least at these PLFs, they would have, on an average, generated an extra 7,529.57 MUs annually during 2013-16.

The Punjab State Electricity Regulatory Commission (PSERC) had also determined an amount of ₹ 182.02 crore and ₹ 78.46 crore as disincentive on account of lower thermal generation during the true up of 2010-11 and 2011-12 respectively[38] and the Company had to bear an extra burden of ₹ 260.48 crore.

3.11.2.1 As per PSERC's (Power Purchase and Procurement Process of Licensee) Regulations 2012, the Company is required to prepare a short term power procurement plan for approval of PSERC. After such approval, it is free to procure power through open bidding or through Power Exchange or bilateral banking arrangement.

Audit noticed that during the months of April to February of 2013-14 and April to September of 2014-15, the Company purchased between 62 lakh and 8,135 lakh units monthly at average monthly rates ranging between ₹ 2.86 per unit to ₹ 3.95 per unit and monthly units ranging between 702 lakh and 9,886 lakh at average monthly rates ranging between ₹ 3.30 per unit to ₹ 4.01 per unit respectively, by bidding through power exchange from traders. During the same period, the Company's thermal plants were having sufficient generation capacity to fully/ partially, meet its requirements at variable cost ranging between ₹ 2.52 per unit to ₹ 2.67 per unit and ₹ 2.74 per unit to ₹ 3.15 per unit respectively.

The reason for under utilisation of thermal plants was stated to be, 'no demand/units stopped as per instructions of Power Controller, Patiala'. Thus, shutting down of own thermal plants and purchase of power at higher rates caused an avoidable extra expenditure of ₹ 183.25 crore on short term purchase of power.

[38] No disincentive was determined by PSERC after true up of 2011-12.

3.11.2.2 Unscheduled Interchange (UI) is the mechanism developed to improve grid efficiency, grid discipline, accountability and responsibility by imposing charges on those who deviate from their scheduled generation or drawal. These charges are payable depending upon the extent of deviation from the schedule and also subject to the grid condition at that point of time.

Audit observed that the Company had violated the UI mechanism and had overdrawn/under-drawn 17,543.52 lakh units (LUs) (10,637.64 LUs overdrawn + 6905.88 LUs under-drawn) of unscheduled energy during 2013-16 for which the Company will have to pay ₹ 548.20 crore as UI charges as detailed in table 3.7 below. The Company did not make available figures of payments made on this account.

Table 3.7: Detail of UI Charges

Sl. No.	Year	Scheduled Energy (LUs)	Actual Drawal (LUs)	Over-Drawal (LUs)	Under-Drawal (LUs)	UI Charges Payable (₹ in crore)
1	2013-14	263712.73	263162.24	2458.62	3009.12	40.77
2	2014-15	255458.36	257891.11	4982.86	2550.10	281.09
3	2015-16	267778.42	269646.22	3196.15	1346.66	226.34
	Total	**786949.51**	**790699.57**	**10637.63**	**6905.88**	**548.20**

Source: Information provided by Inter-State Billing Cell of Company

To meet the peak season demand, the Company also purchases power through short term agreements (bilateral agreement and through Power Exchange). These agreements ranged from one day to one year. The Company made UI over-drawals in 21 months during 2013-14 to 2015-16 out of which during 16 months UI over-drawals were costlier than variable cost of own generation and/or short term power purchase.

Audit observed that out of the above 16 months, in 12 months the Company had sufficient capacity of own generation to meet up its energy requirement at per unit variable cost ranging between ₹ 2.62 and ₹ 4.24, whereas the rate of UI over-drawal ranged between ₹ 3.30 and ₹ 26.62. In remaining four months, the energy requirement could have been met through short term power purchase available at per unit rate ranging between ₹ 3.45 and ₹ 4.01 against the rate of UI over-drawal ranging between ₹ 5.51 and ₹ 36.03. Thus, the Company resorted to meeting its energy requirement through costlier UI over-drawal instead of own generation and/or short term power purchase available at cheaper rate which resulted in extra expenditure of ₹ 191.71 crore.

PSERC also, while truing up of tariff for the year 2010-11, 2011-12, 2012-13 and 2013-14[39] stated that the additional power purchased through traders/UI at high cost was not commercially viable and disallowed ₹ 439.04 crore , ₹ 23.56 crore, ₹ 22.51 crore and ₹ 3.82 crore respectively. The Commission also disallowed ₹ 24.09 crore and ₹ 20.27 crore for 2010-11 and 2012-13 respectively on account of interest payable on delayed payments to UI account.

[39] True up for the year subsequent to 2013-14 (approved by PSERC on 27.07.2016) has not yet been finalised by PSERC.

3.11.3. Purchase of power at higher tariff than the capped tariff, non-recovery of Liquidated Damages and excess payments to EPPL.

A Power Sale Agreement (PSA) was signed (March 2006) between PTC India Limited (PTC) and the Company for purchase of 100 Mega Watt (MW) power from Malana-II Hydro Electric Power (HEP) Project being set up by M/s Everest Power Private Limited (M/s EPPL), Shimla for a period of 40 years from Commercial Operation Date (COD). The PSA was based on the PPA entered into (July 2005) between PTC and M/s EPPL.

3.11.3.1 As per the PSA, tariff was to be based on financial parameters and the capped rates as specified in the PPA which was to be determined by the PSERC.

PSERC approved (January 2007) the PSA subject to carrying out certain amendments relating to determination of tariff. The PSERC stated that although payments to PTC may vary on account of tariff credits, such payment would never in any given year exceed the capped tariff as per the agreement. However, Company neither incorporated the amendments as per directions of the PSERC in the PSA nor got the PSA approved from the PSERC.

