Chapter-4

Performance Audit of Functioning of Civil Supplies Department

Consumer Affairs, Food and Civil Supplies Department

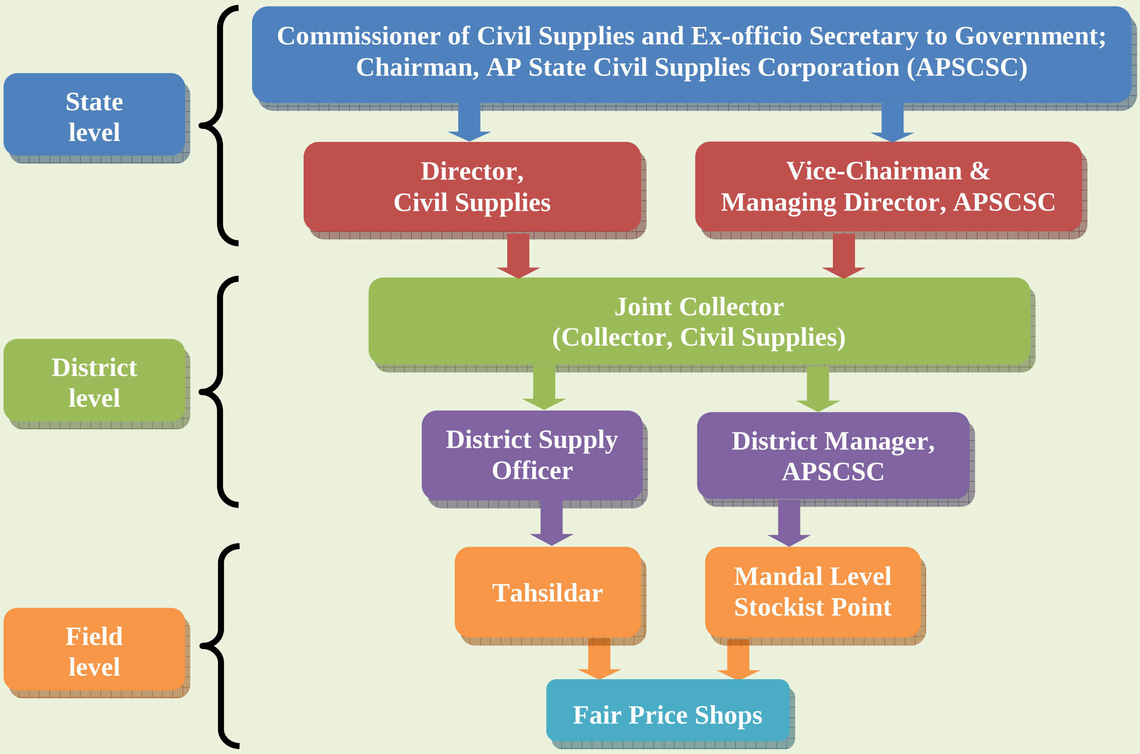
4.1 Introduction

Civil Supplies Department formed part of the Board of Revenue until 1977 and thereafter, acquired a separate identity of its own. The main activities of the Department are as follows:

- Procurement of paddy at Minimum Support Price (MSP) through State agencies and Food Corporation of India (FCI);
- Procurement of rice under mill levy for central pool;
- Procurement of essential commodities like rice, wheat, sugar, kerosene, palmolein oil and red gram dal for the Public Distribution System (PDS);
- Public distribution of essential commodities through Fair Price Shops (FPS);
- Implementation of "LPG connections for Below Poverty Line (BPL) families (Deepam scheme)";
- Monitoring of prices of essential commodities and market intervention operations for controlling the open market prices, if need arises; and
- Administering the affairs of the Andhra Pradesh State Civil Supplies Corporation (APSCSC).

4.1.1 Organisational setup

Civil Supplies Department is headed by a Commissioner, who is Ex-Officio Secretary to Government and Chief Controlling Officer (CCO) of the Department. He is assisted by Director of Civil Supplies at the State level and District Supply Officers at district level. Organisational set up of the Department at various levels is given below.



4.2 Audit Framework

4.2.1 Audit Objectives

Performance Audit of functioning of the Civil Supplies Department was carried out to assess whether,

- planning process was robust and effective with regard to MSP Operations and Public Distribution System for fulfilling foodgrain requirements within the State;
- procurement of food grains and other essential commodities was carried out economically, efficiently and effectively;
- system of identification of beneficiaries for schemes under PDS was foolproof and ensured that benefits reached targeted population; and
- the institutional mechanism for lifting, transportation, storage, handling and distribution of essential commodities was economic, efficient and effective.

4.2.2 Audit Criteria

Audit findings were benchmarked against criteria sourced from the following:

- Essential Commodities Act,1955;
- AP Rice Procurement (Levy) Order, 1984;
- Public Distribution System (Control) Order, 2001;
- AP State Public Distribution System (Control) Order 2008;
- AP Financial Code;
- Instructions, guidelines, circulars, etc. issued from time to time by GoI and State Government; and
- Minutes of the meetings of Board of Directors of APSCSC.

4.2.3 Scope and Methodology of Audit

Performance Audit of the Department was carried out during July 2012 to April 2013 covering its operations for five year period 2008-13.

Audit methodology involved scrutiny of records relating to MSP operations for paddy and procurement, storage, transportation and distribution of essential commodities through PDS at the Commissionerate, APSCSC and District Supply Officers as well as Offices of District Managers of the Corporation in eight selected districts[1].

Entry Conference was held with the Commissioner of Civil Supplies and Vice Chairman & Managing Director, APSCSC in June 2012 wherein audit objectives, methodology, scope, criteria and audit sample were explained and agreed upon. Questionnaires were issued, discussions were held with Departmental authorities at

[1] Adilabad, Anantapur, East Godavari, Guntur, Karimnagar, Ranga Reddy, Visakhapatnam, YSR Kadapa

various levels. Audit findings were discussed with Commissioner of Civil Supplies, VC & MD, APSCSC and other officers of Department in Exit Conference in December 2013 and replies of Government have been incorporated in the report at appropriate places.

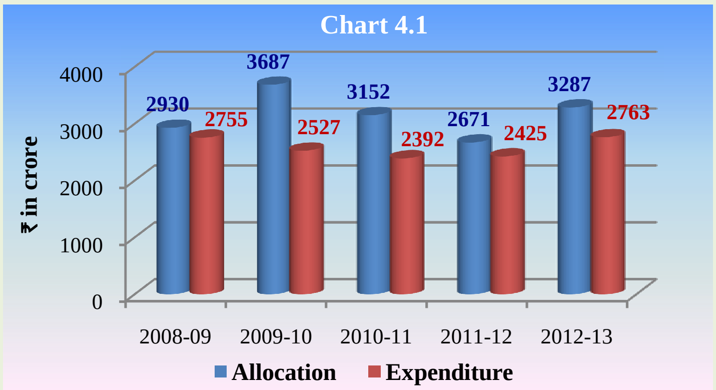
4.2.3.1 Audit Sample

Eight districts were selected for detailed audit scrutiny based on magnitude of procurement of paddy and PDS operations across all districts in State, selecting at least two districts from each of the three regions[2] of the State. In each sampled district, records of two Mandal Level Stockist (MLS) Points were verified. Four FPS were visited in each of eight sampled districts and household survey of 30,695 ration cards was conducted within the jurisdiction of these FPS[3]. Details of Audit sample are given in ***Appendix-4.1.***

Results of Audit are discussed in the succeeding paragraphs.

