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Report of the
Comptroller and Auditor General of India
on
Food Corporation of India

Union Government
Ministry of Consumer Affairs, Food and Public Distribution

Report No. 18 of 2017

(Compliance Audit)

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Comptroller and Auditor General of India
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for the year ended March 2016

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PREFACE

The Food Corporation of India (FCI) a Statutory Corporation under the Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution was established to fulfil the objectives of effective price support operations, distribution of food grains throughout the country for public distribution system and maintaining satisfactory level of operational/buffer stocks of food grains.

This Report contains results of three areas covered in audit *viz.* Debt Management, Labour Management and Incentive Payments and Implementation of Private Entrepreneurs Guarantee (PEG) Scheme in Punjab. These areas were selected due to high cost of working capital in FCI; high handling cost of departmental labour and delay in augmentation of storage capacity through private participation respectively.

The audit of debt management revealed that FCI had to pay huge amount of interest on funds raised from external sources, as it did not get the food subsidy reimbursement in time from the Government of India (GoI). FCI also could not recover huge receivables from various Ministries, Departments and State Governments, outstanding for a long period of time. The labour management in FCI suffered from deficiencies like non-rationalisation of departmental labour and non-elimination of proxy labour. FCI also paid huge inadmissible incentive to its labour in violation of applicable rules and judicial judgments/directives. The PEG Scheme was found to be badly delayed and suffered from lapses in the implementation, resulting in excess expenditure.

This Report also contains, five individual paragraphs (two of which relate to fraudulent payments) emerging out of compliance audit.

This Audit Report on the accounts of FCI for the year ending March 2016 has been prepared for submission to the Government under Section 19-A of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984.

The Audit was conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

This report contains detailed observations on three areas i.e. Debt Management, Labour Management & Incentive Payment and Implementation of Private Entrepreneurs Guarantee Scheme (PEG) in Punjab region and five individual observations (two of which relate to fraudulent payments amounting to ₹ 72.28 crore) amounting to ₹ 2,772.98 crore.

The total expenditure incurred by FCI increased by 35 *per cent* from ₹ 1,05,355 crore to ₹ 1,42,487 crore during 2011-16; the food subsidy claimed by FCI increased by 53 *per cent* from ₹ 67,694 crore in 2011-12 to ₹ 1,03,383 crore in 2015-16; the interest burden on FCI increased by 65 *per cent* from ₹ 5,227 crore to ₹ 8,647 crore during the period 2011-16.

Corrections to the tune of ₹ 1,072 crore as Inter-Head adjustment and ₹ 1,976.67 crore as Intra-Head adjustment were carried out in the accounts at the instance of Audit.

HIGHLIGHTS

The major findings in this report are mentioned below:

Debt Management

- Subsidy received every year by FCI was lower than claimed for from the GoI. On an average only 67 *per cent* of subsidy claimed was released by the GoI over the last five years because of which FCI had to borrow from other costlier means of finance *viz.* Cash Credit (CC), Short term loans etc. resulting in heavy interest burden of ₹ 35,701.81 crore during 2011-16.

  (Para No. 2.3)

- An amount of ₹ 2,897.17 crore was outstanding from various Ministries/Departments and State Governments.

  (Para No. 2.4)

- FCI also failed to comply with the instructions of the Ministry of Consumer Affairs, Food and Public Distribution to conduct efficiency analysis after every two quarters. No analytical study was conducted of the monthly Cash Credit used by FCI on the subsidy released by the GoI.

  (Para No. 2.9)

- The risk management policy of FCI also did not sufficiently address the complex financial needs of the Corporation.

  (Para No. 2.10)

Labour Management and Incentive Payments

- Non-rationalization of surplus departmental labour, deployment of costlier labour at depots and non-pooling of departmental labour resulted in excess expenditure of ₹ 237.65 crore.

(Paras No. 3.2.1 to 3.2.3)

- The labour at various depots were found, as per records, to be handling very high number of bags per day ranging from 998 to 1776 as against the norm of 105 bags per day. This was indicative of existence of proxy labour in depots leading to exorbitant incentive being paid to some labourers, a problem which FCI has not been able to tackle.

(Para No. 3.2.4)

- Inadmissible payments worth ₹ 435.18 crore were made in violation of the applicable laws such as The Gratuity Act, 1972, Contributory Provident Fund, Productivity Link Incentive and judgement of the Hon'ble Supreme Court on the issue.

(Paras No. 3.3.1 to 3.3.4 and 3.3.6)

- Suspected excess payment (₹ 12.12 crore) by way of improbable stack formation, treatment of one activity (standardization work) as two or three different activities (refilling/rebagging and weighment/stacking), excess certification of refilling work, wrong certification of lead distance etc. were also detected.

(Paras No. 3.4.1 to 3.4.4)

- Deficient controls in the maintenance of booking-cum-output slips at the depots were noticed which increased the risk of irregular practices.

(Paras No. 3.5.1 to 3.5.5)

Implementation of Private Entrepreneur Guarantee Scheme for Construction of Godowns in Punjab

- Delay in award of contracts for construction of godowns to Private Entrepreneurs (PEs) led to negligible implementation of the scheme in XI Plan (2007-12).

(Para No. 4.2.1)

- A substantial quantity of food grains was lying in open areas with State Government Agencies (SGA) and hence 4.72 Lakh Metric Tonne (LMT) of wheat valuing ₹ 700.30 crore deteriorated and was declared as non-issuable to Targeted Public Distribution Scheme. Moreover, despite huge quantities of wheat lying unprotected in Covered and Plinth (CAP)/kacha plinth capacity of six LMT was dehired by FCI in two districts during the period September 2012 to March 2016.

(Para No. 4.2.2)

- As ineligible bidders were awarded contracts for construction of godowns, undue benefit of ₹ 21.04 crore as rent during the period 2012-13 to 2015-16 was passed on to the PEs.

(Para No. 4.3.1)

- Handling cost of ₹ 9.77 crore was incurred during the period from 2012-13 to 2015-16 due to taking over of godowns without railway sidings.

(Para No. 4.3.2)

- Incorrect measurement of distance by Punjab Grains Procurement Corporation Limited (PUNGRAIN) and FCI resulted in excess expenditure of ₹ 8.36 crore on transportation of food grains over the excess distance.

(Para No. 4.3.3)

Compliance Audit Paragraphs:

i. Recoveries relating to excess/irregular payments etc. to the tune of ₹ 32.18 crore were made during 2015-16, at the instance of Audit.

ii. Undue payment of ₹ 23.02 crore was made to a handling contractor for fictitious work upto 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.

(Para No. 5.1)

iii. Fraudulent excess payments 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.

(Para No. 5.2)

iv. Excess payment of ₹ 24.96 crore was made to the Uttar Pradesh Government and its Agencies on account of cost of gunny bags and gunny depreciation for procurement of paddy and delivery of rice during Kharif Marketing Season (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.

(Para No. 5.3)

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

(Para No. 5.4)

vi. FCI could not adjust input Value Added Tax (VAT) while making payment of output VAT due to improper collection/maintenance of Tax documents and made an avoidable payment of ₹ 25.01 crore on account of output VAT in Uttar Pradesh. 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.

(Para No. 5.5)

Chapter-I
Introduction

This chapter, provides an overview of Food Corporation of India (FCI), significant findings from audit of Financial Statements of FCI and recoveries at the instance of Audit.

1.1 FCI - An Overview

FCI, set up under the Food Corporation Act 1964, is the main agency for implementation of Food Management Policies of the Government of India (GoI). The primary duty of FCI is to undertake procurement, storage, movement, transportation, distribution and sale of food grains. FCI functions under the Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution (Ministry) to fulfil the following objectives of the Food Policy:

- effective price support operations for safeguarding interests of the farmers;
- distribution of food grains throughout the country for public distribution system (PDS[1]);
- maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security.

1.1.1 Organisational set up

The overall management of the affairs of FCI is vested with the Board of Directors consisting of 12 Directors and headed by the Chairman and Managing Director. All the Directors are appointed by the GoI. The Board, however, presently (February 2017) consists of only eight[2] Directors.

FCI carries out its functions through a country-wide network of offices with Headquarters at Delhi, five zonal[3] Offices, 25 Regional Offices, 169 District Offices and 1,927 depots under its control. FCI had 21,047 Category I to IV employees and 47,912 workers as on 31 March 2016 which was 57 *per cent* and 83 *per cent* of the sanctioned strengths of 36,982 and 57,498 respectively.

1.1.2 Operational performance

The operational activities of FCI may be broadly classified under procurement, storage and distribution.

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[1] ***The system for distribution of essential commodities to the ration card holders through fair price shops.***

[2] ***Presently Board is represented by one Chairman & Managing Director of FCI, two Directors from the Ministry, one Director from Department of Agriculture, Co-operation & Farmers Welfare, one-ex officio Director (Managing Director of Central Warehousing Corporation) and one Director from Food, Civil Supplies & Consumer Protection Department of Madhya Pradesh, one Director from Food, Department of Civil Supplies and Consumer Affairs of Punjab and one Non-official Director.***

[3] ***East, North-East, North, South, West.***

1.1.3 Procurement

FCI being the main agency of the GoI for implementation of Food Management Policies undertakes procurement of food grains with the broad objectives of ensuring Minimum Support Price (MSP) to the farmers and availability of food grains to the weaker sections at affordable prices.

Under the existing procurement policy of the GoI, food grains for the Central Pool are procured by various agencies such as FCI, State Government Agencies (SGAs) and private rice millers[4]. Procurement of wheat and paddy for the Central Pool is carried out on open ended basis at MSP fixed during each Rabi/Kharif crop season by the GoI on the basis of recommendation of the Commission of Agricultural Costs and Prices. FCI also procures rice obtained out of paddy procured for the Central Pool by the State Governments and their agencies under the price support scheme. Paddy and wheat procured directly by the State Governments under Decentralised Procurement (DCP) scheme for distribution under Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS) also form part of the Central Pool. Any surplus stock over their requirement is taken over by FCI for the Central Pool and in case of any shortfall in procurement against allocation made by the GoI for distribution to TPDS, FCI meets the deficit out of the Central Pool.

Production, mandi arrival and procurement of food grains (wheat and rice) during 2011-12 to 2015-16 were as shown below:

Table 1.1: Year-wise production, mandi arrival and procurement of wheat for the Central Pool by FCI and State Government Agencies

Lakh Metric Tonne (LMT)

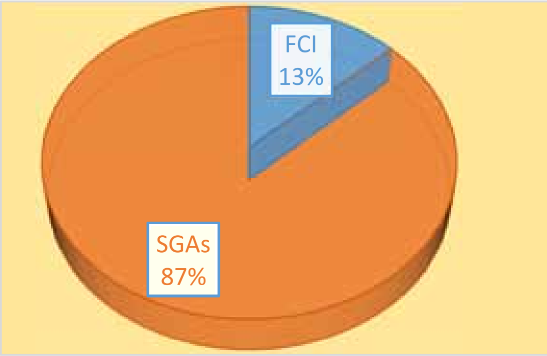
Rabi Marketing season	Production	Mandi arrival	Procurement		
			FCI	SGAs	Total
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)
2011-12	939.03	324.62	39.74	243.61	283.35
2012-13	948.82	404.55	49.93	331.55	381.48
2013-14	935.06	293.16	38.95	211.97	250.92
2014-15	958.49	347.22	35.33	244.90	280.23
2015-16	865.26	327.53	29.84	251.04	280.88
Total	**4,646.66**	**1,697.08**	**193.79**	**1,283.07**	**1,476.86**

As depicted in the Table above, procurement of wheat by FCI actually decreased from a peak of 49.93 LMT in Rabi Marketing Season (RMS) 2012-13 to 35.33 LMT in 2014-15 and further slipped considerably to 29.84 LMT in RMS 2015-16. At the same time procurement of wheat by SGAs was at all-time high in RMS 2012-13 which came down to 251.04 LMT in RMS 2015-16.

Share of procurement of wheat arrived in mandi during RMS 2011-12 to RMS 2015-16 by different agencies is indicated in the following Chart 1.1:

[4] *Levy rice scheme discontinued by the Ministry w.e.f. April 2016.*

Chart 1.1: Share of FCI and State Government Agencies in procurement of wheat for the Central Pool during 2011-12 to 2015-16



As can be seen from the **Chart 1.1**, FCI had a share of only 13 *per cent* in procurement of wheat for the Central Pool during 2011-12 to 2015-16. Thus, the role of FCI in procurement of wheat for the Central Pool is limited as 87 *per cent* of the procurement is being carried out by SGAs.

Details of year wise procurement of paddy are given in the following Table 1.2:

Table 1.2: Year-wise production, mandi arrival and procurement of paddy[5] for the Central Pool by FCI and State Government Agencies

(LMT)

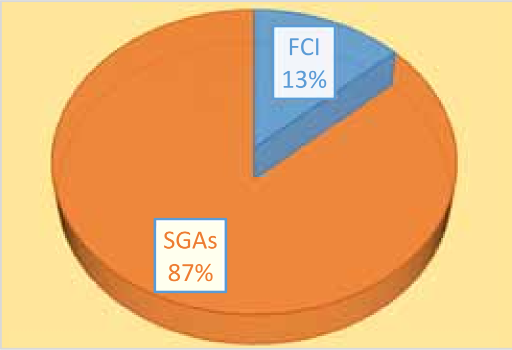
Kharif Marketing Season	Production	Mandi arrival	Procurement		
			FCI	SGAs	Total
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)
2011-12	1,043.20	375.20	91.10	259.31	350.41
2012-13	1,030.00	403.34	70.33	270.11	340.44
2013-14	1,061.90	399.32	60.30	261.30	321.60
2014-15	1,054.83	677.63	3.75	419.44	423.19
2015-16	1,033.60	521.90	12.11	329.83	341.94
Total	**5,223.53**	**2,377.39**	**237.59**	**1,539.99**	**1,777.58**

As depicted in the Table above, mandi arrival of paddy increased from 375.20 LMT to 677.63 LMT during Kharif Marketing Season (KMS) 2011-12 to 2014-15 and decreased to 521.90 LMT during 2015-16. However, procurement by FCI fell considerably from 91.10 LMT during KMS 2011-12 to 12.11 LMT in KMS 2015-16. On the other hand, procurement of paddy by SGAs increased from 259.31 LMT in KMS 2011-12 to 419.44 LMT in KMS 2014-15 and subsequently decreased to 329.83 LMT in 2015-16.

Share of procurement from paddy arrived in mandi during KMS 2011-12 to KMS 2015-16 by different agencies is indicated in the following Chart 1.2:

[5] *In terms of rice.*

Chart 1.2: Share of FCI and State Government Agencies in procurement of paddy for the Central Pool during 2011-12 to 2015-16



As can be seen from the **Chart 1.2**, FCI had a share of only 13 *per cent* in procurement of paddy for the Central Pool during 2011-12 to 2015-16. Thus, the role of FCI in procurement of paddy for the Central Pool is relatively small.

1.1.4 Storage

Storage plan of FCI has to cater to the storage requirements for holding operational and buffer stock of food grains and also to meet the requirement of TPDS and various schemes undertaken by the GoI. FCI stores food grains in own godowns as well as in godowns hired from Central Warehousing Corporation (CWC), State Warehousing Corporations (SWC), State Government Agencies and Private Parties.

FCI has a network of 1,927 storage depots with a total storage capacity of 357.89 LMT (March 2016). The details of storage capacity (owned and hired) during the period from 2011-12 to 2015-16 are shown below:

Table 1.3: FCI's storage capacity (owned and hired) during 2011-12 to 2015-16

(LMT)

Year	FCI						Total FCI
	Covered			Cover and Plinth (CAP[6])			
	Owned	Hired	Total	Owned	Hired	Total	
(1)	(2)	(3)	(4)=(2)+(3)	(5)	(6)	(7)=(5)+(6)	(8)=(4)+(7)
2011-12	130.03	172.13	302.16	26.37	7.51	33.88	336.04
2012-13	129.96	209.95	339.91	26.37	11.07	37.44	377.35
2013-14	130.03	208.62	338.65	26.38	3.87	30.25	368.90
2014-15	127.16	202.02	329.18	26.02	1.43	27.45	356.63
2015-16	128.05	203.80	331.85	26.02	0.02	26.04	357.89

As depicted in the Table 1.3, the owned Cover and Plinth (CAP) capacity of FCI remained stagnant during 2011-12 to 2015-16 whereas its covered owned capacity showed a slight decrease from 130.03 LMT in 2011-12 to 128.05 LMT in 2015-16. The

[6] *CAP is an improvised arrangement for storing food grains in the open, generally on a plinth which is supposed to be damp- and rat-proof. The grain bags are stacked in a standard size on wooden dunnage. The stacks are covered with 250 micron Low-Density Polyethylene sheets from the top and all four sides. Food grains such as wheat, maize, gram, paddy, and sorghum are generally stored in CAP storage for 6-12 month periods. It is being widely used by the FCI for bagged grains.*

hiring of covered storage space by FCI increased from 172.13 LMT in 2011-12 to 202.02 LMT in 2014-15 and then rose marginally to 203.80 LMT in 2015-16.

As per the standing instructions issued by the GoI, the SGAs are required to deliver wheat to central pool immediately after its procurement unless FCI is unable to accept it for reasons which are to be conveyed in writing. Carry over charges (storage charges and interest) beyond 30 June each year shall be payable to SGAs only on that quantity of wheat which FCI refuses to accept before 30 June each year. Due to constraints in available storage capacity, FCI could not take over stock of wheat procured by SGAs for the Central Pool within the prescribed time frame of June of each year. The food grains thus continued to be stored in the godowns in the SGAs which led to increase in payment of carry over charges to SGAs from ₹ 1,635 crore in 2011-12 to ₹ 3,018.44 crore in 2014-15 for holding of food grains beyond the prescribed time.

1.1.5 Distribution

In order to achieve the food security of the country, FCI also undertakes distribution of food grains under TPDS/National Food Security Act (NFSA), 2013 and Other Welfare Schemes (OWS). The food grains are transported throughout India and issued to the State Government nominees at the rates declared by the GoI for further distribution under TPDS. FCI, on the instructions from the GoI, also sells wheat at predetermined prices in the open market from time to time to enhance the supply and thereby to moderate the open market prices. Wheat and rice are also allocated to State Governments for retail sale through non-TPDS channels under Open Market Sale Scheme (OMSS).

