Chapter-II

Social, General and Economic Sectors (Public Sector Undertakings)

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Social, General and Economic Sectors (Public Sector Undertakings)

Important audit findings emerging from test-check of transactions of State Government companies and statutory corporations have been included in this chapter. This chapter contains 13 paragraphs having a financial implication of ₹ 85.31 crore.

POWER DEPARTMENT

Punjab State Power Corporation Limited

2.1 Non-recovery of dues

Non-compliance with the provisions of Electricity Supply Instructions Manual of the Company and PSERC (Electricity Supply Code & Related Matters) Regulations, 2014 resulted in non-recovery of ₹0.83 crore.

As per Electricity Supply Instructions Manual (ESIM) of the Punjab State Power Corporation Limited (Company), every consumer is expected to make the payment of his dues by the 'due date'. In the event of default to discharge the payment liability, the premises will be liable for disconnection of electricity supply under Section-56 of the Electricity Act 2003. Also, Regulation no 32.1 of the PSERC (Electricity Supply Code & Related Matters) Regulations, 2014 (PSERC Regulations, 2014) provides that if a consumer fails to deposit the billed amount with the Company by the due date mentioned in the bill, the Company may, after giving not less than fifteen clear days' notice, disconnect the electricity supply to the consumer until such charges or other sum together with any expenses incurred by the Company in disconnecting and reconnecting the supply are paid.

The Company served (27 July 2018) to a Large Supply Consumer[1], a supplementary bill of ₹ 28.38 lakh towards recovery of wrong excess credits[2] given during December 2017 to July 2018. The Consumer instead of making payment, approached (August 2018) Consumers' Grievances Redressal Forum (CGRF) who decided (October 2018) in favour of the Company. The Consumer filed (January 2019) an appeal in the Court of Lok Pal (Ombudsman), Electricity, Punjab against the orders of CGRF who also upheld (April 2019) decision of the CGRF and ordered recovery of the amount

[1] Account no. 3003018347 under Unit-III Sub Division (Sahnewal), Estate (Special) Division, DS City West Circle, PSPCL, Ludhiana.

[2] On account of difference between payments deposited by the Consumer *vis-à-vis* credited to the Consumer's account by the Company.

due, after adjustment of 40 *per cent* amount already deposited, to be effected through subsequent energy bills in twelve monthly interest free installments along with current energy bills.

The Consumer, however, failed to deposit the amount as per decision of the Ombudsman and further defaulted in payment of electricity supply dues with effect from June 2019. The connection of the consumer was, however, disconnected on 25 September 2019 by field staff. Up to October 2019, the unpaid dues of the consumer had accumulated to ₹ 1.01 crore. After adjusting Advance Consumption Deposit[3] (ACD) of the Consumer, lying with the Company, and interest payable on ACD, the net unrecovered amount worked out (August 2020) to ₹ 83.11 lakh.

Audit observed:

- The ACD of the Consumer lying with the Company was inadequate. The Company did not review the ACD as per the instructions[4] of the PSERC. The ACD of the consumer was last reviewed in May 2010. Based on consumers' consumption, the Additional Advanced Consumption Deposit worked out to ₹ 76.82 lakh, against which the actual ACD held was ₹ 29.41 lakh only. However, an inflated figure of ACD amounting to ₹ 44.71 lakh instead of ₹ 29.41 lakh was wrongly shown in Consumer's bills/ SAP records.

- The Ombudsman ordered for recovery of the wrongful excess ACD credits on 25 April 2019 but the consumer did not pay the dues. Despite the default in payment of electricity supply dues with effect from June 2019, the consumer's connection was disconnected belatedly by field staff only on 25 September 2019 (after three[5]months) in violation of ESIM and PSERC Regulation, 2014.

- Legal case for recovery of the electricity supply dues was filed (October 2020) against the Consumer after lapse of 12 months from the date of permanent disconnection of the electricity supply.

Thus, non-compliance with provisions of ESIM and PSERC Regulations, 2014 regarding disconnection of electricity supply of defaulter consumers and

3 ₹ 29.41 lakh.

4 As per Regulation 16.1 of the PSERC (Electricity Supply Code & Related Matters) Regulations, 2014, all Large Supply consumers are required to maintain, an amount equivalent to consumption charges (i.e. fixed and variable charges as applicable) for one and a half month as Security (Consumption) with the Company, during the period of agreement for supply of electricity. Further, Regulation 16.4 provides for annual review of adequacy of such security deposit, based on the average monthly consumption for the twelve months' period from April to March of the previous year.

5 From 14 June 2019 (i.e. date of first default) to 25 September 2019.

non-maintenance of due ACD resulted in non-recovery of ₹ 0.83 crore which is a loss to the Company.

The State Government/Management while accepting (February 2021/ April 2021) the audit observation stated that disciplinary action has been initiated against the delinquent officers/officials and recovery suit has been filed (October 2020). The fact, however, remains that there were control weaknesses in the company which led to wrong excess credits and failure to update ACD of the consumer resulted in non-recovery of ₹ 0.83 crores.

The Company should finalise enquiry into the matter and fix responsibility of defaulting officials who recorded higher than the actual receipt of ACD, and failed to take prompt action for recovery subsequent to the Court order.

2.2 Delay in disconnection

Delay in disconnection of electricity supply to a continuously defaulting consumer in violation of statutory provisions resulted in accumulation and non-recovery of dues amounting to ₹1.08 crore.

Section 56 of the Electricity Act 2003 read with Regulations 31 and 32 of the Supply Code 2014[6] provides that where a consumer fails/ neglects to pay the billed amount or any charge for electricity due from him in respect of supply or distribution of electricity to him, the distribution licensee may, after giving not less than fifteen clear days' notice in writing, to such consumer and without prejudice to his rights to recover such amount by suit, disconnect the supply of electricity until such charge or other sum, together with any expenses incurred by him in disconnecting and reconnecting the supply, are paid. Electricity Supply Instructions Manual (ESIM) of Punjab State Power Corporation Limited (Company) also provides that every consumer is expected to make the payment of his dues by the 'due date' and in case of failure in payment, his premises will be liable for disconnection under the Act. Notice for disconnection must be issued next day after the due date as per Supply Code 2014. ESIM also provides that the concerned distribution officers are not competent to grant stay or to allow installments against payment of the current energy bills.

A Non Residential Supply (NRS) connection with sanctioned load of 30 KW was released (October 2010) to a new consumer in Ghubaya Sub-division of Jalalabad Division under Ferozepur Circle. The consumer started defaulting in paying the due energy bills and did not pay any amount from September 2011 to February 2012. The accumulated unpaid energy bills at this stage were

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[6] Punjab State Electricity Regulatory Commission (Electricity Supply Code and Related Matters) Regulations 2014.

₹ 1.54 lakh (February 2012). The consumer made only partial payments against due energy bills during March 2012 to January 2014 and the defaulting dues accumulated to ₹ 4.12 lakh (January 2014). The consumer did not make any payment against either the unpaid balance or monthly energy bills after January 2014 but no action to permanently disconnect the supply of the consumer in accordance with the standing orders was taken by the Company. The unpaid dues kept on accumulating and had increased to ₹ 1.08 crore (December 2020) when the connection was finally permanently disconnected.

