

Chapter-III

3. Performance review relating to Statutory corporation

Haryana Warehousing Corporation

3.1 Procurement of foodgrains for the Central Pool and warehousing activities

Highlights

Delayed/non handing over of warehouses to Food Corporation of India constructed under the seven year guarantee scheme resulted in loss of revenue of Rs. 3.39 crore.

(Paragraphs 3.1.13 and 3.1.14)

The Corporation suffered a loss of Rs. 9.52 crore due to stocking of wheat in a low lying area having no drainage system, delayed segregation and improper maintenance of stock.

(Paragraphs 3.1.20 and 3.1.25)

Non- recovery of transportation charges of paddy within eight Km from the millers and beyond eight Km from Food Corporation of India resulted in loss of Rs. 1.91 crore.

(Paragraph 3.1.30)

Non-revision of storage rates of State procuring agencies at par with FCI resulted in short realisation of Rs. 17.42 crore.

(Paragraph 3.1.10)

Failure of the Corporation to take timely action for segregating/salvaging rain affected wheat of Rabi 2004 resulted in loss of Rs. 25.62 lakh

(Paragraph 3.1.24)

Introduction

3.1.1 Haryana Warehousing Corporation (Corporation) was established on 1 November 1967 under Section 18(1) of the Warehousing Corporations Act, 1962, with the main objective of construction and maintenance of warehouses in the State for storage of foodgrains, fertilizers, agricultural produce, seeds and other notified commodities. The Corporation also undertakes the activities of procurement of wheat, paddy and bajra for the Central Pool.

The management of the Corporation is vested in a Board of Directors (BOD) consisting of 10 members including a Chairman and a Managing Director (MD), five of whom are nominated by the Central Warehousing Corporation (CWC) and five by the State Government. The Board is assisted in its functions by an Executive Committee (EC) consisting of Chairman, MD and three directors. The Corporation has nine[#] circles in the State each headed by a Manager to carry out the functions of procurement and storage of foodgrains.

The working of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial) - Government of Haryana. The Committee on Public Undertakings (COPU) discussed the review in January 2003 and its recommendations are contained in its fiftieth Report presented to the State Legislature on 14 March 2003. Out of the four recommendations of COPU, two were complied with by Corporation and remaining two are discussed in paragraphs 3.1.9 and 3.1.11.

Scope of Audit

3.1.2 The present review conducted during December 2005 to March 2006 covers warehousing activities and procurement of foodgrains for the Central Pool during 2001-06. Besides examining the records maintained at the Head Office of the Corporation, Audit also test checked the records of five* out of nine circle offices and 14 out of 54 warehouses in these five circles. The selection was made by adopting simple random sampling without replacement method.

Audit objectives

3.1.3 The audit objectives were to ascertain whether:

- proper and adequate storage facilities were constructed /created and made available to the consumers in an economic and efficient manner at the right time and at the right location;

[#] Ambala, Faridabad, Hisar, Kaithal, Kurukshetra, Panipat, Rewari, Rohtak and Sirsa.

^{*} Ambala, Hisar, Kurukshetra, Panipat and Sirsa.

- storage capacities were utilised up to the optimum levels;
- procurement of foodgrains was made as per the specifications and in an economic and efficient manner;
- adequate measures were taken to minimise loss on foodgrains during procurement, storage and transportation; and
- the Corporation constructed the godowns under seven year guarantee scheme strictly as per the specifications of Food Corporation of India (FCI) within the time schedule and handed them over to FCI without delay.

Audit criteria

3.1.4 The following audit criteria were adopted:

- instructions/guidelines of Government of India (GOI)/FCI/State Government/ Corporation pertaining to procurement, storage, delivery of foodgrains, raising of bills, construction and maintenance of warehouses, revision of tariff and realisation of storage charges ; and
- terms and conditions of agreements entered into with the contractors for construction of warehouses, transportation of foodgrains and with rice millers for milling of paddy as also the standard terms and conditions, if any.

Audit methodology

3.1.5 Audit followed the following methodologies:

- analysis of records including minutes/agenda notes of the meetings of BODs and EC relating to construction, utilisation and maintenance of warehouses;
- review of records relating to realisation of dues and revision of storage charges; and
- analysis of records pertaining to procurement of foodgrains, their storage, milling of paddy and delivery to FCI for the Central Pool.

Audit findings

3.1.6 The audit findings were reported to the Government/management in May 2006 and discussed in the meeting of the Audit Review Committee for

State Public Sector Enterprises (ARCPSE) held on 7 August 2006, where representatives of the State Government and the Corporation were present. Views of the Government /management were considered while finalising the review. The audit findings are discussed in the succeeding paragraphs.

Warehousing operations

3.1.7 The main activity of the Corporation is to acquire, build and operate warehouses for storage. The Corporation created storage capacity of 2.16 lakh MT by constructing 28 warehouses during the six years up to 2005-06. As on 31 March 2006, the Corporation had 105 warehouses (92 owned and 13 hired) in the State with total storage capacity of 14.21 lakh MT. The capacity of covered godowns was 11.80 lakh MT (owned 8.90 lakh MT, hired 2.90 lakh MT) and of open plinth godowns was 2.41 lakh MT (owned 2.35 lakh, hired 0.06 lakh MT).

