Chapter II

2. Reviews relating to Government companies

Punjab State Civil Supplies Corporation Limited

2.1 Procurement and Milling of Paddy for Central Pool

Highligh ts

Punjab State Civil Supplies Corporation Limited (Company) was incorporated in February 1974 as a wholly owned Government company to procure, store, supply and distribute foodgrains, other foodstuff and essential commodities of common consumption. The Company was engaged in the activity of procurement and milling of paddy for delivery of rice in Central Pool since August 1980.

(Paragraph 2.1.1)

Failure of the Company to match the value of hypothecated stocks of paddy with cash credit limit availed resulted in payment of penal interest of Rs. 2.39 crore to the bank during 1998-2003.

(Paragraph 2.1.4)

Against the period of 180 and 200 days allowed by the Government of India for the crop year 1999-2000 and 2000-01, the Company took average period of 204 and 234 days, respectively, for milling and delivery of rice to Food Corporation of India. Failure of the Company to get the paddy milled in time resulted in loss of interest of Rs. 17.13 crore.

(Paragraph 2.1.7)

The Company failed to get the paddy milled within stipulated period as per milling policy. Resultantly, paddy was damaged and found short due to prolonged storage and lack of control over stock. Inadequate control over milling operations and violation of milling policies resulted in loss of Rs. 5.25 crore.

(Paragraph 2.1.9)

Reports of Comptroller and Auditor General of India of previous years had pointed out misappropriation of rice/paddy by rice millers up to crop year 2000-01. The Company did not take remedial measures to ensure delivery of full rice by the millers. There was further misappropriation of 23,122 metric tonne of rice in eight district offices with resultant non-recovery of Rs. 32.92 crore.

(Paragraph 2.1.12)

The Company had not evolved any system to monitor and ensure timely raising of supplementary bills on Food Corporation of India and recovery thereof. Belated raising of interest claims on the differential amount between the provisional and final rates of rice resulted in loss of interest of Rs. 2.20 crore.

(Paragraph 2.1.17)

As per provisional rates of rice fixed by Government of India for kharif 2001-02 and 2002-03, the Company was to claim reimbursement of expenditure on transportation of paddy beyond eight kilometers, from Food Corporation of India. Against the actual expenditure of Rs. 22.63 crore during 2001-03, the Company had raised belatedly claim for Rs. 8.94 crore only. Non/belated claiming of transportation charges beyond eight kilometres from Food Corporation of India resulted in non-recovery of Rs. 22.63 crore.

(Paragraph 2.1.19)

Introduction

2.1.1 Punjab State Civil Supplies Corporation Limited (Company) was incorporated in February 1974 as a wholly owned Government company to procure, store, supply and distribute foodgrains, other foodstuff and essential commodities of common consumption.

The present review taken up during September 2003 to March 2004 evaluates the Company's activities relating to procurement and milling of paddy and delivery of resultant rice to Food Corporation of India for Central Pool during 1998-2003.

With a view to procure paddy from farmers under the minimum support price scheme (MSP) of Government of India (GOI), the State Government authorised (August 1980) the Company to procure paddy from various mandis allotted to it by the Food and Supplies Department. Paddy procured by the Company was to be got milled from the authorised rice millers at specified rates under milling policy framed by the State Government each year. Resultant rice was delivered to the Food Corporation of India (FCI) in the Central Pool at the rates fixed by the GOI for each crop year.

Organisational set up

2.1.2 The procurement and milling operations of paddy as well as its storage, delivery and sale of rice were carried out by the Company through its district offices, each managed by a District Manager (DM) under overall guidance and control of Manager (Procurement and Storage) and Managing Director.

Scope of Audit

2.1.3 The activity of procurement of paddy and its milling was last reviewed in the Report of the Comptroller and Auditor General of India for the year ending 31 March 1994, No. 2 (Commercial), Government of Punjab. The Committee on Public Undertakings (COPU) discussed the review in July 2003 and directed the Administrative Secretary to take appropriate action on the review at his own level. Action taken by the administrative department was awaited (June 2004).

In this review the records of head office and eight* out of 17 district offices of the Company were scrutinised. The audit findings, as a result of test check of records, were reported to the Government/Company in April 2004 with a request for attending the meeting of Audit Review Committee for Public Sector Enterprises (ARCPSE) so that the viewpoint of Government/management could be considered before finalising the review. The meeting of ARCPSE was held on 25 June 2004 which was attended by the Director, Food and Supplies cum Special Secretary to Government of Punjab and Managing Director of the Company. Their views have been considered in the review.

Financial arrangements

2.1.4 The Company was availing cash credit (CC) facility from State Bank of India (SBI) for procurement of paddy against hypothecation of stocks and guarantee given by the State Government. The details of CC limit sanctioned, availed and

* Patiala, Sangrur, Moga, Ferozepur, Muktsar, Ludhiana, Fatehgarh Sahib and Nawan Shahar.

outstanding at the end of each year during 1998-2003 was as under:

(Rupees in crore)

Crop year	CC limit sanctioned for procurement of paddy	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
	(Rs. in crore)				
1998-99	540.00	540.00	407.07	424.90	-
1999-2000	1,013.00	1,012.56	815.73	560.03	255.70
2000-01	1,090.00	1,089.26	1,102.78	747.54	355.24
2001-02	1,510.00	1,509.91	1,129.18	764.21	364.97
2002-03	1,206.50	1,202.49	1,039.24	404.27	634.97

According to agreement entered into with SBI for availing CC limit, amount outstanding in the CC account should be fully matched by the value of hypothecated stock of the procuring agency failing which the Company was liable to pay additional (penal) interest at the rate of two *per cent* per annum on the differential amount.

The Company paid penal interest of Rs. 2.39 crore to banks, as value of hypothecated stock was less than cash credit limit.

The Company failed to comply with the aforesaid stipulation. The gap between closing stock and CC outstanding ranged between Rs. 255.70 crore and Rs. 634.97 crore during 1999-2003. Therefore, bank charged penal interest of Rs. 2.39 crore on excess drawal.

The management attributed (June 2004) the above gap to non-reimbursement of losses of paddy amounting to Rs. 58.30 crore by GOI for crop year 1994-95 besides interest of Rs. 180.33 crore thereon upto March 2004. The other main reasons for the gap analysed by audit were misappropriation of paddy by millers and non/delayed raising of claims, as discussed in paragraphs 2.1.12, 2.1.13 to 2.1.19 and 2.1.23 *infra*.

Guarantee fee

2.1.5 The guarantee fee paid to the State Government by the Company on account of CC limit sanctioned for procurement of paddy was reimbursed by FCI as per instructions of GOI. The table below gives the details of CC limit sanctioned, rate of guarantee fee charged by State Government, guarantee fee paid by the Company to State Government, amount reimbursed by FCI and balance outstanding for five years up to 2002-03:

(Amount: Rupees in crore)

Crop year	CC limit sanctioned	Rate (in percent)	Guarantee fee paid to State Government	Guarantee fee reimbursed by FCI	Balance unrecovered	Cumulative balance
1998-99	540.00	2	10.80	0.58	10.22	19.60*
1999-2000	1,013.00	1/8	1.27	1.10	0.17	19.77
2000-01	1,090.00	1/8	1.36	0.53	0.83	20.60
2001-02	1,510.00	1/8	1.89	0.66	1.23	21.83
2002-03	1,206.50	1/8	1.51	0.12	1.39	23.22
Total			**16.83**	**2.99**	**13.84**	

A review of outstanding amount of guarantee fee by Audit revealed as under:

Guarantee fee of Rs. 19.60 crore was not reimbursed by FCI on which loss of interest worked out to Rs. 12.36 crore.

- Up to 1996-97, the State Government was charging guarantee fee at a rate of 1/8 *per cent* on sanctioned CC limit and the same was reimbursed by the FCI. The State Government increased guarantee fee from 1/8 *per cent* to 2 *per cent* during 1997-99 and again reduced it to 1/8 *per cent* from 1999-2000. FCI, however, reimbursed guarantee fee at 1/8 *per cent* only. So, FCI paid guarantee fee of Rs. 1.20 crore up to 1998-99 (including Rs. 62 lakh for 1997-98) at 1/8 *per cent* against payment of Rs. 20.80 crore by the Company to the State Government. This resulted in non-reimbursement of Rs. 19.60 crore. Besides, the Company also suffered interest loss of Rs. 12.36# crore up to March 2004.

  The management stated (June 2004) that the matter was pursued vigorously with the State Government for adjustment of excess guarantee fee charged. The decision of the State Government was awaited (June 2004).

Against actual payment of guarantee fee on sanctioned cash credit, FCI reimbursed on the basis of MSP of paddy only which resulted in loss of Rs. 92.35 lakh.

- Up to 1999-2000, guarantee fee was reimbursed by FCI on submission of treasury challans of the fee paid by the Company to State Government against actual sanction of CC limit, based on cost of estimated quantity of paddy to be procured, i.e., MSP, cost of gunny bags, transportation and mandi charges. In October 2000, the GOI decided to reimburse the guarantee fee at 1/8 *per cent* of MSP only (calculated on quantity of paddy against which rice was actually delivered to FCI). The Company paid guarantee fee of Rs. 3.25 crore to the State Government for the crop years 2000-02 on actual CC limit sanctioned but FCI was liable to reimburse Rs. 2.33 crore only in view of the decision, ibid, of the GOI. This resulted in loss of Rs. 92.35 lakh to the Company.

