

Chapter II

2. Performance review relating to Government Company

Punjab State Grains Procurement Corporation Limited

Custom Milling of Paddy and Delivery of Rice to FCI

Highlights

The Company failed to take up the matter regarding reimbursement of interest and custody and maintenance charges for average stock holding period of paddy with the State Government/FCI which resulted in short reimbursement of Rs. 121.23 crore.

(Paragraph 2.24)

Non inclusion of element of interest on the cost of gunny bags for the average stock holding period of paddy resulted in non reimbursement of Rs. 16.95 crore by FCI to the Company.

(Paragraph 2.22)

Inclusion of element of depreciation on lower number of gunny bags in rates of rice for crop years 2004-07 resulted in short recovery of Rs. 12.99 crore from FCI.

(Paragraph 2.21)

Even though the transportation charges were included in the rate of milling charges, the Company failed to recover transportation charges from the millers in respect of paddy transported within eight kilometres resulting in loss of Rs. 8.20 crore.

(Paragraph 2.9)

The Company failed to devise any system to raise claims on FCI for transportation of paddy beyond eight kilometres immediately after the completion of paddy season. This resulted in loss of interest of Rs. 6.28 crore to the Company due to non-raising of claim for Rs. 36.12 crore and delay in raising of claim for Rs. 14.20 crore.

(Paragraph 2.10)

Absence of system to ensure raising of interest claims on delayed payment by FCI resulted in loss of Rs. 2.91 crore in seven district offices.

(Paragraph 2.18)

Introduction

2.1 Punjab State Grains Procurement Corporation Limited (Company) was incorporated on 10 March 2003 with the main objective of procurement, storage and delivery of foodgrains for central pool. The Company commenced its business in April 2003 by taking over the activities from Food and Supplies Department (F&SD) of the State Government. The Company alongwith other procurement agencies in the State, procures paddy from various *mandis* allotted to it by F&SD, at minimum support price (MSP) fixed by the Government of India (GOI) for each crop year. Paddy procured by the Company is got milled from the selected rice millers at the specified rates under custom milling policy (CMP)* framed by the State Government for each year. The resultant rice is delivered to Food Corporation of India (FCI) for central pool at the rates fixed by GOI for each crop year. The procurement, storage and milling operations of paddy and sale of rice is carried out by the Company through its district offices. The Company had procured 121.41 lakh MTs paddy at the cost of Rs. 8,608 crore during the five years period from 2003-04 to 2007-08.

The Management of the Company is vested in a Board of Directors (BOD). As on 31 March 2008 the BOD comprised of four directors, all nominated by the State Government. The Director, F&SD, Government of Punjab, is the *ex-officio* Managing Director of the Company. The Managing Director is the Chief Executive who is assisted by Additional Managing Director (Procurement), Chief General Manager (Finance), General Manager (Storage) and General Manager (Rice). As on 31 March 2008, there were 19 district offices[♦], each headed by a District Manager for carrying out the procurement, storage and milling operations.

Scope of Audit

2.2 The present performance review, conducted during October 2007-April 2008, evaluates the performance of the Company relating to procurement, storage, milling of paddy and delivery of resultant rice to FCI for the period of five years upto 2007-08. The audit findings are based on audit procedures applied to sample of seven[@] (37 per cent) out of 19 district offices selected on random sampling

* It is a policy relating to activities of procurement, storage and milling of paddy finalised by F&SD for each crop year.

♦ Amritsar, Bathinda, Faridkot, Ferozepur, Fatehgarh Sahib, Gurdaspur, Hoshiarpur, Jalandhar, Kapurthala, Ludhiana, Moga, Muktsar, Mansa, Nawanshahar, Patiala, Ropar, Sangrur, SAS Nagar and Tarn Taran.

@ Ferozepur, Kapurthala, Ludhiana, Moga, Muktsar, Patiala and Sangrur.

basis covering more than 50 *per cent* of the transactions relating to procurement and custom milling of paddy and delivery of rice to FCI during 2003-08.

Audit objectives

2.3 The audit objectives were to ascertain whether the:

- Functions relating to procurement, storage, custom milling of paddy and delivery of rice to FCI were executed in an efficient, effective and economical manner and as per the prescribed procedures/ norms;
- Company delivered rice to FCI within the stipulated period/ extended period as fixed by GOI and raised bills for sale of rice, differential claims and interest claims accurately and within the stipulated period in accordance with the rates fixed by GOI;
- Company obtained from the FCI full reimbursement of all the elements of cost and statutory levies imposed by the State Government;
- Company had devised and made operational a reliable system of monitoring at the highest level to ensure that the objectives were achieved in an efficient and economic manner; and
- Internal Control System prevalent was effective and Internal Audit was commensurate with the size and activities of the Company.