PSERC, on a petition[40] filed by PTC for determination of tariff on completed cost of project, stated (August 2012) that the failure of Company to incorporate amendments as directed in its Order (January 2007) made the PSA non-implementable and further ordered (November 2013) that the capped tariff would not have any application. The Company challenged the orders of PSERC in Appellate Tribunal and the Supreme Court of India which were dismissed. Thus, due to non-incorporation of the amendments, the Company incurred excess expenditure of ₹ 181.28 crore (from July 2012 to March 2015) on purchase of power.

3.11.3.2 As per clause 1 of Schedule-G of Power Purchase Agreement, in case the commissioning of the project was delayed due to reasons attributable to M/s EPPL beyond the required Commercial Operation Date (COD) then it would pay liquidated damages (LD) to PTC on monthly basis. If the commissioning delay was beyond six months from required COD then the liquidated damages would be calculated at the additional cost per Kwh incurred by PTC or Company for obtaining an equal amount of power from an alternate source for such period of delay. Audit observed that M/s EPPL failed to achieve the required commercial operation date (COD) (i.e. 5 September 2009) and after a delay of two years and 10 months, achieved COD on 12 July 2012. However, neither PTC nor Company raised demand notice for liquidated damages as per the PPA. PSERC also held (November 2013) that M/s EPPL was responsible for the delay in commissioning of project from October 2011 to July 2012. Despite this, the Company did not raise claims for liquidated damages of ₹ 77.52 crore till date.

[40] Petition no. 34 of 2011 for determination of tariff based on final completion cost of the project.

3.11.3.3 M/s EPPL filed a petition (2014) before PSERC for approval of annual fixed cost (AFC) for the period from 2014-15 and truing up of AFC for 2012-14. As per CERC regulations, AFC forms the basis for determination of capacity charges which is a component of tariff. During hearing, M/s EPPL filed (May 2015) a request for determining provisional AFC for 2015-16 at the same level as sought for Financial Year 2014-15 under the above petition. PSERC decided (May 2015) that AFC of ₹ 167.11 crore as determined (December 2014) for 2013-14 would be provisionally applicable for 2014-16 subject to final determination of AFC. PSERC, however, in its final orders (August 2015), determined provisional AFC of ₹129.77 crore for the year 2014-15.

Audit noticed that the Company continued to make payment to M/s EPPL for the year 2015-16 at AFC of ₹ 167.11 crore in spite of the fact that PSERC had fixed the provisional AFC of ₹129.77 crore for 2014-15. Thus, by non- restricting AFC for 2015-16 to ₹ 129.77 crore, the Company made excess payments of ₹ 23.25 crore (from August 2015 to May 2016).

3.11.4. Unjustified /Excess payments

The Company along with other distribution companies entered into (April 2007) a PPA with M/s Coastal Gujarat Power Limited (CGPL), which had set up an Ultra Mega Power Plant (UMPP) at Mundra. The Company's share in the plant was 12.5 *per cent*.

As per the PPA, a unit was to be commissioned after all the procurers received a final test certificate of an independent engineer. The Unit was to operate at or above 95 *per cent* of the contracted capacity for 72 consecutive hours. It was further provided in the PPA that if any procurer availed any electrical output prior to the COD (Infirm Power[41]) of the unit, then such procurer was liable to pay only energy charges.

3.11.4.1 Audit observed that the test reports of COD of all five units of UMPP revealed that except unit no. 10, the contracted capacity of the other four units (no. 20, 30, 40 and 50) fell below 95 *per cent* for eight to 46 hours during 72 hours of operation. The independent engineer, however, certified the units and accordingly CODs of the units were declared as unit 20: 30 July 2012; unit 30: 27 October 2012; unit 40: 21 January 2013 and units 50: 22 March 2013.

Audit further observed that energy was billed as per normal tariff (i.e. including energy charges and capacity charges) in view of declaration of COD and Company made the payment accordingly even though the testing of the units was not as per the PPA. Consequently, the payment of capacity charges of ₹ 766.78 crore (up to January 2016) was not in consonance with the provisions of the PPA. The Company failed to notice the discrepancy in the certificate and did not take up the matter with the developer of Mundra UMPP to safeguard its financial interest.

[41] Power supplied by a Captive Power Plant (CPP) to a Licensee which is not committed and is not covered under any contract and will also include power from a standby plant.

3.11.4.2 Audit noticed that the infirm power generated by M/s CGPL was injected in the grid instead of passing on to procurers as per the PPA. As a result, the procurers could not avail the same. M/s CGPL had received UI charges of ₹ 30.61 crore for this infirm power which should have been passed on to the procurers. However, the Company had neither raised a demand for its share of ₹ 3.83 crore[42] nor adjusted this amount in the payments made to M/s CGPL.

3.11.5. Non-availing of rebate

The Company signed (July 2012) a short term PPA with a developer for getting 6.0 MW power from the developer's power plant. It was observed that a 'rebate clause' was not incorporated in the PPA, as done in other PPAs, which provides that if Company makes payment of energy bills within seven or 30 working days from the date of receipt of monthly invoice, it shall be entitled to a rebate of two or one *per cent* respectively.

Audit observed that during December 2012 to March 2014, the developer supplied 245.03 LUs valuing ₹11.16 crore for which payment was made/adjusted within seven days. However, due to absence of a rebate clause, the Company could not avail the rebate of two *per cent* amounting to ₹ 22.33 lakh.

3.11.6. Loss due to non-completion/non-functional micro hydel projects

As per PSERC (Renewable Purchase Obligation and its Compliance) Regulations, 2011, the Company was required to purchase electricity from renewable energy sources under the Renewable Purchase Obligation (RPO). The RPO could also be fulfilled by purchase of Renewable Energy Certificate (RECs).

