
GOD GIFT

Chapter-V

Compliance Audit Paragraphs

Audit is conducted in accordance with the principles and practices enunciated in the auditing standards issued by the C&AG. The audit process starts with the assessment of risk of the Ministry/Department as a whole and each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of the Inspection Report. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are issued separately as draft paras to the heads of the Administrative Ministries/ Departments for their comments and processed for inclusion in the Audit Reports.

FCI has 216 auditable units out of which 81 units were planned and audited during the year 2015-16. The Management recovered an amount of ₹ 32.18 crore (107.82 *per cent*) during 2015-16 at the instance of Audit as detailed below:

Table 5.1: Recoveries by FCI at the instance of Audit

Objection in brief and period to which it pertains	Status of Recovery (₹ in lakh)	
	Pointed out by Audit	Amount Recovered
Excess payment of wages on account of non-adoption of attendance allowance system.	50.24	38.36
Irregular payment of Incentive due to payment of Incentive to the junior departmental labour based on the basic pay of the senior departmental labour.	70.30	11.74
Non-recovery of cost of food grains due to down gradation of stock.	97.26	90.82
Non recovery of weighment charges.	22.98	20.18
Excess payment of transportation charges on custom milled rice to State agencies.	14.88	1.24
Non-recovery of depreciated cost of gunnies from the rice millers.	5.68	1.10
Falsification of records with unrealistic stack plan resulted in excess payment of earnings to Direct Payment System labour at Doharia.	1.30	1.30

Objection in brief and period to which it pertains	Status of Recovery (₹ in lakh)	
	Pointed out by Audit	Amount Recovered
Irregular payment of interest free advance to contractor.	1.72	1.74
Excess payment on transportation of rice.	3.52	3.52
Excess payment to State Government and Agencies for cost of gunny in Wheat of RMS 2015-16.	103.00	103.00
Loss due to allowance of new rate of gunny of KMS 2014-15 for gunny used pertaining to old season.	12.36	12.36
Irregular payment of VAT on gunny depreciation.	6.86	6.86
Excess payment to State Government and agencies on account of cost of gunny and gunny depreciation in CMR.	313.00	296.00
Non recovery of stacking and weighment charges on replacement of BRL rice due to delay in replacement of substandard rice by State Agencies/Millers.	1.23	1.23
Excess payment to State Agencies on account of storage gains on wheat procured under central pool during RMS 2007-09 to 2009-10.	76.00	180.27
Excess payment to State Agencies on account of payment of inadmissible incidentals on direct delivery of wheat.	9.42	15.85
Excess payment of storage charges paid to Punjab State Warehousing Corporation.	806.26	806.26
Excess payment due to non-recovery on account of once used gunny bags used in procurement of wheat by State agencies during RMS 2012-13 to 2014-15.	266.08	266.08
Excess payment on CMR delivered under relaxed specifications by State Agencies of KMS 2005-06 and 2006-07.	242.08	251.77
Loss due to arbitrariness in making recoveries in respect of short direct delivery of wheat RMS 2010-11.	67.00	419.16
Non recovery of ₹ 241.90 lakh due to revision of final rates of RMS 2007-08.	241.90	266.11
Short recovery due to wrong payment of storage charges on revision of final rates of RMS 2005-06 and 2006-07.	381.41	381.41
Excess payment due to non-recovery of value cut on relaxation in specification on CMR KMS 2006-07 and 2008-09.	9.24	10.81
Excess payment towards handling charges to M/s Krishnapatnam Port Company Ltd. on export of wheat. The objection pertains to May and June 2013.	181.25	31.15
Total	**2,984.97**	**3,218.32**

Significant compliance audit observations are as follows:

5.1 Fraudulent payment of ₹ 71.75 crore to a Handling Contractor

Undue payment of ₹ 23.02 crore was made to a handling contractor for fictitious work during 2014-15 due to non-adherence to the provisions of standing instructions/manual regarding payment to handling contractors. Internal Audit and Vigilance teams deputed subsequently reported fraudulent payment totaling ₹ 71.75 crore to the same contractor and loss of interest of ₹ 13.39 crore on these fraudulent payments.