Capacity utilisation

3.1.8 The Corporation did not fix any norms for minimum capacity utilisation of the warehouses to assess their economic viability. The utilisation of warehousing capacity and working results of this activity during 2001-06 are given in **Annexure-7**.

An analysis of **Annexure-7** reveals that the average capacity utilisation declined from 103.85* *per cent* in 2001-02 and ranged between 51.09 and 80.19 *per cent* during 2002-03 to 2005-06. Audit noticed that during these four years, the capacity utilisation in Punjab State Warehousing Corporation ranged between 63.29 and 89.82 *per cent*. The income from storage also decreased from Rs. 35.96 crore during 2001-02 to Rs. 29.94 crore during 2005-06.

The management attributed (July 2006) the low capacity utilisation during 2002-2005 to fast off take of wheat stock of the Central Pool. The Corporation at the time of planning/creating storage capacity did not devise alternatives like storage of commodities other than foodgrains to maximise the use of storage capacity in such eventualities.

During the ARCPSE meeting the management accepted the suggestion of Audit for storage of other commodities besides foodgrains.

Customer-wise utilisation

3.1.9 The table overleaf indicates the customer-wise utilisation of

Average capacity utilisation declined from 103.85 per cent in 2001-02 to 57.33 per cent in 2005-06.

* Due to raising the height of standard stacks, the capacity utilisation was more than the available capacity.

storage capacity during 2001-06.

Year	Government departments/ undertakings	Co-operative societies	Merchants/ traders	Primary producers	Total
	(MT)				
2001-02	16,72,954 (93.47)	68,125 (3.81)	43,556 (2.43)	5,247 (0.29)	17,89,882
2002-03	15,01,810 (92.48)	92,513 (5.70)	26,395 (1.63)	3,165 (0.19)	16,23,883
2003-04	10,08,354 (85.46)	1,37,497 (11.65)	28,576 (2.42)	5,545 (0.47)	11,79,972
2004-05	6,79,110 (80.11)	74,547 (8.79)	75,911 (8.95)	18,195 (2.15)	8,47,763
2005-06	5,88,486 (69.11)	1,25,591 (14.75)	1,14,883 (13.49)	22,534 (2.65)	8,51,494

(Figures in brackets indicate the *percentage* of utilisation.)

The facility of warehousing was mainly utilised for storage of wheat by the Government departments/undertakings whose utilisation ranged between 69.11 and 93.47 *per cent*. The capacity utilised by primary producers together with traders constituted two to 16 *per cent* only.

The Corporation did not broaden its customer base and failed to attract primary agricultural producers for storing their produce in its warehouses and had thus not been able to achieve one of its main objectives, despite the recommendations (March 2003) of the COPU in its fiftieth Report to attract more number of farmers to use Corporations' warehouses.

The management stated (July 2006) that farmers/traders were motivated for storage by allowing rebate over the normal tariff in storage charges. The reply is not acceptable as the Corporation did not give wide publicity through print media or local contact like holding of camps in the rural areas to make them aware of the availability of such concessions. During the ARCPSE meeting the management accepted the suggestion of Audit for wide publicity in rural areas.

Short realisation due to non-revision of storage charges

3.1.10 The Corporation decided (January 1983) to levy storage charges on all the State agencies at par with the rates fixed by FCI. The FCI revised the storage charges eight times from Rs. 1.42 to Rs. 3.58 per quintal per month during April 1995 to April 2002 but the Corporation revised its rates applicable to the State agencies from Rs. 1.42 in April 1994 to Rs. 3.58 in January 2005 only. Non-revision of rates at par with FCI resulted in short realisation of Rs. 17.42 crore during April 1995 to December 2004.

Non-revision of storage rates at par with FCI resulted in short realisation of Rs. 17.42 crore.

The management stated (July 2006) that the Corporation was pursuing the matter with the State Government agencies for releasing payments at par with FCI relating to earlier years. The reply is not tenable as the revision was made

only from January 2005 and the agencies were thus, not liable for payment at revised rates for earlier years.

Outstanding dues

3.1.11 The storage tariff of the Corporation provided for recovery of storage charges in cash at the time of delivery of commodities or on monthly basis in the case of bulk depositors (viz. FCI, FSD*, HAFED†, HAIC‡ and CONFED§) to whom credit facility was allowed. Details of agency wise outstanding storage charges as on 31 March 2006 are as below:

(Rupees in lakh)

Name of agency	Outstanding dues		
	From 1986-87 to 2000-01	From 2001-02 to 2005-06	Total
FCI	115.23	704.68	819.91
FSD	25.91	24.96	50.87
HAFED	21.91	20.59	42.50
HAIC	2.75	0.14	2.89
CONFED	41.02	64.24	105.26
Others	26.37	450.32	476.69
Total	233.19	1264.93	1498.12

Audit analysis revealed as under:

- Though the COPU had recommended (March 2003) for putting strenuous efforts for recovery from CONFED, HAFED and FSD, yet the outstanding amount from these agencies increased from Rs. 1.53 crore (March 2003) to Rs. 1.99 crore (March 2006).
- The total amount of Rs. 8.20 crore recoverable from FCI included Rs. 2.44 crore deducted by FCI during 1994-95 to 2005-06 on account of storage losses. There were remote chances of recovery of this amount.

The management stated (July 2006) that all out efforts were being made for the recovery of the outstanding amount. During the ARCPSE meeting, the management agreed to look into old cases and get the irrecoverable dues written off.

