CHAPTER V
CHAPTER-V

FINANCIAL MANAGEMENT OF FOOD CORPORATION OF INDIA

5.1 Submission of Programme of Activities and Financial Estimates:

Food Corporation shall, before the commencement of each year, prepare a statement of programme of its activities during the forthcoming year, as well as a financial estimate in respect thereof.

The Statement prepared under sub-section (1) shall, not less than three months before the commencement of each year, be submitted for approval:

(a) In the case of FCI to the Central Government
(b) In the case of State Food Corporation, to the FCI.

The Statement and financial estimate of a Food Corporation referred to in sub-section (1) may, with the approval of the Central Government in the case of a State Food Corporation, be revised by the Food Corporation.

5.2 Capital Structure

Capital Structure is the permanent financing of the firm represented by long-term debts, preferred stock and net worth. The term of capital structure is frequently used to indicate long-time source of funds employed in a business
enterprise. It refers to the composition of long-time sources of funds such as, debentures, long-term debt, preference share capital and ordinary share capital, including reserves and surplus. The basic pattern of capital structure may take any one of these forms:

1. Equity Shares only
2. Equity Shares and Preference Shares
3. Equity Shares and Debentures
4. Equity Shares, Preference Shares and Debentures.

There are no hard and fast rules to indicate what pattern would be ideal under what circumstances and what percentage of capitalisation should be represented by Equity Shares, Preference Shares or Debentures. It may differ from industry to industry, trade to trade, from company to company and so on, but whatever decision is taken in evolving the capital structure of a company, two basic principles must be observed:

i) The ratio of fixed debts to equity shares should always be geared to the degree of stability of earnings.

ii) The capital structure must be balanced with adequate equity cushion, to absorb the stocks of the business cycle and to afford flexibility.
The Food Corporation of India is empowered by Government of India to increase its authorised capital from time to time, which was fixed at Rs. 100 crores initially. This was increased to Rs. 200 crores, Rs. 450 crores and Rs. 1000 crores in 1972-73, 1976-77 and 1991-92 respectively.

The paid-up capital which has been wholly subscribed by the Government of India stood at Rs. 261.21 crores, Rs. 265.03 crores, Rs. 277.66 crores, Rs. 307.50 crores, Rs. 727.67 crores, Rs. 795.67 crores, Rs. 833.67 crores, Rs. 885.17 crores, Rs. 908.49 crores, Rs. 923.49 crores in 1982-83 to 1991-92 respectively. At present, the Corporation has a soft loan of Rs. 1000 crores from the Government.

Position of authorised capital and paid up capital of FCI for the last 10 years has been shown in Table No. 5.1 below:
Table 5.1

Authorised and Paid-up Capital of FCI

<table>
<thead>
<tr>
<th>Year</th>
<th>Authorised Capital</th>
<th>Paid-up Capital</th>
<th>% of paid-up capital to Auth. Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>450</td>
<td>262.21</td>
<td>58.05</td>
</tr>
<tr>
<td>1983-84</td>
<td>450</td>
<td>265.03</td>
<td>58.90</td>
</tr>
<tr>
<td>1984-85</td>
<td>450</td>
<td>277.66</td>
<td>61.70</td>
</tr>
<tr>
<td>1985-86</td>
<td>1000</td>
<td>307.50</td>
<td>30.75</td>
</tr>
<tr>
<td>1986-87</td>
<td>1000</td>
<td>727.67</td>
<td>72.77</td>
</tr>
<tr>
<td>1987-88</td>
<td>1000</td>
<td>795.67</td>
<td>79.57</td>
</tr>
<tr>
<td>1988-89</td>
<td>1000</td>
<td>833.67</td>
<td>83.37</td>
</tr>
<tr>
<td>1989-90</td>
<td>1000</td>
<td>885.17</td>
<td>88.52</td>
</tr>
<tr>
<td>1990-91</td>
<td>1000</td>
<td>908.49</td>
<td>90.85</td>
</tr>
<tr>
<td>1991-92</td>
<td>1000</td>
<td>923.49</td>
<td>92.35</td>
</tr>
</tbody>
</table>

The Table No. 5.1 shows the authorised and paid up capital of FCI since last 10 years. If we look at its authorised capital, it shows stationed. If we compare the paid-up capital with its authorised capital, it was 58.05% of its authorised capital in 1982-84 but it was reduced to 30.75% in 1985-86. Since then, it shows an increasing trend. The paid-up capital was 92.35% of its authorised capital.

POSITION OF AUTHORISED CAPITAL & PAID UP CAPITAL OF FCI
capital in 1991-92. It is because the FCI needs larger funds to meet out expanding business activities. Section 5 (3) of the FCI provides that the entire capital will be provided by Government of India as per Section 27. The FCI can borrow money from the Central Government of India, as per UNSECURED LOAN.

The same section also authorises the FCI to take advances against stock of foodgrains or borrow money from any scheduled bank or from other banks or financial institutions, approved by Government of India for working capital. This is known as SECURED LOAN.

5.3 Sources of Finance and Cash Management

5.3.1 Source of Finance:

To elaborate the matter further, the fixed and working capital requirements of the FCI are met from the following sources:

(i) Equity Capital from Government of India.
(ii) Loans from Govt. of India (loans since converted into Equity.)

* Compiled from the Food Corporation Act, 1964.
(iii) Cash Credit Facility from the banking sector.

(v) Internal resources like depreciation reserved and other reserves built-up from small profits arising out of commercial operations.

The major resources of finance is, however, cash credit only to the extent of Rs. 4255 crores, availed from the banking sector during the year 1991-92, which was Rs. 2014 greater than 1990-91.
Table 5.2  
Source of Finance of FCI on All India Basis (from 1982-83 to 1991-92)  
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity</th>
<th>Loan from Govt. of India</th>
<th>Cash Credit from banking sector &amp; other borrowing</th>
<th>Internal Resource</th>
<th>Grand Total</th>
<th>% of increase or decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>265.03</td>
<td>317.89</td>
<td>2646.73</td>
<td>563.93</td>
<td>3793.58</td>
<td>-</td>
</tr>
<tr>
<td>1983-84</td>
<td>277.66</td>
<td>330.51</td>
<td>3400.67</td>
<td>559.89</td>
<td>4648.73</td>
<td>22.54</td>
</tr>
<tr>
<td>1984-85</td>
<td>307.51</td>
<td>330.36</td>
<td>4553.04</td>
<td>629.06</td>
<td>5819.97</td>
<td>53.42</td>
</tr>
<tr>
<td>1985-86</td>
<td>727.67</td>
<td>-</td>
<td>4502.74</td>
<td>791.58</td>
<td>6488.54</td>
<td>70.25</td>
</tr>
<tr>
<td>1986-87</td>
<td>883.67</td>
<td>1200.00</td>
<td>3251.14</td>
<td>941.73</td>
<td>4816.60</td>
<td>26.97</td>
</tr>
<tr>
<td>1987-88</td>
<td>883.67</td>
<td>1200.00</td>
<td>1980.05</td>
<td>802.88</td>
<td>4816.60</td>
<td>26.97</td>
</tr>
<tr>
<td>1988-89</td>
<td>861.42</td>
<td>1200.00</td>
<td>1078.75</td>
<td>980.50</td>
<td>4120.67</td>
<td>8.62</td>
</tr>
<tr>
<td>1989-90</td>
<td>88.81</td>
<td>1200.00</td>
<td>2240.87</td>
<td>1099.69</td>
<td>5425.73</td>
<td>43.02</td>
</tr>
<tr>
<td>1990-91</td>
<td>908.49</td>
<td>1200.00</td>
<td>4256.09</td>
<td>1282.90</td>
<td>7647.48</td>
<td>101.59</td>
</tr>
<tr>
<td>1991-92</td>
<td>923.49</td>
<td>1200.00</td>
<td>4431.98</td>
<td>1257.04</td>
<td>7812.51</td>
<td>105.94</td>
</tr>
</tbody>
</table>

The above table shows sources of finance of FCI for the last 10 years. On tea basis of above table, we can say that overall position of finance of 1983-84, 1984-85, 1985-86 and 1986-87 were better than the previous year level because it was in increasing tend. Thereafter, its position has

gone down due to less cash credit and borrowing from banking sector. Its total financial position has gone up again from 1990-91 due to increase in cash credit and borrowings from banks. The above table also explains that Corporation is regularly trying to enhance its internal resources. Internal resources of 1984-85, 1985-86, 1986-87, 1987-88, 1988-89, 1989-90, 1990-91 and 1991-92 were 11.55%, 40.37%, 67%, 42.37%, 73.87%, 95%, 127.5% and 122.9% greater than 1982-83.