As per guidelines and manual of FCI the following controls/checks are required to be adhered to:

- Budget demand in any individual head more than or equal to 120 *per cent* of last three years average actual expenditure in that head as per accounts, requires justification;
- Expenditure would be monitored by controlling offices through monthly as well as quarterly returns;
- Contracts awarded would have been audited by the Zonal audit team within three months of award of contract;
- A Monthly Stock Account (MSA) Statement would be prepared by each Food Storage Depots (FSDs) (opening stock, closing stock, receipt and issue in terms of number of bags and quantity) for every operation done in a FSD under a handling contract;
- Contractor would be required to submit work slips containing date of operation, name of godown/shed, particulars of operation performed and number of bags/quantity handled information in support of the bills for work done;
- Payment should be authorized after cross checking the accuracy of work slips issued; and
- Area Manager should organize occasional surprise checks at various operational points for finding out whether fictitious work slips have been issued.

Audit found that at District Office (DO) Banderdewa in Arunachal Pradesh non-observance of the aforesaid instructions and lack of monitoring led to fraudulent payment to a contractor. The details are as under:

- DO Banderdewa, has operational activities in 12[44] FSDs having total capacity of 23,200 MT. During the test check of records it was observed that for handling food grains in 11 FSDs, eleven contracts (during December 2012 to

[44] *FSD Pasighat, Daporijo, Ziro, Kharsang, Deomali, Tezu, Roing, Anini, Seppa, Tawang, Bhalukpong and Banderdewa.*

August 2015) were awarded to four[45] contractors. The handling cost of DO Banderdewa during the period from 2010-11 to 2012-13 was ₹ 1.75 crore, ₹ 3.85 crore and ₹ 4.65 crore for the respective years. However, Audit found that the handling cost from 2013-14 showed exponential growth in 2014-15 and stood at ₹ 22.10 crore and ₹ 26.30 crore respectively, which were much higher than the previous three years period (from 2010-11 to 2012-13). As, this increase was not attributed to any increase in storage capacities of these FSDs it necessitated further examination by Audit.

- During 2014-15, ₹ 25.69 crore was paid to four contractors for handling food grains of 1,87,807 MT in respect of ten[46] FSDs. Audit observed that out of this ₹ 25.69 crore, while three[47] contractors were paid ₹ 1.26 crore for handling 88,541 MT food grains in four FSDs, one contractor namely M/s Sehee Donyi Enterprise (M/s SDE) was paid a huge sum of ₹ 24.43 crore for handling 99,266 MT in six FSDs. The payment to M/s SDE comes to ₹ 2,461 per MT, as compared to ₹ 142 per MT to the other contractors, which was without any basis and was an indicator of fraud. Based on the differential rate of ₹ 2,319 per MT (₹ 2,461 per MT – ₹ 142 per MT) fraudulent excess payment of approximately ₹ 23.02 crore[48] was made to M/s SDE.
- Further examination of records (four available bills) of M/s SDE during the period December 2014 and January 2015 revealed huge variations between bags handled as per MSA and work slips certified by depot-in-charge as given in the following Table 5.2:

Table 5.2: Variations between work slips issued and MSA for receipt and issue[49]

(Figures pertain to no. of bags)

Depots where M/s SDE was handling contractor	Receipts			Issues		
	As per work slips certified by the depot Incharge	As per MSA	Variation	As per work slips certified by the depot Incharge	As per MSA	Variation
(1)	(2)	(3)	(4)=(2-3)	(5)	(6)	(7)=(5-6)
Kharsang	2,25,425	0	2,25,425	1,37,255	17,172	1,20,083
Deomali	2,40,845	18,935	2,21,910	1,71,487	17,062	1,54,425
Roing	1,84,495	9,489	1,75,006	1,02,465	7,800	94,665
Tezu	2,66,995	17,384	2,49,611	2,07,686	25,042	1,82,644
Total	**9,17,760**	**45,808**	**8,71,952**	**6,18,893**	**67,076**	**5,51,817**

45 M/s Sehee Donyi Enterprise (six contracts), M/s B.B. Enterprise (three contracts), M/s Meena Traders (one contract), and M/s PNP Enterprises (one contract).