Audit criteria

2.4 The following audit criteria were adopted:

- targets fixed for procurement, milling of paddy and time schedules prescribed by GOI/FCI for delivery of resultant rice to FCI;
- custom milling policy and instructions issued by the State Government in this regard;
- milling capacity of the allotted millers *vis-à-vis* targets fixed for procurement of paddy; and
- time prescribed for raising of bills for rice and other related expenses at the rates fixed by GOI.

Audit methodology

2.5 Audit followed a mix of following audit methodologies:

- scrutiny of minutes/agenda of meetings of the Board of Directors, custom milling policies, instructions issued by the State Government in this regard and milling progress reports received from district offices;

- examination of records relating to delivery of rice to FCI, raising of claims for sale of rice, differential claims*, interest claims and receipt of payment thereagainst;
- scrutiny of records relating to cash credit, payment of guarantee fee and other charges and their reimbursement from FCI; and
- interaction with the Management and issue of audit queries.

Audit findings

2.6 The audit findings were reported (May 2008) to the Government/ Management and discussed in the meeting (2 July 2008) of the Audit Review Committee for Public Sector Enterprises (ARCPSE). The meeting was attended by Controller[∞], Food Accounts, Food and Supplies Department, Government of Punjab and Manager (Finance) of the Company. The views of the representatives of the State Government and Company have been considered while finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Procurement of paddy

Procurement targets and achievements

2.7 The details of targets for the procurement of paddy and actual procurement thereagainst during 2003-08 are given below:

Crop year	Targets and Company's share in total procurement in the State		Actual procurement by the Company		Excess procurement	
	Lakh MT	Per cent	Lakh MT	Per cent	Lakh MT	Per cent
2003-04	14.00	12	18.40	18.69	4.40	31.43
2004-05	16.50	15	21.84	21.79	5.34	32.36
2005-06	22.00	20	25.45	21.95	3.45	15.68
2006-07	26.16	24	28.99	27.44	2.83	10.82
2007-08	26.40	24	26.73	25.91	0.33	1.25

The above table shows that total quantity of paddy stock procured by the Company during 2003-08 was more (ranging between 1.25 and 32.36 *per cent*) than the targets fixed by the State Government. It was noticed that the excess procurement was not regularised by the Company. Further, the State Government also did not revise the targets based on actual procurement. It was stated in the ARCPSE meeting that the actual procurement varies from targets due to varied field situations which are known by the Government and there was no need to approve the revised targets. The contention is not tenable as in the absence of

* Difference between provisional rates and final rates of rice.

[∞] He holds additional charge of Financial advisor of the Company.

revised targets, the achievements thereagainst can not be assessed and exceeding the original targets of procurement by the Company could have adverse impact on the operations of other State procurement agencies.

Guarantee fee

2.8 The guarantee fee worked out on the basis of Cash Credit (CC) limit actually availed (based on MSP, cost of gunny bags, transportation etc.) is being paid by the Company to the State Government. The guarantee fee is, however, reimbursed by the FCI on actual basis subject to maximum of 1/8 *per cent* of MSP of paddy on the quantity equivalent to rice delivered to the central pool. No interest on delayed reimbursement of guarantee fee was admissible. The table given below shows the position of CC limit actually availed, guarantee fee paid by the Company to the State Government and reimbursed by FCI during 2003-08 :

(Rupees in Crore)				
Crop year	CC limit availed	Guarantee fee paid on availed CC	Maximum guarantee fee claim reimbursable from FCI	
2003-04	1,282.45	1.60		1.32
2004-05	1,549.00	1.94		1.58
2005-06	1,867.14	2.33		1.90
2006-07	2,323.43	2.90		2.20
2007-08	2,449.51	3.06		NA*

Source : Information supplied by Company.

Against payment of guarantee fee on availed cash credit limit, reimbursement by FCI on the basis of quantity of paddy for which rice actually delivered resulted in less reimbursement of Rs. 1.77 crore.

Audit scrutiny revealed that as against the guarantee fees paid (Rs 8.77 crore) by the Company to the State Government for the crop years 2003-07 on actual CC limit availed, guarantee fee reimbursed/reimbursable by FCI was Rs. 7.00 crore only (based on MSP) on the quantity of paddy for which rice was delivered during the above period. This resulted in additional burden of Rs. 1.77 crore on the Company.

The Management in its reply (July 2008) and in ARCPSE meeting stated that the State Government has been taking up the matter with GOI for reimbursement of guarantee fee in the proposals submitted for fixation of rates for each crop year.

Transportation of paddy

Non-recovery of transportation charges

2.9 While fixing the rates of custom milled rice (CMR) for the crop years 2003-08 by GOI, separate rates of transportation charges within eight kms were not fixed and these were included in the milling charges. As the transportation charges (within eight kms) were included in the milling charges, these were required to be borne by the millers. Audit scrutiny revealed that for transportation of paddy

* The figures for 2007-08 will be available only after activity relating to the milling of paddy for the crop year 2007-08 is completed during 2008-09.