5.3.2 Cash Management

Cash Management is the most vital function of the finance wing in any organisation, more over in a big undertaking like FCI having a turn over of over Rs. 10,555 crores per year, at present. No prudent organisation can afford to keep any portion of cash idle nor can it afford to find the minimum amount of cash required to run the business efficiently. The Corporation needs large amounts of cash for its purchase operations and the requirement of cash for this is met primarily from operating and cash credit facilities, given by the State Bank of India and its consortium. In the past, there was a two-day flow of funds, one from the units spread over the length and breadth of

India and the other from head Office to the units. This resulted in unnecessary blocking of funds and consequent loss of interest. This procedure was done away with and the method in vogue over the years streamlined and a fresh system introduced eliminating as far as possible this two way traffic, thereby eliminating idle cash and converting the available cash to the minimum.

Objective of Cash Management

The main objective in managing cash is to trade-off liquidity and profitability, in order to maximise long run profits. By keeping greater amounts of current accounts, cash (liquidity) an organisation is more able to meet its debts (both expected and unexpected) and thus creditors' confidence is kept intact. However, current account cash does not earn any interest so greater amounts of resources left as cash balances to increase in costs of the Company.

In cash, balances were reduced to nil the damage to credit impairment can by shortage of liquidity will almost certainly lead to increase in cost. Management, therefore, has to formulate policies about the level of liquidity to keep at any moment of time. The management of cash is usually vested in finance executives of any organisation
because of their knowledge of short term borrowing, short-
term investment opportunities and their responsibilities in
preparing budget.

(I) Old Cash Management System

Till 31.12.75 the Cash Management of the Corporation
was more or less centralised. The main and Central Cash
Credit Account was being held at the State Bank of India,
New Delhi. Individual Cash Credit Accounts for small
amounts were being operated at the various
District/Regional/Zonal Offices. The Corporation had also a
large number of depository and current accounts at the
various district offices. Almost the entire cash credit
limits authorised by the banking system were operated
centrally from New Delhi and the fund requirements of the
various districts of the Corporation for procurement and
other purposes were met from the Central Cash Credit Account
maintained at New Delhi. These funds used to be remitted
to the various district offices on the basis of requisition
letters/telex, telegrams received from them. The sale
collections and other receipts obtained at the various
District Offices were credit to the depository accounts
maintained by these offices. These credit balances were
then transferred in full to the Central Cash Credit Account
of the Corporation at New Delhi every day, as per standing instructions to the Bank. Thus, on the one hand, there were large remittance from New Delhi to the various offices in India for operations and on the other hand, there were equally large remittance from the same district offices back to New Delhi on account of the sale collections and other revenue receipts.

Short-comings of the Old Cash Management System

This system which was in existence right from the inception was under constant review and it was being observed that it had certain inherent shortcomings.

1. The District Offices had kept balances with them unutilised for a number of days, as a result avoidable interest was paid.

2. The District Offices were not reconciling the Inter-Office Remittance Accounts periodically which resulted in accumulation of unreconciled balances under IOR Accounts.

3. Telegraphic transfers sent from headquarters did not reach the destinations in time, and telegraphic transfers sent by State Bank of India's various branches did not reach the Central Office in time.
A new system of cash management was introduced from 1.1.1976. Under the new cash management system, cash credit facility of 4810 crores (4500 crores for foodgrains, 80 crores for sugar and 230 crores for fertilizer) for purchases and handling operations of foodgrains, sugar and fertiliser has been allotted against hypothecation of stocks by the State Bank of India.

Of course, the surety against the margin money required is provided by the Central Government. Most of the depository accounts and current accounts which were hitherto being separately maintained by the District Offices were abolished and the drawal and deposit accounts merged into single revolving cash credit accounts with adequate limits.

Under the new system, the cash receipts obtained by the districts through sales etc. can be used for meeting the expenses for procurement etc. Separate cash credit accounts with adequate limits were also opened at each of the Zonal offices and revolving and national cash credit accounts opened at the various district offices were tagged to the respective Zonal Cash Credit Accounts. It has also been arranged that the net debit/credit balances in the
revolving accounts at the district offices are automatically transferred at the end of each day of Zonal Cash Credit Accounts.

Salient Features of the Cash Management System

The salient features of the new system are as under:

(i) The District/Regional/Zonal Offices shall operate the combined accounts for all operations viz deposits and withdrawals.

(ii) The net debit or credit balances in the accounts will be transferred in full at the end of each day by the branches of State Bank of India to the Zonal Central Cash Credit Accounts, which were opened new for this purpose.

(iii) In view of such daily transfers, no interest whatsoever would be debited in the bank accounts was maintained by the District/Regional/Zonal offices.

Advantages of the New Cash Management System

The new arrangement resulted in the following advantages:

(i) The total number of accounts maintained by the Corporation as a whole was reduced. The number of
bank accounts (cash credit depository and current) maintained by the Corporation on 31.12.75 was 1964. As a result of the introduction of new system the number of the bank accounts went down to 1240.

(iii) The field offices can utilise the money already available with them for their operations without having to wait for the remittances from New Delhi. They need funds only when their receipts fall short of their requirements. This has brought about a good deal of operational flexibility and conveniences.

(iii) The two way traffic of funds, one in respect of gross requirements of district offices to be transferred by the headquarters and the other in regard to the gross realisation obtained by them to be transferred from back to the Headquarters has been completely eliminated.

(iv) The transfer of funds from one office to another is infrequent, even such transfers are in one direction only, from the district offices to the Zonal Offices. These transfers are in respect of the net credit/debit balances only in the various bank

accounts. Thus, the quantum of movement as well as the frequency of the fund transfers among the various offices of the Corporation have been considerably reduced.

(v) Delays in the receipt of the funds by the district offices causing inconvenience to them, have been practically eliminated.

(vi) Difficulties in tracing the credits on account of the frequent transfer of funds have been solved to a great extent.

(vii) The new system of cash management introduced from 1.1.76 has not only brought about operational convenience but has also resulted in substantial saving in the interest liability of the Corporation.

Opening of Bank Account

No bank account can be opened without specific sanction of the Zonal office. Cash Credit limits are allotted to the units by the Zonal Office out of the limit allocated by Headquarters. The total Cash Credit Limit allotted to North Zone is 100 crores and the other zones 40 crores each. All proposals for opening of the new account whether Cash Credit or Current Account should be referred to Zonal Office giving
all the necessary particulars such as name and designation of the officer to be authorised to operate the account, name of the bank and/or its branch where the account is to be opened etc. All such proposals should be sent either through the Regional Manager/Sr. Regional Manager concerned or should have his approval. In the latter case, there should be "specific indication to that effect".

Authorisation to Operate the Bank Account

The Z.M./D.Z.M./S.R.M./R.M./J.M. (P.O.) etc. are authorised to operate the bank account opened in their names. Besides that, Regional Managers are empowered to authorise the District Manager and the officers of the Accounts Divisions to operate the Bank Account already opened. If an Accounts Division has to be authorised to operate such a Bank Account, specific approval of the Manager (Finance) of Zonal Office is necessary.

Procedure for Withdrawal of Funds

The procedure regarding making available the funds has been discussed above. The withdrawal of funds is made only by the cheque signed by the person authorised to sign them.

Interest Rate

The Reserve Bank of India, Bombay fixes the rate of
interest of overdraft, utilised by the Corporation by various accounts. The present rates are given below:

a) Food - 16% per annum on quarterly balance.
b) Sugar - 18% per annum on quarterly balance.
c) Fertilizer - 18% per annum on quarterly balance.

