Chapter-II
Performance Audit

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Performance Audit of Government Companies

Punjab State Grains Procurement Corporation Limited

2.1 Procurement, Storage and Delivery of wheat

Highlights

The Punjab State Grains Procurement Corporation Limited (Company) was incorporated (March 2003) with the main objective of procurement, storage and delivery of foodgrains. A performance audit of the Company for the period 2012-17 brought out, *inter alia*, the following important audit findings:

The Company awarded the work relating to preservation, maintenance and security services (PMS) under the Private Entrepreneurs Guarantee Scheme to a single PMS agency. The interests of the Company were compromised on numerous instances: selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement given by FCI to PMS agency, extension of contract period despite its poor performance and non-recovery of deductions made by FCI from the bills of the private agency.

(Paragraph 2.1.9.1)

The Company awarded the silo at Amritsar at equity internal rate of return of 27 *per cent* for 30 year concession period against 15 *per cent* envisaged in its feasibility report which resulted in payment of higher service charges to the concessionaire by ₹115.02 crore during the concession period.

(Paragraph 2.1.11)

The Company awarded 26 silos under Design, Build, Operate and Own (DBOO) model in contravention of the State Government policy for creating silos in Design, Build, Operate and Transfer (DBOT) model and without conducting feasibility study to arrive at the optimal model. Consequently, there was also no basis for the decision to extend higher storage rates to silos constructed under DBOO vis-à-vis DBOT model. Further, 14 silos were awarded to eight ineligible bidders under the DBOO.

(Paragraphs 2.1.13)

There was delay in claiming subsidy under National Food Security Act resulting in avoidable interest cost of ₹108.60 crore.

(Paragraph 2.1.16.a)

The internal control was weak. Evaluation of technical and financial bids for construction of silos was deficient and oversight mechanism for inspection of storage facilities was inadequate.

(Paragraph 2.1.18.1)

Introduction

2.1.1 The Punjab State Grains Procurement Corporation Limited (Company) was incorporated (March 2003) with the main objective of procurement, storage and delivery of foodgrains. The Company along with other state procuring agencies (SPAs) procures foodgrains from various *mandis* allotted to it by the Food and Supplies Department (F&SD) of the State Government at minimum support price (MSP) fixed by the Government of India (GoI) for each crop year on behalf of Food Corporation of India (FCI), which is responsible for national food security. The Company stores wheat in its owned/hired godowns/plinths and delivers the same to FCI as per their movement plan.

Organisational set-up

2.1.2 The Management of the Company is vested in the Board of Directors (BODs) comprising of seven directors who are nominated by the State Government. The Managing Director is the Chief Executive of the Company who is assisted by six General Managers (Finance, Accounts, Procurement, Gunny bales, Storage and Administration), an Advisor and District Managers (DMs). As on March 2017, the Company had 21 district offices each headed by a DM for carrying out its activities.

Audit objectives

2.1.3 The audit objectives of the performance audit were to assess whether:

- award of contracts for creation of storage capacity under various schemes was transparent, economical and efficient;
- procurement and storage of wheat was executed in an efficient, effective and economical manner;
- wheat was delivered as per movement plan given by FCI and claims were raised accurately and timely as per the rates fixed by GoI; and
- internal control system and internal audit was effective, adequate and commensurate with the size and nature of business.

Audit criteria

2.1.4 The audit findings were benchmarked against criteria sourced from the following:

- Instructions/guidelines/policies issued by GoI/State Government/FCI with regard to procurement, storage and delivery of wheat;
- Guidelines issued under Private Entrepreneurs Guarantee (PEG) scheme, 2008 of GoI and Model Tender Form (MTF) prepared by the FCI;
- Guidelines issued by GoI for tendering on Public Private Partnership (PPP) basis and agreements entered with private investors and FCI; and
- Norms prescribed for raising of bills of procurement of wheat and other related expenses at the rates fixed by GoI and their reimbursement from FCI.

Scope and methodology of audit

2.1.5 The issues arising in course of procurement, storage and delivery of wheat by the Company were reviewed in the Report of the Comptroller and Auditor General of India (CAG) No.4 of the year 2010-11, Government of Punjab. The performance audit was under discussion[1] (July 2017) by the Committee on Public Undertakings of the State Legislature. The present performance audit was conducted between October 2016 to March 2017 covering the activities relating to procurement, storage, creation of additional storage capacity including implementation of PEG scheme-2008 and delivery of wheat during the period 2012-17. The audit examination involved scrutiny of records in the head office and six district offices[2] selected through stratified random sampling out of 21 district offices covering 32.44 *per cent* of wheat procurement activity and 30.31 *per cent* of wheat storage activity. The performance audit began with an entry conference held in December 2016. The audit findings were reported (May/July 2017) to the Company and Government and were discussed in the exit conference held in July 2017 with the representatives of the Company. The views expressed in exit conference and replies received from Company/Government (July/November 2017) have been considered while finalising this performance report.

Financial position and working results

2.1.6 The Company had not prepared its annual financial statements for the year 2015-16 till date (July 2017) and had finalised[3] its financial statements of 2012-13 to 2014-15 with delays ranging between 10 and 14 months. The delayed finalisation of accounts led to delay in finalisation of final rates of foodgrain incidentals claimable from FCI which had adverse implication on the liquidity position of the Company.

The financial position of the Company as reported by the Company for the three years ending 31 March 2015 is given in ***Annexure 3***. The annual financial statements approved by the Company attracted adverse comments from the statutory auditors and the CAG during supplementary audit. The impact of the audit comments on the reported financial results during 2012-13 to 2014-15 is as follows:

Table no. 2.1: Working results of the Company

(figures: ₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15
1	Sales and other income	9644.91	11987.98	12583.04
2	Expenditure[4]	9945.03	12479.15	12953.80
3	Profit (+) or loss (-) after tax as reported	(-)300.12	(-)491.17	(-)370.76
4	Impact of comments of Statutory Auditors and CAG	(-)638.16	(-)298.58	(-)426.70
5	Loss after including impact of comments	(-)938.28	(-)789.75	(-)797.46

Source: Annual Reports of the Company

[1] Recommendations are awaited (July 2017).
[2] Amritsar, Fatehgarh Sahib, Jalandhar, Ludhiana, Patiala and Sangrur.
[3] 2012-13: 24 December 2014, 2013-14: 10 August 2015 and 2014-15: 19 September 2016
[4] Includes extra ordinary income/(expenses) of ₹8.05 crore, (₹0.37) crore and (₹0.08) crore for the year 2012-13, 2013-14 and 2014-15 respectively.

