Chapter II

2. Performance review relating to Government Company

Punjab Agro Foodgrains Corporation Limited

Procurement, Storage and Milling of Paddy for Central Pool

Highlights

The Company failed to take remedial measures to ensure delivery of full quantity of rice by the millers despite the reports of the Comptroller and Auditor General of India of previous years having pointed out misappropriation of rice/paddy by rice millers. There was further misappropriation of 16,834 metric tonne rice in six district offices with resultant non-recovery of Rs. 31.95 crore.

(Paragraph 2.16)

Against the specified period of 200, 175, 121 and 60 days for which interest was provided in the rates by the Government of India for the crop years 2000-01, 2001-02, 2002-03 and 2003-04 the Company took average period of 236, 212, 152 and 133 days, respectively, for milling and delivery of rice to Food Corporation of India (FCI). Failure of the Company to get the paddy milled in time resulted in loss of interest of Rs. 18 crore in six district offices.

(Paragraph 2.20)

Inclusion of depreciation on lower number of gunny bags in the rates of rice for the crop years 2003-05 resulted in short recovery of Rs. 2.66 crore from FCI.

(Paragraph 2.23)

The Company had no system to ensure raising of interest claims on delayed payments by FCI due to which it failed to raise interest claims of Rs. 3.50 crore in six district offices.

(Paragraph 2.26)

Instead of allowing driage at one *per cent* of Minimum Support Price, the Company allowed driage at one *per cent* on quantity of paddy delivered for milling for the crop years 2000-04. This resulted in loss of Rs. 2.03 crore in six district offices of the Company.

(Paragraph 2.17)

Delayed action by the Company to raise claims with FCI for reimbursement of transportation cost of Rs. 6.65 crore beyond eight kilometers resulted in loss of interest of Rs. 88.42 lakh during 2003-05.

(Paragraph 2.13)

Failure of the Company to match the value of hypothecated stock of paddy with cash credit outstanding as required under agreement with the bank resulted in additional interest payment of Rs. 1.10 crore to the bank during 2000-05.

(Paragraph 2.7)

Incorrect billing for differential cost of rice and interest thereon resulted in short recovery of Rs. 4.26 crore. The Company recovered Rs. 4.03 crore at the instance of Audit.

(Paragraph 2.27)

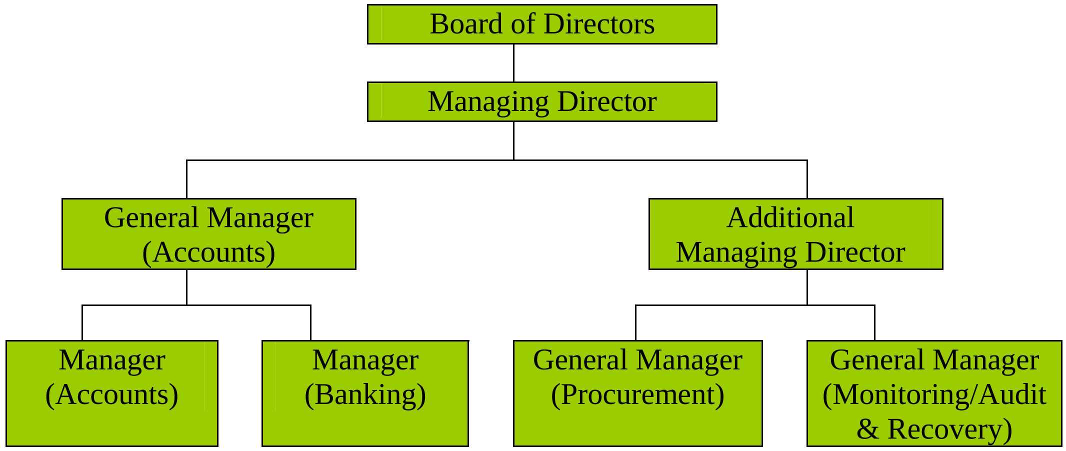
Introduction

2.1 Punjab Agro Foodgrains Corporation Limited (Company) was incorporated in July 2002 as a wholly owned subsidiary Company of Punjab Agro Industries Corporation Limited (holding company) mainly for handling the activities relating to the procurement of foodgrains. The Company, along with other procuring agencies, procures paddy from various *mandis* allotted to it by Food & Supplies Department (F&SD) on Minimum Support Price (MSP) fixed by the Government of India (GOI) for each crop year. Paddy procured by the State procuring agencies is got milled from the selected rice millers at specified rates under custom milling policy[*] framed by the State Government for each year. The resultant rice is delivered to Food Corporation of India (FCI) for Central Pool at the rates fixed by the GOI for each crop year. The holding company carried out these activities during April 1997-September 2002, which were transferred to the Company in October 2002.

The organisational set up relating to procurement, storage and milling

[*] Custom milling policy is a policy relating to the activities of procurement, storage and milling of paddy finalised by F&SD for each crop year.

activities of the Company is as follows:



As on 31 March 2006, the Company had 17[*] district offices headed by District Managers (DMs) for carrying out procurement, storage and milling operations. Working of the holding company was last reviewed in the Report of Comptroller and Auditor General of India for the year 1998-99 (Commercial), Government of Punjab, which was discussed by the Committee on Public Undertakings in October 2003.

Scope of Audit

2.2 The present performance review conducted during December 2005-March 2006 evaluates the performance of the Company relating to procurement, storage and milling of paddy for Central Pool carried out by the holding company during April 2000-September 2002 and by the Company during October 2002-March 2005. This performance review covers the activities of the Company for the period of five years up to 2004-05 as the figures for the year 2005-06 will be available only after the activities relating to the procurement, storage and milling of paddy for the crop year 2005-06 are completed during 2006-07. The audit findings are based on audit procedures applied to a sample of six[•] (35 *per cent*) out of 17 district offices selected on random sampling basis, in addition to the Head Office of the Company. The sample covers more than 50 *per cent* of the transactions relating to procurement, storage and milling of paddy during 2000-05.

