REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1997

No. 1

(COMMERCIAL)

GOVERNMENT OF PUNJAB

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Preface

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

-- Government companies;

-- Statutory corporations; and

-- Departmentally managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations including Punjab State Electricity Board and has been prepared for submission to the Government of Punjab for presentation to the Legislature under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in March 1984. The results of audit relating to departmentally managed commercial undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil) - Government of Punjab.

3. There are, however, certain companies, which in spite of Government investment, are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled companies/corporations hold less than 51 *per cent* of the shares. A list of such undertakings in which Government investment was more than Rs. 10 lakh as on 31 March 1997 is given in ***Annexure 1A***. Besides, there are four Statutory corporations formed by the State Legislature, the accounts of which are not subject to audit by the Comptroller and Auditor General of India. A list of such corporations along with the investment of the State Government therein is given in ***Annexure 1B***.

4. In respect of PEPSU Road Transport Corporation and the Punjab State Electricity Board which are Statutory corporations, the

Comptroller and Auditor General of India is the sole auditor. In respect of Punjab Financial Corporation and Punjab State Warehousing Corporation, he has the right to conduct the audit of their accounts independently of the audit conducted by the Chartered Accountants appointed under the respective Acts. Audit of the accounts of Punjab Scheduled Castes Land Development and Finance Corporation has been entrusted to the Comptroller and Auditor General of India under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The Audit Reports on the annual accounts of all these corporations are being forwarded separately, as per respective Acts, to the Government of Punjab.

5. The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1996-97 as well as those which had come to notice in earlier years but could not be dealt with in the previous Reports; matters relating to the period subsequent to 1996-97 have also been included, wherever considered necessary.

Overview

OVERVIEW

1. The State had 47 Government companies (including 26 subsidiaries) as on 31 March 1997. Total investment in the share capital of these 47 companies, as on 31 March 1997, was Rs. 311.41 crore, out of which Rs. 280.61 crore were invested by State Government, Rs. 2.28 crore by Central Government and Rs. 28.52 crore by holding companies and others. Of the 47 companies, 24 companies with paid-up capital of Rs. 12.41 crore were not functional. Besides, loans outstanding against 26 companies were Rs. 441.43 crore, as on 31 March 1997. The State Government had also guaranteed the repayment of loans raised by Government companies. The total guaranteed amount outstanding stood at Rs. 608.04 crore as on 31 March 1997.

(Paragraphs 1.2.1, 1.2.5 and Annexure 2)

Accountability of public sector undertakings is sought to be achieved through the submission of audited annual accounts within the prescribed time schedule to the Legislature. Of the 47 Government companies, the accounts of 43 companies were in arrears for periods ranging from one year to 23 years. According to the latest finalised accounts for the periods from 1977-78 to 1996-97, 20 companies incurred loss of Rs. 50.07 crore. Of this, eight companies suffered loss for four consecutive years and their accumulated loss amounted to Rs. 132.35 crore thereby eroding their entire paid-up capital of Rs. 15 crore. During the year, only one company declared dividend of Rs. 1.61 crore and the return worked out to 0.52 *per cent* on the total equity capital of Rs. 311.41 crore.

(Paragraphs 1.2.7, 1.2.8.2 and 1.2.8.3)

2. As on 31 March 1997, there were five Statutory corporations. Total investment in these corporations, as on 31 March 1997, was Rs. 8366.27 crore (equity capital: Rs. 2978.13 crore and loan: Rs. 5388.14 crore). Accounts of all the corporations were in arrears for periods ranging from one year to three years. According to the finalised accounts for 1995-96 of PEPSU Road Transport Corporation, the cumulative loss was Rs. 217.08 crore thereby eroding the entire capital base of Rs. 111.18 crore.

(Paragraphs 1.3.2, 1.3.4 and 1.5.2)

3. The functioning of (i) the Punjab State Seeds Corporation Limited, (ii) the Punjab State Electricity Board (only with regard to fixation of tariff and billing) and (iii) the Punjab Financial Corporation was comprehensively reviewed in audit. The major audit findings are as detailed below:

3.1. Punjab State Seeds Corporation Limited

The Punjab State Seeds Corporation Limited (PUNSEED) was incorporated in March 1976 with the main objective of providing certified seeds to the farmers at reasonable prices. It was revealed that:

(Paragraph 2.1)

-- the PUNSEED had been incurring losses continuously since 1982-83 and its accumulated loss, up to 31 March 1997, amounted to Rs. 42.54 crore thereby eroding its entire paid-up capital of Rs. 5.62 crore. As on 31 March 1997, loans and cash credit of Rs. 49.35 crore, including interest of Rs. 41.19 crore, were outstanding . PUNSEED also failed to repay the loans due to financial crunch;

(Paragraphs 2.4.2 and 2.5)

-- the contribution of the PUNSEED as a percentage of total sales of certified seeds in the State during five years up to 1996-97 declined from 60.7 *per cent* to 54.2 *per cent* and from 94.5 *per cent* to 35.2 *per cent* in case of paddy and cotton respectively. In case of wheat, the contribution, after registering increase from 63.5 *per cent* in 1992-93 to 82.2 *per cent* in 1993-94, again declined to 76.3 *per cent* by 1996-97;

(Paragraph 2.6)

-- the PUNSEED had not been fixing targets of foundation seeds and certified seeds on commercial lines. Resultantly, it suffered loss of Rs. 0.75 crore in the disposal of foundation and certified seeds of cotton and paddy, procured in excess; and

(Paragraphs 2.7.3.1 and 2.7.4.1(i) and (iii))

-- the PUNSEED had sold cotton seed at Rs. 2600 per quintal against its cost of Rs. 1476 per quintal which resulted in overburdening the farmers by Rs. 0.93 crore thereby defeating its objective of providing certified seeds to farmers at reasonable rates.

(Paragraph 2.10.1(i))

3.2. Punjab State Electricity Board-Fixation of Tariff and Billing

The Punjab State Electricity Board (PSEB) had been incurring losses persistently over the years due to non-determination of tariff on the basis of cost of production and supply. Through fixation of lower tariff for agricultural consumers, the PSEB suffered a loss of Rs. 3354.20 crore during the period from 1992-93 to 1996-97. Of this, Rs. 3312.97 crore were cross subsidised by fixing higher tariff in respect of other categories (Rs. 1297.54 crore) and provision of rural electrification subsidy (Rs. 2015.43 crore).

(Paragraphs 3A.1 and 3A.5.1.1)

The fixation of various charges such as service connection charges to cover capital expenditure for providing connections and general charges for providing miscellaneous services such as meter testing, etc., is not being reviewed by the PSEB at regular intervals. Delayed revision of these charges resulted in loss of Rs. 14.62 crore during 1992-93 to 1995-96. Besides, consumption of energy of 10483 MUs valued at Rs. 1110.11 crore escaped billing during 1992-93 to 1996-97 due to its accountal in unmetered agricultural consumption.

(Paragraphs 3A.6.1(i) and (ii) and 3A.7.2(i))

Efforts by field staff to detect the theft of energy were sub-optimal and below the norms fixed by the PSEB. The percentage of checking had come down drastically from 55 in 1993-94 to 12,17 and 26 in 1994-95, 1995-96 and 1996-97 respectively. Besides, the practice of replacing defective meters without enquiring the incidence of tampering, resulted in non-detection of theft of energy which was found to be 22 *per cent* by Technical Audit Wing of the PSEB during test check of defective meters.

(Paragraphs 3A.7.2(ii) and (iv))

Other points noticed during test check were as under:

-- by not increasing fuel surcharge in proportion to the increase in the cost of fuel, the loss suffered by the PSEB amounted to Rs. 117.80 crore;

(Paragraph 3A.5.2.3)

-- non-determination of the level of supply voltage on the basis of contract demand, unjustified continuance of higher voltage rebate to industrial consumers and delayed conversion of supply to higher voltage resulted in loss of Rs. 49.50 crore during 1992-93 to 1996-97; and

(Paragraphs 3A.5.2.6(i) to (iii))

-- despite enabling provision in the rules, revised rates of advance consumption deposit and security for meters were not made applicable in case of existing consumers. Resultantly, the PSEB could not mobilise additional resources of Rs. 268.95 crore.

(Paragraph 3A.6.2)

3.3. Punjab Financial Corporation

The Punjab Financial Corporation (PFC), which provides loans to small and medium industrial units to promote industrialisation in the State of Punjab, disbursed loans of Rs. 342.85 crore to 3500 units during the five years from 1991-92 to 1995-96. The accumulated loss incurred by the PFC up to 1995-96 amounted to Rs. 60.60 crore against paid-up capital of Rs. 27.05 crore.

(Paragraphs 3B.1, 3B.4.1, 3B.5 and 3B.6.2)

The number of applications for loans sanctioned had decreased from 1546 in 1991-92 to 374 in 1995-96. Thus, the role of the PFC in financing the units was diminishing.

(Paragraph 3B.6.2)

The record of performance of the PFC regarding the recovery of loans had been unsatisfactory as the rate of recovery had declined from 52 *per cent* in 1991-92 to 41 *per cent* in 1995-96.

(Paragraph 3B.7.2.1)

The PFC was also yet to achieve self reliance even after 28 years because plough back from recoveries amounted to Rs. 232.23 crore only against total disbursement of Rs. 681.10 crore up to 1995-96.

(Paragraph 3B.7.2.5)

Out of total outstanding amount of Rs. 498.94 crore as on 31 March 1996, Rs. 143.74 crore were overdue for recovery. Of this, Rs. 18.56 crore were irrecoverable in the absence of adequate safeguards. For 67 *per cent* of the default amount aggregating Rs. 96.98 crore, no recovery had been received continuously for the past two years.

(Paragraphs 3B.7.3.2 and 3B.7.4.2)

Other points noticed during test check were as under:

-- disbursement of loans to ancillary units without ensuring setting up of nucleus plants for providing technical know-how, marketing, etc., resulted in non-recovery of Rs. 14.59 crore. In other 10 cases test-checked, the PFC could not recover Rs. 8.69 crore from loanee units as the loans were sanctioned without proper pre-sanction appraisal of projects, without adhering to the prescribed rules and in disregard of the advice of Industrial Development Bank of India;

(Paragraphs 3B.7.5(a) and 3B.7.6)

-- an amount of Rs. 0.49 crore was embezzled through bogus sanction of loans and Rs. 0.59 crore were disbursed to 86 units through fictitious machinery suppliers; and

(Paragraph 3B.7.5(b))

-- the PFC also suffered loss of Rs.4.59 crore in the belated disposal of 183 acquired units.

(Paragraph 3B.7.5(d)(i))

4. Other major irregularities noticed during test check of records of Statutory corporations and Government companies were as under:

(i) Setting up of rice straw based power plant by PSEB at Jalkheri in Patiala district on an uncertain assessment resulted in an ungainful expenditure of Rs. 48.69 crore.

(Paragraph 4A.1.1)

(ii) The action of the Punjab State Warehousing Corporation for setting up container freight station at Mumbai in contravention of the provisions of the Warehousing Corporations Act, 1962 resulted in loss of Rs. 5.16 crore.

(Paragraph 4A.2.1)

(iii) By not obtaining insurance cover for stocks lying in the open, the Punjab Communications Limited suffered a loss of Rs. 0.46 crore.

(Paragraph 4B.2.2)

(iv) Due to non-acceptance of a lucrative offer for export, the Punjab State Civil Supplies Corporation Limited (PUNSUP) suffered loss of Rs. 3.41 crore besides losing an opportunity of earning profit of Rs. 0.85 crore and foreign exchange of US $ 1.25 crore.

(Paragraph 4B.4.1)

(v) Failure of the PUNSUP to make recovery from a rice miller and also disregarding the advice of its district office resulted in loss of Rs. 2.49 crore.

(Paragraph 4B.4.3)

(vi) Failure of the Punjab State Industrial Development Corporation Limited to obtain irrevocable bank guarantee as well as personal guarantees of the new promoters resulted in loss of Rs. 1.65 crore.

(Paragraph 4B.7.2)

Chapter-I

General view of Government companies and Statutory corporations

Section 1

1. GENERAL VIEW OF GOVERNMENT COMPANIES INCLUDING DEEMED GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1. Introduction

The accounts of the Government companies and deemed Government companies (as defined in Section 619B of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by Central Government on the advice of the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619(4) of the Companies Act.

Of the Statutory corporations, the accounts of Punjab State Electricity Board and PEPSU Road Transport Corporation are audited solely by CAG under their respective Acts. The accounts of Punjab Financial Corporation and Punjab State Warehousing Corporation are audited by the Chartered Accountants appointed by the State Government in consultation with the CAG who also undertakes the audit of these corporations separately. Audit of the accounts of Punjab Scheduled Castes Land Development and Finance Corporation has been entrusted to the CAG under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Audit Reports on the accounts of all the Statutory corporations are issued by the CAG to the respective organisations/State Government.

1.2. Government companies - General view

1.2.1. As on 31 March 1997, there were 47 Government companies (including 26 subsidiaries) with total investment of Rs.752.84 crore (equity: Rs. 311.41 crore; long-term loans: Rs. 441.43 crore) as against same number of companies (including 26 subsidiaries) with a total investment of Rs. 625.18 crore as on 31 March 1996 (equity: Rs. 302.34 crore; long-term loans: Rs. 322.84 crore).

The classification of the companies is as under :

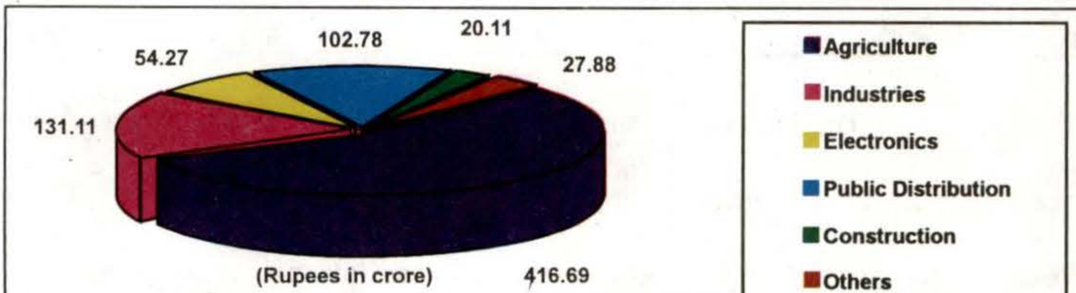
		Number of companies	Paid-up capital (Rupees in crore)
(a)	Working companies	23	299.00
(b)	**Non-working companies**		
	(i) Defunct companies	6	6.36
	(ii) Companies under liquidation	3	0.66
	(iii) Companies under construction	15	5.39
	Total (a+b)	**47**	**311.41**

1.2.2. The financial position and working results in respect of all the Government companies are given in *Annexures 2* and *3*, respectively.

1.2.3. The sector-wise investment in these companies is as below:

	Type of public sector undertaking	As at the end of 1996-97 Number	1996-97 Equity (Rupees in crore)	1996-97 Loan (Rupees in crore)	1995-96 Number	1995-96 Equity (Rupees in crore)	1995-96 Loan (Rupees in crore)	Debt equity ratio in 1996-97
	Agriculture							
A.	Government companies	7	146.49	264.70	7	137.47	128.90	1.81:1
B.	Subsidiary companies	2	5.25	0.25	2	5.25	0.25	0.05:1
	Industries							
A.	Government companies	3	94.81	32.56	3	94.81	43.38	0.34:1
B.	Subsidiary companies	4	1.43	2.31	4	1.43	1.92	1.62:1
	Engineering							
A.	Subsidiary companies	2	1.86	0.69	2	1.86	3.81	0.37:1
	Electronics							
A.	Government companies	1	17.16	3.98	1	17.16	3.98	0.23:1
B.	Subsidiary companies	9	19.72	13.41	9	19.67	9.06	0.68:1
	Textiles							
A.	Government companies	1	3.91	1.35	1	3.91	1.35	0.35:1
B.	Subsidiary companies	8	0.05	--	8	0.05	-	-

	Type of public sector undertaking	As at the end of						Debt equity ratio in 1996-97
			1996-97			1995-96		
		Number	Equity	Loan	Number	Equity	Loan	
			(Rupees in crore)			(Rupees in crore)		
	Handloom and Handicrafts							
A.	Government companies	1	3.63	1.44	1	3.63	1.45	0.40:1
	Forest							
A.	Government companies	1	0.25	-	1	0.25	-	-
	Construction							
A.	Government companies	1	*	20.11	1	*	21.44	-
	Public Distribution							
A.	Government companies	1	3.73	99.05	1	3.73	105.47	26.55:1
	Tourism							
A.	Government companies	1	5.21	-	1	5.21	-	-
B.	Subsidiary companies	1	0.03	-	1	0.03	-	-
	Finance							
A.	Government companies	1	6.27	0.92	1	6.27	1.17	0.15:1
	Transport							
A.	Government companies	1	**	-	1	**	-	-
	Miscellaneous							
A.	Government companies	2	1.61	0.66	2	1.61	0.66	0.41:1
		47	**311.41**	**441.43**	**47**	**302.34**	**322.84**	**1.42:1**



Sectorwise Investment in the companies as at the end of 1996-97

* Paid-up capital was Rs. 200 only.
** Paid-up capital was Rs. 700 only.

1.2.4. Analysis of investments

Increase in investment is due to additional investment in existing companies. The Government has not laid down (September 1997) any policy to disinvest its shareholding in Government companies. The State Government had not disinvested its shareholding in any Government owned company.

1.2.5. Guarantees

Details of guarantees/subsidy given to various companies during the year 1996-97 are given in ***Annexure 4.*** The guarantees given by the State Government against loans, credits given by banks, *etc*., including interest to the Public Sector Undertakings (PSUs) for the preceding three years up to 1996-97 and outstanding as on 31 March 1997 are as under:

Guarantees given by State Government

Serial number	Guarantees	Amount guaranteed during			Guaranteed amount outstanding as on 31 March 1997
		1994-95	1995-96	1996-97	
		(	Rupees	in crore	)
1.	Cash credit from State Bank of India and other nationalised banks	1317.00	1455.00	1525.00	472.04
2.	Loans from other sources	12.41	57.32	90.24	136.00
	Total	**1329.41**	**1512.32**	**1615.24**	**608.04**

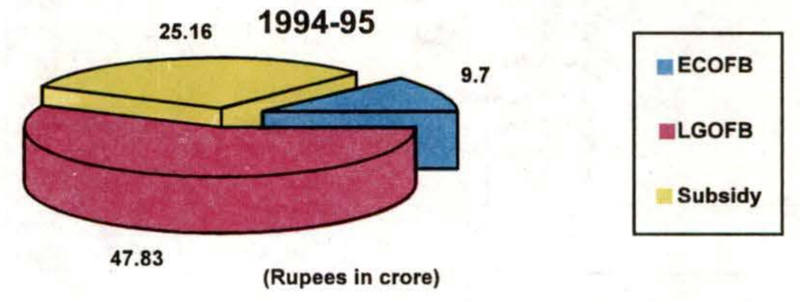
The increase in amount of guarantee was due to increase in procurement of foodgrains being financed through cash credits. The outstanding guarantee commission payable by the Government companies to the State Government as on 31 March 1997 was nil.

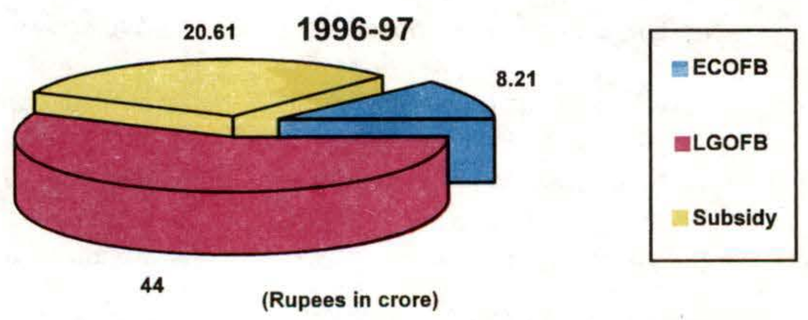
1.2.6. Budgetary outgo

The outgo from the State Government to PSUs during the years 1994-95 to 1996-97 in the form of equity capital, loans and subsidy is as detailed below:

	Particulars	1994-95	1995-96	1996-97
		(Rupees	in crore	)
1.	Equity capital outgo from Budget (ECOFB)	9.70 (1)	8.50 (1)	8.21 (1)
2.	Loans given out from Budget (LGOFB)	47.83 (3)	43.07 (4)	44.00 (2)
3.	Subsidy	25.16 (4)	8.36 (3)	20.61 (2)
	Total outgo	**82.69**	**59.93**	**72.82**

Note: Figures in brackets indicate number of companies.





1.2.7. Finalisation of accounts

Accountability of PSUs to the Legislature is to be achieved through the submission of audited annual accounts within the prescribed time schedule to the Legislature. Of 47 Government companies, the accounts of 43 companies were in arrears for periods ranging from one year to 23 years as indicated in ***Annexure 3A*** (as on 30 September 1997). Accounts of only four companies were finalised for the year 1996-97 by September 1997.

According to the latest finalised accounts of these companies, 20* companies had incurred losses of Rs. 50.07 crore and 10* companies earned profit of Rs. 10.26 crore as indicated below:

Serial Number	Number of companies	Year up to which accounts were finalised	Profit		Loss		Reference to serial number of company as per *Annexure* 3
			Number of companies	Amount (Rupees in lakh)	Number of companies	Amount (Rupees in lakh)	
1.	1	1977-78	-	-	1	9.17	30
2.	1	1982-83	-	-	1	11.77	18
3.	1	1986	-	-	1	2889.57	9
4.	2	1987-88	1	0.36	1	29.66	41,42
5.	1	1989-90	-	-	1	8.02	15
6.	2	1990-91	-	-	2	159.45	13, 1
7.	4	1991-92	-	-	4	414.77	4, 14,2,44
8.	3	1992-93	1	14.05	2	116.44	22, 32, 43
9.	1	1993-94	-	-	1	187.92	10
10.	2	1994-95	2	134.98	--	--	12,16
11.	10	1995-96	5	635.87	5	633.35	7,11,19,20,21, 23,25, 26,29,31
12.	2	1996-97	1	240.41	1	546.88	3,24
Total	**30**		**10**	**1025.67**	**20**	**5007**	

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the companies in the annual general meeting within time schedule prescribed in the Companies Act, 1956. In spite of effective pursuance by audit at various levels, the arrears in finalisation of accounts persist. Resultantly, the investment made in these companies

* Note: One company is running on no profit, no loss basis, three companies have not finalised even their first accounts and 12 companies are under construction and there was no profit or loss in respect of one company.

remained outside the purview of audit and their accountability could not be ensured.

1.2.8. Working results

1.2.8.1. Profit making companies

During the year, eight companies which finalised their accounts for 1996-97 or previous years earned a profit of Rs.10.11 crore. Of these, four companies earned a profit for two successive years.

Free reserves and surpluses amounting to Rs. 121.96 crore were built-up in five companies.

1.2.8.2. Profits and dividend

Out of four companies which finalised their accounts for 1996-97 by September 1997, one company earned profit of Rs. 2.40 crore on its share capital of Rs. 16.11 crore and declared dividend amounting to Rs. 1.61 crore as detailed below:

Name of Company	Profit earned (Rupees in crore)	Dividend declared (Per cent)	Dividend declared Amount (Rupees in crore)
Punjab Communications Limited	2.40	10.00	1.61

The dividend as percentage of share capital in the profit making companies worked out to 1.05. On the total equity capital, the return worked out to 0.52 *per cent* in 1996-97 compared to 0.53 *per cent* in 1995-96.

1.2.8.3. Loss making companies

According to the latest available accounts, 15 companies (including three companies under liquidation) had eroded their paid-up capital as the accumulated losses of these companies had far exceeded the paid-up capital. Of the 20 loss making companies, eight companies suffered loss for four consecutive years as shown below:

Serial Number	Name of company	Accumulated loss (Rupees in lakh)	Loss suffered due to	Paid up capital (Rupees in lakh)	Percentage of capital eroded	Serial number of *Annexure* 3
1.	Punjab State Civil Supplies Corporation Limited	9995.36	Heavy interest burden, surplus staff, purchase of rain affected wheat	373.00	2679.72	9
2.	Punjab Film and News Corporation Limited	190.28	Activity stopped in April 1991	151.34	125.73	43
3.	Punjab State Hosiery and Knitwear Development Corporation Limited	783.58	Heavy interest burden, low capacity utilization	390.70	200.56	32
4.	Punjab State Seeds Corporation Limited	1539.95	Heavy interest burden, low capacity utilization	480.78	320.30	2
5.	Punjab Tanneries Limited	498.39	Surplus staff, low capacity utilization	52.00	958.44	14
6.	Punjab Footwears Limited	73.55	Heavy interest burden, low capacity utilization	14.66	501.71	15
7.	Punjab Electro Optics Systems Limited	127.34	-do-	11.74	1084.67	29
8.	Punjab Power Products Limited	26.64	No production, heavy interest burden	25.64	103.90	18
	Total	**13235.09**		**1499.86**		

1.2.8.4. Under Section 619(4) of the Companies Act, 1956, the Comptroller and Auditor General of India has the right to comment upon or supplement the report of the Statutory Auditors. Accordingly, the audited annual accounts of Government companies are reviewed on a selective basis. During the period from October 1996 to September 1997, accounts of nineteen companies were selected for review. The net effect of the important comments as a result of such review was as follows:

Details	Number of accounts	Monetary effect (Rupees in lakh)
Increase in loss	3	16.81
Decrease in loss	1	6.56
Decrease in profit	4	516.56
Revision of balance sheet items	3	643.44
Non-disclosure of material facts	6	155.74

The financial results of all the 47 companies based on the latest available accounts are given in ***Annexure 3***.

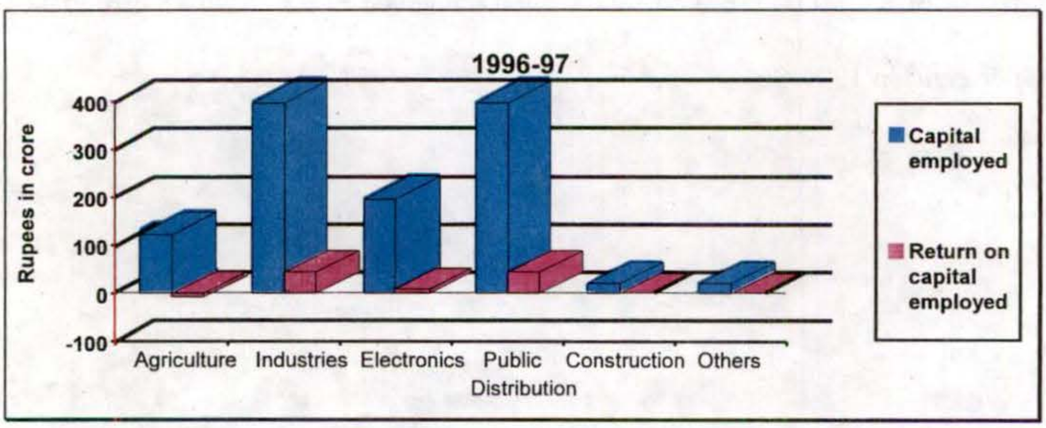
1.2.8.5 Return on capital employed

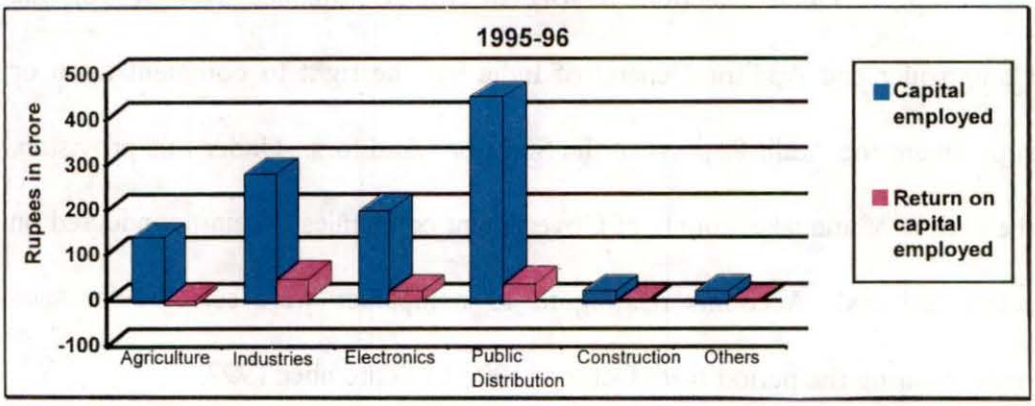
Capital employed has been taken as net fixed assets (including capital works-in-progress) *plus* working capital. Interest on borrowed funds is added/subtracted to the net profit/loss as disclosed in the profit and loss account. Thus, based on accounts finalised up to 1996-97, total capital employed worked out to Rs. 1145.23 crore in 47 companies and the return thereon amounted to Rs. 80.36 crore which is 7.02 *per cent* as compared to return of Rs. 99.04 crore on total capital employed of Rs. 1096.48 crore (9.03 *per cent*) in 1995-96.

Sector-wise details of the return on capital employed, as per latest available accounts, during 1996-97 were as under:

Sector	1996-97 Capital employed	1996-97 Return on capital employed	Percentage of return on capital employed
	(Rupees in crore)		(*Per cent*)
Agriculture	122.40	(-)6.79	-
	(132.10)	((-)7.69)	(-)
Industries	394.72	44.53	11.28
	(278.23)	(48.77)	(17.53)
Engineering	5.01	1.16	23.15
	(2.98)	((-)0.68)	(-)
Electronics	195.18	5.51	2.82
	(198.58)	(19.52)	(9.83)
Textiles	1.26	(-)0.92	-
	(1.26)	((-)0.92)	(-)
Handloom and Handicrafts	4.80	(-)0.13	-
	(5.31)	((-)0.30)	(-)
Forest	0.31	-	-
	(0.31)	(-)	(-)
Construction	21.40	-	-
	(18.95)	(0.55)	(2.90)
Public distribution	391.86	37.30	9.52
	(450.37)	(40.01)	(8.88)
Tourism	1.77	(-)0.47	-
	(1.96)	((-)0.01)	(-)
Finance	6.38	0.24	3.76
	(6.29)	((-)0.14)	(-)
Miscellaneous	0.14	(-)0.07	-
	(0.14)	((-)0.07)	(-)
Total	**1145.23**	**80.36**	**7.02**
	(1096.48)	**(99.04)**	**(9.03)**

Note: Figures for previous year are given in brackets.





1.2.9. Buy-back of shares by joint sector companies promoted by Government companies

Some of the Government companies are engaged in the development/promotion of industries in the State by providing loans or making investments in their share capital. The terms and conditions of the promotional agreement provide for the buy-back of the shares from the Government companies by the co-promoters after the promoted unit starts commercial production. One Government Company viz., Punjab State Industrial Development Corporation Limited, however, disinvested 0.52 crore shares valuing Rs.5.25 crore in six joint sector companies during the year 1996-97.

1.2.10. Important observations made by Statutory Auditors and CAG

The Companies Act, 1956 empowers the Comptroller and Auditor General of India to issue directions to the Statutory Auditors of Government companies in regard to performance of their functions. In pursuance of the directives so issued, eighteen reports of the Statutory Auditors were due against which none of the reports for the years from 1992-93 to 1995-96 was received during the year.

Under Section 619(4) of the Companies Act, 1956, the Comptroller and Auditor General of India has the right to comment upon or supplement the Audit Reports of the Statutory Auditors. Under this provision, the review of annual accounts of Government companies is being conducted on selective basis. Accounts relating to 19 companies were selected for such review during the period from October 1996 to September 1997.

Some of the major errors/omissions noticed in the course of review of annual accounts of some of these companies, not pointed out by the Statutory Auditors, were as follows:

(a) Punjab Land Development and Reclamation Corporation Limited (Accounts for the year 1989-90)

The loss was understated by Rs.8.89 lakh on account of non-provision of liability of arrears of pay revision, telephone expenses, leave salary, pension contributions and leave encahsment.

(b) Punjab State Industrial Development Corporation Limited (Accounts for the year 1995-96)

(i) Profit was understated by Rs.6.87 lakh due to non-provision of penal interest.

(ii) The profit was overstated by Rs.7.02 lakh due to short-provision of interest payable to State Government.

(c) Punjab Recorders Limited (Accounts for the year 1994-95)

Profit was overstated by Rs.16.90 lakh due to non-inclusion of interest payable on the advance received from a supplier.

(d) Punjab State Electronics Development and Production Corporation Limited (Accounts for the year 1995-96)

(i) Profits and investments were overstated by Rs.50.18 lakh due to non-writing off of the loss sustained in two subsidiary companies which had stopped operations due to heavy losses, though the company had written off loans of Rs.97.18 lakh during 1995-96 outstanding against these two subsidiary companies.

(ii) Profit was overstated by Rs.12.76 lakh (current year : Rs. 4.49 lakh) and liabilities understated to that extent due to non provision of gratuity.

(e) Punjab State Handloom and Textiles Development Corporation Limited (Accounts for the year 1986-87)

(i) Depreciation of Rs.6.56 lakh on the construction of building and acquisition of plants and machinery with Central assistance was charged to Profit and Loss Account instead of reducing capital reserve and crediting Profit and Loss Account. This resulted in understatement of capital reserve and overstatement of loss to that extent.

(ii) Loss was understated by Rs.5.21 lakh due to non-provision of liability on account of interest on unsecured loans.

(f) Punjab Communications Limited (Accounts for the year 1996-97)

Profit was overstated by Rs. 417.54 lakh due to overvaluation of stocks.

1.2.11. Capacity utilisation

The utilisation of the installed or rated capacity of all the six manufacturing companies as per the latest finalised accounts is given in *Annexure 5*.

1.2.12. Other investments

The State Government has invested Rs. 0.83 crore in three companies. Though the Government has invested Rs. 10 lakh and above in these companies, they are not subject to audit by the Comptroller and Auditor General of India. A list of these companies is given in ***Annexure 1A***.

