Chapter- II

Performance review relating to Government company

2. Procurement and Distribution Activities of Bihar State Food & Civil Supplies Corporation Limited

Highlights

Performance of the Company with regard to procurement and distribution of foodgrain was not found satisfactory as the offtake of foodgrains under various schemes was low especially under the APL/BPL scheme where it was as low as 0.16 to 5.71 *per cent* during 2001-06. The Company did not surrender the excess allotment nor did it analyse the reasons for short offtake, so as to take remedial measures.

(Paragraph 2.6.2)

The Company did not effectively pursue with the Government for revision of margin under AAY and BPL schemes resulting in loss of Rs 54.06 crore.

(Paragraphs 2.6.5 and 2.6.8)

The Company generated profit of Rs 12.64 crore through unauthourised diversion of foodgrains from one scheme to another, at the cost of Govt. subsidy.

(Paragraphs 2.6.10, 2.6.12 and 2.6.13)

Poor enforcement of internal controls with regard to maintenance of records, stores and accounts and physical verification facilitated misappropriation of foodgrains worth Rs 1.22 crore by the company officials and also resulted in 'unmoved food stocks' worth Rs 28.74 crore for over six years, the existence/fitness for human consumption of which is doubtful.

(Paragraphs 2.6.17 and 2.6.16)

The Company paid Rs 1.56 crore to the Godown Managers towards transportation charges without any documentary proof of expenditure. Besides, the company incurred avoidable expenditure/loss of margin aggregating Rs 57.25 lakh due to failure to finalise transportation contracts in time and failure to lift the allotted foodgrains.

(Paragraphs 2.6.18 and 2.6.15)

Advance of Rs 76.62 lakh could not be recovered from FCI due to non- submission of proper claim resulting in interest loss of Rs 91.94 lakh.

(Paragraph 2.6.19)

Introduction

2.1 Bihar State Food & Civil Supplies Corporation Limited (Company) was incorporated in April 1973, as a wholly owned Government Company to undertake the business of purchasing, transporting, storing, stocking and distributing foodgrains; to act as an agent of the Government in procurement and distribution of foodgrains; to plan, formulate and set up mills, or assist in setting up of rice and flour mills;

The operations of the Company are presently confined to:

- procurement of foodgrains for Government schemes from Food Corporation of India (FCI) and distribution thereof through Fair Price Shop (FPS) dealers and other agencies, as authorised by the District Administration,
- distribution of essential commodities through model Fair Price Shops and mobile vans ; and
- operation of departmental stores, Liquiefied Petroleum Gas (LPG) centers, Fuel Stations, distribution of levy sugar and supply of food items to jails.

The Management of the Company is vested in a Board of Directors (BoD) comprising five directors including the Chairman-cum-Managing Director (CMD), all appointed/nominated by the State Government. The CMD is the Chief Executive of the Company who is assisted in day-to-day operation by three Chief Managers, one Company Secretary at the Head Office (HO), and 35 District Managers (one for each district) in the field.

Scope of audit

2.2 The present review conducted during January to June 2006 covers the performance of the Company with regard to procurement of foodgrains for Government schemes and their distribution during the last five years upto 2005-06 and is based on test check of records of the Head Office and nine[1] out of 35 District offices. The selection of District offices was made based on geographical location and volume of work.

Audit objectives

2.3 Performance audit of procurement and distribution of foodgrains by the Company was carried out to assess whether:

- procurement of foodgrains from FCI and distribution to FPS dealers and other agencies was done economically, efficiently and effectively;
- the allotments of foodgrains under various schemes were promptly lifted so as to prevent lapse of the allotted quantity and loss of contribution margin to the Company;

[1] Chapra, Gaya, Hazaribagh, Madhubani, Motihari, Munger, Muzaffarpur, Patna and Ranchi

- the foodgrains lifted against one scheme were not diverted for other purposes;
- the margins/commissions fixed by the Government are adequate to meet the administrative expenditure of the Company;
- the Management had planned its activities in a well coordinated manner to achieve the targets;
- the top Management provided adequate oversight to ensure that the Company did not carry out any illegitimate activity and that the stated objectives were achieved in an efficient, effective and orderly manner;
- the outsourced function of transportation was carried out in a transparent manner ensuring competitive rates and
- Internal Controls within the Company provided sufficient assurance for safeguarding the financial interest of the Company and for preventing misappropriation/theft of foodgrains.