* Food and Supplies Department.

† Haryana State Co-operative Supply and Marketing Federation Limited.

‡ Haryana Agro-Industries Corporation Limited.

§ Haryana State Federation of Consumers Co-operative Wholesale Stores Limited.

Construction of warehouses under the seven year guarantee scheme

3.1.12 The FCI assigned (March 2001) to the Corporation construction of covered godowns with storage capacity of 2.28 lakh MT by October 2001 under the Seven Year Guarantee Scheme. As per the scheme, FCI was to pay storage charges for full capacity of the godowns irrespective of actual storage. The guarantee would expire on 31 December 2008 irrespective of the date of taking over of these godowns by FCI. The capacity to be created was further increased (June 2001) to eight lakh MT and was to be accomplished by 28 February 2002. The date of completion was further extended to October 2002 failing which FCI was not bound to hire or extend guarantee. The Corporation showed its inability to construct this capacity either on its own or through private parties.

The State Government decided (July 2001) that the Corporation would create additional capacity of 1.75 lakh MT through private parties in addition to 2.28 lakh MT capacity agreed earlier. The Corporation constructed godowns with total capacity of 1.68 lakh MT only on its own at a cost of Rs. 17.51 crore (excluding the cost of land) during April 2001 to May 2002 reportedly due to non-availability of more land. Warehouses with 2.32 lakh MT capacity were constructed through private parties. Delayed construction of warehouses resulted in loss of revenue as discussed in para 3.1.13 and 3.1.14.

Loss of revenue due to delay in handing over of warehouses to FCI

3.1.13 Audit analysis (March 2006) revealed that eight* warehouses of five# circles constructed under the seven year guarantee scheme having capacity from 2,925 MT to 24,780 MT were handed over to FCI after delays ranging from one to 28 months from the date of their completion due to deficient construction as pointed out by FCI during inspection. The delay resulted in loss of revenue of Rs. 2.50 crore.

Delayed handing over of warehouses to FCI resulted in loss of Rs. 2.50 crore.

The management stated (July 2006) that delay in handing over of warehouses was mainly due to procedural delay in arranging inspection and issuance of sanction letters by FCI, delay in completion of roads due to change in specifications by the Corporation and less width of the road than the specifications. The reply is not acceptable as construction should have been done as per the specifications. Timely action could have avoided the procedural delays.

Loss of revenue due to non handing over of warehouse to FCI

3.1.14 Warehouse at Bhuna having capacity of 5096 MT constructed at a cost of Rs. 51.62 lakh (excluding the cost of land) though completed in March 2002, had not been taken over by FCI due to expiry of the cut off date for handing over the warehouse. Thus, non-completion of warehouse within the stipulated period had resulted in loss of revenue of Rs. 88.75 lakh up to March 2006.

Non handing over of warehouse to FCI resulted in loss of Rs. 0.89 crore.

* Barwala, Ellenabad, Hansi, Jakhal, Naneola, Pipli, Salwan and Tohana.

Ambala, Hisar, Kurukshetra, Panipat and Sirsa.

The management stated (July 2006) that earnest efforts were being made to impress upon FCI for taking over the warehouse.

Loss of revenue due to deductions by FCI

Non removal of deficiencies in the construction of warehouses resulted in loss of Rs. 96.02 lakh.

3.1.15 For construction of warehouses, various specifications have been laid down viz. construction of an office block, lavatory block, boundary wall, proper electrification, inner roads, separate water supply etc. Audit scrutiny revealed that, after taking over warehouses, FCI deducted an amount of Rs. 96.02 lakh from the storage bills of six* warehouses as these warehouses were not constructed as per the prescribed specifications. Thus, failure of the Corporation to construct the warehouses as per specifications resulted in loss of Rs. 96.02 lakh.

The management stated (July 2006) that no condition for imposing such cuts was ever made by FCI while taking over the warehouses. However, deficiencies wherever observed had since been rectified and FCI had been informed of the latest position with a request to refund the amount deducted. The fact remains that the Corporation failed to construct the warehouses as per the requirements.

Farmers Extension Service Scheme (FESS)

3.1.16 GOI introduced in 1978-79, Farmers Extension Service Scheme (FESS) with a view to attract more primary producers. Implementation of this scheme was assigned to the Corporation. The scheme envisaged assistance to the farmers in obtaining bank loans against the security of their warehoused goods, propagation of the benefit of scientific storage of foodgrains and safeguarding foodgrains from rodents and insects.

Under the scheme, the Corporation visited villages and educated 17,144 farmers in 2,230 villages during the last five years up to 2005-06. The capacity utilisation by farmers, however, constituted only 0.19 to 2.65 *per cent* during the last five years. The management attributed (July 2006) low utilisation by the farmers to higher procurement of wheat/paddy by the Government agencies and low retention of foodgrain stock at farmers' level.

Had the scheme been implemented effectively over the years, the Corporation could have increased awareness among primary producers and motivated them to store their produce in the warehouses of the Corporation thereby expanding its customer base. During the ARCPSE meeting, the management agreed to make wide publicity to popularise the scheme amongst the farmers.

* Barwala, Ellenabad, Hansi, Jakhal, Pipli and Tohana.

Disinfestations Extension Service Scheme (DESS)

3.1.17 The Corporation introduced (June 1969) Disinfestations Extension Service Scheme (DESS), which provided pest control services at the doorsteps of the farmers, cooperatives and others at nominal rates.