The Company has not taken up the matter of recoupement with the GOI. Though the instructions of the GOI were received through FCI in January 2001, Head Office of the Company issued directions to its district offices in February 2003 (after a gap of 24 months) for raising claim of guarantee

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* Includes Rs. 9.38 crore for 1997-98.

\# Calculated at 10.85 *per cent* , the minimum rate for CC during the period.

fee with FCI at district office level due to non-availability of relevant details for delivery of rice at head office level of the Company. Resultantly, the bills for recovery of Rs. 2.33 crore for the years 2000-02 and Rs. 1.51 crore for the year 2002-03 were not raised promptly.

Audit observed that 10[#] district offices of the Company belatedly raised (March 2003 to March 2004) the claims of Rs. 1.68 crore and could recover Rs. 1.31 crore only. The Company did not furnish the details of raising and recovery of claims of guarantee fee in respect of remaining district offices.

Working results

2.1.6 Up to 2000-01, the Company was not maintaining activity-wise working results to ascertain the financial results of each activity separately. Activity-wise results prepared by the Company for 2001-03 revealed net loss of Rs.116.40 crore and Rs. 84.61 crore in procurement and milling of paddy during 2001-02 and 2002-03, respectively. The main reasons for losses analysed by audit were as under:

- belated fixation of final rates of rice by GOI;
- reimbursement of simple interest in the rates of rice fixed by GOI as against compound interest charged on CC by the banks;
- misappropriation of paddy by rice millers;
- damage of paddy due to prolonged storage;
- delay in raising of sale bills; and
- partial/non-reimbursement of guarantee fee and infrastructure development cess by FCI.

Procurement and milling of paddy

2.1.7 The activity of procurement and milling of paddy is covered under the MSP scheme of GOI and milling policy framed by the State Government (refer paragraph 2.1.1 *supra*). Paddy procured from mandis was stored by the Company in the premises of millers under joint custody as well as in its own custody. Milling policy for each crop year and standard terms of agreement between the rice millers and the Company, *inter alia*, provided, that rice

[#] Sangrur, Ropar, Mansa, Fatehgarh Sahib, Nawan Shahar, Patiala, Muktsar, Ludhiana, Jalandhar and Hoshiarpur.

millers would deliver custom milled rice (rice) within stipulated time, i.e., 28/29 February for crop years 1998-2001 and 30 June for crop years 2001-03. The period of milling was extended by GOI later during each crop year. The following table gives details of the paddy procured, rice due and rice delivered during 1998-2003:

(Quantity in lakh metric tonne)
(Percentage in brackets)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
Paddy procured and stored : • Joint custody • Own custody **Total**	 9.11 0.82 **9.93**	 16.91 - **16.91**	 14.11 1.78 **15.89**	 17.91 0.43 **18.34**	 21.89 0.54 **22.43**	 79.93 3.57 **83.50**
Rice due	6.53	11.24	10.12	12.23	14.94	55.06
Rice delivered up to stipulated date @	1.10 (16.8)	3.81 (33.9)	2.38 (23.5)	10.81 (88.3)	14.80 (99.1)	32.90 (59.8)
Rice delivered during extended period*	5.05 (77.4)	6.64 (59.1)	7.55 (74.6)	0.91 (7.5)	0.08 (0.5)	20.23 (36.7)
Rice delivered after extended period	0.19 (2.9)	0.49 (4.4)	Nil	0.31 (2.6)	Nil	0.99 (1.8)
Rice not delivered (February 2004)	0.19 (2.9)	0.30 (2.6)	0.19 (1.9)	0.20 (1.6)	0.06 (0.4)	0.94 (1.7)
Value# of rice not delivered (Rs. in crore)	17.61	29.37	20.55	20.74	6.79	95.06
@ Stipulated date	28 February 1999	29 February 2000	28 February 2001	30 June 2002	30 June 2003	-
* Date of extended period (no. of months)	31 December 1999 (10 months)	31 August 2000 (6 months)	28 October 2002 (20 months)	28 September 2002 (3 months)	30 November 2003 (5 months)	-

The above table shows that against 55.06 lakh MT of rice due, the millers delivered 32.90 lakh MT up to stipulated period, 20.23 lakh MT during extended delivery period and 0.99 lakh MT afterwards. Reasons for non-delivery of rice by millers within the stipulated and extended period were not available on records.

Excess time taken for delivery of rice resulted in loss of interest of Rs. 17.13 crore during 1999-2001.

Analysis in Audit revealed that during 1999- 2000 and 2000-01 for which rates of rice had been finalised by GOI, weighted average period of delivery of rice was 204 and 234 days whereas the GOI allowed interest for 180 and 200 days, respectively. Thus, failure of the Company to get paddy milled by millers in time resulted in loss of Rs. 17.13 crore during 1999-2001.

The management stated (June 2004) that FCI had turned down (21 May 2003) Company's request on the plea that weighted average period taken into consideration for payment of interest was included in the final rates of rice. The Company, however, had taken up the matter for reimbursement of interest with GOI (through State Government) and the case was still pending for decision by GOI (August 2004).

Value calculated at final rates up to the year 2000-01 and thereafter at provisional rates.

Storage of paddy in own custody

2.1.8 Milling policy of each kharif crop year for 1998-2003 envisaged that storage of paddy in own custody by procuring agencies should be to the minimum extent. Milling of paddy was to be got done at the earliest and the responsibility for maintaining the quality and quantity of paddy stored vested with the staff concerned. Accounting Manual of the Company also provided that the Deputy District Manager (Field) would inspect each and every godown once a month to ensure that health of the stock was maintained during storage.

Audit noticed that during crop year 2000-01, three district offices (Sangrur, Muktsar and Nawan Shahar) stored 40,633 MT rain affected paddy procured under relaxed specifications in their own custody despite having sufficient storage capacity with allotted millers. The Company, however, could not get 1,060 MT paddy milled within the stipulated period and failed to maintain proper health of stocks leading to financial losses to the Company as discussed below:

- Paddy (393 MT) valuing Rs. 26.05 lakh procured in September-October 2000 was lying in damaged condition in Muktsar district due to prolonged storage. The Company did not make any effort to dispose of the damaged paddy (June 2004).

- Paddy (310 MT) valuing Rs. 20.55 lakh was found short during physical verification in two district offices (Sangrur: 205 MT and Nawan Shahar: 105 MT)

- Paddy (618 MT) procured (September-October 2000) by district office, Nawan Shahar was shifted (March 2002) after a delay of 15 months to district office, Fatehgarh Sahib for milling. Reasons for non milling of paddy in Nawan Shahar district were not available on record. Out of 396 MT rice due, 169 MT rice was delivered and the remaining 227 MT rice (equivalent to 357 MT paddy) valuing Rs. 23.09 lakh was not delivered. On physical verification (March /September 2003), the rice lying with the miller[#] was found unfit for delivery to FCI being damaged, excessive broken, etc. On January 11, 2004, Bank of India, before taking over the assets of the miller's unit due to default in repayment of its loan, asked the DM to lift the rice stock from miller's premises within three days. DM did not take any action (June 2004).

The management stated (June 2004) that officials concerned in the above cases had been chargesheeted for their negligence. Final action was awaited (June 2004).

[#] N.R.R. Agro Gram Udyog Samiti, Mandi Gobindgarh.

Loss in disposal of unmilled paddy

2.1.9 As per terms of milling policy and agreements with the millers, the Company and rice millers were jointly responsible for the quantity of paddy. The rice millers were responsible to maintain quality of paddy stored in their premises. The district office, Faridkot allotted 16,773 MT paddy of crop year 1999-2000 to five rice millers* for milling and delivery of rice to FCI by August 2000. The Company neither got the paddy milled from millers by August 2000 nor ensured the maintenance of quality/quantity of paddy. As a result, the paddy was damaged with the passage of time. Against 11,248 MT rice due, the millers delivered 5,236 MT rice (equivalent to 7,709 MT paddy) to the FCI up to August 2000 and the remaining 9,064 MT paddy lying in the premises of the millers was found (July 2001) in damaged condition and considered unfit for milling.

Inadequate control over milling operations and violation of milling policy resulted in loss of Rs. 5.25 crore.

Against book balance of 9,064 MT paddy valuing Rs. 5.80 crore, the Company offered (October 2002) for auction 3,697 MT paddy physically lying in the premises of these five rice millers. The Company actually sold 2,004 MT paddy for Rs. 55.02 lakh at a loss of Rs. 73.42 lakh. Balance 7,060 MT paddy valuing Rs. 4.52 crore was found short. Thus, inadequate control over milling operations and violation of milling policy resulted in loss of Rs. 5.25 crore.

The DM, Faridkot reported (May 2003) the matter to the police authorities and got registered (December 2003) FIRs against all the defaulting five millers. The Company also initiated (November 2002/ June 2003) arbitration proceedings against these millers for recovery of Rs. 10.85 crore# alongwith interest thereon. The arbitrator gave (May 2003) award in favour of the Company for recovery of Rs. 1.18 crore with interest of 30 *per cent* till realisation of amount from Brar Rice Mills. The Company filed (November 2003) the case in court for execution of above award. Further developments were awaited (June 2004). Remaining four cases were pending under arbitration (June 2004).

The management stated (June 2004) that disciplinary action against the defaulting officials had been initiated besides follow up of arbitration proceedings against the rice millers concerned.

