

Chapter III

3. Performance Audit relating to Statutory Corporation

Andhra Pradesh State Warehousing Corporation

Executive Summary

Introduction

Andhra Pradesh State Warehousing Corporation (APSWC) was established in August, 1958 under the provisions of the Warehousing Corporation Act, 1958. Government of Andhra Pradesh (GoAP) and Central Warehousing Corporation (CWC) have 50:50 share capital in APSWC. The major activities of the organisation are to construct warehouses within the State to facilitate storage and transportation of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities and to act as an agent of CWC or the State Government to help purchase these commodities.

Planning for construction of storage facilities

APSWC failed to prepare five-year Corporate Plan for the period 2008-13.

Though APSWC made proposals for implementation of galvalume roofing for godowns in June 2007, which offers economy in both time taken to construct and energy as compared to traditional roofing, it belatedly constructed (2011-13) 10 godowns of 1.32 lakh MT capacity with galvalume roofing. Re-roofing of old godowns in seven locations was carried out during 2010-12 by traditional roofing instead of galvalume roofing.

APSWC proposed in January 2006 to construct modern warehouse Container Freight Station (CFS) facilities at Visakhapatnam Port for bulk handling of exports and imports under new business, which was delayed because of poor initiatives of APSWC.

APSWC had earned profits continuously and the accumulated profit as at the end of March 2013 stood at ₹ 283.35 crore. There was no significant construction activity during the period 2008-11.

Scheme-wise Construction of godowns

Annual plans of APSWC for the years 2008-13 projected addition of their own warehousing capacity of 3.78 lakh Metric Tonnes (MT) but added only 1.32 lakh MTs capacity resulting in a shortfall of 2.46 lakh MTs.

Due to delay in submission of DPRs under NABARD's RIDF XVII scheme for construction of godowns, APSWC could not avail the loan under the scheme but availed under another scheme, RIDF XVIII, resulting in additional interest burden of ₹ 7.40 crore apart from additional investment of its own funds.

Godown constructed (December 2012) at Vemulapally under RIDF scheme with a guaranteed 100 per cent reservation by FCI was not taken over by FCI resulting in loss of revenue to the tune of ₹ 1.37 crore from the date of confirmation of reservation (February 2013) to December 2013.

Capacity utilisation

Average occupancy of own godowns ranged from 58 to 89 per cent during the period 2008-13, whereas the same was of full capacity in case of Hired godowns and investor godowns.

APSWC had not maintained separate data relating to utilization of storage space by farmers till May 2012. Utilisation of storage space by farmers from May 2012 to March 2013 was zero per cent to six per cent in eight Regions, defeating the main objective.

Operation & Maintenance of godowns

There were 56 units which incurred losses of ₹ 1.69 crore during 2008-13. Loss making godowns have progressively declined but six godowns consistently made losses. No action was taken to wind up the unviable godowns.

APSWC had not preferred the claims in respect of investor godowns with revised storage charges retrospectively in spite of Government directions, which resulted in a revenue loss of ₹ 40.96 crore.

Revision of rates was not effected in respect of goods other than food grains like fertilisers, cotton etc. since April 2002 and there is no rate revision policy framed by APSWC.

APSWC had written-off ₹ 2.65 crore towards storage losses in excess of norms during the period 2007-12. Audit scrutiny revealed that the capacity utilisation of the Investor Godowns was more than 100 per cent which resulted in higher storage losses as stocks were stored unscientifically.

Management Information System (MIS)

Implementation of online Warehouse Management System, to be completed by September 2012, was delayed. Monthly Business Report, which is main source of MIS has not been standardized.

3.1 Introduction

Andhra Pradesh State Warehousing Corporation (APSWC) was established in August, 1958 under the provisions of Warehousing Corporation Act, 1958 (Central Amended Act of 1962) enacted by Parliament. Government of Andhra Pradesh (GoAP) and Central Warehousing Corporation (CWC) have 50:50 share capital in APSWC. It has its Corporate Office at Hyderabad with eight Regional Offices and 159 Warehouses as of March 2013 in the state. APSWC is under the administrative control of Agriculture and Cooperation (Marketing- I) Department (GoAP). Major activities of the organisation are to construct warehouses within the State to facilitate storage and transportation of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities and to act as an agent of CWC or the State Government to help purchase these commodities. The main objectives of corporation are:

- Promote and develop scientific storage facilities in order to minimize wastage and losses in storage.
- Provide a Negotiable Instrument by way of Warehouse Receipt to farmers for securing credit from the Banks.
- Help farmers to store their stocks for better realization, by avoiding distress sale, simultaneously availing credit.
- Assist orderly Marketing and Price support/ Control measures of the Government.
- To insure all warehouses against Fire, Riot, Strike & Malicious Damages (RSMD), Storm, Tempest, Flood and Inundation (STFI).
- To undertake construction of godowns on Turnkey basis for various clients viz., Food Corporation of India (FCI), AP State Civil Supplies Corporation Limited, Cotton Corporation of India and other State/ Central Fertilizers companies.
- Providing handling and transportation to depositors, if requested, through approved contractors.