The allocation and offtake of food grains (wheat and rice) for the period of five years from 2011-12 is indicated in the following Charts 1.3 and 1.4:

Chart 1.3: Allocation and Off-take of wheat during 2011-12 to 2015-16

(LMT)

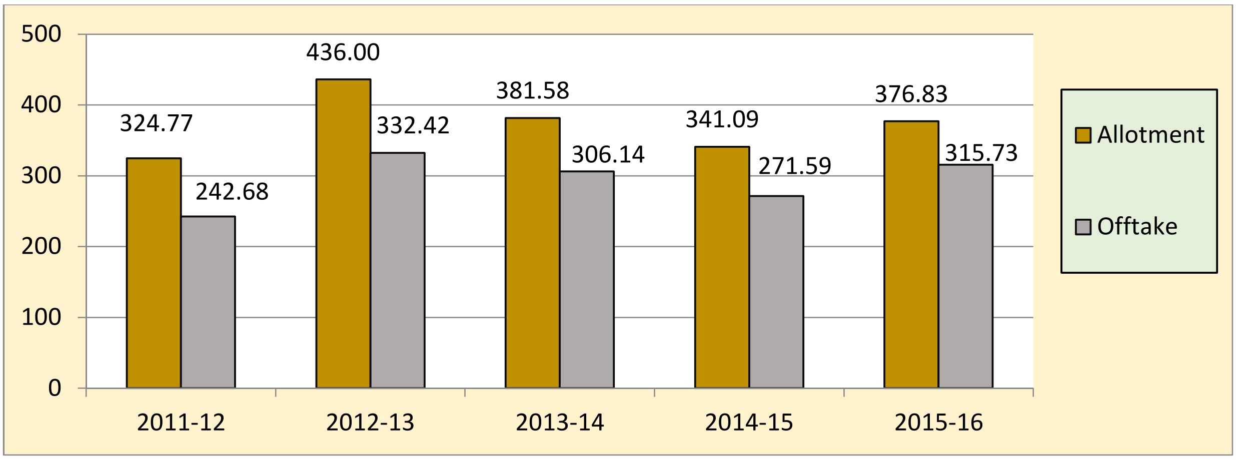
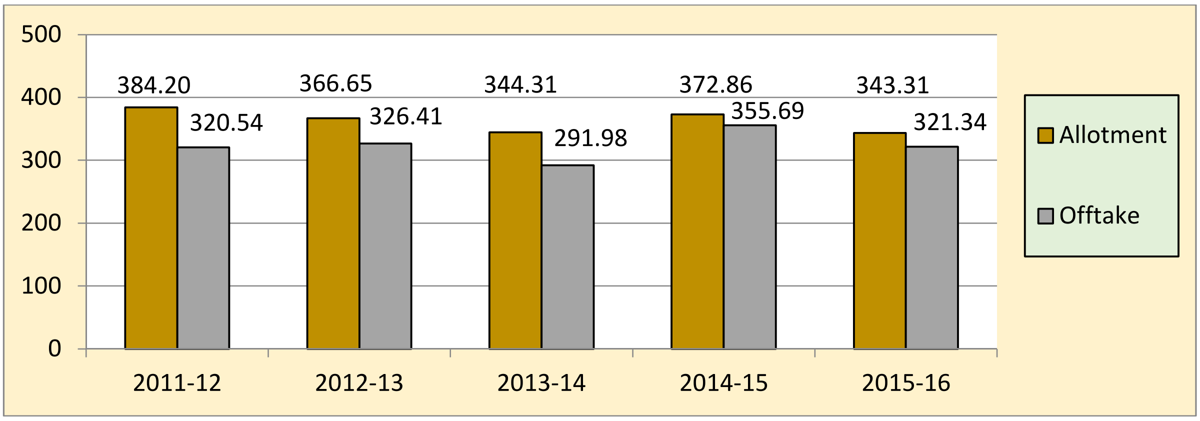


Chart 1.4: Allocation and Off-take of rice during 2011-12 to 2015-16

(LMT)



As depicted in the Charts above (1.3 and 1.4), off-take of food grains (wheat and rice) has persistently been short against the respective yearly allocation throughout the period from 2011-12 to 2015-16. Against wheat allocation of 1860.27 LMT, 1468.56 LMT was lifted during the five years ending 2015-16. Similarly, off-take of rice was 1615.96 LMT against an allocated quantity of 1811.33 LMT during the same period.

1.1.6 Food subsidy

The difference between the economic cost (acquisition cost including incidental expenses, administrative overheads, handlings, shortages, etc.) and sales realization at Central Issue Price (CIP) under TPDS and Other Welfare Schemes (OWS) for wheat and rice is reimbursed to FCI as food subsidy by the GoI. In addition, food subsidy also includes buffer subsidy for carrying cost of buffer stock maintained by FCI and carry over charges paid to SGAs for stocks held by them beyond the prescribed time frame.

The details of food subsidy released by the GoI to FCI during the last five years ending March 2016 are given below:

Table 1.4: Details of food subsidy claimed by FCI, subsidy released by the GoI and outstanding subsidy during the period 2011-12 to 2015-16

(₹in crore)

Year	Opening balance	Subsidy claimed during the year	Subsidy released during the year			Closing balance	Yearly gap in subsidy reimburse-ment	Percentage of subsidy released in the year incurred
			For the year	Against earlier years	Total			
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)	(7)=(2)+(3)-6)	(8)=(3)-(4)	(9)
2011-12	15,668.87	67,693.90	57,116.50	2,819.45	59,935.95	23,426.82	10,577.40	84.37
2012-13	23,426.82	80,306.14	48,676.02	23,308.98	71,985.00	31,747.96	31,630.12	60.61
2013-14	31,747.96	89,410.45	66,521.43	9,008.54	75,529.97	45,628.44	22,889.02	74.40
2014-15	45,628.44	1,05,016.10	61,995.35	30,000.00	91,995.35	58,649.19	43,020.75	59.03
2015-16	58,649.19	1,03,383.00	66,366.60	45,633.40	1,12,000.00	50,032.19	37,016.40	64.19

As depicted in the Table 1.4, food subsidy released by the GoI to FCI was short of what was claimed throughout the period from 2011-12 to 2015-16. The gap of subsidy released by the GoI against subsidy claimed by FCI widened from ₹ 10,577.40 crore during 2011-12 to ₹ 37,016.40 crore during 2015-16.

1.1.7 Activity wise expenditure of FCI

For carrying out its operations, FCI requires a considerable amount of funds. The details of activity-wise expenditure incurred are given in the Table below:

Table 1.5: Activity-wise expenditure of FCI during 2011-12 to 2015-16

(₹ in crore)

Cost	2011-12	2012-13	2013-14	2014-15	2015-16
Procurement	87,889.00	1,01,923.27	1,03,947.79	1,06,804.12	1,16,508.53
Milling charges	730.00	584.21	539.24	512.79	483.73
Freight	4,910.00	7,071.86	7,931.34	8,939.87	8,046.81
Administrative and other expenses[7] including interest	11,826.00	14,107.65	15,605.71	17,977.81	17,447.88
Total	**1,05,355.00**	**1,23,686.99**	**1,28,024.08**	**1,34,234.59**	**1,42,486.95**

As depicted in Table above, total expenditure showed an increasing trend during the period 2011-12 to 2015-16. This was mainly due to increase in procurement cost registering an increase of ₹ 28,619.53 crore i.e. 33 *per cent* over five years period. The major factor contributing to this increase in procurement cost was MSP which increased by 24 *per cent* from 2011-12 to 2015-16, in the case of wheat. Administrative and other expenses also increased by 52 *per cent* in 2014-15 as compared to 2011-12 but later fell by three *per cent* in 2015-16 due to decrease in handling expenses.

FCI meets its requirements of fund through sanctions/releases of equity as well as ways and means advances and quarterly release of subsidy by the Ministry. However, these being not sufficient to meet the entire working capital requirement, FCI arranges funds through Cash Credit (Cash credit facility is provided by a consortium of 63 banks, led by the State Bank of India. This CC facility is secured by guarantee of the GoI, bearing interest rates ranging between 10.01 *per cent* and 12 *per cent*), short term loans from banks and issue of bonds. The sources of funds during the period from 2011-12 to 2015-16 and related matters and audit findings thereon are brought out in Chapter II of this Report.

1.2 Follow-up on previous performance audits

A Performance Audit on "Procurement and Milling of Paddy for the Central Pool" was conducted in 2014-15 which was placed in the Parliament on 8 December 2015. In this Report of the Comptroller and Auditor General of India (No. 31 of 2015) 17 recommendations were made. Out of this, 15 were agreed to by the Ministry. As per further information received from the Ministry it has started action on 11 recommendations. In case of four recommendations no action has yet been initiated.

[7] ***Administrative and other expenses include office rent, power, fuel & electricity, employee remuneration & benefits, storage cost, handling expenses, other expenses, depreciation, interest and expenses pertaining to prior years (net).***

Another Performance Audit on "Storage Management and Movement of Food Grains" was conducted in 2012-13 which was placed in the Parliament on 7 May 2013. In this Report of the Comptroller and Auditor General of India (No. 7 of 2013) 12 recommendations were made. Out of this nine were agreed to and two were partially agreed to by the Ministry. Action is yet to be taken by the Ministry. On the basis of this Report Committee on Public Undertakings had also given 26 recommendations on which the Ministry had furnished its replies in September 2013 and March 2015; action on 18 recommendations was initiated and on eight recommendations action is yet to be taken.

1.3 Audit of annual accounts of FCI

Comptroller and Auditor General of India is the sole auditor of FCI and audit of the Financial Statements of FCI is conducted under Section 34 (2) of Food Corporation Act, 1964. Based on audit observations during audit of annual accounts for the year 2015-16 the Management carried out corrections to the accounts to the extent of ₹ 1,072 crore as Inter-Head Adjustment and ₹ 1,976.67 crore as Intra-Head Adjustment.

Significant deficiencies noticed during the audit of financial statements of FCI for the year 2015-16 are listed below:

(i) **Long Term borrowings were** overstated due to inclusion of ₹ 39.12 crore as trade payable for other finances. As the amount was held by FCI on behalf of employees under contributory welfare scheme, this should have been depicted below "Other long term liabilities". This resulted in overstatement of Long term borrowings and understatement of "Other long term liabilities" by ₹ 39.12 crore.

(ii) The **trade payables** were overstated due to inclusion of ₹ 55.69 crore being recoverable from contractors on account of Income tax, Cess and other taxes, State and Central tax collection/Non-value added tax (VAT) States Output tax, Tax Deducted at Source (TDS) of VAT on purchases, Service tax on transportation and others. These statutory dues should have been depicted under the head "Other Current liabilities" and cannot be mingled with trade payables. Hence, this resulted in overstatement of Trade payables and understatement of Other Current liabilities by ₹ 55.69 crore each.

(iii) The **trade payables** were overstated due to inclusion of ₹ 46.67 crore being Contributory Provident Fund (CPF) part/final payments, interest paid on CPF final payment, liability for contribution to EPS, liability for contribution to employees' CPF. These liabilities on account of employees' dues should have been depicted under "Other Current liabilities-Liability for Employees" Statutory dues. Hence, this resulted in overstatement of "Trade payable" and understatement of "Other Current liabilities" by ₹ 46.67 crore each.

(iv) The **trade payables** were overstated due to inclusion of ₹ 1,078.10 crore being deposits payable which were not in the nature of trade payables. These deposits payable relate to other contractual obligations which were no longer to be included in the trade payables. This should have been shown under the head "Other Current Liability". This resulted in understatement of "Other Current Liability" with corresponding overstatement of trade payables by ₹ 1,078.10 crore.

(v) **Long term Loans and Advances** were overstated by ₹ 228.92 crore due to inclusion of doubtful claims, which resulted in understatement of consumer subsidy on food grains reimbursable by GoI, by ₹ 228.92 crore.

(vi) **Deposits and Other Receivables** were overstated due to inclusion of ₹ 276.56 crore being recoverable from Haryana Sales Tax Authorities on account of excess of input tax paid over output tax payable in Haryana region which is not refundable under Section 20 of the Haryana Value Added Tax Act, 2003. Besides, the chances of its adjustment against future liabilities of FCI are also remote in the present price mechanism for PDS in which procurement cost is high and sale is at subsidized rates. This resulted in overstatement of "Deposits receivables" and understatement of "Expenditure" by ₹ 276.56 crore.

(vii) **Stores and Spares –** Gunnies were overstated due to inclusion of ₹ 85.56 crore in respect of gunny bills received (29 April 2016) from Director General of Supplies and Disposals (DGS&D) upto March 2016. Due to non-issuance of debit inter office general Accounts to the Area Offices, this head was overstated and expenditure was understated by ₹ 85.56 crore.

(viii) **Revenue subsidy on food grains** was overstated by ₹ 265.09 crore being unregularised transit shortages (Net of gains) as on 31 March 2016 pertaining to the year 2015-16. Subsidy is not reimbursable on the unregularised shortages. This resulted in over statement of "Subsidy on food grains" as well as "Trade Receivables" by ₹ 265.09 crore each.

(ix) **Miscellaneous income** included an amount of ₹ 433.15 crore on account of liabilities written back as they had become time barred. As FCI had not framed any accounting policy in this regard, as such these should have been disclosed as exceptional item as per Accounting Standard 5. This resulted in overstatement of "Other Income" and understatement of "Exceptional Item" by ₹ 433.15 crore.

(x) **Employees Remuneration and Benefits** were understated due to non inclusion of ₹ 125.52 crore being short Productivity Linked Incentive provision for the year 2014-15 and 2015-16. This resulted in understatement of 'Employees Remuneration' and benefits as well as "Current liabilities" by ₹ 125.52 crore.

(xi) Based on directions of the GoI, FCI provided for liability towards gratuity and leave encashment on cash basis and the understatement of liability on this account to the extent of ₹ 2,960.52 crore was disclosed in Notes to Account. The disclosure for departure from Accounting Standard 15 was deficient to the extent that it did not disclose the liability for leave encashment and for terminal benefits based on actuarial valuation.

(xii) The disclosure regarding Productivity Linked Incentive (PLI) was deficient to the extent that it did not disclose that approval for extending PLI benefit beyond the overall maximum ceiling of 50 *per cent* was yet to be obtained from Department of Public Enterprises.

(xiii) An amount of ₹ 2,452.96 crore was receivable from the Ministry of Rural Development, Government of India on account of food grains issued under Sampoorn Gramin Rozgar Yojna, which was closed on 31 March 2008.

Internal Control System

Internal Control System was not adequate and commensurate with the size and nature of business of the Corporation and it needs to be strengthened in the area of compilation/ preparation/ finalization of accounts. Important findings, based on test check are as under:

(i) Non-reconciliation of gunnies amounting to ₹ 7.45 crore and ₹ 9.08 crore unloaded at stations under the jurisdiction of the District offices at Rohtak and Karnal respectively pertaining to the period from 2009-10 to 2013-14.

(ii) Non-reconciliation of the figures of sundry debtors for issue of food grains under Mid Day Meal (MDM) Scheme as appearing in the records of Commercial Section of FCI (₹ 7.27 crore) and as per trial balance (₹ 4.89 crore).

(iii) Inventory includes Goods in Transit of ₹ 845.17 crore which were inter-unit transfers. However, there does not exist a sound mechanism to keep a strict watch and control over these goods in transit, as these inter unit stock in transit continue to appear in the depot inventory.

1.4 Areas covered in this report

The report is not a complete chronicle of the work of FCI but it does throw light on three significant aspects of its functioning viz., Debt Management, Labour Management & Incentive Payments, and Implementation of Private Entrepreneurs Guarantee (PEG) Scheme in Punjab as detailed in Chapters II, III and IV respectively and also contains five individual observations (including two cases of fraudulent payments amounting to ₹ 72.28 crore) in Chapter V, totaling ₹ 2,772.98 crore. The observations of audit are based on test checks and highlight serious issues on which corrective actions, as given in the Recommendations, is required to be taken by FCI. Reply of the Management has been received for Debt Management, Labour Management and Incentive Payments and the five individual observations (February 2017). The replies of the Management have suitably been incorporated in the report.

Chapter-II

Debt Management

2.1 Introduction

FCI procures food grains directly from farmers at MSP[8] and also from various State Government Agencies (SGAs). The MSP is fixed by the GoI and sales are realized at Central Issue Price (CIP)[9]. The difference between the economic cost (acquisition cost including incidental expenses, administrative overheads, handlings, shortages etc.) and sales realization at CIP is reimbursed to FCI as food subsidy.

FCI meets its requirement of funds mainly through subsidy, equity and ways and means advances[10] received from the Ministry. However, this is not sufficient to meet FCI's huge working capital requirement and FCI arranges funds through cash credit, short term loans from banks through open tender, and issue of bonds carrying interest.

The audit covered the areas of funds provision by the GoI from time to time and debt management by FCI during a five year period from 2011-12 to 2015-16. The examination of records at the Ministry and FCI Headquarters at New Delhi, and Zonal (North) Office at Noida was supplemented with field audit in Delhi, Rajasthan and Uttar Pradesh Regional Offices of FCI.

