Chapter III

3. Transaction Audit Observations

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

Government companies

Punjab State Power Corporation Limited

3.1 Avoidable payment of interest due to non swapping of high cost loans

Failure to swap the high cost outstanding loans with the new loans carrying lower rate of interest resulted in avoidable payment of interest of ₹ 9.68 crore.

The erstwhile Punjab State Electricity Board (now Punjab State Power Corporation Limited) had been managing its working capital requirement by raising short term loans from banks. The Board availed loans of ₹ 400 crore in August 2008 from Punjab National Bank and ₹ 750 crore from Central Bank of India in March 2009 at the interest rate of 12.50 and 9.75 *per cent* per annum respectively for a period of one year. The loan agreements entered with the banks provided for pre-payment of loans without any penalty. Thus, in the event of availability of loans at cheaper rates on subsequent occasions, the erstwhile Board had the opportunity to swap the high cost past loans by availing fresh loans having lower rate of interest.

To meet its fund requirement, the Board invited offers in April and May 2009 for raising loans of ₹ 413 crore and ₹ 787 crore for the months of May and June 2009 respectively. In response, the Board received offers for ₹ 1,113 crore (revised offer: ₹ 1,226 crore) from five banks at interest rates ranging between 8.95 and 10.25 *per cent* per annum for the month of May 2009 and ₹ 2,187 crore (revised offer: ₹ 1,974 crore) from six banks at rates ranging between 8.75 and 9.50 *per cent* per annum for the month of June 2009. The Board raised the loans of ₹ 413 crore at the rate of 8.95 *per cent* per annum and ₹ 787 crore at the rate of 8.75 *per cent* per annum for the months of May and June 2009 respectively.

We observed that the Board did not consider the desirability to raise additional amount of loans available at cheaper rates to swap the past high cost outstanding loans raised in August 2008 and March 2009. Thus, due to failure to raise the additional loans available at cheaper rates, the Board lost the opportunity to save interest cost of ₹ 9.68 crore.

The Management stated (May 2011) that Government of Punjab decided to provide Government guarantee to raise new short term loans for the repayment of short term loans raised earlier against the security of post dated cheques (PDCs) and imposed a condition that the amount of loan to be raised be limited to the amount of PDCs falling due in that month or the gap in receipt and payment including payment against PDCs whichever is less. As such, it was not possible to obtain additional Government guarantee as per terms and conditions imposed by the Government. The reply is not justifiable as the swapping of high cost past loans with equal amount of low cost fresh loans would not have required additional guarantee from the State Government. Moreover, the Board's reply is an after thought as it had neither considered nor approached the State Government for swapping of the outstanding high cost loans with the cheaper loans.

Thus, non swapping of the high cost loans with the cheaper ones, when opportunity existed, points out to poor financial management of the Board. The Company needs to grab such opportunities of swapping of its high cost outstanding loans so as to improve its financial health.

The matter was referred to the State Government in December 2010; their reply had not been received (September 2011).

3.2 Unfruitful expenditure on consultancy services

Award of consultancy work without ensuring availability of the land and not taking cognizance of the hurdles in obtaining environmental clearance resulted in unfruitful expenditure of ₹ 3.37 crore.

The erstwhile Punjab State Electricity Board (now the Punjab State Power Corporation Limited) decided (June 2008) to set up two new thermal power plants*. In September 2008, the Board, without following the due procedure of competitive bidding, awarded the work of consultancy and services to PFC Consulting Limited, New Delhi (firm) at a total cost of ₹ 15 crore plus applicable taxes and duties. The consultancy services *inter alia* included undertaking various studies, obtaining clearances, processing of bids, selection of developer and all other activities upto allotment of works to the developer/contractors. Acquisition of the land required for the projects and water supply were to be made by the Board. The terms and conditions of the agreement with the firm *inter alia* provided that;

- 20 *per cent* of the consultancy fee would be paid on issue of letter of award of the contract,
- the work would be completed within 14 months from the date of issue of letter of intent,
- in case the assignment got delayed beyond the scheduled completion period due to reasons not directly attributable to the firm, the Board would be liable to compensate the firm's expenses on actuals or lump sum amount as might be mutually agreed.

The Board issued the letter of intent in July 2008 and paid (August 2008) ₹ 3.37 crore as 20 *per cent* of the consultancy fee to the firm. Due to problems in obtaining the environmental clearances for the Bathinda plant and land acquisition for the Lehra Mohabbat plant, the Board directed (January 2009) the firm to keep the consultancy works of these projects pending. Subsequently, the proposal for Bathinda plant was shelved in April 2011 due to difficulties in obtaining the environmental clearances. No decision has been made about the fate of the Lehra Mohabbat Plant even after lapse of about two years since expiry of the scheduled completion period for the consultancy services.

We observed that the Board did not ensure the availability of land for Lehra Mohabbat plant before placing the contract for consultancy services. At the time of getting (June 2008) approval for the 2x250 MW plant at Bathinda, the Chief Engineer (Thermal Design) did not bring the Report (May 2006) of the Site Selection Committee constituted by the Central Electricity Authority, to the notice of the Board. The Report clearly indicated anticipated hurdles in obtaining the environmental clearance and also the fact that the chimney height of 200/220 meters was also not allowed by the National Airport Authority of India because of nearby aerodrome. Even during the negotiation

* 2x250 MW Guru Nanak Dev Thermal Plant extension (Stage-II) at Bathinda and 2x250 MW Guru Hargobind Thermal Plant (Stage-III) at Lehra Mohabbat.

meeting with the consultancy firm, the Board authorities stated (May 2008) that it would be difficult to get the environmental clearance for extension of the existing plant at Bhatinda due to ambient conditions prevailing in the area caused by a number of power stations in the vicinity. Ignoring all these anticipated problems, the Board decided to opt for 2x250 MW units at Bathinda.

Thus, undue haste in award of the consultancy work without ensuring the availability of land for the Lehra Mohabbat plant and not taking cognizance of the stated hurdles in obtaining environmental clearance for the Bathinda plant resulted in unfruitful expenditure of ₹ 3.37 crore. It might also result in creation of additional liability on account of compensation to the firm due to delay/non deciding the fate of the Lehra Mohabbat extension project.

In reply to our observation, the Chief Engineer, Thermal Designs, Punjab State Power Corporation Limited stated (July 2011) that the proposal for GNDTP, Bathinda extension had been shelved and GHTP Lehra Mohabbat extension had been kept on hold.

The matter was referred to the State Government in March 2011; their reply had not been received (September 2011).

3.3 Avoidable extra expenditure

Injudicious decision to cancel the tender led to subsequent execution of the work at extra cost of ₹ 56.10 lakh.

The Regulations of Conduct of Business, 1980 of the erstwhile Punjab State Electricity Board (now Punjab State Power Corporation Limited) provided that the work, for which there was no financial provision or inadequate financial provision, should be referred to the Whole Time Members (WTMs) of the Board.

In the marshalling yard• of Guru Nanak Dev Thermal Plant (GNDTP) Bathinda, railway track measuring 10.78 km and comprising eight lines had been laid with 75 pound rails. Out of these eight lines, two lines measuring 1.82 km deteriorated due to their maximum use. These lines could not be repaired due to non availability of 75 pound rails, their fittings and fixtures.

In order to keep the marshalling yard in a complete operative condition, the Techno Economic Committee of GNDTP, Bathinda recommended (May 2006) complete renewal of these two lines with 52 Kg rails with their fittings and fixtures at a cost of ₹ 1.50 crore. The WTMs of the Board approved (June 2006) this recommendation. The authorities of GNDTP took more than seven months to decide whether to get the work executed by private contractors or by the Railways. It was only in February 2007 that the authorities of GNDTP decided to execute the work through competitive bidding process and invited

• **A** place where railway wagons are shunted and made up into trains and where engines, carriages, etc. are kept when not in use.