Cash Management in FCI

(1) Sources of Cash Receipts:

Sources of cash receipts in the FCI are as under:

1. Equity Capital given by the Government of India.
2. Unsecured loans given by the Government of India.
3. Borrowings from Banks.
4. Receipts from sale of foodgrains, fertilizers and other commodities.
5. Receipts from services rendered to outside organisation
6. Receipts on account of subsidy from the Govt. of India.
7. Other miscellaneous receipts.

(ii) Utilisation of Funds:

The utilisation of funds of FCI is in the following items:

1. Purchase of foodgrains, fertilizers and other commodities.
2. Handling, transport and port operations.
3. Interest of Bank overdrafts and Government loans.
4. Storage and other services.
5. Income-tax, sales tax and other taxes and duties.
6. Capital Expenditure on constructions as well as acquisition of fixed assets.
7. Miscellaneous payments.

5.4 Accounting System of FCI

The FCI is required to maintain proper accounts and prepare annual profit and loss accounts and balance sheet, under section 34 of the Companies Act. The sub-section (2) of the same section provides that the accounts of the FCI shall be audited by the auditors duly qualified to act as the auditors of the Companies under the Companies Act, 1956. The auditors shall be appointed by the Food Corporation of India as per section 34 (5) and the C & A.G. shall have powers to audit accounts of the FCI after they are audited by the auditors as discussed earlier. The C & AG shall send a copy of their report to the Government of India. The Central Government, on receipt of the report, shall place it before the houses of Parliament, as per Section 35 (2).

The Corporation accounts are based on double entry system of book keeping. The detailed procedure of accounting and
the accounting records which are maintained by this department are prescribed in the FCI Accounts Manual. The Accounts Manual prescribed following 10 books of original entries (Detail of books are given in Appendix-2).

5.4.1 B.E.I. Receipt Cash Book

All the receipts through cash, cheques, pay order, demand draft etc. are entered in this book under Form No.1. On day-to-day basis, the entries are passed by debit to cash/bank as the case may be, on the principle. 'Debit' what comes in. The Credit is accorded to the relevant account heads on the basis of credit given, credit what goes out and credit incomes and gains.

5.4.2 B.E.2 Payment Cash Book

All the payments made by cheques are entered in this book in Form No.2 on day-to-day basis and credit is given to cash or bank on the principle of credit - what goes out. The credit is accorded to the relevant account head on the principles of debit the receiver debit what comes in and debit expenses and losses.

5.4.3 B.E. Petty Cash Book

This is a supplementary book to the payments Cash Book wherein petty payments by cash are recorded on the same
The principle as explained under the payments cash book. The daily totals of the petty cash book are extended to main payment cash-book.

The cash book is thus maintained in three parts and, therefore, a summary of the daily totals or receipts and payments cash book is made out in the receipt cash book to indicate the closing balances of cash and bank of each day.

5.4.4 B.E. 4 Purchase Day Book

The Corporation is purchasing imported and indigenous foodgrains, sugar, fertilizers, pulses and other commodities. All the purchase transactions are recorded in the purchase day book in form No. 4-A to 4-D. Separate purchase day book is required to be maintained for each commodity. Separate form has been prescribed for different types of purchases, as are specified in the Accounts manual. The bills of the parties form the basis for entry in the purchase day book. Various details of procurement charges, cost of grains etc. alongwith the quantity are posted in this book. The principle adopted for passing the entries in purchase day book is made and credit the giver and debit what comes in."
5.4.5 B.E.5 Sales Day Book

The Corporation is selling foodgrains, fertilizers, sugar pulses and other commodities and all the sales are recorded in the sales day book which are maintained separately for credit and cash sales. The credit sales are recorded in "sales day book for credit sales" BE-5-A (Form No. 11) and Cash Sales are recorded in "Sales Day book for Cash Sales" B.E.-5-B (Form No.12). The bills raised by the Corporation against various parties for credit sales form the basis for entry in BE 5-A and release orders for entries in 5-A. The entries are made on the basis of debit the receiver and credit what goes out.

5.4.6 B.E.6 Register of Inter-Office Transfer In:

There is huge movement of foodgrain stocks from one FCI Office to other FCI offices. The consignments of foodgrains and stores received from other accounting units of the Corporation are recorded in this register in form No. 15. The transfer in invoice (form No. 15) received from the consigner office form the basis of entry in this register. The credit is given to inter-office movement account by debit to the commodities received.
5.4.7 B.E.7 Register of Inter Office Transfer Out

All the despatches of foodgrains and other commodities to other FCI offices are entered in this register (Form No. 16) on the basis of the transfer out invoices issued to the consignee office. The debit is accorded to the inter-office movement account by credit to the commodity despatched. The transfer out invoice issued is the basis of entry in this register.

5.4.8 B.E.8 Register of Railway Credit Notes

The payment of freight siding charges etc. to the railways is being made by our depots through the railway credit notes. These credit notes are presented by the railways in our bank and the payment is made by the bank to them as in case of cheques. The credit notes issued to the railways are entered in this book (form No. 17) by credit to sundry creditors railways credit note by debit to relevant expenditure heads.

5.4.9 B.E.9 Register of Claim Recoverable

The claims on railways for excess payment of freight and demurrage and shortages in whole bags in the case of clear RRS and on the other parties which are accountable on actual basis are recorded in this register (Form No. 18) on the
basis of the claims lodged. It is, however, pertinent to note that the claims on railways for compensation for shortages in weight and damage to stocks and missing wagons are accounted for on cash basis and are entered in this register. The parties against whom the claims are lodged are debited and the income to credited.

5.4.10 B.E.10 Journal

(i) The transactions which cannot be accounted for in any of the above books of original entries are recorded in this book. The loose leaf journal sheet in form No. 19 is used in this purpose.

At the end of every month, the totals of each column of all the books of original entries are made separately and the same are posted in the general ledger.

(ii) General Ledger

The general ledger is a book of final entries wherein the financial data from all the books of original entries are posted under relevant heads of accounts through the monthly posting sheets prepared in the above books of original entries. The purpose is to bring all the financial data together to facilitate
preparation of trial balance with ultimate aim to prepare profit and loss account and balance sheet of the Corporation. The general ledger is closed at the end of each financial year, which is 1st April to 31st March, in the case of FCI.

(iii) Subsidiary Ledgers and General Accounts:

The purpose of subsidiary ledger is to keep the personal accounts of the customers and suppliers, party-wise, the total of which is maintained in the control account in the general ledger, various subsidiary ledgers have been prescribed in the account manual.

(iv) Stock Accounts:

All the district accounting units are required to maintain stock ledger for various foodgrains, commodities and other stores. This book is maintained by them in quantity and value. This is in addition to the master stock ledger maintained by the various depots. The stock ledgers are required to be maintained by variety-wise, commodity-wise and location-wise. The purchase quantities and values are
posted from the B.E.4, the quantity sold is posted from B.E.5A and 5-B. The cost of sales is, however, brought to the accounts through B.E.-10 journal. The transfers in and transfers out of the commodities are posted from B.E.6 and 7 respectively both in quantity and value. The other costs i.e. procurement charges etc. are also posted from B.E.4. The gains and losses as also internal consumption are brought to the Stock ledger through B.E.-10 by passing suitable journal entry.

(v) Final Accounting:

The purpose of keeping the accounts records is to prepare the final accounts of the Corporation at suitable intervals. The annual accounts of the Corporation are finalised as on 31st March, every year. However, the accounts by various offices are also prepared on quarterly basis, i.e. as on 30th June, 30th September and 31st December every year.

The trial balances, stock ledger, summaries and all other accounting schedules are prepared by the accounting units for each quarter as also as on 31st March. The schedules of subsidiary ledgers are also prepared to check the accuracy of control figures appearing in the trial balance.
The district accounts are consolidated for region as a whole in the regional office, which forms the basis for All India Consolidated Accounts, to be prepared in the Headquarters. The Headquarter prepares profit and loss account and balance sheet from the consolidated all India trial balance.

