

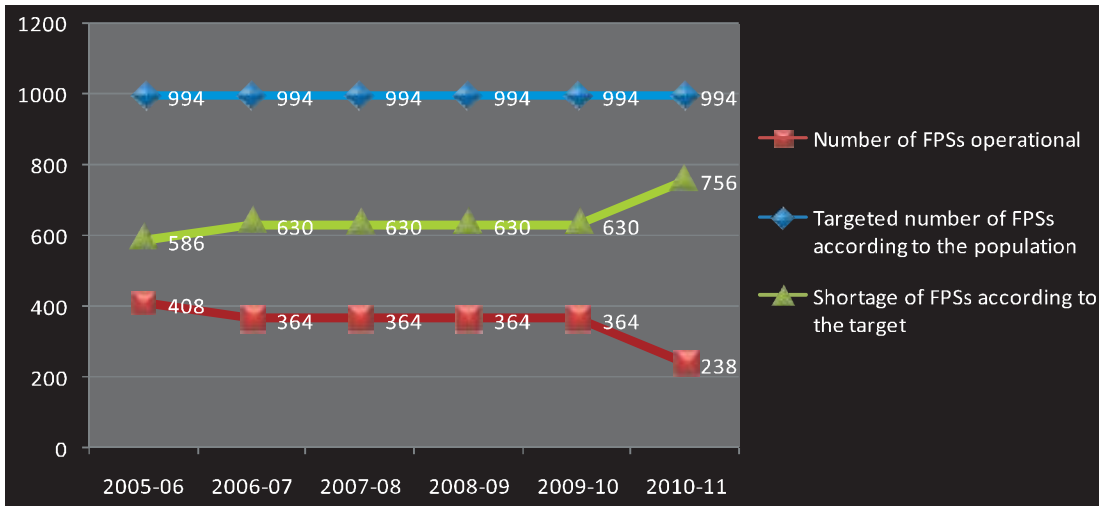
## Chapter 6 Fair Price Shops (FPS)

Fair Price Shop is a shop licensed by an order issued under Section 3 of the PDS Act, to distribute essential commodities to the ration card holders under the PDS owned by either a person or Co-operative Society or Corporation or a Company of a State Government or a Village Council or any other body. FPS should cover a minimum population of 600 and a maximum of 2000 in rural and urban areas which should be certified by the local administration. The factors such as financial background of the applicant/Society/ Corporation should be considered before approval for opening of the FPS.

It is the responsibility of the FPS to sell essential commodities as per the entitlements of ration card holders at the retail issue price fixed by the GOI or GON and also maintain necessary documents of ration card holders, stock registers, issue and sale registers and to redress the grievances of the beneficiaries pertaining to the quantity and quality of essential commodities being issued under PDS. The FPS is required to furnish UC to the Department with a copy to the Village Council showing the actual distribution of essential commodities and the stock balance at the end of each month. A Vigilance Committee is also required to be constituted in each village to ensure smooth functioning of PDS and to take up redressal of grievances related with it.

The status of FPS functioning in the State during the last six years is as detailed below:

Chart-6.1



It can be seen from the graphical representation that the number of FPS operational in the entire State was much less than the norms/target fixed by GON. The shortage of FPS in the State ranged from 59 to 76 *per cent* during 2005 to 2011.

The position of shortage in the four test checked districts ranged from 19 per cent to 75 per cent during 2005-11. The maximum number of shortage of FPS was noticed in Tuensang district having a population of 414807 at an average shortage of 73 *per cent* throughout the period of six years.

The Department replied (December 2011) that all the Village Councils have the status of FPS to provide foodgrains in the villages and the numbers of Village Councils functioning as FPS was not reflected in their administrative reports, which will be rectified by incorporating the same in future.

### **6.1 Operation of non-viable FPS**

Out of 174 functional FPS as of March 2010 in the four test-checked districts, GON renewed and approved only 99 FPSs during 2010-11 and others were closed due to non-viability. Audit covered 24 FPS (24 percentage) out of the renewed and functional FPS covering 22579 cardholders (BPL-7709, AAY-6919, Annapurna- 1270, and APL- 6681).