Audit scrutiny revealed that against the targeted revenue of Rs.15 lakh per annum during 2000-01 to 2002-03 the shortfall was upto 78 *per cent*. Thereafter, the Corporation reduced the target of revenue to Rs. 8 lakh per annum for 2003-04 to 2005-06 which was lower than the average actual achievement in the previous three years. The Corporation failed to achieve even these modest targets.

It was also noticed that the Corporation did not fix physical targets in terms of number of beneficiaries to be covered under this scheme. In the absence of physical targets the adequacy of coverage of beneficiaries could not be evaluated.

While explaining the reasons for not achieving the targets, the management stated (July 2006) that mass awareness programme at village level was being launched to promote this scheme. Further, in the ARCPSE meeting the management accepted the suggestion for fixation of physical targets alongwith revenue targets.

Procurement, storage and handling of wheat, paddy and bajra for the Central Pool

3.1.18 The Corporation has been authorised by the State Government as one of the State procuring agencies for procurement of wheat, paddy and bajra for the Central Pool under the MSP[¶] scheme from Rabi 1983, Kharif 1997 and Kharif 2003, respectively. The procurement is made each year as per the share of procurement allotted by the State Government at MSP fixed by the GOI.

Audit observations with regard to procurement of wheat, paddy and bajra are discussed in the succeeding paragraphs:

Wheat procurement

3.1.19 The Corporation procures wheat from various mandis allotted by the State Government for the Central Pool and delivers it to the FCI. FCI accepts the wheat of the specified quality and makes payment at the MSP plus incidentals and carry over charges for the period during which the wheat remains in the custody of the Corporation. During the last five years ended

[¶] Minimum support price.

March 2006, the Corporation procured 6.73 lakh, 5.48 lakh, 5.66 lakh, 5.97 lakh and 4.36 lakh MT wheat respectively for the Central Pool.

Audit scrutiny revealed as under:

Damage of wheat during storage

3.1.20 Specifications for hiring of plinths *interalia* provide that the site of plinth should be above the top level of the road around the plinth and should have drainage system for rainwater. It was noticed during audit that wheat stock pertaining to crop years 1998-99 to 2000-01 was stored by the Corporation at six* centres on open and low lying areas on katcha plinths and at ground level not having adequate drainage system, and as a resultant the stock was damaged.

The Corporation identified (November 2002) 4824 MT damaged wheat lying at the above mentioned centres in the open, which could neither be delivered to FCI nor was fit for further storage. BOD decided (January 2003) to dispose of this quantity through public auction after segregation, without taking concurrence of FCI/GOI. The Corporation auctioned (May 2003) 3561 MT of wheat at a loss of Rs. 1.98 crore.

Failure of the Corporation to ensure proper storage of wheat resulted in loss of Rs. 1.98 crore.

Thus, failure of the Corporation to ensure proper storage of wheat resulted in loss of Rs. 1.98 crore, for which no responsibility had been fixed.

The management stated (July 2006) that the Corporation had requested the State Government to take up the matter of payment of differential amount with GOI/FCI. The reply is not relevant as the stocks were damaged due to improper storage by the Corporation and auctioned without prior permission of FCI/GOI. During the ARCPSE meeting management assured to investigate the matter and take appropriate action.

Loss due to improper procurement and storage of wheat

3.1.21 The Corporation procured 8425 MT wheat at Barara centre of Ambala circle during Rabi season of 2001-02 and stored 869 MT wheat in covered godowns and 7556 MT in open godowns (3042 MT on pucca plinths, 4013 MT on katcha plinth having no water drainage system and 501 MT on the road). Assistant Manager (Quality Control) FCI, Barara, on peripheral inspection, reported (August 2001) that the entire stock was lying in mixed condition i.e. 0 to 100 *per cent* lustre lost grains, and it would not be accepted/despatched unless segregated within the relaxed limit of 50 *per cent*. On the specific undertaking given (January 2002) by the Manager, State Warehouse, Barara for taking the responsibility for quality complaints, if any, from the destination, FCI accepted 8378 MT and despatched it to Kalyani in January/February 2002. On receipt (February 2002) of loss assessment statement from the destination station, FCI deducted (June 2002) Rs. 25.76 lakh on account of quality cuts. Thus, improper storage resulted in loss of Rs. 25.76 lakh.

The Corporation suffered loss of Rs. 25.76 lakh due to improper storage of wheat stock.

* Barsat, Ferozepur Zhirka, Nuh, Pundri, Ratia and Siwan.

The management stated (July 2006) that instructions for procuring upto 50 per cent lustre lost wheat were received from GOI only in the first week of July 2001 and wheat already procured with higher percentage could not be segregated. The reply is not tenable as defective wheat in deviation of the specifications should not have been purchased. Besides, the condition of this wheat further deteriorated due to storage on katcha plinth without drainage system. During the ARCPSE meeting the management stated that the matter for reimbursement of deducted amount would be taken up with FCI at higher level.

Procurement of sub standard wheat

Procurement of wheat beyond the permissible limit of lustre lost resulted in loss of Rs. 92 lakh.