The Company did not recover transportation charges of Rs. 8.20 crore from the millers.

from purchase centre to mill, expenditure of Rs. 8.20 crore* was incurred by seven selected district offices of the Company upto eight kms for the crop years 2003-06, which was required to be borne by millers. The Company, however, did not recover this amount from the millers at the time of settling their accounts. Resultantly, this not only amounted to extension of undue benefits to the millers, but also resulted in loss of Rs. 8.20 crore to the Company.

The Management stated (July 2008) that instructions of GOI regarding recovery from millers were not clear. Reply is not tenable as there was no need of separate instructions regarding subsequent recoveries when the rates fixed by GOI clearly stated that milling charges included transportation charges upto eight kms.

Non/delayed raising of claims for transportation charges

2.10 The rates of CMR for crop years 2003-08 as fixed by GOI provided for reimbursement of expenditure by FCI on transportation of paddy for a distance beyond eight kms on the basis of the rates fixed by the District Collectors or at FCI rates or actuals, whichever were the least.

In terms of instructions issued (December 1970) by FCI and reiterated by GOI from time to time, payments were to be made by FCI within 24 hours of presentation of the claims. F&SD also conveyed (December 2001) instructions of GOI under which FCI was liable to pay interest at bank rate in case of delay in release of payments beyond the prescribed period. Accordingly, the Company was required to raise the claims for transportation beyond eight kms immediately after incurring the expenditure so as to avoid loss of interest.

Audit scrutiny of the record in seven district offices test checked revealed that the Company incurred an expenditure of Rs. 50.32^f crore on transportation of paddy beyond eight kms during the crop years 2003-04 to 2007-08. The claims for Rs.14.20 crore were raised (February 2006 to January 2008) with FCI after delays ranging from one to 48 months. The district offices of FCI, however, did not release any payment thereagainst. In remaining cases, the Company did not claim reimbursement of Rs. 36.12 crore from FCI.

Failure of the Company to devise any system to raise transportation claims immediately after the completion of paddy season resulted in loss of interest of Rs. 6.28 crore.

The failure of the Company to ensure or devise any system to raise such claims immediately after completion of paddy season and not pursuing the matter vigorously with FCI resulted in non recovery of transportation charges of Rs.50.32 crore as well as irrecoverable loss of interest of Rs. 6.28* crore (upto June 2008) calculated after allowing one month for raising bills (from the close of procurement season).

*This does not include Rs. 2.92 crore pertaining to years 2003-06 in respect of district offices of Ferozepur, Ludhiana and Moga which already stands included in para 4.5 of Audit Report (Commercial) for the year ended 31 March 2007.

^f This does not include Rs. 30.17 crore related with district offices, Ferozepur, Ludhiana, Moga, Patiala and Sangrur for the crop year 2003-05, which already stand included in Para 4.5 of Audit Report (Commercial) for the year ended 31 March 2006.

* Worked out at the minimum of the CC interest rates applicable for the respective crop years.

The Management stated (July 2008) that district offices of FCI refused to entertain the bills on the ground that they have not received any instructions from FCI Headquarters regarding reimbursement of transportation charges, provided for in the rates of GOI. The reply is not tenable as instructions regarding reimbursement of transportation charges are clearly provided in the rates of CMR fixed by GOI. Further, it was observed that the matter was not pursued with higher authorities for timely reimbursement of claims.

Non/delayed recovery of transportation charges from rice millers

2.11 The rates of CMR provide for reimbursement of transportation charges on rice delivered to FCI by millers beyond eight kms on the basis of rates fixed by the District Collectors of State or FCI rates, whichever were lower. The transportation charges are reimbursed to millers through district offices of the Company.

Audit scrutiny revealed that FCI deducted (January 2005, November/December 2006) an amount of Rs. 2.97 crore from the sale bills of DM, Sangrur and Patiala on account of excess reimbursement of transportation charges on rice delivered beyond eight kms for the crop years 2003-04 to 2005-06. Since the Company had already paid the transportation charges to the millers, these were required to be recovered from the millers promptly. It was observed that Rs. 20.72 lakh only were adjusted against miller's account in respective crop years, recovery of Rs. two crore was made after delays ranging between 9 and 32 months* and Rs. 76.65 lakh were still (June 2008) to be recovered from rice millers. Non/delayed recovery of transportation charges from the millers resulted in interest loss of Rs. 33.52 lakh@ (upto June 2008).

Belated/non recovery of transportation charges from the millers caused loss of interest of Rs. 33.52 lakh.

The Management while admitting the facts stated (July 2008) that necessary action was being taken.