- Scrutiny of records of test-checked FPS disclosed that 7 FPS out of 57 under Dimapur district were not functioning from 2006-07 to 2009-10 which was also reported by the village authorities. This indicates that FPSs were approved without ascertaining the necessity of the same. Due to lack of monitoring, the Department also failed to ensure that the approved FPSs were functional.

According to GON order (March 1999), all the FPS shall maintain separate registers for APL and BPL regarding (i) number of ration card holders allotted to the FPS mentioning ration card number, name of ration card holders, full address, number of family members indicating the number of adults and minors etc., (ii) stock ledger commodity-wise, (iii) issue register showing ration card number, name of ration card holder, commodity and quantity issued, signature or thumb impression of the recipient. The FPS were also required to display a signboard indicating the name of FPS dealer, FPS license number, location etc. at a conspicuous place in front of the FPS outlet. Similarly, a citizen charter showing the name of commodities, price etc. should be displayed inside the FPS outlet at a prominent place. FPS Committees should also be formed to monitor the functioning of the FPSs.

- Physical verification (June-July 2011) of 24 FPS revealed that only stock/sale register was maintained and no signboards were displayed in the FPSs indicating the required information. The Department also did not form FPS Committees to monitor the functioning of the FPSs. The details of receipt and utilisation of the commodities sold through the FPSs were neither maintained nor reported to the Department. Hence, the actual receipt and issue of the commodities could not be ascertained and verified at the FPS. Further, viability of 24 test checked FPSs could not be assessed in audit.

- FPS commission at the rate of ₹15 per quintal is admissible to the FPS owners while distributing AAY and BPL foodgrains. However, 5 FPS<sup>15</sup> in Tuensang district received and distributed foodgrains ranging from 10 to 25 quintals per month against their average entitlement of 64 to 125 quintals per month under AAY and BPL category. Thus, due to less allotment of foodgrains to the FPS, the owners of this FPS earned commission in the range of ₹150 to ₹375 per month rendering the FPS non-viable and the prospect of diverting foodgrains to open market cannot be ruled out.

The Department in reply (December 2011) stated that correct procedures will be followed from the current year.

### **6.2 Procurement of BPL/AAY foodgrains at non-subsidised rate by FPS owners**

Physical verification of 6 operational FPS test checked in Tuensang district revealed that the PDS foodgrains were procured at higher rate than GOI/GON notified rate by the FPS from the Department authorised stockist. Instances are detailed below:

**Table No. 6.1**

Name of the FPS	Name of the block	No. of BPL/AAY beneficiaries	Category of targeted group	Qty of rice procured for PDS (MT)	Rate per MT approved by GOI/GON (In ₹)	Cost of commodity paid to Deptt/Sub Stockist (₹ per MT)	Extra burden to the FPS owners (In lakh of ₹)
M/s Hatho	Noklak	215	AAY	3.2	3000	4150	0.037
M/s Thangio	Noklak	45	AAY	3.2	3000	4150	0.037
M/s P Muno	Noklak	83	AAY	3.2	3000	4150	0.037
Tuensang VC	Tuensang	358	BPL	134	6150	7000	1.14
<b>TOTAL</b>		<b>701</b>		<b>143.6</b>			<b>1.251</b>

(Source: Departmental records and FPS records)

As could be seen from above, against the approved rate of ₹3000 per MT rice, the FPS procured the rice from the Department authorised stockist at ₹4150 per MT which is 38 per cent higher than the notified rate of AAY. In respect of BPL, against the approved rate of ₹6150 per MT, the FPS procured the rice at ₹7000 per MT representing 14 per cent increase over the approved rate. The Department did not monitor the pricing pattern of foodgrains sold at stockist level and this had put extra burden on the beneficiaries.

The Department stated that (December 2011) as per Assistant Director of Supplies, Tuensang, the food grains were delivered to the FPS at the Govt. approved rate. The reply is however, not tenable as the FPSs and Village Council had categorically stated that they have procured the commodities at the price mentioned above.

<sup>15</sup> Hatho FPS, Thangio FPS, Muno PFS, Mure FPS and Pongsang FPS at Tuensang.

