CHAPTER II

REVIEW IN RESPECT OF GOVERNMENT COMPANY

WORKING OF MADHYA PRADESH STATE CIVIL SUPPLIES CORPORATION LIMITED

Highlights

The Madhya Pradesh State Civil Supplies Corporation Limited was set up in April 1974 for procuring, storing, transporting, distributing and stocking of foodgrains. The activities of the Company are, however, generally limited to procurement and distribution of wheat, rice, jowar, bajra, maize, and sugar.

Excess purchase of gunny bags due to unrealistic assessment of procurement of wheat during rabi season 2000-01 resulted in locking up of Rs.3.72 crore with consequential loss of interest of Rs.44.64 lakh.

(Paragraph 2.7.2)

Failure to mill paddy resulted in locking up of Rs.8.86 crore and consequential loss of interest of Rs.1.44 crore.

(Paragraph 2.7.6)

Avoidable cross-transportation of foodgrains and sugar first to local godowns and then to the issue centres resulted in extra expenditure of Rs.2.47 crore.

(Paragraph 2.8.2)

Write-off of shortages of foodgrains and sugar during 1998-2001 without proper investigation resulted in loss of Rs.5.83 crore.

(Paragraph 2.9.3)

Delay in preferring claims with sugar equalisation fund resulted in avoidable loss of interest of Rs.1.04 crore

(Paragraph 2.11.1)

Non-recovery of Rs.6.94 crore from Chhattisgarh State Civil Supplies Corporation Limited resulted in loss of interest of Rs.2.01 crore.

(Paragraph 2.11.2)

Delay in submission of subsidy claims relating to wheat resulted in locking up of rupees four crore and consequential loss of interest of Rs.34.61 lakh.

(Paragraph 2.11.3)

Introduction

2.1 Madhya Pradesh State Civil Supplies Corporation Limited (Company) was incorporated on 3 April 1974. Consequent upon the formation of Chhattisgarh state in November 2000, nine of its 47 district offices and three of the 10 regional offices were transferred to Chhattisgarh State Civil Supplies Corporation Limited. The scheme for reconstruction of the Company was pending with Government of India (GOI) for approval. The distribution of assets and liabilities between these two companies was in progress (September 2003).

Objectives and activities

2.2 The main objectives of the Company include:

- procuring, storing, transporting, distributing and stocking of foodgrains, other foodstuff and edible commodities;
- setting up or assisting in setting up of rice mills, flour mills, etc. for procuring and manufacturing of foodgrains and other foodstuff ;
- to act as an agent of the State Government in the matter of procurement and distribution of foodstuff.

The activities of the Company are generally limited to procurement and distribution of wheat, rice, *jowar, bajra*, maize and sugar.

Organisational set up

2.3 The management of the Company is vested in a Board of Directors. As on 31 March 2003, there were eight directors on the Board. The Managing Director is the Chief executive, assisted by an Executive Director (Finance) (not a member of the Board), four General Managers in-charge of procurement, public distribution system (PDS), transportation, sugar and a Company secretary. As on 31 March 2003, the Company had seven regional offices and 38 district offices.

Scope of Audit

2.4 The performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1996, Government of Madhya Pradesh which was discussed by Committee on Public Undertakings (COPU) in March 1998 and their recommendations (64th report) were submitted to the State Government in March 2000.

COPU, *inter alia*, recommended that:

- Company should avoid delay in settlement/preferring of claims as only meagre amounts were realised compared to claims for shortages (refer paragraphs 2.9.1 and 2.9.3 of the present review).

- Steps should be taken for recovery of losses on various schemes from the Government (refer paragraph 2.10.2).

- Company should endeavour to prevent losses due to shortages of paddy (p*aragraph 2.7.6).*

- COPU expressed displeasure on the write-off of shortages, pending settlement of claims and desired that shortages be kept under control (paragraph 2.9.3).

It is observed that the recommendations had not been implemented/complied with fully (August 2003).

The present review conducted during November 2002 to June 2003 covers the performance of the Company during 1998-2003. The audit findings as a result of test-check of 15[1] out of 38 district offices and five[2] out of seven regional offices were reported to the Government/management on 16 June 2003, with the request to attend ARCPSE[3] meeting so that the view point of Government/Management was taken into account before finalising the review. The meeting was held on 30 June 2003, where Government was represented by the Secretary, Food and Civil Supplies department, and the Company was represented by the Managing Director. The review was finalised after considering Government/management's views.

Capital structure and borrowings

Capital structure

2.5.1 As on 31 March 2003, the Company had an authorised capital of Rs 30 crore comprising three lakh equity shares of Rs.1,000 each. The paid-up capital of the Company on that date stood at Rs.12 crore.

The Company paid dividend of three *per cent* each year during 1998-99 and 1999-2000, four *per cent* during 2000-01 and eight *per cent* for 2001-02. The dividend paid/payable to Government worked out to Rs.2.16 crore during the last four years ended 31 March 2002.

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[1] *Bhopal, Chhindwara, Dhar, Gwalior, Hoshangabad, Indore, Jabalpur, Jhabua, Katni, Khargone, Mandla, Morena, Ratlam, Satna and Ujjain*

[2] *Gwalior, Indore, Jabalpur, Katni and Ujjain*

[3] *Audit Review Committee for State Public Sector Enterprises*

Borrowings

2.5.2 The Company has been maintaining two cash credit (CC) accounts, one for foodgrains and the other for sugar. The rate of interest on the food CC and sugar CC during 1998-2003 varied from 14.28 to 11.30 per cent and 16.57 to 13.25 per cent, respectively.

The Company's efforts should therefore, have been to avoid/reduce delay in preferring its claims so that funds were not locked up leading to payment of avoidable interest.

The borrowings (cash credit and unsecured loans) stood at Rs.21.90 crore as on 31 March 2003.

Avoidable loss of interest due to delay in repayment of loan

2.5.3 Without availing of cash credit facility available to it at 13.21 *per cent*, the Company obtained the following loans from State Government:

(Rupees in lakh)

Amount of loan	Date of receipt	Due date for repayment	Actual date of repayment	Interest	Penal interest
Rs.80 lakh	February 1998	November 1998	February 2000 (Rs.10 lakh) May 2001 (Rs.70 lakh)	78.83	17.29
Rs.180 lakh	September 1998	March 1999	May 2001		

The loans carried interest of 14 *per cent* and in case of failure to repay the loans by the due dates, penal interest at 3 *per cent* per annum was also payable.