Storage and milling of paddy

Audit scrutiny of records of seven selected district offices of the Company, revealed the following irregularities:

Driage to millers

2.12 The Government of India, while fixing rates of CMR for the crop year 2003-08, allowed driage at one *per cent* on MSP of paddy. Food and Supplies Department (F&SD) of the State Government also directed (March 2004) all the procuring agencies to allow driage to millers at one *per cent* of MSP from the crop year 2003-04. Subsequently, F&SD decided (December 2005) to allow Driage equal to one *per cent* of the quantity of paddy supplied to the millers after depositing the differential amount between the cost of one *per cent* of paddy inclusive of statutory levies and its MSP.

* After giving margin of one month.

@ Worked out at minimum cash credit interest rate of 9.10 *per cent* per annum prevalent during the period.

Audit observed that the decision taken by F&SD in December 2005 was faulty as it prevented the Company from recovering the element of interest, mandi labour charges and custody and maintenance charges from the millers, which were otherwise recoverable from FCI. The Company, thus, suffered loss of Rs.21.51 lakh during 2003-04 and 2005-06 in seven selected district offices.

Milling of paddy

2.13 The paddy stored in the premises of millers under joint custody, is got milled from the millers as per the terms and conditions of custom milling policy of the State Government and agreements executed with the millers for each crop year. The table below gives the details of paddy procured by the Company, rice due and delivered during 2003-08:

Particulars	(Figures in MT)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Paddy procured	18,39,506	21,83,797	25,44,829	28,99,310	26,72,941
Rice due	12,22,623	14,62,815	16,73,009	19,59,378	17,90,868
Rice delivered*	12,20,664	14,40,510	16,71,692	19,34,554	NA [♦]
Percentage of rice delivered	99.84	98.47	99.92	98.73	-

Source: Data/information supplied by the Company.

Audit observed that the Company had not maintained any consolidated record to show the quantity of rice delivered within the stipulated period, extended period and thereafter. As a result, interest loss caused to the Company due to delayed milling could not be ascertained in audit.

The Management stated (July 2008) that consolidated record as desired would be maintained at Head Office level.

Delivery of rice to FCI

Sale of rice

2.14 After milling of paddy, the millers deliver rice directly to FCI. The concerned District Manager (DM) of the Company on receipt of dispatch documents from the millers through its field staff, raises bills on FCI. The Company raises the sale bills at the rates fixed by GOI initially. In case of subsequent revisions in the rates, the Company raises supplementary bills for recovery of differential amounts. After receipt of payments thereagainst, claims for interest for the period between initial payment and payment of supplementary bills are raised. GOI finalised (October 2004) rates of rice for crop year 2003-04

* Recovery/adjustment for rice short/excess delivered was made from the rice millers at the time of settling their accounts.

♦ The figures of rice delivered for 2007-08 will be available only after activity relating to milling of paddy for the crop year 2007-08 is completed during 2008-09.

and issued (October 2004, November 2005, November 2006 and November 2007) rates of rice for crop years 2004-08. Audit scrutiny revealed the following:

Delay in raising of sale bills

2.15 As per instructions issued by F&SD (September 1997) and terms of agreements for milling of paddy for the crop years 2003-04 to 2005-06, rice millers (after delivery of rice to FCI) were required to submit dispatch documents to district office concerned within three days (for crop year 2003-04) and within seven days (for crop years 2004-05 and 2005-06) of delivery of rice to FCI failing which they were liable to pay interest at 15, 12 and 12 *per cent* per annum, respectively, for the period of delay. There was no clause in the agreements for payment of interest in case of delayed submission of documents by millers for the crop years 2006-07 and 2007-08.

It was observed by audit that the Company had not maintained the records showing the date wise delivery of rice by the millers and receipt of documents thereagainst by the Company. In the absence of requisite records, the sale bills for delivery of rice to FCI by the millers were raised by the Company in consolidated form after delays upto 110 days*. Loss of interest for delayed raising of claims worked out to Rs. 73.82 lakh for crop years 2003-06 and Rs. 13.04 lakh† for crop years 2006-08. Thus, in the absence of proper maintenance of records and enabling provision for payment of interest in the agreements with the millers (for crop years 2006-08), the Company could neither identify reasons for delayed raising of bills nor recover Rs. 86.86 lakh from defaulting millers/officials.

Delay in raising of sale bills resulted in loss of interest of Rs. 86.86 lakh.

The Management, while admitting the facts, stated (July 2008) that reintroduction of an enabling clause for recovery of interest from millers would be reconsidered at the time of framing the next CMP and requisite records regarding sale of rice would be maintained from next Kharif Marketing Season (KMS).