Non disposal of damaged paddy

2.1.10 As per directions of Central/State Government, the Company procured paddy from mandis for the crop year 2000-01, under relaxed specifications

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* Ganpati Rice Mills, Brar Rice Mills, Sham Rice Mills, Hanuman Rice Mills and Suraj Cotton Rice Mills.

\# Ganpati Rice Mills Rs. 2.54 crore, Brar Rice Mills Rs. 1.18 crore, Sham Rice Mills Rs. 0.29 crore, Hanuman Rice Mills Rs. 3.21 crore, Suraj Cotton Rice Mills Rs. 3.63 crore.

(due to unseasonal rains). The paddy purchased was required to be milled within the stipulated period (February 2001) to avoid further damage. As per milling policy, a miller having milling capacity of one MT per hour was eligible for allotment of maximum of 4,000 MT of paddy and additional 3,000 MT paddy for additional one MT capacity.

DM, Ludhiana, in spite of having sufficient capacity for milling of paddy available with other millers in its jurisdiction, allotted 5,132 MT paddy to Jai Guru Dev Gram Udyog Samiti, Malaudh and 7,729 MT paddy to Shree Gurudev Amrit Rice Mill, Malaudh against entitlements of 4,000 MT and 7,000 MT, respectively**.** Due to slow pace of delivery of rice by these millers, DM shifted (April and July 2001) 635 MT and 4,442 MT paddy to other millers. Both the millers delivered (September 2001) 2,476 MT rice (equivalent to 3,910 MT paddy) against 4,956 MT rice due (equivalent to 7,784 MT paddy). Reasons for non-milling of balance 3,874 MT paddy in time were not available on record.

During inspection in August 2002, the paddy was found badly damaged. On physical verification in March 2003, the Company found that 2,105 MT paddy (1,347 MT rice) was unfit for milling and 1,132 MT rice (equivalent to 1,769 MT paddy) lying with millers was also not fit for delivery to FCI. The district office, Ludhiana, recommended (December 2002) to the head office to dispose of the damaged paddy and rice lying with the millers. The Company had neither disposed of the paddy and rice nor taken any punitive action against the defaulting millers. The Company had issued (October/November 2003) charge sheets to the delinquent officials.

Non-disposal of damaged paddy/rice resulted in blocking of Rs. 2.66 crore.

The management stated (June 2004) that no action for disposal of damaged rice could be taken as the matter was subjudice and pending before the Punjab and Haryana High Court since December 2002. The Company, however, had not justified its inaction after last lot of delivery (September 2001) of rice till August 2002 against the millers for non-milling of paddy in time. Thus, non-milling of paddy in time coupled with non-disposal of paddy/rice resulted in blocking of Rs. 2.66 crore[*], being price of rice

Non reconciliation of loan account of gunny bags

2.1.11 The Company issued (August 1989) instructions to the district offices that gunny bales[#] to the other procuring agencies would be given on loan only after prior approval of DM. Audit observed that the Company did not evolve any system to reconcile the bags given on loan after the close of procurement season so as to settle the accounts**.** Audit noticed that:

[*] 2,479 MT rice at Rs. 10,729.50 per MT.

[#] Gunny bales denote large package of gunny bags.

- The district office, Patiala issued (October and December 2002) on loan 880 gunny bales valuing Rs. 88.22 lakh to district office, Patiala of Punjab State Warehousing Corporation (PSWC). Despite protracted correspondence made during February-December 2003, the Company had neither received the gunny bales nor recovered the value thereof (June 2004).

- The district office, Fatehgarh Sahib of the Company issued on loan 296 gunny bales (value: Rs. 20.85 lakh), 108 gunny bales (value: Rs.8.64 lakh) and 15 gunny bales (value: Rs. 1.07 lakh) to Food and Supplies Department, Punjab (1993-94), Punjab State Co-operative Supplies and Marketing Federation (1995-96 and 1997-98) and PSWC (1994-95), respectively. Of these, 296 gunny bales valuing Rs. 20.85 lakh given to Food and Supplies Department were adjusted as late as in October 2003 after lapse of more than eight years at rates fixed for different years by Food and Supplies Department (without taking into account the element of interest). Recovery/ adjustment of cost of remaining gunny bales valuing Rs. 9.71 lakh was still pending (June 2004).

Non/belated recovery of cost of gunny bales resulted in blocking of Rs. 97.93 lakh and loss of interest of Rs. 26.29 lakh.

Thus, non-recovery/ belated adjustment of cost of gunny bales had resulted in blocking of Rs. 97.93 lakh with consequential interest loss of Rs. 26.29 lakh up to March 2004.

The management stated (June 2004) that the amount would be recovered as per policy on reconciliation framed (May 2003) by the State Government and reconciliation made in June 2003.

Misappropriation of rice by millers

2.1.12 The Comptroller and Auditor General of India in his Audit Reports (Commercial), Government of Punjab, for the years 1997-98 to 2002-03 had pointed out that the Company had not been exercising adequate control on the milling operations of paddy, resulting in misappropriation of paddy/rice valuing Rs. 51.78 crore by the millers, up to the crop years 2000-01. The Company failed to enforce the terms of milling policies and agreements with the millers and to take proper remedial action. Therefore, misappropriation of paddy/rice continued, as hithertofore.

Violation of milling policy facilitated misappropriation of paddy with consequential non-recovery of Rs. 32.92 crore.

During test check of records, audit further noticed non-delivery of rice for the crop years 2001-02 and 2002-03 in 33 cases of eight district offices. Against due quantity of 50,971 MT rice (out of 76,016 MT paddy stored with millers), the millers delivered 27,849 MT rice and misappropriated 23,122 MT (45.36 *per cent*) rice with consequential non recovery of Rs. 32.92 crore being cost of rice, gunnies/crates and interest recoverable (up to March 2004) as per details in ***Annexure 8.***

Audit scrutiny revealed that misappropriation of rice/paddy was facilitated due to violation of milling policy and other irregularities as discussed below:

- The Company did not obtain bank guarantee/bond or advance rice from all the millers before delivery of paddy, as per terms of agreement.

- The millers were to insure the paddy/rice lying in the premises at their own cost against fire, theft or any other accidental loss to safeguard the interest of the Company. The Company did not enforce this clause.

- District level Committee comprising of district heads of all the procuring agencies was to ensure that defaulter millers of any agency were not considered for allotment of paddy for milling. The Company, however, allotted 17,643 MT paddy to 10[#] defaulter millers including nine defaulters of the Company itself. These millers did not deliver 6,304 MT rice valuing Rs. 8.83 crore.

- The Company delivered 547 MT paddy to an unalloted miller[$] for the crop year 2001-02 who did not deliver balance 218 MT rice valuing Rs. 33.05 lakh.

- The Company issued 7,237 MT paddy to two[@] millers against eligible milling capacity of 3,000 MT each as per milling policy. These millers did not deliver 1,356 MT rice valuing Rs. 2.15 crore.

- Two[*] millers did not deposit cash security as per terms of agreement and were, therefore, ineligible for allotment of paddy. These millers did not deliver 1,126 MT rice valuing Rs. 1.32 crore.

- Up to crop year 2001-02, agreements with millers provided for recovery of interest from millers who failed to deliver the rice within the stipulated period. Non-inclusion of this clause in the agreements for crop year 2002-03, deprived the Company of interest claim of Rs. 47.51 lakh (up to March 2004) in case of six[@] defaulter millers.

[#] Serial numbers. 1,3,6,8,17,19,20, 28,30 and 31 of ***Annexure 8***.
[$] Serial number 4 of ***Annexure 8***.
[@] 3,422 MT to miller at Serial number 5 and 3,815 MT to miller at Serial number 24 of ***Annexure 8.***
[*] Serial numbers 28 and 29 of ***Annexure 8***.
[@] Serial numbers. 28-33 of ***Annexure 8.***

- In 29 out of 33 cases of misappropriation of paddy, the Company reported the matter to police authorities for registration of FIRs. Of these, FIRs were registered between August 2002 and July 2003 in 10[$] cases only. Police authorities have not yet registered the FIRs in 19 cases in spite of reporting the matter during February and August 2003. Further developments were awaited (June 2004). In four[*] cases involving misappropriation of 2,833 MT rice valuing Rs. 3.57 crore, the Company had not reported the matter to police authorities for registration of FIRs against the defaulters, reasons for which were not available on record.

The management while admitting the above facts stated (June 2004) that earnest efforts were made to minimise the lapses and disciplinary proceedings had been initiated against the officials concerned for their negligence besides taking legal action against the defaulter millers. The fact, however, remains that due to failure on the part of the management to strictly enforce the terms of the milling policy and agreements with the rice millers, misappropriation of paddy continued.

Sale of rice

2.1.13 The millers after milling of paddy delivered rice direct to FCI. The concerned DM of the Company raised sale bills of rice after receipt of despatch documents from millers through its field staff. Initially, the Company raised the sale bills at provisional rate of rice conveyed by the GOI. On receipt of the final rates from GOI, the Company raised supplementary bills for recovery of differential amount on FCI.

The GOI had finalised rates of crop years 1998-99, 1999-2000 and 2000-01 in September 2000, March 2002 and January 2004, respectively. Rates of rice of crop years 2001-03 are yet to be finalised by GOI (June 2004). The Company had not evolved any system to monitor and ensure timely raising of supplementary bills on FCI and recovery thereof.