3.2 Organisational Structure

Management of APSWC is vested in the Board of Directors consisting of Managing Director (MD), five (5) Directors nominated by GoAP and five (5) Directors nominated by CWC, headed by a Chairman, appointed by the GoAP.

At Corporate level the Managing Director is assisted by Secretary, four General Managers and an Executive Engineer while the field activities of Corporation are managed by 8 Regional Managers assisted by Warehouse Managers.

GoAP had not nominated any Director to the Board from January 2008 to August 2013, thus only five (5) Directors (nominated by CWC) were in the Board.

3.3 Audit Objectives

To check whether APSWC was able to

- Meet the demands for sustainable, scientific storage facilities within the State after proper assessment of needs by construction and/ or acquisition from private investors/ contractors;
- Maintain the warehouses and godowns owned and operated by them in an economic and efficient manner;
- Provide services to the farmers as per the objectives defined by it, viz.
 - i. Provide a Negotiable Instrument by way of Warehouse Receipt to farmers for securing credit from the Banks.
 - ii. Help farmers to store stocks for better realization, by avoiding distress sale, simultaneously availing credit.
 - iii. Assist orderly Marketing and Price support/ Control measures of the Government.
- To insure all warehouses against Fire, Riot, Strike & Malicious Damages (RSMD), Storm, Tempest, Flood and Inundation (STFI).

3.4 Audit Criteria

- Warehousing Corporations Act 1962 and AP State Warehousing Corporation Rules 1965, Warehousing Development and Regulations Act 2007 (WDRA).
- Corporate Plan (2012) and MoUs between APSWC and State Government; directions of Government with reference to construction of godowns.
- Agenda and Minutes of Meetings of Board of Directors of APSWC.
- Schemes' guidelines funded for construction of godowns.
- Agreements, godown rent proposals.

3.5 Scope and Methodology of Audit

Performance of APSWC was reviewed for the five years period 2008-13 covering activities relating to construction of godowns, capacity utilisation, insurance and storage losses etc. Audit findings are based on test check of records maintained at the Head office of the Corporation and four warehouses viz., Kadapa, Yerpedu, Karimnagar and Raghavapur in two Regions (Kadapa and Karimnagar) out of eight Regions of the State.

Scope, methodology and objectives of performance audit were explained by Audit in entry conference (July 2013) to Managing Director, APSWC. Audit findings were also discussed in Exit conference held on 10 March 2014 and the views expressed by Management have been considered while finalizing the report.

3.6 Audit Findings

The audit findings are as discussed below

3.6.1 Planning for construction of storage facilities

3.6.1.1 Delay in preparation of Corporate Plan

As per GoAP directions (October 2005) APSWC entered into MoU for 2007-08 according to which five year Corporate Plan for the period 2008-13 was to be submitted by 31 March 2008, duly committing itself to a time bound programme to dispose off three unviable godowns and three unutilized lands, to initiate immediate action to modernize existing warehouses wherever required, to initiate action for expansion of godown capacity at potentially viable places so as to increase market share and also make manpower assessment to rationalize staff strength commensurate with the level of activities of the Corporation. APSWC could not submit five year Corporate Plan by 31 March 2008.

Management replied (October 2013) that Corporate Plan for 2012-17 was prepared and submitted to Government in April 2012.

3.6.1.2 Delay in implementation of galvalume roofing (new technology) for construction of godowns under scientific storage

Galvalume roofing without support of trusses was being provided in industrial/ agricultural warehouses for wide benefits viz., leakage & temperature control, better air circulation, prevention of bird menace, economy in construction and corrosion resistance.

Audit observed that out of the existing 64 godowns having 5.91 lakh MT capacity as of 2012-13, only 10 godowns of 1,31,800 MT capacity, which were constructed during 2011-13, had galvalume roofing even though a proposal for implementation of galvalume roofing for godowns was mooted in June 2007. Audit scrutiny further revealed that in seven locations²⁴ re-roofing of old godowns was carried out during 2010-12 by traditional roofing instead of galvalume technology which offers economy in both time and energy taken to construct/ install the roof as compared to traditional roofing.

Management replied (October 2013) that there was no delay in implementation of galvalume roofing as no massive construction was taken up upto 2009-10. However, APSWC should have taken up re-roofing of existing godowns with galvalume roofing in view of its better results.

3.6.1.3 Diversification and New business

APSWC proposed (January 2006) to construct modern warehouse Container Freight Station (CFS) facilities at Visakhapatnam Port for bulk handling of exports and imports under new business. Audit noticed, there was delay of five years in taking possession of port land (May 2011) and Detailed Project

²⁴Amadalavalasa, Eluru, Tanuku, Bapatla, Nadikudi, Gudur and Kothagudem.

Report (DPR) had not been finalised till October 2013. This indicated lack of timely initiatives for land acquisition and preparation of DPRs.