Transfer of sale proceeds from field offices

2.16 After getting the paddy milled from the millers, rice is delivered to FCI and the payment thereagainst is received by cheque in the district offices, which is deposited in the current accounts, meant for receipt of payments against foodgrains dispatched to FCI. On receipt of the sale proceeds, the district offices are required to transfer the funds in the shape of bank draft to head office of the Company through special messengers so as to minimise interest liability. The Company adopted facility of on-line transfer of funds of State Bank of India with effect from 30 August 2007.

Audit scrutiny of related records in six selected district offices‡ revealed that there was delay in transfer of funds ranging between 1 and 40 days (after giving margin of two days) during April 2003 to August 2007. The delay in transfer of funds resulted in avoidable payment of interest of Rs. 2.54 crore on cash credit. It

* After allowing a margin of five days for crop year 2003-04 and eight days for crop year 2004-08 from the date of delivery of last consignment of rice.

† Calculated at the minimum CC interest rates prevailing during the period.

‡ Ferozepur, Kapurthala, Ludhiana, Moga, Muktsar and Patiala.

was also observed that even after introduction of on-line facility, the transfer of funds from district offices' current accounts to head office's CC account was not automatic but the funds being transferred to head office account manually on instructions by the district office to the banker. Test check of records of district office, Ludhiana for December 2007 to April 2008 revealed that delay in transfer of funds ranging from one to 17 days persisted even after introduction of on-line facility which resulted in further loss of interest of Rs. 30.71 lakh.

Delay in transfer of sale proceeds from field offices to head office resulted in loss of interest of Rs. 2.85 crore.

Thus, delay in transfer of funds resulted in avoidable payment of interest of Rs.2.85 crore* on cash credit, for which no responsibility had been fixed by the company.

Non-claiming of differential amount/interest on differential amount

2.17 After receipt of final rates for the crop year 2003-04, the Company was required to claim difference of provisional and final rates of CMR from FCI. The claim for interest on differential amount was also required to be raised immediately after receipt of such payment. Audit scrutiny revealed as under ;

The Company did not raise differential claims of Rs. 33.22 lakh.

- Even though the GOI had finalised rates of CMR for crop year 2003-04 in October 2004, the district office, Muktsar has not raised the differential claims of Rs. 33.22 lakh (June 2008).
- District Manager, Ferozepur and Sangrur though raised claims for the differential amount and received payment of Rs. 3.33 crore (February 2005 and March 2005) but failed to claim the interest on differential amount to the tune of Rs. 32.13 lakh.♦

The Company failed to claim interest of Rs. 32.13 lakh on differential amount.

The Management stated (July 2008) that necessary action was being taken.

Non-claiming of interest

2.18 In terms of instructions issued (December 1970) by FCI and reiterated by Government of India from time to time, payments for the rice supplied were to be made by FCI within 24 hours of the presentation of the sale bills. F&SD also conveyed (December 2001) instructions of the GOI under which FCI was liable to pay interest at bank rate in case of delay in release of payment beyond the prescribed period.

Failure of the Company to evolve a system to raise claims for interest on delayed payments resulted in interest loss of Rs. 2.91 crore.

Audit observed that Company had not devised any system to ensure claiming of interest in this regard from FCI as the bills for interest for the delayed payments were not raised.

Test check of records in seven selected district offices revealed that though the Company received payments of sale bills from FCI after delays ranging from one to 132 days^ in 3,812 number of bills out of 9,794 sale bills reviewed, yet it did not raise claims for interest, amounting to Rs. 2.91 crore for the crop year

* Worked out at the prevailing CC interest rates during the period.

♦ Worked out at the CC rate of 9.10 per cent per annum.

^ Computed after allowing a margin of 48 hours.

2003-07. Thus, failure of the Company to evolve a system to raise claims for interest on delayed payments resulted in non-recovery of interest of Rs.2.91 crore.

The Management, while admitting the facts, stated (July 2008) that action was being taken to recover the interest from FCI.

Non-recovery on account of reduction in outturn ratio

2.19 While conveying (November 2005) the rates of custom milled rice for crop year 2005-06, the GOI reduced the outturn ratio (OTR) of rice from 67 to 66 *per cent* and from 68 to 67 *per cent* for raw rice and parboiled[♥] rice, respectively. It was further provided that the financial burden on account of reduction in OTR by one *per cent* was to be shared by the GOI and State Government in equal ratio i.e. 50:50.

The GOI made (December 2005) the provision of its share of 50 *per cent* in the rates of CMR and as such payment was made by FCI at the time of delivery of rice for crop year 2005-06. However, the State Government had not released its share of 50 *per cent* amounting to Rs. 13.51 crore to the Company (June 2008) on the plea that State Government was not in a position to bear the financial loss. Though the GOI had already clarified (September 2006) that the burden should be borne on 50:50 basis, the State Government had again taken up (March 2007) the issue with GOI expressing its inability to bear the burden due to financial crunch. Further developments were awaited (June 2008).