Audit objectives

2.3 The audit objectives were to ascertain whether:

- the Company executed the functions relating to procurement, storage and milling of paddy in an efficient, effective and economical manner and as per the prescribed norms;

[*] Amritsar, Bathinda, Fatehgarh Sahib, Faridkot, Ferozepur, Gurdaspur, Hoshiarpur, Jalandhar, Kapurthala, Ludhiana, Moga, Muktsar, Mansa, Nawanshahar, Patiala, Ropar and Sangrur.
[•] Ferozepur, Gurdaspur, Kapurthala, Ludhiana, Patiala and Sangrur.

- the Company delivered rice to FCI within the stipulated/ extended period fixed by the GOI, and raised bills accurately and within the stipulated period in accordance with the rates fixed by GOI;
- the Company was able to utilise sanctioned cash credit limit efficiently and economically;
- the Company obtained full reimbursement of guarantee fee and other statutory levies imposed by the State Government;
- the Company had devised and made operational a reliable system of monitoring and oversight at the highest level to ensure that the objectives were achieved in an efficient and economic manner; and
- the Internal Control System was commensurate with the size and activities of the Company.

Audit criteria

2.4 The following audit criteria were adopted:

- Targets fixed for procurement, milling of paddy and delivery of resultant rice to FCI within the stipulated/ extended period prescribed by GOI as per milling schedule.
- Milling capacity of the allotted millers vis-à-vis targets fixed for procurement of paddy.
- Terms and conditions of handling & transport contracts.
- Norms/rates for timely raising of bills for rice and other related expenses fixed by GOI.
- Internal Control/Internal Audit system.

Audit methodology

2.5 Audit followed a mix of the following methodologies:

- Scrutiny of minutes /agenda of meetings of the Board of Directors, custom milling policies, instructions issued by the State Government in this regard and milling progress reports received from district offices.
- Examination of records relating to delivery of rice to FCI, raising of claims for sale of rice, differential claims,[@] interest claims and receipt of payments thereagainst.
- Scrutiny of records relating to cash credit, payment of guarantee fee and other charges and their reimbursement from FCI.
- Examination of Internal Audit Reports and action taken thereagainst.

[@] Difference between provisional and final rates of rice.

Audit findings

2.6 The audit findings were reported to the Government/management in April 2006 and discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 14 July 2006, where representatives of the State Government and the Company were present. Views of the Government/management have been incorporated in the review.

The audit findings are discussed in the succeeding paragraphs:

Procurement of paddy

Cash credit facility

2.7 The Company was availing cash credit (CC) facility from State Bank of India (SBI) for procurement of paddy against hypothecation of stock and guarantee given by the State Government. The agreement between SBI and the State Government (on behalf of State procuring agencies) provided that the value of hypothecated stock should be fully matched with the CC outstanding failing which the Company was liable to pay additional interest at the rate of two *per cent* per annum on the shortfall. The details of CC limit sanctioned, availed, outstanding and value of closing stock at the end of each year during 2000-05 are as under:

(Rupees in crore)

Crop Year	CC limit sanctioned	Maximum CC limit availed	Outstanding at the end of the year	Value of closing stock at the end of the year	Excess of CC over closing stock
1	2	3	4	5	6
2000-01	430.00	380.00	229.54	221.49	8.05
2001-02	617.00	617.00	464.77	272.43	192.34
2002-03	613.00	596.47	312.96	138.00	174.96
2003-04	715.00	634.00	281.76	59.11	222.65
2004-05	745.00	658.43	256.29	88.26	168.03

The Company paid additional interest of Rs. 1.10 crore to bank, as value of hypothecated stock was not as per agreement.

As could be seen from the table above there was mismatch between the closing stock and CC outstanding, which ranged between Rs. 8.05 crore and Rs. 222.65 crore during 2000-05. Thus, due to non matching of CC outstanding with the value of hypothecated stock as required under the agreement, the bank charged additional interest of Rs. 1.10 crore.

The management stated (January 2006) that the paddy stock could not be matched with CC outstanding because the bank considered valuation of stock on original cost of paddy whereas CC outstanding included interest, which was compounded on quarterly/ monthly[@] basis. Besides, the mismatch of stock with CC limit was also due to delay in payments by FCI, non-revision of incidentals for a long period, non-refund of guarantee fee by the State Government, delay in submission of stock statements by the F&SD to the bank, and time consumed between raising of bills after delivery of foodgrains, its realisation and deposit with the bank.

The reply is not tenable as the mismatch could have been minimised by proper planning and monitoring in timely raising of sale bills, guarantee fee claims, getting the paddy milled timely from the millers, correct raising of differential

[@] On monthly basis from April 2002.

claims, control over milling operations to avoid misappropriation, claiming interest from FCI on delayed payments and by getting transfer of funds from field offices in time as discussed in the succeeding paragraphs:

Transfer of sale proceeds from field offices

2.8 After getting the paddy milled from the millers, the rice is delivered to FCI and payment thereagainst is received by cheque in the district offices, which is deposited into the bank.

The Procurement Manual of the Company provides that the cheques received should be deposited in the bank on the same day and the DM should simultaneously request the bank for telegraphic transfer/mail transfer of surplus funds to the head office for credit in the CC account.

Delay in transfer of sale proceeds from field offices to head office resulted in loss of interest of Rs. 22.61 lakh.

Audit scrutiny revealed that the district offices did not comply with the above provision as there were delays in transfer of funds ranging between one and 28 days (after giving margin of two days excluding the date of credit) which not only resulted in avoidable payment of interest of Rs. 22.61[#] lakh on CC limit but also contributed towards imposition of additional interest due to mismatch between the value of hypothecated stock and CC outstanding.