1.3. Statutory corporations

1.3.1. General aspects

There were five Statutory corporations in the State as on 31 March 1997. Audit arrangements of these corporations are shown below:

Name of the Corporation	Statute under which constituted	Date of formulation	Audit arrangement	Year up to which accounts finalised	Separate Audit Report placed in Legislature up to the year	Authority for audit by C&AG.
Punjab State Electricity Board	Section 5(1) of the Electricity (Supply) Act, 1948	May 1967	Sole audit by CAG	1995-96	1994-95	Section 69(2) of the Electricity (Supply) Act,1948
PEPSU Road Transport Corporation	Section 3 of the Road Transport Corporations Act, 1950	January 1956	-do-	1995-96	1993-94	Section 33(2) of the Road Transport Corporations Act, 1950
Punjab Scheduled Castes Land Development and Finance Corporation	Section 3(1) of the Punjab Scheduled Castes Land Development and Finance Corporation Act, 1970	January 1971	-do-	1993-94	1992-93	Section20(1) of CAG's (DPC) Act, 1971
Punjab Financial Corporation	Section 3(1) of the State Financial Corporations Act, 1951	February 1953	Chartered Accountants SAR issued by CAG	1994-95	1989-90	Section 37(6) of the State Financial Corporations Act, 1951
Punjab State Warehousing Corporation	Section 18(1) of the State Warehousing Corporations Act, 1962	November 1967	-do-	1993-94	1992-93	Section 31(8) of the State Warehousing Corporations Act, 1962

1.3.2. Investment

The total investment in these corporations as on 31 March 1997 was Rs. 8366.27 crore (equity: Rs. 2978.13 crore; long-term loans: Rs. 5388.14 crore) as against 5 Statutory corporations with a total investment of Rs. 7568.48 crore as on 31 March 1996 (equity : Rs. 1788.62 crore; long-term loans: Rs. 5779.86 crore).

The sector-wise investment in these corporations is as below:

	Type of Statutory corporation	Equity and loans as at the end of				Debt equity ratio in 1996-97
		1996-97		1995-96		
		Equity	Loan	Equity	Loan	
		(Rupees		in crore	)	
	Irrigation and power					
1.	Punjab State Electricity Board	2806.11	4909.57	1617.00	5353.67	1.75:1
	Transport					
2.	PEPSU Road Transport Corporation	111.18	51.88	111.18	50.86	0.47:1
	Industries					
3.	Punjab Financial Corporation	27.05	407.71	27.05	356.61	15.07:1
	Agriculture					
4.	Punjab State Warehousing Corporation	8.00	11.55	8.00	11.55	1.44:1
	Welfare					
5.	Punjab Scheduled Castes Land Development and Finance Corporation	25.79	7.43	25.39	7.17	0.29:1
	Total	**2978.13**	**5388.14**	**1788.62**	**5779.86**	

1.3.3. Guarantee on loans

The guarantees given by the State Government against loans, credits given by banks, *etc.*, (including interest) to the Statutory corporations for the preceding three years up to 1996-97 and outstanding as on 31 March 1997 are shown in the table below:

Guarantees given by State Government

Serial Number	Guarantees	Amount guaranteed during			Guaranteed amount outstanding as on 31 March 1997
		1994-95	1995-96	1996-97	
		(Rupees	in	crore	)
1.	Cash credit from State Bank of India and other nationalised banks	5.61	1055.00	32.49	33.56
2.	Loans from other sources	93.75	22.42	503.52	1110.85
Total					**1144.41**

1.3.4. Finalisation of accounts

Accountability of Statutory corporations to the Legislature is to be achieved through the submission of audited annual accounts within the prescribed time schedule to the Legislature. Of five Statutory corporations, the accounts of all the corporations were in arrears for periods ranging from one year to three years as indicated in ***Annexure 6*** (as on September 1997).

According to the latest finalised accounts of these corporations, PEPSU Road Transport Corporation had incurred loss of Rs. 11.54 crore and the remaining four corporations (serial numbers 1,3,4 and 5 of ***Annexure 6***) earned profit of Rs. 153.05 crore as indicated in the table below:

Serial Number	Number of corporations	Year up to which accounts were finalised	Profit		Loss	
			Number of Corporations	Amount (Rupees in crore)	Number of Corporations	Amount (Rupees in crore)
1.	2	1993-94	2	10.07	-	-
2.	1	1994-95	1	0.13	-	-
3.	2	1995-96	1	142.85	1	11.54
Total	**5**		**4**	**153.05**	**1**	**11.54**

1.3.5. Budgetary outgo

The outgo from the State Government to Statutory corporations during the years 1994-95 to 1996-97 in the form of equity capital, loans and subsidy is as detailed below :

	Particulars	1994-95	1995-96	1996-97
		(Rupees in crore)		
1.	Equity capital outgo from budget	1.00	0.01	-
2.	Loans given out from budget	549.31	392.89	199.11
3.	Subsidy	15.22	8.53	1342.61

1.3.6. Subsidy

The Government gives subsidy to the corporations for specific schemes or programmes/projects and also for other purposes like rural electrification losses to Punjab State Electricity Board (PSEB).

The State Government gave in April 1977 an undertaking to the World Bank to provide subsidy to the PSEB for rural electrification losses so that it may achieve and maintain a return of 9.5 *per cent* on its average capital base. Subsidy was either the difference between the operating expenses and operating revenue in respect of rural electrification operations or such lower amount as may be necessary to achieve and maintain the said return. The State Government, however, directed the PSEB to provide subsidy to the extent of interest accrued and due on State Government loans from the year 1991-92. Subsidy recoverable from Government for the years 1994-95, 1995-96 and 1996-97 worked out to Rs. 421.89 crore, Rs.468.39 crore and Rs. 403.61 crore, respectively. Subsidy receivable from the State Government on this account as on 31 March 1997 was Rs. 1304.88 crore.

During 1996-97, subsidy given by the Government to Punjab Scheduled Castes Land Development and Finance Corporation was Rs. 4.52 crore for upliftment of weaker sections of the society.

1.3.7. Other Investments

There are four Statutory corporations formed by the State Legislature, the accounts of which are not subject to audit by the Comptroller and Auditor General of India. The State Government has invested Rs. 21.41crore in these corporations. A list of such corporations along with the investment of the State Government therein is given in ***Annexure 1B***.

1.3.8. Working results of Statutory corporations

The working results of the Statutory corporations for the latest year for which accounts have been finalised are summarised in ***Annexure*** 6. Salient points about the accounts and physical performance of these corporations are given below in paragraphs 1.4 to 1.8.

1.4. Punjab State Electricity Board

1.4.1. The capital requirements of the PSEB are met by way of equity capital and loans from the Government, the public, the banks and other financial institutions.

The aggregate of long-term loans including loans from the Government, obtained by the PSEB and outstanding as on 31 March 1997 was Rs. 7715.68[@] crore and represented an increase of Rs. 745.01 crore (10.69 *per*

@ Includes equity capital of Rs.2806.11 crore *cent*) on long-term loans of Rs. 6970.67[#] crore, outstanding at the end of the previous year. Particulars of loans obtained from State Government and other sources and outstanding at the close of each of the two years up to 1996-97 are as follows:

Sources	Amount outstanding as on 31 March		Percentage of increase(+)/ decrease(-)
	1996	1997 (Provisional)	
	(Rupees in crore)		
State Government	6010.89	6208.01	(+)3.28
Other sources:			
PSEB Bonds	339.56	561.79	(+)65.45
Rural Electrification Corporation	174.32	170.96	(-)1.93
Life Insurance Corporation	126.79	142.17	(+)12.13
Central Government(against centrally sponsored schemes)	13.95	12.51	(-)10.32
Rural Electrification Debentures	2.86	2.70	(-)5.59
Deferred payment credit-IDBI*	20.53	20.91	(+)1.85
Deferred payment credit-under leasehold system	220.77	303.96	(+)37.68
Power Finance Corporation	49.08	235.61	(+)380.05
Other loans	11.92	57.06	(+)378.69
Total	**6970.67**	**7715.68**	**(+)10.69**

1.4.2. The Government had guaranteed the repayment of loans raised by the PSEB to the extent of Rs.1651.12 crore and payment of interest thereon. The amount outstanding thereagainst as on 31 March 1997 was Rs.1014.85 crore.

Includes equity capital of Rs.1617 crore.

* It has been arrived at after adjusting debits.

1.4.3. The financial position of the Board at the close of the three years up to March 1997 is summarised below:

	Particulars	1994-95	1995-96	1996-97 (Provisional)
		(	Rupees in crore	)
A.	**Liabilities**			
1.	Loans from Government	5618.00	6010.89	6208.01
2.	Other long-term loans(including bonds)	764.67	957.07	1505.12
3.	Interest on loans	2049.82	2564.06	1629.70
4.	Deposits from public	2.96	2.70	2.55
5.	Reserve and reserve funds	350.93	421.78	496.00
6.	Contributions, grants and subsidies towards cost of capital assets	387.66	428.95	501.22
7.	Current liabilities	791.51	921.86	1195.07
	Total - A	**9965.55**	**11307.31**	**11537.67**
B.	**Assets**			
1.	Gross fixed assets	4681.72	4819.63	5058.52
2.	Less: depreciation	1258.46	1459.53	1734.31
3.	Net fixed assets	3423.26	3360.10	3324.21
4.	Capital work-in- progress	3184.05	3935.61	4943.70
5.	Current assets	849.20	1188.82	1493.59
6.	Subsidies receivable from Government	1759.99	2228.38	1293.90
7.	Investments	155.52	142.60	138.57
8.	(a) Intangible assets	3.55	4.67	6.77
	(b) Accumulated deficit	589.98	447.13	336.93
	Total - B	**9965.55**	**11307.31**	**11537.67**
C.	**Capital employed***	6665.00	7562.67	8566.43

* Capital employed represents net fixed assets (including capital work-in-progress) *plus* working capital.

1.4.4. The working results of the PSEB for the three years up to 1996-97 are summarised below:

	Particulars	1994-95	1995-96	1996-97 (Provisional)
		(Rupees in crore)		
1. (a)	Revenue receipts	1917.02	2315.48	2752.13
(b)	Subsidy from the State Government	421.95	468.49	403.70
	Total	**2338.97**	**2783.97**	**3155.83**
2.	Revenue expenditure (net of expenses capitalised) including write off of intangible assets but excluding depreciation and interest	1752.05	1952.59	2391.98
3.	Gross surplus for the year (1-2)	586.92	831.38	763.85
4	Adjustments relating to previous years	15.26	(-)30.77	(-)55.90
5	Final gross surplus for the year (3+4)	602.18	800.61	707.95
6	<u>Appropriations:</u>			
(a)	Depreciation (less capitalised)	294.05	333.13	291.87
(b)	Interest on Government loans	449.55	512.89	403.61
(c)	Interest on other loans, bonds and advances, etc.	117.27	129.87	209.01
(d)	Total interest on loans (b+c)	566.82	642.76	612.62
(e)	Less: interest capitalised	253.16	318.12	306.74
(f)	Net interest charged to revenue (d-e)	313.66	324.64	305.88
7	Deficit before accounting for subsidy from State Government(5-6(a)-6(f)-1(b)	(-)427.48	(-)325.64	(-)293.50
8	Net surplus/(-)deficit (5-6(a)-6(f))	(-)5.53	142.85	110.20
9	Total return on capital employed@	308.13	467.49	416.08
10	Percentage of return on capital employed	4.62	6.18	4.86

@ Total return on capital employed represents net surplus/deficit *plus* total interest charged to profit and loss account (*less* interest capitalised).

1.4.5. Audit assessment of the working results of the PSEB

The PSEB earned a surplus of Rs.110.20 crore during the year 1996-97 as compared to surplus of Rs.142.85 crore during the previous year 1995-96. The deficit of the PSEB before accounting for the subsidy from the State Government decreased by 9.87 *per cent* during the year 1996-97 as compared to the year 1995-96.

The accumulated deficit at the end of 1996-97 amounted to Rs.336.93 crore which had been arrived at after taking credit of Rs.4020.33 crore on account of subsidy/subventions receivable from the State Government. Of the above subsidy/subventions, Rs.1377.36 crore and Rs.1338.09 crore had been adjusted during the year 1991-92 and 1996-97 respectively against outstanding liability on account of interest on Government loans leaving a balance of Rs.1304.88 crore to be recovered/adjusted.

According to Section 59 of the Electricity (Supply) Act, 1948, as amended, the PSEB, after taking credit of subvention from the State Government under Section 63 is required to carry on its operations and adjust its tariff so as to ensure that total revenue in any year of account shall, after meeting all the expenses properly, leave such surplus which is not less than three *per cent* or any higher percentage fixed by the State Government of the value of fixed assets of the PSEB in service at the beginning of the year. Based on this, the PSEB was required to achieve a minimum surplus of Rs.88.62 crore (three *per cent* of the value of fixed assets in service at the beginning of the year) for the year 1996-97. As against this, there was a net surplus of Rs.110.20 crore which worked out to 3.73 *per cent*.

The following major irregularities and omissions, having impact on the profitability, were pointed out in the Separate Audit Report on the annual accounts of the PSEB for the year 1995-96:

Sr. No.	Irregularities/omissions	Rupees in crore
1.	Inflated claims of RE subsidy	(-)182.22
2.	Understatement of revenue due to non accountal of collection charges	(+)0.23
3.	Overstatement of other claims and receivables	(-)0.37
4.	Capitalisation of revenue expenditure	(-)0.18
5.	Short-provision of depreciation	(-)0.23
6.	Understatement of miscellaneous receipts	(+)0.10

As a result of the above irregularities/omissions, the surplus of the PSEB will further decrease by Rs.182.67 crore.

Based on the Audit assessment of the working results of the PSEB for three years up to 1995-96 and taking into consideration the major irregularities and omissions pointed out in the Separate Audit Reports on the annual accounts of the PSEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of the PSEB will be as follows:

Sr. No.	Particulars	1993-94	1994-95	1995-96
		(Rupees	in	crore)
1	Net surplus/(-) deficit as per books of accounts	(-)117.91	(-)5.53	142.85
2	Subsidy from the State Government	381.46	421.95	468.49
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-)499.37	(-)427.48	(-)325.64
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts of the PSEB	(-)17.20	(-)6.62	(-)182.67
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)516.57	(-)434.10	(-)508.31
6	Total return on capital employed	(-)217.09	(-)120.44	(-)183.67
7	Percentage of return on capital employed	(-)3.57	(-)1.81	(-)2.43

1.4.6. The following table indicates the operational performance of the PSEB for the three years up to 1996-97:

	Particulars	1994-95	1995-96	1996-97 (Provisional)
			(MW)	
1.	Installed capacity			
	Thermal	1700.000	1700.000	1700.000
	Hydel	1800.704	1800.704	1800.704
	Total (1)	**3500.704**	**3500.704**	**3500.704**

	Particulars	1994-95	1995-96	1996-97 (Provisional)
			(MKWH)	
2.	Power generated			
	Thermal	8439.14	8232.05	9778.25
	Hydel	7791.43	7708.25	7756.43
	Total (2)	**16230.57**	**15940.30**	**17534.68**
3.	Auxiliary consumption	720.81	704.14	805.43
4.	Net power generated (2-3)	15509.76	15236.16	16729.25
5.	Power purchased/procured from other sources	4080.30	4972.39	5045.66
6.	Total power available for sale (4+5)	19590.06	20208.55	21774.91
			(MW)	
7.	Normal maximum demand	3548	3820	3777
			(MKWH)	
8.	Power sold including power supplied free to officers/staff	16031.60	16556.96	17879.76
9.	Transmission and distribution losses	3558.46	3651.59	3895.15
			(Per cent)	
10.	Load factor:			
-	For Ropar Thermal Plant	54.39	55.68	65.00
-	For Guru Nanak Dev Thermal Plant, Bathinda	63,18	53.52	67.54
11.	Percentage of transmission and distribution losses to total power available for sale	18.16	18.07	17.89
			(KWH)	
12.	Number of units generated per KW of installed capacity	4636	4553	5008
			(Number)	
13.	Number of villages/towns electrified	12342	12428	12428

	Particulars	1994-95	1995-96	1996-97 (Provisional)
14.	Number of pumpsets/ tubewells			
-	Energised	703374	727540	744015
-	Awaiting energisation	289716	276092	269630
15.	Number of substations(33 KV and above)	426	435	445
16.	Transmission/distribution lines (kms.):			
-	High/medium voltage	85336	88515	91136
-	Low voltage	142981	144819	146820
17.	(i) Connected load (MW)	9769	10693	11369
	(ii) Load awaiting energisation (MW)	1563	1544	1446
18.	Number of consumers	4239512	4508644	4668738
19.	Number of employees	79268	82631	84731
20.	Total expenditure on staff (Rupees in crore)	382.78	470.17	555.86
			(Per cent)	
21.	Percentage of expenditure on staff to total revenue expenditure	21.85	24.08	23.24
			(MKWH)	
22.	Break-up of sale of energy according to categories of consumers			
	(a) Agriculture	5981.02	5867.79	6347.59
	(b) Industrial	5770.78	6512.00	6871.26
	(c) Commercial	482.96	581.54	655.26
	(d) Domestic*	2399.21	2763.91	3094.35
	(e) Others	1397.63	831.72	911.30
	Total (22)	**16031.60**	**16556.96**	**17879.76**
			(Paise)	
23.	(a) Revenue per KWH**	122.00	141.43	155.16
	(b) Expenditure per KWH***	148.66	161.10	171.56
	(c) Loss per KWH	26.66	19.67	16.40

* Includes free supply to PSEB staff and officers.

** Revenue per KWH sold has been arrived at after excluding subsidy from the State Government on account of rural electrification losses.

*** This includes charges on account of depreciation and interest.

1.5. PEPSU Road Transport Corporation

1.5.1. Under Section 23 (i) of the Road Transport Corporations Act, 1950, the State and the Central Governments had agreed to contribute the capital in the ratio of 4:1 which was revised during 1978-79 to 2:1 with retrospective effect from 1969-70.

The paid-up equity capital of the Corporation as on 31 March 1997 as well as on 31 March 1996 was Rs. 73.06 crore - State Government : Rs. 48.70 crore and Central Government : Rs. 24.36 crore - (730554 equity shares of Rs.1000 each fully paid). In addition, there was a capital contribution of Rs. 38.12 crore as on 31 March 1997 as well as on 31 March 1996 by State Government. Interest is payable on capital contribution at 6.25 *per cent per annum* and interest amounting to Rs. 18.92 crore was outstanding for the period from April 1978 to March 1997. In addition, the Corporation owed loans amounting to Rs. 51.88 crore (State Government : Rs. 46.29 crore; State Bank of Patiala: Rs. 5.59 crore) as on 31 March 1997. The State Government had also given guarantees for the repayment of loans raised by the Corporation from other sources and payment of interest thereon. As on 31 March 1997, the amount of principal and interest outstanding thereagainst were, as indicated below:

Particulars	Amount guaranteed	Amount outstanding as on 31 March 1997	
		Principal	Interest
	(Rupees in crore)		
State Bank of Patiala	5.80	2.76	--
Total	5.80	2.76	--

1.5.2. The financial position of the Corporation at the end of each of the three years up to 1996-97 is given below:

	Particulars	1994-95	1995-96	1996-97 (Provisional)
		(Rupees in crore)		
A.	**Liabilities**			
1.	Capital	111.18	111.18	111.18
2.	Reserves and surplus	6.44	6.45	6.45
3.	Borrowings	51.95	50.86	51.88
4.	Trade dues and other current liabilities	72.26	81.53	97.27
	Total - A	**241.83**	**250.02**	**266.78**
B.	**Assets**			
1.	Gross block	54.55	54.45	57.78
2.	Less: depreciation	30.02	32.46	37.10
3.	Net fixed assets	24.53	21.99	20.68
4.	Capital works- in-progress	1.54	1.80	1.59
5.	Investments	0.03	0.03	0.03
6.	Current assets, loans and advances	10.18	9.12	11.08
7.	Accumulated loss	205.55	217.08	233.40
	Total - B	**241.83**	**250.02**	**266.78**
C.	**Capital employed**°	(-)36.01	(-)48.62	(-)63.92

1.5.3. The working results of the Corporation for the three years up to 1996-97 are summarised below:

	Particulars	1994-95	1995-96	1996-97 (Provisional)
		(Rupees in crore)		
1.	Total revenue	91.85	97.37	99.95
2.	Total expenditure:			
(a)	Other than interest	94.01	102.15	109.10
(b)	Interest	0.42	6.76	7.16
	Total - 2	**94.43**	**108.91**	**116.26**
3.	Net loss (2-1)	2.58	11.54	16.31
4.	Total return on capital employed	(-)2.16	(-)4.78	(-)9.15

° Capital employed represents net fixed assets(including capital work-in-progress) *plus* working capital.

Following were the significant audit comments incorporated in the Audit Report on the annual accounts of the Corporation for the year 1994-95:

(i) The Corporation has worked out Rs. 2626.60 lakh liability on account of road tax after availing 10 *per cent* rebate (Rs. 291.84 lakh) to which the Corporation was not entitled in view of clarification given by State Transport Commissioner (STC) in December 1984. This has resulted in understatement of liability and accumulated loss by Rs. 291.84 lakh.

(ii) The Management operated 83.11 lakh kilometres over and above the sanctioned scheduled kilometres during the year 1993-94 and 1994-95. Under the Punjab Motor Vehicles Taxation (Amendment) Act, 1993, the Management was liable to pay on this unauthorised kilometres, special road tax in addition to the tax payable under sub-section (1) of the Section (3) of the Act at the rates as may be specified in this behalf in Schedule A of the Act. Liability on this account amounting to Rs. 175.77 lakh (current year : Rs. 15.81 lakh, previous year: Rs. 159.96 lakh) calculated at minimum rates has not been provided for in the accounts.

(iii) Rs. 66.70 lakh (19 works) on account of laying premix carpet at bus stands and workshop area on which depreciation of Rs. 3.60 lakh (provided up to 1994-95) was shown under 'Depreciation Reserve Fund'. The cost of Rs. 66.70 lakh should have been treated as 'Deferred Revenue Expenditure' instead of treating it as a fixed asset and written off on the basis of life of such carpet ranging between three and five years. This has resulted in understatement of 'Deferred Revenue Expenditure' by Rs. 30.34 lakh, 'cumulative loss' by Rs. 32.76 lakh and overstatement of 'Depreciation Reserve Fund' by Rs. 3.60 lakh.

1.5.4. The table given below indicates the physical performance of the Corporation during the three years up to 1996-97:

	Particulars	1994-95	1995-96	1996-97 (Provisional)
1.	Average number of vehicles held	1064	1057	1037
2.	Average number of vehicles on the road	988	974	948
3.	Percentage of utilisation	93	92	91
4.	Kilometres covered (in lakh)			
	- Gross	1025.02	1019.14	989.72
	- Effective	1009.19	1004.01	974.74
	- Dead	15.83	15.13	14.98
5.	Percentage of dead kms. to gross kms.	1.54	1.48	1.51
6.	Average kms. covered per bus per day:			
	- Gross	264	263	261
	- Effective	260	260	258
7.	Average revenue per km. (in paise)	910	970	1025
8.	Average expenditure per km. (in paise)	936	1085	1193
9.	Loss per km.(in paise)	26	115	168
10.	Total route kms. (in lakh)	994.53	1003.60	1063.90
11.	Number of operating depots	11	11	11
12.	Average number of breakdowns per lakh kms.	7.70	8.62	8.30
13.	Average number of accidents per lakh kms.	0.27	0.27	0.22
14.	Passenger kms. scheduled (in lakh)	53487	53213	51661
15.	Passenger kms. operated (in lakh)	39580	37781	38746
16.	Occupancy ratio (*per cent*)	74	71	75

1.6. Punjab Financial Corporation

The summarised financial position, working results and operational performance of the Corporation are given in paragraph 3B of the Report.

1.7. Punjab State Warehousing Corporation

1.7.1. The paid-up capital of the Corporation as on 31 March 1996 as well as on 31 March 1997 was rupees eight crore (rupees four crore each contributed by the State Government and the Central Warehousing Corporation).

1.7.2. The table given below summarises the financial position of the Corporation at the end of each of the three years up to 1996-97:

	Particulars	1994-95	1995-96 (Provisional)	1996-97
			(Rupees in crore)	
A.	**Liabilities**			
1.	Paid-up capital	8.00	8.00	8.00
2.	Reserves and surplus	50.70	85.01	105.01
3.	Borrowings	13.70	11.55	11.55
4.	Trade dues and other current liabilities	27.91	53.02	75.05
	Total - A	**100.31**	**157.58**	**199.61**
B.	**Assets**			
1.	Gross block	42.18	49.47	55.50
2.	Less: depreciation	1.00	1.35	1.50
3.	Net fixed assets	41.18	48.12	54.00
4.	Investments	0.50	0.41	0.50
5.	Current assets, loans and advances	58.63	109.05	145.11
	Total - B	**100.31**	**157.58**	**199.61**
C.	**Capital employed***	**71.90**	**104.15**	**124.06**

1.7.3. The following table gives details of the working results of the Corporation for the three years up to 1996-97:

	Particulars	1994-95	1995-96 (Provisional)	1996-97
			(Rupees in crore)	
1.	Income			
(i)	Warehousing charges	33.29	42.00	34.90
(ii)	Other receipts	9.95	18.70	16.71
	Total - 1	**43.24**	**60.70**	**51.61**
2.	Expenditure			
(i)	Establishment charges	8.34	9.62	10.50
(ii)	Interest	2.30	2.16	2.15
(iii)	Other expenses	10.52	16.50	15.90
	Total - 2	**21.16**	**28.28**	**28.55**
3.	Profit before tax (1-2)	22.08	32.42	23.06
4.	Provision for tax	0.04	0.04	0.04
5.	Other appropriations	N.A.	N.A.	N.A.
6.	Amount available for dividend	N.A.	N.A.	N.A.
7.	Dividend paid/proposed	1.20	1.20	1.20
	(per cent)	*(15)*	(15)	(15)
8.	Total return on capital employed	24.38	34.58	25.21
9.	Percentage of return on capital employed	33.90	33.20	20.32

* Capital employed represents net fixed assets (including capital work-in-progress) *plus* working capital.

1.7.4. The following table gives details of storage capacity created, capacity utilised and other information about performance of the Corporation for three years up to 1996-97:

	Particulars	1994-95	1995-96	1996-97
		(	Provisional	)
1.	Number of stations covered	110	115	115
2.	Storage capacity created up to end of the year (tonnes in crore)			
	- Owned	0.15	0.16	0.16
	- Hired	0.11	0.16	0.17
	Total	**0.26**	**0.32**	**0.33**
3	Average capacity utilised(tonnes in crore)	0.27	0.32	0.25
			(per cent)	
4.	Percentage of utilisation	104	100	76
			(Rupees)	
5.(a)	Average revenue per tonne	160.11	189.69	206.44
(b)	Average expenses per tonne	78.37	88.38	114.20
(c)	Average net earning per tonne	81.74	101.31	92.24

1.8. Punjab Scheduled Castes Land Development and Finance Corporation

1.8.1. The paid-up capital of the Corporation as on 31 March 1997, was Rs. 25.79 crore (Rs. 16.18 * crore contributed by the State Government and Rs. 9.61 crore by the Central Government) as against Rs. 25.39 crore (Rs. 16.18 crore contributed by the State Government and Rs. 9.21 crore by the Central Government) as on 31 March 1996.

* The figure of investment as per Finance Accounts is Rs. 28.91 crore. The difference of Rs. 12.73 crore is under investigation.

1.8.2. The table given below summarises the financial position of the Corporation for three years up to 1996-97:

	Particulars	1994-95	1995-96	1996-97
		(	Provisional	)
		(	Rupees in crore	)
A.	**Liabilities**			
1.	Paid-up capital	24.68	25.39	25.79
2.	Reserves and surplus	15.19	17.18	19.60
3.	Secured loans	8.36	7.16	7.43
4.	Current liabilities and provisions	17.51	19.50	19.89
	Total - A	**65.74**	**69.23**	**72.71**
B.	**Assets**			
1.	Gross block	0.63	0.69	0.74
2.	Less: depreciation	0.30	0.31	0.36
3.	Net fixed assets	0.33	0.38	0.38
4.	Investments	0.05	0.05	0.05
5.	Current assets, loans and advances	65.36	68.80	72.28
	Total - B	**65.74**	**69.23**	**72.71**
C.	**Capital employed***	45.04	48.98	51.28

1.8.3. The table given below indicates the working results of the Corporation for three years up to 1996-97:

	Particulars	1994-95	1995-96	1996-97
		(	Provisional	)
		(	Rupees in crore	)
1.	Income	3.50	4.03	5.04
2.	Expenditure			
(i)	Interest	0.19	0.28	0.31
(ii)	Other expenditure	1.73	1.76	2.30
	Total 2	**1.92**	**2.04**	**2.61**
3.	Profit (1-2)	1.58	1.99	2.43
4.	Appropriations	0.24	0.30	0.39
5.	Surplus after transfer to appropriations	1.34	1.69	2.04
6.	Total return on capital employed	1.77	2.27	2.74
7.	Percentage of return on capital employed	3.93	4.63	5.34

* Capital employed represents the mean of aggregates of opening and closing balances of (i) paid-up capital (ii) borrowings and (iii) reserves and surplus.

1.8.4. The following table indicates the position regarding receipt and disposal of applications of loans for the three years up to 1996-97:

Sr. No	Particulars	1994-95	1995-96	1996-97	Cumulative since inception
				(Number)	
1.	Applications pending at the beginning of the year	3503	3879	3119	-
2.	Applications received	1263	698	591	74487
3.	Total (1+2)	4766	4577	3710	74487
4.	Applications sanctioned	748	961	337	41974
5.	Applications rejected/ withdrawn/reduced	139	497	165	12424
6.	Applications transferred under Bank Tie-Up Scheme	-	--	-	16881
7.	Applications pending at the close of the year	3879	3119	3208	3208
			(Rupees	in	crore)
8.	Amount of applications sanctioned	7.75	7.79	4.84	78.33
9.	Loans disbursed	7.86 (1084)	6.16 (945)	4.56 (546)	63.13 (37341)
10.	Amount outstanding at the close of the year*	41.12	45.70	43.78	--
11.	Amount in default	9.62	11.03	13.33	--
			(Per	*cent)*	
12.	Percentage of default to total outstanding	23.39	24.14	30.45	--

Notes: 1. Figures in brackets denote number of applications.

2. In addition to above, loans aggregating to Rs. 272.33 crore had also been got disbursed to 368025 beneficiaries up to 31 March 1997 under Bank-Tie-Up Scheme.

The year-wise and loanee-wise break-up of amount in default had not been prepared by the Corporation.

1.9. Follow up action on Audit Reports

(a) In April 1993, the Institutional Finance and Banking and Bureau of Public Enterprises-Government of Punjab had issued instructions at the instance of the Committee on Public Undertakings (COPU) of the State

* It excludes outstanding interest.

Vidhan Sabha, directing all the departments to initiate suo-motu action on all paragraphs/reviews figuring in Reports of the Comptroller and Auditor General of India regardless of whether or not the case would be taken up for examination by the COPU. The departments were also required to furnish detailed Action Taken Notes (ATNs) to COPU, indicating the corrective remedial action taken or proposed to be taken by them, within a period of three months of the presentation of the Reports to the State Legislature.

After the issue of these instructions, Reports of the Comptroller and Auditor General of India for the years 1992-93 to 1995-96 (Commercial)-Government of Punjab had been presented to the State Legislature up to March 1997. The Reports contained 12 reviews and 97 paragraphs but as of September 1997, ATNs in respect of one review and two paragraphs* included in the Report of the Comptroller and Auditor General of India for the year 1994-95 (Commercial) had been received in the Audit Office for vetting before submission to COPU.

Further, a review of the Audit Reports for the years 1985-86 to 1995-96 revealed that the Administrative Departments had not submitted ATNs in respect of six reviews and 46 paragraphs.

(b) As of September 1997, 222 ATNs on recommendations of PAC/COPU made during 1966-67 to 1995-96 were outstanding for want of final action.

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* This excludes ATNs in respect of paragraph numbers 1.5.1 to 1.5.4 of Chapter I included in the Reports of the Comptroller and Auditor General of India for the years 1993-94 and 1994-95(Commercial).

Chapter-II

Section 2

REVIEWS RELATING TO GOVERNMENT COMPANIES

This chapter contains a review on the working of Punjab State Seeds Corporation Limited.

PUNJAB STATE SEEDS CORPORATION LIMITED

Highlights

The Punjab State Seeds Corporation Limited (PUNSEED), incorporated in March 1976, had been incurring losses continuously since 1982-83 and its accumulated loss, as on 31 March 1997, amounted to Rs. 4253.68 lakh.

(Paragraphs 2.1 and 2.5)

The contribution of the PUNSEED as a percentage of total sales in the State during five years up to 1996-97 declined from 60.7 *per cent* to 54.2 *per cent* and 94.5 *per cent* to 35.2 *per cent* in case of paddy and cotton respectively. In case of wheat, the contribution, after registering increase from 63.5 *per cent* in 1992-93 to 82.2 *per cent* in 1993-94, again declined to 76.3 *per cent* by 1996-97.

(Paragraph 2.6)

In order to supplement its own production of certified seed, PUNSEED had resorted to procurement of 18270 quintals and 4000 quintals of certified wheat seed during 1993-94 and 1996-97 at higher rates resulting in extra expenditure of Rs. 32.94 lakh.

(Paragraph 2.7.4)

The PUNSEED suffered a loss of Rs. 54.76 lakh in the disposal of cotton seed procured in excess and a further loss of interest of Rs. 15.78 lakh on the belated sale/unsold stock.

(Paragraph 2.7.4.1(i))

Fixation of sale price at Rs. 2600 per quintal against cost price of Rs. 1476 per quintal in respect of cotton seed sold during 1995-96, resulted in overburdening the farmers by Rs. 93.12 lakh, thereby

defeating the objective of providing quality seed to the farmers at reasonable rates.

(Paragraph 2.10.1(i))

The credit sales in violation of the sale policy, without securing the financial interests of the PUNSEED, resulted in non-recovery of sale proceeds (including interest) of Rs.78.26 lakh.

(Paragraph 2.10.1(ii))

Due to excess purchase of hybrid sunflower seed than indented by the Agriculture Department, the PUNSEED had to dispose of seed at a loss of Rs. 13.63 lakh.

(Paragraph 2.10.2)

2.1. Introduction

KD-1
KD-2

In 1974, the National Seeds Programme (NSP) was introduced by the Government of India to develop a seed production infrastructure that is able to respond rapidly to fast changing demands for seeds of all kinds with the least possible cost and disturbance. As a part of the NSP, the Punjab State Seeds Corporation Limited (PUNSEED) was incorporated as a Government Company on 27 March 1976 with the main objective of arranging for supply of foundation seed to the grower-shareholders, to organise the production of seeds, to process seeds on scientific and commercial lines and get these certified for sale within the State and also to other States at reasonable prices.

2.2. Organisational set-up

The Board of Directors of PUNSEED comprises of 12 directors including a Chairman and a Managing Director who are appointed by the State Government. As on 31 March 1997, there were 11 directors including two nominee directors of National Seeds Corporation Limited (NSC). The

Managing Director is the Chief Executive and is assisted by seven departmental heads viz., a Company Secretary-cum-Manager (Finance), Manager (Accounts), Manager (Personnel and Administration), Manager (Production), Manager (Marketing), Manager (Engineering and Processing) and Manager (Cotton) at head office. Besides, there are five Regional/Branch Managers in the field to look after the seed processing plants and marketing of seeds.