46 Record of FSD, Bhalukpong was not made available to Audit despite multiple correspondences with FCI.

47 M/s P.N.P. Enterprises, M/s Meena Traders and M/s B.B. Enterprises.

48 Excess payment: 99,266 MT x ₹2,319 per MT = ₹23.02 crore;
₹2461 per MT – ₹142 per MT = ₹2,319 per MT.

49 Work slips only for four depots were made available by the DO Banderdewa.

From the Table 5.2, it can be seen that there was huge variation between receipt/issue number of bags between the work slips issued and MSA. Audit also found that 6,18,893 bags were depicted as issued in the bills submitted for claiming handling charges which exceeded even the total annual allotment of 1,89,726 bags[50] for the entire year 2014-15. These exorbitant bills were passed for payment, without cross-checking and verification by DO resulting in undue payment to contractor for fictitious work.

- **Audit analysis also revealed that the records exhibited unrealistically high utilisation of godowns at Deomali, Roing and Tezu ranging from 336 *per cent* to 915 *per cent* of godown capacity (only in 13 days) which was practically not possible. Audit found that these bills were prepared by the contractor based on the certification done by the depot-in-charge who had certified the exorbitant quantity handled as correct without any cross checking.**

- **It was also observed that not only payments were made on fictitious bills but majority of the payments were made as advance to M/s SDE for six handling contracts. As there was no provision for interest free advances; these were shown accounted as "handling expenditure" instead of as "advance to contractor" thus concealing the nature of payment.**

- **Audit also found that, while submitting the revised budget for 2014-15 and original budget for 2015-16 proposals for contract labour handling expenses, DO Banderdewa depicted deflated figures of ₹ 1.02 crore and ₹ 1.22 crore for 2013-14 and 2014-15 in the budget head, even though the actual expenditure incurred was much higher at ₹ 22.10 crore and ₹ 26.30 crore, respectively. Moreover, the cash credit limit of DO Banderdewa was increased from ₹ 0.20 crore to ₹ 0.70 crore in a phased manner by Zonal Office without assessing the actual requirement which *inter alia* facilitated DO officers in making high value fraudulent payments. Further, monthly and quarterly expenditure statements and records related to review of contracts by FCI were not found available.**

These frauds by delinquent officials and M/s SDE could not be prevented at an early stage as Headquarters/Zonal/Regional office of FCI failed to review regularly the actual expenditure to budget proposals submitted by DO Banderdewa. Moreover, implementation of internal controls like monitoring of monthly or quarterly returns, MSA, review of contracts by FCI etc. were found lacking. Further, increase in cash credit limit without assessing the actual requirement was unjustified, and thus, controlling office's failure to exercise regular checks before making payment and relaxation in application of internal controls led to fraud of such a magnitude.

[50] *Excess bags issued in comparison to allotment 6,18,893 - 1,89,726 = 4,29,167.*

After fraudulent payment was pointed out by Audit in February 2016, FCI deputed its internal audit team and ZO vigilance team. However, the FCI team was not able to get access to all the documents/information due to missing voucher files and non-maintenance of vital records/registers at DO and FSDs. These teams however, found (May 2016) fraudulent payments totaling ₹ 71.75 crore (upto 2015-16) made to M/s SDE (including ₹ 23.02 crore pointed out by Audit) and loss of interest of ₹ 13.39 crore on these payments resulting in loss of ₹ 85.14 crore to FCI. The Management in its reply (August 2016) while confirming excess payment of ₹ 71.75 crore *inter-alia* indicated about the suspension and initiation of disciplinary proceedings against the Area Manager, Manager (Accounts), Manager (General) and two other officials, reduction in Cash Credit limit, engagement of Chartered Accountants/Cost and Management Accountants firms for physical verification and initiation of investigation through CBI, Guwahati.