Audit criteria

2.4 The following audit criteria were adopted:

- decisions of the BoD, circulars;
- guidelines/instructions of the State and Central Governments with regard to procurement and distribution of foodgrains under various schemes;
- the provisions contained in the Public Distribution System (Control) Order, 2001;

Audit methodology

2.5 A mix of the following methodologies was used:

- Collection of data and gathering evidence from provisional financial statements, release order (RO) registers, monthly returns etc.
- Scrutiny of records relating to allotment under various schemes, lifting and distribution of foodgrains.
- Stock accounts, purchase registers, monthly returns, etc.
- Examination of records relating to appointment of Transport Agents (TA). Examination of the minutes and agenda papers of meetings of BoD.
- Examination of the Internal Control procedures prescribed by the Company.
- Interaction with the Management.

Audit findings

2.6 The audit findings were reported to the Government/Management in July 2006 and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 10 November 2006, where the Government was represented by the Deputy Secretary Food & Civil Supplies Department, and the Company was represented by the Managing Director. The review was finalised after considering the views of the Government/ Management.

The audit findings are discussed in the succeeding paragraphs:

Allotment and lifting of foodgrains

2.6.1 The Company, being a Procurement, Storage and Distribution agency of the State Government, procures foodgrains from FCI against monthly/yearly allotments made by the Central/State Government under various schemes[1]. The Company through its 35 District offices deposits the cost of foodgrains, except for free supply foodgrains[2] to FCI, and obtains Release Orders (RO) from them for lifting and distribution to FPS dealers and other designated agencies of the District Administration.

2.6.2 The position of allotments and lifting of foodgrains under the schemes for the years 2000-01 to 2005-06 is shown in **Annexure -11**.

It would be seen from the Annexure that:

Lifting of priced foodgrains by the Company and FPS dealers was low.

- Lifting of foodgrains under free issue and highly subsidised schemes ranged between 70.68 and 94.16 *per cent* (Annapurna), 71.75 and 99.30 *per cent* (AAY), 50.47 and 190.32 *per cent*[3] (SGRY), and 47.62 and 75.90 *per cent* (MDM), whereas lifting of priced foodgrains ranged between 5.71 and 55.81 *per cent* (BPL) and 0.16 and 0.84 *per cent* (APL).

The shortfall in overall lifting increased from 16.18 to 24.25 lakh MT during 2001-06.

- The shortfall in lifting over allotments in all the schemes had increased from 16.18 lakh metric tons (MT) in 2001-02 to 24.25 lakh MT in 2005-06.

Audit scrutiny revealed that:

- The Company and the Government failed to ascertain the reasons for persistent shortfall in the offtake.
- The Management, however, had not surrendered the excess quota even after persistent increase in unlifted quantity of foodgrains, over the years,

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[1] Antyodaya Anna Yojana (AAY), Annapurna Scheme, Above Poverty Line (APL), Below Poverty Line (BPL), Mid-Day Meal (MDM) and Sampoorna Gramin Rojgar Yojana (SGRY).

[2] Annapurna, MDM and SGRY schemes.

[3] As per the approval of Government of India, the ROs under SGRY scheme were valid for two financial years. Lifting of more than 100 *per cent* indicates lifting of spill over quantity of previous year.

- The Head Office of the Company did not have information regarding allotment and lifting of APL for 2002-03 to 2005-06, SGRY and MDM for the years 2000-01 and 2001-02.
- Non-availability of information at the Company Head Office in respect of APL scheme indicates poor monitoring.

The Management stated (September 2006) that the low lifting and low off take during 2005-06 were due to Assembly elections and non-availability of foodgrains in FCI godowns. The reply is not tenable, as failure of the Management to lift the quantity available with FCI within the scheduled time due to not making available the required number of trucks and delay in obtaining ROs had also contributed towards low lifting.

Execution of schemes by the Company

During 2000-01 to 2005-06, the Company executed six Government schemes. The deficiencies/shortcomings noticed in the execution of the schemes are discussed below:

Antyodaya Anna Yojana (AAY) scheme

2.6.3 The Company procures wheat and rice from FCI at Rs 210 and Rs 315 per quintal respectively, and supplies the same to the authorised agencies at recovery rates of Rs 187 and Rs 287 per quintal for wheat and rice respectively, for further distribution to 'poorest of poor' families. The State Government pays Rs 50 per quintal towards the difference between the procurement and sale price and other handling and distribution expenses, to the Company. It was noticed during audit that the Company had not properly implemented the scheme as discussed below:

Loss due to issue of AAY wheat under free schemes

Issue of AAY grains under free scheme resulted in loss of Rs 30.32 lakh.