Management replied (October 2013) that certain clarifications were sought (October 2013) from Visakhapatnam Port Trust and the same are awaited.

However, Management has not coordinated/ taken up the matter with appropriate authorities.

3.6.1.4 Financial Position and Working results

The financial position of APSWC for the five years period 2008-13 is given below:

Table 3.1: Financial position of APSWC

(₹ in crore)						
Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13 ²⁵
A. Liabilities						
01	Paid-up Capital	7.61	7.61	7.61	7.61	7.61
02	Reserves & Surplus (incl. Subsidy)	98.16	116.16	130.51	249.48	283.35
03	Secured Loan	8.06	7.14	5.98	4.96	3.44
04	Current Liabilities & Provisions	71.99	82.41	97.55	159.63	186.23
	Total - A	185.82	213.32	241.65	421.68	480.63
B. Assets						
01	Fixed Assets	24.69	27.45	32.16	32.95	49.01
02	Current Assets, Loans and Advances	161.13	185.87	209.49	388.73	431.62
	Total - B	185.82	213.32	241.65	421.68	480.63
C.	Debt-Equity Ratio	1.06	0.94	0.79	0.65	0.45
D.	Net worth	105.77	123.77	138.12	257.09	290.96
E.	Capital employed ²⁶	113.83	130.91	144.10	262.05	294.40

Source: Annual Reports

The working results of APSWC for the five years period 2008-13 are given below:

Table 3.2: Working results of APSWC

(₹ in crore)						
Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
01	Income					
	(a) Warehousing Charges	61.03	77.73	99.16	237.82	160.06
	(b) Other Income	8.77	9.47	10.45	36.88	32.35
	Total - 1	69.80	87.20	109.61	274.70	192.41
02	Expenses					
	(a) Establishment Charges	12.52	15.33	27.13	20.85	22.57
	(b) Other Expenses	35.93	44.57	58.83	92.26	96.41
	Total - 2	48.45	59.90	85.96	113.11	118.98
03	Profit (+)/ Loss (-) before tax	21.35	27.30	23.65	161.58	73.43
04	Provision for tax	6.50	9.00	8.00	52.44	24.97
05	Prior Period Adjustments	0.00	0.04	0.01	0.00	0.00
06	Other appropriations	1.01	0.30	2.30	2.77	0.75
07	Amount available for dividend	13.84	17.96	13.34	106.37	47.71
08	Dividend for the year	1.52	1.52	1.52	10.00	1.52
09	Total Return on Capital employed ²⁷	21.96	27.92	24.16	162.01	73.66
10	Percentage of return on Capital employed	19.29	21.33	16.77	61.82	25.02

Source: Annual Reports

²⁵2012-13 figures are provisional.

²⁶Capital employed represents net fixed assets (including works-in-progress) plus working capital.

²⁷Total return on capital employed represents net surplus/ deficit plus total interest charged to Profit and Loss Account (less interest capitalised).

It can be seen from the above tables that APSWC had continuously earned profit and had accumulated profit of ₹ 283.35 crore as at the end of March 2013. Though the Corporation had surplus cash (in term deposits with banks), there was no significant construction activity during the period 2008-09 to 2010-11 as discussed in subsequent paragraphs.

3.6.1.5 Warehousing capacity

APSWC operates three types of godowns i.e. own godowns, hired godowns and investor godowns. Hired godowns are contracted by APSWC from private sector based on requirement/ demand of clients i.e., FCI, Civil Supplies, Cotton Corporation, Fertiliser Companies. On the other hand Investor godowns operated by APSWC are solely contracted to FCI after entering into tripartite agreement with private investors and FCI. Storage charges paid by FCI are shared between investors and APSWC (64 per cent and 36 per cent respectively).

Year-wise average capacity in all categories i.e., own, hired, investor, planned and added by APSWC during the period 2008-13 is as under:

Table 3.3: Total capacity of warehousing during 2008-13

(Capacity in MTs)

Year	Total No. of godowns (Owned, Hired and Investor)	Total capacity	Additions planned in owned godowns	Actually added	Short fall
2008-09	129	2173191	10000	0	10000
2009-10	129	1991440	2400	5000	-2600
2010-11	136	2170414	160500	2400	158100
2011-12	154	2356935	125500	43300	82200
2012-13	159	2634899	79300	81000	-1700
		Total	377700	131700	246000

Source: Monthly Business Reports of APSWC

During the five-years from 2008-09 to 2012-13, against planned addition of 3.78 lakh Metric Tonnes (MT), APSWC added only 1.32 lakh MTs to its own warehousing capacity with no addition in capacity during the year 2008-09 and meagre addition during 2009-10 and 2010-11.

Reason for shortfall in capacity additions during 2008-09 to 2010-11 were attributed to unavailability of suitable land at proposed locations by management (October 2013). However, records did not reveal any initiative for surveys to be conducted, pursuance with State Government, identification/ allotment of lands for construction of warehouses.

