



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 (PDS¹);
- 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 eight² Directors.

FCI carries out its functions through a country-wide network of offices with Headquarters at Delhi, five zonal³ 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.

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 millers⁴. 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)

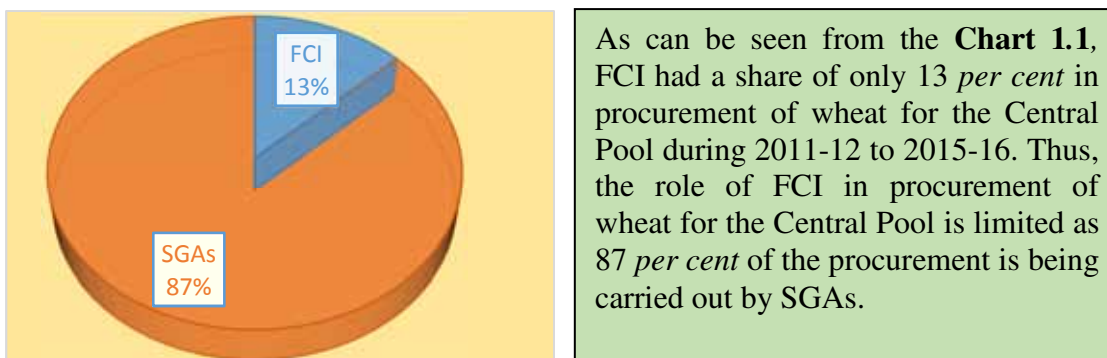
| Rabi Marketing season | Production | Mandi arrival | Procurement | | |
|-----------------------|-----------------|-----------------|---------------|-----------------|-----------------|
| | | | FCI | SGAs | Total |
| (1) | (2) | (3) | (4) | (5) | (6)=(4)+(5) |
| 2011-12 | 939.03 | 324.62 | 39.74 | 243.61 | 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



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 paddy⁵ for the Central Pool by FCI and State Government Agencies

(LMT)

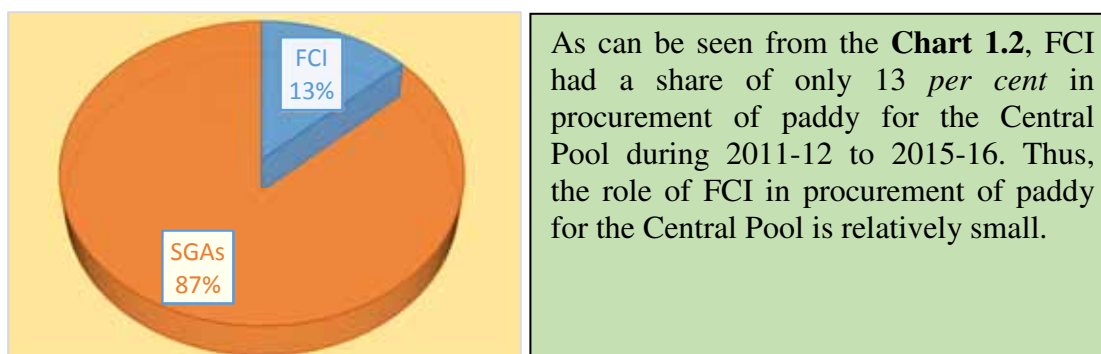
| Kharif Marketing Season | Production | Mandi arrival | Procurement | | |
|-------------------------|-----------------|-----------------|---------------|-----------------|-----------------|
| | | | FCI | SGAs | Total |
| (1) | (2) | (3) | (4) | (5) | (6)=(4)+(5) |
| 2011-12 | 1,043.20 | 375.20 | 91.10 | 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



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

| Year | FCI | | | | | | Total FCI (LMT) |
|---------|---------|--------|-------------|--------------------------------------|-------|-------------|--------------------|
| | 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)

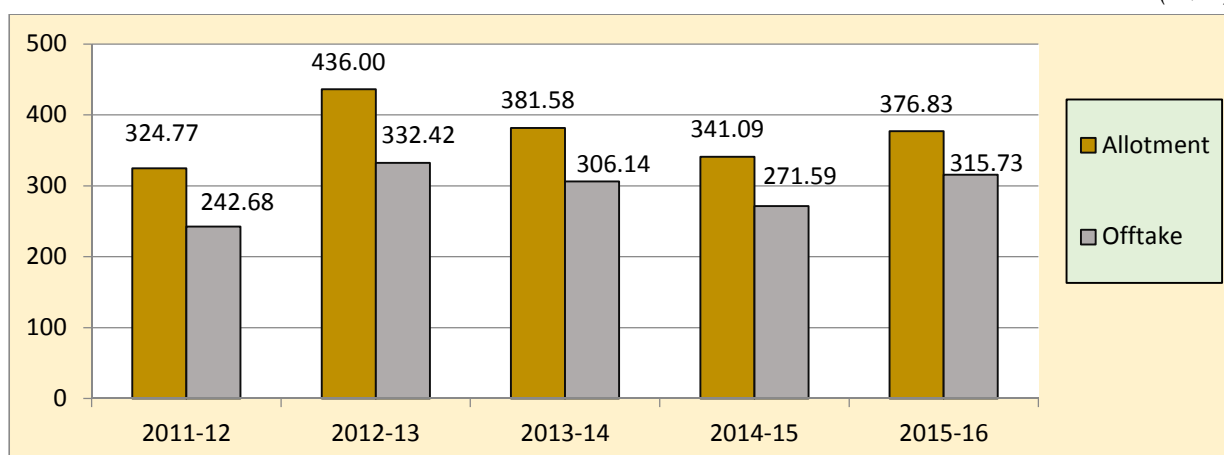
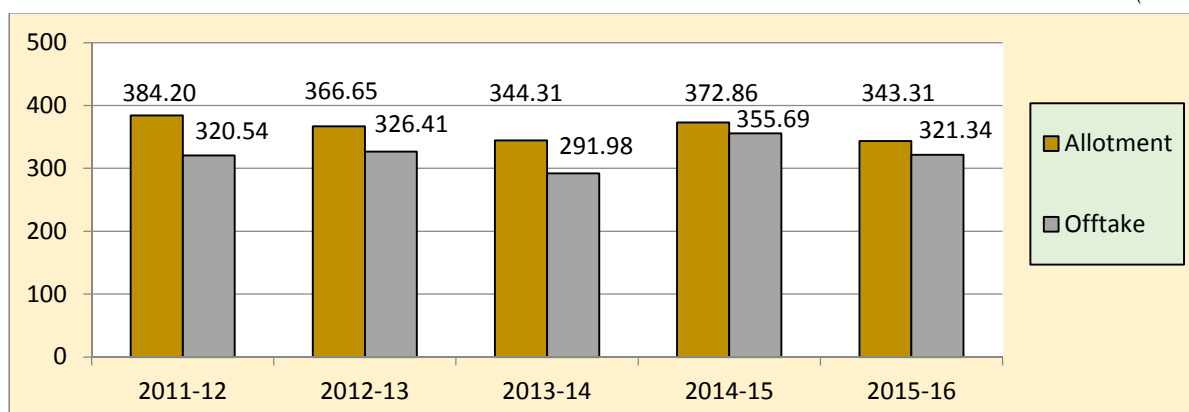


Chart 1.4: Allocation and Off-take of rice during 2011-12 to 2015-16

(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 reimbursement | 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 Sampoon 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.