Audit findings

2.2 Sources of funds

As quarterly release of subsidy by the GoI is not adequate to meet daily requirements of funds particularly during procurement seasons, therefore, FCI has to explore alternative sources to fund its operations. The major source of funds during the past five years were as given in the following Table 2.1:

---

[8] ***Minimum Support Price is the minimum price declared for various agricultural produce by GoI for procurement from farmers, thereby preventing distress sale.***

[9] ***Central Issue Price is fixed by GoI for wheat and rice below the economic cost for issue to States and Union Territories for distribution.***

[10] ***Ways and means advance is a working capital loan given to FCI by the GoI to meet working capital requirement. Normally it is sanctioned and recovered/adjusted during the same financial year. It carries an interest rate equivalent to 364 days average treasury-bill rate.***

Table 2.1: Sources of funds

(₹ in crore)

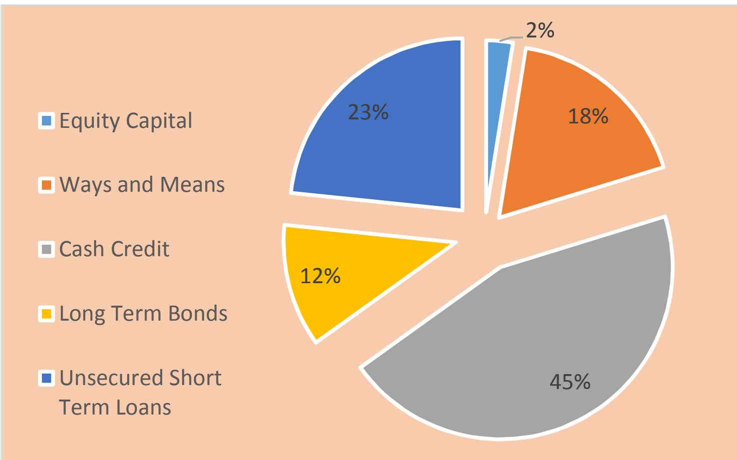
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Equity Capital subscribed by the GoI (as on 31st March)	2,649.67	2,672.95	2,675.95	2,762.79	2,830
Ways and means advance by the Ministry (in April)	10,000	10,000	10,000	10,000	20,000 (10,000 in April 2015 and 10,000 in January 2016)
Cash Credit (CC) availed from banks as on 31st March	44,099.55	49,770.99	51,281.31	46,427.10	50,603.03
Long term bonds (as on 31st March)	3,915	8,914.50	16,914.50	16,121**	13,000**
Unsecured short term loan availed as on 31st March	13,500	13,080	16,250	28,805	26,375
Total	**74,164.22**	**84,438.44**	**97,121.76**	**1,04,115.89**	**1,12,808.03**

****Source: Annual Report of FCI*** *****Bonds pertain to previous years, no fresh bond issued during the year.***

As can be seen from above, equity capital increased from ₹ 2,649.67 crore to ₹ 2,830 crore during 2011-12 to 2015-16 and ways and means advance by the Ministry has increased to ₹ 20,000 crore in 2015-16.

FCI also raised short term loans (STLs) through open tender as and when there was additional requirement and interest on these STLs ranged between 9.20 *per cent* and 10.75 *per cent*. The short term loan availed by FCI increased from ₹ 13,500 crore in 2011-12 to ₹ 26,375 crore in 2015-16. In addition, during 2012-13 and 2013-14 long term bonds worth ₹ 5,000 crore and ₹ 8,000 crore were issued by FCI at an interest rates of 8.62 *per cent* to 9.95 *per cent* respectively and as on 31 March 2016 the long term bonds were to the tune of ₹ 13,000 crore.

Chart 2.1: Sources of Funds



The percentage contribution of various sources towards funds requirement of FCI in 2015-16 is depicted in the **Pie-chart 2.1** on the left. The chart indicates that major portion (80 *per cent*) of the funds was raised by FCI through interest bearing external financial instruments like Cash credit, Short term loans etc.

Even though the cash credit was costlier than STLs, FCI could not avail STLs because of imposition of a condition by the consortium of banks to first exhaust the CC limit and only then utilize the STLs. Moreover, bonds which were a cheaper source of financing, were not issued by FCI after 2013-14.

The Management stated (May 2016) that from its point of view, the conditions imposed by the consortium on drawal of STL were stringent and have been contested by FCI. The banks, however, contend that the Cash Credit facility extended to FCI is pre-emptive in nature i.e. banks have to keep funds ready for use by FCI and stated that FCI's requirement of funds was necessitated principally on account of insufficiency of Cash Credit, so it is logical and optimal for FCI to raise STL only after exhausting the Cash Credit.

On the matter of issue of bonds, FCI stated that it requires Government guarantee for the same and that mobilization of funds through issue of bonds depends on the rating of the entity and/or rating of the instrument. Given its mandate, FCI does not generate any surplus/profit and getting a good rating for FCI as an entity would be difficult. However, rating of the bond instrument is possible on the basis of Government guarantee, therefore, FCI has requested the Ministry on several occasions for providing guarantee to issue bonds.

Audit observed that FCI had also requested the Ministry to provide adequate funds through issue of Government securities and other sources. However, neither any reply was received from the Ministry nor the request of FCI was agreed to by the Ministry[11] in response.

Thus, due to restrictions imposed by consortium of banks for utilizing STL and lack of permission by GoI to raise bonds, FCI had to resort to costlier source of financing through cash credit at interest ranging between 10.01 *per cent* and 12 *per cent* thereby resulting in extra burden on government exchequer in the form of increased food subsidy.

2.3 Delayed release of subsidy

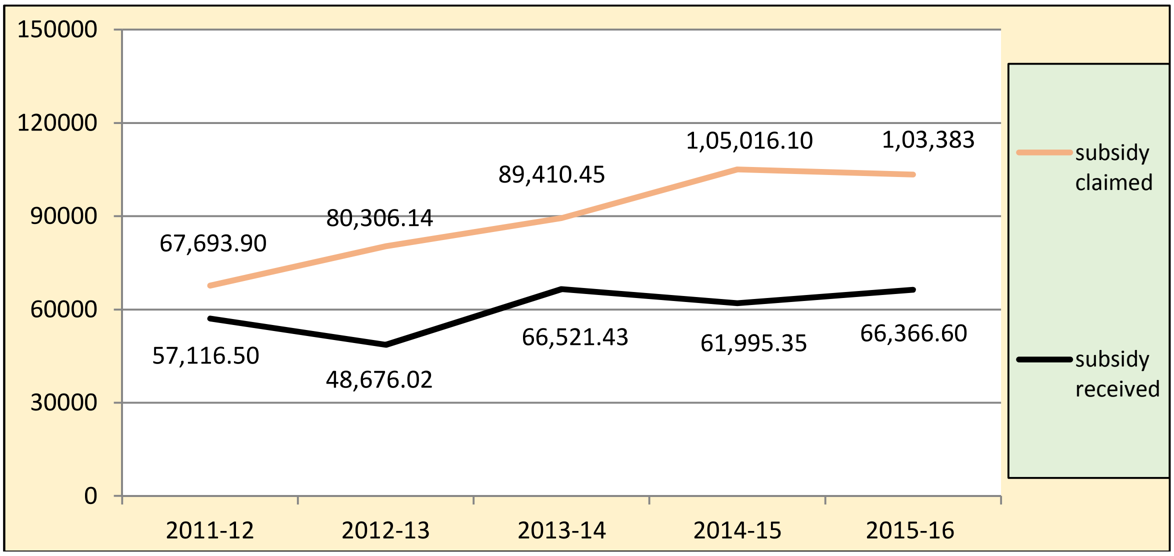
FCI requires a considerable amount of working capital to carry out its activities. During 2011-12 to 2015-16 the main activities of food grains procurement, distribution and other administrative costs amounted to ₹ 1,05,355 crore, ₹ 1,23,687 crore, ₹ 1,28,024 crore, ₹ 1,34,235 crore and ₹ 1,42,487 crore respectively.

The primary source of funds for FCI is the food subsidy released by GoI on account of the consumer subsidy (wheat, rice), subsidy on coarse grain and carrying cost of buffer stocks (buffer stock held by FCI and reimbursement of carryover charges to State Government/Agencies). However, the subsidy released every year by the GoI was lower than the subsidy claimed by FCI. The Chart 2.2 depicts the increasing subsidy gap, as follows:

[11] ***In 10 correspondences the Ministry did not reply and in one case did not agree.***

Chart 2.2: Year-wise subsidy claimed/received from GoI

(₹in crore)



As can be seen from the above Chart, during the period 2011-12 to 2015-16 there was always a substantial gap between the subsidy claimed by FCI and subsidy received from GoI due to which FCI had to borrow from other sources resulting in heavy interest burden on the exchequer, which is discussed in succeeding paragraphs.

Every year the provisional quarterly bills of subsidy by FCI, are submitted to the GoI based on the approved Budget Estimate[12]. As per GoI's instructions, the Ministry is to release 95 *per cent* of the estimated food subsidy to FCI during the relevant financial year and balance five *per cent* is to be released after submission of accounts of FCI to the Parliament. However, the GoI had released only 67 *per cent* of subsidy on an average over the last five years due to which FCI had to resort to other costlier means of finance *viz.* CC, Short term loans etc. Though FCI, from time to time, requested for additional funds from the Ministry but the request was either kept pending with no reply or only part amount was received. FCI had also requested the Ministry (17 June 2016) to permit it to raise funds from financial institutes like National Bank for Agriculture and Rural Development (NABARD), however, the response from the Ministry was still awaited (February 2017).

The amount of subsidy claimed/received and interest incurred on financing by FCI during the period 2011-12 to 2015-16 is depicted in the following Table 2.2:

[12] *Approved by the Board of Directors (BOD) of FCI except for first quarter bill (which is submitted before the start of the financial year)*

Table 2.2: Amount financed and interest accrued

(₹ in crore)

Year	Outstanding subsidy pertaining to previous years	Subsidy claimed during the year	Total subsidy received			Amount financed*	Interest incurred
			Against earlier years	For the year	Total		
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)	(7)	(8)
2011-12	15,668.87	67,693.90	2,819.45	57,116.50	59,935.95	71,514.55	5,227.16
2012-13	23,426.82	80,306.14	23,308.98	48,676.02	71,985.00	81,765.49	6,392.07
2013-14	31,747.96	89,410.45	9,008.54	66,521.43	75,529.97	94,445.81	7,190.72
2014-15	45,628.44	1,05,016.10	30,000.00	61,995.35	91,995.35	1,01,353.10	8,244.30
2015-16	58,649.19	1,03,383.00	45,633.40	66,366.60	1,12,000.00	1,09,978.03	8,647.56
						Total	**35,701.81**

Excluding equity

As can be seen from the Table 2.2 above, the outstanding subsidy pertaining to previous years increased from ₹ 15,668.87 crore in 2011-12 to ₹ 58,649.19 crore in 2015-16. This was on account of short release of subsidy by the GoI in each of the years necessitating FCI to raise funds through interest bearing loans, bonds etc. The short release of subsidy resulted in extra interest burden of ₹ 35,701.81 crore on FCI and an increase in food subsidy by an equal amount. Further examination of records in the Department of Food and Public Distribution, revealed that though the Ministry did duly incorporate FCI's demand for subsidy in its budgetary requirements sent to the Ministry of Finance (MoF) but the budget allocation by the MoF was consistently low with the gap ranging between ₹ 7,348 crore to ₹ 34,471 crore during the period 2012-13 to 2015-16.

FCI stated (June 2016) that release of lump-sum advance subsidy was largely dependent on many factors such as revenue collection of the Government, cash liquidity position, budgetary provision by the Ministry of Finance and other financial commitments etc.

FCI's reply indicates that short allocation of funds by the MoF towards food subsidy is due to competing financial priorities of GoI. This compels FCI to seek financing from external sources (towards working capital) thus increasing the interest burden, which gets added to the existing subsidy claims thereby increasing the claimable subsidy which is again followed by further short receipt of subsidy from the Ministry. This vicious cycle eventually leads to an increase in the overall food subsidy burden of the GoI which at least to the extent of interest paid for external financing was avoidable if timely subsidy claims were released by the Ministry.

2.4 Non recovery/ Delay in recovery of dues in respect of food grains supplied to various Ministries/Central Public Sector Enterprises (CPSEs)

As per instructions of the Ministry (20 November 2001), FCI issues food grains to various State Governments under welfare schemes of various Ministries. FCI submits bills to the Ministries from time to time as per the respective scheme. Payments are made on submission of original bills and certificate from the concerned authorities.

However, Audit observed that ₹ 2,897.17 crore was outstanding from various Ministries/Departments which compelled FCI to seek external financing and incur an avoidable interest burden of ₹ 1,617.48 crore as detailed below:

Table 2.3: Interest burden on outstanding dues from various Ministries/CPSEs as on March 2016

Name of Ministry/ Department	Details	Amount (₹ in crore)	Pending since	Avoidable interest (₹ in crore)
Ministry of Rural Development (MoRD)	Dues pertaining to food grains issued during the period 2000-01 to 2007-08 under welfare schemes (Sampoorn Gramin Rozgar Yojna) to State governments authenticated from designated officers of State Governments.	2,452.96	2008-09	1,298.35
Ministry of Human Resources Development (HRD)	Non-settlement of bills of Mid Day Meal scheme by various State Governments and non-submission of bills by Area Managers within the time frame stipulated in the guidelines and non-reconciliation of outstanding amount of FCI and State governments' records (North East region).	326.35	2010-11	139.59
Ministry of External Affairs (MEA)	Outstanding against export of wheat issued to World Food Programme for supply of biscuits to Afghanistan during 2004 to 2012 from MEA.	48.32	More than 10 years	68.94
Central Public Sector Enterprises (CPSEs)	Dues from MMTC[13], STC[14] and PEC[15] for exports proceeds on account of disputed claims for settlement.	69.54	Since 1991	110.60
	Total	**2,897.17**		**1,617.48**

The Management stated (June and November 2016) that persuasion was going on with the Ministry of Rural Development vigorously through the Administrative Ministry and that in respect of dues from Ministry of HRD, due to regular persuasion with the Ministry of HRD and concerned SGAs, the dues under MDM scheme came down to ₹ 291.34 crore as on September 2016. Moreover, in case of North East Frontier (NEF) zone, RO Assam

[13] ***Metals and Minerals Trading Corporation of India.***
[14] ***The State Trading Corporation of India Limited.***
[15] ***The Project & Equipment Corporation of India Ltd.***

had reconciled the figures of outstanding dues. It further stated (December 2016) that the matter regarding dues from the Ministry of External Affairs was being pursued vigorously and the amount of ₹ 47.99 crore was receivable as on November 2016. Regarding dues from MMTC, STC and PEC it stated that claims were being pursued vigorously with these three Central PSUs.

However, it was noticed by Audit that although the dues from the Ministry of Human Resource Development (MoHRD) had come down only by ₹ 35.01 crore, a huge outstanding amount of ₹ 291.34 crore since 2010-11 was still pending which needs to be recovered. In case of dues from MoRD, the outstanding amount had remained the same since 2008-09. MEA had informed FCI that relevant record bills were not traceable and had requested FCI to produce duplicate bills and the issue remained unresolved (February 2017).

Thus, due to short receipt of its dues from Central ministries and Central PSUs, FCI had to arrange funds from other sources (Cash Credit/STL) and accordingly made an avoidable payment of interest of ₹ 1617.48 crore for the period 2011-12 to 2015-16 with an increase in the subsidy burden by an equivalent amount.

2.5 Non recovery in respect of food grains supplied to various State Governments

Audit observed that ₹ 47.54 crore was pending for food grains supplied to various State Governments as detailed below:

Table 2.4: Pending claims from State Governments

State	Amount Pending (₹ in crore)
Maharashtra	10.00
Bihar	18.44 (since 1979-80)
Kerala	4.53 (since 1981-82)
Assam	14.57 (since 1967 onwards)
Total	**47.54**

The Management stated (November 2016) that the matter was being pursued regularly with the Bihar region and that these claims were not reflected in the books of accounts of FCI on the ground of being too old. It further stated that in case of Maharashtra, an amount of ₹ 1.38 crore against various parties for non-lifting of Under Relaxed Specifications (URS) rice was subjudice and for the rest of the amount, matter was being pursued for early realization. Regarding Kerala it stated that an amount of ₹ 1.44 crore was received from the State of Kerala as final settlement. Regarding Assam, the Management stated (February 2016) that the outstanding amount of ₹ 14.57 crore was not disclosed in the books of accounts, adjusted or written off as bad debts.

The reply furnished by the Management indicates that full amount to be recovered from the State Governments of Assam and Bihar were not shown as recoverable. Hence, it is not clear how FCI proposes to write off such unaccounted amounts, a fact which is a pre-requisite for claiming subsidy from the Ministry. Moreover, amount-wise, party-wise and year-wise details could not be furnished by FCI. In absence of requisite information, the claims of FCI remain unverifiable.

Due to non/short receipt of its dues from various State Governments, FCI had to arrange funds from other sources (Cash Credit/STL) and made an avoidable payment of interest of ₹ 25.16 crore during the period 2011-12 to 2015-16.

2.6 Delay in regularisation of storage and transit losses

As per the instructions of FCI (31 May 2004), the storage and transit losses pending upto the period 1999-2000 were required to be brought to zero level and the current losses were to be regularized in the following month and were not to be allowed to accumulate in any case. Moreover, the concerned zones/regions were given a time frame of three months to regularize the cases of storage and transit losses prior to 1990-91, as losses to the tune of ₹ 35.67 crore were pending regularisaton prior to 1990-91 under different zones/regions. However, Audit noticed that an amount of ₹ 24.01 crore (storage loss - ₹ 14.77 crore and transit loss - ₹ 9.24 crore for the period prior to 1990-91) remained unregularised as on April 2016 which could not be claimed as subsidy. Moreover, full details of unregularised storage and transit shortages were not being maintained separately by FCI to take a meaningful action to regularize the same.

The Management stated (June 2016) that cases of regularization were processed expeditiously and that these cases were very old and lacked essential information such as percentage of loss, name of centres where losses occurred, hence, it would take some time to clear the pendency.

The reply confirms the fact that FCI records do not contain even requisite details of these old cases and, thus, the feasibility of regularization of these cases remains uncertain.

2.7 Loss of interest on idle funds

The Board of Directors (BOD) of FCI approved (August 2009) a proposal to raise ₹10,000 crore through STLs, in addition to the CC facility. The CC facility consortium was requested to give its approval on this proposal. On the request of FCI, a meeting of Standing Committee of CC facility consortium was held on 3 March 2011, wherein FCI was permitted to raise STL on unsecured basis. The committee agreed that debit would be raised by FCI branches in the main account and the amount in excess of ₹ 34,495 crore (the then CC ceiling) would be swept from STL account at the end of each day. In the meeting (3 March 2011), SBI clarified that as the FCI's requirement of funds was necessitated principally on account of insufficiency of CC limit, it was logical and optimal for FCI to raise STLs only after first exhausting the CC limit. The conditions of raising STLs *inter alia* included that the tenure of the proposed STLs should be based on cash flows and FCI was to raise the amount in tranches based on its cash flows.

The BOD approved (March 2011) proposal for raising STLs of ₹ 3,800 crore. The bids were invited on 4 March 2011 and STLs of ₹ 3,800 crore were availed from seven banks[16]. Similarly, FCI availed (September 2011) STLs of ₹ 2,975 crore from four banks[17]. The amounts of these STLs were deposited (17 March to 23 March 2011 and 2 to 9 September 2011) in a separate current account opened with SBI, Industrial Finance Branch, New Delhi for onward sweeping to the CC account against excess utilization of funds beyond the CC ceiling. Audit observed that though the STLs of ₹ 3,800 crore were received by FCI from 17 March 2011 to 31 March 2011, the same were swept to CC account belatedly between 21 March 2011 and 7 April 2011. In respect of STLs of ₹ 2,975 crore availed during September 2011, an amount of ₹ 575 crore was received on 2 September 2011 whereas its sweeping to CC account was carried out on 5 September 2011. Keeping STLs amount idle led to avoidable amount of interest to the tune of ₹ 11.27 crore (₹ 10.78 crore + ₹ 0.49 crore).