2.6.4 During 2002-06, Madhubani District office of the Company had diverted 14,437 quintals of AAY wheat purchased at a cost of Rs 30.32 lakh to free schemes i.e. Annapurna and MDM schemes. This diversion of priced foodgrains to free schemes resulted in loss of Rs 30.32 lakh to the Company.

The Management stated (September 2006) that diversion of grains from one scheme to another was a temporary phenomenon to avoid storage problem and deterioration in the quality of grain. The Management further stated that the concerned District Managers were directed to recoup diversion, as soon as possible. There was, however, nothing on record to show that the diverted foodgrains were recouped by the District Managers (October 2006).

Non-revision of margin under AAY scheme

2.6.5 The Company was getting net margins of Rs 27 and Rs 22 per quintal under AAY scheme for wheat and rice respectively, towards handling, transporting and profit margin. Audit scrutiny revealed that the margin under BPL scheme had been revised (November 2002) to Rs 35 per quintal for both wheat and rice from the then existing margins of Rs 25.35 and Rs 23.75 per quintal for wheat and rice respectively. The Government also paid margin of Rs 37 per quintal for other welfare schemes like MDM and SGRY. No action has, however, been taken by the Management to get the margin revised in case of AAY scheme after November 2002. Acceptance of low margin by the Management without making efforts for getting it revised resulted in loss of contribution margin of Rs 22.86 crore[1] to the Company, during the years 2002-03 to 2005-06.

Loss of Rs 22.86 crore due to acceptance of lower margin under AAY.

The Management stated (September 2006) that the Company had proposed (October 2001) a margin of Rs 35 per quintal for both wheat and rice but the Government allowed margin of Rs 27 per quintal for wheat and Rs 22 per quintal for rice. The Management further stated that the AAY was a welfare scheme sponsored by the Government. The Management further stated (September 2006) that the margin had been revised to Rs 33 and Rs 31 for wheat and rice. The reply is not tenable in view of the following:

- The Company did not take up the matter with the Government after November 2002 to get the margin revised at par with the margin under the BPL scheme despite continuous losses suffered by the Company.
- MDM and SGRY are also welfare schemes sponsored by the Government, where the Company gets a margin of Rs 37 per quintal.
- Further, the increase in margin to Rs 33 and Rs 31 against Rs 27 and Rs 22 per quintal for wheat and rice respectively was due to decrease in the rate of Value Added Tax (VAT) from four to one *per cent* but the basic margin had not been increased by the Government. The benefit of reduction in VAT should have been passed on to the end users and not retained by the Company. The Company, however, absorbed the benefit of this reduction in its margin.

Purchases in excess of demand

2.6.6 Two District offices[2] purchased 48,572 and 33,893 quintals of AAY wheat and rice respectively valued at Rs 2.09 crore during the years 2001-02 to 2005-06 without receiving any deposit from the FPS dealers towards the cost of foodgrains.

Purchase of foodgrain for Rs 2.09 crore without receipt of deposit from FPS

The Management stated (September 2006) that sometimes the District Managers purchase grains before the actual deposit of cost by FPS dealers to streamline the supply system. The Management further stated that the grains purchased in advance had been supplied to the FPS dealers against the allocation for subsequent months.

The reply is not tenable as there was nothing on record to show that the excess purchases had been adjusted against subsequent months' allocations. Further, as discussed in para numbers 2.6.12 and 2.6.13, the excess purchases had been diverted by the Company to Jails and other schemes, generating excess profit.

[1] 12,90,643 ton of wheat at the rate of Rs 80 per ton and 9,64,708 ton of rice at the rate of Rs 130 per ton (considering the difference of margin).

[2] Madhubani (wheat 31,136 quintals and rice 19,770 quintals) and Muzaffarpur (wheat 17,436 quintals and rice 14,123 quintals)

Below Poverty Line (BPL) scheme

2.6.7 The State Government makes district-wise allotment of wheat and rice, for distribution to BPL beneficiaries. The Company, after receipt of advance money from the FPS dealers procures wheat and rice from FCI at Rs 435.75 and Rs 583.08 per quintal, and distributes them to FPS dealers at Rs 470.75 and Rs 618.08 per quintal respectively as per their allotted quantity. The Company gets Rs 35 per quintal as margin money. It was noticed during audit that the Company had not taken up with the Government of Jharkhand for increase in the margin money despite incurring losses, and had purchased foodgrains without obtaining deposits from the FPS dealers as discussed below.