The management stated (June 2006) that the general instructions for transfer of funds to the head office twice a week (Wednesday and Saturday) were issued at the time of opening of bank accounts to the respective branches of banks having accounts with district offices. In some cases, however, these instructions were not followed.

The reply is not tenable as the management failed to monitor compliance of the instructions for prompt transfer of funds to the head office for credit in the CC account. In the ARCPSE meeting, the management assured expeditious transfer of funds in future.

Guarantee fee

2.9 The guarantee fee paid to the State Government by the Company on account of CC limit sanctioned for procurement of paddy is reimbursed by FCI as per the instructions of GOI. Audit scrutiny revealed as under:

Guarantee fee of Rs. 3.47 crore was not reimbursed by the FCI/State Government on which loss of interest worked out to Rs. 2.40 crore.

2.10 Up to 1996-97, the State Government was charging guarantee fee at the rate of 1/8 *per cent* on sanctioned CC limit and the same was reimbursed by FCI. The State Government increased the guarantee fee from 1/8 *per cent* to two *per cent* of CC limit during 1997-1999 and again reduced it to 1/8 *per cent* of CC limit from 1999-2000 and onwards. FCI, however, reimbursed guarantee fee at the rate of 1/8 *per cent* of MSP of paddy procured instead of on sanctioned CC limit. Thus, FCI reimbursed guarantee fee of Rs. 0.23 crore during 1997-1999 against the payment of Rs. 3.70 crore by the Company to the State Government. This resulted in non-reimbursement of Rs. 3.47 crore. Besides, the Company also suffered interest loss of Rs. 2.40 crore up to September 2006.

The management stated (June 2006) that the State Finance Department had rejected its claim due to financial crunch in the State. Thus, action of the State

[#] Worked out at the prevailing CC interest rates during the period.

Government to levy increased rate of guarantee fee has put additional financial burden of Rs.3.47 crore on the Company.

2.11 Up to 1998-99, the guarantee fee paid by the Company to the State Government against actual CC limit (on the basis of cost of estimated quantity of paddy to be procured, i.e., MSP, cost of gunny bags, transportation charges and mandi charges, etc.) was reimbursed by FCI on submission of treasury challans of the fee paid subject to 1/8 *per cent* of MSP only on estimated quantity of paddy procured. In October 1999, the GOI decided to reimburse guarantee fee at 1/8 *per cent* of MSP (calculated on the quantity of paddy against which rice was actually delivered to FCI). With the introduction of these instructions the Company was not entitled to reimbursement on undelivered rice and had to bear interest burden for delayed reimbursement of guarantee fee on account of delayed milling or raising of bills. The above instructions came into effect from the crop year 2000-01.

Against payment of guarantee fee on sanctioned cash credit limit, reimbursement by FCI was on the MSP of paddy, which resulted in loss of Rs. 89.51 lakh.

The Company paid guarantee fee of Rs. 3.72 crore to the State Government for the crop years 2000-05 on actual CC limit sanctioned, but FCI was liable to reimburse Rs. 2.82 crore only (as worked out by the Company) on the quantity of paddy (based on MSP only) procured during the above period. This resulted in loss of Rs. 89.51 lakh on account of short reimbursement of guarantee fee.

Audit scrutiny revealed that the Company had failed to evolve any system for timely raising of claims with FCI, with the result that the guarantee fee claims were raised after abnormal delays. During 2000-05, guarantee fee claims were raised after delays ranging between 101 and 1,292 days (computed after allowing one month from the date of completion of supply of rice for the concerned crop year). This delay resulted in loss of interest of Rs. 19.36 lakh.

The management stated (June 2006) that it was not aware of the date of decision of GOI of October 1999 regarding change in the rate of reimbursement of guarantee fee. It further stated that instructions had since been issued (June 2006) to all DMs to claim guarantee fee on quarterly basis. The reply is not tenable as change in system of reimbursement of guarantee fee was included in custom milled rice (CMR) rates fixed by GOI for crop year 1999-2000 and onwards and the Company being in the business of procurement and milling, should have been aware of these facts. Further, it failed to take action against the erring officials for abnormal delay in raising claims.

During the ARCPSE meeting, the management intimated that Chartered Accountants were being appointed in every district office to improve Internal Controls to avoid such delays.

Non-recovery of infrastructure development cess

2.12 As per the standard milling agreements, the millers were liable to make good the loss at CMR rates plus interest and penalty due to short delivery of rice. The State Government levied (January 1999) infrastructure development (ID) cess at the rate of one *per cent* on MSP of all agricultural produce including paddy. Since GOI did not include the element of ID cess in CMR rates, despite claims lodged by procuring agencies, FCI did not reimburse the amount of ID cess. On pursuance, GOI agreed (March 2004) to reimburse the same from the crop year 2002-03. Reimbursement of ID cess of Rs.7.73 crore pertaining to crop years 1999-2002 had not been received (March 2006) and the State Government was pursuing the matter with GOI.

It was noticed during audit that ID cess could not be recovered from the millers also in respect of paddy/rice misappropriated by them because in spite of levy of ID cess in January 1999, the agreements with the millers were not modified to enable the Company to recover ID cess from them. Thus, ID cess of Rs. 26.26 lakh on misappropriated paddy (rice not delivered thereagainst) for the crop years 1999-2002 could not be recovered.

The management stated (June 2006) that wherever the cases with the millers were pending with the Arbitrators, the DMs had been advised to file supplementary claims for recovery of ID cess before the Arbitrators. The reply is not tenable as in the absence of enabling clause in the agreement the recovery of ID cess from millers can not be enforced.