The reasons/ justification for long delay in disconnection of the consumer who was continuously defaulting in paying energy bills since release of connection were not on records. This indicates that the Company's authorities had been extending undue favour to this continuously defaulting consumer in violation of statutory provisions by not disconnecting its connection.

Failure to take timely action for disconnection of electricity supply to a defaulting consumer was in violation of the Electricity Act 2003; Supply Code 2014; and ESIM of the Company and resulted in accumulation of defaulting dues amounting to ₹ 1.08 crore. The chances of recovery are remote as connection of the consumer has already been disconnected.

The Management stated (September 2021) that efforts were made to recover the defaulting amount but amount was not deposited by the consumer. The connection of the consumer was permanently disconnected in December 2020 and recovery suit has been filed in Judicial Court, Jalalabad for recovery of defaulting amount.

The matter was referred to the State Government (April 2021); their replies were awaited (September 2021).

The Company should enforce its extant rules against consumers who default in payment of their due energy charges to safeguard its financial interests.

2.3 Irregular tariff concession

The Company provided tariff concession of ₹ 1.21 crore to mushroom farming consumers without enabling formal orders of the State Government resulting in non-realisation of tariff concession allowed.

Section 65 of the Electricity Act, 2003 (Act) has provisions which enable grant of subsidy by State Governments to consumers in their power tariff determined by the State Electricity Regulatory Commissions. The said section provides that if the State Government desires to grant subsidy to any class of consumers, they have to pay the subsidy amount to the concerned power distribution entity in advance and in such manner as may be directed by the concerned State Electricity Regulatory Commission. Further, Regulation 53 of the Punjab State Electricity Regulatory Commission (Conduct of Business) Regulations, 2005 provides that the Punjab State Electricity Regulatory Commission (PSERC) upon receiving proposal for grant of subsidy from the State Government shall determine the amount to be paid as subsidy and the terms and conditions of such payment including the manner of payment of subsidy amount.

Government of Punjab (GoP) decided (24 June 2015) that consumers engaged in mushroom farming will be billed at same tariff rates as are applicable to the Agriculture Pumpset (AP) supply consumers instead of at Industrial tariff rates. Director (Horticulture), Government of Punjab conveyed (30 July 2015) the decision of GoP to the Company and sought an Action Taken Report in this regard. To carry out these directions, the Company requested (10 November 2015) GoP to confirm its commitment/ approval regarding passing on the tariff compensation[7] so that mushroom farming consumers may be covered under AP metered tariff instead of Industrial tariff. The Company, however, upon the directions (8 February 2016) of the GoP and without waiting for a formal enabling orders or any commitment from Government to bear the difference between industrial tariff and the lower AP metered tariff, issued (9 February 2016) a Commercial circular directing its offices to bill mushroom farming consumers under AP metered tariff category.

The Company worked out the annual financial liability for charging AP metered tariff to the mushroom farming connections and filed (September 2016) a petition before the PSERC to consider charging AP metered tariff from the mushroom farming consumers subject to payment of subsidy by the GoP towards compensation of loss due to difference in tariff rates.

Subsequently, owing to non-receipt of any enabling formal orders from GoP and increasing subsidy burden, which had accumulated to ₹ 1.21 crore[8], the Company decided (18 April 2017) to keep its directions of February 2016 in abeyance and to carry out the billing of mushroom farming consumers at Industrial tariffs. PSERC also dismissed (November 2017) the Company's petition (September 2016) citing the fact that the Company had issued the Commercial Circular dated 9 February 2016 without its approval and that the GoP had not submitted any communication to PSERC for granting subsidy to the particular class of consumers and had made no commitment to bear the subsidy payable. The Company finally decided (January 2018) to withdraw the concession allowed (February 2016) and recover the monetary concession already allowed, from the benefitted consumers.

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7 On account of difference between tariff of industrial consumers and AP metered consumers.

8 For the period from 9 February 2016 to 18 April 2017.

However, various mushroom farming consumers aggrieved at the recovery of the concession allowed, approached (2018) the Hon'ble Punjab & Haryana High Court who set aside (September 2019) the Company decision of recovery of concession in tariff already allowed. Based on the legal opinion (May 2020), the Company decided (June 2020) not to file further appeal against the decision.

Audit observed that the decision of the Company to bill mushroom farming consumers under AP metered tariff instead of Industrial tariff, without any enabling formal orders/approval/commitment of the State Government, was a violation of provisions of Electricity Act, 2003. This resulted in extending irregular tariff concession of ₹ 1.21 crore to the mushroom farming consumers and non-recovery thereof.

The Management stated (May 2021) that Government of Punjab has been requested (December 2020) to compensate the Company in lieu of charging lower tariff to mushroom farming consumers. The fact remains that there was violation of Electricity Act, 2003, besides the recovery of dues is still pending.

The matter was referred to the State Government (September 2020); their reply (July 2021) did not indicate any action taken by the Government on the audit observation.

The Company should provide subsidised electricity to any category of consumers only after observance of due procedures and issuance of enabling orders by the State Government to protect its financial interests.

2.4 Non recovery of pole hiring charges from cable operator

Delay in verification of number of electricity poles being used by a cable TV operator followed by delay in raising of due demand and non-pursuance for payment of rentals and penalty resulted in non-recovery of ₹6.12 crore besides associated loss of interest of ₹1.09 crore.

The Electricity Supply Instructions Manual (ESIM) of Punjab State Power Corporation Limited (the Company) allows hiring of electricity poles for use by cable television (TV) network operators at rates prescribed from time to time. Any cable TV operator who wants to hire electricity poles in any city/area of the State is required to provide details of poles to be hired to the concerned Circle/Zonal office who after due verification process can execute the agreement. If the area of operation of the TV operator falls under more than one zone, after verification, the agreement can be executed separately for each zone or one agreement for two or more zones can be executed centrally, with Chief Engineer (Commercial) as the Nodal Officer. The rentals for hiring of poles are required to be deposited as advance monthly payment. The competent authority shall levy penalty at double the hiring rate per pole *per annum* on total excess number of poles detected as being used during checking by Company, if the variation is found beyond 5 *per cent*, along with advance payment in the succeeding month after detection.

A cable operator executed (December 2016) an agreement centrally with the Company for hiring of 1,21,125 poles in the State. The rate for hiring of poles was fixed at ₹ 150 per pole *per annum* from 2016-17 onwards till further revision by the Company.

Audit observed:

a) The Company completed (July 2017) its verification of the actual number of poles being used by the cable TV operator, after a delay of seven months. It was found that the cable TV operator was using as many as 2,74,098 poles against the contracted 1,21,125 poles. Thus, in accordance with the terms of contract with the TV operator, the Company was required to recover the due penalty of ₹ 2.68 crore[9] along with advance payment during July 2017 itself. However, the levy of penalty of ₹ 2.68 crore was intimated (May 2019) to the TV operator after a lapse of around two years and that too after being pointed out (July 2018) by Audit. The penalty amount was yet (August 2021) to be recovered which had an associated cost of loss of interest amounting to ₹ 1.09 crore[10].

b) To incorporate correct number of poles, the Company signed (May 2018) agreement with the cable operator for 2,74,098 poles. The rentals for hiring of poles were required to be deposited as advance monthly payment. However, the cable TV operator was irregular in payment of monthly advance rentals. The Company could not levy any interest on delayed payments owing to absence of any enabling provision in the ESIM and contract agreement.

