Report of the
Comptroller and Auditor General of India

on

Public Sector Undertakings
(Social, General and Economic Sectors)
for the year ended 31 March 2017

Government of Punjab

Report No. 4 of the year 2017

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PREFACE

This report deals with the results of audit of Government companies and statutory corporations for the year ended 31 March 2017.

The accounts of Government companies (including companies deemed to be government companies as per the provisions of the Companies Act, 2013) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of the Companies Act as amended from time to time. The accounts certified by the statutory auditors (Chartered Accountants) appointed by the CAG are subject to supplementary audit by officers of the CAG and CAG gives his comments or supplements the reports of the statutory auditors. In addition, these companies are also subject to test audit by the CAG.

Reports in relation to the accounts of a Government company or corporation are submitted to the Government by the CAG for placing before the State Legislature under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

In respect of two statutory corporations viz. PEPSU Road Transport Corporation and Punjab Scheduled Castes Land Development & Finance Corporation, the CAG is the sole auditor.

The instances mentioned in this Report are those which came to notice in the course of test audit for the period 2016-17 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. Matters relating to the period subsequent to 2016-17 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

Overview

This Report contains 17 paragraphs and one performance audit on Procurement, Storage and Delivery of wheat by Punjab State Grains Procurement Corporation Limited having a financial implication of ₹1,028.62 crore due to non-compliance with rules, directives and procedures, injudicious decision-making and deficient planning and ineffective monitoring. Some of the major findings are highlighted below.

1. Financial management of State Public Sector Undertakings

Investment in PSUs

As per latest finalised accounts of working PSUs as of 30 September 2017, the investment (paid up capital + long-term loans + free reserves) in 30 working PSUs was ₹33,856.89 crore consisting of ₹7,889.59 crore as capital, ₹24,979.63 crore as long term loans and ₹987.67 crore as free reserves. Total investment has grown by 39.64 *per cent* from ₹24,245.56 crore in 2012-13 to ₹33,856.89 crore in 2016-17. The growth in investment was mainly in power sector. The Government contributed ₹11,898.26 crore towards equity/loans and grants/subsidies during 2016-17.

(Paragraphs 1.6 to 1.8)

Performance of PSUs

The working PSUs recorded a turnover of ₹57,795.90 crore as per their finalised accounts as of 30 September 2017. Of the Working PSUs, the percentage of Return on Equity (RoE) improved from (-)64.24 *per cent* in 2012-13 to (-)7.10 *per cent* in 2014-15 and declined to (-)33.50 *per cent* in 2015-16. It was not measurable during 2016-17 as Equity was negative. In the same period, the Return on Investment (RoI), of working PSUs, increased from 0.89 *per cent* in 2012-13 to 9.18 *per cent* in 2014-15 and declined to 0.42 *per cent* in 2016-17. During the period from 1 October 2016 to 30 September 2017, 28 accounts were received in respect of 25 working PSUs. Of these 12 accounts reflected profit of ₹66.32 crore and 11 accounts reflected loss of ₹2993.36 crore. Three accounts were prepared on 'no profit no loss' basis and for two accounts in respect of two PSUs, profit and loss account was not prepared. The contributors to profit were the Punjab Small Industries and Export Corporation limited (₹29.36 crore), the Punjab State Container and Warehousing Corporation Limited (₹14.67 crore) and the Punjab Genco Limited (₹9.53 crore). Heavy losses were incurred by Punjab State Power Corporation Limited (₹1694.85 crore) and Punjab State Civil Supplies Corporation Limited (₹995.78 crore).

(Paragraphs 1.15, 1.16 and 1.17)

Quality of accounts of Companies

Of the 24 accounts in respect of 22 working companies forwarded to Audit during the period 1 October 2016 to 30 September 2017, the statutory auditors had given unqualified certificates for nine accounts, qualified certificates for 12 accounts, adverse certificate (i.e. accounts do not reflect a true and fair position) for two accounts and disclaimer certificate (which mean that the auditor is unable to give any opinion about true and fair view) for one account.

(Paragraphs 1.21)

Arrears in accounts

Twenty six working PSUs had arrears of 43 accounts as on 30 September 2017.

(Paragraph 1.10)

2. Performance audit of Government Companies

A performance audit of the Procurement, Storage and Delivery of wheat by Punjab State Grains Procurement Corporation Limited brought out, *inter alia*, the following:

Procurement, Storage and Delivery of wheat

The Company had awarded the work relating to preservation, maintenance and security services (PMS) under the Private Entrepreneurs Guarantee Scheme to a single PMS agency. The interests of the Company were compromised on numerous instances i.e. selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement of rates to PMS agency, extension of contracts despite its poor performance and non-recovery of deductions made from the bills of the private agency.

(Paragraph 2.1.9.1)

The Company awarded the silo at Amritsar at equity internal rate of return of 27 *per cent* for 30 year concession period against 15 *per cent* envisaged as per feasibility report which resulted in payment of higher service charges to the concessionaire for ₹115.02 crore during the concession period.

(Paragraph 2.1.11)

The Company awarded 26 silos under Design, Build, Operate and Own (DBOO) model in contravention of the State Government policy for creating silos in Design, Build, Operate and Transfer (DBOT) model and without conducting feasibility study to arrive at the optimal model. Consequently, there was no basis for the decision to extend higher storage rates to silos constructed under DBOO vis-à-vis DBOT model. Further, 14 silos were awarded to eight ineligible bidders under the DBOO.

(Paragraphs 2.1.13)

There was delay in claiming subsidy under National Food Security Act resulting in avoidable interest cost of ₹108.60 crore.

(Paragraph 2.1.16.a)

The internal control was weak. Evaluation of technical and financial bids for construction of silos was deficient and oversight mechanism for inspection of storage facilities was inadequate.

(Paragraph 2.1.18.1)

3. Audit of Transactions

Punjab State Power Corporation Limited

- Total cost of repair per transformer was more in Transformer Repair Workshops as compared to repair through private parties which led to extra expenditure of ₹24.13 crore. 2,238 transformers valuing ₹13.43 crore were not returned after repair and 551 transformers valuing ₹3.14 crore which failed within warranty period were not lifted by the contractors.

(Paragraph 3.1)

- To improve the lifting of coal by washery firm, the Company amended its agreement with the firm and waived off its past claims there against. Additionally, the Company waived off past under loading and over-loading charges, resulting in extending of undue financial benefit of ₹ 15.40 crore to the firm.

(Paragraph 3.4)

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

- Non-reconciliation/ settlement of bales exchanged on loan basis against the directives of Director, Food, Civil Supplies and Consumer Affairs, Punjab, resulted in non-recovery of ₹132.62 crore, interest loss of ₹58.07 crore to the State foodgrain procuring agencies, shortage of bales worth ₹ 1.19 crore, excess deductions of ₹ 9.30 crore made by FCI and non-deposit of VAT of ₹ 4.15 crore.

(Paragraph 3.7)

- Delay in forwarding the final rates of Custom Milled Rice by the Department, coupled with delay in raising claims by district offices of State Procurement Agencies with FCI led to avoidable interest burden of ₹7.49 crore.

(Paragraph 3.8)

Punjab State Civil Supplies Corporation Limited and Punjab Agro Foodgrains Corporation Limited

- Non observance of storage instructions of FCI regarding storage of fresh wheat resulted in damage of 20,209 MTs of wheat valuing ₹ 47.06 crore.

(Paragraph 3.10)

Punjab State Civil Supplies Corporation Limited

- Failure of procurement agencies to adhere to the safeguards provided in the Custom Milling Policy 2015-16 facilitated misappropriation of paddy by the millers and non-recovery of rice worth ₹12.69 crore.

(Paragraph 3.11)

Punjab Financial Corporation

- Non-adjustment of sale proceeds of assets as per the mortgage deeds favoured the loanee units and resulted in loss of ₹2.45 crore to the Corporation

(Paragraph 3.16)

Chapter-I
Functioning of State Public Sector Undertakings

Chapter-1

Functioning of State Public Sector Undertakings

Introduction

1.1 State Public Sector Undertakings (PSUs) are established to carry out activities of commercial nature and occupy an important place in the State economy. As on 31 March 2017, there were 51[1] PSUs. Of these, one[2] company was listed on the stock exchange(s). The details of the State PSUs as on 31 March 2017 are given in table 1.1 below.

Table 1.1: Total number of PSUs as on 31 March 2017

Type of PSUs	Working PSUs	Non-working PSUs[3]	Total
Government Companies	26	21[4]	47
Statutory Corporations	4	-	4
Total	**30**	**21**	**51**

The working PSUs registered a turnover of ₹57,795.90 crore as per their latest finalised accounts as of 30 September 2017. This turnover was equal to 13.53 *per cent* of the Gross State Domestic Product (GSDP)[5] for 2016-17. The working PSUs incurred an accumulated loss of ₹8,852.26 crore as per their latest finalised accounts as of 30 September 2017. They had 47,905 employees at the end of March 2017.

Accountability framework

1.2 Audit of Government companies is governed by Section 143 (6) of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s) and includes a subsidiary of a Government company. Further, as per Section 143 (7) of the Act, in case of any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments, the Comptroller and Auditor General of India (CAG) may, if he considers necessary, cause test audit to be conducted of the accounts of such companies and provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to such test audit. Audit of the financial statements in respect of the financial years that commenced earlier than 01 April 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

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[1] Including Mohali Biotechnology Park which was incorporated on 25 January 2011 but the information of its incorporation was received during 2016-17.
[2] Punjab Communications limited
[3] Non-working PSUs are those which have ceased to carry on their operations.
[4] During the year, one company i.e. Punjab Agro Power Corporation Limited became non-working.
[5] GSDP figure ₹ 4,27,297 crore as per Government of India, Ministry of Finance letter dated 29 March 2016.

Statutory Audit

1.3 The financial statements of the Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139 (5) or (7) of the Companies Act, 2013. As per provisions of Section 143 (6) of the Act *ibid*, these financial statements are also subject to supplementary audit to be conducted by the CAG within 60 days from the date of receipt of the audit report under section 143 (5).

Audit of statutory corporations is governed by their respective legislations. Out of the four statutory corporations[6], CAG is the sole auditor for the Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU[7] Road Transport Corporation. In respect of Punjab State Warehousing Corporation and Punjab Financial Corporation, the audit is conducted by chartered accountants and the supplementary audit by CAG.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG in respect of State Government companies, and Separate Audit Reports in case of statutory corporations, are to be placed before the Legislature within three months of their finalisation or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Punjab

1.5 The State Government has substantial financial stake in these PSUs. This is mainly of three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.

- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.

- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

[6] Punjab Financial Corporation, Punjab State Warehousing Corporation, Punjab Scheduled Castes Land Development and Finance Corporation and PEPSU Road Transport Corporation.

[7] Formerly known as Patiala and East Punjab States Union (PEPSU)

Investment in State PSUs

1.6 As per latest finalised accounts of working PSUs as of 30 September 2017, the investment (paid up capital + long-term loans + free reserves) in 30 working PSUs was ₹33,856.89 crore as given in table 1.2 below.

Table 1.2: Investment in Working PSUs

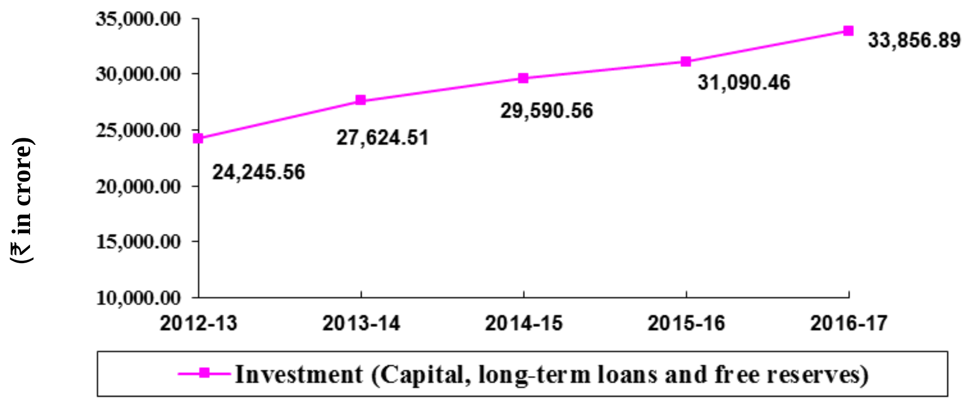
(₹ in crore)

Type of PSUs	Paid up Capital	Long Term Loans	Free reserves	Grand Total
Working Government Companies	7,443.43	23,786.04	961.19	32,190.66
Working Statutory Corporations	446.16	1193.59	26.48	1,666.23
Total	**7,889.59**	**24,979.63**	**987.67**	**33,856.89**

Source: Information provided by PSUs

As on 31 March 2017, of the total investment in working State PSUs, 95.08 *per cent* was in working government companies and the remaining 4.92 *per cent* in working Statutory corporations. This total investment consisted of 23.30 *per cent* towards paid up capital, 73.78 *per cent* in long-term loans and 2.92 *per cent* towards free reserves. The total investment has grown by 39.64 *per cent* from ₹24,245.56 crore in 2012-13 to ₹33,856.89 crore in 2016-17, as shown in chart 1.1 below.

Chart 1.1: Total investment in PSUs



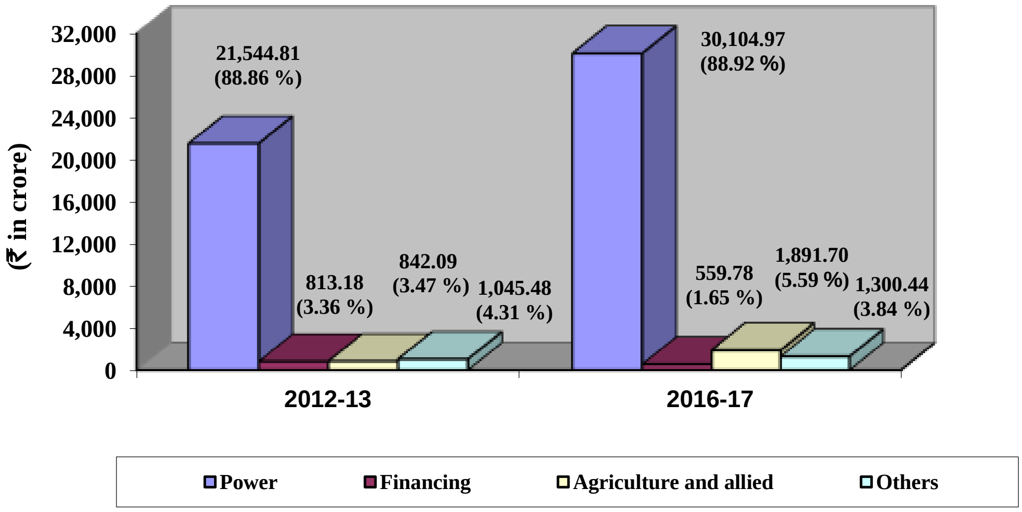
During the years 2015-16 and 2016-17, loans of ₹9859.92 crore and ₹5768.54 crore respectively were extended to Punjab State Power Corporation Limited (PSPCL) under Ujwal Discom Assurance Yojana (UDAY) scheme. Further, during 2016-17, State Government has discharged cash credit liability of ₹23,484.16 crore[8] of State Procuring Agencies (SPAs) upto the year 2014-15 and has converted this amount into long term loans to SPAs**.**

1.7 The investment in four significant sectors and percentage thereof at the end of 31 March 2013 and 31 March 2017 are indicated in chart 1.2 below. The growth in investment was mainly in power sector. The investment in

[8] Figure is excluding Markfed (₹ 7099.95 crore) which is not under audit purview**.**

power sector increased from 88.86 *per cent* in 2012-13 to 88.92 *per cent* in 2016-17, as a percentage of the overall investment.

Chart 1.2: Sector wise investment in PSUs



Special support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived off in respect of State PSUs are given in table 1.3 below for three years ended 2016-17.

Table 1.3: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	3	72.07	2	32.24	2	10.83
2.	Loans given from budget	-	-	1	9859.92	1	5,768.54
3.	Grants/Subsidy from budget	4	3,027.35	6	5,355.45	4	6,118.89
4.	**Total Outgo (1+2+3)**		**3,099.42**		**15247.61**		**11,898.26**
5.	Waiver of loans and interest	-	-	-	-	2	6.47
6.	Guarantees issued	9	31,271.89	4	6,282.68	2	1,993.26
7.	Guarantee Commitment	11	49,058.42	12	38,658.45	9	10,152.77

Source: Information provided by PSUs

The Punjab State Power Corporation Limited received loans of ₹9859.92 crore and ₹5,768.54 crore from State Government during 2015-16 and 2016-17 under UDAY Scheme respectively. In order to enable PSUs to obtain financial assistance from banks and financial institutions, the State Government gives guarantee under Punjab Fiscal Responsibility and Budget Management Act, 2003 subject to the limits prescribed by the Constitution of India, for which a guarantee fee is charged. The State Government charged guarantee fee at the rate of 0.5 to two *per cent* from the PSUs. During the year, three PSUs paid guarantee fee of ₹31.96 crore (including ₹1.96 crore pertaining to previous years) out of ₹61.09 crore payable, leaving a balance of ₹29.13 crore. The defaulters were Punjab State Industrial Development Corporation Limited (PSIDC) (₹26.63 crore) and Punjab State Power Corporation Limited (PSPCL) (₹2.50 crore). The guarantee commitment decreased to ₹10,152.77 crore during 2016-17 from ₹38,658.45 crore in 2015-16 as the State Government has discharged cash credit liability of SPAs upto the year 2014-15, against which guarantees were issued.

Reconciliation with Finance Accounts

1.9 The figures in respect of State Government equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2017 is given in table 1.4 below.

Table 1.4: Equity, loans, guarantees outstanding as per finance accounts vis a vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference for the year 2016-17	Differences recorded in the year 2015-16
Equity	3,608.50	7,844.52	4,236.02	4197.18
Loans	41,191.88[9]	39,782.51	1,409.37	2960.40
Guarantees	10,178.61	10,152.77	25.84	1.43

Source: Finance Accounts and Information provided by PSUs

Audit observed that the differences occurred in respect of 29 PSUs. As compared with previous year, the difference in Loans decreased while that of Equity and Guarantees increased. Some of the differences were pending reconciliation since 1985-86. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end, in accordance with the provisions of Section 96 (1) read with Section 129 (2) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act *ibid*.

[9] Figure of ₹ 22974.19 crore included in respect of SPAs (excluding Markfed ₹ 6945.77 crore) has been calculated on pro-rata basis as SPA wise break-up of loans to SPAs outstanding as on 31 March 2017 was not available. This excludes the first installment already paid by the State Government before 31st March 2017.

Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table 1.5 below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2017.

Table 1.5: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Number of Working PSUs	31	29	31	31	30
2.	Number of accounts finalised during the year	31	26	35	28	28
3.	Number of accounts in arrears	41	42	39	42	43
4.	Number of Working PSUs with arrears in accounts	24	26	25	26	26
5.	Extent of arrears (numbers in years)	1 to 4	1 to 4	1 to 4	1 to 5	1 to 4

In respect of the four statutory corporations, one had arrear of accounts for three years, one had arrear of accounts for two years and two had arrears of account for one year each.

PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up-to-date. The PSUs should also ensure that at least one year's accounts are finalised every year so as to restrict further accumulation of arrears. The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments of the Government were informed half yearly by the Principal Accountant General (Audit), Punjab, of the arrears in finalisation of accounts, adequate remedial measures were not taken. As a result of this, the present net worth of these PSUs could not be assessed in audit.

1.11 The State Government had invested ₹12,295.63 crore out of budget in eight PSUs (equity: ₹68.07 crore, loans: ₹5,768.54 crore and grants/subsidy ₹6,459.02 crore) during the years for which accounts have not been finalised as detailed in ***Annexure 1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, Government's investment in such PSUs could not be subjected to the control of the State Legislature.

1.12 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of 21 non-working PSUs, six[10] were in the process of liquidation whose accounts were in arrears for three to 25 years. Out of remaining 15 non-working PSUs, 11 had arrears of accounts ranging from one year to 26 years.

[10] Companies at Sl. No. C-2,8,9,10,11 and13 of ***Annexure 2***

Placement of Separate Audit Reports

1.13 Table 1.6 below depicts the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2017) on the accounts of statutory corporations in the Legislature.

Table 1.6: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government/ Present Status
1	Punjab Financial Corporation	2013-14	2014-15 2015-16	08-02-2017 28-03-2017
2	Punjab Scheduled Castes Land Development and Finance Corporation	2012-13	2013-14	08-04-2016
3	PEPSU Road Transport Corporation	2013-14	Further SARs not finalised	
4	Punjab State Warehousing Corporation	2014-15	Further SARs not finalised	

Source: Information provided by PSUs

Impact of non-finalisation of accounts

1.14 Delay in finalisation of accounts may result in risk of fraud and leakage of public money, apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the GSDP for the year 2016-17 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

Performance of PSUs as per their latest finalised accounts

1.15 The financial position and working results of working Government companies and statutory corporations are detailed in ***Annexure 2.*** A ratio of PSUs turnover to GSDP shows the extent of PSUs activities in the State economy. Table 1.7 below provides the details of turnover of working PSUs and GSDP for a period of five years ending 2016-17.

Table 1.7: Details of working PSUs turnover vis-a vis GSDP

(₹ in crore)

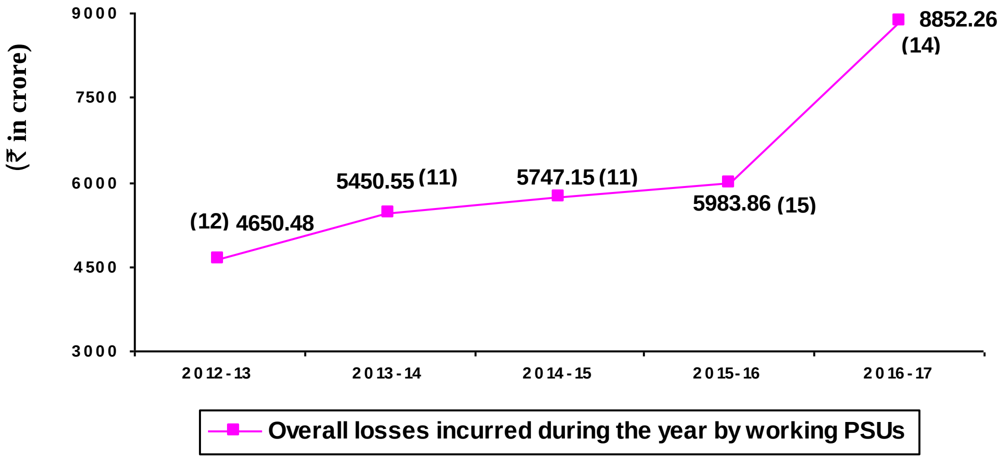
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover[11]	37,090.63	44,746.29	52,733.04	55,693.63	57,795.90
GSDP	2,85,119	3,17,556	3,49,826	4,08,815	4,27,297
Percentage of Turnover to GSDP	13.01	14.09	15.07	13.62	13.53

The turnover of State PSUs to the GSDP in percentage terms increased from 13.01 in 2012-13 to 15.07 in 2014-15. However, it decreased to 13.53 in 2016-17.

[11] Turnover as per the latest finalised accounts as of 30 September of respective years.