All the transactions relating to procurement, movement, storage and distribution have to be reflected in financial terms, while compiling the accounts. Accounts have to be maintained in the depots, district offices, regions, zones and at the Head Quarters level. For this purpose, the stock accounts emanate from the deposits, which receive and issue the stock and they have to be compiled at the district level, which forms the basic accounting unit of the Corporation.

The financial transactions at the district level cover the payment of cost of foodgrains procured, contract labour, freight, storage charges, staff cost and the receipt of sale proceeds for issue of foodgrains. These transactions, which are reflected through the bank and cash accounts are compiled right from the district office onwards. They have
to be classified under various revenue and capital heads for which accounts codes are prescribed in the Accounts manual. These transactions are then compiled in the form of trial balance. One for financial transactions and the other for stock transactions at each district office. They are then consolidated at the Regional office concerned incorporating the financial transactions at the Regional Offices and Zonal offices are consolidated at the Head Quarters, annually for preparing the final accounts of the Corporation as a whole and working out the subsidy payable by the Government of India.

The district offices numbering in all 156 constitute the basic accounting units of the FCI from which the financial and stock accounts get compiled, audited and then consolidated at the respective regional levels and finally at the Head Quarters. The income and expenditure pertaining to each office are to be classified under different heads of accounts stipulated in the accounts manual and trial balances are to be extracted at the District/Regional/Zonal level in the prescribed formats.
In view of the inter-dependant nature of the transactions, as explained earlier and the fact that no unit office is a self financing unit, the FCI is not preparing separate profit and loss account and balance sheet at each unit level. These final accounts are prepared at the Head Quarters level only on the basis of the audited trial balance received from the district, region and the zones. There are lot of inter-unit transactions which have to be responded correctly at both the ends to ensure accuracy in compilation of accounts. The Corporation had lot of hurdles in the past in tying up all the factors connected with compilation of accounts, getting them audited and presenting the same to the Board, within a reasonable period.

Successful efforts were made to get the annual accounts of the Corporation completed in all respects approved by the Board of Directors and presented to the Government of India within 9 months after the closure of the accounting year.

5.5 Cash Credit Limits and Borrowings:

5.5.1 Cash Credit Limits

As a measure of safety and convenience, and as per the commercial practices, most of the financial transactions of
the FCI are routed only through bank accounts to ensure effective utilisation of cash credit facility, which is a major source of finance for the FCI for meeting its financial requirements. For this purpose, it is absolutely essential that all the sales realisation and other revenues are credited in the bank account promptly to keep the balances in the cash credit accounts at the minimum level and reduce the interest burden thereon. Further, in order to reduce the quantum and frequency of remittances to and from between the unit offices and avoid loss of interest on the funds due to transit delay, all the cash credit accounts have been made as revolving ones with certain limits fixed for each, depending upon the requirement of each office. As a result of this system, the unit offices are able to manage their financial requirements with their daily collections and the revolving cash credit limits fixed, because the daily balances arising out of transactions for the day, debit or credit are transferred invariably from the offices to the zonal offices, thereby enabling the unit offices to start the transactions afresh the next day with the same limit available and their daily collections. With the introduction of the new cash management system in the year 1976, the operation of the bank accounts and the management of cash resources in a zone are controlled at the zonal level, whenever funds are required by the Head
quarters and if any surplus funds are available in the Zonal Cash Credit accounts, the required funds are transferred from the Zonal office to the Head Quarters. The control over the maintenance of these bank accounts is exercised by the zonal office through timely submission of certain data like weekly IOR advices and bank reconciliation statements by all the unit offices to enable the zonal office to take up the matter with the State Bank of India and the unit office concerned, whenever any discrepancies in the transfers of balances are noticed.

The interest charged by the State Bank of India vary depending upon the nature of operations undertaken by the FCI as different interest rates are charged for food, fertiliser and sugar operations. The FCI is maintaining separate cash credit accounts for these operations and these limits are all decided by the Reserve Bank of India for every six months, depending upon the requirements projected by the FCI.

As on 30th November, 1986, the FCI was operating about 1600 Cash Credit Accounts at different FCI Offices throughout the country. The cash credit limits, sanctioned by the RBI for availing from the SBI and the consortium of nationalised banks of last 8 years have been shown in Table No. 5.3
**Table 5.3**

Cash Credit Limits of FCI on all-India Basis  
(from 1984-85 to 1991-92)  
(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foodgrains</th>
<th>Sugar</th>
<th>Fertilizer</th>
<th>G.Total</th>
<th>% of increase/decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>4500</td>
<td>80</td>
<td>230</td>
<td>4810</td>
<td>-</td>
</tr>
<tr>
<td>1985-86</td>
<td>4500</td>
<td>135</td>
<td>230</td>
<td>4865</td>
<td>+ 1.14</td>
</tr>
<tr>
<td>1986-87</td>
<td>3354</td>
<td>20</td>
<td>147</td>
<td>3521</td>
<td>- 26.80</td>
</tr>
<tr>
<td>1987-88</td>
<td>1753</td>
<td>55</td>
<td>172</td>
<td>1980</td>
<td>- 58.84</td>
</tr>
<tr>
<td>1988-89</td>
<td>819</td>
<td>56</td>
<td>204</td>
<td>1079</td>
<td>- 77.57</td>
</tr>
<tr>
<td>1989-90</td>
<td>1314</td>
<td>43</td>
<td>237</td>
<td>1594</td>
<td>- 66.86</td>
</tr>
<tr>
<td>1990-91</td>
<td>3737</td>
<td>125</td>
<td>217</td>
<td>4079</td>
<td>- 15.20</td>
</tr>
</tbody>
</table>

The above table shows cash credit limit sanctioned by the RBI for availing from the SBI and the consortium of nationalised banks of last 8 years (1984-85 to 1991-92). On the basis of this information, we can say that the percentage of cash credit limit of 1985-86 has gone up by about 1.14% than 1984-85, thereafter, it has gone down continuously till 1991-92. Although the Corporation has tried to improve its cash credit limit in 1990-91 and 1991-92, that is why it was greater than 1989-90 but it is still less than that of 1984-85.

5.5.2 Borrowings:

Section 27 of the Act deals with the borrowing power of the FCI for the purpose of carrying out its functions. The Corporation can borrow money from Central Government. It can also take advance against stocks of foodgrains or borrowed money from any nationalised or scheduled bank or any financial institution approved by Government of India. The advance taken against hypothication of stocks are called "Secured Loans". It has further been decided that instead of going and approaching the various banks for the purpose of borrowing only, State Bank of India would provide FCI enough loans in the capacity of leader of consortium of banks. Total borrowings of FCI of last ten years have been shown in Table No. 5.4
Table 5.4

Borrowings of FCI on All India Basis (1982-83 to 1991-92)
(Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Govt. of India</th>
<th>Bank</th>
<th>G.Total</th>
<th>% of increase or decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>317.89</td>
<td>2646.73</td>
<td>2964.62</td>
<td>-</td>
</tr>
<tr>
<td>1983-84</td>
<td>330.51</td>
<td>3480.67</td>
<td>3811.18</td>
<td>+ 28.56</td>
</tr>
<tr>
<td>1984-85</td>
<td>330.36</td>
<td>4553.04</td>
<td>4883.40</td>
<td>+ 64.72</td>
</tr>
<tr>
<td>1985-86</td>
<td>-</td>
<td>4502.74</td>
<td>4502.74</td>
<td>+ 51.90</td>
</tr>
<tr>
<td>1986-87</td>
<td>1200.00</td>
<td>3521.14</td>
<td>4721.14</td>
<td>+ 59.25</td>
</tr>
<tr>
<td>1987-88</td>
<td>1200.00</td>
<td>1980.05</td>
<td>3180.05</td>
<td>+ 7.25</td>
</tr>
<tr>
<td>1988-89</td>
<td>1200.00</td>
<td>1078.75</td>
<td>2278.75</td>
<td>- 23.14</td>
</tr>
<tr>
<td>1989-90</td>
<td>1200.00</td>
<td>2254.78</td>
<td>3459.77</td>
<td>+ 16.06</td>
</tr>
<tr>
<td>1990-91</td>
<td>1200.00</td>
<td>4256.09</td>
<td>5456.09</td>
<td>+ 84.04</td>
</tr>
<tr>
<td>1991-92</td>
<td>1200.00</td>
<td>4427.00</td>
<td>5627.00</td>
<td>+ 89.80</td>
</tr>
</tbody>
</table>

The above table shows borrowings of FCI for the last ten years from Government of India and from nationalised and scheduled banks. Corporation has borrowed from Central Government Rs. 317.89 crores in 1982-83, Rs. 330.51 crores in 1983-84, Rs. 330.36 crores in 1984-85. From 1986-87 onwards, Central Government has fixed standard amount of loan of Rs. 1200 crores per annum. Due to enhancement of the

expenditure of FCI, this borrowing was not sufficient to meet out total requirement of the FCI, so that it has started borrowings from the banks also. In the year 1987-88 and 1988-89, its position was quite satisfactory because of borrowings from banks were half than the previous year (1987-88) and less than half in 1988-89. But this position was again changed because borrowing from banks were double in 1989-90, 3.9 times in 1990-91 and 4.1 times in 1991-92 than the previous year level.