Belated repayment of loans led to avoidable payment of penal interest of Rs.17.29 lakh.

Thus, the Company's failure to avail of cash credit facility available at lower rate of interest, coupled with its failure to repay the loans by due dates, despite being aware of extra commitment, resulted in an avoidable expenditure of Rs.17.29 lakh on penal interest. Further, the Company has also not complied with COPU's recommendation for timely repayment of loans to Government.

Management attributed (June 2003) the delayed repayment of loans to difficult liquidity position. The reply was not tenable as the management should at least have availed of the cash credit facility to repay the loan.

Financial position and working results

2.6 The financial position and working results of the Company for the last five years ending 31 March 2003 are detailed in ***Annexures 9*** and ***10*** respectively.

Financial position

2.6.1 It would be seen from ***Annexure 9***, that borrowings as on 31 March 2002 had come down to Rs.104.55 crore from Rs.208.31 crore as on 31 March 2001. The reduction was mainly due to repayment of unsecured loan from Government of Madhya Pradesh and reduction in utilisation of cash credit due to bifurcation of the Company consequent upon the formation of Chhattisgarh State Civil Supplies Corporation Limited.

Working results

2.6.2 As can be seen from ***Annexure 10***, even though the sales came down from Rs.846.53 crore in 2000-01 to Rs 547.76 crore in 2001-02 due to the bifurcation of the Company, the profit after tax increased from Rs 2.05 crore in 2000-01 to Rs 18.75 crore in 2001-02. The profit of Rs.18.75 crore for 2001-02 shown by the Company is to be viewed in the light of the following:

Profit was overstated by Rs.7.55 crore.

- Accounting of income on closing stocks of food grains under *Sampoorna Grameen Rojgar Yojana* (SGRY) resulted in overstatement of profit by Rs.3.25 crore.

- Non-provision for following rejected/doubtful claims of Rs.4.30 crore:

(Rupees in crore)

(a)	Amount recovered/deducted by FCI against excess payment in respect of transportation charges/incidentals	3.26
(b)	Amount disallowed/not paid by FCI under Sugar Equalisation Fund	0.53
(c)	Claim against MARKFED outstanding since 1984-85	0.51
	Total	**4.30**

Appraisal of activities

2.7 Results of review of activities relating to procurement, transportation, storage and distribution of foodgrains, sugar and gunny bags are discussed in succeeding paragraphs.

Procurement

2.7.1 The Company procures wheat, paddy and coarse grains (maize, *Bajra* and *Jowar*) from farmers through co-operative societies at minimum support prices (MSP) fixed by GOI. Sugar is procured from sugar mills as per allotment made and prices fixed by GOI.

The table below indicates targets for procurement fixed by State Government and the achievement thereagainst for the last five years up to 2002-03, in respect of wheat, paddy and coarse grains:

Commodity	Year	Target	Achievement	Shortfall	
		(in lakh MT)		Quantity (lakh MT)	Percentage
Wheat	1998-99	5.50	4.84	0.66	12.00
	1999-2000	8.00	4.98	3.02	37.8
	2000-01	6.00	3.37	2.63	43.8
	2001-02	2.00	2.74	--	--
	2002-03	4.00	3.61	0.39	9.75
Paddy	1998-99	1.50	0.58	0.92	61.3
	1999-2000	1.50	0.66	0.84	56.0
	2000-01	1.50	1.16	0.34	22.70
	2001-02	0.30	0.40	--	--
	2002-03	0.90	0.65	0.25	27.8
Coarse grains	1998-99	7,000	1,337	5,663	80.9
	1999-2000	75,000	37	7,463	99.5
	2000-01	7,500	30,292	--	--
	2001-02	40,000	56,262	--	--
	2002-03	62,500	3,081	59,419	93.1

Thus, there were substantial shortfalls in procurement practically throughout the five-year period, except 2001-02, when targets for wheat and paddy were drastically reduced.

The Company attributed (September 2003) the low procurement to the farmers getting higher prices in the market as compared to the support prices offered to them.

Unrealistic assessment of procurement of wheat for Rabi season 2000-01 and excess purchase of gunny bags

2.7.2 Under the Price Support Scheme (PSS) for procurement of wheat, Government estimated (January 2000) the wheat procurement at six lakh MT for *Rabi* season, 2000-01. Accordingly, the gunny bags requirement was assessed at 24,000 SBT bales[4] (50kg). The Company placed (January 2000) an indent with Director General, Supplies and Disposals (DGS&D) for procurement of 10,000 SBT bales at Rs.9,300 per bale taking into account the existing stock of 15,899 SBT bales and 1,240 NBT bales[5]. Later on, order for 3,500 SBT bales was cancelled.

It was observed in audit (February 2002) that the assessment was in excess by 78 *per cent* as only 3.37 lakh MT of wheat could be procured during the season. Despite the procurement pattern for previous years (1997-2000) ranging between 4.84 lakh and 4.98 lakh MT, Government had estimated the quantity of wheat to be procured at an unrealistically high level of six lakh MT. It could, therefore, utilise only 13,491 SBT bales even after cancelling orders for 3,500 SBT bales, retaining the balance quantity of 8,716 SBT bales and 1,240 NBT bales out of the reduced ordered quantity procured in April 2000, which were utilised only in the next season. Had the Company restricted the requirement of gunnies to the extent of procurement of wheat in previous

[4] *Standard B-Twill 500 bags of 50 kg each*

[5] *New B-Twill, 300 bags of 95 kg each*

Unrealistic assessment of procurement and excess purchase of gunnies, led to loss of interest of Rs.44.64 lakh.

year i.e. five lakh MT, it could have avoided expenditure of Rs.44.64[6] lakh as interest on avoidable investment of Rs.3.72 crore in the purchase of excessive quantity of at least 4,000 bales (requirement for one lakh MT of wheat).

Further, the Company's failure to utilise 1,240 NBT bales during *Rabi* season 2000-01 also resulted in the locking up of further Rs.91 lakh, entailing further loss of interest of Rs 10.90 lakh[7].

Management stated (June 2003) that wheat procurement quantity of six lakh MT was fixed on the basis of previous year's procurement of 5.44 lakh MT. The reply was not tenable as the actual procurement during the previous year was 4.98 lakh MT. Further, the Company, even at the end of *Kharif* season (October -December) was having 3,940 SBT bales (value: Rs.3.66 crore) after utilisation for coarse grains and paddy. This led to loss of interest of at least Rs.32.98 lakh, which was avoidable. Thus, the estimates were not realistic.

