Executive Summary

Why did we select this subject for Audit?

The Government of India (GoI) spends huge amount of money for supply of rice under Targeted Public Distribution System (TPDS). The milling charges were fixed by the GoI long back in 2005, on the basis of recommendations of the Tariff Commission of India and since then the milling charges have not been revised. However the rice millers are still carrying out the milling operations at milling charges fixed in 2005, without any demand for increase in the milling charges even though the cost of milling has increased. Significantly, the selling price of the by-products i.e. rice bran, broken rice and husk generated in the milling process, has increased substantially. There were also concerns regarding payment of Minimum Support Price (MSP) to farmers, revision of milling charges for paddy and non-delivery of rice. Accordingly, this Performance Audit was conducted to examine such issues along with the effectiveness of monitoring and control processes at various stages.

What were our audit objectives?

The performance audit was conducted to evaluate whether:

- the rates of various incidentals, including milling charges, in the cost sheet were fixed in a transparent and economical manner;
- the system of selection of millers was sound, linkage of *mandis* with rice mills was economical and allocation of paddy to rice millers was carried out efficiently;
- the system of ensuring quality and quantity of paddy/rice procured for the Central Pool was effectively implemented;
- the terms and conditions of Milling Agreements/Levy[1] Orders were duly complied with; and
- the monitoring and review mechanism for procurement of paddy, storage, milling and up to the stage of delivery of rice was adequate and effectively operationalised.

What did our performance audit reveal?

Highlights of the major observations pertaining to this performance audit are as below:

A. Observations on Procurement of Paddy

The rice millers who procure paddy at regulated *mandis* are entitled for reimbursement of *Mandi* Labour Charges (MLC). Though the purchases were made at farm gate/mill point,

[1] *Paddy procured and milled by rice millers under levy orders and the resultant specified percentage of rice delivered to FCI is called Levy Rice.*

Food Corporation of India (FCI) unjustifiably reimbursed MLC to the rice millers without verifying whether paddy was procured at *mandi* or at farm gate. This resulted in irregular payment of MLC and consequential undue benefits to millers to an extent of **₹ 194.23 crore** in Bihar, Odisha and Andhra Pradesh regions of FCI during 2009-10 to 2013-14.

(Para 2.1.1 a)

As per Gokak Committee's recommendation, two to three *per cent* driage of moisture was inbuilt while fixing 67 *per cent* out-turn ratio for raw rice. However, the GoI has been allowing additional one *per cent* driage allowance since 1998 for all the States, though the demand was raised only by the millers of Punjab. This resulted in not only additional avoidable incidence of subsidy on the GoI to the tune of **₹ 952.37 crore** from the period 2009-10 to 2013-14 but also undue benefit to the millers to the same extent.

(Para 2.1.4)

A large number of deficiencies like non authentication of land holdings of farmers, cases of payments to farmers with doubtful identity, non-obtaining Minimum Support Price (MSP) certificates, non-availability of details of farmers (bank account number, name of village etc.) were noticed in the States of Andhra Pradesh, Haryana, Punjab, Telangana and Uttar Pradesh. The amount of such MSP payments made was **₹ 17,985.49 crore** for which there was no assurance that the farmers actually did get full MSP for their produce from millers/SGAs/FCI in these States.

(Para 3.2.1 and 3.2.2)

A quantity of 82.46 LMT paddy valuing **₹ 9,788.50 crore** was procured by SGAs in Punjab during 2010-11 and 2013-14 under Fair Average Quality (FAQ) specifications but the same was found below specifications during inspection by the Ministry of Consumer Affairs, Food and Public Distribution. Evidently, full payment was made by SGAs in Punjab for paddy even though it was substandard in quality.

(Para 3.3.3)

In Punjab, the millers whose mills were tagged within a distance of eight kilometres were not eligible for transportation charges (as this element was included in the milling charges). However, an amount of **₹ 163.72 crore** was incurred by SGAs on transportation of paddy for these mills thereby passing undue benefit to the rice millers to the same extent.

(Para 4.1.2)

In Uttar Pradesh, Bihar and Chhattisgarh, large quantities of paddy/Custom Milled Rice (CMR) ranging from 14 quintals to 1,800 quintals were transported through doubtful means of transport such as Motorcycle, Auto Rickshaw, Jeep, Taxi, Thela (Jugad), Car etc. In all, the total quantities of paddy/CMR depicted as transported through these doubtful means was 5,744.09 MT valuing **₹ 6.58 crore** indicating possibility of false claims being submitted by the transporters.