(X) Kartarpur
Kotkapura
Ludhiana
Abohar
Patran & Mandi Gobindgarh

2.3. Scope of audit

Mention was made in the Report of the Comptroller and Auditor General of India for the year 1988-89 (Commercial) - Government of Punjab, about the 'Utilisation of Capacity of Seed Processing Plants'. The review was discussed by the Committee on Public Undertakings in November 1996 but its recommendations were awaited (September 1997). The present audit conducted from August 1996 to March 1997 reviewed the working of the PUNSEED from 1992-93 to 1996-97. KD-

2.4. Capital structure

2.4.1. The authorised capital of the PUNSEED as on 31 March 1997 was Rs. 10 crore, consisting of 7.50 lakh equity shares and 2.50 lakh redeemable preference shares of Rs.100 each. The share capital according to Articles of Association of the PUNSEED was to be subscribed by the State Government, NSC and growers in the ratio of 35:30:35 respectively. KD-2

File 1/Page 1,2,3,6,15
Memorandum and
Articles of Association

The table below indicates the position of paid-up capital as on 31 March 1997:

	Preference shares	Equity shares	Total	Percentage contribution
	(Rupees in lakh)			
State Government	167.64	283.35	450.99	80.3
NSC	-	93.15	93.15	16.6
Growers	-	17.55*	17.55	3.1
Total	**167.64**	**394.05**	**561.69**	

NSC did not contribute the prescribed percentage of share capital on the plea that according to Government of India (GOI) instructions (June 1985), it was to contribute only for the construction of high capacity cereal seed complexes under NSP, which had already been completed. The PUNSEED had not amended its Articles of Association in view of non-contribution of share money by NSC as advised by the GOI. However, reasons for less participation by the grower shareholders were not available on record. It was also observed in audit that despite non-payment of allotment money amounting to Rs. 13.85 lakh (from July 1977 to March 1987) by grower-shareholders, the PUNSEED did not forfeit the shares allotted to them in terms of Articles of Association. Besides, it has been waiving the interest which could, otherwise, have been recovered due to non-payment of calls in arrears. On this being pointed out in audit, the Board of Directors decided (March 1997) to issue final notices to defaulters for forfeiture of shares.

KD9
Y 349, 329 to 353
Letter No.
3/72/932/(7)/3/8/ CHD 14-1-97

2.4.2. Borrowings

In addition to the paid-up capital, the PUNSEED had been borrowing funds from the scheduled banks to finance its activities. As on 31

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* Excludes Rs. 13.85 lakh representing calls in arrears.

March 1997, loans of Rs.1403.38 lakh (including interest of Rs.1147.13 lakh) were outstanding.

KD-12 2/31 Provision balance sheet 95-96

Besides, the PUNSEED had also been availing of cash credit facilities from a scheduled bank, up to March 1987. Thereafter, the PUNSEED did not operate the cash credit account. Against the limit of Rs. 560 lakh availed by PUNSEED up to March 1987, the amount outstanding thereagainst as on 31 March 1997 was Rs.3531.74 lakh (including interest of Rs.2971.74 lakh) because of non-repayment to the bank.

KD-12 2/31

The Management attributed (February 1996) non-repayment of loans to huge losses due to non-lifting of ordered quantity of certified seeds by NSC during 1983-84 and 1984-85 and thereafter disposal of unsold seeds during 1984-85 and 1985-86 as grain, on account of slump in the market. It was, however, seen in audit that the PUNSEED did not settle the price of seed with NSC in advance and NSC did not lift the seed as price demanded by PUNSEED was higher than the market price. Subsequently also, the PUNSEED could not pay any amount to the banks due to financial crunch.

KD-16 1/151 Draft minutes of meeting held on 19-9-90

KD-5 Audit Report 88-89 Page 164 and 1/359

A Committee, constituted by the State Government to examine the status of the PUNSEED, had recommended in October 1989 to discharge the loan liability by disposing of surplus assets of Rs.2.5 crore and rest of the funds be arranged by State Government as soft loan. It was, however, seen in audit that neither the Management had identified the surplus assets so far (September 1997) for their disposal nor the State Government had released any loan, in spite of repeated requests made by the PUNSEED.

KD-17 Action Plan 43 1/230-231

KD 13 1/137-193 and 131+147 Notes of meeting dt 23-2-93

2.5. Financial position

The PUNSEED had finalised its accounts up to 1991-92. The financial position and the working results of the PUNSEED for the five years up to 1996-97 are given in *Annexure 7.*

KD-13 2/Balance sheet 91-92 to 95-96

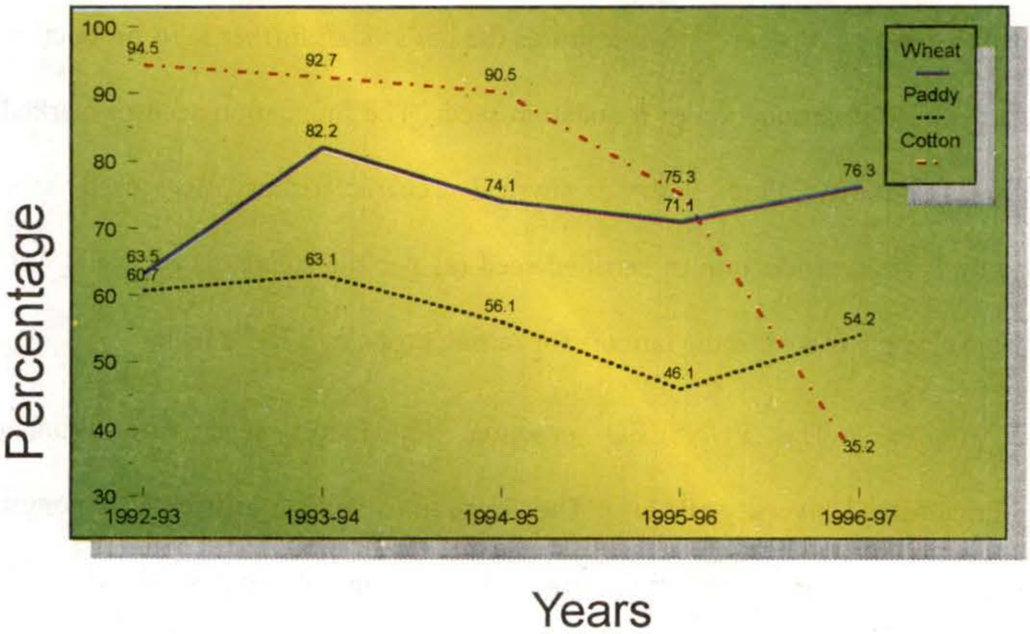
The PUNSEED had been incurring losses continuously since 1982-83. The accumulated loss of Rs. 4253.68 lakh up to 1996-97 was 757.2 *per cent* of the paid-up capital of Rs.561.76 lakh (including share application money of Rs. 0.07 lakh) which was mainly attributed to heavy interest liability on term loans and cash credit arrangements due to non-repayment of loans and overdraft under cash credit account. After excluding the element of interest on loans and cash credit, the PUNSEED earned operational profit of Rs. 383.16 lakh during five years ending 1996-97. Commented in para 2.4.2 Page 45

2.6. Contribution of the PUNSEED towards distribution of seeds in the State

KD-61 3/270, 253, 250 Audit memo 914-73 dt 14-2-98 25-2-98

The table below indicates contribution of the PUNSEED towards distribution of seeds in the State during five years from 1992-93 to 1996-97:

Crop	Year	Total sale of seeds in the State (In	Contribution of the PUNSEED quintals)	Percentage of contribution
Wheat	1992-93	45292	28738.00	63.5
	1993-94	73830	60706.40	82.2
	1994-95	104382	77320.00	74.1
	1995-96	168685	119896.00	71.1
	1996-97	145478	110967.00	76.3
Paddy	1992-93	20707	12574.48	60.7
	1993-94	19773	12478.45	63.1
	1994-95	26626	14931.66	56.1
	1995-96	36139	16676.30	46.1
	1996-97	18755	10161.07	54.2
Cotton	1992-93	8336	7874.72	94.5
	1993-94	7273	6741.00	92.7
	1994-95	9203	8330.38	90.5
	1995-96	11004	8285.42	75.3
	1996-97	15640	5500.00	35.2



It would be seen that although there was continuous increase in overall sales in the State in all the crops during the five years ending 1996-97, except wheat and paddy during 1996-97, the contribution of the PUNSEED as a percentage of total sales in respect of wheat, after registering increase from 63.5 *per cent* in 1992-93 to 82.2 *per cent* in 1993-94, again declined to 74.1, 71.1 and 76.3 *per cent* during three years from 1994-95 to 1996-97. In case of paddy and cotton, the percentage of contribution declined from 60.7 *per cent* to 54.2 *per cent* and from 94.5 *per cent* to 35.2 *per cent* respectively during these five years. The reasons for decline in contribution as assessed by the PUNSEED were tough competition from private parties and sale of uncertified seeds by them. In view of sharp decline in distribution of cotton seeds, continuance of this activity needs a fresh look.

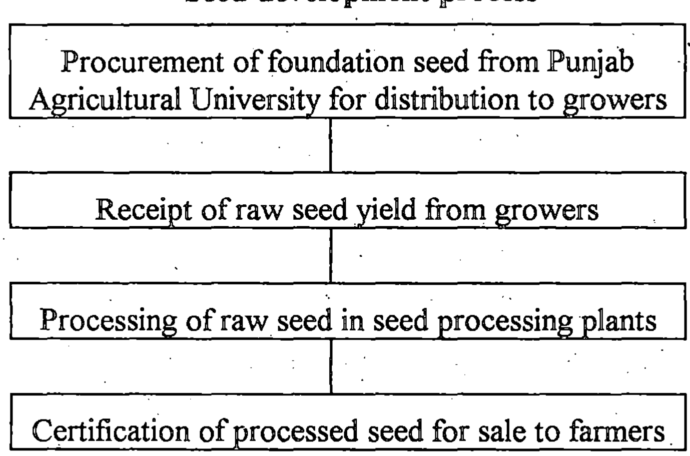
2.7. Production performance

2.7.1. Seed development process

Breeder seed constitutes the basis of all further seed production and is used in production of foundation seed. The foundation seed of marked genetic purity and other physical characteristics is used for multiplication/production of certified seed (as per the standards of Seeds Act, 1966), which is sold to the farmers for raising crops on a large scale.

The PUNSEED procures foundation seed from Punjab Agricultural University (PAU). The foundation seed is distributed amongst grower-shareholders for multiplication/production of raw seed which is processed in the processing plants of the PUNSEED at Abohar, Kartarpur, Kotkapura, Ludhiana, Mandi-Gobindgarh and Patiala by separation of foreign matter, shrivelled, undersize and cut grains from the healthy seed. The processed seed is got tested from Punjab State Seed Certification Authority (PSSCA) in the seed testing laboratory. The seed which is labelled as certified seed by the PSSCA is sold to the farmers.

Seed development process



2.7.2. Fixation of targets

The PUNSEED draws up production programme of certified seeds for each season (Rabi and Kharif) keeping in view the requirement indicated by the State Agriculture Department. The production programme is approved by the Board of Directors of PUNSEED on the recommendations of Seed Production Planning Committee comprising of its Managing Director, Director of Agriculture of State Government and one member each from PSSCA and PAU

2.7.3. Foundation seed

The requirement of foundation seed is assessed by the PUNSEED on the basis of estimated coverage of the total cultivated area as per crop production programme of certified seed of each season. The foundation seeds are sold to the growers on 'no profit no loss' basis.

The targets and achievements for distribution of foundation seeds amongst the growers and raw seeds obtained thereagainst during the five years up to 1996-97 are as under:

Crop Year	Foundation Seeds (In quintals)			Percentage of achievements to targets	Raw seeds obtained	Raw seeds obtained per quintal of foundation seeds distributed (In quintals)
	Target for distribution	Procured and available*	Distributed			
Wheat						
1992-93	2300.00	3690.60	2418.80	105.2	55694.87	23.02
1993-94	3230.00	4012.00	3802.80	117.7	95804.63	25.19
1994-95	7550.00	6843.60	5845.00	77.4	159205.40	27.23
1995-96	6338.80	6590.40	6399.80	101.0	144839.45	22.63
1996-97	4199.00	3653.40	3653.40	87.00	115816.00	31.70
Paddy						
1992-93	244.20	211.68	190.41	78.0	17774.87	93.35
1993-94	206.00	194.84	170.00	82.5	19207.16	112.98
1994-95	257.00	250.52	218.04	84.8	29486.69	135.23
1995-96	326.00	317.88	307.92	94.5	43513.47	141.31
1996-97	200.00	185.18	185.18	92.6	29336.58	158.42
Cotton						
1992-93	885.00	964.94	801.61	90.6	16009.45	19.97
1993-94	744.00	567.00	371.60	50.00	16229.17	43.67
1994-95	876.00	821.60	821.60	93.8	18101.94	22.03
1995-96	1240.00	1190.60	668.56	53.9	28121.18	42.06
1996-97	820.00	489.25	338.51	41.3	15068.20	44.51

* This also includes carry over stocks of previous years.

The achievement of targets of cotton during 1993-94, 1995-96 and 1996-97 was poor mainly due to change in preference for varieties by the farmers as stated by the Management. Further, according to Management, the yield of raw seeds from foundation seeds depends upon climatic conditions throughout the crop period. In the absence of any prescribed norms for obtaining raw seeds from foundation seeds, Audit was unable to work out the shortfall in the yield. The audit, however, believes that PUNSEED needs to develop a Management Information System (MIS) of growers to whom foundation seeds are distributed so as to monitor the utilisation of foundation seeds by the farmers.

2.7.3.1. Loss in disposal of cotton foundation seed

The PUNSEED, without working out actual requirements, fixed target of 1240 quintals of cotton foundation seed for distribution to growers during 1995-96. With a view to achieving this target, the PUNSEED procured (April/May 1995) total quantity of 1190.60 quintals of cotton foundation seed including 1032.60 quintals of two varieties from PAU valued at Rs.32.27 lakh. Out of 1032.60 quintals, only 570.20 quintals of foundation seed was distributed among the growers during Kharif 1995 for procurement of raw cotton seed and further processing as certified seed. During revalidation of seed in the subsequent season, entire balance quantity of 462.40 quintals of seed was rejected (March 1996) by the PSSCA as the same did not meet required minimum germination standards. The PUNSEED disposed of (May to

> Procurement of excess cotton foundation seed resulted in a loss of Rs.12.38 lakh as it could not be distributed to the growers in the same season.

August 1996) the rejected seed through auction at a loss of Rs.12.38 lakh. Had the PUNSEED distributed foundation seed as per targets, the loss in the disposal of foundation seed could have been avoided. The plea of the Management (August 1997) that there was sudden change in the preference of the farmers is not tenable as the PUNSEED again organised production programme of the same varieties and sold certified seed in the succeeding year.

2.7.4. Certified seed

The targets and actual production of the certified seeds in respect of wheat, paddy and cotton during the five years from 1992-93 to 1996-97 are as under:

Crop year	Targets	Actual production	Percentage of achievement
	(In quintals)		
Wheat			
1992-93	48000	41776.80	87.0
1993-94	66000	77320.80	117.2
1994-95	150000	126164.00	84.1
1995-96	176000	102900.25	58.5
1996-97	data not available		
Paddy			
1992-93	25000	12981.10	51.9
1993-94	25000	13175.68	52.7
1994-95	29500	19718.88	66.8
1995-96	40000	10137.06	25.3
1996-97	·23000	19199.56	83.5
Cotton			
1992-93	12000	7829.56	65.2
1993-94	12360	8281.97	67.0
1994-95	17660	8912.14	50.5
1995-96	25000	13929.24	55.7
1996-97	15525	7336.76	47.3

It would be seen that the percentage of achievement for all varieties was below the targets except in 1993-94 for wheat. Audit analysis revealed that the target of 48000 quintals of wheat in 1992-93 was on the lower side when compared with target of 57000 quintals for 1991-92. Resultantly, to supplement the production of 1992-93 (meant for sale in 1993-94), the PUNSEED purchased 18270 quintals of certified wheat seed during 1993-94 at the rates from Rs.590 to Rs.655 per quintal against its own production cost of Rs.494 per quintal, thereby causing extra cost of Rs.27.76 lakh. Similarly, during 1996-97, the PUNSEED again purchased 4000 quintals (to supplement production of 1995-96) of certified wheat seed from the market at rates ranging between Rs.800 and Rs.830 per quintal, whereas its own cost of production was Rs.695 per quintal thereby incurring extra expenditure of Rs.5.18 lakh.

Certified seed had to be purchased from market to supplement the shortfall in production entailing extra expenditure of Rs.32.94 lakh.

It was seen in audit that shortfall in achievement of targets was mainly due to shortage of working capital and raw seed brought by farmers not meeting standards of certification.

2.7.4.1. Disposal of certified seed

(i) Loss in disposal of cotton seed

The PUNSEED increased production target of certified seed from 17660 quintals in 1994-95 to 25000 quintals in 1995-96 in spite of the fact that the sales of certified seed during the last three years up to 1994-95 ranged between 6741 quintals and 8330 quintals.

The PUNSEED suffered a loss of Rs. 54.76 lakh in the disposal of cotton seed procured in excess and loss of interest of Rs. 15.78 lakh on the belated sale/unsold stock.

Against the target of 25000 quintals, the PUNSEED could produce 13929 quintals of certified seed. Out of total quantity of 14349 quintals available with the PUNSEED (including opening stock of 420 quintals), it could sell only 5500 quintals of cotton seed during Kharif 1996.

Subsequently, so as to generate funds for making payment to wheat seed growers of Rabi - 1995, the PUNSEED disposed of (September/October 1996) through auction 4908 quintals (packed quantity: 5000 quintals) of seed for Rs.40.78 lakh against cost price of Rs.87.58 lakh resulting in loss of Rs.46.80 lakh apart from the loss of Rs.1.65 lakh it sustained on shortage of 92 quintals. When the balance stock of 3849 quintals valued at Rs. 68.69 lakh was got tested in laboratory during 1996-97 for sale in succeeding sowing season, 485 quintals failed to meet standards of germination. Out of 3364 quintals passed in laboratory tests, the PUNSEED could sell 3194 quintals at a loss of Rs. 6.31 lakh and balance stock of 655 quintals (including failed quantity of 485 quintals) valued at Rs. 11.69 lakh was lying unsold (July 1997). Thus, due to fixing the target of certified cotton seed on unrealistic basis, the PUNSEED suffered loss of Rs. 54.76 lakh. Besides, loss of interest suffered by PUNSEED up to July 1997 on the belated sale/unsold stock amounted to Rs. 15.78 lakh.

(ii) Loss on sale of peas seed

The PUNSEED without studying the economic viability, procured (September 1995) 356.10 quintals of raw seed valued at Rs.12.46 lakh (at the rate of Rs.3500 per quintal) for marketing as truthfully labelled seed. After processing, the production cost of seed worked out to Rs. 14.39 lakh. The PUNSEED could sell only 274.63 quintals during September 1995 to June 1997 for Rs. 6.64 lakh against its cost of Rs. 11.61 lakh thereby incurring loss of Rs. 4.97 lakh (including loss on shortage of 12.76 quintals). The balance stock of 68.71 quintals of seed valued at Rs.2.78 lakh was still lying unsold with the PUNSEED (July 1997). According to Management, the seed was sold at a loss because the same was available at lower rates in the market.

(iii) Loss in disposal of paddy seed

The PUNSEED fixed target for sale of 15000 quintals of PR-106 and 5000 quintals of Jaya varieties of certified seed of paddy for Kharif 1990 against previous three years sales ranging between 6475 and 6752 quintals of both varieties. After processing of raw seed in kharif 1989, the PUNSEED obtained 11361 quintals and 4424 quintals of PR-106 and Jaya varieties of certified seed of paddy respectively for sale during kharif 1990. Out of it, the PUNSEED could sell 9368.31 quintals of PR-106 and 2415.16 quintals of Jaya varieties of seed during Kharif 1990 to 1994. The balance stocks of 1992.69 quintals of PR-106 and 2008.84 quintals of Jaya varieties of seed valued at Rs.12.65 lakh having failed in laboratory tests were disposed of (April 1992 to March 1995) through auction, at a loss of Rs.7.55 lakh.

The PUNSEED stated (August 1994) that it could not compete with the private parties because its sale price of paddy during that season was Rs. 530 per quintal whereas private parties were selling their seed at the rate Rs. 300 to Rs. 325 per quintal and they also allowed credit facility. The reply of PUNSEED is not tenable because in spite of its higher sale price, it had sold 74.64 *per cent* of the seed produced by it. Obviously, the main reason due to which the entire production could not be sold was due to fixation of higher targets which led to overstocking and was indicative of poor planning by PUNSEED.

2.8. Under-utilisation of installed capacity

The installed capacity, quantity of seed processed and percentage of utilisation of installed capacity of paddy and wheat during the five years ending Kharif-1995 and Rabi - 1995-96 respectively are given in the table below:

Crop Year	Location of the plants	Installed capacity		Raw seeds processed		Percentage of utilisation	
		Wheat	Paddy	Wheat	Paddy	Wheat	Paddy
		(Quantity in lakh quintals)					
1991-92	Ludhiana	0.60	0.25	0.05	0.09	8.3	36.0
	Kartarpur	0.60	0.25	0.14	0.07	23.3	28.0
	Kotkapura	0.60	0.25	0.09	0.02	15.0	8.0
	Abohar	0.40	0.20	0.12	-	30.0	-
1992-93	Ludhiana	0.60	0.25	0.09	0.06	15.0	24.0
	Kartarpur	0.60	0.25	0.14	0.08	23.4	32.0
	Kotkapura	0.60	0.25	0.13	0.02	21.7	8.0
	Abohar	0.40	0.20	0.16	-	40.0	-
	Mandi Gobindgarh*	0.20	0.20	0.04	0.03	20.0	15.0
1993-94	Ludhiana	0.60	0.25	0.18	0.06	30.0	24.0
	Kartarpur	0.60	0.25	0.23	0.08	38.3	32.0
	Kotkapura	0.60	0.25	0.19	0.02	31.7	8.0
	Abohar	0.40	0.20	0.28	-	70.0	-
	Mandi Gobindgarh	0.20	0.20	0.08	0.03	40.0	15.0
1994-95	Ludhiana	0.60	0.25	0.23	0.08	38.3	32.0
	Kartarpur	0.60	0.25	0.29	0.09	48.3	36.0
	Kotkapura	0.60	0.25	0.39	0.04	65.0	16.0
	Abohar	0.70	0.20	0.45	-	64.3	-
	Mandi Gobindgarh	0.20	0.20	0.11	0.03	55.0	15.0
	Patiala*	0.30	0.20	0.12	-	40.0	-
1995-96	Ludhiana	0.60	0.25	0.30	0.09	50.0	36.0
	Kartarpur	0.60	0.25	0.31	0.13	51.7	52.0
	Kotkapura	0.60	0.25	0.36	0.19	60.0	76.0
	Abohar	0.70	0.20	0.30	-	43.0	-
	Mandi Gobindgarh	0.20	0.20	0.06	0.02	30.0	10.0
	Patiala	0.30	0.20	0.12	0.01	40.0	5.0

* Added during 1992-93 and 1994-95.

The PUNSEED attributed (August 1997) the under/non-utilisation of installed capacity of the plants, mainly to their higher capacity which was created keeping in view the projected demand for seeds for future years both for within and outside the State. The utilisation of capacity was restricted to actual production programme which in turn depended upon past sales, preferences of farmers and working capital constraints, etc. Thus, due to under-utilisation of installed capacity of plants, the PUNSEED could not derive the optimum benefit on its investment of Rs. 104.15 lakh on its plant and machinery.

2.9. Non-fixation of norms for processing losses in cotton

The raw cotton seed (including lint) procured from the growers was got ginned from private parties and lint finally obtained was packed in the shape of cotton bales after separation of seed from cotton. The table (below) indicates the raw cotton seed procured and processing losses:

Year	Raw cotton seed procured	Processing loss	*Percentage* of loss
	(In quintals)		
1992-93	16009.45	1147.10	7.2
1993-94	16229.17	1575.42	9.7
1994-95	18101.94	640.27	3.5
1995-96	28121.18	2254.68	8.0
1996-97	15068.20	1169.17	7.8

The PUNSEED had neither fixed any norms for processing loss nor analysed wide variations in the losses. The processing loss of 6786.64 quintals (value: Rs. 111.26 lakh) during five years up to 1996-97 constituted 6.9 *per cent* of the total value of Rs. 1611.97 lakh of seed procured. Fixation of norms of processing loss is very vital in view of work being got done from private parties.

2.9.1. Shortage in disposal of cotton lint

Improper storage of cotton lint led to a loss of Rs. 10.19 lakh to the PUNSEED.

After ginning and processing, cotton bales so packed are being sold by the PUNSEED to various organisations. During 1995-96, at the time of sale of 7233.84 quintals of cotton lint by Abohar unit, there was shortage of 223.76 quintals of lint (including 60 quintals due to cutting of lint from bales) valued at Rs. 10.19 lakh due to prolonged storage for eight months of cotton bales in the open space. According to PUNSEED, procurement incharge did not care to store the lint bales properly and was warned to be careful in future. Notwithstanding this belated explanation, the PUNSEED had to suffer a loss of Rs.10.19 lakh due to the carelessness of an official.

2.10. Sales performance

2.10.1. Fixation of sales price

One of the main objectives of the PUNSEED is to provide and make available to the farmers, the certified seeds at reasonable rates. The sale price of seeds of various crops is fixed by the PUNSEED with the approval of the State Government after taking into account, the procurement price plus predetermined (estimated) overheads, dealer's commission at 8 *per cent* and profit margin at 5 *per cent*. It was observed in audit that the PUNSEED had never compared the predetermined (estimated) overheads with the actuals so as to fix the sale rate on realistic basis.

2.10.1.(i) Excess fixation of sales price

> Fixation of sale price at Rs. 2600 per quintal against cost price of Rs. 1476 per quintal in respect of cotton seed sold during 1995-96 by the PUNSEED caused overcharging of Rs. 93.12 lakh from the farmers.

Test check of records for fixation of sales rates for the year 1995-96 revealed that in case of cotton seed, the PUNSEED fixed sale price at Rs. 2600 per quintal against the cost price of Rs. 1476 per quintal (including 5 *per cent* PUNSEED's margin). Resultantly, the PUNSEED overcharged Rs. 93.12 lakh from farmers on sale of 8285 quintals of cotton seed sold during 1995-96. Thus, by fixing the sale price at Rs. 2600 per quintal by adding margin of profit at 76 *per cent* in addition to the usual profit of 5 *per cent*, the main social objective of providing seeds to farmers at reasonable rates was defeated.

(ii) Non-recovery of sale proceeds

The sale policy of the PUNSEED provided that the sale of seeds would be made on cash and carry basis and there was no provision for credit sale. In the following cases, the PUNSEED could not make recovery of sale proceeds (including interest) of Rs.78.26 lakh due to its deviation from sale policy:

> Sale of cotton bales against post dated cheques in violation of sale policy resulted in non-realisation of sale proceeds (including interest) of Rs. 29.86 lakh.

(a) The PUNSEED entered into (March 1992) an agreement with National Textiles Corporation Limited (NTC) for sale of 425 bales of cotton at Rs.11300 per candy (equivalent to 3.56 quintals). The NTC approved (April 1992)

444 cotton bales for lifting. Instead of lifting the same after making payment, NTC requested (August 1992) the PUNSEED to allow delivery against post-dated cheques of seven days from the date of delivery as it was facing acute shortage of funds. The departmental heads of PUNSEED dealing with production, finance and marketing after having mutual consultation, allowed NTC to lift 444 cotton bales in September 1992 against post-dated cheques for Rs.25.60 lakh, payable after seven days in violation of its sale policy as well as terms and conditions of agreement. The cheques when presented (September 1992) to bank were dishonoured because of non-availability of funds in the accounts of NTC. The NTC, however, paid (October/November 1992) Rs.6.20 lakh, leaving balance payment of Rs.17.94 lakh, besides carrying charges of Rs.3.26 lakh for delayed lifting of cotton bales.

On this being pointed out in audit (January 1994), the PUNSEED, with the approval of Board of Directors, filed (June 1994) a civil suit against NTC for recovery of Rs.29.86 lakh, on account of sale proceeds, carrying charges and interest (Rs.8.66 lakh). The decision of the court was still awaited (March 1997). The PUNSEED stated (March 1995) that post-dated cheques from NTC were accepted as it was a Public Sector Undertaking. The reply is not tenable as sale against post-dated cheques was not allowed as per the sale policy of the PUNSEED.

Failure of the PUNSEED to prove genuineness of the quality of wheat seed sold caused loss of Rs. 16.68 lakh.

(b) The PUNSEED had supplied (October/November 1987) 3741.60 quintals of certified seed of wheat of Sonalika variety valued at Rs. 15.75 lakh to Jammu and

Kashmir Government and the payment was to be released within 15 days from the date of receipt. However, the PUNSEED did not secure its financial interest while making credit sale. The Jammu and Kashmir Government pointed out (December 1987) that the germination of the seed was poor and requested for field inspection by the representatives of the PUNSEED. The officials of the PUNSEED visited (December 1987) the fields and reported that the poor germination was due to faulty agronomic practices as laboratory test reports of the seed met all standards of germination. This was not accepted (April 1988) by the Jammu and Kashmir Government because of poor germination of seed in the field and the payment of Rs. 16.68 lakh (including Rs. 0.93 lakh being the value of other varieties of wheat supplied by the PUNSEED) was withheld.

The PUNSEED filed (October 1989) a suit in a court for release of the withheld amount of Rs. 16.68 lakh. The court dismissed (August 1996) the suit on the grounds that the PUNSEED failed to produce direct evidence to show that the quality of seed supplied by it was of the standard prescribed in the contract.

The credit sale to the SPINFED in violation of sale policy that too without securing the financial interest of the PUNSEED resulted in blockage of funds amounting to Rs. 31.72 lakh.

(c) In order to dispose of cotton bales, the PUNSEED, after negotiation, received (March 1993) the consent of the Punjab Co-operative Spinning Mills Federation Limited (SPINFED) to purchase 3057 bales of cotton. Of these, 542 bales were to be lifted by Mansa unit of the SPINFED. As per agreed terms, the payment was to be made by units of the SPINFED within 45 days and in case of failure to make payment within stipulated period, interest at the bank rate was to be recovered by the PUNSEED.

The PUNSEED supplied (April 1993) 542 bales valued at Rs. 21.88 lakh to Mansa unit of the SPINFED and could realise only Rs.4.99 lakh leaving a balance recovery of Rs. 16.89 lakh. Thereafter, no payment was received for which the PUNSEED did not take any action to recover the amount with interest of Rs.14.83 lakh up to 31 March 1997.

The PUNSEED stated (July 1997) that efforts were being made to recover the outstanding amount along with interest.

2.10.2. Loss in sale of hybrid sunflower seed

Excessive purchase of hybrid sunflower seed than the indent of Agriculture Department resulted in its disposal at a loss of Rs. 13.63 lakh.

The PUNSEED had placed (September 1992) orders with two firms for supply of 800 quintals of hybrid sunflower seed (300 quintals Pro-Agro-5025 and 500 quintals NSFH-592 varieties) against an indent of the State Agriculture Department for 531 quintals of hybrid sunflower seed (312 quintals Pro-Agro-5025 and 219 quintals NSFH-592 varieties). The reasons for purchase of seed more than the demand of Agriculture Department were not brought on record, while taking decision to procure 800 quintals of seed. The firms had supplied 797.38 quintals of seed.

Out of the seed supplied by the firms, 668.55 quintals of seed was sold during 1992-93 and 1993-94 at the sale rate fixed by the PUNSEED, 42.48 quintals was sold in 1993-94 at the reduced rate at a loss of Rs.1.95 lakh and 86.35 quintals was disposed of (October 1994/July 1995) through auction at a loss of Rs.11.68 lakh.

Thus, the purchase of seed far in excess of the indent of the Agriculture Department resulted in disposal of 128.83 quintals of seed at a loss of Rs.13.63 lakh.

2.11. Internal audit

The PUNSEED has not prepared any Internal Audit Manual laying down the functions, scope and periodicity of audit. The Board of Directors (BOD) of the PUNSEED sanctioned (December 1982) four posts for Internal Audit Cell including one post of Chief Internal Auditor. However, Internal Audit Cell of the PUNSEED was functioning only with one functionary, i.e., Superintendent (Accounts). The reasons for not operating the Internal Audit Cell as per sanction of BOD were not on record. There was no system of reporting the results of internal audit periodically to the BOD.

It was further noticed that internal audit of the head office was not conducted after December 1992 and of the Regional Offices after 1993-94.

2.12. Other topic of interest

2.12.1. Extra expenditure on purchase of bags

In response to notice inviting tenders (NIT) in March 1995 for purchase of 5.30 lakh jute tarpauline bags, the PUNSEED received offers from two firms of Calcutta and Delhi quoting rates of Rs. 12.50 and Rs. 13.21 (negotiated rate) per bag respectively. The offer of Calcutta firm though being lowest was rejected on the ground that earnest money had not been received with the offer. The request of the Calcutta firm for adjusting the earnest money received against the previous order was not accepted because according to the Management, the firm had not supplied 0.90 lakh bags against previous order. It was, however, seen in audit that during execution of previous order, the PUNSEED changed the printing specifications in the course of execution of order and the firm had agreed to changed printing specifications in spite of the fact that there was no provision in the contract for such change. But the PUNSEED, after sending the revised printing specifications, did not ensure the delivery of printing matter to the firm resulting in non-supply of 0.90 lakh bags by the firm.

The PUNSEED purchased 4.42 lakh bags valued at Rs. 58.44 lakh from Delhi firm. Thus, rejection of the offer of the Calcutta firm without any valid justification, resulted in extra expenditure of Rs. 3.14 lakh in purchase of 4.42 lakh bags.

2.13. Conclusion

The PUNSEED had been incurring huge losses mainly on account of heavy interest burden due to default in repayment of old outstanding loans and overdraft in cash credit account. There is an urgent need for finding ways and means to liquidate the default transactions relating to old term loans and cash credit account. Further, in order to achieve the very objective of PUNSEED, the targets of production of certified seeds should also be fixed on commercial principles. Besides, the utilisation of capacity in seed processing plants also needs to be improved so as to ensure its continued leadership in the market.

Chapter-III

Section 3

REVIEWS RELATING TO STATUTORY CORPORATIONS

This chapter contains the reviews on the working of the following corporations:

Section 3A- Punjab State Electricity Board- Fixation of Tariff and Billing

Section 3B- Punjab Financial Corporation

Section 3A

PUNJAB STATE ELECTRICITY BOARD
FIXATION OF TARIFF AND BILLING

HIGHLIGHTS

The Punjab State Electricity Board (PSEB) had been incurring losses persistently over the years on sale of energy due to non-determination of tariff on the basis of cost of production and supply. The cumulative loss at the end of March 1997 aggregated to Rs. 336.93 crore.