The accumulated losses of the Company after considering the comments of Statutory Auditors and those of the CAG, worked out to ₹3041.70 crore as against the reported accumulated losses of ₹2312.19 crore. The net worth of the Company had been fully eroded and was reflecting a negative value of ₹2310.95 crore as on 31 March 2015. The main reasons for losses were inefficiencies in milling operations, non recovery of cost from millers for misappropriated paddy, delayed raising of claims on FCI and damage to foodgrains, non-settlement of pending issues with GoI/FCI in time, delay in finalisation of final rate of incidentals and denial of interest on differential amount by GoI/FCI. The Company carried out its procurement activities by availing cash credit limit (CCL) facility from State Bank of India (SBI).

The Management while admitting the facts assured (July 2017) to prepare the annual financial statements on a timely basis.

Audit findings

Creation of storage capacity

2.1.7 In view of the large gap between available and required storage for foodgrains, the Company undertook the construction of godowns under the Private Entrepreneurs Guarantee (PEG) scheme of GoI for the storage of Food Corporation of India (FCI) stocks and of silos under the public private partnership (PPP) mode for storage of its own stocks. Audit examination of these projects revealed lack of transparency in the contracting process for preservation, maintenance and security services (PMS) services, time over-runs in construction, sub-optimal decisions regarding the management of created capacity etc. as discussed in the succeeding paragraphs.

2.1.8 Augmentation of storage capacity under PEG scheme

The Company was nominated as the nodal agency by the State Government for implementation of PEG scheme, formulated (July 2008) by the GoI to augment the storage capacity. Under the scheme, the Company was to construct the godowns through private entrepreneurs for FCI for which FCI was to pay guaranteed storage charges to private entrepreneurs during the guarantee period. The responsibility of preservation, maintenance and security (PMS) of the foodgrains at the godowns was of the Company for which supervision charges at the rate of 15 *per cent* of guaranteed storage charges were payable by FCI. The Company was responsible for the losses in foodgrain stocks and the storage loss and was free to take PMS services either from the private entrepreneurs or to arrange it through their own staff or through outsourcing.

As against the storage capacity gap of 50 lakh metric ton (MT) identified[5] in the State by the GoI, FCI sanctioned (2010-2014) creation of 42.11 lakh MT capacity to the Company. Against this, the Company got constructed 168 storage godowns of cumulative capacity of 41.96 lakh MT at various locations in the State. Apart from the PEG scheme, the Company is developing four

[5] After taking into account 21 lakh MT capacity shifted to other states by GoI.

silos[6] of two lakh MT capacity for storing its own stocks under Public Private Partnerships (PPP) mode, which are in progress. It awarded (December 2016) contracts for development of another 28 silos of 15.5 lakh MT on PPP mode (***Annexure 4***).

Audit reviewed the creation of additional capacity under the PEG scheme and observed as under.

2.1.8.1 Deviation from tender specifications in construction of godowns

As per the seven year guarantee scheme[7] and 10 year guarantee scheme[7], for construction of a godown of 5000 MT capacity, minimum land requirement as per tender condition for godown and ancillaries was three acres and two acres respectively, and for each additional 1000 MT of storage space, 0.4 acres and 0.34 acres of land respectively. In test check of 103 out of 168 godowns, Audit observed that against the requirement of 204.78 acres for storing 5.05 lakh MT, the Company allotted godowns at 14 locations to 12 bidders on 186.78 acres land, which qualified for creation of 4.58 lakh MT capacity only. This excess allotment of 0.47 lakh MT on undersized land was not only in violation of the laid down minimum requirement of land in tender conditions but would also affect the operational activities within the godown premises.

2.1.8.2 Non invitation of bids for preservation, maintenance and security services along with godown lease

Under PEG scheme, the Company was entitled for reimbursement of godown rent {with or without preservation, maintenance and security (PMS) services} paid to private entrepreneurs along with 15 *per cent* supervision charges. In case the PMS services were arranged separately, the Company was not entitled for any supervision charges for the PMS component. Audit observed that the Company decided (July 2011) to discontinue tendering on lease with PMS service basis on the ground that response against the previous tenders for lease with PMS service was poor and awarded godowns having a capacity of 20.80 lakh MT on lease only basis during 2011-13. Audit further observed that the Company had awarded 13.37 lakh MT godowns on lease with PMS service basis in previous tenders during June 2010 and April/May 2011. In the tender of June 2010, 33 *per cent* of the capacity was tendered on lease cum PMS services basis. Thus, the decision of the Company to discontinue tendering on lease with PMS services led the Company to lose the opportunity to earn supervision charges of ₹24.01 crore[8] during the period of contract. Further, it also incurred losses in outsourcing the PMS to a private agency, as the rates paid to the agency were more than the rate at which reimbursements were made by Food Corporation of India to the Company, as discussed in paragraph 2.1.9.1.

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[6] Including Amritsar silo of 50000 MT capacity already developed in August 2011 and remaining three silos are under completion stage (March 2017).

[7] The storage period guaranteed under the respective scheme by FCI for storage of foodgrains for which godown rent and supervision charges were to be received by the Company.

[8] Calculated on the basis that 33 *per cent* of the capacity being tendered on lease-cum-PMS services basis as was done in the case of previous tenders in June 2010.

During exit conference, the Management accepted (July 2017) the audit contention that lease with PMS services should not have been discontinued.