Non- recovery of transportation charges

2.13 Provisional as well as final rates for crop year 2003-04 and provisional rates for 2004-05 of CMR fixed by GOI provide for reimbursement by FCI of expenditure on transportation of paddy for a distance beyond eight Km. It was noticed that though the Company had incurred an expenditure of Rs. 6.65 crore during 2003-05 on transportation of paddy beyond eight Kms yet it did not claim reimbursement of the same from FCI. At the instance of Audit, five district offices raised claims, after abnormal delay, as under:

(Rupees in crore)

Sl. No.	District	Crop year	Expenditure on transportation beyond eight Kms	Month of raising of claim	Amount claimed	Status of payment
1	Ferozepur	2003-04 to 2004-05	1.12	January 2006	1.12	Awaited
2	Gurdaspur	2003-04 to 2004-05	0.19	January 2006	0.19	Awaited
3	Ludhiana	2003-04 to 2004-05	1.85	August 2005	1.85	Awaited
4	Patiala	2003-04 to 2004-05	0.41	January 2006	0.41	Awaited
5	Sangrur	2003-04 to 2004-05	3.08	January 2006	3.08	Awaited
	Total		**6.65**		**6.65**	

Belated raising of claims of transportation charges resulted in loss of interest of Rs. 88.42 lakh.

The table above shows that the Company failed to devise any system to raise such claims on a regular basis, immediately after completion of the paddy season, which resulted in loss of interest of Rs 88.42 lakh[@] calculated after allowing one month from the closing of the procurement season for raising bills.

The management stated that as it was not in the interest of the Company to claim expenditure on actual basis, the State Government had taken up (July 2004) the matter with GOI to allow transportation charges on flat rate for rice delivered (equivalent to paddy) to FCI by indexing last year's final rates of these charges.

The reply is not tenable as the request of the State Government was not acceded to by the GOI as is evident from the final/provisional CMR rates

[@] Worked out at the prevailing CC interest rates during the period (up to March 2006).

fixed by the GOI for the crop years 2003-06. Thus, belated raising of claims of transportation charges resulted in loss of interest.

2.14 Up to the crop year 2002-03, the element of transportation charges was included in the rates of CMR; as such the transportation charges incurred by the Company within eight Kms, i.e., from *mandis* to the mills were covered in these rates. For the crop year 2003-04, however, GOI included the element of transportation charges within eight Kms in milling charges. Audit scrutiny revealed that the Company incurred transportation charges from *mandis* to mills whereas transportation charges included in the milling charges covered transportation from mill to FCI godown only, which were already being borne by the millers. As such, the element of transportation charges included in the milling charges was inadequate. The rates for the crop year 2004-05, however, covered transportation charges for both sides only in the case of parboiled[@] rice and milling charges for raw rice covered transportation charges for one side (from mill to FCI godown) only. Thus, these rates were also silent about reimbursement of transportation charges from *mandis* to mills in respect of raw rice.

Non recovery of transportation charges causing loss of interest to the tune of Rs. 84.87 lakh.

Audit scrutiny revealed that transportation charges of Rs 4.16 crore incurred by the Company from *mandis* to mills for the crop years 2003-05 in respect of six district offices were not recovered either from the millers or from FCI. This also resulted in loss of interest of Rs. 84.87 lakh on these unrecovered transportation charges (September 2006).

The management stated (June 2006) that the State Government had clarified that transportation charges within eight Kms included in the milling charges by GOI would not to be recovered from the millers and these charges were likely to be compensated by GOI while finalising CMR rates. The reply is not tenable as there was nothing on record to show the commitment of the GOI in this regard.

Storage of paddy

2.15 Minimum Support Price scheme of GOI covers the activity of procurement, storage and milling of paddy under the custom milling policy framed by the State Government. The paddy procured from *mandis* is stored in the premises of millers under joint custody. Custom milling policy of the State Government for each crop year and standard terms of agreement between the rice millers and the Company, *inter alia*, provide that rice millers would deliver CMR to FCI within the stipulated/extended period. During audit the following irregularities relating to storage of paddy were noticed:

Misappropriation of rice

2.16 Reports of the Comptroller and Auditor General of India for the year 2000-01, 2001-02 and 2004-05 (Commercial), Government of Punjab had

[@] Partly cooked by heating.

pointed out misappropriation of rice/paddy worth Rs. 29.02 crore due to lack of control over milling operations and violation of the terms of the custom milling policy. The State Government as well as the Company, however, failed to take remedial measures; resultantly, misappropriation of paddy/rice continued.

Violation of terms of custom milling policy facilitated misappropriation of paddy with consequential non-recovery of Rs. 31.95 crore.

Audit scrutiny revealed that 58,031 MT of paddy of crop years 2000-05 was allotted to 23 millers for milling as per details given in ***Annexure 8***. **The millers falling under six district offices short delivered/misappropriated 16,834 MT of rice worth Rs. 31.95 crore.**

Main reasons contributing to misappropriation of paddy/rice and accumulation of heavy outstanding were as under:

- The Company did not obtain bank guarantee/bond or advance rice before delivery of paddy, as per the terms of agreements.
- The Company failed to conduct physical verification of paddy stocks on fortnightly basis in accordance with the custom milling policy.
- The Company did not ensure insurance of paddy/rice lying with the millers as per the terms of agreements.
- District Level Committee comprising district heads of all procuring agencies was to ensure that defaulter millers were not considered for future allotment of paddy. The Company, however, allotted 7,230 MT of paddy to five[&] defaulter millers.
- In the standard milling agreements (to be entered into by procuring agencies with the millers) for the crop years 2002-04, finalised by F&SD, there was no clause to appoint an arbitrator in case of a dispute. The Company did not take up the matter with F&SD for incorporating this clause. Resultantly, arbitration proceedings against two[#] millers could not be initiated.
- In one[*] case, 361 MT of paddy for the crop year 2000-01was delivered to an unallotted miller. Though, he short delivered 180 MT of rice, no action against him had been initiated so far (June 2006).

Out of 23 defaulter millers, the Company lodged FIRs against 15 millers during January 2002 to September 2004. In the remaining eight[@] cases involving misappropriation of rice and other storage material valuing Rs. 13.63 crore, no FIRs were lodged (March 2006) by the concerned DMs. There were no reasons on record for not lodging the FIRs.