Subsequently, a penalty clause was inserted (July 2019) in the ESIM which provided for levying penalty in case of delay in advance payment of pole hiring rentals beyond due date at the rate of one *per cent* per month of delay or part thereof. The penalty clause also provided for removal of cable at the cost of the cable TV operator, if the payment was not made within three months.

Audit observed that the cable TV operator continued to be irregular in payment of monthly advance rentals and the recoverable rentals had accumulated to ₹ 2.73 crore by August 2021. However, neither due penalty amounting to ₹ 0.71 crore (July 2019 to August 2021) was levied on the cable TV operator nor any action for removal of cables of the operator in accordance with the provisions of ESIM was initiated by the Company.

Thus, execution of agreement without verification followed by delay in verification of poles being used by the cable TV operator and failure to take

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[9] Calculated at double the hiring rate (₹ 150) per pole *per annum* on total excess number of poles (1,52,973) for seven months (14 December 2016 to 14 July 2017)

[10] Calculated at rate of interest on working capital allowed by Punjab State Electricity Regulatory Commission in the tariff orders for the year 2017-18 to 2021-22.

action for non-payment of pole hiring rentals in time had resulted in non-recovery of ₹ 6.12 crore (₹ 2.68 crore on account of penalty for excess poles used, ₹ 2.73 crore for pole hiring rentals and ₹ 0.71 crore on account of penalty for delayed payment of rentals) and loss of interest of ₹ 1.09 crore[11] (up to August 2021).

The Management stated (October 2021) that continuous efforts are being made to recover the pending monthly rentals and penalty amount from the cable operator. The fact, however, remained that an amount of ₹ 6.12 crore was recoverable as on August 2021.

The matter was referred to the State Government (April 2021); their reply was awaited (September 2021).

The Company may take action to recover the due rent from the cable TV operator and strengthen the monitoring of its commercial agreements.

2.5 Incorrect application of industrial tariff for commercial supply

The Company did not ensure compliance with Electricity Supply Code, 2014 by the distribution franchisee leading to incorrect application of industrial tariff for electricity consumed for commercial purpose by a consumer with resultant loss of ₹77.63 lakh.

In terms of Regulation no. 6.6.2 of Electricity Supply Code, 2014, the Company may appoint a franchisee for a particular area of supply. It may provide single point supply on an application by the franchisee for making electricity available within the particular area to residential colonies, commercial complexes, industrial complexes, IT parks and other single point supply consumers.

The franchisee so appointed has to adhere to provisions of Supply Code 2014 including those of standards of performance and other regulations framed by the Commission[12] including the tariff orders. The distribution franchisee shall issue regular monthly electricity bills to the consumers at applicable category tariff rates and shall also be responsible for collection of revenue and for depositing the same with the Company. The franchisee will also maintain all records of consumers along with the category of tariff and provide the same to the Company every month.

In accordance with these provisions of Supply Code 2014, the Company appointed a distribution franchisee under Focal Point Division, Ludhiana for distribution of electricity within the area of its industrial park and provided

[11] Calculated for the period from July 2017 to August 2021 on unrecovered penalty of ₹ 2.68 crore for excess poles used.

[12] Punjab State Electricity Regulatory Commission.

(March 2016) it with a single point connection under large supply (LS) industrial category with sanctioned load of 850 KW and contract demand of 925 KVA.

During audit (January 2021) of City East Circle, it was noticed that the franchisee was not supplying updated billing records of consumers in the billing data base, along with their category, to the Company on monthly basis. During test check of records, it was noticed that the franchisee applied (March/ May 2018) to the Company for extension of its sanctioned load by 483 KW and contract demand by 525 KVA for issuing a new connection to a consumer for operating its wholesale store in Ludhiana. The Company in order to cater to the electricity requirements of the new consumer for commercial usage, increased (September 2018) the sanctioned load and contract demand of single point connection of distribution franchisee to 1,333 KW and 1,450 KVA.

Audit observed that as the load/demand requirement of the new consumer was for commercial usage, its electricity supply connection was required to be categorised under non residential supply (NRS) category. Audit further observed that the Company had not obtained the details and billing records of various consumers being catered to by the distribution franchisee in violation of Supply Code 2014 and the franchisee agreement. In the absence of billing details of consumers, total consumption recorded at single point connection of distribution franchisee was being billed under LS industrial tariff which was lower than the NRS tariff applicable for consumption of electricity by the consumer.

Considering proportionate electricity consumption[13] of the consumer in the electricity bills of distribution franchisee, the application of incorrect tariff for electricity consumed by the consumer due to violation of Supply Code 2014 and franchisee agreement, had resulted in loss of ₹ 77.63 lakh[14] to the Company/Government of Punjab in the shape of energy charges, power subsidy and statutory duties during September 2018 to February 2021.

The matter was referred to the Company and State Government (April 2021); their replies were awaited (July 2021).

The Company may review its franchisee agreements to ensure compliance with the Supply code and application of correct tariffs to safeguard its financial interests.

[13] Electricity consumed by the consumer has been calculated based on proportionate connected load/ contract demand in the total connected load/ contract demand of distribution franchisee.

[14] Tariff difference: ₹ 23.98 lakh + Punjab Government Subsidy: ₹ 40.71 lakh + ED&ID: ₹ 12.94 lakh.

2.6 Injudicious renewal of Microsoft Software licenses

Renewal of Microsoft Software licenses without proper assessment of requirement by the Company resulted in to an avoidable expenditure of ₹69.11 lakh.

Punjab State Power Corporation Limited (Company) issued (April 2018) a purchase order valuing ₹ 8.55 crore to a firm for renewal of support for ten Microsoft Software licenses installed in the Company. Two of these licenses procured by the Company included 3,000 e-mail exchange[15] licenses under its domain and 3,700 Windows Server Client Access[16] licenses. The terms of purchase order provided for delivery of e-licenses within two weeks from issuance of purchase order with support to be provided for a period of three years from the date of renewal after delivery of e-licenses. The e-licenses were delivered to PSPCL on 27 April 2018 with support validity up to April 2021.

It was noticed that as per the utilization status of the software licenses as of February 2020, provided by the Company, 670 e-mail exchange licenses under PSPCL domain valuing ₹ 73.79 lakh and 1,600 Windows Server Client Access licenses valuing ₹ 17.90 lakh were yet to be utilised. Thus, around 34 *per cent* of software licenses were not used even though two-third (22 months out of 36 months) of the contracted support period of these licenses was over. The utilisation of these software licenses could not be ensured by the Company even after the Audit observation (September 2020). The utilisation status of the software licenses as of April 2021 revealed that 163 e-mail exchange licenses valuing ₹ 17.95 lakh and 1,400 Windows Server Client Access licenses valuing ₹ 15.66 lakh still remained unutilised. Resultantly, 23 *per cent* of software licenses under *ibid* two license categories remained unutilised during entire contracted support period of these licenses. This indicated that the Company had purchased the support renewal for Microsoft software licenses without proper assessment of requirements.

