

CHAPTER - V

COMPLIANCE AUDIT

**STATE PSU_s (NON-POWER
SECTOR)**

Chapter V

V. Compliance Audit - State PSUs (Non-Power Sector)

Telangana State Civil Supplies Corporation Limited

5.1 Short recovery of ₹ 34.08 crore towards paddy transportation

The Company recovered only ₹ 2.50 per Quintal instead of ₹ 3.00 per Quintal (₹ 6.00 per Quintal from 2014-15 onwards) towards the cost of paddy transported upto 8 KM. This had resulted in short recovery and undue benefit to rice millers to the tune of ₹ 34.08 crore.

The Government of India (GoI) notified¹⁵⁵ the principles for fixation of procurement incidentals/ economic cost of food grains (principles). According to these principles, the transportation charges (TC) payable to a miller for transportation of paddy and rice up to 8 Kilo Meters (KM) was subsumed in the milling charges¹⁵⁶ (MC). If any State Government, however, wished to bear (and subsequently claim from GoI) the TC on paddy and rice for distances up to 8 KM separately, then the MC shall stand reduced by ₹ 5.00 per Quintal (Qtl). Further, the principles had fixed the out-turn ratio¹⁵⁷ at 67 per cent for raw rice and at 68 per cent for parboiled rice.

The Company being the designated State agency, procured paddy from farmers and transported the paddy up to (entire distance) the rice millers' (millers') premises through the paddy transport contractors appointed by it. The Company paid the paddy TC (for entire distance) to the paddy transport contractors. After milling of paddy into rice, the millers transported the rice (at their own cost) upto (entire distance) the Company's storage points. For milling of paddy into rice, the Company paid MC to the millers. The Company also paid to the millers the TC for rice, at prescribed rates, but for distances in excess of 8 KMs because the TC for rice for distances upto 8 KM were already included in the MC as per the principles. However, since the MC also included paddy TC for distance upto 8 KM and the Company had borne the entire paddy TC, it recovered ₹ 2.50 per Qtl.¹⁵⁸ from the MC paid to millers.

It was observed that the rate of deduction of ₹ 5.00 per Qtl. was a composite rate applicable for transportation of both paddy and rice up to a distance of 8 KMs. Further, as the principles had fixed the out-turn ratio at 67 per cent for raw rice and at 68 per cent for parboiled rice, the rate of deduction for paddy and rice separately should be worked out in the ratio of 100 (for paddy) : 67.50 (for rice)¹⁵⁹. Hence, the amount deductible towards transportation of paddy and

¹⁵⁵ Notified in July 2003 and amended from time to time by the Ministry of Food, Consumer Affairs and Public Distribution, Government of India.

¹⁵⁶ Milling Charges are payable to rice millers for conversion (custom milling) of paddy into rice @ ₹ 15.00 per Quintal for raw rice and @ ₹ 25.00 per Quintal for parboiled rice.

¹⁵⁷ Out-turn ratio is the ratio of quantity of rice obtained from milling of a given quantity of paddy.

¹⁵⁸ Half of the TC included in the MC by taking paddy as one of the two commodities (paddy & rice) transported.

¹⁵⁹ $67 / 100 + 68 / 100 = 135 / 200 = 67.50 \text{ per cent.}$

rice separately works out to ₹ 3.00 per Qtl. and ₹ 2.00 per Qtl. respectively¹⁶⁰. Thus, for transportation of paddy upto 8 KMs, the Company should have deducted ₹ 3.00 per Qtl. instead of ₹ 2.50 per Qtl.

Audit observed that during 2010-11 to 2016-17, the Company transported a total of 138.38 lakh MTs of paddy. The Company recovered an amount of ₹ 28.85 crore¹⁶¹ @ ₹ 2.50 per Qtl. instead of recovering ₹ 34.62 crore @ ₹ 3.00 per Qtl. This resulted in short recovery of ₹ 5.77 crore¹⁶². Additional recovery of ₹ 6.89 crore¹⁶³ was due on the balance quantity of 22.97 lakh MTs of paddy transported.