1.16 Overall losses incurred by State working PSUs during 2012-13 to 2016-17 are given below in chart 1.3 below.

Chart 1.3 : Losses of working PSUs



(Overall losses is net effect of accumulated profit/loss during the year for which accounts were finalised and figures in brackets show the number of working PSUs in respective years which had accumulated losses)

During the period from 1 October 2016 to 30 September 2017, 28[12] accounts were received in respect of 25 working PSUs. Of these, 12 accounts reflected profit of ₹66.32 crore and 11 accounts reflected loss of ₹2993.36 crore. Three[13] accounts were prepared on 'no profit no loss' basis and for two[14] accounts in respect of two PSUs, profit and loss account was not prepared. The major contributors to profit were the Punjab Small Industries and Export Corporation limited (₹29.36 crore), the Punjab State Container and Warehousing Corporation Limited (₹14.67 crore) and the Punjab Genco Limited (₹9.53 crore). The sharp spike in the accumulated losses during the year was due to heavy losses incurred by the Punjab State Power Corporation Limited (₹1694.85 crore) and the Punjab State Civil Supplies Corporation Limited (PUNSUP) (₹995.78 crore).

[12] For the year 2011-12 (one account); 2012-13 (two accounts); 2013-14 (one account); 2014-15 (five accounts), 2015-16 (15 accounts) and 2016-17 (four accounts).

[13] Punjab Police Housing Corporation Limited, Punjab Police Security Corporation Limited and Punjab Municipal Infrastructure Development Company Limited.

[14] Gidderbaha Power Limited and Punjab Thermal Generation Limited.

1.17 Some other key parameters of PSUs are given in table 1.8 below.

Table 1.8: Key Parameters of State PSUs

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Equity	3,199.77	2,385.03	2,097.10	1,875.44	(-)921.82
Investment	24,245.56	27,624.51	29,590.56	31,090.46	33,856.89
Profit before Interest, tax and dividend	215.88	2,504.98	2,717.15	2,286.41	140.64
Net profit after tax and preference dividend	(-)2,055.48	(-)260.72	(-)148.99	(-)628.20	(-)3,306.50
Return on Equity[15] (*per cent*)[$]	(-)64.24	(-)10.93	(-)7.10	(-)33.50	**
Return on Investment[16] (*per cent*)[$]	0.89	9.07	9.18	7.35	0.42
Debt[17]	12,839.83	13,683.58	14,597.07	25,002.79	52,899.11
Turnover[$]	37,090.63	44,746.29	52,733.04	55,693.63	57,795.90
Debt/ Turnover Ratio	0.35:1	0.30:1	0.28:1	0.45:1	0.92:1
Interest Payments	4,522.37	5,918.58	6,442.72	7,154.12	6,940.19
Accumulated losses	5,011.15	5,870.08	6,236.66	6,473.81	9,343.46

($- Figures in respect of working PSUs only as per latest finalised accounts as of 30 September of respective year).

****- *Not measurable as Equity is negative during the year***

The percentage of Return on Equity (RoE) of working PSUs showed a fluctuating trend. It improved from (-)64.24 *per cent* in 2012-13 to (-)7.10 *per cent* in 2014-15 and declined to (-)33.50 *per cent* in 2015-16. It was not measurable during 2016-17 as Equity was negative. In the same period, the Return on Investment (RoI), of working PSUs, increased from 0.89 *per cent* in 2012-13 to 9.18 *per cent* in 2014-15 and declined to 0.42 *per cent* in 2016-17.

The ratio of debt to turnover which was 35 *per cent* in 2012-13 decreased gradually and reached 28 *per cent* in 2014-15. It, however, increased to 45 *per cent* in 2015-16 and further increased to 92 *per cent* in 2016-17 due to loans given by State Government to Punjab State Power Corporation Limited under UDAY Scheme and discharging of cash credit liability of SPAs by the State Government and its conversion into long term loans**.**

1.18 The State Government had directed (July 2011) all its PSUs to pay a minimum return of five *per cent* on the funds invested by the State Government. As per their latest finalised accounts, 10 PSUs earned an aggregate profit of ₹65.16 crore and four PSUs declared a dividend of ₹3.95 crore (0.46 *percent* of State equity in profit making PSUs) at rates ranging from 4.7 *per cent* to 100 *per cent*. The remaining six PSUs did not declare dividend despite earning profit of ₹38.63 crore.

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[15] Return on Equity = (Net Profit after tax and preference dividend)/Equity x100;
Equity = Paid up Capital + Free Reserves – Accumulated losses - Deferred Revenue Expenditure

[16] Return on Investment = Net Profit before Interest, tax and dividend/ Investment x100;
Investment = Paid up Capital + Free Reserves + long term loans

[17] Outstanding at the end of respective year.

Winding up of non-working PSUs

1.19 There were 21 non-working PSUs (all Companies) as on 31 March 2017. Of these, six PSUs have commenced liquidation process.

During 2016-17, non-working PSUs incurred an expenditure of ₹1.19 crore towards salary and establishment expenditure. This expenditure was met through the sale of assets of these PSUs and other resources viz. borrowings from common pool fund of PSUs under liquidation, interest on investments etc.

1.20 The stages of closure in respect of non-working PSUs are given in table 1.9 below.

Table 1.9: Closure of Non working PSUs

Sl. No.	Particulars	Companies
1.	Total number of non-working PSUs	21
2.	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	6
(c)	Closure i.e. closing orders/instructions issued but liquidation process not yet started.	7

The companies which have taken the route of voluntary winding up under the Companies Act are under liquidation for a period ranging from two to 23 years. During the year 2016-17, no company was wound up. The Government (Directorate of Disinvestment)[18] may expedite decisions regarding winding up of the non-working PSUs which have become defunct.

Comments on Accounts

1.21 Twenty two working companies forwarded their 24 audited accounts to Principal Accountant General (PAG) during the period from October 2016 to 30 September 2017. Of these, 23 accounts of 21 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in table 1.10 below.

Table 1.10: Impact of audit comments on working Companies

(Amount: ₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of instances	Amount	No. of instances	Amount	No. of instances	Amount
1.	Decrease in profit	7	3,313.96	3	1,760.39	5	15.68
2	Increase in profit	1	4.30	2	1.36	-	-
3.	Decrease in loss	-	-	1	0.05	-	-
4..	Increase in loss	3	102.65	4	1,602.09	8	6,385.65
5.	Non-disclosure of material facts	9	166.29	5	27.05	4	241.31
6.	Errors of classification	11	1,271.36	5	11,207.25	9	474.29

[18] A cell established for disinvestment of State Government equity in State PSUs/ subsidiaries and for restructuring/privatisation etc. of these PSUs.

During the year, the statutory auditors gave unqualified certificates for nine accounts, qualified certificates for 12 accounts, adverse certificate (i.e. accounts do not reflect a true and fair position) for two accounts and disclaimer certificate (which mean that the auditor is unable to give any opinion about true and fair view) for one account. Qualifications by Statutory Auditors had the effect of increasing the reported loss (₹1,694.85 crore) of PSPCL[19] to ₹4,421.49 crore for the year 2015-16. In addition to the above, after taking into consideration the effect of CAG's qualifications on the accounts of PSPCL, the loss for the year 2015-16 (after Statutory Auditors qualification) of ₹4,421.49 crore would increase to ₹5,210.71 crore. Similarly, qualifications of statutory auditors and those of the CAG had the effect of increasing the reported loss (₹120.27 crore) of PAFCL[20] and reported loss (₹995.78 crore) of PUNSUP[21] for the year 2015-16 to ₹1599.12 crore and ₹2,295.67 crore respectively. The compliance of companies with the Accounting Standards remained poor. There were 44 instances of non-compliance in 15 accounts during the year.

1.22 Three working statutory corporations[22] forwarded their four accounts to the PAG during the period from October 2016 to 30 September 2017. The accounts of Punjab Scheduled Castes Land Development and Finance Corporation pertained to sole audit while supplementary audit was conducted in respect of the remaining three accounts (PFC and PSWC). The Audit Reports of statutory auditors and the sole/supplementary audit of CAG indicated the need to improve the quality of maintenance of the accounts. The details of money value of comments of CAG on accounts audited during the last three years are given in table 1.11 below.

Table 1.11 : Impact of audit comments on Statutory Corporations

(Amount: ₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of instances	Amount	No. of instances	Amount	No. of instances	Amount
1.	Increase in profit					2	5.01
2.	Increase in loss	-	-	2	1.07	1	1.86
3.	Non-disclosure of material facts	-	-	-	-	8	18.55
4.	Errors of classification	-	-	-	-	6	22.01

During the year, accounts of PFC received a qualified opinion and PSWC received an unqualified opinion.

[19] Punjab State Power Corporation Limited.
[20] Punjab Agro Foodgrains Corporation Limited.
[21] Punjab State Civil Supplies Corporation Limited.
[22] Punjab Financial Corporation (PFC) (two accounts), Punjab State Warehousing Corporation (PSWC) (one account) and Punjab Scheduled Castes Land Development and Finance Corporation (one account).

Response of the Government to Audit

Performance Audits and Paragraphs

1.23 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2017, one performance audit and 17 compliance audit paragraphs were issued to the Principal Secretaries/ Secretaries of the respective Departments with request to furnish replies within six weeks. However, replies in respect of 14 compliance audit paragraphs were awaited from the State Government as of 30 September 2017.

Follow up action on Audit Reports

Replies outstanding

1.24 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. The State Finance Department, Government of Punjab issued (August 1992) instructions to all administrative departments to submit replies/explanatory notes to paragraphs/Performance Audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature without waiting for any questionnaires from the COPU. However, explanatory notes were not received in over 38 *per cent* of the performance audits and over 48 *per cent* of the audit paragraphs as on 30 September 2017 as depicted in table 1.12 below.

Table No.1.12: Explanatory notes not received (as on 30 September 2017)

Year of the Audit Report (Commercial /PSU)	Date of placement of Audit Report in the State Legislature	Total performance audits (PAs) and paragraphs in the Audit Report		Number of PAs/ paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2008-09	March 2010	3	19	-	6
2009-10	March 2011	2	16	-	1
2010-11	March 2012	2	13	1	3
2011-12	March 2013	2	17	-	2
2012-13	July 2014	3	12	2	9
2013-14	March 2015	2	17	2	9
2014-15	March 2016	2	18	1	16
2015-16	March 2017	2	16	1	16
Total		**18**	**128**	**7**	**62**

Discussion of Audit Reports by COPU

1.25 The status as on 30 September 2017 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) is given in table 1.13 below.

Table No.1.13: Performance Audits (PAs)/Paras appeared in Audit Reports vis-a-vis discussed as on 30 September 2017

Period of Audit Report	Number of PAs/ paragraphs			
	Appeared in Audit Report		Paras Discussed by COPU	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	3	19	3	10
2009-10	2	16	-	6
2010-11	2	13	1	6
2011-12	2	17	-	4
2012-13	3	12	-	1
2013-14	2	17	-	-
2014-15	2	18	-	-
2015-16	2	16	-	-
Total	**18**	**128**	**4**	**27**

Compliance to Reports of Committee on Public Undertakings (COPU)

1.26 Action Taken Notes (ATN) to 77 paragraphs pertaining to 11 Reports of COPU presented to the State Legislature between March 2009 and March 2016 had not been received (30 September 2017) as indicated in table 1.14 below:

Table No.1.14 : Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2008-09	1	6	2
2010-11	1	4	3
2012-13	2	14	6
2013-14	2	18	8
2014-15	3	23	22
2015-16	2	26	20
Total	**11**	**91**	**61**

These reports of COPU contained recommendations in respect of paragraphs pertaining to six departments, which appeared in the Reports of the CAG of India for the years 2003-04 to 2012-13.

In order to strengthen legislative oversight and accountability, Government may ensure sending of replies to inspection reports/draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule[23] and recovery of loss/ outstanding advances/ overpayments within the prescribed period.

Disinvestment, Restructuring and Privatisation of PSUs

1.27 The State Government established (July 2002) the Directorate of Disinvestment under the Department of Finance, with the objective of disinvestment of State Government equity held in PSUs and their subsidiaries/promoted companies and restructuring/privatisation of PSUs.

[23] Six months for ATNs and six weeks for Draft Paragraphs and Performance Audits

During the year 2016-17, no PSU was completely disinvested by the Directorate.

Coverage of Report

1.28 This Report contains 17 paragraphs and one performance audit i.e. "Procurement, Storage and Delivery of wheat by Punjab State Grains Procurement Corporation Limited" involving financial effect of ₹1028.62 crore. The managements of five Companies/Corporations did not reply to eight paragraphs having financial effect of ₹140.04 crore. Similarly, Government of Punjab did not give replies to 14 paragraphs having financial effect of ₹326.39 crore.

Chapter-II
Performance Audit

Chapter-II

Performance Audit of Government Companies

Punjab State Grains Procurement Corporation Limited

2.1 Procurement, Storage and Delivery of wheat

Highlights

The Punjab State Grains Procurement Corporation Limited (Company) was incorporated (March 2003) with the main objective of procurement, storage and delivery of foodgrains. A performance audit of the Company for the period 2012-17 brought out, *inter alia*, the following important audit findings:

The Company awarded the work relating to preservation, maintenance and security services (PMS) under the Private Entrepreneurs Guarantee Scheme to a single PMS agency. The interests of the Company were compromised on numerous instances: selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement given by FCI to PMS agency, extension of contract period despite its poor performance and non-recovery of deductions made by FCI from the bills of the private agency.

(Paragraph 2.1.9.1)

The Company awarded the silo at Amritsar at equity internal rate of return of 27 *per cent* for 30 year concession period against 15 *per cent* envisaged in its feasibility report which resulted in payment of higher service charges to the concessionaire by ₹115.02 crore during the concession period.

(Paragraph 2.1.11)

The Company awarded 26 silos under Design, Build, Operate and Own (DBOO) model in contravention of the State Government policy for creating silos in Design, Build, Operate and Transfer (DBOT) model and without conducting feasibility study to arrive at the optimal model. Consequently, there was also no basis for the decision to extend higher storage rates to silos constructed under DBOO vis-à-vis DBOT model. Further, 14 silos were awarded to eight ineligible bidders under the DBOO.

(Paragraphs 2.1.13)

There was delay in claiming subsidy under National Food Security Act resulting in avoidable interest cost of ₹108.60 crore.

(Paragraph 2.1.16.a)

The internal control was weak. Evaluation of technical and financial bids for construction of silos was deficient and oversight mechanism for inspection of storage facilities was inadequate.

(Paragraph 2.1.18.1)

Introduction

2.1.1 The Punjab State Grains Procurement Corporation Limited (Company) was incorporated (March 2003) with the main objective of procurement, storage and delivery of foodgrains. The Company along with other state procuring agencies (SPAs) procures foodgrains from various *mandis* allotted to it by the Food and Supplies Department (F&SD) of the State Government at minimum support price (MSP) fixed by the Government of India (GoI) for each crop year on behalf of Food Corporation of India (FCI), which is responsible for national food security. The Company stores wheat in its owned/hired godowns/plinths and delivers the same to FCI as per their movement plan.

Organisational set-up

2.1.2 The Management of the Company is vested in the Board of Directors (BODs) comprising of seven directors who are nominated by the State Government. The Managing Director is the Chief Executive of the Company who is assisted by six General Managers (Finance, Accounts, Procurement, Gunny bales, Storage and Administration), an Advisor and District Managers (DMs). As on March 2017, the Company had 21 district offices each headed by a DM for carrying out its activities.

Audit objectives

2.1.3 The audit objectives of the performance audit were to assess whether:

- award of contracts for creation of storage capacity under various schemes was transparent, economical and efficient;
- procurement and storage of wheat was executed in an efficient, effective and economical manner;
- wheat was delivered as per movement plan given by FCI and claims were raised accurately and timely as per the rates fixed by GoI; and
- internal control system and internal audit was effective, adequate and commensurate with the size and nature of business.

Audit criteria

2.1.4 The audit findings were benchmarked against criteria sourced from the following:

- Instructions/guidelines/policies issued by GoI/State Government/FCI with regard to procurement, storage and delivery of wheat;
- Guidelines issued under Private Entrepreneurs Guarantee (PEG) scheme, 2008 of GoI and Model Tender Form (MTF) prepared by the FCI;
- Guidelines issued by GoI for tendering on Public Private Partnership (PPP) basis and agreements entered with private investors and FCI; and
- Norms prescribed for raising of bills of procurement of wheat and other related expenses at the rates fixed by GoI and their reimbursement from FCI.

Scope and methodology of audit

2.1.5 The issues arising in course of procurement, storage and delivery of wheat by the Company were reviewed in the Report of the Comptroller and Auditor General of India (CAG) No.4 of the year 2010-11, Government of Punjab. The performance audit was under discussion[1] (July 2017) by the Committee on Public Undertakings of the State Legislature. The present performance audit was conducted between October 2016 to March 2017 covering the activities relating to procurement, storage, creation of additional storage capacity including implementation of PEG scheme-2008 and delivery of wheat during the period 2012-17. The audit examination involved scrutiny of records in the head office and six district offices[2] selected through stratified random sampling out of 21 district offices covering 32.44 *per cent* of wheat procurement activity and 30.31 *per cent* of wheat storage activity. The performance audit began with an entry conference held in December 2016. The audit findings were reported (May/July 2017) to the Company and Government and were discussed in the exit conference held in July 2017 with the representatives of the Company. The views expressed in exit conference and replies received from Company/Government (July/November 2017) have been considered while finalising this performance report.

Financial position and working results

2.1.6 The Company had not prepared its annual financial statements for the year 2015-16 till date (July 2017) and had finalised[3] its financial statements of 2012-13 to 2014-15 with delays ranging between 10 and 14 months. The delayed finalisation of accounts led to delay in finalisation of final rates of foodgrain incidentals claimable from FCI which had adverse implication on the liquidity position of the Company.

The financial position of the Company as reported by the Company for the three years ending 31 March 2015 is given in ***Annexure 3***. The annual financial statements approved by the Company attracted adverse comments from the statutory auditors and the CAG during supplementary audit. The impact of the audit comments on the reported financial results during 2012-13 to 2014-15 is as follows:

Table no. 2.1: Working results of the Company

(figures: ₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15
1	Sales and other income	9644.91	11987.98	12583.04
2	Expenditure[4]	9945.03	12479.15	12953.80
3	Profit (+) or loss (-) after tax as reported	(-)300.12	(-)491.17	(-)370.76
4	Impact of comments of Statutory Auditors and CAG	(-)638.16	(-)298.58	(-)426.70
5	Loss after including impact of comments	(-)938.28	(-)789.75	(-)797.46

Source: Annual Reports of the Company

[1] Recommendations are awaited (July 2017).
[2] Amritsar, Fatehgarh Sahib, Jalandhar, Ludhiana, Patiala and Sangrur.
[3] 2012-13: 24 December 2014, 2013-14: 10 August 2015 and 2014-15: 19 September 2016
[4] Includes extra ordinary income/(expenses) of ₹8.05 crore, (₹0.37) crore and (₹0.08) crore for the year 2012-13, 2013-14 and 2014-15 respectively.

The accumulated losses of the Company after considering the comments of Statutory Auditors and those of the CAG, worked out to ₹3041.70 crore as against the reported accumulated losses of ₹2312.19 crore. The net worth of the Company had been fully eroded and was reflecting a negative value of ₹2310.95 crore as on 31 March 2015. The main reasons for losses were inefficiencies in milling operations, non recovery of cost from millers for misappropriated paddy, delayed raising of claims on FCI and damage to foodgrains, non-settlement of pending issues with GoI/FCI in time, delay in finalisation of final rate of incidentals and denial of interest on differential amount by GoI/FCI. The Company carried out its procurement activities by availing cash credit limit (CCL) facility from State Bank of India (SBI).

The Management while admitting the facts assured (July 2017) to prepare the annual financial statements on a timely basis.

Audit findings

Creation of storage capacity

2.1.7 In view of the large gap between available and required storage for foodgrains, the Company undertook the construction of godowns under the Private Entrepreneurs Guarantee (PEG) scheme of GoI for the storage of Food Corporation of India (FCI) stocks and of silos under the public private partnership (PPP) mode for storage of its own stocks. Audit examination of these projects revealed lack of transparency in the contracting process for preservation, maintenance and security services (PMS) services, time over-runs in construction, sub-optimal decisions regarding the management of created capacity etc. as discussed in the succeeding paragraphs.

2.1.8 Augmentation of storage capacity under PEG scheme

The Company was nominated as the nodal agency by the State Government for implementation of PEG scheme, formulated (July 2008) by the GoI to augment the storage capacity. Under the scheme, the Company was to construct the godowns through private entrepreneurs for FCI for which FCI was to pay guaranteed storage charges to private entrepreneurs during the guarantee period. The responsibility of preservation, maintenance and security (PMS) of the foodgrains at the godowns was of the Company for which supervision charges at the rate of 15 *per cent* of guaranteed storage charges were payable by FCI. The Company was responsible for the losses in foodgrain stocks and the storage loss and was free to take PMS services either from the private entrepreneurs or to arrange it through their own staff or through outsourcing.

As against the storage capacity gap of 50 lakh metric ton (MT) identified[5] in the State by the GoI, FCI sanctioned (2010-2014) creation of 42.11 lakh MT capacity to the Company. Against this, the Company got constructed 168 storage godowns of cumulative capacity of 41.96 lakh MT at various locations in the State. Apart from the PEG scheme, the Company is developing four

[5] After taking into account 21 lakh MT capacity shifted to other states by GoI.

silos[6] of two lakh MT capacity for storing its own stocks under Public Private Partnerships (PPP) mode, which are in progress. It awarded (December 2016) contracts for development of another 28 silos of 15.5 lakh MT on PPP mode (***Annexure 4***).

Audit reviewed the creation of additional capacity under the PEG scheme and observed as under.

2.1.8.1 Deviation from tender specifications in construction of godowns

As per the seven year guarantee scheme[7] and 10 year guarantee scheme[7], for construction of a godown of 5000 MT capacity, minimum land requirement as per tender condition for godown and ancillaries was three acres and two acres respectively, and for each additional 1000 MT of storage space, 0.4 acres and 0.34 acres of land respectively. In test check of 103 out of 168 godowns, Audit observed that against the requirement of 204.78 acres for storing 5.05 lakh MT, the Company allotted godowns at 14 locations to 12 bidders on 186.78 acres land, which qualified for creation of 4.58 lakh MT capacity only. This excess allotment of 0.47 lakh MT on undersized land was not only in violation of the laid down minimum requirement of land in tender conditions but would also affect the operational activities within the godown premises.

2.1.8.2 Non invitation of bids for preservation, maintenance and security services along with godown lease

Under PEG scheme, the Company was entitled for reimbursement of godown rent {with or without preservation, maintenance and security (PMS) services} paid to private entrepreneurs along with 15 *per cent* supervision charges. In case the PMS services were arranged separately, the Company was not entitled for any supervision charges for the PMS component. Audit observed that the Company decided (July 2011) to discontinue tendering on lease with PMS service basis on the ground that response against the previous tenders for lease with PMS service was poor and awarded godowns having a capacity of 20.80 lakh MT on lease only basis during 2011-13. Audit further observed that the Company had awarded 13.37 lakh MT godowns on lease with PMS service basis in previous tenders during June 2010 and April/May 2011. In the tender of June 2010, 33 *per cent* of the capacity was tendered on lease cum PMS services basis. Thus, the decision of the Company to discontinue tendering on lease with PMS services led the Company to lose the opportunity to earn supervision charges of ₹24.01 crore[8] during the period of contract. Further, it also incurred losses in outsourcing the PMS to a private agency, as the rates paid to the agency were more than the rate at which reimbursements were made by Food Corporation of India to the Company, as discussed in paragraph 2.1.9.1.

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[6] Including Amritsar silo of 50000 MT capacity already developed in August 2011 and remaining three silos are under completion stage (March 2017).

[7] The storage period guaranteed under the respective scheme by FCI for storage of foodgrains for which godown rent and supervision charges were to be received by the Company.

[8] Calculated on the basis that 33 *per cent* of the capacity being tendered on lease-cum-PMS services basis as was done in the case of previous tenders in June 2010.

During exit conference, the Management accepted (July 2017) the audit contention that lease with PMS services should not have been discontinued.