4.3 Budget and Expenditure

Budgetary allocation and expenditure of the Civil Supplies Department for the period 2008-13 is given below.



Source: Annual Appropriation Accounts

Of total expenditure of ₹12,862 crore during 2008-13, ₹11,739 crore[4] (91 *per cent*) was on account of subsidy on rice and other essential commodities and balance ₹1,123 crore was expended on other activities of the Department including establishment.

There were savings every year ranging from ₹175 crore in 2008-09 to ₹1,160 crore in 2009-10. Savings under the head 'Subsidy on Rice' accounted for ₹119 crore (five *per cent*) during 2008-09, ₹1,150 crore (33 *per cent*) during 2009-10, ₹750 crore (25 *per cent*) during 2010-11, ₹220 crore (nine *per cent*) during 2011-12 and ₹500 crore (17 *per cent*) during 2012-13. Department attributed (June 2013) savings during all five years to non-receipt of budget release orders (BROs) and administrative sanctions from Government.

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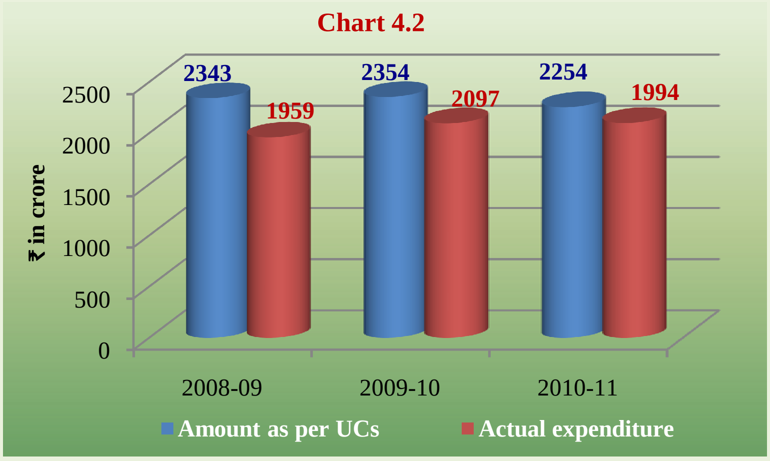
[2] Coastal Andhra (3), Rayalaseema (2) and Telangana (3)

[3] more than four FPS in Ranga Reddy (7) and Karimnagar (6) districts

[4] 2008-09: ₹2,343 crore; 2009-10: ₹2,354 crore; 2010-11: ₹2,254 crore; 2011-12: ₹2,284 crore; 2012-13: ₹2,504 crore

State Government releases funds to APSCSC on quarterly basis for PDS operations and the latter is to submit detailed claims to State Government for utilisation of these funds. While APSCSC has been submitting Utilisation Certificates (UCs) to State Government, it has not been submitting detailed claims in this regard since 2007-08. Review of accounts of APSCSC for the period 2008-11 (accounts for the years 2011-12 and 2012-13 are yet to be finalised) revealed that subsidy adjusted by APSCSC was less than amount reflected in UCs as shown in chart 4.2.



Government replied (October 2013) that UCs were issued by APSCSC for advance subsidy received based on projected releases of essential commodities, and that detailed claims for subsidy for the years 2007-08 to 2010-11 were under submission.

Source: Accounts of APSCSC

4.4 Planning

Primary function of Department is to procure paddy, rice and other essential commodities for public distribution through FPS. Food grains meant for public distribution are procured by Food Corporation of India (FCI) and made available to States at Central Issue Price (CIP) fixed by GoI for below poverty line (BPL), above poverty line (APL) and other categories. Difference between cost of procurement of food grains and issue price is reimbursed to FCI in the form of subsidy[5] by GoI. Food grains meant for BPL families are further subsidised and the subsidy amount is borne by State Government.

Quantum of commodities to be distributed to various categories of citizens is determined based on allotment orders issued by GoI from time to time. As per these orders, BPL families are entitled to 35 kg of rice or wheat, one kg of sugar and red gram dal, one litre of palmolein oil and five litres of kerosene per month per family. APL families are entitled to 35 kg of rice per month. State Government issued rice under PDS to BPL families at ₹2 per kg during period April 2008 to October 2011. Issue price was further reduced to ₹1 per kg from November 2011. This was less than its acquisition cost of ₹5.65 per kg for BPL families and ₹8.30 per kg for APL families from FCI.

[5] 2008-09: ₹4,039 crore; 2009-10: ₹4,482 crore; 2010-11: ₹5,049 crore; 2011-12: ₹5,833 crore; 2012-13: ₹6,022 crore (Subsidy from GoI is in the form of food grains and is worked out for Rice, Wheat and Palmolein Oil on the quantities lifted by APSCSC)

Audit noticed that number of BPL families identified by State Government was at variance with that adopted by GoI. GoI has been releasing 10.52 lakh MT of rice per annum at 35 kg per family per month for BPL card holders (i.e. for 25.05 lakh families). In July 2008, State Government increased the income ceiling for BPL families from ₹20,000 to ₹60,000 per annum in rural areas and from ₹24,000 to ₹75,000 per annum in urban areas for qualifying the BPL criteria in State. Consequently, as of 2012-13, there were 2.17 crore BPL families in State and State Government has been issuing (2008-13) rice to BPL card holders at 20 kg per month per family as against 35 kg per month per family allotted by GoI. Further, no rice was issued to APL families, as the rice allotted by GoI under APL quota was diverted to BPL card holders. As a result, State Government had to bear the differential cost of ₹2.65 per kg[6] of rice. Total quantity of rice so diverted from APL quota during the period 2008-13 was 87.96 lakh MT entailing extra burden of ₹2,330 crore to State exchequer.

4.5 Procurement of Food grains

GoI procures food grains for PDS through FCI as well through certain States earmarked for decentralised procurement activities. Andhra Pradesh is one of the eight States identified by GoI for decentralised procurement of paddy (DCP) with effect from 1 October 2012. State Government initiated procurement of paddy in seven districts[7] under DCP scheme and proposes to extend this scheme to all districts in a phased manner.

4.5.1 Procurement of Paddy through Minimum Support Price operations

In order to ensure remunerative prices to farmers, protect them from exploitation by millers and traders and stabilise production, GoI undertakes support price operations, which involve purchasing agricultural produce directly from farmers at Government notified Minimum Support Price (MSP). Based on recommendations of Commission for Agricultural Costs & Prices, GoI fixes and communicates MSP to the State in respect of all agricultural commodities before commencement of marketing season every year. APSCSC procures paddy from farmers through Paddy Purchase Centres (PPCs) in districts and issues it to millers for custom milling and onward transportation to FCI. Process involved in procurement of paddy every season is detailed in ***Appendix-4.2***. District-wise details of paddy procurement are given in ***Appendix-4.3***.

Details relating to paddy production, requirement in State and quantities procured by State directly from farmers are given below.