The Management replied (July 2013) that the utilization pattern of the CC account for future dates immediately after resumption of payments was not predictable with 100 per cent accuracy and minor variation of two to three per cent was bound to happen with any projection and the loss of interest on idle funds was approved by the BOD of FCI respectively in April 2011 and September 2011. The Management further replied (July 2014 and November 2016) that it availed STLs in March 2011 due to precarious fund position.

The reply of the Management is not tenable as there exists a specialized Funds Division, entrusted with the responsibility of estimation of funds requirements, however, there was no evidence to show that there was a foolproof system of daily transmission of funds utilization from field offices to FCI Headquarters in order to accurately project the aggregate funds requirement. As a result, the STLs were availed much before the actual requirement of funds. Further, as per the terms and conditions there was an enabling provision that the loan had to be used within seven days from the date of acceptance of the offer by FCI. Considering this margin of seven days, the money received from the STLs should have been optimally planned for disbursement.

2.8 Excess payment of interest on cash credit

FCI instructed (March 2015 and January 2016) all its Zonal Executive Directors (EDs), in respect of transfer of day end balance, to nominate an official of Assistant General Manager level as Nodal officer to monitor the bank statements of all Unit offices under their region on daily basis. Also, instructions were issued by FCI headquarters to monitor day-to-day end operations of bank accounts within their zone as well as to check calculation of interest charged by the bank and report instances where the day end balances particularly credit balance in the bank account of field offices were not transferred to the Zonal cash credit account or the Central CC account, which led to loss of interest to FCI.

Test check of bank statements of cash credit accounts of District Office, Jaipur (April 2011 to March 2016), Nellore (2014-15 and 2015-16) and Zonal Office (East) (January to

[16] ***Federal Bank, IDBI, Union Bank of India, Indian Bank, Punjab & Sind Bank, Vijaya Bank and Central Bank of India***

[17] ***Federal Bank, HDFC, Corporation Bank and Dena Bank***

March 2016) revealed that credit balances were not transferred to zonal/central CC account on all dates. Similar deficiencies were noticed in other zonal/regional/district offices also. Non-compliance of the instructions in respect of day to day transfer of end balance to ZCC/central CC account led to avoidable interest burden of ₹ 29 lakh on FCI.

2.9 Non-compliance of the instructions of the Ministry of Consumer Affairs, Food and Public Distribution

With a view to avoid interest burden by way of release of food subsidy, on monthly basis instead of quarterly basis the Ministry issued (August, 2004) instructions to FCI to conduct an efficiency analysis on interest payment to SBI and to carry out analytical study of the monthly CC limit of the FCI comparing with it subsidy released by the GoI.

However, it was noticed in audit that neither any efficiency analysis was conducted nor any analytical study done of the monthly CC limit used by FCI of the subsidy released by the GoI.

The Management stated (June 2016) that the Ministry was fully aware of interest savings that would accrue to FCI if advance was released quarterly and FCI was apprising the Ministry of its level of fund utilization on a daily basis.

The reply is not acceptable as instructions of the Ministry in respect of conducting efficiency analysis and analytical study have not been adhered to by FCI which if implemented could have quantifiably determined if there would have been any savings in terms of interest payable by FCI had it received the subsidy on a monthly basis from the Ministry. This indicates a lackadaisical approach by FCI to approach the issue of mounting subsidy burden.

2.10 Inadequacy in Risk Management Policy of FCI

In a meeting of Board of Directors (BOD) held on 26 September 2013, the "Risk Management Policy" of FCI was approved which stated that FCI shall identify the possible risks associated with its business and commit itself to put in place a Risk Management Framework to address the risks involved on an ongoing basis to ensure achievements of the business objective without any interruptions. The Risk Management Policy of FCI was to educate and sensitise the working level personnel on the requirement and listing of the risks and the mitigating measures in place at their respective areas of operations.

Audit noticed instances where there was shortage of funds even after availing STLs/ cash credit facility due to short provision of subsidy by GoI. This resulted in restrictions on release of payment for the then ongoing procurements and taking over of the stock. However, no details were available to depict as to what specific measures the Corporation undertakes to mitigate the risks especially of lack of liquidity affecting the procurement payments. Moreover, there was no information that FCI has taken steps to sensitise the working level personnel regarding the listing of risk and mitigating measures in place in this area of operation. The policy was not sufficiently detailed to address the complex financial needs of the FCI.

The Management accepted the observation and replied that there had been occasions in the past where FCI was constrained to defer payment to its service provider's viz. SGAs and millers due to shortage of funds and even after exhausting the cash credit limit and STL source, there was no other mitigating measure to deal with such situation of deferring payment to its service providers.

The Management should, based on a quantified risk analysis, consider suitable alternatives to tide over situations like non-payments for procurement because of sudden shortage of funds to guard against the risk of having an adverse effect on the supply chain of Targeted Public Distribution System (TPDS).

2.11 Conclusion

The main reason for indebtedness of FCI was delayed/insufficient release of subsidy by the Ministry. This compelled FCI to secure external financing by incurring heavy interest burden. The short/delayed release of subsidy created a vicious cycle whereby funds taken on interest for working capital further increase the claimable subsidy eventually leading to avoidable increase in the overall food subsidy burden of GoI. Further, there was pendency in recovery of long outstanding dues from some Central Ministries/Central PSUs and State Governments. Moreover, the risk management policy of FCI also did not sufficiently address the complex financial needs of the Corporation.

2.12 Recommendations

We recommend,

(i) The Ministry of Finance may make full allocation on time to the Ministry of Consumer affairs, Food and Public Distribution, Department of Food and Public Distribution towards the food subsidy component to be given to FCI.

(ii) FCI may approach the consortium through the Ministry of Consumer Affairs, Food and Public Distribution for allowing it to utilise short term loan before exhausting the cash credit limit.

(iii) FCI may approach the Ministry of Consumer Affairs, Food and Public Distribution again to obtain guarantee for issue of bonds so as to have access to cheaper source of finance.

Chapter-III
Labour Management and Incentive Payments

3.1 Introduction

The storage and handling operations in FCI owned/hired food storage depots (FSDs) are carried out manually through handling labour. The work includes loading in rail wagons/trucks, unloading from rail wagons/trucks, stacking and de-stacking of bags at FSDs, shifting of bags within the FSDs, re-bagging/filling bags with loose grains and standardisation etc. FCI deploys labour for handling food grains under the following four systems:

(i) **Departmental labour system**: These workers get a regular pay scale besides overtime, incentive and other benefits e.g. Contributory Provident Fund (CPF), Gratuity etc.

(ii) **Direct payment labour system (DPS):** These workers are paid uniform piece rate with minimum guaranteed wages even on the days when there is no work. They are regular employee of FCI and get benefit of CPF, Gratuity and Over Time Allowances (OTA).

(iii) **No work no pay system (NWNP):** These workers are entitled for piece rate earning or daily minimum wages, whichever is higher only for the days where they are engaged for work. They also get benefit of CPF, Gratuity, OTA etc.

(iv) **Contract labour system:** Under this system private handling and transport contractors are awarded depot wise contracts for handling of food grains.

The handling operation through departmental labour is the costliest as this category of labour besides earnings wages and other benefits under regular pay scale also earns high amount of incentive[18]. Departmental labour were deployed in only 145 depots (136 owned and 9 hired depots), DPS in 206 depots, NWNP in 94 depots and Contract labour system in remaining depots. Though the departmental labour were deployed in only 9.37 *per cent* of the total owned/hired FSDs the handling cost through departmental labour was 48 *per cent* of the total handling cost in FCI. The total handling expenses incurred during 2013-14 was ₹ 3,977 crore (Departmental labour ₹ 1,899 crore, DPS ₹ 825 crore, NWNP ₹ 39 crore and contract labour ₹ 1,214 crore).

Considering the impact of incentive payments and high handling cost of departmental labour, FCI in the past conducted various studies through Bureau of Industrial Cost and Pricing (BICP-1989-90), Mckinsey & Co. (2003), Delhi Productivity Council (2002), Saxena Committee (2005), Indian Institute of Management, Ahmedabad, Price Waterhouse Coopers (2013) and M/s Deloitte Touche Tohmatsu India Pvt. Limited (M/s Deloitte) (2014). Moreover the Parliamentary Standing Committee on Food,

[18] ***Per Metric Tonne handling cost: Departmental labour ₹654.00; DPS ₹214.00; NWNP ₹85.00***

Consumer Affairs and Public Distribution also gave a set of recommendations in April 2005 on this subject.

Audit was carried out on a test check basis in six highest handling cost FSDs and four lowest handling cost FSDs out of 18 FSDs (nine each in West Bengal and Assam Region) manned by departmental labour to assess the actions taken by FCI for deployment of its departmental labour in FSDs for minimisation of handling cost and idle wages. The findings in these two Regions were also supplemented by audit findings in twelve top most handling cost FSDs and eight lowest handling cost FSDs out of 62 FSDs[19] under Haryana, Delhi, Madhya Pradesh and Andhra Pradesh Regional Offices of FCI. The audit covered a period of three years from 2012-13 to 2014-15.

Audit findings

3.2 Labour management

3.2.1 Unproductive wages due to non-rationalisation of surplus labour

FCI Headquarters directed (November 2007) all its Regional Offices to assess the requirement of departmental labour, based on the average annual turnover of the preceding three years and treat the same as sanctioned strength of concerned FSD. This was to make adjustment of short/surplus labour by making inter-depot, inter-district, inter-region and inter-zone transfers in the FSDs which were functioning with departmental labour. It was also directed to ensure compliance of the norm of four ancillary labours[20] per 5,000 MT covered capacity in the FSDs. The Zonal and Regional Offices of FCI were empowered to make the adjustment of the short/excess labour by making inter-depot and inter-region transfers.

However, Audit observed that this order was not complied with in a number of FSDs in various States and no adjustment of surplus departmental labour/DPS from the surplus FSDs to the deficit FSDs situated in other regions was done. This led to unproductive wages payment of ₹ 137.99 crore due to non- adjustment of surplus labour during 2012-13 to 2015-16.

Moreover, Audit also noticed that no action was taken to rationalise the surplus ancillary labour to optimize them to the norm of four ancillary labour per 5,000 MT covered capacity inspite of repeated instructions from FCI Headquarters and Zonal Offices to its Regional Offices. The inaction of the Management to rationalise the surplus ancillary labour also resulted in unproductive expenditure of ₹ 33.26 crore during 2012-13 to 2015-16.

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[19] *62 FSDs includes 18 FSDs in Haryana Region manned by Departmental labour; 6 FSDs in Delhi Region (4 manned by departmental labour and 2 manned by DPS labour); 11 FSDs in Madhya Pradesh Region (6 manned by departmental labour and 5 manned by DPS labour) and 27 FSDs in Andhra Pradesh Region (1 manned by departmental labour and 26 manned by DPS labour.*

[20] *Ancillary labour has to perform miscellaneous work of unskilled nature in food storage depot including cleaning of godowns/wagon/truck, collection of scattered food grains etc.*

In November 2015, the Nagpur bench of Hon'ble High Court of Bombay directed FCI to transfer the surplus departmental labour to the other FSDs having shortage of labour to reduce the handling cost. After seven months of issue of directives by the Hon'ble Court, FCI directed (July 2016) all its regional offices for rationalisation of labour strength through inter-depot, inter-District, inter-region, inter-zone transfers of labour. However, no concrete follow up action was taken so far on this aspect (February 2017).

The Management stated (November 2016) that labour strength of a depot does not reflect requirement of the labour in proportion to the peak work load.

The reply is not acceptable as Audit worked out surplus labour with reference to directives issued by FCI in November 2007 about how to calculate sanctioned strength and to make adjustment of short/surplus labour. FCI took no follow up action for implementation of the directive of November 2007 and it only issued order for rationalisation, belatedly on the directions of the Hon'ble Court on which no concrete action was taken in the depots.

3.2.2 Injudicious deployment of departmental labour

An operational efficiency study conducted by M/s Price Waterhouse Coopers recommended deployment of contract labour for handling operations in FCI as it found that among all the labour systems prevailing in FCI, contract labour system was the most economical.

It was mandatory to deploy only regular handling workers (viz. departmental labour, DPS labour and NWNP workers) in certain depots called as the notified FSDs. Keeping in view the cost economics, it was prudent for the Management to deploy contract labour at least at the non-notified FSDs and railway sidings owned by railways so as to reduce the handling cost.

However, Audit observed that FCI continued to deploy departmental labour at hired FSDs[21] (three FSDs in Bihar Region, two FSDs in Assam Region and one Central Warehousing Corporation depot at Basti in Uttar Pradesh) and four railway sidings two each in West Bengal and Madhya Pradesh region. The excess expenditure due to this deployment from 2012-13 to 2015-16 (upto December 2015) was ₹ 50.98 crore.

Since, there was an overall shortage of departmental labour in Assam Region, it was prudent for the management to transfer the departmental labour to the FSDs where there were shortages, vacate the de-notified FSDs operated by DPS labour, engage contract labour in the vacated FSDs and transfer the DPS labour to the notified hired FSDs for getting the benefits of work done at much lower rates. However, no such optimization of labour deployment was found in these FSDs/railway sidings.

[21] ***Name of Hired FSDs and Railway sidings with departmental labour: (Bihar-Forbesganj, Munger and Raghopur); (Assam-SWC Bongaigaon and Sibsagar Private); (Uttar Pradesh- CWC Basti);(West Bengal- Railway Siding Habra and Suri); (Madhya Pradesh-Railhead Gwalior and Satna).***

Thus, injudicious deployment of departmental labour resulted in avoidable expenditure of ₹ 50.98 crore.

The Management while explaining (November 2016) in detail recent steps taken in the depots/Railway sidings to curtail the handling cost by making rationalization and restoration of contract system stated that they apprehended law and order problems in thrusting a unilateral decision on workers who were working under the recognized labour system.

The Management has expressed its inability to implement a practice which is in interest on the FCI as well as the GoI, on the ground of probable law and order problems. This aspect needs to be addressed proactively/legally by involvement of the Ministry, FCI and Labour, otherwise it will result in recurring avoidable expenditure over the years.

3.2.3 Non- pooling of the surplus departmental labour

M/s Deloitte, engaged (2014) by FCI for conducting comprehensive study on labour induction and other related issues, recommended (September 2014) pooling of departmental labour in fewer notified FSDs and to operate the vacated non-notified FSD with contract labour. M/s Deloitte estimated that this exercise would result in a saving of ₹ 606 crore. The recommendation was accepted (April 2015) by the Board of Directors (BOD) of FCI.

However, during test check Audit observed that the accepted recommendation of M/s Deloitte was not followed in Assam, West Bengal and Bihar regions. It led to excess expenditure of ₹15.42 crore over a period of five months during August 2015 to December 2015.

Thus, non-implementation of accepted recommendation regarding pooling of surplus labour led to excess expenditure of ₹ 15.42 crore in Assam, West Bengal and Bihar Region of FCI during August 2015 to December 2015.

The Management stated (November 2016) that pooling/rationalization of labour strength consequent upon exemption granted by the Ministry of Labour & Employment under Section 31 of the Contract Labour (Regulation and Abolition) Act in respect of 226 notified depots will prove that prior to issuance of the said notification it was not feasible to deploy contract labour in the depots vacated after pooling of the departmental labour system.

The reply is not acceptable as non-pooling observed in audit was not related to de-notification of notified depots but to already de-notified depots which could be vacated by transferring the departmental labour engaged in these depots to notified/other departmental labour manned depots.

3.2.4 Proxy labour

Though FCI officially does not acknowledge the existence of proxy labour at its depots, the Parliamentary Standing Committee on Food, Consumers Affairs and Public Distribution had indicated in its report (25 August 2004) about existence of proxy labour in FCI. In reply to the query raised by the Standing Committee, the then Managing Director of FCI also accepted that it was not possible for a handling labour to handle 600-700 bags of food grains in a day (as is often the case in FCI records). The High Level Committee on FCI recommended (January 2015) for fixing a maximum limit on the incentive per person that would not allow him to work for more than, say, 1.25 times the work agreed with him.

It was noticed in audit that there was an overall increase in the productivity of the gangs even though the overall volume of work increased and the numbers of departmental labours decreased over the time. This was indicative of existence of proxy labour in the depots. Some related important observations are as follows:

- It was observed from the test check of the output slips of FSDs under West Bengal, Assam, Madhya Pradesh, Haryana, Delhi and Andhra Pradesh regions for the selected months that there were instances where the records depicted that handling labour carried much more than 600 bags per day of food grains in a day and high expenditure was incurred by the respective area office towards incentive and over time. For instance, on 30 October 2014, Gang No. 15 consisting of six handling labour working in New Guwahati depot handled 998 bags of food grains per labour (less than two minutes per bag) and earned a total daily incentive of ₹ 1,23,186 (on an average ₹ 20,531 per labour).
- It was also noticed that some of handling labours at Mayapuri, Ghevra and Narela depots of North region were suffering from chronic diseases like paralysis, chronic heart and kidney disease yet they earned incentive and overtime to the extent of ₹ 90,836 to ₹ 3,05,311 during the period from January, 2016 to March, 2016. Instances of handling as many as 1,350 bags (Area Office Nagaon), 1550 bags (FSD Srirampur) and 1,776 bags (FSD Gwalior) per day per labour were found in audit.
- In case of FSD Dimapur, Audit noticed abnormally high incentive being paid to labourers. Under Area Office, Dimapur in Nagaland and Manipur Region there are five FSDs. The handling work at FSD Dimapur, FCI is done through departmental labour and in all other four FSDs, handling work is done through contract labour. After comparing the handling cost of departmental labour and contract labour Audit observed that handling cost of work done through departmental labour was abnormally higher than the similar work done by contract labour. Audit examination revealed that in October 2015, 61 labour earned more than ₹ two lakh as monthly incentive and the earnings of monthly incentive in respect of two labourers were more than ₹ three lakh. It was also seen that Gang No. 5 which consisted of seven labourers handled 8,093 bags (average handling per labour was 1,156 bags) on 06 October 2015.