(March 2007) tenders, which were opened in April 2007. Three firms participated in the tender and a Mumbai firm (N. Mohan Lal & Company) quoted the lowest rate of ₹ 1.89 crore for this work. The Chief Engineer, GNDTP Bathinda cancelled (May 2007) the tender on the plea that the rates quoted by the lowest firm were very high as compared to the administrative approval of ₹ 1.50 crore accorded by the Board and decided to get the work done by the Railways as deposit work. However, the Department of Railways showed (October 2007) their reluctance to do the work. The work was held up for about two years. It was only in April 2009 that revised administrative approval of the WTMs was obtained and the work was completed in December 2009 at a total cost of ₹ 2.45 crore by procuring rails from the Steel Authority of India Limited and other materials through tenders and carrying out the work through labour contractor.

We observed that when the administrative approval given for the work was inadequate as compared to the lowest quoted rates, the authority to decide the tenders in accordance with the provision cited above, vested with the WTMs of the Board. Hence, the Chief Engineer, instead of cancelling the lowest bid, should have approached WTMs for further decision/revised administrative approval. The decision of Chief Engineer to cancel the lowest bid was also flawed one as the rates quoted by the lowest tender were not comparable with that of the administrative approval given by the Board, because the cost estimates considered in the administrative approval excluded wastage, labour rate escalation, contingency charges, service tax etc. The injudicious decision of the Chief Engineer led to subsequent execution of the work incurring extra expenditure of ₹ 56.10 lakh (₹ 245.14 lakh- ₹ 189.04 lakh).

The Management *inter alia* stated (March 2011) that the tendered amount of ₹ 1.89 crore did not include overhead charges, whereas the actual expenditure of ₹ 2.45 crore included prorata charges of head office. It was further stated that the expenditure worked out to ₹ 2.19 crore on adjusting for inflation and the net difference in cost of ₹ 30 lakh was reasonable. The reply is not justifiable because the lowest tender amount of ₹ 1.89 crore was for the work to be executed on turnkey basis and involved no overhead charges. Further, the work was subsequently executed on split package basis, partially departmentally and partially through contractors, which involved prorata charges of head office. The action of the Chief Engineer to cancel the tender was not only injudicious but also was beyond his powers as per the regulations which led to subsequent inordinate delay with consequent cost escalation.

The matter was referred to the State Government in January 2011; their reply had not been received (September 2011).

3.4 Non rendering of the Material at Site accounts

Failure to adhere to the instructions led to non rendering of the accounts of material at site costing ₹ 15.51 crore and non recovery of ₹ 74.84 lakh on account of shortage of materials.

The erstwhile Punjab State Electricity Board (now the Punjab State Power Corporation Limited) issued instructions from time to time to ensure timely submission of the material at site (MAS) accounts by the Junior Engineers (JEs) so as to minimise chances of misappropriation of material drawn from the stores. The instructions *inter alia* provided that:

- The concerned JE should render the accounts of material at site within one month from completion of the work, failing which disciplinary action should be initiated against the JE if the value of material exceeds ₹ 10,000.
- On transfer from one station to other, the concerned JE should render the accounts of the work executed by him within a period of one month and the certificate of rendering of accounts should be countersigned by the Executive Engineer within fifteen days from the date of actual rendering of accounts by the JE.
- No J.E. should be allotted new work unless and until he had rendered the accounts of the previous work on its completion.
- Each Divisional office was required to send quarterly return depicting the position of 'Arrear of MAS accounts' to the Board's Head Office.

Non-compliance of the instant instructions by the JEs and the divisional offices of the Board/Company for timely rendering of accounts and finalisation thereof within stipulated period were pointed out in paragraphs 3.13.3 and 3.1.32 of the Audit Reports (Commercial) – Government of Punjab for the year ended 31 March 2004 and 2006, Separate audit reports on the accounts of the Board and Inspection Reports of the divisional offices. We noticed that no remedial/ corrective measures were taken and irregularities persisted as discussed in the succeeding paragraphs:

3.4.1 Non rendering of Material at Site (MAS) accounts

During test check of records of seven Operation Divisions of the Patiala Circle and eight[*] Operation Divisions of other circles it was noticed that by 31 March 2011, 99 JEs had not rendered the MAS accounts of 303 works completed between 1981 and 2009 involving materials worth ₹ 15.51 crore. In contravention of the instructions *ibid*, new works were allotted to the JEs without getting the MAS accounts of the previous completed works and nine JEs, transferred between July 2008 and February 2010, did not render the accounts of 21works involving material of ₹ 1.39 crore.

[*] Operation Model Town Division, Jallandhar; Operation Division Ropar; Operation Agar Nagar Special Division, Ludhiana; Operation Division Faridkot; Operation Division Raikot; Operation Division Malout; Operation Janta Nagar Special Division, Ludhiana and Operation Suburban Division, Amritsar.

3.4.2 Shortages of Material

On submission of MAS account by the JE after completion of work, material drawn against the work is required to be verified with the material utilised on the work as per measurement book and the unutilised material is to be returned to Store through the Store Return Warrant. The difference, if any, found is to be booked as shortage against the JE concerned. We noticed that ₹ 74.84 lakh was outstanding on account of shortage of materials against 29 JEs for the period ranging from one to 28 years. Out of the 29 JEs, six have expired and three have retired from service. It is evident from the above that the Company/Board had not taken any serious and effective action to recover the amount.

3.4.3 Non reconciliation of MAS accounts at Head Office

We also observed that clearance of the pending MAS accounts were not monitored properly at the Head Office level as even the figures of arrear of MAS accounts of seven Operation Divisions in the Patiala Circle (360 works involving material of ₹ 6.83 crore) at Head Office did not tally with the actual arrear of MAS accounts of the Operation Divisions in the Patiala Circle (508 works involving material of ₹ 14.43 crore) as of 31 March 2010.

Thus, in the divisions test checked, non adherence to the Board's instructions led to non rendering of the accounts of material costing ₹ 15.51 crore, besides non recovery of ₹ 74.84 lakh against shortage of materials. Due to abnormal delay of one to 28 years in rendering of the accounts by the JEs and lethargic attitude of the administration of the Board/Company in taking action against the JEs/Divisional Officers concerned, misappropriation of the materials could not be ruled out.

To avoid such incidents, the Company should monitor and ensure that its field officers strictly adhere to the instructions on rendering of the MAS accounts of completed works, failing which it should fix responsibility against the defaulters. The Company should also take serious action to clear the pending MAS accounts in a time bound manner.

The matter was referred to the State Government and the Company in February 2011; their reply had not been received (September 2011).

Punjab State Power Corporation Limited and Punjab State Transmission Corporation Limited

3.5 Blocking of funds

Procurement of material for transmission works without ascertaining finalisation of the route plan and obtaining the required clearances resulted in blocking of funds of ₹ 1.67 crore since November 2007 and consequential loss of interest of ₹ 70.34 lakh.

Manual of Capital Expenditure and Fixed Assets of the erstwhile Punjab State Electricity Board[†] *inter alia* provided that proper survey should be conducted before preparation of the transmission route plan and the required clearances should be obtained from the concerned authorities before taking up construction of the transmission lines.