[6] The difference between issue price of GoI for APL (₹8.30 per kg) and BPL (₹5.65 per kg)
[7] Chittoor, Guntur, Karimnagar, Nalgonda, SPS Nellore, Prakasam and Warangal

Table 4.1

(in lakh MT)

	2008-09	2009-10	2010-11	2011-12	2012-13*
Rice consumption	106	107	107	107	108
Paddy required at 68 *per cent* out turn	155	157	157	157	159
Rice production in the State	142	108	144	129	112
Paddy production in the State	209	159	212	190	165
Target set for procurement by the State	10	10	10	33	11
Quantity procured by the State	10	3	21	20	14
Quantity procured by FCI	2	1	3	1	0
Quantity procured by Private Millers	166	145	164	131	103

Source: 'Paddy procurement in Andhra Pradesh' published by Director of Economics and Statistics, and records of the Civil Supplies Department at Commissionerate and APSCSC

Note: Figures indicate total quantity during the year (for Kharif and Rabi seasons together)

** Accounts relating to paddy procurement for Kharif Marketing Season (KMS) 2012-13 are up to 31 May 2013*

Audit observations in this regard are as follows:

4.5.1.1 Low public procurement

Andhra Pradesh requires around 155-159 lakh MT of paddy every year at the conversion ratio of paddy to rice (68 *per cent for boiled rice*) approved by GoI. Although State produced more paddy than requirement for domestic consumption, direct procurement from farmers by State during the period 2008-13 was only 3 to 21 lakh MT (2 to 11 *per cent*). Consequently, public procurement remained low in State compared to procurement by millers, leaving farmers at the mercy of latter.

Government attributed (October 2013) low public procurement in State to various factors like ruling market prices, availability of traditional channels of paddy procurement and huge number of trading rice mills in the State. Government further stated that millers were required to furnish certificates to the effect that paddy was purchased from farmers at MSP. During Exit Conference (December 2013), VC & MD, APSCSC assured that payment by millers through cheques/online-payment would be insisted upon to ensure MSP to farmers.

4.5.1.2 Non-submission of UCs for market fee and rural development cess

Government procured paddy from farmers at market yards/temporary yards operated by Regulated Market Committees (RMCs) by paying market fee at one *per cent* and Rural Development (RD) cess at five *per cent* of MSP. As per GoI directions (September 2010), RMCs were to utilise market fees for providing adequate infrastructure in market yards and to furnish UCs to this effect. As regards RD cess, district administration was to undertake developmental works in rural areas and provide UCs to State Government. Since State Government could not ensure compliance with regard to submission of requisite UCs to claim reimbursement from GoI, FCI withheld its claims amounting to ₹3.49 crore[8] (to end of 2012-13) towards market fee and ₹18.51 crore towards RD cess.

4.5.2 Custom Milled Rice (CMR)

Paddy procured by Government agencies (APSCSC/FCI) is handed over to rice millers for '*custom milling*'. Audit scrutiny in this regard revealed the following:

4.5.2.1 Agreement with millers

GoI has been formulating operational guidelines prior to commencement of season prescribing procedure for procurement of paddy and custom milling every year since 2000. However, specific agreements were not entered into with the millers until 2011-12, which deterred APSCSC from insisting on timely delivery of CMR and/or levy penalty for delays on millers.

Government stated (October 2013) that specific agreements were not executed till khariff marketing season of 2011-12 and that MoUs/Undertakings were taken from Rice Millers Association for delivery of CMR.

4.5.2.2 Delay in delivery of CMR

Operational guidelines provide for converting paddy into rice by millers within 15 days of procurement and supply to them. Guidelines also stipulate that handling of paddy and delivery of rice to FCI after custom milling should be closely monitored by Joint Collectors and concerned officials at district and field levels. This is crucial for claiming payments by APSCSC from FCI against CMR delivered and facilitates repayment of cash credit taken by it from RBI. Audit however noticed that, prescribed monitoring mechanism was not being followed in any district as evidenced by delays in delivery of custom milled rice to FCI. The delays ranged from 46 days (2008-09) to 110 days (2011-12) in the State on annual average basis during Kharif Marketing Seasons during 2008-13, resulting in avoidable payment of interest of ₹171 crore[9] on cash credit during this period.

Government accepted (October 2013) that there were delays in delivery of CMR by millers despite monitoring by district administration and persuasion by APSCSC, since rice millers were also procuring paddy along with Government and milling their paddy for delivery of rice under levy and open market sales. However, this factor has already been considered since the time limit of 15 days was stipulated in operational guidelines after taking all these aspects into account.

4.5.3 Procurement of Other commodities

Apart from rice, State Government procures other essential commodities like wheat, sugar, red gram dal, palmolein oil and kerosene for public distribution to BPL households as part of its market intervention operations.

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[8] the amounts include the claims related to more than three years
[9] Cost of rice was taken after deducting the interest component for two months allowed by FCI

4.5.3.1 Kerosene

Kerosene oil is to be supplied by wholesale dealers to retailer's (FPS) premises at uniform rate fixed by Government from time to time. If actual cost of PDS kerosene including margin to the wholesaler, transport charges from oil depot to wholesale point and to retail point thereon is more than the uniform rate, District Collector should reimburse the difference to wholesalers from Kerosene Price Equalisation Fund (KPEF). In case actual price is less than uniform rate, difference between uniform rate and actual cost should be collected from wholesalers (by District Collector) and remitted to KPEF. Instructions were issued by Government to District Collectors to finalise differential cost in respect of PDS kerosene and to ensure payment of dues to Government on basis of releases made to retailers pertaining to previous month by 10th of month. Payment if any due to wholesalers has to be made from KPEF duly reporting position of receipt/payment by 20th of month and not to issue further releases to the kerosene dealers until dues to Government were cleared by 10th of month. Further, a certificate indicating that all dues to Government are cleared up to the end of previous month has to be furnished by DSO.

Audit scrutiny revealed that contrary to instructions, Demand, Collection and Balance (DCB) register was not maintained properly with full details of transactions in any of the test checked districts. It was noticed from sundry debtors list in seven out of the eight test checked districts that an amount of ₹9.69 crore[10] was yet to be collected from the dealers. However, in absence of full details of transactions in DCB register, authenticity of amount shown under sundry debtors could not be verified. District Supply Officer, Guntur, replied (January 2013) that issue of deduction of tollgate fee and VAT as per representation of wholesale kerosene dealers association was yet to be settled and on settlement of this issue, a fresh demand would be raised accordingly.

4.5.3.2 Sugar

GoI allots levy sugar to State Government on various sugar factories located within or outside the State. APSCSC handles levy sugar on behalf of GoI and State Government for distribution to ration card holders through FPS in the State. Deficit between sale proceeds and procurement cost incurred by APSCSC is reimbursed by FCI on behalf of GoI along with margins based on Levy Sugar Price Equalisation Fund (LSPEF) claims submitted by APSCSC. Audit scrutiny in this regard revealed the following:

- During the period from 2002-03 to 2011-12 there were delays (8 to 30 months) in APSCSC submitting claims to FCI and as a consequence, it suffered a loss of ₹29.30 crore (calculated[11] on the amount realised for period of delay in realisation). Claims for period 2011-12 were not submitted by APSCSC and accounts for 2012-13 have not been finalised yet (as of June 2013).