Recovery of rice at low outturn ratio

2.1.14 The GOI fixed (12 October 2000) the provisional rates of rice for the crop year 2000-01 on the basis of outturn ratio[*] of 67 and 68 per *cent* for raw and parboiled rice, respectively, for all purchases of paddy from 21 September 2000. Due to unseasonal rains, the paddy for the crop year 2000-01 was damaged. Consequently, the GOI, in the meeting held on 15 October 2000,

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[$] Serial numbers 1,3, 4, 9, 10, 12, 26, 27, 28 and 33 of ***Annexure 8***.

[*] Serial numbers 11, 22, 29 and 32 of ***Annexure 8.***

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

decided to obtain rice at outturn ratio of 64/65 *per cent* instead of 67/ 68 *per cent*. Accordingly, GOI also conveyed (27 November 2000) the rates of rice based on revised outturn ratio of 64/65 *per cent*. The GOI, however, again revised (June 2001) the rates of rice based on original outturn ratio of 67 and 68 *per cent*.

The Company instead of seeking clarification about cut off date for obtaining outturn ratio of 64/65 *per cent* in view of decision, ibid, of GOI, obtained rice at lower outturn ratio for the entire crop of 2000-01 and raised the bills on FCI accordingly. The FCI, however, released the payment at rates of 67/68 *per cent* outturn as it was getting the paddy milled at this outturn ratio and withheld the balance payments. In the case of 13 districts, the payments withheld amounted to Rs. 13.16 crore.

The GOI while intimating (February 2004) final rates of rice for the crop year 2000-01, however, fixed two rates of rice, one for paddy procured up to 15 October 2000 at outturn of 67/68 *per cent* and the other for procurement after 15 October 2000 at 64/65 *per cent* outturn.

Thus, failure of the management to seek clarification in the matter despite continuous deductions by FCI had resulted in loss of Rs. 5.83 crore in seven out of 13 districts (out of total withheld amount of Rs. 9.80 crore) due to obtaining of rice from millers at lower outturn ratio for the crop year 2000-01.

Loss on account of lower outturn ratio in case of remaining six districts included in the balance withheld amount of Rs. 3.36 crore, could not be worked out as details of withheld amount pertaining to these districts were not made available to audit despite assurance given by the management in the ARCPSE meeting.

Delay in raising of sale bills

2.1.15 As per terms of agreements for milling of paddy for the crop years 2000-03, the rice millers, after delivery of rice to FCI, were required to submit despatch documents through field staff of the Company to district office concerned within seven days in case of crop years 2000-02 and within three days in case of crop year 2002-03 failing which millers were liable to pay interest at 21 *per cent* per annum for the delayed period.

Scrutiny of sale records for 2000-03 revealed that out of eight district offices test checked, sale bills for delivery of rice to FCI in six districts[*] were submitted after delay ranging between four and 162 days (after allowing grace period of 10 days) from the date of delivery of rice. District offices did not maintain records showing date-wise details of submission of despatch documents by the millers. Resultantly, responsibility for delays by millers or field staff could not be ascertained.

[*] Ludhiana, Patiala, Sangrur, Muktsar, Fatehgarh Sahib and Moga

Delay in raising of sale bills resulted in loss of interest of Rs. 1.31 crore.

This delay had resulted in delayed realisation of sale proceeds from FCI with the consequential loss of interest of Rs. 1.31 crore (calculated at 21 *per cent* recoverable as per agreement with the millers). The management had neither investigated the reasons for delays nor claimed the loss from the millers.

Loss due to non-claiming of interest

2.1.16 In terms of GOI's standing instructions issued in April 1990 and reiterated in December 2001, FCI was to release payment of rice within 48 hours of presentation of sale bills. In case of delay beyond prescribed period, FCI was liable to pay interest at bank rate on delayed release of payments.

Audit observed that the Company had not laid down any system to claim interest from FCI due to delay in receipt of payment. Scrutiny of payments received from FCI during 1998-2003 in five district offices test checked in audit revealed that FCI did not release the payments of sale bills of rice within the prescribed period.

In the absence of any system at head office to ensure timely claiming of interest from FCI by its district offices, the bills for interest were not raised regularly by the district offices. Details of interest claims raised, payments received and claims

not raised by the district offices during 1998-2003 are given below:

(Rupees in crore)

District Office	Claims raised		Amount received	Claims not raised	
	Amount	Crop year		Amount	Crop year
Sangrur	5.54	1998-2003	2.05	-	-
Patiala	3.07	2000-02	-	1.40	1998-2000 and 2002-03
Ludhiana	0.82	2000-01	-	1.29	1998-2000 and 2001-03
Muktsar	0.54	1999- 2002	-	-	-
Fatehgarh Sahib	0.31	2000-01	-	0.05	1998-99 and 2001-03
Total	**10.28**		**2.05**	**2.74**	

Scrutiny in audit revealed that district offices had received payment of sale bills from FCI after delay ranging from 2 -173 days (after allowing seven days) but did not raise claim for recovery of interest on delayed payment from FCI. The amount of interest on delayed payment worked out to Rs. 2.74 crore[#] by audit on the basis of records test checked in three[*] districts.

[#] Calculated at CC rates ranging between 10.85 and 12.34 *per cent* prevalent during the period.
[*] Patiala, Ludhiana and Fatehgarh Sahib.

The Company could recover only Rs. 2.05 crore out of interest claims of Rs. 10.28 crore (June 2004) and did not take follow up action for recovery of remaining amount of Rs. 8.23 crore.

Loss due to delay in claiming interest

2.1.17 The instructions of the GOI for claiming of differential amount (between provisional and final rates) of each kharif marketing season envisaged payment of interest on differential amount. The district offices were required to raise claims of interest on FCI immediately after receipt of payment of differential amount as per instructions, ibid, of the GOI. However, Audit noticed that:

Belated raising of supplementary claims of interest resulted in loss of interest of Rs. 1.66 crore.

- District offices, Ludhiana (crop years 1997-2000) and Muktsar (crop years 1998-2000) did not claim interest on differential amount. On being pointed out (January- February 2004) in Audit, both the district offices raised (January-February 2004) claims of Rs. 4.62 crore and Rs. 96.65 lakh, respectively, after delay of more than 19-38 months and received payments between January and May 2004. Belated raising of bills had resulted in avoidable loss of interest of Rs. 1.66 crore (worked out on CC interest rates).

- Similarly, district offices, Sangrur (crop years 1997-2000) and Patiala (crop year 1999-2000) raised supplementary bills aggregating Rs. 8.87

Belated raising of supplementary claims of interest resulted in loss of interest of Rs. 54.42 lakh.

crore and Rs. 2.67 crore for interest on differential amount for the respective crop years, after delay of 42 - 319 days and 37 - 39 days, respectively (worked out after allowing grace period of 10 days). This resulted in avoidable loss of interest of Rs. 54.42 lakh (worked out on CC interest rates)

Delay in receipt of payment due to inadequate follow up resulted in loss of interest of Rs. 24.28 lakh.

- In case of district office, Sangrur, FCI released payment of two supplementary bills of interest on differential amount of Rs. 1.15 crore for the crop year 1996-97 after delay of 230 and 290 days. In case of district office, Patiala, the interest payment of Rs. 2.67 crore for the crop year 1999-2000 was released (March 2003) by FCI after delay of 175 days. Delay in receipt of payment resulted in loss of interest of Rs. 24.28 lakh caused to the Company due to inadequate follow up of realisation of payment from FCI.

Loss of interest due to delay in claiming of revised rates of depreciation on gunny bags

2.1.18 GOI revised (June 2001) the provisional rates (October 2000) of depreciation on gunny bags for the crop year 2000-01. The procuring agencies were to claim depreciation on gunny bags as per revised provisional rates. A test check of records in two* (out of six) district offices, revealed that district offices did not raise claims of depreciation as discussed below:

- District office, Fatehgarh Sahib preferred claim (November 2003) of Rs. 59.14 lakh whereas actual amount of claim worked out to Rs. 78.08 lakh, as pointed out (July 2003) in Audit. The district office received (February 2004) Rs. 59.14 lakh from FCI and remaining amount of Rs. 18.94 lakh claimed in May 2004 was yet to be recovered (June 2004).

- On being pointed out (February 2004) in Audit, district office, Ludhiana raised (May 2004) claim of Rs. 3.24 crore against which recovery was awaited (June 2004).

Belated raising of supplementary bills of depreciation on gunny bags resulted in loss of interest of Rs. 1.20 crore.

Thus, belated raising of supplementary bills of depreciation on gunny bags used for the crop year 2000-01 resulted in non recovery of Rs. 3.43 crore besides loss of interest of Rs. 1.20 crore for the belated period.

Non recovery of transportation charges

2.1.19 Provisional rates fixed by GOI for kharif 2001-03 envisaged reimbursement of expenditure on transportation of paddy for a distance beyond eight kms by FCI. A test check of records of eight# district offices

*Fatehgarh Sahib and Ludhiana

Patiala, Sangrur, Moga, Ferozepur, Muktsar, Ludhiana, Fatehgarh Sahib and Nawan Shahar.

Non/ belated claiming of transportation charges of paddy, beyond eight kms, from FCI resulted in non-recovery of Rs. 22.63 crore.

revealed that the Company incurred an expenditure of Rs. 9.92 crore and Rs. 12.71 crore during 2001-03, respectively, on transportation of paddy beyond eight kms but did not claim reimbursement from the FCI. This resulted in non-recovery of Rs. 22.63 crore and consequential loss of interest thereon.