Scrutiny of records revealed that Company could not achieve the RPO targets fixed by the PSERC for 2013-15. The shortfall in RPO targets ranged from 335.51 MUs to 642.42 MUs during the period 2013-14 and 2014-15 respectively. In order to make up for the shortfall through purchase of RECs, Company proposed an amount of ₹ 239.00 crore (₹141.00 crore: 2013-14 + ₹ 98.00 crore: 2014-15) in the Annual Revenue Requirement (ARR). PSERC, however, observed that there was considerable delay in the completion of 18 MW MHP stage-II project and also that four Micro Hydel Plants of Company at Daudhar, Nidampur, Rohti and Thuhi (total capacity 3.90 MW) were lying non functional[43]. As these projects would have contributed renewable energy to tune of 180 MUs (90 MUs per year), the PSERC disallowed ₹ 28.00 crore (₹ 14.00 crore per year) for the years 2013-15.

[42] ₹ 30.61 crore (UI Charges received by CGPL) x 12.5 *per cent* (Company's share) = ₹ 3.83 crore.

[43] Reasons for delay in completion/non-functional micro hydel plants of Company were commented in para no. 2.2.8 of Audit Report (ES-PSU) for the year ended 31 March 2014.

3.11.7. Conclusion

The Company had to purchase power from traders/unscheduled interchange due to low plant load factor at its own thermal power stations. The Company also did not avail of the rebate available for making timely payment of power purchased. Delay in completion of its own hydel projects also resulted into disallowance by the PSERC. Due to these operational inefficiencies and lack of adherence to tariff regulations, the Company incurred excess payment of ₹ 2,249.61 crore out of which ₹ 821.77 crore was borne by it and the balance ₹ 1,427.84 crore passed on to the consumers**.**

The matter was referred to the Company and the Government (March 2016), their replies were awaited (September 2016).

3.12 Non-collection of due security for electricity connection

Failure to take definitive action or disconnect electric supply of a defaulting consumer as provided for under the PSERC's (Electricity Supply Code and Related Matters) Regulations for non-deposit of security of ₹ 14.48 crore along with penal interest of ₹ 9.74 crore undermined its ability to ensure submission of deposits by consumers as well as led to accumulation of outstanding dues of ₹ 53.36 crore.

As per regulation 15.1 of the Punjab State Electricity Regulatory Commission (Electricity Supply Code and Related Matters) Regulations 2007[44], consumers are required to maintain as security an amount equivalent to consumption charges for one and a half month with the Punjab State Power Corporation Limited (Company). The consumption charges are to be based on the average monthly consumption of a consumer in the preceding twelve months. Regulation 16.1 provides that the Company is to review the adequacy of this security after every three years. Further, regulation 16.2 (e) provides for charging penal interest in case of delay in payment of security and right to disconnect the electricity supply of the consumer.

On the basis of these regulations, a demand notice for security (consumption) of ₹ 10.64 crore was raised (April 2011) by the Company on a firm[45]. However, no amount was deposited by the firm. In May 2011, the Department of Industries and Commerce (PSIC), Government of Punjab (GoP), requested the Company for dispensing with the condition of security. The request was not accepted by the Company and reminders were issued (March 2012 and September 2013) to the firm. PSIC, GoP again wrote (September 2013) to the Company for exempting/ deferring the payment of the security as the firm was facing financial problems. On this request, the Company issued a revised notice (October 2013) for depositing ₹ 9.21 crore[46] as security in 10 equal monthly installments though there was no provision in the regulations for payment of security amount in installments.

[44] effective from 1 January 2008
[45] A public limited company with equity participation by PSIDC of 44.26 *per cent.*
[46] On the basis of revised average monthly consumption of the firm.

The firm did not deposit the amount and again requested (March 2014) for deferring the requirement of security deposit for one year which was not considered (July 2014) by the Company. Meanwhile, the PSERC notified (November 2014) the revised Electricity Supply Code and Related Matters Regulations, 2014[47]. As per regulation 16.4 of these regulations, the adequacy of the amount of security (consumption) for the firm being extra high tension consumer i.e. with a supply voltage exceeding 33 Kilo Volts was to be reviewed annually. Accordingly, demand notices for the revised security (consumption) of ₹ 11.94 crore (January 2015) and ₹ 14.48 crore (July 2015) were issued by the Company. However, no security amount had been deposited by the firm till date and the penal interest because of this delay had accumulated up to ₹ 9.74 crore till December 2015.

In spite of non-payment of the due security amount by the firm for four years (April 2011 to July 2015), the Company did not proceed to disconnect the electric supply of the firm as per its regulations. As a result, the security which acts as a cushion in the event of non-payment of electricity dues could not be arranged. The firm stopped paying its electricity dues from September 2015 to November 2015 and paid its monthly bill for December 2015. Thereafter, from January 2016 to August 2016 it made only part payments causing the recoverable electricity dues to swell to ₹ 53.36 crore, which could have been partially adjusted against the security amount to the extent of security deposit. PSERC had also held (Tariff order 2014-15) that no consumer including government undertakings could be exempted from the payment of security.

Thus, the non-enforcement of statutory regulations, resulted in the firm running up arrears of electricity dues of ₹ 53.36 crore.

The matter was referred to the Company and the Government (January 2016), their replies were awaited (September 2016).

3.13 Avoidable payment of additional levy

The Company paid ₹ 391.46 crore as additional levy though it was to be paid by a Joint Venture Company which was a separate legal entity.

To help identify, develop and operate a captive coal mine, the Company entered (March 2001) into a Joint Venture Agreement (JVA) with a partnership firm (firm) to form (April 2001) a joint venture company (JVC) with a 26 *per cent* share in the equity capital. The Company was allocated (December 2001) a coal block for mining at Pachwara (Central) Block in district Pakur of Jharkhand by the Union Ministry of Coal (MoC), Government of India (GoI). A Coal Purchase Agreement was entered (August 2006) into between the JVC and the Company for a period of 30 years wherein the entire quantity of coal produced was to be sold, transported and delivered exclusively to the Company.

[47] effective from 1 January 2015.