3.1.22 Due to unexpected rain during the marketing season of 2001-02, GOI on the request of the State Government allowed the procuring agencies to procure wheat with permissible lustre lost grains to the maximum extent of 50 per cent. FCI rejected 1860 MT (value: Rs. 2.03 crore) wheat procured by the Corporation at 13 centres when offered by the Corporation for delivery as the lustre lost grains were more than 50 per cent. Consequently, the Corporation auctioned (July 2004) this quantity at a loss of Rs. 92 lakh for which no responsibility had been fixed.

The management stated (July 2006) that the State Government had taken up (September 2005) the matter with GOI for reimbursement of differential cost. The reply is not tenable as the Corporation made the purchase of lost lustre wheat beyond the permissible limit for which GOI is under no obligation to bear the loss.

Non reimbursement of differential amount by FCI

3.1.23 The Corporation procures wheat for the Central Pool and delivers the same to FCI as per its instructions. It is the sole responsibility of the Corporation to maintain the health of foodgrain till its delivery to FCI. In case of deterioration in the quality of stock, FCI does not accept the stock and onus of disposal lies on the State procuring agencies.

A meeting under the chairmanship of MD, CONFED for sale/disposal of left over categorised damaged wheat stock relating to the crop years 1998-2000 was held on 7 May 2004. Senior Regional Manager, FCI and representatives of all the procuring agencies participated in the meeting. This left over stock had deteriorated due to improper maintenance and storage in low-lying areas having no drainage system. The offer of National Co-operative Consumers Federation of India Ltd. (NCCF) to accept the entire left over non-issuable wheat stock at cut off prices ranging between Rs. 120 and Rs. 350 per quintal fixed by the GOI for various categories was accepted in the meeting. NCCF deposited (May 2004) Rs. 1.72 crore being the cost of 6118 MT foodgrain. Accordingly, the Corporation issued (May 2004) release orders in favour of NCCF for lifting of 6118 MT, which was lying at various centres. NCCF lifted 5704 MT (shortage of 414 MT) at the above rates.

It was observed during audit that FCI did not reimburse the differential amount between rates (Rs. 680 to Rs. 720 per quintal) under Open Market

Failure to maintain the health of wheat stock and shortage resulted in non-recovery of Rs. 2.71 crore.

Sale Scheme (OMSS) and actual amount realised from NCCF as the joint inspection by the representative of the Corporation and FCI had found that the stock was damaged due to lapse on the part of the Corporation. There was also shortage of 414 MT valuing Rs. 29 lakh. Thus, the Corporation could not recover loss of Rs. 2.71 crore including the cost of shortage.

The management stated (July 2006) that the State Government had taken up (September 2005) the matter with GOI for payment of the differential amount. The reply is not acceptable as it is the sole responsibility of the Corporation to maintain the health of the stock till its delivery to FCI. As such GOI/FCI is not under any obligation to bear this loss.

Loss due to delay in segregation of wheat stock

Delay in segregation/salvaging of rain affected wheat resulted in loss of Rs. 25.62 lakh.

3.1.24 The Corporation procured 11,742 MT wheat at Bani centre of Sirsa circle during Rabi season of 2004. Of this 396 MT wheat was delivered direct from mandi to FCI and 132 MT was stored in covered godown and 11,214 MT in the open plinths. During heavy storm/rain on 25 June 2004, 32 poly covers were blown away and 10 covers rendered un-serviceable. No remedial action was taken to safeguard the stock. The Corporation delivered 10741 MT wheat (book balance) which was accepted by FCI during August 2004 to September 2005. FCI rejected the balance 605 MT stating that rain affected stock was segregated/salvaged after a delay of two months which further deteriorated the stock in storage. The Corporation sold this quantity at a loss of Rs. 25.62 lakh. Thus, failure of the Corporation to take timely action for segregation/salvage of rain affected wheat contributed towards damage of 605 MT of wheat valuing Rs 56.80 lakh on which the Corporation suffered loss of Rs. 25.62 lakh.

Loss due to damage of wheat

Stocking of wheat at low lying area delayed segregation and improper maintenance of stock resulted in loss of Rs. 7.54 crore.

3.1.25 The Corporation procured 2.05 lakh MT wheat at 15 centres during 1998-2001. Due to paucity of space, the Corporation stored 1.58 lakh MT on open plinths hired from private agencies. Some of the hired plinths were not located as per specifications. Audit scrutiny revealed that 10123 MT wheat was damaged due to stocking at low lying area having no drainage system, on kutcha plinths, delayed segregation and improper maintenance of stock. The Corporation sold (March 2004/February 2005) this quantity at a loss of Rs. 7.54 crore including shortage of 524 MT valuing Rs. 60.75 lakh.

Thus, the Corporation suffered a loss of Rs. 7.54 crore in disposal of damaged wheat for which no responsibility had been fixed.

The management stated (July 2006) that due to lack of scientific storage, stock had to be stored in the open on the best available plinths and the State Government had taken up the matter with GOI for reimbursement of the differential cost/shortages. The reply is not tenable as the management should have arranged proper storage in advance to maintain the health of the stock till its delivery to FCI.

Avoidable loss of carry over charges

3.1.26 FCI intimated (August 2004) the Corporation that stock for the year 2002-03 may be delivered to FCI by 30 September, 2004 after proper segregation failing which it would not reimburse the carry over charges for the quantities accepted thereafter. The Corporation failed to adhere to this schedule and despatched 2110 MT wheat during October 2004 to March 2006 for which FCI did not make payment of carry over charges of Rs. 13.21 lakh. Better coordination and timely delivery of stock could have avoided the loss.