2.1.8.3 Delay in construction of godowns

As per terms and conditions of the scheme, the godown was to be constructed within a period of one year from the date of acceptance of tender, by the private entrepreneur. Audit observed that the construction of 101 (60 *per cent*) out of 168 godowns, taken over by FCI was completed with delays ranging from 26 to 1042 days as the Company had not evolved proper mechanism to supervise the construction of godowns**.** As the scheme was launched to enhance covered storage facilities to avoid storage of foodgrains in Covered at Plinths[9] (CAP)/open plinths which are vulnerable to deterioration of foodgrains stock, the delay in construction of godowns impacted the availability of covered storage facility to that extent.

The Government replied (November 2017) that the delay was on the part of private entrepreneurs which was beyond the control of the Company. Thus, majority of the godowns were completed with delay, thereby, impacting the achievement of objective of the scheme.

PMS services for PEG godowns

2.1.9.1 The Company was reimbursed PMS charges at the rate of ₹16 per MT per month upto March 2017 by FCI. The same was enhanced to ₹18.10[10] per MT per month with effect from April 2017. The Company awarded the PMS work to a single PMS agency i.e. M/s. Origo Commodities India Private Limited selected through open tender in two phases (Phase-I: 16.97 lakh MT in June 2012 and Phase-II: 10 lakh MT in May 2013) at the rate of ₹18.90 per MT per month and at the rate of ₹21.30 per MT per month respectively. Audit examination revealed that the interests of the Company were compromised on numerous instances i.e. selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement given by FCI to the PMS agency, extension of contract period despite its poor performance and non recovery of deductions made by FCI as discussed below:

a) Tendering for PMS services of phase-I

As per the terms and conditions of the tender invited (June 2012) for PMS services of 16.97 lakh MT capacity godowns, the bidder was required to possess 'immovable assets of ₹10 crore' as technical eligibility and successful bidder was required to deposit performance security at the rate of ₹50 per MT for awarded capacity of godowns.

The Company, however, on the day of closing/opening the bids revised (June 2012) the eligibility conditions as 'immovable assets or net worth of ₹10 crore'. As such, all the prospective parties who might have become eligible to

[9] Covered at Plinth refers to the outdoor stacks of bagged grain, which are covered with waterproof material.
[10] On the basis of 33 *per cent* of average yearly increase in Wholesale Price Index

bid under the revised criteria, did not get adequate opportunity to submit bids. Of the six bids received, five bids were declared (20 June 2017) technically qualified and PMS work was awarded to PMS agency (L-I bidder) based on the five financial bids ranging from ₹18.90 to ₹26.00 per MT per month. Audit examination of audited financial statement of the selected PMS agency for the year ended 31 March 2012 revealed that it did not fulfil the eligibility criteria as its net worth was ₹7.01 crore and did not have any immovable assets. However, the bid evaluation committee declared it technically qualified on the basis of net worth certificate of ₹12.25 crore as per its unaudited financial statements for the quarter ended 30 June 2012. Further, the net worth certificate was issued on 2 July 2012 whereas the PMS agency i.e. M/s Origo Commodities India Private Limited was declared technically qualified on 20 June 2012. The Management could not offer any explanation on the issue.

Further, the mandatory condition of depositing performance security was also relaxed for the selected PMS agency as the Company against the requirement of ₹8.48 crore (₹50 X 16.97 lakh MT), obtained only ₹ two crore as performance security. Had the Company obtained the full performance security, it could have reduced its interest liability towards Cash Credit Limit (availed by the Company for its procurement activities) by ₹ 2.85[11] crore by using the ₹6.48 crore for the purpose.

For phase-I of tendering, the BODs approved (June 2012) the PMS rate of ₹18.90 per MT per month without any enhancement for a period of three years which was further extendable by another four years. The Company, however, without entering into an agreement handed over (July 2012) the PMS operations to the PMS agency. Later, while entering (April 2014) into the agreement, a clause was incorporated stipulating that any PMS rate enhancements approved by FCI would be passed on to the PMS agency. FCI enhanced PMS rate by ₹2.10 per MT per month from April 2017 for the year 2017-18, which shall be passed on to the PMS agency in line with this clause. Thus, due to unjustified inclusion of escalation clause in the agreement, the Company would have to pass on ₹9.62 crore to the PMS agency during the contract period.

b) Tendering for PMS services of phase-II

As per terms and conditions of the tender invited (December 2012) for PMS of 10 lakh MT capacity godowns, the bidder was required to possess immovable assets of ₹10 crore as technical eligibility. The Company received three bids out of which two bids were found technically qualified and PMS work was awarded to PMS agency at L-1 rate. Audit observed that the bid evaluation committee, however, overlooked the criteria for technical eligibility and treated the PMS agency as technically qualified on the basis of its net worth of ₹11.52 crore (as on 30 September 2012), though net worth was not the criteria for determining eligibility, and awarded (May 2013) the work to PMS agency - M/s. Origo Commodities India Private Limited.

[11] Calculated at CCL rate of 11.05 *per cent* per annum (lowest rate of CCL during 2012-17) on ₹6.48 crore (₹8.48 crore - ₹ two crore) from April 2013 to March 2017.

Audit further observed that the Company, without giving any public notice and without recording any justification, reduced the performance security deposit from ₹50 per MT to ₹20 per MT for awarded capacity just one day before the opening of bids on the request of the PMS agency. As such, against the requirement of ₹ five crore, only ₹ two crore were received. These last minute changes in the terms and conditions of tender vitiated the transparency in the bidding process. Due to non-obtaining requisite performance security, the Company could not reduce its interest liability towards CCL by ₹1.65[12] crore by using ₹ three crore for the purpose.

The Management accepted and stated (July 2017) that work was awarded to the PMS agency due to non/less availability of bidders during successive bids. The Government endorsed (November 2017) the reply of Management. The reply is not acceptable as all the prospective bidders were not given adequate opportunity to submit/revise their bids after relaxation of the terms and conditions by the Company.

c) Extension of agreements

As per the terms and conditions of the agreement, it was to remain in force for a period of three years which could be extended for another four years and two years for the first and second phase respectively with mutual consent of the Company and PMS agency**.** The performance of PMS agency with regard to PMS operations was not satisfactory as FCI deducted ₹25.85 crore (upto April 2016) from the Company's bills on account of abnormal storage loss and poor PMS arrangements as discussed in a subsequent paragraph of the Report. Despite the poor performance, the Company extended the contracts with the PMS agency for both phases upto July 2019 and May 2018 respectively.

The Management/Government stated (July/November 2017) that due to peculiar nature of food storage it was not possible to change the PMS agency frequently when the crop maintained by the agency was under liquidation. The reply is not acceptable as the Company should have explored the market for preservation, maintenance and security services of new crops in order to get fresh rate as performance of the existing PMS agency was unsatisfactory.

d) Recovery of deductions

The PMS agency was responsible for storage losses beyond the permissible limit and recovery. As per terms of contract, recoveries by FCI on account of storage loss, if any, were also to be recovered from the bills of PMS work. The FCI makes payments on account of PMS services district wise to the Company after deductions, whereas payment to PMS agency are released at Head Office of the Company. To make reconciliation simpler, the Government decided (January 2013) that the PMS bills would hence forth be released at district level after proper verification. Audit observed that the decision *ibid* was not implemented and payments continued to be released at head office after withholding 20/25 *per cent* of monthly bills but without adjusting fully the amount deducted and withheld by FCI in the district offices. Consequently, as

[12] Calculated at CCL rate of 11.05 *per cent* per annum (lowest rate of CCL during 2012-17) on ₹ three crore {10 lakh MT quantity X (₹50 - ₹ 20)} from May 2013 to May 2018.

of June 2017, there were unrecovered deductions of ₹ 15.36 crore apart from an amount of ₹ 18.14 crore withheld by FCI.

The Management stated (July 2017) that the deductions made by FCI were being recovered from monthly bills of PMS agency in installments. Audit verification revealed (July 2017) that the Company was adjusting the deductions made by FCI upto March 2017 and was not recovering current deductions.

2.1.9.2 Less reimbursement of PMS rate

As the Company was paying higher rate to PMS agency than the rate being reimbursed by FCI as discussed in paragraph 2.1.9.1, the BODs while approving PMS work of first phase decided (June 2012) to take up the matter with FCI for reimbursement of differential amount. Due to higher PMS rate, the Company would have to bear additional cost of ₹70.40 crore during the contract period. However, the matter had yet not been taken up by the Company (July 2017).

The Management while admitting the facts stated (July 2017) that FCI had enhanced the rates prospectively from April 2017. The Government endorsed (November 2017) the reply of Management. The reply is not acceptable as the Company had not taken up issue of reimbursement of differential rate with FCI.

Development of silos for own stocks

2.1.10 With a view to create modern storage facilities under Public Private Partnership (PPP) mode, the GoI decided (March 2011) to provide capital grant upto a maximum of 20 *per cent* of the project cost under viability gap funding (VGF) scheme. However the Company could not avail this opportunity. The Company awarded 26 silos[13] with total payment cost ₹787.60 crore (excluding land) on PPP basis without availing GoI grants of ₹157.52 crore[14].

The Company awarded the work for development of one silo on Build, Operate and Own (BOO) basis, five silos on Design, Build, Operate and Transfer (DBOT) basis and 26 silos on Design, Build, Operate and Own (DBOO) basis:

Build, Operate and Own model

2.1.11 Award of silo at higher service charge

As per feasibility report prepared (January 2010) by International Finance Corporation (consultant) for the State Government, a silo with total project

[13] Excluding Amritsar silo as tenders were invited (March 2010) before the decision of GoI and five silos developed/awarded on DBOT basis where concessional interest loan from NABARD was availed by the Company under Warehousing Infrastructure Fund scheme.
[14] 20 *per cent* of project cost.

cost of ₹38.73 crore was viable at a service charge of ₹1050 per MT[15] per year for concession period of 30 years and would generate equity internal rate of return (IRR) of 15 *per cent* to the concessionaire. However, the Company signed (August 2011) the concession agreement for construction of the silo of 50000 MT on BOO basis at Amritsar for 30 years concession period with M/s. LT Foods Limited (concessionaire) at service charge of ₹1263 per MT per year (Fixed: ₹1175[16] per MT and variable service charge of 7.5 *per cent* of fixed service charge i.e. ₹88 per MT) on total project cost of ₹32 crore. Audit observed that at total project cost of ₹32 crore, the equity IRR was 27 *per cent* and the concessionaire could achieve equity IRR of 15 *per cent* at service charge of ₹900 per MT per year. No exercise was carried out to assess the reasonability before accepting the rates. This would result in extra service charge payment of ₹115.02 crore during the concession period.

The Management stated (July 2017) that during 2010 silo technology was new and, therefore, rate quoted by L-1 bidder was accepted. The reply is not acceptable as rates accepted were higher in comparison to the rates envisaged in the feasibility report and the comments of the consultant regarding reasonability of storage rates were not taken before the award of work of silo.

Design Built Operate and Transfer Model

2.1.12 The Company after inviting tenders on DBOT entered (September 2015) into concession agreements with a concessionaire for development of seven silos having 50000 MT capacity each at different locations[17] with project cost (excluding land) ranging from ₹27.92 crore to ₹27.99 crore for a silo for which a special purpose vehicle was formed by the concessionaire.

The concessionaire was to develop them by constructing silos by March 2016 and for delay beyond 90 days after scheduled completion date, the concessionaire was to pay damages at the rate of 0.25 *per cent* of the amount of performance security for delay of each day. The Company terminated (July 2016) the concession agreement for four silos out of seven as it could not hand over possession of four sites to the concessionaire. Though three sites were handed over during October 2015, the concessionaire did not complete the formalities stipulated[18] in concession agreement required before start of construction upto February 2016. The concessionaire requested (July 2016) for extension upto March 2017 without penalty. The extension was granted (July 2016) without levying the damages of ₹5.77 crore[19] as per the concession agreement.

[15] Fixed service charge: ₹950 per MT and variable service charge: ₹100 per MT.

[16] The rate for the first year and the rate for the subsequent year will be increased in same proportion as increase in CWC storage charges by GoI for that particular year.

[17] Ahmedgarh, Malerkotla, Sunam, Patiala, Khanna, Jagraon and Moga.

[18] Submission of applicable permits, promoter's confirmation regarding correctness of their representation of warranties, legal opinion that agreements duly executed are legal, valid and enforceable etc.

[19] Performance security for three silos ₹8.39 crore X 0.25 *per cent* X 275 days (365-90 days).

The Management stated (July 2017) that due to wide spread religious agitations in the State during October 2015 the construction work was delayed. The Government endorsed (November 2017) the reply of Management. The reply is not tenable as no such reason was cited by the Management to Board of Directors while getting the approval (July 2016) for the extension.

Design, Build, Operate and Own Model

2.1.13 The State Government approved (February 2016) the adoption of DBOT model for creation of 20 lakh MT capacity silo on land to be made available to the Company by Food and Supplies Department, Rural Development Department, Punjab Mandi Board and Co-operative Department. The Company, however, decided (September 2016) to invite tenders for development of five lakh MT silos on DBOT basis and remaining 15 lakh MT on DBOO basis without obtaining any approval for deviating from the Government policy. Accordingly, bids were invited for DBOT model in one round (September 2016) and DBOO model in three rounds (September/ October/November 2016). After calling tenders, the Company awarded only two silos on DBOT model (one lakh MT) and 26 silos (December 2016) on DBOO[20] model (14.50 lakh MT: project cost ₹787.60 crore) without obtaining the approval of the State Government. Audit analysis revealed:

a) Though the eligibility criteria for bidders for both the models i.e. DBOT and DBOO were general and not specific to the structure of the PPP model adopted, the eligibility criteria under DBOT model was more stringent than those under DBOO model. As a result, against the tender capacity of 4.75 lakh MT in DBOT, the Company could award silos of one lakh MT (21 *per cent*). Whereas under DBOO model, the Company awarded 14.5 lakh MT capacity (88 *per cent*) against the tender capacity of 16.5 lakh MT. After that, the Company did not make any effort to re-tender the remaining capacity under DBOT model. In addition to this, eight ineligible bidders were awarded 14 silos under the DBOO model (as discussed below), none of whom would have been eligible under the DBOT model.

b) The storage rate given to concessionaires under the DBOO model (CWC rate) was higher than that under the DBOT model (FCI rate) by 35 *per cent* to 57 *per cent*[21]. For DBOT model, NABARD had sanctioned a concessional loan (1.5 *per cent* below its bank rate) and the Company would have also been entitled to a minimum premium at the rate of 25 *per cent* of the project cost from the concessionaires. In DBOO, land was to be arranged by the concessionaires while under DBOT it was the Company's responsibility. In spite of such variables at play, the Company did not conduct any feasibility study to arrive at the optimal model. Consequently, there was also no basis for the decision to extend higher storage rates to silos constructed under DBOO vis-à-vis DBOT model.

The Management stated (July 2017) that due to non-availability of land the Company had to go with DBOO model. The reply is not acceptable as the

[20] At storage charges ranging from 99 to 100 *per cent* of CWC custody and maintenance charges fixed by GoI.
[21] Based on comparison of latest available CWC rate and FCI rate during period 2009-14.

Company had not recorded the issue of non-availability of land in the detailed note submitted for obtaining approval of Managing Director regarding DBOO model for tendering of silos.

The Management added (July 2017) that the feasibility study for DBOO model was not conducted to avoid additional cost. The reply is not acceptable as the Company had paid only ₹15 lakh plus service tax to a consultant for preparation of feasibility report for ten silos on DBOT basis. This is not a substantial amount when compared to the total project cost of ₹787.60 crore. A feasibility study would have not only thrown up the optimal option for developing the silo storage but also provided a basis for assessing the reasonability of storage rate received through tendering process. Besides, the Company deviated from Government decision for awarding the work on DBOT basis without approval which was irregular.

c) On tendering for development of 14 silos under DBOO model, single bids were received. The Company did not make any attempt to re-invite the bids in order to get competitive rates and awarded the 14 silos having total project cost of ₹380.80 crore on the single bid basis to six bidders. Acceptance of single bids did not allow the Company to assess the reasonability of rates quoted by single bidders especially as the Company had no previous reference rate for storage charges under the DBOO model.

The Management assured (July 2017) to remove the deficiency in future.

d) As per the terms of request for proposal (RFP), to demonstrate threshold technical capacity, a bidder was to have experience of developing core sector[22] projects whose capital cost of the project was more than ₹15 crore and should have been undertaken on PPP basis on BOT[23], BOLT, BOO, BOOT and DBOT. Also, sum of cost of such projects and the revenue appropriated therefrom should be more than ₹50 crore over the past five financial years. Audit observed that three bidders to whom seven silos of 50000 MT each were allotted under DBOO model did not possess the experience and threshold technical capacity. The sum of capital cost and revenue appropriated from the projects for these three bidders, for the last five years, were ₹ nil[24], ₹13.12[25] crore and ₹40.48[26] crore respectively and were thus technically ineligible.

The Management replied (July 2017) that they had considered additional documents relating to projects/works experience executed by the bidders apart

[22] Road, highway, bridges, power, telecom, ports, airports, railway, metro rail, logistics park, pipe lines, irrigation, water supply, sewerage and electrification including rural electrification projects.

[23] BOT: Built, operate and transfer; BOLT: Built, operate, lease, and transfer; BOO: Built, operate and own; BOOT: Built, operate, own and transfer; DBOT: Design, built, operate and transfer.

[24] Corresponding amount works out to ₹40.01 crore, however, the same was considered as nil as the projects/works executed by the bidder did not fall under core sector/PPP project.

[25] Corresponding amount works out to ₹46.89 crore, however, the same was considered as ₹13.12 crore as one project executed by the bidder did not fall under PPP project.

[26] Capital expenditure of ₹15.84 crore on construction of PEG godown, treated as logistic park under core sector during tendering, was not considered in experience of bidder as godown alone cannot be termed as logistic park.

from those submitted along with their bids. The reply is not acceptable as considering additional documents for experience at evaluation stage without recording proper justification vitiated the transparency of tender process. Moreover, even after considering additional documents, these bidders did not fulfil the criteria as mentioned above.

e) As per the terms of RFP, a bidder (a single entity or consortium) applying individually or as a member of a consortium as the case may be, could not be a member of another bidder consortium for the project. Audit observed that in five different consortiums to whom seven[27] silos were allotted under DBOO model, the PMS agency was the common partner. Hence, these consortiums were not technically qualified.

The Management stated (July 2017) that since the bidding was site wise and not for the project as a whole, as such different parties participated in different sites in different consortiums. The Government endorsed (November 2017) the reply of Management. The reply is not acceptable as terms and conditions of RFP prohibited a bidder from becoming a member of another bidder consortium for the project and as per RFP "project" means construction of wheat silo within the State of Punjab.

Procurement and storage of wheat

2.1.14. The Company procures wheat at minimum support price fixed by the Government of India and delivers it to FCI.

Table 2.2 below indicates targets for procurement of wheat fixed by the State Government and actual procurement made by the Company during the last five years up to March 2017.

Table no. 2.2: Targets vis-a-vis actual procurement of wheat

(Qty in lakh MT)

Year	Total procurement target for the State	Target for the Company		Total procurement by the State	Actual procurement by the Company		Excess(+) /Shortfall(-) in	
		Quantity	*Percent**		Quantity	*Per cent**	Quantity	*Per cent**
RMS 2012-13	115.00	23.00	20.00	129.35	22.33	17.26	(-) 0.67	(-) 2.74
RMS 2013-14	140.00	28.00	20.00	111.42	20.22	18.15	(-) 7.78	(-) 1.85
RMS 2014-15	115.00	23.00	20.00	119.04	22.24	18.68	(-) 0.76	(-) 1.32
RMS 2015-16	125.00	25.00	20.00	104.91	20.95	19.97	(-) 4.05	(-) 0.03
RMS 2016-17	129.00	25.80	20.00	108.10	22.51	20.82	(-) 3.29	(+) 0.82
Total		**124.80**	**20.00**		**108.25**	**18.90**	**(-) 16.55**	**(-)1.10**

*indicates percentage of total procurement of the State
Source: Information provided by the Company

The cost incurred on procurement operations are initially met by the Company out of the cash credit limit (CCL) extended to it and later reimbursed by FCI on the basis of provisional cost sheet initially and then adjusted on the basis of final costs for various components finalised by GoI/FCI. The review of the procurement operations revealed that the Company incurred losses on account of poor storage and short reimbursement of some elements of cost.

[27] Jalandhar, Sangrur, Batala, Malout, Talwandi Bhai, Faridkot and Morinda.

2.1.14.1 Short reimbursement of cost in final rates

a) GoI, while finalising the rates for Rabi Marketing Season (RMS) 2012-13, asked (March 2016) the State Government/Company to submit detailed cost break up of all the elements/activities claimed under forwarding charges along with justification for each element/activity. Audit observed that the State Government/Company did not submit the required details in the absence of which Government of India fixed (April 2016) the forwarding charges at the rate of ₹1.99 per quintal as was applicable for RMS 2011-12. Resultantly, against the expenditure of ₹6.97 crore, only ₹4.04 crore were reimbursed to the Company.

b) The Company paid guarantee fee of ₹4.21 crore to the State Government at the rate of 1/8 *per cent* of the CCL availed for RMS 2012-13. In the final rates (April 2016) for RMS 2012-13, the reimbursement of guarantee fee was not allowed by GoI on the ground that the State Government gave only indemnity and no guarantee was furnished to the bank. The Company, however, did not raise the matter with the State Government for refund of the guarantee fee.

The Management stated (July 2017) that the matter was taken up with GoI/ FCI.

2.1.14.2 Storage of wheat

As per guidelines (June 2005) of GoI wheat procured should ordinarily be stored in covered godowns and covered at plinths (CAP) should be arranged only in extremely unavoidable circumstances. Table 2.3 below shows year wise storage requirement of the Company, available covered storage capacity and shortfall during the years 2012-17.

Table no. 2.3: Position of wheat storage during 2012-17

(Qty in lakh MT)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Wheat procured by Company	22.33	20.22	22.24	20.95	22.51
Direct delivery from *mandis* to FCI	2.29	4.44	4.47	9.74	5.74
Wheat to be stored	20.04	15.78	17.77	11.21	16.77
Covered storage capacity available	2.10	2.45	2.53	3.45	5.99
Shortfall of covered capacity	17.94	13.33	15.24	7.76	10.78
Percentage of shortfall of covered storage capacity	89.52	84.47	85.76	69.22	64.28

Source: Information provided by the Company

Audit noticed that due to delay in completion of silos as discussed in paragraph 2.1.12, the Company faced shortage of covered storage capacity. Most of the procured wheat was stored on CAP.

2.1.14.3 Inadequate quality control during storage

Preservation and maintenance of quality is of utmost importance in the storage of wheat. Audit observed that quality control measures to ensure safe storage of wheat stock were inadequate. Despite detailed guidelines (November 2013) from the Head Office of the Company, none of the selected district offices had maintained stack wise record of wheat stocks to show progressive condition and degree of deterioration. Even the system of conducting regular and surprise inspections by senior officers prescribed (December 2013) by the Head Office was not implemented. Further, four district offices (Ludhiana, Sangrur, Amritsar and Jalandhar) had not obtained licenses for the years 2015-17 as required under Food and Safety Standard Act, 2006. Instances of storing wheat at low lying plinths, inadequate fumigation of wheat stock, wild vegetation in storage area were also noticed.

Audit observed that out of total wheat procurement of 85.74 lakh MT during 2012-16, 0.86 lakh MT of wheat valuing ₹135.09 crore was damaged due to CAP storage, inadequate quality control measures and due to non-initiation of timely action to segregate and upgrade wheat stock within the stipulated period of three months. Out of this, 0.35 lakh MT wheat pertaining to crop years 2012-14 valuing ₹54.07 crore was disposed off at ₹11.76 crore. The balance wheat was awaiting (March 2017) disposal.