(Paragraphs 3A.1 and 3A.5.1)

The PSEB had not fixed the tariff on the basis of cost for each consumer segment. In fact, through fixation of lower tariff for agricultural consumers, the PSEB suffered a loss of Rs. 3354.20 crore during the period from 1992-93 to 1996-97. Of this, Rs. 1297.54 crore were cross subsidised by fixing higher tariff in respect of other categories of consumers (except domestic) and Rs. 2015.43 crore (including Rs. 324.70 crore credited excess in 1995-96 and 1996-97) provided on account of rural electrification subsidy.

(Paragraphs 3A.5.1. and 3A.5.1.1)

Fuel surcharge for recovery from consumers on account of increase in cost of fuel for thermal generation had not been proportionately increased to cover the additional cost thereby resulting in loss of Rs. 117.80 crore.

(Paragraph 3A.5.2.3.)

Shifting the basis of fixation of monthly minimum charges for industrial consumers from contract demand to connected load yielded lesser revenue of Rs. 1.02 crore.

(Paragraph 3A.5.2.4.)

Non-determination of the level of supply voltage on the basis of contract demand resulted in loss of Rs. 12.75 crore. The specific deficiencies were line and transformation losses and recovery of maintenance and replacement charges.

(Paragraph 3A.5.2.6(i))

The continuance of higher voltage rebate of three *per cent* despite fixation of supply voltage at 33 KV and above for industrial consumers, resulted in loss of Rs. 31.01 crore.

(Paragraph 3A.5.2.6(ii))

Delayed conversion of supply on higher voltage due to belated completion of works by PSEB had resulted in loss of Rs. 5.74 crore as it could not levy surcharge.

(Paragraph 3A.5.2.6(iii))

In the absence of an established procedure for periodical review and revision of various energy related charges, the generation of internal resources of the PSEB was adversely affected. Specifically, the delayed revision of service connection charges and general charges resulted in loss of Rs. 14.62 crore. The advance consumption deposit and

security for meters amounting to Rs. 268.95 crore were not obtained from the consumers.

(Paragraphs 3A.6.1 and 3A.6.2)

The delayed revision of meter rentals along with the prices of meters/metering equipment accounted for the loss of Rs. 1.57 crore.

(Paragraph 3A.6.3)

Running of more than one industrial connection in the same premises in violation of the rules led to revenue loss of Rs. 2.40 crore to PSEB. In addition, the under billing of sales to agricultural consumers resulted in revenue loss of Rs. 36.95 crore.

(Paragraphs 3A.7.1.1(b) and 3A.7.1.2.)

The consumption of energy of 10483 MUs valued at Rs. 1110.11 crore escaped billing due to its accountal in unmetered agricultural consumption.

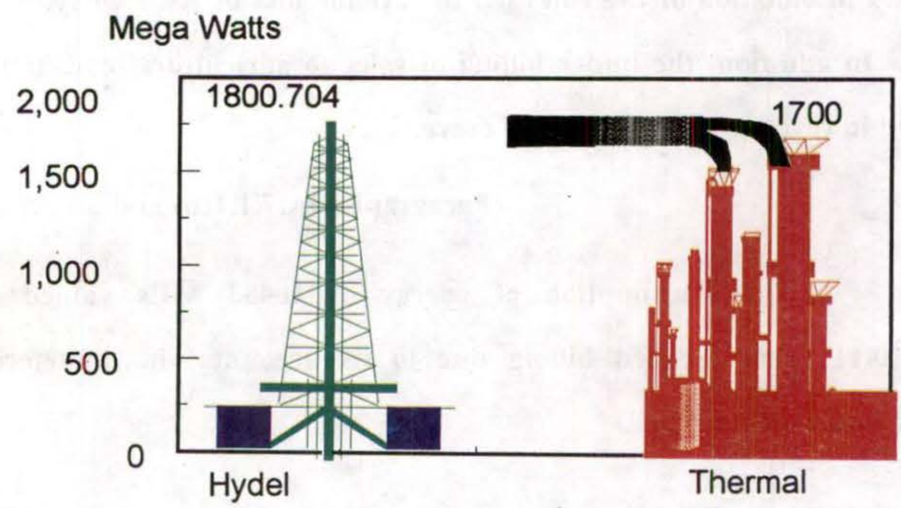
(Paragraph 3A.7.2(i))

Efforts by field staff to detect the theft of energy were sub-optimal and below the norms fixed by the PSEB. The percentage of checking had also come down drastically from 55 in 1993-94 to 12, 17 and 26 in 1994-95, 1995-96 and 1996-97 respectively. Besides, the practice of replacing defective meters without enquiring the incidence of tampering, resulted in non-detection of theft of energy which was found to be 22 per cent by Technical Audit Wing of the Board during test check of defective meters.

(Paragraphs 3A.7.2(ii) and (iv))

3A.1. Introduction

The Punjab State Electricity Board (PSEB) constituted in February 1959 under Section 5(1) of the Electricity (Supply) Act, 1948 was reconstituted in May 1967 after re-organisation of the composite State of Punjab. The PSEB is responsible for the generation, transmission and distribution of electricity. As on 31 March 1997, the PSEB had 1700 MW thermal and 1800.704 MW hydel generating capacity.



The State Government is providing subsidy to the PSEB since April 1977 as per undertaking given to World Bank, to cover the losses on account of rural electrification (RE) operations.

During the last five years from 1992-93 to 1996-97, the PSEB incurred a total loss of Rs. 2003.35 crore, before accounting for RE subsidy of Rs. 2015.43 crore provided by State Government. The cumulative loss at the end of March 1997 aggregated to Rs. 336.93 crore.

3A.2. Organisational set-up

The Operation Wing of the PSEB is under the control of Member (Operation). He is assisted by five Chief Engineers, 18 Superintending Engineers, 98 Executive Engineers and 455 Assistant Executive Engineers(AEEs)/Assistant Engineers (AEs) for the operation and maintenance of the entire supply system in the State. In the case of all the consumers other than large and bulk supply consumers, the raising of bills is done by AEEs/AEs. The billing of large and bulk supply consumers is done by three centralised billing cells (CBCs) of Ludhiana, Jalandhar and Patiala which work under the control of Chief Engineer (Commercial).

3A.3. Scope of audit

Mention was made in paragraph 3A of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1989 (Commercial) - Government of Punjab on various aspects of tariff, billing and collection of revenue. The Report, *inter alia*, contained matters relating to the delay in imposition of fuel surcharge, under-billing of sale of energy to agricultural, non-residential and industrial consumers, fixation of lower power factor surcharge and delay in revision of service connection charges.

The present review encompasses the appraisal of fixation of tariff including other charges impacting on generation of internal resources of the PSEB for the years from 1992-93 to 1996-97. Audit coverage also extends to the billing for various categories of consumers according to the tariff fixed.

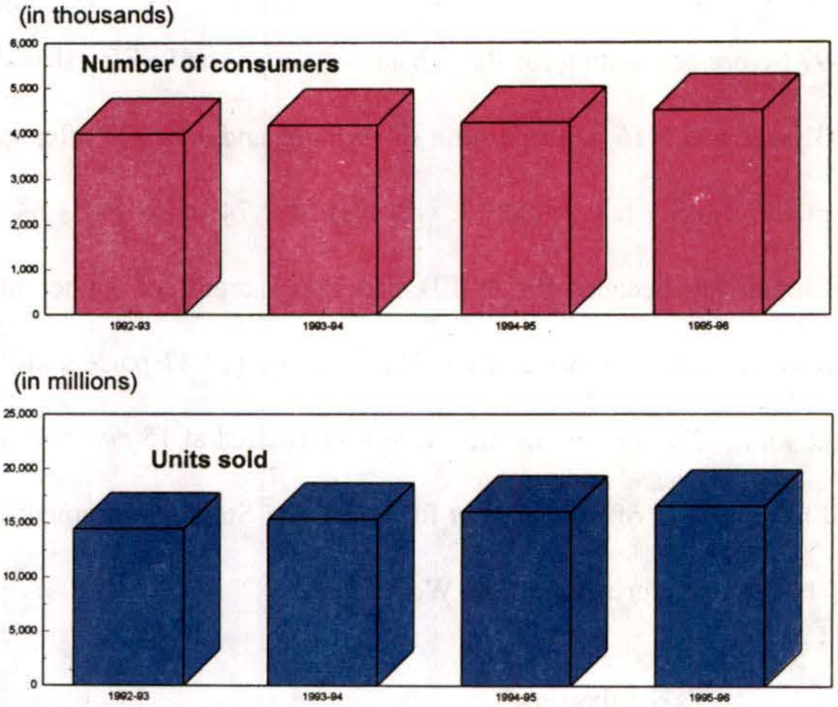
3A.4. Sale of power

3A.4.1. The table given below indicates units sold, number of consumers, revenue per unit and expenditure per unit during five years ended March 1997:

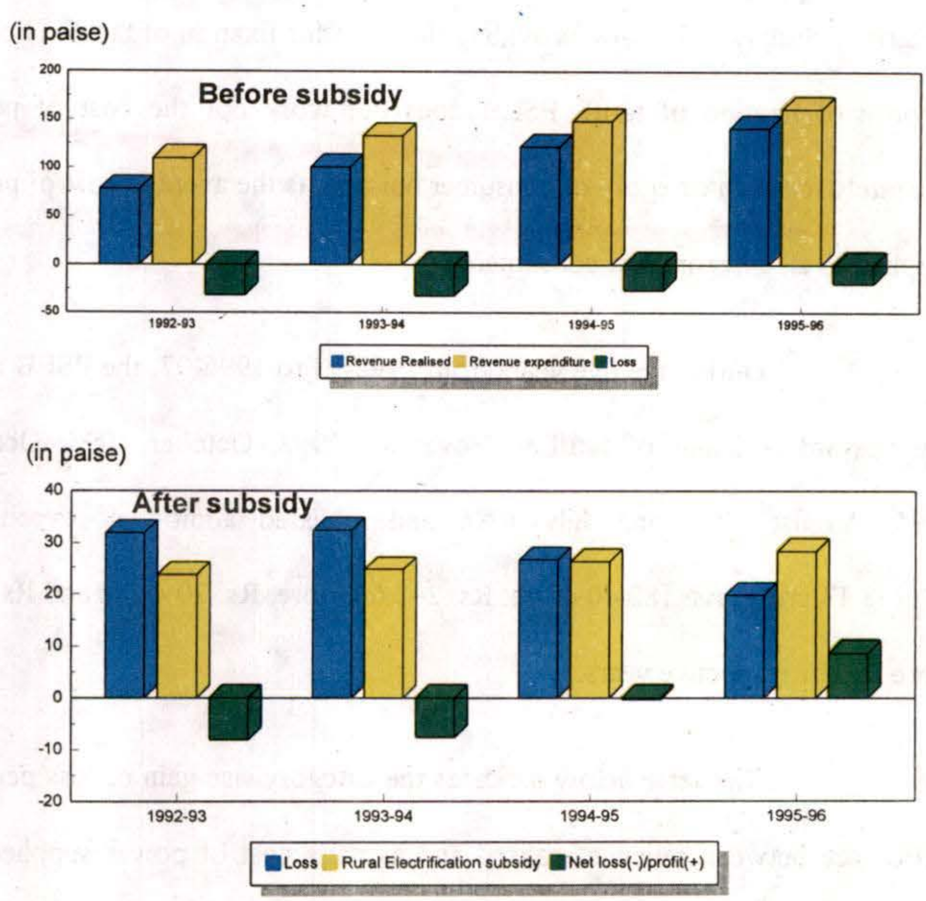
	1992-93	1993-94	1994-95	1995-96	1996-97
Units sold (in millions)	14441.46	15361.33	16031.60	16556.96	17879.76
Number of consumers (in thousands)	3990	4184	4240	4509	4669
Revenue realised* per unit(in paise)	78.17	100.82	122.00	141.44	155.16
Revenue expenditure per unit (in paise)	109.99	133.19	148.67	161.10	171.57
Loss per unit (in paise)	31.82	32.37	26.67	19.66	16.41
Rural Electrification subsidy per unit (in paise)	23.69	24.70	26.32	28.29	22.57
Net loss(-)/profit(+) per unit(in paise)	**(-)8.13**	**(-) 7.67**	**(-) 0.35**	**(+) 8.63**	**(+) 6.16**

* Worked out after adding to figures of revenue receipt, Rs. 11.58 crore (1992-93), Rs. 20.08 crore (1993-94), Rs. 38.91 crore (1994-95), Rs. 26.31 crore (1995-96) and Rs. 22.16 crore (1996-97) on account of adjustment of income relating to previous years and grants (other than rural electrification subsidy) received by the Board.

Power sold



Loss per unit on Power sold



3A.4.1.1. It would be seen from the information obtaining in paragraph 3A.4.1 (table) that PSEB had suffered loss in all the five years from 1992-93 to 1996-97 before accounting for RE subsidy. Though the PSEB calculated profit of 8.63 paise and 6.16 paise per unit in 1995-96 and 1996-97 after taking into account the subsidy but actually it was loss of 1.74 paise and 1.64 paise per unit respectively because the PSEB had taken credit of higher amount of subsidy of Rs. 171.73 crore and Rs. 152.97 crore (10.37 paise and 8.56 paise per unit sold). The amount of subsidy was calculated at 15 *per cent* of average capital base instead of 9.5 *per cent* for which the State Government had given (April 1977) an undertaking to the World Bank.

3A.5. Tariff fixation

3A.5.1. The PSEB has no guidelines as required under Section 79 of the Electricity Supply Act, 1948, providing the basis for fixation of tariff . For the purpose of fixation of tariff, PSEB does not work out the cost of power separately for each category of consumer but adopts the average cost of power supplied to all categories of consumers.

During the five years from 1992-93 to 1996-97, the PSEB made five upward revisions of tariff in November 1992, October 1993, October 1994, August 1995 and July 1996 and assessed additional revenue of Rs. 258.13 crore, Rs. 182.40 crore, Rs. 242.66 crore, Rs. 20 crore and Rs. 240 crore for the respective years.

The table below indicates the categorywise gain or loss per unit (difference between revenue realised and average cost of power supplied) to the PSEB during the last five years ended 1996-97:

Sl. No.	Category of consumer	1992-93	1993-94	1994-95	1995-96	1996-97	Total
		(Rupees in crore - Profit(+)/Loss(-))					
1.	Domestic	-48.73	-39.25	-36.37	-25.48	-59.84	-209.67
2.	Non-residential	+16.15	+19.71	+31.30	+46.89	+62.88	+176.93
3.	**Industrial**						
(a)	Small power	-2.39	+8.74	+7.93	+16.09	+26.13	+56.50
(b)	Medium power	+6.56	+23.78	+26.57	+44.85	+64.15	+165.91
(c)	Large power	+29.54	+123.33	+136.35	+208.94	+355.62	+853.78
4.	Public lighting	+0.26	+0.21	+0.86	+1.78	+5.07	+8.18
5.	Grid and bulk	-7.97	+6.91	+7.50	+10.35	+19.45	+36.24
6.	Agriculture	-667.89	-655.57	-604.08	-628.32	-798.34	-3354.20
	Total loss*	**-674.47**	**-512.14**	**-429.94**	**-324.90**	**-324.88**	**-2266.33**

3A.5.1.1. It would, thus, be seen that in the case of agricultural consumers, the loss to the PSEB during 1992-93 to 1996-97 amounted to Rs. 3354.20 crore due to fixation of lower tariff. However, loss of Rs. 1297.54 crore was cross subsidised by fixing higher tariff in respect of other categories of consumers (except domestic) thereby resulting in net loss of Rs. 2056.66 crore. Of this, Rs. 2015.43 crore (including Rs. 324.70 crore credited excess in 1995-96 and 1996-97) were offset by providing RE subsidy.

3A.5.1.2. The total loss of Rs. 2266.33 crore during five years up to 1996-97 included loss of Rs. 1110.11 crore as the energy consumed escaped billing due to its accountal in unmetered agricultural consumption as discussed in para 3A.7.2(i).

* Excludes rural electrification subsidy.

3A.5.2. Deficiencies in tariff fixation

3A.5.2.1. Domestic tariff

Tariff for domestic consumers fixed by the PSEB over the years was lower than the cost of power supplied to such consumers as given in the table in para 3A.5.1. The State Government directed (August 1993) the PSEB to revise domestic tariff so as to cover the cost of power supply plus three *per cent* return on capital base. It was noticed in audit that PSEB revised tariff in October 1993 and October 1994 but tariff for domestic consumers was not revised to cover the cost of power supplied. Further, during revision of tariff in August 1995 and July 1996, the domestic tariff was not revised at all. Resultantly, the PSEB suffered a loss of potential revenue of Rs. 121.69 crore during the years 1994-95 to 1996-97.

3A.5.2.2. Failure to include interest on equity for arriving tariff rate

The State Government directed (August 1993) the PSEB to add 12 *per cent* return on equity capital while working out the cost of production and supply of power to consumers for the purpose of tariff fixation. The PSEB, however, while arriving at the cost of production and supply of power for revising the tariff from October 1993, October 1994, August 1995 and July 1996 did not add Rs. 194.04 crore *per annum*, being the 12 *per cent* return *per annum* on equity capital of Rs. 1617 crore. Resultantly, the tariffs were correspondingly fixed on lower side and thereby resulting in loss of Rs. 582.12 crore during the years 1994-95 to 1996-97.

3A.5.2.3. Delay in levy of fuel surcharge

In case of thermal generation, the percentage of fuel (coal and oil) cost to the total cost is above 60 *per cent*. In order to neutralise the increase in cost of fuel of thermal generation, Planning Commission, while discussing Annual Plan of State Government for 1976-77 observed that PSEB should introduce fuel surcharge. The PSEB, however, started levying fuel surcharge from November 1982.

Audit scrutiny of records relating to additional cost of fuel revealed that during 1992-93 to 1996-97, though the PSEB levied fuel surcharge on the consumers in five cases of increase in cost of fuel, the additional cost could not be fully neutralised because of delay/short levy of fuel surcharge. In one case of increase in cost of fuel in December 1995, the fuel surcharge was not levied by PSEB. Delayed/short levy of fuel surcharge had resulted in loss of Rs. 117.80 crore. The reasons for not neutralising the additional cost fully were not furnished by PSEB.

3A.5.2.4. Fixation of monthly minimum charges

According to the tariff applicable prior to October 1994, the billing of large supply industrial consumers was to be either the demand charges plus energy charges subject to maximum overall rate or monthly minimum charges (MMCs) worked out on the basis of contract demand* However, from October 1994, the PSEB abandoned the concept of demand charges and tariff was revised for raising the bills on the basis of energy consumption only. As the concept of demand charges had been abandoned, the

* Maximum demand in KVA sanctioned to a consumer.

PSEB decided (May 1995) that MMCs would be calculated on the basis of connected load instead of on the basis of contract demand in respect of large supply industrial consumers.

The table given below indicates the existing as well as the revised MMC rates:

Type of industry	Existing rates as per contract demand (Rupees per KVA)	Rates as per connected load (Rupees per KW)
Arc furnace	200	200
Induction furnace	220	220
Off seasonal	200	150
General	100	75

Audit scrutiny of existing, as compared to revised rates of MMCs at CBC, Ludhiana revealed that rates fixed on the basis of connected load yielded lesser revenue of Rs. 1.02 crore during the period from May 1995 to June 1996 in respect of 437 consumers. The loss after June 1996 could not be worked out as the MMCs were again revised during July 1996.

3A.5.2.5. Fixation of power factor surcharge

To compensate the loss of energy due to low power factor, a large power industrial consumer was charged a surcharge of one *per cent* on the bill amount for each one *per cent* by which the monthly average power factor fell below 85/88 *per cent* to 80 *per cent*, a surcharge of two *per cent* for each one *per cent* by which the monthly average power factor fell below 80 *per cent*. The tariff further provided that if the monthly average power factor fell below 80 *per cent*, it must be improved within a period of six months failing which the connection could be disconnected and was not to be reconnected unless arrangements were made to improve monthly power factor to 85/88 *per cent*.

During test check in audit of 1909 cases relating to two CBCs (Ludhiana and Patiala), it was found that in case of 98 consumers, the average monthly power factor ranged between 0.01 and 55 *per cent* during the period from April 1992 to March 1996 thereby resulting in loss of 3.97 MUs of energy valued at Rs. 0.63 crore. The Board, however, could recover power factor surcharge of Rs. 0.40 crore from the consumers resulting in loss of Rs. 0.23 crore.

Further, in case of 31 consumers (out of 98 consumers *ibid*), although power factor was continuously below 80 *per cent* for more than six months and was as low as 0.06 *per cent* to 55 *per cent* in certain months, the connections were not disconnected. The period for which the power factor remained below 80 *per cent* after six months ranged from one month to 42 months with consequent loss of 1.75 MUs of energy resulting in loss of revenue of Rs. 0.30 crore against which surcharge of Rs. 0.19 crore only was recovered.

3A.5.2.6. Supply voltage

The PSEB reserved the right to give supply to the consumers at one point or more points and all sub-stations, switch houses, etc., on the consumers' premises were to be erected with the approval of the PSEB at the expense of the consumer.

Prior to September 1988, all industrial loads of 100 KW and above were given supply at 11 KV except arc furnace loads where the supply voltage was 33 KV and above. However, if the supply was given at 33 KV and above instead of 11 KV, the consumer was given three *per cent* rebate on the bill amount and if arc furnace load was given supply at 11 KV, a surcharge of 17.5 *per cent* on the bill amount was leviable.

In September 1988, the PSEB fixed the supply voltage level at 33 KV and above for consumers with connected load above 5000 KW or contract demand above 5000 KVA. In May 1991, the PSEB further decided that such existing consumers getting supply at 11 KV should convert the supply to higher voltage within 12 months failing which 17.5 *per cent* surcharge would be levied to cover the line losses, transformation losses and maintenance charges. However, the surcharge was not leviable if (i) the connected works of PSEB were not ready and (ii) the consumer deposited the full estimated cost of works to be constructed in his premises by the PSEB. The works were, however, to be completed within the scheduled time.

An industrial consumer represented (January 1993) that only contract demand should be taken into consideration, as also already taken up with the PSEB by Industrial Associations, for giving supply at higher voltage. The PSEB decided (December 1993) that:

- the supply voltage would be 33 KV or above where the connected load exceeds 5950 KW and contract demand exceeds 4200 KVA,

- existing consumers where contract demand was beyond 4200 KVA and up to 5000 KVA and connected load up to 5000 KW would be required to convert supply to higher voltage before any extension in load or contract demand was allowed.

Non-determination of level of supply voltage on the basis of contract demand resulted in loss of Rs. 12.75 crore.

(i) It was, however, noticed in audit that the decision of the PSEB to determine the level of supply voltage on the basis of both connected load and contract demand lacked justification because consumers with contract demand above 4200 KVA and up to 5000 KVA but having connected load above 5000 KW were asked to convert supply on higher voltage within 12 months whereas the consumers with the same contract demand but having connected load up to 5000 KW were not made liable to convert the supply to higher voltage. Had the PSEB determined the voltage of supply on the basis of contract demand only (also being done by Electricity Boards of other States - Uttar Pradesh, Andhra Pradesh, Tamil Nadu, Kerala, Haryana, Rajasthan, Bihar and Gujarat), consumers having contract demand above 4200 KVA and up to 5000 KVA with connected load up to 5000 KW could have been made liable to convert the supply to higher voltage. By doing so, the PSEB could have avoided the loss of Rs. 12.75 crore (assessed at 17.5 *per cent* being levied by the PSEB on account of electricity losses and maintenance charges, etc.,) in respect of such consumers (totalling eleven) during January 1995 to November 1996.

Unjustified higher voltage rebate resulted in loss of Rs. 31.01 crore.

(ii) Similarly, the rebate of three *per cent* on the bill amount being given to large supply industrial consumers getting supply at 33 KV and above was withdrawn from June 1996 which should have been withdrawn from September 1988 when the higher supply voltage was fixed.

On representation (July 1996) from the industrial consumers, the PSEB restored (August 1996) the rebate. Restoration of rebate lacked justification because it was not admissible due to fixation of higher voltage level of supply by the PSEB in September 1988. Thus, unjustified higher voltage rebate of three *per cent* had resulted in loss of Rs. 31.01 crore to the PSEB during April 1992 to November 1996.

Delayed conversion of supply to higher voltage due to delayed completion of works by the PSEB resulted in loss of Rs. 5.74 crore.

(iii) During test check of six cases requiring conversion to higher voltage (out of 12 cases), it was found that supply of power was converted to higher voltage within the stipulated period of 12 months only in one case. In case of four other cases, the delay in completion of works by the PSEB ranged between 14 and 29 months and in case of remaining one consumer, the works had not been completed so far (January 1997). Non-completion of works within the stipulated period of 12 months resulted in loss of Rs. 5.74 crore because the PSEB could not levy the surcharge. In case of one consumer, the works by PSEB were completed in July 1993 but supply at higher voltage was given in April 1994 for want of completion of related works by the consumer. However, the PSEB had not recovered the surcharge of Rs. 0.59 crore from the consumer so far (August 1997).

3A.5.3. Inter-State sales tariff

In order to ensure optimum utilisation of available energy, surplus power in a State is supplied to deficit State through Northern Grid, which is controlled by Northern Regional Electricity Board (NREB). The billing for inter-State sales is done at generation cost of Badarpur Thermal Plant, New Delhi. However, to curb high frequency operation of the Northern Grid, it was decided in August 1991 by NREB that if sale of power by a surplus State to deficit State is done during high frequency* period of Northern Grid, the rate applicable for sale would be fuel rate of Singrauli Power Station plus transmission losses and transmission charges. NREB further decided (February 1992) to adopt a provisional rate of 45 paise per unit till the final rates were available.

> The PSEB suffered a loss of Rs. 1.72 crore due to inaction on its part to get the rates finalised.

During the years 1992-93, 1993-94 and 1995-96, the PSEB sold 380.89 MUs of energy to other States during the high frequency period. The PSEB raised the bills at the provisional rate of 45 paise per unit and did not take any action to get the final rates approved from NREB. As per purchase bills of Singrauli Power Station, the actual fuel rates ranged between 42.27 and 57.71 paise against 45 paise per unit. On pointing out (February 1997) in audit, the PSEB raised its claim in April 1997 for making payment on actual rate of Singrauli power station. It was decided (April 1997) by NREB that the provisional rate of 45 paise would remain in force till March 1997 and thereafter it would be changed after every six months because the other State

* Operation of power system at 50.2 Hz and above.

Electricity Boards maintained that the actual rate should be made known in advance to plan their drawals during high frequency period. Thus, the PSEB suffered a loss of Rs.1.72 crore due to inaction on its part to get the rates finalised.

3A.6. Lack of system for periodical revision of various charges

The PSEB recovers from consumers service connection charges (SCCs) for providing connections, general charges for miscellaneous services and advance consumption deposits against consumption of energy. The PSEB has, however, not provided for any periodical review and revision of such charges to recover the increase in cost over a period thereby affecting the generation of internal sources. Some significant instances are as follows:

3A.6.1. Delay in revision of SCCs and general charges

(i) To cover the cost of capital expenditure for providing connections, the PSEB recovers SCCs from consumers. The SCCs in respect of industrial/bulk supply categories were revised in April 1988 (*adhoc* increase of 40 to 50 *per cent* over the charges fixed during April 1982). Further revision was made in November 1995 to Rs. 1000 per KW from existing rate of Rs. 350 per KW (up to 100 KW) and Rs. 300 per KW (above 100 KW to 1000 KW).

A test check of charges fixed in November 1995 revealed that the rates were revised on the basis of increase in cost of various items of material by about three times over the rates of 1987-88. The industrial consumers represented (December 1995) against the steep hike in SCCs on the grounds that the PSEB had already increased tariff four times during the last four years and the industry was struggling hard to survive. Consequently, the charges were reduced by Rs. 250 per KW in case of industrial categories in spite of the fact that earlier rates were worked out keeping in view the actual increase in cost to the PSEB.

The reduction in SCCs lacked justification because the tariff rates were increased to cover the cost of power supplied (revenue expenditure) whereas SCCs were for the cost of giving connection (capital expenditure). Analysis of power consumption vis-a-vis the cost for the small and medium supply consumers revealed that PSEB suffered a loss of Rs. 4.70 crore in respect of 1.88 lakh KW of load released during December 1995 to March 1997 (the period up to which the information was available centrally).

Audit scrutiny further revealed that the cost of various items of material during 1992-93 had increased by two times as compared to 1987-88 thereby indicating the compelling need for revision of SCCs. As the rates of SCCs were not revised, the PSEB was put to a loss of Rs. 8.62 crore in respect of 2.46 lakh KW of load released to the small and medium industrial supply consumers alone during April 1992 to October 1995.

(ii) Similarly, general charges representing expenditure on miscellaneous services such as meter testing, service charges, etc., fixed in October 1982 were revised in April 1988 and September 1991. Audit scrutiny of general charges fixed in September 1991 revealed that the same were revised on account of increase in establishment expenditure by Rs. 105 crore since the last revision in April 1988 and additional revenue of rupees three crore was assessed by PSEB. Though the establishment expenditure of the PSEB had increased by Rs. 111 crore up to 1993-94 when compared with 1990-91 (basis for revision in September 1991), general charges were not increased. Thus, non-revision of general charges in spite of substantial increase in establishment expenditure in 1993-94 resulted in loss of Rs. 6.00 crore during 1994-95 and 1995-96.

3A.6.2. Exemption granted to existing consumers from scope of revision of rates of advance consumption deposit (ACD) and security for meters

Despite enabling provision in the rules, ACD and security for meters amounting to Rs. 268.95 crore were not obtained from existing consumers.

Terms and conditions of supply of power to consumers, *inter alia*, provided that any time during the existence of an agreement executed by the consumers with the PSEB, it may require the consumers to deposit additional ACD against advance energy charges on which no interest shall be payable.

The rates of ACD fixed in September 1982 were revised as late as during December 1993, based on tariff revision of October 1993, although the tariff was revised six times during the intervening period. These rates were last revised in May 1996 based on tariff revision during August 1995. In spite of enabling provision in the rules, the revised rates were not made applicable in case of existing consumers. Resultantly, the Board could not generate additional resources of Rs.89.31 crore and Rs.108.84 crore from existing consumers on the basis of rates of ACD revised in December 1993 (ranging from Rs. 20 to Rs. 330 per KW of load) and May 1996 (ranging from Rs. 30 to Rs. 250 per KW of load) respectively.

Similarly, the rates of security for meters and metering equipment revised in December 1993 and May 1996 were not made applicable to existing consumers resulting in non-mobilisation of additional resources of Rs. 35 crore and Rs.35.80 crore respectively.

Obtaining of ACD at the revised rates from existing consumers could have served as security for recovery of electricity charges and thereby facilitated adjustment of Rs.29.47 crore, up to the end of March 1997, towards outstanding recoveries from permanently disconnected consumers.

3A.6.3. Delay in revision of prices of meters, metering equipment and meter rentals for recovery from consumers

Delayed revision of meter rentals along with prices of meters and metering equipment resulted in loss of Rs. 1.57 crore.

The PSEB had not prescribed any periodicity for review and revision of prices of meters and metering equipment to be recovered from consumers on account of damaged/burnt meters due to their negligence/faults. However, the prices were being reviewed and revised by the PSEB every year since 1991-92 on the basis of the purchase orders placed in the preceding years.

Audit scrutiny of revision of prices made during 1992-93, 1993-94 and 1994-95 revealed that revisions were not made from 1 April and delay in revision was 40, 30 and 30 days respectively. This resulted in short-recovery of Rs.1.98 lakh in one division test checked (out of total four divisions) towards cost of 0.16 lakh damaged/burnt meters and metering equipment and repairable single and three phase meters.

Further, as the average prices formed the basis of revision of meter rentals, the same were also revised late along with the prices of meters/metering equipment which also resulted in short-recovery of meter rentals amounting to Rs.1.57 crore in respect of 33.32 lakh, 34.97 lakh and 35.36 lakh meters/metering equipment.

3A.7. Billing

Raising of correct bills according to the tariff fixed is an important activity of PSEB so as to realise the contemplated revenue. The sales manual of the PSEB governing supply of electricity to consumers embodies the instructions regarding release of connection, charges to be recovered, checking of connections to curb theft of electricity, etc.

3A.7.1. Under billing

3A.7.1.1. Industrial consumers

(a) In order to neutralise the additional expenditure on fuel required for generation of electricity, bill amount was to be increased at the fuel surcharge rates notified by the PSEB. It was, however, noticed during audit of CBC, Ludhiana (out of total three CBCs) that while levying low tension(LT), steel rolling mill (SRM) and lower power factor surcharges, the fuel surcharge levied during April 1992 to October 1992 and May 1995 to June 1996 was not included in the bill amount for calculating the surcharges, *ibid*, thereby resulting in under billing of Rs. 0.09 crore.

Running of more than one industrial connection in the same premises in contravention to the provisions of sales manual of the PSEB resulted in loss of revenue of Rs. 2.40 crore.

(b) The Sales Manual of the Board provides that not more than one connection be allowed within the same premises in the same or different names to avoid loss of revenue on account of application of higher industrial tariffs. It was seen in audit that in 12 cases, more than one industrial connection was running in the same premises thereby resulting in loss of revenue of Rs. 2.40 crore to the PSEB as given in ***Annexure 8***.

In order to avoid revenue loss due to consumers not getting the connections clubbed, the PSEB decided in September 1995 that more than one connection in the same premises be treated as one and bill raised from January 1996 accordingly. This was not done by the Sub-Divisional Offices in respect of eight consumers (from serial numbers 4 to 11 of ***Annexure 8***) thereby resulting in loss of Rs. 0.06 crore.

3A.7.1.2. Agricultural consumers

Based on sanctioned load and flat rate tariff, there was under-billing of Rs. 36.95 crore to agricultural consumers.

The billing of agricultural consumers is done on flat rate on the basis of sanctioned load as per tariff fixed by the Board. Accordingly, a sum of Rs.820.81 crore was required to be billed against which Rs. 783.86 crore only were billed by the PSEB during the period from 1992-93 to 1996-97(up to January 1997 as supply of power was made free from February 1997) resulting in under billing of Rs. 36.95 crore as indicated below:

Year	Average load in BHP	Billed amount by the PSEB	Actual to be billed	Under billed
		(Rupees in crore)		
1992-93	2827849	66.79	73.02	6.23
1993-94	2975746	123.49	129.18	5.69
1994-95	3152701	206.27	214.15	7.88
1995-96	3318467	226.12	233.68	7.56
1996-97 (up to January 1997)	3415898	161.19	170.78	9.59
Total		**783.86**	**820.81**	**36.95**

The reasons for not raising the bills on the basis of sanctioned load had not been furnished to audit. The action, if any, taken for non-raising the bills correctly was also not made available to audit.