Audit analysis revealed that the labour strength at FSD Dimapur came down from 116 to 97 (from 2013-14 to 2015-16) but the excess bags handled went up from 62.90 lakh to 66.06 lakh (with an abnormal high of 88.16 lakh in 2014-15). The details are given in following Table 3.1:

Table 3.1: Labour Strength and bags handled in FSD Dimapur

Year	Actual no. of depart-mental labour	Requirement of labour as per norms of FCI Hqrs.	Shortfall	No. of working days	No. of bags to be handled as per norm of 105 bags per day per labour	Actual no. of bags handled	Excess bags handled	Incentive earned for handling excess bags over norms (₹ in lakh)
(1)	(2)	(3)	(4)=(3)-(2)	(5)	(6)=(2)x(5)x105	(7)	(8)=(7)-(6)	(9)
2013-14	116	322	206	296	36,05,280	98,94,884	62,89,605	1,234.55
2014-15	112	322	210	290	34,10,400	1,22,26,805	88,16,405	1,830.63
2015-16 (upto Dec'15)	97	322	225	240	24,44,400	90,50,643	66,06,243	1,337.71

The above anomalies are strong indicators of possibility of engagement of proxy labour, a fact on which even the Parliamentary Standing Committee had expressed serious concern.

The Management stated (November 2016) that various preventive measures were taken to prevent proxy labour.

The fact remains that the rate of bags handled per labours remains abnormally high leading to the exorbitant incentive being paid to some labourers and FCI is yet to tackle the presence of proxy labour in its depots.

3.2.5 Irregular payment of wages during depot closure

Cost of handling operations by departmental labour was much higher than that of contract labour. Considering this, RO, FCI, Kolkata floated a tender (August 2013) for handling and transportation work at railway siding Srirampur. Consequently, the FCI Workers' Union served notice of strike to FCI Management and there was no rake movement during the period August 2013 to April 2015 at railway siding Srirampur. There was almost zero transaction in the depot during the period January 2014 to April 2015 and the capacity utilization of the depot was also nil. During the prolonged period of 16 months the departmental labour at FSD, Srirampur were kept idle (except on only 20 occasions during January 2014 to April 2015 when labour of Srirampur depot were deputed to FSD Chinsura for unloading of rakes). No action was taken by the Management to gainfully utilize the departmental labour posted at FSD, Srirampur by transferring them within Area Office/Region/Zone. Non-utilisation of the departmental labour of Srirampur depot during the period January 2014 to April 2015 resulted in payment of idle wages amounting to ₹ 5.90 crore.

The Management stated (November 2016) that during January 2014 to April 2015 no operations were carried out due to FCI workers union filing industrial dispute case before Regional Labour Commissioner, Kolkata. Reply is untenable as the Management failed to gainfully utilize the service of the labour by transferring to other depots during the strike period but still paid wages for all such days.

3.2.6 Booking of departmental labour without adequate work

Departmental labour in FCI are eligible to get Minimum Guaranteed Wages (MGWs) for 21 days in addition to four or five weekly offs in a month and attendance allowance for the rest of the days in that month in case they report on duty but are not booked within two hours of reporting due to non-availability of work in depot. Hence, the gangs were to be booked judiciously, only when there was adequate work e.g. rake loading, unloading etc., otherwise a higher basic pay, Dearness Allowance (DA) and CPF payment had to be paid for every extra day of booking over and above the 25-26 days of booking.

From test check of output slips selected on random basis in area offices of West Bengal, Assam and Bihar, Audit observed that there were number of instances when there was either no work or very little work, but gangs[22] of departmental labour (including ancillary labour) were booked for work. Though the depot managers should have done proper analysis regarding requirement of booking labour based on receipt and issue operations but it was not done and they booked the gangs on days without any work/adequate work.

The avoidable payment of idle wages from such overbooking of departmental labour without any work/adequate work, during 2012-13 to 2015-16, worked out to ₹ 3.40 crore.

The Management while accepting (November 2016) the facts stated that placement of rakes was not in FCI's control and Railway was placing rakes as per its convenience. The reply of the Management is indication of the fact that by better co-ordination with Railways and efficient manpower planning, idle wages could be reduced.

3.2.7 Non optimization of short/broken gangs by merger into full strength gangs

The handling labour is required to load, unload food grains bags on or from railway wagons, trucks and other vehicle with stacking/unstacking of the same in the depots. Sardar and Mandal do not perform handling work but they get incentive based on the overall work done by the handling labourers in a gang. Thus, if the number of handling labour reduces in the gang, the percentage of incentive payout to non-performing member would rise as illustrated below in the Table 3.2:

Table 3.2: Gangs with Sardar and Mandal

Gang Composition*	Non-Performing Labour	Performing Labour	Performing Labour in standard composition of gang	Minimum share of incentive of non-performing labour to total labour *(per cent)*	Share of incentive of non-performing labour in a standard gang *(per cent)* i.e. 1 (S)+1(M)+12 (H/L)	Excess Incentive due to non-standard composition *(per cent)*
1 (S)+1(M)+12(H/L)	2	12	12	14.29	14.29	0.00
1 (S)+1(M)+11(H/L)	2	11	12	15.38	14.29	1.10
1 (S)+1(M)+5(H/L)	2	5	12	28.57	14.29	14.29

****S= Sardar, M=Mandal and H/L=Handling Labour***

[22] *A Standard Gang consists of 1 Sardar, 1 Mandal and 12 Handling labour*

Strength of most of the labour gangs in the FSDs reduced considerably over the years due to voluntary retirement/superannuation/death of workers and no fresh recruitment was made. This resulted in short/broken gangs and had adverse impact on efficiency and productivity of labour. Hence, a need was felt by both the Management and the workmen for merger of gangs. Accordingly, both sides signed a Memorandum of Settlement (November 2007) regarding merger of short/broken gangs for making these gangs as full strength gangs.

Audit observed that short/broken gangs were not merged in 23 FSDs in four regions[23], after retirements/death of the gang labour. Operations of gangs with reduced strength led to payment of higher incentives and overtime wages as payment of incentive and OTA has direct dependency on the average number of bag handled by handling labour per day as illustrated in the Table 3.2 with reduction in number of each handling labour in a gang, the share of incentive to non-performing labour i.e. Sardar and Mandal increases as compared to their share in a standard gang. It results in incurring of excess incentive to sardar and/or mandal. Thus, non-merger of the short/broken gangs by the area offices under the jurisdiction of West Bengal, Assam, Bihar and Haryana regions resulted in avoidable payment of ₹ 3.25 crore during the period selected for audit.

The Management stated (November 2016) that initially the gangs were not merged/reconstituted due to pendency of Court cases. The matter was finally decided in August 2013 and immediately after that action was taken.

The reply is not acceptable as there were numerous cases of non-merger even after August 2013 leading to avoidable payments.

3.2.8 Non-implementation of biometrics and Closed Circuit Television (CCTV) etc.

Audit observed that there were multiple instances where FCI could not implement efficiency improving technology such as Biometrics, CCTV, Portable bag handling system in its depots because of labour resistance as discussed below:

(i) Non-implementation of Bio-Metric Attendance System

The Parliamentary Standing Committee on Food, Consumer Affairs and Public Distribution in its report (2005-06) noted that the suggestions[24] of the Committee (2004-05 Report) to prevent proxy labour in the FCI, were not taken seriously. The Committee

[23] ***4 regions includes: (West Bengal: FSD Srirampur, Chinsurah, OJM and Kalyani); (Assam: FSD Ramnagar); (Haryana: BG Kurukshetra); (Bihar: FSD Phulwarisharif, Mokama, Brahmpura, Narayanpur Anant, Chanpatia, Forbesganj, Katihar, Belouri, Bhagalpur, Munger, Katarihills, Darbhanga, Jainagar, Saharsa, Raghopur, Madhepura, Chapra).***

[24] ***i) Requiring each and every worker to put one's signature and thumb impression as a token of attendance; ii) introduction of mechanical gate entry devices, punching card system with thumb impression; iii) payment of wages to all workers through cheque as per the provision of Income Tax Act; and iv) signing of daily work output slips by each labour at the end of the day and countersigned by Mandal/ Sardar/Shed Incharge, would go a long way in curbing incidence of proxy labour.***

was of the view that by not taking any meaningful action to curb proxy labour, FCI was trying to institutionalize the system. The Committee, therefore, recommended that the system of proxy labour must be abolished by regulating the attendance system in order to prevent further drainage from the exchequer.

FCI attempted to regulate the attendance system through biometric attendance system at the depots. In order to regulate the attendance system, the East and North East zones of FCI purchased (during March 2006 to July 2009) 150 Bio-metric finger printing attendance devices at a total cost of ₹ 49.20 lakh and installed the same in the FSDs situated under their control. However, even after ten years the Management could not make the system operational because of the resistance by the labourers. Similarly, test check revealed that the Bio-Metric attendance systems could not be implemented even in the FSDs under Area Offices at Mayapuri and Shaktinagar under Delhi region. Audit also noticed non implementation of the bio metric system in eight FSDs in Madhya Pradesh and Andhra Pradesh regions due to reasons such as non-functioning of Bio-metric devices, non-delivery of devices, non-linkage with 2G connectivity etc.

The Management stated (November 2016) that installation of Biometric Attendance System was completed in FCI Hqrs and in second phase Biometric Attendance System would be implemented in all Zonal Offices, Regional Offices, District Offices and Depots.

The reply of Management affirms that it could not fully implement Bio Metric Attendance System in the depots even after ten years of suggestions made by the Parliamentary Standing Committee.

(ii) Non-implementation of CCTV

In order to augment security surveillance systems in all the FCI owned FSDs, as per directives of the Ministry, FCI decided (August 2015) to implement surveillance through CCTV cameras. It was observed that even CCTV cameras installed on pilot basis in three FSD viz, Miryalguda [District Office (DO) Nalgonda], Hanuman Junction (DO Vijayawada) and Cherlapally (DO Tarnaka) under Andhra Pradesh region at a cost of ₹ 1.19 crore were not in working condition since August 2015. Moreover FCI has not done any impact analysis of the effect of CCTV implementation in the depots.

The Management stated (November 2016) that CCTV cameras were installed in 65 depots (58 in 2013-14 and 7 in 2014-15) and actions were taken to install CCTV cameras in 482 depots (tenders for 457 depots were issued in 2016-17) and approval of competent authority was given for 25 depots.

The reply indicates that CCTV cameras were installed in a small number of depots and FCI is now in the process of installing same in other depots. Reply regarding impact analysis in depots, where CCTV Cameras were installed was still awaited (February 2017).

(iii) Portable Bag Handling System

Portable Bag Handling System is a Mechanised Conveyer System used for unloading and stacking of bags from wagon/truck with added benefit of time and cost saving. Portable bag handling system (Mechanised system) purchased at Ramnagar (March 2014), Ranchi (August 2014), Phulwarisarif (May 2014) and Charrah (May 2014) FSDs under Assam, Jharkhand, Bihar and West Bengal regions respectively at a cost of ₹ 78.85 lakh were not put to use at the FSDs on the grounds of labour resentment against the mechanised system. Audit further observed that two Portable handling systems procured (June/September 2014) by the Andhra Pradesh region at a total cost of ₹ 15.76 lakh for two FSDs were not put to use due to procurement of the same without ascertaining suitability and technical aspect of the systems for handling operations. This resulted in infructuous expenditure of ₹ 94.61 lakh and no benefit of modernization accrued in these depots.

The Management stated (November 2016) that portable bag handling system was not in operation due to various constraints like too bulky structure to move smoothly inside the godowns due to insufficient space.

The reply of the Management indicates that no feasibility study was undertaken before making investment on portable bag handling system which led to infructuous expenditure on their installation.

3.3 Irregular benefits extended to labour in violation of existing laws/rules

3.3.1 Irregular/excess contribution in Contributory Provident Fund

The Hon'ble Supreme Court laid down the following basic principles of defining "basic wages" under sec. 2 (b) of the Employee Provident Fund (EPF) Act in the two judgements[25]:

(a) *Where the wage is universally, necessarily and ordinarily paid to all across the board such emoluments are basic wages.*

(b) Where the payment is available to be specially paid to those who avail of the opportunity is not basic wages. By way of example it was held that overtime allowance, though it is generally in force in all concerns is not earned by all employees of a concern. It is also earned in accordance with the terms of the contract of employment but because it may not be earned by all employees of a concern, it is excluded from basic wages.

(c) Conversely, any payment by way of a special incentive or work is not basic wages.

(d) Incentive wages paid in respect of extra work done is to be excluded from the basic wage as they have a direct nexus and linkage with the amount of extra output. It is to be noted that any amount of contribution cannot be based on different contingencies and uncertainties. The test is one of universality.

The FCI (Contributory Provident Fund) Regulations, 1967 for departmental worker engaged in the service of FCI also did not include incentive/OTA under 'Pay'. However, in a complete disregard to *Hon'ble Supreme Court Judgements and 'FCI (Contributory*

[25] ***'Bridge & Roof's Co. Ltd. Vs. Union of India case' (11/09/1962) and TI Cycles of India, Ambattur Vs. M.K. Gurumani and Others' (2001 (7) SCC 204).***

Provident Fund) Regulations, 1967', a Memorandum of Settlement (MoS) dated 24 May 1984 was signed between the Management and FCI Workers Union. As per the terms of settlement, Management decided to treat incentive earned by the departmental workers as 'earning' for the purpose of CPF contribution. As provisions of any regulation, circular or a settlement (issued or settled by an Organization or Institution) cannot override Judicial Pronouncement of the Apex Court, the MoS signed by FCI Management was in violation of the provisions of law and judicial pronouncement.

Audit observed during test check that in West Bengal, Assam, Delhi, Haryana, Madhya Pradesh, Andhra Pradesh and Jharkhand[26] regions incentive earnings of the departmental labour were included in "wages/earning" for the purpose of CPF calculation and FCI made an excess contribution of ₹ 218.76 crore as employer's contribution during April 2012 to March 2016 in violation of the Hon'ble Supreme Court's Judgment.

The Management stated (November 2016) that extension of better benefits than the statutory provisions was legally valid.

The reply is not acceptable as better benefits were given only to a selected group solely on the basis of MoS in violation of the Hon'ble Supreme Court's judgment on this issue. Moreover, FCI could not provide any evidence regarding its action being legally valid given the fact that MoS cannot supersede judgment of the Hon'ble Supreme Court.

3.3.2 Unjustified inclusion of incentives while calculating gratuity

As per the Payment of Gratuity Act 1972, gratuity is payable to an employee on termination of employment and rendering continuous service for not less than five years. Wages constitutes all emoluments earned by employee including Dearness Allowance but does not include any bonus, commission, house rent allowance (HRA), overtime wages and any other allowance. Moreover, as per the Payment of Gratuity Act applicable to employees of FCI, only basic pay and dearness allowance thereon was treated as wage for computation of gratuity.

However, Audit observed that incentive was included as an element of wage in case of Departmental labour for calculation of gratuity and this inclusion of incentive in the calculation of gratuity payable to departmental labour resulted in extra expenditure of ₹ 10.99 crore in Delhi, Haryana, Madhya Pradesh and Andhra Pradesh during 2012-13 to 2015-16.

The Management stated (November 2016) that benefit extended through bilateral settlement over and above statutory requirement was legally valid and was not matter of adjudication.

The reply is not acceptable as better benefits were given only to a selected group in violation of Gratuity Act, 1972. Moreover, FCI could not provide any evidence to its claim of its action being legally valid given the fact that an MoS cannot supersede provisions of an act of Parliament.

[26] ***Period from May 2014 to November 2015 only in case of Jharkhand region.***

3.3.3 Unjustified inclusion of HRA element for the computation of incentive and OTA

As per the incentive scheme framed (May 1999) for the departmental labour working in FCI godowns/depots, various incentives such as handling, height and lead were payable. These incentives were payable at full wages for the actual number of bags handled, stacked or carried, as the case may be, in respective slabs of output above norm/datum. The Hon'ble Supreme Court of India in its judgment dated 20 July 1990 in Writ Petition 222 of 1984 held that there should be parity in wages and fringe benefits of department labour across the country on the basis of arbitration award by Justice K. K. Mitra. Audit observed that FCI unjustifiably included HRA component in the wages for the purpose of calculation of incentive and OTA. This was completely unwarranted as the HRA element was not to be considered for the purpose of computation of the Performance linked incentive, Leave encashment and Gratuity payable to the departmental labour on superannuation.

Audit noticed in selected FSDs under West Bengal, Assam, Delhi, Haryana, Madhya Pradesh and Bihar regions and ANZ Vizag that FCI made unjustified payment of ₹ 118.84 crore during 2012-13 to 2015-16 by including HRA for computation of incentive and OTA.

The Management stated (November 2016) that the Departmental as well as DPS workers were being paid OTA as per the MOU reached with labour Union in furtherance to the provisions of Shop and Establishment Act irrespective of the fact whether the establishment of FCI was given exemption by the respective State Government from the OTA provisions of the said Act.

The Management reply is not tenable as it could not furnish any records on legal validity of the action other than the settlement with labour union. Thus, allowing different rate of HRA (10, 20 and 30 *per cent*) in different location for computing incentive resulted in different payment of incentive for same work, which also defeats the concept of equal pay for equal work and is contrary to the ibid judgement of the Hon'ble Supreme Court.

3.3.4 Non-consideration of Mandal as handling labour

As per Circular issued (May 2002) by FCI on the duties of Sardars[27] and Mandals[28], when there is no weighment work in the depot, the Mandal has to work as part of gang and perform duties of handling labour. With introduction of weighment of bags through electronic weighbridges in the FSD there was no need of the Mandal during weighment and as per description of duties prescribed by FCI, the Mandal had to work as a handling labour. Further, M/s Deloitte also recommended for review of the role of Mandal in view of introduction of weighbridges in the FSD and the same was approved by the Board of Directors of FCI in the meeting held on 8 April 2015.