3.6.2 Scheme-wise construction of godowns

Apart from APSWC's own funds, funds were also allotted under other agriculture related schemes for construction of godowns by APSWC. The following Central/ State schemes contributed funds to APSWC for construction of godowns:

- a) **Rashtriya Krishi Vikas Yojana (RKVY):** National Development Council, GOI launched (August 2007) an additional central assistance scheme with 100 *per cent* grant by GoI under RKVY. Food storage & warehousing is one of the allied sectors of the scheme.
- b) **Rural Infrastructure Development Fund (RIDF):** National Bank for Agriculture and Rural Development (NABARD) provides loan for construction of warehouses under RIDF schemes²⁸.
- c) **Private Entrepreneur Guarantee (PEG) Scheme:** PEG 2008 Scheme envisaged construction of godowns by private entrepreneurs for FCI storage requirement. Storage charges are guaranteed by FCI for nine/10 years under this scheme.

Details of godowns constructed under various schemes/own funds are as under:

Table 3.4: Scheme-wise capacity addition during 2008-13

(Capacity in MTs)

Name of the Scheme	2008-09	2009-10	2010-11	2011-12	2012-13	Total
RKVY	-	-	-	43300	31000	74300
RIDF	-	-	-	-	50000	50000
Own funds	-	5000	2400	-	-	7400
Total	-	5000	2400	43300	81000	131700

Source: Information furnished by APSWC

Review of construction of godowns under above schemes revealed the following:

3.6.2.1 **Delay in submission of proposals for construction of godowns**

RIDF XVII Scheme (2011-12) envisages 95 *per cent* Project cost as loan by NABARD²⁹ at 6.5 *per cent* interest repayable in 5 equal annual instalments after a moratorium of two years. APSWC was asked by State Government in the review meeting held on 7 July 2011 to submit the DPRs by 20 July 2011 for construction of 1,43,000 MTs capacity godowns. However, APSWC submitted the DPRs to NABARD in November 2011 with a delay of four months. Due to delay in submission of DPR the Corporation could not avail loan under the scheme as funds were exhausted.

Subsequently APSWC submitted proposals to Government (November 2012) for construction of 2,52,500 MTs capacity in 26 locations at a cost of ₹ 141.12 crore in 2012-13, under the RIDF XVIII scheme (2012-13) wherein rate of interest was increased to 7.5 *per cent* and loan amount reduced to 75 *per cent* of the project cost on guarantee by GoAP. NABARD sanctioned (February 2013) ₹ 105.69 crore, (75 *per cent* of the project cost) for construction of these

²⁸RIDF XVII (2011-12): 95 *per cent* Project cost as loan with 6.5 *per cent* interest and repayable in 5 equal annual instalments after a moratorium of 2 years. RIDF XVIII (2012-13): 75 *per cent* Project cost as loan with 7.5 *per cent* interest.

²⁹ National Bank for Agriculture and Rural Development

godowns. However, loan amount was not released (August 2013) by NABARD due to non-submission of guarantee by GoAP. APSWC started construction of godowns in selected 26 locations and incurred ₹ 27.96 crore during 2012-13 from own funds against 25 per cent margin money of the project cost.

Thus, due to non-availment of loan under RIDF XVII (2011-12) the Corporation will have to bear extra interest burden of ₹ 7.40 crore (one per cent) apart from additional investment of 20 per cent of the project cost out of their own funds on projects.

3.6.2.2 Delay in taking over of Vemulapally godown by FCI

Corporation proposed (August 2011) to construct a godown at Vemulapally (East Godavari) and 9.58 acres of land was allotted (August 2011) by GoAP, proposed under RIDF scheme,

Corporation constructed(December 2012) Vemulapally godown under RIDF scheme with guaranteed storage charges for 10 years under PEG 2009 from the date of taking over of godown by FCI. The godown, though ready, has not been taken over by FCI (December 2013) despite FCI confirming space reservation in February 2013. Lack of pursuance with FCI resulted in foregoing of anticipated revenue to the tune of ₹ 1.37 crore from the date of confirmation of reservation (February 2013) up to December 2013.

Management replied (October 2013) that FCI was committed to utilize the godowns after filling their available capacity.

As FCI had guaranteed utilisation of the space under PEG 2009, Corporation should have pursued the matter with FCI.

3.6.3 Capacity utilisation

3.6.3.1 Low occupancy in own godowns

Year-wise details of total capacities with break-up of owned, hired, investor godowns and percentage of average utilisation for the period 2008-13 is as under:

Table 3.5: Percentage of occupancy in Owned, hired and investor godowns during 2008-13

Year	Capacity in MTs			Occupancy in MTs			Percentage of occupancy		
	Owned	Hired	Investor	Owned	Hired	Investor	Owned	Hired	Investor
2008-09	522543	28058	1622590	304559	31639	1641530	58	113	101
2009-10	528980	117646	1344814	391990	117450	1392028	74	100	104
2010-11	533680	167673	1469061	431786	170264	1524896	81	102	104
2011-12	545272	477959	1333704	467449	504886	1404174	86	106	105
2012-13	590813	742989	1301097	527498	778002	1353586	89	105	104

Source: Monthly Business Reports of APSWC

It could be seen from the above that average occupancy of own godowns of APSWC increased from 58 per cent in 2008-09 to 89 per cent in 2012-13.