2.1.8.3 Delay in construction of godowns

As per terms and conditions of the scheme, the godown was to be constructed within a period of one year from the date of acceptance of tender, by the private entrepreneur. Audit observed that the construction of 101 (60 *per cent*) out of 168 godowns, taken over by FCI was completed with delays ranging from 26 to 1042 days as the Company had not evolved proper mechanism to supervise the construction of godowns**.** As the scheme was launched to enhance covered storage facilities to avoid storage of foodgrains in Covered at Plinths[9] (CAP)/open plinths which are vulnerable to deterioration of foodgrains stock, the delay in construction of godowns impacted the availability of covered storage facility to that extent.

The Government replied (November 2017) that the delay was on the part of private entrepreneurs which was beyond the control of the Company. Thus, majority of the godowns were completed with delay, thereby, impacting the achievement of objective of the scheme.

PMS services for PEG godowns

2.1.9.1 The Company was reimbursed PMS charges at the rate of ₹16 per MT per month upto March 2017 by FCI. The same was enhanced to ₹18.10[10] per MT per month with effect from April 2017. The Company awarded the PMS work to a single PMS agency i.e. M/s. Origo Commodities India Private Limited selected through open tender in two phases (Phase-I: 16.97 lakh MT in June 2012 and Phase-II: 10 lakh MT in May 2013) at the rate of ₹18.90 per MT per month and at the rate of ₹21.30 per MT per month respectively. Audit examination revealed that the interests of the Company were compromised on numerous instances i.e. selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement given by FCI to the PMS agency, extension of contract period despite its poor performance and non recovery of deductions made by FCI as discussed below:

a) Tendering for PMS services of phase-I

As per the terms and conditions of the tender invited (June 2012) for PMS services of 16.97 lakh MT capacity godowns, the bidder was required to possess 'immovable assets of ₹10 crore' as technical eligibility and successful bidder was required to deposit performance security at the rate of ₹50 per MT for awarded capacity of godowns.

The Company, however, on the day of closing/opening the bids revised (June 2012) the eligibility conditions as 'immovable assets or net worth of ₹10 crore'. As such, all the prospective parties who might have become eligible to

[9] Covered at Plinth refers to the outdoor stacks of bagged grain, which are covered with waterproof material.
[10] On the basis of 33 *per cent* of average yearly increase in Wholesale Price Index

bid under the revised criteria, did not get adequate opportunity to submit bids. Of the six bids received, five bids were declared (20 June 2017) technically qualified and PMS work was awarded to PMS agency (L-I bidder) based on the five financial bids ranging from ₹18.90 to ₹26.00 per MT per month. Audit examination of audited financial statement of the selected PMS agency for the year ended 31 March 2012 revealed that it did not fulfil the eligibility criteria as its net worth was ₹7.01 crore and did not have any immovable assets. However, the bid evaluation committee declared it technically qualified on the basis of net worth certificate of ₹12.25 crore as per its unaudited financial statements for the quarter ended 30 June 2012. Further, the net worth certificate was issued on 2 July 2012 whereas the PMS agency i.e. M/s Origo Commodities India Private Limited was declared technically qualified on 20 June 2012. The Management could not offer any explanation on the issue.

Further, the mandatory condition of depositing performance security was also relaxed for the selected PMS agency as the Company against the requirement of ₹8.48 crore (₹50 X 16.97 lakh MT), obtained only ₹ two crore as performance security. Had the Company obtained the full performance security, it could have reduced its interest liability towards Cash Credit Limit (availed by the Company for its procurement activities) by ₹ 2.85[11] crore by using the ₹6.48 crore for the purpose.

For phase-I of tendering, the BODs approved (June 2012) the PMS rate of ₹18.90 per MT per month without any enhancement for a period of three years which was further extendable by another four years. The Company, however, without entering into an agreement handed over (July 2012) the PMS operations to the PMS agency. Later, while entering (April 2014) into the agreement, a clause was incorporated stipulating that any PMS rate enhancements approved by FCI would be passed on to the PMS agency. FCI enhanced PMS rate by ₹2.10 per MT per month from April 2017 for the year 2017-18, which shall be passed on to the PMS agency in line with this clause. Thus, due to unjustified inclusion of escalation clause in the agreement, the Company would have to pass on ₹9.62 crore to the PMS agency during the contract period.

b) Tendering for PMS services of phase-II

As per terms and conditions of the tender invited (December 2012) for PMS of 10 lakh MT capacity godowns, the bidder was required to possess immovable assets of ₹10 crore as technical eligibility. The Company received three bids out of which two bids were found technically qualified and PMS work was awarded to PMS agency at L-1 rate. Audit observed that the bid evaluation committee, however, overlooked the criteria for technical eligibility and treated the PMS agency as technically qualified on the basis of its net worth of ₹11.52 crore (as on 30 September 2012), though net worth was not the criteria for determining eligibility, and awarded (May 2013) the work to PMS agency - M/s. Origo Commodities India Private Limited.

[11] Calculated at CCL rate of 11.05 *per cent* per annum (lowest rate of CCL during 2012-17) on ₹6.48 crore (₹8.48 crore - ₹ two crore) from April 2013 to March 2017.

Audit further observed that the Company, without giving any public notice and without recording any justification, reduced the performance security deposit from ₹50 per MT to ₹20 per MT for awarded capacity just one day before the opening of bids on the request of the PMS agency. As such, against the requirement of ₹ five crore, only ₹ two crore were received. These last minute changes in the terms and conditions of tender vitiated the transparency in the bidding process. Due to non-obtaining requisite performance security, the Company could not reduce its interest liability towards CCL by ₹1.65[12] crore by using ₹ three crore for the purpose.

The Management accepted and stated (July 2017) that work was awarded to the PMS agency due to non/less availability of bidders during successive bids. The Government endorsed (November 2017) the reply of Management. The reply is not acceptable as all the prospective bidders were not given adequate opportunity to submit/revise their bids after relaxation of the terms and conditions by the Company.

c) Extension of agreements

As per the terms and conditions of the agreement, it was to remain in force for a period of three years which could be extended for another four years and two years for the first and second phase respectively with mutual consent of the Company and PMS agency**.** The performance of PMS agency with regard to PMS operations was not satisfactory as FCI deducted ₹25.85 crore (upto April 2016) from the Company's bills on account of abnormal storage loss and poor PMS arrangements as discussed in a subsequent paragraph of the Report. Despite the poor performance, the Company extended the contracts with the PMS agency for both phases upto July 2019 and May 2018 respectively.