5.6 Aid From Government and Consumer

The consumer aid channelised through the FCI for issue of foodgrains for the public distribution system arises as a result of the fact that the issue prices fixed by the Government of India do not fully cover the economic cost incurred in the procurement (or import as the case may be), movement, storage and distribution. The consumer aid which is presently being borne by the Government of India is also in respect of the carrying cost of the large buffer stocks (presently fixed by the Government at 10 million tonnes of wheat and 5 million tonnes of rice) maintained by the FCI.

The economic cost of procuring (or importing) grains and issuing the same for the public distribution system is made up of the following items of charges:
(a) Procurement price (or C & P cost for imported grains)
(b) Procurement expenses (or post clearance charges for imported grains).
(c) Storage, movement and distribution expenses.

The procurement prices at which the foodgrains are to be procured from different States as also the issue prices at which the grains are to be released from the Central pool to the State Government/their agencies for the public distribution system are fixed by the Government of India and the Corporation has no control over them. The bulk of the procurement of the grains is made by the State Government and their agencies and the procurement charges incurred on the grains by the FCI represent the actual payments made to the State Government/agencies on the basis of incidentals fixed by Government of India.

The procurement expenses which are paid to the State Government and their agencies broadly comprise the market fee, commission paid to the kacha arhatias, purchase/sales tax, gunny cost, State Govt. administrative charges in certain cases, mandi labour forwarding charges, internal movement storage, interest establishment charges etc. A large portion of these charges such as the market fee, gunny
cost which forms over 65% of the procurement charges is either statutory or obligatory in nature.

The movement storage and distribution expenses incurred by the FCI comprises the transportation cost for moving the grains storage and interest charges for holding the grains for public distribution system.
### Table 5.5

Position of Aid from Consumer and Carrying Cost of Buffer Stock of FCI on All India Basis (From 1982-83 to 1991-92)  
(Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Aid from consumer</th>
<th>Carrying cost of Buffer Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>759.62</td>
<td>184.47</td>
</tr>
<tr>
<td>1983-84</td>
<td>822.38</td>
<td>268.99</td>
</tr>
<tr>
<td>1984-85</td>
<td>854.74</td>
<td>497.94</td>
</tr>
<tr>
<td>1985-86</td>
<td>1373.39</td>
<td>517.57</td>
</tr>
<tr>
<td>1986-87</td>
<td>1622.59</td>
<td>510.05</td>
</tr>
<tr>
<td>1987-88</td>
<td>1924.33</td>
<td>203.82</td>
</tr>
<tr>
<td>1988-89</td>
<td>2423.24</td>
<td>237.51</td>
</tr>
<tr>
<td>1989-90</td>
<td>1774.20</td>
<td>167.22</td>
</tr>
<tr>
<td>1990-91</td>
<td>2071.64</td>
<td>476.27</td>
</tr>
<tr>
<td>1991-92</td>
<td>2890.91</td>
<td>432.73</td>
</tr>
</tbody>
</table>

The Table No. 5.5. shows the position of aid from consumer subsidy and the carrying cost of buffer stocks from the year 1982-83 to 1991-92. This table shows consumer subsidy in increasing trend from Rs. 759.62 crores in 1982-83 to Rs. 2890.91 crores in 1991.92. It has increased due to finalisation of procurement, incidental charges on wheat payable to State Government, payment of compensation and service gratuity to departmental workers at ports under

POSITION OF AID FROM CONSUMER SUBSIDY & CARRYING COST OF BUFFER STOCK OF F.C.I. ON ALL INDIA BASIS
special voluntary retirement schemes. Increase in freight and handling charges and increase on account of issue of wheat and rice under Integrated Tribal Development Programme at specially subsidised prices.

The carrying cost of buffer stock of last 10 years shows increasing trend due to transit and storage shortages for distribution.

5.7 Suar Price Equilisation Funds:

The Corporation has been maintaining on behalf of the Government of India, a fund called the Sugar Price Equilisation Fund from October, 1972 onwards when the distribution of levy sugar by the public agencies including the FCI was first started and a uniform retail issue price was fixed. The excess realisation in some of the states where the costs are lower to be credited to the Fund while the payments are required to be made from the fund in respect of the short realisation in some other states where the costs are higher. although the fund was envisaged to be self-balancing when it was started in actual practices, the fund has been in deficit for the last several years, mainly on account of the enhanced prices payable to the Sugar
Mills, as a result of the interim orders given by the High Court on the writs filed by the Sugar Mills.

The distribution and price control on levy sugar withdrawn by the Government of India in August, 1978. It was reimposed with effect from 17th December, 1979. The uniform retail issue price of levy sugar which was Rs. 235 per quintal at the time of decontrol was fixed at Rs. 285 per quintal on the re-introduction of the scheme. The following table shows the position of sugar prices equilisation fund of last 10 years.
Table No. 5.6
Position of Sugar Price Equilisation Fund of FCI
on All India Basis (from 1982-83 to 1991-92)
(Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Receipt</th>
<th>Payment</th>
<th>Balance in Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>15.37</td>
<td>3.90</td>
<td>11.47</td>
</tr>
<tr>
<td>1983-84</td>
<td>20.07</td>
<td>0.75</td>
<td>19.32</td>
</tr>
<tr>
<td>1984-85</td>
<td>23.93</td>
<td>5.73</td>
<td>18.20</td>
</tr>
<tr>
<td>1985-86</td>
<td>27.34</td>
<td>5.98</td>
<td>21.36</td>
</tr>
<tr>
<td>1986-87</td>
<td>40.70</td>
<td>1.00</td>
<td>39.70</td>
</tr>
<tr>
<td>1987-88</td>
<td>37.47</td>
<td>0.98</td>
<td>36.49</td>
</tr>
<tr>
<td>1988-89</td>
<td>44.86</td>
<td>17.26</td>
<td>27.60</td>
</tr>
<tr>
<td>1989-90</td>
<td>32.28</td>
<td>21.74</td>
<td>10.54</td>
</tr>
<tr>
<td>1990-91</td>
<td>1.11</td>
<td>91.52</td>
<td>- 90.41</td>
</tr>
<tr>
<td>1991-92</td>
<td>1.74</td>
<td>78.69</td>
<td>- 76.95</td>
</tr>
</tbody>
</table>

The Table No. 5.6 shows the position of Sugar Price Equilisation Fund of FCI. It shows total receipts, payments and balance in trade. Balance in trade was quite unsatisfactory in the year 1990-91 and 1991-92, because in these years, total payments were higher than the receipts.

