CHAPTER V: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

5.1 Export of wheat

While finalising tenders for export of wheat, Food Corporation of India did not compare the rates offered at different ports, which resulted in short realisation to the tune of ₹ 13.75 crore. The Corporation also incurred avoidable expenditure of ₹ 20.67 crore due to bulking of stock at ports and the balance stock not exported was transported back to various depots. Excess payment of ₹ 6.22 crore was also made to Handling and Transport (H&T) contactors due to application of wrong clause. Unjustified payment of ₹ 8.01 crore was also made to Clearing and Handling Agents (CHAs) for work under their scope but not carried out by the CHAs. Failure to pursue claims timely and vigorously resulted in non-receipt of Service Tax Refund from Central Public Sector Undertakings (CPSUs) amounting to ₹ 20.09 crore.

5.1.1 Introduction

Food Corporation of India (FCI) was set up under the Food Corporations Act, 1964 to fulfil the objectives of the Food Policy viz. (a) Effective price support operations for safeguarding the interests of the farmers, (b) distribution of food grains throughout the country for public distribution system and (c) maintaining satisfactory level of operational and buffer stocks of food grains to ensure nation's food security.

Considering the constraints of storage space for food grains faced by FCI and that stocks far exceeded the buffer stock norms, the Cabinet Committee on Economic Affairs (CCEA), approved (3 July 2012) the following:-

- Export of 20 Lakh Metric Tonnes (MTs) of wheat from Central Pool stocks of FCI through the Central Public Sector Undertakings (CPSUs) viz., State Trading Corporation of India Limited (STC), Projects and Equipment Corporation Limited (PEC) and Minerals and Metals Trading Corporation Limited (MMTC).
- Constitution of an Empowered Committee authorised to decide the modalities of export such as determining the export price from tender to tender, other operational issues regarding movement, timely payment from CPSUs to FCI and any other exigencies arising on day to day basis.
- Reimbursement of loss by the Government to FCI on account of exports calculated as the difference between the economic cost to FCI and its realisation from the exporting CPSUs after deduction of actual port expenses and their commission at the rate of 2.5 *per cent* for which additional funds over and above Budget estimate would be provided.

As per approval of CCEA, export of wheat was carried out in two phases. During Phase I (September 2012 to July 2013) 20 lakh MTs was approved for export which was further increased to 45 lakh MTs, subsequently. During Phase II (December 2013 to May 2014) 20 lakh MT was approved. Out of 65 lakh MTs of wheat approved for export, 57.98 lakh MTs was exported during the two phases of which four ports located in Western Region accounted for export of 30.59 lakh MTs, constituting 52.76 *per cent* of total exports as shown below:

Name of Port	Quantity exported (Lakh Metric Tonne)	Value (₹ in crore)	Associated CPSU
Kandla	11.28	1934.16	PEC
Mundra	14.66	2518.01	STC
Pipavav	3.90	661.94	MMTC
Goa	0.75	125.94	MMTC
Total	**30.59**	**5240.05**	

As more than 50 *per cent* of the exports were made through these ports in western region, an audit on export of wheat by FCI in West Zone was taken up from May 2015 to July 2015. The period from 2012-13 to 2013-14 (extended up to 30 June 2014) has been covered under this audit. The important findings are as under:

5.1.2 Audit findings

5.1.2.1 Deficiencies in tendering process

(a) Prequalification criteria changed after NIT resulting in restricted competition

A tender for appointment of Ad-hoc Handling and Transport (H&T) contractors at Pipavav Port was floated on 11 July 2012. A corrigendum was issued on 14 July 2012 by FCI with the additional clause, *"the prospective bidders should have consent letter from the respective port Authority for carrying out H&T operations in their port premises"*. This was done as M/s APM Terminals, Pipavav {formerly Gujarat Pipavav Port Limited (GPPL)}, the Port Authority had furnished a list of six cargo handling agencies registered with Pipavav port and insisted that FCI should restrict the bids from these six agencies or those who can register with them.

Audit observed that though the condition of consent letter from Port authorities was not insisted by GPPL, the same was included in the corrigendum and that four agencies were disqualified due to non furnishing of consent letter from the Port Authorities. Thus, out of the five parties the only party who qualified was the Port Authority (GPPL) itself at quoted rate of 275 *per cent* ASOR[1], while the average rate of all the Depots in Gujarat region in June 2012 was 139 *per cent* ASOR. This resulted in an additional expenditure of ₹ 4.52 crore on the total quantity exported from Pipavav port. Thus, due to inclusion of additional condition all the parties except the Port Authority were disqualified and contract was awarded to the single party.

The management replied that since time was of essence and arrangements had to be done on war-footing basis without any loss of time, it was decided to complete all formalities

[1] ***Above Schedule of Rate***

by allowing seven days time. Further, as private ports had raised concerns of security in port premises and efficient carrying out of operations, only registered contractors or their authorised agencies were allowed for submitting tender and that no favour was extended to any party by additional clause.

The Management reply is not tenable as the additional clause inserted by FCI, eliminated even the registered bidders and only the Port Authority became the sole bidder.

(b) Insufficient time allowed for submission of tender, in violation of Central Vigilance Commission (CVC) guidelines

As per the CVC guidelines sufficient time of four to six weeks in case of advertised/ global tenders and three to four weeks in case of limited tenders is allowed except in case of recorded emergencies.

The Empowered Committee (EC) in its meeting dated 7 July 2012 decided to keep the tender period as three weeks and to keep the CVC informed in writing of the reasons. Audit observed that in six tenders valuing ₹ 1149.57 crore, the tender period varied from two weeks to four weeks. Out of these six cases, in three cases valuing ₹ 490.28 crore, the tender period was less than three weeks in clear violation of CVC guidelines as well as the EC decision. Further, there were no records to indicate whether the CVC was informed in writing about the deviation and requisite approval was obtained in these cases.

5.1.2.2 Inefficiencies in port operations

(a) Non comparison of rates offered at different ports

As per the procedures prescribed during export of wheat, CPSUs were to invite tenders from foreign buyers and submit the same to the Empowered Committee for their approval. The Empowered Committee was authorised to approve the tender. On a review of the details of tenders received, it was seen that in respect of three cases[1], the Empowered Committee had compared offered rates of ports with the rates received in other ports. As per instructions of the Committee, the CPSUs negotiated with H1 bidder who agreed to match the higher rates in other ports. However, in nine cases, the Empowered Committee neither made any such comparison nor made any efforts for maximizing the rate even when the offered price was lower as compared to other ports on the same date. The non comparison of rates resulted in short realisation of ₹ 13.75 crore.

In respect of concerns raised by the Ministry of Commerce in the CCEA's Note with regard to the implication of export price on calculation of loss, the Ministry of Consumer Affairs, Food and Public Distribution (MOCAF&PD) had assured that views of FCI would be given emphasis during the Empowered Committee meetings. However, it was observed that though FCI and Department of Food were the members of Empowered Committee, the difference in rates at different ports was not raised in the Empowered Committee meetings.

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[1] ***Three tender floated by MMTC were (a) Kakinada Port, Tender for 75,000 MT, (b) Retender of 1,00,000 MT from Pipavav port and (c) Re-tender of 40,000 MT from Mormugao port.***

(b) Higher rate charged by Clearing and Handling Agents (CHAs) at private ports

M/s Rishi Shipping (CHA appointed for Kandla Port by PEC) charged for their services an all inclusive rates of ₹ 530 per MT for vessels of 40,000 MT carrying capacity and ₹ 505 per MT for smaller vessels. These rates were inclusive of all applicable taxes, rates and duties. In comparison Consortium of Mundra Port & SEZ Limited (MPSEZ) and GujratPipavav Port Limited charged for their services at Mundra and Pipavav Port an all inclusive consolidated rate of ₹ 590 per MT including Service Tax *plus*Wharfage of ₹ 40 per MT and Service Tax on Wharfage.

Though all CHA agents were doing similar job, the CHA at the Mundra and Pipavav private ports charged higher rates for their services compared to those charged by M/s Rishi Shipping. In addition to handling charges at higher rates, CHAs at the two private ports also charged wharfage at the rate of ₹ 40 per MT *plus* Service Tax. There was no justification on record for charging higher rates.

The higher rates charged by the CHAs at private ports of Mundra and Pipavav in comparison to CHA at Kandla resulted in excess expenditure of ₹ 18.15 crore in the export of wheat during 2012-13 and 2013-14.

Audit further observed that Wharfage was payable only if goods were removed after expiry of free time[1]. Thus applying wharfage on all transactions irrespective of applicability resulted in undue benefit of ₹ 8.28 crore (₹ 44.94[2] x 1729156 MT + ₹ 40 x 127452 MT) to the CHAs of Pipavav and Mundra port.

The Management stated that FCI has no role in questioning rates charged by CHAs of CPSU and that whatever port charges were charged, FCI has to allow and rates were bound to vary in different locations.