The Management assured (July 2017) to take corrective action.

Delivery of wheat and raising of claims

2.1.15 As in the case of procurement and storage, the operations surrounding the delivery of wheat to Food Corporation of India were also marred by inefficiencies as discussed below:

a) Non observance of instructions

While GoI approved (November 2012) interim storage gain[28] norms of one *per cent* and 0.7 *per cent* for wheat stored in covered godowns and covered at plinths respectively on wheat delivered to FCI after 30 June of each year, the State Government instructed (April 1999) that storage gain was to be confined to the first year of storage only. Audit observed that the selected district offices were not passing the required gain to FCI after the first year in view of State Government instructions resulting in non observance of the GoI norms. Consequently, five district offices[29] short delivered storage gain of 3041.40 MT wheat valuing ₹4.87 crore during RMS 2012-13 to 2014-15. The Company had also not evolved any mechanism to record the moisture content at the time of procurement, storage and delivery as per directions of GoI in order to settle claim regarding moisture gain in future.

b) Deduction for moisture gain by FCI

The GoI norm for moisture gain does not apply in case wheat is stored in silos as wheat does not gain moisture during storage in silos. However, FCI deducted ₹1.04 crore due to moisture gain on delivery of wheat delivered from silo at Amritsar. The Company had not taken up the matter with GoI for instructing FCI not to apply moisture gain norms on wheat delivered from silo.

The Management assured (July 2017) to take corrective action.

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[28] Storage gain is increase in weight of wheat grain due to moisture. The norms are pending finalisation of study by Indian Council of Agricultural Research on the matter.

[29] Except Fatehgarh Sahib where RMS crop was delivered in the first year itself.

c) Non-providing of direct delivery

The Company was required to deliver the wheat procured from *mandis* directly to FCI godowns/railheads as per FCI directions. No carry over charges are paid by FCI for wheat delivered directly from mandis. FCI demanded (April 2014) direct delivery of wheat to its Bhagtawala and Vallah centres in Amritsar district. Audit observed that the Company despite having sufficient wheat procurement in the nearby eight centres[30], short delivered 10915 MT of wheat. Consequently, FCI recovered (March 2016) ₹5.15 crore from the sale bill on account of carry over charges due to non-providing of direct delivery of wheat.

The Management assured (July 2017) to take corrective action.

Raising of claims

2.1.16 Delayed raising/non-raising/short claiming of bills

To reduce the burden of interest on outstanding CCL, the Company was to prefer its claims in timely manner with the GoI/FCI. Audit noticed that the Company preferred its claims with delay which led to increase in its interest burden as discussed below:

a) The Company being the nodal agency of State Government, was to procure and deliver wheat and claim the subsidy (difference between economic cost and central issue price of ₹ two per kilogram) from GoI under National Food Security Act, 2013 (NFSA). The Company preferred (April 2015) the claim for subsidy of ₹503.38 crore for the period June 2014 to November 2014. GoI requested (April 2015) the Company to furnish the month wise off-take i.e. distribution statement authenticated by FCI. Audit observed that the Company could supply the desired statement only in December 2015. It was seen that the claim submitted by the Company did not tally with the records maintained by FCI. Resultantly, a revised consolidated claim of ₹615.48 crore from June 2014 to March 2015 was submitted (February 2016) to the GoI and payment of ₹602.05 crore there against (after withholding five *per cent* variable cost) was released in March/April 2016. The delay in preferring the claim, attributed to delayed supply of information by the district offices and delay in obtaining the off-take statement from FCI, resulted in avoidable interest burden of ₹81.33[31] crore. Similarly, delays in raising quarterly claims for subsidy ranging from one to six months during 2015-17 resulted in a interest burden of ₹27.27[31] crore.

The Management stated (July 2017) that as the scheme was new, the Company faced difficulties in claiming the subsidy. The reply is not acceptable as the issue is regarding delay in arranging the requisite documents from district offices for raising the claim.

b) The Company was required to pay infrastructure development (ID) cess at the rate of three *per cent* of the MSP to the State Government which was to be

[30] Bhilowal, Chamyan, Guru ka Bagh , Jasraur, Lopoke, Manawala, Rajasansi and Verka.
[31] Calculated at the rate of 11.01 *per cent* (the lowest rate of CCL limit during 2012-17).

reimbursed to it by GoI/FCI. GoI approved (October 2014) ID cess at the rate of two *per cent* of the MSP in the provisional cost sheet of RMS 2014-15 for the NFSA/central pool. This was subsequently revised and GoI allowed (January 2015) reimbursement of ID cess at the full rate of three *per cent*. However, the Company continued to claim reimbursement at two *per cent* of the MSP. It, however, took up (March 2017) the matter with GoI for reimbursement of ID cess of additional one *per cent* for wheat procured under the NFSA only at the instance of Audit (December 2016). The reimbursement of ID cess for NFSA amounting to ₹10.02 crore for crop year 2014-15 was still pending (March 2017). Consequently, the Company had to bear interest cost of ₹1.73 crore[31].

The Management stated (July 2017) that due to non-inclusion of the ID cess at rate of three *per cent* in the provisional rates, the same could not be reimbursed. The reply is not acceptable as GoI had allowed reimbursement of differential ID cess in January 2015.

c) As per GoI rates, carry over charges (COC) were payable on MSP, incidentals (including storage charges) and VAT on monthly compound interest basis. Audit observed that the Company had not raised claims of COC of ₹27.27 crore on element of VAT against the wheat delivered from July onwards during RMS 2012-17 in 16 district offices[32]. Further, five out of six selected district offices (except Ludhiana) short claimed the COC by ₹3.14 crore during RMS 2012-17 by not considering the storage charges on monthly compound interest basis.

d) As per instructions issued (June 2008) by the State Government, field staff is required to get the dispatch documents from FCI within seven days from the date of delivery and district office is to raise sale bills within 24 hours of receipt of dispatch documents. Audit observed that in selected districts out of total 3836 sale bills, 845 bills (22 *per cent*) were raised with a delay ranging from one to 185 days (after allowing a margin of 10 days from the date of dispatch) during RMS 2012-17 resulting in an interest cost of ₹4.66 crore[31].

e) The Company filled wheat in jute as well as polypropylene (PP) bags. The GoI while circulating (April 2013) the rates of RMS 2013-14, did not include the cost of PP bags in provisional cost sheet. Audit observed that FCI, as an interim arrangement, was reimbursing the cost of PP bags at the previous year's rates. However, three selected district offices (Sangrur, Ludhiana and Amritsar) did not raise their claims of ₹6.03 crore on previous year's rates, resulting in interest cost of ₹1.64 crore[31].

f) The district offices are to raise monthly claims for PMS and supervision charges for PEG godowns. Audit observed that in four selected districts offices (Fatehgarh Sahib, Ludhiana, Patiala and Sangrur) there was delay in raising claims ranging from one to 514 days in 1428 cases (82 *per cent*) out of total 1740 cases during 2013-17. The reason for delay was failure of the Company to arrange the PMS certificate from the PMS agency on time, resulting in interest cost of ₹0.88 crore.

[32] Except district offices Hoshiarpur, Ropar, Fazilka, Moga and Ferozepur.

g) Till the approval of the rates of RMS by the GoI, the district offices claim the MSP only. After the provisional/final rates are approved, the claims for differential in incidentals are raised. Audit observed that all the selected district offices (except Sangrur) claimed the incidentals of ₹64.23 crore after delay ranging from seven to 350 days (after giving a margin of 15 days) resulting in interest cost of ₹1.33 crore[31].

h) In terms of GoI instructions (December 1970/2001), FCI is to release payments within 24 hours of submission of the sale bills. Otherwise, interest at bank rates will have to be paid. Audit observed that in four selected district offices (Patiala, Fatehgarh Sahib, Ludhiana and Jalandhar), in 397 bills out of 3836 bills, FCI made payments with delay ranging one to 69 days during 2012-17. However, no claims were raised for reimbursement of interest cost of ₹0.61 crore[31].

The Management assured (July 2017) necessary action on the above issues.

Non reimbursement of procurement incidental costs

2.1.17 Provisional rates for the year 2012-17 did not include some elements of costs, which were incurred in the normal course of procurement operations. As a result, the same could not be reimbursed to the Company.

a) The Company had not been reimbursed interest element on *arhitia* commission for the average holding period of foodgrains upto June of respective crop year. The same worked out to ₹6.19 crore during RMS 2012-17.

b) GoI had not fixed any norms for replacement of gunny bags requiring replacement due to torn condition/spillage at the time of delivery of wheat after RMS 2004-05. The Company incurred ₹4.22 crore on replacing 10.75 lakh gunny bags during 2012-16 in selected district offices. This amount was not reimbursed.

c) Custody and maintenance charges for the delivery of wheat from the covered godowns for the period April to June of respective crop year was not included in provisional rates. This has resulted in short reimbursement of ₹4.86 crore to the Company during RMS 2013-17 in selected district offices.

The Management stated (July 2017) that the matter was under consideration with GoI/FCI.

Internal control and internal audit

2.1.18.1 Internal control is a management tool used to provide reasonable assurance that the objectives are being achieved in an economic, efficient and effective manner. Audit observed weaknesses in internal controls as evidenced by the following:

- The Company was getting the approval of BODs on important issues without placing any formal agenda in advance. During 2012-16, BODs approved 68 proposals relating to silos, PMS operations, construction of godowns and regularisation of service of contractual employees etc. which were placed before it as "additional items with the permission of the Chair", without any advance formal agenda papers. In most of these cases, such agenda items were approved and important decisions taken in the same meetings;

- In the tendering for silos, evaluation of technical and financial bids was deficient as the Company did not carry out any financial analysis of the L1 bid in order to assess the return on investment earned by the L1 bidder in 32 silos awarded;
- Independent engineer (IE) was to be appointed before commencement of the construction but the Company had appointed IE after completion or partial completion of silos in all the four silos developed so far;
- Oversight mechanism for inspection of storage facilities was inadequate as pointed out in paragraph 2.1.14.3;
- Mechanism for assessing the health of the wheat stock was weak as pointed out in paragraph 2.1.14.3, and;
- Adequate system to ensure timely raising of claims and recovery thereof was lacking as pointed out in paragraphs 2.1.16.

2.1.18.2 Internal audit is a managerial control for evaluating the prevailing systems, procedures and operations of the organisation. The Company has neither framed any internal audit manual nor has evolved appropriate system for the internal audit of its operations and activities.

The Management assured (July 2017) remedial action.

Conclusion

The performance of the Company with regard to implementation of PEG scheme, development of silos, storage and delivery of wheat was sub-optimal. The interests of the Company were compromised while awarding of contract for PMS work at different stages; selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement given by FCI to PMS agency, extension of contract period despite its poor performance and non recovery of deductions made by FCI from the bills of the PMS agency. The work for development of Amritsar silos on BOO basis for 30 years was awarded at equity IRR of 27 *per cent* against the recommended rate of 15 *per cent*. Twenty-six silos were developed on DBOO model in contravention of the policy of the State Government which envisaged development of silos on DBOT basis. Fourteen silos were awarded to eight bidders who were not technically qualified under DBOO model. The quality control mechanism to ensure safety of wheat stock during storage was not adequate resulting in damage of wheat. The Company had to bear interest cost as it failed to lodge timely claims with FCI/GoI within the stipulated period showing an ineffective internal control system.

Recommendations

The Company and Government may consider:

- Implementing the decision of verification and release of payments of PMS bills at the district office level for adjusting deductions made by FCI.
- Strengthening its mechanism for evaluation of technical and financial bids during tendering.
- Taking up the matter with the GoI for relaxing storage gain in wheat stored in the silos.
- Submitting the detailed justification before the GoI for claiming its actual expenditures not reimbursed in the provisional/final rates.
- Ensuring timely raising of various claims to FCI/GoI and make efforts in getting cost sheets revised for its uncovered elements of incidental costs.

Chapter-III
Audit of Transactions

Chapter-III

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 State Power Corporation Limited

3.1 Repair of Damaged Distribution Transformers

Total cost of repair per transformer was more in Transformer Repair Workshops as compared to repair through private parties which led to extra expenditure of ₹24.13 crore. 2,238 transformers valuing ₹13.43 crore were not returned after repair and 551 transformers valuing ₹3.14 crore which failed within warranty period were not lifted by the contractors.

3.1.1 Introduction

Punjab State Power Corporation Limited (Company) carries out repair of damaged distribution transformers through its seven[1] Transformer Repair Workshops (TRWs)[2] and also outsources work to private parties. Audit undertook an exercise to assess the efficiency of Company's operations of repair of damaged distribution transformers spanning the period 2014-17. The audit examination involved scrutiny of records at four[3] out of the seven TRWs, covering 62.27 *percent* of expenditure involved.

The details of transformers repaired in house at TRWs and through outsourcing to private parties and expenditure incurred thereon are as under:

Table no.1: Details of total transformers repaired

Year	Transformers Repaired (Nos.)		Expenditure incurred (₹ in crore)	
	In house[4]	Through outsourcing	In house	Through outsourcing
2014-15	6326	27415	30.52	83.26
2015-16	4821	25338	23.96	70.46
2016-17	5676	22419	26.31	58.51

Source: Information provided by the Company

[1] Amritsar-1, Amritsar-2, Patiala, Kotkapura, Jagraon, Nakodar and Jalandhar.
[2] The TRWs repair the damaged transformers received from Transformer Receiving Yards (TRYs) of central stores. After carrying out the repair, these are returned to stores.
[3] Amritsar-1, Amritsar-2, Patiala and Jalandhar selected through probability proportional to size method.
[4] Excluding minor repairs done on healthy transformers dismantled under APDRP scheme etc.

Scrutiny of records revealed:

3.1.2 Repair by private parties

3.1.2.1 Award of Repair Contract

The following table indicates the details of the three repair contracts awarded to private parties for repair of 25 KVA, 63 KVA and 100 KVA transformers**,** involving financial outlay of ₹92.02 crore, ₹105.14 crore and ₹68.18 crore by the Company during 2013-16[5]:

Table no.2: Details of the three repair contracts awarded to private parties

(Quantity in nos.)

Particulars	2013-14# QW-198	2014-15 QW-214	2015-16 QW-241
Total Quantity allocated under Repair contract	35000	35000	25000
Number of firms to whom allocation of repair work was made	34	34	27
Quantity quoted by L-1 firm	10000	35000	6000
Quantity allocated to L-1 firm	2150	1000	2200
Highest quantity allocated (Ranking[6] of firm)	3800(L-5)	4400(L-25)	3100(L-11)
Quantity quoted by firm to whom highest allocation is made	7000	4000	10000
No. of firms (no. of transformers) where allotment for repairs of transformers was more than quantity offered	0	4(1400)	1(700)

Source: Information supplied by the Company
Executed during 2013-16

Audit observed that though the allotment of repair works to various bidders was made at L 1 rates but the allocation lacked transparency as the Company did not announce any methodology of apportionment of repairable transformers amongst the different bidding parties in the NIT/ tender document. It, therefore, made allocation of repair of transformers among various bidders in an ad hoc manner.

The Management/ Government stated (June/ October 2017) that in future the full tendered quantity would be allocated at the time of entering repair contracts. The reply is not acceptable as in fresh repair contract (QW 261) also the quantity offered by the bidders and past performance was not considered. Thus, the fact remains that there was lack of transparency in the tendering and allotment process for which a documented procedure must be framed and implemented.

3.1.2.2 Execution of repair contracts

The repair contracts provide that in case a damaged transformer is not returned after repair within stipulated period by the contractor, full cost[7] of the transformer shall be recovered from the contractor. The repair contractors are

[5] Execution of QW-261 entered into 2016-17 for repair of 25,000 transformers is still in initial stages as only 5,452 transformers have been repaired upto March 2017.

[6] For 25 KVA transformers with DPC wire.

[7] 70 *percent* of the cost of equivalent transformer as per latest purchase order plus 22 *per cent* of cost as scrap.

responsible for repairing free of cost those transformers which get damaged within warranty period and their repair has to be effected within three months from the intimation of damage. The repair contract also stipulates that if the firm fails to replace the transformer damaged within warranty period, it shall be liable to pay interest at the rate of 12 *per cent* per annum from the date of its damage up to the date of its receipt in store. Further, in case of any contravention of the repair contract, 21 days' notice was to be served and in case of non-compliance, firm was to be blacklisted or business dealings were to be suspended/ terminated.

Audit scrutiny revealed that:

- There were 635 transformers of various categories with 13 firms valuing ₹2.27 crore which were lifted during 1999-2014 but not returned to stores till March 2017 i.e. even after three to 18 years of expiry of their scheduled delivery period. Audit observed that the Company failed to invoke clauses of repair contract against the defaulting firms. No meaningful action was taken except filing of arbitration cases during the year 2015-16 after lapse of four to 18 years against six firms. No legal action had been initiated against the remaining firms. Five firms were not traceable and no firm had been blacklisted. As a result, chances of cost recovery of these transformers were remote.

- At the end of March 2017, 1603 transformers valuing ₹11.16 crore[8], which were damaged within warranty period were lying with the contractors for more than three months after their lifting but not returned. Of these, 1231 transformers valuing ₹8.57 crore were lying with firms who were no longer active. Further, 551 transformers valuing ₹3.14 crore[9], which were damaged within warranty period were not lifted by the contractors even after lapse of three months of intimation of their damage. Of these, 418 transformers valuing ₹2.38 crore were to be lifted by the firms, which became non-active with the passage of time. Audit observed that the Company failed to take action against the defaulter firms as per the terms of contract. Audit further observed that the Company had no centralised records indicating the capacity-wise and age-wise details of the damaged transformers, still within warranty, sent for or awaiting repair. It, therefore, had no means of actively monitoring the status of transformers requiring repair and those sent for repair. The Management admitted and stated (June 2017) that arbitration cases against 17 firms had been filed and filing of arbitration cases against remaining defaulting firms was in progress. The reply is not acceptable as the arbitration cases have been filed belatedly during the year 2015-17 and no legal action has been initiated against the remaining firms. Resultantly, the chances of recovery from the firms are remote. Thus, due to poor monitoring, the Company failed to ensure timely lifting and return of transformers by the private firms.

[8] Valued at ₹69,601 per transformer (70 *per cent* of cost of 63 KVA transformer during 2016-17 plus 22 *per cent* as scrap value was considered due to non-availability of category wise details)

[9] Valued at ₹57,050 per transformer (70 *per cent* value of cost of 63 KVA transformer during 2016-17 was considered due to non-availability of category wise details)

- There was no mechanism to ensure recovery of the interest from the contractors. Resultantly, the Company could not recover an amount of ₹6.52 crore from various firms on account of delayed return of transformers that needed repair within warranty period (March 2017). Audit further observed that the Company had not enforced the clauses of contract regarding negligence and default against the defaulting firms.

3.1.2.3 Performance of repaired transformers

- The damage rate of transformers repaired by private firms was higher by 2.2 *per cent* to 12.3 *per cent* than the damage rate of transformers repaired at TRWs of the Company during the period 2014-17.
- The damage rate of transformers repaired by firms was 30.3 *per cent* in Border Zone during 2016-17 out of which damage rate of transformer repaired by firms which were installed in Amritsar suburban circle under Border Zone was 62.7 *per cent* whereas damage rate of transformers repaired at TRWs was 10.1 *per cent* and 9.6 *per cent* in Border Zone and Amritsar sub-urban circle respectively. Similarly, in Central Zone, the damage rate of transformers repaired by firms was 30.6 *per cent* during 2016-17 out of which damage rate of transformer repaired by firms which were installed in Ludhiana West circle under Central Zone was 60.7 *per cent* whereas damage rate of transformers repaired at TRWs was 6.8 *per cent* and 1.3 *per cent* in Central Zone and Ludhiana West circle respectively.
- The Company had neither analysed the reasons for excessive rate of damage of transformers repaired by private parties nor evolved any mechanism to identify and take action by invoking negligence and default clause of repair contract against the firms whose repaired transformers had higher incidence of damage. Audit further noticed that power utilities of Haryana State, had as a measure of ensuring quality work, inserted a penalty clause for excessive damage rates in the repair contract entered into by them. However, no such clause was included in the repair contracts entered into by the Company, in the absence of which the quality of repair work could not be ensured.
- The Company had not done any comparative cost benefit analysis between purchase of new transformers vis.a vis. repair of transformers.

The Management/ Government assured (June/ October2017) to investigate the reasons and advise the firms for better quality repairs.

3.1.3 Repair by Transformer Repair Workshops

A review of the repair of transformers by transformer repair workshops revealed the following:

3.1.3.1 Cost of repair of transformers in TRWs vis-à-vis repairs undertaken through outsourcing contracts

The total cost of repair per transformer was much higher in TRWs (between 37.74 *per cent* and 61.93 *per cent*) as compared to repairs undertaken through outsourcing contracts with private parties during April 2014 to March 2017. The Company incurred an extra expenditure of ₹24.13 crore on repair of transformers in TRWs during 2014-17 **(*Annexure–5*).** The element wise comparison showed that the establishment cost was much higher in TRWs than the labour cost included in the repair contracts.

Audit observed that the main reason for the higher labour cost was vacancies (72 *per cent*[10] shortage) in the workshop staff at junior level (i.e. regular team mates) , in the absence of which their functions too were carried out by senior workshop staff (i.e. fitters) who were limited in number and drawing higher pay scales than the lower staff. Further, unlike the power utilities in the neighbouring state of Haryana who were outsourcing the manpower required in their TRWs, this was not being done in the Company.

The Management/Government stated (June/October 2017) that in repair contract cost, establishment charges of staff who issue and receive the transformers and maintain its record had not been accounted. The reply is not tenable as no exercise was undertaken to compute and compare the cost of repair of transformers by TRWs vis-à-vis those undertaken through private parties.

3.1.3.2 Excess consumption of transformer oil

The Company fixed (March 2009) norms of consumption of transformer oil in repair of transformers in TRWs. Audit noticed, in selected TRWs, that transformer oil valuing ₹1.22 crore was used in excess of the norms during 2014-16. As per instructions contained in the Manual on damaged transformers, no handling losses are allowable and only one *per cent* dehydration loss of fresh oil is allowed as per consumption norms of transformer oil. However, TRWs were providing for wastage ranging between one to four *per cent.* The Company did not record reasons for consumption and wastage beyond norms.

The Management/Government stated (June/October 2017) that the consumption norms were based on average quantity which varied in each capacity, make/model of transformer. The reply is not acceptable since Audit has calculated the excess consumption of transformer oil by subtracting total transformer oil to be consumed (based on norms of usage and number of transformers repaired during the period) from actual total consumption of transformer oil during the period.

3.1.3.3 Shortages of transformer oil and missing parts

As per instructions contained in Manual on damaged transformers, whenever the damaged transformers are sent to workshops for repairs, the cost of shortage of transformer oil and missing parts, if any, is to be recovered from

[10]Against 93 sanctioned posts of Regular Team Mates, only 26 were filled and 67 were vacant.

the responsible officials after investigation, which is to be completed within a period of one month from receipt of information. Audit observed that shortages of transformer oil and missing parts amounting to ₹21.53 crore were pending investigation at the beginning of April 2014, which increased to ₹30.11 crore at the end of March 2017. Further scrutiny revealed that in four operation circles of Central Zone, Ludhiana, shortage of transformer oil and missing parts at the beginning of April 2014 was ₹ 2.15 crore. There was accrual of ₹ 1.68 crore during the period out of which only ₹0.35 crore was cleared leaving a closing balance of ₹3.48 crore in March 2016. Out the amount of ₹0.35 crore cleared, ₹ 0.33 crore was written off and only ₹0.02 crore was recovered which is indicative of weak enforcement mechanism.

