PART - II

Chapter - V
Compliance Audit observations relating to PSUs other than Power Sector

Chapter-V

Compliance Audit observations relating to PSUs other than Power sector

Audit of Transactions

Important audit issues noticed in test check of transactions of the State Government companies and Statutory Corporations relating to other than power sector have been included in this chapter. The chapter contains five paragraphs having a financial implication of ₹ 73.93 crore.

Punjab State Grains Procurement Corporation Limited and Punjab State Warehousing Corporation

5.1 Loss due to multiple violations of Custom Milling Policy

Violations in implementation of Custom Milling Policy and inadequate control over milling operations by the State Procurement Agencies, led to misappropriation of paddy stocks valuing ₹ 35.69 crore.

Punjab State Grains Procurement Corporation Limited (PUNGRAIN) and Punjab State Warehousing Corporation (PSWC) procure paddy for Central Pool on behalf of the Government of India (GoI), store it with allotted rice millers for milling and deliver resultant rice to Food Corporation of India (FCI).

In line with the Custom Milling Policy (CMP) of the State Government for Kharif Marketing Season (KMS) 2017-18, the district office Amritsar of PUNGRAIN and PSWC allotted 33,054.26 MT and 16,796.36 MT of paddy to a rice miller[1]. The miller was to deliver 22,146.36 MT and 11,253.56 MT of rice respectively, of the two agencies to FCI upto 31 March 2018. The miller did not adhere to the delivery schedule and delivered only 9,066.93 MT (40.94 *per cent*) and 5,154.05 MT (45.80 *per cent*) of rice upto 31 March 2018. Thereafter, the miller was found absconding since 2 April 2018.

The physical verification of paddy stock conducted (5 April 2018) at mill by the Committee constituted for physical verification of stock by Director of Food, Civil Supplies and Consumer Affairs, Government of Punjab (DFSC) revealed shortage of approximately 16,929.40 MT paddy and a police FIR was lodged (April 2018) against the miller. Meanwhile, the State Government extended the date of milling the paddy of KMS 2017-18 to 15 June 2018 and as per directions (April 2018) of the State Government, both the State Procuring Agencies (SPAs) got the balance available paddy milled from other

[1] M/s Viroo Mal Mulkh Raj Jain Rice Mills, Amritsar.

allotted rice millers. The final shortage was arrived at 18,667.92 MT of paddy, equivalent to 12,507.51 MT rice valuing ₹ 35.69[2] crore.

Audit observed (July 2018) the following violations of CMP on the part of DFSC, District Managers and field staff of both the SPAs:

- As per CMP**,** each rice mill was to be allotted to a single SPA, even if two rice mills were situated within the same boundary wall. In contravention to the CMP, two rice mill units situated in same boundary wall were allotted to different SPAs i.e. Unit-1 with 11 MT capacity to PUNGRAIN and Unit-II with 7 MT capacity to PSWC.

- Due to bifurcation of capacity of the miller into two units (11 MT + 7 MT) the miller was made eligible for allotment of 60,200 MT of paddy against the maximum eligible quantity of 33,600[3] MT for single unit of 18 MT. Resultantly, 16,250.62[4] MT paddy was allotted in excess of the eligibility of the miller.

- As per CMP, the initial storage as well as bi-monthly physical verification of stock was required to be videographed which was not done by PUNGRAIN.

- As per CMP, the miller was restricted to pledge the paddy stocks belonging to the SPAs. A consolidated list of rice mills allotted and paddy stored by SPAs was required to be intimated to the lead banks. However, SPAs failed to exercise control over the operations and miller had pledged/ hypothecated the paddy stock which were not their property to a bank for availing cash credit limit.

- As per CMP, the paddy was to be issued to the miller in lots of 200 MT each through release order after obtaining advance rice. However, this system of issue of paddy against advance rice was not adhered to.

- The CMP to safeguard the SPAs provided that in case the miller failed to deliver the rice within the stipulated schedule, the SPA was to shift the paddy stock to other millers at the risk and cost of defaulting miller. Though, the shortage in pace of milling of paddy against the norms ranged from 20.82 to 59.06 *per cent* in respect of PUNGRAIN and 22.69 to 54.20 *per cent* in respect of PSWC during December 2017 to March 2018, both SPAs had not taken any action to shift the paddy to other rice mills.