The injudicious procurement of support renewal for various Microsoft Software licenses without proper requirement assessment and failure to monitor their usage resulted in an avoidable expenditure of ₹ 69.11 lakh[17].

The matter was referred to the Company and the State Government (May 2021); their replies were awaited (July 2021).

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[15] E-mail exchange refers to online service which provides end users with a familiar email experience across web (internet), computers and mobile devices while giving system administrators web-based tools for managing online deployment of such service.

[16] Windows Server Client Access refers to connecting to Windows server by users logging on to the system through desktops/laptops/workstations.

[17] Calculated conservatively for proportionate period of 22 months up to February 2020 for 2,270 licenses and for period of 14 months from March 2020 to April 2021 for 1,563 licenses.

The Company may assess its Information Technology software/license needs to ensure their full utilisation.

AGRICULTURE AND FARMER WELFARE DEPARTMENT

Punjab Agri Export Corporation Limited

2.7 Infructuous expenditure on purchase of Pea Harvesting Machine

Company purchased a twenty year old second hand pea harvester machine without estimating its viability and usage potential for State's farm conditions. The machine could not be used thereby rendering ₹ 1.05 crore spent on its purchase wasteful.

Punjab Agri Export Corporation Limited (PAGREXCO) is engaged in the promotion of export of fresh agricultural produces mainly fruits, vegetables and flowers; organic farming and introduction and development of new agricultural technologies to improve the quality of agro products. To further the State Government's plans for crop diversification and encourage cultivation of fruits and vegetables, PAGREXCO decided to mechanise the activity of pea harvesting. The Company envisaged savings in the cost of production and early clearance of fields to be ready for the next crop.

Audit observed that the plan to mechanise the activity of pea harvesting was mooted by a private firm which was in the business of pea harvesting in Punjab. This private firm pursued with PAGREXCO, the purchase of pea harvester and intimated the availability of a suitable machine in Holland with M/s Ploeger Machines BV. Audit observed that M/s Ploeger Machines BV had already submitted the quote for the machine to the private firm. Officers of PAGREXCO visited (July 2014) Holland to inspect the functioning of a pea harvester. They decided that the refurbished twenty year old pea harvester, manufactured in 1995, by M/s Ploeger Machines BV costing ₹ 1.30 crore would be appropriate for the purpose. PAGREXCO formulated (September 2014) a detailed project report for submission to National Horticulture Mission for import of the pea harvester. The report envisaged that mechanization of pea harvesting would make Punjab pea processing units cost competitive and help capture major share of frozen green peas market. With the use of pea harvester, a saving of ₹ one crore *per* 1000 *acre* was estimated on labour cost. This project report was deficient as there was no analysis of suitability of the machine for Indian farm conditions.

PAGREXCO also proposed to seek assistance of State Government for purchase of the pea harvester and popularisation for its usage as it was an expensive piece of equipment. PAGREXCO, to fund the purchase, sought financial assistance in the form of grant of ₹ 80 lakhs from Punjab Rural

Development Board and ₹ 50 lakhs from Punjab State National Horticulture Mission Society. The Company received the requisite funds between September and November 2014 and a supply order was placed (September 2014) with M/s. Ploeger Machines BV at the cost of 1,09,450 Euros[18].

The pea harvester manufacturers clarified (October 2014) that proper field preparation and flat fields without irrigation furrows were necessary for successful mechanised pea harvesting. The pea harvester was received in January 2015 and ₹ 1.05[19] crore was incurred on its import.

Audit observed that the harvester was put to use only on 81 acres in 2016 against the intended target of 1000 acres and thereafter the machine had not been utilised till July 2020. It was observed that:

- Harvester was purchased merely based on the proposal of a private firm i.e. Pagro Foods Limited (PFL) without conducting any survey to ascertain farmers' demand.
- The private firm had used the machine only once for harvesting 81 acres and felt that (May 2015) there was need to study Europe's sowing practices for designing bed size and irrigation systems. In India, green peas were not sown on flat land, rather it was on furrows due to flood irrigation which was not suitable for ease of movement of Harvester. Besides it was not suitable for harvesting the variety of green peas grown in India;
- Feasibility study of usage of harvester in Indian fields was not conducted before its purchase. Despite the manufacturer's clarification that fields must be flat, the Company went ahead with the proposal;
- The seller did not provide warranty for the machine. They only guaranteed availability of spares for ten years of which five years had elapsed without using the machine to its optimum capacity;
- Demonstration of the pea harvesting machine was held only once on 13 March 2015 at Ladowal farm, Ludhiana. The advertisement was given in the different newspapers before purchase of machine (September 2014) and immediately after the purchase of machine (March 2015). Afterwards, no efforts were made to give wide publicity regarding the benefit and utilisation of the machine.
- The purchase was made with concurrence of Managing Director without any approval from Board of Directors.

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[18] excluding taxes and duties.

[19] Cost price of machine: ₹ 85,13,792 *plus* Custom duty charges: ₹ 10,97,258 *plus* Custom clearing charges paid: ₹ 8,05,399 *plus* Transportation Charges: ₹ 50,562.

Thus, purchase of twenty year old second hand pea harvester machine without properly estimating its viability and usage potential for field conditions in the State resulted in its non utilisation, thereby rendering ₹ 1.05 crore spent on its purchase as wasteful.

The Management stated (May 2021) that with the introduction of mechanised harvesting of the green peas, there would be estimated savings in the cost of production and early clearance of fields thereby helping the farmers to take three crop rotations in a year. The reply is not acceptable as the intended objectives were not achieved. The machine remained unutilised as Company could not ensure flat field conditions necessary for ease of movement of the pea harvester.

The matter was referred to the Government (December 2020); their reply was awaited (July 2021).

Punjab Agro Foodgrains Corporation Limited

2.8 Misappropriation of paddy

Violations of the Custom Milling Policy and inadequate monitoring of the milling operations led to misappropriation of paddy of ₹5.49 crore.

Punjab Agro Foodgrains Corporation Limited (Company) procures paddy for Central Pool on behalf of Government of India (GOI); stores it with rice millers allotted by the Department of Food, Civil Supplies and Consumer Affairs (DFSC), Government of Punjab; gets it milled from the millers and delivers the resultant rice to Food Corporation of India (FCI) as per the Custom Milling Policy (CMP) of the State Government.