Fixation of lower margin for BPL scheme

The Company has not pursued for revision of margin with the Government of Jharkhand. Non revision resulted in loss of Rs 31.20 crore.

2.6.8 The Company gets Rs 35 per quintal as margin for execution of BPL scheme in Bihar since 13 November 2002 whereas it gets margin of only Rs 29.15 and Rs27.30 per quintal of wheat and rice respectively from the Government of Jharkhand. The Management did not pursue the matter with the Government of Jharkhand after revision of margin by the Government of Bihar in November 2002. As a result of non revision of margin at par with that of Government of Bihar, the Company suffered loss of revenue of Rs 31.20 crore on 69.36 lakh quintals and 40.22 lakh quintals of wheat and rice respectively sold (in Jharkhand) during 2003-04 to 2005-06.

The Management stated (September 2006) that they had requested (October 2001) the Government of Jharkhand to increase the margin, but the Government did not accede to the Company's proposal. The reply is not tenable as the Company did not take up the matter with the Government of Jharkhand after revision of margin by the Government of Bihar in November 2002, despite continuous loss suffered by the Company.

Purchase of BPL rice in excess of the cost deposited by the FPS dealers

2.6.9 Two District offices[1] purchased 23,659 quintals of BPL rice valued at Rs 1.38 crore during 2001-02 to 2005-06 without obtaining any deposit from the FPS dealers.

Purchases of foodgrains for Rs 1.38 crore without receipt of deposit from the FPS dealers

The Management stated (September 2006) that sometimes District Managers purchased grains before the actual deposit of cost by the FPS dealers to streamline the supply system. The Management further stated that the grains purchased in advance had been supplied to the FPS dealers against the allocation for subsequent months.

The reply is not tenable as there was nothing on record to show adjustment of excess purchases against subsequent months' allocations. Further, as discussed in para numbers 2.6.12 and 2.6.13, the excess purchases had unauthorisedly been diverted by the Company to Jails and other schemes for generating excess profit.

[1] Madhubani (17,526 quintals) and Muzaffarpur (6,133 quintals).

Diversion of MDM wheat to BPL scheme

2.6.10 The Company obtains district-wise allotted wheat and rice from FCI, free of cost for distribution to schools. The State Government pays Rs 37 per quintal to the Company towards handling, storage, distribution and margin money.

Audit scrutiny revealed that the Company sold 33,825 quintals of wheat and 9,000 quintals of rice lying with Gaya and Patna District offices under BPL scheme[1] during the year 2001-02.

The Company sold MDM wheat under BPL scheme and generated profit of Rs 2.15 crore.

The resultant profit of Rs 2.15 crore[2] generated at the cost of Central subsidy on MDM foodgrains meant for school children had been retained by the Company.

The Management stated (September 2006) that the foodgrains were lying in the godowns of the Company and in order to avoid deterioration of grains and to overcome storage problems the grains were diverted. The reply is not tenable as the accumulation of stock indicates lifting without requirement or non-distribution, which could have been avoided through better planning and monitoring by the Management and coordination with the District Administration for lifting of allotted foodgrains.

Above Poverty Line (APL) scheme

2.6.11 Foodgrains are supplied to the Above Poverty Line (APL) cardholders against the allocation released by the Central Government to the State. The State Government reallocates the entire quota among various districts. The Company, based on the allotment procures wheat and rice from FCI at Rs 640.50 and Rs 834.75 per quintal and distributes them to FPS dealers at Rs 661.50 and Rs 857.35 per quintal respectively. The State Government doesn’t pay any subsidy under this scheme. It was noticed during audit that the Company had unauthorisedly diverted APL foodgrains to Jails and other schemes as discussed below.

Diversion of foodgrains to District jail

The Company earned Rs 26.84 lakh at the cost of Government subsidy.