On being pointed out in Audit (January 2004**),** district office, Sangrur raised (January 2004) the claim of Rs. 8.94 crore for the years 2001-03 with FCI but payment thereagainst was awaited (June 2004). While admitting the facts the management stated (June 2004) that directions were issued (March 2004) to all the district offices to prefer claims with FCI for reimbursement of transportation charges as per instructions of GOI. However, the position of actual raising of claims was not made available to Audit (June 2004).

Non-reimbursement of establishment cost

Non-inclusion of establishment cost in the rates of rice by GOI resulted in non reimbursement of establishment cost of Rs. 112.18 crore.

2.1.20 GOI was taking into account establishment cost at 2.5 *per cent* on MSP of wheat. But while fixing the rates of rice, the element of establishment expenditure incurred by the procuring agencies was not taken into account. Thus, the Company was deprived of reimbursement of establishment cost of Rs. 112.18 crore, worked out by audit at 2.5 *per cent* of MSP of paddy procured (valuing Rs. 4,487.20 crore) during 1998-2003. The management stated (June 2004) that the matter had been taken up with GOI through State Government for reimbursement of establishment cost at 3 *per cent* of MSP of paddy. Further, developments were awaited (June 2004).

Withholding of claim of rural development cess and market fee

2.1.21 The provisional rates of rice for 2001-02, *inter alia***,** included reimbursement of market fee and rural development cess at Rs. 16.71 per quintal each from FCI subject to certification by Audit/ Local Fund Audit Department to the effect that the amount collected had actually been utilised for the purpose it was collected.

Non-furnishing of requisite certificate resulted in withholding of Rs. 1.57 crore by FCI.

District office, Sangrur recovered market fee and RD cess of Rs. 3.57 crore on 10.68 lakh MT rice delivered for the crop year 2001-02. Subsequently, FCI withheld (June/July 2003) Rs. 1.57 crore out of sale bills of wheat delivered during 2003-04 on the plea that requisite certification of expenditure had not been obtained by the Company. The Company stated (June 2004) that the matter had been taken up for release of withheld amount. Further developments were awaited (June 2004).

Less reimbursement of custody and maintenance charges

2.1.22 Final rate of rice fixed by GOI for each crop year included the element of custody and maintenance charges at specified rate for stipulated period specified for delivery of rice to FCI. Audit observed that delivery of rice was made to FCI even after the extended delivery period as the Company failed to get paddy milled even by the extended date (refer paragraph 2.1.7 *supra*).

Excess time taken in milling the paddy resulted in short reimbursement of custody and maintenance charges of Rs. 8.05 crore.

Against custody and maintenance charges for six months for crop year 1999-2000 and three months for 2000-01 for which final rates have been intimated by GOI, the Company had taken average time between 6 months 24 days and 7 months 24 days for milling of paddy and delivery of rice to FCI. Excess time taken in milling the paddy resulted in short reimbursement of custody and maintenance charges of Rs. 8.05 crore.

The management stated (June 2004) that the final rates of rice included the element of interest which is sufficient to cover the amount of interest paid to bank for availment of cash credit, for procurement of paddy. Reply of the management was not tenable as the issue raised was less reimbursement of custody and maintenance charges and not the element of interest.

Arbitration cases

2.1.23 As per terms of the agreement with the millers, all the disputes were to be referred to the sole arbitration of the Managing Director of the Company or any other person appointed by him. Award of arbitrator was to be final and binding.

Due to non-observance of milling policy, the Company failed to get the full quantity of paddy milled and referred the claims for recovery of balance rice to arbitrators. The table below gives year-wise status (as on 30 April 2004) of arbitration cases of crop years from 1994-95 to 2002-03:

Out of 950 arbitration cases involving Rs. 303.87 crore, 389 cases involving Rs. 153.19 crore were pending.

(Amount: Rupees in crore)

Crop year	Number of cases	Amount involved	Cases decided				Cases pending	
			In favour of Company		Against the Company			
			Number	Amount	Number	Amount	Number	Amount
Up to 1998-99	845	236.38	469	103.70	75	31.11	301	101.57
1999-2000	83	50.21	15	14.78	-	-	68	35.43
2000-01	8	6.23	1	0.01	-	-	7	6.22
2001-02	13	10.34	1	1.08	-	-	12	9.26
2002-03	1	0.71	-	-	-	-	1	0.71
Total	**950**	**303.87**	**486**	**119.57**	**75**	**31.11**	**389**	**153.19**

The Company had not prescribed any time limit for arbitrator for giving the award. Out of 486 cases involving claims of Rs. 119.57 crore decided in favour of the Company, execution proceedings in 105 cases involving Rs. 38.46 crore were filed in the various courts and recovery of Rs. 49.56 lakh was effected in 26 cases. In remaining 381 cases, the awards were not filed in courts for execution (April 2004) for which no specific reasons were made available to Audit. All the 75 cases involving claims of Rs. 31.11 crore decided against the Company were challenged in courts. Further developments were awaited (June 2004).

Internal control

2.1.24 Internal control is an essential pre-requisite for efficient and effective management of the organisation. The internal control in the Company was deficient because there was no system to ensure:

- implementation of milling policy framed by Government;
- physical existence of paddy lying in miller's premises;
- timely raising of sale bills and recovery of sale proceeds of rice from FCI;
- reconciliation of gunny bales given on loan basis to other procuring agencies; and
- timely disposal of stocks of unmilled paddy.

The above matters were reported to the Government in April 2004; reply had not been received (September 2004).

Conclusion

The Company was suffering heavy losses in the activity of procurement and milling of paddy for Central Pool. The Company's hypothecated stocks of paddy were not matching with outstanding cash credit resulting in payment of penal interest. There was no proper control over milling of paddy stored in own/joint custody, resulting in deterioration in quality and shortages of stock. Lack of control over milling operations and non-following the terms of milling policy and agreements with the millers properly, facilitated misappropriation of paddy/rice by millers. There was no system in the Company to ensure timely raising of bills on Food Corporation of India and to monitor receipt of payments thereagainst.

There is urgent need to have effective control over stocks and milling operations as per terms of milling policy to avoid interest burden on cash credit limit, losses on stock, shortages and misappropriations. System for timely raising of sales bills, recovery of sale proceeds and claiming of admissible expenditure on transportation needs to be devised. The Company should pursue vigorously with Government of India/Food Corporation of India for recovery of all elements of cost relating to the activity.

2.2 Punjab State Forest Development Corporation Limited

Highlights

The Company was incorporated in May 1983 as a wholly owned Government company with a view to carry on the business of buying and felling of trees, converting and selling timber logs, development of forestry and raising plantations for industrial use and making timber available to consumers by eliminating the middlemen.

(Paragraph 2.2.1)

The Company was engaged mainly in harvesting of standing trees obtained from the State Forest Department, sawing and auction of timber, manufacturing and trading of crates. The Company had not pursued its other main objectives relating to forestry.

(Paragraph 2.2.2)

On the directions of the State Government, the Company released rupees eight crore to the State Government and treated it as an advance payment of royalty instead of liquidating arrears of royalty attracting interest at 12 *per cent.* This resulted in additional interest burden of Rs. 65.45 lakh.

(Paragraph 2.2.11)

Lower fixation of output norms for standing eucalyptus trees, as compared to the norms of a similar company of Haryana, resulted in short accountal of wood valuing Rs. 1.86 crore and also loss of royalty of Rs. 1.06 crore to the State Government

(Paragraph 2.2.12)

Actual recovery of timber from shisham and poplar trees during 1999-2003 was lower than the minimum recovery norms by 2,185 cum valuing Rs. 93.26 lakh.

(Paragraph 2.2.13)

Out of 3.88 lakh battens as on 31 March 2003 at five saw mills, 3.80 lakh battens were more than three years old and have become defective due to lack of timely use/disposal. Present realisable value of these battens was Rs. 4.29 lakh against their normal realisable value of Rs. 95.67 lakh resulting in loss of Rs. 91.38 lakh.

(Paragraph 2.2.17)

Purchase of battens at higher rates than the purchase rates of another Government company resulted in extra expenditure of Rs. 33.60 lakh.

(Paragraph 2.2.20)

Introduction

2.2.1 Punjab State Forest Development Corporation Limited (Company) was incorporated in May 1983, as a wholly owned Government company with a view to carry on the business of buying and felling of trees, converting and selling timber logs, development of forestry and raising plantations for industrial use and making timber available to consumers by eliminating the middlemen.

Objectives

2.2.2 The main objectives of the Company, as envisaged in the Memorandum of Association, are to:

- carry on the business of buying and felling of trees, converting and selling timber logs and other wood products,
- carry on the business of plantation, cultivation, promotion and development of trees, forest seeds, oil seeds and to protect and enhance the forest wealth in the State,
- develop, aid, assist, initiate, promote, organise, finance and provide technical, managerial and marketing assitance to such private units and agencies concerned with the raising of forest products and plantations to be raised on their lands, and
- aid, assist, initiate, promote, expedite, accelerate and /or execute development projects, enterprises, companies to promote the production of forest produce for industrial and other uses.

The Company had not pursued its other objectives.

The Committee on Public Undertakings (COPU) in its 66th Report (March 2000) had observed that the Company was not pursuing its other objectives except felling of trees and sale of timber.

The Company was engaged mainly in harvesting of standing trees obtained from the State Forest Department (Department) against royalty, auction of timber, sawing of timber, manufacturing and trading of furniture, wooden crates, etc. Even though pointed by COPU in March 2000 and lapse of more than 20 years since its incorporation, the Company had not pursued its other main objectives relating to forestry.