Procurement of gunny bags from FCI at higher rates

2.7.3 The Company assessed (February 2001) the procurement of wheat during *Rabi* season, 2001-02, as 2.5 lakh MT and accordingly estimated gunny bags requirement of 10,000 SBT bales. Considering the opening stock of 5500 SBT bales, additional purchase of 5000 bales was proposed but the Managing Director approved (February 2001) procurement of only 2,500 SBT bales.

Purchase of gunny bags at higher rates resulted in extra expenditure of Rs.41.15 lakh.

Accordingly, an indent for 2,500 bales at Rs.9,350 per bale (Rs.18.70 per bag) was placed (March 2001) on DGS&D, Kolkata, which supplied (April 2001) 2,448 bales. On the ground that large quantities of wheat had arrived, the Company later on (May 2001) placed orders for additional quantity on FCI (500 SBT bales at Rs.21.85 per bag and 1,725 NBT bales at Rs.32.68 per bag), NAFED (598 NBT bales at Rs.26.25 per bag), and open market (500 SBT bales at Rs.18.50 per bag). The actual quantity of wheat procured during the season was 2,74,016 MT. The Company's decision to procure gunnies from FCI at higher rates, even though the same were available in the open market at lower rates, resulted in extra expenditure of Rs.41.15 lakh, as shown below:

		SBT	NBT
1.	Quantity of bags purchased from FCI	2,50,000 bags (500x500)	5,17,500 bags (1725x300)
2.	Rate per bag – FCI	Rs.21.85	Rs.32.68
3	Rate of DGS&D/NAFED	Rs.18.70	Rs.26.25
4.	Extra cost per bag	Rs.3.15	Rs.6.43
5.	Total extra cost (1x4)	Rs.7,87,500	Rs.33,27,525
	Total (Rs.7,87,500 + Rs.33,27,525) = Rs.41,15,025		

6 *12 per cent per annum of Rs.3.72 crore (4,000 bales x Rs.9,300) for one year*

7 *At 12 per cent per annum on Rs.91 lakh for 12 months*

Management stated (June 2003) that procurement of additional quantity from DGS&D or from the open market would have taken a lot of time; hence procurement was made from FCI.

The reply was not tenable as the Company had already invited (May 2001) tenders from open market and orders for some quantity were also placed in the same month on two parties. Therefore, instead of procuring gunnies at higher rates from FCI, entire additional quantity could have been procured from the open market at lower rates.

Procurement of gunnies for *Rabi* season, 2002-03

2.7.4 Under PSS, the Company estimated (December 2001) the wheat procurement for *Rabi* season, 2002-03, as 4.40 lakh MT and accordingly assessed the gunny bag requirement as 17,600 SBT bales. It placed (December 2001) an indent with DGS&D for procurement of 17,600 SBT bales at Rs.9,000 per bale, revised subsequently (January 2002) by DGS&D to Rs.9,800. The indented quantity was later on (March 2002) reduced to 16,600 and transported through CONCOR[8].

Uneconomical transportation of gunnies led to extra expenditure of Rs.44.62 lakh.

It was noticed (March 2003) in audit that the Company did not consider the alternative of transportation of gunnies by road through agencies other than CONCOR. By Company's own assessment, the cost of transportation by CONCOR was higher by Rs.271.65 per bale compared to transportation by other transport agencies. Despite being aware of this, the Company got the gunnies transported through CONCOR which resulted in an extra expenditure of Rs.44.62 lakh.

Management stated (April 2003) that transportation was done through CONCOR, as it was a Central Government undertaking.

The reply was not tenable as the Company, in its own interest, should have got the gunnies transported by the cheapest available mode.

Unwarranted lifting of wheat from FCI

2.7.5 During 1998-99 and 1999-2000, the Company distributed 25.74 lakh and 33.24 lakh quintal of wheat respectively under PDS and as on 31 March 2000, it was holding 1.42 lakh quintal in stock. During 2000-01, it procured 33.72 lakh quintal under decentralised procurement scheme (i.e. directly from farmers) at Rs.628.15 per quintal. Thus, the quantity of 35.14 lakh quintal would have been sufficient for distribution under PDS for 2000-01. Nevertheless, the Company procured additional three lakh quintal from FCI at a cost of Rs.13.49 crore. It distributed 33.74 lakh quintal (including the

[8] *Container Corporation of India*

quantity procured from FCI) under PDS during the year and was left with a stock of 4.42 lakh quintal as of March 2001.

Unwarranted lifting of wheat led to avoidable expenditure of Rs.30.85 lakh.

As the distribution of wheat under PDS had earlier been less than 34 lakh quintal each year, the Company need not have procured wheat from FCI. The unwarranted procurement from FCI resulted in locking of Rs.18.50 crore and avoidable loss of interest of Rs.24.85 lakh and carrying cost of rupees six lakh.

Management stated (August 2003) that the quantity lifted from FCI was very negligible. The reply was not tenable as lifting of three lakh quintal, which resulted in locking up of Rs.18.50 crore, could have been avoided.

Milling of paddy

Loss due to failure to monitor its storage

2.7.6 The Company was procuring paddy under PSS and depositing the rice obtained after milling with FCI. Without planning the strategy for timely milling of paddy, it procured paddy during 2000-02 and got it milled as follows:

Year	Procured (MT)	Milled (MT)	Paddy to be milled (Position as on 31 March 2003)		
			Quantity (MT)	Cost per MT (Rs.)	Total cost (Rupees in lakh)
2000-01	16,085	10,469	5,616	5,800	325.73
2001-02	40,287	30,828	9,079[9]	6,170	560.17
Total					**885.90**

Failure to plan timely milling of paddy led to locking up of Rs.8.86 crore and consequential interest loss of Rs.1.44 crore.

It will be seen that the Company failed to mill the paddy fully even after lapse of two years/one year. This resulted in locking up of Rs.8.86 crore and consequential loss of interest of Rs.1.44 crore[10].

Further, though the Company directed (April 2001) its field offices to ensure that there were no shortages, it was noticed in audit (April 2003) that against 9,459 MT of paddy relating to 2001-02 that should have been in stock, only 9,079 MT was available. Thus, Company's failure to monitor storage resulted in loss of Rs.23.45 lakh (at Rs.6,170 per MT), being the cost of 380 MT found short. The Company did not fix responsibility for the loss.

Management attributed (February 2003) the delay in milling to shortage of milling capacity in the State.