5.8 Utilisation and Investment of Funds:

The Corporation has its own funds. These are held in personal ledger account at the Headquarter, with the Reserve Bank of India. An Account is being opened in all the Regional and District Headquarters in the name of the Food Corporation of India and these are operated by a duly authorised officer. An account is being opened at these places with the State Bank of India or in any of its subsidiaries. If branch of State Bank of India or any of its subsidiaries is not in existence at that place, where any of the offices of the institution mentioned above is located an account may be opened at that place with one of the other scheduled bank. The Corporation utilises its funds towards fixed assets and current assets and to meet out miscellaneous expenses and losses. The following table shows the position of utilisation of funds of FCI for last 10 years:
### Table 5.7

Position of Utilisation of funds of FCI on all India Basis (from 1982-83 to 1991-92)

(Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Gross Deposits</th>
<th>Total Stock of</th>
<th>Sundry Loan and</th>
<th>Cash and Misc.</th>
<th>Total Grand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed for const-</td>
<td>Total</td>
<td>foodgrain debtors</td>
<td>Advanced bank</td>
<td>expenses</td>
</tr>
<tr>
<td></td>
<td>Assets ruction</td>
<td>of godown/silos investment</td>
<td>fertilizer payment including balances &amp; losses</td>
<td>and other to State Govt.</td>
<td></td>
</tr>
<tr>
<td>1982-83</td>
<td>260.23</td>
<td>24.50</td>
<td>284.73</td>
<td>2639.07</td>
<td>768.59</td>
</tr>
<tr>
<td>1983-84</td>
<td>291.23</td>
<td>32.46</td>
<td>323.69</td>
<td>2989.39</td>
<td>1142.88</td>
</tr>
<tr>
<td>1984-85</td>
<td>350.56</td>
<td>55.27</td>
<td>405.83</td>
<td>3903.43</td>
<td>1338.34</td>
</tr>
<tr>
<td>1985-86</td>
<td>458.90</td>
<td>51.51</td>
<td>510.41</td>
<td>3860.03</td>
<td>1448.35</td>
</tr>
<tr>
<td>1986-87</td>
<td>524.74</td>
<td>63.53</td>
<td>588.27</td>
<td>3941.36</td>
<td>1686.95</td>
</tr>
<tr>
<td>1987-88</td>
<td>583.09</td>
<td>47.73</td>
<td>630.82</td>
<td>2202.81</td>
<td>1687.33</td>
</tr>
<tr>
<td>1988-89</td>
<td>620.17</td>
<td>36.52</td>
<td>656.69</td>
<td>1835.22</td>
<td>1372.00</td>
</tr>
<tr>
<td>1989-90</td>
<td>650.21</td>
<td>31.05</td>
<td>681.26</td>
<td>3286.05</td>
<td>1152.18</td>
</tr>
<tr>
<td>1990-91</td>
<td>676.73</td>
<td>26.56</td>
<td>703.29</td>
<td>5177.67</td>
<td>1918.08</td>
</tr>
<tr>
<td>1991-92</td>
<td>698.12</td>
<td>25.66</td>
<td>923.78</td>
<td>4256.07</td>
<td>2151.76</td>
</tr>
</tbody>
</table>


* SPEF: Sugar Price Equilisation Fund.
The above table shows the position of utilisation of funds of FCI towards Fixed Assets, Current Assets and Fictitious Assets on All India basis. It can be observed from the above figures that investment towards fixed assets has gone up from Rs. 284.73 crores in 1982-83 to Rs. 923.78 crores in 1991-92 and investment towards current assets and fictitious assets has gone up from Rs. 3508.85 crores in 1982-83 to Rs. 7064.48 crores in 1991-92. The overall position of utilisation of funds of FCI has increased from 22.54% in 1982-83 to 110.57% in 1991-92, which is about 2.1 times more than 1982-83.

The Corporation may also invest its funds in the securities of the Central Government or of any state Government or in such other manner as may be prescribed. Presently, FCI has invested its funds on fully paid equity shares of Modern Food Industries (India) Ltd.

5.9 Allocation of Surplus Profits:

The Food Corporation of India has established a reserve fund in which every year such portion of annual net profit is credited as the Corporation thinks fixed. After making provision for such Reserve Fund and for bad and doubtful debt, depreciation in assets and all other matter which are usually provided for by Companies registered and incorporated under the Company. The balance of its annual net profits shall be paid in the case of the Food Corporation of India, to the Central Government and in the
case of a State Food Corporation to the Central Government and the Food Corporation of India in the same proportion as the Capital provided by them.

5.10 Audit and Physical Verification:

5.10.1 Audit

In the FCI, there is a three-fold arrangement for audit of its accounts, viz.,

(i) Internal Audit

(ii) Statutory Audit and

(iii) Audit by the Controller and Auditor General of India.

(i) Internal Audit:

The internal audit in the Corporation came into existence in June, 1967. Internal Audit may be defined as a systematic examination of books of accounts and documents and a review of operation undertaken within an organisation by an independent set of staff, not connected with the preparation of books of accounts etc. It is in fact an independent and critical scrutiny of the books of accounts with the documents vouchers etc.
It is regarded as an appraisal of aid to the top management for efficient administration. There is a general impression that the internal auditors' function is to report on the inefficiency or shortcomings of the administration/accounts. Such an impression is not correct. It is the duty of internal audit to promote the overall efficiency of the Organisation.

Internal audit is conducted by the staff of the Corporation to verify the accuracy and completeness of accounts etc. to ensure that all revenues or receipts collected are brought to account under the appropriate heads of accounts and that all expenses incurred and disbursements authorised are properly posted and correctly accounted for in the books.

The functions of the Internal Audit are no doubt analogous to those of the external audit. In fact, the quantum of audit to be conducted by the statutory auditors largely depends on the efficiency of the Internal Audit. While External Audit is conducted as an audit after the closing of the accounts for the financial year, internal audit is conducted concurrently quarterly/half yearly basis. Information to the management about the position of accounts
and observance of the financial rules and regulations is conveyed through Internal Audit Reports.

The salient features which internal audit has to see are enumerated below:

1. That the classifications as recorded are correct.

2. That for all expenditure, there exists a provision of funds authorised by the competent authority fixing the limit within which that expenditure could be incurred.

3. That the expenditure incurred conforms to the relevant provisions of the Act and is in accordance with the Rules and Regulations framed by the Corporation.

4. That there exists sanction special or general, accorded by the competent authority, authorising expenditure and,

5. That the expenditure has been incurred with due regard to the Board and general principles of Financial propriety.

Internal Audit Reports:

After the audit is over, a Draft Report will be prepared containing the following items:
(i) Outstanding objections from earlier reports

(ii) Major irregularities involving financial losses/irregular payments, etc.

(iii) Minor irregularities:

(iv) State of Accounts

Care should be taken to see that language used in communicating the objections are always courteous and impersonal. If the explanations received are considered satisfactory, the objections should be withdrawn and the remark treated as settled. The report should be discussed with the head of unit/office inspected before the Draft report is put to the District Manager (Internal Audit) or Regional office for the purpose of editing and issue of report.

(ii) Statutory Audit:

Under Section 34 (2) of the FCI Act, 1964, the accounts of FCI are subjected to audit by the auditors duly qualified to act as auditors of companies under section 226 of the Companies Act, 1956. These auditors shall be appointed annually by the FCI among list of auditors approved by the Central Government on the advice of the C & AG of India.
Section 34 (4) provides that these auditors should be supplied with copy of the annual balance sheet and P & L A/c and it shall be their duty to examine together with the accounts and vouchers relating thereby. They should have access to the books of accounts and other documents.

This audit is confined to the check of original books of entry and verification of accuracy of accounts compiled at various levels. The final accounts duly certified by the auditors are placed before the Board of Directors and the Parliament. As the transactions of the FCI are very large generally, separate auditors are appointed for separate regions/zones, as may be necessary for the early and smooth conduct of audit and one of them will be entrusted with the work of acting as the "Principal Auditor" who shall rectify the P & L A/c and balance sheet of the FCI as a whole.

(iii) Audit by the Controller & Auditor General of India:

There was no provision in the Food Corporation of India Act, 1964, for audit by the C & AG of India. The Section 34 (5) of the act was amended in the year 1973 to make provision for audit by C & A.G. as per the provision of the C & A.G empowered to:
(i) "Direct the manner in which the accounts of the FCI shall be audited by the auditors and to give such auditors, instructions in regard to any matter relating to the performance of their functions as such".