Adjudicating on a writ petition[48] challenging the allocation of coal blocks during the period 1993 to 2010, the Hon'ble Supreme Court of India held (August – September 2014) the allotment of coal blocks already made as arbitrary and illegal and quashed all the allotments including coal block allotted to the Company. The Court also directed to make compensatory payment of ₹ 295 per metric ton (MT) on the coal extracted since commencement upto 24 September 2014 as additional levy on or before 31 December 2014. The coal extracted thereafter till 31 March 2015 was also to attract this additional levy of ₹ 295 per MT. The burden of paying this additional levy was placed on the 'prior allottee'.

Consequent upon the judgement, the MoC notified (26 December 2014) the Coal Mines (Special Provisions) Second Ordinance, 2014 (Second Ordinance) for fresh allotment of coal mines which provided [section 3(1)(n)] that in case a mining lease was extended in the favour of a third party subsequent to allocation of coal mines, then such third party would be deemed to be the 'prior allottee'.

In the present case, as the mining lease was in the name of JVC, it was the 'prior allottee' who was responsible for payment of additional levy. The MoC raised (30 December 2014) a demand on the JVC for payment of additional levy a copy of which was sent to the Company. Taking notice of this, the Company asked the JVC to deposit the additional levy to MoC. As JVC did not deposit the additional levy with MoC, the Company itself deposited (31 December 2014) ₹ 391.46 crore[49] for the coal extracted up to 24 September 2014, after raising a loan[50] for this purpose.

Thereafter, the Company requested (May 2015) MoC to refund ₹ 391.46 crore deposited by it on the grounds that JVC was to pay the amount of additional levy. In response, the MoC stated (September 2015) that although JVC was the prior allottee and responsible for paying the additional levy, no payment had been made by it. The request of the Company seeking refund could be accepted only after JVC paid the full amount of additional levy.

Audit observed (June 2015) that:

- In the Second Ordinance, the definition of 'prior allottee' was amended only to put the burden of additional levy on third party in whose favour mining lease has been executed i.e. JVC, with the intention of saving the Public Sector Undertakings who had entered into a joint venture with third parties from payment of additional levy. Further, section 14 (3) provided that every liability of the 'prior allottee' in respect of any prior period was enforceable against the 'prior allottee' only.

[48] Writ Petition (Crl.) Nos. 120 of 2012 (Manohar Lal Sharma Vs. Principal Secretary and others) and its judgment dated 25 August 2014 and 24 September 2014.

[49] As 26 *percent* of ₹ 1505.63 crore (on coal extracted upto 24 September 2014: 5,10,38,282.42 MT X ₹ 295 per MT) equivalent to its share in the share capital in the JVC.

[50] by way of loan of ₹ 195 crore each from the Rural Electrification Corporation and Power Finance Corporation at the interest rate of 12.50 *per cent* per annum. The balance ₹ 1.46 crore was arranged by the Company's from its own funds.

- As per the Company's JVA with the firm, the Company was not to make any financial contribution in JVC at any time. The Company's share holding (26 *per cent*) in JVC was also based on its rights in the coal mine and without any cash consideration in lieu thereof. The JVA further provided that the firm and its partners were to ensure that JVC was to raise the capital and other finances required for its business and the Company was not required to undertake or to be a party to any guarantee obligation or otherwise give any security or assurance for raising of finance and capital. The firm and partners were to indemnify and hold harmless the Company against any claim, suit or proceedings etc. arising from any default on the part of the firm and partners.

Hence, the liability of payment of additional levy was exclusively on JVC and the demand had been correctly raised (30 December 2014) on it by MoC. Despite being aware of this, the Company on its own paid ₹ 391.46 crore the very next day which it was not required to do resulting in blocking of its funds.

The Company stated (March 2016) that additional levy equivalent was paid by it to be eligible for bidding in the re-allotment of coal mine. The reply is not acceptable as Section 5 of the Second Ordinance provided that allotment of coal mine to Government companies was to be made by making an allotment order (i.e. nomination basis) and not by competitive bidding. This position has been borne out by the fact that some other public sector entities *viz.* West Bengal Power Development Corporation Limited and Damodar Valley Corporation, which had not paid additional levy, were again allotted coal mines under the *ibid* Ordinance.

The matter was referred to the Government (January 2016), their replies were awaited (September 2016).

3.14 Unfruitful expenditure on engagement of consultants

The Company could not identify deficiencies in Detailed Project Reports and released payments without adequate scrutiny which rendered a payment of ₹1.24 crore to the consultants unfruitful and also led to overall delay in the execution of works.

Ministry of Power (MoP), Government of India, launched (December 2008) the Re-structured Accelerated Power Development and Reforms Programme (R-APDRP) for strengthening of sub-transmission & distribution system in urban India. The scheme was divided into two parts - Part A[51] and Part B. Power Finance Corporation, New Delhi (PFC) was appointed as nodal agency for the scheme.

[51] Part-A was designed to introduce and implement IT applicability into distribution sector and Part- B was designed to bring down aggregate technical and commercial losses upto 15 *per cent* level.

Under Part- B of the scheme, Detailed Project Reports (DPRs) of 47 towns involving expenditure of ₹ 1,550 crore were prepared by the Punjab State Power Corporation Limited (Company) and submitted (March 2010) to PFC. The Steering Committee of MoP sanctioned (March 2010) DPRs of 15 towns amounting to ₹ 511.83 crore. Upon revision (June 2010) in the model DPR for Part-B, the Company decided to get the DPRs (including the 15 DPRs already sanctioned) revised by engaging consultants. Accordingly, after floating (June 2010) a tender enquiry, the Company placed (October 2010) work orders on two consultants for 29 and 18 towns respectively. The consultancy fee was to be paid as a percentage of final cost of DPRs sanctioned by MoP in four phases i.e. 35 *per cent* of the consultancy fee based on the cost of draft DPR submitted to the Company, 20 *per cent* on submission of DPR to PFC, next 20 *per cent* on sanction of DPR by Steering Committee of MoP and balance 25 *per cent* on completion of the work.