The management stated (June 2006) that millers deliver advance rice in lieu of bank guarantee and they were not ready to insure paddy due to high insurance

[&] Sl. Nos. 3,15, 19, 20 and 23 of ***Annexure 8.***
[#] Sl. Nos.14 and 20 of ***Annexure 8.***
[*] Sl. No. 16 of ***Annexure 8.***
[@] Sl. Nos. 8,9,16,17,18,20,21 and 23 of ***Annexure 8.***

premium and low milling charges. It further stated that though the paddy was to be stored with the millers in joint custody but practically it did not have effective control over the paddy stored in the godowns/premises of the millers. For paddy allotted to the defaulter millers, it stated that the millers were allotted by the F&SD. The reply is not tenable as advance rice was not taken and insurance of stock of paddy was required to be done as per the agreements. Regarding allotment of rice to defaulter millers, the Company, being duly represented in the committee deciding the allotment of millers should have raised the issue and prevented such allotments.

Driage allowed to millers

2.17 GOI, while fixing final rates of CMR for the crop years 2000-04 and provisional rates for crop year 2004-05 allowed driage at one *per cent* on MSP of paddy. Audit scrutiny revealed that the Company allowed driage to millers on the quantity instead of MSP of paddy issued for the crop year 2000-03 resulting in loss of Rs. 1.84 crore to the Company.

F&SD also directed (March 2004) all the procuring agencies to allow driage to the millers at one *per cent* on MSP from crop year 2003-04. Audit scrutiny revealed that three district offices (Ferozepur, Gurdaspur and Ludhiana) belatedly adopted these instructions from crop year 2004-05 only resulting in loss of Rs. 0.19 crore.

Allowing driage on quantity of paddy instead of MSP resulted in loss of Rs. 2.03 crore.

Thus, non-recovery of driage as per the rate of GOI, resulted in loss of Rs. 2.03 crore to the Company during 2000-04.

The management stated (June 2006) that driage was allowed at one *per cent* on the quantity of paddy issued to millers during 2000-03 on the basis of State Government's instructions. The matter had, however, been taken up with the GOI for allowing driage at one *per cent* of acquisition cost. The reply is not tenable as the management could not produce instructions of the State Government in support of their contention.

Arbitration cases

2.18 As per the terms of the agreements with the millers, all disputes were to be referred to the sole arbitrator, *i.e.*, Managing Director of the Company or any other person appointed by him. Award of arbitrator would be final and binding on both the parties.

Non-adherence to the provisions of the custom milling policy encouraged the millers to misappropriate paddy/rice. Consequently, the Company had to refer the claims to arbitrators for recovery of the cost of balance rice. The table below shows year-wise position of arbitration cases for the crop years from 1998-99 to 2004-05 as on 31 May 2006:

Out of 59 arbitration cases involving Rs. 59.31 crore, 11 cases involving Rs. 14.23 crore were pending.

(Amount: Rs. in crore)

Crop Year	Number of cases	Amount involved	Cases decided				Cases pending	
			In favour of the Company		Against the Company			
			Number	Amount	Number	Amount	Number	Amount
1998-2000	18	13.15	16	9.04	1	0.69	1	3.42
2000-01	10	12.93	9	11.01	-	-	1	1.92
2001-02	27	31.22	20	23.45	-	-	7	7.77
2003-04	2	0.89	2	0.89	-	-	-	-
2004-05	2	1.12	-	-	-	-	2	1.12
Total	**59**	**59.31**	**47**	**44.39**	**1**	**0.69**	**11**	**14.23**

The Company did not prescribe any time limit for the arbitrator to issue the award. Out of 11 pending cases, four cases (Rs. 4.24 crore) were pending with arbitrators since April-September 2004 (as on 31 May 2006).

The management stated (June 2006) that since arbitration proceedings involve legal formalities/requirements, it could not fix time limit for giving the arbitration award. The contention of the management is not tenable as it was in the interest of the Company to fix reasonable time limit for expeditious finalisation of arbitration cases as non-fixation of time limit tends to encourage delay.

Milling of paddy

2.19 The paddy stored in the premises of millers under joint custody is got milled from the millers as per the terms of custom milling policy of the State Government and agreements executed with the millers. The table below gives details of the paddy procured, rice delivered/ short delivered and value of rice short delivered during 2000-05:

(Quantity in metric tonnes)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Total
Paddy procured	4,99,204	6,31,872	8,23,700	9,72,582	10,29,620	**39,56,978**
Rice due	3,16,296	4,19,121	5,46,360	6,45,114	6,89,845	**26,16,736**
Rice delivered	3,06,415	4,05,989	5,46,200	6,43,965	6,85,404	**25,87,973**
Rice short delivered	9,881	13,132	160	1,149	4,441	**28,763**
Value of rice short delivered (Rs. in crore)	**10.60**	**14.00**	**0.18**	**1.24**	**4.87**	**30.89**

The Company was not maintaining any consolidated record to show the quantity of rice delivered within the stipulated, extended period and thereafter. This indicated poor monitoring of the Company over milling operations. Audit findings on short delivery of rice have been discussed in paragraph 2.16 *supra*.

Loss of interest due to delayed milling

Excess time taken for delivery of rice resulted in loss of interest of Rs. 18 crore.

2.20 GOI had specified weighted average period of 200, 175, 121 and 60 days for delivery of rice for which interest was provided in the rates for the crop years 2000-01, 2001-02, 2002-03 and 2003-04 against which the Company took average period of 236, 212, 152 and 133 days, respectively, for milling and delivery of rice to FCI. Failure of the Company to get the paddy milled in time resulted in loss of interest of Rs. 18[Ψ] crore in six district offices during 2000-04[#]. Audit analysis revealed that for the crop year 2003-04, while GOI had allowed interest for 60 days only, the average stock holding period of the Company worked out to 117 days on the basis of delivery schedule prescribed in the custom milling policy.