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[9] *Excluding shortage of 380 MT*

[10] *At 12.15* per cent *on Rs.3.26 crore for two years and at 11.55* per cent *on Rs.5.60 crore for one year*

The reply was not convincing as (a) no action was taken to plan the milling of paddy before procurement and during 2002-03 the Company had got milled 35,508 MT (out of procured quantity of 65,647.80 MT) without any increase in milling capacity, and (b) it should have got milled these old stocks first on FIFO[11] basis to avoid deterioration in their quality. The management's reply was silent about shortage of 380 MT of paddy.

Delay in preferring claims for reimbursement of loss

2.7.7 During 1997-98 and 2000-01, the Company procured 66,515.75 and 2,64,102.40 quintal of coarse grains[12] respectively, the disposal of which could be completed only in 1999-2000 (up to September 1999) and 2001-02 (up to September 2001). It incurred expenditure of Rs.3.50 crore on procured quantity in 1997-98 and Rs.15.63 crore in 2000-01 and realised Rs.1.90 crore and Rs.10.98 crore respectively. Thus, it suffered an aggregate loss of Rs.6.25 crore (Rs.1.60 crore plus Rs.4.65 crore). Besides, there was shortage of 3,573.60 quintal of maize.

The Company preferred claims for reimbursement of this loss from GOI through State Government only in March 2002 and April 2003, after delays of 24 and 18 months respectively. No reimbursement had, however, been received by the Company (May 2003).

Delay in preferring claims and ineffective monitoring of disposal of coarse grains led to loss of interest of Rs.1.22 crore and loss of Rs.15.77 lakh due to shortages.

Thus, Company's delay in preferring claims for reimbursement of loss resulted in an avoidable loss of interest of Rs.1.22 crore. Further, there was 2,684.03 quintal maize valuing Rs.15.77 lakh found short after allowing 0.5 per cent of moisture loss.

Management attributed (May 2003) the delays in preferring claims to shortage of staff and the shortage of maize to moisture loss.

The reply was not factually correct as the Company has a separate section for preparation of claims.

Transportation

Excess payment due to approval of higher transportation charges

2.8.1 Proposals for annual rate of local transportation charges are submitted by district offices to Head office for approval. Test-check in audit (June 2003) of records of district office, Damoh, revealed that the stocks of FCI and the Company were stored in the godowns of State Warehousing Corporation located in the same complex (within a radius of one km). The district office had been recommending rates for local transportation (from FCI's godown to

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[11] *First-in-First-out*

[12] *Coarse grains-Maize, Bajra and Jowar*

Company's godown) without intimating this fact to Head office and assessing the reasonability of the rates quoted by transporters.

After a new Manager and an Assistant Accounts Officer (Accounts) took over in December 2002, the district office recommended rates for 2003-04 for local transportation (FCI's godown to Company's godown) duly taking into consideration this fact too. The approved rates for 2003-04 were less by 44.77 to 52 per cent compared to the rates for 1998-2003, as detailed below:

Year	Quantity of wheat/rice locally transported (MT)	Rates paid (Rs. per MT)	Rates for 2003-04 (Rs. per MT)	Excess paid (Rs. per MT)	Total extra payment (Rs. in lakh))
1998-99	62,427.49	67	37	30	18.73
1999-2000	5,173.13	73	37	36	1.86
2000-01	7,683.83	77	37	40	3.07
2001-02	13,160.04	77	37	40	5.26
2002-03	17,961.47	76	37	39	7.01
				Total	**35.93**

Approval of higher transport charges resulted in excess payment of Rs.35.93 lakh.

The Company's failure to ascertain the reasonability of the rates and also the actual distance involved for local transportation resulted in excess payment of Rs.35.93 lakh. No action was taken to investigate and fix responsibility for the fixation of higher rates during 1998-2003.

Management stated (August 2003) that the main reason for the lower rates in 2003-04 was decentralisation of powers at district level.

The reply was factually not correct as the fact remains that the FCI godown was situated in the same complex which had not been considered.

Avoidable cross-transportation

2.8.2 Wheat procured under Decentralised Procurement (DCP) scheme and sugar purchased from sugar factories are transported by rail to the rake points at various locations. From there, these are transported by road to various issue centres as per requirements.

Company incurred extra expenditure of Rs.2.47 crore due to avoidable cross-transportation.

As per Managing Director’s orders (December 1995), there should not be any cross-transportation of foodgrains/sugar and these should be stored in such a way that there was no need to re-transport them. However, in the eight[13] district offices alone, test-checked in audit, it was seen that during 1998-2002, major portion (48 to 87 per cent) of the foodgrains/sugar were first transported and stored at the local godowns and then re-transported to other issue centres instead of being directly transported to the issue centres from rake points. This cross-transportation resulted in avoidable extra expenditure of Rs.2.47 crore (***Annexure 11***).

Management attributed (June 2003) the re-transportation to the vast area of the State and the need to ensure timely distribution under PDS.

[13] *Gwalior, Rajgarh, Sagar, Satna, Dewas, Narsinghpur, Ratlam and Indore*

The reply was not tenable as the Company, to ensure timely availability and distribution under PDS, should have arranged to transport the food grains/sugar directly to the issue centres, instead of storing them first at rake point and re-transporting thereafter.

Failure to monitor delivery of quantity transported

2.8.3 The Company undertook during 1993-2000 the work of transportation of CARE[14] material for the State *Mahila Evam Bal Vikas Vibhag* (client) to district offices of the Company at Raipur and Jagdalpur and from these places to various projects of the client. It did not monitor the quantity transported and that actually delivered at destination points. The client deducted various amounts towards shortages, short lifting, etc. every year from the bills submitted. The Company failed to even verify the correctness of these deductions and take follow-up action for recovery thereof from the client. It was noticed that out of Rs.11.12 crore claimed by the Company for transportation of material during 1993-2000, it received only Rs.9.96 crore up to August 2002, and balance Rs.1.16 crore was still pending (May 2003).

Company's failure to monitor transportation led to loss of Rs.44.55 lakh.

As the Company failed to convince the client for re-imbursement of amounts deducted, the client did not release the payments and continued to deduct the amounts on account of shortages, etc. The Company had not recovered the amount from the transport contractor and finally, wrote off (September 2002) Rs.44.55 lakh. Thus, failure to monitor transportation resulted in loss of Rs.44.55 lakh. As the balance Rs.71.45 lakh had also not yet been recovered (May 2003), the possibility of further loss cannot be ruled out.