3A.7.2. Energy escaping billing

Consumption of energy of 10483 MUs valued at Rs. 1110.11 crore escaped billing due to its accountal in unmetered agricultural consumption.

(i) The PSEB was computing consumption of energy by agricultural consumers* (where billing in over 98 *per cent* cases was done at flat rate ranging from Rs. 19 to Rs. 65 per BHP** during 1992-93 to 1995-96) on the basis of readings of energy meters installed on representative feeders. Such consumption was being inflated by PSEB by adding consumption on account of use of oversize motors, use of motors during single phase supply, excessive light load of tubewells, etc. During 1992-93 to 1996-97, the consumption due to these factors added was 2269 MUs, 2218 MUs, 1872 MUs, 1883 MUs and 2241 MUs respectively. The addition of consumption on these factors lacked justification because the same was already included in the consumption worked out on the basis of meters installed on representative feeders. Audit scrutiny further revealed that per BHP consumption of energy for flat rate consumers was more than two and a half times of the consumption of agricultural consumers to whom metered supply was given. Thus, by inflating consumption of energy by agricultural consumers, the revenue loss of PSEB worked out to Rs. 1110.11 crore and

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* Other consumers are domestic, non-residential, industrial (small power, medium power, large power), public lighting, grid and bulk supply.

** Brake horse power equivalent to .746 KW.

Rs. 58.59 crore to the State Government on account of electricity duty during the years 1992-93 to 1996-97 as this had escaped billing.

(ii) With a view to curbing unauthorised extensions and theft of energy, the PSEB had prescribed a system of periodical checking of connections by the field staff. The percentage of connections checked against the norms fixed by the PSEB and the recoverable revenue detected for the last five years ended 1996-97 are as under:

Year	No. of connections		Percentage of connections checked	Cases of theft/wrong metering detected		
	Norm	Checked		Number	Percentage to connections checked	Revenue (Rupees in crore)
1992-93	2293018	259736	11	7595	2.92	0.58
1993-94	2393761	1309346	55	72789	5.56	7.60
1994-95	2421840	284624	12	21922	7.70	1.95
1995-96	2564936	448414	17	27374	6.10	2.87
1996-97	2658160	686825	26	50755	7.39	7.04

It would be seen that percentage of checking of connections when compared with the norms came down from 55 in 1993-94 to 26 in 1996-97. The reasons for reduction in checking were not furnished by PSEB. Due to failure of the PSEB to check the connections to the extent of prescribed norm, the theft of energy by consumers remained undetected.

(iii) The Enforcement Directorate had also been checking connections to detect cases of pilferage/theft of energy. Norms for checking by the enforcement staff had not been fixed by the PSEB.

The table below indicates the percentage of connections checked, the extent of pilferage detected and the additional realisable revenue detected during the five years ended 1996-97:

Particulars	1992-93	1993-94	1994-95	1995-96	1996-97
1. Total connections (Number in thousand)	3989.52	4184.78	4239.51	4508.64	4668.74
2. Connections checked (Number)	20383	19114	5349	11423	18886
3. Number of connections where theft, etc., detected	4317	4225	1056	2847	4883
4. Percentage of theft cases to connections checked	21.18	22.10	19.74	24.92	25.86
5. Percentage of connections checked	0.51	0.46	0.13	0.25	0.40
6. Revenue realisable as a result of pilferage detected (Rupees in crore)	7.77	17.04	1.90	4.58	12.85

The percentage of connections checked had come down from 0.51 in 1992-93 to 0.40 in 1996-97. Reasons for reduction in checking were not furnished.

Status of recovery of balance amount of Rs. 35.91 crore being the value of pilfered energy was not known.

The PSEB has not maintained age-wise data of realisable amount and recoveries made so as to have an effective control over recoveries. Against the total realisable amount of Rs.64.18 crore detected in checking by the field and the enforcement staff, the total recoveries effected during the five years up to 1996-97 amounted to only Rs. 28.27 crore. The position of balance recovery of Rs. 35.91 crore was called for from PSEB in March 1997 but no reply had been received (August 1997).

(iv) During the four years ending March 1996, 7.99 lakh defective single and three phase meters were replaced without determining their percentage of inaccuracy. In the absence of test results, the exact financial loss on this account could not be ascertained.

Technical Audit Wing of the Board reported (April 1993) that it checked 2186 single and three phase defective meters received in Metering Equipment Division, Ludhiana between December 1992 and January 1993. Of this, 473 (22 *per cent*) theft cases were detected.

Evidently, the practice of replacing the meters without conducting tests was not justified because theft cases remained undetected.

3A.7.3. The defective/inoperative meters were not being replaced immediately. The delay ranged from one month to more than 12 months. Though meter rentals were not to be recovered from the consumers for the period the meters were defective, the PSEB recovered Rs.3.38 crore from the consumers for defective meters during 1992-93 to 1995-96.

> The meter rentals of Rs. 3.38 crore were incorrectly recovered from consumers for the periods the meters remained defective.

3A.8. Internal Audit

The internal audit staff attached to revenue sub-divisions functions under the control of Chief Auditor. The quantum of internal audit was 100 *per cent* except billing of domestic supply, non residential supply and agriculture supply consumers

> The delayed recovery of various charges from consumers resulted in loss of interest of Rs. 10.06 crore.

where the quantum of audit was 8.33 *per cent*, 50 *per cent* and 16.66 *per cent* respectively. The quick realisation from the consumers was the prime responsibility of sub-divisional officers and their staff.

During the years 1993-94 to 1995-96, Internal Audit Organisation had been repeatedly pointing out under-assessment of revenue mainly due to wrong application of tariff, non-recovery of average consumption charges having defective meters and cost of burnt meters, short recovery of meter rent, security and service connection charges, etc. Total underassessment detected during the years, *ibid*, was Rs. 68.73 crore. This was indicative of the fact that bills to the consumers were not being prepared with proper care. As the internal audit had been in arrears for an average period from five to thirteen months in respect of industrial category and for 12 to 23 months in respect of other categories, the delayed recovery of Rs.68.73 crore from the consumers had resulted in loss of interest of Rs.10.06 crore to the PSEB.

3A.9. Conclusion

The PSEB has been incurring losses persistently over the years on sale of its energy due to non-determination of tariff on the basis of cost of production and supply and failure to increase fuel surcharge in proportion to the increase in cost of fuel. The fixation of various charges such as service connection charges and general charges is not being reviewed at regular intervals for their revision thereby adversely affecting the generation of internal resources. The practice of inflating unmetered agricultural consumption had been escaping billing and checking of connections to detect theft of energy had come down drastically. There is compelling need to review the above areas for bringing improvements.

Section 3B

PUNJAB FINANCIAL CORPORATION

HIGHLIGHTS

The Punjab Financial Corporation (PFC) provides loans to small and medium industrial units to promote industrialisation in the State of Punjab. The PFC, established in 1953 (and reconstituted in April 1967) has disbursed loans of Rs.342.85 crore to 3500 units during the five years up to 1995-96 and has incurred cumulative loss of Rs.60.60 crore up to 1995-96.

(Paragraphs 3B.1 and 3B.5)

The record of performance of the PFC regarding the recovery of loans had been unsatisfactory; the rate of recovery had declined from 52 *per cent* in 1991-92 to 41 *per cent* in 1995-96. Total disbursement of Rs. 681.10 crore was financed by plough back of recoveries to the extent of Rs. 232.23 crore. Accordingly, the PFC was yet to achieve self reliance even after 28 years of operation.

(Paragraphs 3B.7.2.1. and 3B.7.2.5.)

Out of the total overdue amount of Rs.143.74 crore, Rs. 18.56 crore were irrecoverable in the absence of adequate safeguards. For 67 *per cent* of the default amount aggregating Rs.96.98 crore, no recovery had been received continuously for the past two years.

(Paragraphs 3B.7.3.2. and 3B.7.4.2.)

The PFC disbursed loan to ancillary units even though the envisaged nucleus plants for providing technical know-how, marketing, etc., were not set up resulting in non-recovery of Rs.14.59 crore. An amount of Rs.0.49 crore was embezzled through bogus sanction of loans and Rs.0.59 crore were disbursed to 86 units through fictitious machinery suppliers.

(Paragraphs 3B.7.5.(a) and (b))

The PFC sustained a loss of Rs.4.59 crore in belated disposal of 183 acquired units as their sale value was lesser than the assessed value.

(Paragraph 3B.7.5(d)(i))

More significantly, in 10 cases test checked, the PFC could not recover Rs.8.69 crore from loanee units as the loans were sanctioned without proper pre-sanction appraisal of projects and without adherence to the prescribed rules and in disregard of the advice of IDBI.

(Paragraph 3B.7.6.)

3B.1. Introduction

Punjab Financial Corporation (PFC) was established in 1953 under the State Financial Corporations (SFCs) Act, 1951. It was reconstituted on 1 April 1967 under Section 69 of Punjab Re-Organisation Act, 1966. The object of the PFC is to provide loans to small and medium industrial units. The PFC is also acting as an agent for disbursement of Central and State investment subsidies. The PFC had disbursed loans of Rs.342.85 crore to 3500 loanees during the five years up to 1995-96.

3B.2 Organisational set-up

ASR; Bathinda, HSP; Jal; Lud; Sangrur; Ferozepur Ropar, Pat.

The management of the PFC is vested in a Board of Directors. As at the end of March 1996, there were 12 directors including a Chairman. The Managing Director is the Chief Executive of the PFC and is appointed by the State Government. Besides, the PFC has nine district offices each headed by a District Manager.

3B.3 Scope of audit

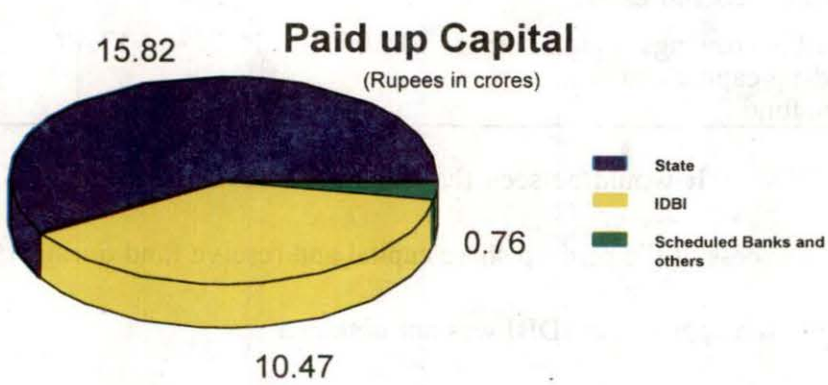
Mention was made in the Report of the Comptroller and Auditor General of India for the year 1989-90 (Commercial)-Government of Punjab about the sanction and disbursement of loans vis-a-vis their recovery.

The review was discussed by the Committee on Public Undertakings in December 1995 but its recommendations were awaited (September 1997).

The present audit review examined the sanction and disbursement of loans by PFC along with recovery performance of dues during the five years from 1991-92 to 1995-96, as the PFC had not compiled the accounts for the year 1996-97 (September 1997).

3B.4 Capital structure

3B.4.1. Against the authorised capital of Rs.100 crore, the PFC had a paid-up capital of Rs.27.05 crore as on 31 March 1996. The paid-up capital was contributed by the State Government (Rs.15.82 crore), Industrial Development Bank of India-IDBI (Rs.10.47 crore) and scheduled banks and others (Rs.0.76 crore). = Sch. Banks 50.88
Coop. Banks 17.58
Insurance 4.93
Pvt shareholders 1.54
75.93 lakh



Besides, the resources of the PFC were augmented by borrowings which, *inter alia*, included issue of bonds and debentures and from IDBI and Small Industries Development Bank of India (SIDBI). The total amount outstanding on this account, as on 31 March 1996, amounted to Rs.356.61 crore.

KD-18

3B.4.2. According to the provisions in the SFCs Act, the total of (i) bonds and debentures issued and outstanding, (ii) the amounts borrowed by the PFC and (iii) its contingent liabilities and underwriting agreements shall not exceed ten times the amount of paid-up share capital and reserve fund. The limit can be raised thirty times with prior approval of IDBI.

The table below indicates the ratio of borrowings including bonds# to paid-up capital and reserve fund for the last five years ended 1995-96:

From Annual A/cs

Particulars	1991-92	1992-93	1993-94 (Rupees in crore)	1994-95	1995-96
Paid-up capital	9.74	9.74	9.74	9.74	27.05
Reserve fund	8.52	8.52	9.52	9.57	11.13
Total	**18.26**	**18.26**	**19.26**	**19.31**	**38.18**
Borrowings including bonds and debentures	218.33	256.67	303.75	336.06	356.61
Ratio of borrowings to paid-up capital and reserve fund	11.96	14.06	15.77	17.40	9.34

It would be seen that though borrowings of the PFC were ten times in excess of the paid-up share capital and reserve fund during 1991-92 to 1994-95, the approval of IDBI was not obtained.

There were no contingent liabilities and underwriting agreements

3B.5. Financial position and working results

The PFC had been maintaining its accounts on cash basis since 1984-85. The PFC had finalised its accounts up to 1995-96. The financial position and working results of the PFC for five years up to 1995-96 are indicated in ***Annexure 9.***

The accumulated loss of the PFC amounted to Rs. 60.60 crore up to the year 1995-96. The reasons for losses were attributable mainly to:

Interest burden
Impact of reduced lending rate
guaranteed 60.60 crore because out of it some portion is paid from annual gains.

- poor recovery of dues from loanees; Commented in column 3,5 of para 3B.7.2.1 Page 101
- reduction of lending rate by one *per cent* due to disturbed conditions in Punjab from July 1985 to March 1992 resulting in loss of Rs.21 crore;
- lack of growth in business due to liquidity constraints; and Commented in para 3B.7.2.5 Page 103 and 3B.6.2 page 100
- increase in interest burden which increased from Rs.19.85 crore in 1991-92 to Rs. 45.02 crore in 1995-96. Besides, PFC also paid penal interest of Rs.59.47 lakh during June 1992 to August 1994 on account of delay ranging from 3 to 108 days in repayment of 45 instalments of loans/interest aggregating Rs.63.28 crore availed from IDBI/SIDBI. From balance sheet

3B.6 Loan operations

3B.6.1. Financial assistance is provided by the PFC to the beneficiaries on receipt of applications accompanied by a detailed project report. The PFC conducts technical and financial appraisal in order to assess the economic viability of the projects. The PFC also stresses on the promoter's background, the product and its marketability and sanctions loan to a promotee keeping the prescribed margin of safety. Disbursement of loan is made after ensuring title deed, non-encumbrance certificate, mortgage deed, etc., of the land on which project is to be set up by entrepreneurs. In case of plant and machinery, the payment is made by the PFC direct to the machinery supplier. Instalments of loan are released on the basis of progress of implementation of the project.

KD-24 operational manual chapter 1&5

According to rules, entire loan sanctioned is to be disbursed within six months of sanction of loan.

3B.6.2. The table below indicates the receipt of loan applications, gross sanctions, disbursements made for the last five years from 1991-92 to 1995-96:

	Particulars	1991-92		1992-93		1993-94		1994-95		1995-96		Cumulative since reorganisation	
		Number	Rs. in crore	Number	Rs. in crore	Number	Rs. in crore	Number	Rs. in crore	Number	Rs. in crore	Number	Rs. in crore
a	Applications pending at the beginning of year	268	32.69	153	19.64	103	15.25	211	25.64	46	18.92		
b	Applications received	1547	99.12	967	143.50	919	142.19	356	79.36	540	140.14	22742	1416.85
c	**Total**	**1815**	**131.81**	**1120**	**163.14**	**1022**	**157.44**	**567**	**105.00**	**586**	**159.06**	**22742**	**1416.85**
d	Applications sanctioned	1546	92.25	815	102.66	649	107.82	422	70.15	374	99.78	16483	1009.28
e	Applications lapsed/ withdrawn/ rejected	116	19.92	202	45.23	162	23.98	99	15.93	86	36.38	6132	364.67
f	**Total**	**1662**	**112.17**	**1017**	**147.89**	**811**	**131.80**	**521**	**86.08**	**460**	**136.16**	**22615**	**1373.95**
g	Applications pending at the close of the year	153	19.64	103	15.25	211	25.64	46	18.92	126	22.90	127	42.90
h	Loans disbursed	1643	61.63	689	67.30	485	74.40	365	70.28	318	69.24	10194	681.10
i	Amount recovered (Principal only)	--	21.14	--	23.89	--	31.98	--	37.22	--	51.28	--	292.83
						(Per cent)							
j	Percentage of applications appraised	92		91		79		92		79			

The receipt of applications had decreased from 1547 during 1991-92 to 540 during 1995-96 and the applications sanctioned had also decreased from 1546 to 374 during the same period. The percentage of applications appraised had also come down from 92 during 1991-92 to 79 during 1995-96. Besides, pace of disbursement was also slow.

Slow pace of disbursement

	1991-92	1992-93	1993-94	1994-95	1995-96
6-12 months	229	163	111	72	58
12-18 month	34	57	31	41	19
Above 18 months	22	22	22	16	9

3B.7. Recovery performance

KD-32 From operating manual

3B.7.1. Recovery of loan instalments is pursued by recovery branch of the PFC. District offices of the PFC follow up the units whose payments are not received on due dates. In the event of continued default by the loanees, action under Section 29 of SFCs Act is taken to take over the assets of units. The PFC could also purchase the assets of the defaulting unit in auction through court. After taking over the assets of the units in default, the same are sold by PFC through open tenders and realisation adjusted against the dues. In cases, where full amount is not recovered, the same are pursued through District Collectors for effecting recovery as arrears of land revenue.

Provisions of the Act

In which cases.

3B.7.2. Recoveries and default

3B.7.2.1. The position regarding amount due for recovery, targets of recovery fixed, actual recovery, shortfall in recovery, etc., during the last five years up to 1995-96 was as under:

From MIS of Corporation and their auditors

	Particulars	1991-92	1992-93	1993-94	1994-95	1995-96
				(Rupees in crore)		
1	Amount due for recovery	93.75	105.00	159.38	195.24	246.94
2	Amount rescheduled	12.93	7.66	-	5.18	3.50
3	Net recoverable	80.82	97.34	159.38	190.06	243.44
4	Target of recovery fixed	42.00	51.00	62.50	100.00	110.00
5	Actual recovery	42.29	51.35	67.70	79.69	99.70
6	Shortfall	-	-	-	20.31	10.30
7	Amount in default	38.53	45.99	91.68	110.37	143.74@
				(*Per cent*)		
8	Percentage of target of recovery to net recoverable	52	52	39	53	45
9	Percentage of recovery to amount due	52	53	42	42	41

@ Out of 143.74 crore, Rs. 53.54 crore pertain to the units whose accounts are sticky or cases referred to BIFR

Agewise amount in default

Rs in crore

upto 1 year 770 21.20

1-2 year 602 25.56

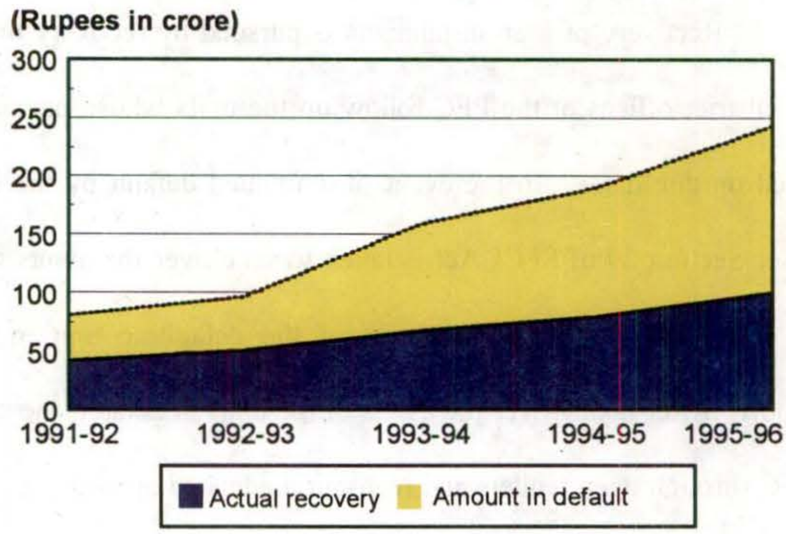
2-5 year 1811 54.94

5-7 year 503 36.22

7 and above 124 5.92

3810 143.74

Comparison of Recovery to Collectibles



Detailed in 3B.7.3.1 Page 103

3B.7.2.2. The PFC could not achieve the target of recovery fixed during the years 1994-95 and 1995-96 as there was shortfall of Rs.20.31 crore and Rs.10.30 crore during the respective years. The percentage of recovery to the amount due had also come down from 52 in 1991-92 to 41 in 1995-96.

3B.7.2.3. At the end of 1995-96, out of default amount of Rs.143.74 crore, final notices to recall the loans were issued for Rs.39.55 crore (28 *per cent* only).

> Out of total default amount of Rs.143.74 crore, as on March 1996, final notices to recall the loans were issued for Rs.39.55 crore (28 *per cent* only).

3B.7.2.4. It was further noticed in audit that the targets fixed for recovery of principal and interest after reschedulement have come down from 52 *per cent* in 1991-92 to 45 *per cent* in 1995-96 and separate targets for collection of dues against current demand and those against arrears indicating separately principal and interest were not fixed. Audit scrutiny revealed that in the year 1991-92, targets of recovery were fixed after taking into account total amount due for recovery. As regards 1993-94, the percentage of target was lower because an amount of Rs. 30.87 lakh rescheduled earlier was cancelled during the year. The targets for 1995-96 were fixed after deducting doubtful and loss assets from the amount due for recovery on the receipt of instructions from IDBI regarding classification of assets as such. Consequently, the percentage of recovery targets were lower when worked out with reference to net recoverables.

3B.7.2.5. The total disbursement since inception was Rs. 681.10 crore. It was financed by plough back of recoveries made to the extent of Rs. 232.23 crore (after deducting cumulative loss of Rs. 60.60 crore up to 1995-96) which constituted only 34 *per cent* of total disbursements. The PFC had to depend on costlier outside sources of finance. Thus, PFC was yet to achieve self reliance even after 28 years of operations.

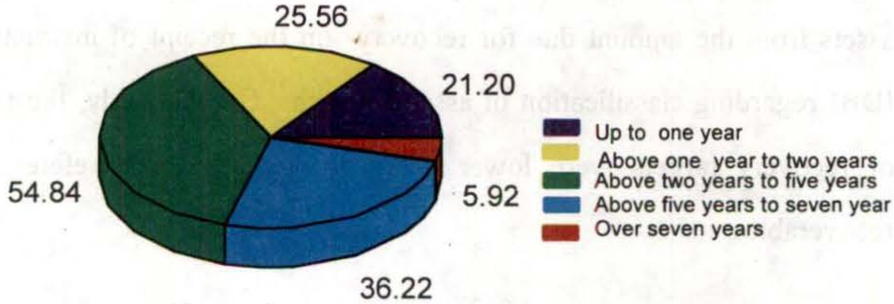
Since the contribution from recovery of principal and interest amount for disbursement was very low, the PFC was yet to achieve self reliance even after 28 years of financial operations.

From Para 3B.6.2
Page 100
Rs in crore
(h) 681-10
(i) Rec. 292-83
Loss 60-60
232-23

3B.7.3. Details of default

3B.7.3.1. The details of amount in default up to 1995-96 are given below:

Period	No. of units	Per cent	Princi-pal	Inte-rest	Total	Per cent
			(Rupees in crore)			
Up to one year	770	20.21	10.50	10.70	21.20	14.75
Above one year to two years	602	15.80	14.25	11.31	25.56	17.78
Above two years to five years	1811	47.53	28.18	26.66	54.84	38.15
Above five years to seven years	503	13.20	9.34	26.88	36.22	25.20
Over seven years	124	3.26	5.92	-	5.92	4.12
Total	**3810** 2438		**68.19**	**75.55**	**143.74**	



(Rupees in crores)

3B.7.3.2. The amount in default where no recovery had been received continuously for the past two years was Rs.96.98 crore from 2438 units which was 67 *per cent* of total amount in default of Rs.143.74 crore.

Para 3B.7.3.1 Page 103

The amount in default where no recovery had been received for continuous two years was Rs.96.98 crore which was 67 *per cent* of total amount in default of Rs.143.74 crore, as on March 1996.

3B.7.4. Classification of outstanding amount

3B.7.4.1. In the case of financial corporations, the IDBI had classified (March 1994) the assets into standard, sub-standard, doubtful and loss or irrecoverable assets. Standard asset is one which does not disclose any problem whereas sub-standard asset has been classified as non-performing asset for a period not exceeding two years. Any sub-standard asset which remains non-performing beyond two years becomes doubtful and an asset where loss has been identified but the amount has not been written off wholly or partly is termed as loss asset.

KD-34 Page T222 circular No. FI.14/93-94 dt. 23.3.1994 Sr.No.2 page 2405

3B.7.4.2. The table below indicates the outstanding loan and interest, its classification into standard, sub-standard, doubtful and irrecoverable (loss) assets by the PFC for the last four years up to 1995-96:

	Particulars	1992-93	1993-94	1994-95	1995-96
			(Rupees in crore)		
a	**Outstanding**				
	Loan	298.52	369.02	373.36	388.27
	Interest	42.50	46.00	80.48	110.67
	Total	**341.02**	**415.02**	**453.84**	**498.94**
b	Standard	206.16	263.02	209.73	196.35
c	Sub-standard	70.47	81.70	101.66	135.79
d	Doubtful	50.07	55.30	126.49	148.24
e	Irrecoverable	14.32	15.00	15.96	18.56
			(*Per cent*)		
f	Percentage of sub-standard, doubtful and irrecoverable assets to total recoverable dues	40	37	54	61

M/S

An amount of Rs.18.56 crore was irrecoverable at the end of March 1996 as it was not backed by any security.

The percentage of sub-standard, doubtful and irrecoverable outstanding amounts to the total outstanding amount had increased from 37 *per cent* in 1993-94 to 61 *per cent* in 1995-96. This is indicative of deteriorating recovery performance and poor financial health of PFC. An amount of Rs.18.56 crore was irrecoverable at the end of March 1996 as it was not backed by any security. Besides, Rs.1.55 crore were written off during the years 1989-90 to 1995-96 and resulted in total loss to PFC. 22 cases

The principal reasons for poor recovery performance are: Para 3B.7.2

- deficiencies in appraisal, sanction and disbursement of loans;

2.65 crore commented in Para 3B.7.6 Page 109

- lack of system of monitoring, utilisation of funds, growth and health of loanee units; and 3B.7.2.5
- delay in acquisition/disposal of units in default. 3B.7.5 D

3B.7.5. Significant instances of defective sanction of loans are given below:

(a) Loans to ancillary units without setting up of nucleus plants

KD 44 to 47

KD 43

Page E 54 to 63, 70 to 73, 34, 28 to 36, 22 + 52, 2 to 23

The PFC had disbursed loans of Rs.1707.54 lakh to 107 units (E 70+72) during February 1986 to December 1993 for setting up ancillary units. These ancillary units had either become sick or were not performing well. Nine units (E-22) to which loans of Rs.193.08 lakh were disbursed were taken over by the PFC up to March 1994. Of these, five units were sold for Rs.29.86 lakh leaving (E-1A) balance of Rs.135.23 lakh unrecovered. The amount in default of balance 98 units to which an amount of Rs.1514.46 lakh was disbursed had swelled to (E-70) Rs.1324.03 lakh (including interest) at the end of March 1996 from Rs.694.49 (E-28) lakh at the end of March 1994. The principal reason for the poor performance (E-46) of these units was that the envisaged nucleus plants to provide facilities of technical know-how, raw material, marketing, etc., to these ancillary units were not set up.

(b) Loans to non-existent units

1. Vikas Industries
2. B.K. Metal works
3. Rajan Valves + Cocks
4. Jai Bhawani Auto
5. Vivek Auto Component
6. Swastik Foundry + Engg. works
7. Vaishno Electronics

KD 45 to 52

> Loans of Rs.49.30 lakh disbursed to non-existent loanee units in Amritsar district were embezzled in connivance with the officials of PFC.

N-62

(i) The District Office, Amritsar disbursed Rs.49.30 lakh in instalments during July 1993 to June 1994 to seven loanees. As the units were not paying loan instalments, the officers of the head office conducted an enquiry and reported (August 1995) that the amount (N-38-132) had been embezzled by the loanees in connivance with officials of PFC because disbursement was made to non-existent loanees on the basis of false appraisal and verification reports of machinery/raw material.

The concerned officers were suspended (August 1995). The (N-136-…) PFC had not so far (September 1997) taken any remedial action to avoid recurrence of such irregularities in future.

KD 53 to 60

(ii) Faridkot and Ferozepur district offices of the PFC had disbursed Rs.98.46 lakh during 1991-92 to 217 units under Special Employment Programme for Educated Youth.

> Disbursement of loans to 86 units through non-existent machinery suppliers resulted in non-recovery of Rs.59.21 lakh.

The PFC had conducted verification of loanee units in July-August 1992 and found that 86 units in Ferozepur and Faridkot districts to whom loans amounting to Rs.39.08 lakh were disbursed (through non-existent machinery suppliers) during 1991-92 had not actually been set up. The officers/officials concerned with the cases were suspended. As at the end of March 1996, the amount in default against 86 units was Rs.59.21 lakh including interest.

F - 364 to 370
F - 372
F - 344 to 352
F - 430

Thus, due to irregular disbursement of loans, the recovery of Rs.59.21 lakh was not certain. Besides, the object of providing self employment to educated youth was also not achieved.

(c) Dishonouring of cheques

A review of cheques, received during the period from 1993-94 to 1995-96 in respect of which record was maintained at head office, revealed that 590 number of cheques amounting to Rs.744 lakh had been dishonoured. This adversely affected the performance of recovery. However, no legal action was taken against the loanees.

KD-70
operational manual
Rs 30,457
KD-71
A-125

To be discussed with the Review party

(d) Delay in acquisition/disposal of units in default

(i) The units in default in repayment of loans instalments above two years increased from 672 number in 1991-92 to 2438 number in 1995-96. The PFC, however, acquired only 272

A-342 A

> Disposal of 183 acquired units after a delay of two to 77 months during the five years up to March 1996 resulted in loss of Rs.4.59 crore as their sale value was lesser than their assessed value.

Commented in 3B.7.3.1 Page 103

ICD-79 Q 294+340

units during 1991-92 to 1995-96 under Section 29 of SFCs Act. Out of 364 units (including 92 units in possession on 1 April 1991) with assessed value of Rs.5669.46 lakh, 183 units (assessed value: Rs.2500.60 lakh) were sold after a delay ranging from two to 77 months during the five years up to 1995-96 for Rs.2041.62 lakh resulting in loss of Rs.458.98 lakh.

P334 Q

ICD-80 Q-292

Details of 181 units lying unsold (acquired under Section 29), at the end of March 1996, were as under:

181 acquired units with assessed value of Rs.30.70 crore were lying unsold as on March 1996 which adversely affected the plough back position of the PFC.

ICD-81 Q 296-314

		Number	Assessed value (Rupees in lakh)
i)	Less than one year	65	1221.33
ii)	One year and above but less than three years	74	1351.53
iii)	Three years and above but less than five years	19	251.41
iv)	Five years and above	23	245.73
	Total	**181**	**3070.00**

ICD-82 S-92 to 96

The PFC attributed (March 1997) non/delayed disposal of units to (a) bad condition of units due to their non-operation, (b) slump in the real estate, and (c) no genuine buyer coming forward to purchase certain units especially those located in Goindwal area.

same

ICD-83 Q 336-337

It was noticed in audit that the PFC had not advertised 58 units (assessed value :Rs.1124.27 lakh) even once for sale, which were acquired during February 1990 to March 1996.

ICD-84 FC&B Flag

(ii) The PFC had acquired 32 units (from which Rs. 1104.58 lakh were recoverable) under Section 31 of the Act through court auction at a cost of Rs.113.10 lakh. Of these, 24 units acquired at a cost of Rs. 106.78 lakh were sold for Rs.153.53 lakh against total recoverable amount of Rs. 1020.20

B-4042

-do-

P-118

B

lakh. The balance eight units acquired at a cost of Rs.6.32 lakh during April 1985 to April 1991 were lying unsold (March 1996). Resultantly, after adjusting acquisition cost of Rs. 106.78 lakh, Rs. 913.42 lakh were still recoverable from 24 units which had since been sold. B-42 (B.ck)

Out of total 207 units sold, the PFC had referred (July 1996 to April 1997) 71 cases to Collectors to recover Rs.1305.20 lakh (balance after adjusting sale proceeds) from loanee units as arrears of land revenue. The amount recoverable from balance 136 units (after adjusting sale proceeds) was called for from the PFC in February 1997 but no reply was received (September 1997). KD-81 R-230 to 234 KD-86 R-68

3B.7.6. Deficiencies in appraisal of projects, sanction and disbursement of loans

Due to deficiencies in appraisal of projects, sanction and disbursement of loans to 10 units without taking note of IDBI's advice and also without following required rules, an amount of Rs.8.69 crore remained unrecovered as discussed in the succeeding paragraphs: KD-86 X-100 to 103

> Due to deficiencies in appraisal of projects, sanction and disbursement of loans to 10 units, an amount of Rs. 8.69 crore remained unrecovered.

(i) The PFC sanctioned (July 1979) a term loan of Rs.30 lakh to Bathinda Heavy Allied Chemicals (Private) Limited, Bathinda for establishing a unit to manufacture sulphuric acid, a continuous process industry requiring uninterrupted power supply. X-98, 108

The unit started commercial production in July 1982 but could not function economically due to frequent power cuts and stringency of funds thereby resulting in production loss. The PFC and Punjab State Industrial Development Corporation Limited (PSIDC) which had also given loan to the unit, while considering the case for additional loan of Rs.12.50 lakh found (August 1983) that the promoters of the unit had initially underestimated the project cost to keep their contribution to the minimum. It was seen in audit X-116, 204, 214 KD-87 X-86 to 96 that no provision for generating set had been made in the appraisal report of this unit.

As no repayment was made by the unit, it was purchased (January 1987) through court auction at an assessed value of Rs.16.85 lakh when machinery worth Rs.23 lakh (depreciated value:Rs.8.15 lakh) was found missing. The assets of the unit were sold in February 1995 for Rs. 16.90 lakh. The balance outstanding amount against the unit after adjusting sale proceeds of assets, amounted to Rs.158.45 lakh (including interest).

Thus, defective appraisal about project cost and failure to ensure un-interrupted power supply had ultimately resulted in non-recovery of Rs.158.45 lakh.

(ii) The PFC sanctioned (February 1986) a term loan of Rs.49.06 lakh to Spare Age Seals (Private) Limited for setting up an oil seals manufacturing unit. The disbursement of loan was to be made to the unit subject to the condition that the promoter directors of the unit would guarantee the repayment of loan together with other charges and interest thereon.