However, occupancy rate of hired and investor godowns was more than 100 per cent in all the five years during 2008-13.

Utilisation of more than 100 per cent capacity in Hired godowns/ Investor godowns indicates possible storage of stocks outside covered area, increased stack height, etc., which amounts to unscientific storage, defeating the objective of APSWC.

Management replied (October 2013) that hired and investor godowns were being fully utilized by bulk depositors, whereas own godowns were being utilized by both private traders/ farmers and bulk depositors resulting in occupancy of less than 100 per cent. However, APSWC should have managed the allocation to prioritise utilisation of own godowns over hired godowns. Own godowns, where occupancy is less, should have been offered instead of allowing more than 100 per cent occupancy of hired/ investor godowns.

3.6.3.2 Utilisation of storage facilities of APSWC by farmers

One of the main objectives of APSWC, besides providing storage to FCI, is to help farmers to store their stocks for better realization, by avoiding distress sale, simultaneously availing credit. A rebate of 35 per cent in storage charges is, thus, allowed to eligible small farmers. Year-wise percentage of utilisation by FCI and other various depositors in warehouses of APSWC (own, hired and investor godowns) is detailed below:

Table 3.6: Depositor-wise capacity utilisation

Sl. No.	Name of the Depositor	Percentage of utilisation				
		2008-09	2009-10	2010-11	2011-12	2012-13
1	Fertiliser Companies	2.10	1.30	0.40	0.20	0.60
2	FCI	88.00	89.00	91.20	92.80	89.00
3	APSCSCL	0.30	0.80	1.90	2.40	5.20
4	Cooperatives	0.30	0.40	0.50	0.90	1.30
5	Govt. undertakings & others	5.00	4.50	2.00	1.20	1.60
6	Private (including farmers)	4.30	4.00	4.00	2.50	2.30

Source: Annual Reports of APSWC

It was observed in Audit that:

- Major clients of APSWC are FCI, Fertiliser Companies and Government undertakings, which on an average occupy 96 per cent of total space during 2008-13.
- APSWC had not maintained separate data relating to utilization of storage space by farmers till May 2012. Region-wise utilisation of storage space by farmers during the period May 2012 to March 2013 is as under.

Table 3.7: Region-wise capacity utilisation by farmers during May 2012 to March 2013

Sl. No.	Name of the Region	Average (May 2012 to March 2013)		
		Capacity (MT)	Occupancy by farmers (MT)	Percentage of occupancy by farmers
1	Vizianagaram	48100	0	0
2	Kakinada	30373	0	0
3	Tadepalligudem	53375	0	0
4	Vijayawada	128930	7827	6
5	Kadapa	117380	5081	4
6	Hyderabad	24682	25	0
7	Nalgonda	95114	1617	2
8	Karimnagar	94118	0	0
Total		592072	14550	2

Source: Data furnished by APSWC

Above table indicates that utilisation of godowns by farmers was zero *per cent* in five Regions and low at six *per cent* or less in three Regions. Overall utilisation by farmers was only two *per cent*. Thus the objective of APSWC to assist farmer was not achieved. Further no special efforts were made by APSWC to create awareness among farmers about the warehousing facilities for their farm produce.

Management replied (October 2013) that Corporation is pursuing accreditation of own warehouses under WDRA to issue negotiable instrument which facilitates the farmers and small traders to take loans from Banks to increase utilisation of storage space by farmers. There is no specific reply to the observation about very low utilisation by farmers and non-maintaining of data of storage utilisation by farmers.

3.6.4 Operation & Maintenance of godowns

Operation

3.6.4.1 Recurring loss making godowns of APSWC

During 2008-09 to 2012-13, fifty six godowns, out of a total of 159 godowns, incurred losses to the tune of ₹ 1.69 crore as detailed below:

Table 3.8: Year-wise details of loss making godowns

Year	Number of loss making godowns during the year	Amount of loss (₹ in lakh)
2008-09	17	48.58
2009-10	10	29.91
2010-11	13	35.85
2011-12	10	32.40
2012-13 (Provisional)	6	22.43
Total	56	169.17

Source: Annual Reports, Profit and Loss accounts of godowns and monthly business reports

Six godowns (5 own and one hired) have consistently made losses. Despite GoAP directions (October 2005) APSWC did not review the working of loss making godowns and appropriate action for revival/ closure was not taken.

Management replied (October 2013) that steps are being taken to improve loss making godowns as Board of Directors in their meeting (May 2006) resolved not to wind up these godowns in view of development of business and Government was intimated accordingly.

However, further action in this regard needs to be done in a time bound programme.