3.1.3.4 Accumulation of repairable transformers

At the end of March 2017, there was accumulation of 2000 repairable transformers valuing ₹6.59 crore[11]of different capacities at various Transformer Receiving Yards. These had neither been sent to TRWs nor to contractors under repair contracts. Also, there was no standing contract for repair of transformers of 200 KVA capacity. This coupled with limited capacity of TRWs, caused by manpower shortage in the junior levels resulted in 209 transformers remaining unrepaired. It was also noticed that the Company had placed purchase orders for 1200 new 200 KVA transformers between the period 2015 and 2017 and had the Company repaired an adequate number of damaged 200 KVA transformers it could have saved an amount of ₹3.66 crore[12] spent on this purchase.

The Management/Government stated (June/October 2017) that efforts were being made to retain the stock of repairable transformers at minimum level and a parallel arrangement of repair of 200 KVA transformers by private parties will be started in the times to come. The fact remains that the Company did not realise the need to make timely and adequate arrangements for repair of the damaged transformers due to which it had to resort to avoidable purchases.

3.1.3.5 Non handing over of material after closure of TRW Malerkotla

There were 12 TRWs of which five[13] workshops were closed down (December 2013) due to staff shortage and low performance. At TRW Malerkotla, no arrangements were made to hand over or transfer material in stock to other TRWs and Stores at the time of its closure. There were 687 transformers having estimated value of ₹3.95 crore and material valuing ₹0.23 crore at TRW Malerkotla which had not been transferred to the working TRWs till date.

[11] Valued at ₹32960.46 per transformer (70 *per cent* value of cost of 25 KVA transformer during 2016-17 was considered due to non-availability of category wise details and audit has adopted the value of lowest capacity transformer)

[12] 209 transformers at the rate of ₹1,75,153 per 200 KVA transformer for 2016-17.

[13] Doraha, Malerkotla, Fatehgarh Churian, Amritsar 3 and capital maintenance workshop at Alamagir.

The Management/Government stated (June/October 2017) that useable surplus machinery had been transferred from closed workshop. The reply is incomplete as no mention regarding shifting of transformers and other material was made.

3.1.4 Monitoring and control

- As per instructions contained in Chapter 2 of Manual on damaged transformers, transformer movement cards containing full history of the transformers were to be maintained. Audit, however, observed that no transformer movement cards were maintained in the selected TRWs. Further, neither any unique identity number was allotted to the transformers nor any centralised database of all transformers was maintained which would have enabled Company to monitor performance of vendors and repair contractors as also control over the inventory of transformers.
- Timely return of dismantled transformers by the field staff was not ensured as 217 healthy transformers valuing ₹1.12 crore[14], which had been dismantled (during April 2014 to September 2015) after system augmentation[15], had not been returned to stores (March 2017).
- There was un-reconciled difference of 53,699 transformers valuing ₹306.35 crore[9] between transformers issued by Controller of stores and received by the operations organisation during 2014-17. We also observed that out of the difference of 31,728 transformers during 2016-17, a difference of 24,300 transformers (77 *per cent*) pertained to border and west operation zones. Despite instructions (January 2012) by the CMD that such difference should not be more than 100 transformers per zone, no exercise had been undertaken. Audit also observed that the difference of each year was not being carried forward in next years' Management Information Report and reconciliation thereof was not being reported to the Management which is reflective of poor internal controls besides the fact that timely non reconciliation carries the risk of misappropriation.

  The Management/Government stated (June/October 2017) that a software application for accounting of inventory was in an advanced stage of preparation and the audit observations would be considered while implementing it.
- 100 *per cent* physical verification of stock had not been done by Company in any of the selected TRWs during 2014-17.

3.1.5 Conclusion

There was lack of transparency in allocation of damaged transformers for repairs to private firms. The Company did not have an adequate mechanism to ensure the timely return of the repaired transformers. Neither transformer movement cards were maintained nor were unique identity numbers given to individual transformers. As many as 2,238 transformers valuing ₹13.43 crore were not returned after repair and 551 transformers valuing ₹3.14 crore which

[14] Valued at ₹51,800 per transformer (70 *per cent* of the cost of 63 KVA transformer for the year 2015-16)

15 involves installation of higher capacity transformer in place of low capacity transformer due to increase in load.

failed within warranty period were not lifted by the contractors. The repair work carried out in TRWs was not cost competitive and an extra expenditure of ₹24.13 crore was incurred due to higher cost of repair in TRWs as compared to repair through private parties. 2,000 transformers remained unrepaired at TRYs indicating that the arrangements for timely repair of damaged distribution transformers were not adequate.

3.2 Renovation and Modernisation of Stage-II (Unit-III and IV), Guru Nanak Dev Thermal Power Plant, Bathinda and utilisation of the plant post R&M

Delay at tendering and execution stage led to cost escalation by 30.24 *per cent* in Renovation and Modernisation (R&M) works of Units III and IV. The R&M work was taken up in isolation without taking into account commitment towards long term power purchase agreements. As a result, the Company was unable to derive benefits from expenditure of ₹552 crore incurred on the project.

Introduction

3.2.1. Guru Nanak Dev Thermal Plant (GNDTP), Bathinda of Punjab State Power Corporation Limited (Company) had installed capacity of 440 MW from four identical generating Units of 110 MW each. The Central Electricity Authority (CEA), in consultation with the Company, identified (March 2003) all the four units of GNDTP, Bathinda for carrying out life extension works during 10th Five Year Plan period. The Renovation & Modernisation (R&M) of Stage-I (Unit I & II) was completed in May 2007 and was reviewed in the Report no.4 of 2009-10 (Commercial) of CAG of India. R&M of Stage II was completed in September 2014 at a cost of ₹552 crore. It was expected to uprate the capacity of the units from 110 MW to 120 MW, improve plant availability and plant load factor, extend life of the units and reduce fuel cost and auxiliary power consumption.

The present audit was conducted to review the execution of R&M works of Stage-II (Unit III & IV), utilisation of the plant subsequent to its renovation and to examine whether this investment yielded the benefits envisaged**.**

Execution of the project

3.2.2. The Company prepared a detailed project report (DPR) (December 2002) for R&M works of Stage-II (cost of ₹290.20 crore). It was approved by the Company and CEA in April 2003 and October 2003, respectively. However, against the scheduled dates of commissioning of 21 August 2008 and 21 July 2009, Unit III and Unit IV were commercially commissioned on 7 December 2012 and 27 September 2014 respectively, i.e. with delay of 52 and 62 months.

The reasons for delay are as under:

- The Company took 18 months to revise the initially approved DPR and finalise the tender documents. The revision (March 2005) in the DPR was necessitated as the original DPR was based on residual life assessment[16] (RLA) studies conducted more than three years back. As a result, the tenders could only be floated in April 2005.

- To address the queries and observations of bidders during pre-bid conference, the commercial terms and technical specifications were amended (August 2005) and bids were submitted (October 2005) by bidders in three parts (i.e. Earnest Money Deposit, commercial & technical bids and price bids). The commercial and technical bids were opened in November 2005. As per tender specifications, bidders were required to submit their tenders under two methods of furnace firing system i.e. Direct firing and Indirect firing. The Company took the decision to adopt the Direct firing option by March 2006 i.e. after one year of the bid invitation. The bidders were thereafter asked to submit price implication relating to additions/deletions necessitated in compliance to now firmed up specifications. The revised price bids were opened in March 2006 wherein M/s Bharat Heavy Electricals Limited, New Delhi (BHEL) emerged as the lowest bidder. The Company decided (June 2006) to place the work order on it after holding negotiations. Finally, work order valuing ₹465.36[17] crore was placed during November 2006. Thus, delay in arriving at the decision regarding adoption of the furnace firing system, led to delay of 19 months in finalisation of tenders.
- As a result, there was delay of 31 months[18] in the award of work order as compared to time frame of six months provided in Central Electricity Authority (CEA) guidelines (January 2004) for the award of work orders for R&M of thermal plants. The delay in award of work order resulted in escalation in cost from ₹291.15 crore (as per revised DPRs: March 2005) to ₹379.20 crore (30.24 *per cent*), even though the scope of work and material required for R&M works remained the same.
- There was a further delay of 26/35 months in shutdown of the two units from the scheduled date and a further delay of 26/27 months in execution of R&M works and commissioning against scheduled time of eight-nine months from its actual shut down. Audit observed that these delays were due to late receipt of critical spares of turbine, delay in finalisation of sub-contractors by BHEL, slow progress of site activities and non-availability of cranes for lifting of boiler drum and erection works of Electrostatic Precipitators (ESP).
- The project report envisaged post R&M benefit of ₹54.44 crore annually on account of sale of additional power generation, increased efficiency and reduced coal consumption. The delay in carrying out R&M works deprived the Company of financial gains of ₹119.24[19] crore.

[16] Residual life assessment is a method by which the type of degradation of equipment and its materials is determined to ascertain the remaining life of equipment.

[17] Lump sum price for material and services : ₹379.20 crore + Taxes : ₹77.00 crore + Freight & insurance: ₹9.16 crore.

[18] October 2003 to November 2006 *less* six months.

[19] Unit III: ₹58.54 crore (54.44/2 x 785/365 days) +Unit IV**:** ₹60.70 crore (54.44/2 x 814/365 days).

- The delayed commissioning/commercial operation of units after R&M resulted in generation loss[20] of 3,684.10 MUs of power. To compensate the shortfall in generation, the Company had to procure power through power purchase agreements. The avoidable expenditure on account of purchase of power through short term power purchase agreements was assessed at ₹632.29 crore (considering the difference in rate of short term power purchase and variable cost of generation of power at GNDTP). Even after adjustment of liquidated damages of ₹43.57 crore claimed and recovered by the Company from BHEL, the Company was put to extra financial burden of ₹588.72 crore which ultimately was passed on to the consumers of the State through tariff.

- Punjab State Electricity Regulatory Commission (PSERC), while truing up (August 2014) tariff for the year 2010-11 and 2011-12, noted lower thermal generation of GNDTP Stage-II as compared to the generation approved in the tariff orders for the respective years to the extent of 546 MUs and 449 MUs by Unit-III & Unit-IV and determined a disincentive of ₹58.02 crore and ₹56.52 crore respectively due to increase in power purchase. Thus, the Company had to bear a total extra burden of ₹114.54 crore.

Benefit realisation from the renovated plant

3.2.3. Audit observed that though the rationale for renovating the plant was to improve its availability and its plant load factor[21] (PLF). However, there was a steep fall in the plant load factor of both the units. Year wise plant availability and plant load factor after R&M of Stage-II are given in ***Annexure-6***.

It was observed that:

- Before R&M, PLF of Unit-III was 55.75 *per cent* against the plant availability[22] of 72.72 *per cent* during 2009-10. Similarly, the PLF of Unit-IV was 30.45 *per cent* against the plant availability of 56.66 *per cent* during 2011-12. During post R&M period, PLF of the Unit-III ranged between 29.83 to 54.23 *per cent* only as against the plant availability ranging between 71.85 to 99.90 *per cent* during 2013-17 (upto December 2016). Similarly, the PLF of Unit-IV ranged between 2.94 to 36.92 *per cent* against the plant availability ranging between 53.13 to 99.10 *per cent* during 2015-17 (up to December 2016). Audit noted that the low PLF of the units was mainly due to reserve outages[23] resorted to by the Company due to purchase of power from outside sources.This aspect was also highlighted in Paragraph number 3.11.2.1 of the Audit Report of the Comptroller and Auditor General of India on Public Sector Undertakings

[20] Calculated at minimum 80 *per cent* plant load factor envisaged in the project report for Stage-II.
[21] Plant load factor refers to the ratio between the actual generation and the maximum possible generation at installed capacity.
[22] Plant availability means the ratio of actual hours of operation of the plant to the maximum possible hours available during a certain period.
[23] Reserve outages is a technical term used for a unit shut down due to lack of demand.

(Social, General and Economic Sectors) for the year ended 31 March 2016 - Government of Punjab (Report no.3 of year 2016). The reasons stated for under utilisation of thermal plants were no demand or units stopped as per instructions of Power Controller, Patiala. Audit observed that in view of the own surplus generation capacity available with the Company and the average cost of power purchased during 2015-16 and 2016-17 (up to September 2016) being higher than the variable cost of generation of power at GNDTP Bathinda, there was need to review the power purchase agreements entered into by the Company.

- Actual heat rate of both units after R&M ranged between 2588.66 and 2858.69 Kcal/kwh against the expected post R&M heat rate[24] of 2400 Kcal/Kwh during 2012-16. The higher heat rate resulted in excess consumption of 1.32 lakh MTs of coal valuing ₹53.08 crore.
- All the four units of GNDTP, Bathinda having 460 MW capacity were completely shut down from October 2016 to March 2017 and the Company had to bear fixed cost to the tune of ₹83.79 crore. Due to uneconomical operations, the Government has decided (December 2017) permanent closure of all the units of plant with effect from 1 January 2018. Thus, within three years of the completion of renovation and modernisation of Stage II of project at a cost of ₹552 crore, the plant has been permanently closed.

Audit analysed the reasons for this and observed as under:

The maximum peak demand (during paddy sowing season) of power in the State was around 11,408 MW in 2016-17. During the period from January 1994 and January 2010, the Company entered into 35 long term power purchase agreements (PPAs) from 47 sources with a total contracted capacity of 8,446 MW[25]. The Company's own generation capacity was 4,801 MW. Thus, the total available capacity with the Company was 13,247 MW. In the DPR prepared for Stage II of Renovation and Modernisation work of GNDTP, Bathinda, the long term perspective of demand and availability of power in the State was not considered at all while building a case for R&M, especially when the Company was committing itself to a number of PPAs during this period. This becomes more glaring in the light of the fact that the whole purchased capacity of 8,446 MW had been contracted (last PPA signed in January 2010 for 1320 MW) around the same time when the shutdown of the first of the two units was obtained (January 2010). It is, therefore, evident that the matter of renovation, modernisation and augmentation of capacity of GNDTP, Bathinda was considered in isolation, without taking a holistic view.

The DPR also did not consider the financial viability of the project as it did not work out the cost of generation from the two units post renovation and modernisation. Thus, the project was undertaken without evaluating the cost of generation from GNDTP, Bathinda post R&M *vis-à-vis* cost of power available from outside. After the completion of Stage II of R&M

[24] Heat Rate refers to the heat energy input in kilo calorie for generating one unit of electric energy at generator terminals.

[25] Out of this, 1,073 MW is yet to be commissioned.

works, the fixed cost of GNDTP, Bathinda increased substantially from ₹ 1.12 per KWH during 2013-14 to ₹4.24 per KWH during 2015-16 due to increase in depreciation and interest costs, which in turn increased the total cost of generation from ₹ 4.14 per KWH during 2013-14 to ₹7.98 per KWH during 2015-16 thus bringing the power generated from GNDTP, Bathinda to the tail end of the merit order in terms of cost of power from various sources.

With regard to delay on part of BHEL in execution of R&M works, the Management stated (August 2017) that the issue of delay was taken up with BHEL at all levels regularly. Keeping in view the quantum and nature of work which involved lot of custom built equipment, the scheduled time given in the work order was very short. Fabrication of material by BHEL took unexpectedly higher time and maximum applicable penalty had already been recovered from BHEL. The losses calculated are deemed losses only and actual loss cannot be ascertained due to dynamic nature of power sector. Availability of cheap power from units at pitheads forces imposition of back down or shut down of thermal units and the same is done in commercial interests.

The reply is not acceptable as the audit observations are based on the guidelines/operating framework provided by the concerned regulatory authorities and time schedule of execution of works itself allotted by the Company to the contractor. The aspect regarding equipment to be custom made, direct firing etc. should have been considered and factored in by the Company while framing tender specifications for the R&M works. The losses calculated by Audit are indicative and the same could have been avoided had the R&M works been completed in time. Further, though the backing down/shut down of own thermal units were done in commercial interests of the Company but the fact remains that the Company could not derive benefits envisaged from the expenditure of ₹552 crore incurred on the R&M works of Stage-II and this expenditure will continue to burden the consumers through tariff.

Conclusion

3.2.4. Delay in tendering and execution stage led to delay of 52/62 months in completion of R&M works of Stage–II which resulted in substantial increase in the project cost. Due to inadequate consideration of issues at the time of preparing the business case for Stage II of Renovation and Modernisation works of GNDTP, Bathinda and consideration of the matter in isolation, without taking into account commitment of the company towards 35 long term power purchase agreements (PPAs), the Company failed to get value for the ₹552 crore spent on renovation works besides burdening the consumers with increased tariffs due to the interest cost of loan taken for the project. Due to its unviability, the Government has decided to shut operations of the plant permanently with effect from 1 January 2018, in just a little over three years from the completion of the R&M work.

The matter was referred to the Government (May 2017); their reply was awaited (October2017).

3.3 Avoidable interest payment

Retaining funds in non-interest bearing current accounts at sub-division instead of transferring to main account led to the Company facing loss of interest of ₹1.43 crore due to availing of excess cash credit.

Government of Punjab instructed (May 2008) all Public Sector Undertakings not to keep money in non-interest bearing current account when competitive options were available to earn better returns. Chapter 13 of Commercial Accounting Systems (Volume IV) - Cash and Bank Manual of Punjab State Power Corporation Limited (Company) also states that there should be regular transfer of funds by field bank branch to Company's main bank account at Patiala.

Audit observed that at distribution system of the Company at city east circle, Ludhiana for the period 2015-16, the Focal point sub-division retained balances of as high as ₹42.17 crore (on 29 May 2015) in its current account. The closing balance in this account remained above ₹five crore for 229 days during 2015-16 and 2016-17 (upto September 2016).

Simultaneously, the Company was availing cash credit limit from four banks[26] on which it was paying interest at rates ranging between 11.70 *per cent* per annum to 12.70 *per cent* per annum. The Finance Division of the Company had also reiterated (March/April 2015) the instruction to field branches to ensure that funds deposited in their bank branches were transferred daily to the main bank branch at Patiala, to reduce the interest burden.

Had the Focal point sub-division, city east circle, Ludhiana transferred the amounts retained in the current account on daily basis to Company's main bank account in Patiala, payment of ₹1.15 crore[27] as interest on the overdraft drawn could have been avoided . Similarly, in CMC sub-division in the same circle, local bank branches were also not transferring balances to main bank account on daily basis which could have saved an interest payment of ₹0.28 crore[27].

Thus, retaining funds in non-interest bearing current accounts at sub-divisions instead of transferring them to the main account led to the Company availing excess cash credit at Head Office, on which interest on daily balance had to be paid. This resulted in avoidable interest payment of ₹1.43 crore.

The matter was referred to the Company and the Government (December 2016); their replies were awaited (November 2017).

[26] State Bank of Patiala, Punjab National Bank, Indian Overseas Bank and State Bank of India.

[27] Calculated at the rate 11.70 *per cent* per annum (minimum rate) on daily closing bank balance during April 2015 to March 2017 .

3.4 Financial benefit to washery firm

To improve the lifting of coal by washery firm, the Company amended its agreement with the firm and waived off its past claims there against. Additionally, the Company waived off past under loading and over-loading charges, resulting in extending of undue financial benefit of ₹ 15.40 crore to the firm.

Punjab State Power Corporation Limited (Company) entered (August 2002) into an agreement (valid for 20 years) with M/s Monnet Daniels Coal Washeries Private Limited (firm) for setting up of a washery of capacity of 35 lakh metric tons (MT) per annum for beneficiation[28] of coal supplied by Central Coalfields Limited (CCL) from Jharkhand. The agreement *interalia* provided that the Company was to pay beneficiation charges and surface transportation charges (STC) to the firm. The firm was liable to pay commitment charges to the Company if it failed to lift raw coal from CCL or load the beneficiated coal to the extent of at least upto 80 *per cent* of the monthly scheduled quantity (MSQ)/annual contracted quantity (ACQ). Further, the firm was to pay full under-loading charges and 50 *per cent* overloading charges, if charged by Railways at any time.

The lifting of coal by the firm ranged between 44.34 *per cent* and 65.43 *per cent* of the ACQ during October 2009 to March 2015. Due to under performance of the firm, penalties on account of commitment charges, shortages, overloading, under-loading were imposed by the Company and no payments for beneficiation[29] were made to it during 2009-15. The firm's account had reached a negative balance of ₹51.03 crore[30] as of March 2014. With a view to improve the lifting of coal, the Company amended (June 2015) the contract (retrospectively from 1 April 2015) whereby penalties (except compensation charges payable to CCL, if any and service tax) for the past period were limited to the remuneration, if any, payable to the firm. Further, there was to be no claim on either side upto March 2015 and the firm was to improve the lifting of coal by at least 20 *per cent* so as to ensure adequate supply of coal. However, the clauses relating to recovery of under-loading and overloading charges paid to Railways were not changed.

Audit observed (June 2016) that while waiving off the penalties, the Company had also waived under-loading and over loading charges amounting to ₹ 15.40 crore which had been paid by it to Railways during November 2009 to March 2014. Since the clause regarding recovery of under-loading and overloading charges had been retained *in toto* in the amended agreement, waiving off these charges was not justified and resulted in financial benefit of ₹15.40 crore to the washery firm.

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[28] The process of washing raw coal of inferior quality at washery in order to remove coal dust, stones and shells and cutting the coal into proper size is called beneficiation.

[29] Except ₹1.63 crore given for STC during 2011.

[30] Commitment charges for short lifting/loading: ₹20.53 crore, under-loading/ over loading charges of Railways: ₹15.40 crore and other penalties ₹15.10 crore. Further, ₹15.90 crore were payable to the firm for STC.

The Management/Government stated (April/October 2017) that negative remuneration of the firm was worked out due to imposition of various penalties as per terms of contract agreement and that in spite of constraints affecting the movement of raw coal to the washery and dispatch of washed coal to the Company, the firm managed to achieve some improvement in lifting of raw coal.

The reply is not acceptable as the very purpose of amended agreement was to improve lifting of coal and the clause of under-loading and over loading charges had been retained. Hence there was no justification in waiving off the pending amounts due from the firm on this account. Further, even after the amended agreement, the firm failed to increase the quantity of coal lifted to the agreed level and could achieve only 54.80 *per cent* lifting of coal during 2015-16 as against required 80 *per cent*.

3.5 Non levy of voltage surcharge

Non-levy of the stipulated voltage surcharge required under Electricity Supply Instruction Manual resulted in loss of revenue of ₹2.37 crore besides transformation and incremental line losses.

Conditions of Supply[31] of electricity to consumers in the State as approved by the Punjab State Electricity Regulatory Commission (PSERC) provide that consumers with contract demand exceeding 2500 Kilo Volt Ampere (KVA) and upto 20 Mega Volt Ampere (MVA) are to be supplied electricity at supply voltage of 33 KV/66 KV. Further, the Electricity Supply Instruction Manual (ESIM) of Punjab State Power Corporation Limited (Company) provides that large supply consumers with contract demand exceeding 2,500 KVA and upto 4,000 KVA catered at 11 KV against the admissible supply voltage of 33KV/66KV are liable to pay a voltage surcharge of seven *per cent* on the consumption charges as compensation for transformation and incremental line losses. The Company was to ensure that existing consumers getting supply at lower voltages would be provided supply at the specified voltage within a period of 18 months. In case of constraints in converting the supply voltage, the supply was to be continued at a lower voltage on the condition of payment of voltage surcharge.

Audit observed (June 2015/March 2016) that a consumer with contract demand of 4,000 KVA was being supplied power at a lower supply voltage of 11 KV against specified supply voltage of 33 KV/66 KV. Accordingly, voltage surcharge was being levied on the consumer in view of *ibid* instructions. Subsequently, the Company discontinued (December 2008) the levy of voltage surcharge on the ground that the consumer had deposited (June 2008) the total cost of line/bay amounting to ₹1.72 crore for conversion of supply voltage to 66KV. However, the Company could not provide 66 KV line to the consumer as the execution of the work at site was opposed by the

[31] applicable w.e.f. 1st April 2010

farmers on whose land towers were to be erected. The Punjab & Haryana High Court directed (October 2010) the Company not to install any high tension electric wire/poles in the land of farmers without paying adequate compensation to their satisfaction or to explore the possibility of alternate route. The Company/consumer could not reach (August 2013) an agreement with the farmers and an alternate route plan for the 66 KV line was not found technically feasible.