The reply of the Management is not acceptable because in view of the CCEA Note dated 25 June 2012, FCI's views were to be considered while deciding pricing. Also, as the increase in expenditure results in consequent additional subsidy burden, FCI should have raised this issue in the Empowered Committee Meetings to safeguard its interests.

(c) Avoidable expenditure of ₹ 20.67 crore due to bulking of stock before finalization of tenders and payment to H&T for its transport back to various depots by FCI

On review of records relating to dispatch of wheat after completion of Phase I and Phase II of Export, it was observed that avoidable expenditure was incurred due to non-achievement/non completion of export obligation by the CPSUs. Thus, balance wheat stock which could not be exported during Phase I and Phase II was transported to different depots in Gujarat by incurring an expenditure of ₹ 20.67 crore.

In respect of stock accumulated at Mundra port during Phase II, Management stated that it was due to non approval of tenders and cancellation of pilot project of clean cargo and considering the qualitative risk of stock, the competent authority directed to move the

[1] Time allowed to remove the goods from the Authority's property.
[2] Wharfage₹40 plus service tax at the rate of 12.36 per cent

said stock to various destinations and the expenditure of H&T movement was borne by FCI.

The Management reply is not acceptable as non-achievement/non completion of export obligation by the CPSUs resulted in avoidable expenditure of ₹ 20.67 crore and FCI suffered the loss.

5.1.2.3 Weakness in Monitoring

(a) Excess payment of ₹6.22 crore on account of application of wrong clause

FCI appointed M/s Adani Port & SEZ Ltd at Mundra Port and M/s GPPL at Pipavav port as H&T contractor for unloading from wagons, loading into trucks, transportation from Railway goodshed/siding to godowns, unloading from trucks and Stacking in godowns. As per tender the relevant clauses for payment of handling and transportation of wheat is brought out as below:-

Clause 6 "for carrying the food-grain bags by means of trucks from the Railway siding to the godowns exceeding 200 meters situated in same premises or vice-versa which is inclusive of the operation of loading into and unloading from trucks".

Clause No.7 or Clause No 2 "for transporting the food grain bags by trucks from one godown to another godown /Railhead or any other place or vice versa" alongwith Clause 1(b) "for unloading food grains bags for wagons/trucks for any other transport vehicles and directly loading on trucks".

As FCI godown and their railway sidings were in same premises, the payment to CHAs should have been regulated by clause 6 of the tender. However, it was noticed that FCI applied Clause No.7 or 2 in place of clause No.6 along with Clause *No* 1(b). Thus, on the quantity of 9.37 LMT transported**,** FCI made an excess payment of ₹ 6.22 crore (937000 MT * ₹ 66.38) due to application of wrong clause**.**

The Management replied that godown having rail siding and godown served from a railhead/non railway siding godown were different and that the Port premises and the godown premises should not be interchanged.

Reply of the management was not tenable because Regional Office Ahmedabad and Zonal Office (Mumbai) had given recommendations (December 2012) for payment to be made under Clause 6. Further, in absence of any clarification of the word 'same premises' in the MTF, FCI should have made the payment of export operations under clause 6 to protect its financial interests

(b) Claims receivable from PSUs in respect of Phase I and II of exports

On review of the pending claims, it was seen that as per FCI books an amount of ₹ 17.19 crore was pending with STC, PEC and MMTC. Further examination of the pending claims revealed that:

STC remitted an amount of ₹10.92 crore on 12 September 2014 but did not provide the detailed break up of claims. As a result, the claims were still shown as pending claims in the accounts of the Corporation, even though more than 10 months had passed from the

date of receipt of money. Though FCI has reminded STC about providing break up for the claims to be adjusted, the same was not provided by STC till the date of audit (July 2015) and the claims remained unsettled.

It was observed that CPSUs had not paid full sales proceeds to FCI according to guidelines/procedures and an amount of ₹ 9.32 crore was outstanding as on 31 March 2015 (₹ 7.99 crore from STC and ₹ 1.33 crore from PEC), even after a lapse of more than one year and reminders by FCI.

The interest amounting to ₹ 2.08 crore as on 31 March 2015 was recoverable from CPSUs.

The Management stated that interest would be calculated and claimed on the delayed remittance of sale proceeds of gunny after receipt of bifurcation of amount of ₹ 10.92 crore remitted by STC. FCI needs to actively pursue for realisation of sale proceeds and interest thereon.

(c) Non receipt of Service tax refund of ₹20.09 crore from the CPSUs

Government of India, Ministry of Finance, Department of Expenditure vide Notification No. 41/2012-Service Tax dated 29 June 2012, granted rebate of service tax on the taxable services received by an exporter of goods and used for export of goods. The proviso to the notification further stated that the rebate shall be granted by way of refund of service tax paid and the claim for rebate of service tax paid on the specified services used for export of goods shall be filed within one year from the date of export of the said goods. The rebate on service tax was to be claimed as refund by the exporters (CPSUs).

It was observed that apart from an intimation from STC of receipt of Service tax of ₹ 0.45 crore on other charges, no refund of Service Tax was received on the export of wheat and the total service tax of ₹ 20.09 crore as on 31 March 2015 was due. Further, though the total service tax refund receivable in respect of Phase I&II from the CPSUs was ₹ 20.09 crore, FCI had claimed only ₹ 5.71 crore from the CPSU i.e., only refund claims relating to services other than that of CHAs. FCI claimed ₹ 15.95 crore (STC ₹ 9.52 crore+ PEC ₹ 6.43 crore) in respect of service tax refund relating to CHAs only in July 2015 after being pointed out by audit.

It was also observed that FCI Regional Office, Ahmedabad addressed letters to PSUs only on 16 December 2013 i.e, after a delay of more than one year claiming the refund of Service Tax from the Service Tax Department. STC assured (9 July 2014) that they will file the refund claim with Service Tax Department and remit the amount to FCI as soon as the same is received. Further, none of the other CPSUs had claimed refund of Service Tax even after completion of Phase II exports. Thus non maintenance of regular follow up resulted in delay in lodging the claim. The Management stated that claims are being pursued but the same were not yet received from the CPSUs.

(d) Withholding of export sales realisation ₹60.99 crore by MMTC

In respect of the last shipment (7 May 2014) from Pipavav port, MMTC realised ₹ 80.11 crore from exports and remitted only ₹ 13.40 crore to FCI after deducting their expenses

and commission amounting to ₹ 5.72 crore, it withheld ₹ 60.99 crore of the realised amount as adjustment in respect of very old dues receivable from FCI pertaining to 1991 (₹ 24.99 crore as principal *plus* interest amounting to ₹ 36 crore). Even after more than one year, MMTC has neither remitted the withheld amount nor paid the interest of ₹ 5.72 crore claimed by FCI on the delayed payment as on 31 March 2015 inspite of various correspondence by FCI. In absence of any agreement/MOU between FCI and MMTC with regard to the current export transaction, the chances of recovery of the above said amount was remote.

(e) Short receipt of despatch money

During loading on the ship, if the charterer completes the load/discharge operations before the time frame indicated, it can claim "Despatch" from the ship owners at pre-agreed rate and if it fails then demurrage will be levied by the owner on the charterers. As per FCI HQ guidelines (24 September 2012) despatch money earned had to be passed on to FCI within one working day on receipt failing which CPSUs were liable to pay interest for delayed period at FCI's Cash Credit rate.

The despatch money of ₹ 4.13 crore was earned and demurrages of ₹10.54 lakh were incurred during the export operation. In case of despatch money and demurrages, it was observed that:

(i) No information/ details were available relating to13 vessels during Phase-I and of one vessel during Phase-II in respect of exports from Mundra port. In absence of information it could not be ascertained whether despatch money was earned or demurrage was incurred.

(ii) FCI HQ guidelines dated 24 September 2012, clearly stated that private ports shall be liable to incur the demurrage and FCI will not be responsible for any demurrage charges; despatch earned, if any, will be passed on to FCI. Audit observed that for Mundra, FCI had incurred ₹ 10.54 lakh as demurrage charges. This deduction of ₹ 10.54 lakh towards demurrage is not in order and FCI ought to have demanded for the recovery of the same. On being pointed out by audit, FCI lodged a claim for ₹ 10.54 lakh (July 2015).

(iii) As per the 22nd Sub Committee meeting (18 December 2012), total despatch money had to be passed on to FCI except in case of Mundra port wherein it was to be shared on 50:50 basis. The management stated that infrastructure and operations at private ports could not be compared with Government ports. However, no specific reasons were given by the Management for giving differential treatment to Mundra Port.

Efforts need to be made by FCI to expeditiously recover the despatch money as well as demurrage from port authority.