The Management/Government stated (July/November 2017) that due to peculiar nature of food storage it was not possible to change the PMS agency frequently when the crop maintained by the agency was under liquidation. The reply is not acceptable as the Company should have explored the market for preservation, maintenance and security services of new crops in order to get fresh rate as performance of the existing PMS agency was unsatisfactory.

d) Recovery of deductions

The PMS agency was responsible for storage losses beyond the permissible limit and recovery. As per terms of contract, recoveries by FCI on account of storage loss, if any, were also to be recovered from the bills of PMS work. The FCI makes payments on account of PMS services district wise to the Company after deductions, whereas payment to PMS agency are released at Head Office of the Company. To make reconciliation simpler, the Government decided (January 2013) that the PMS bills would hence forth be released at district level after proper verification. Audit observed that the decision *ibid* was not implemented and payments continued to be released at head office after withholding 20/25 *per cent* of monthly bills but without adjusting fully the amount deducted and withheld by FCI in the district offices. Consequently, as

[12] Calculated at CCL rate of 11.05 *per cent* per annum (lowest rate of CCL during 2012-17) on ₹ three crore {10 lakh MT quantity X (₹50 - ₹ 20)} from May 2013 to May 2018.

of June 2017, there were unrecovered deductions of ₹ 15.36 crore apart from an amount of ₹ 18.14 crore withheld by FCI.

The Management stated (July 2017) that the deductions made by FCI were being recovered from monthly bills of PMS agency in installments. Audit verification revealed (July 2017) that the Company was adjusting the deductions made by FCI upto March 2017 and was not recovering current deductions.

2.1.9.2 Less reimbursement of PMS rate

As the Company was paying higher rate to PMS agency than the rate being reimbursed by FCI as discussed in paragraph 2.1.9.1, the BODs while approving PMS work of first phase decided (June 2012) to take up the matter with FCI for reimbursement of differential amount. Due to higher PMS rate, the Company would have to bear additional cost of ₹70.40 crore during the contract period. However, the matter had yet not been taken up by the Company (July 2017).

The Management while admitting the facts stated (July 2017) that FCI had enhanced the rates prospectively from April 2017. The Government endorsed (November 2017) the reply of Management. The reply is not acceptable as the Company had not taken up issue of reimbursement of differential rate with FCI.

Development of silos for own stocks

2.1.10 With a view to create modern storage facilities under Public Private Partnership (PPP) mode, the GoI decided (March 2011) to provide capital grant upto a maximum of 20 *per cent* of the project cost under viability gap funding (VGF) scheme. However the Company could not avail this opportunity. The Company awarded 26 silos[13] with total payment cost ₹787.60 crore (excluding land) on PPP basis without availing GoI grants of ₹157.52 crore[14].

The Company awarded the work for development of one silo on Build, Operate and Own (BOO) basis, five silos on Design, Build, Operate and Transfer (DBOT) basis and 26 silos on Design, Build, Operate and Own (DBOO) basis:

Build, Operate and Own model

2.1.11 Award of silo at higher service charge

As per feasibility report prepared (January 2010) by International Finance Corporation (consultant) for the State Government, a silo with total project

[13] Excluding Amritsar silo as tenders were invited (March 2010) before the decision of GoI and five silos developed/awarded on DBOT basis where concessional interest loan from NABARD was availed by the Company under Warehousing Infrastructure Fund scheme.
[14] 20 *per cent* of project cost.

cost of ₹38.73 crore was viable at a service charge of ₹1050 per MT[15] per year for concession period of 30 years and would generate equity internal rate of return (IRR) of 15 *per cent* to the concessionaire. However, the Company signed (August 2011) the concession agreement for construction of the silo of 50000 MT on BOO basis at Amritsar for 30 years concession period with M/s. LT Foods Limited (concessionaire) at service charge of ₹1263 per MT per year (Fixed: ₹1175[16] per MT and variable service charge of 7.5 *per cent* of fixed service charge i.e. ₹88 per MT) on total project cost of ₹32 crore. Audit observed that at total project cost of ₹32 crore, the equity IRR was 27 *per cent* and the concessionaire could achieve equity IRR of 15 *per cent* at service charge of ₹900 per MT per year. No exercise was carried out to assess the reasonability before accepting the rates. This would result in extra service charge payment of ₹115.02 crore during the concession period.

The Management stated (July 2017) that during 2010 silo technology was new and, therefore, rate quoted by L-1 bidder was accepted. The reply is not acceptable as rates accepted were higher in comparison to the rates envisaged in the feasibility report and the comments of the consultant regarding reasonability of storage rates were not taken before the award of work of silo.

Design Built Operate and Transfer Model

2.1.12 The Company after inviting tenders on DBOT entered (September 2015) into concession agreements with a concessionaire for development of seven silos having 50000 MT capacity each at different locations[17] with project cost (excluding land) ranging from ₹27.92 crore to ₹27.99 crore for a silo for which a special purpose vehicle was formed by the concessionaire.

The concessionaire was to develop them by constructing silos by March 2016 and for delay beyond 90 days after scheduled completion date, the concessionaire was to pay damages at the rate of 0.25 *per cent* of the amount of performance security for delay of each day. The Company terminated (July 2016) the concession agreement for four silos out of seven as it could not hand over possession of four sites to the concessionaire. Though three sites were handed over during October 2015, the concessionaire did not complete the formalities stipulated[18] in concession agreement required before start of construction upto February 2016. The concessionaire requested (July 2016) for extension upto March 2017 without penalty. The extension was granted (July 2016) without levying the damages of ₹5.77 crore[19] as per the concession agreement.

[15] Fixed service charge: ₹950 per MT and variable service charge: ₹100 per MT.

[16] The rate for the first year and the rate for the subsequent year will be increased in same proportion as increase in CWC storage charges by GoI for that particular year.