2.6.12 The Company entered into an agreement for supply of various commodities including wheat and rice to State jails. Under the agreement, the Company purchases wheat and rice against APL quota of the concerned district from FCI and supplies the same to jails after adding profit margin of 7 *per cent* to the prescribed APL selling price. Audit scrutiny revealed that 9,582 quintals of wheat and 2,867 quintals of rice of other schemes meant for targeted beneficiaries had been diverted[3] and sold to jails, thereby generating additional profit of Rs 26.84 lakh[4]**.**

The District Manager, Madhubani stated (September 2006) that due to absence of allotment under APL scheme the grains allotted under other schemes had been sold to the jails. The fact, however, remains that the Company had

[1] 32,483 and 13,384 quintals of wheat by Gaya and Patna respectively and 9,000 quintals of rice by Gaya.

[2] (Wheat 33,825 quintals X Rs 470.75 per quintal =Rs 1.59 crore) + (Rice 9,000 quintals X Rs 618.08 per quintal =Rs 0.56 crore) total Rs 2.15 crore.

[3] Chapra, Hazaribagh and Madhubani District offices.

[4] Calculated on the difference of APL and BPL purchase price.

generated additional profit at the cost of Government subsidy meant for the poor.

Diversion of foodgrains from one scheme to another

2.6.13 The purchase price and sale price vis-à-vis quantum of Government subsidy vary according to the scheme. Under the schemes like Annapurna, MDM and SGRY, the foodgrains are provided free of cost to the Company.

Audit analysis of annual receipt and issue of foodgrains under various schemes revealed that the Company continued diversion of foodgrains from one scheme to another through book transfers without squaring it in the scheme from where it was drawn during 2001-02 to 2005-06. The unit wise details of such diversions are shown in **Annexure 12.**

Audit also noticed the following irregularities:

- The Company had diverted 75,610 quintals **(**29,672, 1,924, 41,757, 1,532, and 725 quintals of AAY, Annapurna, BPL, MDM, and SGRY schemes) of wheat and 8,224 quintals **(**4,163, 298, and 3,763 quintals of AAY, Annapurna and SGRY schemes) of rice and sold them under APL scheme.
- The Company had diverted 40,261 quintals **(**24,261, 3,163, 9,522, 12 and 3,303 quintals of AAY, Annapurna, MDM, relief and SGRY schemes wheat) of wheat and 1.10 lakh quintals **(**31,293, 1,570, 39,427, and 37,885 quintals of AAY, Annapurna, MDM, and SGRY schemes) of rice and sold them under BPL scheme.
- The Company had diverted 7,772 quintals of MDM (5,236 quintals) and SGRY (2,536 quintals) rice to Annapurna and 3,000 quintals of MDM wheat was sold under AAY scheme.

The Company generated profit of Rs 10.22 crore due to sale of foodgrains by diversion.

As a result of the above diversions the Company had generated profit of Rs 10.22 crore as detailed in **Annexure - 12**. Though the Management was aware of such diversions of foodgrains, which was continuing over the years, the BoD of the Company and the Government were not informed.

The Management stated (September 2006) that the Company had limited storage space and it had the responsibility to lift and distribute all the foodgrains under various schemes of the Government within limited time. Thus, the grains were issued to the agencies/dealers on demand by book transfer of grains from one scheme to another.

The reply is not tenable as diversion of foodgrains through book transfer to other schemes without subsequent adjustment/return under the scheme was in violation of the provisions of the PDS (Control) Order, 2001 and the Management's instructions to the District Managers for not making book transfer Rs Besides, sale of foodgrains through book transfer led to generation of additional fund by the Company at the cost of the Government subsidy.

Backlog of supply to FPS dealers

Failure to supply foodgrains to FPS dealers after receipt of advance of Rs 82.96 crore.

2.6.14 The Company had an outstanding balance of Rs 82.96 crore[1] (as on 31 March 2005) received from FPS dealers towards cost of foodgrains which had not been delivered to them under BPL and AAY schemes. As a result the beneficiaries were deprived of the supply of foodgrains for the relevant months. The Company had not adopted any mechanism to review old deposits lying with it, for taking action for refund/adjustment.

The Management during ARCPSE meeting (10 November 2006) agreed to analyse the old cases and report to the District Supply Officer for refund of deposits.

Transporting and Handling of Foodgrains

2.6.15 The transportation and handling of foodgrains from FCI godowns to the Company's godowns is done by Transport agents (TAs) appointed by the Company on annual rate contract basis. TAs are appointed through open tenders with a provision to extend the contract for the next two years without calling fresh tenders Often there were delays in finalising the rate contract with the TAs. In the absence of a rate contract, the transportation was got done by Godown Managers of the Company by hiring trucks from the open market, classifying it as "Departmental Transporting". It was noticed during audit that there was lack of transparency in the engagement of TAs and competitive rates were not obtained by the Company indicating deficient planning and monitoring by the higher Management as discussed hereafter.