[27] ***Sardar is a leader who exercises adequate control over gang and coordinates and supervises the various steps of operations.***

[28] ***Mandal has duty to weigh the food grains bags and in absence of weighment he has to work as a part of the gang.***

However, it was observed that Mandals working in the FSDs equipped with electronic weighbridges were not considered as handling labourers in line with the duties defined in the letter issued in May 2002. It was noticed in Area offices, Patna and FSDs under Assam, West Bengal, Haryana, Delhi, Madhya Pradesh regions and Dimapur that FCI paid ₹ 58.82 crore during 2012-13 to 2015-16 to such Mandals, who should have been considered as handling labour for the purpose of calculation of incentive earnings per labour**.** Thus, non-consideration of the Mandal as handling labour in line with duties of Mandal, defined by the Management resulted in unjustified payment of incentive to Mandals.

The Management stated (November 2016) that duty of Mandal is supervisory in nature and in absence of manual weighment, the Mandal works as a part of the gang and performs duties of handling labour which does not mean that he has to give output as required by the handling workers of the gang.

The Management reply is not acceptable as the FCI circular (13 May 2002) on the duties of Sardars and Mandals, clearly stated that when there was no weighment work in the depot, the Mandal had to work as part of gang and perform duties of handling labour. Thus, by not insisting on the specified work output by the Mandal in depots where there was no manual weighment resulted in undue extra payment of ₹ 58.82 crore.

3.3.5 Unjustified payment of 'A' area rates to DPS labours working in 'B' and 'C' areas

In exercise of the powers conferred by the GoI, Ministry of Labour & Employment (MoL&E) periodically revises the rates of variable dearness allowance on the basis of increase in the average Consumer Price Index (CPI). Accordingly the minimum guaranteed wages are also revised every six months. The rates revised are based on the areas viz., area 'A', 'B', 'C'[29], notified by the GoI.

As per Memorandum of Settlement (August 2012) between the Management and workmen represented by FCI Workers Union over revision of wages to DPS workers, it was agreed that Minimum Daily Wages of 'A' area as notified by GoI shall be paid to the labours as base throughout the country irrespective of the category of station of posting.

Audit observed that consequent upon extending the 'A' area rates across the country, the increase in daily wages to DPS labours in Madhya Pradesh and Andhra Pradesh regions ranged between ₹ 44 to ₹ 56 for FSD at 'B' area and ₹ 85 to ₹ 110 for FSD at 'C' area. An amount of ₹59.22 crore was paid to the workers on account of this increase from April 2012 to March 2016. Since the rates as decided by the GoI are based on the average CPI and revised every six months, extending 'A' area rates uniformly across the country was not justified. The decision of extending 'A' area rates uniformly across the country

[29] ***Area 'A' and Area 'B' comprise all the places as specified in the annexure, to Notification of Government of India in the Ministry of Labour and Employment No. S.O. 131(E) dated 13th January 2009, as such areas and includes all places within a distance of fifteen kilometres from the periphery of a Municipal Corporation or Municipality or Cantonment Board or Notified Area Committee of a particular place. Area 'C' shall comprise of all the other place not mentioned in Areas 'A' and 'B' of the annexure and to which the Minimum wages Act 1948 (11 of 1948) extends.***

also defeated the very purpose of GoI decision to notify the areas as 'A', 'B', 'C' and the payment of ₹ 59.22 crore was completely unjustified.

The Management stated (November 2016) that FCI Workers Union vehemently opposed applicability of different minimum daily wages in respect of DPS labour employed in 'A', 'B' and 'C' Areas and resorted to agitation in the form of go slow/refusal to work/direct action w.e.f. 22 March 2011, demanding application of rates of minimum daily wages notified by GoI in respect of 'A' areas uniformly across the country. It also stated that the Labour Unions by dint of their very strong bargaining power, took dual benefit of higher central government minimum wages as compared to FCI minimum wages when the FCI came under the purview of Minimum Wages Act and uniform applicability of 'A' areas rate throughout the country.

Evidently, FCI due to strong bargaining power of labour union failed to enforce the requisite revised rates of variable DA notified by the GoI.

3.3.6 Unjustified payment of Productivity Linked Incentive (PLI) to labours

Consequent upon the approval of GoI for implementation of the new PLI Scheme in FCI from 2010-11 onwards, it was decided by FCI (August 2015) to release the PLI for the year 2010-11 to 2013-14 at the revised rate of 15 *per cent* of the Basic Pay *plus* Industrial Dearness Allowance (IDA) or Central Dearness Allowance (CDA), as the case may be. It was to be given to all the eligible employees below Board level and Departmental/Direct Payment System labourers.

Audit noticed that there was an already prevailing scheme of incentive for departmental labours in FCI whereby the departmental labours were paid incentives for the quantum of work done over and above the fixed norms[30]. Therefore, the departmental labour should not have been paid PLI as this would entail payment of incentive for the same activities on which incentive had already been availed by them during the year.

Audit noticed that in West Bengal, Assam, Madhya Pradesh and Andhra Pradesh regions, inadmissible PLI amounting to ₹ 27.77 crore was paid in addition to payment of incentive to departmental and DPS labour during 2012-13 to 2015-16.

The Management stated (November 2016) that incentive wages is different from PLI.

The Management's reply does not address the fact of giving two different benefits to the departmental workers for the same work.

3.3.7 Irregular retrospective payment towards arrears relating to OTA and HRA

The wage structure of the departmental workers in FCI was revised after obtaining approval from BOD in its meeting held on 05 May 2014. The said wage revision was made applicable w.e.f. 01 January 2012. Though the BOD did not give any approval for

[30] ***The incentive is payable if the work exceeds the general norms of output which was 105 bags for handling, 10 bags height for stacking and 66 feet in case of lead distance.***

payment of arrears of OTA and incentive in the instruction issued on 16 May 2014, however, on the ground that in the past such arrear payment was made, some of the regions made payments towards arrears of incentive and OTA without specific approval of FCI. Later the BOD gave post facto approval for making payment of arrear of incentives and OTA *w.e.f.* 01 January 2012. Audit noticed in two Area Offices under Delhi Regional Office that ₹ 2.17 crore was paid to the departmental labour on account of arrears of OTA. Moreover, no justification for payment of arrears to departmental labourers, except on basis of past practices, was found on records.

Similarly, as per the circular on wage revision, the departmental workers, not provided with accommodation, were to be paid HRA at the rate of 10 to 30 *per cent* at par with FCI/Central Government Employees. Audit observed that at JJP depot under West Bengal region, HRA arrears of ₹ 5.71 crore for the period of 01 January 2012 to 31 May 2014 was paid to 582 labourers in August 2014. The payment was not in order as HRA was to be paid prospectively to Central Government employees and Central Public Sector Enterprises employees as per implementation of Central Pay Commission recommendations and Department of Public Enterprises guidelines respectively. Thus, unwarranted benefit of ₹ 7.88 crore by way of OTA and HRA arrear was given to the departmental labour.

The Management stated (November 2016) that there was no agreement with any Labour Union on the basis of which the payment of arrears of OTA and incentive wages for the intervening period was excluded in the past. In view of the conventions and precedence, BOD with its judicious mind approved the payment of arrears to the departmental workers upon their wage revision w.e.f. 01 January 2012.

The reply of management is not acceptable as continuation of allowing benefits only on the ground that the same were given in the past cannot be accepted as a valid ground for extending undue financial benefit to a select group of employees.

3.3.8 Excess incentive payment due to non-implementation of 135 bag handling norms for incentive payment

Consequent upon finalization of bipartite settlement on wage revision between FCI Management and FCI Worker's Union, revision was made (May 1999) to the piece rate incentive scheme in respect of departmental labour and a new scheme was introduced with effect from 01 April 1998. This incentive scheme, inter-alia, included norms for unification of output of 70 and 105 bags in respect of handling bags above 66 kg and bags below 66 kg respectively.

Subsequent to an International Labour Organization (ILO) recommendation to reduce the size of food grains bags to 50 kg each, FCI implemented the 50 kg bag norm. Therefore, a need was felt to have separate handling norms for handling 50 kg bags by the departmental labour. For this purpose, a study was entrusted to Delhi Productivity Council (DPC) to suggest incentive wages scheme for the departmental labour, which suggested (2002) a norm of 155 bags per labour per shift which was not accepted by labour unions. To explore the possibility of implementation of findings of the DPC, Saxena Committee was constituted. Based on the findings of the Saxena Committee, the Incentive Wages Scheme was framed by FCI adopting the norm of 135 bags per worker per day, which was circulated (December 2005) to the field units and was to be made effective from 01 December 2005. However, it also could not be implemented as labour unions raised industrial dispute.

Audit noticed that though the weight of a bag got reduced from 66 kg to 50 kg but the number of bags beyond which incentive was to be paid remained unchanged at 105 bags per worker per day. Thus, even though the overall workload was reduced because of handling of lesser weighing bags the incentive was continued to be paid at the pre-revised norm. To ascertain the impact of this on the incentive amount, an exercise was made by Audit to calculate the incentive amount on 135 bags norm basis. Based on three months' daily handling work done in three FSDs under Assam region and one depot under West Bengal region, it was observed that the labourers earned 8.40 *per cent* higher incentive due to continuation of the earlier norms. Considering the variance in earnings found from analysis, the extra incentive payment was worked out to ₹ 53.85 crore in Assam and West Bengal region during 2012-13 to 2015-16.

The Management stated (November 2016) that incentive scheme circulated on 15 December 2005 had to be kept in abeyance due to operation of Section 33 of Industrial Dispute Act. Hon'ble Tribunal had passed the award in ID case no. 195/2011 in favour of FCI and the same has been implemented. Recovery of excess incentive wages paid during the intervening period is in progress as per the age profile of the workers concerned.

However, the status of recovery of excess incentive payment on the basis of 135 bags norm was still awaited (February 2017) and thus remains unverifiable.

3.4 Irregularities leading to undue/excess payments to labour

The following suspected excess payments of incentives, wages and OTA to departmental labour were noticed in the selected FSDs under West Bengal, Assam, Delhi, Haryana, Madhya Pradesh, Andhra Pradesh, Bihar and Nagaland and Manipur regions:

3.4.1 Improbable stack formation depicted in records leading to higher incentives.

The formation of a standard stack of food grains is done in such a manner that at the bottom there are seven rows of bags. Each row is created by placing 12 units of two bags of grains perpendicular to each other. The maximum height of the stack allowed is 24 layers.

Scrutiny of 254 booking cum output slips issued at FSD Dimapur for October 2015 for 11 gangs revealed that these slips indicated that on 20 October 2015 the Gangs No. 9 and 10 were building the same stack (D/5, Shed II) on the same day.

However these obvious anomalies were not detected by shed/depot in-charge at FSD Dimapur and inadmissible incentive was paid accordingly for building the above improbable stack formation.

The Management stated (November 2016) that stack formation in FSD Dimapur was raised beyond 24 layers due to space constraint. Further in actual operation not all the available stacks are for receipt only but also under issue operation.

The Management reply is not related to the objection as it has not furnished reply to the observation regarding building the same stack (D/5) on the same day by two different gangs.

3.4.2 Incorrect certification of Refilling/Standardisation work

As per clause 13, Part-II of Model Tender Form for the handling contracts, refilling work includes filling gunnies with loose grains to a prescribed weight, stitching and stacking inside the godown. Similarly, as per the incentive scheme framed (May 1999) by FCI for the departmental labour working in its godowns/FSD, standardisation work includes carrying the standardised bags to weighing scales and stacking upto a prescribed height or loading into wagons/trucks. Since rebagging/refilling work was categorised under standardisation for the purpose of handling norms for incentive, hence refilling/rebagging work includes filling gunnies with loose grains including weighment, stitching and stacking inside the godown.

Audit observed from output slips for the months of January 2013, February 2014 and April 2014 to March 2015 in respect of New Guwahati depot that it treated refilling/rebagging, and weighment/stacking of the refilled bags as two separate activities instead of treating the entire activity as one in line with the incentive scheme. It also paid incentive, taking these as two separate activities.

Similarly, it was also observed from the output slips of FSD, Hojai and Assam State Warehousing Corporation, Haibergaon under Area Office Naogaon for the period of three years ending 2014-15 that depot incharge incorrectly certified standardisation/refilling/rebagging, weighment and stacking of the standardised/refilled bags of paddy as three separate activities instead of treating the entire activity as one activity in line with the incentive scheme.

Even though no separate incentive (except height incentive) was payable for the stacking of the refilled bags, but, Area Office Guwahati and Area Office Nagaon incorrectly allowed such handling incentive of ₹ 4.25 crore for the above mentioned period.

3.4.3 Excess certification of refilling work

Total number of bags recorded in the booking cum output slips should tally with the number of bags as reflected in monthly stock account and other records maintained by the depot/Area Office. Audit cross verified the booking cum output slips with the monthly stock account maintained by Area Office/FSDs under Assam region for the period during 2012-13 to 2014-15 and observed that the number of bags depicted against the refilling work, as certified by the depot/shed in-charges in the booking cum output slips did not tally with the monthly stock account for gunny bags. There was a difference of 38.23 lakh bags between the two sets of records. Further analysis revealed that this was due to excess certification at FSD, New Guwahati, Hojai, Nagaon and Durgapur. This, excess certification of refilling works by the depot/shed in-charges under Assam and West

Bengal region resulted in excess payment of incentive amounting to ₹ 7.63 crore for work which was not performed. No action for recovery of ₹ 7.63 crore was initiated (January 2017).

Besides, on the basis of another audit observation about excess payment of ₹ 3.30 crore in New Guwahati depot, CMD of FCI advised the General Manager (GM) of Assam Region/Executive Director of North East Zone to take immediate action and recover the excess payment of incentive amounting to ₹ 3.30 crore from the departmental labour. The Assam region started the recovery process in August 2016 *i.e.* after 17 months; recoveries were still to be made (January 2017).

The Management stated (November 2016) that at the time of unloading of rakes or during issue/dispatch operation many bags were generally received in cut, torn and loose condition which were being used after minor repairing and by refilling the loose grains for which no separate gunnies were issued from gunny account. These were very common in depot operations as such the refilled bags reflected in labour output slip may not be tallied with gunny account.

The reply of Management is not acceptable as it does not explain as to why such high quantity of 38.23 lakh bags would be required for refilling and the GM of Assam has accepted the irregularities and ordered for recovery of excess payment on this account.

3.4.4 Wrong certification of lead distance

FCI directed (January 2014) for taking steps to ensure accurate recording of the lead distance travelled by the labourers for the purpose of calculation of the incentive wages since mis-application of lead clause would escalate handling cost. Proper depot layout, sound stack plan, mention of stack number in output slips, verification of position of stack as mentioned in output slips with the depot layout, mapping of depot layout in Financial Accounting Package (FAP) for automatic incentive calculation is an important internal control tool to check misapplication of lead incentive.

Test check of records revealed wrong certification of lead distances by FSD Jhinjhirapool, West Bengal region and FSD New Guwahati, Assam region which resulted in excess payment of lead incentive of ₹ 23.82 lakh for the selected period. FCI Area Office Port Depot under West Bengal Region issued a circular dated 11 November 2003 which stated maximum lead of 148 feet whereas Audit found cases of allowing 166 feet or more in many cases which resulted in allowing 100 percentage (beyond 165 feet) of wages considered for lead incentive in place of allowing 50 percentage (132-165 feet) of wages considered for lead incentive. Similar instances were also observed in FSD Guwahati.

The Management stated (November 2016) that some lead has to be allowed to the departmental labour to expedite the handling operation.

The reply is not tenable as inadmissible excess lead distance was being allowed as a result of which excess incentive was being paid to the labourers.

3.4.5 Payment of excess wages/overtime wages/incentive

- As per the FCI Headquarters circular dated 11 June 1991 and letter dated 30 April 1996 on Minimum Guaranteed Wages (MGW), if there was no work in the depot, the maximum allowable wages would be 25/26 days of MGW and attendance allowance for the rest of the days of the month. However, it was observed that though there was no transaction in the FSD Srirampur for a prolonged period of 16 months during January 2014 to April 2015 (except 20 days in 16 months when labour were sent to FSD, Chinsura for unloading of rakes), the labourers were booked for almost all days of the month (ranging from 26 to 31 days). Despite knowing the fact that there was labour problem in FSD Srirampur, the Area Office, Hooghly allowed wages to them beyond MGW days (i.e. 25/26 days). Thus, booking of departmental labour without requirement resulted in excess payment of ₹ 37.98 lakh during the above mentioned period.
- Audit noticed from output slips of Mokama (October 2014) and Chinsurah (March 2015) under Bihar and West Bengal regions that departmental labour were allowed overtime hours without requirement resulting in OTA payment of ₹ 5.65 lakh. Similarly, over-booking of labour during overtime and unjustified recording of time on work slips without sufficient requirement resulted in excess payment of OTA to the tune of ₹ 17.90 lakh during May 2014 in FSD Rohtak under Haryana region.
- Attendance summary reports and earning reports generated through FAP for the month of May 2013 relating to FSD, Chinsurah revealed that departmental labour of all the gangs were present and drew wages for 31 days. However, the output slips for the same month indicated that the departmental labour were not present on all the days of the month. This shows that the shed in-charges of FSD, Chinsurah prepared misleading output slips by marking absent the departmental labour to facilitate more incentive on account of increase in per capita output. Manipulation of the output slips by the shed in-charges of FSD, Chinsurah resulted in excess payment of handling incentive amounting to ₹ 5.41 lakh for the month of May 2013.

The Management in respect of Area Office Hoogly stated (November 2016) that these issues require report from Area Office Hooghly which was sought. In respect of Mokama depot under Bihar Region, the Management stated that necessary recovery for the excess overtime hours without any requirement on the several occasions was made. In respect of Haryana region, management stated that no incident of excess OTA payments was noticed.

The Management reply in respect of Haryana region was not acceptable as the records clearly indicate excess OTA was allowed to the Department Labours.

3.4.6 Incorrect entry of data on attendance in FAP

If a departmental labour was booked on a non-paid holiday, it was to be entered in the FAP as 'B' i.e. booked on non-paid holiday, otherwise it was to be entered as 'D' i.e. Attendance day. Further, if 'H' (i.e. holiday) or 'W' (on work) was entered in Financial Accounting Package, departmental labour would get full wages for those days.

Audit cross verified the attendance sheets and booking-cum-output slips certified by the depot incharges of Hojai, Itachali, Senchowa and ASWC, Haibergaon under Assam region with entries made in the FAP for the period of three years ending 2014-15 and found that though the departmental labour were entitled for only attendance allowance on 21 occasions, area office, Nagaon while processing payment through FAP marked the labours as on ‘work’ (W) or on ‘holiday’ (H) resulting in payment of full wages for that days. Due to making wrong entries of attendance in FAP by the area office, Nagaon, the departmental labour though not booked during non-paid holidays were paid wages instead of attendance allowance which resulted in excess payment of wages of ₹ 14.73 lakh.