[17] Ahmedgarh, Malerkotla, Sunam, Patiala, Khanna, Jagraon and Moga.

[18] Submission of applicable permits, promoter's confirmation regarding correctness of their representation of warranties, legal opinion that agreements duly executed are legal, valid and enforceable etc.

[19] Performance security for three silos ₹8.39 crore X 0.25 *per cent* X 275 days (365-90 days).

The Management stated (July 2017) that due to wide spread religious agitations in the State during October 2015 the construction work was delayed. The Government endorsed (November 2017) the reply of Management. The reply is not tenable as no such reason was cited by the Management to Board of Directors while getting the approval (July 2016) for the extension.

Design, Build, Operate and Own Model

2.1.13 The State Government approved (February 2016) the adoption of DBOT model for creation of 20 lakh MT capacity silo on land to be made available to the Company by Food and Supplies Department, Rural Development Department, Punjab Mandi Board and Co-operative Department. The Company, however, decided (September 2016) to invite tenders for development of five lakh MT silos on DBOT basis and remaining 15 lakh MT on DBOO basis without obtaining any approval for deviating from the Government policy. Accordingly, bids were invited for DBOT model in one round (September 2016) and DBOO model in three rounds (September/ October/November 2016). After calling tenders, the Company awarded only two silos on DBOT model (one lakh MT) and 26 silos (December 2016) on DBOO[20] model (14.50 lakh MT: project cost ₹787.60 crore) without obtaining the approval of the State Government. Audit analysis revealed:

a) Though the eligibility criteria for bidders for both the models i.e. DBOT and DBOO were general and not specific to the structure of the PPP model adopted, the eligibility criteria under DBOT model was more stringent than those under DBOO model. As a result, against the tender capacity of 4.75 lakh MT in DBOT, the Company could award silos of one lakh MT (21 *per cent*). Whereas under DBOO model, the Company awarded 14.5 lakh MT capacity (88 *per cent*) against the tender capacity of 16.5 lakh MT. After that, the Company did not make any effort to re-tender the remaining capacity under DBOT model. In addition to this, eight ineligible bidders were awarded 14 silos under the DBOO model (as discussed below), none of whom would have been eligible under the DBOT model.

b) The storage rate given to concessionaires under the DBOO model (CWC rate) was higher than that under the DBOT model (FCI rate) by 35 *per cent* to 57 *per cent*[21]. For DBOT model, NABARD had sanctioned a concessional loan (1.5 *per cent* below its bank rate) and the Company would have also been entitled to a minimum premium at the rate of 25 *per cent* of the project cost from the concessionaires. In DBOO, land was to be arranged by the concessionaires while under DBOT it was the Company's responsibility. In spite of such variables at play, the Company did not conduct any feasibility study to arrive at the optimal model. Consequently, there was also no basis for the decision to extend higher storage rates to silos constructed under DBOO vis-à-vis DBOT model.

The Management stated (July 2017) that due to non-availability of land the Company had to go with DBOO model. The reply is not acceptable as the

[20] At storage charges ranging from 99 to 100 *per cent* of CWC custody and maintenance charges fixed by GoI.

[21] Based on comparison of latest available CWC rate and FCI rate during period 2009-14.

Company had not recorded the issue of non-availability of land in the detailed note submitted for obtaining approval of Managing Director regarding DBOO model for tendering of silos.

The Management added (July 2017) that the feasibility study for DBOO model was not conducted to avoid additional cost. The reply is not acceptable as the Company had paid only ₹15 lakh plus service tax to a consultant for preparation of feasibility report for ten silos on DBOT basis. This is not a substantial amount when compared to the total project cost of ₹787.60 crore. A feasibility study would have not only thrown up the optimal option for developing the silo storage but also provided a basis for assessing the reasonability of storage rate received through tendering process. Besides, the Company deviated from Government decision for awarding the work on DBOT basis without approval which was irregular.

c) On tendering for development of 14 silos under DBOO model, single bids were received. The Company did not make any attempt to re-invite the bids in order to get competitive rates and awarded the 14 silos having total project cost of ₹380.80 crore on the single bid basis to six bidders. Acceptance of single bids did not allow the Company to assess the reasonability of rates quoted by single bidders especially as the Company had no previous reference rate for storage charges under the DBOO model.

The Management assured (July 2017) to remove the deficiency in future.

d) As per the terms of request for proposal (RFP), to demonstrate threshold technical capacity, a bidder was to have experience of developing core sector[22] projects whose capital cost of the project was more than ₹15 crore and should have been undertaken on PPP basis on BOT[23], BOLT, BOO, BOOT and DBOT. Also, sum of cost of such projects and the revenue appropriated therefrom should be more than ₹50 crore over the past five financial years. Audit observed that three bidders to whom seven silos of 50000 MT each were allotted under DBOO model did not possess the experience and threshold technical capacity. The sum of capital cost and revenue appropriated from the projects for these three bidders, for the last five years, were ₹ nil[24], ₹13.12[25] crore and ₹40.48[26] crore respectively and were thus technically ineligible.

The Management replied (July 2017) that they had considered additional documents relating to projects/works experience executed by the bidders apart

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[22] Road, highway, bridges, power, telecom, ports, airports, railway, metro rail, logistics park, pipe lines, irrigation, water supply, sewerage and electrification including rural electrification projects.

[23] BOT: Built, operate and transfer; BOLT: Built, operate, lease, and transfer; BOO: Built, operate and own; BOOT: Built, operate, own and transfer; DBOT: Design, built, operate and transfer.

[24] Corresponding amount works out to ₹40.01 crore, however, the same was considered as nil as the projects/works executed by the bidder did not fall under core sector/PPP project.

[25] Corresponding amount works out to ₹46.89 crore, however, the same was considered as ₹13.12 crore as one project executed by the bidder did not fall under PPP project.