As per the terms of work order, the payments to the consultants were to be made on the basis of bills verified and approved by Senior Executive Engineer (Sr. Xen) and on the approval of related work (in the form of a certificate) from the Chief Engineer. The work of preparation/finalisation of DPRs was to be completed in four months i.e. by 04 February 2011. The consultants submitted the draft DPRs to the Company during the period 29 November 2010 to 04 December 2010 against which payments of ₹ 1.64 crore were released to the consultants from December 2010 to November 2011 after getting the requisite certificate from its Sr. Xen.

During July/August 2012, the Deputy Chief Engineer of the Company reported that the DPRs prepared by the consultants were not in line with the prescribed scope of work and had many deficiencies[52] due to which physical execution of the works was not possible and resultantly, the works of R-APDRP Part-B had been delayed. The consultants were requested (November 2012) to prepare revised DPRs in line with the scope of work, who replied (December 2012) that DPRs were prepared after incorporating the suggestions of the Company. As the consultants failed to revise the DPRs despite regular follow up, the Company revised the DPRs through its own officers. The Company cancelled (September 2013) the work orders, blacklisted the two firms, recovered a penalty of ₹ 25.04 lakh[53] from their security deposits and forfeited (February 2015) their security of ₹ 14.96 lakh[54] and decided (August 2013) to conduct an enquiry into the lapses to pinpoint the responsibility of its officers. The findings of the enquiry were awaited (June 2016).

Audit observed (August 2015) that the Company could not identify the deficiencies at the time the DPRs were initially submitted by the consultants. The payments were made without exercising checks such as certification of the satisfactory completion by CE which indicated lack of due diligence by the

[52] The deficiencies were on account of non-preparation of details/drawings/sketches of new 66/33/11 KV substations, 66/33/11 KV/LT lines, non-providing of Bill of Material (BOQ) requirements as per site conditions and BOQ to be dismantled etc.

[53] Penalty deducted - ₹ 15,22,300 and ₹ 9,81,520.

[54] Security forfeited - ₹ 4,77,700 and ₹ 10,18,480.

Company while examining the DPRs and releasing the payments to consultants. These deficiencies were first noticed by the Company more than 20 months after the submission of draft DPRs. Further, the decision to cancel the work orders and forfeit the security was also taken after more than 30 months of the specified date of completion of work and 14 months after the deficiencies first came to the notice of the Company. As a result, the very purpose of engaging the consultants was defeated, which not only rendered the payment of ₹ 1.24 crore[55] to the consultants unfruitful but also led to overall delay in the execution of works.

Management stated (August 2016) that payment to the consultants was made in proportion to the work completed by them. However, since the performance of the consultants was not good, their contracts were terminated and the firms were blacklisted.

The reply is not convincing as the consultants had not completed all the activities relating to the preparation of DPRs and only 18 out of 25 activities had been carried out by them. Since the consultants had submitted incomplete DPRs, the DPRs were revised/prepared later on by the Company itself as brought out in Company's own memorandum submitted (August 2013) to its Whole Time Directors. Thus, even the payment of first installment of consultancy fee was not justified.

The matter was referred to the Government (February 2016), their replies were awaited (September 2016).

3.15 Transfer of land on lease

Leasing of land for 99 years instead of transferring ownership to Government along with payment of compensation for construction of railway over bridge in Bathinda deprived it of compensation of ₹ 5.16 crore.

As per Section 3A of National Highways Act (Act), 1956, when any land is required for the buildings, maintenance, management or operation of a national highway or part thereof, the Government of India (GoI) may, by notification in the Official Gazette, declare its intention to acquire such land. Section 3G of the Act says that where any land is acquired there shall be paid an amount which shall be determined by the competent authority who shall take into consideration, *inter alia*, the market value of the land.

The Secretary, Public Works Department (Bridge & Roads) (PWD, B&R), Punjab requested (August 2013) the Punjab State Power Corporation Limited (Company) for no objection certificate (NOC) for utilising 3,442 square yards land at Bathinda belonging to the Company for constructing a railway over bridge (ROB)/rotary on National Highway 15 for proper regulation of traffic. As the NOC for above said purpose involved permanent use of land, the

[55] After deduction of penalty and forfeiture of security.

Company decided (February 2014) to transfer the land at collector rate of Bathinda. In response, the Secretary, PWD requested (March 2014) the Company to transfer the said land free of cost or on nominal lease rent on the ground that in the approved estimate for construction of ROB, there was no provision for funds for acquiring land and therefore, the State Government was unable to make any payment to the Company.

Audit observed (March 2016) that the Ministry of Road Transport and Highways, GoI, sanctioned (January 2015) ₹ 1,769.24 crore for disbursement of compensation for land acquisition of 690.23 hectares of land for National Highway 15 in Punjab and same was deposited (March 2016) with the respective sub-divisional magistrates (SDMs). Out of this amount, the share of SDM, Bathinda was ₹ 364.57 crore. The terms of sanction provided that no compensation was payable for the Government land due to lack of clarity of its title and it was to be transferred free of cost. While submitting (October 2013) the estimate cost of ₹ 59.40 crore for construction of ROB, land acquisition cost was not incorporated by PWD, Punjab. As a result, the GoI while approving (February 2014) ₹ 57.85 crore there against, did not consider element of land acquisition citing that the proposal involved no land acquisition.

Subsequently, it was decided in a meeting (July 2015) that the Company would hand over the land immediately, either at a nominal lease of ₹ one per year or free of cost. In the instant case, the land was not Government land and its title rested with the Company. Moreover, the Company in the past also had transferred land to the Government for public use at collector rate only. However, the Company, instead of apprising the State Government of the whole position, agreed (August 2015) to lease the land for ninety nine years at ₹ one per year.

Being a commercial organisation and facing financial crunch, the Company should have apprised the State Government that the said land was not Government land and it should approach the Government of India for acquisition with payment of compensation as was done in case of other land acquired for the highway. Leasing of land for 99 years is tantamount to depriving the Company of its beneficial use for perpetuity for all practical purposes. Thus, leasing of land instead of transfer of ownership on payment of compensation deprived the Company of compensation of ₹ 5.16 crore[56] for the land.