- The contract for transportation work awarded by Gaya District office during 2002-03 was extended for 2003-04 and again for 2004-05. Chapra District office extended the contract during 2003-04 for 2004-05 at the existing rates which were higher than the prevailing market rates. The rates finalised for the year 2005-06 through open tenders, by these two District offices, were lower than the rates paid to the existing TAs. Thus extension of the transportations contracts without call of fresh rates had resulted in excess expenditure of Rs 21.92 lakh[2] by the Company. Audit noticed that the existing contractors had also quoted lower rates for the year 2005-06. The Management stated (September 2006) that the market rate of transporting cost was bound to rise every year due to rise in price of fuel etc. As such there is no question of loss in extending the services of TAs at the rates of the previous year. The reply is not tenable in view of the fact that the contracts were extended at higher rates than those received against subsequent open tenders Thus extending the contracts without calling fresh tenders had resulted in extra expenditure of Rs 21.92 lakh.

The Company had incured extra transportation and handling expenditure of Rs 57.25 lakh.

- The District Transport Committee (DTC) recommended for placing transportation order on Gajendra Dubey (Muzaffarpur District office) for 2004-05 out of two valid offers received by them. The said TA, however, refused to accept the work at his quoted rates due to delay of

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[1] As per provisional accounts of 2004-05

[2] Rs 6.57 by Chapra and Rs 15.35 lakh by Gaya.

six months in finalising the tender by the DTC. The Management, without obtaining fresh recommendation of DTC, placed the order on Satendra Dubey who had quoted higher rates. Due to delayed finalisation of bids and acceptance of higher rate, the Company had to incur additional expenditure of Rs 16.18 lakh. It was further noticed that the Management did not forfeit the earnest money of rupees six lakh deposited by the defaulting TA though the bid was valid for one year from the date of submission and thus extended undue financial benefit to the bidder.

- The Foodgrains allotted against various schemes are required to be lifted by the Company within a prescribed time period. As per the agreement, the TAs are required to provide sufficient number of trucks to lift the foodgrains for which FCI issues ROs. It was, however, noticed that TAs[1] failed to provide the required number of trucks as a result of which allotment of 77,000 quintals of foodgrains lapsed. This resulted into loss of contribution margin of Rs 13.09 lakh to the Company besides denying supply of foodgrains to the targeted beneficiaries. In the absence of any penal clause in the contract, the Company could not recover the loss from the transporters The Management stated (September 2006) that sometimes ROs lapsed due to nonavailability of grains at FCI godowns. As such it was not true that the grain against the ROs lapses due to failure of TAs. The reply is not tenable as the Company itself had recorded that non-placement of the required number of trucks by the TAs for lifting of foodgrains had resulted in lapse of allotted foodgrains.

- The rates for the transportation work finalised with the TAs by Madhubani District office, for 2004-05 were nine *per cent* below the ceiling rate of the Company. Audit scrutiny revealed that the Company delayed the finalisation of the rate contract for 2005-06. As a result the transportation had to be done departmentally during April to June 2005. The rates allowed to the Godown Managers were 25 *per cent* above the ceiling rate of the Company. It was further noticed during audit that the transportation rates obtained through open tender for 2005-06 were 15 *per cent* below the ceiling rate of the Company. Thus, allowing 40 *per cent* (25+15 *per cent*) extra over the rate finalised through tenders resulted in excess payment of Rs 6.06 lakh. The Management stated (September 2006) that payment of departmental transport bills in Madhubani District are made as per the Company's norm. The Management further stated that the open market tender and departmental works should not be 'clubbed'. The reply is not tenable as timely action for finalisation of TA rates could have saved the Company of the excess payment of Rs 6.06 lakh.

Unmoved /shortage of stocks

2.6.16 Audit scrutiny revealed that various items such as foodgrains, tea, palm oil, exercise books etc., costing Rs 28.74 crore as detailed in **Annexure - 13**

[1] Patna and Ranchi

were shown as lying unmoved for over six years by Gaya and Patna District offices. The Management however, could not furnish the related physical verification reports to audit. The Management stated (September 2006) that steps had been taken for physical verification of unmoved stock. However, no evidence in support of the existence of the materials was furnished. Thus, possibility of pilferage/diminution in value can not be ruled out.