The management stated (July 2006) that action for delay or negligence on the part of staff in giving timely delivery to FCI shall be taken after examination.

Avoidable expenditure

3.1.27 The Corporation procures wheat for the Central Pool from various mandis allotted to it by the State Government. FCI reimburses the cost at the MSP alongwith incidental charges, at the time of taking delivery of wheat.

It was noticed during audit that the Corporation procured 16.62 lakh MT wheat through Billing-Cum-Payment-Agents (BCPAs) in joint mandis and paid commission of Rs. 40.66 lakh during the five years ended 2005-06. As per the reimbursement schedule of FCI, this component is not included for reimbursement. Thus, appointment of BCPAs for procurement under the Central Pool, without ensuring reimbursement of the extra expenditure from FCI, resulted in avoidable expenditure of Rs. 40.66 lakh.

The management stated (July 2006) that BCPA charges are included in the establishment charges. The State Government had however, been requested to approach GOI to separately pay BCPA charges. The fact remains that in the absence of this component in the reimbursement schedule, GOI is not liable for this payment.

Loss due to delay in reconciliation of gunny bales account

3.1.28 The Corporation procures gunny bales from Director General Supplies and Disposal, Kolkata for each crop year through the Food and Supplies Department, Haryana by sending indents along with payment in advance for the quantity to be supplied in the following month based on the provisional rates, subject to their subsequent adjustment. Since the advance payment is released for each crop year on provisional basis, reconciliation of accounts at the end of each crop year would help the Corporation to adjust the excess payments made towards the advance payments for the next crop.

Audit scrutiny (March 2006) revealed that the Corporation did not reconcile its accounts before releasing advance payments for crop years 1997-98 to 2002-03. On reconciliation in May 2003, an amount of Rs 1.88 crore was found to be recoverable from DGS&D. Out of this excess payment, an amount of Rs. 1.15 crore was remitted to the Corporation by FSD, Haryana in November 2003 leaving a balance of Rs. 73.47 lakh unadjusted.

Thus, delay in reconciliation of advance payments had resulted in loss of interest of Rs. 27.83 lakh as of March 2006.

Delay in reconciliation of advance payment with DGS&D resulted in loss of interest of Rs. 27.83 lakh.

The management admitted the lapse and stated (July 2006) that on the advice of Audit, claim of interest had been lodged (May 2006) with FSD. Timely reconciliation could have prevented this situation.

Procurement of paddy

3.1.29 The State Government had allocated nine *per cent* share of paddy in the total paddy procurement in the State to the Corporation. Paddy procured by the Corporation is got milled from the authorised rice millers at specified rates under the milling policy framed by the State Government every year. Resultant rice is delivered to FCI in the Central Pool at the rates fixed by the GOI for each crop year. During the last five years ended March 2006, the Corporation procured 1.70 lakh, 1.48 lakh, 1.26 lakh, 1.72 lakh and 2.02 lakh MT paddy respectively.

Audit scrutiny revealed as under:

Non-recovery of transportation charges

3.1.30 As per the extant directions of GOI, transportation charges on lifting of paddy and rice for distances beyond eight Km from procurement centre/mandi to the rice mills and from rice mills to the delivery point are reimbursed to the procuring agencies in addition to procurement incidentals. GOI vide its notifications (December 2003 and December 2004) fixed rates for Custom Milled Rice (CMR) for Kharif 2003-04 and 2004-05 which, *inter-alia*, provided that the milling charges include transportation charges upto eight Km on each side from the purchase centre to the mill and from the mill to the FCI godown on paddy as well as on rice. Accordingly, clause 16 of the agreement executed with the millers stipulated that all the expenditure including labour, transportation and any other incidental expenditure incurred in connection with the lifting of paddy from storage points or any other place and delivery of rice shall be borne by the miller. The transportation charges only for paddy/rice if lifted/delivered beyond eight Km shall be passed on to the millers on receipt from FCI against proper documents submitted to the Corporation by the millers.

The Corporation suffered a loss of Rs. 1.91 crore due to non recovery of transportation charges from millers/FCI.

Audit scrutiny revealed that the Corporation incurred expenditure of Rs. 1.91 crore during 2001-2005 on transporting paddy to the millers from the mandis within eight Km (2003-05) and beyond (2001-05). As per the agreement with the millers and GOI's instructions, the Corporation did not recover Rs. 85.41 lakh on account of transportation of paddy within eight Km from the millers for the year 2003-05 and Rs. 1.06 crore for transportation of paddy beyond eight Km from FCI.

Thus, due to non-recovery of transportation charges from millers and FCI, the Corporation suffered loss of Rs. 1.91 crore on transportation of paddy.

The management stated (July 2006) that as per the instructions issued (September 2003) by the State Government the transportation charges of paddy within eight Km are to be borne by the corporation and transportation charges beyond eight Km are being realised now from FCI. The reply is not tenable because as per the instructions issued (December 2003 and December 2004) by GOI transportation charges upto eight Km were to be

borne by the millers. In the ARCPSE meeting, the management admitted the facts and intimated that matter had been taken up with the State Government.