Management stated (August 2016) that the land was taken by PWD for the construction of ROB to facilitate the general public and to solve the traffic problem. The fact remains that the Company being a commercial organisation should have approached the PWD for revising the estimate for ROB by incorporating acquisition along with compensation for the land.

The matter was referred to the Government (June 2016), their replies were awaited (September 2016).

[56] Collector rate of ₹ 15,000 per square yards X 3,442 square yards.

3.16 Follow-up Audit on Performance Audit on working of Punjab State Power Corporation Limited

Out of 17 recommendations of the Committee on Public Undertakings, two recommendations have been fully implemented; partial progress was made in nine cases and in six cases, the Company made no progress

3.16.1 Introduction

A Performance Audit (PA) on working of Punjab State Power Corporation Limited (Company) featured in the Report no. 4 (Commercial) of CAG of India - Government of Punjab for the year ended 31 March 2011 and was presented in the State Legislature on 28 March 2012. The highlights of PA were:

- Increase in transformation capacity was not commensurate with the increase in connected load;
- Delay in implementation of Centrally Sponsored Schemes;
- Increase in power deficit in the State;
- Higher transmission and distribution losses in comparison to maximum level fixed by Central Electricity Authority (CEA);
- Increase in outstanding dues of consumers; and
- Lack of established and conclusive methodology for determination of agriculture pump-set consumption.

3.16.2 Objective, scope and methodology of audit

The Committee on Public Undertakings (COPU) discussed this PA in its meetings held during December 2013 to January 2016 and included its recommendations on the audit findings in its 104th, 111th and 113th Report, which were placed in the State Legislature in March 2014, March 2015 and March 2016 respectively. COPU made 17 recommendations, out of which the Company had not made progress in respect of six recommendations; partial progress was made in respect of nine recommendations and two recommendations had been fully implemented.

A follow up audit of the recommendations made by COPU was undertaken to ascertain whether the Company/Government has addressed the concerns raised and remedied the underlying conditions highlighted in the Audit Report and implemented the accepted recommendations relating to the audit observations during the period 2011-16.

Audit findings

3.16.3 Implementation of audit recommendations

The status of action taken by the Company on the 15 important recommendations of COPU has been arranged in the three categories as follows:

A. Insignificant/ no progress

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
1. The Company had decided (June 2006) to convert 9.30 lakh AP[57] connections from low tension (LT) lines low voltage distribution system (LVDS) to 11 KV high voltage distribution system (HVDS) to improve the voltage profile, reduce theft of energy and LT line losses etc. However, after a lapse of about five years, it could convert (March 2011) only 1.82 lakh connections. ***(Para 2.2.11 of Report 2010-11)***	*COPU (104th Report) recommended that PSPCL should ensure the completion of high level projects within specified time and fix the responsibility of concerned Company so as to compensate the losses arising out of the delay in completion of works*	Upto March 2016, the Company could execute work of only 2.21 lakh connections against total 9.30 lakh connections in respect of 25 schemes at a cost of ₹ 1,231.52 crore even though Rural Electrification Corporation had sanctioned (September – November 2006) a loan of ₹ 2,176.30 crore for 40 schemes.	The Management replied (April 2016) that conversion of LVDS to HVDS in AP sector was highly capital intensive (₹ one lakh for conversion of one connection), however, all new connections were being released under HVDS only.	As no work order has been issued for the balance work, the envisaged benefits of conversion of LVDS to HVDS could not be achieved.
2. The Company had imposed (April 2008-March 2010) a penalty of ₹ 48.74 lakh on 164 consumers in seven operation divisions of Patiala circle for theft of electricity. However, these penalties could not be recovered from the defaulting consumers, as the Company could not establish theft of power at Consumer Disputes Redressal Forums/Civil Courts on the grounds that the laid down procedures were not properly followed by the field staff of the Company. ***(Para 2.2.31 of Report 2010-11)***	*COPU (113th Report) recommended that it was the duty of the Company to make aware the divisional and sub-divisional authorities regarding standing instructions and monitor compliance thereof. COPU also recommended that responsibility of officials should be fixed.*	The Company had not fixed the responsibility of officials. Further, during the period 2011-16, penalty of ₹ 31.58 lakh in 23 similarly placed cases in Patiala circle could not be recovered from the consumers.	As per Management's reply (January 2016) to COPU, the Company is performing its duty under the guidance of its rules and no officer/ official can be held responsible.	As such lapses still persist which indicate persistent non following of procedures.

[57] Agriculture pump set

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
3.** The Company needed to install meters on all the connections to attain 100 per cent billing based on meter readings.* ***(Para 2.2.32 of Report 2010-11)	*COPU (111th Report) recommended that necessary efforts be made for 100 per cent metering by the Company.*	The total energy billed on the basis of meter readings was still only 72.06 *per cent*[58] during the year 2014-15.	As per Management's reply to COPU, the non-meter billing was in respect of agriculture connections which could not be installed due to heavy capital expenditure of ₹ 1027 crore.	Besides COPU, PSERC in its tariff orders has also been repeatedly recommending for 100 *per cent* metering. Thus, there was no further action in this regard.
4.** Due to absence of meters in respect of a large number of agricultural pump set (AP) consumers, the Punjab State Elecricity Regulatory Commission (PSERC) was not convinced of the correctness of AP consumption and therefore, did not approve 2,909 million units (MUs) for the period 2007-10 costing ₹ 723.16 crore. This resulted in non-recovery of the AP subsidy from the State Government and increase in T&D losses to that extent.* ***(Para 2.2.34 of Report 2010-11)	*COPU (111th Report) recommended that necessary efforts be made for 100 per cent metering on AP connections.*	As on March 2016, out of 12.46 lakh AP consumers, meters[59] for only 1.15 lakh had been installed. PSERC again disallowed 3,246 MUs of AP consumption for the period 2010-14 costing ₹ 1,266.65 crore.	The Company replied (February 2016) that 100 *per cent* AP metering was not financially viable as it involved huge capital expenditure and the matter was taken up (October 2014) with State Government and PSERC not to insist for 100 *per cent* AP metering.	Further progress is awaited.
5. The revenue collection efficiency was only 85 per cent. The outstanding balance of the year	*COPU recommended (113th Report) that efforts should be made to get land*	It was observed that collection efficiency had not improved and was still 85 *per cent* during 2011-14 and the Company	As per Management reply (March 2016), a land equivalent to net outstanding	Further progress in this regard shall be awaited.