The PFC disbursed Rs.48.55 lakh between April 1986 and August 1987 and cancelled balance loan of Rs.0.51 lakh. In the meanwhile, the promoter directors of the unit were changed twice in November 1986 and February 1987 but no personal bond of guarantee for repayment of loan along with other charges was obtained from the new promoter directors of the unit. Besides, an adverse report by the District Manager had pointed out that the loanee had shifted major machinery along with foundations and electric installations from the premises to some other unit at Sirhind. Subsequently, the PFC took over the unit in January 1992.

The PFC could realise Rs.16 lakh only by disposing of the land and building of the unit in March 1993 leaving recoverable amount of Rs.197.52 lakh (including interest: Rs.164.58 lakh). The PFC had not initiated any action under Section 32-G of the SFCs Act, 1951 against the unit for recovery of the outstanding amount of Rs.197.52 lakh as arrears of land revenue.

Thus, disbursement of loan without obtaining guarantees from the new promoter directors resulted in non-recovery of Rs.197.52 lakh.

(iii) As per standing instructions of IDBI, the down-stream# projects of Punjab Alkalies and Chemicals Limited, Naya Nangal (PACL) particularly bleaching powder and chlorinated paraffin wax (CPW) were to be considered for sanction of loan only if the lending institutions were satisfied about the un-interrupted supply of raw material (Chlorine) from PACL on long term basis.

However, contrary to the instructions, the PFC sanctioned (January 1990) a term loan of Rs.17 lakh for setting up a unit at Dera Bassi for the manufacture of CPW without ensuring supply of raw material by PACL and disbursed the entire loan between November 1990 and January 1992 in instalments.

The unit started commercial production in April 1991 but it failed to repay loan and interest thereon as it remained closed for quite some time due to irregular and inadequate supply of chlorine by PACL. The unit failed to repay the loan instalments and amount in default amounted to Rs.8.40 lakh (including principal : Rs. 3.90 lakh) up to December 1993. The PFC acquired the unit in March 1994 and the assets were sold for Rs.8 lakh in October 1994. After adjusting sale proceeds, the amount recoverable worked out to Rs.19.49 lakh including interest of Rs.10.11 lakh up to May 1995. No action had been taken by the PFC to recover the balance amount as arrears of land revenue through the Collector so far (August 1997).

Thus, release of loan to the unit without being assured of uninterrupted supply of raw material resulted in loss of Rs.19.49 lakh.

(iv) In June 1981, the IDBI had expressed its inability to refinance the mini-paper projects with installed capacity of 4-5 tonnes per day as it was

Units for which entire raw material is supplied by PACL.

not considered to be viable in the long run. Notwithstanding this, the PFC sanctioned (July 1981) a term loan of Rs.24.85 lakh to Ravi Paper and Board Mills(P) Limited for setting up of M.G. Craft Paper manufacturing unit with an installed capacity of four tonnes per day.

2-43

KD 124 to 131
2-72

The PFC disbursed loan of Rs.27.23 lakh including additional loan of Rs.3.80 lakh to the unit during April 1982 to May 1984 and cancelled the balance loan of Rs.1.42 lakh. The unit failed to repay the loan instalments due to poor financial health and amount in default amounted to Rs.61.56 lakh (principal: Rs.24.83 lakh and interest: Rs.36.73 lakh) as on 30 September 1992. Resultantly, the unit was taken over by the PFC in July 1993 and sold in January 1995 for Rs.23.35 lakh. After adjusting sale proceeds, the recoverable amount worked out to Rs.79.49 lakh (principal: Rs.2.18 lakh, interest: Rs.77.31 lakh). The PFC had not initiated any action to recover the dues as arrears of land revenue (August 1997). Thus, sanction of loan to the unit against advice of IDBI resulted in non-recovery of Rs.79.49 lakh.

2-170
2-176
2-198
2-292

KD 132 to 135
V-62
V-207
V-90-100

(v) The PFC sanctioned (March 1990) a term loan of Rs. 44.30 lakh to Guru Wires (P) Limited, Ludhiana for establishing a unit for the manufacture of enamelled wire. The first and subsequent instalments of Rs. 43.09 lakh were disbursed to the unit between June 1990 and November 1991 without physically verifying the mark of suppliers on the machinery as required.

KD-136
V-126 to 130

In the meanwhile, Director `A' of the unit complained (July 1991) that the PFC had been defrauded to the tune of Rs. 10 lakh by overinvoicing of machinery by Director `B' of the unit and Director `B' had taken various loans from the PFC in benami names.

KD 137 to 142
V-170
V-172

In view of non-implementation of the project and continued default in the repayment of loan/interest (Rs. 19.11 lakh in October 1993), the PFC acquired (October 1993) the assets of the unit. The value of the acquired assets was assessed (June 1994) at Rs. 17.96 lakh including value of machinery at Rs. 2.66 lakh as against purchase price of Rs. 18.07 lakh, which V- 184 corroborated the fact that there was overinvoicing of plant and machinery. The acquired assets were sold (June 1994) for Rs. 18.25 lakh and the amount V-178 recoverable after adjusting sale proceeds worked out to Rs. 53.01 lakh V-238-244 including interest of Rs. 31.57 lakh.

Audit scrutiny further revealed that on the basis of complaint, KD-143 *ibid*, the PFC had conducted (December 1991/January 1992) an enquiry and EE-132 found that another unit (Ludhiana Chem Tech(P) Limited) in which Director 'B' had interest had changed the constitution of the unit without obtaining the EE-138-140 approval of the PFC, as required; and purchased old machinery for Rs. 15.24 EE-126 lakh whereas in the inspection report of May 1991 of the PFC, it was reported as new one.

The assets of the unit (loan disbursed:Rs.25.40 lakh) were EE-134 acquired (March 1994) at assessed value of Rs. 17.07 lakh (including EE-146 machinery at Rs. 10.15 lakh). The machinery could not be sold even after advertising the same for six times up to March 1996. Total amount recoverable from the unit as on June 1995 worked out to Rs.45.38 lakh EE-158 including interest of Rs.26.53 lakh.

Thus, due to disbursement of loans despite the fact that the former unit had not installed machinery and in the latter case, the PFC failed to detect the genuineness of machinery purchased, an amount of Rs.98.39 lakh was lying unrecovered from loanee units.

FiG BB

(vi) As per the procedure laid down, the PFC is required to make an KD 152 assessment of activities of any sister concern of a unit before sanction of a loan to it.

Punjab Cellulose(Private) Limited (PCPL) approached (April KD 153 to 154 1983) PFC for sanction of loan of Rs.30 lakh for setting up a unit for BB-22 to 32 manufacture of nitro cellulose. 202 to 260

Audit scrutiny revealed that pre-sanction appraisal was deficient to the extent that it did not bring out the fact that the Madhya Pradesh unit (sister concern) set up in collaboration with Madhya Pradesh State Industries Corporation Limited (MPSIC) was in default in repayment of its loan to the MPSIC. Further scrutiny brought out that the IDBI had refused to refinance the project because PFC had ignored its advice of October 1983 to obtain 'no objection letter' from MPSIC permitting the promoter to set up unit in Punjab. Despite this, the PFC disbursed loan of Rs. 25.09 lakh in instalments during March to August 1985. The MPSIC, of its own, also intimated in August 1985 that PFC should not enter into any agreement to release funds to the promoters of PCPL as they were contemplating legal action against them for recovery of more than rupees one crore. It was further intimated that the Madhya Pradesh unit which commenced production in February 1983 was lying closed since October 1984 after incurring heavy losses. Even after the receipt of report from MPSIC, the PFC released the balance loan of Rs. 4.91 lakh during May 1986. The unit was closed in September 1988 due to poor performance.

Keeping in view the continued default, the PFC acquired the assets of unit in September 1989 and sold (October 1995) for Rs. 13.85 lakh. After adjusting sale proceeds, amount recoverable from the unit, as on 31 March 1997, worked out to Rs. 122.34 lakh (including interest of Rs. 103.61 lakh). No action had been taken by PFC to recover the outstanding amount.

Thus, sanction and disbursement of loan without making an assessment of activities of the unit's sister concern and without obtaining 'no objection letter' from MPSIC, as advised by IDBI, resulted in loss of Rs.122.34 lakh to the PFC.

(vii) In spite of the fact that out of 20 units financed by the PFC for manufacture of PVC pipes, 11 units had defaulted in making payments mainly due to scarcity of raw materials, financial constraints and imbalanced procurement of machinery, the PFC sanctioned (August 1992) a loan of Rs. 20 lakh to an existing unit for the purchase of additional machinery and construction of additional building. Audit scrutiny revealed that though the raw material (PVC granules) was available against quota fixed by the Government of India and appraising officer while conducting pre-sanction appraisal had also recommended to ensure availability of raw material, the PFC, however, without ascertaining whether the unit possessed the requisite permit for availability of adequate raw material, disbursed loan of Rs. 16 lakh in two instalments in December 1992 and January 1993. Since the unit was found (February 1994) occupied by someone other than the loanee, it was taken over in March 1994 and it was further found that all the machinery (value: Rs. 18.35 lakh) was missing. An FIR was lodged in July 1996 but the case was not pursued by the PFC. The acquired assets were sold (November 1994) for Rs. 9.75 lakh leaving an unrecovered balance of Rs. 14.44 lakh (January 1997).

Thus, the sanction of loan to the unit despite the fact that the performance of most of the units financed earlier was not satisfactory and without ensuring availability of raw material resulted in loss of Rs. 14.44 lakh.

(viii) PFC sanctioned (August 1985) a term loan of Rs.30 lakh for setting up an induction furnace of one tonne capacity to Kahnuwan Iron and Steel Company Pvt Limited at Kahnuwan, (Gurdaspur district). Disbursement of loan was subject to the conditions that the unit would obtain cash credit limit of Rs.10 lakh from some commercial bank and power load of 800 KW. The unit was to be operated on three shift basis and required regular power supply.

The unit could only arrange cash credit limit of Rs.3.50 lakh against Rs.10 lakh. Though the unit had also arranged power load of 800 KW, the connection was given from the agriculture feeder (not having 24 hour power supply) instead of the industrial feeder.

In spite of these deficiencies, the PFC disbursed loan of Rs.44.67 lakh including additional loan of Rs.14.67 lakh during May 1986 to

October 1989. Due to shortage of working capital and non-availability of power for 24 hours, the unit could not repay the loan instalments despite five reschedulements made up to November 1989. The amount in default up to August 1988 was Rs.43.82 lakh (principal: Rs.23.37 lakh, interest: Rs.20.45 lakh).

The assets of the unit were acquired as late as in May 1994 and sold for Rs.15.45 lakh in December 1994. The total outstanding amount against the unit up to March 1996 was Rs.90.10 lakh, after adjusting sale proceeds.

Thus, disbursement of loan without ensuring regular power supply required for induction furnace and ensuring adequate cash credit limit from the banks, resulted in non-recovery of Rs.90.10 lakh.

(ix) While considering the proposal for setting up a tannery at Hoshiarpur, an Advisory Committee[$] of PFC observed (September 1989) that in view of large number of such units assisted by the PFC becoming defaulters, detailed study regarding further scope for setting up tanneries in the State should be got conducted by Northern Indian Technical Consultancy Organisational (Pvt) (NITCON). As NITCON was likely to take some time to find out scope for further setting up such units in the State, the PFC obtained the opinion of Punjab State Leather Development Corporation Limited (a PSU) which intimated (November 1989) that the project was economically viable.

The Board of Directors (BOD) of the PFC considered the proposal and directed (November 1989) that reasons for poor performance of similar units financed by the PFC be examined and requested the promoters to satisfy the PFC regarding viability of this unit. Though the BOD was apprised of by the Management that the credit record of five units already financed by the PFC, had not been satisfactory, a term loan of Rs.57.50 lakh was

[$] Responsible for examining technical and financial viability of loan proposals above Rs.10 lakh.

sanctioned in December 1989. The entire loan was disbursed (February 1990 to August 1991) without ensuring compliance of stipulations which envisaged that unit will ensure cash credit limit of Rs.23.33 lakh and power load of 110 KW before disbursement of loan.

The unit failed to repay instalments due (including additional loan of Rs.10.90 lakh sanctioned in March 1991) and requested (August 1992) PFC for reschedulement on the ground that there was delay in release of cash credit limit of Rs.16 lakh (instead of Rs.23.33 lakh) which resulted in non-operation of plant as per schedule and non-availability of complete working cycle. The unit further stated that delayed release of power connection (released in May 1992) necessitated use of diesel set which increased the cost of production and changed market conditions stopped completely the sale of leather. The unit, which was closed in February 1992 was ultimately acquired by PFC in March 1994 due to non-payment of dues and was sold in October 1994 for Rs.47.80 lakh. The amount recoverable from the unit after adjusting sale proceeds amounted to Rs.89.17 lakh.

Thus, sanction and disbursement of loan to a unit despite the fact the performance of similar units already financed by the PFC was dismal and without ensuring the adherence to the provisions regarding sanction of adequate cash credit limit and release of required power load resulted in non-recovery of Rs.89.17 lakh.

3B.8. Conclusion

The PFC was formed to provide loans to small and medium industrial units to promote industrialisation in the State of Punjab. However, a host of deficiencies in pre-sanction appraisals; sanction and disbursement of loans in non compliance of existing stipulations; inadequate monitoring and delay in disposal of acquired units were widely prevalent. The Corporation was also not in sound financial health, thereby resorting to borrowed funds and was considerably saddled with a heavy interest burden. Due to these, the process of industrialisation in the State was hampered. Therefore, there is an urgent need to take steps for (i) improving pre-sanction appraisals; strictily adhering to rules and procedure before sanction and disbursement of loans; (ii) ensuring effective monitoring and (iii) strengthening the recovery performance and reducing over dependence on borrowed funds.

Chapter-IV

CHAPTER IV

Miscellaneous topics of interest relating to Statutory corporations and Government companies.

4A. STATUTORY CORPORATIONS

4A.1. PUNJAB STATE ELECTRICITY BOARD

4A.1.1. Ungainful expenditure on ill-conceived project

> Setting up of the project on an uncertain assessment resulted in ungainful expenditure of Rs. 48.69 crore.

On the recommendations of a Committee constituted in November 1984, the Punjab State Electricity Board (PSEB) placed (July 1986) a letter of intent (followed by contract agreement of March 1988) on Bharat Heavy Electricals Limited (BHEL) to design, manufacture, supply, erect and commission a 10 MW rice straw based Power Plant at Jalkheri in Patiala district including civil works, on turnkey basis at an estimated cost of Rs.23.50 crore. As this was an innovative project with a total project estimate of Rs.25 crore for tapping the energy potential of rice straw, the Department of Non-Conventional Energy Sources (DNES), bore 50 *per cent* of capital cost (Rs.12.50 crore) and the balance was met by the PSEB. The project also had a component of external assistance amounting to Rs.6.35 crore utilised on import of critical component from the Government of Denmark (Danida grant). The original schedule of completion of the project was 24 months (March 1989) and was subsequently revised to 30 months (September 1989). The viability of the project was formulated on an assessment of the sustained availability of rice straw around the project site.

The project suffered from a time overrun of 32 months and was completed in June 1992 with cost escalation of Rs. 6.97 crore. The plant could never run continuously at full load for the specified period of 14 days due to technical defects and could run intermittently for 61 days only between 14 June 1992 and 11 July 1995 and generated 57.67 lakh units. The technical defects had not been rectified by the BHEL in spite of repeated requests made by the PSEB.

Due to non-functioning of the plant for a prolonged period, the PSEB decided (April 1995) to wind up the project after incurring an expenditure of Rs. 47.45 crore (including Rs. 15.47 crore of interest capitalised). Currently, the PSEB is evaluating options regarding its lease and maintenance by various operators and outright sale. This arrangement has the approval of the Department of Non-Conventional Energy Sources. Audit scrutiny revealed that availability of rice straw was always an uncertainty and there were varying expert advice in this regard. Instead of reassessing continued availability of rice straw vis-a-vis the shifting harvesting pattern, the PSEB persisted with the project. Consequently, the project had to be abandoned in July 1995 for want of adequate quantity of rice straw.

Audit assessment further revealed:

- that the wastage of rice straw before its use was very high, as 12965 MT of rice straw being 58 *per cent* of the procured quantity valued at Rs. 55.24 lakh was wasted. The PSEB has not fixed any norms in this regard.

- 1479 MT of rice straw valued at Rs. 6.30 lakh was also consumed in excess of the norms of consumption during 1992-93 to 1995-96 for operation of the plant.

- As no agreement to supply water for the plant had been entered into with Irrigation Department, the PSEB continued to make the payment of water charges at 1.8 cusecs throughout the year though the plant had worked for 61 days only. This has resulted in the PSEB carrying a liability of Rs.7.38 lakh (Rs.2.72 lakh already paid).

Though the plant was lying abandoned since July 1995, the PSEB has not yet initiated any action to identify the surplus staff and this has resulted in payment of idle wages of Rs.54.78 lakh and expenditure of Rs.7.91 lakh on the maintenance of plant (August 1995 to February 1997).

Thus, setting up of the project on an uncertain assessment, resulted in an ungainful expenditure of Rs. 48.69 crore (including Rs. 15.47 crore of interest capitalised).

The matter was reported to the Government in June 1997; reply had not been received (September 1997).

4A.1.2. Extra expenditure in the purchase of current transformers

Ignoring the lowest offer resulted in extra expenditure of Rs. 24 lakh in the purchase of current transformers.

For the procurement of 51 numbers of 245 KV current transformers (CTs) for its Guru Nanak Dev Thermal Project, Bathinda, Stage-III (Units 5 and 6), PSEB floated a tender enquiry in May 1994. Three firms quoted (August 1994) their rates and the rate of Rs. 111.74 lakh (without price variation) quoted by a firm of Ghaziabad was the lowest. The second lowest rate of Rs. 135.74 lakh was offered by Chandigarh Branch of Bharat Heavy Electricals Limited (BHEL). However, the PSEB decided (October 1994) to procure the

CTs from BHEL by ignoring the lowest offer on the plea that the business dealings with Ghaziabad firm, suspended due to poor performance of 66/132 KV CTs supplied against earlier orders of May and June 1984, had been revived only in April 1993 and the performance report of 220 KV CTs supplied by it against a trial order of February 1994 was still to be watched. Accordingly, the PSEB placed (November 1994) an order on BHEL for supply of 51 number CTs, enhanced (July 1995) to 53 CTs.

It was observed in audit that the decision of the PSEB to ignore Ghaziabad firm lacked justification as the firm had satisfactorily rectified the defects of 66 KV/132 KV CTs free of cost against orders of 1984 and the performance of 220 KV CTs also received against order of 1984 was found to be satisfactory. These facts were, however, not brought on record in the purchase proposal submitted to the Whole Time Members. Moreover, the PSEB had revived the business dealings with the firm keeping in view not only the satisfactory performance of its CTs supplied to other State Electricity Boards but also the fact that the Chief Engineer (Transmission Systems) had observed (October 1992) that the firm was clearly a capable one.

Thus, ignoring the lowest offer resulted in extra expenditure of Rs. 24 lakh in the purchase of CTs.

The matter was reported to the Government in August 1996; reply had not been received (September 1997).

4A.1.3. Extra expenditure in the procurement of meters

Meters which were neither pilfer proof nor have any known benefits were procured at an extra expenditure of Rs. 14.44 lakh.

PSEB floated a tender enquiry for procuring 2.50 lakh single phase electrical meters (conventional type) to meet the requirement for the year 1992-93.

In response, 12 firms quoted the rates including two firms of New Delhi which offered their specially designed pilfer proof meters with unidirectional* feature at an equated rate of Rs. 423.21 per meter whereas rate received for conventional type meter was Rs. 356.78. The PSEB, however, decided that trial order for pilfer proof meters be placed on Delhi firms after conducting tests on sample meters. The original/modified samples tested (June/October/December 1992) by a committee of three officers revealed that meters did not conform to ISS specifications. The committee recommended for procurement of small quantities to assess their utility in the field. The PSEB, however, placed (January 1993) two letters of intent on the firms for supply of 10000 meters each.

On receipt of a complaint by an individual that material used in the manufacture of meters makes the theft easier, the PSEB discussed the matter with the firms in March 1993 when the firms accepted that the meters were only pilfer retardant and not pilfer proof. The firms agreed to use better material in the manufacture of the meters. The PSEB, however, without examining the modified samples, placed detailed orders for the above quantity in April 1993.

Audit scrutiny revealed that the first lot of 2600 meters was rejected in August 1993 by the PSEB as they were contrary to ISS specifications. Later on, the meters were accepted (September 1993) after the firms pleaded that ISS specifications were not attainable due to specific design involved in achieving uni-directional feature.

The PSEB received 15494 meters up to May 1995. According to the consignees, the meters were of poor quality and of defective design. Test on meters conducted (May 1995) showed that these could be tampered

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* Energy is measured irrespective of whether rotor disc is moving in forward direction or in reverse direction.

with by creating magnetic ring without leaving any proof of tampering. The PSEB again asked (June 1995) the firms to replace all the meters. However, the firms pleaded that the meters supplied conformed to ISS specifications regarding magnetic induction but PSEB used electromagnetic coil of higher strength during testing. Consequently, the PSEB accepted (November 1995) the meters on the ground that these were very useful being of uni-directional features and also received a further supply of 4500 meters till April 1996.

Evidently, decision of the PSEB to accept the meters lacked justification as the same were not pilfer proof and could be tampered with by using electromagnetic coil of higher strength.

Thus, procurement of meters at higher rates which were neither pilfer proof nor having any additional benefits than conventional meters resulted in extra expenditure of Rs. 14.44 lakh (including price variation).

The PSEB in its reply (July 1997) stated that any meter could be tampered with the help of electro-magnetic coil of higher strength and that it was a trial order. The reply is not tenable because placement of order for huge quantity without examining the design of sample meters was not justified.

4A.1.4. Favour to firms

The PSEB placed (January to March 1994) 24 purchase orders on 14 firms including a firm of Sangrur and its four associate firms for the supply of 402 tonnes of super enamelled aluminium wire, double paper coated wire and strips for the year 1994-95 at firm rates. The quantity ordered on the Sangrur firm and its four associate firms was to the tune of 246.5 tonnes. The supply of material was required to be completed by December 1994.

> Allowing of price variation to a firm and its associate firms beyond the terms of contract amounted to favour to them thereby resulting in extra expenditure of Rs. 14.75 lakh.

The Sangrur firm and its associate firms, after supplying 99.4 tonnes of material up to September 1994, demanded (September 1994) price variation along with extension in delivery period up to March 1995 on the plea of shortage of raw material, rise in prices of aluminium rods and delayed payments by the PSEB. The PSEB allowed extension in delivery period but rejected (July 1995) the demand for price variation as orders were placed on firm rates.

The firm took up (September 1995) the matter with the Arbitration Review Committee (ARC) of the PSEB and demanded up-to-date price variation less 5 *per cent* or current rates less 10 *per cent* whichever was lesser. Considering firm's representation, the ARC recommended (November 1995) for price variation and extension in delivery period as demanded which was approved (January 1996) by the Board. Accordingly, necessary amendments in the purchase orders for balance quantity were issued in March 1996. Consequently, the firms supplied 124.490 tonnes of material up to January 1997 involving extra expenditure of Rs. 14.75 lakh to the PSEB. The recommendation of ARC to allow price variation lacked justification because the firms had started demanding price increase in September 1994 (before expiry of delivery period) and the purchase orders did not provide for any price escalation on account of shortage of raw material or increase in price of aluminium rod. Moreover, the other nine firms had completed the supplies (155.5 tonnes) without demanding any price variation.

The PSEB in its reply of June 1997 endorsed by the Government in July 1997 stated that the firms had not been forced to execute the purchase orders at firm rates to avoid litigation. The reply is not tenable because the firms were contractually bound to supply the material at firm rates and the PSEB should have enforced the provisions of the contracts.

Thus, by allowing price variation to the Sangrur firm and its associate firms beyond the terms of contract, the PSEB had incurred extra expenditure of Rs. 14.75 lakh on the procurement of 124.490 tonnes of material. The extra expenditure would increase further after receipt of balance supply of 22.610 tonnes.

4A.1.5. Additional expenditure due to laying of wrong type of foundation

> Due to laying of wrong type of foundation for the erection of transmission towers coupled with lack of technical know-how resulted in additional expenditure of Rs. 11.70 lakh.

The PSEB sanctioned (May 1995) construction of 66 KV single circuit Budhlada-Boha line for transmission and distribution of electricity. For constructing the line, the drawings issued by Civil Design Directorate of the PSEB indicated that in case water table was higher, reference was required to be made to that office for issuing required design for erection of towers.

It was seen in audit (March 1997) that though the location was semi-sandy and water logged, i.e., with higher water table, the towers for construction of the line were erected (between November 1995 and July 1996) by the concerned Junior Engineer-II (JE-II) under the supervision of the Sub-Divisional Officer (SDO) by laying pile foundation. The Civil Design Directorate was not consulted before laying pile foundation, as required. Before the line could be commissioned, tower number 47 (out of total 58 numbers) fell down in September 1996. An enquiry held to investigate the reasons for damage revealed (September 1996) that the tower had fallen due to wrong type of foundation because the water table at the time of excavation/concreting was around eight feet, for which open type semi-submerged type foundation was required instead of pile type. The Enquiry

Officer further held that supervisory staff lacked technical know-how regarding application of different types of foundations designed by the Design Directorate for various types of soil conditions and there was negligence in supervision for deciding type of foundation to be laid. Audit probe further revealed that the SDO in-charge of the work was not a civil engineer but actually he was a mechanical engineer.

The JE-II and the SDO concerned were suspended (September and October 1996) and chargesheeted in October 1996. However, pending disciplinary action, they were reinstated in October 1996 and November 1996 respectively. Further developments were awaited (September 1997). Besides re-erecting the fallen tower, the foundation of other 29 number towers was also rectified (February 1997). Additional expenditure incurred in this regard amounted to Rs. 11.70 lakh.

Thus, due to laying of wrong type of foundation for the erection of transmission towers coupled with lack of technical know-how by the supervisory staff, the PSEB incurred additional expenditure of Rs. 11.70 lakh.

The matter was reported to the Government in April 1997; reply had not been received (September 1997).

4A.1.6. Outstanding mobilisation advance and non-levy of compensation

Failure to renew the bank guarantees of Rs. 20 lakh and invoke compensation clause resulted in non-recovery of mobilisation advance of Rs. 15.10 lakh plus interest thereon and compensation of Rs. 25 lakh.

With a view to avoiding pollution of Sutlej river water due to the existing arrangement of discharging ash slurry of units 5 and 6 (Stage III) of Guru Gobind Singh Super Thermal Plant, Ropar, the PSEB allotted

(October 1994) the work for construction of earthen dykes for ash disposal pond of Stage III to a contractor of Chandigarh at a cost of Rs. 500.85 lakh. According to the terms and conditions of contract, the contractor was required to complete the work in a phased manner within 30 months from the date of allotment, failing which he was liable to pay compensation equal to half *per cent* for every fortnight on the quantity of work remaining incomplete or such smaller amount as the Chief Engineer (Thermal Designs) may decide subject to a maximum of five *per cent* of the actual cost of whole work.

The contractor commenced work in November 1994. As per the contract, the PSEB gave (December 1994 and January 1995) mobilisation advance of Rs. 50 lakh against six bank guarantees valid up to 4 September 1995 (rupees five lakh), 21 December 1995 (Rs. 25 lakh) and 4 January 1996 (Rs. 20 lakh).

The contractor could complete only one *per cent* work as against 21 *per cent* required to be completed up to 23 February 1995. However, the PSEB did not deduct any penalty from the running bills as required under compensation clause of the contract on the plea that imposition of compensation would hamper the progress of work. During the intervening night of 14 and 15 January 1996, the contractor removed the machinery from the site and percentage of work completed worked out to 8.34 as against 52.2 required to be completed by that date. After encashment of bank guarantees of Rs. 25 lakh and making other adjustments, the amount recoverable from the contractor, as worked out by the PSEB, amounted to Rs. 15.10 lakh as on that date. The amount could not be recovered as the bank guarantees for Rs. 20 lakh valid up to 4 January 1996 were not got renewed by the PSEB. An FIR against the contractor was stated to have been registered with the Police on 30 July 1996. Further developments were awaited (September 1997).

Thus, failure of the PSEB to get the bank guarantees of Rs. 20 lakh renewed and not to invoke compensation clause resulted in non-recovery of mobilisation advance of Rs. 15.10 lakh plus interest thereon and penalty of Rs. 25 lakh. Besides, the objective of avoiding pollution of Sutlej river water could also not be achieved.

The matter was reported to the Government in November 1996; reply had not been received (September 1997).

4A.1.7. Embezzlement of cash

Instructions issued by PSEB regarding withdrawal of cash from banks provided, *inter alia*, that

Non-compliance of instructions for withdrawal of cash from the bank facilitated embezzlement of Rs. 10 lakh.

-- amount to be withdrawn from a bank in a lot was not to exceed Rs. 0.20 lakh (increased to Rs. one lakh from August 1994) and other lot was to be withdrawn after disbursement of the amount of the first lot;

-- no cheque was to be drawn until it was intended to be paid;

-- an officer signing a cheque was required to satisfy himself that entries were made in such a manner as to preclude the insertion of words or figures either in front or in continuation of the words and figures as entered in the cheque; and

-- daily statement of cheques encashed and drawn was to be sent to the drawing officer by the bank and in case the same was not received by him, he was required to obtain it from the bank.

In the maintenance Sub-Division No. 4, Kotla (under Hydel Construction Division No. 1, Ganguwal) of PSEB, a self cheque for Rs. 2.33 lakh, instead of Rs. 0.20 lakh as required, written by the Sub-Divisional Clerk (SDC) and signed by the Sub-Divisional Officer (SDO) and the Head Clerk (as second signatory) was issued on 31 May 1994 despite the fact that there were no pre-audited/passed bills requiring immediate payment. The same was kept in the chest and got encashed by the SDC only on 10 June 1994. Neither the bank had supplied the daily statement of cheques encashed nor was the same collected by the drawing officer as required. However, reconciliation by the Banking Section of the PSEB headquarters required to be done monthly in July 1994 was actually done in November 1994 when it was found that an amount of Rs. 12.33 lakh instead of Rs. 2.33 lakh had been withdrawn by the SDC from the bank against cheque in question. An FIR was lodged (November 1994) with Police against the SDC. An Enquiry Officer appointed in December 1994 held (September 1996) that the cheque must have been written in violation of PSEB's instructions in this regard and tampered with after the same was signed by the SDO and the Head Clerk. Accordingly, SDC was held directly responsible for the embezzlement. The Enquiry Officer also observed that the amount was not written in words in the authority letter given to the SDC for encashment of cheque. The SDO, Head Clerk and the Executive Engineer were indirectly held responsible for the embezzlement by the Enquiry Officer. Though action against the SDC was pending in a Court, final action taken against others was pending (September 1997). It was further noticed (July 1997) that the Sub-Division had not started following the instructions so as to avoid recurrence of such instances in future.

The matter was reported to the Government in March 1997; reply had not been received (September 1997).

4A.1.8. Avoidable payment of employees' share of Employees' Provident Fund

> Failure of the PSEB to start deductions of EPF from employees' wages immediately after decision of the Supreme Court of India resulted in avoidable payment of employees' share of Rs. 11.98 lakh.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952, (referred to as the Act) provided, *inter alia*, that every employer covered under the Act shall make contribution to the Employees'

Provident Fund (EPF) at prescribed rates and an equal amount is contributed by his employee.

Mukerian Hydel Construction Division (MHCD) No. 1, Talwara, engaged in the construction of irrigation works of Mukerian Hydel Project of the PSEB, started making contributions to EPF from October 1980, after building and construction industry was brought under the Act. The MHCD, however, stopped making deductions of EPF from the wages of employees from July 1984 after Chief Engineer, Irrigation Works, on the advice of State Law Department, had opined that employees engaged in irrigation works were not covered under the Act. On the representation of union of the workcharged employees, Regional Provident Fund Commissioner (RPFC), responsible for maintaining EPF of employees, decided (May 1987) that the establishment of MHCD No. 1, Talwara was rightly covered under the Act. The PSEB, however, filed (1987) a civil writ petition (CWP) in the Punjab and Haryana High Court against the above order of RPFC. The High Court upheld (May 1991) the decision of the RPFC and dismissed the CWP. The special leave petition (SLP) filed by the PSEB before the Supreme Court of India against the decision of the Punjab and Haryana High Court was also dismissed in August 1992. Despite dismissal of SLP by Supreme Court of India, EPF deductions were not started immediately from September 1992. The deductions were started from February 1993. Employees' share of EPF amounting to Rs.11.98 lakh for the period from September 1992 to January 1993 was deposited by the PSEB from its own funds during May to September 1993 as according to provisions in the Act, past period deductions could not be made from employees' current wages.

Thus, failure of the PSEB to start deductions of EPF from employees' wages immediately after decision of the Supreme Court of India resulted in avoidable payment of employees' share of Rs.11.98 lakh. In addition, the PSEB is saddled with the liability of interest which is yet to be claimed by RPFC.

The matter was reported to the Government in April 1995 and February 1997; reply had not been received (September 1997).

4A.2. PUNJAB STATE WAREHOUSING CORPORATION

4A.2.1. Loss due to injudicious decision to set up container freight station at Mumbai

> Setting up of container freight station at Mumbai in contravention of the provisions of the Warehousing Corporations Act, 1962 resulted in loss of interest of Rs. 515.89 lakh.

With a view to providing the exporters and other users the facility of containerization of their cargo at Mumbai, the PSWC decided (August 1994) to set up a container freight station (CFS) and deposited (August 1994) earnest money of Rs.1.20 crore with City and Industrial Development Corporation of Maharashtra Limited (CIDCO) for allotting land measuring 10.75 hectares. Plot of land was allotted to PSWC in September 1994 by CIDCO.

The Central Warehousing Corporation (CWC) and Maharashtra State Warehousing Corporation requested (September 1994) CIDCO not to allot land to PSWC stating that under the provisions of Warehousing Corporations Act, 1962 (referred to as the Act) State Warehousing Corporations could operate within their respective States. CWC also approached (September 1994) Government of India in this regard. The Government of India advised (September 1994) Punjab Government not to set up the project at Mumbai. Ignoring the advice of Government of India, PSWC further paid Rs.2.07 crore on 15 October 1994 towards the cost of land. However, the CIDCO cancelled the allotment of plot on 31 October 1994. On request by Punjab Government to Maharashtra Government, the CIDCO, restored (December 1994) the allotment of plot to PSWC. According to re-allotment letter, the possession was to be given after receiving full lease premium and other charges (Rs.0.54 crore) in two instalments of Rs.5.39 crore and rupees eight crore to be paid on or before 6 January 1995 and 6 February 1995, respectively. PSWC paid Rs.13.39 crore on 9 December 1994 (before due date) taking the plea that by constructing CFS complex early, it would earn at least Rs.12 lakh per month on account of parking of empty containers by shipping lines which would make good the interest loss of Rs.25.31 lakh (worked out by PSWC itself at 15.5 *per cent*) on the payment being made before due date.

