

Executive Summary

Why did we decide to examine this issue?

Procurement of food grains increased from 343 lakh metric tonne (LMT) to 634 LMT during the period 2006-07 to 2011-12. As a result, stock of food grains in the Central Pool also went up from 259 LMT on 1 June 2007 to 824 LMT on 1 June 2012. Such a sharp increase in stock of food grains raises issues relating to storage space and larger movement of food grains from procuring states to consuming states. Considering the widening gap between stock of food grains and available storage capacity as well as the constraints being faced in movement of food grains, Audit decided to examine the storage management and movement of food grains in Food Corporation of India.

What were our audit objectives?

The performance audit was conducted to assess whether:

- the system of procurement, price support operation, buffer stock maintenance, storage management were adequate to ensure efficient management of food grains for food security in the country;
- storage capacity was utilised to the optimum level;
- creation or augmentation of storage capacity was commensurate with the envisaged and long-term requirement for storage of food grains;
- movement of food grains in FCI was carried out in the most efficient manner; and
- internal audit arrangements in FCI were adequate.

What did our performance audit reveal?

The average food grains procurement of 514 LMT during the period 2006-07 to 2011-12 was lower than the average allocation of 593 LMT made by the Government of India (GOI) to states for distribution under Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS). The current procurement level of food grains by FCI, State Government Agencies (SGAs) and states undertaking decentralized procurement (DCP) would not be able to adequately meet the allocation and the future requirement of food grains estimated by the GOI.

(Para 2.1.1)

The minimum buffer norms prescribed by the GOI did not clearly delineate individual elements of food security (e.g., emergency, price stabilisation, food security reserve, TPDS, OWS) within the minimum buffer stock. The existing norms also did not specify the maximum and manageable level of stock to be maintained in the Central Pool and the components therein.

(Para 2.2.2)

Under the existing buffer stock policy, the total stock of food grains held by FCI, State Governments and their agencies constitute the Central Pool. The policy does not indicate the agency which is primarily responsible for maintaining minimum buffer stock level for the country as a whole. There are many agencies involved in storing food grains of the Central Pool which adversely affects accountability and transparency in the management of food grains.

(Para 2.2.3)

No specific norm was followed for fixing of the Minimum Support Price (MSP) over the cost of production. Resultantly, it was observed that the margin of MSP fixed over the cost of production varied between 29 *per cent* and 66 *per cent* in case of wheat, and 14 *per cent* and 60 *per cent* in case of paddy during the period 2006-07 to 2011-12. Increase in MSP had a direct bearing on statutory charges levied on purchase of food grains by different State Governments. There were also wide inter-state variations both in statutory and non-statutory charges being charged by the State Governments. All this resulted in the rising of the acquisition cost of food grains.

(Para 2.3.1 and 2.3.2 with Para 2.3.3)

FCI owned storage capacity remained more or less constant ranging between 151 LMT and 156 LMT during the period 2006-07 to 2011-12. The stock of food grains in the Central Pool steadily increased to 824 LMT on 1 June 2012. As a result, hiring of storage space by FCI increased from 100 LMT to 180 LMT during the period significantly adding to hiring charges from ₹ 322 crore in 2006-07 to ₹ 1,119 crore in 2011-12. Further, due to constraints in available storage capacity, FCI could not take over stock of wheat procured by State Government Agencies for the Central Pool within the prescribed time frame of June each year. This led to increase in payment of carry over charges to State Government Agencies from ₹ 175 crore in 2006-07 to ₹ 1,635 crore in 2011-12 for holding of food grains beyond the prescribed time.

(Para 3.2.1 and 3.2.2)

The storage gap in FCI against the Central Pool stock witnessed a steady increase during the period 2006-07 to 2011-12. Against the storage gap of 332 LMT (March 2012), GOI/FCI envisaged capacity addition of only 163 LMT during the six year period under various augmentation programmes. Out of this, only 34 LMT was completed (March 2012).

(Para 3.5)

FCI did not consider day-wise requirements and operational constraints of their own loading points in field offices in its monthly movement plan conveyed to the Railways in a number of cases. At the same time, due to operational constraints, Railways could not supply rakes as per plan of FCI and did not also adhere to the date-wise and destination-wise plan of FCI. Resultantly, during the period 2006-07 to 2011-12, the shortage of railway rakes with reference to planned ranged from 6 per cent to 17 per cent.

(Para 4.2.1 and 4.2.3)

Internal audit and physical verification conducted by FCI was largely inadequate. Substantial shortfall of manpower in internal audit wing had adversely affected the internal audit system in FCI. Internal audit and physical verification arrangements followed by FCI lacked the requisite independence and effective follow up at the headquarters level.

(Para 5.3.4 and 5.4)

What do we recommend?

1. The GOI/FCI should take necessary steps to augment procurement of food grains and also increase direct procurement by FCI and DCP States in view of increasing requirement for Targeted Public Distribution System and Other Welfare Schemes.
2. The GOI may consider fixing minimum buffer norm together with component wise quantities of food grains, for example, for food security reserve, emergency situations and price stabilization, etc. The GOI should also consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of the Central Pool.
3. The GOI may entrust responsibility of ensuring maintenance of food grains stock, handled by various agencies, at the level prescribed under buffer norms for single point accountability.
4. The GOI should expedite rationalisation of the cost structure of food grains in the context of levy of statutory and non-statutory charges imposed by different states in view of heavy subsidy payout.
5. The GOI/FCI should take a strategic view/conduct a detailed cost benefit analysis to decide the mix of owned and hired storage capacity and augment the storage capacity accordingly instead of solely depending on outside agencies.
6. FCI should ensure optimal utilization of existing storage capacity for timely evacuation of food grains from procuring states to consuming states to reduce the carry over charges payable to State Government Agencies.
7. In view of dismal storage capacity addition during last five years, GOI/FCI should expedite the ongoing augmentation plan under various programmes (Private Entrepreneurs Guarantee Scheme 2008 & 2009 and Plan Scheme for North-East and other states) to overcome the bottlenecks/constraints faced in various states in consultation/collaboration with respective State Governments.

8. The GOI should establish a formal mechanism involving Ministry of Railways and Department of Food/FCI to streamline the movement activities. The existing operational constraints of the Railways in supply of rakes as per the requirement of FCI should be addressed urgently.
9. FCI should streamline and strengthen the existing system of reconciliation of missing and unconnected wagons and settlement of refund claims with the Railways.
10. FCI should review the internal control arrangements with a view to strengthen manpower and to increase internal audit activities and coverage of physical verification of stock.
11. FCI should consider strengthening supervision and control of FCI headquarters over internal audit and physical verification activities to ensure independence.

What was the response of the Ministry to our recommendations?

The Ministry acknowledged the concerns highlighted by us. The responses of the Ministry on our recommendations were broadly in convergence with views expressed by Audit in the Performance Audit Report. The views of the Ministry on the recommendations made by Audit are given at *Annex-I*.