[58] Balance 27.94 *per cent* was on account of unmetered supply to agriculture power (26.34 *per cent*); under assessed/ un billed units/ thefts detected (1.60 *per cent*).

[59] Sample meters which were only for assessing energy losses not for billing.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
2009-10 included an amount of ₹ 89.61 crore recoverable from MC, Amritsar, which was recoverable for more than 15 years. ***(Para 2.2.38 of Report 2010-11)***	*worth ₹ 16.38 crore[60] from Municipal Corporation (MC), Amritsar.*	was yet to get the recovery or land from MC, Amritsar (March 2016).	amount of ₹ 16.38 crore will be handed over by MC, Amritsar to the Company	
6. The Company had not taken up the matter with PSERC to seek compensation amounting to ₹ 238.16 crore on account of differential cost of ₹ 2,600 per BHP[61] under the voluntary disclosure scheme wherein the AP consumers paid ₹ 1,000 per BHP for the extended load against the rate of ₹3,600 per BHP. ***(Para 2.2.39 of Report 2010-11)***	*COPU (111th Report) recommended that the Company should approach PSERC to get the differential amount to safeguard its financial interest.*	During follow up audit, it was observed that the Company had not taken up the matter with PSERC (March 2016) despite action being recommended.	Management in its reply (February 2016) to COPU stated that instead of loss, the Company has been benefitted on many fronts like additional service connection charges, reduced damage rates of transformers, reduction in T&D losses, less breakdown etc.	In absence of any cost benefit analysis, it was observed no action was taken in this regard.

B. Partial implementation.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
1. It was pointed out in audit that against the connected load of 27,385 mega watt (MW) as of March 2011, the transformation capacity[62] was only 20,199 Mega Volt Ampere (MVA) (49.33 per cent) against the required capacity	*COPU (104th report) recommended that the Company should make efforts to upgrade its sub-stations to supply electricity in proper manner as overloading of sub-stations*	At the connected load of 31,858.784 MW (March 2015), the actual transformation capacity was 26,522.77 MVA.	Management stated (September 2014) that the increase in connected load is not put on the system at the same time and the transformation capacity based on connected load is decided	Though the transformation capacity had increased, still it was below the required capacity of 47635.74 MVA.

[60] An amount of ₹ 111.40 crore (including defaulting amount of ₹ 89.61 crore) was recoverable and ₹ 95.02 crore was payable to MC, Amritsar. Thus, the State Government in a meeting (November 2013) decided that land equivalent to the net recoverable amount of ₹ 16.38 crore was to be given to the Company.

[61] British Horse Power = 0.746 KW.

[62] The ideal ratio of transformer capacity to the connected load is 1:1.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
of 40,946 MVA. This led to overloading of network and failure to provide reliable electricity, besides failure to reduce transmission losses. ***(Para 2.2.9 of Report 2010-11)***	*causes damage to the machinery and disturbs supply.*		technically as per peak demand on the system during the year.	
2. The work of ***R-APDRP***[63] *scheme was delayed and was behind schedule. The slow progress of Part-B works would affect the outcome of the overall project as completion of some components of Part-A were dependent upon completion of Part-B works.* ***(Para 2.2.15 (b) of Report 2010-11)***	*COPU (113th report) recommended that the Company should avoid administrative delays so that work gets completed timely as conversion of loan[64] into grant depends on the completion and reduction of AT&C losses.*	The work was still in progress (March 2016) as the scheme had been extended upto March 2017.	As per Management reply (January 2016) work orders for R-APDRP Part-B works are in progress except Patiala town where the works have been completed.	The delay in completion of work would affect the benefits[65] envisaged from the scheme.
3. *The Company had not resorted to well-planned long term arrangements of power purchase and made short term purchase of power at high cost of ₹5,062.73 crore during 2006-11 which could have been reduced considerably.* ***(Para 2.2.18 of Report 2010-11)***	*COPU (111th report) recommended that the Company, while controlling its costs and reducing its losses, should assess available economical sources of power at the rates approved by PSERC, besides limiting its power purchase.*	The long/medium term power purchase increased from 475 MUs (2013-14) to 8290 MUs (2015-16)[66] and short term power purchase decreased from 3461 MUs (2013-14) to 1814 MUs (2015-16). PSERC, while truing-up (August 2014) the tariff for the year 2010-11 disallowed ₹ 439.04 crore for short term power purchase and in true-up of tariff for the year 2011-12 disallowed ₹ 23.56 crore for additional unscheduled	Management in its reply submitted (February 2016) to COPU stated that for a State like Punjab where load pattern is not consistent throughout the year, the purchases of power on short term basis has resulted into financial gains for Company instead of losses. However, the necessity to	There was still scope for reducing losses on purchase of power.