3.6.4.2 Loss due to non-revision of Storage charges by FCI in case of Investor Godowns

Investor godowns were solely contracted by FCI after entering into an agreement with private investors and godowns were handed over to APSWC for operation. Government Order of December 2008 clarified that any subsequent enhancement in rate of storage charges by FCI would be applicable to APSWC's own as well as investor godowns at par with CWC after December 2008.

FCI revised (October 2012) its storage charges to ₹ 2.73 per 50 kg bag per month retrospectively from April 2009 for own godowns of APSWC and prospectively from October 2012 for investor godowns. APSWC had not preferred the claims with revised storage charges for investor godowns retrospectively from April 2009, inspite of Government directions which resulted in a revenue loss of ₹ 40.96³⁰ crore.

Management replied (October 2013) that the matter is being pursued with FCI.

3.6.4.3 Non-revision of Storage charges for private stocks (other than food grains) in respect of Own Godowns

APSWC revised (October 2006) storage charges, other than those occupied by FCI, for food grains by 10 per cent (from ₹ 1.80 to ₹ 2.00 per 50 Kg bag per month) considering general escalation in service costs, rentals, insurance premium and other administrative costs. However, no revision of rates was effected in respect of the goods other than food grains since May 2002 indicating lack of rate revision policy.

Management replied (October 2013) that on receipt of audit observation the rates were revised from 1 August 2013.

Maintenance

Maintenance of godowns including keeping stocks in good condition without damages and losses and insuring against all damages is the responsibility of APSWC. While scrutiny of insurance documents revealed that emergencies

³⁰Working for loss: Total stock stored between April 2009 and September 2012 – 60242406 MTs or 1204848120 bags of 50 Kg each x (36 per cent of ₹ 2.73 – ₹ 1.79 per bag/ month = ₹ 0.34) = ₹ 40.96 crore.

are covered by insurance and premiums are regularly paid, there were no claims made during the audit period. Corporation had to bear storage losses, stocks were stored for longer period and there were quality control issues as discussed below:

3.6.4.4 Storage losses in excess of norms

As per norms, the storage losses up to 0.5 per cent for storage up to one year and 0.75 per cent beyond one year is allowed and regularized as normal storage losses. FCI deducts storage losses beyond norms from storage charge bills. The storage losses deducted by FCI to the extent of ₹ 2.49 crore were written-off during the period 2008-12 in the books of accounts of APSWC.

Details of godowns where range of storage losses, exceeded norms during the last 5 years are as under:

Table 3.9: Details of range of storage losses during 2008-13

Year	Investor Godowns		Own Godowns	
	Nos.	Range of storage losses (percentage)	Nos.	Range of storage losses (percentage)
2008-09	3	0.81 to 1.24	-	-
2009-10	9	0.61 to 1.54	-	-
2010-11	18	0.64 to 1.69	3	0.65 to 1.47
2011-12	45	0.54 to 2.46	9	0.55 to 1.58
2012-13	83	0.51 to 2.98	19	0.57 to 2.48

Source: Data furnished by APSWC

During 2008-13 storage losses ranged from 0.51 per cent to 2.98 per cent in Investor Godowns which is beyond the norms and number of units involved in storage losses also showed an increasing trend during the period. Audit observed that capacity utilisation of Investor Godowns was more than 100 per cent which increases the storage losses as the stocks were stored unscientifically.

Management replied (October 2013) that capacity utilisation of Investor godowns was above 100 per cent in all the years due to increase in height of stack and there was no incidence of damages in bottom layer food grain bags.

However, increase in stack height is in violation of norms as per quality control manual.

3.6.4.5 Registration of godowns under Warehousing Development and Regulations Act (WDRA), 2007

WDRA enacted in 2007 effective from 25 October 2010 stipulates warehouses register their storage capacity, which would entail them to issue negotiable warehouse receipts. Main objective of the Corporation was to provide a Negotiable Instrument by way of Warehouse Receipt to farmers for securing credit from the Banks and help farmers to store their stocks for better realization, by avoiding distress sale.

It was observed in Audit that SWC registered storage capacity of 42,850 MTs

along with a proposal to get eligibility to issue Negotiable Warehouse Receipts, as against warehousing capacity of 1,73,080 MTs.

The issue of negotiable warehousing receipt was to help farmers in availing financing facilities against the receipt, thus encouraging them to use warehousing facility.

Management replied (October 2013) that in one godown at Kavali negotiable warehouse receipts were issued for 998 MT during the years 2011-12 & 2012-13. Thus, issue of warehouse receipts for a meagre quantity of 998 MT only in one warehouse indicates non achievement of the objective of providing support to farmer community.