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[10] Ranga Reddy (₹2.76 crore; Pending from March 2009), Anantapur (₹2.26 crore; Pending from July 2012), Karimnagar (₹1.44 crore; Pending from October 2011), Visakhapatnam (1.41 crore; Pending from March 2012), Guntur (₹0.91 crore; Pending from April 2011), East Godavari (₹0.74 crore; Pending from October 2012) and Adilabad (₹0.17 crore; Pending from June 2010)

[11] Loss worked out at 12 *per cent*, being the average rate of interest on Cash Credit (figures for 2011-12 are provisional)

Government stated (October 2013) that claims were being preferred by APSCSC after getting certificates from statutory auditors and delay in furnishing claims was due to delay in finalisation and audit of accounts. However, APSCSC should have ensured timely finalisation of its annual accounts and submission of claims immediately thereafter.

- While preferring monthly claims from FCI, APSCSC claimed transportation charges based on actual expenditure incurred which ranged between ₹388.10 to ₹1,152.77 per MT during period 2007-08 to 2010-11[12]. However, FCI restricted transportation charges to ₹354.30 per MT (as per margins fixed by GoI). As a result, APSCSC had to bear additional burden of ₹14.14 crore on transportation of sugar which could have been avoided had the expenditure been restricted (by APSCSC) as per margins fixed by GoI.

  Government replied (October 2013) that APSCSC would get reimbursement of entire transport expenditure on fixation of final margins by GoI based on audit certificate (issued by Chartered Accountant (CA)). Audit however, observed that the claims submitted up to 2010-11 based on the audit certificates issued by CA were not admitted in full by FCI.

4.5.3.3 Palmolein Oil

GoI formulated a scheme in June 2008 for distribution of imported RBD[13] palmolein oil at subsidised rate to BPL families with a subsidy of ₹15 per kg or ₹13.65 per pouch of 910 grams to control price rise of edible oils in open market. Maximum quantity distributed should not exceed one litre per ration card/family per month. GoI designated MMTC[14] to import RBD palmolein oil and supply to State Government and the latter in turn entrusted job of purchasing and distributing of palmolein oil to APSCSC.

APSCSC entered into an agreement in 2008-09 with MMTC for import and delivery of RBD palmolein oil which was renewed subsequently up to 2012-13. MMTC supplies imported RBD palmolein oil in packed form i.e., in one litre pouches through packing units at Kakinada and Krishnapatnam ports. APSCSC paid a trade margin of ₹31.18 crore for the period 2008-09 to 2012-13.

Review of payments made to MMTC towards import of palmolein oil revealed that agreement concluded by APSCSC with MMTC and transport contractors suffered from certain deficiencies with regard to incorporation of clauses on demurrage charges, handling loss, interest payments and insurance charges as discussed below.

[12] claims for 2011-12 and 2012-13 were not finalised and claimed
[13] Refined, Bleached and Deodarised
[14] Metals and Minerals Trading Corporation of India Ltd

Issue	Audit findings
Demurrage Charges	There was no specific provision for demurrage charges in agreement. However, APSCSC paid ₹3.32 crore towards demurrage charges during the period 2008-13 to MMTC.
Handling Loss	Agreement entered into between APSCSC and MMTC was silent on minimum and maximum handling loss allowable. Percentage of handling loss to total palmolein oil imported per ship ranged between 0.15 to 1.55 *per cent* and the amount towards handling loss ranged between ₹24.04/MT to ₹687.32/MT. APSCSC paid ₹22.04 crore towards handling loss for the period 2008-09 to 2012-13.
Interest payments	• As per terms and conditions of agreement, MMTC could claim interest at 12.5 *per cent* on the landed cost for delay in payment by APSCSC. In absence of specific clause in the agreement regarding the day from which interest would be charged on delayed payments, MMTC charged interest from date of departure from the originating port to liquidation date (up to the day the total oil was removed from the vessel) instead of charging for delay in payment made from date of receipt of proforma invoices to the date of payment, which resulted in excess payment of interest of ₹6.81 crore.
	• MMTC receives subsidy of ₹15 per kg directly from GoI. APSCSC pays to MMTC, cost of total quantity based on net cost per litre after deducting subsidy component of ₹15 per kg or ₹13.65 per pouch of 910 grams (1 Litre) from total cost. Reimbursement of subsidy is not related to APSCSC and as such delay in payment does not arise. Audit observed that interest at 11.25 *per cent* (for 90 days uniformly for all 12 vessels during 2009-10) was also charged on subsidy component of ₹15 per kg provided by GoI and this was paid by APSCSC. This resulted in excess payment of ₹3.73 crore. As MMTC was getting subsidy from GoI, charging interest on subsidy portion was against the agreement.
Transportation of palmolein oil	Scrutiny of agreements entered into by APSCSC with the transport contractors revealed that APSCSC has not followed common criteria on payment of insurance by transporters while entering into agreements with them for different zones. Failure to include a uniform clause for payment of insurance by the transport contractors in the agreements led to avoidable payment of ₹0.82 crore[15] on transit/marine insurance.

Government accepted above audit observations and stated (October 2013) that claims for refund had been submitted by APSCSC to MMTC.

[15] relating to all eight zones for the period 2008-12

4.5.3.4 Excess Payment towards trading margin

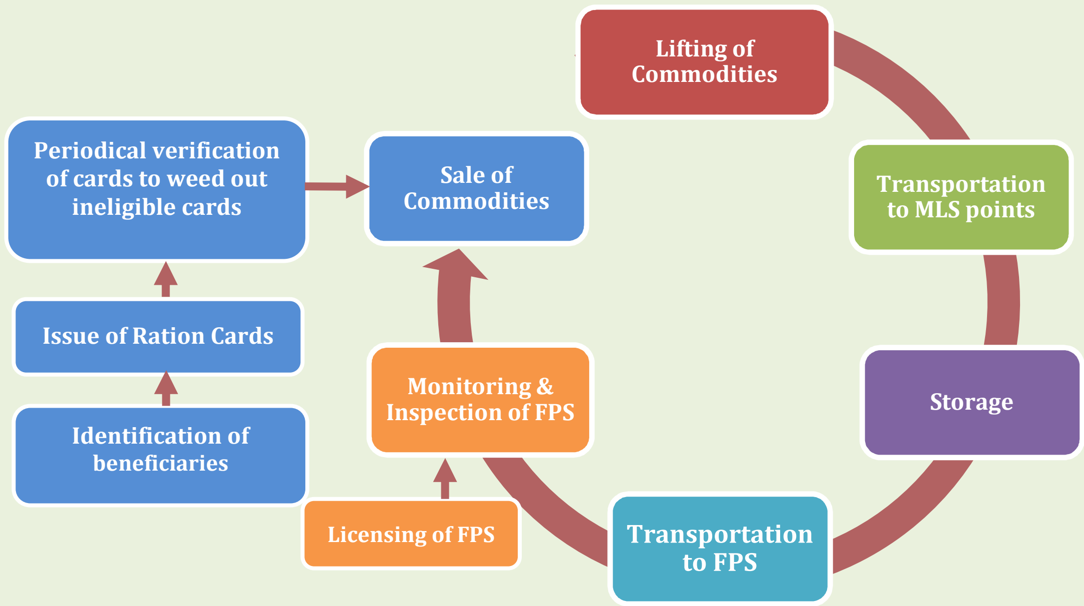
As per Para 8 of GoI guidelines, State Government would be charged entire cost[16] of import of palmolein oil minus GoI subsidy of ₹15 per kg. Para 9 of the guidelines provides that PSUs (MMTC) may charge States a trading margin (administrative cost) up to a maximum of 0.75 *per cent* of the landed cost of oil and all other costs/charges borne by PSUs (MMTC) mentioned in Para 8 of guidelines.