(f) Loss of ₹4.46 crore due to cancellation of shipment

(i) A Pilot Project for cleaning/upgradation of wheat for exports at Mundra was approved in the 352nd Board meeting held on 20 December 2012 of FCI. STC was entrusted the export of 50,000 MT of clean cargo from Mundra port at the rate of USD 323.05 with

shipment period from 21 January 2013 to 5 March 2013. For carrying out this work, STC appointed its CHA, M/s Adani Port & SEZ Ltd. (APSEZ) as the cleaning agent. FCI supplied 26,092.710 MT of wheat to STC for this purpose. As the contracted physical parameters in respect of first shipment of 25,000 MT could not be achieved, the buyer was not pursued for opening of the Letter of Credit (LC) till the expiry of the shipping period to avoid claim for damages by the buyer.

The LC was opened by the buyer, four months after the stipulated shipment period, with last date of shipment as 15 July 2013. APSEZ failed to clean the cargo within the stipulated period and the request made to extend the LC was not accepted by the buyer resulting in cancellation of the tender. Though APSEZ (CHA of STC) could not complete the cleaning of wheat upto the specified level, no liability was fixed on anyone. STC intimated the Committee (4 October 2013) that the cleaning project could not be achieved and assured the Committee that there would not be liability from the buyer either on FCI or STC and written confirmation in this regard is expected from the buyer shortly. However, the written confirmation was not obtained and the matter was also not pursued further even by FCI. Since STC could not achieve the required export specification, 20,806 MT of wheat was exported at a lower rate of USD 300.40/MT. Thus, due to cancellation of order of clean wheat an amount of ₹ 2.83[1] crore was foregone.

Audit observed that the cleaning started only after opening of LC though the stocks were inducted by FCI well in time. The delay resulted in non-completion of the cleaning of wheat as assured by STC before the date of shipment period resulting in cancellation of order and loss to FCI to the tune of ₹ 2.83 crore.

(ii) A quantity of 4295.788 MTs of cleaned stock was despatched to various centres of FCI by rail in Gujarat Region for public distribution system and remaining quantity of 990.922 MTs of cleaned cargo remained with STC, which was reported after a gap of nine months resulting in discarding the cargo as it had become unfit for human consumption. FCI submitted a claim of ₹ 1.63 crore on STC at Open Market Sale Scheme rate vide its letter dated 21 August 2014 and further reminded on 02 February 2015. However, there was no response from STC in this regard.

Thus, the total loss to FCI works out to ₹ 4.46 crore (₹ 1.63 crore *plus* ₹ 2.83 crore) against which FCI had lodged only a claim of ₹ 1.63 crore with STC instead of taking up the matter with the Empowered Committee to protect its interest.

(g) Reduction in scope of work of CHA without reduction in rate leading to over payment of ₹5.01 crore

PEC, STC and MMTC were appointed Clearing and Handling Agents (CHAs), at Kandla Port (Rishi Shipping), Mundra Port (Consortium of Mundra Port & SEZ Ltd (MPSEZ)) and Pipavav Port (Gujarat Pipavav Port Ltd), respectively.

As per FCI Hqrs instructions, FCI had to provide wheat stocks during Phase I to CPSUs at the port town godowns of FCI at identified ports for further shipment and during Phase II, at the designated CPSU godowns at the Port through FCI's Handling and Transport

[1] USD323.05-300.40 = USD 22.65 * ₹60* 20806.

Contractor. However this arrangement was not applicable in case of Pipavav port where the entire operation beginning with unloading of rakes was to be undertaken by MMTC.

During Phase II (2013-14), FCI exported 7.50 LMT through Mundra and Kandla Ports and incurred ₹ 11.66 crore towards handling & transportation charges for handing over the stocks to CPSUs/CHAs.

Audit observed that though there was reduction in scope of CHA's job during phase II (as lifting from FCI godown and the transportation upto CHA's godown which was in the scope of the CHA during first phase was carried out by FCI in Phase II), the same rates were continued by PEC and STC for the CHAs at Kandla and Mundra respectively without calling for fresh tenders.

Thus, non-reduction in rate on change in scope of work of CHA resulted in undue benefit to the CHAs and additional expenditure to the tune of ₹ 5.01 crore (transportation expenditure borne by FCI ₹ 2.07 crore and ₹ 2.94 crore at Kandla and Mundra port respectively).

(h) Payment of ₹ 8.01 crore to CHAs for work, included in their scope but actually carried out by FCI

As per agreement entered into by CPSUs with CHA for Mundra and Pipavav port, the CHAs were responsible for lifting wheat stock from FCI port godowns to carry out operation for loading wheat by arranging their own labour.

For arranging stocks at FCI's godowns at the Ports, FCI appointed H&T contractor, Khaja Travel Service/Jay Enterprises (w.e.f 16 July 2013) at Kandla Port, M/s. MPSEZ at Mundra port and M/s Pipavav at Pipavav port. As per Item 1(b) of Price Bid Clause XIX for unloading food grain bags from wagons/trucks or any other transport vehicles and directly loading on trucks or any other vehicles etc., a separate rate of ₹ 24 per MT (plus ASOR quoted and agreed) was applicable.

As decided in the Sub Committee meeting (10 October 2012), stocks were issued to CPSU directly from Rail Head instead of from FCI godown through H&T contractors during Phase I export of wheat. Audit observed that though FCI carried out the handling operation through H&T Contractors which was responsibility of CHA appointed by CPSUs but full charges were reimbursed/paid to the CHAs resulting in additional expenditure to the tune of ₹ 8.01 crore and undue benefit to the CHAs,

It was further noticed that as per 39th Sub Committee meeting (12 July 2013), CPSUs were required to provide a certificate that all activities as indicated in the tender were carried out by the CHA at the port, to ascertain that payment was made against the actual operations carried out by them. However, no such certificate was furnished by the CPSUs whereas FCI made full payment of ₹ 8.01 crore.

The Management stated that as the lifting of food grains at the railhead was not a CHA job they cannot be compelled to lift the food grains from rail head and that there was no deviation in policy framework conveyed by FCI HQ duly endorsed by the Sub Committee.

The reply of the Management is not tenable because as per procedure, the CPSUs were to take the stock from FCI godowns through their CHAs. Hence, in case of direct delivery at railhead, the CPSUs should take delivery of the same through its CHAs. The export policy framework conveyed by FCI HQ neither mentions about changes to be made in agreement with CHA to accommodate the above scope of work nor does it include the decision of Sub Committee for delivery of food grains.

(i) Non deduction of TDS of ₹10.93 crore on commission paid to CPSUs

As per Section 194H of the Income Tax Act, 1961, the consignor/principal would have to deposit the tax deductible (at the rate of 10 *per cent*) on the amount of commission income to the credit of the Central Government, within the prescribed time. CPSUs remit the export sales proceeds to FCI after deducting port expenses and their commission. As retention of commission by the consignee/agent amounts to constructive payment of the same to him by the consignor/principal, deduction of tax at source is required to be made from the amount of commission. However, no TDS was paid. Subsequently, in Section 194H of the Income Tax Act, the word "Trade Commission" was replaced with "Trade Margin" and FCI contended that TDS is not applicable on Trade Margin.

Audit observed that, based on an opinion received from a Chartered Accountants firm that the relation between FCI and CPSUs is that of Seller and buyer (and not that of Principal and Agent), the credit sales invoice of export of wheat was prepared by the Corporation and issued to CPSUs wherein FCI had not deducted TDS amounting to ₹ 10.93 crore from the amount paid to CPSUs as their commission.

In this regard it was observed that the relation between FCI and STC/PEC/MMTC was that of Principal and Agent and not that of seller and buyer due to the following reasons:

(i) The CPSUs were appointed as exporting agencies to facilitate export operation i.e., act as agents to bring the seller and prospective buyer together for which there was to be no profit making by PSUs but they would be paid trading commission.

(ii) FCI had not entered into a 'Sale Agreement' (as per the Sales of Goods Act) with CPSUs and has booked the sales under Export Sales and not indigenous sales.

(iii) The stock was to be issued through CPSUs and not sold to CPSU and the CPSUs were allowed handling loss of 0.25 *per cent*. If the stock had been sold to CPSUs the question of handling loss on stock issued to CPSUs did not arise.

(iv) The sales invoice was not raised when the stock was issued to the CPSUs but only on arrival of vessel in consultation with CPSU on the basis of capacity of the vessel and shipping contract.

(v) Un-exported stock lying with CPSUs were directly taken to FCI Stock and not shown as sales return from CPSUs.

As the relation between FCI and CPSUs (STC, PEC & MMTC) was that of Principal and Agent, FCI was liable to deduct TDS from CPSUs and remit the same to the accounts of Central Government.

The Management replied that no TDS was applicable on trade margin. The Management reply was not acceptable as the relation between FCI and CPSUs clearly was that of Principal and Agent and hence FCI was liable to deduct TDS on commission paid and remit it to the Government. Thus, non deduction of TDS amounting to ₹ 10.93 crore on the Trade Commission paid to CPSUs resulted in loss to the Government.