District office, Ferozepur of the Company stored (December 2017) 7,315.69 MT of paddy of the crop year Kharif Marketing Season (KMS) 2017-18 with a miller for milling and delivery of 4,901.51 MT of rice to FCI upto 31 March 2018. The CMP (September 2017) for KMS 2017-18 provided that 66 *per cent* of the milled rice will be delivered by 17 February 2018, 77 *per cent* upto 28 February 2018 and 100 *per cent* upto 31 March 2018. The miller could not adhere to the delivery schedule and delivered only 3,129.17 MT (63.84 *per cent*) rice upto 13 March 2018. Physical verification (PV) of stock at mill premises on 28 February 2018 by the Company showed shortage of 2,645.28 MT paddy valuing ₹ 5.49 crore. The Company registered (April 2018) a First Information Report with the police and initiated (26 July 2018) arbitration proceedings against the miller. Company also filed (March 2018) a case in civil court for restriction on sale and transfer of property of the owner of the rice mill. Attachment of property through court was pending and no recovery could be made from the miller till March 2021.

Audit observed as follows:

- CMP provided that the pace of milling would be monitored by the agencies[20] and in case the paddy stored in any rice mill was not being milled as per schedule, then the agency had the right to get the paddy shifted to any other rice mill at the risk and cost of the original allottee. The miller milled 55 *per cent* paddy upto 15 February 2018 against the targeted quantity of 66 *per cent.* But the district office did not shift the paddy to a miller who had completed 100 *per cent* milling of allotted paddy upto 15 February 2018.

- As per CMP, due Physical Verification (PV) of the paddy stocks were conducted on fortnightly basis upto 15 February 2018 but PV did not report shortages. However, during the PV conducted by District Manager on 28 February 2018, a shortage of 2,645.28 MT paddy was noticed. The shortage of such a huge quantity of stock in a short span of two weeks' time indicates that either PVs were not conducted properly earlier or after that adequate watch over the movement of stock was not kept. It is pertinent to mention here that in a note put up to AGM (procurement), it was reported that shortages were already prevailing in the mill premises, which were not brought on record in the PVs being conducted.

- As per instructions (October 2017) of the Company, the District Manager shall conduct PV of the stocks of 50 *per cent* of the allotted mills in the first fortnight and of the remaining 50 *per cent* in the second fortnight. It was mandatory to conduct PV of mills which were lagging behind the milling schedule prescribed in the CMP. The pace of milling was not as per schedule and the miller milled 55 *per cent* paddy upto 15 February 2018 against the target of 66 *per cent*. As such, District Manager was required to conduct fortnightly PVs. Contrary to instructions, the District Manager conducted PV only on 27 December 2017 and 30 January 2018 and no PV was conducted by the District Manager during February 2018.

- As per CMP, paddy was to be issued to the miller against the advance rice in lots of 200 MT each through a release order. The shortage of such huge quantity of 2,645.28 MT paddy within two weeks from

[20] The food procuring agencies include Punjab Agro Foodgrains Corporation Limited; Punjab State Civil Supplies Corporation Limited; Punjab State Warehousing Corporation; Punjab State Grains Procurement Corporation Limited and Punjab State Cooperative Supply Marketing Federation Limited (a cooperative and not under audit purview of the CAG) Markfed.

15 February 2018 indicates that this provision of the CMP was also not adhered to by the Company and the miller moved/transferred the paddy.

- Considering the value of paddy of ₹ 15.21 crore given to the miller, the prescribed security deposit of ₹ 5 lakh as per CMP was grossly inadequate to cover the loss.
- CMP also provided for receipt of a guarantee in the form of two signed undated cheques from the miller. First cheque of 50 *per cent* of the value of total paddy to be stored had to be given by the miller before the storage of paddy and second cheque of remaining 50 *per cent* value was to be given after the completion of storage of paddy. These cheques were required to be given by miller by 4 December 2017 alongwith the receipt of the quantity of paddy accepted for milling. However, the cheques given by miller were presented on 20 March 2018 i.e. 20 days after the shortages were observed and were dishonoured. Complaint under Section 138A of Negotiable Instruments Act, 1881 has been filed against the miller.

The Company decided (September 2019) to stop two increments of the clerk.

Thus, due to multiple violations of the CMP and inadequate monitoring over the milling operations coupled with failure of the Company to timely shift the paddy to other mills at the risk and cost of the concerned rice miller, malafide intention of district authorities cannot be ruled out which led to loss of ₹ 5.49 crore to the Company.

The Management/ Government stated (May 2021/ July 2021) that paddy could be shifted to those rice mills who have completed 100 *per cent* milling but 100 *per cent* milling in the district was not completed till 26 February 2018. The reply is not acceptable as one miller in the district had completed 100 *per cent* milling upto 15 February 2018 and paddy could have been shifted to that rice mill at the risk and cost of the miller. Management further stated that if the Company is not able to recover the financial loss through arbitration from miller, then the financial loss will be recovered from the milling incharge but the chances of recovery are remote.

The Company may ensure adherence to the terms and conditions of Government of Punjab's Customs Milling Policy so as to safeguard its financial interests. Government/ Department may also consider to more effectively monitor paddy milling operations of food procuring agencies. The Government may also like to consider raising the prescribed security deposit given by the millers.

2.9 Short recovery under One Time Settlement Policy

Non application of rates as per Kharif Marketing Season 2016-17 while finalising OTS amount and non-recovery of VAT on cost of undelivered rice resulted in short recovery of ₹1.46 crore from the millers.

Punjab Agro Foodgrains Corporation Limited (Company) procures paddy for Central Pool on behalf of Government of India (GOI); stores it with rice millers allotted by the Department of Food, Civil Supplies and Consumer Affairs (DFSC), Government of Punjab; gets it milled from the millers and delivers resultant rice to Food Corporation of India (FCI) as per the Custom Milling Policy (CMP) of the State Government.

DFSC notified (7 September 2017) One Time Settlement (OTS) Policy for millers who had arbitration/ court cases pending against them and had been declared defaulters for non-delivery of custom milled rice to Food Corporation of India and for not clearing other recoverables[21]. The scheme was framed with the aim to mobilise resources for the state exchequer as well as to settle cases against defaulter/ sick/ closed units to increase the pace of milling.

Under this policy, the defaulter miller was given the opportunity to deposit cash equivalent of undelivered rice of the relevant period on present Custom Milled Rice (CMR) rates. Recoverables on account of other components was principal amount plus simple interest at the rate of 10 *per cent* where interest amount was not to exceed the recoverable principal amount. The applications under this scheme were to be received by 6 March 2018. GOP slightly amended (23 September 2017) the OTS policy and decided that undelivered rice was to be valued as per rates of Kharif Marketing Season (KMS) 2016-17. The provisional rates of CMR for the KMS 2016-17 were revised (January 2017) to ₹ 2,807.08 per quintal by Government of India and Value Added Tax (VAT) was payable as applicable[22] at every stage.

Audit observed (November 2020) that while finalising the OTS cases[23] (***Appendix 2.1***), the concerned District Managers short recovered ₹ 0.76 crore[24] due to applying rates of CMR of earlier years and also did not recover ₹ 0.70 crore[25] on account of five *per cent* VAT applicable on the cost of undelivered rice. The Company had obtained an undertaking from each defaulter miller to pay the recoverable amount, if any, pointed out in future.

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21 Quality cuts, gunnies, interest on account of late delivery of rice, losses due to storage of paddy etc.