Review of transactions related to palmolein oil imported during the period 2008-13 revealed that trading margin at 0.75 *per cent* was paid on total import cost of material without excluding other incidentals like wharfage charges, demurrage charges, handling loss, packing charges, survey charges, storage charges, storage insurance and interest on delayed payments resulting in excess payment to MMTC.

Government accepted this and stated (October 2013) that claim for refund of excess paid amount (₹15.34 lakh) has been submitted to MMTC.

4.6 Public Distribution System

Public Distribution System (PDS) is a social security mechanism for providing essential commodities to eligible beneficiaries at subsidised prices. While GoI allots food grains (rice and wheat) and levy sugar to State Government from time to time under various PDS schemes, State Government has been topping it up with issue of rice, red gram dal, kerosene and palmolein oil to BPL families at subsidised prices. Stages involved in PDS are shown below.



4.6.1 Identification of Beneficiaries

Civil Supplies Department set up an iris based biometric system in 2005 for unique identification of citizens for issue of ration cards. This system captured the iris of the

[16] Up to packing, including charges incurred by PSUs such as port charges, transport charges, bank charges, charges due to exchange rate fluctuations, trading margin, interest, refining and packing charges, storage charges, etc.

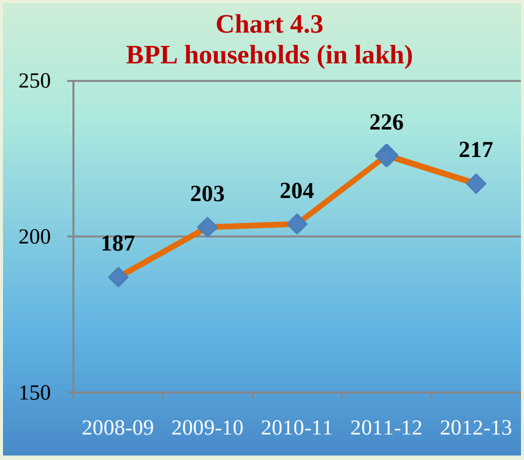
entire population of the State along with the family photograph and details relating to their income levels, addresses etc. Deficiencies with regard to identification of beneficiaries are discussed in the succeeding paragraphs.

4.6.1.1 Non-integration of data captured through iris based biometric system

Audit scrutiny revealed that iris based biometric system did not restrict the issue of multiple cards to members within 'the same family' from the same DPL[17] centre. Further, the data of iris images captured at various DPL centres is not integrated which led to issue of multiple cards to members of the same family at other DPL centres.

4.6.1.2 Issue of ration cards in excess of projected households

The year-wise changes to number of BPL families is given in chart 4.3.



Source: Records of Civil Supplies Department

As can be seen from this, the number of BPL households increased during the period 2008-12 before declining marginally in 2012-13. The spurt (9 *per cent*) in the number (16 lakh) of BPL households during 2009-10 compared to the previous year is attributable to enhancing the ceiling on annual family income for BPL families from ₹20,000/₹24,000 in rural/urban areas to ₹60,000/₹75,000 respectively, with effect from July 2008.

As per Census 2011, the total number of households in the State is 210.23 lakh. However, the number of BPL cards alone in the State during 2010-11 stood at 204.02 lakh (including AAY and Annapurna cards) accounting for 97 *per cent* of the total number of households in the State. Further, the number of APL cards during 2010-11 was 29.94 lakh. As such, the total number of ration cards issued (233.96 lakh) was more than the number of total households (210.23 lakh) in the State. This was despite the biometric identification of beneficiaries.

Government stated (December 2013) that out of the total population of 8.47 crore (2011 census) in the State, allotment of essential commodities was made to 7.14 crore (84 *per* cent) population under BPL[18] category. Audit however, observed that the criteria fixed for BPL status was not properly verified before issue of BPL cards as discussed below (paragraph 4.6.1.3 *infra*).

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[17] DPL: Designated Photography Location

[18] Number of BPL persons in the State as on 1 March 2012 was only 78.78 lakh (9.20 *per cent* of population) as per GoI estimates

4.6.1.3 Ineffective verification process

As per instructions of Government (May 2005), particulars of beneficiaries obtained from self-declarations were to be verified through field enquiry before issue of BPL card. If beneficiary was found ineligible for BPL card, he/she was to be issued an APL card. Audit scrutiny revealed that process of issue of a BPL ration card (White card) was based on physical identification of beneficiary with reference to his/her residential location. There was no evidence of verifying any other criteria like land holding, annual family income (including income from other sources like rent, residential property, etc.) as prescribed before issuing a BPL card.

Persons working in Government sector, those who had pucca building with plinth area of 750 sft or more either own or rented and those owning four wheeler were not entitled to a BPL card. However, audit scrutiny of Civil Supplies database revealed that 17,940 Government employees, 20545 persons owning a house with plinth area more than 750 sft and 89,850 persons owning a four wheel vehicle were provided with BPL cards.

Audit observed that there was no system for logging receipt of applications from the people for sanctioning ration cards, verification and issue of cards, and/or reviewing the status at periodical intervals and deletion of cards where the household crosses the BPL threshold.

Audit survey of beneficiaries of 30,695 ration cards coming in the purview of 37 FP shops in sampled districts revealed that beneficiaries of 5,471 cards (18 *per cent*) were not traceable and 1,797 cards (6 *per cent*) were ineligible (subsidy burden involved during April 2008 - March 2013 on these cards was ₹4.11 crore). There was also no mechanism in place for regular verification of ration cards and weeding out bogus cards. This led to extension of undue benefits to ineligible card holders resulting in excess subsidy burden on the State exchequer.

District-wise details of findings of Audit scrutiny during beneficiary survey in the eight test checked districts are shown in Table below.

Table 4.2

District	No. of FP shops		No. of BPL cards			No. of units (family members) not deleted (death/permanent migration, etc.)
	Existing	Test checked	Scrutinised in Audit	Not traceable	Found to be not BPL	
Adilabad	618	4	2739	476	23	254
Anantapur	686	4	2747	450	58	227
East Godavari	1394	4	3308	215	153	53
Guntur	1069	4	3656	804	58	113
Karimnagar	866	6	4398	445	107	466
Ranga Reddy	941	7	6399	1435	801	204
Visakhapatnam	918	4	5910	1492	493	388
YSR Kadapa	452	4	1538	154	104	186
Total	**6944**	**37**	**30695**	**5471**	**1797**	**1891**

Considering that all social security benefits are accorded on basis of BPL status of citizens, it was imperative that State Government put in place adequate mechanism to ensure a foolproof system of identification of BPL households and issue of ration cards to them.

Government in its reply, stated (December 2013) that foolproof mechanism was being evolved for regular verification of ration cards and weeding out of bogus ration cards.

4.6.1.4 Circulation of bogus/ghost ration cards

As per Public Distribution Order 2001, review of BPL and AAY families was to be carried out every year for deleting ineligible card holders and including eligible members in PDS. However, Department did not conduct review every year for this purpose leading to existence of bogus cards and resulting in avoidable burden of ₹1,136 crore on State Government (to end of March 2013) towards subsidy on food grains and other commodities released on bogus/ineligible cards. Government's drive for de-duplication (August 2009 - March 2011), ration cards surrendered by FPS (August 2012 - October 2012) and Aadhaar Seeding[19] (from April 2012 onwards) resulted in identification of 23.93 lakh bogus cards and another 2.94 lakh ineligible members in ration cards as of March 2013.