With a view to ensure reliable power supply under the APDRP scheme, the Chief Engineer (Operation) Central Zone, Ludhiana made (January 2005) provision for erection of 45.5 KM of multi circuit 11 KV line on towers in Mandi Gobindgarh and Khanna Operation Divisions. The task of procurement of material and execution of the line works through contractors was entrusted to the Chief Engineer, Transmission Lines (CE, TL), who procured (November 2005 to October 2007) 326.31 MT of tower material costing ₹ 1.67 crore. In the meantime, the Deputy Chief Engineer (Dy. CE), Distribution Circle, Khanna was reminded repeatedly by the CE (TL) about the route plan of the lines and clearances from the concerned authorities. In response, the Dy. CE, Khanna intimated (November 2008) that clearance from the National Highway Authority of India (NHAI), Forest Department and Municipal Authorities could not be applied for due to the proposed six laning of Ambala- Amritsar highway on which multi circuit towers were to be constructed. He further opined (January 2009) that the work orders for the line should be issued only after taking clearance from the NHAI. Keeping in view the uncertainty of starting the work, the Member, Transmission of the Board decided (February 2009) to drop the proposed work and directed to use the tower material already procured in other works. The material, however, remained unutilised (July 2011) and was lying in the Ablowal store.

We observed that the CE (Operation) Central Zone, Ludhiana entrusted the work of procurement of material for the multi circuit 11 KV towers to the CE (TL) without finalisation of the route plan and without obtaining the required clearances from the concerned authorities. The CE (TL) procured the material in advance without ascertaining finalisation of the route plan etc. Thus, procurement of the material in advance without proper planning and coordination coupled with non utilisation of the same in alternative works

[†] Punjab State Electricity Board was unbundled (16 April 2010) into two Government Companies i.e. Punjab State Power Corporation Limited and Punjab State Transmission Corporation Limited.

resulted in blocking of funds worth ₹ 1.67 crore since November 2007 with consequential loss of interest of ₹ 70.34♦ lakh.

The Management, while accepting the facts, stated (July 2011) that all out efforts were being made to utilise the material in alternative works.

The Companies must ensure obtaining of statutory clearance from the concerned authorities before start of any work in order to avoid delay in the execution of project and blockage of funds.

The matter was referred to the State Government in May 2011; their reply had not been received (September 2011).

Punjab State Transmission Corporation Limited

3.6 Unfruitful expenditure on construction of a transmission line

Failure of the Board to obtain final clearance from the Forest Department resulted in unfruitful expenditure of ₹ 3.61 crore on a transmission line and consequential loss of interest of ₹ 1.74 crore.

Manual of Capital Expenditure and Fixed Assets of the erstwhile Punjab State Electricity Board *inter alia* provided that forest and environment clearance should be obtained from the concerned authorities before taking up construction of the transmission line. The Indian Electricity Rules, 1956, stipulated that supply of energy should not be commenced in the transmission line without obtaining approval of the Chief Electrical Inspector (CEI)♣.

The Board planned (1999-2000) to construct a 29.59 km long 220 KV double circuit overhead transmission line from Ranjit Sagar Dam to Sarna. In January/May 2001, the Board deposited an amount of ₹ 75.20 lakh to the Forest Department to use 46.54 hectares of forest land for the construction of this transmission line. The construction of towers and stringing work of one of the circuits was completed and energised in August 2001. In February 2004, the Forest Department demanded ₹ 4.28 crore towards afforestation in addition to the amount already paid by the Board. The Board planned (August 2004) the stringing work of the second circuit of this transmission line by borrowing funds from the Rural Electrification Corporation at an estimated cost of ₹ 6.60 crore, which included ₹ 4.28 crore required by the Forest Department. Accordingly, the loan was got approved (February 2006) from REC for the said work.

We observed that the Board without depositing ₹ 4.28 crore and obtaining final clearance from the Forest Department completed (May 2007) the stringing work of second circuit at a cost of ₹ 3.61 crore and approached (May 2007) the CEI for permission to commission the line. The CEI pointed out

♦ Calculated at the prevailing interest rates on cash credit ranging between 11.75 *per cent* to 13.50 *per cent* from November 2007 to March 2011.

♣ An Electrical Inspector appointed under section 36 of the Indian Electricity Rules, 1956.

(June 2007) several shortcomings which included inadequate vertical gap between the conductor and ground level at many places in the hills and advised cutting of the hills to maintain the desired level of gap. In the absence of requisite payment of afforestation charges and final clearance from the Forest Department, the Board could not proceed further for removal of the defects pointed out by the CEI. Resultantly, the second circuit of the transmission line remained to be commissioned even after the lapse of four years from completion of the work.

The Executive Engineer, Tower line, survey and construction division, Jalandhar did not initiate timely action to obtain the final clearance from the Forest Department and it was only on receipt of a letter from the Forest Department in July 2009 for depositing the Net Present Value of the land, he furnished (August 2009) an undertaking for depositing the amount. However, the amount was not deposited and the final clearance from the Forest Department was still awaited (April 2011).

The Management of the Punjab State Transmission Corporation Limited stated (April 2011) that forest clearance for the second circuit was not applied for as the first circuit of the transmission line was already working and thus, there had been no delay on the part of any officer/official in applying for clearance from the Forest Department. The reply is not acceptable as in accordance with the instructions for Survey of Transmission Lines, forest clearance was necessary before taking up the stringing work of second circuit of the transmission line. The erstwhile Board/ Company's officials neither remitted the afforestation amount demanded by the Forest Department nor vigorously pursued the matter to obtain their clearance.

Thus, the injudicious decision to carry out the stringing work of the second circuit without obtaining the necessary final clearance from the Forest Department at the first instance and subsequent failure to pursue the matter in time resulted in unfruitful expenditure of ₹ 3.61 crore on the work completed as early as in May 2007 alongwith consequential loss of interest of ₹ 1.74 crore♠.

The Company must ensure obtaining statutory clearance from Forest Department/ other agencies before start of any work in order to avoid any delay in the execution of project and blockage of funds.

The matter was referred to the State Government in December 2010; their reply had not been received (September 2011).

♠ Calculated at the prevailing interest rates on loans taken from REC ranging between 13.00 *per cent* to 12.25 *per cent* from June 2007 to March 2011.

Punjab Agro Foodgrains Corporation Limited

3.7 Damage of foodgrains

Failure of the Company to deliver the wheat stocks on FIFO basis coupled with inadequate fumigation and improper storage resulted in damage of wheat stock of 55,412 MT valuing ₹ 64.91 crore.

The Punjab Agro Foodgrains Corporation (Company) is one of the State procuring agencies to procure foodgrains for the central pool on behalf of the Government of India. The Company procures wheat of the prescribed quality from mandis at the minimum support price, stores in the godowns/ open plinths and delivers the same to Food Corporation of India (FCI) for the central pool.