The Management, though, had initiated disciplinary action against the delinquent officials of DO, Banderdewa, yet the recovery of loss of ₹ 85.14 crore is still pending (February 2017).

The matter was reported to the Ministry in December 2016, reply was awaited (February 2017).

5.2 Fraudulent payments of ₹ 52.62 lakh to Contractors

Fraudulent excess payment of ₹ 14.73 lakh and ₹ 37.89 lakh were made to the transport contractors on account of payment on higher rate and for bills for longer distance than actual for transportation of food grains.

As per prescribed procedure, each bill received in area office of FCI needs to be scrutinized by an officer of the level of Assistant Manager (Depot). The bill is then sent to the District Manager who cross checks it to ensure that the calculations of each item of operation have been correctly shown in the bill. Thereafter, the bills are passed for payment by certifying that the rates charged in the bill are reasonable, legitimate and in accordance with the sanction. However, during audit of Area Office Banderdewa, FCI, it was observed that the procedures were not complied with leading to fraudulent excess payment of ₹ 52.62 lakh in the following cases:

(A) Area Office, Banderdewa, FCI appointed (October 2014) M/s Sehee Donyi Enterprises (M/s SDE), Itanagar (Contractor) as Road Transport Contractor (RTC) on spot quotation basis, to transport food grains /allied material etc. from the Railhead (RH) Harmutty to Food Storage Depot (FSD), Pasighat at the rate of ₹ 14.78 per Metric Ton (MT) per kilometre (km). The appointment was purely on temporary basis till RTC was appointed on *ad hoc* or regular basis.

Later in December 2014, Regional Office, Itanagar invited tenders for appointment of RTC on *ad hoc* basis. In this exercise, the existing contractor (M/s SDE) became the successful bidder and was appointed (6 May 2015) as RTC on a*d hoc* basis for the above mentioned route at the rate of ₹ 9.86 per MT per km for a period of six months with right of extension for another three months.

Audit observed (December 2015) that earlier spot contract (temporary basis) was not terminated before awarding the contract on *ad hoc* basis to the same contractor (6 May 2015). Though, as per appointment letter the date of commencement of the new (*ad hoc*) contract period was to be reckoned from the date of joining of the Contractor, it was noticed that joining report of the Contractor was tampered with at the Area Office by overwriting and changing the date of joining from 11 May 2015 to 11 June 2015. Moreover, the Contractor preferred his claim at higher rate *i.e.* at ₹ 14.78 per MT per km for the work done between 16 May 2015 and 30 May 2015 and the Area Office also paid the bills at the earlier rate of ₹ 14.78 per MT per km instead of restricting the payment at ₹ 9.86 per MT per km *i.e.* the rate for new *ad hoc* contract. This resulted in excess payment of ₹ 14.73 lakh as a direct result of tampering of the joining report date.

(B) In another instance, FCI appointed (October 2014/May 2015) M/s SDE and M/s T. K. Agency for transportation of food grains /allied materials etc. from RH Harmutty to FSD at Pasighat, Daporijo, Dhemaji and North Lakhimpur. As no electronic weighbridge was available at that point of time at RH Harmutty, contractors were allowed to transport the food grains from RH Harmutty to the designated depots via weighbridge at FSD, Banderdewa. The distance from RH Harmutty to FSD Banderdewa was nine km and the contractor had to undertake to and fro journey of 18 km to weigh the food grains on a weighbridge at FSD Banderdewa.

In order to reduce the transportation cost for extra distance, the Area Office, hired (March 2015) a private electronic weighbridge near RH Harmutty for weighment purpose. Hence, the extra journey of 18 km was not required to be performed by the contractors for weighment of food grains after March 2015.

Audit scrutiny of transportation bills of M/s SDE and M/s T K Agency revealed that though the contractors claimed transportation charges for actual distance/more than actual distance in various bills from RH Harmutty to FSD at Pasighat (215 km), Daporijo (356 km), Dhemaji (92 km) and North Lakhimpur (27 km) for food grains transported during March 2015 to October 2015, the Area Office while passing the bills inexplicably increased the distance reckoned for the payment/allowed the excess distance claimed by nine km over and above the actual distance. This resulted in fraudulent excess payment amounting to ₹ 36.42 lakh to M/s SDE and ₹ 1.47 lakh to M/s T. K. Agency.