IT Audit of computerised data and dynamic Key Register (December 2012) of the Department further revealed the following:

- There were 13.63 lakh null iris (where iris data of at least one member of the family was not obtained) BPL ration cards as of December 2012 even after de-duplication and deletion process.
- As per norms, BPL cards may be issued to families with annual family income less than ₹60,000 in rural areas and ₹75,000 in urban areas. Audit noticed BPL ration cards numbering 829 in rural areas and 110 in urban areas with declared annual family income more than prescribed ceiling.
- There were 16.42 lakh BPL cards in which annual family income details were not obtained. In another 2,606 cards, names of heads of family were also not recorded. In these cases, it is not clear on what basis family was considered BPL and to whom the card was issued.
- Out of 191.65 lakh cards scrutinised in Audit, 93012 BPL cards contained duplicate photographs (same photograph was used in different cards/photographs of other than human beings are recorded) (Subsidy burden involved during 2008-13: ₹52.62 crore).

Above indicate that there were gaps in de-duplication process undertaken by Government leading to continued existence of bogus cards.

[19] Linking ration card holder's identity with that of unique identity number issued by Unique Identity Authority of India

4.6.2 PDS Rice

PDS rice is alloted by GoI to State Government which is further released to FPS. Audit scrutiny with regard to PDS rice revealed the following:

- GoI introduced (October 2009) sale of wheat and boiled rice to bulk consumers by FCI through open tenders under Open Market Sale Scheme Domestic (OMSS-D) and allotted 2,78,490 MT of rice during October – December 2009. Allotment of rice under OMSS category was meant for sale to the consumers as a market intervention operation to control open market prices. Ignoring this, State Government purchased 2,76,924 MT[20] of rice under the scheme only to meet deficit for PDS, on the logic that releasing the same in open market might not be encouraging as the cost of rice from FCI was more or less the same in open market. Although rice was not required for PDS operations due to additional allocations of APL/BPL rice by GoI, due to inability of APSCSC to sell the rice in open market, the entire rice was released under PDS. Thus, due to purchase of OMSS rice without requirement, APSCSC incurred extra expenditure of ₹207.66 crore over and above the APL rice rate.

  Government stated (October 2013) that it had lifted those stocks to meet the deficit under PDS.

- During the period from October 2009 to April 2010, APSCSC lifted 1,25,251 MT of rice meant for drought relief at higher rates (53,679 MT at ₹14.63 per kg and 71,572 MT at ₹15.37 per kg) and utilised it for PDS incurring an extra expenditure of ₹84.58 crore.

  Government stated (October 2013) that the stocks were lifted as per allotment and since there were no drought releases, the rice was utilised for PDS as the stock was deteriorating due to long storage.

As per records produced to Audit, there was no deficit for PDS rice. State Government should have asked for additional allotment under PDS if there was any deficit, instead of utilising rice procured for specific purposes under OMSS/ drought at higher rates. Also, diversion of specific allotment was not intimated to GoI for determining subsequent allotment.

4.6.3 Non-remittance of sale proceeds to Government account

As per SR10 (b) under Subsidiary Rule-1 of A. P. Treasury Code, Government Servant who receives money on behalf of Government should remit it into treasury or bank on day of receipt or as early as possible.

Tahsildars/ASOs collected ₹70 (₹10 for application plus ₹60 for card) from each beneficiary for laminated iris based ration card, ₹5 per coupon issued during Rachabanda-I & II and ₹10 from each beneficiary on delivery of AAY card. Scrutiny

[20] 1,52,334 MT at ₹ 1,614.68 per quintal; 1,24,590 MT at ₹1,537.31 per quintal

revealed that in six out of eight sampled districts, funds of ₹1.09 crore[21] collected by Tahsildars on this account were lying with them for more than five years without being remitted to Government account.

4.6.4 Diversion of funds

- An amount of ₹102.68 crore meant for rice subsidy (₹96.18 crore) and Kerosene Equalisation Fund (₹6.50 crore) maintained by APSCSC was diverted (during 2006 to 2009) and utilised towards payment for issue of iris based ration cards and for de-duplication of ration cards.

  Government in its reply stated (October 2013) that provision made in State budget for PDS covers all above activities. But payment for issue of iris ration cards cannot be treated as 'PDS subsidy'.

- During the period 2009-13, expenditure (₹363.20 crore) over and above the budget provision for LPG subsidy was met from out of funds released to APSCSC under the Head 'Subsidy on Rice'.

  Government replied (December 2013) that as the budget provision for LPG subsidy was not sufficient to meet actual requirement, funds released under rice subsidy had to be utilised to avoid interruption in scheme.

4.6.5 Lapse of funds

- During 2008-09, Government allotted ₹7.94 crore for procurement of rice for Welfare Hostels and these funds were kept in PD account of the department. Due to non-utilisation, entire amount lapsed at DTO (June 2011).
- Similarly, an amount of ₹61.07 crore out of allotment (₹100 crore) made (October 2009) towards Natural Calamity Relief for distribution of rice and Kerosene in five districts lapsed (November 2011) due to non-utilisation.
- Further, an amount of ₹53.30 lakh meant for consumer welfare fund lying in PD Account also lapsed (January 2013).

Government in its reply confirmed lapse of funds.

4.6.6 Transportation

Transportation of commodities is a two stage process. Stage-I involves transportation from FCI godowns/sugar factories/STC Oil points or any other source to MLS Points and Stage- II transportation is from MLS Point to FP shop.

4.6.6.1 Excess expenditure on transportation

On basis of FCI release orders, APSCSC transports food grains from FCI depots to MLS points. FCI has to position sufficient stocks at the designated FCI depots as per allotments. Audit noticed that actual distance between FCI depots from where stocks

[21] East Godavari: ₹46.01 lakh; Guntur: ₹34.94 lakh; YSR Kadapa: ₹16.47 lakh; Adilabad: ₹6.01 lakh; Anantapur: ₹5.05 lakh; Ranga Reddy: ₹0.88 lakh

were lifted and the MLS point was more than the distance between the designated FCI godown to the MLS points, due to non-availability of stock at designated godowns. As a result of this uneconomic movement of food grains from distant depots, APSCSC incurred an additional expenditure of ₹37.79 crore on stage-I transportation during period 2008-12, which could have been avoided had the stocks been made available at designated godowns. Excess expenditure ranged from ₹0.06 crore (Vijayanagaram district) to ₹8.50 crore (Chittoor district). Details are given in ***Appendix -4.4***.

Government accepted the audit observation and attributed (October 2013) the uneconomic movement of stocks to hamali [22] problems, weighbridge problems, observation of FIFO method by FCI, etc.

4.6.7 Storage

After lifting rice from FCI godowns, APSCSC transports it to its godowns (own godowns capacity: 1,12,032 MT at 107 MLS points and hired godowns capacity: 9,43,990 MT at 332 MLS points) attached to 439 MLS[23] points in the State. Status of storage capacity of own godowns and total storage capacity in each district is given in ***Appendix-4.5.***

Scrutiny revealed that, during 2012-13, in nine out of 23 districts, quality of 1,334 MT of red gram (RG) dal costing ₹7.13 crore deteriorated during storage and had to be auctioned (March 2012 to June 2013) at a loss of ₹4.54 crore.