Conclusions

A number of deficiencies and irregularities were noticed in the export of wheat by FCI. Separate Agreement/MOUs were not entered between CPSUs and FCI for export operations. Though FCI and Department of Food were members of the empowered Committee, to invite/evaluate the tender from foreign buyers FCI did not protect its interest by raising the pertinent issues in the meeting leading to extra expenditure. Moreover, higher rates were charged by the CHAs at private ports of Mundra and Pipavav when compared to CHA at Kandla port. Further, undue favours were extended to the private parties/CHAs resulting in loss to FCI. Tender period varied from two weeks to four weeks in violation of CVC guidelines. There were delays in claiming service tax refund from CPSUs and chances of recovery of proceeds of export sales withheld by MMTC were remote in absence of any agreement/ MOU between the FCI & MMTC.

The matter was reported to the Ministry in November 2015; their reply was awaited (March 2016).

5.2 IT audit on implementation of Financial Accounting Package

Food Corporation of India (FCI) rolled out FAP without the pilot locations expressing their satisfaction and full payment of ₹ 12.53 crore was released to TCS. The Corporation incurred unfruitful expenditure of ₹ 4.92 crore on networking and hardware. Moreover, FCI sanctioned ₹ 200.78 crore to implement an altogether different software instead of using the FAP's inventory module in Oracle. Financial Statements could not be generated through FAP due to deficient customisation and these were being prepared manually. Modules of FAP lacked proper validation, security provisions and processing controls leading to incorrect output, unreliable data and excess payments.

5.2.1 Introduction

Food Corporation of India (FCI) functions through five Zonal Offices (ZOs), 25 Regional Offices (ROs) and 169 District Offices (DOs). In the meeting held on 26 July 2005, the Board of Directors of FCI approved implementation of Financial Accounting Package (FAP) to computerise the financial accounting of FCI. The Finance division of FCI implemented FAP {Oracle Enterprise Resource Planning (ERP)} in collaboration with Tata Consultancy Services (TCS). FCI entered into contract (November 2006) with TCS for implementation and customization of FAP. The contract also covered four years of maintenance support at a cost of ₹ 3.01 crore. The main modules of Financial Accounting Package were (a) Financial Accounting (b) Cash Management (c) Budgeting and Costing (d) Payroll and (e) Contributory Provident Fund (CPF) Trust Accounting.

FCI released payment of ₹ 12.53 crore (cost of software and other revenue expenditure) to TCS against the above contract till December 2015. The targeted date of implementation of the project was one year from the date of award of tender i.e., 24 November 2006. FCI continued with simultaneous manual book-keeping along with FAP till 31March 2013.

5.2.2 Audit Findings

5.2.2.1 Project management and implementation of FAP

(a) Rollout of the project without receiving completion certificates from pilot sites

Implementation of the project was to be carried out in two phases, i.e., Phase I and Phase II. Phase I implementation was to be at pilot sites at FCI Head Office, five Zonal Offices, five Regional Offices and five District Offices. Subsequently, the roll out was to be carried out as Phase II for rest of the sites. As per the relevant clause in the tender, the date of completion certificate from pilot locations was to be considered as the Go live/completion of the project.

Audit observed that even though certificates for completion of FAP were not given by any of the pilot locations the roll out of FAP (Payroll Module) was started w.e.f. 01 October 2010 and the "Go live" certificate (w.e.f. 01 December 2013) for FAP was issued by the Management to TCS in February 2014. .

Thus, in spite of non-fulfilment of contractual condition of completion certificate from the pilot locations, FCI/TCS rolled out the package and full payment of ₹ 12.53 crore was made to TCS.

The Management accepted that there was no formal closure from the pilot locations and stated (February 2016) that keeping in view the progress made and also FAP being ready to give desired results it was decided to roll out the FAP.

The reply of the Management is not tenable as full payment was made to TCS without the pilot locations expressing their satisfaction whether FAP fulfilled their user requirements.

(b) Unfruitful expenditure of ₹4.92 crore on networking and hardware

(i) As per the minutes of the meeting held on 07 January 2005, NIC was to provide Virtual Private Network (VPN) connectivity at a cost of ₹4 crore, through Bharat Sanchar Nigam Limited (BSNL)[1] for the project up to District level. In compliance with the NIC recommendations, FCI released a payment of ₹ 4.02 crore to BSNL (March 2005) towards bandwidth usage charges and hardware items.

Audit observed that VPN connectivity was not provided to district offices which were the prime end users of the FAP project. Thus, the district offices were forced to depend upon other sources like data card services and individual broadband services in an unstructured

[1] ***A VPN is a network technology that creates a secure network connection over a public network such as the Internet or a private network owned by a service provider***

and unmanaged manner leading to delayed communication between the district offices and the central server. This rendered the expenditure of ₹ 4.02 crore unfruitful.

The Management stated (February 2016) that increase in traffic usage of internet in IISFM, FAP and other application had resulted in slow connectivity. Therefore, as per advice of NIC and after approval of Chairman and Managing Director of FCI, BSNL was requested to discontinue the VPN.

The reply is not tenable as the Management did not consider up-gradation of the VPN connectivity to cater to the increased internet traffic; rather it chose to discontinue VPN connectivity which resulted in transmission in an unstructured and unsecured manner[1] between district offices/depots and FCI Hqrs.

(ii) Clause 7.3 of the tender stipulated that "TCS is responsible for the complete delivery, implementation and rollout of all application software including database within 12 months from the date of award of contract". Thus, the project was to be completed by December 2007. Audit observed that FCI management could not provide the requisite hardware and server on time to TCS which delayed the implementation of project. Further, implementation of FAP also got delayed due to utilisation of workforce to clear the arrear of accounts (for two to three years), lack of dedicated manpower, and delay at pilot locations. Finally, Completion certificate was issued (February 2014) to TCS effective from 01 December 2013. Thus, there was inordinate delay of six years in implementation of project. Due to this delay the servers procured (2008) at cost of ₹ 89.90 lakh (one production server and development server) got outdated which needed to be replaced resulting in sub-optimal utilisation of the servers.

The Management stated (February 2016) that the servers procured for FAP were used for different activities during different phases of FAP implementation and never remained idle or unutilised and that the servers had outlived their life and needed to be replaced.

The Management reply does not address the fact that the servers which were procured in 2008 for FAP could not be put to their intended use due to six year delay, by which time the servers had become outdated.

5.2.2.2 Critical functional requirements not incorporated in FAP

(a) Non-integration of stock accounting with Financial Accounting Package

Integrated Information System for Food Grains Management (IISFM) was approved at a total cost of ₹ 97.66 crore to install an online MIS in FCI by National Informatics Centre (NIC) which would give the stock position in any Food Storage Depot at any given point of time. The stock data entry in IISFM was based on details of transactions[2] of food grains in depots. However, FCI kept IISFM in abeyance (August 2010) due to incomplete implementation, absence of connectivity, unreliable data and various flaws in system

[1] ***The LAN is without information outlets, Jack Panel, equipment racks etc. The switches are unmanaged and are of various brands and most of the FCI District offices have individual broadband connections.***

[2] ***Stock transactions such as truck wise receipt, issue, transit losses. storage losses, inter variety changes, loss due to down gradation etc.***

design resulting in unfruitful expenditure of ₹ 97.66 crore on implementation of IISFM. Non-achievement of the intended objectives of the project was highlighted in the CAG Audit Report No. 3 of 2011-12.

The Board of Directors of FCI decided (23 September 2005) that FAP was to be provided with adequate interface with the existing IISFM. The data flow was to be with respect to stock transactions such as receipts, issues, transit losses, storage losses, inter variety changes, losses due to down gradation etc., so that such data would not be required to be re-entered manually. Moreover, integration of IISFM with FAP for inventory management was also envisaged in the contract with TCS.

However, it was observed that no provision was made by TCS for interface of FAP with stock accounting in violation of terms and conditions of contract. As a result the entries were made manually in FAP from the monthly stock accounts statement sent by various depot offices.

The Management in their reply (February 2016) offered no comments to this observation.

(b) It was further observed in audit that TCS had proposed that Oracle Inventory Module of FAP can take care of the inventory transactions at depot level. However, Board of Directors' of FCI sanctioned (08 April 2015) an amount of ₹ 200.78 crore on an altogether different project called 'Depot online' overlooking the possibilities of implementing the already existing Oracle Inventory Module in FAP. Thus, instead of making use of the already available Oracle Inventory Module in FAP, which was implemented by the Finance Division of FCI, the Management made a decision to procure hardware and software, at a significant cost, for implementing an altogether different project (Depot Online). This indicates lack of co-ordination between the IT and Finance Divisions of FCI resulting in non-optimization of organizational resources and substantial additional expenditure.