(Para 4.4)

B. Observations on milling of paddy and delivery of rice

Despite significant increase in realization value of by-products, milling charges have not been revised since 2005. This resulted in excess net realization of **₹ 3,743 crore** from sale of by-products by the millers in Andhra Pradesh, Chhattisgarh, Telangana and Uttar Pradesh during 2009-10 to 2013-14. This excess realization has been worked out from partial data furnished by selected districts of these four States. The paddy procured in these selected districts in the four States was 395.10 LMT against 2499.37 LMT procured in the country during the five year period, which represented 15.81 *per cent* only, of the total procurement. The actual figure will invariably be much higher, if the GoI undertakes an exercise to ascertain full quantum of excess realization by millers, across the country.

(Para 5.1.1)

In Punjab, the procuring agencies did not recover the applicable penal interest from the millers for delayed milling of paddy/delivery of rice for KMS 2009-10, 2012-13 and 2013-14 resulting in undue benefit of **₹ 159.47 crore** to the millers due to waiver of penal interest.

(Para 6.2)

The paddy given to millers is to be delivered back in the form of resultant rice. Moreover, millers are supposed to deliver levy rice to SGAs/FCI for the Central Pool. However, Audit noticed in the selected districts of Bihar, Haryana, Odisha, Punjab, Uttar Pradesh and Telangana that 15.89 LMT paddy/CMR valuing ₹ 3,042.87 crore and 23.34 LMT of Levy rice valuing ₹ 4,527.91 crore (totalling **₹ 7,570.78 crore**) was not delivered by millers to FCI/SGAs. In absence of collateral security from the millers, the SGAs/FCI had no recourse to recover the value of non delivered CMR. This practice also increases the risk of misappropriation of CMR and diversion to open market of Levy Rice by the millers.

(Para 6.3)

What do we recommend?

1. Based on the instructions issued in Punjab and Haryana, the GoI may consider specifying the minimum quantity of paddy to be filled in each gunny, across the country to optimize gunny utilization and reduce expenditure on this account.
2. The GoI may consider revisiting the decision to allow one *per cent* additional driage allowance after taking expert technical opinion on the matter.
3. In view of the huge amount of State revenue involved, the Ministry may direct FCI to accept Government of Andhra Pradesh's recommendation to deduct Value Added Tax (VAT) at source from private rice millers to ensure timely collection of VAT and revenue to the exchequer.
4. The Ministry may direct FCI/SGAs to ensure that payments for custody and maintenance charges and Society commission are made only after verification of documentary evidences for actual incurrence of expenditure by the SGAs on this account.

5. The Ministry may ensure that payments are released by FCI/State Governments only after obtaining certificates for market fee/tax/cess paid in the previous marketing season.
6. In view of large scale MSP related payments being made without ascertaining the *bonafide* of the farmers, it is recommended that FCI/SGAs may consider direct transfer of MSP payments to the identity linked accounts of the farmers.
7. In view of public health concerns arising from supply of Targeted Public Distribution System food grains without adequately complying with the applicable Standards for toxins, insecticides and pesticides residue, FCI/SGAs may augment the testing facilities for the same.
8. The GoI may devise a mechanism whereby the benefits of relaxation in Fair Average Quality (FAQ), because of adverse weather conditions affecting the crops, may accrue only to the intended beneficiaries, that is the farmers and not to the millers.
9. In view of widespread damage to paddy because of lack of pre-milling storage, the GoI/FCI/State Governments may augment the pre-milling storage capacity to minimise the risk of damage to precious food grains.
10. The State Governments/SGAs should ensure that paddy is given to millers only after obtaining the required security for the paddy.
11. The State Governments may ensure that all mills within a distance of eight kilometres are tagged first, only after which mills situated at further distance may be considered, taking into account the milling capacity and quantity of paddy to be milled.
12. All doubtful cases of transportation of paddy need to be properly investigated by the State Governments concerned and FCI needs to exercise due diligence before passing such claims for payment.
13. The GoI may take up with the State Governments to impress upon the millers to provide the data about milling and other costs to Tariff Commission for timely completion of study for refixation of the milling charges and out-turn ratio.
14. The State Governments/SGAs/FCI may consider a mechanism by way of obtaining bank guarantee from rice millers as collateral security to safeguard against non-delivery of CMR/Levy Rice. Also, it may consider recourse to legal proceedings to recover the value of non- delivered CMR/Levy Rice.
15. Finalisation of procurement incidentals needs to be carried out in a time bound manner by adhering to the prescribed schedule.
16. There is an urgent need to have a mechanism in place to reduce the chances of recycling and to detect old versus new rice. The GoI may consider to evolve a procedure to detect old/ recycled rice delivered by millers.
17. FCI/SGAs may consider augmenting manpower for quality checks at the stage of procurement and redress the weaknesses in monitoring and internal control system for procurement of paddy, milling and delivery operations.