Both the above cases occurred as proper controls regarding checking the bills for accuracy and compliance with rules were poor at Area Office Banderdewa. Moreover, Audit observed that the very same officials who were involved in the process of hiring of nearby weighbridge at RH Harmutty actually passed the bills by increasing the distance as if the contractor had made trips to the weighbridge at FSD Banderdewa. This act has clearly benefitted the contractor without any justification.

On the basis of above mentioned audit findings, the matter was investigated (March/April 2016) by a Committee formed by FCI, Zonal Office, Guwahati and it found that the facts and figures mentioned in the audit findings were correct. The Committee after investigation recommended for recovery of ₹ 51.15 lakh (₹ 14.73 lakh plus ₹ 36.42 lakh) from M/s SDE and ₹ 1.47 lakh from M/s T. K. Agency and also recommended for stringent administrative action against Area Manager and other officials, who were involved in the act with mala-fide intentions. However, neither any recovery was made nor any administrative action was taken against the officials involved.

The Management accepted (September 2016) the audit observations. However, the amount was yet to be recovered.

The matter was reported to the Ministry in October 2016, reply was awaited (February 2017).

5.3 Excess payment of ₹ 24.96 crore to Uttar Pradesh Government and its Agencies

Excess Payment of ₹ 24.96 crore was made to the Uttar Pradesh Government and its Agencies on account of cost of gunny and gunny depreciation for procurement of paddy and delivery of rice during KMS 2014-15. FCI recovered ₹ 2.96 crore after Audit pointed out the excess payment and recovery of the balance ₹ 22.00 crore was yet to be made.

The GoI, fixes the rates to be reimbursed by FCI to State Governments and its Agencies for the Custom Milled Rice (CMR) delivered for each marketing season. During Kharif Marketing Season (KMS) 2014-15 the rates for a gunny bag and gunny depreciation per bag were ₹ 86.46 and ₹ 33.99 respectively.

On request of the Government of Uttar Pradesh, the GoI vide its letter dated 06 January 2015 permitted use of unutilized (leftover) gunny bags and High Density Polyethylene (HDPE) / Polypropylene bags which were purchased by the State Government for Rabi Marketing Season (RMS) 2012-13, KMS 2012-13 and RMS 2013-14 for procurement of paddy and delivery of rice for KMS 2014-15.

Audit observed in Regional Office, FCI Lucknow that the State Government did not indent for supply of any gunny bag for KMS 2014-15, as sufficient unutilized gunny bags of earlier crop years were available with it. The total procurement of rice for KMS 2014-15 was done in unutilized gunny bags of earlier years for which the requisite permission was also granted by the GoI. It was, however, noticed that the State Government and its Agencies' claims were paid by FCI at gunny cost and gunny depreciation at the rates applicable for KMS 2014-15, even though the gunny bags in which Custom Milled Rice (for KMS 2014-15) was delivered pertained to earlier years. This resulted in excess payment to the extent of ₹ 24.96 crore. On being pointed out by Audit, recovery of only ₹ 2.96 crore was affected by Area Office, FCI Faizabad. However, recovery of ₹ 22.00 crore was yet to be made from State Government and its Agencies.

The matter was reported to the Ministry in October 2016; their reply was awaited (February 2017).

5.4 Sale of wheat to bulk consumers below cost under open market sale scheme in Punjab

FCI sold wheat to bulk consumers at a rate below cost under open market sale scheme during 2013-14 leading to non-recovery of cost to the tune of ₹ 38.99 crore.

The GoI allocates wheat for tender sale through Food Corporation of India (FCI) to bulk consumers and small private traders in domestic market under Open Market Sales Scheme (OMSS) at predetermined prices. The Reserve price for sale of wheat under OMSS is fixed by the Cabinet Committee of Economic Affairs (CCEA) after considering the suggestions of the concerned Departments/ Ministries and on the basis of the draft note submitted by the Ministry. FCI undertakes sale of wheat and rice under OMSS strictly as per the allocation and guidelines prescribed by the GoI.