During the three crop years ending March 2010, the Company procured and stored 30.45 lakh Metric Tonnes (LMT) of wheat (7.64 LMT in 2007-08, 11.18 LMT in 2008-09 and 11.63 LMT in 2009-10). As of March 2011, the Company had undelivered wheat stock of 1.39 LMT of which 55,412 MT valuing ₹64.91 crore relating to the crop years 2007-08, 2008-09 and 2009-10 was lying in damaged and non-issuable conditions. Out of this, 23,708 MT was declared as damaged and 31,704 MT was categorised as non-issuable. Out of the 20 districts in the State, scrutiny of records in four[♣] districts which had 49,052 MT (88.52 *per cent*) of the damaged wheat revealed the following:

3.7.1 Non following of FIFO principle

As per the guidelines issued (October 2002) by the Ministry of Consumer Affairs, Food and Public Distribution, Government of India, the wheat stock should be issued on first-in-first-out (FIFO) basis so as to avoid damage due to prolonged storage. The Company, however, failed to follow the guidelines leading to damage of huge quantity of wheat. The quantum of wheat procured during the three crop years i.e. 2007-08, 2008-09 and 2009-10 and the stock position as on 31 March 2010 of the relevant years are given below:

Name of District Office	Procurement of wheat (MT)			Balance of Wheat stock (MT)		
	Crop years			Crop years		
	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10
Patiala	87,185	1,09,899	81,224	956	34,338	58,173
Fatehgarh Sahib	16,948	30,993	30,913	879	20,577	19,306
Moga	48,249	61,064	83,960	1,384	5,372	40,948
Tarn Tarn	60,252	87,765	53,463	-	44,352	27,474
Total	**212,634**	**189,722**	**249,560**	**3,219**	**104,639**	**145,901**

The above table shows that wheat stocks were not being delivered to FCI as per the FIFO principle, as 1,03, 659 MT[↔] of wheat stock pertaining to the

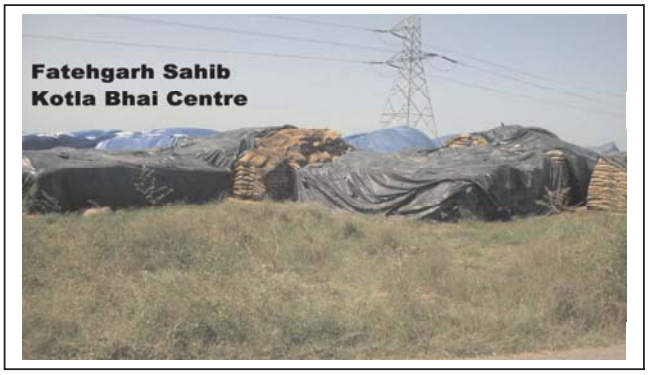
[♣] Patiala, Fatehgarh Sahib, Moga and Tarn Tarn.

[↔] Wheat procured: 2,49,560 MT – Stock as on 31 March 2010: 1,45,901 MT= 1,03,659 MT.

crop year 2009-10 was delivered to FCI in that year, when 3,219 MT of the crop year 2007-08 and 1,04,639 MT of the crop year 2008-09 were available. We observed that this was mainly due to failure of the District Officers/field staff and ineffective monitoring by the Head Office of the Company. Though, the District Officers submitted fortnightly returns of the wheat stock movement to the Head Office, the latter did not give timely and specific directions to the field staff to move the stock on FIFO basis. No efforts were made to move even those stocks which were indicated as on the verge of damage in monthly health reports of the stocks. Thus, the very purpose of preparation of the two returns namely fortnightly movement reports and monthly health reports to ensure the quantity and quality of the stocks of foodgrains, has been defeated. Due to prolonged storage coupled with inadequate curative treatment/fumigation and improper storage etc (as discussed in paragraphs 3.7.2 and 3.7.3 *infra*), 2,199 MT[*] of wheat valuing ₹ 2.17 crore[⊗], 34,714 MT[Ψ] of wheat valuing ₹ 40.37 crore[ϰ] and 18,499 MT[®] of wheat valuing ₹ 22.37 crore[♦] pertaining to the crop years 2007-08, 2008-09 and 2009-10 respectively (as of 31 March 2011) had been damaged or became non-usable.

3.7.2 Improper storage of wheat

According to the Ministry of Consumer Affairs, Food and Public Distribution guidelines cited above, the sites selected for open/ cover and plinth (CAP) storage of wheat should have high plinth level preferably with pucca masonary work. It was, however, noticed that 24,895 MT of wheat stock of the crop year 2008-09 were stored in the open kacha and low lying plinths at Dera Mir Mian (8,690 MT) and Kotla Bhai Ke (16,205 MT) in the district of Fatehgarh Sahib. Despite repeated intimation (September, October and November 2008, March and October 2009) by the FCI authorities to the Senior District Manager of the Company that the stocks were in heavily infested condition, the Company did not take adequate and timely remedial measures for proper



[*] Ferozepur; 526 MT, Moga: 1,249 MT, Patiala: 393 MT, Sangrur: 6 MT and Taran Tarn: 25 MT.

[⊗] Calculated at acquisition cost of ₹ 9,856.80 per MT (Crop year 2007-08).

[Ψ] Amritsar 918, Fatehgarh Sahib 14,311 MT, Ludhiana 1,252 MT, Patiala15,582, Sangrur 51 MT and Tarn Taran 2,600 MT.

[ϰ] Calculated at acquisition cost of ₹ 11,628.80 per MT (Crop year 2008-09).

[®] Amritsar 34 MT, Barnala 3,157MT, Fatehgarh Sahib 13,162 MT, Ludhiana 305 MT, Patiala 1,168 MT, Sangrur 573 MT, Tarn Taran 100 MT.

[♦] Calculated at acquisition cost of ₹ 12,092.70 per MT (Crop year 2009-10).

storage of the stocks. As a result, 5,370.15 of MT[♣] of wheat stock valuing ₹ 6.24 crore was damaged.

3.7.3 Damage of wheat stock due to negligence

The Company issued instructions in August 2001 regarding upkeep of wheat stocks during storage and reiterated from time to time which *inter alia* provided that the District Manager was required to inspect the stock once in a fortnight and make record of the inspections and ensure removal of the anomalies observed in the preservation of wheat stock by the plinth incharge and fix responsibility against the negligent officials. The District Manager, Fatehgarh Sahib, however, failed to conduct periodical inspection in respect of 4,127.90 MT of wheat stock of the crop year 2009-10 which was stored at low lying plinths in the Tehsil Complex, Khamano. The Assistant General Manager (Quality Control), FCI, Chandigarh intimated (March 2010) that the said wheat stock was lying unattended since April 2009 as no officer of the Company was either posted or joined to take charge of the wheat stored. Due to not uncovering of the stacks for 10-11 months and non fumigation/ curative treatments, the quality of stocks deteriorated. The Head Office of the Company constituted (July 2010) a Committee for segregation and upgradation of the wheat stock. On segregation and upgradation carried out in November 2010, 448.45 MT valuing ₹ 54.23 lakh of wheat stock was found damaged and shortage of 139.45 MT of wheat valuing ₹ 22.61 lakh was noticed. The damaged wheat had not yet been disposed off (March 2011).

3.7.4 Inadequate fumigation of the wheat stock

As per the FCI manual for Procurement, Preservation and Scientific Storage of foodgrains, nine gram of Aluminum Phosphide was required to treat one MT of wheat. The quantity could be increased by 20 *per cent* where the wheat was stored in open/CAPs and the treatment (fumigation[∂]) was required to be done three times in a year. We observed that the Company failed to assess the demand of pesticides correctly and was not providing sufficient quantity of the pesticide for curative treatments/fumigation of the wheat stock. During the years 2007-08 and 2008-09, the Company procured and used 5,344 kg and 4,000 kg of Aluminum Phosphide against the requirement of 6,879 kg and 10,061 kg respectively for the first fumigation. We further observed that the field staff was not maintaining any record of utilisation of pesticides provided by the Company. In the absence of proper records, utilisation of pesticides for the intended purpose could not be vouchsafed in Audit. Two specific examples of insufficient fumigation are highlighted below:

- Out of 34,236 MT of wheat pertaining to the crop year 2008-09 stored in open/CAPs at Samana Centre, 18,581 MT was delivered to FCI between June 2009 and May 2010 leaving a balance of 15,655 MT of wheat which was required to be stored in good condition till their

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♣ 2,869.35 MT of Dera Mir Mian and 2,500.80 MT of Kotla Bhai Ke plinths.