3.6.4.6 *Insufficient infrastructure for upkeep of storage facilities at own godowns of Kadapa & Karimnagar regions*

As per quality control manual, norms were fixed for providing necessary infrastructure for proper upkeep of the stocks in godowns by providing required number of wooden crates, bamboo mats, sprayer, etc., for every godown. Food grains are to be stacked on wooden crates of 5” height and stocks are to be maintained infestation free by periodical spraying of chemicals and fumigation are to be done as soon as infestation is noticed. Details of infrastructure provided/ available in own godowns with reference to norms fixed in quality control manual as on 30 June 2013 at own godowns of Kadapa and Karimnagar Regions, are given in **Annexure-3.1**.

Details given in annexure revealed that the essential maintenance equipment were not provided as per norms.

Kadapa Region

Out of 16 godowns (i) wooden crates were not provided in 11 godowns and less quantity (6 to 23 *per cent*) was provided in three godowns, (ii) no bamboo mats were provided in 10 godowns and less quantity (9 to 45 *per cent*) of bamboo mats were provided in six godowns against the norms and (iii) no polythene covers were provided in seven godowns.

Karimnagar Region

Out of 15 godowns (i) no wooden crates were provided in Narsannapally godown and in six godowns less quantity (one to 31 *per cent*) were provided, (ii) no bamboo mats were provided in eight godowns and less quantity (5 to 40 *per cent*) of bamboo mats were provided in four godowns against the norms.

Thus, non-availability of essential maintenance equipment for storage of food grains was not only unscientific but subject to damage by moisture.

Management replied (October 2013) that in the newly constructed godowns wooden crates are being used as dunnage.

The fact remains that infrastructure facilities in existing godowns were not provided as per the norms.

Quality Control

As per quality control manual, food grains were to be preserved without infestation. For this purpose periodical spraying of pesticides viz., Malathion and DDVP should be done as soon as stacking completes. Further in case of infestation, stocks should be fumigated with Aluminium Phosphide under Proof covers. Scrutiny of inspection reports, chemical consumption and fumigation reports show some deficiencies as under:

3.6.4.7 Issue of stocks

It is desirable to follow FIFO method to avoid losses due to long storage and Preservation and Maintenance expenditure for disinfections. A test check of primary records viz. Daily Stock Register, Depositors ledger and Priority Register maintained for receipts and issue of stock revealed that FIFO method is not being followed in Kadapa (own) and Yerpedu (IG) godowns, thereby resulting in long storage of old stocks while the fresh stocks get released early.

In the entry conference the Managing Director, APSWC stated (July 2013) that FCI is not following FIFO method inspite of several requests and meetings, which is the main reason for storage losses. But no such records of persuasion were made available to audit.

Management replied (October 2013) that FIFO is being followed but it sometimes deviates due to baby stacks and collapsible stacks.

Fact remains that due to long storage the Corporation is faced with risk of storage losses which especially in case of old stock tends to be in excess of norms.

3.6.4.8 Stocks lying in storage for long periods

Records of Regional Manager, APSWC, Kadapa and Karimnagar revealed that Paddy, Jaggery, Fertilisers, Coriander, Redgram were lying in various warehouses for a long time, as indicated in the table below.

Table 3.10: Details of stocks lying in long storage in Kadapa and Karimnagar regions

Sl. No.	Name of the warehouse	Commodity	Quantity (in MT)	Period of storage
Kadapa Region				
1	Chittoor	Jaggery	1234.300	more than four years
		Fertilisers	1348.000	one to two years
2	Kadapa Own	Pvt. Fertilisers	44.000	one to two years
3	Prodattur	Pvt. Paddy (O)	22.500	more than two years
		Pvt. Paddy (O)	193.875	one to two years
		Pvt. Coriander (O)	24.560	one to two years
		Pvt.Redgram (O)	37.000	more than two years
4	Kurnool Own	Fertilisers	2337.000	one to two years
5	Allagadda	Fertilisers	237.800	one to two years
Karimnagar Region				
1	Raghavapur I.G.	B.R. Gr.A	9668.000	one to two years
		B.R. Common	640.000	one to two years
2	Mancherial I.G.	B.R. Gr.A	324.000	one to two years

Source: Information furnished by regional offices against audit query

It could be seen from the above that the long storage of stocks include food grains and perishable items. Such stocks, when lying for longer period are subject to damage; infestation and requires heavy fumigation. Long storage would also affect the stocks which will entail additional expenditure to rebuild them.

Management stated (October 2013) that notices were issued to depositors for liquidation of stocks.

The management needs to formulate a policy for time to time review of the stock in possession to either get the stock released by the depositor or liquidate the stock before it gets damaged beyond salvage.

3.6.4.9 *Disposal of empty chemical containers*

As per quality control manual the Agency/ Contractor have to maintain record of insecticides consumed from time to time and also dispose the empty container/ tubes with the prior approval and in the presence of competent authority to prevent environmental hazards.

During detailed check of Regional offices, Kadapa and Karimnagar it was observed that in contravention of manual provisions, no record was maintained for empty container/ tubes or of their disposal in Kadapa (Own)/ Yerpedu (IG) Godowns in Kadapa Region and Raghavapur (Hired) Godown in Karimnagar Region even in case of poisonous chemicals of hazardous nature.