The management stated (June 2006) that the State procuring agencies were allowed interest on the weighted average period of the stock blocked on actual basis. The reply is not tenable as FCI reimbursed interest to the Company for the days fixed by GOI and not on actual days taken by the Company for milling of paddy.

Short reimbursement of custody and maintenance charges

2.21 The final rate of rice fixed by GOI for each crop year included the elements of custody and maintenance charges at specified rates for the specified periods of delivery of rice to FCI.

Excess time taken in milling of paddy resulted in less reimbursement of Rs. 3.76 crore.

Audit scrutiny revealed that delivery of rice was delayed as the Company failed to get the paddy milled even during the extended period granted for milling. Excess time taken in milling and delivery of rice resulted in short reimbursement of custody and maintenance charges of Rs. 3.76 crore as FCI made reimbursement only for the specific period mentioned in the rates of rice.

The management while admitting the facts stated (June 2006) that excess time taken was due to operational problems and the officials had been directed to expedite delivery of rice.

Sale of rice

2.22 The millers, after milling of paddy, deliver rice direct to FCI. The concerned DM of the Company raises bills on receipt of despatch documents from the millers. Initially, the Company raises the bills at provisional rates fixed by the GOI. On receipt of final rates, the Company raises supplementary bills for recovery of the differential amounts. After receipt of payment thereagainst, claims for interest from the date of payment of provisional bills till the date of payment of supplementary claims are raised.

[Ψ] Worked out at proportionate interest rates for crop years 2000-04 mentioned in the final rates.

[#] The final rates of CMR for the crop year 2004-05 were yet to be finalised by GOI (June 2006).

GOI had finalised rates of rice for crop years 1997-2004 between September 2000 and October 2004. Rates of rice for the crop year 2004-05 were not yet finalised (June 2006). In this regard, the following points were noticed during audit:

Fixation of depreciated cost of gunny bags

2.23 Paddy was delivered to the millers in gunny bags out of which some bags were passed on to FCI at the time of delivery of milled rice. As per the GOI policy, cost of gunny bags delivered with rice and 40 *per cent* of the cost of gunny bags retained by the millers was paid by FCI to the procuring agencies. The remaining 60 *per cent* cost of gunny bags retained by the millers was required to be recovered from the millers.

Inclusion of depreciation on lower number of gunny bags in the rates of rice by GOI resulted in short recovery of Rs. 2.66 crore.

Audit scrutiny revealed that for every 1,000 paddy filled gunny bags supplied to the millers, 469 (rice filled) gunny bags were delivered to FCI and balance 531 empty gunny bags were retained by the millers in case of raw rice. In case of parboiled[#] rice 476 (rice filled) gunny bags were delivered to FCI and balance 524 empty gunny bags were retained by the millers. The Company received 60 *per cent* of the cost of gunny bags from millers and balance 40 *per cent* cost was to be paid by FCI as depreciated cost of the gunny bags. GOI while fixing CMP of rice for the crop years 2003-04 (final) and 2004-05 (provisional) erroneously provided depreciation on 469 gunny bags instead of 531 gunny bags in case of raw rice and 476 gunny bags instead of 524 gunny bags in case of parboiled rice for every 1,000 bags. The Company could recover depreciation from FCI on lesser number of gunny bags than actually retained by the millers which resulted in short recovery of Rs. 2.66 crore for the crop years 2003-05.

The management, while accepting the audit findings during the ARCPSE meeting, stated that the matter had been taken up with GOI through the State Government.

Recovery of rice at low outturn ratio

2.24 GOI fixed (12 October 2000) the provisional rates of rice for the crop year 2000-01 on the basis of outturn ratio[φ] of 67 and 68 *per cent* for raw and parboiled rice, respectively, for the paddy purchased from 21 September 2000 and onwards. Due to unseasonal rains, the paddy for the crop year 2000-01 was damaged. Consequently, GOI decided (15 October 2000) to obtain rice at respective outturn ratio of 64 and 65 *per cent* effective from 21 September 2000 and conveyed (27 November 2000) the rates of rice based on revised outturn ratio. The GOI, however, again revised (June 2001) the rates of rice based on original outturn ratio of 67 and 68 *per cent.* The final rates for the

[#] Partly cooked by boiling.

[φ] Outturn ratio denotes percentage of rice required to be obtained from the millers against the paddy and is determined by GOI.

crop year 2000-01 fixed on 27 January 2004 were as under:

Particulars	Rates of Rice (per quintal)	
	Raw Rice (Outturn ratio)	**Parboiled** (Outturn ratio)
Paddy procured up to 15 October 2000	Rs.1, 025.65 (67 *per cent*)	Rs. 1,017.84 (68 *per cent*)
Paddy procured after 15 October 2000	Rs.1, 072.95 (64 *per cent*)	Rs.1, 064.08 (65 *per cent*)

The Company suffered loss of Rs. 1.94 crore due to recovery of rice at lower outturn ratio from millers.

Audit scrutiny in three* district offices revealed that the Company obtained rice at outturn ratio of 64 and 65 *per cent* instead of 67 and 68 *per cent* even against paddy procured up to 15 October 2000 without seeking clarification of cut off date for obtaining rice at reduced outturn ratio. FCI, however, made payment only at the rates based on higher outturn ratio of 67 and 68 *per cent* for paddy procured up to 15 October 2000. These rates were lower than the rates fixed for lower outturn ratio. This resulted in loss of Rs 1.94 crore on account of short recovery of 1,898 MT of rice from the millers.