22 As per Punjab VAT Act 2005, paddy is taxable @5 *per cent.*

23 Test-checked in audit.

24 Three cases.

25 Ten cases.

The Management stated (May 2021) that under the OTS scheme, the amount in respect of undelivered quantity of rice has been recovered / adjusted from the said millers and only ₹ 1.76 lakh is recoverable from one miller of KMS 2012-13**.** Goods and Services Tax (GST) was implemented in the State abolishing VAT Act in July 2017, so it was not possible to recover the amount of VAT of ₹ 0.70 crore, in the month of October 2017.

The reply is not acceptable as undelivered rice was to be valued as per rates of KMS 2016-17, whereas, the Company calculated the recoverable amount under OTS on the balance quantity (total quantity of undelivered rice *less* quantity for which amount was already deposited by miller on older CMR rates). Further, non-recovery of VAT due to introduction of GST is also not justified as the Company was required to recover VAT actually paid it on paddy from these millers.

Thus, the non-application of CMR rates of KMS 2016-17 while finalising OTS amount and non-recovery of VAT on cost of undelivered rice resulted in short recovery of ₹ 1.46 crore from the millers.

The matter was referred to the Government (February 2021); their replies were awaited (July 2021).

The Company may identify similar finalised OTS cases where short recovery on account of VAT has been made and initiate action for recovery of the same.

Punjab State Warehousing Corporation

2.10 Fraudulent billing of purchase of wheat

Fraudulent billing of ₹73.74 lakh by employees in connivance with Arhtia resulted into loss of ₹64.72 lakh.

The Council of Ministers, Punjab, decided in (November 2011) to remit the payment of food grains purchased for central pool from *Arhtia*[26] through Rupay Debit Card from Rabi Marketing Season (RMS) 2013. Point of Sale (POS[27]) machines were provided to the inspectors of the procuring agencies to enable the *Arhtia* to swipe the card in these machines at the time of purchase and the inspectors were required to punch the detail of purchase. After punching the detail by the Inspector, information recorded in the server was to be passed on to the approving authority i.e. the Auditor/ Accounts Officer/ District manager and payment would be made, after approval, to concerned *Arhtia* through bank payment network.

[26] An *arhtia* is a middle man in a market dealing with agricultural produce.

[27] An electronic device used to process card payments by reading information of a customer's credit or debit card.

During audit of District Manager (DM), Amritsar of the Punjab State Warehousing Corporation (Corporation) for the years 2016-18, it was noticed (September 2018) that in the above procedure, there was no mechanism to ensure that the stock had actually been received at its destination before releasing payment to the *Arhtia*. The payments were made to the *Arhtia* only on the basis of punching done by the *Mandi* Inspector. In RMS 2018, the DM (Amritsar) purchased (21 April 2018 to 29 April 2018) 8500 bags of wheat valuing ₹ 73.74 lakh[28], through an *Arhtia* which was verified by punching the details of purchase by the *Mandi* Inspector[29] of Khalra centre, Taran Taran. An amount of ₹ 60.73 lakh (for 7000 bags out of total 8500 bags) was also released to the *Arhtia* on the basis of verification by the *Mandi* Inspector. Thereafter, 4740 bags were shown as lifted from *Mandi* and stored at Rajan Bedi PEG godown. However, while reconciling (14 May 2018) the purchase and storage, it was noticed that no stocks were received at that godown. Remaining 3760 bags of wheat were also found missing along with 17 bales of gunnies issued to *Arhtia*. On inquiry, it was found to be a case of bogus purchase of wheat. DM (Amritsar) requested (17 May 2018) District Mandi Officer to cancel this purchase from his record so that *mandi* fees and rural development fee did not have to be paid to Market committee. The District Office Amritsar registered (May 2018) a First Information Report and *Mandi* Inspector was arrested by the police. The *Arhtia* was absconding. Further, gunny bales given to the *Arhtia* valuing ₹ 3.99 lakh[30] were also reported to have been sold by the *Arhtia* in the market.

Audit observed that the vehicle numbers shown in the gate passes, through which the said stock was shown as lifted, were either not valid vehicle numbers or these were registered as Motor Cycles/Scooters. 'Form J' (containing details of farmers from whom the wheat has been procured) was also not available in the record of the District Office. This indicates that weak internal controls coupled with lack of mechanism to ensure arrival of stock at its destination before making payment to the *Arhtia* and connivance of the *Mandi* Inspector with *Arhtia* and officials of the Market Committee made the fraudulent billing possible. The fraudulent billing of ₹ 73.74 lakh on account of bogus purchase of wheat resulted in loss of ₹ 64.72 lakh to the Corporation.

Audit further observed that no recovery has been made on this account from the *Arhtia* or the concerned Officer/Official. The concerned *Mandi* Inspector who was earlier suspended was reinstated and inquiry against him has not been finalised so far (March 2021). Thus, no responsibility has been fixed even after a lapse of more than 34 months (March 2021).

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[28] 8500 bags of 50 Kg @ Rs.1735/- per quintal i.e. 8500 x 0.50 x 1735=₹ 7373750/-.

[29] Godown Attendant deputed /designated as *Mandi* Inspector/*Mandi* Incharge.

[30] @ ₹ 47 per bag for 500 bags per bale (17x500x47=₹ 3.99 lakh).

The matter was referred to the Corporation (September 2018 and April 2021) and the Government (April 2021); their replies were awaited (July 2021).

The Corporation should strengthen its internal control systems to monitor movement of the stock in real time and ensure release of payment of purchases only after actual arrival of the stock at its destination. The Corporation should fix responsibility for this loss.

INDUSTRIES AND COMMERCE DEPARTMENT

Punjab State Industrial Development Corporation Limited

2.11 Undue favour to an industrial unit

Acceptance of the proposal of the industrial unit for settlement of its account under the OTS Policy, 2018 instead of effecting recovery of Company's legitimate dues from the unit as per the award of the Tribunal resulted in loss of ₹0.66 crore.

Punjab State Industrial Development Corporation Limited (Company) made (March 1996) equity contribution of ₹ 10.00 lakh to an industrial unit under its direct subscription scheme. As per the undertaking for buy back of shares, the Collaborator/promoter of the industrial unit was to buy back the shares held by the Company within seven years from the date of commencement of commercial production in three stages i.e. minimum one third of the equity shares were to be purchased in the fifth year and the balance in the sixth and the seventh year. The unit started commercial production in March 1998, as such, the buy back of shares was to be completed by March 2005.

In April 2003, the State Government announced One Time Settlement (OTS) Policy for industrial units who had failed to buy back the equity shares as stipulated in the Direct Subscription Agreement/Undertaking. The promoter opted for OTS which was allowed (June 2003) and ₹ 1.74 lakh were paid towards 10 *per cent* of the OTS amount of ₹17.37 lakh. The promoters did not make any further payments by June 2007 and the OTS was cancelled (November 2007). The Company filed (February 2009) a claim application before Debt Recovery Tribunal, Chandigarh for the recovery of its claims amounting to ₹ 1.00 crore. The unit offered (March 2009 and December 2009) to buy back the shares as per OTS 2003, which was not accepted by the Company. The Government announced another OTS policy 2009[31] in March 2009.The unit though not eligible under this policy (being a profit making unit) requested (February 2011) for OTS but the same was not accepted by the Company.