Excess payment of milling charges

3.1.31 GOI issued (November 2001) provisional rates of CMR alongwith milling charges of paddy at the rate of Rs. 20.35 per quintal for Kharif marketing season of 2001-02 for parboiled[#] rice. The Corporation got 3.84 lakh quintal paddy milled from different millers in five^{*} circle offices during Kharif 2001 and paid Rs. 78.14 lakh to them. Thereafter, GOI fixed (December 2004) final rates for milling of parboiled rice at Rs. 13.20 per quintal, which resulted in excess payment of Rs. 27.46 lakh to the millers. Audit scrutiny revealed that no efforts were made by the Corporation to recover this amount either from the millers or from FCI, which resulted in loss of Rs. 27.46 lakh to the Corporation.

The management admitted (July 2006) the facts and stated that efforts were being made to recover the amount from the millers.

Non reimbursement of establishment cost

3.1.32 GOI was taking into account establishment cost at 2.5 per cent on MSP of wheat. But while fixing the rates of rice, the element of establishment cost incurred by the procuring agencies was not taken into account. Thus, the Corporation was deprived of reimbursement of establishment cost of Rs. 11.82 crore, worked out at 2.5 per cent of MSP of paddy (8.18 lakh MT) valuing Rs. 472.75 crore procured during 2001-06.

The management stated (July 2006) that the State Government had been requested (April 2006) to take up the matter with the GOI for reimbursement of establishment cost.

Loss due to non milling of paddy

3.1.33 As per the directions of the Central/State Government, the Corporation had been procuring paddy from mandis since Kharif season of 1997. The paddy purchased was required to be milled within the stipulated period for timely delivery of rice to FCI to avoid any damage to paddy. District Manager, Sirsa purchased 16,700 MT paddy during Kharif marketing season of 2001. Out of this, 9001 MT was stored with the millers and balance 7,699 MT in its warehouses. Out of the 7,699 MT paddy retained by the Corporation, 7,177 MT paddy could be milled during Kharif 2001-02 to 2003-04 and out of 522 MT left over paddy valuing Rs. 35.13 lakh, 359 MT was auctioned (January-2003/2004) for Rs. 18.59 lakh at a loss of Rs. 5.57 lakh and 163 MT valuing Rs. 10.97 lakh was found short. Thus the Corporation suffered a loss of Rs. 16.54 lakh on the paddy stored in its warehouses.

The Corporation suffered loss of Rs. 16.54 lakh due to shortage and damage of paddy.

[#] Partly cooked by boiling.

^{*} Ambala, Hisar, Kurukshetra, Panipat and Sirsa.

The management stated (July 2006) that disciplinary action had been initiated against delinquent officials for the loss.

Procurement and sale of bajra

3.1.34 The Corporation has been procuring bajra since kharif marketing season 2003 at the MSP of GOI from mandis allotted by the State Government. It procured 0.88 lakh MT bajra for the Central Pool at a cost of Rs. 44.80 crore during 2003-06.

Audit scrutiny of records revealed as under:

Non reimbursement of establishment cost

3.1.35 Establishment cost incurred at the rate of 2.5 *per cent* of MSP for procurement of wheat is reimbursed by FCI at the time of accepting/taking delivery of wheat stock. GOI was taking into account establishment cost at 2.5 *per cent* for fixation of MSP of wheat. But while fixing the rates of bajra, the element of establishment expenditure incurred by the procuring agencies was not taken into account. Thus, the Corporation was deprived of reimbursement of establishment cost of Rs. 1.12 crore, on procurement of 0.88 lakh MT bajra valued at Rs. 44.80 crore during 2003-06.

On this being pointed out in audit, the management requested (April 2006) the State Government to take up the matter with GOI for reimbursement of establishment cost.

Cash credit

3.1.36 The Corporation was availing cash credit (CC) facility from the State Bank of India (SBI) for procurement of wheat, paddy and bajra against hypothecation of stock and guarantee given by the State Government.

Audit scrutiny of records revealed as under:

Payment of penal interest

3.1.37 According to the agreement entered into with SBI the amount outstanding in the CC account should be fully matched with the value of hypothecated stock failing which the Corporation was liable to pay additional (penal) interest at the rate of one *per cent* per annum on the excess drawal over the hypothecated value of the stock. It was noticed (March 2006) that the value of the stock was less than the CC availed during August 1999 to March 2002. Resultantly, the bank charged penal interest of Rs. 43.13 lakh. The Corporation took up (December 2002) the matter with FCI for reimbursement of the penal interest charged but FCI rejected (August 2004) the claim stating that SBI charged penal interest due to wrong valuation of stock by the Corporation. Thus,

Failure of the Corporation to match the value of hypothecated stock with CC limit resulted in payment of penal interest of Rs. 43.13 lakh.

failure of the Corporation to correlate the CC limit with the available stock had put the Corporation to a loss of Rs. 43.13 lakh.

The management stated (July 2006) that mismatch between outstanding CC limit and value of stock was due to delay in receipt of payments from FCI. In the ARCPSE meeting, the management stated that matter was being taken up again with FCI for reimbursement.

Guarantee fee

3.1.38 The Corporation pays guarantee fee to the State Government on the CC limit availed for procurement of foodgrains (wheat, paddy and bajra) at the MSP plus incidental charges. FCI, however, reimburses it on taking delivery of the foodgrains at the MSP only. As a result the Corporation could not get reimbursement of guarantee fee of Rs. 23.19 lakh from FCI on incidental charges during 2000-05, which had been paid to the State Government.