(ii) To conduct a supplementary or test check of the accounts of the FCI by such person or persons as he may authorised in this behalf.

Section 35 (2) of the act was also amended whereby the Central Government is required to place the annual report on the working and affairs of the Corporation and the audit thereto by the C & AG of India, before both the Houses of the Parliament.

General Procedure:

The audit of the FCI by the Director of Audit (Food) will include interalia:

(a) Scrutiny of the audited annual accounts at various formations, i.e. District, Regional, Zonal and Headquarters.

(b) A supplementary test audit of the various systems, activities, transactions including a review of the
schemes/programme of the Corporation. These can be broadly classified under the following heads:

(i) Audit of expenditure  
(ii) Audit against provisions of funds  
(iii) Audit of receipts  
(iv) Audit of stores and stocks  
(v) Audit of classification  
(vi) Audit of books of original entry  
(vii) Audit of ledger accounts.  
(viii) Audit of monthly accounting reports.  
(ix) Audit of Depot Stock accounts  
(x) Verification of accuracy of accounts compiled at various levels.  
(xi) Audit against financial propriety.

The Director of Audit and his officers shall thus have the right of free access to all records for performing their audit functions. It is, therefore, incumbent upon all the officers and staff of the Corporation to co-operate fully with the officers of the Director of Audit on the performance of their statutory function. Full co-operation should be extended/making available all the/ by record sought by the Director of Audit. The Corporation should extend fully in giving explanations and clarifications needed by
them and also furnishing prompt replies to the audit notes issued by him. This will enable him to settle as many points as possible at the first instance itself and such observations which require further clarification at the Regional or Zonal or Headquarters, only will find a place in his report. The Manager (Accounts) of the Zone will have an opportunity to discuss with the Senior Deputy Director of audit in the Zonal Headquarters and at their level also many points would be settled. In fact nothing should go beyond that level except in some cases where the comments of Financial Advisor and other high officers are required. As such, it is the primary responsibility of the field officers to reply to the audit notes competently and with the correct statement of facts. Wherever rectifications in accounts are envisaged they should be carried out promptly and the audit informed of the fact.

Transactions Audit and Draft Audit Paragraphs

In addition to this, the other essential and inherent function of audit by the C & A.G. is to bring to light other cases of clear irregularity but every matter which in his judgement appears to involve improper expenditure or true or waste of Corporation's money or stores even though the accounts themselves may be in order and no obvious irregularity has occurred. He will see that expenditure
incurred is with due regard to broad and general principles of financial propriety. Cases involving breach of these principles would be promptly brought to the notice of the concerned authorities of the FCI.

The observations which are neither routine nor prima-facie important enough to be processed for inclusion in the audit report will be included in the "Government Audit Inspection Report". These reports will be issued to the appropriate authorities concerned in the District/Regional/Zonal Office, reply to those reports should be sent fully and expeditiously. Failure to comply with this report in the initial stage itself may result in the observations being developed into a draft audit paragraph for inclusion in the C & AG's report to the Parliament. The field officer should, therefore, fully utilise the opportunity provided by the Director of Audit in settling the observations in the initial stage itself.

Points which are considered prima-facie necessary to be mentioned in the audit report to the Parliament will be included in the form of Draft Audit Paragraph which are sent to the Chairman of the Food Corporation of India.
Replies to these Draft paras will have to be, therefore, issued but approved by the Chairman, within four weeks. Replying to the draft para is a very difficult task, because only such points which are sustainable and processed by the Director of Audit after careful scrutiny of all relevant records of audit in the various offices and divisions of the Corporation. Information and comments called for to enable the Headquarters to draft suitable replies to this paras will, therefore, have to receive the personal attention of the head of the units. The replies by the Headquarters to these paras will generally be of the nature of a justification of action, taken earlier which has been objected to by audit or of the nature involving a policy at high level. Thus, the audit report will be laid before the Parliament. Replies to the Draft paras are settled by the Ministry of Agriculture also before they are sent to the Director of Audit (Food) and after all the explanations and clarifications are furnished. If the Director Audit is not satisfied, he includes these paras in the form of a report to the Parliament and the latter will not doubt comment adversely about the performance of the FCI. In view of this, the Management expects every one of its officers to give his/her personal attention to this item of work. It is needless to emphasis that in giving replied to
various audit observations at every level, facts and nothing but facts fully supported documentary proof should be provided.

5.10.2 Physical Verification:

Physical verification as understood in the sphere of FCI operations means verifications of all foodgrains, fertilizers, sugar, other commodities & dead stock articles, cash balances, moveable and immovable assets of the Corporation. The arguments in favour of such Physical Verification are that:

(a) Human beings are by nature lax

(b) Fallible and frail

The physical verification of stocks or foodgrains, gunnies, twines, insecticides etc. held at each storage depot would be assigned to a physical verification squad, attached to each Regional Manager. This was the position till 1969, when the work of physical verification of stock held at depots was assigned to special squad working under the direct control of the Financial Advisor on the pattern of Internal Audit even though the work allotted to the internal audit staff and P.V. staff is quite different, they both are answerable to the Financial Advisor. Just
like Internal Audit, the physical verification party also usually consists of one PV Assistant Manager and two assistants.

The physical verification staff visits the depots without giving any notice. This work of physical verification is independent of the normal routine periodical physical verification, which is required to be conducted by the depot/District/Regional Manager. All stocks of foodgrains, gunnies, technical components, jute twine, dunnage material, insecticides and dead stock articles etc. are to be counted cent percent. Apart from that, such of the articles other than foodgrains of which the account is maintained by weight is also to be weighed 100%. The stocks of foodgrains are, however, weighed to the extent of 600 bags in each individual godown and the selection of bags for this purpose is made by random sampling.

Verification at the close of Financial Year - Administrative Instructions:

The physical verification of stocks in all the depots is to be conducted in the following prescribed manner:

The physical verification of stocks is required to be made at the end of the year on the basis of peripheral count and by weighment under random sampling method in the case of wheat and rice and peripheral count and 10% by weighment in the case of Fertilizer, Sugar, pulses, coarse grains and other commodities. Closing stocks are accounted for on the following basis.

(a) Where 100% weighment has been made, the actual physical balances so determined is adopted.

(b) Where the physical verification is made under peripheral count and by weighment on the random sampling method in the case of wheat and rice and peripheral count and 10% weighment in the case of other commodities (including fertilizers) and the variation between the book balance and ground balances is within (+) 0.5%, the book balance is deemed to be the ground balance adopted.

(c) Where the physical verification is made under peripheral count and by weighment on the random sampling method in the case of wheat and rice and peripheral count and 10% weighment in the case of other commodities (including fertilizers) and variation between the book balance and ground balances is more than (±) 0.5%, the ground balances as
determined by 100% weighment are adopted, otherwise book balances are adopted.

(d) Where the stocks are held in silos/bins and in transit at port/railway siding, the book balances are adopted. The variations if any are adjusted when the silos/bins are emptied and/or the stocks received at godowns. Stocks under fumigation at the year end are, also taken at book balances.

(e) Where the stocks are held by the State Warehousing Corporation, Central Warehousing Corporation, the closing stocks are accounted for on the basis of certificate furnished by them. These stocks are not subject to physical verification by FCI.

(f) Where the stocks are loaned to/held by other parties, these are as per book balances.

(f) Other stocks, stores and spares should be physically verified by count and 100% weighment.

A consolidated commodity--wise report for the entire region including the stocks stored in the warehouses of CWC/SWC stocks loaded to/held by other parties as at the close of financial year, will be sent to the Headquarters by 16th April of succeeding year in the proforma. The
difference between the book balance and physical balances may also be explained along with the remedial measures taken to avoid recurrence thereof in the prescribed proforma.

**Procedure to be taken before starting weighment:**

Following procedure should be taken before starting weighment:

(i) It should be seen that the scales and weights are correct and duly certified as such by the weights and measurement Department.

(ii) The weight of the bags in each stack should be noted down separately.

(iii) The bags should be weighed accurately.

(iv) No assistance is to be taken from the Depot staff.