Management stated (June 2003) that the matter was being continuously followed up. The reply, being general in nature was not acceptable and the fact remains that no amount had been recovered (June 2003).

Delay in filing suit for recovery of cost of sugar

2.8.4 A transporter of Gwalior was appointed transport contractor for the year 1997-98 for handling and transportation work at rake point Gwalior. During 17-19 September 1997, the contractor transported 10,824 bags of sugar from Gwalior rake point for deposit in State Warehousing Corporation (SWC) godown situated in the premises of a mill in Gwalior.

In the night of 19/20 September 1997, the aforementioned godown caught fire which was reported (20 September 1997) by the branch manager/officers of SWC mentioning also the quantity of sugar deposited during 17-19 September 1997. It was reported that only 9,451 bags of sugar were deposited in the godown during the said period. Thus, the transporter had apparently not deposited 1,373 (out of 10,824) bags of sugar valuing Rs.20.68 lakh.

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[14] *Cooperation for American Relief Everywhere*

On 20 September 1997, the Regional Manager, Gwalior, reported the entire episode to the Managing Director (MD). The District Manager, Gwalior, too sought directions for recovery of value of sugar from the transport contractor. The Company, after a delay of one year, sought (20 September 1998) opinion of legal advisor who suggested to file a civil suit and to engage an advocate at Gwalior. After delay of another year, the matter was again referred (25 September 1999) to legal advisor. The legal advisor stated that his previous opinion was not based on study of agreement, which had not been provided to him, and hence requested for a copy of the agreement. The legal advisor after examining (September 1999) the files modified his earlier opinion and advised that a civil suit was not maintainable and advised invocation of the arbitration clause. The Company appointed an arbitrator on 17 April 2000. The award of arbitrator was awaited (May 2003).

Indecision resulted in locking up of Rs.20.68 lakh and consequent loss of interest of Rs.8.17 lakh.

Thus, the delays of (i) 12 months in taking a decision to file a suit, (ii) another 12 months to rectify the first opinion, and (iii) further seven months in invoking the arbitration clause, resulted in locking up of Rs.20.68 lakh and consequential loss of interest of Rs.8.17 lakh (at 15.81 *per cent* per annum for two-and-a-half years) on account of interest.

Management accepted (June 2003) the delays and attributed it to procedural formalities.

Storage

Loss due to failure to fix storage norms and furnish relevant documents

2.9.1 As the Company does not have its own godowns, the foodgrains and sugar procured by it are stored in warehouses of State Warehousing Corporation (SWC), Central Warehousing Corporation (CWC) and private godowns.

In spite of being in existence for nearly three decades, the Company has not fixed any norms for shortage of foodgrains/sugar stored in godowns as a control mechanism over the stock. It was observed that there were shortages of stock stored in SWC godowns during 1996-2001. For the settlement of these shortages (in the absence of norms), following terms were agreed to in November 2001 by the Company in its meeting with SWC:

Wheat, coarse grains and paddy	0.5 per cent or actual, whichever being less
Rice: Storage up to one year	0.5 per cent or actual, whichever being less
Rice: Storage for more than one year	0.75 per cent or actual, whichever being less
Sugar : Only for centres at railway rake point	0.1 per cent or actual, whichever being less

Though the Company claimed Rs.4.47 crore from SWC for these shortages, SWC agreed to pay only Rs.28.40 lakh in full settlement. It was also noticed in audit (May 2003) that :

- as per terms agreed to by the Company, claims for Rs.3.70 crore (out of Rs.4.47 crore) became inadmissible and were thus not admitted;
- out of claims for Rs.77.47 lakh (Rs.4.47 crore minus Rs.3.70 crore), SWC rejected claims for Rs.49.07 lakh due to Company's failure to furnish documents like warehouse receipts, submission of statements with incorrect details, incorrect calculations with weighment details not supported by actual weight of quantity and stack killing (i.e. complete clearance of a stack); and
- even out of Rs.28.40 lakh agreed to be paid by SWC, the Company received only Rs.8.45 lakh and balance Rs.19.95 lakh was still to be received (April 2003).

Inefficient monitoring of stores and non-fixation of norms led to loss of Rs.4.19 crore.

Thus, the Company's failure to monitor storage of the foodgrains properly, coupled with its failure to fix any norms till November 2001, resulted in loss of Rs.3.70 crore. Besides, its failure to furnish required documents/correct data resulted in further loss of Rs.49.07 lakh which was also avoidable.

It is pertinent to note that COPU had already taken a serious view of delays in settlement and also of realisation of very meagre amounts against claim preferred. Thus, the Company had also failed significantly to implement the recommendations of COPU.

Non-achievement of moisture gain in wheat

2.9.2 Wheat procured by the Company under decentralised procurement scheme is retained by it (to the extent of its requirement) for distribution/sales under PDS. The surplus quantity, if any, is deposited with FCI and the deficit quantity is procured from FCI.

Initial investment from procurement to distribution/sales such as payment of support price to farmers, expenses on transportation, storage and bank interest, etc. is made by the Company by availing of cash credit sanctioned for foodgrains. These expenses are re-imbursed by GOI (to the extent of economic cost fixed by it) on submission of monthly claims. As wheat gains moisture during storage, GOI had ordered (November 1999) that deduction on account of moisture gain would be made from the bills/claims submitted by the Company to the extent of 0.7 *per cent* (in respect of cap storage i.e. storage in the open) and 1.0 *per cent* in respect of covered storage.

A review of actual gain achieved/loss suffered by the Company on the storage of wheat during 1999-2003 revealed that the moisture gain was not fully achieved as shown below:

Year	Quantity procured and stored in godowns (MT)			Actual gains achieved (MT)	Minimum gain to be achieved (MT)			Shortfall in gain (MT)	Acquisition cost/ MT (Rs.)	Loss due to shortfall in gain (Rs. in lakh)
	Cap	Covered	Total		Cap 0.7 *percent* of Col(1)	Covered 1.0 *percent* of Col(2)	Total			(col (8) x col (9))
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
1999-2000	--	2,45,335	2,45,335	2,373.19	--	2,453.35	2,453.35	80.16	6,246	5.01
2000-01	3,202	3,34,057	3,37,059	2,483.89	22.41	3,340.57	3,362.98	879.09	6,468	56.86
2001-02	31,684	2,40,716	2,72,400	2,539.93	221.79	2,407.16	2,628.95	89.02	6,885	6.13
2002-03	19,103	3,41,735	3,60,838	2,504.00	133.72	3,417.35	3,551.07	1,047.07	6,848	71.70
									Total	**139.70**

It would be seen that the shortfall in the envisaged gain resulted in a loss of Rs.1.40 crore.