Corporation suffered a loss of Rs. 23.19 lakh due to non reimbursement of guarantee fee by FCI.

The management stated (July 2006) that this amount had been charged to the trading account. As the Corporation is undertaking procurement on behalf of FCI for the Central Pool on the directions of the State Government, the matter should have been taken up with FCI/State Government for avoiding this loss.

Avoidable payment of interest

3.1.39 The State Government repealed its General Sales Tax Act and introduced Value Added Tax (VAT) Act, 2003 with effect from 1 April 2003. Under this Act, the Government allowed full rebate on tax paid (input tax) in respect of stock as on 31 March 2003 by allowing adjustment of this amount from the tax payable to the Government subsequently.

The District office, Rohtak while filing the VAT return showed the value of closing stock as on 31 March 2003 at Rs. 84.57 crore and obtained input tax benefit of Rs. 3.38 crore. The trading account of the office for the year 2002-03, however, showed the value of closing stock as Rs. 49.72 crore.

On this being pointed out by the Excise and Taxation Officer-cum-Taxing Authority, (ETO) Rohtak, the District Manager admitted (21 April 2005) wrong calculation and totaling mistakes. The ETO, resultantly, imposed penal interest of Rs. 33.58 lakh at the rate of three *per cent* per month on the excess claim of Rs. 1.39 crore taken by the Corporation. The Corporation, thus, suffered a loss of Rs. 24.91 lakh after allowing credit of Rs. 8.67[#] lakh for the interest earned by the Corporation on the excess claim taken.

Loss of Rs. 24.91 lakh due to penalty for submission of incorrect closing stock/statements.

The management stated (July 2006) that an appeal had been filed before Sales Tax Tribunal Chandigarh and disciplinary action had been initiated against the defaulting officials.

[#] Worked out at the rate of 9.10 *per cent* prevailing CC rate.

Internal Control

3.1.40 Internal control is a management tool used to provide reasonable assurance that the management's objectives are being achieved in an efficient, effective and orderly manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets, competence of personnel commensurate with their responsibilities and duties and review of the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Audit scrutiny revealed the following deficiencies in the internal control system of the Corporation:

- the Corporation was not having any manual specifying duties/responsibilities at each level;
- internal control procedures were not commensurate with the size and activities of the Corporation. This was also pointed out by the Statutory Auditors repeatedly in their reports on annual accounts;
- data base to prepare management information system had not been developed by the Corporation so far;
- though there were statutory provisions for holding at least four meetings in a year, the BODs and EC, however, held 17 and 18 meetings respectively against the requirement of 20 meetings during the last five years upto 2005-06; and
- the Corporation did not constitute any Audit Committee violating the provision of Section 292A of the Companies Act, 1956.

Internal Audit

3.1.41 Though the internal audit cell has been functioning from 1983-84 yet the Corporation has neither prepared any Internal Audit Manual nor has prescribed the scope and extent of checks to be exercised by internal audit. Internal audit of head office where major expenditure/decisions are taken had never been conducted. During the five years up to 2005-06 internal audit of only 65 field units out of 105 units was conducted.

An analysis of internal audit reports revealed that these reports did not cover physical verification of stock, assessment of viability of centres, performance of godowns and requirement of augmentation of storage capacity. The reports were mainly restricted to areas like cash, storage bills and maintenance of books of accounts. Internal audit reports were not placed before the BOD for consideration. As internal audit is constructive and protective arm of the management, internal audit reports should have been submitted to the Board for corrective action. It was noticed that the staff deployed in the internal audit cell remained inadequate during the five years up to 2005-06 and needs to be

strengthened in commensurate with the size and nature of the business of the Corporation. The Statutory Auditors have also been commenting since 2001-02 that the Internal Audit System is not commensurate with the size and nature of the business of the Corporation but no efforts have been made to strengthen it by the Corporation so far.

In the ARCPSE meeting, the management admitted the need for strengthening the internal audit system and assured that internal audit reports would be placed before the BOD.

Acknowledgement

3.1.42 In addition to examination of records and documents, a number of issues were deliberated for conducting this performance audit. Audit acknowledges the co-operation and assistance extended by different levels of management at various stages of conducting the performance audit.

Conclusion

The performance of the Corporation with regard to warehousing activities was deficient due to low capacity utilisation, non-construction of additional storage capacity at suitable sites under the seven year guarantee scheme of Food Corporation of India, non-revision of storage rates of State procuring agencies at par with those of the Food Corporation of India and failure to successfully implement the Farmer Extension Service Scheme of Government of India to attract more primary producers to store their agricultural produce. Procurement activity relating to the Central Pool also suffered from substandard procurement, lack of proper care of warehoused commodities and inadequate drainage/protection from the vagaries of climate. The internal audit and internal control systems of the Corporation are inadequate with regard to the size and nature of its business.

Recommendations

The Corporation may:

- **improve capacity utilisation of its warehouses by motivating the primary producers/traders to store their produce with the Corporation and diversify storage from agriculture base to other commodities;**
- **ensure proper storage of wheat and other commodities to avoid loss through damage;**

- **revise storage charges from State agencies simultaneously with revision by Food Corporation of India; and**
- **strengthen the internal audit and internal control system according to the size and nature of business of the corporation.**

The management noted the recommendations and assured to implement them in future.

The matter was referred to the Government in May 2006; the reply had not been received (September 2006).