In view of the activities of the Company being limited to harvesting of trees and sale of crates to PSUs, the State Disinvestment Commission also recommended (November 2002) closure of the Company. Final outcome was awaited (July 2004).

Organisational set up

2.2.3 The management of the Company is vested in a Board of Directors (BOD). As on 31 March 2003, the Company had six directors and a Managing Director, all of them nominated by the State Government. The Managing Director is the Chief Executive of the Company and is assisted by a General Manager (Technical), a Finance Manager and a Company Secretary at corporate office in day-to-day working of the Company. There were 22 project offices, each headed by a Project Officer (PO) under the control of five Divisional Managers (DMs) of five[@] divisions

Scope of Audit

2.2.4 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ending 31 March 1994 No. 2 (Commercial), Government of Punjab.

The COPU discussed the review in July 2003 and directed (August 2003) the Administrative Secretary, Government of Punjab to ensure necessary action in the matter at his level. Action, if any, taken in the matter had not been intimated by the Company.

The present review conducted during October 2003 to February 2004 covers the working of the Company for the five years ending March 2003 with reference to records maintained at corporate office and 15 out of 22 project offices of three[#] out of five divisions. The audit findings as a result of test check of records, were reported to Government/Company in March 2004 with a specific request for attending the meeting of Audit Review Committee for Public Sector Enterprises (ARCPSE) so that viewpoint of Government/ management was taken into account before finalising the review. The meeting of ARCPSE was held on 26 May 2004 where Government was represented by Principal Secretary to Government of Punjab, Department of Forest and Wild Life Preservation and the Company by Managing Director and Finance Manager of the Company and their views have been considered in the review.

[@] Mohali, Phillaur, Bathinda, Amritsar and Ferozepur.
[#] Mohali, Phillaur and Bathinda

Capital structure

2.2.5 The authorised and paid-up share capital of the Company as on 31 March 2003 were rupees one crore and Rs. 25 lakh, respectively. The paid-up capital was wholly subscribed by the State Government.

Financial position and working results

2.2.6 The accounts of the Company were in arrears from 1998-99. Based on provisional accounts prepared by the Company, the financial position and working results of the Company for the five years ending 2002-03 are given in ***Annexure 9.*** Profitability analysis of the Company for the last five years is given below:

(Rupees in lakh)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
Income:						
Sales	1,659.86	2,520.42	3,012.58	3,638.50	2,126.60	12,957.96
Other income (including interest)	44.28	54.13	94.92	122.10	100.17	415.60
Accretion to stock	57.21	69.96	35.67	-	7.24	170.08
Total	**1,761.35**	**2,644.51**	**3,143.17**	**3,760.60**	**2,234.01**	**13,543.64**
Expenditure	**1,663.40**	**2,579.94**	**3,077.17**	**3,651.92**	**2,147.13**	**13,119.56**
Net Profit	**97.95**	**64.57**	**66.00**	**108.68**	**86.88**	**424.08**

Audit analysis of provisional accounts revealed as under:

- During 1998-2003, the net profit of Rs. 4.24 crore was mainly because of interest (Rs. 3.34 crore) earned by the Company from short-term investment in banks which was not the main activity of the Company.

- Sales decreased substantially from Rs.36.38 crore during 2001-02 to Rs.21.27 crore during 2002-03 mainly due to decrease in turnover of crates as the demand of crates, utilised by the foodgrain procuring agencies for stacking of foodgrains, decreased during this period.

Activities

Harvesting of trees

2.2.7 The Forest Department handed over the trees selected for felling to the Company after acceptance by the latter. Project Report of the Company prepared in 1983 fixed targets of 1.25 lakh cubic metres (cum) per annum during fifth year of its operation in progressive manner.

Following table gives the volume of trees transferred by the Department, targets for felling of trees and achievements thereagainst during 1998-2003:

Year	Opening balance	Transfer	Total	Targets of felling	Actual felling	Closing balance
	(In cubic metres)					
1998-99	14,343.80	68,441.87	82,785.67	50,000	71,375.82	11,409.85
1999-2000	11,409.85	1,24,838.44	1,36,248.29	75,000	1,05,062.45	31,185.84
2000-01	31,185.84	1,53,354.91	1,84,540.75	80,000	1,54,034.12	30,506.63
2001-02	30,506.63	1,35,528.44	1,66,035.07	1,00,000	1,40,748.95	25,286.12
2002-03	25,286.12	1,01,836.37 43,215*	1,27,122.49	1,00,000	1,05,277.88 43,215*	21,844.61
* Bamboos in numbers						

There was unrealistic fixation of targets.

The above table shows that not only the Company had fixed targets at much lower level than that envisaged in the Project Report but the targets fixed in each year were also less than the actual felling thereby indicating that targets were not fixed on realistic basis.

The management stated (July 2004) that the targets were fixed on the basis of average normal volume harvested which ranged between 75,000-1,00,000 cum. Reply was not tenable as the targets fixed were always much less than the total volume available.

Unfelled standing trees

2.2.8 The Company had 21,845 cum of volume of trees valuing Rs. 1.65 crore lying unfelled at the end of March 2003. Audit observed that the trees had been transferred to the Company as far back as up to 18 years, as detailed below:

Age	Volume of trees (cum)	Value (Rs. in lakh)
Less than one year	11,938.62	107.76
One year but less than two years	1,560.90	11.34
Two years but less than four years	3,514.10	22.07
Four years and less than nine years	1,158.30	6.42
Nine years but less than 15 years	3,151.94	14.28
15-18 years	520.75	2.99
Total	**21,844.61**	**164.86**

The volume of trees transferred to the Company was required to be felled within three months or returned to the Department within one month of its offer. The trees remaining unfelled beyond three months were susceptible to theft/ misappropriation and likely to deteriorate in quality.

The physical verification thereof at regular intervals was of paramount importance. Despite issue of instructions by Managing Director of the Company in October 1995 to the Divisional Managers for carrying out physical verification of unfelled trees annually, the physical verifications were not carried out in most of the cases.

The management's reply (July 2004) was silent about physical verification. The reply, however, stated that there was a shortage of 4,948.95 cum volume of unfelled trees (proportionate value: Rs. 37.35 lakh) which included 768.45 cum for which court cases were pending, 1,247.25 cum for which recovery orders had been issued, 692.85 cum where show cause notices had been issued, 1,419.70 cum where departmental enquiries were pending and 820.70 cum where write off cases were being processed as the employees had since expired. The management also stated that 2,733.20 cum volume was under reconciliation among various divisions and physical verifications of 4,810.42 cum volume had been ordered.

Non extraction of mudhies

2.2.9 The trees were felled by the Company and felling charges were paid to the labour contractors with reference to the rates prescribed by it for felling of trees with and without extraction of mudhies (the roots of the trees). The rates were Rs. 283 and Rs. 273 per cum, respectively, which were revised to Rs. 311 and Rs. 300 per cum, respectively, from October 1999.

Audit observed that the Company was not extracting mudhies (except eucalyptus where extraction was not required) in a large number of cases without any reasons on record.

Test check of the records of two* divisional offices revealed that during 1998-2003, mudhies were not extracted in 66.2 to 89.6 *per cent* cases, as detailed below:

Year	Number of trees felled (except eucalyptus)		Number of mudhies extracted		Number of mudhies not extracted		Percentage of mudhies not extracted	
	Bathinda	Phillaur	Bathinda	Phillaur	Bathinda	Phillaur	Bathinda	Phillaur
1998-99	67,078	19,899	13,197	2,544	53,881	17,355	80.3	87.2
1999-2000	85,299	29,401	22,959	3,297	62,340	26,104	73.1	88.8
2000-01	56,032	47,969	14,954	5,001	41,078	42,968	73.3	89.6
2001-02	43,759	52,466	11,187	6,228	32,572	46,238	74.4	88.1
2002-03	29,653	41,350	10,027	4,742	19,626	36,608	66.2	88.5
Total	**2,81,821**	**1,91,085**	**72,324**	**21,812**	**2,09,497**	**1,69,273**	**74.3**	**88.6**

The management assigned (May and July 2004) the reasons for not extracting mudhies mainly to the trees of class IV# and V# categories being uneconomical, trees on the canals where extraction was objected by Irrigation Department, trees in Shivalik Forests to avoid soil erosion and trees near buildings/ transmission lines etc. There were, however, neither any codal provisions to this effect nor the Company had recorded the reasons for non-extraction of mudhies in each case. The Company had also not carried out any cost benefit analysis in respect of extraction of mudhies of class IV and V trees. As a result, the justification of non-extraction of mudhies could not be verified in audit to work out potential loss of revenue to the Company.

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* Phillaur and Bathinda

\# Class IV denotes trees having girth of 50-89 centimetres (cms) and class V denotes trees having girth of 30-49 cms.

Shortage of material

2.2.10 The Divisional Manager, Bathinda constituted (December 2002) a Committee to physically verify the balances of wood/timber lying in the depots and private saw mills under project offices 1 and 2 at Bathinda. Physical verification revealed (January/ February 2003) shortage of 2,556.35 cum timber, 3,643.35 cum firewood and 123.19 quintal saw dust valuing Rs. 59.85 lakh for which show cause notices were issued to four officials and one Project Officer in January/ February 2003 followed by serving of (September 2003 to January 2004) chargesheets.

Shortage of material valuing Rs. 53.72 lakh was yet to be recovered.