Thus, non-release of Rs. 13.51 crore by the State Government has not only resulted in locking up of funds of the Company but it would also result in loss of interest of Rs.2.25^{*} crore to the Company upto June 2008.

Non-analyses of increased cost of rice due to reduced Out turn ratio

2.20 GOI while fixing (23 November 2005) the rates of CMR included in it the increased cost of rice on account of reduced outturn ratio and also decided to share 50 *per cent* of this increased cost with the State Government. The increased cost included in the CMR rates of Grade A raw rice and parboiled rice was Rs.16.18[!] and Rs.15.79[#] per quintal, respectively which was worked out by including purchase tax. Accordingly, its 50 *per cent* share i.e. Rs. 8.09 and 7.90 per quintal was to be borne each by GOI and the State Government.

The Value Added Tax (VAT) in the State was introduced from the year 2005-06 and it was to be paid on the total sale price after deducting purchase tax, being input tax paid. Accordingly, FCI worked out (December 2005) the cost of raw and parboiled rice as Rs. 1,112.70 and Rs. 1,103.05 per quintal, respectively, after excluding the purchase tax. Taking into account this cost, the increased cost (due to reduced outturn ratio) of raw and parboiled rice worked out to be Rs. 15.62 and

[♥] Partly cooked by heating.

^{*} Calculated at 9.70 *per cent* per annum, the minimum interest rate on CC applicable during the period.

[!] Rs. 1,084.09 per quintal being revised cost of rice and Rs. 1,067.91 per quintal being pre revised cost of rice.

[#] Rs. 1,073.88 being revised cost and Rs. 1,058.09 being pre revised cost per quintal.

Non release of its share by the State Government on account of reduction in outturn ratio resulted in blockade of funds with interest loss of Rs.2.25 crore.

Rs. 15.24 per quintal instead of Rs. 16.18 and Rs. 15.79 per quintal as included in the rates of CMR. Accordingly, 50 per cent share of the State Government worked out to Rs. 7.81 and Rs. 7.62 per quintal against Rs. 8.09 and Rs. 7.90 per quintal, deducted by FCI while working out the total cost of rice to be paid to the procuring agencies.

The Company, however, without analysing the rates worked out by FCI raised the claims on FCI at the rates given by FCI. This resulted in less payment of Rs. 0.28 per quintal of raw and parboiled rice and loss of Rs. 46.81 lakh to the Company on 16.72 lakh MT of rice delivered to FCI.

Non exclusion of purchase tax from the increased cost of rice resulted in loss of Rs. 46.81 lakh.

Thus, failure of the Company to analyse the increased cost of rice due to reduced outturn ratio provided in the rates of CMR and to take up the matter with the GOI/FCI for providing correct increased cost of rice resulted in loss of Rs. 46.81 lakh.

The Management, while admitting the facts, stated (July 2008) that the matter would be taken up with GOI.

Fixation of depreciated cost of gunny bags

2.21 Paddy was delivered to the millers in gunny bags out of which some bags were passed on to FCI at the time of delivery of resultant rice. According to CMR rates for each crop year issued by GOI, cost of gunny bags delivered with rice and 40 per cent of the cost of gunny bags retained by the millers was paid by FCI to the procuring agencies. Further, as per CMP for respective crop year issued by the State Government, the cost of remaining 60 per cent gunny bags retained by the miller is required to be recovered from the millers. Normal outturn ratio of raw rice and parboiled rice is 67 and 68 per cent, respectively. Audit scrutiny revealed that for every 1,000 paddy filled gunny bags supplied to the millers, 469 (resultant rice filled) gunny bags were delivered to FCI and balance 531 empty gunny bags were retained by the millers in case of raw rice. In case of parboiled rice, 476 (resultant rice filled) gunny bags were delivered to FCI and balance 524 empty gunny bags were retained by the millers. GOI while fixing rates of CMR for the crop years 2003-07 erroneously provided depreciation on the cost of 469 gunny bags instead of on the cost of 531 gunny bags in case of raw rice and 476 gunny bags instead of 524 gunny bags in case of parboiled rice for every 1,000 bags. Thus, fixation of depreciated cost of gunny bags retained with the millers on lower side resulted in short recovery of Rs. 12.99 crore^Y from FCI in respect of gunny bags actually retained by the millers for crop year 2004-07.

Inclusion of depreciation on lower number of gunny bags in rates of rice by GOI resulted in short recovery of Rs. 12.99 crore.