Based on the directions of the Ministry (August 2012), a High Level Committee of FCI, communicated (September 2012) rates for tender sale to bulk consumers/private traders from FCI godowns under OMSS in Punjab region. Further, the Ministry, allocated (July 2013) 85 LMT of wheat for tender sale to bulk consumers and 10 LMT of wheat for sale to small private traders from FCI godown in Punjab and Haryana for the period up to March 2014. The wheat was sold at a reserve price at ₹ 1,500 per quintal.

The Ministry stated (November 2016) that reserve price of ₹ 1,500 per quintal was arrived at after *taking into account, inter alia, the following:*

(i) *The economic cost of* wheat for 2013-14 of *₹ 2,010.22 per quintal was not considered for fixing of reserve price on the ground that it would be inflationary.*

(ii) T*he MSP of wheat of ₹ 1,350 per quintal of RMS 2013-14* was not considered as *it would be too low.*

(iii) *Further, private players had bought wheat at the rate of ₹ 1,500 per quintal even with bonus declared in Madhya Pradesh and Rajasthan.*

Audit noticed that the fixation of reserve price for sale of wheat in open market was made on the basis of market price prevailing in only two States i.e. Madhya Pradesh and Rajasthan though the market price of wheat in the domestic market (September 2012) was more than ₹ 1,500 per quintal in most of the States except some places at Uttar Pradesh, Haryana and Bihar. Thus, not only was the sample size restricted to only two States, the reasons for choosing these two particular States were not elaborated.

Audit further found that in response to Inter Ministerial consultation, the Department of Expenditure had suggested to fix the reserve price of wheat for open market at MSP plus statutory taxes; which was approximately ₹ 1,550 per quintal. Regarding the proposal of fixing the reserve price on the basis of MSP plus statutory taxes, the records indicated that there was no specific rejection / acceptance of the proposal. Incidentally the element of statutory taxes was included in the reserve price in the previous two schemes for sale of wheat in open market. However, it was only in 2013-14, that the reserve price was fixed without including the State-wise statutory taxes; for such exclusion, no sound justification was found on record.

Department of Expenditure had also suggested that in order to meet the objective of containing inflationary conditions, the price may be fixed just below the market price and proposed for a committee to be nominated to fix the reserve price on the basis of prevailing market prices. However, the suggestion of nomination of a committee to fix the reserve price of wheat for sale of wheat in open market was rejected by the Ministry on the ground that there were substantial price variation within the State as well as across different States.

Audit noticed that sample size to determine market price of wheat was restricted to the market price prevailing in only two States. This decision is to be seen especially in light of the fact that to counter the suggestion of Department of Expenditure, the Ministry in its own internal note dated 20 September 2013 stated that there was substantial variation in price of wheat between States and across different States. Thus, dependence of the Ministry on data of only two States to fix Reserve price lacked justification. The Ministry should have considered market price of at least the major wheat procuring States to arrive at the reserve price.

Thus, non-consideration of the Department of Expenditure's suggestions by the Ministry eventually led to non-recovery of cost (MSP plus Statutory taxes) incurred by FCI from sale of wheat in open market to the extent of ₹ 38.99 crore[51].

5.5 Excess payment of ₹ 25.01 crore of output Value Added Tax

Food Corporation of India could not adjust input Value Added Tax while making payment of output Value Added Tax due to improper collection/maintenance of input Value Added Tax documents and made an avoidable payment of ₹ 25.01 crore. Non refund/adjustment of this avoidable payment also led to consequential loss of interest amounting to ₹ 13.02 crore on credit being availed by FCI.

Food Corporation of India (FCI) pays Value Added Tax (VAT) on purchase / sale of food grains in Uttar Pradesh (UP) as per provisions of UP VAT Act, 2008. As per the provisions of the Act, credit of the full amount of input tax will be allowed when the purchased goods are resold. FCI had also issued instructions (July 2005) that the input tax is to be adjusted against the output tax realized on sales made out of stocks purchased within the State.