The Management stated (February 2016) that as far as possibility of using existing Oracle Inventory was concerned, being an open tender, M/s Oracle was also free to participate in the selection process. However, no such response was received from them. As far as the additional cost of purchase of hardware for Depot Online Project was concerned, most of it was being supplied to the depots where such hardware was not available. Hence, additional cost would have been incurred even in case the solution of Oracle was implemented.

The reply of the Management is not tenable as it did not consider making use of the already available Oracle Inventory Module in FAP proposed by the TCS and instead committed itself to an additional expenditure of ₹ 200.78 crore for the Depot Online project. Further, as regards cost of hardware, FCI without considering the utilisation of hardware which was supplied in the depots under IISFM project, sanctioned purchase of additional hardware for similar use.

(c) Deficient customisation for generation of Financial Statements in FAP

ERP application developed by TCS at a total cost of ₹ 21.84 crore (including hardware and software) was not generating the financial statements as per requirement of the

Companies Act, 2013 thereby defeating one of the main objectives of implementing Financial Accounting Package. The Annual Financial Statements were in fact being prepared manually by FCI. Further, in built function for generating Bank Reconciliation Statement was also not being used by FCI.

The Management accepted and stated (February 2016) that the work to generate the above reports through FAP was under testing. The Management further stated that field offices were directed to prepare Bank Reconciliation Statement through FAP.

Thus, even after five years[1] of implementation and expenditure of ₹ 21.84 crore the system implemented in FCI fell short of the overall intended objectives.

5.2.2.3 Programme Change Control - Non authorisation over the escrow account and source code of the FAP project

Clause 7.10 of the tender document *inter alia* stipulated that the software source code (in a compact disc) shall be kept in a locker opened in the Bank and paid for by the Contractor. FCI shall have unilateral power to open the locker and necessary authorisation has to be provided to FCI from concerned bank by the Contractor so that FCI operations do not suffer.

It was observed that FCI had no authorisation over the escrow account and source code of the FAP project. This made FCI completely dependent on TCS for any change management and also rendered continuity of FAP operation vulnerable in case of dispute/disagreement with the vendor.

The Management accepted and stated (November 2016) that TCS was requested to provide the source code of the application.

5.2.2.4 Non-Evaluation of FAP by External Agency

One of the essential documents required for development of any IT application i.e. System Requirement Specification document was also not prepared by the vendor before designing and implementation of the project. Only a document in the shape of gap analysis carried out by implementing agency (TCS) was prepared. As a result of non-maintenance of basic documents like SRS, the audit and evaluation of FAP by external agency in terms of the MOU for the year 2012-13 between FCI and Ministry of Consumer Affairs, was declined by the external agency viz., Standard Testing and Quality Certification (STQC) Directorate (an attached office of the Department of Electronics and Information Technology, Government of India, providing quality assurance services in the area of electronics and IT). The reason cited for refusal by the agency was absence of the minimum documentation required for SRS along with the user manual clearly mentioning the software requirement, work flows, validation rules and access to the application along with the sample data.

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[1] ***Payroll module of FAP was started in October 2010***

Thus, in the absence of SRS document and user manuals and associated documentation of FAP the evaluation of the project by an independent third party was never carried out. Hence, the security, stability and quality assurance of FAP remained uncertified.

The Management confirmed (February 2016) that STQC refused on the ground that evaluation will not be possible without SRS documentation. Further, it stated that a tender for system audit of FAP was floated and awarded to M/s JKNP & Associates on 15 December 2015 and the system audit was under progress.

The reply is indicative of the fact that TCS did not fulfil its contractual obligation regarding system documentation leading to the system remaining unaudited. Evidently, absence of system documentation hampered the certification of the system.

5.2.2.5 Inadequate Disaster recovery and Business Continuity Plan leading to disruption and data loss

Disaster Recovery and Business continuity includes regular backups, storage of backups and periodic recovery simulation exercise to ensure that backups taken are recoverable in case of a disaster.

The backup of the FAP data was taken on Storage Area Network (SAN-2) by the Data Base Administrator and the same was copied in tape drive by NIC. The backup of the FAP server was taken centrally and the tape drives were kept at NIC, Hyderabad. However, it was observed that during the month of June 2013, there was a breakdown of the only existing server for 22 days (08 June 2013 to 29 June 2013) and transaction data was lost. As the backup could not be restored by FCI, the lost data had to be restored manually.

Audit analysis revealed that neither a Disaster Recovery Server was installed nor any recovery exercise was simulated.

The Management accepted (February 2016) the failure of backup restoration and stated that the requisite action for installation of new servers for Data Centre and Disaster Recovery site is in progress and would be completed by July 2016.

Thus, storage of data on tape drives in absence of Disaster Recovery Server puts the entire database at risk in the event of major breakdown. This is an unacceptable risk to FAP which processes transactions worth ₹ 1,36,561.13 crore[1] per year.

5.2.2.6 Inadequate security provisions in FAP

(a) User can simultaneously log in to FAP through more than one computer (LAN or standalone). This deficiency made the system vulnerable to unauthorized access.

The Management stated (February 2016) that the restrictions on multiple sessions are being evaluated. The vulnerabilities thus remain unaddressed.

[1] ***Sale and Purchase transactions of FCI for the year 2014-15.***

(b) No log files depicting login details of users such as login date/time, IP address etc., were maintained in the system. This detective control weakness compounded the already deficient preventive controls (as in 2.6.1) and is a major security vulnerability of the accounting system. It was also observed that the outsourced personnel staff at District Office FCI Tadepalligudem was engaged for entering the transactions in FAP leading to security risk and violation of principles of segregation of duties.

The Management stated (February 2016) that the record of history of transactions is available in the system. Further, with regard to outsourcing of staff it stated that the field offices have been advised to strictly follow the FCI Hqrs instructions of not-sharing the user IDs.

The Management reply with reference to login details of users is not tenable as it did not address the deficiencies in the log file details of users, rather it refers only to the record of history of the transactions which is not relevant in this case.

(c) There were instances where all the staff of Accounts section were found using the same user ID and password and thereby compromising the security of the system and also making it difficult to fix responsibility in case of any misuse**.** Audit observed that at RO Raipur, one user ID was created for three Assistant posts, and one super user ID was created for three managers post. This indicated that the ID was being shared with other users and super users. In Gujarat Region, the number of user IDs exceeded the number of employees working in the accounts section. Existence of excess User IDs in comparison to number of users indicates that the User IDs created for the employees who were transferred/ retired were still active and were not disabled. The Management stated (February 2016) that field offices were advised to strictly follow the Hqrs. Instruction of not sharing the User IDs.

The Management reply is not tenable as apart from issuing instruction it has not initiated any concrete measure to stop sharing of User IDs.

5.2.3 Deficiencies in different modules of FAP

Two core components of FAP are Financial Accounting Module and Payroll Module. Audit examined the adequacy of programming logic and mapping of business rules by test data method and running queries at the backend[1]. The major observations are given below:-

5.2.3.1 Financial Accounting Module

FAP has a Financial Accounting Module which is central to the functioning of the application. The inputs to this module include entries related to financial transactions of food grains. The output is in the form of General Ledger, Purchase day book, Sales day book, Trial Balance etc. Deficiencies noticed in audit are as detailed below:

[1] Backend is a Computer program (such as server software) that remains in the background, or resides on a server located in a back room

(i) The logic to calculate depreciation was incorrectly configured in the system in violation of the Companies Act 2013 whereby the application calculated depreciation on the full useful life of the asset (from 01 April 2014) rather than on remaining useful life of the asset which were purchased prior to April 2014. Audit observed that the amount of difference between the old method (Written Down Value) and new method (depreciation on full useful life of asset from 01 April 2014) of depreciation calculation was ₹ 33.99 crore. Incidentally, acquisition date of all the assets acquired since inception and before April 2014 was depicted as April 2013 in the system. The quantification of correct depreciation is hampered due to absence of historical acquisition data of assets in the system.

The Management stated (February 2016) that the issue relate, to accounting policy and availability of historical data in manual system.

The Management, thus, needs to enter correct acquisition dates of FCI's assets in its FAP data base to correctly calculate depreciation to provide an accurate picture.

(ii) The cash credit limit (CC) in the system was found to have no correlation with the approved cash credit limit of respective districts. It was observed that system accepted amounts in excess of the actual cash credit limit of the districts. This deficiency is not only fraught with the risk of excess payment getting processed through the system but would also result in cases of excess payments going unnoticed at management level in FCI HQ.

The Management stated (February 2016) that the CC limits are daily notional limits for the banks to clear the transactions during that day and no control can be exercised over a bank for clearing the amount up to CC limits through FAP.

The Management reply is not tenable as it did not address the issue of absence of inbuilt control in the system to restrict amount of payment to the CC limit of respective districts which poses risk of excess payment getting processed through the system.