The management stated (June 2006) that as per the decision (15 October 2000) of the Group of Ministers (GOM), it was decided to allow 64 *per cent* outturn ratio for paddy purchased from 21 September 2000 but later on GOM amended its own instructions and decided to reduce the outturn ratio for paddy purchased from 15 October 2000 only. The reply is not tenable as GOI had conveyed revised provisional rates prescribing higher outturn ratio of 67 and 68 *per cent* in June 2001 but the Company continued to get the rice from the millers at reduced outturn for the period prior to 15 October 2000 even thereafter. So, the Company should have sought clarification from GOI regarding cut off date for obtaining the yield from the millers.

Delay in raising of sale bills

2.25 As per the terms of agreements for milling of paddy for the crop years 2000-05, the rice millers (after delivery of rice to FCI) were required to submit despatch documents to district office concerned within seven days (for crop years 2000-02 and 2004-05) and within three days (for crop years 2002-04) failing which they were liable to pay interest at 21, 15 and 12 *per cent* per annum for the crop years 2000-03, 2003-04 and 2004-05, respectively, for the period of delay.

Delay in raising of sale bills resulted in loss of interest of Rs. 46.70 lakh.

Audit scrutiny revealed that the Company had not maintained the records showing the date wise delivery of rice by the millers and receipt of documents thereagainst by the Company. In the absence of requisite records, the sale bills for delivery of rice to FCI by the millers were raised in consolidated form (without showing date wise breakup of consignment of rice) after delays up to 86@ days causing loss of interest of Rs. 46.70 lakh. As such, the Company failed to recover the interest from the millers.

The management stated (June 2006) that charging of interest on delayed submission of sale documents by the millers was exempted (September 2005)

* Ferozepur, Kapurthala and Patiala.
@ After allowing a margin of five days for crop year 2002-04 and eight days for crop year 2000-02 and 2004-05 from the date of delivery of last consignment of rice.

by the State Government. DMs had, however, been directed to ensure that bills were raised promptly and at the ARCPSE meeting, it stated that the district offices had since been instructed to maintain records of submission of despatch documents by the millers. The reply is not tenable as the Company is only a nodal agency getting no profit from any agency for these operations and any cost borne by it is required to be recovered. The Company had, however, not taken up the matter with the State Government to compensate it for the loss in this regard.

Loss due to non-claiming of interest

2.26 In terms of the instructions of FCI issued in December 1970 payments for the rice supplied were to be made within 24 hours of the presentation of the sale bills. F&SD also conveyed (December 2001) instructions of the GOI under which FCI was liable to pay interest at bank rate in case of delay in release of payment beyond the prescribed period.

It was noticed during audit that Company had not devised any system to ensure timely claiming of interest from FCI, as the bills for interest on the delayed payments were not raised. The position of interest claims yet to be raised for the crop years 2000-05 was as under:

(Rupees in lakh)

District Office	Claims for interest not raised	
	Crop year	Amount
Sangrur	2003-05	26.23
Patiala*	2000-03 and 2004-05	72.67
Kapurthala	2000-05	3.59
Gurdaspur	2000-05	142.56
Ferozepur	2000-01 and 2002-05	3.98
Ludhiana	2000-05	101.38
Total		**350.41**

The Company did not raise claims of interest of Rs. 3.50 crore on delayed payments by FCI.

It was further noticed that though the Company received payments of sale bills from FCI after delays upto 413 days (computed after allowing a margin of seven days), it failed to raise claims for interest on delayed payments. Not raising claims for interest on the delayed payments resulted in non-recovery of interest of Rs 3.50[φ] crore.

The management stated (June 2006) that since GOI had allowed interest for a block period, it was not binding on FCI to release payment within fixed time. It added that no interest was payable for delays as per the instructions issued (February 2000) by FCI. The reply is not tenable as FCI had reiterated (March 2005) its earlier instructions of June 1999 for allowing interest on delayed payments to the procuring agencies. Besides, two district offices of the Company had received payment of interest for delayed payments for crop years 2000-03.

* Register showing payments received against sale bills for 2003-04 was not furnished to Audit.

φ Worked out at the prevailing CC interest rates during the period.

Incorrect raising of differential claims

2.27 The Company claims difference of provisional and final rates of CMR from FCI after receipt of final rates for each crop year. The claim for interest on differential amount is required to be raised immediately after receipt of such payment.

Audit scrutiny revealed that the Company had short claimed the amount from FCI due to application of incorrect rates and period for claiming interest, causing short recovery of differential amount of Rs. 2.91 crore and interest thereon amounting to Rs. 1.35 crore as detailed below:

(Rupees in lakh)

Name of district office	Crop year	Differential amount			Interest on differential amount	
		Required to be claimed	Claimed	Short claimed	Claimed	Short claimed
1	2	3	4	5	6	7
Patiala	2002-03	335.96	164.85	171.11	36.09	46.02
Ferozepur	2000-01	154.60	150.32	4.28	65.57	2.64
Ferozepur	2001-02	310.49	197.72	112.77	85.18	72.69
Gurdaspur	1999-2000	19.89	16.80	3.09	11.37	2.63
Ludhiana	1998-99	115.42	115.42	Nil	21.47	10.74
Total		**936.36**	**645.11**	**291.25**	**219.68**	**134.72**

Incorrect billing resulted in short recovery of Rs. 4.26 crore. At the instance of audit, it recovered Rs. 4.03 crore.

Short claim of differential amount of CMR of Rs. 2.91 crore and interest of Rs. 1.35 crore thereon was pointed out by Audit in June 2005-May 2006. The Company, acting on the Audit finding, recovered (July 2005-May 2006) differential amount of Rs. 2.84 crore and interest of Rs.1.19 crore. The balance differential amount of Rs. 7.37 lakh and interest of Rs. 16.01 lakh was still outstanding (May 2006).

It was also noticed during audit that the above mentioned bills of differential amount/interest were not checked by the officials of the Company due to which short billing could not be detected. This indicates poor internal control in the Company.

The management stated (June 2006) that the DMs had been directed to be more vigilant and prompt in lodging claims with FCI and internal audit was also being strengthened.