In May 1995, the GOI decided that a State Warehousing Corporation (SWC) could not set up a warehouse/CFS in any other State in view of the provisions contained in the Act. However, to save PSWC from incurring further losses, it decided that the Government of Punjab would float a new company and the land for CFS would be transferred to that company. Accordingly, the Punjab Government floated (June 1995) a new wholly owned Government company named Punjab State Containers and Warehousing Corporation Limited (CONWARE). The PSWC transferred (July 1995) the land to CONWARE at book value of Rs.18.34 crore (including cost of construction of boundary wall) and treated the amount as loan at interest rate of 19 *per cent per annum* from the date of allotment of civil works; which were allotted in September 1996.

Thus, the action of PSWC to go in for setting up the CFS project at Mumbai in contravention of the provisions of the Act resulted in loss of Rs.515.89 lakh (including Rs. 25.31 lakh for making payments in advance) on account of interest on blocked investment from August 1994 to August

1996, worked out at 15.5 *per cent* (adopted by PSWC while calculating interest of Rs.25.31 lakh).

The matter was reported to the Government and the PSWC in February 1997; their replies had not been received (September 1997).

4A.2.2. Undue favour to suppliers of gunny bags

Undue favour to the tune of Rs. 7.66 lakh was extended to the suppliers of gunny bags due to reduction in the percentage of quality cut without any basis.

The Corporation placed (October 1993) two supply orders on two firms of Calcutta for supply of 8000 gunny bales (B. Twill gunny bags having weight of 1020 gms per bag) conforming to ISI specifications which provided, *inter alia*, that the mass per gunny bale (consisting of 300 gunny bags) would not be less than 306 kgs. The inspection of the material was to be carried out at the respective destinations by a committee to be constituted by the Corporation and its decision was to be final and binding on the suppliers. The order placed with one of the firms for supply of 5000 gunny bales was reduced to 2000 bales due to its unsatisfactory supply performance.

On receipt of bags, the district level Inspection Committees constituted for the purpose observed (October and November 1993) that the gunny bags were not according to the ISI specifications and recommended for imposition of suitable quality cut. A committee of three officers of the Corporation, constituted to examine the inspection reports submitted by the Inspection Committees, found that weight of gunny bags was not as per specifications and worked out deficiency in weight between 3.500 kgs and 41.700 kgs per bale and recommended quality cut of Rs. 14.99 lakh (including Rs. 0.27 lakh on account of other minor deficiencies) at the rate of 6.3 *per cent* of total value of bags . The Chairman of the Corporation, however, reduced quality cut to 1.5 *per cent* on the plea of a representative of one of the firms that Rs. 3.75 on account of insurance, freight, CST, etc., included in the price of a gunny bag should not have been taken into account for the purpose of quality cut and that bags supplied by them contained lesser moisture as compared to 20 *per cent* moisture provided in the ISI specifications. No basis for reducing the quality cut to 1.5 *per cent* was, however, given by the Chairman. Accordingly, the Corporation deducted Rs. 3.56 lakh on account of quality cut from the bills of suppliers.

It was seen in audit that element of moisture had been taken into account by the committee of officers while working out deficiency in weight of bales and even after reducing Rs. 3.75 from the price of a bag on account of insurance, freight, etc., the quality cut on the basis of deficiency in weight alone worked out to Rs. 11.22 lakh and not Rs. 3.56 lakh. This resulted in undue favour to the firms to the extent of Rs. 7.66 lakh.

4B. GOVERNMENT COMPANIES

4B.1. Punjab Small Industries and Export Corporation Limited

Loss of interest due to erroneous payment of freight

The Punjab Small Industries and Export Corporation Limited (PSIEC) made two advance payments of Rs.98.31 lakh and Rs. 102.40 lakh in May and June 1992 to Rashtriya Ispat Nigam towards procurement of two rakes (3400 tonnes approximately) of pig iron. The payments also included cost of freight amounting to Rs. 24.42 lakh. 3344.670 tonnes of pig iron valued at Rs. 198.69 lakh was received by the Company in May and June 1992. Although the element of freight was included in the advance payments, the Ispat Nigam, in June 1992, sent to PSIEC two debit notes for Rs.24.42 lakh for payment of freight charges against the above supplies. As a result, PSIEC effected the payment in July 1992 without verifying that advance payments made already included freight charges. On being pointed out by Audit in June 1996, the Company lodged (December 1996) a claim with Rashtriya Ispat Nigam for refund of Rs.24.42 lakh on account of double payment of freight charges along with interest. The PSIEC received the refund of Rs.24.42 lakh in January 1997.

> Erroneous payment of Rs. 24.42 lakh to a supplier on account of freight resulted in loss of interest of Rs. 15.38 lakh.

Thus, the erroneous payment of Rs.24.42 lakh to the Nigam on account of freight, resulted in loss of interest of Rs.15.38 lakh (calculated at 14 *per cent per annum*, the rate at which the PSIEC borrowed funds from Small Industries Development Bank of India for one of its activities). The PSIEC stated (June 1997) that the matter regarding fixation of responsibility for making double payment was being looked into.

The matter was reported to the Government in March 1997; reply had not been received (September 1997).

4B.2. PUNJAB COMMUNICATIONS LIMITED

4B.2.1. Extra payment of handling commission due to non-settlement of terms and conditions with the banks

> Non-settlement of the terms and conditions with Punjab National Bank resulted in extra payment of handling commission of Rs. 17.13 lakh.

The Punjab Communications Limited (PunCom) was incorporated on 21 July 1981 with the main objects of carrying on the business of manufacturers and dealers in all types of electronics items. With a view to expanding its activities by adding new products to its existing range and improving the existing Research and Development set-up, the PunCom invited (May 1994) offers from various banks to act as bankers for its public issue of 42.50 lakh equity shares of Rs. 10 each for cash at a premium of Rs. 120 per share (increased to Rs. 240 per share in September 1994).

The PunCom appointed (October 1994) eight banks including Punjab National Bank(PNB) for handling the share applications involving share application money at Rs. 62.50 per share without settling the terms and conditions in regard to the handling commission payable to the banks. However, the PNB, which had offered to charge handling commission at the rate of 1/8 *per cent* of the amount collected, assured that the terms would be reasonable and at par with the other banks.

It was noticed (January 1996) in audit that the PNB handled 92916 share applications and collected Rs. 292.80 crore as share application money including stock invest. The PNB charged (February 1995) Rs. 36.56 lakh on account of handling commission at the rate of 1/8 *per cent* which was much higher when compared to rupee one to rupees three per application charged by other banks. The PunCom protested (February, March and June 1995) to the PNB against the exorbitant commission charges. Resultantly, the

PNB refunded Rs. 16.64 lakh on account of reduction of handling commission charges to 1/9 *per cent* (Rs. 2.50 lakh) and commission charged (Rs. 14.14 lakh) on amounts collected through stock invest which had wrongly been deducted. Actually, PNB was entitled for a commission of Rs.2.79 lakh only even if it was charged at the maximum rate of rupees three per application charged by other banks.

Thus, due to non-settlement of the terms and conditions with the PNB regarding payment of handling commission, the PunCom had to make avoidable extra payment of handling commission of Rs. 17.13 lakh to PNB.

The PunCom stated (January and December 1996) that it had not settled terms with PNB as it was assured that terms would be reasonable and at par with other banks. However, due to tremendous time pressure, no agreement could be entered into with the banks. The PunCom further stated that the matter for refund of Rs. 17.13 lakh had been taken up with higher authorities of PNB. The reply of PunCom lacks substance because it had not been able to recover the amount in spite of lapse of over two years in the absence of any agreement with the bank.

The matter was reported to the Government in November 1996 and April 1997; reply had not been received (September 1997).

4B.2.2. Avoidable loss due to non-obtaining of insurance cover for stocks lying in the open

The PunCom had been obtaining insurance covers for its stocks against fire without separately indicating the value of stocks lying in the open. PunCom obtained (March 1995) an insurance cover (value: Rs.24 crore) for the year 1995-96 for its stocks kept in the godown, covering peril of fire.

Failure to cover the stocks kept in the open under insurance policy resulted in loss of Rs. 45.67 lakh.

A fire broke out on 1 June 1995 in the open premises of the PunCom where the stocks of co-axial cable and waiveguide were lying. An F.I.R mentioning the cause of fire as sudden and natural was lodged on 1 June 1995 with Police.

The PunCom lodged (August 1995) a claim of Rs.45.67 lakh with the insurance company on account of damage to 7339 metres of co-axial cable and 860 metres of waiveguide. The claim was rejected by the insurance company in December 1996 on the ground that the same did not fall under the scope of insurance policy because the destroyed material was kept in the open.

Thus, failure to cover the stocks kept in the open under the insurance policy, by paying additional negligible insurance premium of Rs. 0.34 lakh (paid by PunCom in the subsequent year for covering the stocks in the open), resulted in loss of Rs. 45.67 lakh.

The matter was reported to the Government in March 1997; reply had not been received (September 1997).

4B.3. PUNJAB AGRO INDUSTRIES CORPORATION LIMITED

Loss of interest due to making payment before lifting fertilizer

The Punjab Agro Industries Corporation Limited (PAIC), *inter alia*, procures fertilizers from manufacturers and sells the same to the farmers in Punjab. The PAIC placed (August 1995) an order with Paradeep Phosphates Limited (PPL), for supply of 11000 tonnes of Dia-Ammonia Phosphate fertilizer at a rate of Rs.9200 per tonne. The rate was 'F.O.R'. Punjab railheads or PPL warehouses in the State of Punjab. According to the terms of payment, full amount against invoice was to be released within seven days from the physical receipt of material and in case of supply against release orders from warehouses of PPL, payment was to be

Making of payment before lifting the fertilizer resulted in loss of interest of Rs. 5.89 lakh.

made on the eighth day from the date of issue of release order. In case of non/delayed supplies, no penal clause had been incorporated in the terms and conditions.

The PPL issued release orders for 11000 tonnes of the fertilizer during 29 September to 23 October 1995. The PAIC made payment of Rs. 10.10 crore out of borrowed funds on 9 and 30 October 1995 without ensuring quality/physical availability of stocks in the warehouses and lifted 9748.250 tonnes of the fertilizer up to December 1995. The balance quantity of 1251.750 tonnes could not be lifted by PAIC as the fertilizer offered by PPL was either not according to contractual specifications or it was not physically available in the warehouses. The PAIC asked (January 1996) the PPL to refund Rs. 1.15 crore towards cost of 1251.750 tonnes of fertilizer. The PPL refunded (February 1996) Rs.57.54 lakh representing cost of 626.750 tonnes of the fertilizer and issued (February 1996) fresh release order for balance quantity of 625 tonnes which was lifted by the PAIC in March and April 1996.

Thus, making advance payment out of borrowed funds by the PAIC without ensuring quality/physical availability of stock was not a commercially prudent action and resulted in interest loss of Rs.5.89 lakh (worked out at 14.5 *per cent per annum* being the minimum rate of interest paid by PAIC on loans/cash credit during that period).

The matter was reported to the Government in April 1997; reply had not been received (September 1997).

4B.4. PUNJAB STATE CIVIL SUPPLIES CORPORATION LIMITED

4B.4.1. Loss due to non-acceptance of counter offer

> Due to incorrect evaluation of counter offer of Bangladesh Government, the PUNSUP not only lost an opportunity of earning profit of Rs. 85.26 lakh and foreign exchange of 124.99 lakh US dollars, it also suffered a loss of Rs. 340.53 lakh.

With a view to liquidating the excess stocks of unmilled paddy (nine lakh tonnes approximately) pertaining to Kharif season of 1994-95 and avoiding loss of Rs. 600 per tonne being incurred on the free sale of paddy, the Punjab State Civil Supplies Corporation Limited (PUNSUP), in response to global tenders floated by Bangladesh in April 1995, offered (April 1995) to supply 0.50 lakh tonnes par boiled rice at 260.60 US dollars* (Rs. 8138.54) per tonne by rail. Based on the lowest rate received, the Bangladesh Government made counter offer to PUNSUP to supply the rice at the rate of 249.97 US dollars* (Rs. 7806.56) per tonne by rail. The PUNSUP did not accept the offer of Bangladesh Government because according to its evaluation even if margin (Rs. 500 per tonne) included in the quoted rate was excluded, it would not match the rate of 249.97 US dollars per tonne offered by the Bangladesh Government. Audit analysis revealed that evaluation done by the PUNSUP was not correct as by accepting the counter offer of 249.97 US dollars per tonne, PUNSUP could still earn a profit of 2.73 lakh US dollars (Rs. 85.26 lakh) on the supply of 0.50 lakh tonnes of par boiled rice. Subsequently, the paddy (0.75 lakh tonnes) required for conversion into 0.50 lakh tonnes of rice was sold (May 1995) at a loss of Rs. 340.53 lakh.

Thus, due to incorrect evaluation of counter offer of Bangladesh Government, the PUNSUP not only lost an opportunity of earning profit of Rs. 85.26 lakh and foreign exchange of 124.99 lakh US dollars(0.50 lakh tonnes @ 249.97 US dollars per tonne), it also suffered loss of Rs. 340.53 lakh in the disposal of paddy at reduced rates.

The matter was reported to the Government and the PUNSUP in April 1997; their replies had not been received (September 1997).

4B.4.2. Loss of interest due to double adjustment of gunnies

> Return of gunnies by PUNSUP to FCI taken on loan in spite of the fact that the latter had already recovered the cost, resulted in loss of interest of Rs. 24.07 lakh as gunnies were returned by FCI after 20 months.

The PUNSUP procures paddy and wheat for Central pool. According to the practice followed by procuring agencies till August 1988, the

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* Conversion rate adopted was Rs. 31.23 per US dollar.

gunnies taken from or given to Food Corporation of India (FCI) on loan basis were settled in kind. However, with a view to having better control on gunnies taken or given on loan basis, it was decided (September 1988) that half-yearly reconciliation of gunnies both receivable or returnable be undertaken as on 30 September and 31 March every year and in case of outstanding gunnies, the debtor party would pay the cost of gunnies at the rate applicable as on that date.

It was seen (December 1995) in audit of Sangrur district office of PUNSUP that subsequent to decision of September 1988, the district office did not settle with FCI the accounts of gunnies half yearly. The FCI deducted (March 1994) Rs. 117.71 lakh at the rate of Rs. 16.50 per bag (rate applicable for the crop year 1993-94) from the sale bills of wheat submitted by district office, on account of the cost of 7.13 lakh B-Twill A class gunny bags given to PUNSUP on loan basis during the period from 1979 to 1994. Out of the above deduction, the PUNSUP accepted the deduction of Rs. 47.52 lakh being the value of 2.88 lakh bags and returned (October to December 1994) the remaining 4.25 lakh bags to FCI after making fresh purchases of gunnies at the rate of Rs. 19.40 per bag in spite of the fact that the FCI had made deduction at the rate of Rs. 16.50 per bag. Action of the PUNSUP to return the gunnies after making purchases at higher rate lacked justification. The FCI, however, refused (November 1994) to release the balance payment of Rs.70.19 lakh on the plea that the recovery of gunny bags had already been treated as final and returned (September/October 1996) 4.25 lakh gunny bags valued at Rs. 82.53 lakh to PUNSUP after a gap of nearly two years. Resultantly, the PUNSUP's funds to the extent of Rs.82.53 lakh remained locked up for 20 months (January 1995 to August 1996) on which it suffered loss of interest of Rs. 24.07 lakh.

The matter was reported to the Government and the PUNSUP in April 1997; their replies had not been received (September 1997).

4B.4.3. Undue favour to a miller

The PUNSUP entered into an agreement (October 1994) with a miller of Jugiana(Ludhiana) for milling of paddy for 1994-95 provided that the shortage of paddy was to be recovered from the miller at the rate of one and a half times of the economic cost of paddy.

Non-enforcing of recovery as per terms of agreement coupled with ignoring the advice of district office resulted in non-recovery of Rs.248.92 lakh.

The District Manager (DM), PUNSUP, Ludhiana stacked 181961 quintals and 6313 quintals of fine and IR-8 varieties of paddy respectively in the premises of the miller during paddy season 1994-95. The miller delivered 23685 quintals of rice equivalent to 35992 quintals of paddy (fine variety) to FCI between December 1994 and March 1995. A physical verification of the stocks lying at the premises of the miller conducted (May 1995) by the DM, PUNSUP, Ludhiana revealed a shortage of 33951 quintals of paddy. The DM recovered Rs. 148.07 lakh including interest from the miller instead of Rs. 210.74 lakh being one and half times of the economic cost of paddy, as required resulting in short recovery of Rs. 62.67 lakh. Of the balance quantity of 112018 quintals of paddy (fine variety), the PUNSUP sold 87476 quintals during May 1995 to April 1996 and 514 quintals of paddy was transferred to another centre (Khanna). In view of the above said shortage, the DM, Ludhiana proposed (August 1995) to the Head Office to either transfer the balance paddy to other centres or to obtain bank guarantee or surety from the miller to safeguard the interest of the PUNSUP. It was, however, seen in audit that the Head Office of PUNSUP did not take any action on the proposal of the DM.

Another physical verification conducted (April 1996) by DM, Ludhiana revealed that there were no stocks of paddy with the miller. Thus, the remaining quantity of 24028 quintals of paddy (fine variety) and 6313 quintals of IR-8 variety were misappropriated by the miller.

Against the first shortage, two inspectors were held responsible by the PUNSUP and one increment of each inspector was stopped (September 1996) with cumulative effect. As regards the misappropriation detected in April 1996, the DM lodged (July 1996) an FIR with police against the miller for recovery of Rs. 113.78 lakh instead of Rs. 186.25 lakh calculated at one and half times of the economic cost of paddy, as per agreement, thereby resulting in short claim of Rs. 72.47 lakh. The PUNSUP stated (September 1997) that action to claim the amount from the miller is being initiated.

Thus, by not enforcing the recovery at one and a half times, as required coupled with ignoring of request of the DM, PUNSUP, Ludhiana by Head Office resulted in non-recovery of Rs.248.92 lakh (including Rs.135.14 lakh not claimed by PUNSUP).

The matter was reported to the Government and the PUNSUP in April 1997; their replies had not been received (September 1997).

4B.4.4. Blocking of funds in the wheat purchased for commercial sale

In May 1993, the Board of Directors of PUNSUP approved a proposal for commercial purchase of wheat during Rabi 1993-94 in view of demand of wheat in the Southern States and they expected to generate profit through commercial sale of such wheat to the Southern States. Accordingly, the PUNSUP purchased 22069 tonnes of wheat up to 15 June 1993 at the rate of Rs.331 per quintal. Audit scrutiny (January 1996) revealed that the PUNSUP thereafter could not find buyers in the Southern States and also could not sell the wheat in the open market as the price was found to be uneconomical; the PUNSUP decided (February 1994) to get rid of it by delivering the same to FCI for the Central pool. All the District Managers were telephonically instructed on 8 April 1994 to liquidate these

> Due to delivery of commercial wheat for Central pool without consent of FCI, the PUNSUP suffered a loss of interest of Rs. 24.21 lakh, because of non-release of sale proceeds.

stocks by delivering the same to FCI along with Central pool wheat already procured by them. However, consent of FCI for delivery of the wheat procured for commercial sale in the Southern States in Central pool was not obtained by PUNSUP, as required.

Out of 22069 tonnes of wheat so purchased, PUNSUP delivered 12917 tonnes to FCI in Central pool. The Amritsar branch of FCI, to which 1186 tonnes of wheat was delivered, did not release the payment of Rs. 56.75 lakh (including carry over charges of Rs. 12.37 lakh) on the plea that the wheat was not purchased for Central pool. However, subsequently in a meeting involving FCI (August 1995), it was agreed that FCI would release the payment of naked grain (excluding carry over charges). Accordingly, the PUNSUP raised (September 1995) a revised bill for Rs. 39.16 lakh but the FCI had not released the payment till April 1997.

Thus, having failed in its venture to sell wheat in the open market at economically viable rates, the action of the PUNSUP in delivering the same for Central pool without prior consent of the FCI lacked justification thereby leading to blocking of the sale proceeds of Rs. 39.16 lakh with the FCI since June 1993. The loss of interest suffered by the PUNSUP on this blocked amount worked out to Rs. 24.21 lakh (calculated at cash credit rates for respective years).

The matter was reported to the Government and the PUNSUP in May 1997; their replies had not been received (September 1997).

4B.4.5. Loss due to delivery of fine rice instead of superfine

Failure to enter into agreement with millers coupled with lack of control over milling operations resulted in loss of Rs. 6.87 lakh.

Instructions for custom milling of paddy for 1993-94 issued (September 1993) by the State Government, *inter alia*, provided that the PUNSUP would execute agreements with millers for custom milling of paddy requiring the millers, *inter alia*, to give a bank guarantee (valid up to 30 September 1994) at the rate of rupees one lakh for every one tonne capacity of the mill. The millers were required to offer rice conforming to the requisite specifications failing which it was liable to be rejected and they were required to offer fresh stocks conforming to the specifications.

During kharif* 1993-94, the PUNSUP, without entering into agreements and obtaining bank guarantees, delivered 319078 quintals of superfine paddy (PR-106) to 21 millers of Nabha and Bhadson in Patiala district for milling. Against 209506 quintals of superfine rice due (worked out at yield of 67 *per cent* prescribed in Punjab Rice Procurement (Levy) orders, 1983), the millers delivered 207947 quintals of fine rice and 1559 quintals of super fine rice to FCI between February and May 1994. This resulted in short realisation of sale proceeds by Rs. 6.78 lakh from FCI, being difference between the rates of fine and superfine rice. After making adjustments of amount payable to millers, the net loss suffered by PUNSUP amounted to Rs. 6.87 lakh (including interest of Rs. 2.19 lakh up to April 1997). No action had been taken against the millers to recover the loss suffered by the PUNSUP on this account.

Thus, failure of the PUNSUP to enter into agreements with the millers, non-obtaining of bank guarantee coupled with lack of control over the

* Season from May to October.

milling operations resulted in loss of Rs. 6.87 lakh. Responsibility for this lapse has also not been fixed.

The PUNSUP stated (September 1997) that the matter regarding recovery of differential amount from the miller was pending with the Government since June 1995.

The matter was reported to the Government in May 1997; reply had not been received (September 1997).

4B.5. Punjab Tourism Development Corporation Limited

4B.5.1. Injudicious investment due to improper selection of site for setting up of a tourist complex at Nidampur

Construction of a tourist complex at an unsuitable site, resulted in loss of Rs. 14.46 lakh.

Punjab Tourism Development Corporation Limited (PTDC) was set up in March 1979 with the main objective of developing tourism in the State. Mention was made in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1989-90 about starting construction of a tourist complex at Nidampur (district Sangrur) in spite of the fact that the site was unsuitable. On being assured (September 1992) by the Administrative Department of PTDC that the complex was situated at a very strategic point, ideally located on the bank of Ghaggar branch canal and was an attractive place for the tourists, the Committee on Public Undertakings (COPU) decided not to pursue the matter further.

The complex consisting of 4 living rooms, a snack and beer bar and a restaurant was completed at a cost of Rs. 24.55 lakh and opened to public in January 1993. Against anticipated annual profit of Rs.0.31 lakh, the complex had been running into losses since its inception because of the remote location of complex not suitable for attracting customers. The accumulated loss of the complex up to August 1996 amounted to Rs.14.46 lakh mainly due to low occupancy of living rooms and poor sales at the complex. The Management also brought (February 1996) to the notice of Board of Directors that Nidampur complex, being located at an isolated place with hardly any appreciable industrial/trade growth in the near vicinity, had limited scope to be viable. The Board of Directors constituted (February 1996) a committee of four officers for restructuring/leasing out/privatisation of the complex. Further developments were awaited (September 1997).

Thus, due to construction of a tourist complex at an unsuitable site, the PTDC suffered loss of Rs.14.46 lakh (up to August 1996) besides unfruitful capital expenditure of Rs.24.55 lakh.

The matter was reported to the Government and the PTDC in April 1997; their replies had not been received (September 1997).

4B.5.2. Injudicious investment in the purchase of Hovercrafts

With a view to attracting tourists, the PTDC through the State Government forwarded (January 1994) a proposal to Government of India (GOI), Department of Tourism for the purchase of three Hovercrafts under Central financial assistance scheme, to be operated at Dóraha, Ropar and Madhopur. The viability of operating the Hovercrafts at these sites was not considered before submitting the proposal. The Department of Tourism, however, sanctioned (March 1994) purchase of two Hovercrafts at a total cost of Rs. 12.44 lakh (excluding taxes to be borne by the State Government) for their operation at Ropar and Madhopur and released (March and July 1994) rupees six lakh for the purpose. The PTDC placed (February 1995) a purchase order on a firm of Ghaziabad to supply two

Purchase of Hovercrafts without ascertaining the suitability of sites resulted in the blockage of funds amounting to Rs. 6 lakh with a committed liability of Rs. 7.06 lakh.

Hovercrafts which were received (July 1995) at Ropar at a cost of Rs. 13.06 lakh (including taxes).

The PTDC released Rs. 3.11 lakh and Rs. 2.89 lakh to the supplier in March and July 1995 respectively and balance payment of Rs. 7.06 lakh was not made pending release of funds by GOI.

It was seen in audit (December 1996) that due to collapsing of shed at Ropar, one of the Hovercrafts was damaged (December 1995) and returned (January 1996) to the supplier for repairs and was yet to be received back as of July 1997. It was also found (August 1996) during survey by the consultant of PTDC that there was no space for construction of platform at Madhopur.

The other one meant for use at Ropar could not be operated as the water body at Ropar had already been declared (June 1993) as national wet land where all types of motorised boating was prohibited. The Hovercraft was, ultimately, shifted (April 1996) to Neelon complex where also it was not operated except for a total of 37 hours during April to July 1996.

Thus, purchase of two Hovercrafts by the PTDC without ascertaining the suitability of sites at Ropar and Madhopur was evidently not a judicious decision and resulted in blockage of funds amounting to rupees six lakh with committed liability of Rs. 7.06 lakh.

The matter was reported to the Government and the PTDC in April 1997; their replies had not been received (September 1997).

4B.6. PUNJAB DIGITAL INDUSTRIAL SYSTEMS LIMITED

Unjustified purchase of a machine

The Punjab Digital Industrial Systems Limited (PDISL) decided to purchase two coil winding machines for taking up coil winding job work in June 1993. Accordingly, the PDISL placed an order with a firm of New Delhi for supply of two imported automatic coil winding machines along with accessories in December 1993. In May 1994, however, PDISL purchased only one machine at a cost of Rs. 4.13 lakh which was commissioned in July 1994. The second machine was not purchased due to paucity of funds.

Audit scrutiny revealed that the machine could run for 126 hours up to September 1994 and had done the job work amounting to Rs. 0.05 lakh only against the target of rupees nine lakh for the year 1994-95 fixed by the PDISL. The machine had not been utilised since September 1994.

Thus, procurement of the machine without assessing the demand of job work and its subsequent under-utilisation has rendered the expenditure of Rs. 4.13 lakh wasteful.

The matter was reported to the Government and the PDISL in February 1997; their replies had not been received (September 1997).

4B.7. PUNJAB STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

4B.7.1. Locking up of funds

The Punjab State Industrial Development Corporation Limited (PSIDC) was incorporated in January 1966 with the main objects to promote, aid, assist and finance industries for balanced regional industrial development in the State. In order to diversify its activities, the PSIDC decided (September 1994) to subscribe to shares of undertakings promoted by it at a premium where they had an excellent track record on the basis of their financial performance, profitability, etc.

Investment by PSIDC in the shares of another Government Company at a premium with the motive of speculative gain in violation of its primary objective resulted in locking up of Rs. 72 lakh.

In response to the public issue (October 1994) of shares by Punjab Communications Limited (PunCom), the PSIDC, anticipating gains, applied for allotment of 10 lakh shares of Rs. 10 each at a premium of Rs. 240 per share and deposited (October 1994) Rs. 6.25 crore on account of application money. The PunCom was neither promoted nor assisted by the PSIDC. The PunCom allotted (January 1995) 28800 shares for a total consideration of Rs. 72 lakh. The quoted price of a share of the PunCom had come down to Rs. 43 as on 30 April 1997.

Decision of the PSIDC to invest in the shares of PunCom at a premium of Rs. 240 per share was purely with the motive of speculative gain not related to its regular business and resulted in locking up its funds of Rs. 72 lakh since October 1994 and therefore could not be recycled for promoting industrial units.

The matter was reported to the Government and the PSIDC in April 1997; their replies had not been received (September 1997).

4B.7.2. Loss due to non-obtaining of bank guarantee

The PSIDC sanctioned (January 1984) a term loan of Rs. 60 lakh to a hundred *per cent* export oriented unit of Mohali, promoted by a non-resident group (Incomnet, USA) for the manufacture of computer boards. Besides, PFC also sanctioned a loan of Rs. 30 lakh to the unit. The PSIDC disbursed (February to November 1984) Rs. 49 lakh and balance loan of Rs. 11 lakh was not availed by the unit.

> Failure of the PSIDC to obtain irrevocable bank guarantee as well as personal guarantees of the new promoters resulted in loss of Rs. 164.76 lakh.

Since the unit had been incurring losses, it failed to repay Rs. 37.21 lakh as principal and Rs. 3.60 lakh interest due on 31 May 1988. In the inter-institutional meeting held in August 1989 to rehabilitate the unit, offer of a new group of non-residents to take over the unit was accepted on the condition that new promoters would pay Rs. 40 lakh, i.e., 50 *per cent* of outstanding term loans of Rs. 79 lakh (including Rs. 30 lakh disbursed by PFC) immediately and balance amount by way of half yearly instalments spread over two years bearing interest at the rate of 10 *per cent per annum*. It was also decided (August 1989) that the new promoters would furnish an irrevocable bank guarantee as well as personal guarantees for their liability. The unit paid Rs. 40 lakh (January 1990) to both PSIDC and PFC but no bank guarantee and personal guarantees were obtained, as required.

The unit, however, failed to honour its obligation and settlement was withdrawn in November 1992. Thereafter, four one time settlements were made by the financial institutions between December 1991 and September 1995 but on each occasion, the unit failed to fulfil its commitment.

In view of continued default by the unit, it was taken over by PFC in August 1996. In November 1996, Central Excise and Customs Authorities, Chandigarh intimated PFC that due to non-fulfilment of export obligations, the unit was liable to pay custom duty amounting to Rs. 222.74 lakh on the capital goods, raw materials and finished goods lying in the stocks. After inviting tenders, a Sale Committee comprising the representatives of all concerned institutions and Customs Department negotiated (February 1997) with a party the total price of the unit at Rs. 190.30 lakh. However, the sale could not materialise because issue of payment of dues could not be settled with the Customs Department. Since the obligation due to the Customs Department had priority over all other obligations, the dues of PSIDC amounting to Rs. 164.76 lakh outstanding as on July 1997 had become irrecoverable.

Thus, failure of the PSIDC to obtain irrevocable bank guarantee as well as personal guarantees of the new promoters, as required, resulted in loss of Rs. 164.76 lakh.

The matter was reported to the Government and the PSIDC in May 1997; their replies had not been received (September 1997).

CHANDIGARH
Dated : 11 FEB 1998

(Prasanna Kumar Jena)
Accountant General (Audit), Punjab

Countersigned

V. K. Shunglu

NEW DELHI
Dated :

(V.K. Shunglu)
Comptroller and Auditor General of India

Annexures

ANNEXURE 1A

List of companies in which State Government have invested more than Rs. 10 lakhs but which are not subject to audit by the Comptroller and Auditor General of India.

(Referred to in paragraph 3 of the Preface and paragraph 1.2.12, page 16)

Sr. No.	Name of Company	Total investment by State Government up to 1996-97 (Rupees in lakh)
1.	Bharat Steel Tubes Limited	47.82
2.	Bhagwanpura Sugar Mills Limited renamed as Malwa Sugar Mills Limited	15.48
3.	Usha Spinning and Weaving Mills Limited	20.00
	Total	83.30

ANNEXURE 1B

List of Statutory corporations, accounts of which are not subject to audit by the Comptroller and Auditor General of India.

(Referred to in paragraph 3 of the Preface and paragraph 1.3.7, page 21)

Serial number	Name of corporation	Total investment by State Government up to 1996-97 (Rupees in lakh)
1.	Punjab Backward Classes Land Development and Finance Corporation	760.00*
2.	The Punjab Women and Children Development and Welfare Corporation	517.21**
3.	Punjab Ex-servicemen Corporation	205.00
4.	Punjab Water Supply and Sewerage Board	658.33
	Total	**2140.54**

* Audit of the Corporation was entrusted to the Comptroller and Auditor General of India under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, for a period of five years from 1985-86 to 1989-90.

** Includes Rs. 166.21 lakh invested by the Government of India.

ANNEXURE - 2

Statement showing particulars of up-to-date capital, budgetary outgo, loans given out from budget, outstanding loans as on 31 March 1997.

(Referred to in paragraph 1.2.2. page 4)

Serial Number	Name of Company	Paid-up capital as at the end of 1996-97					Loans given out of budget duirng the year	Loans outstanding
		State Government	Central Government	Holding companies	Others	Total		
1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4	5
		(	Rupees	in	lakh	)		
I	**Agriculture Department**							
	Sector - Agriculture							
1.	Punjab Land Development and Reclamation Corporation Limited	145.00	-	-	-	145.00	-	306.76
2.	Punjab State Seeds Corporation Limited	450.99	93.15	-	17.55	561.69	-	4930.42
3.	Punjab Agro Industries Corporation Limited	4546.36	120.00	-	-	4666.36	300.00	1021.00
4.	Punjab Micro Nutrients Limited	-	-	25.00	-	25.00	-	25.00
5.	Punjab Agro News Prints Limited	-	-	500.00	-	500.00	-	-
6.	Punjab State Container and Warehousing Corporation Limited	0.07	-	-	-	0.07	-	3191.97
II	**Animal Husbandry Department**							
	Sector - Agriculture							
7.	Punjab Poultry Development Corporation Limited	309.09	-	-	-	309.09	-	-
8.	Punjab Dairy Development Corporation Limited	479.54	-	-	-	479.54	-	-
III	**Food and Supplies Department**							
	Sector - Public distribution							
9.	Punjab State Civil Supplies Corporation Limited	373.00	-	-	-	373.00	-	9905.00
IV	**Irrigation Department**							
	Sector - Agriculture							
10.	Punjab State Tubewell Corporation Limited	8487.45 (821.00)#	-	-	-	8487.45	4100.00	17020.14

Note: Figures in brackets indicates budgetary outgo during the year.