(iii) The application lacked a provision to validate the issue quantity of food grains against the respective Release Order (RO) quantity. This, apart from creating a risk of processing payment for unauthorized issue of food grains also disables any monitoring of field level lifting of food grains against their respective authorizations. Moreover, while processing sales transactions, the invoices were being generated with neither referencing them to the scheme[1] under which the stocks were issued, nor linking with the stock levels in the respective depot. Moreover, the rates applicable for each scheme were not found linked in FAP. This created risk of generation of incorrect vouchers and also made such data of limited use for MIS and decision making by the management.

(iv) The system did not have the facility to calculate the amount payable/receivable from the quantity of food grain received/issued by linking it to the per quintal rate of that particular food grain. The net amount payable/receivable had thus to be

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[1] ***Various schemes like Below Poverty Line, Above Poverty line, Open market sale etc.***

calculated manually and then fed in to the system making it prone to human error and creating a risk of incorrect invoice generation and payment thereon.

The Management stated (February 2016) that separate Release Order Module, Depot Online Module and Procurement Module are being implemented by IT Division to address the above issue (iii and iv). The deficiency, thus, remained unaddressed.

(v) Mandatory functions like calculation of Service tax rates, VAT rates, Standard rates etc. were not configured in the application and they continued to be calculated manually making them prone to human errors.

The Management stated (February 2016) that no separate accounting for the service tax is made in the books of accounts as the rates differ from State to State. Hence, the amount is being calculated manually by field offices.

The reply of the Management is not tenable as Service tax, VAT, Standard rates etc., were mandatory functions which need to be auto configured in the application to prevent manual error.

(vi) The application did not have a provision to reconcile different payments made to more than one party, through Real time Gross Settlement (RTGS), by a single cheque. As such, reconciliation of such payments required manual interventions resulting in undue delays in procedural work besides making it prone to human error.

The Management in its reply (February 2016) produced an annexure of batch payment through system, however, they could not provide any evidence of party wise reconciliation made through the system.

(vii) As per business rules of FCI a transaction is processed after it is approved by the super user. Only after approval by the super user can the transaction be processed by the user and further passing of the same is done by the cashier for payment. However, there was no system for the user to know whether a transaction put up for approval was approved by the super user as no feedback/prompt was generated at the time of approval of a transaction. All such transactions were shown as pending invoices until they are checked by the user by opening the invoice or by being reminded by the party whose payment is due. This created undue delays in payment. As on 05 November 2015 there were 38,698 transactions amounting to ₹ 214.36 crore which were depicted as pending for approval.

The Management stated (February 2016) that the super user approves the transaction once he gets the physical voucher for verification and approval and is required to verify the same by opening the invoice. The Management reply did not address the audit observation on feedback/prompt which was not generated by the system for invoice approvals.

5.2.3.2 Payroll Module

The inputs to this module include entries related to employee pay and leave data. The output is in the form of Salary Slip, Form-16, Contributory Provident Fund report etc. The deficiencies noticed in audit are detailed below:

(i) As per FCI Rules annual increment shall be released on 01 January every year. The rule position is silent on eligible service criteria for release of annual increment for new recruits. Therefore the organisation should comply with the rule position prescribed in Fundamental Rules and Supplementary Rules (FRSR) which state that annual increment can only be released after completion of eligible six months of service. However, audit observed that annual increment of new recruits was released by the system despite non-completion of eligible six month service. Further, audit analysis revealed that due to this deficient processing control, an excess payment on account of increments amounting to ₹ 3.46 crore was released by FCI w.e.f. January 2011 to March 2015 pertaining to new recruits joining at Assistant Grade, Manager and Assistant General Manager level. As the deficiency is yet to be rectified it will result in continuing excess payments.

The Management stated (February 2016) that the annual increment has been implemented correctly in FAP as per regulation 86 of FCI (Staff) Regulation 1971 where date of increment is 01 January. However, the reply is completely silent on the eligibility criteria of six month service for release of increment as prescribed in *FRSR*.

(ii) Though the application provided a facility for generation of Form-16 of employees it could not be made use of due to wrong processing of the tax calculation by the application. It was observed that an amount of ₹ 28.48 crore was shown as tax rebate under Section 89 of Income Tax Act, 1961 (meant for rebate on arrear of salary) for 2547 number of employees even when no arrear was received by these employees. Resultantly, Form-16 was being prepared manually leading to duplicity of work. The processing logic has not been rectified to generate accurate Form-16 through the system.

The Management stated (February 2016) that actual amount of rebate under Section 89 was ₹ 13,66,496 for 35 records. The Management reply is not tenable as its reply referred to rebate given only to employees who had made external savings whereas audit has taken into account record of all those employees who were given rebate in their Form-16 under Section 89 of Income Tax Act, 1961.

(iii) There was no provision for entering PAN details of individuals in the Professional Tax schedule wherever such tax was leviable. Due to this a separate sheet had to be prepared manually at the time of filing Tax Return. This made the system dependent upon manual intervention and was prone to human error.

The Management stated (February 2016) that no requirement of professional tax schedule was received from any of the field offices. The reply is incorrect as Professional tax is paid by FCI employees in various States like Odisha, West Bengal, Maharashtra etc.

(iv) Any recovery from employees on account of shortage/defalcation of stock/cash/spares etc., affected through Payroll Module was not getting routed though the respective claim schedule of FAP. The recovery was instead getting credited to miscellaneous income and thus the claims remained unadjusted in the present system. This results in incorrect depiction of figures in the books of accounts. As on 05 November2015 an amount of ₹ 31.69 crore of recovery was incorrectly shown as Miscellaneous Income.

The Management stated (February 2016) that instructions have now been issued to field offices to adjust such claims to the extent of recoveries taken in Miscellaneous Income.

The Management reply did not address the audit observation of non-routing the recovery through respective claim schedule in FAP and only refers to adjustment to be made.

(v) The module lacked a validation check to restrict the amount of leave sanctioned to the extent of leave available to the credit of employee as the leave details were maintained manually.Payroll Module of the system was also found to be allowing Child care leave even to the male employees and paternity leave to female employees. Audit observed that 19 male employees and two female employees were granted child care and paternity leave respectively. This was in clear violation of the extant leave rules.

The Management accepted (February 2016) that leave records were maintained manually. Further, with regard to entry of child care leave against male employee and paternity leave to female employee, the same was rectified in Payroll Module.

The Management reply did not address the audit observation on absence of validation control in the system to prevent similar occurrences.

(vi) As per FCI regulations if any employee was on leave (except casual leave) on 01 January, his/her annual increment is not to be released. However, there was no inbuilt control in the system to enforce this rule. Audit analysis revealed that leave salary of 1211 employees was released even when they were on leave on 01 January 2015.

The Management stated (February 2016) that there is a provision to recover the differential increment through Maintain Direct Payroll (MDP) in case the employee is on leave. Evidently the system has no preventive control and is dependent on post transactions adjustments/recovery.

(vii) The module lacked the facility to calculate the amount of gratuity of retiring employees based on their employment/payroll data and the same continued to be calculated manually and then fed into the computerized system making it prone to human error and creating a risk of incorrect payments. Similarly, there was no facility in the module to calculate month wise breakup for arrears of pay given to employees; the arrear sheets were still being prepared manually.

The Management stated (February 2016) that entry of gratuity is made in the system after manual sanction order.

The Management reply is silent on the audit observation about absence of auto calculation of gratuity and arrear sheet by the system.

(viii) As per extant FCI rules no Special Duty Allowance (SDA) was payable to the employees who were on leave for more than 15 days in a given month. However, it was observed that in absence of inbuilt control in the system, the system allowed SDA even to those employees, who were on leave for more than 15 days. Thereafter deduction for such overpayment was done manually. In absence of inbuilt control system, overpayments cannot be ruled out.

The Management stated (February 2016) that there is no such condition to disallow SDA to an employee who was on leave for more than 15 days.

The Management reply is incorrect as FCI circular dated 21 August 1991 clearly states that no Special Duty Allowance (SDA) is payable to employees who were on leave for more than 15 days in a stretch.

(ix) The lowest competent authority for releasing increment in basic pay for employees/labour is Area Manager. However, it was noticed that the increments can be released using the login credentials of Assistant/Manager at the district level. Moreover, for such actions no authentication of higher management was required while releasing increment through Payroll Module of FAP. Apart from such increments being released in an unauthorized fashion the practice also created a risk of inaccurate increments being given to employees.

The Management stated (February 2016) that the increment is fed in the system only after receiving the administrative order from the Personnel Division and accepted that it is an offline process due to non-availability of Human Resource Management SystemModule in FAP.

5.2.3.3 Discrepancies in data

Inconsistencies and discrepancies in data are as detailed below:

(i) In East Zone of FCI there was a difference of ₹ 1,019.81 lakh between the figures of the Trial Balance and that of the schedules generated through FAP. After being pointed out by Audit, the discrepancy was adjusted by FCI by passing rectification entries through General Ledger Module. However, the reasons for the differences were not analysed by FCI to take any corrective action.