Defalcation/theft of foodgrains

2.6.17 The following table indicates instances of defalcation/theft committed by the employees of the Company during the period of review:

Failure of Internal Control System led to defalcation of foodgrains worth Rs1.22 crore by the employees.

	Foodgrains (in quintals)		**Value assessed (Rupees in lakh)**	**Period of defalcation**
	Wheat	**Rice**		
Madhubani	2,653.55	3,762.63	51.45	2001-02 to 2003-04
Munger	3,910.55	1,589.28	44.78	December 2002 to June 2004.
Hazaribagh	257.34	2,297.48	26.20	February 2003 to November 2004
Total	6,821.44	7,649.39	122.43	

Audit scrutiny revealed that non-observance of the prescribed internal controls which stipulate monthly submission of stock statement by the Godown Managers to the District office, reconciliation of the Store Issue Orders (SIO) with the balance stock available in the godowns, surprise physical verification of stocks by the District Managers, periodical verification of stocks by the district supply officers etc. had facilated the defalcation/theft by the employees, of 6,821.44 and 7,649.39 quintals of wheat and rice respectively, valued at Rs 1.22 crore. The Management stated (September 2006) that necessary criminal and civil suits had been filed against the officials.

Reimbursement without documentary proof of expenditure

The Company paid Rs 1.56 crore to the Godown Managers without any documentary proof of expenditure.

2.6.18 In the absence of rate contracts with TAs, the transportation and handling work was got done by the Godown Managers by hiring trucks from the open market. The Head Office granted permission for the same at the prescribed ceiling rates. The Company paid advances to the Godown Managers for incurring a part of the expenditure, which was subsequently adjusted on submission of final bills. It was noticed during audit that the Company paid a sum of Rs 1.56 crore[1] as final settlement to the Godown Managers, without obtaining bills, money receipts etc. of the transporters or other agencies or the persons to whom the payment was made. The Management assured during ARCPSE meeting (10 November 2006) to implement a system of getting the required evidence of payment.

Non-recovery of advance from FCI due to non-submission of proper claims

2.6.19 The Company makes advance payments to FCI towards the cost of foodgrains (AAY, APL, and BPL schemes), for getting ROs. In case of non-lifting/supply of full quantity of stock indicated in the ROs, FCI refunds the

[1] Rs 40.26 lakh by Chapra, Rs 15.16 lakh by Madhubani, Rs 17.57 lakh by Munger, Rs 43.38 lakh by Patna and Rs 39.13 lakh by Ranchi.

Advance of Rs 76.62 lakh could not be recovered due to non-submission of proper claims

excess amount. Audit scrutiny revealed that in District office Patna, an amount of Rs 76.62 lakh was lying unrecovered from FCI for over ten years, as the Management had not submitted its claims in the prescribed proforma. Thus failure of the Management to prefer timely claim and in the prescribed form had rendered the possibility of refund remote with consequential interest loss of Rs 91.94 lakh[1]. The Management stated (September 2006) that all efforts were being made to get the claim settled with FCI and meetings of higher authorities were being arranged to facilitate settlement. The fact, however, remains that the fund of the Company had been blocked for over ten years due to lack of follow up.

2.6.20 Loss of Rs 90.90 lakh due to applicability of Value Added Tax

The Company had not recovered increased VAT either from the Government or from FPS dealers and suffered loss of Rs 90.90 lakh.

The purchase/selling price of foodgrains of APL and BPL schemes are regulated by the Central Government. The Company gets a fixed margin towards handling, distribution, storage and profit, based on the price mechanism of GoI and the State Government. As Value Added Tax (VAT) was made applicable in Bihar from April 2005, the issue prices to FPS dealers should have been got revised by the Company considering the element of margin of the Company. This was, however, not done till 31 March 2006. The Company paid VAT of Rs 90.90 lakh on the foodgrains sold through the District offices during April 2005 to March 2006 which was not reimbursed by the Government resulting in loss to the Company The Management stated (September 2006) that the Company had planned to request the Government of Bihar to set off the loss of margin due to payment of VAT. The fact, however, remains that the Company could not recover the payment of Rs 90.90 lakh from the Government as yet (October 2006).