In UP, the formalities dealing with payment of VAT remained decentralized up to June 2011, i.e., there was separate Taxpayer Identification Number (TIN) for each District Office (DO) of FCI. However, with effect from 1 July 2011, FCI decided to change this system and switched over to centralized mode, which warranted the DOs of FCI in UP to surrender their TIN and transfer the value of stock held by them to the TIN number of Regional office (RO), Lucknow, UP. The transfer of value of stock was treated as sale, thus, attracting the incidence of output VAT. This output VAT in respect of food stocks of UP, however, was to be fully adjusted with the payment already made by FCI on account of input VAT, with no further outgo on account of the former.

Scrutiny of records revealed that the food stock as on 30 June 2011 in respect of seven DOs[52] of UP was transferred to TIN of RO, Lucknow attracting an amount of ₹ 50.66 crore on account of output VAT. The input VAT against output VAT, however, could only be claimed by FCI only to the extent of ₹ 25.65 crore due to improper/non

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[51] *₹467 per MT X 8.35 LMT=₹3899.45 Lakh.*
₹467 per MT=10 X (1550 per quintal - ₹1503.30 per quintal (average sales realization)).

[52] *Agra, Bulandshahar, Faizabad, Hapur, Moradabad, Saharanpur and Varanasi.*

maintenance of input VAT document[53] containing details of the purchaser, description, quantity and value of goods, amount of value added tax paid etc. Consequently, FCI had to make an avoidable payment of ₹ 25.01 crore on account of output VAT as the whole amount of input VAT could not be adjusted from output VAT.

While accepting the audit observations, the Management stated (January 2015) that short availability of input VAT at the time of centralization was introduced due to i) Non-consideration of opening Input Tax Credit (ITC) of ₹31.84 crore available at RO level at the time of decentralization in 2008; ii) ITC utilized on sale of Ex-UP stock in some of the DOs during decentralized period and iii) Non filing of proper VAT return due to non availability of tax invoices in some of the DOs. To overcome the above issues, the decision of recentralization of VAT mechanism at RO level was taken by FCI (1 July 2011) and remedial action is being taken to get disallowed ITC through filing revised returns etc. to the concerned authorities.

The reply of the Management is not acceptable as transfer of value of the stock held by the DOs at the time of centralization in July 2011 was treated as sale and attracted incidence of output tax which should have been adjusted with the input tax on the value of the same quantity of food grains at that point of time. Further, non-consideration of opening ITC during decentralization in 2008 or utilization of ITC on sale of ex-UP stock by DOs during decentralization has no bearing on non-adjustment of VAT at the time of re-centralization in July 2011. The Management's reply that proper VAT returns were not filed due to non availability of tax invoices in some of the DOs indicates non-availability of proper documentation which resulted in non-adjustment of output VAT of ₹ 25.01 crore against the input VAT.

Thus in the absence of proper maintenance of important VAT adjustment related documents for claiming of the credit (benefits) of Input VAT, FCI not only made an avoidable payment of ₹ 25.01 crore to the VAT authorities of Uttar Pradesh but also suffered consequential loss of interest of ₹ 13.02 crore[54] on an equivalent amount of credit being availed by FCI for its day to day functioning (March 2016). Moreover, FCI has not yet been successful in getting the refund of the avoidable amount of ₹ 25.01 crore of output tax paid, even after a lapse of five years.

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[53] ***Form VAT – XVIII (Tax Invoice).***

[54] ***Calculated on the due amount of ₹25.01 crore for the period from July 2011 to March 2016 at rate of interest for cash credit limit availed by FCI.***

The matter was reported to the Ministry in October 2016, reply was awaited (February 2017).

New Delhi
Dated: 05 June 2017

(ASHUTOSH SHARMA)
Principal Director of Commercial Audit
and *ex-officio* Member, Audit Board-IV,
New Delhi

Countersigned

New Delhi
Dated: 06 June 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India