Company suffered loss of Rs.1.40 crore due to non-achievement of moisture gain in wheat.

Management stated (June 2003) that moisture gain depended on various factors like period of storage, percentage of moisture in the atmosphere etc. and that there was no scientific base for these norms. The reply was not tenable because GOI was effecting deductions as per the norms fixed by it and the norms were for the minimum moisture gain. If the Company finds anything wrong with GOI norms it should take up the matter with GOI, as deductions for moisture gain continue to be made by the latter. Further, the Company itself has fixed its own norm of 2.5 per cent moisture gain.

Loss due to failure to recover shortages

2.9.3 According to the procedure prescribed by the Company, there should not be any shortage/sweepage in respect of paddy, rice and sugar, and in respect of wheat, there should be a gain of 2.5 *per cent*. This position was reiterated in instructions issued in April 2001.

A scrutiny in audit, however, revealed (March 2003) that there had been shortages in respect of these items during 1998-2001, as noted below:

(Quantity in quintals)

Sl. No	Commodity	1998-99		1999-2000		2000-01	
		Quantity	Value (Rs in lakh)	Quantity	Value (Rs in lakh)	Quantity	Value (Rs in lakh)
1	Wheat	8,197	30.20	11,187	63.52	5,217	34.05
2	Rice	9,069	47.92	8,050	40.99	6,995	41.63
3	Sugar	7,775	80.54	9,528	101.07	8,858	102.55
4	Paddy	92,934	435.47	13,934	72.51	9,252	37.09
5	Others		22.72		24.49		5.01
6	**Total**		**616.85**		**302.58**		**220.33**
7	Recovered		211.21		177.00		168.22
8	Written off		405.64		125.58		52.11

It may be seen that there were shortages in respect of all items. Further, against envisaged gain of 2.5 *per cent* in wheat, there were shortages of 24,601 quintal valuing Rs.1.28 crore. The Company, instead of taking concerted steps

Company suffered loss of Rs.5.83 crore due to its failure to recover shortages.

to (i) avoid/reduce the shortages, (ii) investigate reasons for shortages, (iii) achieve the envisaged gain in respect of wheat, and (iv) recover fully the value of shortages, had written off Rs.5.83 crore being the value of unrecovered shortages in the accounts of the respective years which resulted in loss to that extent.

It is pertinent that COPU had expressed (paragraph 23 of their 64th Report) their displeasure on write-off of shortages, pending settlement of claims and desired to have some control mechanism on shortages.

Management stated (June 2003) that write-off of shortages was only for accounting purposes and that efforts were being made to recover the amounts. The fact remains that the Company has not recovered any amount after the write-offs.

Loss due to failure to fix norms for sweepage/wet sugar

2.9.4 The Company has been procuring sugar from various sugar mills, as per the allotments made by GOI. A review of procurement and disposal of sugar by it during 1998-2002 revealed that no norms for sweepage[15] or wet sugar were fixed, and due to non-fixation of such norms, the conversion of sugar into sweepage sugar could not be controlled properly.

Further, during 1998-2002, 31,049 quintal of sugar valuing Rs.3.41 crore was converted into sweepage/wet sugar, as noted below:

Year	Stored quantity of sound sugar (OB + purchase) (quintals)	Quantity of sugar sweepaged (quintals)	Sweepage rate per quintal (gram)	Wet sugar (quintal)	Wet rate per quintal (gms)	Sweepage and wet sugar rate per quintal (gms)	Average purchase price per quintal (Rs)	Value of sweepage sugar (Col. 3x Col. 5) (Rs. in lakh)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
1998-99	35,14,456.86	9,735.53	277	8,033.44	229	506	1,047.91	102.20
1999-00	35,82,388.96	11,079.69	309	9,705.02	271	580	1,064.19	117.91
2000-01	34,50,734.00	8,400.94	244	8,459.83	245	489	1,171.32	98.40
2001-02	12,83,629.48	1,832.68	143	5,587.30	435	578	1,219.70	22.35
Total		**31,048.84**	**243**[16]	**33,785.59**	**295**[16]	**538**[16]		**340.88**

OB = Opening balance

Though instructions were issued (April 2001) by the Company against sweepage/wet sugar, it did not take steps to avoid/reduce such occurrences and suffered the following losses:

[15] *Sweepage sugar: While handling sugar bags by using hooks, some sugar spills out which is called 'sweepage sugar'*

[16] *Average of four years*

Loss on sale of sweepage sugar at rates below purchase price

Sugar sweepages led to loss of Rs.85.63 lakh.

2.9.5 During 1998-2002, 32,930.07 quintal of sweepage sugar was sold at average rates ranging between Rs.694 and Rs.939 per quintal whereas purchase price ranged between Rs.1,048 and 1,220 per quintal. This resulted in loss of Rs.85.63 lakh as detailed below :-

Year	Quantity of sweepage sugar sold (as per stock statement)	Amount realised as per accounts (Rs)	Average rate of realisation per quintal (Rs)	Purchase price per quintal as per accounts (Rs)	Loss per quintal (Rs)	Loss due to sale at lower rates (col.2xcol.6) (Rs. in lakh)
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1998-99	5,230.07	46,51,989	889.43	1,047.91	158.53	8.29
1999-00	8,447.41	73,02,163	864.42	1,064.19	199.77	19.88
2000-01	13,880.94	1,30,36,671	939.17	1,171.32	232.15	32.22
2001-02	5,371.65	37,27,888	694.00	1,219.70	525.70	28.24
Total	**32,930.07**					**85.63**

It was further seen that in Satna, Jabalpur, Indore and Ujjain districts, the quantity of sweepage sugar was two to three times more (234 to 845 gram per quintal) than the average of 143 gram per quintal for the Company as a whole.

Company replied (June 2003) that it had received Rs.2.72 crore from GOI towards transit/storage losses.

The reply was not tenable as the audit observation related to sweepage/wet sugar over and above the shortages in transit/storage. However, the value of actual shortages towards transit/storage loss (Rs.3.65 crore) was more than the amount received from GOI.

Loss due to non-receipt of wholesaler's margin

Company had forgone revenue of Rs.99.69 lakh on sale of sweepage and wet sugar.