**6.3 Sale of foodgrains above the rate fixed by GOI/GON**

As discussed in the preceding paragraph, the FPS procured foodgrains at higher rate than the Government notified rate during 2005-10. The FPS in turn sold to the beneficiaries at higher rate putting extra burden on the beneficiaries. Instances are detailed in the table below:

**Table No. 6.2**

Name of the FPS	Name of the block	No. of BPL/AAAY beneficiaries	Category of targeted group	Qty of rice sold (MT)	Rate approved by GOI/GON(MT)	Selling price of the FPS owner (MT)	extra burden on consumers (In lakh of ₹)
M/s M Pongsang	Thonokhnyu	149	BPL	60	6150	8000	1.11
M/s Mure	Tuensang HQ	106	BPL	168	6150	6400	0.42
M/s Mure	Tuensang HQ	79	AAAY	62.4	3000	3400	0.25
M/s Tsikhase	Tuensang HQ	79	BPL	168	6150	6400	0.42
M/s Tsikhase	Tuensang HQ	79	AAAY	62.4	3000	3400	0.25
M/s Hatho	Noklak	50	BPL	8.16	6150	8000	0.15
M/s Hatho	Noklak	215	AAAY	3.2	3000	7000	0.13
M/s Thangio	Noklak	138	BPL	8.16	6150	8000	0.15
M/s Thangio	Noklak	45	AAAY	3.2	3000	7000	0.13
M/s P Muno	Noklak	226	BPL	8.16	6150	8000	0.15
M/s P Muno	Noklak	83	AAAY	3.2	3000	7000	0.13
<b>Total</b>		<b>1249</b>		<b>554.88</b>			<b>3.29</b>

(Source: Departmental records and FPS records)

As could be seen from the table, the FPS sold the foodgrains to the beneficiaries at higher rate ranging from 4 per cent to 30 per cent in respect of BPL and 14 per cent to 113 per cent in respect of AAAY putting extra burden on the beneficiaries.

On this being pointed out by Audit (October 2010), the FPS owners reduced the consumer end retail price in respect of foodgrains from 2010-11 onwards. However, the rates fixed by them were still higher than the subsidised rate fixed by GOI/GON which is detailed below:

**Table No. 6.3**

Name of the FPS	Name of the block	No. of BPL/AAAY beneficiaries	Category of targeted group	Qty of rice sold (MT) during 2010-11	Rate approved by GOI/GON(MT)	Selling price of the FPS owner (MT)	Extra burden on consumers (In lakh of Rupees)
M/s M Pongsang	Thonokhnyu	149	BPL (R)	89.4	6150	7500	1.21
M/s Mure	Tuensang HQ	106	BPL(R)	41.75	6150	6400	0.10
M/s Mure	Tuensang HQ	79	AAAY(R)	26.4	3000	3250	0.07
M/s Tsikhase	Tuensang HQ	79	BPL(R)	40.9	6150	6400	0.10
M/s Tsikhase	Tuensang HQ	79	AAAY(R)	13.68	3000	3250	0.03
M/s Hatho	Noklak	50	BPL(R)	52.4	6150	7500	0.71
M/s Hatho	Noklak	215	AAAY(R)	41.38	3000	3500	0.21
M/s Thangio	Noklak	138	BPL(R)	51.2	6150	7500	0.70
M/s Thangio	Noklak	45	AAAY(R)	41.38	3000	3500	0.21
M/s P Muno	Noklak	226	BPL(R)	52.4	6150	7500	0.71
M/s P Muno	Noklak	83	AAAY(R)	41.38	3000	3500	0.21
<b>Total</b>		<b>1249</b>		<b>492.27</b>			<b>4.26</b>

(Source: Departmental records and FPS records)

Non-compliance with the notified rate by the FPS had put an extra burden of ₹7.55 lakh (₹3.29 lakh + ₹4.26 lakh) on the beneficiaries during the period from 2005-11. Thus, the objective of the scheme to provide foodgrains at subsidised rate was defeated. This also indicates lack of monitoring and control over the FPS.

While accepting the facts (December 2011) the Department stated that directives have now been issued to strictly adhere to the pricing pattern.