Loss due to delay in claiming of interest

2.28 The instructions of GOI for claiming of differential amount for each crop year envisaged payment of interest on the differential amount. The Company was required to raise claims of interest on FCI immediately after receipt of the differential amount.

Delayed raising of claims of interest resulted in loss of interest of Rs. 76.74 lakh.

Audit scrutiny revealed that there were delays in raising of interest claims ranging between 30 and 1,186 days (computed after allowing a margin of 10 days) resulting in interest loss of Rs. 76.74[#] lakh. In one district office (Ludhiana) the payment of interest (Rs 68.33 lakh) raised (September 2001)

[#] Worked out at the prevailing CC interest rates during the period.

on differential amount for crop years 1997-99 had not been received from FCI (May 2006) which resulted in further loss of interest of Rs. 31.58 lakh (March 2006).

The management stated (June 2006) that the DMs had been directed to ensure prompt claiming of interest on differential amounts.

Non-claiming of interest on differential cost and depreciation on gunny bags

Non-claiming of interest of Rs. 44.50 lakh on differential cost of gunny bags and depreciation on gunny bags resulted in interest loss of Rs. 25.15 lakh.

2.29 GOI clarified (August 2001) that the State procuring agencies were entitled to claim interest on differential$^{\phi}$ amount of depreciation on gunny bags (retained by the millers). Audit analysis revealed that such interest claims amounting to Rs. 44.50 lakh were not raised (March 2006) on FCI by the following two district offices:

(Rupees in lakh)

Name of district office	Crop year	Amount of differential claims of depreciation on gunny bags	Date of receipt of payment	Interest amount not claimed	Loss of interest[#]
Sangrur	1997-98	39.99	2 December 2000	13.91	**8.48**
	1998-99	51.42	12 June 2001	14.05	**7.67**
Patiala	1997-98	20.65	18 June 2001	9.32	**5.07**
	1998-99	26.73	18 June 2001	7.22	**3.93**
Total				**44.50**	**25.15**

This also shows that the Company failed to evolve an effective monitoring system to ensure timely raising of interest claims on differential claims of depreciation on gunny bags, which resulted in interest loss of Rs. 25.15 lakh on interest not claimed during December 2000 to September 2006.

In addition to the above, two district offices (Patiala & Ferozepur) did not raise the claims of differential cost of gunny bags amounting to Rs.6.02 lakh for the year 2000-01.

The management stated that DMs have now been directed (June 2006) to ensure that claims are promptly lodged with FCI.

Corporate governance

2.30 Loss of Rs. 31.97 crore suffered by the Company due to delayed milling, insufficient rates fixed by GOI and delayed payments against claims of the Company by FCI was discussed in the paragraphs 2.7, 2.10, 2.11, 2.12, 2.13, 2.14, 2.20, 2.21, 2.23 and 2.24 *supra*. Although, these were vital issues affecting the financial health of the Company adversely, the Board of Directors of the Company did not discuss these issues (along with their impact on the working of the Company) in any of the meetings held during April 2000-March 2006.

$^{\phi}$ Differential amount of depreciation represents difference between depreciation on gunny bags as provided in provisional rates and in the final rates for any crop year.

[#] Worked out at the prevailing CC interest rates during the period.

Internal control/internal audit

Internal control

2.31 The internal control system in the Company in relation to the activity covered in the Performance Audit was deficient because it lacked a reliable mechanism to ensure:

- timely and accurately raising of supplementary bills of differential rates of rice, gunny bags and incidentals along with interest thereon;
- expeditious transfer of funds from district offices to head office;
- maintenance of requisite bank book for recording payments received from FCI;
- strict implementation of custom milling policy framed by the State Government;
- timely raising of sale bills, reimbursement of guarantee fee and recovery thereof from FCI;
- physical existence of paddy lying in millers' premises;
- preparation of activity wise working results;
- rendition of information to the management regarding raising of sale bills against date wise rice delivered, raising of guarantee fee claims, receipt of sale proceeds and transfer of funds to CC accounts thereagainst; and
- maintenance of consolidated records to show quantity of rice delivered within the stipulated period, extended period or thereafter.

The management stated during the ARCPSE meeting that the observations of Audit had been noted and Chartered Accountants were being engaged to improve the Internal Control System.

Internal Audit

2.32 The Company has an internal audit wing under the control of General Manager (Monitoring/Audit & Recovery). A review of the internal audit system of the Company revealed as under:

- no internal audit manual defining the scope of work, duties and responsibilities of internal audit wing existed;
- there was no prescribed system to prepare action plans for Internal Audit resulting in the audit of units being conducted without deciding the priorities;
- coverage of Internal Audit was inadequate as only eight out of 20 units up to March 2005 were audited (June 2006);

- unit wise number of Inspection Report paras outstanding was not being compiled to monitor the overall position of pending audit observations; and

- results of Internal Audit were not brought to the notice of the Board of Directors for perusal and remedial action.

The management stated (June 2006) that Internal Audit was being strengthened and action was being taken on audit observations.

Conclusion

The performance of the Company with regard to procurement, storage and milling of paddy was sub optimal due to lack of control over milling operations and failure to follow the terms of the custom milling policy and agreements with the millers which facilitated misappropriation of paddy/rice by the millers. The Company's hypothecated stock of paddy was not matching with the outstanding cash credit limit resulting in payment of additional interest. There was no system in the Company to ensure timely and accurately raising of bills on the Food Corporation of India and to monitor receipt of payments thereagainst.

Recommendations

The Company may:

- **devise a system of effective control over stock and milling operations to avoid interest burden on cash credit and to check misappropriation of paddy.**
- **issue directions to ensure that the required bills/claims are raised without delay.**

- **manage its cash credit limit in a way so as to minimise interest burden.**

- **ensure that all admissible elements of cost are included in the final rates of rice fixed by Government of India.**

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