

Chapter 2 - Audit Approach and Previous Audit Findings

2.1 Audit Objectives

The main objectives of the Performance Audit were to ascertain whether:

- GoI could achieve the objectives of NBS Policy especially those relating to containing the total subsidy bill in comparison with the earlier scheme, ensuring balanced use of nutrients and growth of indigenous fertilizer industry;
- subsidy was disbursed as per NBS Policy;
- companies took undue advantage of the differential in subsidy between successive years on closing balance of fertilizers; and
- MRP fixed by the companies was based on cost of raw material/other inputs and was reasonable.

2.2 Audit Criteria

Performance Audit was carried out with reference to:

- Policy guidelines/instructions/circulars/orders issued by DoF governing the grant of subsidy under NBS Policy for P&K fertilizers;
- Policy files relating to fixation of annual subsidy; and
- Records relating to production/import of fertilizer of the selected fertilizer producing/importing companies.

2.3 Audit Coverage

The Performance Audit covered the period April 2010 (since inception of NBS Policy) to March 2014 involving subsidy payment of ₹137611 crore. Initially a sample of eight¹² companies, out of 34 fertilizer companies, which had received subsidy exceeding ₹500 crore in each year, was selected for Audit. However, during the Entry Conference with DoF, it was decided to restrict the audit of companies to only five¹³ out of the eight companies as DoF assured that all the data required by Audit from the companies would be provided by them. Of these selected five companies, 3 were Private companies, 1 was a Central Public Sector Enterprise (CPSE) and 1 was a Co-operative Society.

¹² Chambal Fertilizers and Chemicals Ltd (CFCL), New Delhi (Private), Coromandel International Ltd (CIL), Secunderabad, Andhra Pradesh (Private), Indian Potash Limited (IPL), New Delhi (Private), Zuari Industries Ltd (ZIL), Gurgaon, Haryana (Private), Indian Farmers Fertilizer Co-operative Ltd (IFFCO, New Delhi, (Co-operative), Fertilizers and Chemicals Travancore Ltd (FACT), Cochin, Kerala (Government), Gujarat State Fertilizers & Chemicals Ltd. (GSFC) Vadodara, Gujarat (Government) and Rashtriya Chemicals and Fertilizers Ltd (RCF), Mumbai, Maharashtra (Government).

¹³ IFFCO, FACT, ZIL, IPL and CFCL.

In spite of the assurance provided by DoF, the cost data for companies was furnished (October 2014) only after completion of field audit. Further, this cost data was not supported with any documentary evidence. Audit, therefore, could not verify the accuracy of cost data.

2.4 Audit Methodology

The Performance Audit commenced with an Entry Conference with DoF on 26 July 2013 wherein the audit methodology, audit objectives, scope and criteria were explained. Records of DoF relating to fixation of subsidy and records of fertilizer companies relating to fixation of MRP, claims and receipt of subsidy from DoF, closing stock, sale of fertilizers etc. were also examined in selected five P&K fertilizer producing/importing companies.

The Draft Audit Report was issued to DoF on 15 September 2014 with the request to send their response by 24 October 2014. Audit received response from DoF on 3 November 2014. An Exit Conference was held on 24 November 2014 to provide an opportunity to DoF to discuss the audit findings and present their views. The Draft Final Report was issued to DoF on 27 February 2015 with the request to send their response within two weeks of the receipt of same; response to which was received from DoF on 13 March 2015. Response of DoF to the Draft Audit Report, views expressed by them during Exit Conference and response to the Draft Final Report have been duly considered and suitably incorporated in the Report.

2.5 Previous Audit Findings

Performance Audit of Fertilizer Subsidy, which appeared in the CAG's Audit Report No. 8 of 2011-12 (Civil) covered the period from 2003-04 to 2008-09 and dealt with issues relating to both Urea and P&K fertilizers under the erstwhile Concession Scheme. The main audit findings relating to P&K fertilizers were as follows:

- With regard to Phosphatic fertilizers, the production capacity nearly doubled from 1998-99 to 2008-09, actual production of DAP and NPK complexes increased by only 30 per cent. In fact, the production of DAP came down substantially. However, indigenous production of Phosphatic fertilizers was largely based on imported raw materials/intermediates. Increase in consumption of DAP/MAP/NPK complexes was met primarily through imports at very high prices, which led to multi-fold increase in the subsidy burden.
- The country's requirement for Potassic fertilizers was met fully through imports. Instead of curbing further imports and drawing down on available stock as of March 2008, the Ministry imported an additional 57 lakh MT of MOP (43 lakh MT as per expenditure figures), with an avoidable addition to the subsidy burden of about ₹10000 crore.
- The requirement of certification of sales of decontrolled fertilizers for agricultural purposes in Proforma 'B' by the State Governments, notwithstanding the inadequacies in the certification process, was the only major control over end-use of fertilizers. Linking certification with release of balance payment of 10/15 per cent (with the penal clause providing for bank guarantee for 100 per cent of unadjusted concession)

provided clear incentives/disincentives for ensuring timely submission of Proforma 'B'. With the removal of such a linkage from June 2007, there was no incentive to ensure certification by the competent authorities of end-use of decontrolled fertilizers for agricultural purposes. This resulted in accumulation of outstanding Proforma 'B' valuing ₹50587 crore, pertaining to the years 2007-08 to 2009-10.

- Audit found certain irregularities in import of DAP by Indian Potash Limited (IPL), as well as certain discrepancies between its imports and corresponding supply.

The Public Accounts Committee (PAC) (2012-13) had selected the Report No. 8 of 2011-12 for detailed examination. Observations/ recommendations of PAC are contained in its 81st Report laid in Parliament on 30 April 2013. Status of action taken by DoF on recommendations of PAC for P&K fertilizers, has been incorporated as **Annexure III**.