Audit observations in this regard are as follows:

- Main reason for accumulation of stocks which led to deterioration of RG dal was short release of stocks to FPS by mandal level officers.
- While issuing RG dal, some District Managers did not follow FIFO (First-in-First-Out) method in the absence of which the dal which came first was left untouched and thus got damaged/infected due to long storage.
- There was no mention in monthly physical verification reports regarding RG dal getting spoiled due to long storage and further initiation of action.
- In eight cases, after identifying damaged RG dal, there was delay of more than six months in auctioning, which led to reduction in quantity of 38.406 MT (value: ₹20.53 lakh).

Government accepted audit observation with regard to accumulation of stocks beyond the stipulated period and deterioration of RG dal, and attributed (October 2013) it to low off-take by FPS dealers and non-responsiveness of enforcement authorities for remittance of demand drafts by FPS dealers.

[22] Hamali: Person involved in loading and unloading of stocks
[23] There are only 439 MLS points out of 1,177 mandals in the State

4.6.7.1 Construction of Godowns

During period 2008-13, as against 93 godowns taken up by APSCSC for construction, 79 godowns were completed and 14 godowns were at different stages of construction as of June 2013. Scrutiny revealed that except in two[24] cases, there were delays ranging up to 30 months in completion of these godowns[25]. Out of the 14 godowns taken up for construction, work could not commence in two cases due to site dispute, work was stopped in four cases due to legal disputes and work was in progress in eight cases (time over run: 19 months in two cases and two months in six cases).

Government attributed (October 2013) delays in construction of godowns to shortage of sand and objections raised by revenue authorities.

APSCSC had not constructed its own godowns in some of the districts like Karimnagar and Nizamabad although rice was to be distributed to BPL families in all districts, mandals and villages. In 13 districts, though lands were available for construction/expansion of godowns at 81 sites, APSCSC has not taken up construction despite District Managers sending proposals in this regard over a year ago.

Government replied (October 2013) that out of 81 sites, estimates were prepared for construction in 22 sites in three districts and construction was in progress in nine of these sites in Anantapur district. It was further stated that work would be taken up in remaining districts.

Expenditure incurred on storage charges, total food grains procured along with storage space available in own godowns for the period 2008-13 are shown below.

Table 4.3

Year	2008-09	2009-10	2010-11	2011-12	2012-13
Total Food grains procured by APSCSC (lakh MT)	42.42	46.11	42.79	42.17	38.84
Average monthly food grains procured (lakh MT)	3.54	3.84	3.57	3.51	3.24
Storage capacity available in own godowns (MT)	73300	78400	82150	109200	112032
Percentage of storage capacity to monthly average food grains procured	21	20	23	31	35
Expenditure on hiring of private godowns (₹ in crore)	2.43	3.68	10.06	15.58	16.22

Source: Records of AP State Civil Supplies Corporation

Storage capacity available in own godowns was between 20 and 35 *per cent* of average monthly procurement of food grains. Due to non-construction of its own godowns APSCSC had to pay ₹47.97 crore towards rental charges during last five years. Amount spent on hiring of private godowns would be sufficient to construct about 200 new 600 MT godowns at ₹24 lakh each (calculated on the basis of cost of

[24] Vadlapudi godown No-II and Gambheeram godown No-II in Visakhapatnam district
[25] delay of two years or more in two cases, one year or more in seven cases and six months or more in 36 cases

godown in agreement during 2011-12). It was observed in Audit that while total storage capacity of godowns owned by APSCSC to end of 2012-13 was 1,27,200 MT, the storage space available for its operations was only 1,12,032 MT and the balance was being utilised by other departments. In Nalgonda district, 7500 MT storage space was occupied by Tahasildars' offices for the last eight years without paying any rent (the rental charges amounted to ₹67.50 lakh).

Government stated (October 2013) that necessary steps would be taken by APSCSC for construction of adequate number of own godowns. Government further stated that efforts were being made for collection of rent from departments concerned for the period of their occupation.

4.6.7.2 Maintenance of godowns

Joint physical verification (June - October 2012) of godowns of 16 MLS points by Audit and the APSCSC personnel in sampled districts revealed following deficiencies with regard to maintenance of godowns/MLS points.

- Doors and windows of the godowns were not covered with fine wire mesh.
- Godown structures were not air-tight.
- Godowns did not have detached stair-case.
- Godowns did not have extended slab at plinth-level in order to avoid rats.
- Eight out of 16 test checked godowns did not have cement concrete approach roads.
- In eight godowns, roofs were leaking due to holes in the roofs. Further, these godowns were not provided with tarpaulin.

Leaking roof of godown, MLS Point, Jainath (Adilabad district)

Godown without access road, MLS Point, Lammasingi (Visakhapatnam district)

- Power supply was not provided in 14 godowns.
- Old godowns of APSCSC were not white-washed regularly.
- In Muddanuru, YSR Kadapa district, old and unused cinema hall was being used as godown, although it has no basic infrastructure.
- Though required as per Manual, first aid box was not provided in 14 godowns.
- In two godowns stock boards were not provided; and in eight godowns though provided, these were not put to use.

- Persons in charge of MLS points had not maintained complaint registers.
- Records relating to fumigation, prophylactic treatment and other quality control measures taken up were not maintained at MLS points.
- MLS points were provided with 0.3 MT and one MT weighing machines only. Hence, weighing of PDS commodities was a tedious task.

Scrutiny also revealed that in Anantapur, Ranga Reddy and YSR Kadapa districts, the maximum capacity utilisation of hired godowns during 2011-12 was 70 - 75 *per cent* only indicating that godowns were hired without assessing the actual requirement**.**

District Managers assured (June - October 2012) that necessary action would be taken to rectify above deficiencies. Government stated (October 2013) that necessary instructions would be issued to field officers. During Exit Conference, the Commissioner stated (December 2013) that action would be initiated to improve facilities in godowns.

4.6.8 Distribution of commodities

4.6.8.1 Licensing of Fair Price Shops (FPS) dealers

Government issues authorisation to FPS dealers for distribution of essential commodities to ration card holders, which is valid initially for two years and can be renewed thereafter at a three year interval. Scrutiny revealed that in seven out of eight sampled districts, authorisation had expired in respect of 2,069 FPS which continued to operate (the earliest one pertains to 2008-09).

Government replied (December 2013) that all Collectors (CS) were asked to direct the concerned appointing authorities to renew authorisations on time and not to allot essential commodities to FPS dealers who were not having valid authorisation.

4.6.8.2 Rationalisation of FPS

Government issued (2007) instructions for rationalisation of existing FPS in State by attaching required number of cards to each shop for convenience of card holders in the locality and keeping in view economic viability of FPS. As per norms, maximum number of BPL cards that could be attached to an FPS was 450 in rural areas, 550 in municipalities and erstwhile taluk headquarters and 650 in municipal corporations. However, there were 16,653 FPS which catered to more number of BPL cards than the prescribed norms. Of these, 41 FPS catered to more than 2000 cards beyond the maximum ceiling. The norms stipulated and compliance thereto are given below.

Table 4.4

Jurisdictional area	Maximum Number of BPL cards permissible under an FPS	Number of FPS catering to more cards than the prescribed ceiling
Rural	450	13749
Municipalities and erstwhile Taluk Headquarters	550	1764
Municipal Corporations	650	1140
Total		**16,653**

Source: Records of Commissioner, Civil Supplies

Government replied (December 2013) that all Collectors (CS) were directed to take appropriate action to rationalise the FPS with adequate number of ration cards as per norms.