(v) All shortages in foodgrains and other articles should be clearly brought out in the PV report.

**Salient Points to be seen in Physical Verification**

It should be seen -

(i) Whether the periodical physical verification has been duly carried out by the executive authorities.
(ii) Whether the procedure laid down for records storage and issues has been correctly followed by the depot.

(iii) Whether the records of the depots are up to date. Arrears, if any, should be specifically mentioned in the report.

(iv) Whether spillage and sweepings are being properly accounted for; whether empty gunny bags have been duly segregated as serviceable and unserviceable.

(v) Some selected part/residual stocks should be weighed cent percent so that loss/gain in these stacks can be ascertained. Where the results of weighment give rise to any suspicion, squads can extend the verification beyond limits specified.

(vi) Log books for controlling the opening and closing of the godowns from the point of security.

(vii) Security furnished by the godown staff should be verified.

(viii) Transit loss/and storage loss/gain register should be filled and checked.

(ix) It should be seen whether the duplicate keys of the godowns are kept in proper safe custody.
If it is hired godown, it should be specifically seen:

(a) Whether the godown is suitable for contained storage and;
(b) what extent/percentage of the capacity of the godown has been utilised during the last 12 months.

The results of these studies should be specifically mentioned in the report.

Work down register should be revised and some work slips selected at random should be checked to see that the item of works certified therein, were actually done.

Whether periodical dusting, spraying and fumigation operations are carried out.

Special security arrangements should also be made for checking of scattered, loose gunnies.

Reports:

The physical verification report should contain Assistant Manager (PV)'s assessment of:

(a) Condition of stacks
(b) Arrangement of dunnage
(161)

(c) Maintenance of records
(d) Security arrangements, and
(e) General cleanliness.

The Assistant Manager (PV) should discuss the objections/irregularities with the depot officers before the report is drafted so that they are aware of the points which will go in the report. This will also give them an opportunity to give satisfactory explanations to the PV staff, so that the objections can be settled on the spot.

Replies to the points raised in the report should be given early. If any point in the report remains unanswered for 2 months, it should be entered in a separate register which is maintained District/Depot-wise and the contents of this register are to be brought to the notice of the Regional Manager/Zonal Manager concerned for remedial action. A monthly report on the objection/irregularities which remain unanswered for over two months is to be submitted to the Financial Adviser/Managing Director/Chairman for information and orders. Apart from this, monthly report on important objection/irregularities, if any, detected, should be specifically brought to the notice of the Financial Advisor/Managing Director/Chairman by the Manager (IA & PV) Headquarters.
The art of finance is as old as money, yet the systematic study of Financial Management did not begin until around the turn of the century, when the emergence of large Corporations forced executives to think more comprehensively above the financial implications of their actions.

According to Arthur Stone "all decisions are financial decisions", even though in literal sense, the author has overstated case, one can see that even when actions or decisions are not motivated by Financial Considerations, they invariably do have monetary repercussions. As such, understanding the basic concepts of finance is critical to the successful performance of every Manager, whether he likes or not. Finance is thus the prime factor in the activities of a concern. In the case of FCI, we can analyse Financial position for the last decade, through the following Table No. 5.8.

1 Monumental Text on Corporate Finance.
### Part-I

**Source of Funds**

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<tbody>
<tr>
<td>Share Capital</td>
<td>265.03</td>
<td>277.65</td>
<td>307.50</td>
<td>727.67</td>
<td>795.67</td>
<td>833.67</td>
<td>861.42</td>
<td>885.17</td>
<td>908.49</td>
<td>923.49</td>
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<tr>
<td>Loan from Govt. of India, Reserves &amp; Surplus</td>
<td>16.53</td>
<td>17.38</td>
<td>20.04</td>
<td>20.39</td>
<td>19.12</td>
<td>13.76</td>
<td>5.37</td>
<td>0.25</td>
<td>0.22</td>
<td>0.10</td>
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**Secured Loan:**
- From SBI & other banks (on security of stocks):
  - 2646.73
  - 3480.67
  - 4553.04
  - 4502.73
  - 3521.14
  - 1980.05
  - 1016.32
  - 1594.12
  - 4079.37
  - 4427.00

**Sundry Creditors & provisions**
- 468.09
- 452.18
- 507.68
- 653.68
- 784.50
- 601.69
- 741.28
- 818.49
- 968.54
- 905.66

**Unsecured Loans:**
- Loan from Govt. of India
  - 317.89
  - 330.51
  - 330.36
  - 1200.00
  - 1200.00
  - 1262.43
  - 1846.74
  - 1377.72
  - 1204.98

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<tr>
<td></td>
<td>3714.27</td>
<td>4558.39</td>
<td>5718.62</td>
<td>5904.47</td>
<td>6320.52</td>
<td>4629.17</td>
<td>3686.82</td>
<td>5144.77</td>
<td>7334.34</td>
<td>7461.23</td>
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</table>
### Application of Funds (Rs. in crores)

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<tbody>
<tr>
<td>Fixed Assets</td>
<td>184.59</td>
<td>206.98</td>
<td>253.93</td>
<td>346.49</td>
<td>390.77</td>
<td>400.18</td>
<td>386.32</td>
<td>369.25</td>
<td>362.59</td>
<td>346.84</td>
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<td>Current Assets</td>
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<tr>
<td>Stock on hand</td>
<td>2639.07</td>
<td>2989.39</td>
<td>3903.43</td>
<td>3860.03</td>
<td>3941.36</td>
<td>2202.81</td>
<td>1835.22</td>
<td>3286.05</td>
<td>5177.67</td>
<td>4256.07</td>
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<tr>
<td>Loans and advances</td>
<td>115.62</td>
<td>297.75</td>
<td>315.42</td>
<td>243.26</td>
<td>296.99</td>
<td>318.17</td>
<td>286.96</td>
<td>325.96</td>
<td>345.64</td>
<td>406.31</td>
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<tr>
<td>Book Debts</td>
<td>768.58</td>
<td>1004.21</td>
<td>1238.29</td>
<td>1448.35</td>
<td>1686.95</td>
<td>1687.33</td>
<td>1372.00</td>
<td>1152.18</td>
<td>1418.08</td>
<td>2151.76</td>
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<tr>
<td>Cash &amp; bank Bal.</td>
<td>6.41</td>
<td>60.06</td>
<td>7.55</td>
<td>6.34</td>
<td>4.45</td>
<td>20.68</td>
<td>6.31</td>
<td>5.04</td>
<td>14.13</td>
<td>275.22</td>
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<tr>
<td>Fictitious Assets:</td>
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<td>Miscellaneous Expend. and losses</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6.29</td>
<td>16.23</td>
<td>24.53</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>3714.27</td>
<td>4558.39</td>
<td>5718.62</td>
<td>5904.47</td>
<td>6230.52</td>
<td>4629.17</td>
<td>3886.81</td>
<td>5144.77</td>
<td>7334.34</td>
<td>7461.23</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.03</td>
<td>1.02</td>
<td>1.01</td>
<td>1.08</td>
<td>1.07</td>
<td>1.12</td>
<td>1.16</td>
<td>1.12</td>
<td>1.08</td>
<td>1.09</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.99</td>
<td>0.95</td>
<td>0.96</td>
<td>1.03</td>
<td>1.02</td>
<td>1.03</td>
<td>1.06</td>
<td>1.04</td>
<td>1.02</td>
<td>1.03</td>
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</table>

Financial position of the Corporation can be analysed through current and quick ratio. Current ratio of the Corporation has risen from 1.03 in 1982-83 to 1.09 in 1991-92. This increase is not satisfactory, because this ratio is less than normal current ratio of 2:1. It reveals that the liquidity position of the Corporation is not sound and the Corporation is not able to pay its maturity obligations as soon as it become due. But, that is, however, not true since its quick ratio has risen from 0.99 in 1982-83 to 1.03 in 1991-92 which is more than its normal level 1:1. It indicates that the short-term solvency of the Corporation is satisfactory.

Although the present economic condition of the Corporation is not sound, it can raise its loan by issuing shares, debentures and should invest the same into current assets.