Further, the GoTS enhanced the MC from ₹ 15.00 per Qtl. to ₹ 30.00 per Qtl.¹⁶⁴ for raw rice and from ₹ 25.00 per Qtl. to ₹ 50.00 per Qtl. for par-boiled rice¹⁶⁵. As the State Governments were required to base their proposals on the above principles, the Company should have recovered an extra ₹ 3.00 per Qtl. (i.e., a total of ₹ 6.00 per Qtl.) towards the TC on paddy. In view of enhancement of the MC by the GoTS, additional ₹ 3.00 per Qtl. to the extent of ₹ 21.42 crore¹⁶⁶ was to be recovered. Thus, recovery of cost of paddy transportation at lower rate resulted in undue benefit to millers by ₹ 34.08 crore¹⁶⁷, which needs to be recovered.

The Company accepted (July 2018) the audit observation. It further stated that details of recoveries made would be intimated later.

The GoTS also ordered (May 2019) for recovery of ₹ 3.00 per Qtl instead of ₹ 2.50 per Qtl for the period from KMS 2010-11 to KMS 2016-17. The State Government however, has not agreed to effect recovery of extra ₹ 3.00 per Qtl. stating that the MC were enhanced to ease out the rice milling industry from increased costs and to motivate the millers to quickly deliver the custom milled rice.

The issue of “Non-revision of milling charges considering the deductible value of by-products resulting in undue benefits to the Millers” was already raised in the CAG Report on Procurement and Milling of Paddy for Central Pool (Para No.5.1.1 of Report No.31 of 2015). Also, in view of the audit objection of undue favour to rice millers due to enhancement of MC raised by the Principal Accountant General (Audit), Telangana, the GoTS itself decided (July 2019) to stop payment of MC enhanced by it as stated above. Therefore, the extra ₹ 3.00 per Qtl. also needs to be recovered along with the recovery of additional ₹ 0.50 per Qtl. as per the instructions of the State Government. The Company however, was yet to furnish the details of recoveries effected.

¹⁶⁰ ₹ 5.00 X 100 / (100 + 67.50) for paddy and ₹ 5.00 X 67.50 / (100 + 67.50) for rice.

¹⁶¹ On 115.41 lakh MTs of paddy (out of 138.38 lakh MTs of paddy).

¹⁶² ₹ 0.50 X 10 (for conversion of QTL to MTs) X 115.41 lakh MTs.

¹⁶³ (138.38 Lakh MTs – 115.51 Lakh MTs) X ₹ 3.00 X 10 (for conversion of QTL to MTs).

¹⁶⁴ In December 2014 (with effect from Kharif Marketing Season - KMS 2014-15).

¹⁶⁵ In December 2015 (with effect from Kharif Marketing Season -KMS 2015-16).

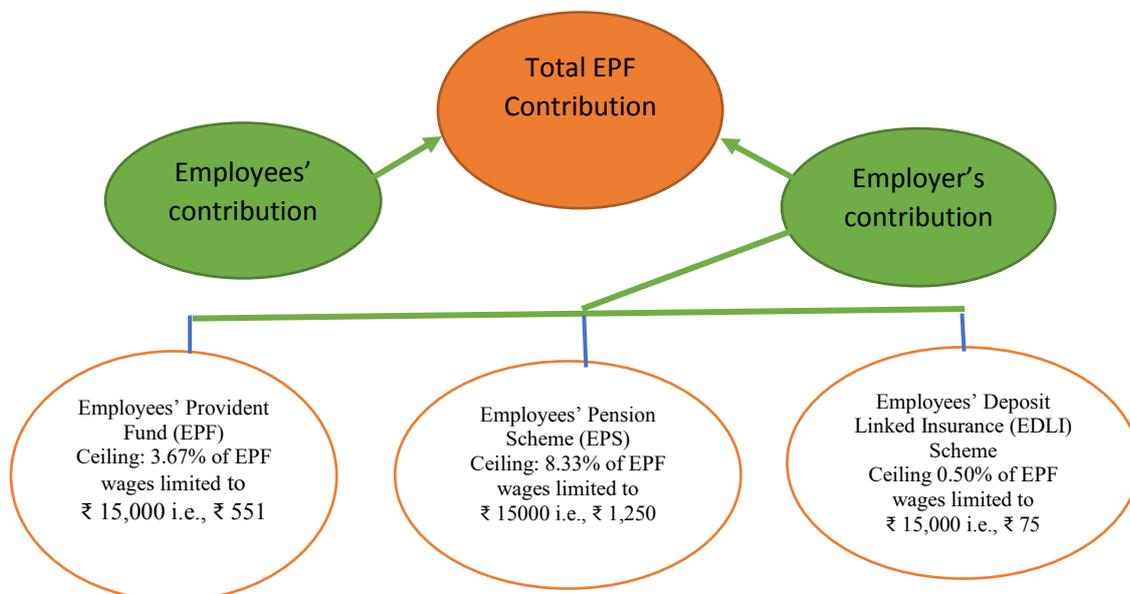
¹⁶⁶ 71.40 Lakh MTs X ₹ 3.00 X 10 (for conversion of QTL to MTs).