∂ Fumigation is a method of pest control that completely fills an area with gaseous pesticides to suffocate or poison the pests within.

delivery to FCI. It was observed that 370 kg[‡] of Aluminum Phosphide was required for the first fumigation of 34,236 MT of wheat in CAPs. However, the Samana centre was supplied with only 100 kg of Aluminum Phosphide for the first fumigation which was just enough to fumigate only 9,259 MT of wheat. Thus, due to failure of the Company to preserve the wheat in good condition, for want of adequate fumigation at the Samana centre coupled with prolonged storage, 13,298 MT of wheat valuing ₹ 15.46 crore became non issuable.

- Similarly, the Bhikhiwind centre of Tarn Taran district was never supplied with adequate quantity of Aluminum Phosphide during April 2007 to March 2010 except for the second and third fumigation of 2008-09. On an average, 269 kg of Aluminum Phosphide per fumigation was supplied, which was sufficient to fumigate just 24,907 MT of wheat stock, whereas the average wheat stock held in this centre was about 42,886 MT. Due to inadequate fumigation, 14,305 MT of wheat stock valuing ₹16.63 crore became upgradeable.[©]

Thus failure of the Company to deliver the wheat stock on FIFO principle coupled with inadequate fumigation and improper storage on low lying kacha plinths etc. resulted in damage/ non issuable of wheat stocks of 55,412 MT valuing ₹ 64.91 crore. The matter needs to be investigated and disciplinary actions should be taken against the persons responsible for the lapses.

It is imperative that the Company take effective steps to ensure that the foodgrains are fully utilised for human consumption and not allowed to deteriorate in godowns due to prolonged and improper storage.

The matter was reported to the State Government and the Company in May 2011: their replies had not been received (September 2011).

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‡ 34,236 MT of wheat stock x 10.8 grams (9 grams + 20 *per cent* thereon as the stock lying in open plinth) Aluminium Phosphide required to treat one MT of wheat.

© Upgradation is the process of segregating the damaged stock (i.e. separating the weeviled wheat stock/atta formation etc.) to make it fit for human consumption.

Punjab State Industrial Development Corporation Limited

3.8 Financial loss due to faulty One Time Settlement policy

Allowing of rebate on principal amount in contravention of the Industrial Policy of the State and RBI's guidelines resulted in financial loss of ₹ 50.06 lakh to the Company.

The Government of Punjab formulated (March 2009) One Time Settlement (OTS) policy for settling the outstanding loans of the loss making firms. As per the policy, the OTS amount should cover principal amount of loan plus interest at concessional rate♠ from the date of disbursement till the cut off date. Further, the firms opting for lump sum repayment of the OTS amount within 90 days of conveying of acceptance by the Company were offered additional rebate of five *per cent* on arrived OTS amount.

The Industrial Policy, 2003 of the State Government provided that the terms of OTS should be consistent with the Reserve Bank of India (RBI) guidelines. The guidelines issued by RBI for implementation of OTS by the commercial banks did not permit any rebate on the principal amount.

We noticed that seven industrial firms* opted (March to May 2009) for lump sum payment of OTS amounting to ₹ 25.06 crore within 90 days of conveying acceptance of the OTS amount by the Company. In the process the Company sacrificed ₹ 64.39 crore by way of interest at the concessional rate from the date of disbursement till the cut off date and also allowed rebate of ₹1.25 crore i.e. five *per cent* rebate on OTS amount against lump sum payment. This rebate of ₹ 1.25 crore also included a rebate of ₹ 50.06 lakh on principal amount. Our examination revealed that while deciding the five *per cent* rebate on the OTS, the Company did not give any reason for granting rebate on the principal amount, which was not in tune with the Industrial Policy of the State and also the RBI's guidelines. The Company, while implementing the OTS policy, did not bring this fact to the notice of the State Government.

Thus, allowing of rebate on the principal amount in contravention of the Industrial Policy of the State and the Company's failure to take up the matter with the Government resulted in financial loss of ₹ 50.06 lakh.

The Management stated (April 2011) that in none of the cases mentioned in the audit para, the Corporation has settled the accounts at amounts less than the outstanding principal plus expenses. The reply is not acceptable as by allowing five *per cent* rebate on OTS amount against lump sum payment, the rebate was automatically given on principal amount in contravention of RBI guidelines as well as Industrial Policy of the State.

♠ Interest at the rate of 4 *per cent* to 12 *per cent* compounded half yearly on the basis of status of industrial units as on 31 March 2008.

* M/s Brahma Steyr Tractors Limited, A.P Enzymes (India) Limited, S. N Paper Mills Private Limited, Triveni Yarns Limited, Glacier Ion & Gases Ltd, Kinara International Limited and Sihota Foods Limited.

We referred (February 2011) the matter to the State Government: their reply had not been received (September 2011).

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

3.9 Loss of interest due to belated raising of claims

Non/delayed raising of the bills for reimbursement from FCI resulted in loss of interest of ₹ 7.11 crore to the procuring agencies

The State procuring agencies[§] procure paddy for the central pool on behalf of the Food Corporation of India (FCI) by availing cash credit from the banks. After getting the paddy milled, the resultant rice is delivered to FCI who reimburses to the procuring agencies the cost of rice, which includes the minimum support price, bonus and other incidental charges as determined by the Government of India (GOI) for each Kharif Marketing Season (KMS).

The provisional rates of custom milled rice issued (October 2008 and November 2009) by GOI for the KMS 2008-09 and 2009-10 respectively included incentive bonus[€]. FCI issued instructions to the procuring agencies in November 2008 and December 2009 *inter alia* indicating that the provisional rates of rice were inclusive of bonus[€] of ₹ 74.63 and interest[*] on bonus of ₹ 1.44 per quintal for the KMS 2008-09 and bonus of ₹ 74.63 and interest on bonus of ₹ 1.40 per quintal for the KMS 2009-10. Reimbursement of bonus and interest thereon was to be made by FCI on delivery of rice to it and on production of documentary evidence of payment of bonus to the farmers.

The procuring agencies were required to evolve an effective internal control mechanism to monitor timely raising of the bills for reimbursement of Minimum Support Price (MSP) and other incidentals from the FCI.

Mention was made in the paragraph 4.4 of the Audit Report (Commercial) Government of Punjab for the year 2009-10 about abnormal delay in raising of claims by Punjab State Civil Supplies Corporation Limited (PUNSUP) for the reimbursement of bonus paid to the farmers in addition to MSP. In spite of being pointed out in audit this irregularity still persisted in other procurement agencies.

During test check of records of the three procuring agencies i.e. Punjab State Grains Procurement Corporation Limited (PUNGRAIN), Punjab Agro Foodgrains Corporation Limited (PAFCL) and Punjab State Warehousing

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

€ An additional payment to farmers with minimum support price as fixed by the Government of India.

* For average holding period of two months.

Corporation (PSWC) in five districts[Ψ], we observed that these agencies had not ensured timely raising of the bills to FCI for getting the reimbursement. Though the procuring agencies had made payment of bonus to the farmers at the time of purchase of paddy, the same was not claimed immediately on delivery of rice to FCI. The bills for reimbursement of bonus of ₹161.45 crore were raised with delays ranging from 3 to 365 days for the crop year 2009-10 respectively. The district office of PUNGRAIN, Ludhiana and the district office of PSWC, Patiala have not raised the bills for bonus of ₹ 32.84 crore for the crop year 2009-10 so far (31 March 2011).