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4	5
		(	Rupees	in	lakh	)		
V	**Industries Department**							
	Sector - Industries							
11.	Punjab State Industrial Development Corporation Limited	8347.50	--	--	--	8347.50	--	1645.00
12.	Punjab Small Industries and Export Corporation Limited	776.66	15.00	--	--	791.66	--	1611.18
13.	Punjab State Leather Development Corporation Limited	341.90	--	--	--	341.90	--	--
14.	Punjab Tanneries Limited	--	--	52.00	--	52.00	--	128.00
15.	Punjab Footwears Limited	--	--	14.66	--	14.66	--	4.00
16.	Punjab Recorders Limited	--	--	71.00	--	71.00	--	99.74
17.	Punjab Tyres Limited	--	--	5.50	--	5.50	--	--
	Sector - Engineering							
18.	Punjab Power Products Limited	--	--	30.64	--	30.64	--	69.00
19.	Punjab Power Packs Limited	--	--	154.97	--	154.97	--	--
	Sector - Electronics							
20.	Punjab State Electronics Development and Production Corporation Limited	1715.68	--	--	--	1715.68	--	397.90
21.	Consumer Electronics (Punjab) Limited	--	--	22.58	--	22.58	--	--
22.	Punjab Bio-Medical Equipments Limited	--	--	43.44	--	43.44	--	38.34
23.	Electronic Systems Punjab Limited	--	--	213.98	--	213.98	--	592.51
24.	Punjab Communications Limited	--	--	1184.11	426.43	1610.54	--	606.35
25.	PCL Telecom Limited	--	--	19.63	--	19.63	--	--
26.	Punjab Digital Industrial Systems Limited	--	--	24.66	--	24.66	--	26.43
27.	Intermagnetic India Limited	--	--	4.40	16.00	20.40	--	8.40
28.	Zimag India Limited	--	--	2.46	3.17	5.63	--	--
29.	Punjab Electro Optics Systems Limited	--	--	11.74	--	11.74	--	69.04
	Sector - Miscellaneous							
30.	Punjab Export Corporation Limited	9.40	--	--	0.60	10.00	--	51.91

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4	5
		(	Rupees	in	lakh	)		
	<u>Sector - Finance</u>							
31.	Goindwal Industrial and Investment Corporation of Punjab Limited	627.45	--	--	--	627.45	--	91.39
	<u>Sector - Textiles</u>							
32.	Punjab State Hosiery and Knitwear Development Corporation Limited	390.70	--	--	--	390.70	--	135.09
33.	Doaba Shoddy Spinning Mills Limited	--	--	0.50	--	0.50	--	--
34.	Doaba Worsted Spinners Limited	--	--	0.50	--	0.50	--	--
35.	Ludhiana Worsted Spinning Mills Limited	--	--	0.50	--	0.50	--	--
36.	Sangrur Worsted Spinning Mills Limited	--	--	0.50	--	0.50	--	--
37.	Polytex Processors Limited	--	--	0.50	--	0.50	--	--
38.	Nakodar Cotton Waste Spinning Mills Limited	--	--	*	--	*	--	--
39.	Sutlej Shoddy Spinners Limited	--	--	2.00	--	2.00	--	--
40.	Punjab Processors Limited	--	--	*	--	*	--	--
	<u>Sector - Handloom and Handicrafts</u>							
41.	Punjab State Handloom and Textiles Development Corporation Limited	363.00	--	--	--	363.00	--	143.91
VI	**Forest Department**							
	<u>Sector - Forest</u>							
42.	Punjab State Forest Development Corporation Limited	25.00	--	--	--	25.00	--	--
VII	**Cultural Affairs Department**							
	<u>Sector - Miscellaneous</u>							
43.	Punjab Film and News Corporation Limited	151.34	--	--	--	151.34	--	13.66
VIII	**Tourism Department**							
	<u>Sector - Tourism</u>							
44.	Punjab Toursim Development Corporation Limited	521.15	--	--	--	521.15	--	--
45.	Reliance Hotels Limited	--	--	3.00	--	3.00	--	--

* Paid-up capital was Rs. 70 only.

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4	5
		(	Rupees	in	lakh	)		
IX	**Home Department**							
	Sector - Construction							
46.	Punjab Police Housing Corporation Limited	#	--	--	--	#	--	2011.19
	Transport Department							
	Sector - Transport							
47.	Punjab State Bus Stand Management Company Limited	##	--	--	--	--	--	--
	Total	**28061.28@**	**228.15**	**2388.27**	**463.75**	**31141.15**	**4400.00**	**44143.33**
		(821.00)				**(821.00)**		

Note 1@ Figure as per Finance Accounts is Rs. 27050.71 lakh; reasons for the difference of Rs. 1010.57 lakh have been explained in Finance Accounts.
Note 2: Figures in brackets indicate budgetary outgo during the year.

\# Paid up capital was Rs.200 only.

\## Paid-up capital was rupees Rs. 700 only.

ANNEXURE - 3

Summarised financial results of Government companies for the latest year for which accounts were finalised.
(Referred to in paragraphs 1.2.2. and 1.2.8.4. page 4 and 11)

Serial number	Name of company	Date of incorporation	Period of accounts	Year in which finalised	(+) Profit/ (-) loss	Paid-up capital	Accumulated profit (+)/ loss (-)	Capital employed	Return on capital employed	Percentage of total return on capital employed
1	2	3	4	5	6	7	8	9	10	11
				(Figures in	columns 6 to	10 are	rupees in	lakh)		(Per cent)
I	**Agriculture Department**									
	Sector - Agriculture									
1.	Punjab Land Development and Reclamation Corporation Limited	22 March 1965	1990-91	1997-98	(-)105.54	145.00	(-)89.76	(-)336.89	(-)0.18	--
2.	Punjab State Seeds Corporation Limited	27 March 1976	1991-92	1996-97	(-)261.41	480.78	(-) 1539.95	680.33	16.03	2.36
3.	Punjab Agro Industries Corporation Limited	11 February 1966	1996-97	1997-98	(-)546.88	4666.36	(-) 418.90	1584.14	(-) 435.13	--
4.	Punjab Micro Nutrients Limited	1 February 1983	1991-92	1994-95	(-) 11.62	25.00	(-) 60.85	13.45	(-) 7.05	-
5.	Punjab Agro News Prints Limited	27 January 1989	1996-97	1997-98	-	500.00	Under construction			
6.	Punjab State Container and Warehousing Corporation Limited	26 April 1995	--	--	--	--	First accounts not received			
II	**Animal Husbandry Department**									
	Sector - Agriculture									
7.	Punjab Poultry Development Corporation Limited	15 September 1964	1995-96	1997-98	(-) 70.41	309.09	(-) 295.23	150.31	(-) 65.16	-
8.	Punjab Dairy Development Corporation Limited	28 January 1966	1996-97	1997-98	--	479.54	(-) 204.53	275.01	--	--
III	**Food and Supplies Department**									
	Sector - Public distribution									
9.	Punjab State Civil Supplies Corporation Limited	14 February 1974	1986	1997-98	(-) 2889.57	373.00	(-) 9995.36	39186.37	3730.15	9.52

1	2	3	4	5	6	7	8	9	10	11
				(	Figures in	columns 6 to	10 are	rupees in	lakh)	(*Per cent*)
IV	**Irrigation Department**									
	Sector - Agriculture									
	10. Punjab State Tubewell Corporation Limited	26 December 1970	1993-94	1995-96	(-) 187.92	5846.45	(-) 2736.13	9873.57	(-) 187.92	-
V	**Industries Department**									
	Sector - Industries									
	11. Punjab State Industrial Development Corporation Limited	31 Janaury 1966	1995-96	1996-97	(+) 283.70	8347.50	(+) 3982.39	31341.65	3863.30	12.33
	12. Punjab Small Industries and Export Corporation Limited	17 March 1962	1994-95	1997-98	(+) 128.58	2765.67	(+) 941.92	7000.33	585.03	8.36
	13. Punjab State Leather Development Corporation Limited	23 February 1981	1990-91	1994-95	(-) 53.91	341.90	(-) 136.11	605.76	(-) 41.58	-
	14. Punjab Tanneries Limited	29 October 1969	1991-92	1993-94	(-) 93.20	52.00	(-) 498.39	33.39	(-) 9.52	-
	15. Punjab Footwears Limited	15 July 1969	1989-90	1994-95	(-) 8.02	14.66	(-) 73.55	(-) 34.10	(-) 4.51	-
	16. Punjab Recorders Limited	4 January 1977	1994-95	1996-97	(+) 6.40	71.00	(-) 34.96	524.90	59.93	11.42
	17. Punjab Tyres Limited	11 July 1974	<--			First	accounts not	received	---------------------------->	
	Sector - Engineering									
	18. Punjab Power Products Limited	13 March 1979	1982-83	1983-84	(-) 11.77	25.64	(-) 26.64	105.00	(-) 5.81	-
	19. Punjab Power Packs Limited	28 September 1981	1995-96	1996-97	102.93	154.97	(-) 448.12	395.86	121.87	30.79
	Sector - Electronics									
	20. Punjab State Electronics Development and Production Corporation Limited	27 March 1976	1995-96	1996-97	234.49	1715.68	242.34	1278.80	283.27	22.15
	21. Consumer Electronics (Punjab) Limited	12 January 1978	1995-96	1996-97	(-) 0.76	22.58	(-) 10.77	(-) 3.14	(-) 0.76	--

1	2	3	4	5	6	7	8	9	10	11
					(Figures in	columns 6 to	10 are	rupees in	lakh)	(*Per cent*)
22.	Punjab Bio-Medical Equipments Limited	4 January 1977	1992-93	1994-95	14.05	43.44	(-) 102.54	20.17	22.13	109.72
23.	Electronic Systems Punjab Limited	22 September 1980	1995-96	1996-97	(-) 537.23	213.98	(-) 461.24	2306.69	(-)57.17	--
24.	Punjab Communications Limited	21 July 1981	1996-97	1997-98	(+) 240.41	1605.59	6204.26	15898.14	321.35	2.02
25.	PCL Telecom Limited	6 April 1993	1995-96	1997-98	(-) 24.60	19.63	(-) 45.73	(-) 26.38	(-) 24.60	-
26.	Punjab Digital Industrial Systems Limited	4 January 1977	1995-96	1996-97	5.89	24.66	(-) 28.48	113.14	7.32	6.47
27.	Intermagnetic India Limited	6 June 1991	1992-93	1996-97	-	20.40	Under construction			
28.	Zimag India Limited	20 August 1991	1995-96	1996-97	-	5.63	Under construction			
29.	Punjab Electro Optics Systems Limited	12 January 1978	1995-96	1996-97	(-) 0.35	11.74	(-) 127.34	(-) 69.90	(-) 0.35	-
	<u>Sector - Miscellaneous</u>									
30.	Punjab Export Corporation Limited	17 June 1963	1977-78	1979-80	(-) 9.17	10.00	(-) 27.21	7.44	(-) 6.36	
	<u>Sector - Finance</u>									
31.	Goindwal Industrial and Investment Corporation of Punjab Limited	31 August 1981	1995-96	1997-98	(+) 8.86	627.45	(-) 106.71	638.13	23.84	3.74
	<u>Sector - Textiles</u>									
32.	Punjab State Hosiery and Knitwear Development Corporation Limited	21 February 1977	1992-93	1995-96	(-) 115.85	390.70	(-) 783.58	126.43	(-) 91.99	
33.	Doaba Shoddy Spinning Mills Limited	20 November 1982	1994-95	1996-97	-	0.50	Under construction			
34.	Doaba Worsted Spinners Limited	20 November 1982	1994-95	1996-97	-	0.50	Under construction			
35.	Ludhiana Worsted Spinning Mills Limited	20 November 1982	1994-95	1996-97	-	0.50	Under construction			

1	2	3	4	5	6	7	8	9	10	11
				(Figures in		columns 6 to	10 are	rupees in	lakh)	(*Per cent*)
	36. Sangrur Worsted Spinning Mills Limited	20 November 1982	1994-95	1997-98	-	0.50	Under construction			
	37. Polytex Processors Limited	20 November 1982	1994-95	1997-98	-	0.50	Under construction			
	38. Nakodar Cotton Waste Spinning Mills Limited	20 August 1981	1990-91	1997-98	-		Under construction			
	39. Sutlej Shoddy Spinners Limited	20 November 1982	1983-84	1994-95	-	2.00	Under construction			
	40. Punjab Processors Limited	28 July 1982	1989-90	1997-98	-	*	Under construction			
	Sector - Handloom and Handicrafts									
	41. Punjab State Handloom and Textiles Development Corporation Limited	27 March 1976	1987-88	1997-98	(-) 29.66	344.50	(-) 185.94	480.35	(-) 12.51	-
VI	**Forest Department**									
	Sector - Forest									
	42. Punjab State Forest Development Corporation Limited	23 May 1983	1987-88	1995-96	0.36	25.00	3.84	30.82	0.36	1.17
VII	**Cultural Affairs Department** Sector - Miscellaneous									
	43. Punjab Film and News Corporation Limited	26 June 1973	1992-93	1995-96	(-) 0.59	151.34	(-) 190.28	6.13	(-) 0.59	-
VIII	**Tourism Department**									
	Sector - Tourism									
	44. Punjab Toursim Development Corporation Limited	26 March 1979	1991-92	1997-98	(-) 48.54	521.15	(-) 374.75	177.21	(-) 47.05	-
	45. Reliance Hotels Limited	23 February 1987	1995-96	1996-97	-	3.00	Under construction			

* Paid-up capital was Rs. 70 only.

1	2	3	4	5	6	7	8	9	10	11
				(	Figures in	columns 6 to	10 are	rupees in	lakh)	(*Per cent*)
IX	**Home Department**									
	Sector - Construction									
	46. Punjab Police Housing Corporation Limited	30 March 1989	1995-96	1996-97	-	°	-	2140.24		-
X	**Transport Department**									
	Sector - Transport									
	47. Punjab State Bus Stand Management Company Limited	7 March 1995	First accounts not received.							
	Total				**(-) 3981.33**	**30359.53**	**(-)7628.30**	**114523.35**	**8036.34**	**7.02**

° Paid-up capital was Rs. 200 only.

ANNEXURE 3A

Statement showing arrears in finalisation of accounts of Government companies

(Referred to in paragraph 1.2.7, page 8)

Sl. No.	Name of the Company	Year from which accounts are in arrears	Number of years in arrears
(1)	(2)	(3)	(4)
1.	Punjab Land Development and Reclamation Corporation Limited	1991-92	6
2.	Punjab State Seeds Corporation Limited	1992-93	5
3.	Punjab Micro Nutrients Limited	1992-93	5
4.	Punjab State Container and Warehousing Corporation Limited	1995-96	2
5.	Punjab Poultry Development Corporation Limited	1996-97	1
6.	Punjab State Civil Supplies Corporation Limited	1987	10
7.	Punjab State Tubewell Corporation Limited	1994-95	3
8.	Punjab State Industrial Development Corporation Limited	1996-97	1
9.	Punjab Small Industries and Export Corporation Limited	1995-96	2
10.	Punjab State Leather Development Corporation Limited	1991-92	6
11.	Punjab Tanneries Limited	1992-93	5
12.	Punjab Footwears Limited	1990-91	7
13.	Punjab Recorders Limited	1995-96	2
14.	Punjab Tyres Limited	1974-75	23
15.	Punjab Power Products Limited	1983-84	14
16.	Punjab Power Packs Limited	1996-97	1
17.	Punjab State Electronics Development and Production Corporation Limited	1996-97	1
18.	Consumer Electronics (Punjab) Limited	1996-97	1
19.	Punjab Bio-Medical Equipments Limited	1993-94	4
20.	Electronic Systems Punjab Limited	1996-97	1
21.	PCL Telecom Limited	1996-97	1
22.	Punjab Digital Industrial Systems Limited	1996-97	1
23.	Intermagnetic India Limited	1993-94	4

(1)	(2)	(3)	(4)
24.	Zimag India Limited	1996-97	1
25.	Punjab Electro Optics Systems Limited	1996-97	1
26.	Punjab Export Corporation Limited	1978-79	19
27.	Goindwal Industrial and Investment Corporation of Punjab Limited	1996-97	1
28.	Punjab State Hosiery and Knitwear Development Corporation Limited	1993-94	4
29.	Doaba Shoddy Spinning Mills Limited	1995-96	2
30.	Doaba Worsted Spinners Limited	1995-96	2
31.	Ludhiana Worsted Spinning Mills Limited	1995-96	2
32.	Sangrur Worsted Spinning Mills Limited	1995-96	2
33.	Polytex Processors Limited	1995-96	2
34.	Nakodar Cotton Waste Spinning Mills Limited	1991-92	6
35.	Sutlej Shoddy Spinners Limited	1984-85	13
36.	Punjab Processors Limited	1990-91	7
37.	Punjab State Handloom and Textiles Development Corporation Limited	1988-89	9
38.	Punjab State Forest Development Corporation Limited	1988-89	9
39.	Punjab Film and News Corporation Limited	1993-94	4
40.	Punjab Tourism Development Corporation Limited	1992-93	5
41.	Reliance Hotels Limited	1996-97	1
42.	Punjab Police Housing Corporation Limited	1996-97	1
43.	Punjab State Bus Stand Management Company Limited	1995-96	2

ANNEXURE - 4

Statement showing subsidy received, guarantees received, waiver of dues during the year and guarantees outstanding at the end of the year.
(Referred to in paragraph 1.2.5. page 6)

Serial Number	Name of company	Subsidy received during the year				Guarantees received during the year and outstanding at the end of the year					Waiver of dues during the year			
		Central	State	Others	Total	Cash credit from State Bank of India and other nationalised banks	Loans from other sources	Letter of credit opened by SBI in respect of imports	Payment obligation under agreements with foreign consultants of contracts	Total	Loans repayments written off	Interest waived	Penal interest waived	Repayment of loans on which moratorium allowed
1	2	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)
						(Rupees in lakh)								
I.	**Agriculture Department**													
	Sector - Agriculture													
1.	Punjab Poultry Development Corporation Limited	--	75.99	--	75.99	--	--	--	--	--	--	--	--	--
2.	Punjab Agro Industries Corporation Limited						35.00			35.00 (21.00)*				
II.	**Food and Supplies Department**													
	Sector - Public Distribution													
3	Punjab State Civil Supplies Corporation Limited	--	--	--	--	152500.00	--	--	--	152500.00 (47204.00)*	--	--	--	--
III.	**Irrigation Department**													
	Sector - Agriculture													
4.	Punjab State Tubewell Corporation Limited	--	1985.00	--	1985.00	--	--	--	--	--	--	--	--	--

* Indicates guarantee outstanding.

1	2	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)
							(Rupees in lakh)							
IV.	**Industries Department**													
	Sector - Industries													
5.	Punjab State Industrial Development Corporation Limited	--		--	--	--	8820.75	--	--	8820.75 (11360.75)*		--	--	--
	Sector - Electronics													
6.	Punjab Small Industries and Export Corporation Limited	--		--	--	--	168.00	--	--	168.00 (72.63)*		--	--	--
	Sector - Textiles													
7.	Punjab State Hosiery and Knitwear Develop ment Corporation Limited	--		--	--	--	--	--	--	(134.00)*		--	--	--
V.	**Home Department**													
	Sector - Construction													
8	Punjab Police Housing Corporation Limited	--		--	--	--	--	--	--	(2011.19)*		--	--	--
	Total		**2060.99**	--	**2060.99**	**152500.00**	**9023.75**	--	--	**161523.75** **(60803.57)***				

* Indicates gurantees outstanding.

ANNEXURE - 5

Statement showing the capacity utilisation of manufacturing companies during the year for which accounts have been finalised.

(Referred to in paragraph 1.2.11. page 16)

	Name of company(product)	Year	Installed capacity	Actual utilisation	Percentage of utilisation *(Per cent)*
I	**Animal Husbandary Department**				
	Sector - Agriculture				
1.	Punjab Poultry Development Corporation Limited (Feed in lakh quintals)	1995-96	3.60 (3.60)*	0.71 (0.94)	19.72 (26.11)
II	**Industries Department**		**(Number)**		
	Sector - Engineering				
2.	Punjab Power Packs Limited (Nickel cadmium cells/batteries)	1995-96		Data on comparable basis not maintained	
	Sector - Electronics				
3.	**Electronic Systems Punjab Limited**				
	(Data acquisition systems)	1995-96	10 (10)	1 (-)	10.00 (-)
	(Video display)	-do-	750 (750)	- (-)	- (-)
	(Ceramic capacitors)	-do-	56 (56)	13.29 (11.61)	23.73 (20.73)
	(Modems)	-do-	400 (400)	- (-)	- (-)
4.	**Punjab Digital Industrial Systems Limited**				
	(Testors)	1995-96	75 (75)	- (--)	- (--)
	(Freq counters)	do	75 (75)	- (-)	- (-)

* Note: Figures in brackets indicate previous year's figures

	Name of company(product)	Year	Installed capacity	Actual utilisation	Percentage of utilisation *(Per cent)*
	(P.H. meter)	do	250	-	-
			(250)	(-)	(-)
	(Digital M.meter)	do	300	-	-
			(300)	(-)	(-)
	<u>Sector - Industries</u>				
5.	**Punjab Recorders Limited**				
	(OEM recorders)	1994-95	1000	-	-
			(1000)	(-)	(-)
	(Caliberation)	do	10	-	-
			(10)	(-)	(-)
	(Uninteruptable power supply systems)	do	200	4	2
			(200)	(12)	(6)
6	**Punjab Communications Limited**				
	(DTL)	1996-97	5000	627	12.54
			(5000)	(3154)	(63.08)
	(PCM)(Channels)	-do-	11250 (1250)	2712 (25646)	24.10 (227.96)
	(Terminals)		375	147	39.20
	(Radio)	-do-	100	72	72.00
			(100)	(79)	(79.00)
	(M/W Radio)	-do-	200	17	8.5
			(200)	(168)	(84.00)
	(T-MUX)	-do-	200	41	20.5
			(200)	(418)	(209.00)
	(EPABX)	-do-	120000	92820	77.35
			(120000)	(35552)	(29.63)
	(OLTE)	-do-	500	326	65.20
			(500)	(-)	(-)
	2 GHZ	-do-	30	-	-
			(-)	(-)	(-)
	(VSAT)TR	-do-	200	11	5.5
			(-)	(-)	(-)

Note : Figures in brackets indicate previous year's figures.

ANNEXURE - 6

Statement showing summarised financial results of Statutory corporations for the latest year for which annual accounts have been finalised.

(Referred to in paragraph 1.3.8. page 21)

Serial number	Name of the Statutory corporation	Name of the department	Year of incorpo-ration	Year of accounts	Profit(+)/ loss(-)	Total interest charged to profit and loss account	Capital employed	Total return on capital employed (6+ 7)	Percentage of total return to capital employed
1	2	3	4	5	6	7	8	9	10
					(Figures in columns 6 to 9 are rupees in crore)				(*Per cent*)
1.	Punjab State Electricity Board	Irrigation and Power	1967	1995-96	(+) 142.85	324.64	A 7562.67	467.49	6.18
2.	PEPSU Road Transport Corporation	Transport	1956	1995-96	(-) 11.54	6.76	A (-) 48.62	(-) 4.78	-
3.	Punjab Financial Corporation	Industries	1953	1994-95	(+) 0.13	39.31	B 361.58	39.44	10.91
4.	Punjab State Warehousing Corporation	Agriculture	1967	1993-94	(+) 8.29	3.13	A 49.39	11.42	23.12
5.	Punjab Scheduled Castes Land Development and Finance Corporation	Welfare	1971	1993-94	(+) 1.78	0.22	C 40.88	2.00	4.90

A. Capital employed represents net fixed assets (including capital work-in-progress) *plus* working capital.

B. Represents mean of the aggregate of opening and closing balances of (i) paid-up capital, (ii) bonds and debentures, (iii) reserves (excluding those funded specifically and backed by outside investment), and (iv) borrowings including refinance and deposits.

C. Represents mean of the aggregate of opening and closing balances of (i) paid-up capital, (ii) borrowings, and (iii) reserves.

Annexure 7

(Referred to in paragraph 2.5, page 46)

Statement showing the financial position and working results of Punjab State Seeds Corporation Limited for the five years ending 1996-97.

1. Financial position

Particulars		1992-93	1993-94	1994-95	1995-96	1996-97 provisional
		(Rupees in lakh)				
A	Liabilities					
a)	Paid-up capital°	480.77	480.77	480.77	561.76	561.76
b)	Reserves and surplus	1.93	1.93	0.09	0.09	0.09
c)	Borrowings (including interest)	2144.51	2621.96	3242.42	4000.11	4935.12
d)	Trade dues and current liabilities (including provisions)	153.29	190.04	164.75	209.57	146.64
Total - A		**2780.50**	**3294.70**	**3888.03**	**4771.53**	**5643.61**
B	Assets					
a)	Gross block	485.74	497.72	506.64	538.00	568.76
b)	Less: depreciation	256.74	271.86	284.92	304.19	337.58
c)	Net fixed assets	229.00	225.86	221.72	233.81	231.18
d)	Current assets including loans and advances	796.47	892.50	1013.67	1149.41	1158.75
e)	Loss	1755.03	2176.34	2652.64	3388.31	4253.68
Total - B		**2780.50**	**3294.70**	**3888.03**	**4771.53**	**5643.61**
C°°	Capital employed	872.18	928.32	1070.64	1173.65	1243.29
D#	Net worth	(-)1272.33	(-)1693.64	(-)2171.78	(-)2826.46	(-)3691.83

° Includes Rs. 0.07 lakh on account of share application money pending allotment.

°° Capital employed represents net fixed assets plus working capital.

\# Net worth represents paid-up capital plus reserves and surplus less intangible assets.

II Working results

Particulars		1992-93	1993-94	1994-95	1995-96	1996-97
		(		Provisional		)
		(	Rupees	in	lakh	)
1.	**Income**					
a)	Sales	670.05	1135.07	1102.29	1801.66	1942.28
b)	Miscellaneous income	24.56	15.92	23.57	4.39	2.00
c)	Accretion(+)/ decretion (-) in stock	(+)171.03	(-)114.14	(+)299.04	(+)247.12	(-)197.52
Total		**865.64**	**1036.85**	**1424.90**	**2053.17**	**1746.76**
2.	**Expenditure**					
a)	Purchases	604.39	768.61	1012.30	1593.08	1266.35
b)	Administrative and establishment expenses	89.02	109.15	136.46	177.61	202.20
c)	Processing expenses	40.78	50.89	56.15	73.55	72.13
d)	Selling expenses	17.34	33.82	66.97	86.61	103.04
e)	Interest on loans	401.51	477.45	615.78	757.69	935.02
f)	Depreciation	15.65	15.92	15.39	19.27	33.39
g)	Others	0.74	2.32	-	81.03*	--
Total		**1169.43**	**1458.16**	**1903.05**	**2788.84**	**2612.13**
Net profit(+)/ loss (-) for the year		(-)303.79	(-)421.31	(-)478.15	(-)735.67	(-)865.37
Operational profit after excluding interest on loans		(+)97.72	(+)56.14	(+)137.63	(+)22.02	(+)69.65

* Includes dividend (Rs. 80.99 lakh) on irredeemable cumulative preference shares, converted into redeemable cumulative preference shares.

Annexure 8

Statement showing loss of revenue due to running of more than one industrial connection in the same premises

(Referred to in para 3A.7.1.1(b) page 89)

Sr. No	Name of sub-divisions/ name of consumer	Load (KW)	Date of clubbing	Period of loss	Loss due to non -applicat-ion of correct tariff (Rupees in lakh)	Remarks
1.	2.	3.	4.	5.	6.	7
1.	Sanghera (District Sangrur)					
i)	Varindera Agro Chemicals	2100.00	Not clubbed	April 1992 to October 1994	9.37 (Tariff)	The load exceeded five MW on the release of connection at serial number iv in December 1992.
ii)	Alchem India	224.931		December 1993 to September 1996		On the request (August 1995) of consumer, the clubbing of load was sanctioned (April 1996) on 66 KV. Not actually clubbed for want of construction of higher voltage system.
iii)	Industrial Organics	1002.920			177.99 (Surcharge)	
iv)	Abhishek Industries	3007.528				
		6335.379				
2.	Sarabha nagar, Ludhiana					
i)	Modi Rice Mills	99.990	January 1994	May 1983 to April 1987	11.05	The loss for the period from May 1987 to April 1988 could not be worked out as the records for the period were not available.
ii)	Narinder Kumar	99.770		May 1988 to January 1994		
iii)	Satinder Kumar	99.861				
		299.621				
3.	Mandi Gobindgarh					
i)	Kay Steel Works	1600.000	Not clubbed	April 1992 to March 1995	4.68	The connection at serial number (ii) was for auxiliary load of arc furnace but the arc furnace surcharge was not levied. The amount could not be recovered as the connections were permanently disconnected during March 1995.
ii)	Kay Steel Works	281.023				
		1881.023				

1.	2.	3.	4.	5.	6. (Rupees in lakh)	7
4.	Civil Lines, Jalandhar					
i)	Amar Nath Jugal Kishore	65.792	Not clubbed	April 1989 to April 1996	6.55	The consumer cases were stated to be missing. The connection of the consumer at serial number (i) had been permanently disconnected on 25 April 1996.
ii)	Jugal Kishore	74.360				
		140.152				
5.	Estate, Ludhiana					
i)	Baldev Raj	98.870	Not clubbed	May 1991 to June 1996	4.28	The connection of the consumer at serial number (ii) was permanently disconnected during July 1996.
ii)	Naresh Kumar	94.886				
		193.756				
6.	Sub-urban, Mansa					
i)	Bhagwati Rice Mills	58.882	Not clubbed	April 1992 to June 1996	4.42	Loss worked out from April 1992 as the consumer cases were stated to be with Technical Audit of the Board.
ii)	Maha Shakti Rice Mills	60.396				
		119.278				
7.	Estate, Ludhiana					
i)	Inder Mohan Tuli	99.782	Not clubbed	September 1990 to February 1996	4.07	Two connections at serial numbers (i) and (ii) were clubbed during June 1995 and large supply tariff charged from consumer at serial number (iii) from March 1996.
ii)	Kailash Rani	56.500	Not clubbed			
iii)	Rekha Tuli	99.607				
		255.889				
8.	Industrial Area, Jalandhar					
i)	Shashi Bhushan	180.174	Not clubbed	August 1991 to October 1996	3.49	Tariff made applicable from November 1996 to the consumer at serial number (ii)
ii)	Mohan Rubber Industries	89.206				
iii)	Ashok Kumar	23.626				
		293.006				

1.	2.	3.	4.	5.	6 (Rupees in lakh)	7
9.	Focal Point Ludhiana					
i)	Kamal Jit Pahwa	50.000	Not clubbed	November 1992 to November 1996	3.70	Loss worked out from the month of checking by Enforcement Wing of PSEB as the consumer cases were stated to be not traceable.
ii)	Tipsons	98.667				
		148.667				
10.	Focal Point, Ludhiana					
i)	Nav Bharat Mechanical	79.646	Not clubbed	November 1992 to November 1996	2.54	Loss worked out from the month of checking by Enforcement Wing as the consumer cases were stated to be not traceable
ii)	Loma Industries	94.880				
		174.526				
11.	North, Ludhiana					
i)	Raj Kumar	87.076	Not clubbed	April 1992 to December 1996	0.67	The consumer case at serial number (ii) was stated to be not traceable.
ii)	Angola International	18.988				
		106.064				
12.	Banur					
i)	Lal Singh Cold Stores	99.250	Not clubbed	April 1993 to September 1996	7.62	The load of 138.150 KW released during April 1980 was split into two M.S. connections during June 1982 in the same premises.
ii)	Kulwinder Cold Stores	38.900				
		138.150				
					240.43	

Annexure 9
(Referred to in paragraph 3B.5, page 99)

Statement showing the financial position and working results of Punjab Financial Corporation for the five years ending 1995-96.

I Financial position

		Particulars	1991-92	1992-93	1993-94	1994-95	1995-96 (Provisional)
			(Rupees		in	crore	)
A		**Liabilities**					
1	(i)	Paid-up capital	9.74	9.74	9.74	9.74	27.05
	(ii)	Loan in lieu of capital	24.17	24.17	24.17	24.17	6.86
2		Reserve and surplus	8.52	8.52	9.52	9.57	11.13
3		Borrowings					
	(i)	Bonds and debentures	86.67	101.98	120.57	140.58	160.57
	(ii)	Others	129.71	152.21	181.03	194.08	195.42
4		Other liabilities and provisions	12.63	12.95	12.81	14.22	15.95
5		Seed capital received from IDBI and subventions paid by State Government	2.14	2.68	2.34	1.62	2.51
		Total A	**273.58**	**312.25**	**360.18**	**393.98**	**419.49**
B		**Assets**					
1		Cash and bank balances	8.10	4.37	9.60	11.92	8.69
2		Investment	0.01	0.01	0.01	0.01	0.01
3		Loans and advance	236.79	279.09	313.19	335.24	342.65
4		Net fixed assets	0.59	0.56	0.54	0.58	0.59
5		Other assets	16.51	14.29	16.30	13.48	6.95
6		Loss	11.58	13.93	20.54	32.75	60.60
		Total B	**273.58**	**312.25**	**360.18**	**393.98**	**419.49**
C		Capital# employed	236.99	277.72	320.82	361.58	389.58
II		**Working results:**					
1		**Income**					
	a	Interest on loans and advances	21.08	26.61	37.35	42.16	49.85
	b	Other income	0.51	1.26	1.00	1.03	1.31
	c	Loss	4.51	2.35	-	-	-
		Total	**26.10**	**30.22**	**38.35**	**43.19**	**51.16**

Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, bonds and debentures, reserves (excluding those funded specifically and backed by outside investments) and borrowing including refinance and deposits.

		Particulars	1991-92	1992-93	1993-94	1994-95	1995-96 (Provisional)
			(Rupees		in	crore	)
2		**Expenditure**					
	a	Interest on loans	19.85	25.02	32.64	39.31	45.02
	b	Other expenses	6.25	5.20	3.42	3.75	4.12
	c	Profit	-	-	2.29#	0.13#	2.02#
		Total	**26.10**	**30.22**	**38.35**	**43.19**	**51.16**
3		Profit before tax	-	-	2.29	0.13	2.02
4		Provision for tax	-	-	-	-	-
5		Profit after tax	-	-	2.29	0.13	2.02
6		Total return on capital employed	15.34	22.67	34.93	39.44	47.04
7		Per centage of return on capital employed	6.47	8.16	10.89	10.91	12.07

Profits have been worked out without deducting the provision for bad and doubtful debts during the years 1993-94, 1994-95 and 1995-96 amounting to Rs.7.89 crore, Rs.12.29 crore and Rs.29.03 crore respectively as the same has incorrectly been routed through the appropriation account thereby concealing the loss to that extent.