¹⁶⁷ ₹ 5.77 crore + ₹ 6.89 crore + ₹ 21.42 crore.

5.2 Excess contribution of Employer's share of Employees' Provident Fund

The Company's failure to restrict its share of contribution towards Employees' Provident Fund to the statutory limit resulted in avoidable excess contribution of ₹ 3.80 crore.

The monthly contributions made¹⁶⁸ to the Employees' Provident Fund (EPF) by the Company according to the provisions of the EPF Act¹⁶⁹ were as represented below:



Audit observed that the Company, as an employer, did not restrict its share of contribution to EPF at 3.67 *per cent* of wage ceiling of ₹ 15,000.00 per month. Instead, the Company calculated its contribution at 12 *per cent* of the total EPF wages¹⁷⁰ as under:

$$\text{Employer's share of EPF contribution} = \left(12 \text{ per cent of total EPF wages} \right) - \left(\text{EPS contribution limited to wage ceiling} \right)$$

This resulted in excess EPF contribution by the Company amounting to ₹ 3.80 crore for the period from June 2014 to March 2017 as detailed in *Annexure 7*.

The Company replied (July 2018) that as per the Trust Rules¹⁷¹ the Company was required to contribute its share of EPF contribution on 12 *per cent* of the EPF wages. The Trust Rules were framed to provide greater benefits to its members.

Further, the Government in its reply (October 2018) stated that the Company's EPF contribution, which was met totally from the public funds, was in consonance with the provisions of Section 6 and Section 17 of the EPF Act

¹⁶⁸ With effect from 01-09-2014.

¹⁶⁹ Sections 6 (EPF), 6A (EPS) and 6C (EDLI) of Employees' Provident Fund and Miscellaneous Provisions Act, 1952.

¹⁷⁰ EPF wages comprise of basic wages, dearness allowance (including the cash value of any food concession) and retaining allowance, if any actually drawn during the month by the employee.

¹⁷¹ The Company was exempted under Section 17 of the EPF Act and so it established (1976) the Andhra Pradesh State Civil Supplies Corporation Limited EPF Trust to contribute EPF portion of the total EPF contributions.

which did not prescribe any ceiling amount but only provided that employer's contribution shall be 12 *per cent* of the EPF wages.

The replies of the Company and the Government were not acceptable because (i) the wage ceiling of ₹ 15,000.00 for calculating employer's contribution under the EPF scheme was prescribed vide a separate gazette notification¹⁷² issued under the EPF Act, (ii) the Trust Rules cannot supersede the provisions of the EPF Act, (iii) the condition of higher benefits related only to the interest earned on the Trust funds as compared to the interest declared by the EPFO, (iv) the employer's EPF contribution cannot be considered as a benefit since the expenditure of the Company was met out of public funds and (iv) as per the general principles of financial propriety¹⁷³, expenditure from public moneys should not be incurred for the benefit of a particular section of the people (employees of the Company).

Thus, the Company's failure to restrict its share of EPF contribution to the statutory wage ceiling limit in accordance with the provisions of the EPF Act resulted in avoidable excess contribution of ₹ 3.80 crore.

¹⁷² The wage ceiling limit for calculating the employer's shares of EPF contribution under the EPF Scheme was increased from ₹ 6,500.00 to ₹ 15,000.00 per month vide Gazette Notification G.S.R. No. 608 (E) dated 22.08.2014 issued in exercise of the powers conferred by Section 5 read with Sub-section (1) of Section 7 of the EPF Act, 1952.

¹⁷³ Rule 21 – Standards of Financial Propriety, General Financial Rules, 2005 as amended upto 2017.