

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2010, the State of Punjab had 31 working PSUs (26 companies and 5 Statutory corporations) and 19 non-working PSUs (all companies), which employed 0.77 lakh employees. The working PSUs registered a turnover of ₹ 22,399.29 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 11.64 per cent of the State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of ₹ 1,202.88 crore in 2009-10 and had accumulated losses of ₹ 10,387.87 crore.

Investments in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 50 PSUs was ₹ 16,658.20 crore. It grew by over 18 per cent from ₹ 14,023.58 crore in 2004-05 mainly because of increase in investment in power sector. Power Sector accounted for nearly 87 per cent of the total investment in 2009-10. The Government contributed ₹ 3,317.98 crore towards equity and grants/subsidies during 2009-10.

Performance of PSUs

During the year 2009-10, out of 31 working PSUs, 15 PSUs earned profit of ₹ 80.17 crore and 11 PSUs incurred loss of ₹ 1,283.05 crore. Three working PSUs prepared their accounts on 'no profit no loss basis' while other two working PSUs had not started their commercial activities. The major contributors to profit were Punjab Tourism Development Corporation Limited (₹ 27.50 crore) and Punjab State Container and Warehousing Corporation Limited (₹ 12.66 crore). The heavy losses were

incurred by Punjab State Electricity Board (₹ 1,041.10 crore) and Punjab State Grains Procurement Corporation Limited (₹ 85.96 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of ₹ 2,567.57 crore and infructuous investments of ₹ 5.15 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 27 accounts of working companies finalised during October 2009 to September 2010, ten accounts received qualified certificates and four accounts received adverse certificates. There were 50 instances of non-compliance with Accounting Standards. All six accounts of Statutory corporations finalised during October 2009 to September 2010 received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

23 working PSUs had arrears of 49 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 19 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

2. Performance review relating to Government Company

Performance review relating to 'Working of Punjab Water Resources Management & Development Corporation Limited' was conducted. Executive summary of the Audit findings is given below:

The Punjab Water Resources Management & Development Corporation Limited is engaged in the installation of tubewells and lining of watercourses to supply water for irrigation in the State. The Company had been incurring losses and the accumulated loss as on 31 March 2009 was ₹76.09 crore. Though in February 2008, the Company had amended its Memorandum of Association inter alia to include the new objectives of promoting schemes for execution and management for recharge of ground water, anti water logging measures etc., no steps for their implementation, have been initiated by the Company:

Delay in completion of tubewells

As against the norm of five months for installation of a tubewell, there were delays ranging from one to 36 months in 217 tubewells out of 239 tubewells (91 per cent) installed during 2004-09.

Installation of tubewells in over-exploited zone

Punjab is one of the states drawing the ground water maximum and it needs to be regulated on sustainable basis, particularly in the over-exploited areas where drawl is more than recharging of the ground water. The Company installed 24 tubewells between September 2006 to February 2009 in four districts categorised as over-exploited without making arrangements for recharge of the ground water and defeating the objective of protection of the ground water.

Reduction in irrigation potential

Despite the observation of the Hydrogeological wing of the Company that in 23 tubewells installed in the nearby areas there was less discharge of water, the

company neither limited the number of tubewells nor explored the alternate sites for installation of the tubewells. Due to such indiscriminate digging of tubewells and fast depleting water level in the state, 174 tubewells out of 295 tubewells drilled and developed during 2004-09 had less (25 per cent) discharge of water than the anticipated discharge and as a result against the targeted irrigation of 23,959 acres, actual irrigation was possible in 17,988 acres only.

Failure to revise the rates for sale of water

The Company had incurred operation and maintenance cost of ₹9.05 to ₹11.20 per unit of electricity consumed during 2004-09 as against water charges of ₹one and ₹1.60 per unit in the Kandi and non Kandi area respectively fixed in May 2003. The Company had not brought to the notice of the State Government the high operational cost of the tubewells vis-a-vis the low rates prescribed for sale of water so as to revise the rate of water charges.

Recovery of water charges

The present system of collection of water charges by lambardars authorised by the Revenue Department is prone to embezzlement as the Company had not laid down any system for periodical reconciliation of the amount collected and deposited in the banks by the lambardars. The outstanding dues of water charges had increased from ₹1.42 crore in 2005-06 to ₹5.35 crore in 2008-09.