The Company continued to supply power at 11 KV to the consumer but without levying any voltage surcharge as stipulated under ESIM at the rate of seven *per cent* on the consumption charges[32] during April 2011 to November 2016, incurring a loss of revenue of ₹2.37 crore[33], besides incurring transformation and incremental line losses.

The matter was referred to the Company and the Government (February 2017); their replies were awaited (November 2017).

3.6 Release of dues to Independent Power Producer without recovery of claims as advised by Legal Counsel

Due to non-recovery of ₹202.30 crore from the amount payable to Independent Power Producer (IPP) as advised by the Counsel of the Company, it could not save interest cost of ₹1.42 crore.

The Punjab State Power Corporation Limited (Company) filed (July 2013) a petition in Punjab State Electricity Regulatory Commission (PSERC) for issuing directions to Talwandi Sabo Power Limited, an Independent Power Producer (IPP), to pass on the financial benefits of concessional custom duty etc. accruing due to its being declared as a Mega Power Project[34], to the Company. PSERC allowed (December 2013) the prayer of the Company.

The IPP filed (February 2014/January 2015) an appeal, against the decision, before the Appellate Tribunal Authority of Electricity (APTEL) for stay on recovery[35] which was dismissed (April 2015). The Special Leave Petition (SLP) (April 2015) filed by the IPP in the Hon'ble Supreme Court of India was also subsequently dismissed (06 February 2017).

In the meanwhile, IPP submitted (09 January 2017) bill of ₹411.13 crore for power supplied for the month of December 2016. As per article 1 of the Power Purchase Agreement (PPA), bills have to be paid within 30 days from the date of raising of invoice i.e. in this case by 08 February 2017. Audit observed that the Counsel of the Company while communicating the decision of the Apex

[32] Energy charges plus fuel cost adjustment surcharge levied in the electricity bills of consumer

[33] After deducting the amount deposited by the consumer for deposit work - ₹1.72 crore from due voltage surcharge of ₹4.09 crore

[34] An interstate thermal power plant of capacity of 1000 MW or more.

[35] The Company recovered the amount of benefits under Mega Power Status from the monthly bills of IPP upto the month of February 2015.

Court to the Company at 12:48 hours on 06 February 2017 stated that the Company was entitled to adjust the amount due from IPP and that the copy of order would be available on the website of Hon'ble Supreme Court by next morning and the Company should wait before making payment of the current dues to IPP. This was also communicated to the concerned bill paying authority[36] in the Company at 13:12 hours on same day. However, without taking immediate cognizance of the advice of the Counsel, the Company released the dues at 16:10 hours on the same day without deducting the claim of ₹202.30 crore, being the value of benefits[37]on account of Mega Power Status. The recovery was eventually effected (1 March 2017) from the bill of January 2017.

Audit observed that the releasing of the current dues of the IPP without recovering the amount of ₹202.30 crore as advised by their Counsel was injudicious. Had the Company recovered ₹202.30 crore from the payment of the bill of December 2016, instead of recovering it from the bill of January 2017, it could have saved an interest cost of ₹1.42 crore[38]. As the Company is dependent on working capital loans to meet its routine expenses, failure to recover its dues at the first available opportunity was a poor reflection of the financial management practices.

The matter was referred to the Company and the Government (May 2017); their replies were awaited (November 2017).

[36] Superintending Engineer, Inter State Billing of the Company

[37] From March 2015 to December 2016

[38] Calculated at the rate of 11.10 *per cent* per annum being interest on working capital loans claimed by Company in its Annual Revenue Requirement and Tariff Petition for the year 2016-17 (₹202.30 crore x 11.10 *per cent* x 23 days).

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

3.7 Gunny bales/Poly Propylene bales on loan basis.

Non-reconciliation/settlement of bales exchanged on loan basis against the directives of DFSC resulted in non-recovery of ₹ 132.62 crore, interest loss of ₹ 58.07 crore to SPAs, shortage of bales worth ₹ 1.19 crore, excess deductions of ₹ 9.30 crore made by FCI and non-deposit of VAT of ₹ 4.15 crore.

The Director, Food, Civil Supplies and Consumer Affairs (DFSC), Punjab, places consolidated indents on behalf of all the five[39] State foodgrain procuring agencies (SPAs) with the Director General of Supplies and Disposal (DGS&D), for the supply of gunny/ poly propylene (PP) bales[40] for each crop, after receipt of advance payments from the procuring agencies {arranged on basis of cash credit limit (CCL) from banks}. During the three year period 2013-16, gunny bales worth ₹ 4,208.54 crore[41] were procured. As these purchases are made by using CCL, it is imperative that the SPAs recover the cost of gunny bags exchanged amongst themselves at the earliest, as every delay entails associated interest cost.

For execution of foodgrains (wheat and paddy) procurement operations, the gunny/ PP bales are exchanged on loan basis between SPAs. DFSC, Punjab had issued (May 2009) instructions to all SPAs to return the bales obtained on loan basis to the concerned SPAs after procuring their own bales. Otherwise cost of bales was to be paid by the loanee SPA. DFSC further directed (September 2011 - September 2014) that all SPAs should settle the accounts of gunny/ PP bales by booking sale/ purchase, at the rates declared by DGS&D alongwith interest and applicable Value Added Tax (VAT). However, the SPAs continued the exchange of bales on loan basis during 2012-16 instead of booking sale/ purchase. As on 31 March 2016, the SPAs were to recover cost of 89631 bales (valuing ₹ 246.92 crore[42]) and to pay for 70673 bales (valuing ₹ 202.52 crore[42]) as detailed in ***Annexure-7***.

Audit analysed the exchange of gunnies/poly propylene bales on loan basis amongst the SPAs and deficiencies observed in the process are discussed below:

3.7.1 Non-settlement of bales exchanged

Neither DFSC nor the SPAs evolved system of timely reconciliation and settlement of bales given and taken on loan basis between SPAs after the close

[39] Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab Agro Foodgrains Corporation Limited (PAFCL), Punjab State Warehousing Corporation (PSWC) and Punjab State Cooperative Supply and Marketing Federation Limited (MARKFED – is not under Audit jurisdiction).

[40] Containing 500 bags of 50 kilograms each.

[41] ₹1486.43 crore in 2013-14, ₹ 1158.30 crore in 2014-15 and ₹ 1563.81 crore in 2015-16.

[42] As on 31 March 2016: Gunny bales the valued at the rates of KMS 2016-17: ₹30884.85 per bale and PP bales at the rates of RMS 2013-14:₹ 12780 per bale.

of procurement season. This resulted in non-settlement/non-recovery of gunny bales between SPAs even after a lapse of 12 to 126 months as tabulated hereunder:

Table no. 3: Statement showing bales recoverable, amount recoverable and interest burden due to non-settlement of bales given by SPAs

(Amount: ₹ in crore)

Name of the SPA	Crop Year	SPA to whom bales given on loan basis	Gunny bales including PP bales	Recoverable amount (August 2017)	Period of delay (month)	Interest burden[43]
PUNGRAIN[44]	RMS 2006-07 to KMS 2015-16	PUNSUP, PAFCL and PSWC	27,055 (including 12,228 bales upto year 2011-12)	53.19 (including ₹24.31 crore upto year 2011-12)	12 to 126	20.84
PUNSUP[45]	RMS 2011-12 to KMS 2015-16	PAFCL, PUNGRAIN and PSWC	5,532 (including 1,156 bales upto year 2011-12)	11.86 (including ₹2.43 crore upto year 2011-12)	12 to 51	3.03
PAFCL[46]	RMS 2012-13 to KMS 2015-16	PUNSUP, PSWC and PUNGRAIN	1,342	2.64	12 to 43	0.91
PSWC[47]	RMS 2012-13 to KMS 2015-16	PUNSUP and PAFCL	1,482	3.07	12 to 43	0.88
PUNSUP, PUNGRAIN, PAFCL and PSWC	RMS 2008-09 to KMS 2015-16	MARKFED[48]	25,252 (including 12,516 bales upto year 2011-12)	49.91 (including ₹25.47 crore upto year 2011-12)	12 to 51	19.84
Total			**60,663**	**120.67**		**45.50**

Source: Information provided by SPAs.

Audit observed that the SPAs (Pungrain and PUNSUP) were to recover (December 2016) cost of 25900 bales valuing ₹ 52.21 crore given on loan basis during RMS 2006-07 to KMS 2011-12 but the concerned SPAs (Pungrain, PAFCL, PSWC, PUNSUP and Markfed) did not return the bales although there was sufficient stock of bales with the district offices of the loanee SPAs at the close of years 2012-13 to 2015-16[49]. Despite the *ibid* directives of DFSC for settlement of gunny/ PP bales loan accounts by booking sale/ purchase, the four SPAs (Pungrain, PAFCL, PUNSUP and PSWC) continued to provide 34763 bales valuing ₹ 68.46 crore to other SPAs on loan basis instead of booking sale/purchase during the RMS 2012-13 to KMS 2015-16. This resulted in further accumulation of bales and non-recovery amounting to ₹ 120.67 crore (August 2017) with a concomitant

[43] Calculated for respective months of delay at minimum simple interest rate of 11.01 *per cent* of CCL availed by SPAs during the period February 2011 to July 2016.

[44] Seven district offices of Pungrain: Amritsar, Bathinda, Jalandhar, Mansa, Muktsar, Patiala and Sangrur.

[45] Five district office of PUNSUP: Amritsar, Ludhiana, Jalandhar, Muktsar and Sangrur.

[46] Three district office of PAFCL: Fatehgarh Sahib, Moga and Muktsar.

[47] Four district office of PSWC: Jalandhar, Faridkot, Ferozepur and Sangrur.

[48] Twelve district offices: Amritsar, Barnala, Bathinda, Ferozepur, Jalandhar, Kapurthala, Mansa, Moga, Muktsar, Patiala, Sangrur and Tarn Taran.

[49] Except PAFCL where stock statements of the years 2012-13 & 2015-16 were not available.

interest cost of ₹ 45.50 crore to the SPAs (calculated for respective months of delay at minimum simple interest rate of 11.01 *per cent* of CCL availed by SPA during February 2011 to July 2016).

3.7.2 Treatment of sale of bales as a loan

The State Government decided (July 2010) to reallocate seven *per cent* and 11 *per cent* share of the procurement and milling of paddy to PAFCL and PSWC which was earlier allotted to Pungrain. Accordingly, Pungrain decided (July 2010) to transfer surplus gunny bales to these agencies on sale basis against advance payment at the rate of ₹ 20700 per bale plus VAT upto July 2010 and with interest at the rate of 11.25 *per cent* after July 2010 on monthly compounded basis.

Despite this decision, the district offices, Mansa, Patiala and Bathinda of Pungrain gave 4997 gunny bales to PAFCL and 778 gunny bales to PSWC without obtaining the advance payment of ₹ 11.95 crore and VAT of ₹ 0.72 crore thereon and treated it as on loan basis. The payments there against had still (August 2017) not been recovered even after a lapse of 85 months. This resulted in non-recovery of ₹ 11.95 crore and interest burden of ₹ 12.57[50] crore to Pungrain.

3.7.3 Non-reconciliation of bales.

There was un-reconciled difference (January 2017) of 8185 gunny bales and 4913 PP bales valuing ₹ 31.56 crore[42] between the four SPAs (Pungrain, PAFCL, PUNSUP and PSWC). On being pointed out by Audit, SPAs started the reconciliation process and reconciled the difference, which reduced to 1040 gunny bales and 488 PP bales valuing ₹ 3.84 crore pertaining to crop year 2006-07 to 2015-16 (March 2017) (Out of four SPAs, Pungrain has reconciled the bales).

The delayed reconciliation/ non-reconciliation of bales on loan basis between SPAs and eventual non-settlement of account of bales further led to shortage of bales of ₹1.19 crore pertaining to crop year 2008-09 to 2014-15 as discussed below:

Table no. 4: Statement showing shortage of bales

(Amount: ₹ in crore)

District office of the loanee SPA	Crop Year	District office of the SPA to whom bales given on loan	Shortage of bales	Value of shortage of bales
Pungrain, Patiala	RMS 2012-13	PAFCL, Patiala	325	0.62
	RMS 2010-11		80 (including 50 PP bales)	0.10
	RMS 2014-15	PUNSUP, Patiala	30	0.07
Pungrain, Tarn Taran	RMS 2008-09	Markfed, Tarn Taran	43	0.09
PUNSUP, Amritsar	RMS 2008-09	PAFCL, Amritsar	150	0.31
Total			**628**	**1.19**

Source: Information provided by SPAs.

[50] Calculated at monthly compound interest rate of 11.25 *per cent* on ₹ 11.95 crore from August 2010 to December 2016.

The claims of ₹ 0.62 crore of 325 gunny bales raised (July 2014) by Pungrain, Patiala after delay of 19 to 33 months were rejected by PAFCL, Patiala as no evidence showing receipt of bales were available. A charge sheet for imposing major penalty under Rule 8 of the Punjab Civil Services (Punishment and Appeals) Rules, 1970 was issued (September 2016) to the official in-charge of the storage centre by Pungrain. Further developments were awaited (August 2017).

The claims raised (February 2014 and May 2015) for the remaining 303 bales (including 50 PP bales) valuing ₹ 0.57 crore given on loan basis by respective SPAs during RMS 2008-09 to RMS 2014-15 were not accepted (September 2014 and August 2015) by the borrowing SPAs in the absence of any document. The shortage of 303 bales valuing ₹ 0.57 crore had not been investigated so far (August 2017).

3.7.4 Non-accountal and deposit of Value Added Tax.

The Punjab VAT Act, 2005 *inter-alia* provides that sale is completed when right to use of goods is transferred, and seller of the goods is liable to levy and deposit VAT on the sale effected. Further, Sections 56 and 57 of Punjab VAT Act, 2005 provides that in case of concealment of sale or purchase transactions from the books of accounts, in addition to the tax and interest, a sum equal to twice the amount of tax assessed is to be paid as penalty.

Audit, however, observed that inspite of the *ibid* directives issued by DFSC, Punjab for treating the lending and borrowing of gunny and PP bales as sale and purchase respectively, only PUNSUP raised (January 2017) sale bills (including applicable VAT) for gunny bales given to other SPAs and deposited the VAT due there-against. Although, eight[51] district offices of Pungrain and PSWC raised (July 2013 - July 2016) sale bills of ₹ 68.33 crore and VAT of ₹ 4.15 crore, they had not deposited the VAT amount.

3.7.5 Non-settlement of claims for bales on loan basis with FCI.

The SPAs had given and taken gunny bales on loan basis to FCI also which were required to be returned physically. However, it was noticed that despite availability of sufficient stock of gunny bales with the SPAs, the gunny bales taken on loan by SPAs during the period 2012-16 were not returned to FCI. Consequently, FCI deducted ₹ 65.43 crore along with VAT of ₹ 1.49 crore and interest of ₹ 3.80 crore (January 2014 to January 2017) from sale bills of seven[52] district offices of the SPAs. Audit noticed that FCI had made the recovery at rates higher than approved by the Government of India for bales resulting in excess deductions of ₹ 4.01 crore by FCI against cost of bags. The SPAs had not taken up the matter with FCI for excess deductions valuing ₹ 9.30 crore[53] so far (February 2017). Further, 5774 gunny bales valuing ₹ 13.30 crore were still returnable to FCI by the district office, Moga of Pungrain (August 2017).

[51] Bathinda, Jalandhar, Kapurthala, Ludhiana, Mansa, Moga, Patiala and Tarn Taran.
[52] Amritsar, Bathinda, Gurdaspur, Ludhiana, Patiala, Sangrur and Tarn Taran.
[53] Cost of bags ₹ 4.01 crore plus VAT of ₹ 1.49 crore and interest ₹ 3.80 crore.

3.7.6 Conclusion.

Thus, non-reconciliation/ settlement of bales exchanged on loan basis against the directives of DFSC resulted in non-recovery of ₹ 132.62 crore, interest loss of ₹ 58.07 crore to the SPAs, shortage of bales of ₹ 1.19 crore, excess deductions of ₹ 9.30 crore made by FCI and non-deposit of VAT of ₹ 4.15 crore. This also indicated that DFSC which controls the affairs of foodgrains activities was unable to obtain compliance to its directives by the SPAs.

The matter was referred to the SPAs and the Government (May 2017); their replies were awaited (November 2017).

3.8 Delay in raising of supplementary bill claims

Delay in forwarding the final rates of Custom Milled Rice by the Department, coupled with delay in raising claims by district offices of State Procurement Agencies with FCI led to avoidable interest burden of ₹7.49 crore.

The State Procurement Agencies (SPAs)[54], procure paddy on behalf of Government of India (GoI) for Central Pool financed by cash credit limit (CCL) availed from banks. The SPAs deliver the rice to Food Corporation of India (FCI) after getting it milled from the millers.

The GoI initially fixes the provisional rates of Custom Milled Rice (CMR) for each Kharif Marketing Season (KMS) and later after taking into consideration actual costs incurred by the SPAs, fixes the final rates. GoI fixed and conveyed (January 2013 to January 2015) the final rates of CMR for KMS 2003-04 to 2008-09 to Food, Civil Supplies & Consumer Affairs Department (Department), Punjab. Audit observed that the Department instead of forwarding the rates to the four SPAs for claiming the difference between final rates and provisional rates, kept the same on hold on the ground that GoI had been requested to review the rates as rates of some of the incidentals were not acceptable. The GoI in review (July 2015) rejected the claims of the State Government for review of rates and stated that the representations were not supported by basic documents.

Taking note, the Department forwarded (August 2015) the already finalised rates of different procurement seasons to the SPAs for claiming the differential amount with a delay of 197 to 917[55] days. Audit analysis of delay in raising claims revealed that in Moga and Ludhiana districts alone the SPAs could have avoided interest burden of ₹6.69[56] crore

[54] Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab Agro Foodgrains Corporation Limited (PAFCL), Punjab State Civil Supplies Corporation Limited (PUNSUP) and Punjab State Warehousing Corporation (PSWC).

[55] After allowing margin of 15 days.

[56] Calculated at the rate of 11.13 *per cent* i.e. minimum rate of interest applicable on CCL during this period.

Even after receipt of final rates from the department, delay of upto 60 days was noticed in raising the supplementary bills, of differential amounts, by the SPAs of the above mentioned two districts. This led to further avoidable interest burden of ₹0.80 crore.

Thus, due to delay in forwarding the final rates by Department and further delay in filing of claims by the District Offices, the SPAs had to bear an avoidable interest burden of ₹7.49 crore (₹6.69 crore + ₹0.80 crore) in these two districts.

The Government stated (August 2017) that the claims were not raised as Department was hopeful that final rates would be reconsidered. The reply is not acceptable as SPAs could have avoided the interest burden had the rates been communicated on time. The differential amount, if any, could have been claimed by the SPAs subsequently whenever they would have been accepted.

3.9 Avoidable cost burden due to delay in raising claims in respect of value cut for under relaxed specification wheat

Due to delayed/non-submission of claims for reimbursement of differential value cut and Minimum Support Price (MSP) of wheat by the district offices, the State Procuring Agencies had to bear avoidable interest burden of ₹ 4.77 crore.

The State Procuring Agencies[51] (SPAs) procure wheat on behalf of Government of India (GoI) for Central Pool through cash credit limit availed from banks and store the same in their godowns and thereafter deliver to Food Corporation of India (FCI) as per the movement plan given by FCI. GoI / FCI had prescribed norms for fair average quality (FAQ) of wheat for its acceptance at MSP. If quality of wheat is below the prescribed FAQ norms, the GoI/ FCI imposes value cut on MSP.

In order to reduce hardship of farmers due to unseasonal rainfall in the State during Rabi Marketing Season (RMS) 2015-16, GoI decided (April 2015) to procure wheat under relaxed specifications (URS) and fixed the rate of value cut to be imposed on different categories of URS wheat during RMS 2015-16. The State Government decided (April 2015) to give full value of minimum support prices (MSP) to the farmers and bear the amount of value cut on URS wheat. Subsequently, GoI agreed (June 2015) to bear this difference and decided that where full value of MSP had been paid to farmers, the value cut will be reimbursed to SPAs by FCI at the end of procurement operation on submission of bills along with supporting documents.

The SPAs purchased 58.97 lakh MT[57] of URS wheat and paid the full value of MSP to the farmers. Audit observed (May/ August/ December 2016 and July 2017) that the district offices of SPAs raised the claim for value cut/compensation for URS wheat procured at the rate of ₹ 10.88 per quintal amounting to ₹ 56.74 crore (PUNGRAIN: ₹ 16.54 crore[58], PAFCL: ₹ 9.85 crore, PUNSUP: ₹ 18.92 crore and PSWC: ₹ 11.43 crore) between August 2015 and November 2016 after delays[59] ranging between 9 and 470 days[60]. The SPAs received payment of ₹ 46.64 crore (PUNGRAIN: ₹ 10.09 crore, PAFCL: ₹ 8.65 crore, PUNSUP: ₹ 16.92 crore and PSWC: ₹ 10.98 crore) as FCI withheld partial payment of ₹ 10.09 crore of SPAs (PUNGRAIN: ₹6.44 crore, PAFCL: ₹ 1.20 crore, PUNSUP: ₹ 2.00 crore and PSWC: ₹ 0.45 crore). The FCI did not assign any reason for withholding this amount.

Further, PUNGRAIN in violation of the *ibid* instructions which required raising of claim for total procured quantity at the end of procurement operations, raised the claim only for the quantity delivered to FCI. Against the procurement of 20.95 lakh MT, the Sangrur District Office raised the claim of 0.99 lakh MT on timely basis and other District Offices raised claim for 15.03 lakh MT with a delay. The claim for undelivered quantity of 4.93 lakh MT valuing ₹5.36 crore was not raised (May 2017). This resulted in interest burden of ₹ 1.08 crore[61] (August 2015 to May 2017).

Thus, due to delay in submission of claim on account of value cut on URS wheat by the district offices, SPAs had to bear avoidable burden in the form of interest of ₹ 4.77 crore (PUNGRAIN: ₹ 0.89 crore + ₹ 1.08 crore, PAFCL: ₹ 0.75 crore, PUNSUP: ₹ 1.20 crore and PSWC: ₹ 0.85 crore) on cash credit limit availed.

PUNSUP (March 2017) and PSWC (October 2017) stated that supplementary claims were not accepted by FCI at district offices level for want of instructions from their regional office. Their reply is not acceptable as the PSUs themselves had delayed the raising of claims and most of the claims were raised after February 2016. PUNGRAIN while admitting (October 2017) the facts, assured to make recovery from the responsible staff.

The matter was also referred to PAFCL and the Government (December 2016); their replies were awaited (November 2017).

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[57] PUNGRAIN: 20.95 lakh MT,PAFCL: 9.65 lakh MT, PUNSUP: 17.83 lakh MT and PSWC: 10.54 lakh MT

[58] District Offices of PUNGRAIN raised partial claim for 15.03 lakh MT (except Sangrur which raised the claim of 0.99 lakh MT timely) URS wheat delivered only as against 20.95 lakh MT URS wheat procured and claim for 4.93 lakh MT undelivered wheat was not raised.

[59] Computed by taking 1 August 2015 as the base date as the procurement operations of every RMS end on 30th June every year and one month's grace period has been allowed to the SPAs to claim their bills from FCI.

[60] PUNGRAIN: 29 and 470 days; PAFCL: 131 and 342 days; PUNSUP: nine and 325 days; and PSWC: 130 and 452 days respectively.

[61] Interest calculated at the rate of 11.01 *per cent* per annum (minimum rate of interest applicable during the period February 2016 to July 2016).