2.9.6 Sugar is procured from sugar factories and sold to retailers for distribution under PDS at rates for procurement and sale fixed by GOI. However, Government reimbursed wholesaler's and retailer's margins to the Company in respect of sugar sold only under PDS. As the sweepage sugar was sold by auction (and not under PDS), the Company could not also receive wholesaler's margin of Rs.41.69 lakh on sweepage sugar.

Similarly, the Company had 45,672.95 quintal of sugar which became wet during 1998-2002. This quantity was also sold through auctions at a further loss of wholesaler's margin of Rs.58 lakh.

Management stated (June 2003) that the amount involved was negligible as compared to the total business of sugar. The contention was not tenable as the Company had suffered an avoidable loss of Rs.99.69 lakh due to lack of control on sweepage and wet sugar.

Distribution

2.10 The quantum of wheat, rice and sugar to be distributed to co-operative societies is allotted by State Government. In respect of wheat and rice, separate allotments are made for distribution through Targeted Public Distribution System (TPDS), i.e. for those above poverty line (APL) and below poverty line (BPL) and other welfare schemes like mid-day meals (MDM), *'Antyodaya'*, *'Annapoorna'*, and *'Sampoorna Gramin Razgar Yojna'* (SGRY). Based on this allotment, wheat and rice are lifted from the FCI at issue rates fixed by GOI. From 1999-2000, wheat procured under the decentralised procurement (DCP) scheme at minimum support price (MSP) is also being used for distribution under TPDS. Under the schemes of *'Antyodaya'* and *'Annapoorna'* foodgrains are distributed at concessional rates and under MDM and SGRY schemes, free of cost. Sugar procured from mills is distributed at prices fixed by GOI and profit/loss is adjusted through sugar equalisation fund.

The allotment, lifting and distribution of foodgrains during the last five years ended 31 March 2003 in respect of all these schemes are indicated in ***Annexure 12***. The following deficiencies were noticed:

Absence of monitoring system

2.10.1 The Company has been distributing foodgrains to the lead/ link societies under various schemes like above poverty line (APL), below poverty line (BPL), *Antyodaya Anna Yojana (AAY)*, etc. There is no monitoring mechanism to ensure that the foodgrains actually reach the ultimate beneficiaries. Even though GOI has been demanding a certificate to this effect, from the State Government along with the claims for subsidies etc., such certificate has not been furnished by the Company. In the absence of effective monitoring mechanism, it could not be ensured whether the foodgrains supplied to the societies indeed reach the genuine beneficiaries. This defeated the main objective of the Company.

Management and State Government stated (June 2003) that for better monitoring, Government had initiated action to obtain certificates from the district Collectors about receipt of foodgrains by the ultimate beneficiaries.

Implementation of schemes

Audit analysis revealed that while the Company suffered loss on some of the schemes[17], it had forgone revenue/profit in other schemes, due to non/partial lifting of allotted quantities. This also resulted in non-fulfilling of the objectives of the schemes fully, as discussed below.

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[17] *Due to failure to restrict its expenditure*

Mid-day meals scheme

2.10.2 Under the National Programme of Nutritional Support to Primary Education (mid-day meals (MDM) scheme), GOI was allocating foodgrains (wheat and rice) every year to State governments and Union Territories for distribution to children studying in primary classes (I to V) in all government/government-aided and local bodies schools. The supply was at the rate of three kg per child per month where foodgrains were distributed and 100 grams per child per day where cooked food was served.

For lifting the foodgrains (free of cost) from the FCI and providing it to the lead/link societies, the Company was entitled to a margin of Rs.22 per quintal to cover its expenses on transportation, storage, etc. Audit scrutiny revealed (May 2003) that the Company lifted 6,02,805 MT of wheat and 3,62,108 MT of rice during 1998-2003. The expenditure incurred by it on the scheme varied between Rs.19 and Rs.29.83 per quintal in case of wheat, and Rs.19.97 and Rs.23.14 per quintal in case of rice against admissible margin of Rs.22 per quintal.

Loss of Rs.1.47 crore due to failure to restrict expenditure.

Despite being aware of the margin that would be available, failure of the Company to take any steps to restrict/limit the expenditure accordingly, resulted in a net loss of Rs.1.47 crore (***Annexure 13***).

Though COPU had recommended that loss should be recovered from the State Government, the Company had not preferred any claim so far (May 2003).

Delay in submission of claims

2.11 Test-check in audit, revealed that in many cases, there were inordinate delays in submission of claims in respect of subsidies, incidentals, etc. to GOI/FCI. This resulted in blocking of funds and consequential loss of interest. A few such instances have been discussed hereunder.

Loss of interest due to delay in lodging claims with sugar equalisation fund

2.11.1 The Company was procuring sugar from various sugar mills in accordance with allotments made by GOI and distributing it under PDS at rates fixed by GOI. Any excess of expenditure on procurement and distribution over the income realised through PDS was claimed from the FCI through the sugar equalisation fund.

Delay in preferring claims resulted in avoidable loss of interest of Rs.1.04 crore.

As per instructions of GOI, claims relating to sugar equalisation fund were to be submitted to FCI regularly, immediately at the close of a month. It was, however, seen (April 2003) that the Company was not regular in submitting the claims; claims for Rs.33.10 crore during April 1998 to February 2003 were preferred by it with delays ranging from one day to 239 days, even after allowing 15 days as reasonable time for submitting the claims. The delays and consequent non-realisation of amounts and their non-credit to CC accounts resulted in avoidable loss of interest of Rs.1.04 crore ***(Annexure 14).***

Management stated (May and June 2003) that as the details of sugar procured and distributed had to be collected from various district offices, there was some delay in preferring claims

The reply was not tenable as the Company was well aware of the extra interest cost involved in the event of delay, and it should have accordingly evolved data collection machinery to avoid these delays.

Loss of interest due to non-recovery of dues from Chhattisgarh State Civil Supplies Corporation Limited

Failure to recover dues led to loss of interest of Rs.2.01 crore.

2.11.2 Chhattisgarh State Civil Supplies Corporation Limited (CSCSC) was formed in February 2001 to undertake similar activities in the State of Chhattisgarh. On that date, sugar stock valuing Rs.4.20 crore was lying in various district offices of CSCSC. Further, sugar worth Rs.8.46 crore was supplied by the Company to CSCSC during February- March 2001. Thus, sugar worth Rs12.66 crore paid for by the Company, was with the CSCSC. Against this, the CSCSC had paid (up to April 2001) only Rs.5.72 crore to the Company and the balance Rs.6.94 crore was yet to be recovered from it (April 2003). The failure of the Company to recover the cost resulted in loss of interest of Rs.2.01[18] crore.