[26] Capital expenditure of ₹15.84 crore on construction of PEG godown, treated as logistic park under core sector during tendering, was not considered in experience of bidder as godown alone cannot be termed as logistic park.

from those submitted along with their bids. The reply is not acceptable as considering additional documents for experience at evaluation stage without recording proper justification vitiated the transparency of tender process. Moreover, even after considering additional documents, these bidders did not fulfil the criteria as mentioned above.

e) As per the terms of RFP, a bidder (a single entity or consortium) applying individually or as a member of a consortium as the case may be, could not be a member of another bidder consortium for the project. Audit observed that in five different consortiums to whom seven[27] silos were allotted under DBOO model, the PMS agency was the common partner. Hence, these consortiums were not technically qualified.

The Management stated (July 2017) that since the bidding was site wise and not for the project as a whole, as such different parties participated in different sites in different consortiums. The Government endorsed (November 2017) the reply of Management. The reply is not acceptable as terms and conditions of RFP prohibited a bidder from becoming a member of another bidder consortium for the project and as per RFP "project" means construction of wheat silo within the State of Punjab.

Procurement and storage of wheat

2.1.14. The Company procures wheat at minimum support price fixed by the Government of India and delivers it to FCI.

Table 2.2 below indicates targets for procurement of wheat fixed by the State Government and actual procurement made by the Company during the last five years up to March 2017.

Table no. 2.2: Targets vis-a-vis actual procurement of wheat

(Qty in lakh MT)

Year	Total procurement target for the State	Target for the Company		Total procurement by the State	Actual procurement by the Company		Excess(+) /Shortfall(-) in	
		Quantity	*Percent**		Quantity	*Per cent**	Quantity	*Per cent**
RMS 2012-13	115.00	23.00	20.00	129.35	22.33	17.26	(-) 0.67	(-) 2.74
RMS 2013-14	140.00	28.00	20.00	111.42	20.22	18.15	(-) 7.78	(-) 1.85
RMS 2014-15	115.00	23.00	20.00	119.04	22.24	18.68	(-) 0.76	(-) 1.32
RMS 2015-16	125.00	25.00	20.00	104.91	20.95	19.97	(-) 4.05	(-) 0.03
RMS 2016-17	129.00	25.80	20.00	108.10	22.51	20.82	(-) 3.29	(+) 0.82
Total		**124.80**	**20.00**		**108.25**	**18.90**	**(-) 16.55**	**(-)1.10**

*indicates percentage of total procurement of the State

Source: Information provided by the Company

The cost incurred on procurement operations are initially met by the Company out of the cash credit limit (CCL) extended to it and later reimbursed by FCI on the basis of provisional cost sheet initially and then adjusted on the basis of final costs for various components finalised by GoI/FCI. The review of the procurement operations revealed that the Company incurred losses on account of poor storage and short reimbursement of some elements of cost.

[27] Jalandhar, Sangrur, Batala, Malout, Talwandi Bhai, Faridkot and Morinda.

2.1.14.1 Short reimbursement of cost in final rates

a) GoI, while finalising the rates for Rabi Marketing Season (RMS) 2012-13, asked (March 2016) the State Government/Company to submit detailed cost break up of all the elements/activities claimed under forwarding charges along with justification for each element/activity. Audit observed that the State Government/Company did not submit the required details in the absence of which Government of India fixed (April 2016) the forwarding charges at the rate of ₹1.99 per quintal as was applicable for RMS 2011-12. Resultantly, against the expenditure of ₹6.97 crore, only ₹4.04 crore were reimbursed to the Company.

b) The Company paid guarantee fee of ₹4.21 crore to the State Government at the rate of 1/8 *per cent* of the CCL availed for RMS 2012-13. In the final rates (April 2016) for RMS 2012-13, the reimbursement of guarantee fee was not allowed by GoI on the ground that the State Government gave only indemnity and no guarantee was furnished to the bank. The Company, however, did not raise the matter with the State Government for refund of the guarantee fee.

The Management stated (July 2017) that the matter was taken up with GoI/ FCI.

2.1.14.2 Storage of wheat

As per guidelines (June 2005) of GoI wheat procured should ordinarily be stored in covered godowns and covered at plinths (CAP) should be arranged only in extremely unavoidable circumstances. Table 2.3 below shows year wise storage requirement of the Company, available covered storage capacity and shortfall during the years 2012-17.

Table no. 2.3: Position of wheat storage during 2012-17

(Qty in lakh MT)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Wheat procured by Company	22.33	20.22	22.24	20.95	22.51
Direct delivery from *mandis* to FCI	2.29	4.44	4.47	9.74	5.74
Wheat to be stored	20.04	15.78	17.77	11.21	16.77
Covered storage capacity available	2.10	2.45	2.53	3.45	5.99
Shortfall of covered capacity	17.94	13.33	15.24	7.76	10.78
Percentage of shortfall of covered storage capacity	89.52	84.47	85.76	69.22	64.28

Source: Information provided by the Company

Audit noticed that due to delay in completion of silos as discussed in paragraph 2.1.12, the Company faced shortage of covered storage capacity. Most of the procured wheat was stored on CAP.

2.1.14.3 Inadequate quality control during storage

Preservation and maintenance of quality is of utmost importance in the storage of wheat. Audit observed that quality control measures to ensure safe storage of wheat stock were inadequate. Despite detailed guidelines (November 2013) from the Head Office of the Company, none of the selected district offices had maintained stack wise record of wheat stocks to show progressive condition and degree of deterioration. Even the system of conducting regular and surprise inspections by senior officers prescribed (December 2013) by the Head Office was not implemented. Further, four district offices (Ludhiana, Sangrur, Amritsar and Jalandhar) had not obtained licenses for the years 2015-17 as required under Food and Safety Standard Act, 2006. Instances of storing wheat at low lying plinths, inadequate fumigation of wheat stock, wild vegetation in storage area were also noticed.

Audit observed that out of total wheat procurement of 85.74 lakh MT during 2012-16, 0.86 lakh MT of wheat valuing ₹135.09 crore was damaged due to CAP storage, inadequate quality control measures and due to non-initiation of timely action to segregate and upgrade wheat stock within the stipulated period of three months. Out of this, 0.35 lakh MT wheat pertaining to crop years 2012-14 valuing ₹54.07 crore was disposed off at ₹11.76 crore. The balance wheat was awaiting (March 2017) disposal.