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[31] OTS Policy 2009 announced in March 2009 was for settlement of outstanding dues from only loss making units.

In December 2018, the State Government announced OTS policy 2018[32] for profit making units which was valid up to 5 March 2019. The unit despite being eligible for OTS, did not opt for it. It was only after the Tribunal awarded (April 2019) the claim of ₹ 1.00 crore in favour of the Company with further interest at the rate of 20 *per cent* per annum from 20 February, 2009 till its realisation, the unit requested (June 2019 and July 2019) for settlement of its account under OTS policy 2018. The Company did not accept the request of the unit on the grounds that the recovery in terms of the decree allowed was under execution and the matter was listed for appropriate proceedings in September 2019. The unit again approached (August 2019) to settle the buy back and the Company accepted (September 2019) the proposal after expiry of OTS policy as a special case and the account of the unit was settled (October 2019) at ₹ 0.34 crore only against the recoverable amount of ₹ 1 crore. The Government, however, subsequently extended (June 2020) the scheme up to December 2020.

Audit observed (March 2020) that the unit was earning profits and its Reserves & Surplus increased from ₹ 47.52 lakh in 2003-04 to ₹ 71.51 lakh in 2007-08 and further increased to ₹ 1.19 crore in 2017-18. Further, the unit had recorded an annual turnover of ₹ 8.22 crore and also had net current assets of ₹ 2.74 crore as on 31 March 2018. Thus, the unit was in a position to make payments to the Company as awarded by the Tribunal.

The Management stated (May 2021) that as the unit was prepared to pay upto date interest in terms of OTS policy 2018, the proposal of the unit was accepted as a special case. Further, the State Government granted (June 2020) ex-post facto approval to the OTS of the unit. The reply is not acceptable as the case had been decided. Thus, the decision for acceptance of the proposal of the profit making unit for settlement of its account under the OTS Policy, 2018 instead of effecting-recovery of its legitimate dues as per the award of the Debt Recovery Tribunal was an undue favour to the unit and caused loss of ₹ 0.66 crore[33] to the Company.

The matter was referred to the Government in April 2021; their reply was awaited (June 2021).

The Company may exercise due care to protect its financial interests while implementing OTS scheme for profit earning units. The Company may remain more vigilant to recognise those units which are financially sound but are defaulting willfully so that benefit of OTS may not be extended to them.

[32] OTS Policy 2018 was for settlement of outstanding dues of profit making units.

[33] Excluding interest at the rate of 20 *per cent* per annum w.e.f 20 February 2009 on ₹ 1.00 crore as awarded by the Tribunal.

2.12 Loss on transfer of shares under One Time Settlement Policy

Incorrect deduction of dividend while arriving at OTS amount resulted in less recovery of ₹8.88 crore which was prejudicial to the financial interests of the Company.

The Punjab State Industrial Development Corporation Limited (Company) entered (March 1996) into a Financial Collaboration Agreement (FCA) with a collaborator for setting up a unit for processing of cotton yarn and manufacture of terry towel products. The Company invested ₹ 14.56 crore as its equity contribution. As per terms of FCA, upon expiry of the period of five years from the date of commencement of production, the collaborator was bound to buy back the equity shareholding of the Company in the unit. In case of failure of the collaborator to buy back the shares, the Company was entitled to sell its shareholding in the market at the risk and cost of the collaborator. FCA was re-entered in November 2001 when the unit was merged with another unit. The collaborator commenced commercial production in April 1998 and thus buy back of Company's shareholding by collaborator became due from March 2003.

The collaborator offered to buy back Company's investment in equity shares under One Time Settlement (OTS) Scheme 2003-04 announced by Government of Punjab (GoP). The OTS policy 2003-04 provided that money received including dividend, if any, before 31 March 2003 (against which shares were not transferred) would be adjusted against the principal as and when the amount was received. The Company calculated the collaborator's OTS amount at ₹ 24.78 crore. The collaborator however, deposited (August 2003 to October 2006) ₹ 2.75 crore only and thus having failed to deposit the balance amount, the OTS was cancelled (November 2007). The Company initiated (June 2010) the arbitration proceedings against the collaborator for non buy back of shares. Also, Company issued (November 2017) notice but failed to sell its shareholding[34] in the market at the risk and cost of the collaborator.

The GoP formulated (December 2018) a fresh OTS Policy for equity portfolio. As per this policy, OTS amount for profit making collaborated unit was to be calculated as 'Outstanding amount of investment *plus* simple interest[35] from the date of disbursement upto the cut-off date (on reducing balance basis as provided in the Equity OTS Policy 2003-04) *less* amount already paid plus expenses in current account (CCA)'.

Unit-III of the collaborator was a profit earning unit. The collaborator opting for OTS, offered (17 December 2018) for equity disinvestment in lump sum.

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[34] The market value of shares held by company was ₹ 66.59 crore as on 31 March 2017.

[35] @11 *per cent* p.a.

The Company intimated (17 December 2018) the OTS amount of ₹ 33.04 crore[36] to the collaborator.

The Company while working out the amount of OTS, deducted ₹ 2.75 crore received from the unit towards earlier OTS of 2003-04 and ₹ 6.33 crore received as dividend during 2006 to 2018 on its investment in shares of the unit. The Company received (December 2018) ₹ 33.04 crore and sacrificed ₹ 105.62 crore[37] which were due as per FCA. Arbitration proceedings were withdrawn (January 2019) and the shares were transferred.

Audit observed (March 2020) that the deduction of dividend, that was received by the Company during the year 2006 to 2018 as a shareholder was not justified as there was no specific mention of deduction of dividend under OTS policy 2018 from the outstanding amounts/dues recoverable from the collaborator whereas in the earlier policy[38], deduction of dividend received before 31 March 2003 was specifically mentioned.

Thus, settlement of equity disinvestment at ₹ 33.04 crore under OTS 2018, after unjustified adjustment of ₹ 8.88 crore (dividend: ₹ 6.33 crore and Interest: ₹ 2.55 crore) has resulted into less recovery of ₹ 8.88 crore.

The Management stated (March 2021) that the benefit of dividend received till the cutoff date as was done under OTS policy 2003-04 was given as per the feature of the OTS policy 2018. Reply is not acceptable as the dividend which was received by the Company during the year 2006 to 2018 was in the capacity of a shareholder and there was no specific mention of deduction of dividend from the dues of the collaborator under OTS policy 2018.

The matter was referred to the Government (February 2021); their reply was awaited (July 2021).

The Company may stringently follow its standing policy so as to protect its financial interests while implementing OTS scheme for profit earning units.

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36 Principal: ₹ 5.48 crore plus interest: ₹ 26.62 crore plus Current Account (CCA) expenses: ₹ 0.94 crore.

37 Amount due as per FCA, 1996: ₹ 138.66 crore (including interest @ 24 *per cent*) less amount arrived at of OTS ₹ 33.04 crore = ₹ 105.62 crore.