4.6.8.3 Functioning of FPS

Audit conducted (July 2012 to March 2013) joint survey along with Revenue Department officials to verify correctness of details such as income, residence, number of units mentioned in a ration card etc. Functioning of FPS was also verified during these visits. Scrutiny of 37 FPS in eight sampled districts revealed the following:

- PDS (Control) Order, 2001 stipulates that the designated authority of State Government should ensure that one copy of allocation order given to FPS is simultaneously sent to Gram Panchayats or Nagar Palikas or Vigilance Committees or any other body nominated for monitoring functioning of the FPS by State Government. However, it was noticed that no such practice was followed in any of the test checked FPS.
- State Government should make arrangements for taking delivery of essential commodities issued by Central Government by their designated agencies or nominees from FCI depots/godowns and ensure further delivery to FPS within first week of the month for which allocation is made. However, in none of the FPS visited, were commodities delivered in first week of the month.
- Gram Panchayats or Nagar Palikas or Vigilance Committees or any other body nominated for monitoring functioning of FPS shall display stocks of essential commodities allotted during the month to the FPS on a notice board outside their shop. Such information was however, not displayed in any FPS visited.
- List of beneficiaries having BPL and Antyodaya cards should be displayed in each FPS. Similarly, entitlement of commodities under each category should also be displayed. However, no such lists were displayed in any FPS test checked. Availability of stocks (Opening and closing stocks of each commodity) was also not displayed.
- Audit noticed that (i) timings for opening and closing of FPS was not followed in 3 FPS out of 37 visited; (ii) Complaint Registers were not maintained in any FPS; and (iii) in the previous system of issue of ration cards (before introduction of iris) the card used to contain some pages with columns to be filled in by the dealer for record of commodities issued, date of issue, etc. During 2008-13, there was no such record to ensure transparency in issue of commodities and even printed receipts were not issued to beneficiaries (no counterfoils) to facilitate counterchecking of the sale register.

Government in its reply stated (December 2013) that necessary instructions have been issued to all Collectors in this regard.

4.7 Monitoring

4.7.1 Functioning of Food Advisory Committee and Price Monitoring Committee

Food advisory committee (FAC) meant for reviewing functioning of the Public Distribution System was reconstituted at State level in 2004 after its expiry in 1996. During the five year period 2008-13, the State level committee had met only once[26] as against 20 meetings prescribed. FACs at district and mandal level were required to meet once in two months and once a month at village level to FPS level. Information about conduct of meetings in 2012-13 was not available with the Commissionerate. During 2008-12, committees were not formed at all levels, and where formed, were not conducting meetings at regular intervals.

Government decided (August 2009) to constitute 'Price Monitoring Committee (PMC)', as a sub-committee under the Food Advisory Committee at district and mandal level to review availability of essential commodities and their prices in open market and to suggest action to prevent hoarding and black marketing. These committees were required to meet once a week. Commissioner has no information about the formation of PMCs in five[27] out of 23 districts in the State. In Warangal, Hyderabad and Nizamabad districts, although the PMCs were constituted, these have not met even once during the period 2009-12.

Government in its reply stated (December 2013) that Civil Supplies matters were being looked after by official machinery of each district and non-convening of FACs at regular intervals had no adverse impact. However, without meetings and follow-up action, utility of these committees was undermined.

4.7.2 Non-reconciliation of allotment/release orders vis-à-vis actual release of stocks

Commissionerate allots commodities district-wise and the latter issues mandal-wise allotment orders. Tahsildars in turn issue release orders to FPS dealers. APSCSC is releasing commodities based on the release orders issued by the Tahsildars. Audit observed that there was no reconciliation between the allotment/release orders issued and the actual releases. In the absence of this reconciliation, release of stocks against fictitious release orders, if any, could not be vouched in Audit.

Government replied (December 2013) that computerisation of PDS operations was underway to bring about transparency and reconciliation in allotments and distribution.

4.7.3 Compliance with PDS (Control) Order, 2001

Audit noted that some salient features of Public Distribution System (Control) Order, 2001 as regards monitoring PDS operations were not followed as shown below.

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[26] On 11 January 2011
[27] Adilabad, Anantapur, Kurnool, Nalgonda and Vizianagaram

Provision of the PDS Control Order, 2001	Audit findings
State Government shall ensure regular inspections of FPS not less than once in six months by the designated authority. State Government may issue orders specifying the inspection schedule, list of check points and the authority responsible for ensuring compliance with the said orders.	No such inspections were carried out in any of the FPS visited by Audit although Clause 16(i) and (vii) of PDS (Control) Order 2008 specifically stipulated so.
Meetings of the Vigilance Committees on PDS at State, District, Block and FPS level shall be held on a regular basis. The date and periodicity shall be notified by State Governments. The periodicity shall not be less than one meeting a quarter at all levels.	Meetings were not being conducted in the districts covered by Audit.
State Governments shall ensure monitoring of the functioning of PDS at the FPS level through the computer network of the NIC installed in the District NIC centres. For this purpose, computerised codes shall be issued to each FPS in the district.	No such net work monitoring of the functioning of FPS was in place in the districts covered in Audit.

Government replied (December 2013) that all Collectors (CS) were directed to conduct periodical inspections to ensure that PDS rice and other essential commodities intended for distribution to poor are not misused/diverted.

- Cent *per cent* physical verification of stocks was to be conducted in all MLS points once a quarter. However, this was being done only when the stocks were meagre and whenever irregularities came to notice.

  Government stated (October 2013) that necessary instructions had been issued to field officers.

- There were delays of one to five months in reconciliation of MLS point stock registers and sale proceeds.

  Government stated (October 2013) that efforts were being made to avoid delay in reconciliation.

4.8 Conclusion

Public procurement was low in the State vis-à-vis procurement by the millers. APSCSC could not ensure conversion of paddy into rice by the millers within the stipulated period resulting in avoidable payment of interest on cash credit.

Public Distribution System was marked by improper procedures and inadequate monitoring relating to identification of beneficiaries and existence of bogus and ghost ration cards. There were delays in construction of godowns and hired godowns were not utilised to their full capacity.

Several FPS continued to operate without authorisation from Government and over 16,000 FPS were catering to more number of BPL cardholders than the prescribed norm. Essential commodities were not delivered on time in the test checked FPS and stocks of essential commodities were not displayed in any of the FPS visited. FPS were not reconciling the commodities received with the quantities issued to the beneficiaries. Monitoring mechanism relating to Public Distribution System was

inadequate, with the Committees (Food Advisory Committee, Price Monitoring Committee) failing to meet at the prescribed intervals and to monitor the availability and prices of essential commodities.

4.9 Recommendations

- Government should take steps for timely delivery of Custom Milled Rice to Food Corporation of India.
- Government should evolve a foolproof system for identification of BPL households before issue of ration cards.
- Government should ensure effective coordination with FCI for positioning stocks at designated depots for economic transportation.
- Storage arrangements should be strengthened by constructing adequate number of own godowns.
- Inspection of Fair Price Shops at regular intervals should be ensured and monitoring mechanism with regard to functioning of PDS operations should be strengthened.

The recommendations were discussed in the Exit Conference (December 2013) and accepted by the Government.