Management accepted the audit observation and stated (October 2013) that instructions were issued to all the Regional Managers and Warehouse Managers to maintain record for empty containers.

3.6.4.10 *Non-providing of Isolation shed*

Indian Standard Code of Practice for construction of 'bagged food grain storage structures' prescribed that isolation shed preferably with RCC flat roof should be provided at the site of godowns. Size of sheds would depend upon storage capacity at each site. It should be partitioned into a number of compartments so as to afford keeping of infested and damaged stock separately.

However, audit noticed that isolation sheds were not provided in any of the godowns.

Management replied (October 2013) that since monthly requirement of pesticides are drawn from the Regional Manager there is no need for separate isolation shed.

Fumigation prevents infested stocks from further deterioration but does not rule out the possibility of the infestation from spreading to other stock. Accordingly construction of isolation shed, as mandated by IS code, is desirable.

3.6.5 Management Information System (MIS)

APSWC is organized in three tier system- Head office, Regional offices and Warehousing centres and has its website maintained by third party vendor (Centre for Good Governance). Work relating to MIS is being handled manually instead of using website. Short comings noticed in MIS are discussed as under:

3.6.5.1 Delay in computerization of online Warehouse Management

For better efficiency of website and to develop new applications for making all warehousing online, to expedite the activities of all modules in a single application, APSWC proposed to develop software modules viz., Finance & Accounts (F&A), Personnel & Administration (P&A), Business & Logistics (B&L), Conference Section, Engineering Section and Material & Quality Control.

An agreement was entered into (August 2011) with Centre for Good Governance (CGG) a State Government organization for 'Design & Development of Comprehensive IT Solutions at a total cost of ₹ 65.95 lakh, of which ₹ 15.66 lakh was paid (October 2011) as advance. The project was to be completed by September 2012. The project is still under implementation even after lapse of over a year.

Management stated (October 2013) that due to various reasons the implementation of online warehouse management was not completed within time and presently 33 warehouse managers have started to feed data in IWMS (Integrated Warehouse Management System) and the remaining warehouses will also be implemented shortly.

As only 33 out of 159 warehouses have started utilising the online system, MIS system cannot be operationalised yet (October 2013).

3.6.5.2 Defective Business Report as MIS

Business & Logistics Section in Corporate Office prepares a monthly Business Report in the prescribed proforma on the godown-wise activity indicating details of capacity, occupancy (depositor-wise utilization) and vacancy position of each godown based on the reports of Warehouse Managers. The monthly Business Report is submitted to Managing Director as MIS.

It was observed in audit that

- There was variation in calculation of percentage of capacity utilization of godowns. Out of 88 godowns in five regions test checked in audit, in 24 godowns reserved capacity was taken, whereas in remaining 64 godowns actual utilization was taken (irrespective of reservation) for working out the percentage of capacity utilisation.
- The Business Report does not indicate information on registration of godown under WDRA, extent of issue of negotiable warehouse receipts, utilisation of facility by farmers etc., resulting in deficient/

insufficient information to Management.

- Though information in different proforma was required to be forwarded online, it was being sent through hard copies with incomplete details.

Management stated that variations in reporting by the warehouse managers are corrected at corporate level based on averages.

The fact indicates that the norms for filling in MIS has not been standardised for proper submission of data by the warehouse managers.

Conclusion

- Re-roofing of old godowns was carried out during 2010-12 by traditional roofing instead of galvalume roofing despite its proven advantages.
- Capacity addition by own godowns was nil/ meager during 2008-11 despite availability of surplus funds both internal as well as funding from various central and state schemes.
- Though average occupancy of own godowns of APSWC progressively increased from 58 *per cent* in 2008-09 to 89 *per cent* in 2012-13, it was less than the occupancy of hired and investor godowns.
- Utilisation of warehousing facility by farmers was low thereby indicating non awareness among farmers and non-fulfilment of the main objective of providing security from distress sales, negotiable instrument in the form of warehouse receipt, marketing, etc., to the farmers.
- There is no rate revision policy in place and APSWC did not revise the storage charges in respect of other than food grains even after 11 years resulting in revenue loss.
- Storage losses were in excess of the fixed norms, Quality control norms not adhered to in respect of infrastructure for proper upkeep of the stock in the godowns and construction isolation sheds to store infested stocks.
- FIFO method was not followed in issue of stocks.
- Computerization is not completed according to schedule, MIS data was not standardized for effective utilization by management.

Recommendations

APSWC should

- *Take up conversion of old godowns due for re-roofing with galvalume roofing to provide sustainable, scientific storage and avoid wastage and losses;*
- *Take steps to encourage farmers by awareness programmes, of facilities available for storage as well as for availing credit facility from banks;*
- *Formulate rate revision policy in respect of storage charges for commodities other than food grains;*
- *Pursue with FCI to follow FIFO method while issuing stocks to avoid long storage of stocks;*
- *Provide infrastructure including construction of isolation sheds as per Quality Control Manual.*