The Management assured (July 2017) to take corrective action.

Delivery of wheat and raising of claims

2.1.15 As in the case of procurement and storage, the operations surrounding the delivery of wheat to Food Corporation of India were also marred by inefficiencies as discussed below:

a) Non observance of instructions

While GoI approved (November 2012) interim storage gain[28] norms of one *per cent* and 0.7 *per cent* for wheat stored in covered godowns and covered at plinths respectively on wheat delivered to FCI after 30 June of each year, the State Government instructed (April 1999) that storage gain was to be confined to the first year of storage only. Audit observed that the selected district offices were not passing the required gain to FCI after the first year in view of State Government instructions resulting in non observance of the GoI norms. Consequently, five district offices[29] short delivered storage gain of 3041.40 MT wheat valuing ₹4.87 crore during RMS 2012-13 to 2014-15. The Company had also not evolved any mechanism to record the moisture content at the time of procurement, storage and delivery as per directions of GoI in order to settle claim regarding moisture gain in future.

b) Deduction for moisture gain by FCI

The GoI norm for moisture gain does not apply in case wheat is stored in silos as wheat does not gain moisture during storage in silos. However, FCI deducted ₹1.04 crore due to moisture gain on delivery of wheat delivered from silo at Amritsar. The Company had not taken up the matter with GoI for instructing FCI not to apply moisture gain norms on wheat delivered from silo.

The Management assured (July 2017) to take corrective action.

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[28] Storage gain is increase in weight of wheat grain due to moisture. The norms are pending finalisation of study by Indian Council of Agricultural Research on the matter.

[29] Except Fatehgarh Sahib where RMS crop was delivered in the first year itself.

c) Non-providing of direct delivery

The Company was required to deliver the wheat procured from *mandis* directly to FCI godowns/railheads as per FCI directions. No carry over charges are paid by FCI for wheat delivered directly from mandis. FCI demanded (April 2014) direct delivery of wheat to its Bhagtawala and Vallah centres in Amritsar district. Audit observed that the Company despite having sufficient wheat procurement in the nearby eight centres[30], short delivered 10915 MT of wheat. Consequently, FCI recovered (March 2016) ₹5.15 crore from the sale bill on account of carry over charges due to non-providing of direct delivery of wheat.

The Management assured (July 2017) to take corrective action.

Raising of claims

2.1.16 Delayed raising/non-raising/short claiming of bills

To reduce the burden of interest on outstanding CCL, the Company was to prefer its claims in timely manner with the GoI/FCI. Audit noticed that the Company preferred its claims with delay which led to increase in its interest burden as discussed below:

a) The Company being the nodal agency of State Government, was to procure and deliver wheat and claim the subsidy (difference between economic cost and central issue price of ₹ two per kilogram) from GoI under National Food Security Act, 2013 (NFSA). The Company preferred (April 2015) the claim for subsidy of ₹503.38 crore for the period June 2014 to November 2014. GoI requested (April 2015) the Company to furnish the month wise off-take i.e. distribution statement authenticated by FCI. Audit observed that the Company could supply the desired statement only in December 2015. It was seen that the claim submitted by the Company did not tally with the records maintained by FCI. Resultantly, a revised consolidated claim of ₹615.48 crore from June 2014 to March 2015 was submitted (February 2016) to the GoI and payment of ₹602.05 crore there against (after withholding five *per cent* variable cost) was released in March/April 2016. The delay in preferring the claim, attributed to delayed supply of information by the district offices and delay in obtaining the off-take statement from FCI, resulted in avoidable interest burden of ₹81.33[31] crore. Similarly, delays in raising quarterly claims for subsidy ranging from one to six months during 2015-17 resulted in a interest burden of ₹27.27[31] crore.

The Management stated (July 2017) that as the scheme was new, the Company faced difficulties in claiming the subsidy. The reply is not acceptable as the issue is regarding delay in arranging the requisite documents from district offices for raising the claim.

b) The Company was required to pay infrastructure development (ID) cess at the rate of three *per cent* of the MSP to the State Government which was to be

[30] Bhilowal, Chamyan, Guru ka Bagh , Jasraur, Lopoke, Manawala, Rajasansi and Verka.
[31] Calculated at the rate of 11.01 *per cent* (the lowest rate of CCL limit during 2012-17).

reimbursed to it by GoI/FCI. GoI approved (October 2014) ID cess at the rate of two *per cent* of the MSP in the provisional cost sheet of RMS 2014-15 for the NFSA/central pool. This was subsequently revised and GoI allowed (January 2015) reimbursement of ID cess at the full rate of three *per cent*. However, the Company continued to claim reimbursement at two *per cent* of the MSP. It, however, took up (March 2017) the matter with GoI for reimbursement of ID cess of additional one *per cent* for wheat procured under the NFSA only at the instance of Audit (December 2016). The reimbursement of ID cess for NFSA amounting to ₹10.02 crore for crop year 2014-15 was still pending (March 2017). Consequently, the Company had to bear interest cost of ₹1.73 crore[31].

The Management stated (July 2017) that due to non-inclusion of the ID cess at rate of three *per cent* in the provisional rates, the same could not be reimbursed. The reply is not acceptable as GoI had allowed reimbursement of differential ID cess in January 2015.

c) As per GoI rates, carry over charges (COC) were payable on MSP, incidentals (including storage charges) and VAT on monthly compound interest basis. Audit observed that the Company had not raised claims of COC of ₹27.27 crore on element of VAT against the wheat delivered from July onwards during RMS 2012-17 in 16 district offices[32]. Further, five out of six selected district offices (except Ludhiana) short claimed the COC by ₹3.14 crore during RMS 2012-17 by not considering the storage charges on monthly compound interest basis.

d) As per instructions issued (June 2008) by the State Government, field staff is required to get the dispatch documents from FCI within seven days from the date of delivery and district office is to raise sale bills within 24 hours of receipt of dispatch documents. Audit observed that in selected districts out of total 3836 sale bills, 845 bills (22 *per cent*) were raised with a delay ranging from one to 185 days (after allowing a margin of 10 days from the date of dispatch) during RMS 2012-17 resulting in an interest cost of ₹4.66 crore[31].