The Management stated (November 2016) that all the district offices under Assam region were instructed to tally attendance and output slips with FAP figures. Further, recovery had also been ordered on the basis of audit observation.

The Management had accepted the comment. However, the recovery details were awaited (February 2017).

3.4.7 Unwarranted deployment on holidays

To minimise the handling costs, departmental labour were to be engaged on holidays only when there was adequate work (such as loading/unloading of rakes) to justify their deployment. Depot manager deployed the departmental labour on holidays without sufficient requirement in district office at Kurukshetra, Karnal and FSD Rohtak under Haryana region and Mokama depot under Bihar region. This unwarranted deployment of departmental labour on holidays resulted in avoidable payment of OTA of ₹ 72 lakh.

The Management stated (November 2016) that labourers always demand prior written intimation for probable rake placement on holidays.

As Audit observation pertains to non-railway work on Sunday and holidays the management reply is not acceptable.

3.5 Lack of proper controls in the maintenance of booking-cum-output slips

Booking-cum-output slip is a vital document, since incentive as well as overtime wages are being paid to the departmental labour solely on the basis of particulars recorded in the booking-cum-output slip. Therefore, it is essential to accurately record all the particulars required to be mentioned in the booking-cum-output slip for correct computation of the incentive and overtime wages. However, the following serious deficiencies were noticed in booking-cum-output slips in respect of selected FSDs.

3.5.1 Shed and stack number not being mentioned on the output slips

As per rule, the layout of the stacks along with the stack number is to be mentioned on the booking-cum-output slips. However, it was observed that out of 2,212 output slips selected for review in respect of New Guwahati depot, no stack number was mentioned in 147 output slips. Similarly, no stack number/layout was mentioned in any of the output slips of FSD, Chinsurah (427 output slips) and FSD Srirampur (476 output slips) under

West Bengal region. In respect of four FSDs for a selected month under Haryana region, it was observed that stack number was not mentioned in 276 output slip out of 325 slips while shed number was not mentioned in any of the output slips. In respect of output slips selected for review in FSD Mayapuri under Delhi region and five selected depots in Andhra Pradesh region, no stack number was mentioned in output slips. Moreover, number of mismatch between the total number of bags recorded in output slip and records maintained in District Office/Depot (Movement Division) were observed in Bihar and West Bengal Region and Nagaland and Manipur Regions.

In absence of Stack number on the booking-cum-output slip the identity of the bags cannot be ascertained and thus, the principle of First-In-First-Out cannot be followed while issuing the stock, increasing the risk of older grain lying for a longer time in storage leading to deterioration. Moreover, lead distance based incentive payment also cannot be verified in such cases.

The Management stated (November 2016) that the details of food grains available in FSD was maintained in stack ledger and shed ledger.

The Management reply is not acceptable as shed and stack number should be invariably mentioned on the output slips, to capture documentation of work done to make accurate payments.

3.5.2 Acceptance of unsigned output slips for processing of incentive

As per the recommendations of the Standing Committee on Food, Consumer Affairs and Public Distribution (25 August 2004) for the prevention of proxy labour and letter issued (March 2015) by the FCI, daily output slips were to be mandatorily signed by each labour at the end of day and the same was also to be countersigned by the Sardar/ Mandal/shed in-charge. However, it was observed from the test check of the output slips at selected FSD[31] that none of the output slips was signed by the sardar/mandal/labour.

In absence of relevant signatures the work done by labour remained uncertified. However the slips were being used to process payment, increasing the risk of extra/undue payment to labour.

The Management stated (November 2016) that signing of output slips by Sardar, Mandal and Labours could not be implemented on account of resistance from the Union as well as operational difficulties.

The Management has thus accepted that it could not take required administrative action for prevention of proxy labour due to resistance by union a fact that indicates urgent need for corrective action in this area.

[31] ***Selected FSDs- West Bengal-5 , Bihar-1, Assam-5, Andhra Pradesh-5, Madhya Pradesh-5, Haryana-5, Nagaland-1 and Delhi-5. Total-32.***

3.5.3 Internal audit of Booking-cum-output slips and related payments

As per instructions issued by FCI, audit of booking-cum-output slips and related payments such as incentive, overtime wages etc. thereof was to be conducted every three months. The objective of the direction was to find out irregularities/malpractices in the payment of incentives and overtime wages. However, it was observed that no such separate audits were conducted to ensure that there were no irregularities/malpractices in the payment of incentives and overtime wages.

The Management stated (November 2016) that there was full-fledged internal audit and physical verification section in FCI which conducts audit of all the operations of FCI including the booking slips of labour and other related documents on regular basis.

The reply is not tenable as FCI could not provide any evidence to substantiate the above observations. Moreover, during audit of field offices, the Management could not furnish any audit report of output slips.

3.5.4 Opening balance of bags not mentioned on output slips:

Opening balance of bags and layout of the stack should be invariably mentioned on the output slips in case the depot intends to accommodate further receipt in the existing stack, so as to ensure whether height of stack as mentioned on the booking-cum-output slip was correct. However, test check of output slips in the selected FSDs revealed that the opening balance of bags and layout of the stacks was not mentioned.

As the stack details were not mentioned on the output slip it creates a risk of labours adding bags to an already existing stack (below 24 layers) rather than creating a new stack for storage of freshly arrived bags, a practice which entitles them to higher height incentive.

The Management stated (November 2016) that day to day building up of a particular stack together with opening balance as well as closing balance of a particular stack was maintained in the stack ledger in the particular shed.

The reply is not acceptable as FCI has not provided any documentary evidence to substantiate its reply.

3.5.5 Mandatory details about ancillary labour not being mentioned on output slips

As per recommendations of the Standing Committee on Food, Consumer Affairs and Public Distribution (25 August 2004) and letter issued (March 2015) by the FCI, absence and presence of ancillary labour was to be mandatorily marked in booking-cum-output slips. However, it was observed that attendance of ancillary labour was not recorded on any of the output slips. In absence of marking for attendance in the output slips the physical presence of the ancillary labour could not be verified and there was no evidence to verify whether they actually worked on those days in the respective depots.

The Management stated (November 2016) that physical presence of the ancillary labour in the depots was being ensured by the Manager (Depot/Shed In-charges) by way of their attendance in the morning and regular checks during the working hours.

The reply is not acceptable as FCI failed to provide any documentary evidence to substantiate its reply, and the audit observation is based on FCI's records.

3.5.6 Physical proof of attendance not being maintained

As per the recommendations of the Standing Committee on Food, Consumer Affairs and Public Distribution (25 August 2004) departmental labour should give attendance by putting signature or thumb impression in the attendance register. However, it was observed that signatures/thumb impressions of the labour were not obtained, as required. Moreover, it was also noticed that out of 325 output slips reviewed under Haryana region, only in 158 booking-cum-output slips time had been found recorded. Further the mandatory gang output records and consolidated figures of output were also not being mentioned on the output slips. In absence of recording of time on output slips, the correctness of time based incentive/OT payments could not be vouched safe in audit.

The Management stated (November 2016) that attendance of labourers were being ensured by the concerned depot in-charges by way of their entries in the attendance registers.

The reply is not acceptable as FCI failed to provide any documentary evidence to substantiate its reply. Moreover, records clearly indicated a position which is contrary to FCI's reply.

As is evident from the above observations it is clear that there were major lapses in maintaining the mandatory details on the output slips such as shed and stack number, signature of the labours, details of labour, opening balance of bags, etc. These deficiencies have significant impact on overall expenditure related to incentive, OTA, etc. on the handling operations as the output slip is the only original record of the quantum of work performed by the labourers. As the output slips form the very basis on which the payment to labour is calculated, the deficiencies raise a serious doubt on the correctness of the incentive/OTA payment made to the labour.

3.6 Conclusion

The labour management practices in FCI depots were found to be deficient with poor administrative controls resulting in payment of idle wages, inadmissible incentive payments in violation of rules. FCI has not been able to tackle the problem of proxy labours in its depots. Moreover, FCI paid huge inadmissible incentives to departmental labour in violation of CPF Act, Gratuity Act and Judgment/directives of the Courts. Further, deficient controls in preparation of primary records related to work done by labour created an unacceptable risk of excess overtime/incentive payment.

3.7 Recommendations

We recommend,

(i) Pooling of departmental labour in fewer FSDs and conduct handling operation of the vacated FSDs through contract labour.

(ii) Incentive norm and methodology followed for working out incentive and other statutory dues *e.g.* CPF, Gratuity should be compliant with extant acts/rules and judicial directives/judgments.

(iii) Action for elimination of proxy labour by:

   a) Ensuring proper documentation of prescribed details in the Booking cum Output slips.

   b) Expediting installation of Biometric Attendance System and CCTV installations.

   c) Incorporating automated red flag indicators in Financial Accounting Package for suspected abnormally high claims towards incentives and OTA.

Chapter-IV
Implementation of Private Entrepreneur Guarantee Scheme for Construction of Godowns in Punjab

4.1 Introduction

GoI introduced the Private Entrepreneur Guarantee (PEG) scheme for augmenting the food storage capacity through private participation in the XI five year plan (2007-12). The scheme was finalised in consultation with Central Warehousing Corporation (CWC) and the State Warehousing Corporations (SWCs). The storage capacity envisaged to be created by private participation was to be hired by FCI with guarantee ranging for period of seven and ten years, through CWC/SWCs at the rates finalized by High Level Committee (HLC) through a tendering process by nodal agency[32].

A capacity of 49.99 Lakh Metric Tonne (LMT) was to be constructed in Punjab region under the PEG scheme. PUNGRAIN[33] was nominated as nodal agency by the State Government for creation of storage capacity under the scheme through Private Entrepreneur (PEs). The godowns under the scheme were to be constructed within a period of one to two years[34] after finalisation of agreement for construction of respective godowns.

The audit was conducted with a view to assess effectiveness of the scheme and whether the scheme was implemented as per applicable provisions.

Audit covered four selected districts of FCI, i.e. Faridkot, Sangrur, Moga and Kapurthala, which constituted 17.11 LMT (39 *per cent*) of the total 43.49 LMT capacity constructed in Punjab as on 31 March 2016. Audit was conducted from 18 April 2016 to 15 July 2016 at Regional Office FCI, Punjab and selected four District Offices covering the period of five years from 2011-12 to 2015-16. A total of 26 out of 77 godowns (34 *per cent*) in selected districts were covered in audit.

Audit findings

4.2 Achievement of Objectives

4.2.1 Delay of five to seven years in augmentation of storage capacity

As against the approved capacity of 49.99 LMT, a capacity of only 45.29 LMT (192 godowns) was sanctioned and awarded for construction of godowns in Punjab during the period 2009-10 to 2015-16 as detailed in the following Table 4.1:

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[32] *Implementing Agency to get godowns constructed from private entrepreneurs.*
[33] *Punjab State Grains Procurement Corporation Limited.*
[34] *One year in case of godown without railway sidings and two years for godowns with railway sidings.*

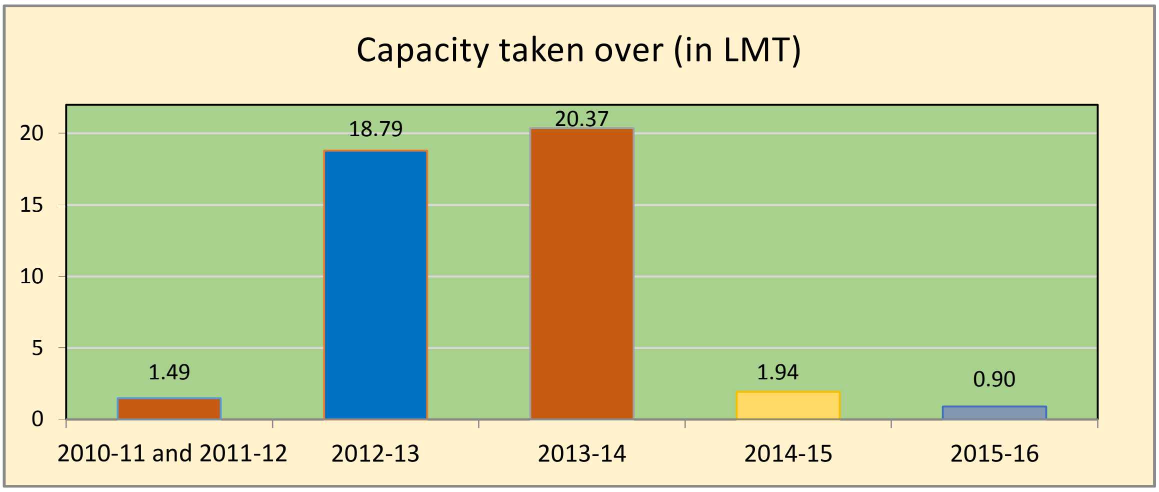
Table 4.1: Awarded capacity for construction of godowns during 2009-10 to 2015-16 under PEG Scheme

Year	Awarded Capacity (in LMT)	No. of godowns
2009-10	0.56	4
2010-11	0.94	6
2011-12	40.26	165
2012-13	0	0
2013-14	1.26	7
2014-15	2.27	10
2015-16	0	0
Total	**45.29**	**192**

As depicted in the Table 4.1, the bulk of contracts for capacity creation were awarded in 2011-12, after a gap of three years from inception of the scheme.

Capacity of 43.49 LMT (185 godowns) had been taken over till 31 March 2016. The remaining capacity 1.80 LMT (seven godowns) was in various stages viz. under construction, completed and yet to be taken over (31 March 2016). The storage capacity constructed and taken over during 2010-11 to 2015-16 is depicted in the Chart 4.1:

Chart 4.1: Storage capacity constructed and taken over



It may be seen that the pace of implementation of scheme was negligible in XI plan and it improved during 2012-13 and 2013-14, resulting in godowns being taken over after a delay of two to seven years since the introduction of the scheme. The delay in construction of godowns under the scheme was primarily attributable to delays in award of contract for construction of godowns to PEs. Audit observed that the reasons for delay in award of contracts were frequent changes regarding storage capacity required, changes in guarantee period first from five to seven years and then to ten years due to poor PE response and delay in identification of district-wise storage needs. These factors led to delays in implementation ranging from five to seven years.

4.2.2 Continued storage of central pool wheat stock at Covered and Plinth (CAP)[35]/Kacha Plinth due to delays in storage capacity creation

The PEG Scheme 2008 was launched to enhance covered storage capacities as the CAP/Kacha storage is prone to damage and deterioration of stock and is not an optimum storage method. However, as on 31 March 2016 in Punjab, 53.56 LMT of wheat stock was lying in CAP/Kacha Plinth/Mandi with SGAs/FCI and 4.72 LMT of wheat valuing ₹ 700.30 crore got deteriorated which was declared as non-issuable to TPDS (March 2016) as it was stored in open areas.

Delays in implementation of the PEG scheme resulted in huge stock of wheat being kept in CAP/Kacha plinth by State Agencies/FCI. Such stock increased from 103.36 LMT in 2011-12 to 132.68 LMT in 2012-13; it was only from 2013-14 onwards that it started decreasing after taking over of the godowns under the scheme. The total covered storage capacity increased from 73.84 LMT (2011-12) to 102.29 LMT (2015-16). The FCI hired storage capacity was at a peak at 52.48 LMT in 2012-13 which decreased in 2015-16 to 39.26 LMT due to dehiring of existing godowns by FCI.

Audit noticed in the two selected districts at Sangrur and Faridkot that capacity of only 12.94 LMT was taken over under PEG Scheme even though the central pool wheat stock with FCI/State Agencies lying in open/kacha plinth was much higher at 14.40 LMT valuing ₹ 2,413.04 crore[36] at the end of RMS (Rabi Marketing Season) 2015 (30 June 2015). Moreover, despite huge quantities of wheat lying unprotected in CAP/kacha plinth a capacity of six LMT was dehired by FCI during the period September 2012 to March 2016 in these districts. Thus, in both these districts, a significant quantity was lying in CAP/kacha plinths, exposed to the vagaries of weather.

Audit found that while on one hand FCI was taking over the storage capacity under PEG scheme but at the same time it de-hired its existing hired capacity of PSWC[37] even though large quantity of central pool wheat stock was being stacked in CAP/Kacha plinth rendering it vulnerable to deterioration due to conditions such as rains, rodent, birds etc.

4.3 Implementation of Scheme

4.3.1 Award of contracts to ineligible private entrepreneurs

Clause 17 of PEG Scheme 2008 provided clear specifications for construction of godowns and these specifications were to be part of tender document. The clause K of Schedule I of Model Tender Form (MTF) for godowns hired under 10 year guarantee scheme prescribed the requirement of land for construction of conventional type storage godown as:

a) First 5,000 MT Capacity = 2.0 acres;
b) Further 1.7 acres additional land will be required for every increase of 5,000 MT capacity.

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[35] Covered and Plinth refers to the outdoor stacks of bagged grain, which is covered with some waterproof material.
[36] Calculated on the basis of acquisition cost of wheat (₹ 16,757.20 per MT) in the Punjab for the year 2014-15.
[37] Punjab State Warehousing Corporation.

Audit noticed in four selected districts that out of capacity of 17.11 LMT constructed under PEG Scheme, 1.35 LMT (7 godowns) hired under seven and ten years guarantee scheme were constructed by PEs on plots which were short of area ranging between 0.17 acre to 0.83 acre than the specified area. Construction of godowns on undersized plot of land is a major deviation which not only affects the operational activities and quality of storage of food grains but is also in violation of the minimum laid down requirement of land, which was a prerequisite for qualifying in technical evaluation of bids. Moreover, these cases were not even put up to the HLC by FCI for appropriate penal action for deviating from the conditions of MTF. As these bidders did not fulfil the prerequisite conditions laid down in MTF, the award of contracts for construction of these godowns to ineligible bidders was irregular. As the FCI paid an amount of ₹ 21.04 crore as rent to these PEs during the period 2012-13 to 2015-16 undue benefit was passed on to the PEs who were *ab initio* ineligible for the award of contract.