Management stated (June 2003) that the amount would be adjusted on finalisation of the bifurcation scheme of the Company. The reply is not factually correct as this issue is being separately dealt with by the Company and is not in any way linked with the scheme of bifurcation. Further, the burden of interest payment was not considered by the Company.

Delay in submission of claims leading to locking up of funds and loss of interest

2.11.3 The Company was procuring wheat from farmers under the decentralised procurement scheme of GOI since 1999-2000 at minimum support price. The wheat so procured is used for distribution under PDS. GOI was reimbursing the Company at economic cost[19] of the wheat so procured. The difference between the economic cost and the central issue price (price at which foodgains are issued to lead/link societies/fair price shops) was to be claimed as subsidy from GOI.

Belated submission of claims led to loss of interest of Rs.34.61 lakh.

The Company was submitting the subsidy claims every month to GOI. It was however, noticed (April 2003) in audit that there were inordinate delays in submitting the final claims relating to 2001-02. Even though the accounts

[18] *At 14.50* per cent *on Rs.6.94 crore for two years –April 2001 to March 2003*

[19] *Cost at which foodgrains are procured from farmers and all incidental charges, like transportation, storage, interest, mandi charges, etc.*

were certified by the statutory auditors in December 2002, the Company had not yet (September 2003) preferred the claims. This resulted in locking up of rupees four crore and consequential loss of interest of Rs.34.61 lakh[20].

Management stated (June 2003) that all-out efforts were being made for early disposal of the claims and GOI would entertain these claims based on audited accounts only.

The reply was not tenable as the Company failed to prefer the claims even after accounts were certified in December 2002, which indicated a casual attitude on the part of the Company.

Delay in submission of claims in respect of wheat procured for central pool

2.11.4 During 1999-2000, the Company procured 2,51,574 MT wheat for the central pool and deposited it with the FCI. For this activity, GOI was sanctioning provisional economic cost/incidentals, and on completion of the procurement, the Company was to submit the cost sheets indicating the actual expenditure incurred. The excess cost over the provisional incidentals was to be reimbursed by GOI.

It was observed (April 2003) that against the provisional incidentals of Rs.639.63 per quintal sanctioned by GOI for 1999-2000, the actual expenditure worked out to Rs.641.57 per quintal. Thus, the Company was entitled to a reimbursement of Rs.48.71 lakh from GOI for the differential cost.

The wheat procurement is generally done during April- June of the year and so the procurement of wheat for the year 1999-2000 was completed by June 1999. Hence, accounts in respect of the wheat procured could have been submitted by July 1999 i.e. within a month's time. However, the Company preferred the claim for Rs.48.71 lakh in February 2002 after more than two years. The claim was yet to be settled (April 2003).

Avoidable delay in lodging claim led to locking up of funds and loss of interest of Rs.20.45 lakh.

The delay in finalising the accounts and lodging the claim resulted in locking up of Rs.48.71 lakh and loss of interest Rs.20.45 lakh[21].

Management stated (June 2003) that efforts would be made to prefer claims in time in future.

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[20] *At 11.55 per cent per annum on Rupees four crore for nine months*

[21] *At 11.45* per cent *on Rs.48.71 lakh for 44 month up to March 2003 (after allowing a margin of one month)*

Locking up of funds and loss of interest due to failure to pursue the claim

2.11.5 Government of India introduced the TPDS with effect from 1 June 1997. According to the system, the stock of foodgrains available with the Company as on 31 May 1997 was transferred to the new scheme and the central issue price (CIP) was also revised. As a result of the revision in CIP, there was a net decrease of Rs.2.55 crore (increase:Rs.97 lakh, decrease:Rs.3.52 crore) in the value of stock available with the Company as on 31 May 1997.

The Company, therefore, preferred (August 1997) a claim for this reduction in value with Senior Regional Manager, FCI, Bhopal, with a copy each to the Secretary, Food & Civil Supplies Department and the Director, Food and Civil Supplies Department, Government of Madhya Pradesh. After lodging the claim, however, it did not pursue the matter and, consequently, the amount was yet (June 2003) to be recovered from FCI.

Non-pursuance of claim led to locking up of funds and consequential loss of interest of Rs.2.15 crore.

The failure of the Company to pursue the claim resulted in locking up of Rs.2.58 crore and consequential loss of interest of Rs.2.15 crore thereon (at 14.28 per cent for five years 10 months).

Management stated (June 2003) that action was pending at FCI level.

The reply was not tenable as no effort was made by the Company after August 1997 for reimbursement of reduction in value.

Internal audit

Company's own internal audit was manned merely by two persons.

2.12 The Company is having an internal audit section comprising only two employees, including a Deputy Manager. The internal audit including that of its Head Office, regional and the district offices was entrusted to firms of chartered accountants. The internal audit section mainly takes some follow-up action on audit observations. The position of internal audit observations for the last five years ended 31 March 2003 indicating the number of observations raised, settled and outstanding was not available with the Company.

It was noticed that the internal audit was generally restricted to verification of vouchers, bills, ledger accounts, personal records, dues, etc. though major activities like procurement and disposal of gunnies and foodgrains and implementation of various schemes were also included in their scope of work. The internal audit reports did not cover vital areas like procurement and disposal of foodgrains and gunnies and implementation of various schemes. Further, the internal audit reports were not being submitted to the Board of Directors of the Company.

Management agreed (June 2003) to submit internal audit reports to the Board of Directors in future.

Conclusion

While the Company repeatedly failed in making realistic assessment of procurement of wheat, it also did not properly plan milling of the paddy procured. There was excessive purchase of gunnies, unwarranted lifting of foodgrains from FCI, and uneconomical transportation of foodgrains. The Company was extremely tardy in preferring/pursuing its claims for receipt/reimbursement of various expenses and recovery of dues. All these resulted in avoidable blocking of large amounts and loss towards interest. Shortages in storage too were not fully recovered leading to loss.

The Company was distributing foodgrains under various schemes. There was, however, no monitoring mechanism to ensure that the foodgrains actually reach the ultimate beneficiaries.

There is an imperative need for the Company to make concerted efforts to streamline the systems of preferring/pursuing claims and recovery of dues and also stores management for improving its working results, and achieving its overall objective of procuring, transporting, storing and distributing foodgrains economically and efficiently.