e) The Company filled wheat in jute as well as polypropylene (PP) bags. The GoI while circulating (April 2013) the rates of RMS 2013-14, did not include the cost of PP bags in provisional cost sheet. Audit observed that FCI, as an interim arrangement, was reimbursing the cost of PP bags at the previous year's rates. However, three selected district offices (Sangrur, Ludhiana and Amritsar) did not raise their claims of ₹6.03 crore on previous year's rates, resulting in interest cost of ₹1.64 crore[31].

f) The district offices are to raise monthly claims for PMS and supervision charges for PEG godowns. Audit observed that in four selected districts offices (Fatehgarh Sahib, Ludhiana, Patiala and Sangrur) there was delay in raising claims ranging from one to 514 days in 1428 cases (82 *per cent*) out of total 1740 cases during 2013-17. The reason for delay was failure of the Company to arrange the PMS certificate from the PMS agency on time, resulting in interest cost of ₹0.88 crore.

[32] Except district offices Hoshiarpur, Ropar, Fazilka, Moga and Ferozepur.

g) Till the approval of the rates of RMS by the GoI, the district offices claim the MSP only. After the provisional/final rates are approved, the claims for differential in incidentals are raised. Audit observed that all the selected district offices (except Sangrur) claimed the incidentals of ₹64.23 crore after delay ranging from seven to 350 days (after giving a margin of 15 days) resulting in interest cost of ₹1.33 crore[31].

h) In terms of GoI instructions (December 1970/2001), FCI is to release payments within 24 hours of submission of the sale bills. Otherwise, interest at bank rates will have to be paid. Audit observed that in four selected district offices (Patiala, Fatehgarh Sahib, Ludhiana and Jalandhar), in 397 bills out of 3836 bills, FCI made payments with delay ranging one to 69 days during 2012-17. However, no claims were raised for reimbursement of interest cost of ₹0.61 crore[31].

The Management assured (July 2017) necessary action on the above issues.

Non reimbursement of procurement incidental costs

2.1.17 Provisional rates for the year 2012-17 did not include some elements of costs, which were incurred in the normal course of procurement operations. As a result, the same could not be reimbursed to the Company.

a) The Company had not been reimbursed interest element on *arhitia* commission for the average holding period of foodgrains upto June of respective crop year. The same worked out to ₹6.19 crore during RMS 2012-17.

b) GoI had not fixed any norms for replacement of gunny bags requiring replacement due to torn condition/spillage at the time of delivery of wheat after RMS 2004-05. The Company incurred ₹4.22 crore on replacing 10.75 lakh gunny bags during 2012-16 in selected district offices. This amount was not reimbursed.

c) Custody and maintenance charges for the delivery of wheat from the covered godowns for the period April to June of respective crop year was not included in provisional rates. This has resulted in short reimbursement of ₹4.86 crore to the Company during RMS 2013-17 in selected district offices.

The Management stated (July 2017) that the matter was under consideration with GoI/FCI.

Internal control and internal audit

2.1.18.1 Internal control is a management tool used to provide reasonable assurance that the objectives are being achieved in an economic, efficient and effective manner. Audit observed weaknesses in internal controls as evidenced by the following:

- The Company was getting the approval of BODs on important issues without placing any formal agenda in advance. During 2012-16, BODs approved 68 proposals relating to silos, PMS operations, construction of godowns and regularisation of service of contractual employees etc. which were placed before it as "additional items with the permission of the Chair", without any advance formal agenda papers. In most of these cases, such agenda items were approved and important decisions taken in the same meetings;

- In the tendering for silos, evaluation of technical and financial bids was deficient as the Company did not carry out any financial analysis of the L1 bid in order to assess the return on investment earned by the L1 bidder in 32 silos awarded;
- Independent engineer (IE) was to be appointed before commencement of the construction but the Company had appointed IE after completion or partial completion of silos in all the four silos developed so far;
- Oversight mechanism for inspection of storage facilities was inadequate as pointed out in paragraph 2.1.14.3;
- Mechanism for assessing the health of the wheat stock was weak as pointed out in paragraph 2.1.14.3, and;
- Adequate system to ensure timely raising of claims and recovery thereof was lacking as pointed out in paragraphs 2.1.16.

2.1.18.2 Internal audit is a managerial control for evaluating the prevailing systems, procedures and operations of the organisation. The Company has neither framed any internal audit manual nor has evolved appropriate system for the internal audit of its operations and activities.

The Management assured (July 2017) remedial action.

Conclusion

The performance of the Company with regard to implementation of PEG scheme, development of silos, storage and delivery of wheat was sub-optimal. The interests of the Company were compromised while awarding of contract for PMS work at different stages; selection of ineligible agency, granting relaxation in obtaining performance security, passing of enhancement given by FCI to PMS agency, extension of contract period despite its poor performance and non recovery of deductions made by FCI from the bills of the PMS agency. The work for development of Amritsar silos on BOO basis for 30 years was awarded at equity IRR of 27 *per cent* against the recommended rate of 15 *per cent*. Twenty-six silos were developed on DBOO model in contravention of the policy of the State Government which envisaged development of silos on DBOT basis. Fourteen silos were awarded to eight bidders who were not technically qualified under DBOO model. The quality control mechanism to ensure safety of wheat stock during storage was not adequate resulting in damage of wheat. The Company had to bear interest cost as it failed to lodge timely claims with FCI/GoI within the stipulated period showing an ineffective internal control system.

Recommendations

The Company and Government may consider:

- Implementing the decision of verification and release of payments of PMS bills at the district office level for adjusting deductions made by FCI.
- Strengthening its mechanism for evaluation of technical and financial bids during tendering.
- Taking up the matter with the GoI for relaxing storage gain in wheat stored in the silos.
- Submitting the detailed justification before the GoI for claiming its actual expenditures not reimbursed in the provisional/final rates.
- Ensuring timely raising of various claims to FCI/GoI and make efforts in getting cost sheets revised for its uncovered elements of incidental costs.