While admitting the facts, the Management stated (July 2008) that GOI has not yet fixed the final rates for KMS 2003-04 to 2006-07 and the State Government

^Y This does not include Rs. 2.49 crore relating to crop year 2003-04, already commented in Audit Report (Commercial) for the year ended 31 March 2006.

has demanded depreciation as per formula devised by GOI. The reply is not tenable as the rates for the crop year 2003-04 were final and the discrepancy was persisting in the rates fixed by GOI for the subsequent crop years from 2004-05 to 2007-08 also.

Non-reimbursement of interest on the cost of gunny bags

2.22 While fixing the rates of CMR (2003-04 to 2006-07), GOI allowed the cost of gunny bags at the rate Rs. 19.56, Rs. 19.39, Rs. 23.64 and Rs. 24.14, respectively. Audit observed that as against these, the actual landed cost of bags including interest upto September (before commencement of respective KMS) was Rs. 19.54, Rs. 19.34, Rs. 23.53 and Rs. 23.94, respectively, which were almost equal to the rates approved by GOI. In addition to landed cost, the Company had also incurred expenditure on internal movement of gunnies. While including interest on amount invested in procurement of paddy in the rates of CMR, the GOI, however, did not include the interest on the amount invested by procuring agencies at the time of procurement towards cost of gunny bags utilised upto the delivery of rice to FCI which was also an element of cost and remained locked up. Since the average stock holding period of paddy as per delivery schedule given to the millers was 3.9 months for the crop year 2003-04 and 3.5 months each for crop years 2004-05 to 2006-07, non-reimbursement of interest on the cost of gunny bags resulted in loss of Rs. 16.95 crore to the Company.

Non inclusion of element of interest on cost of gunny bags by GOI resulted in non reimbursement of Rs. 16.95 crore.

The Management stated (July 2008) that rates of gunny bags fixed by GOI for KMS 2003-04 to 2006-07 were provisional and while submitting proposals for fixation of rates for each crop year, the State Government has been demanding interest for nine months to be included in the rates of gunny bags. In the ARCPSE meeting, it was intimated that the GOI had asked (September 2006) for furnishing of crop wise audited figures for each head for settling the various issues. Reply is not tenable as the GOI had asked (September 2006) the State Government officials and General Manager, FCI, Punjab to hold discussions and arrive at commonly agreed rates for incidentals for each crop year and send proposals through FCI Headquarters immediately alongwith audited accounts. However, the Company got its accounts audited for the year 2003-04 only. Further, even though the accounts for the year 2003-04 were finalised in August 2007, the Company could not get the commonly agreed rates submitted to GOI so far (June 2008).

Excess use of gunny bags

2.23 Prior to 2003-04, the CMR rates did not include the element of cost of gunny bags delivered to FCI alongwith rice. The rates of CMR for the crop year 2003-04 and onwards, however, included the cost of two gunny bags of 50 Kg. each. Accordingly, the Company was getting cost of two gunny bags with each quintal of rice delivered to FCI.

The Company did not recover Rs. 39.69 lakh being the cost of excess gunny bags used by the millers.

Scrutiny of records of seven district offices of the Company revealed that the millers used 523.92 lakh bags for the delivery of 26.10 lakh MT of rice to FCI for the crop year 2003-07 as against the required quantity of 522 lakh bags. Thus, the millers used 1.92 lakh gunny bags valuing Rs. 39.69 lakh in excess. The cost of excess used bags was neither reimbursed by FCI nor the same was recovered from the millers. Thus, excess use of gunny bags resulted in loss of Rs. 39.69 lakh to the Company.

In the ARCPSE meeting, the Management admitted the facts and stated that cost of excess used gunny bags would be recovered from the millers.

Short reimbursement of interest and custody and maintenance charges

2.24 The rates of CMR fixed for crop year 2004-05 to 2007-08 included Rs.10.06, Rs. 10.32, Rs. 11.83 and Rs. 15.43 per quintal, respectively, towards the elements of interest and Rs. 3.68 per quintal each towards custody and maintenance charges for a period of two months only.

Audit observed that the custom milling policy of the State Government as well as the standard agreement executed with the millers, required the miller to deliver 10 per cent of quantity of rice each in the month of October and March and 20 per cent each in the months of November to February. Accordingly, the average period of holding paddy stocks by the Company worked out to 3.5 months in each Kharif Marketing Season (KMS) during 2004-05 to 2007-08. As such, the Company was entitled for reimbursement of interest as well as custody and maintenance charges for a period of 3.5 months i.e. Rs. 17.60, Rs. 18.06, Rs.20.70 and Rs.27.00 per quintal as interest and Rs. 6.44 per quintal as custody and maintenance charges worked out on proportionate basis. Resultantly, the Company had to bear extra interest of Rs. 7.54, Rs. 7.74, Rs. 8.87 and Rs. 11.57 per quintal for crop year 2004-05 to 2007-08, respectively and Rs. 2.76 per quintal each as custody and maintenance charges. The Company, however, did not take up the matter for reimbursement of interest and custody and maintenance charges on the basis of average holding period of paddy stocks as admissible under CMP and agreements with the millers immediately with GOI through the State Government.