- CMP provides for physical verification of the paddy stocks to be conducted on fortnightly basis. In the physical verification reports, no shortage was reported by PSWC (upto 28 March 2018) and PUNGRAIN (upto 20 March 2018), however, physical verification of

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2 12,507.51 MT rice x ₹ 28,673.90 = ₹ 35.86 crore as reduced by ₹ 0.17 crore being the value of demand drafts kept as security and encashed.

3 Entitlement: 12,000 MT (basic as per capacity) + 4,800 MT (40 *per cent* for border districts) + 16,800 MT (as per Release Order) = Total 33,600 MT.

4 Total paddy allotted i.e. 49,850.62 MT *minus* entitlement i.e. 33,600 MT.

stock at mill premises by the Committee reported (5 April 2018) shortage of 16,929.40 MT paddy. The shortage of such huge quantity of paddy in a short span of time is indicative of inadequate physical verification.

- Undated cheques received from the miller as guarantee were not presented to the bank for encashment by either of the agencies (February 2020).

Thus, multiple violations of CMP and inadequate control over milling operations by the SPAs led to misappropriation of paddy stocks worth ₹ 35.69 crore. A challan in the case presented in Court is pending (September 2020).

It is recommended that SPAs may adhere to the terms and conditions of CMP in totality to safeguard their financial interests and fix the responsibility of the delinquent employees.

The matter was referred to both the SPAs and the Government (January 2019); their replies were awaited (September 2020).

Punjab State Grains Procurement Corporation Limited

5.2 Loss due to not accounting of storage gain

Non-observance of instructions regarding accounting for storage gain under decentralised procurement for the National Food Security Act, 2013 resulted in loss of ₹ 28.15 crore to the Company.

The Government of India (GoI) enacted the National Food Security Act, 2013 (NFSA) to provide food and nutritional security to the people of the country. Government of Punjab (GoP) implemented (December 2013) NFSA through the Punjab State Grains Procurement Corporation Limited (Company) which was declared as the nodal agency. Under the scheme, wheat[5] was to be distributed to the eligible beneficiaries (at the rate of ₹ 2 per Kg) through Fair Price Shops (FPS). On permission received from the GoI, wheat was being distributed twice a year, first for the months of April-September and then October to March.

A Memorandum of understanding was signed (April 2016) between GoI and GoP for undertaking decentralised procurement of wheat for Rabi Marketing Season 2016-17 onwards. As per MoU, the Company being designated agency procures wheat and distributes it to the beneficiaries through FPSs. Then, the Company claims the subsidy[6] on quarterly basis from the GoI after adjusting sale realisation of ₹ 2,000 per MT from the beneficiaries.

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[5] Five kg of wheat per person per month belonging to priority households and thirty five kg of wheat per household per month covered under Antyodaya Anna Yojana.

[6] Cost as per provisional economic cost for DCP operations of that particular RMS crop year minus sale proceeds of ₹ two per kg.

The GoI, while circulating provisional economic cost of wheat for distribution under decentralised procurement system (DCP) for Rabi Marketing Season (RMS) 2014-15 to 2017-18[7], stated that storage gain is to be calculated at the rate of one *per cent* for wheat stored in covered godowns and 0.7 *per cent* for wheat stored under covered at plinth (CAP) on sums of Minimum Support Price, statutory charges, mandi labour charges and transportation and handling charges of acquisition cost and one time storage gain was to be realised irrespective of the period of storage on the wheat distributed after 30 June every year. The State Government requested (August 2017) the GoI for exemption from deducting mandatory storage gain stating that the wheat allocated for NFSA is stored in bags of 30 kg each and it was impractical to re-open the bag and take out quantity of 300 grams. However, the GoI turned down (October 2017) the request of the State Government stating that the norms fixed for storage gain in wheat issued (November 2012) for central pool stocks were uniformly applicable to all the State Governments and their agencies.