4.3.2 Construction of godown in contravention of conditions laid down in PEG Scheme and MTF

Clause 11.1 of PEG Scheme 2008 and clause 23 of MTF provided that all godowns of 25,000 MTs or above capacity will preferably be Railway siding godowns. Audit noticed that 18 godowns of more than 25,000 MT each (with an aggregate capacity of 10.68 LMT) were taken over even though they were not constructed at railway sidings. Takeover of godowns without railway siding resulted in two additional labour operations viz. unloading and stacking in godown and further destacking and loading into trucks for onwards movement towards railhead. Hiring of godowns (above 25,000 MT) at sites without railway siding would cause recurring financial burden on FCI due to additional loading and unloading operation till conclusion of the contract. The financial implication of extra handling cost was ₹ 9.77 crore during 2012-13 to 2015-16.

4.3.3 Extra expenditure due to incorrect measurement of distance of godowns from railheads

In terms of PEG Scheme, PEs were to specify the distance of the godown from the railhead which constituted an important factor for evaluating the financial bid and award of contract by HLC. As per records, the godowns were taken over by FCI after inspection by a committee of officers of FCI. However, it was noticed in Audit that in 74 *per cent* cases the actual distance of the godowns from the railhead was different from what was specified by PEs in the bid documents. Out of 154 godowns taken over under PEG scheme, excess distance ranged from + 0.1 km to +7.1 km in respect of 114 godowns. The committee which performed the physical inspection before taking over the godowns did not diligently measure the actual distance. Due to wrong measurement of distance by PUNGRAIN and FCI at the initial stage, FCI had to pay more for the transportation for the excess distance and incurred excess expenditure of ₹ 8.36 crore[38] as given in the following Table 4.2:

[38] ***Calculated at the rate of seven paisa per quintal per km, as per normalizing factor stipulated in the MTF.***

Table 4.2: Statement showing payment of transportation for the excess distance

(₹in crore)

Name of scheme	Total godowns	Godown having distance variation	Range of distance variance (km)[39]	Excess payment due to distance variation
1	2	3	4	5
10 years guarantee	97	69	0.1 to 7.1	5.26
7 years guarantee	57	45	0.5 to 3.9	3.10
Total	**154**	**114**	**0.1 to 7.1**	**8.36**

Later (October 2015/January 2016) the variation in distance from godown to railhead was reassessed by the Regional office committee and financial impact due to change in the distance was worked out in respect of those godowns where distance was beyond eight km and deduction in rent was imposed for that part of distance. Though recovery of ₹ three crore in respect of 46 godowns (which were beyond eight km) was imposed for the period 2012-13 to 2015-16, but no recovery was imposed in respect of those cases where other discrepancies were noted and the overall distance was within eight km. The remaining amount of ₹ 5.36 crore was still recoverable from the PEs.

4.3.4 Deficient clause for payment of Service Tax

As per Modal Tender Form (MTF) for inviting tender under PEG (Private Entrepreneurs Guarantee) scheme, the rate for storage charges/rent was inclusive of the element of service tax. However, the MTF did not specify either the procedure for ensuring payment of service tax by PEs to the authorities concerned or requirement of production of documentary evidence to FCI. Audit further noticed that the agreement executed between FCI and PUNGRAIN, did not include the clause that rent was inclusive of service tax.

During scrutiny of records in three district offices of Faridkot, Moga and Sangrur it was noticed that capacity of 2,63,900 MT under the seven year guarantee scheme was taken over by FCI through PUNGRAIN. Godown rent ranging from ₹ 124.17 lakh per month to ₹ 127.71 lakh per month (inclusive of service tax) was paid to PUNGRAIN during the period August 2012 to March 2016. However, the godown rent was released to PUNGRAIN without obtaining any supporting documents for payment of service tax of ₹ six crore by the PEs to the concerned taxation authority.

Regional Office, FCI, Punjab stated (October 2016) that the rent was paid to private investors by FCI through PUNGRAIN inclusive of service tax and it was for PUNGRAIN to ensure that such deposit was made by the private entrepreneur to the concerned tax authorities. The Management also referred the issue of service tax to PUNGRAIN (July 2016) to ensure that service tax obligation was met by the entrepreneur. Reply/action taken by PUNGRAIN was awaited (December 2016).

Not insisting on proof of payment for service tax before release of full payment was an obvious control weakness.

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[39] *Calculations based on actual difference in cases of each godown.*

4.3.5 Avoidable payment of supervision charges to PUNGRAIN in contravention of scheme

According to terms of PEG scheme, godowns hired by PUNGRAIN for FCI from PEs were of two kind viz. lease only and lease with services. There were three components of charges payables under the scheme as under:

Component A – Rental for godowns;
Component B – Preservation, Maintenance and Security (PMS); and
Component C –Supervision Charges.

For Lease with Services godowns the charges for component 'A' and 'B' were to be paid via PUNGRAIN to the PEs whereas the supervision charges were retained by PUNGRAIN. For the Lease only godowns, only component 'A' was payable through PUNGRAIN to PEs while component 'B' and 'C' were retained by PUNGRAIN. While the PMS charges were fixed in October 2010 at the rate of ₹ 1.60 per quintal per month, the supervision charges were to be calculated at the rate of 15 *per cent* of the amount of rent being paid to the PEs.

Audit observed that FCI paid supervision charges to PUNGRAIN at 15 *per cent* of the composite rate (Rent *plus* PMS). This was apparently based on the decision of the BOD in January 2010. However, this decision of BOD was contradictory to the extant provision contained in the scheme approved by GoI whereby 15 *per cent* was to be calculated only on the rent amount. No reasons for such deviation were found on records.

Audit observed in selected four DOs at Faridkot, Kapurthala, Moga and Sangrur that for 6.12 LMT capacity on Lease and Services basis under PEG Scheme, FCI released payment to PUNGRAIN on account of supervision charges based on incorrect calculations resulting in extra expenditure to the tune of ₹ 3.30 crore.

4.3.6 Non-exclusion of service tax from godown rent for payment of supervision charges

The MTF for inviting tender under PEG scheme for construction of godown for FCI under seven years guarantee scheme stipulated that rate for storage charges/rent will be inclusive of the element of service tax in financial bid. Further, clause 1 of agreement of guarantee between FCI and PUNGRAIN stipulated that FCI will make such payment of storage charges to PUNGRAIN on the basis of payment made by them to PEs for renting of godowns and expenses on food grains, preservation, security (pre-determined by FCI) along with 15 *per cent* supervision charges on godown rent. Clause 5.4 of agreement of guarantee between FCI and PUNGRAIN also stipulated that all the terms and conditions laid down in the scheme for construction of godown for FCI-Storage requirement through PEs shall be part of this guarantee.

Audit observed that the rate quoted by the PEs were inclusive of service tax. Accordingly, the supervision charges at the rate of 15 *per cent* were payable to PUNGRAIN which were to be worked out by reducing the element of service tax from the godown rent.

However, it was noticed in audit that three district offices[40]of FCI paid supervision charges to PUNGRAIN at the rate of 15 *per cent* of godown rent without reducing the service tax element. An inadmissible payment of ₹ 90.06 lakh on account of supervision charges had been made to PUNGRAIN in respect of 21 godowns in Faridkot, Moga and Sangrur District Offices during August 2012 to March 2016.

4.4 Operational Issues

4.4.1 Avoidable expenditure on storage charges and carry over charges

FCI as well as State Government Agencies (SGAs) procure wheat from mandis for Central Pool. As per the standing instructions issued by the GoI, the SGAs are required to deliver wheat to central pool immediately after its procurement unless FCI is unable to accept it for reasons which are to be conveyed in writing. Carry over charges (storage charges and interest) beyond 30 June each year shall be payable to SGAs only on that quantity which FCI refuses to accept before 30 June each year.

Audit observed in four selected DOs that 714740 MT of wheat was short delivered by SGAs up to the cut off date of 30 June during the respective wheat procurement seasons 2013-14 to 2015-16.

Audit observed that due to shortfall in direct delivery of wheat, capacity of owned/hired godowns remained unutilised from July to October (up to next procurement season). However rent was paid for such godowns and FCI incurred storage charges of ₹ 14.29 crore (at the rate ₹ 67.60 per MT per month on hired space) for four months in respect of hired capacity which remained unutilized due to short delivery of wheat by SGAs to FCI.

Audit also observed that though the quantity of 7.15 LMT was short delivered by SGAs, FCI still paid avoidable storage and interest charges to the tune of ₹ 54.33 crore in respect of this stock beyond 30 June which was kept with the SGAs.

4.4.2 Non recovery of abnormal storage loss at economic cost

As per para 9.2 of PEG Scheme, the responsibility of maintenance of godowns would lie with the CWC/SWC to whom supervision charges will be payable. Clause 4 of the Agreement between PUNGRAIN and FCI in respect of godowns hired under PEG scheme provided that if the storage loss is beyond the permissible limit as per FCI norms, PUNGRAIN shall be responsible for the same and recoveries for such unjustified losses shall be affected from it by FCI. In addition, it was also stipulated that PUNGRAIN shall be fully responsible for any loss caused to the stock of FCI while in its custody on account of pilferage, theft or misappropriation for which recoveries will be made from it at economic costs[41] of the relevant year in which such misappropriation/theft took place.

Test check of 153 cases of abnormal storage loss[42]of FCI Punjab Region, revealed storage loss of 1,824.84 MT rice valuing ₹ 45.79 crore in PEG godowns during 2013-14 to 2015-16, out of which abnormal/unjustified storage losses of 538.66 MTs (29.52 *per*

[40] ***Faridkot, Moga and Sangrur.***
[41] ***Cost of grain plus Procurement Incidentals = Acquisition Cost; and Acquisition cost plus Distribution Cost =Economic Cost.***
[42] ***Loss in weight beyond the prescribed norms of storage loss fixed by Government of India.***

cent) of rice worth ₹ 16.96 crore were observed. However, recovery of only ₹ 13.55 crore at standard rate[43]on account of abnormal storage loss in rice from defaulting agencies was made resulting in short recovery of abnormal storage loss amounting to ₹ 3.41 crore.

Audit noticed that FCI made recovery on the basis of standard cost as against the required economic cost. As the standard rate only included procurement cost *plus* incidental expenses while economic cost also included other important elements such as administrative overheads, storage charges, handling charges etc., the amount of abnormal shortage was short recovered to the extent of ₹ 3.41 crore due to incorrect application of standard rate of recovery instead of economic rate.

4.4.3 Improper planning in taking over of godown

Clause 31 of the PEG scheme provided that FCI will have freedom to choose a date of taking over the godown within six months of the completion of the godown and the guarantee period will start from the date of taking over the godown. Audit noticed that District Office, FCI, Ferozepur took over the capacity of 2.91 LMT on guarantee basis under PEG Scheme at the end/after close of RMS 2012-13. As the PEG godowns were not being utilized on account of takeover of godown at the end of the season, FCI shifted 1,79,715 MT of stock from SGAs godown to PEG godowns to utilize the PEG godowns and DO, FCI Ferozepur incurred an expenditure of ₹ 1.65 crore towards transportation of food grains. This was completely unnecessary as the grains were stored in SGAs godown for which FCI was already paying rental.

Similarly, SSB Warehousing Complex godown of 36,307 MT capacity was taken over by DO, FCI, Kapurthala on guarantee basis on 25 June 2015 i.e. almost at the end of RMS 2015-16. Utilization of godown from July 2015 to December 2015 remained very low between 13 *per cent* and 46 *per cent*. During this period FCI paid ₹ 85.62 lakh towards rent, PMS and supervision charges. Audit observed that as per Clause 31 of PEG Scheme, takeover of godown could have been postponed till the end of December 2015. Thus taking over of godown at the end of RMS 2015-16 resulted in suboptimal utilization of godown and avoidable expenditure of ₹ 85.62 lakh towards rent, PMS and supervision charges.

RO, FCI, Punjab stated (October 2016) that as per Clause 31 of the MTF, PUNGRAIN, after satisfying itself that the godown had been completed as per specification and terms and conditions of the contract, will take over the godown within one month of completion of the godown in all respects and the guarantee period will start from the date of taking over of the godown. Since, the work of construction of this godown was awarded on 2 June 2014 and the godown was completed on 25 May 2015, therefore the godown was taken over within one month from the date of its completion as per the provisions of MTF.

Reply of the Management is not acceptable, as Clause 31 of PEG Scheme clearly stipulates that FCI will have freedom to choose the date of taking over of godown within *six* months of completion of godown, a provision which was not availed which led to

[43] ***Average Acquisition Cost.***

excess expenditure of ₹ 85.62 lakh towards rent, PMS and supervision charges from July 2015 to December 2015.

4.4.4 Non recovery for short supply of wooden crates in godowns

Preservation arrangement in godowns include stacking of stock on wooden crates, as wooden crates keep the stock five inches high from the floor and provide constant circulation of air under the bags. Further, in case of any leakage in the godown, it protects the lower layer of the stacks from damage which otherwise could become unfit for human consumption. As per specification laid down in MTF, 2,880 wooden crates were required in a godown having capacity of 10,000 MT.

Audit noticed that a godown constructed by M/s MK Stores, Malerkotla having capacity of 42,650 MTs in Sangrur District was taken over on 29 January 2013. As per specification laid down in MTF, 12,284 wooden crates were to be provided by the PUNGRAIN against which only 2,300 wooden crates were provided thereby resulting in short supply of 9,984 wooden crates. Similarly, capacity of 2.41 LMT in 12 godowns was taken over in DO Faridkot under PEG Scheme and the godowns were taken over with shortfall of wooden crates required under the provisions of MTF. Based on the rate of recovery of ₹ 0.37 per quintal per month approved by BOD in case of non-provision of wooden crates, the amount on account of short supply of wooden crates for the period February 2013 to May 2016 worked out to ₹ 55.48 lakh which needed to be recovered from PUNGRAIN.

The observations were issued to the Ministry in September 2016; reply was awaited (February 2017).

4.5 Conclusion

The implementation of the PEG scheme was negligible in the initial years and even after seven years, full capacity had not been taken over. The operation of the scheme also suffered from various lacunae such as payment of service tax to private parties without ensuring its remittance to Government, variation in distance from godown to railheads, award of contracts to ineligible bidders and improper utilisation of owned/hired storage space.

4.6 Recommendations

We recommend that,

(i) The remaining storage capacity may be expeditiously taken over while complying with the provisions, specially related to plot size of godown and distance from railhead.

(ii) FCI should implement appropriate controls to ensure that all statutory taxes/dues are paid by the PEs before payment is released for those services.

(iii) The storage requirement needs to be reviewed from time to time to have a realistic assessment based on stock position lying in CAP/Open and Kacha plinths.

(iv) FCI should recover the excess payment made under this scheme from PUNGRAIN/ PEs.


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**

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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).

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

New Delhi
Dated: 05 June 2017

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
Dated: 06 June 2017

List of Abbreviations

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Sl. No.	Term used in Report	Description
	A	
1.	ASWC	Assam State Warehousing Corporation
	B	
2.	BOD	Board of Directors
	C	
3.	C&AG	Comptroller and Auditor General of India
4.	CAP	Covered and Plinth
5.	CC	Cash Credit
6.	CCEA	Cabinet Committee of Economic Affairs
7.	CCTV	Closed Circuit Television
8.	CDA	Central Dearness Allowance
9.	CIP	Central Issue Price
10.	CMD	Chairman & Managing Director
11.	CMR	Custom Milled Rice
12.	CPF	Contributory Provident Fund
13.	CPI	Consumer Price Index
14.	CPSEs	Central Public Sector Enterprises
	D	
15.	DA	Dearness Allowance
16.	DCP	Decentralised Procurement
17.	DGS&D	Director General of Supplies and Disposals
18.	DO	District Office
19.	DPC	Delhi Productivity Council
20.	DPS	Direct Payment Labour System
	E	
21.	ED	Executive Director
22.	EPF	Employee Provident Fund
	F	
23.	FAP	Financial Accounting Package
24.	FCI	Food Corporation of India
25.	FSD	Food Storage Depot
	G	
26.	GM	General Manager
27.	GoI	Government of India
	H	
28.	HDPE	High Density Polyethylene
29.	HLC	High Level Committee
30.	HRA	House Rent Allowance
	I	
31.	IDA	Industrial Dearness Allowance
32.	ILO	Industrial Labour Organization
33.	ITC	Input Tax Credit

	K	
34.	km	Kilometre
35.	KMS	Kharif Marketing Season
	L	
36.	LMT	Lakh Metric Tonne
	M	
37.	MEA	Ministry of External Affairs
38.	MGWs	Minimum Guaranteed Wages
39.	MOCAF&PD	Ministry of Consumer Affairs, Food and Public Distribution
40.	MoF	Ministry of Finance
41.	MoHRD	Ministry of Human Resources Development
42.	MoL&E	Ministry of Labour & Employment
43.	MoRD	Ministry of Rural Development
44.	MoS	Memorandum of Settlement
45.	MOU	Memorandum of Understanding
46.	MSA	Monthly Stock Statement
47.	MSP	Minimum Support Price
48.	MT	Metric Tonne
49.	MTF	Model Tender Form
	N	
50.	NABARD	National Bank for Agriculture and Rural Development
51.	NEF	North East Frontier
52.	NFSA	National Food Security Act
53.	NWNP	No Work No Pay
	O	
54.	OMSS	Open Market Sale Scheme
55.	OTA	Over Time Allowance
56.	OWS	Other Welfare Schemes
	P	
57.	PDS	Public Distribution System
58.	PE	Private Entrepreneurs
59.	PEG	Private Entrepreneurs Guarantee Scheme
60.	PLI	Productivity Linked Incentive
61.	PMS	Preservation, Maintenance and Security
62.	PSU	Public Sector Undertaking
63.	PSWC	Punjab State Warehousing Corporation
64.	PUNGRAIN	Punjab State Grains Procurement Corporation Ltd
	R	
65.	RH	Railhead
66.	RMS	Rabi Marketing Season
67.	RO	Regional Office
68.	RTC	Road Transport Contractor
	S	
69.	SBI	State Bank of India
70.	SDE	M/s Sehee Donyi Enterprises

71.	SGA	State Government & Agencies
72.	SGAs	State Government Agencies
73.	STLs	Short Term Loans
74.	SWC	State Warehousing Corporation
	T	
75.	TDS	Tax Deducted at Source
76.	TIN	Taxpayer Identification Number
77.	TPDS	Targeted Public Distribution System
	U	
78.	UP	Uttar Pradesh
79.	URS	Under Relaxed Specifications
	V	
80.	VAT	Value Added Tax
	Z	
81.	ZCC	Zonal Cash Credit
82.	ZO	Zonal Office