#### **6.4 FPS Commission**

The FPS owners were entitled to FPS commission @ ₹15 per quintal on production of UCs showing foodgrains sold through them. The retail price of ₹6.15 per Kg in respect of BPL foodgrains includes FPS commission and in the case of AAY, the commission was to be reimbursed to the stockists/sub-stockists on receipt of UCs by the Department. As the FPSs failed to submit the UCs to the Department, no commission was paid to them.

In reply to audit query (October 2010), three out of 24 FPS stated that the commission of ₹6.95 lakh were not received from the Department on the sale of 46340<sup>16</sup> quintals of AAY foodgrains during the period covered in audit. As a result, they had to enhance the retail price and also put an extra burden as discussed in the preceding paragraphs.

The Department stated (July 2010) that the matter is under departmental enquiry and in December 2011 stated that the commission had been cleared upto June 2010.

#### **6.5 Non-functional Vigilance committees and surprise inspection of FPS**

The PDS Control order envisage for creation of Vigilance Committees at the State, District and FPS level to review the overall functioning of TPDS in the State on a quarterly basis. The Vigilance Committees at all the levels were constituted in November 2009 but the Committees did not conduct any review of TPDS till March 2011.

The State Area Officer required to be appointed by the Union Ministry to conduct surprise checks on the functioning of TPDS was appointed in the State only in April 2011.

The Department also appointed 45 Inspectors/Sub-Inspectors to conduct surprise check of FPS in the State. However, the Department did not frame any guidelines regarding the performance, reporting and corrective measures to be followed by the Inspectors to conduct surprise inspection of FPS in consultation with the Vigilance Committees constituted at the FPS/District level. The Department carried out 12 surprise inspections during 2005-10 in four test checked districts. After this was pointed out in audit, the Department stated (October 2010) that efforts were being made to activate the Vigilance Committees at all levels to monitor the performance of PDS.

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<sup>16</sup> M/S, Hatho FPS-9006 quintals ; M/S. Mure FPS-32565 quintals and M/S Pongsang FPS-4769 quintals

During 2010-11 the Department carried out 224 surprise inspections. However, all the surprise inspection reports during the period covered in audit contain a NIL report indicating that the surprise inspections were carried out only to observe the formalities. Thus, the viability of 24 test checked FPSs could not be ascertained.

The Department in reply (December 2011) stated that Vigilance Commission had now been constituted.

## **6.6 Performances of FPS**

The Peshu Village under Thonoknyu PDC in Tuensang district was to avail PDS facility through M/s Pongsang FPS.

During scrutiny it was noticed that the Village Development Board Chairman and the Secretary, Peshu Village complained to the Sub-Divisional Officer (Civil) that no foodgrains were received during 2005-11 from M/S Pongsang FPS. However, the Supply Department furnished UC stating the distribution of 88.43 MT foodgrains to 38 cardholders<sup>17</sup> of Peshu Village during the period under reference.

Thus, 88.43 MT foodgrains meant for Peshu village were fraught with the risk of diversion to open market depriving 38 beneficiaries for the last six years.

The Department in reply (December 2011) stated that the full material was received and distributed by the Village Council and also enclosed the certificate to that effect. The fact however, remains that the same Village complained to the Sub-Divisional Officer that foodgrains were not received during 2005-11. The matter therefore, requires further investigation.

## **Conclusion**

***As the Department failed to ensure allocation of the allotted foodgrains to the FPS, the commissions earned by the FPS owners were very minimal rendering the FPS non-viable. The Department also did not monitor the pricing pattern of foodgrains sold at different levels. As such, the Department authorised stockist charged higher rate than the Government notified rate putting extra burden on the beneficiaries. The Department was also not sincere in carrying out the surprise inspections as none of the inspection reports contain any findings inspite of many lacunae in scheme implementation pointed out in last two Audit Reports of the Comptroller and Auditor General of India and findings of instant audit.***

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<sup>17</sup> BPL-14; AAY-20 and Annapurna-4 cardholders.

*Recommendations*

*The Department should take steps to ensure that the allotted foodgrains reach the FPS. The pricing pattern as notified by the Government should be monitored for strict compliance.*

*Periodical reviews of TPDS by the Vigilance Committees should be conducted and surprise inspections prescribed should be strengthened to its logical conclusion to detect the lacuna in implementation of PDS in the State.*