38 OTS policy 2003-04.

FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

Punjab State Civil Supplies Corporation Limited

2.13 Damage of wheat

Poor preservation of wheat stock as well as storage of fresh wheat with infested stock in violation of storage instructions of FCI resulted in damage of wheat and loss of ₹55.32 crore to the Company.

Punjab State Civil Supplies Corporation Limited (Company), a State Procuring Agency, procures wheat for Central Pool on behalf of Food Corporation of India (FCI) for each Rabi Marketing Season (RMS). It is the responsibility of the Company to maintain the health of stock of wheat till its delivery to FCI.

FCI conducts inspection of the condition of wheat stocks on monthly intervals and at the time of delivery of stock. If any infestation or *atta* formation etc. is found at the time of inspection, FCI intimates the discrepancies to the Company and instructs to take remedial measures accordingly. The damaged/non-issuable stocks are required to be stored in a separate area[39] to avoid their possibility of infecting fresh stocks. Further, Government of India (GoI) directed (July 2014) that stocks found upgradable[40], are to be upgraded within a period of three months, failing which the stock would be declared as damaged by FCI. The wheat that gets damaged in storage is disposed-off by the Company through tendering. The entire exercise of disposal of damaged foodgrains should be time bound and it shall be completed within a maximum period of six months from the date of declaration of stocks as damaged by FCI.

(A) Audit observed (December 2019) that in violation of these instructions, Faridkot District Office and Gidderbaha Centre of Sri Muktsar Sahib District Office of the Company stored fresh wheat of crop year 2014-15 alongside damaged/infested wheat of previous crop years (2011-12 and 2012-13) at these storage centres and that too on open plinths. No covered space could be arranged by the Company at these two district offices at the time of purchase of wheat in 2014-15. Required measures were not taken for the scientific storage of wheat to protect it against infestation. As a result, the wheat of the crop year 2014-15 also got infected. FCI time and again took up the matter with Head Office of the Company as well as the District Offices regarding storage of wheat of crop year 2014-15 with infested wheat of previous crop

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[39] As per instructions issued (December 2004) by FCI.

[40] Upgradable stocks are those from which after segregation of damaged grain, quality grain is retrievable.

years. However, no stock was transferred to covered storage when it was noticed that the condition of wheat was deteriorating. Eventually, FCI declared 31,706 MT[41] as upgradable during February 2016 to May 2017. FCI as well as the District Managers of the Company repeatedly issued directions (August 2015 to July 2016) to concerned staff to upgrade the stock lying at these District Offices. However, due to lackadaisical approach of the concerned officers/officials, only 12,529 MTs[42] could be upgraded. Resultantly, FCI declared (November 2016 and March 2017) 19176.56 MT of wheat valuing ₹ 44.70 crore as damaged.

Thereafter, the categorisation[43] of the damaged wheat stock was conducted (December 2016 to June 2017) and tenders were invited for disposal of 19,171.56 MT stock. Against the prescribed period of six months, the Company took eight to 13 months for disposal of damaged wheat which further deteriorated the damaged wheat. The Company realised ₹ 14.59 crore on sale of 14062.63 MT of damaged wheat of crop year 2014-15 against the issue price at FCI rate of ₹ 32.82 crore. The short recovery of ₹ 18.23 crore due to damage to wheat was a cost to the Company. Further, a shortage of 5108.94 MTs of wheat valuing ₹ 11.88 crore was also noticed (December 2019) after the lifting of the whole damaged wheat by purchasers. Documentary material for issuing chargesheet to the concerned officers/officials was sent by the District Offices to the Head office of the Company in August 2019 and March 2020, however, no concrete action has been taken against the concerned officers/officials even after lapse of 15 to 22 months.

(B) Audit observed (December 2019) that Company stored 1,17,948 MT wheat of crop year 2014-15 at various storage centres of Muktsar Sahib District on open plinths. No covered space could be arranged by the Company at the time of purchase of wheat in 2014-15. Also, required measures were not taken for its scientific storage**,** as a result of which wheat of crop year 2014-15 got infected. In February 2016, FCI pointed out highly vulnerable conditions of the plinths[44] due to poor preservation, growth of wild vegetation around the plinths, unhygienic and infested condition of stock and also pointed out (May 2016) non-fumigation of stock[45] and requested for remedial measures on the discrepancies pointed out by it and ensure improvement in the condition of the plinths. Despite repeated requests by FCI (January 2016 to August 2016) to the Head office/District Offices of the Company to take

[41] 18,460 MT of Faridkot District and 13,246 MTs of Gidderbaha Centre.

[42] 979 MTs of Faridkot District and 11550 MTs of Gidderbaha Centre.

[43] A process where depending upon the percentage of sound grain, grade/ end use of damaged food grain is determined.

[44] Muktsar-1, Muktsar-2, Muktsar-3 and Malout-1.

[45] Jamit Open Plinth where 9626 MTs wheat got damaged later on.

remedial measures, it was observed that the Company failed to ensure compliance of the FCI instructions timely. Eventually, FCI declared 24,583 MTs as upgradable during February 2016 to March 2017. FCI as well as the District Managers of the Company repeatedly issued directions (January 2016 to February 2017) to the concerned staff to upgrade the stock. However, due to the callous and lackadaisical approach of the concerned officers/officials, only 10,367 MTs could be upgraded. Resultantly, 14,216 MTs wheat of crop year 2014-15 was declared damaged (November 2016 and March 2017) and tenders were invited (October 2017 and March 2018) for disposal of this damaged wheat.

Against the prescribed period of six months for disposal of damaged wheat, the Company took three to 20 months. The damaged wheat deteriorated further. Out of 14,215.80 MTs wheat offered for disposal, shortage of 4,294.19 MTs wheat valuing ₹ 10.73 crore was noticed (December 2019) at the disposal by the purchaser parties. Company realised ₹ 10.32 crore on disposal of balance 9,921.61 MT damaged wheat valuing ₹ 24.80 crore resulting in short realisation of ₹ 14.48 crore.

Audit further observed that material for issuing chargesheets to the concerned officers/officials was sent by the District Office to the Head office of the Company up to August 2019. However, no concrete action has been taken against the concerned officers/officials even after a lapse of more than 20 months.

The Management stated (June 2021) that wheat stock of 2014-15 were declared non issuable due to longer storage of wheat stock. Reply is not acceptable as FCI was ready to lift stock of the crop year 2014-15 but due to non taking of timely remedial measures as suggested by FCI, the stocks got deteriorated further and due to shortages and disposal of damaged wheat (through tenders at rates less than FCI rates), the Company suffered a loss of ₹ 25.21 crore.

Thus, poor preservation of wheat and delay in taking remedial measures as well as storage of fresh wheat alongside damaged/infested stock, in contravention of extant storage guidelines/ instructions and non-upgrading of the stock resulted into damage of wheat and loss of ₹ 55.32 crore.

The matter was referred to the Government (April 2021); their reply was awaited (July 2021).

The Company may strictly adhere to the guidelines issued by FCI/GoI for safe storage of wheat stock and ensure compliance of remedial measures for up-gradation of infested stock to safeguard its financial interest.