We further observed that the head offices of these companies neither issued specific instructions to their field offices to raise claims for bonus in time nor they ensured that the regular claims for costs and other incidental charges included the component of bonus as well. The delayed/non raising of bills for ₹ 161.45 crore (PAFCL ₹ 28.74 crore, PSWC ₹ 33.47 crore and PUNGRAIN ₹ 99.24 crore) had resulted in loss of interest of ₹ 7.11 crore[Φ] (PAFCL: ₹ 0.50 crore, PSWC: ₹ 1.44 crore and Pungrain ₹ 5.17 crore) to the procuring agencies.

The PSWC management stated (August 2011) that in accordance with instructions of FCI, a certificate showing the details regarding the farmers name, village name and details of sale of paddy etc. alongwith his signature and duly verified by incharge of Mandi Board, Food and Supply Department and District Manager of the Company was required for preferment of bonus claims. The required process could not be completed in time due to shortage of staff which resulted in abnormal delay in lodging of claims for reimbursement of bonus. The reply is not acceptable as the Corporation was not able to complete the required process for four months upto the end of March 2010 after completion of the paddy procurement season in the month of November 2009 and further, the abnormal delay pointed out in the para is in respect of claims preferred after March 2010.

The procuring agencies need to develop/strengthen the monitoring mechanism so as to ensure prompt raising of the bills to FCI.

The matter was referred to the PAFCL and PUNGRAIN and the State Government in May 2011; their replies had not been received (September 2011).

Ψ Ferozpur,Ludhiana,Patiala,Sangrur and Moga.

Φ Worked out (since April 2010) from the month next to the month of delivery to the month preceding the month of raising the bills at the rate of 11.25 *per cent* for 2009-10, the minimum rate of interest on cash credit payable by the Companies.

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

3.10 Deficiencies in implementation of the Atta Dal Scheme

The Government of Punjab introduced (March 2007) the Atta Dal Scheme (ADS) to provide 35 kg wheat and 4 kg dal (pulses), which was subsequently reduced (2009) to 25 kg wheat and 2.5 kg dal, per family at the subsidised rate of ₹ 4 per kg of wheat and ₹ 20 per kg of dal to the poor families* of the State every month. Initially it was anticipated to cover 17 lakh families under the ADS. However, only 13.58 lakh families were identified by Director, Food and Civil Supplies & Consumer Affairs (DFSC), Government of Punjab on the basis of survey conducted (March/May 2007) through Deputy Commissioners of the State. Further, DFSC identified (March 2007) that 4.68 lakh families already covered under the Antyodaya Anna Yojna and Below Poverty Line schemes of the GOI were also included in 13.58 lakh families identified under ADS. Thus, the numbers of families covered under ADS were reduced to 8.90 lakh families. For implementation of this scheme, blue cards were issued to the identified families.

The DFSC, Punjab fixes the targets of procurement of wheat and dal under the ADS scheme. The procurement, storage and delivery of wheat for ADS were entrusted to the Punjab State Civil Supplies Corporation Limited (PUNSUP), the Punjab State Warehousing Corporation (PSWC), the Punjab Agro Foodgrains Corporation Limited (PAFCL) and the Punjab State Cooperative, Supply & Marketing Federation Limited (Markfed)®. These agencies procured wheat from the mandis at the Minimum Support Price (MSP) fixed by the Government of India. Dal was procured by the PUNSUP by inviting tenders from the suppliers. During 2007-10, 7.14 lakh MT of wheat and 1.47 lakh MT of dal (2007-08 to 2010-11) were procured at a cost of ₹ 1,229.14 crore (wheat: ₹ 785.15 crore & Dal: ₹ 443.99 crore). DFSC, Punjab issues district wise allocation of wheat and dal and PUNSUP was appointed as a Nodal agency for distribution of wheat and dal to the ration depot holders for further distribution to the beneficiaries. The guidelines for implementation of this scheme *inter alia* provided that:

- Borrowing by availing cash credit limit was to be resorted to only in case the State Government was unable to provide the funds out of its budget.
- Wheat procured under ADS was to be stored in the covered godowns nearest to the wholesale points of PUNSUP.
- Wheat stock was to be liquidated on first in first out (FIFO) basis.

PUNSUP was to submit the monthly consolidated claims to get reimbursement of the differential cost from the Government.

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* Whose annual income was less than ₹ 30,000.

® Not under our audit jurisdiction.

Records pertaining to procurement, storage and distribution of wheat for ADS by the three PSUs (other than Markfed) were examined in audit. The observations emanating therefrom are discussed in the succeeding paragraphs:

3.10.1 Procurement and distribution of wheat

The procuring agency wise procurement, distribution and balance stock of wheat for the crop years 2007-08, 2008-09 and 2009-10 are given below:

(Figures in MT)

Name of the PSU	Procurement of wheat			Distribution of wheat⊕			Balance Stock of wheat As of 31 March 2011		
	(Crop year)			(Crop year)			(Crop year)		
	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10
PUNSUP	3,00,000	79,500	73,052	3,00,000♦	79,415	67,538	-	85	5,514
PSWC	-	76,612	51,612	-	71,620	39,378	-	4,992	12,234
PAFCL	-	79,419	53,609	-	69,790	34,801	-	9,629	18,808
Total	**3,00,000**	**235,531**	**178,273**	**3,00,000**	**2,20,825**	**1,41,717**	**-**	**14,706**	**36,556**

No wheat was procured in the crop year 2010-11 for ADS due to huge stock of wheat carried forward from the earlier crop years.

3.10.2 Non recovery of the carry over charges

The State Government anticipated the coverage of 17 lakh families under ADS and decided (March 2007) to procure 6.00 lakh MT of wheat for the crop year 2007-08 (3.00 lakh MT each by PUNSUP and Markfed). However, 13.58 lakh families were identified under this scheme which also included 4.68 lakh families, already covered under GOI sponsored schemes. The procuring agencies, however, continued to procure wheat for the scheme without considering these factors and as a result, 3.75 lakh MT of wheat was procured in excess. Being a nodal agency, PUNSUP requested (14 and 20 June 2007) the State Government for conversion of the excess procured wheat to the central pool. The State Government in the first instance took up the matter (14 June 2007) with the GOI for conversion of 1.76 lakh MT** of wheat to the central pool and the same was converted to the central pool in June 2007. Subsequently, the State Government belatedly took up the matter (March 2008) with the GOI for conversion of remaining 1.99 lakh MT†† wheat of the excess wheat procured (3.75 lakh MT). The same was converted to central pool in March 2008. FCI in accordance with the GOI's instructions (May 2007) that wheat delivered to the central pool should not be older than one year, did not release payment of the carry over charges (i.e. custody and maintenance charges) of ₹ 6.97 crore to PUNSUP in respect of 0.81 lakh MT delivered in March 2008.

⊕ Distribution of wheat (in the case of Punsup) excludes 5.52 lakh MT delivered under ADS from the centrally sponsored schemes.

♦ It includes 1.70 lakh MT of wheat delivered to the central pool.

** Punsup: 0.89 lakh MT and Markfed: 0.87 lakh MT.

†† Punsup: 0.81 lakh MT and Markfed: 1.18 lakh MT.

We observed that in such case the carry over charges should have been recovered from the State Government as the delay in conversion of excess procured wheat to the central pool was on their account. However, the PUNSUP did not initiate any action for recovery of carry over charges from the State Government except pursuing with the FCI through DFSC for its recovery which was not accepted by the FCI.