The management appointed (May 2004) an Inquiry Officer to look into the charges of negligence of duty by the Project Officer (individually responsible for misappropriation of Rs.2.30 lakh). But as per records produced to audit, no such inquiry was initiated against the four officials who were directly responsible for shortage of timber etc., valuing Rs. 57.55 lakh. FIRs were also not lodged with the police. The Company recovered Rs. 6.13 lakh from one official, Rs. 53.72 lakh was yet to be recovered (July 2004).

Royalty

Loss due to advance payment of royalty

2.2.11 The Forest Department handed over the trees selected for felling to the Company after their acceptance by the latter. The Company was to pay the royalty at the rates prescribed by the State Government for different species within seven months from the date of offer, failing which, interest at 12 *per cent* was payable.

On the directions of the State Government, the Company released (2 August 2002) rupees eight crore to the State Government and treated it as an advance payment of royalty. The Company adjusted the entire amount of advance royalty up to October 2003 against royalty due for payment. The reasons for non adjustment of advance (rupees eight crore) against arrears of royalty (Rs. 10.70 crore as on 31 March 2002) attracting interest at 12 *per cent* were not available on records.

Treating rupees eight crore as advance payment of royalty instead of liquidating arrears of royalty resulted in additional interest burden of Rs. 65.45 lakh.

The Company claimed (September 2003) interest of Rs. 38.18 lakh (at seven *per cent)* from the Department on account of advance payment of royalty but Government did not respond (January 2004). On being pointed out in Audit, the Company revised (June 2004) its claim of interest to Rs. 65.45 lakh at 12 *per cent*. The action of the Company to treat rupees eight crore as advance payment instead of liquidating arrears of royalty attracting 12 *per cent* interest was against its financial interest which resulted in additional interest burden of Rs. 65.45 lakh.

The management stated (July 2004) that the quarterly payment of royalty was from Rs. 1.50 crore to Rs. 2.50 crore and the royalty amount of Rs. 10.70

crore was not due for payment as on 31 March 2002, which was under reconciliation with Forest Department. As such, it was not prudent to adjust the payment against this amount. Reply was not tenable as even after excluding the royalty for the quarter January- March 2002, royalty of more than rupees eight crore was due for payment in August 2002.

Lower norms for calculating output from standing/ felled trees

2.2.12 Royalty payable to Government is calculated based on the volume of trees transferred by the Department. The volume is worked out for each tree after taking into account its girth[#].

The Company had followed the norms prescribed by the Department to calculate volume of wood from eucalyptus trees by creating seven spans representing different girths, starting from 30-49 centimetres (cms) to 220 cms and above.

Audit observed that Haryana State Forest Development Corporation Limited (HSFDCL) had fixed the norms with shorter spans of the girth also. A comparison of the norms of the Company with those of in HSFDCL is given below:

Girth Norms				Lower volume norms of wood in Punjab based on minimum girth span of trees
Punjab (PSFDCL)		Haryana (HSFDCL)		
Girth span of trees	Volume of wood	Girth span of trees	Volume of wood	Volume of wood
Cms	Cum	Cms	Cum	Cum
1	2	3	4	5
30-49	0.05	30-39 40-49	0.052 0.097	0.002
50-89	0.15	50-59 60-69 70-79 80-89	0.171 0.245. 0.345 0.508	0.021
90-119	0.55	90-99 100-109 110-119	0.645 0.958 1.077	0.095
120-149	1.10	120-129 130-139 140-149	1.267 1.740 2.004	0.167
150-179	2.00	150-159 160-169 170-179	2.290 2.594 2.917	0.29
180-219	2.80	180-189 190-199 200-209 210-219	3.259 3.621 4.00 4.00	0.459
220 and above	3.50	220 and above	4.73	1.23
Total	**10.15**			**2.264**

It would be seen from the above table that the norms adopted for calculation of

[#] Girth is the circumference of a tree at 4.5 feet height from the ground level.

wood by the Company were lower by 18.24# *per cent,* as compared with even the lowest spans of HSFDCL.

Lower fixation of norms resulted in short accountal of wood valuing Rs. 1.86 crore.

During 1998-2003, as per norms of the Company, standing volume of felled eucalyptus trees worked out 73,164 cum. As per norms fixed by HSFDCL for the lowest spans, the standing volume would have worked out to 89,480 cum. Thereagainst, the actual output of the timber during the same period was 77,163 cum. Thus, there was short realisation of 12,317 cum of standing volume valued at Rs. 1.86 crore when comparing actual output of the Company with norms of HSFDCL. This had also resulted in loss of royalty of Rs. 1.06 crore to the State Government.

The management agreed (May 2004) during ARCPSE meeting that the norms of HSFDCL would also be adopted by the Company.

The management further stated (July 2004) that mostly dead-dry trees were offered to the Company, volume of which was reduced due to missing lops/ tops, dryness and quality of wood. Therefore, royalty for dead-dry trees was 65 *per cent* of green trees in Haryana. Reply was not tenable because eucalyptus trees were transferred as green trees which is evident from the fact that the Company did not extract mudhies of these trees and kept them for next crop.

Recovery of timber

2.2.13 The Company had fixed the norms for recovery of timber from felled trees in October 1995. As per the norms, the conversion of shisham from the standing volume was to range between 60 - 80 *per cent* and of poplar between 75 - 80 *per cent* depending upon the girth class of trees.

Audit observed that in following cases, timber accounted for was less than the minimum norms:

Year	Specie	Volume of trees felled	Minimum recovery of timber as per norms	Timber accounted for	Less accounting of timber
		(Cubic metres)			
1999-2000	Shisham	35,281	21,168	19,793	1,375
2000-01	Shisham	13,263	7,958	7,729	229
2001-02	Poplar	1,098	823	277	546
2002-03	Poplar	869	651	616	35
Total			**30,600**	**28,415**	**2,185**

Recovery of timber was lower than minimum norms by 2,185 cum valuing Rs. 93.26 lakh.

The Company did not investigate the reasons for less recovery of 2,185 cum timber valuing Rs. 93.26 lakh.

[2.264/(10.15+2.264)]100= 18.24 *per cent*.

The management stated (July 2004) that norms were fixed for green trees where it was clearly stated as note below the norms that felling of green trees was mostly banned and that only dead/dry/fallen trees were available for felling and recovery of firewood as well as timber would depend on the actual condition of the timber trees on the ground at the time of felling.

The reply was not tenable because while prescribing the norms for shisham, the Company was aware of the ban on felling of green trees and thus, the norms for recovery of timber would be applicable to the fellable trees, i.e. dead/dry and fallen trees and not to green trees. Further, the loss has been worked out conservatively, by adopting lowest recovery norms of timber.

Working of saw mills

2.2.14 The Company had seven* saw mills to saw wood to make battens of different sizes for fabrication and sale of crates. The Company had not evolved any system to review the performance of saw mills periodically. Audit observed that low performance of saw mills resulted in loss to the Company, as discussed below:

Capacity utilisation

2.2.15 As per the norms of the Company, four workers were to saw five cum of the wood per band/shift/day under normal working conditions. So, the capacity of these saw mills and that utilised during the years 2000-03, worked out in audit on the basis of 240 working days of a year, is given below:

Saw mill	Year	No. of bands	Annual capacity$ (cum)	Wood sawn (cum)	Capacity utilized (Per cent)	Capacity under utilised (Per cent)
Bathinda	2000-01	1	1,200	1,219	101.58	--
	2001-02	1	1,200	711	59.25	40.75
	2002-03	1	1,200	231	19.25	80.75
Phillaur	2000-01	3	3,600	1,368	38.00	62.00
	2001-02	3	3,600	669	18.58	81.42
	2002-03	3	3,600	708	19.67	80.33
Patiala	2000-01	3	3,600	914	25.39	74.61
	2001-02	3	3,600	1,307	36.30	63.70
	2002-03	3	3,600	141	3.92	96.08
Ropar	2000-01	2	2,400	1,999	83.29	16.71
	2001-02	2	2,400	766	31.92	68.08
	2002-03	2	2,400	160	6.67	93.33
Sangrur@	2000-01	2	2,400	885	36.87	63.13
	2001-02	2	2,400	807	33.62	66.38
Mohali	2000-01	2	2,400	716	29.83	70.17
	2001-02	2	2,400	713	29.71	70.29
	2002-03	2	2,400	89	3.71	96.29
	Total		**44,400**	**13,403**		

$ No. of bands x 5 cum per band x 240 days of one shift per day

* Mohali, Phillaur, Bathinda, Sangrur, Amritsar, Patiala and Ropar.

@ Mill was closed in 2002-03.

Underutilisation of capacity of saw mills resulted in idle wages payment of Rs. 17.58 lakh.

The table shows that capacity of these saw mills was underutilised from 16.71 to 96.29 *per cent.* Out of these, in three[@] saw mills, where the work was done by Company's own labour and the average under utilisation was 71.16 *per cent,* underutilisation resulted in idle wages payment of Rs. 17.58 lakh.

The management stated (July 2004) that it was not in its interest to prepare articles without orders just for the sake of utilising the saw mills. The reply was not tenable as the Company had purchased 29.36 lakh battens during 2000-03 from private parties as against 6.41 lakh battens manufactured in these mills. This indicates that the Company had orders and lacked in planning.