The failure of the Company to take up matter for reimbursement of interest and custody and maintenance charges as per average stock holding period of paddy resulted in short reimbursement of Rs. 121.23 crore.

The Management stated (July 2008) that while submitting the proposals to GOI for fixation of rates for each crop year, the State Government has been demanding interest and custody and maintenance charges on weighted average period basis. The reply is not tenable as the State Government had just been reproducing the time schedule given to the millers in its custom milling policy and stating that the

Failure of the Company to take up matter for reimbursement of interest and custody and maintenance charges as per average stock holding period of paddy resulted in short reimbursement of Rs. 121.23 crore.

time fixed by GOI was on lower side. It failed to convey its view point strongly and effectively to GOI. Moreover, the proposals were not supported by audited accounts of the Company.

Non-reimbursement of Service Tax

2.25 GOI imposed Service Tax on payment of transportation charges with effect from January 2005. Accordingly, district offices of the Company pay service tax to the taxation authorities.

Audit scrutiny of records of seven selected district offices revealed that service tax amounting to Rs. 1.40 crore was paid on transportation of paddy during the years 2005-06 to 2007-08. In the absence of any provision for reimbursement of service tax in the CMR rates for the KMS 2005-06 and onwards, the element of service tax had remained unrecovered from FCI. The matter regarding reimbursement of service tax was belatedly taken up (December 2007) by the Director, F&SD with GOI but outcome thereof was still awaited. Non-reimbursement of Service Tax by FCI resulted in blockage of Rs. 1.40 crore and also loss of interest thereon to the Company.

Absence of any provision regarding reimbursement of service tax in CMR rates fixed by GOI resulted in blockade of Rs. 1.40 crore.

Internal Control and Internal Audit

Internal Control

2.26 Internal Control is a tool for efficient and effective management of the Company. The Company has not prepared its Accounting Manual so far. The internal control system in Company in relation to the activities covered in the review was found to be deficient because it lacked to ensure ;

- Inclusion of all elements of cost in the rates fixed by GOI;
- expeditious transfer of funds from district offices to head office;
- timely raising of sale bills and recovery thereof from FCI;
- maintenance of consolidated records to show quantity of rice delivered within the stipulated period, extended period or thereafter;
- preparation of crop wise results;
- finalisation of annual accounts;
- matching of CC outstanding with the hypothecated stock; and
- rendition of information to the Management regarding raising of sale bills against date wise rice delivered, raising of guarantee fee claims, receipts of sale proceeds and transfer of funds to cash credit accounts.

Internal Audit

2.27 The State Government had emphasised in July 1977 the need for a properly conceived and effectively implemented system of internal audit as it was an essential aid for effective financial management of public enterprises. There is no effective internal audit system in the Company. In the absence thereof deficiencies in the activities of procurement, storage and milling of paddy are not being brought to the notice of Board of Directors (BOD).

The Management stated (July 2008) that the Internal Audit Wing at the head office of the Company conducts 100 *per cent* internal audit of monthly cash accounts, stock accounts and inventory accounts etc received from district offices and the audit observations are conveyed to the district offices for compliance. The reply is not tenable as the Internal Audit Wing neither prepared any periodical reports of its scrutiny for submission to the BOD nor it conducted any appraisal of various systems and procedures in the organisation.

Conclusion

The Company failed to ensure custom milling of paddy and delivery of rice to FCI in an efficient and effective manner and as per prescribed procedure and norms. The performance of the Company with regard to safeguarding its financial interest *vis a vis* custom milling of paddy and delivery of rice to FCI was sub-optimal due to absence of any system to analyse the rates fixed by GOI to ensure that all elements of cost are reimbursed to the Company. There was no system to ensure timely raising of sale bills on FCI and claims of interest due to delay in making payment by FCI. There was also no system to analyse the rates worked out by FCI for the purpose of levy of statutory duties. The Company failed to devise and make operational a reliable monitoring system at the highest level to ensure that the objectives were efficiently and economically achieved. The Internal Control systems were found to be deficient and Internal Audit was also not effective.

Recommendations

- **It should be ensured that all elements of cost are included in the rates of rice fixed by GOI.**
- **Raising of bills/claims should be monitored and delays should be viewed seriously.**
- **The Company should devise a system to ensure prompt raising of claims of interest in case of delayed payment by FCI.**
- **The rates worked out by FCI for the purpose of levy of statutory duties should be analysed properly.**

- **Internal Audit System of the Company should be made effective so that deficiencies in the procurement, storage and milling of paddy could be brought to the notice of BOD.**

The above matter was referred to Government in May 2008; their reply had not been received (September 2008).