Audit observed (May 2018) that the district offices of the Company were not deducting the required storage gain from the wheat stock distributed under NFSA through ration depots as per the instructions issued by the GoI. Scrutiny of the records revealed that 25.59[8] lakh MT wheat under DCP was distributed upto 31 March 2018 for RMS 2014-15 to RMS 2017-18, from the month of July of each crop year against which storage gain of 16,547.47 MT (as segregated data of wheat stored at CAP and at covered space was made available by only eight districts, the computation of storage gain has been done by considering that wheat was stored at CAP) amounting to ₹ 28.15 crore was not deducted. The benefit of enhanced weight due to moisture gain was passed on to the beneficiaries of NFSA. Thus, non-deduction of storage gain on wheat purchased under DCP resulted in the loss of ₹ 28.15 crore to the Company.

It is recommended that the Company may ensure compliance of the instructions of the GoI and should also evolve a mechanism to deduct and account for storage gain separately for wheat stored at CAP and at covered godowns on the wheat distributed after 30 June every year.

The matter was referred to the Government and the Company (June 2019); their replies were awaited (September 2020).

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7 Mandatory storage gain was relaxed to the extent of 50 *per cent* (i.e. 0.5 *per cent* gain in covered godowns and 0.35 *per cent* gain in respect of open storage) for wheat procured during RMS 2015-16 as a special case.

8 RMS 2014-15: 6,69,376.37 MT, RMS 2015-16: 3,90,675.81 MT, RMS 2016-17: 7,50,686.86 MT and RMS 2017-18: 7,48,525.60 MT.

5.3 Non timely verification of deductions made by FCI

The Company did not undertake timely verification of excess deductions made by the FCI towards cost of gunny bags and interest. The delayed receipt of deductions, cost the Company an avoidable interest burden of ₹ 1.67 crore.

Punjab State Grains Procurement Corporation Limited (Company) is engaged in food grains procurement operations for central pool on behalf of Food Corporation of India (FCI)/ Government of India (GoI). The procured grain (wheat and paddy) is collected and stored in gunny bags for delivery to FCI. For execution of its operations, the Company obtains and also extends gunny bags on loan to FCI.

Audit observed (July 2018) at district office, Moga of the Company that 56,18,739 gunny bags had been taken on loan during 2014-17 from FCI but were not returned physically. FCI, therefore, deducted ₹ 66.76 crore (September 2017 to December 2017) from claims of the Company (₹ 28.51 crore towards cost of gunny bags, ₹ 1.72 crore for Value Added Tax (VAT) and ₹ 36.53 crore for interest on cost of gunny bags). However, interest cost of ₹ 36.53 crore once again included the cost of gunny bags i.e. ₹ 28.51 crore. On being pointed out (4 July 2018) by Audit, the district office raised the claim with FCI and got the wrong inclusion of cost of bags of ₹ 28.51 crore rectified. FCI refunded (5 July 2018) the amount to the Company. This blockage of funds due to excess deductions made by FCI cost the Company an avoidable interest burden of ₹ 1.42 crore[9].

Audit further observed that the interest of ₹ 8.02 crore charged by FCI was over calculated. At the instance of Audit, the Company took up (25 July 2018) the matter with FCI and obtained refund (6 September 2018) of ₹ 3.71[10] crore. This blockage of funds cost the Company avoidable interest burden of ₹ 0.25 crore[11].

Thus, the delayed verification of deductions made by FCI by the District Manager Moga, on account of cost of gunny bags and interest imposed, resulted in the Company having to bear avoidable interest burden of ₹ 1.67 crore.

It is recommended that the Company may review its entire operations with FCI to avoid inflated deductions.

The matter was referred to the Company and the State Government (November 2018), their replies were awaited (September 2020).

9 @ 10.03 *per cent per annum* on ₹ 28.51 crore from 01 January 2018 to 30 June 2018.

10 Calculated from the period of sanction upto 27 September 2017.

11 @ 10.03 *per cent per annum* on ₹ 3.71 crore from 01 January 2018 to 5 September 2018.