(ii) Age wise analysis for the debtors and creditors pertaining to the period prior to 31 March 2013 could not be generated due to incorrect porting of legacy data.

The Management stated (February 2016) that legacy data was taken as an opening balance as on 01 April 2013. Therefore, age-wise analysis for the invoices older than 31 March 2013 was not available.

The Management reply itself suggests that the legacy data was not entered year wise during data entry at the implementing stage of the system which resulted in above deficiencies.

(iii) Normally accounting entries are made either through the Accounts Receivable or Accounts Payable Module whereby such entries are also automatically captured and reflected in the schedules pertaining to respective account head. However, accounting entries made through the Journal Module were not being reflected in the respective schedules. Audit analysis revealed that there were 87,833 such entries amounting to ₹ 38,106.00 crore as on 05 November 2015. Thus, absence of matching figures in schedule for General Ledger entries renders the audit trail defective for tracing and vouching for Management Information System.

It was seen in audit that no records were available to indicate documented authorisation of the competent authorities for high value journal entries (over ₹1 crore) requiring authorisation by different level of officers as per the limits indicated in FCI's circular no. 932/Accts of 15 December 2004. In absence of such documentation it could not be verified in audit if the above provisions were being complied with.

The Management accepted and stated (February 2016) that a circular to obtain *post facto* approval of all the JEs above the prescribed amount had been issued to field offices.

5.2.4 Non mapping of business rules into the application

In order to successfully capture the business rules of an organization in a computerised application it is essential that they may be coded (after authorized BPR[1] if any) into the software. Deficiencies in mapping of business rules are given below:

(i) In FAP Head of account (1631[2]) clear reflection of output tax collected, deposited and adjusted could not be ascertained from the Trial Balance which was depicted under manual head of account (5.136 A, 5.136 B and 5.136 C[3]) prior to computerisation.

The Management stated (February 2016) that multiple account heads were not required as it was not found to be appropriate.

The reply of the Management is not tenable as due to merger of A/c head 5.136 series in to single accounting head 1631- Output tax (in FAP), clear reflection of output tax collected, deposited and adjusted is not ascertainable from the Trial Balance.

(ii) In the Stock Ledger Summary (SLS) generated through FAP there was no option of closing stock valuation at standard rates and measurement unit of quantity of food grains. Moreover, there was no option of capturing details of Goods in transit in the SLS. Thus, absence of above renders the audit trail defective with incomplete MIS in FAP.

[1] ***Business Process Re-engineering.***
[2] ***Head of account of Output Tax in FAP***
[3] ***Manual Head of accounts for output tax prior to computerisation***

The Management stated (February 2016) that closing stock is valued at average acquisition cost and no account head for goods in transit is required as no accounting entry is passed in transit.

The Management reply is not tenable as closing stock and goods in transit continue to be valued through a manual system and not from data entered in the FAP.

(iii) The modules for trade receivable and trade payable were not interlinked. Thus, there was no option to generate customized reports like details of outstanding against a single supplier/customer and a valuable input for the management was found missing because of this deficiency.

The Management stated (February 2016) that a net off report is available in Receivable Module to ascertain outstanding against a single supplier/customer.

The Management reply is not tenable as audit contention is about the net off report of Trade receivables and trade payables rather than the report mentioned by the Management which is net off report for Trade Receivable Module only.

Conclusion

FAP was envisaged as an enterprise wide system to automate and integrate FCI's Finance, Treasury, Inventory and payroll functions across all its units. However, even after spending ₹ 21.84 crore (including hardware and software), it was seen that the system is unable to generate financial statements as per the requirement of the Companies Act, 2013. Moreover, the project management suffered from number of deficiencies such as lack of system documentation, inadequate disaster recovery and business continuity planning.

The programming logic of main modules (Financial Accounting and Payroll) was found to have multiple deficiencies resulting in generation of incorrect output and unreliable data. Many business rules of FCI have not been mapped into FAP, thus limiting its utility as an MIS.

Moreover, instead of making use of Oracle Inventory Module in the FAP system, FCI Management decided to spend another ₹ 200.78 crore on a completely different project 'Depot online' which will have to be linked and integrated with FAP.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

5.3 Award of work of construction of godown on nomination basis

Food Corporation of India entrusted the work of construction of a godown to Assam State Warehousing Corporation on nomination basis in violation of guidelines laid down by the Central Vigilance Commission and without carrying out due dilligence in assessing their technical expertise and capability. Subsequently, FCI terminated the contract due to non-performance by Assam State Warehousing Corporation and entrusted the work to another agency which resulted in avoidable extra expenditure of ₹ 21.27 crore.

The Central Vigilance Commission (CVC) guidelines (July 2007), while referring to a Supreme Court of India judgment[1], stated that tendering process or public auction is a basic requirement for award of contract by any Government agency as any other method, especially award of contract on nomination basis would amount to a breach of Article 14 of the Constitution guaranteeing right to equality, which implies right to equality to all interested parties. However, in rare and exceptional cases, for instance during natural calamities and emergencies declared by the Government, where the procurement is possible from a single source only, where the supplier or contractor has exclusive rights in respect of goods or services and no reasonable alternative or substitute exists, where the auction was held on several days but there were no bidder or the bid offered was too low, etc., this normal rule may be departed from and such contract may be awarded through 'private negotiations'. The aforesaid guidelines of CVC had further laid down that mere post facto approval of the Board, rather than the inevitability of the situation, was not sufficient to award the contracts on nomination basis.

The Executive Director {North East (NE) Zone}, Guwahati of FCI entered into (December 2009) an agreement with Assam State Warehousing Corporation (ASWC) for entrustment of work of construction of 50,000 metric tonne (MT) capacity godown at Changsari, Guwahati at an estimated cost of ₹ 34.86 crore. The work was awarded on nomination basis, without following the procedure of open tender. However, the Zonal office of FCI did not record any reason for awarding the construction work on nomination basis, highlighting any rare and exceptional circumstances that would have justified such an award of work. Further, the award of work by the Executive Director (NE Zone) was beyond the powers delegated to him but it was subsequently ratified (June 2010) by the Chairman and Managing Director (CMD) of FCI. In absence of any justification establishing the inevitability of the situation thus warranting the need for awarding the work on nomination basis, the ratification done by CMD, FCI was also not in consonance with CVC guidelines.

During execution of this work, FCI deposited (March 2010) a sum of ₹ 2.75 crore with ASWC as initial advance for construction of godown which was to be completed by ASWC within two years from the receipt of advance i.e. by March 2012. However, the value of work done by ASWC during the two years period was only ₹ 2.56 crore. As the work was not completed within the agreed time, FCI intimated (July 2012) ASWC that due to lack of capability for executing the construction work, the agreement would not be renewed and therefore the work entrusted to ASWC was withdrawn (July 2012) as per terms of the agreement.

Audit observed that FCI cited (July 2012) technical incapability in executing the work as primary reason for terminating the agreement with ASWC as it did not equip itself with the required number of qualified engineers to supervise the project in a professional way and was also not aware of the quantum of work, methodology for calculation and structural designing of the project. This was completely in contradiction to an earlier communication of January 2010 by ED (NE Zone) to FCI HQ wherein it was stated that ASWC had its own Engineering cell where sufficient engineers were available and the design specification of the godowns constructed by ASWC was as per FCI pattern. Thus, from the apparent contradiction in the facts stated by FCI at the time of award of contract

[1] ***Nagar Nigam, Meerut Vs A1 Faheem Meat Export Private Limited [arising out of SLP(Civil) No. 10174 of 2006]***

to ASWC and at the time of termination of contract, it is evident that FCI (NE Zone) did not carry out due diligence in assessing the technical expertise and capability of ASWC in executing the construction work.

Subsequently, FCI invited (November 2012) expression of interest from Central Public Sector Undertakings for taking up the remaining construction work and entered into (March 2013) an agreement with National Building Construction Corporation Ltd. (NBCC) for completion of balance work at an estimated cost of ₹ 53.57 crore which resulted in avoidable extra expenditure of ₹ 21.27 crore[1]. FCI handed over (July 2013) the construction site including the incomplete work of ASWC to NBCC for completion of work in two years i.e. by July 2015. NBCC had handed over constructed godown of 39170 MT capacity only to FCI and the balance 21 *per cent* construction work was yet to be completed (January 2016).

Thus, award of construction work to ASWC on nomination basis without evaluation of their capability not only resulted in violation of CVC guidelines but also led to subsequent termination of agreement due to non-completion of work by ASWC. Subsequent re-entrustment of the balance work to another agency resulted in avoidable extra expenditure of ₹ 21.27 crore besides delay of more than three years in completion of work.

The Management stated (February/November 2015) that there was urgency for creation of storage capacity for buffer stock for public distribution system in the North-East zone. The work was entrusted to a government agency such as ASWC which cannot be termed as award on nomination basis and that the CVC guidelines were not applicable in cases where work is entrusted to Central/ State Government, Central/ State PSUs who execute the work at Central Public Works Department (CPWD) schedule of rates by following CVC guidelines.