[63] Restructured Accelerated Power Development and Reforms Programme.
[64] As per terms of R-APDRP scheme, 50 *per cent* of loan is convertible to grant depending on extent of maintaining AT&C loss level at 15 *per cent* level continuously for five years.
[65] Reduction in AT&C losses to 15 *percent* on sustainable basis.
[66] Figures upto January 2016.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
		interchange charges and ₹ 18.06 crore for 50 MUs purchased due to non-achievement of the target of T&D losses prescribed by PSERC. Further, PSERC in the true up for the years 2012-13 and 2013-14, disallowed (July 2016) ₹ 22.51 crore and ₹ 3.82 crore for additional unscheduled interchange charges.	purchase power on short term basis shall be minimised.	
4. It was pointed out in audit that in the absence of system to compute the T&D losses separately, overall T&D losses were compiled based on the difference between total power available for sale and the power actually sold. ***(Para 2.2.19 of Report 2010-11)***	*COPU (111th Report) recommended that the Company should make more efforts to reduce its distribution losses.*	Although the distribution losses had decreased from 17.42 *per cent* to 14.63 *per cent during* 2011-16, these were still higher than those allowed by PSERC (13.51 *per cent* for 2015-16).	Management did not reply to the audit query.	The T&D losses were still higher than those allowed by PSERC which indicated that there was scope for reduction in T&D losses.
5. It was pointed out that damage rates of repaired DTRs from own workshops ranged between 20.82 per cent to 23.89 per cent as compared to damage rates of 8.96 per cent to 14.18 per cent of transformers got repaired from outside which indicated poor workmanship of in-house workshops. ***(Para 2.2.22 of Report 2010-11)***	*COPU (113th report) recommended[67] that in future Management Information Report (MIR) should be prepared on basis of data provided by the workshop instead of the distribution organisation.*	The position had improved during 2013-16 (upto December 2015) as damage rates of repaired DTRs of own workshops ranged between 12.5 *per cent* to 16.2 *per cent* as compared to damaged rates of 16.0 *per cent* to 18.8 *per cent* of repaired DTRs repaired from outside. However, MIR had not been prepared on the basis of data provided by the workshops.	Management in its reply (January 2016) submitted to COPU stated that it has requested to the concerned section to incorporate the data regarding damaged transformers as conveyed by respective Controller of Stores.	Further progress will be awaited.
6. It was pointed out in audit that 1,379 DTRs	*COPU recommended (113th report)*	Out of 1379 DTRs, 460 DTRs had been received and out of	Management in its reply (January 2016)	Further progress will be awaited.

[67] The Company replied to the COPU that damage rates incorporated in the MIR were based on the data of distribution organisation instead of workshop which is incorrect.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
valuing ₹ 4.61 crore were awaited from 41 firms, which had been declared as non-active/ dead firms whose whereabouts were not known. ***(Para 2.2.23 of Report 2010-11)***	*that efforts should be made to strengthen the internal control mechanism so as to devise a simplified system of timely lifting and return of damaged transformers after their repair and efforts should also be made to recover the outstanding amount.*	total recoverable amount of ₹ 4.61 crore, ₹ 1.46 crore has been adjusted/recovered from 27 firms.	submitted to COPU stated that for recovery of balance amount, the matter is being pursued with firms besides lodging FIRs.	
7. The Company had filed (June/November 2008) three civil suits for recovery of the defaulting amount of ₹ 3.26 crore from three firms which were decided (July 2009 to November 2009) in favour of the Company. However, the Company had not filed the execution petition for recovery of the defaulting amount in the courts of law. ***(Para 2.2.41 of Report 2010-11)***	*COPU (111th Report) recommended that the Company should make efforts to recover the dues with the help of police.*	The Company had filed (2013-14) the execution petitions in the courts. However, the amount was not recovered (March 2016).	Management replied (April 2016) that the execution petitions have been filed.	Further progress will be awaited.

C. Full implementation.

Gist of observations made in earlier audit report	Recommendation made by COPU	Findings in Follow up audit and current status	Replies/ Comments of Department	Audit Comments
1. *The Company had paid*[68] *interest on security deposit at the rate of 12.25 per cent during the years 2008-10 whereas it availed long term loans at a lower rate from the commercial banks.* ***(Para 2.2.36 of Report 2010-11)***	*COPU (111th Report) recommended that the Company should take up matter with PSERC.*	The Company had paid interest on security at a rate which was nearly equal to the rate of interest at which it availed long term loan.	-	The recommendation was fully implemented.
2. The National Tariff Policy envisaged that the tariff of all categories of consumers should range within plus or minus 20 per cent of the average cost of supply (ACOS) by the year 2010-11. The cross subsidies to the domestic and agricultural categories were more than 20 per cent of the ACOS during the years 2006-07 to 2009-10 and these were cross subsidised by the commercial and industrial consumers. ***(Para 2.2.46 of Report 2010-11)***	*COPU (111th Report) recommended that the imbalances in cross subsidies should be reduced by taking rationalised approach.*	During the period 2013-16, the cross subsidies to all the categories of consumers remained within 20 *per cent* of the ACOS.	-	The recommendation was fully implemented.

3.16.4 Conclusion

While the Company had taken remedial action in some areas, concrete action was still to be taken in many other areas. There was partial conversion from low voltage distribution systems to high voltage distribution systems in

[68] As per the PSERC (Electricity Supply Code and Related Matters) Regulations, 2007.

agricultural pump sets connections as a result of which the Company could not derive intended benefits of improving voltage profile, reducing theft of energy and LT line losses. There were deficiencies in adherence to prescribed procedure to establish theft of power. Non-installation of meters on all agriculture connections resulted in non-achievement of 100 *per cent* billing based on meter readings. Further, non-improvement in collection efficiency, non-recovery of service connection charges from AP consumers and non-adherence to the prescribed procedure in theft cases resulted in financial loss to the Company. There was partial improvement in distribution network resulting in overloading of distribution network. The Company should develop a well formulated plan for taking prompt action on the recommendations of COPU for further improving its performance.

The matter was referred to the Government and Company (May 2016), their replies were awaited (September 2016).

Chandigarh
Dated 19 December 2016

(Jagbans Singh)
Principal Accountant General(Audit)
Punjab

Countersigned

New Delhi
Dated 27 December 2016

(Shashi Kant Sharma)
Comptroller and Auditor General of India