5.4 Short claiming of subsidy

Raising of subsidy claims for wheat stored in covered storage at the rates for open storage, led to short claiming of subsidy of ₹ 4.47 crore from the Government of India and consequential interest cost of ₹ 0.75 crore to the Company.

The Government of India (GoI) enacted National Food Security Act (NFSA), 2013 to provide food and nutritional security to the identified households by ensuring access to adequate quantity of quality food grains at affordable prices. Under the NFSA, every beneficiary is entitled to receive food grains at subsidised rates from the State Government through the targeted public distribution system. In the State, the Department of Food, Civil Supplies and Consumer Affairs implemented (December 2013) the NFSA under which wheat was to be distributed to the beneficiaries at the rate of ₹ two per kg by Punjab State Grains Procurement Corporation Limited (Company).

In order to implement the food security Act, a Memorandum of Understanding (MoU) was signed between the GoI and the State Government, for execution of Decentralised Procurement (DCP) of wheat. As per the scheme, the Company procures wheat and stores it till its distribution to the beneficiaries under NFSA. The State Government verifies the quantities distributed under NFSA and the Company claims the subsidy on quarterly basis from the Department of Food and Public Distribution, GoI at the rates notified by the latter after adjusting the sale realisation from the beneficiaries i.e. ₹ 2,000 per MT.

The GoI circulates provisional economic cost for the storage of wheat meant for distribution under DCP for each crop year for open (CAP[12] storage) and covered storage, separately. The rate of wheat stored under DCP in covered storage is higher than the wheat stored in open (CAP) storage which ranged between ₹ 168.30 to ₹ 239.80 per MT during Rabi Marketing Season (RMS) 2014-15 to 2017-18. The Company stored the wheat procured under DCP in both covered godowns as well as in the open (CAP storage) during RMS 2014-15 to 2017-18.

During test check of records at five[13] out of 22 district offices of the Company, Audit observed (June 2018) that 2,29,677.08[14] MT of wheat procured under DCP was stored in covered godowns during the RMS 2014-15 to 2017-18. Out of this, 2,04,787.34[15] MT wheat was also distributed (upto 31 March 2018) by the district offices to the beneficiaries. However, Company while raising the bills for claiming subsidy from the Government of India charged rate for open storage instead of the rates for covered storage. This

[12] Covered at plinths

[13] Amritsar, Ludhiana, Moga, Patiala and Tarn-Taran.

[14] Amritsar: 76,750.90 MT, Ludhiana: 26,122.90 MT, Moga: 8,960.47 MT, Patiala: 32,145.97 MT and Tarn-Taran: 85,696.84 MT.

[15] Amritsar: 64,463.00 MT, Ludhiana: 21,476.97 MT, Moga: 8,185.47 MT, Patiala: 31,796.38 MT and Tarn-Taran: 78,865.52 MT.

resulted into short claiming of subsidy of ₹ 4.47 crore from the GoI and related interest cost of ₹ 0.75[16] crore to the Company.

It is recommended that Company may review its other district offices to ensure that all claims are raised as per applicable rates to protect Company's financial interests.

The matter was referred to the Management and Government (October 2018); their replies were awaited (September 2020).

Punjab State Civil Supplies Corporation Limited

5.5 Misappropriation due to unauthorised shifting of paddy

Failure to comply with the terms and conditions of the CMP, weak internal control, lack of coordination between the district offices of the Company and unauthorised shifting of paddy, facilitated the misappropriation of paddy valuing ₹ 3.20 crore.

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

Scrutiny of the records of the Company revealed that the district office, Sangrur stored 1,745.58 MT paddy of KMS 2016-17 with a miller[17] for milling of paddy. The DFSC, Punjab issued (3 November 2016) release order for 2,500 MT paddy to be transferred from the district office, Tarn Taran (Mandis) to the miller, against which 1,460.17 MT paddy was given to the miller. On physical verification of the stocks conducted (December 2016) by the Company, it was noticed that the miller stored only 183.75 MT paddy in the mill and balance 1,276.42 MT paddy was found short. Apart from this, 23.44 MT paddy stored from the local mandis was also found short. First Information Report (FIR) was registered (September 2017) with the police for misappropriation of 1,299.86 MT paddy. The arbitration proceedings were initiated (November 2017) after a lapse of 11 months against the miller and award was given (April 2018) in favour of the Company for ₹ 3.20 crore against which recovery was awaited (January 2020).