Punjab State Civil Supplies Corporation Limited and Punjab Agro Foodgrains Corporation Limited

3.10 Damage of wheat

Non observance of storage instructions of FCI regarding storage of fresh wheat resulted in damage of 20,209 MTs of wheat valuing ₹ 47.06 crore.

Punjab State Civil Supplies Corporation Limited (PUNSUP) and Punjab Agro Foodgrains Corporation Limited (PAFCL) procure wheat for Central Pool of Government of India (GoI) on behalf of Food Corporation of India (FCI). It is the responsibility of the Companies to arrange for the safe storage of wheat procured and to maintain the health of the wheat stock till its delivery to FCI.

As per instructions issued (December 2004) by FCI, the damaged/non-issuable stock is required to be stored in a separate area to avoid the possibility of their infecting fresh stocks. GoI guidelines (July 2014) direct that stocks found upgradable, are to be upgraded within a period of three months, failing which the stock would be declared as damaged by FCI.

Scrutiny of records (April/May 2017) at Moga District Offices of PUNSUP and PAFCL revealed that in violation of these storage instructions, units stored fresh wheat of crop year 2014-15 in the same premises where damaged/infested wheat of previous crop years was stored. As a result, the wheat of the crop year 2014-15 also got infected. FCI declared (July/ September 2016) 20,772 MT and 20,045 MT wheat stock of PUNSUP Moga and PAFCL Moga, respectively, as upgradeable. However, the Companies could upgrade and deliver only 13,116 MT and 7,190.50 MT (PUNSUP and PAFCL respectively) upto March 2017. Out of balance[62] stock, 7,411 MT stock valuing ₹ 17.26 crore of PUNSUP and 12,798 MT valuing ₹ 29.80 crore of PAFCL was declared (April 2017) as damaged by FCI.

Thus, storage of fresh wheat in same premises with damaged/infested stock, in contravention of extant storage guidelines/ instructions, resulted in damage of 20,209 MT (7,411 MT + 12,798 MT) of wheat stock valuing ₹ 47.06 crore (₹ 17.26 crore + ₹ 29.80 crore).

The matter was referred to the Companies and the Government (May 2017); their replies were awaited (November 2017).

[62] PUNSUP had balance stock of 7656 MT (20772 – 13116), out of which there is shortage of 63 MT and 182 MT is under reconciliation. Due to infestation and high degrees of damage, wheat loses its weight and leads to shortage. Similarly, PAFCL had balance stock of 12854.5 MT (20045 – 7190.5), out of which, there was theft of 50 MT and difference of 6.5 MT is under reconciliation.

Punjab State Civil Supplies Corporation Limited

3.11 Misappropriation of paddy by the millers

Failure of procurement agencies to adhere to the safeguards provided in the Custom Milling Policy 2015-16 facilitated misappropriation of paddy by the millers and consequential non-recovery of rice worth ₹12.69 crore.

Punjab State Civil Supplies Corporation Limited (Company) procures paddy for Central Pool on behalf of the Government of India (GoI), stores it with allotted rice millers and gets it milled from them for delivery to Food Corporation of India (FCI).

The Custom Milling Policy (CMP) of the State Government for the kharif marketing season (KMS) 2015-16 required the State Procuring Agencies (SPAs) to obtain from each miller a bank guarantee, in the form of undated cheques, amounting to ₹ 25.00 lakh for every 2000 MT or part thereof of paddy stored with that miller. In case any rice miller failed to deliver custom milled rice within the stipulated schedule, the SPA was to shift the paddy stocks to other millers at the risk and cost of the defaulting miller. To ensure transparency, SPAs were to conduct videography of the initial storage and the physical verifications of paddy. The paddy was to be issued to the miller in lots of 200 MT each through release order after obtaining advance rice[63].

Scrutiny of records of KMS 2015-16 revealed that 32328.91 MT of paddy was stored with six millers in four district offices[64] against which the millers were required to deliver 21660.35 MT rice (at out-turn ratio of 67 *per cent*). However, these millers delivered only 18372.57 MT rice by the due date i.e. 31 May 2016 and misappropriated the balance paddy equivalent to 3287.78 MT of rice valued at ₹12.69 crore (including ₹2.97 crore being cost of gunnies, interest and other recoveries).

FIRs have been lodged (March-July 2016) with the police by the Company under various provisions of the Indian Penal Code relating to criminal breach of trust in all the six cases. The arbitration proceedings initiated in five cases were under process (June 2017) and in one case, award was given (March 2017) in favour of the Company against which recovery of ₹1.37 crore was awaited (July 2017).

Audit further observed that as per the CMP cheques amounting to ₹ 4.50 crore[65], encashable in case of shortage of delivery of paddy, were required to be obtained from the millers at the time of storage of paddy. However, in none of the cases the cheques were presented for encashment at the time shortages were noticed. On being pointed out (May 2017) by Audit, in three cases cheques were presented (May-June 2017) to the banks for encashment after a lapse of more than one year which were dishonored against which notices

[63] Advance rice denotes milled rice on the delivery of which the next lot of paddy is released for milling to the miller.
[64] Bathinda, Ferozepur, Gurdaspur and Jalandhar.
[65] ₹25 lakh for every 2000 MT paddy or part thereof stored with the miller.

under Section 138 of Negotiable Instruments Act, 1881 were issued to the millers. In two cases, cheques obtained from millers were not presented to the banks and in one case cheque was not obtained from the miller. Similarly, although these defaulting millers had failed to meet the milling schedule, the unmilled paddy was not shifted to other millers even though 21 millers were available who had already completed 100 *per cent* milling of their allotted paddy between 16 February 2016 to 25 April 2016. The system of videography and issue of paddy against advance rice was also not adhered to by the Company in the case of these millers.

Thus, failure on the part of the Company to adhere to the safeguards provided in the CMP 2015-16 to protect the interests of the SPAs facilitated misappropriation of paddy and consequential non-recovery of rice worth ₹ 12.69 crore. Had the Company obtained cheques from the millers, it could have at least cut its loss to the extent of ₹ 4.50 crore.

The matter was referred to the Company and the Government (June 2017); their replies were awaited (November 2017).

3.12 Blocking of funds due to non-utilisation of once used gunny bags

Non-observance of the directions of the GoI/State Government to utilise once used gunny bags lying with the millers resulted in blockade of funds of ₹ 60.09 crore and loss of interest to the tune of ₹ 6.50 crore.

Punjab State Civil Supplies Corporation Limited (Company) procures paddy on behalf of Government of India (GoI) through Cash Credit Limit (CCL) availed from bank and delivers it to the Food Corporation of India (FCI) after getting it milled from rice millers. Since paddy is lighter in weight and larger in volume than rice, only 37.50 kg paddy can be filled in a gunny bag as against 50 kg of rice. Resultantly, for every 150 kg of paddy four bags are used of which two bags are delivered to FCI by filling 50 kg[66] rice in each bag. For the remaining two bags with the millers, 60 *per cent* cost (in the form of depreciation) is recovered from the millers and 40 *per cent* cost is recovered from FCI. GoI /State Government had been issuing directions year after year to utilise the bags remaining with the millers during the subsequent crop year as once used gunny bags to the extent of 50 *per cent* of the total requirement in that year.

Audit observed (April/August 2016) that the Company had booked the cost of gunny bags recoverable from the millers in their inventory. It was further observed that the Company had neither evolved any system for ensuring the utilisation of these bags in the subsequent crop year nor fixed any time limit for recovery of cost of gunny bags from the millers. As per the financial statements of the Company as on 31 March 2016, 10.33 crore once used

[66] At an out-turn ratio of 67 *per cent*, 150 kg of paddy yields 100 kg rice.

gunny bags valuing ₹ 266.70 crore[67] (60 *per cent* cost) relating to the crop year 2012-13 and onwards were lying with the millers.

To validate this position, Audit further test checked the records of seven[68] district offices of the Company which revealed that once used gunny bags valuing ₹ 2.66 crore, of crop year 2012-13 to 2014-15, lying with the millers were not utilised in the subsequent year in contravention of extant directions of the Government of India/State Government. The depreciated cost of these gunny bags was adjusted/recovered from the millers after a lapse of one to 44 months, resulting in delay in recovery of ₹ 60.09 crore with a concomitant loss of interest to the tune of ₹ 6.50 crore **(*Annexure 8*).**

The Management replied (March 2017) that recovery was not made due to the pendency of a decision on a Civil Writ Petition (CWP) filed by the millers in the Court for taking back the once used gunny bags lying with the millers and for not recovering the value of once used gunny bags. The reply is not tenable because the case was dismissed in February 2016. The Company had in fact recovered the cost of gunny depreciation from those millers who were not party to the suit and which could have been effectively pursued even before the decision by the Court.

The matter was referred to the Government (November 2016); their reply was awaited (November 2017).

Punjab Agro Foodgrains Corporation Limited

3.13 Non-reimbursement of carry over charges due to delay in delivery of upgraded wheat

The Company failed to maintain the quality of wheat stock and delayed the delivery of upgraded wheat. Resultantly, it could not get reimbursement of carry over charges amounting to ₹2.32 crore.

Punjab Agro Foodgrains Corporation Limited (Company) procures wheat from mandis, stores in its godowns and subsequently delivers it to the Food Corporation of India (FCI) as per their movement plan. Carry over charges (COC) are paid to the Company by FCI for the storage of wheat. The Company is responsible for maintaining quality of wheat stored till its delivery to FCI. The quality of wheat is checked and accepted by the quality control wing of FCI at the respective storage centers of the Company before loading into the wagons. In case wheat stock is found to be in non-despatchable condition, COC thereof are stopped forthwith till the stock is segregated and offered for dispatch. In case such stock is finally dispatched, even then, the COC for the period the stock in question was declared non-despatchable till the time it is dispatched, are not reimbursed by FCI.

[67] Calculated as per custom milled rice (CMR) rates of the respective crop year.
[68] Amritsar, Fatehgarh Sahib, Jalandhar, Ludhiana, Patiala, Bathinda and Sangrur.

Mention was made in the paragraph 3.11 of the Audit Report (PSUs) Government of Punjab for the year 2012-13 about failure of the Company to maintain the quality of wheat stocks resulting in non-reimbursement of carry over charges in district offices of Fatehgarh Sahib, Ludhiana, Patiala and Ferozepur. The Committee on Public Undertakings (COPU) recommended (March 2016) that the Company should take timely and appropriate measures to ensure maintenance of quality of its stock. However, this irregularity still persisted as noticed in one of the district offices and pointed out in succeeding paragraph.

Audit observed (June 2017) that the FCI, during their monthly inspection (July/August 2015) of storage centers had noticed poor health of wheat stocks at district office Mansa and pointed out instances of atta formation, infestation, poor preservation and inadequate fumigation and urged for remedial measures.

Eventually, 52,881 MT wheat stock of Rabi Marketing Season (RMS) 2014-15 was determined (August 2015) as upgradable and carry over cost (COC) on this stock were restricted upto July 2015. Though, FCI requested (October/December 2015 and February/April/May 2016) the Company to upgrade these wheat stocks, the Company could complete the delivery of the upgraded stocks only by February 2017 (starting from October 2015). Only 49,013 MT of wheat stock could be delivered to FCI after segregation and upgradation and the remaining stock of 3,856 MT was lying as damaged[69]. FCI accepted the upgraded stock but did not reimburse COC of ₹ 2.32 crore for the period from which stock in question was declared as upgradable (August 2015) to the date of delivery thereof (February 2017).

Thus, the failure of the Company to take cognizance and action on the recommendation of COPU resulted in a loss of ₹2.32 crore on account of non-reimbursement of COC by FCI, besides incurring losses on account of damage to 3,856 MT of wheat stock.

The matter was referred to the Company and the Government (July 2017); their replies were awaited (November 2017).

Punjab Small Industries and Export Corporation Limited

3.14 Loss due to non-inclusion of all elements of cost in cost sheet

Due to preparing a cost sheet without including all its expenses, the Company had to bear loss of ₹1.84 crore.

To curb sand prices and help eliminate illegal mining by private mining contractors, Government of Punjab (GoP) entrusted (September 2014) the mining operations for 67 sand quarries to Punjab Small Industries and Export Corporation Limited (Company) on no profit no loss basis and asked (September 2014) the Company to prepare the costing for mining operations taking into account all costs including salary.

[69] Difference of 12 MT is loss during upgradation of wheat.

The Company prepared (November 2014) the cost sheet whereby the extracted sand was to be sold at the rate ₹180 per Metric Ton (MT) or ₹800 per 100 cubic feet. However, components of cost did not include 'Salary' despite being agreed to in terms and conditions *ibid*.

The Company received environment clearance (EC) for the mining of only 40 quarries out of 67 quarries transferred (September 2014) for extracting 34.14 lakh MT quantity valuing ₹61.45 crore. The Company undertook the work of mining from November 2014 to June 2015 in 11 quarries and excavated 2.27 lakh MT sand valuing ₹4.09 crore upto June 2015.

Audit noticed (November 2016) that the Company had to bear losses of ₹1.84 crore on the operation of these 11 quarries as it had failed to include the salary of the staff deputed at mines in the cost sheet despite being agreed to in the ministerial meeting held in September 2014.

Thus, the Company suffered a loss of ₹1.84 crore due to preparing a cost sheet which did not take into account all its expenses.

The Management stated (March 2017) that the purpose of curbing rising prices of sand in the State and to make sand available at a reasonable rate was fully achieved. The reply is not acceptable as the Company had to bear losses of ₹1.84 crore in the operation. Besides, quantity of sand mined by the Company was only 2.27 lakh MT from 11 quarries against the envisaged quantity of 34.14 lakh MT from 40 quarries.

The matter was referred to the Government (December 2016); their reply was awaited (November 2017).

3.15 Transfer of funds to Public Works Department

Company provided funds for public infrastructure project despite funds being available with the Government which was beyond its scope of activities and was not in its best financial interests.

The State Public Works Department (PWD), Buildings & Roads (B&R) undertook (August 2014) the work of up-gradation and repair of a road from Kalma Maur to Algara in district Roopnagar to provide connectivity to the town of Sri Anandpur Sahib under the Prime Minister's Gram Sadak Yojna (PMGSY) at an estimated cost of ₹5.19 crore (August 2014) which was revised to ₹7.72 crore (May 2015).

To bridge the gap of ₹2.53 crore in the available funds for the work, the State Government decided (April 2015) that Punjab Small Industries and Export Corporation Limited (Company) would arrange the same. The Company agreed (May 2015) and released (June 2015) ₹2.53 crore to PWD (B&R) as a onetime measure, noting that tangible and intangible benefits would accrue to the State from upgradation of a damaged road.

Audit observed (November 2016) that the Company was incorporated with the objective of aiding, promoting and protecting the interests of small scale industries in the State by developing industrial focal points. Providing funds for such infrastructure projects (up-gradation/repair of roads) was beyond its scope of activities. Even as per the *doctrine of ultravires* under The Companies Act, 2013, if a company does any act which is not covered within the framework of its Memorandum of Association and is not reasonably and fairly incidental to the attainment of its main objects, it is to be declared *ultra vires* of the memorandum of the company. Further, the work of up-gradation of roads was undertaken by PWD (B&R) under PMGSY for which the funds were to be allocated by the GoI. Scrutiny of funds available with the State under PMGSY, revealed that State had available balance of ₹ 1.47 crore as on 1 April 2015. Further, during the year 2015-16, an amount of ₹ 250.64 crore was released under Prime Minister Gram Sadak Yojana by Government of India/State Government.

Thus, providing own funds for public infrastructure project without accrual of benefit to the Company and despite availability of funds under PMGSY, was not only against its best financial interests but was also in violation of the Companies Act. As a result, an additional burden of ₹2.53 crore was put on the Company.

The Company in its reply (March 2017) stated that funds given to the State Government for the development of road would boost business and industry in the Industrial Focal Point Nangal and adjoining area. Moreover, it was a onetime measure and not to be taken as a precedent in future. The reply is not acceptable as funds were available with PWD (B&R) for development of roads under PMGSY.

The matter was referred to the Government (February 2017); their reply was awaited (November 2017).

Punjab Financial Corporation

3.16 Loss due to incorrect adjustment of sale proceeds of assets

Non-adjustment of sale proceeds of assets as per the mortgage deeds favoured the loanee units and resulted in loss of ₹2.45 crore to the Corporation.

Section 29 of the State Financial Corporations (SFCs) Act, 1951 empowers the Punjab Financial Corporation (Corporation) to take over the assets of defaulting unit mortgaged or hypothecated to it and realise its dues by sale of these assets. As per provisions of the mortgage deed, the Corporation was entitled to appropriate the payments received from the units, firstly towards liquidation of outstanding miscellaneous expenses and interest and the balance towards liquidation of principal. The State Government announced (August 2015) a One Time Settlement (OTS) policy, which was approved (November 2015) by the Board of Directors of the Corporation.

Audit noticed (February 2017) that in six cases dealt under OTS Policy 2015, where units were acquired and sold under section 29 of SFCs Act, the amount of sale proceeds were first adjusted towards expenses, then towards principal and remaining amount, if any, was adjusted towards interest. This was contrary to the provisions of the mortgage deeds. Due to incorrect adjustment of sale proceeds, the amount as per OTS in respect of these loanee units was worked out to ₹1.86 crore instead of ₹4.31 crore, resulting in loss of ₹2.45 crore (***Annexure 9***) to the Corporation. Audit further observed that another State PSU-Punjab State Industrial Development Corporation Limited, was following the correct practice of adjusting sale proceeds of mortgaged assets first towards the expenses, thereafter towards interest and then the principal.

Thus, non-adjusting the amount of sale proceeds as per the mortgage deeds favoured the loanee units and resulted in loss of ₹2.45 crore to the Corporation.

The Management stated (June 2017) that this practice was being followed as per advice of the Statutory Auditors who were of the opinion that in the case of banking industry where accrual method of accounting is used in doubtful cases, bank stops charging of interest in the account and the amount is kept in memoranda account. The reply is not tenable as objections raised were for Balance Sheet purpose and cannot be used for contravening the provisions of the mortgage deeds.

The matter was referred to the Government (April 2017); their reply was awaited (November 2017).

Punjab Agro Juices Limited

3.17 Non recovery of charges from private party

The Company failed to recover ₹ 0.68 crore from a private party despite binding terms in the agreement.

Punjab Agro Juices Limited (Company) has two multi fruit and vegetable processing units in Punjab at Hoshiarpur and Abohar to facilitate horticulture development in the State.

The Company decided (June 2014) to enter into an arrangement with private parties for job work processing of fruits and vegetables and after inviting (August 2014) tenders, accepted (October 2014) the H 1 offer of M/s Mrs. Bector's Food Specialties Limited (private party) for processing minimum committed quantity of 1000 metric tons (MTs) of tomatoes during the Season 2015 at its Hoshiarpur Plant with the condition that the private party shall be liable to pay ₹ 7.50 per kg for the short fall against the minimum committed quantity.

The private party thereafter requested (December 2014) the Company to waive off the condition of minimum committed quantity which was turned down (December 2014) by the Company citing it to be an essential part of the arrangement. The Company entered (March 2015) into an agreement with the private party for processing of minimum 1000 MTs of tomato paste/crush[70] from May to June 2015.

Audit observed (April 2016) that the private party processed only 90 MTs during June 2015 of tomatoes against the minimum committed quantity of 1000 MTs. The Company did not raise its claim for short processed quantity of 910 MTs amounting to ₹ 0.68 crore (910 X ₹ 7.50 per kg) as per the terms of the agreement.

The Management stated (February/May 2017) that due to inclement weather, tomato crop of the year 2015-16 had failed and that the matter relating to crop failure was also reported (June 2016) in the media.

Data obtained from Director Horticulture, Punjab showed that tomato production in the State in 2015-16 was more than in 2014-15. Further, the matter reported in the newspaper referred to in the reply of the Company pertained to the year 2016-17 and not 2015-16.

The matter was reported to the Government (December 2016); their reply was awaited (November 2017).

Chandigarh **(JAGBANS SINGH)**
Dated 31 JAN 2018 **Principal Accountant General (Audit)**
Punjab

Countersigned

New Delhi **(RAJIV MEHRISHI)**
Dated 7 FEB 2018 **Comptroller and Auditor General of India**

[70] Tomato Paste 28 degree Brix - ₹20.60 per kg; Tomato Paste 24 degree Brix - ₹17.65 per kg and Tomato Crush - ₹13.55 per kg.