Loss of Rs 38.49 lakh due to incorrect billing by the Company

2.6.21 The Company gets a margin of Rs 37 per quintal towards procurement, storage, distribution and profit, under SGRY and MDM schemes in Bihar as well as in Jharkhand. Audit scrutiny revealed that, Hazaribagh District office, wrongly billed the District Administration at Rs 32 per quintal towards its margin as against Rs 37 fixed and paid by the District Administrations in all other District offices.

Loss of Rs 38.49 lakh due to incorrect billing.

Thus, due to failure of the Management to raise correct bills, the Company suffered loss of Rs 38.49 lakh, on supply of 7.70 lakh quintals of foodgrains during 2001-02 to 2005-06. The Management stated (September 2006) that the Company was 'insisting on its claim' against the District Administration. The fact, however, remains that the Company has not been able to recover Rs 38.49 lakh from the District Administration as yet (October 2006).

Non-recovery of dues

Non recovery of Rs 4.12 crore from the District Administration and jails

2.6.22 The Company submits monthly claims to the District Administration for margin towards procurement and distribution of free issue foodgrains. It was noticed during audit that the District offices of the Company did not submit timely claim with supporting documents indicating proof of delivery of foodgrains. As a result an amount Rs 3.64 crore was lying un-recovered in

[1] Calculated at the rate of 12 *per cent* for ten years

four districts[1]. Further, an amount of Rs 48 lakh was also lying un-recovered from District Jails in two districts[2] towards supply of food items. It was noticed in audit that the Company had not correctly claimed the amount from jails leading to non-payment of dues by them. The Management stated (September 2006) that steps had already been taken to realise the amount lying unrecovered from Jails and District Administration. The progress in this regard is awaited.

Internal control and Internal audit

2.6.23 Internal Control is a management tool used to provide reasonable assurance that the objectives are being achieved in an economical, efficient and orderly manner. It was noticed during audit that the Internal Control system of the company was deficient as detailed below:

- The Company has not prepared any Accounts Manual. Surprise verification of stock at different godowns of the district was not being carried out. The District offices were not maintaining proper books of accounts.
- The accounts of remittances of the District offices were not reconciled with these of the Head Office.
- Lack of internal control had facilitated misappropriation/theft of foodgrains by the Company officials.

Internal audit, an appraisal activity, is a service to the entity. Its functions, *inter alia* include examination, evaluation and monitoring the adequacy and effectiveness of the accounting and Internal control system.
The following shortcomings were noticed:

- The Company had no internal audit wing of its own and the work of internal audit was being done by a firm of Chartered Accountants.
- The Company has not prepared any Internal Audit Manual.
- Internal Audit reports were not being placed before the BoD.

Conclusion

The performance of the Company with regard to procurement and distribution of foodgrains under various schemes suffered due to low offtake particularly in respect of APL and BPL schemes. The Company had not analysed the reasons for low offtake so as to be able to take corrective measures. Low offtake of foodgrains under various schemes not only defeated the objective of these schemes, it also resulted in loss of margin to the Company on the foodgrain short lifted.

The Company unauthorisedly diverted subsidised foodgrains and generated profit of Rs 12.64 crore at the cost of Government subsidy meant for the poor. The Company failed to effectively take up its case with the Government for revision of margin, which resulted in loss of

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[1] Gaya Rs 1.87 crore, Hazaribagh Rs 81.20 lakh , Munger Rs 78.77 lakh and Patna Rs 17.07 lakh.
[2] Chapra Rs 5.97 lakh and Hazaribagh Rs 42.11 lakh.

contribution to the extent of Rs 54.06 crore during 2002-06. The Company was slow in preferring/pursuing its claims for recovery of margin money and other dues. All these resulted in avoidable blocking of large amounts and loss towards interest. Deficiencies were also noticed in the appointment of Transport Agents which resulted in extra expenditure of Rs 51.19 lakh on transportation. The Internal Control System was deficient in key areas, which facilitated theft/defalcation/diversion of stocks.

Recommendations

The Company needs to

- analyse the reasons for low off-take of foodgrains in schemes like APL and BPL, and take remedial measures.
- take up with the Government and get the margin revised so as to reduce continuous losses to the Company.
- ensure compliance with the provisions of PDS (Control) Order, 2001, and stop diversion of foodgrains.
- make coordinated efforts to strengthen the system of preferring claims and recovery of dues.
- strengthen its Internal Control System so as to prevent losses due to shortages and misappropriation.