The reply is not acceptable as these reasons were not recorded at the time of awarding the work and appears to be an afterthought after audit has raised the issue; even the issue of urgency is untenable as more than five years have lapsed and the godown is yet to be fully constructed and put to use. Further, the CVC guidelines did not grant any exemption in cases where work is entrusted to Central/ State Government, Central/ State PSUs who execute the work at CPWD schedule of rates.

The matter was reported to the Ministry in October 2015; their reply was awaited (March 2016).

5.4 Undue benefit to the transport contractors

GOI exempted incidence of service tax on transportation of food grains in February 2010. However, Regional offices of Food Corporation of India at Guwahati and Shillong floated tenders for transportation of food grains inclusive of element of service tax in violation of their Headquarters' instructions of October 2012. This resulted in avoidable payment of element of service tax of ₹ 13.18 crore to the transporters.

[1] *Increase in cost estimate = Revised estimate – (Original estimate – Value of work done)*
= ₹53.57 crore – (₹34.86 crore - ₹2.56 crore) = ₹21.27 crore

According to Section 68(2) of the Finance Act, 1994 read with Rule 2(i)(d) of the Service Tax Rules 1994, FCI, the recipient of service of transport contract is required to deposit the Service Tax on the taxable service cost with the Service Tax Authority.

Food Corporation of India (FCI) Headquarters issued (March 2008) directives to its field offices to include a condition in Model Tender Form (MTF) that all tenderers (for transportation of food grains/sugar) were required to quote rates inclusive of all taxes, duties, cess etc. Consequently, the rate quoted by the transport contractors for transportation of food grains/sugar included freight (per metric tonne per kilo meter) and Service Tax on taxable portion of freight without any bifurcation of rates for services and taxes on services. The field offices released payments to the transport contractors after deduction of Service Tax from gross bill amounts for depositing the same with the Service Tax Authority (GOI).

The GOI vide its notification dated 27 February 2010 exempted the services provided by a goods transport agency for transportation of food grains from incidence of Service Tax. To clarify the matters arising out of change in Service Tax due to exemption and absence of separate rates for service and Service Tax in contract, FCI West Bengal Regional Office and FCI Kerala Regional Office referred (March/November 2010) the matter to FCI Headquarters. The issues were examined by finance, legal and contract wings of FCI Headquarters and it was discussed that since there was no Service Tax on transportation of food grains after 27 February 2010, FCI should not enrich the road transport contractors by paying them the service tax amount. FCI Headquarters issued (April 2011) instructions to its field offices to release payment to the road transport contractors after deducting proportionate amount of Service Tax from their gross bill amounts.

Further, in October 2012 FCI Headquarters circulated guidance note on Service Tax to its field Offices wherein it was clarified that future contract might be floated seeking rates exclusive of Service Tax.

Audit, however, observed that in violation of above instructions of FCI Headquarters, the Regional offices at Guwahati[1] and Shillong[2] continued to float tenders for transportation of food grains/sugar inclusive of Service Tax. As there were common contracts for transport of food grains and sugar, the transport contractors were paid after deducting the amount of Service Tax from their bills in case of sugar. Whereas in case of transport of food grains, the payments were released to the contractors at rates quoted by them which included component of Service Tax as was applicable in case of transportation of sugar, as the tender conditions specified that the rates to be quoted should be inclusive of all taxes. Thus, payments were released to the transports unjustifiably including Service Tax component despite exemption of incidence of Service Tax on the transportation activity of food grains. Thus, FCI suffered an avoidable loss of ₹13.18 crore in these two regions due to not deducting inadmissible component of Service Tax from the transportation bills of food grains during November 2012 to March 2015 in respect of contracts finalized after October 2012.

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[1] ***Nine Area offices under Regional Office at Guwahati namely, Bongaigaon, Kokrajhar, Nagaon, Silchar, Jorhat, Dibrugarh, Tezpur, North Lakhimpur and Guwahati.***

[2] ***Three Area offices under Regional office at Shillong namely, Shillong, Aizawl and Agartala***

FCI North East Zonal Office Management stated (February 2014) that payments were released due to contractual obligations of accepting all inclusive rate as per MTF. They further stated that they would approach FCI Headquarters for modification of MTF.

The reply of Management is not tenable as FCI Headquarters issued (April 2011) instructions to its field offices to release payments to the contractors after deducting proportional amount of Service Tax from their gross bills and it had further issued instructions (October 2012) to float tenders seeking rates exclusive of Service Tax. Thus, the tender conditions were not in agreement with the FCI Headquarters instructions (October 2012) and release of Service Tax component to the contractors in two regions of FCI resulted in undue enrichment of the transport contractors.

Thus, issue of tenders inclusive of Service Tax in Regional offices of FCI at Guwahati and Shillong for transportation of food grains in violation of the instructions of FCI Headquarters and release of payment to the transport contractors without deducting component of the Service Tax resulted in an avoidable loss of ₹13.18 crore.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

5.5 Extra expenditure on transportation of food grains

Food Corporation of India incurred extra expenditure of ₹ 11.22 croreon transporting food grains to its food storage godowns in and around Bhiwandi from Railways' Turbhe goods shed instead of a nearer point of Kalyan goods shed.

Food Corporation of India (FCI) decided to use Railways' Kalyan goods shed (KGS) for economical transportation of food grains to its godowns in and around Bhiwandi (Maharashtra) on the basis of preliminary survey (August 2009) and site visit (September 2009). Accordingly, FCI awarded (October 2009) contract for handling and transport of food grains from KGS to its food storage godowns in Bhiwandi.

While placing two Railways rakes at KGS and unloading food grains during January 2010, FCI incurred demurrage charges[1] of ₹12.01 lakh and wharfage charges[2] of ₹ 15.47 lakh due to delay in unloading and transportation of food grains. FCI set up (25 January 2010) a committee to investigate demurrage and wharfage charges incurred at KGS and to ascertainthe extent of these charges attributable to the contractor. The committee in its report (30 January 2010) stated that the contractor neither deployed sufficient labour for unloading the food grains from the Railways' rakes nor provided loaders and trucks in sufficient numbers for subsequent loading and transportation of food grains. The committee further stated that there was an unloaded cement rake at the same time, which affected unloading of food grains and also expressed apprehension that in view of regular placement of rakes carrying cement and other chemicals at KGS, accumulation of cement, chemical powder and dust on platform would be a regular phenomenon.

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[1] ***Charge levied by railways for detention of any rolling stock after expiry of free time, if any, allowed for such detention.***

[2] ***Charge levied by railways on goods for not removing them from the railway after expiry of free time for such removal.***

Thereafter, FCI discontinued (April 2010) handling operations from KGS because of non-supply of tarpaulins by Railways, non-cleaning of platform, placement of rakes without adequate space on the platform, unrest among staff and police restrictions on entry of heavy trucks to KGS. Since then food grains to Bhiwandi area are being handled through Turbhe goods shed (TGS) leading to additional expenditure on transportation of food grains as the food grain transportation distance increased by 24 Km when compared to KGS. This led to extra expenditure of ₹11.22 crore during April 2010 to March 2015.

FCI stated (May 2014) that Audit had focused only on saving of transportation cost but had not considered the value of food grains that could have been contaminated, become unfit for human consumption and thus, the decision to continue using TGS in place of KGS was sound in the broader interest of manpower and society. The Management further stated (January 2015) that due to bad experience of FCI in handling of rakes on experimental basis at KGS, it was not utilised further. However, FCI Regional office, Maharashtra was instructed by FCI Headquarters to reassess the feasibility of KGS for starting operations instead of TGS, for supply in the adjoining areas. The Ministry endorsed (April 2015) the Management reply of January 2015 and added that FCI Regional office, Maharashtra had awarded (March 2015) *ad-hoc* handling contract to M/s NSS Logistics and operations at KGS are expected to begin soon.

Evidently, the two replies of the Management are contradictory in nature whereby earlier reply implied that KGS was unfit for fear of contamination while the later reply states that FCI is exploring the possibility to restart the operation from KGS. In fact, the delay in unloading and transportation of food grains at the time of placing Railway rakes at KGS was mainly due to poor logistics provided by the contractor. FCI's decision to discontinue operations at KGS based on operation of only two rakes was not justified as FCI, RO Maharashtra stated (July 2015) that no contamination of food grains at KGS was encountered during past five years. Further, FCI did not have constructive discussion with the Railways and Police authorities before taking the decision to discontinue handling operations from KGS.

Thus, the decision to discontinue transportation of food grains from KGS without making efforts to resolve the issues encountered at KGS resulted in extra expenditure of ₹ 11.22 crore besides recurring loss in the form of extra expenditure on transportation due to increase in distance for transportation of food grains to the godowns in the Bhiwandi area.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).