Taking up of low priority project

In the case of lining of watercourses too, there were abnormal delays in completing the works. As against recommendations of a committee to give priority to water logged and saline ground water zone for taking up the work of lining of water courses and discourage such works in the areas where water balance was negative and falling (over-exploited area), the Company took up such works in the area of Upper Bari Doab Canal in Amritsar district which was declared as over-exploited by the Central Ground Water Board.

Internal Control

System of raising the bills and recovery of water charges was not effective. There was no monitoring of implementation of the projects.

Corporate Governance

There were instances of a number of the Board directors not attending the Board meetings. During the review period of five years, the Government had appointed eight Managing Directors whose tenure ranged from 29 to 665 days. Poor participation by the directors and frequent changes in the top official of Company has the risk of affecting effective functioning of the Company.

Recommendations

We have made six recommendations which included augmentation of recharging of ground water; handing over the operation and maintenance of the tubewells to the Water Users Associations; disallowance of subsidy attributable to the Company's inefficiencies; control of establishment cost and streamlining the system of revenue collection; and revision of water charges.

3. Performance review relating to Statutory Corporation

Performance review relating to 'Generation of Power by Punjab State Electricity Board' was conducted. Executive summary of the Audit findings is given below:

The Punjab State Electricity Board was not able to recover its cost of operations. Due to phenomenal growth in the demand for power since 2005-06, the capacity addition was not adequate to meet the requirement leaving a deficit of 4232 MW at the end of 2009-10. In the background of chronic power shortage in the State, it was considered desirable to conduct performance audit to assess the status of power generation vis a vis requirement for power during the period 2005-06 and 2009-10. The audit findings are summarised below:

(I) Capacity additions

During 2005-10, the peak demand for power had increased by 2,078 MW, but the capacity addition was only 937 MW. Though 7,799 MW of power would have to be added

by the end of 11th plan (2012), the Board had planned to add additional capacity of 4,986 MW only and the capacity likely to be added is 2,438 MW leaving a deficit of 5,361 MW. Thus, the State is perennially in power shortage and unlikely to meet the national objective of power for all on demand by 2012.

The failure of the State to maintain pace with the demand for power was interalia due to financial constraints of the Board, chronic delays and indecisiveness in taking decisions by the Board, failure to undertake annual repair and maintenance and renovation/ modernization of the power plants in time.

(II) Operational Performance

Performance of the existing generation stations depends on efficient use of material, man power and capacity of the plants so as to generate maximum energy possible without affecting the long term operation of the plants. Audit of operation of the power stations revealed the following:

a) Consumption of coal

Due to failure of the Board to provide the requisite certificate of calibration of weigh bridges, the coal companies did not allow compensation of ₹ 3.76 crore towards shortage of coal supplied by them. Due to use of coal having less gross calorific value, high heat rate and leakages of steam in the aging units of power plants, there was excess consumption of coal to the tune of 75.48 lakh MT (₹ 1,808.98 crore) in three plants during 2005-10.

b) Deployment of man power

The Board had 64,308 employees as on 31 March 2010 and the employee cost was 16.32 to 19.55 percent of the total expenditure during 2005-10. The actual manpower was more than the norms of CEA in all the power generating stations except GHTP, Lehra Mohabbat during 2005-10. In respect of GNDTP Bathinda and GGSSTP Ropar, the manpower reduced from 2751 and 3585 to 2237 and 3239 respectively during review period. Hydel Power Stations had surplus manpower of 203 in 2005-06 and reduced to norm at the end of 2009-10.

c) Plant load factor

The average PLF of thermal power plants of the Board as a whole (79.18 per cent, 82.94 per cent, 87.42 per cent, 86.33 per cent and 88.96 per cent) was above the national average (73.71 per cent, 77.03 per cent, 78.75 per cent, 77.22 per cent and 77.48 per cent) throughout the review period. But the PLF of GNDTP, Bathinda was lower than the national average due to delay in taking up the renovation work of the plant.

d) Outages

Planned outages and forced outages in thermal power stations decreased from 13,971 hours (13.29 per cent) in 2005-06 to 7507 hours (6.50 per cent) in 2009-10 and forced outages from 5,035 hours (4.79 per cent) in 2005-06 to 3,419 hours (2.96 per cent) in 2009-10

In the case of hydel power plants, the planned outages increased from 25,724 hours (9.47 per cent) in 2005-06 to 29,437 hours (10.84 per cent) in 2009-10 of the total available hours and they were more than the All India Average of 5.66 per cent (2007-08). Similarly, the forced outages in the hydel plants increased from 46,675 hours (17.18 per cent) in 2005-06 to 72,400 hours (26.66 per cent) in 2009-10 as compared to the All India Average of 2.34 percent (2007-08) due to non carrying out of renovation and modernization of the power plants as per plan.

e) Auxiliary Consumption

Auxiliary consumption of power was higher than the PSERC norm of 11 per cent in the case of GNDTP Bathinda resulting in excess consumption of 78.86 million units valuing ₹ 26.89 crore during 2005-06 to 2009-10. In the case of Shanan hydel power station, it was very high ranging from 1.19 per cent to 1.79 percent against the norm of 0.50 per cent fixed by PSERC.