3.10.3 Deterioration of wheat stock

Out of the total balance stock of 51,262 MT of wheat (as on 31 March 2011) valuing ₹ 86.69 crore, 20,161 MT[ψ] of wheat stock valuing ₹ 34.13 crore was stacked (March 2011) on open plinths for 22 to 34 months due to non availability of covered godowns exposing the wheat to deterioration in quality. PAFCL management observed (January 2011) that the stock of wheat lying on the open plinths was being damaged due to non liquidation and prolonged storage. The monthly health condition report of the wheat stock submitted by District Offices reported that the top and bottom layers of gunny bags were being affected badly due to rain and long storage and inadequate fumigation in case of district office Patiala. The Company repeatedly requested DFSC, Punjab to make arrangement for lifting of the wheat stock to avoid further deterioration. However, DFSC did not initiate any action for lifting of the stocks. Audit observed that in the Faridkot District Office of PAFCL, 844.94 MT of wheat stock of the crop year 2008-09 and 2009-10 valuing ₹ 1.46 crore were lying on the open plinths in damaged condition due to improper maintenance by the plinth incharge and also observed shortage of 220.46 MT of wheat valuing ₹ 38.21 lakh. The Management of the PAFCL stated (March/May 2011) that action against the concerned officials and for disposal of damaged wheat was under process.

Director, Food Civil Supplies and Consumer Affairs, Punjab stated (June 2011) that the concerned agencies have been directed to initiate disciplinary action against the delinquent official since agencies did not preserve the grains properly. Further developments are awaited (September 2011).

3.10.4 Diversion of the wheat allotted for the centrally sponsored scheme

Public Distribution System (Control) Order, 2001 issued by the GOI in August 2001 specifically mentioned that the State Government should not divert the allocations made by the Central Government for distribution under the Public Distribution System[♣]. Further, it was instructed by the Food Corporation of India (FCI) that the allocated quantities of foodgrains from the central pool meant for a particular scheme may not be diverted to any other scheme. In violation of the instructions, DFSC intimated to the District Controllers / PUNSUP to divert the wheat allocated by the GOI for the Above Poverty Line

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[ψ] PUNSUP: 2,725 MT (2009-10), PSWC: 847 MT (2009-10) and PAFCL: 10,381 MT (2009-10) and 6,208 MT (2008-09).

[♣] The system for distribution of essential commodities such as rice, wheat, sugar etc to the ration cardholders through the fair price shops.

families[ℜ] to ADS. Accordingly, PUNSUP diverted 5.52 lakh MT of wheat (0.53 lakh MT in 2007-08, 1.82 lakh MT in 2008-09 and 3.17 lakh MT in 2009-10) valuing ₹ 648.69 crore allocated for the APL families to ADS. This has not only resulted in violation of the standing instructions of GOI but also non-liquidation of 51,262 MT of wheat stocks valuing ₹ 86.69 crore of ADS lying in different district offices of the State procuring agencies.

Director, Food Civil Supplies and Consumer Affairs, Punjab stated (June 2011) that large numbers of APL families were also covered under the ADS and with the diversion of wheat of centrally sponsored scheme to ADS, the APL families got wheat at lesser price. The reply is not acceptable as the State Government/PUNSUP has not taken the approval from the GOI before diverting the APL wheat under the ADS.

3.10.5 Inadequate State budgetary support

The difference between the purchase cost and the issue price to the beneficiaries is reimbursed by the Government to the procuring agencies. Though, the State Government made budget provisions of ₹ 251.97 crore for the year 2007-08 and ₹ 300 crore each for the year 2008-09 and 2009-10 under this scheme, it released only ₹ 101.25 crore (in two installments i.e. ₹ 31.25 crore in August 2007 and ₹ 70.00 crore in April 2008) during these years. As on 31 March 2011, ₹ 1,127.37 crore (Punsup: ₹ 655.07 crore, PSWC: ₹ 136.66 crore, PAFCL: ₹ 127.58 crore and Markfed: ₹ 208.06 crore) were due from the State Government to the State procuring agencies. Though the State Government made a budget provision of ₹ 350 crore in 2011-12 in the State budget for this scheme and released (May 2011) ₹ 147.40 crore to the PUNSUP for procurement of 1.00 lakh MT wheat of crop year 2011-12 by the State procuring agencies, it did not release any payment against recoverable amount of ₹ 1,127.37 crore. Due to the deficient budgetary support, the PSUs had to avail cash credit from the banks for ADS and as on 31 March 2011, an amount of ₹ 516.76 crore[∂] was outstanding on this account. Engagement of the state PSUs in such a social welfare scheme without providing adequate budgetary support indicates the poor financial status/management of the Government.

Director, Food, Civil Supplies and Consumer Affairs, Punjab stated (June 2011) that all the due amount of subsidy will be cleared as and when funds are released by the State Government. Further developments were awaited (July 2011).

The matter was referred to the PUNSUP, PAFCL and PSWC in April 2011, their replies had not been received (September 2011).

[ℜ] Those families who have been issued APL ration cards for issue of foodgrains under the Public Distribution system.

[∂] PUNSUP (UCO Bank: ₹ 279.99 crore), PSWC (Canara Bank: ₹ 63.44 crore and Bank of Maharashtra: ₹ 51.60 crore) and PAFCL (Union Bank of India: ₹ 99.13 crore and ICICI Bank: ₹ 22.60 crore).

Statutory corporations

Punjab State Warehousing Corporation

3.11 Loss of interest

Failure of the Corporation to take up the matter with the Government for making a provision of compensation in lieu of waiver of interest clause for the extended period of milling and delivery of rice resulted in financial loss of ₹ 45.15 crore.

Punjab State Warehousing Corporation (Corporation) procures paddy for the central pool on behalf of the Government of India (GOI). After getting the paddy milled from the rice millers in the State, the Corporation delivers the rice to the Food Corporation of India (FCI). The Corporation avails cash credit from the bank to manage procurement, storage and delivery of foodgrains, till it gets reimbursement from FCI.

The Custom Milling Policy and Draft Agreement with the millers for the Kharif Marketing Season 2008-09 issued (September 2008) by the State Government required the millers to deliver rice as per the following schedule:

- October 2008 — 10 *per cent*
- November 2008 to February 2009 — 20 *per cent* each month
- March 2009 — 10 *per cent*

In case of failure to adhere to the above mentioned schedule, interest at the rate of 12 *per cent* of the cost of rice less delivered was to be charged by the Corporation from the millers for the period of delay. On the requests of the State Government from time to time (November 2008 – March 2010), GOI extended the delivery period of rice intermittently upto 15 April 2010. In the provisional rates for the custom milled rice fixed (October 2008) for the crop year 2008-09, GOI allowed interest for two months on the amount invested by the Corporation for procurement and milling of paddy. Subsequently in June 2009, the State Government dispensed with the penal interest payable by the millers for the delay in milling, without compensating the procuring agencies for their increased liability of interest on cash credit during the extended/delayed period of milling of paddy and delivery of rice.

We observed that due to extensions in delivery schedule, the milling operations for the year 2008-09 continued upto January 2010. To safeguard its interest, the Corporation, immediately after the State Government's decision to waive the interest payable by the millers, should have taken up the matter with the State Government for making a provision of compensation in lieu of waiver of interest for extended/delayed period of milling of paddy and delivery of rice. However, the Corporation did not initiate any action in this regard. Failure of the Corporation to take up the matter for making a provision of compensation in lieu of waiver of interest for extended/delayed period of

milling of paddy and delivery of rice with the Government resulted in financial loss of ₹ 45.15♦ crore to the Corporation.

The Management stated (May 2010) that it was the prerogative of the State Government to take up the matter with the GOI. The reply is not acceptable because the Corporation can not absolve its responsibility to safeguard its financial interest. It was the duty of Corporation to take up the matter with the State Government either to compensate the procuring agencies on its own or to take up the matter with GOI for compensation in lieu of loss of interest. Subsequently, on being pointed out (November 2009 and June 2010) in audit, the State Government directed (October 2010 and March 2011) the Punjab State Grains Procurement Corporation Limited (nodal agency) to take up the matter with GOI for compensation of loss of interest. However, the matter was not taken up with GOI till July 2011. It would be pertinent to mention that it was the Government of Punjab's decision to waive its own term of levy of interest from the defaulting millers and GOI was not bound to pay any compensation on this account.