Cost of fabrication of crates

2.2.16 Cost of a wooden crate fabricated by the Company at its five[#] saw mills was as under:

(Amount in Rupees)

Name of saw mill	Cost per crate			Average cost
	2000-01	2001-02	2002-03	
Ropar	186.93	191.75	180.18	186.28
Sangrur	206.35	198.30	-	202.32
Patiala	212.34	243.61	233.57	229.84
Mohali	201.34	244.00	243.58	229.64
Bathinda	227.60	205.98	244.82	226.13

Audit observed that in addition to fabrication of the crates, the Company also purchased wooden crates from the market at the rates of Rs. 225 and Rs. 230 per crate (1,02,933 crates) during 2000-01, Rs. 225 to Rs. 235 per crate (1,61,597 crates) during 2001-02 and Rs. 235 per crate (21,550 crates) during 2002-03. Thus, the cost of fabrication of crates by Company's saw mills was higher than the market rate during 2001-02 (Patiala and Mohali) and 2002-03 (Bathinda and Mohali).

Audit also observed that the cost of battens was higher in other saw mills as compared to the saw mill at Ropar due to less recovery of battens from the timber. The fabrication cost was also higher at Patiala and Mohali. Had the crates been fabricated at the cost of Ropar saw mill, the Company could have saved Rs. 46.17 lakh (Patiala: Rs. 12.05 lakh, Mohali: Rs. 8.19 lakh, Bathinda: Rs. 17.96 lakh and Sangrur: Rs.7.97 lakh) during 2000-03 on the fabrication of 1,57,425 crates by these saw mills. The Company had not analysed the reasons for higher cost/ variation in cost of different saw mills.

[@] Bathinda, Phillaur and Patiala
[#] Excluding Phillaur where no crate was fabricated during 2000-03.

Defective battens

There was loss of Rs. 91.38 lakh due to old age of stock of battens.

2.2.17 There were 3.88 lakh battens lying at five[$] saw mills as on 31 March 2003. These included 3.80 lakh battens older than three years and had become defective for lack of timely use/disposal. The Company estimated their realisable value at Rs. 4.29 lakh as against book value of Rs. 95.67 lakh. This resulted in loss of Rs. 91.38 lakh to the Company. The Company did not investigate the reasons for non use of these battens.

The management stated (July 2004) that these battens were sawn in anticipation of orders for wooden crates and could not be utilised due to lack of orders and were more than three years old resulting in accumulation of stock. Reply was not tenable as the stock was enough for manufacturing 0.38 lakh crates only, whereas these saw mills had fabricated 1.59 lakh crates during 2000-03.

Sale of battens below reserve price

Sale of battens below reserve price resulted in loss of Rs. 38.24 lakh.

2.2.18 During 2001-03, the saw mills at Bathinda, Patiala, Sangrur and Mohali sold 2.67 lakh battens which were lying in stock unused for the last five to ten years, at a price ranging between Rs. 2.48 and Rs. 8.05 per batten as against the reserve price of Rs. 18 per batten. Sale of battens below reserve price resulted in loss of Rs. 38.24 lakh[@].

The management stated (July 2004) that some battens received from outer part of the log might not be suitable for preparation of wooden crates because of poor ends and deep cracks which eucalyptus was normally susceptible to and these battens were further liable to become defective because of exposure to weather for a pretty long time. So, these battens had to be sold at the reserve price of Rs. 160 per quintal fixed for defective/odd / knotted/ uneven defective pieces. The reply was not tenable as these battens were treated as good battens at the time of production and were accounted for as good battens.

Performance of furniture fabrication unit

2.2.19 The Company had one furniture fabrication unit (FFU) at Phillaur for manufacture of furniture and other articles. The performance of the FFU for 2000-03 was as follows:

(Rupees in lakh)

Year	Value of wood consumed	Manufacturing expenses	Total cost	Sale value	Loss
2000-01	1.59	11.90	13.49	4.21	9.28
2001-02	1.83	13.85	15.68	3.30	12.38
2002-03	0.96	14.60	15.56	2.01	13.55
Total	**4.38**	**40.35**	**44.73**	**9.52**	**35.21**

The above table shows that the operation of FFU caused loss of

[$] Phillaur, Bathinda, Patiala, Mohali and Ropar.

[@]Bathinda: Rs. 8.55 lakh, Patiala: Rs. 12.81 lakh, Mohali: Rs. 0.95 lakh and Sangrur : Rs. 15.93 lakh.

Rs. 35.21 lakh to the Company during 2000-03. Audit observed the following deficiencies in the functioning of FFU:

- The Company did not evolve mechanism to periodically review the performance of the FFU to take remedial measures for improving its working.
- The Company did not fix norms for consumption of wood for manufacture of different articles. FFU also did not maintain stock account of wood received/consumed.
- In spite of availability of requisite infrastructure for fabrication of the wooden furniture and articles, the FFU supplied articles valuing Rs. 62.63 lakh to Government/Semi Government departments after purchase from the market during 2000-03.

The management admitted (July 2004) that the Company was incurring losses due to wages of permanent employees and insufficient supply orders and it had constituted a Committee of officers to study working of saw mills. Further developments were awaited (July 2004).

Purchase of battens at higher rates

Purchase of battens at higher rates than the purchase rates of another Government company resulted in extra expenditure of Rs. 33.60 lakh.

2.2.20 The Company purchased 14.54 lakh battens during 2001-03 at the rates ranging between Rs. 18.92 and Rs. 20.14 per batten. But another Government company viz. Punjab State Civil Supplies Corporation Limited (PUNSUP) purchased battens at the rates of Rs. 16.77 and Rs. 15.98 per batten during the same period. The purchase of battens at higher rates resulted in extra expenditure of Rs. 33.60 lakh.

The management stated (July 2004) that rates were fixed after inviting tenders. Rates depended upon demand and supply position and it needed to be seen during which period PUNSUP invited the tenders. The contention of the management was not correct as the Company purchased (2 August 2001) battens at the rate of Rs. 19.25 per batten and PUNSUP purchased (6 August 2001) the same at the rate of Rs. 16.77. Further, the average rates at which the Company purchased the battens were higher than that of PUNSUP which indicates lack of control in the procurement.

Non accounting of battens purchased from market

2.2.21 The Company had no system to ensure that goods purchased were entered in the stock before release of payments. A test check of records of Bathinda division vis-à-vis records of project office revealed that the project office did not account for 53,859 battens valuing Rs. 10.37 lakh against the purchase of 1,61,139 battens during 2001-02.

The management stated (May 2004) that charge sheets had been issued for non receipt of 28,259 battens and remaining 25,600 battens were lying at a private saw mill. The requisite record was however, not shown to audit for verification of facts.

Manpower

2.2.22 The sanctioned strength vis-à-vis men-in-position in the Company during 1998- 2003 was as follows:

Year	1998-99	1999-2000	2000-01	2001-02	2002-03
Sanctioned strength	392	392	393	393	393
Men-in-position	282	309	333	378	369

Recruitment of 228 daily wage workers in contravention of Government's instructions resulted in irregular expenditure of Rs. 34.78 lakh.

Department of Personnel, Government of Punjab reiterated (May 1999) instructions of the Finance Department issued in October 1998 and February 1999 that no work charge / casual labour be recruited henceforth without its approval. If there was violation of instructions, the expenditure incurred on the wages was to be recovered from the officer responsible for the recruitment. Contrary to the said instructions the Company recruited 228 daily wage workers during May 1999 to January 2004 thereby incurring irregular expenditure of Rs. 34.78 lakh till January 2004.

According to the guidelines issued (September 1999) by the Directorate of Institutional Finance and Banking and Public Enterprises (DPE) of the State Government, the Company was required to review the cadre strength within one month of issue of instructions failing which responsibility was to be fixed by the DPE. The Company did not review the cadre strength. In its absence, the justification of men-in- position could not be verified in Audit.

The management justified (May 2004) excess staff due to increased turnover. The reply was not tenable as the Company had neither reviewed the cadre strength as per DPE guidelines nor obtained the prior approval of the Finance Department of Punjab Government to justify the recruitment of daily wage workers.

Internal audit

2.2.23 Mention about the absence of any prescribed scope and extent of internal audit, being conducted by a firm of Chartered Accountants was made in paragraph 2A.12 of the Report of the Comptroller and Auditor General of India for the year ending 31 March 1994 No. 2 (Commercial), Government of Punjab. The Company had not prepared any Internal Audit Manual so far

(June 2004). The statutory auditors had also commented repeatedly (November 2002, April 2003, March 2004) that the internal audit was not adequate according to size and nature of business of the Company. Despite this, the Company had not taken any remedial measure to improve the adequacy of internal audit. Further, the Company did not place the reports of the internal audit before the BOD.

The above matters were reported to the Government in March 2004; reply had not been received (September 2004).

Conclusion

Even after more than 20 years of its incorporation, the Company had limited its activities to harvesting of trees and had not pursued its other main objectives relating to forestry. Due to very limited operation of the Company, the Disinvestment Commission recommended its closure. The norms fixed by the Company for calculating the volume of wood in the standing trees of eucalyptus were lower resulting in short accountal of wood. There was no system in the Company to review the performance of saw mills periodically and control the cost of production of crates and battens. In the absence of physical verification, trees lying unfelled were susceptible to theft/ misappropriation.

There is an urgent need to broaden the area of operation of the Company by taking up forestry related activities and to review the norms for calculating the wood in standing trees. Regular physical verification of standing trees should be ensured. System for reviewing the performance of saw mills needs to be introduced for effective control over their working and to reduce the production cost of crates and battens.