(III) Renovation & Modernisation

Annual maintenance of majority of the thermal and hydel power stations in the State was carried out after delays ranging from six to 36 months adding to the deterioration of the plants.

In the case of GNDTP, Bathinda there were delays in the renovation and modernization of the generation units leading to loss of 1,775 million units of power. After renovation, some of the envisaged norms of performance had not been realised. The R&M work of UBDC hydro electric project scheduled during the 10th five year plan (2003-04 to 2006- 07) had not been carried out due to delayed approval of financial plan.

(IV) Environmental issues

All the thermal plants of PSEB were running without consent of the Punjab Pollution Control Board. The levels of suspended particulate matters in GGSSTP stage I and GNDTP stage I ranged from 65 to 161 mg/Nm³ and 101 to 149 mg/ Nm³ respectively as against the designed level of 100 mg/ Nm³. At GGSSTP, Ropar, waste water from the plant was discharged without any treatment into natural rivulet which ultimately enters the river Sutlej. GNTDP, Bathinda and GGSSTP, Ropar stations failed to bring down the pollution to specified levels and as a result the Board made avoidable payment of water cess of ₹16.83 crore during 2005-06 to 2009-10.

(V) Conclusion and Recommendations

The Punjab State Electricity Board had been initiating projects from time to time for augmenting power generation in the State. However, there are many projects which had been delayed badly and remained to be commissioned. While the Board has been running its thermal stations satisfactorily meeting the performance parameters, the performance of its hydel stations was below the standards.

We have made eight recommendations to improve the power scenario in the State. Vigorous pursuance of capacity addition programs by exploiting all conventional and non conventional potential resources of energy so as to meet the national objective of power for all by 2012, rational deployment of the manpower and carry out the renovation & modernisation activity in time are some of these recommendations.

4. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 2.44 crore in three cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.3, 4.8 and 4.14)

Loss of ₹ 18.50 crore in five cases due to non-safeguarding the financial interests of PSUs.

(Paragraphs 4.1, 4.5, 4.7, 4.10, and 4.13)

Loss of ₹ 1.71 crore in two cases due to defective/deficient planning.

(Paragraphs 4.2 and 4.11)

Loss of ₹ 0.34 crore in one case due to lack of fairness/transparency and competitiveness in operations.

(Paragraph 4.6)

Loss of ₹ 5.50 crore in two cases due to inadequate/deficient monitoring.

(Paragraphs 4.4 and 4.9)

Unfruitful expenditure of ₹ 0.98 crore in two cases due to non-realisation/ partial realisation of objectives.

(Paragraphs 4.12 and 4.15)

Gist of some of the important audit observations is given below:

Punjab Agro Foodgrains Corporation Limited failed to take timely and appropriate actions for milling of the paddy which led to deterioration of 9,881 MTs of paddy valuing ₹ 9.15 crore.

(Paragraph 4.1)

Punjab Agro Industries Corporation Limited released ₹ 4.00 crore without prescribing the terms of payment and ascertaining the actual requirements which resulted in blocking of funds with consequential loss of interest ₹ 1.26 crore.

(Paragraph 4.2)

Punjab State Industrial Development Corporation Limited interpreted the OTS policy wrongly and did not charge interest from the cut off date to the date of acceptance of OTS, which resulted in loss of ₹ 94.33 lakh.

(Paragraph 4.3)

Punjab State Civil Supplies Corporation Limited established no mechanism to monitor raising of bills in time which resulted in loss of interest of ₹ 4.67 crore to the Company.

(Paragraph 4.4)

Punjab State Electricity Board rejected the lowest offer on the plea that the rates were not in line with the detailed tender document which resulted in avoidable expenditure of ₹ 1.47 crore.

(Paragraph 4.7)

Punjab State Electricity Board unnecessarily linked the recovery of the line charges for new connection with recovery of default amount from the previous owner which resulted in non recovery of charges of ₹ 1.24 crore.

(Paragraph 4.8)