Audit observed (June 2017) that on a complaint received (10 November 2016) from a partner of the miller regarding fake documents submitted for the registration of mill, DFSC department, Sangrur directed (11 November 2016) the district office, Sangrur of the Company which further wrote to district

16 Interest has been calculated for the period from next year of delivery of wheat of respective crop year upto 31 December 2018 at simple interest rate of 11.01 *per cent* to 11.75 *per cent* as per cost sheet of DCP of wheat circulated by the GoI for respective crop year.

17 M/s Sardar Agro Industries, Sangrur.

office, Tarn Taran to immediately stop further loading of paddy (uptil then 183.75 MT paddy was transferred). The district office, Tarn Taran ignored the directives of the DFSC and continued to transfer the paddy. Quantity of 1,276.42 MT paddy given thereafter was misappropriated by the miller during transit. Further, the District office, Tarn Taran did not give any intimation regarding the quantity of paddy transferred to miller, despite various communications from the Sangrur district office, which showed ineffectiveness of internal control within the Company.

Audit further observed that:

- As per Clause-11-A of CMP, the Company was equally responsible for the wrong allotment as it failed to verify the authenticity of the documents submitted by the miller. It allowed the storage of paddy in the mill without an electricity connection. However, a rice mill without an operational electricity connection cannot be registered.

- Storage of paddy in the mill started on 30 October 2016 whereas registration of the rice mill was completed on 2 November 2016.

- CMP provides that physical verification of the paddy stocks shall be conducted on fortnightly basis. As the storage of paddy started from 31 October 2016 onwards, no physical verification was done in the month of November 2016. Also, it failed to order physical verification immediately on receipt of the complaint and it was done only after lapse of one month i.e. on 14 December 2016.

- The miller gave (December 2016) an affidavit to make good the loss suffered by the company within a period of 20-25 days. However, the Company took nine months to lodge a FIR in the police against the miller, thereby delaying the process of recovery of loss.

- Bank guarantee in the form of undated cheque amounting to ₹ 38 lakh for every 2000 MT or part thereof of paddy stored with the miller was required to be submitted at the time of storage of paddy but was submitted (2 May 2018) after a lapse of 17 months and on presentation, the same was dishonoured (5 May 2018) due to insufficient funds.

In the inquiry initiated (September 2017) by the Company, District Incharge, Tarn Taran was charge-sheeted in May 2018 (after his retirement in April 2017). No further action has been taken to finalise the enquiry against him. On scrutiny of his personal file, audit observed that there were 25 departmental cases against him spanning from February 1998 to May 2018. Charge-sheets were also issued (August 2009 to February 2015) in four cases of defalcation of paddy amounting to ₹ 59.06 crore and in three cases for other charges of ₹ 0.83 crore against which enquiry proceedings were awaited (February 2020).

Thus, administrative failure of the Company for giving charge of district to the habitual offender coupled with non-compliance of the terms and conditions of CMP, weak internal control, lack of coordination between the district offices of the Company, facilitated unauthorised shifting and misappropriation of paddy by the miller valuing ₹ 3.20 crore.

The Company while admitting (June 2019) the facts, stated that the role of the officials of Food and Supply Department, Punjab as well as officials of the Company was not found satisfactory and action to be taken on this enquiry is under consideration. The fact remains that the Company could not recover the amount of ₹ 3.20 crore.

It is recommended that the Company may give the charge of the district office after assessing the past credentials of the official and comply with the terms and conditions of the CMP in totality from the start of milling operations to safeguard its financial interest.

The matter was referred to the Government (March 2019); their reply was awaited (September 2020).

Punam Pandey

Chandigarh **(PUNAM PANDEY)**
Dated: 26 December 2020 **Principal Accountant General (Audit)**
Punjab

Countersigned

New Delhi **(GIRISH CHANDRA MURMU)**
Dated: 04 January 2021 **Comptroller and Auditor General of India**