Annexures

Annexure – 1

(Referred to in paragraph 1.11)

Statement showing investment made by State Government in PSUs, whose accounts are in arrears

(Figures in column 4 & 6 to 8 are ₹ in crore)

Sl. No.	Sector & Name of the PSU	Year upto which accounts finalised	Paid up capital as per latest finalised accounts	Arrear years in which investment received	Investment made by the State Government during the year in which accounts are in arrear		
					Equity	Loan	Grants/ Subsidy
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. Working Government Companies							
1	Punjab State Seeds Corporation Limited	2012-13	5.62	2013-14	-	-	4.17
2	Punjab Water Resource Management and Development Corporation Limited	2014-15	365.74	2015-16	26.82	-	324.21
				2016-17	5.41	-	504.28
3	Punjab Agri Export Corporation Limited	2015-16	5.00	2016-17	-	-	9.91
4	Punjab State Power Corporation Limited	2015-16	6,081.47	2016-17	-	5,768.54	5,600.70
Total A (Working Government Companies)			**6,457.83**		**32.23**	**5,768.54**	**6,443.27**
B. Working Statutory Corporations							
1.	Punjab Scheduled Castes Land Development and Finance Corporation	2014-15	91.33	2015-16	5.42	-	-
				2016-17	5.42	-	-
2.	PEPSU Road Transport Corporation	2013-14	306.44	2014-15	25.00		
Total B (Working Statutory Corporations)			**397.77**		**35.84**	**-**	**-**
C. Non Working Government Companies							
1.	Punjab Land Development and Reclamation Corporation Limited	1994-95	1.45	1995-96	-	-	4.98
				1996-97	-	-	-
				1997-98	-	-	-
				1998-99	-	-	2.50
				1999-00	-	-	1.12
				2000-01	-	-	-
				2001-02	-	-	1.30
				2002-03	-	-	5.85
Total C (Non Working Government Companies)			**1.45**		**-**	**-**	**15.75**
Total A+B+C			**6,857.05**		**68.07**	**5,768.54**	**6,459.02**

Annexure 2

Summarised financial position and working results of Government companies and Statutory Corporations as per their latest finalised financial statements/accounts

(Referred to in paragraph 1.15)

(Figures in column 5 to 12 are ₹ in crore)

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-17	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Investment[2]	Return on investment[3]	Percentage return on investment	Manpower as on 31-03-17
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A. Working Government Companies													
Agriculture & Allied													
1	Punjab Agro Foodgrains Corporation Limited	2015-16	2017-18	5.00	5,524.93	(-)211.81	5,055.29	(-)120.27	(-)1478.85	5.00	(-)120.27	-	- (all employees are on deputation)
2	Punjab Agro Industries Corporation Limited	2015-16	2016-17	49.21	17.30	2.78	0.01	0.99	-	94.72	1.51	1.59	442
3	Punjab Agro Juices Limited	2016-17	2017-18	50.00	30.00	(-)64.85	9.03	(-)2.56	Under Audit	50.00	(-)2.52	-	All employees are on contract basis
4	Punjab State Forest Development Corporation Limited	2016-17	2017-18	0.25	-	54.14	46.24	1.85	Under Audit	54.39	2.97	5.46	173
5	Punjab State Grains Procurement Corporation Limited	2014-15	2016-17	1.05	6831.54	(-)2,312.19	11,597.97	(-)370.76	(-)25.72	1.05	(-)370.76	-	54 (others are on deputation/ contract)
6	Punjab State Seeds Corporation Limited	2012-13	2017-18	5.62	-	7.66	55.37	0.48	-	18.28	0.71	3.88	42
7	Punjab Water Resource Management & Development Corporation Limited	2014-15	2015-16	365.74	222.26	(-)101.57	1.66	(-)3.17	(-)2.25	595.60	(-)3.17	-	1317
8	Punjab Agri Export Corporation Limited	2015-16	2016-17	5.00	-	(-)5.29	3.51	(-)1.05	(-)0.78	5.00	(-)1.05	-	on deputation/ contract
Sector wise Total				**481.87**	**12,626.03**	**(-)2,631.13**	**16,769.08**	**(-)494.49**	**(-)1507.60**	**824.04**	**(-)492.58**	**-**	**2028**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-17	Accumulated Profit (+) /Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Investment[2]	Return on investment[3]	Percentage return on investment	Manpower as on 31-03-17
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Finance													
9	Punjab State Industrial Development Corporation Limited	2015-16	2017-18	78.21	606.47	(-)707.83	18.25	(-)14.07	(-)84.63	360.62	21.41	5.94	59
Sector wise Total				**78.21**	**606.47**	**(-)707.83**	**18.25**	**(-)14.07**	**(-)84.63**	**360.62**	**21.41**	**5.94**	**59**
Infrastructure													
10	Punjab Police Housing Corporation Limited	2015-16	2016-17	0.05	-	B	B	B	(-) 2.62	0.05	B	-	135
11	Punjab Small Industries and Export Corporation Limited	2014-15	2016-17	50.01	-	180.19	345.99	29.36	(-)6.83	232.76	44.71	19.21	737
Sector wise Total				**50.06**	**-**	**180.19**	**345.99**	**29.36**	**(-)9.45**	**232.81**	**44.71**	**19.20**	**872**
Manufacturing													
12	Punjab Communications Limited	2016-17	2017-18	12.05	-	(-)7.15	30.32	(-)5.63	-	21.01	(-)5.60	-	222
Sector wise Total				**12.05**	**-**	**(-)7.15**	**30.32**	**(-)5.63**	**-**	**21.01**	**(-)5.60**	**-**	**222**
Power													
13	Gidderbaha Power Limited	2015-16	2016-17	0.05	12.01	D	D	D	-	12.06	D	-	Staff is on deputation from PSPCL
14	Punjab Genco Limited	2015-16	2016-17	22.90	-	109.47	17.31	9.53	(-)0.91	132.37	15.41	11.64	6 (others are on contract)
15	Punjab State Power Corporation Limited	2015-16	2016-17	6081.47	22767.76	(-)3175.82	23569.17	(-)1694.85	(-)3515.86	24919.15	1185.75	4.76	38060
16	Punjab State Transmission Corporation Limited	2015-16	2016-17	605.88	4863.42	401.73	1177.18	2.02	(-)2.48	5041.34	471.98	9.36	2870
17	Punjab Thermal Generation Limited	2015-16	2016-17	0.05	-	D	D	D	-	0.05	D	-	-
Sector wise Total				**6710.35**	**27643.19**	**(-)2664.62**	**24763.66**	**(-)1683.30**	**(-)3519.25**	**30104.97**	**1673.14**	**5.56**	**40936**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-17	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Investment[2]	Return on investment[3]	Percentage return on investment	Manpower as on 31-03-17
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Service													
18	Gulmohar Tourist Complex (Holiday Home) Limited	2014-15	2016-17	0.02	-	(-)4.17	0.04	(-)0.26	-	1.06	(-)0.26	-	-
19	Punjab Information & Communication Technology Corporation Limited	2016-17	2017-18	19.23	-	26.82	5.59	3.54	(-)4.29	46.05	0.54	1.17	24
20	Punjab Police Security Corporation Limited	2015-16	2016-17	0.05	-	B	B	B	-	0.05	B	-	-
21	Punjab State Bus Stand Management Company Limited	2012-13	2017-18	56.15	46.82	6.02	407.75	1.96	Under Audit	87.36	8.38	9.59	-
22	Punjab State Civil Supplies Corporation Limited	2015-16	2017-18	3.73	8306.43	(-)1532.79	10053.41	(-)995.78	(-)1299.89	3.73	(-)995.78	-	890
23	Punjab State Container and Warehousing Corporation Limited	2015-16	2016-17	25.00	-	113.73	21.78	14.67	(-)1.17	138.73	24.51	17.67	(on contract/ deputation basis)
24	Punjab Tourism Development Corporation Limited	2012-13	2015-16	6.66	-	15.18	-	(-)0.15	0.05	21.84	(-)0.15	-	-
25	Punjab Municipal Infrastructure Development Company	2014-15	2016-17	0.05	197.75	B	B	B	-	348.39	B	-	(On contract basis)
26	Mohali Biotechnology Park	First accounts are yet to be received											-
Sector wise Total				**110.89**	**8551.00**	**(-)1,375.21**	**10,488.57**	**(-)976.02**	**(-)1,305.30**	**647.21**	**(-)962.76**	**-**	**914**
Total A (All sector wise working Government companies)				**7,443.43**	**49,426.69**	**(-)7,205.75**	**52,415.87**	**(-)3,144.15**	**(-)6,426.23**	**32190.66**	**278.32**	**0.86**	**45,031**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-17	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Investment[2]	Return on investment[3]	Percentage return on investment	Manpower as on 31-03-17
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
B. Working Statutory corporations													
Agriculture & Allied													
1	Punjab State Warehousing Corporation	2015-16	2017-18	8.00	3159.04	(-)997.16	5,002.70	(-)147.70	Under Audit	1067.66	(-)139.85	-	1235
Sector wise Total				**8.00**	**3159.04**	**(-)997.16**	**5,002.70**	**(-)147.70**	**-**	**1067.66**	**(-)139.85**	**-**	**1235**
Finance													
2	Punjab Financial Corporation	2015-16	2016-17	40.39	211.03	(-)268.35	8.57	0.76	2.76	79.17	7.95	10.04	122
3	Punjab Scheduled Castes Land Development and Finance Corporation	2014-15	2017-18	91.33	24.93	(-)4.70	7.39	(-)4.12	(-)1.86	119.99	(-)3.28	-	135
				131.72	**235.96**	**(-)273.05**	**15.96**	**(-)3.36**	**0.90**	**199.16**	**4.67**	**2.34**	**257**
Service													
4	PEPSU Road Transport Corporation	2013-14	2015-16	306.44	43.78	(-)376.30	361.37	(-)11.11	(-)54.03	399.41	(-)2.50	-	1382
Sector wise Total				**306.44**	**43.78**	**(-)376.30**	**361.37**	**(-)11.11**	**(-)54.03**	**399.41**	**(-)2.50**	**-**	**1382**
Total B (All sector wise working Statutory corporations)				**446.16**	**3438.78**	**(-)1,646.51**	**5,380.03**	**(-)162.17**	**(-)53.13**	**1666.23**	**(-)137.68**	**-**	**2874**
Grand Total (A+B)				**7,889.59**	**52865.47**	**(-)8,852.26**	**57,795.90**	**(-)3,306.32**	**(-)6,479.36**	**33856.89**	**140.64**	**0.42**	**47,905**
C. Non working Government companies													
Agriculture & Allied													
1	Punjab Land Development and Reclamation Corporation Limited	1994-95	2000-01	1.45	3.72	0.65	9.85	1.07	-	-	-	-	-
2	Punjab Micro Nutrients Limited[3]	1991-92	1994-95	0.25	0.36	(-)0.61	0.05	(-)0.12	-	-	-	-	-
3	Punjab Poultry Development Corporation Limited	2013-14	2016-17	3.09	-	(-)9.41	-	(-)0.16	(-)3.62	-	-	-	-
4	Punjab Agro Power Corporation Limited	2015-16	2017-18	0.05	-	(-)0.05	-	(-)0.05	-	-	-	-	-
Sector wise Total				**4.84**	**4.08**	**(-)9.42**	**9.90**	**0.74**	**(-)3.62**	**-**	**-**	**-**	**-**

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-17	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Investment[2]	Return on investment[3]	Percentage return on investment	Manpower as on 31-03-17
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Finance													
5	Punjab Venture Capital Limited	2016-17	2017-18	0.05	-	(-)0.19	-	-	-	-	-	-	-
6	Punjab Venture Investors Trust Limited	2016-17	2017-18	0.05	-	0.03	-	-	-	-	-	-	-
7	Punjab Film and News Corporation Limited	2003-04	2017-18	1.51	0.14	(-)1.88	-	(-)0.01	-	-	-	-	-
Sector wise Total				**1.61**	**0.14**	**(-)2.04**	**-**	**(-)0.01**	**-**	**-**	**-**	**-**	**-**
Manufacturing													
8	Electronic Systems Punjab Limited[3]	2013-14	2014-15	3.00	6.09	(-)461.82	-	(-)67.86	-	-	-	-	-
9	Punjab Bio-Medical Equipments Limited[3]	1996-97	2001-02	0.43	0.41	(-)1.12	-	(-)0.03	-	-	-	-	-
10	Punjab Digital Industrial Systems Limited[3]	2006-07	2007-08	0.25	0.26	(-)0.78	-	(-)0.71	-	-	-	-	-
11	Punjab Electro Optics Systems Limited[3]	1996-97	1997-98	0.12	0.87	(-)1.28	-	(-)0.01	-	-	-	-	-
12	Punjab Footwears Limited	1990-91	1995-96	0.15	0.04	(-)0.83	0.18	(-)0.10	-	-	-	-	-
13	Punjab Power Packs Limited[3]	1997-98	1999-2000	1.55	8.04	(-)5.53	1.97	(-)1.12	-	-	-	-	-
14	Punjab State Handloom and Textile Development Corporation Limited	2014-15	2016-17	3.63	2.79	(-)9.42	-	(-)0.13	(-) 3.02	-	-	-	1
15	Punjab State Hosiery and Knitwear Development Corporation Limited	2005-06	2006-07	3.91	10.13	(-)16.84	-	(-)0.06	-	-	-	-	-
16	Punjab State Leather Development Corporation Limited	2005-06	2016-17	3.42	-	(-)8.05	-	(-)0.24	-	-	-	-	1

Sl. No.	Sector/ Name of the Company	Period of Accounts	Year in which accounts finalised	Paid up Capital	Loans outstanding as on 31-03-17	Accumulated Profit (+) / Loss(-)	Turnover	Net Profit/ Loss	Impact of Audit Comments[1]	Investment[2]	Return on investment[3]	Percentage return on investment	Manpower as on 31-03-17
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**
17	Punjab Tanneries Limited	1995-96	2016-17	0.52	-	(-)5.99	-	(-)0.26		-	-	-	-
18	Consumer Electronics (Punjab) Limited	2016-17	2017-18	0.21	-	(-)0.08	-	(-)0.02	-	-	-	-	1
19	Punjab Recorders Limited	2016-17	2017-18	0.71	0.79	(-)9.04	-	(-)0.22	-	-	-	-	-
Sector wise Total				**17.90**	**29.42**	**(-)520.78**	**2.15**	**(-)70.76**	**(-)3.02**	**-**	**-**	**-**	**3**
Service													
20	Amritsar Hotel Limited	2013-14	2016-17	0.02	-	40.96	-	0.02	-	-	-	-	-
21	Neem Chameli Tourist Complex Limited	2014-15	2016-17	0.02	-	0.08	-	0.01	-	-	-	-	-
Sector wise Total				**0.04**	**-**	**41.04**	**-**	**0.03**	**-**	**-**	**-**	**-**	**-**
Total C (all sector wise non working Government companies)				**24.39**	**33.64**	**(-)491.20**	**12.05**	**(-)70.00**	**(-)6.64**	**-**	**-**	**-**	**3**
Grand (A+B+C)				**7,913.98**	**52,899.11**	**(-)9,343.46**	**57,807.95**	**(-)3,376.32**	**(-)6,486.00**	**33,856.89**	**140.64**	**0.42**	**47908**

Notes:

1 **B** Three companies (Sl. Nos. A-10, A-20 and A-25) functioning on 'no profit no loss' basis.

2 **D** Two Companies (Sl. No. A-13 and A-17) are under construction.

3 Six non-working companies (Serial No.C-2, 8, 9,10,11 &13) are under liquidation.

4 Loans outstanding at the close of 2016-17 represent long term loans only and do not include interest accrued and due.

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[1] Include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit/decrease in losses (-) decrease in profit/increase in losses.

[2] Investment represents paid up capital + long term loans + free reserves in respect of working PSUs only and has not been calculated for non working PSUs.

[3] Return on investment represents net profit before dividend, tax and interest.

Annexure-3

(Referred to in paragraph 2.1.6)

Statement showing Financial position of Punjab State Grains Procurement Corporation Limited

(₹ in crore)

	Particulars	2012-13	2013-14	2014-15
A	**Liabilities**			
a) i)	Paid up capital	1.05	1.05	1.05
ii)	Reserve & Surplus	(-) 1450.07	(-) 1941.24	(-) 2312.00
b)	Long term Loans	-	-	-
c)	Other long term liabilites	33.29	33.29	32.73
d)	Short term Loans	9618.91	9905.14	10521
e)	Trade dues and current liabilities (including provisions)	806.5	1163.09	1175.89
Total A		**9009.68**	**9161.33**	**9418.67**
B	**Assets**			
a)	Gross block	26.63	28.04	28.75
b)	Less: depreciation	1.74	2.23	3.08
c)	Net fixed assets	24.89	25.81	25.67
d)	Capital work in progress	7.18	11.68	21.49
e)	Investments	-	-	-
f)	Current assets, including loans and advances	8907.18	9076.9	9310.52
g)	Long term Loans and Advances	70.43	46.94	60.99
h)	Miscellaneous expenditure (to the extent not written off or adjusted)	-	-	-
Total B		**9009.68**	**9161.33**	**9418.67**
C	Capital employed	1.05	1.05	1.05
D	Net worth	(-) 1449.02	(-) 1940.19	(-) 2310.95
E	Accumulated losses as reported by the Company	1450.26	1941.43	2312.19
F	Accumulated losses after considering the comments of Statutory Auditors and CAG	2088.42	2240.01	3041.70

Annexure-4

(Referred to in paragraph 2.1.8)

Details of 32 Silos awarded by Punjab State Grains Procurement Corporation Limited

The Company has so far developed/awarded 32 silos (17.5 lakh MT) in three phases. In the first phase Amritsar silo was developed and in the second phase three silos at Ahmedgarh, Sunam, Malerkotla were developed and in the third phase Company has awarded 28 silos (two on DBOT basis and 26 on DBOO basis) for a capacity of 15.5 lakh MT detail of which is given in the table below:

There was no formal policy with regard to development of silos in the State before February 2016. The State Cabinet approved the uniform policy for creation of silos in the State in February 2016 on the recommendation of a sub-committee of State Cabinet consisting of Ministers of Food & Supply Department, Finance Minister and Agriculture Minister. So tendering under phase-III was covered under the uniform policy.

Particulars	Phase-I (One silo)	Phase-II (Three silos)*	Phase-III (28 silos)	
Type of model	BOO	DBOT	DBOO	DBOT
Location of silo	Amritsar	Ahmedgarh/ Sunam/ Malerkotla	26 silos in various locations of the State	Two Silos (Khanna & Jagraon)
Capacity	0.50 lakh MT	1.50 lakh MT	14.50 lakh MT (26 silos were awarded in three phase of tendering)	1.00 lakh MT
Date of Tender	March 2010	June 2015	Sept./Oct./Nov. 2016	Sept. 2016
Bid-variable	Fixed Service Charge per MT per annum	Adjusted project cost after deducting premium at the rate of 25 *per cent* of the project cost	Percentage of CWC custody and maintenance charges	Adjusted project cost after deducting premium at the rate of 25 *per cent* of the project cost
Date of award of work	May 2010	August 2015	December 2016	December 2016
Date of signing of concession agreement	August 2011	September 2015	Not Available	Not Available
Present status	In operation since August 2011	In operation since April/May 2017	Under construction	Under construction

Note:- * Initially seven silos (Ahmedgarh, Malerkotla, Sunam, Patiala, Khanna, Jagraon, Moga) were awarded. However, out of seven, only three could be developed.

Annexure-5

(Referred to in paragraph 3.1.3.1)

Comparison of repair cost of transformers in TRWs *vis a vis* repair contracts with private parties for the years 2014-17 in Punjab State Power Corporation Limited

Particulars		2014-15			2015-16			2016-17		
		25 kva	63 kva	100 kva	25 kva	63 kva	100 kva	25 kva	63 kva	100 kva
Cost of repair per transformer in TRWs (₹)	Cost of material[1]	15344	23286	30843	14293	21417	28571	13666	20494	27332
	Total cost[2]	27486	41713	55250	28259	42345	56490	27051	40567	54103
Cost of repair per transformer by Private parties (₹)	Cost of material	18426	28503	38075	17010	25887	34649	15689	23661	31571
	Total cost	19911	30285	40055	18515	27687	36649	17299	25329	33411
Excess cost per transformer in TRWs (₹)	Cost of material	-3082	-5217	-7232	-2717	-4470	-6078	-2023	-3167	-4239
	Total cost	7575	11428	15195	9744	14658	19841	9752	15238	20692
Excess Expenditure in percentage		38.04	37.74	37.94	52.63	52.94	54.14	56.37	60.16	61.93
Number of transformers repaired in TRWs		868	2375	2876	863	1697	1989	963	2129	2384
Total Extra expenditure (₹ in lakh)		**65.75**	**271.41**	**437.01**	**84.09**	**248.75**	**394.64**	**93.91**	**324.42**	**493.30**
		774.17			**727.48**			**911.63**		
		2413.28								

(Source: MIR and L-1 rates[3] of rate contracts)

[1] Transformer oil, spare parts and material used for fabrication of coils

[2] Total cost includes cost of material and labour cost in case of Repair contracts and cost of material and depreciation, establishment cost and administrative expenditure in case of TRWs.

[3] The company has not worked out the capacity wise final cost of repair of transformers through repair contracts based on actual payments made as per price variation clause. In the absence of which cost comparison has been made with L-1 rates of repair contracts

Annexure-6

(referred to in paragraph 3.2.3)

Statement showing year wise plant availability and plant load factor after Renovation and Modernisation of Stage-II in Guru Nanak Dev Thermal Power Plant, Bathinda of Punjab State Power Corporation Limited

Year	Plant availability of Stage-II (in percentage)		Plant Load Factor (in percentage)	
	Unit-III	Unit-IV	Unit-III	Unit-IV
2009-10	72.72 (Under R&M w.e.f. 14-1-2010)	87.69	55.75 (Under R&M w.e.f. 14-1-2010)	63.43
2010-11	0.00	74.69	0.00	44.49
2011-12	0.00	56.66 (Under R&M w.e.f. 5-11-2011)	0.00	30.45 (Under R&M w.e.f. 5-11-2011)
2012-13	29.65 (Commissioned on 7-12-2012)	0.00	24.21 (Commissioned on 7-12-2012)	0.00
2013-14	71.85	0.00	44.06	0.00
2014-15	93.34	53.13 (Commissioned on 27-9-2014)	54.23	2.94 (Commissioned on 27-9-2014)
2015-16	89.83	99.10	29.83	18.91
2016-17 (Upto December 2016)	99.90	98.22	31.78	36.92

Annexure - 7

(Referred to in paragraph 3.7)

Details showing gunny bales/PP bales given (recoverable) and taken (payable) on loan basis between State Procuring Agencies (SPAs) as on 31.03.2016 as per Balance Sheet and records of SPAs.

(Unreconciled figures: in Nos.)

Name of SPA	Bales recoverable					
	As on 31.03.2014		As on 31.03.2015		As on 31.03.2016	
	Gunny	PP	Gunny	PP	Gunny	PP
PUNGRAIN	58399	12531	67601	13652	56186	10862
PUNSUP	1842	2644	568	3107	439	3145
PSWC	6722	420	8917	420	13172	2209
PAFCL	2866	298	2907	298	3320	298
Total	**69829**	**15893**	**79993**	**17477**	**73117**	**16514**
G. Total	**85722**		**97470**		**89631**	

Name of SPA	Bales payable					
	As on 31.03.2014		As on 31.03.2015		As on 31.03.2016	
	Gunny	PP	Gunny	PP	Gunny	PP
PUNGRAIN	2312	2866	17262	6604	4061	2577
PUNSUP	18069	3636	18572	3454	15627	3439
PSWC	13037	2118	13293	2118	15140	2118
PAFCL	23945	506	25494	566	27145	566
Total	**57363**	**9126**	**74621**	**12742**	**61973**	**8700**
G. Total	**66489**		**87363**		**70673**	

Source: Information supplied by SPAs.

Annexure – 8

(Referred to in paragraph 3.12)

Statement showing loss of interest suffered by the Punjab State Civil Supplies Corporation Limited on blockade of funds due to non-utilisation of once used gunny bags in the next crop year

Sr. No.	Name of the District Office	Crop Year	Number of once used gunny bags (B-class) left with the miller after milling	Amount recovered/ adjusted (₹)	Period of delay in recovery/adjust ment	Amount of interest loss (₹)
1.	Patiala	2012-13	46,32,936	9,84,96,219	One to 36 months	72,60,443
		2013-14	18,80,410	4,58,06,788	Five to 17 months	20,54,770
2.	Amritsar	2012-13	2,52,826	53,75,079	Two to 32 months	6,66,368
		2013-14	68,205	16,60,790	Eight to 19 months	1,73,915
3.	Ludhiana	2012-13	46,68,915	10,03,53,895	One to 38 months	1,52,55,822
		2013-14	15,50,291	3,77,49,539	Two to 24 months	29,04,509
		2014-15	4,97,145	1,28,11,385	Two to 21 months	5,37,494
4.	Fatehgarh Sahib	2012-13	15,41,219	3,28,14,957	One to 19 months	23,47,340
		2013-14	6,17,039	1,50,18,396	Six to 12 months	10,63,373
5.	Jalandhar	2012-13	11,84,726	2,57,66,617	17 to 44 months	77,90,455

6.	Sangrur	2012-13	33,11,875	7,04,10,462	Two to 35 months	22,40,701
		2013-14	13,90,747	3,38,78,600	Six to 15 months	25,52,677
		2014-15	2,06,623	53,24,675	Two to 14 months	6,44,746
7.	Bathinda	2012-13	18,79,389	3,99,55,796	Two to 44 months	78,18,063
		2013-14	5,58,645	1,46,08,566	Six to 32 months	18,09,050
		2014-15	23,61,741	6,08,62,033	12 to 24 months	98,38,682
Total			**2,66,02,732**	**60,08,93,797**		**6,49,58,408**

Source: Information furnished by District Offices of the PUNSUP. Figures worked out from the end of extended milling period or start of next paddy procurement season, whichever is earlier.

Annexure - 9

(Referred to in paragraph 3.16)

Statement showing less recovery of One Time Settlement (OTS) amount due to adjusting of sale proceeds firstly against the expenses and principal and thereafter interest by Punjab Financial Corporation

(Amount: ₹ in lakh)

Sr. No.	Name of Unit	Date of sanction of loan	Year of NPA	Principal & interest outstanding on date of OTS	Amount of OTS would have been as per OTS	OTS amount given by PFC	Less recovery
1.	A Unit in Derabassi	28.11.1990	1991	1,394.01	70.00	21.32	48.68
2.	A Unit in Ludhiana	26.12.1991	1992	2,276.87	81.43	33.67	47.76
		26.12.1992	1993				
		19.10.1995	1996				
3.	A Unit in Amritsar	25.07.1996	1999	24.84	56.10	1.51	54.59
4.	A Unit in Derabassi	01.03.1993	1994	3,527.60	90.00	57.41	32.59
5.	A Unit in Patiala	27.01.1993	1995	153.83	68.66	36.73	31.93
6.	A Unit in Sangrur	06.03.1990	1990	142.29	65.31	35.54	29.77
Total				**7,519.44**	**431.50**	**186.18**	**245.32**