The State Government should consider the desirability to make a provision for compensation to the Public Sector Undertakings in order to protect their financial interests.

The matter was referred to the State Government in May 2011; their reply had not been received (September 2011).

♦ Calculated at the rate of 11.25 *per cent* to 13.05 *per cent* per annum (allowed by the Government of India on CC limit in provisional rates for milling of paddy) on the value of rice delayed delivered during the period November 2008 to January 2010.

3.12 Loss due to non-milling of paddy

Failure to initiate action to shift the unmilled paddy to other millers at the risk and cost of the defaulted miller resulted in non milling of 7,750 MT of paddy valuing ₹ 9.37 crore and consequential loss of interest of ₹ 1.41 crore.

The Custom Milling Policy (CMP) for the Kharif Marketing Season 2009-10 issued by the Government of Punjab in September 2009 *inter alia* provided that the entire paddy allotted to a miller was to be milled by 31 March 2010 and the quantity of paddy not milled by a miller during a month would be shifted to other millers at the risk and cost of the defaulted miller, after giving notice in this regard.

The District Office, Ludhiana of the Corporation allotted (October-November 2009) 28,120 MT of paddy to Ganeshay Overseas Industries Limited for milling and delivery of 18,840 MT of rice to Food Corporation of India (FCI) by 31 March 2010. The miller had**,** however milled only 19,166 MT of paddy and delivered 12,841 MT of rice to FCI up to August 2010. Despite repeated reminders and extensions given by the Government of India for milling, the remaining 8,954 MT of paddy was not milled by the miller (May 2011).

We observed that even after lapse of more than eight months since last delivery of rice in August 2010, the District Manager, Ludhiana without recording any reasons, had not initiated action to shift the unmilled paddy to other millers at the risk and cost of the defaulted miller. There were 13 millers in Ludhiana district who had milled almost 100 *per cent* of the allotted paddy by August 2010 and as per the CMP the unmilled paddy of the defaulted miller could have been shifted to them. However, the paddy not milled by Ganeshay Overseas Industries Limited was not shifted / reallocated to the other millers for timely milling. The district office Ludhiana shifted (June 2011) only 1,204 MT of paddy to the millers of Barnala district, after obtaining approval of the Director Food & Civil Supplies, Punjab. The balance 7,750 MT of paddy was neither milled by the defaulted miller nor the Corporation shifted the paddy to the other millers at the risk and cost of the defaulted miller. With the passage of time, deterioration in quality of the unmilled paddy cannot be ruled out.

Thus, failure to initiate action in accordance with provisions of CMP for shifting of the unmilled paddy to other millers at the risk and cost of the defaulted miller not only resulted in non milling of 7,750 MT (June 2011) of paddy valuing ₹ 9.37 crore[Ψ] but also led to consequential loss of interest of ₹ 1.41crore[♣] during the period April 2010 to May 2011 on the funds borrowed for procurement of the unmilled paddy.

[Ψ] 7,750 MT paddy x 0.67 *per cent* out-turn ratio (expected extraction of rice from paddy) x ₹ 1803.79 (Cost per quintal of rice).

[♣] Calculated at the prevailing interest rate on cash credit ranging between 10.30 to 12.25 *per cent* from April 2010 to May 2011.

The Management stated (August 2011) that other millers were contacted verbally at district level for getting the unmilled paddy lying with the said miller but no miller agreed to mill the same. The reply is not acceptable as there was nothing on record to corroborate the management's statement of approaching other millers and the reply is an after-thought.

The Company needs to evolve a mechanism to ensure that appropriate timely measures in accordance with the Custom Milling Policy are taken to ensure milling of entire paddy allotted to the millers within the scheduled specified period.

The matter was referred to the State Government in April 2011; their reply had not been received (September 2011).

General

3.13 Follow-up Action on Audit Reports

Explanatory Notes Outstanding

3.13.1 The Audit Reports of the Comptroller and Auditor General of India, represent the culmination of the process of scrutiny, starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The State Finance Department issued instructions (August 1992) to all the administrative departments to submit detailed notes, duly vetted by Audit indicating the corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports, within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

The Audit Reports for the years 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 featuring 185 paragraphs/reviews relating to PSUs under the administrative control of 11 departments were placed in the State Legislature on the dates indicated in the following table. No replies in respect of 46 paras/reviews have been received from nine departments of the State Government by 30 September 2011.

Year of the Audit Report (Commercial)	Date of Presentation	Total no. of paragraphs/ reviews in the Audit Report	Number of paragraphs/ reviews for which detailed notes were not received.
2002-03	June 2004	23	1
2003-04	March 2005	22	3
2004-05	March 2006	23	3
2005-06	March 2007	28	2
2006-07	March 2008	25	6
2007-08	March 2009	24	7
2008-09	March 2010	22	8
2009-10	March 2011	18	16
Total		**185**	**46**

The department-wise analysis is given in ***Annexure 13***. The departments largely responsible for non-submission of detailed notes were Power, Finance, Agriculture, Industries and Food and Supplies. The Government did not respond to important reviews that highlighted delay in taking action against defaulting millers for failure to get the paddy milled within the stipulated period, avoidable payment of transportation charges and failure to take up the matter regarding reimbursement of interest and custody and maintenance charges with State Government/ FCI and deficiencies in planning, construction and commissioning of projects and purchase of power.

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

3.13.2 As per rule 25 of the Internal Working Rules of COPU, Punjab Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of the PSU within six months from the date of placement of Report of COPU in the State Legislature. Replies to 2 paragraphs pertaining to one Report of COPU (84th) presented to State Legislature on 24th March 2008, 4 paragraphs pertaining to one Report of COPU (89th) presented to State Legislature on 6th March 2009 and 16 paragraphs pertaining to one report of COPU (91st) presented to State Legislature on 25th March 2010, 11 paragraphs pertaining to two reports of COPU (95th & 96th) presented to State Legislature on 18th March 2011 and 3 paragraphs pertaining to one report of COPU (98th) presented to State Legislature on 25th March 2011 had not been received as on 30 September 2011.

Action taken on the persistent irregularities

3.13.3 With a view to assist and facilitate discussions of the irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the concerned auditee organisations. The results thereof in respect of Government companies are included in the ***Annexure 14***.

Government Companies.

Irregularities having financial implication of ₹ 7.61 crore relating to Punjab State Civil Supplies Corporation Limited were included in the Reports of Comptroller and Auditor General of India for the years 2005-06 to 2009-10 (Commercial) - Government of Punjab. These irregularities had been persisting for period upto six years.

Response to Inspection Reports, Draft Paras and Reviews

3.13.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of four weeks. Inspection Reports issued up to March 2011 revealed that 3,042 paragraphs relating to 948 Inspection Reports

pertaining to 41 PSUs were outstanding at the end of 30 June 2011. The department-wise break up of Inspection Reports and audit observations outstanding as on 30 June 2011 is given in ***Annexure 15***.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, 15 draft paragraphs and two draft performance audit reports forwarded to the various departments during March 2011 to August 2011 as detailed in ***Annexure 16*** had not been replied so far (September 2011).

It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/performance audit reports as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken within prescribed period and (c) the system of responding to audit observations is revamped.

CHANDIGARH
The

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

Countersigned

NEW DELHI
The

(Vinod Rai)
Comptroller and Auditor General of India