

CHAPTER III

- 3. PERFORMANCE AUDIT RELATING TO STATUTORY CORPORATION**
- 3. PERFORMANCE AUDIT ON WAREHOUSING ACTIVITIES OF BIHAR STATE WAREHOUSING CORPORATION**

Chapter III

Performance audit relating to Statutory corporation

3. Warehousing activities of Bihar State Warehousing Corporation

Executive Summary

Introduction

Bihar State Warehousing Corporation (Corporation) was established in March 1957 under the Agricultural Produce (Development and Warehousing) Corporation Act, 1956. As on March 2013, the Corporation had 37 warehousing centres with a total available storage capacity of 31.99 lakh Metric Tonnes (MT).

Deficiencies in warehousing activities

Non-accrual of benefits to primary producers (Farmers)

The Corporation failed to achieve its main objective of providing storage facility to primary producers because of lack of initiative on the part of Corporation to educate farmers regarding benefit of scientific storage of stock.

Loss due to shortage of stock

The Corporation incurred a loss of ₹12.63 crore due to shortage of foodgrains, caused by deficient monitoring of the periodical physical verification of State Warehousing Centres (SWCs).

Non-compliance of First In First Out (FIFO) method

Stock of 448 MT and 269 MT of rice at SWC, Bettiah and SWC, Raxaul respectively were lying unissued since 2010-11 due to non-observance of FIFO method. The rice worth ₹1.42 crore had become discoloured, infested, heavily broken and non-issuable.

Engagement of Excess Capacity

At SWC, Muzaffarpur, due to engagement of more godowns than required, the Corporation could not utilise the aggregate storage capacity of 98,000 MT resulting in potential loss of ₹0.54 crore towards storage charge.

Non-recovery of Storage loss

At SWC, Sasaram, no monthly report of storage loss was submitted to FCI for waiver. Resultantly an amount of ₹1.05 crore could not be recovered (August 2013). A further storage loss of 145 MT of wheat and 171 MT of rice valuing ₹23.13 lakh was reported at the same centre during October 2009 to February 2011. Despite continued storage loss at the centre, the Corporation neither investigated the reasons nor took any initiative to plug the loopholes.

Deficient protective measures

Utilisation of dunnage and other fumigation material was much below norms which may damage the godowns, foodgrains and other stocks kept. Besides, the intended objective of scientific storage was defeated.

Tariff and billing

Non-raising of revised bills of FCI

Arrear bills valuing ₹3.16 crore of storage charges at revised enhanced rates (effective from April 2009) were not preferred by seven centres. (August 2013).

Non-realisation of revised tariff from IFFCO

Although the arrear bills at the revised rate were issued by the Corporation, the enhanced rate was made applicable by IFFCO from the next month of the receipt of tariff order instead of retrospective effect. This led to non-realisation of ₹44.04 lakh (July 2013) to the Corporation.

Construction of godowns

Central/ State Scheme

Rashtriya Krishi Vikash Yojana (RKVY)

The Government sanctioned ₹26.30 crore for construction of 10 godowns

with total capacity of 50,000 MT at seven locations in 2007-08 and 2008-09, under RKVY. However, only eight godowns were completed (September 2013) with a delay ranging between 18 to 40 months as against the scheduled completion period of seven months.

Under Own Scheme

The Executive Committee of the Corporation sanctioned (March 2010) ₹6.43 crore for construction of two godowns at two centres (Kasba-6000 MT and Muzaffarpur-4310 MT) from its own funds. However, the godowns were completed with a delay of 19 and 21 months as against the scheduled completion period of seven months.

Financial Management

Non-finalisation of Accounts

The Corporation has finalised its Annual Accounts upto the year 2009-10, while the Accounts for 2010-11 to 2012-13 were yet to be finalised (September 2013). Delay in finalisation of Accounts may result in risk of financial irregularities including fraud.

Deficient Manpower Planning

As against the sanctioned strength of 493 employees, the Corporation had working strength of 206 employees as on 31 March 2013 out of which 153 employees were Peon-cum-Dusting Officials (PCDOs), drivers, etc. Superintendents were required to be posted as godowns in-charge, however, due to huge shortage of manpower, Lower Cadre Personnel such as Assistants in 23 SWCs and PCDOs/ Daftery/ Record keepers in 14 SWCs were given the charge of risk prone warehouses. However, no action was taken by the Management for appointment of employees.

Internal control

The Corporation does not have any operation or functional manual nor has its own accounts manual. Internal Audit Reports were not placed before the Board of Directors. Only 18 meetings of the BoD and 10 meetings of Executive Committee were held at irregular intervals against the required number of 30 and 60 meetings respectively during 2008-13. The Corporation had not devised any comprehensive Management Information System for collection, consolidation and analysis of various information/data for effective monitoring. Books of records were also not properly maintained.

Conclusion

The Corporation did not have a proper plan for construction of godowns. The Corporation failed to achieve its main objective of providing storage facility to primary producers. The warehousing activities of the Corporation were deficient as it suffered losses on account of pilferage of stock, non-observance of FIFO, etc. Also, there were instances of wrong application of tariff, billing and non-realisation. The financial management, Internal Control and MIS were deficient.

Recommendations

The Corporation needs to prepare perspective plan for construction of godowns and ensure timely completion of construction of godowns; ensure scientific storage and issuance of stock; raise bills timely and pursue realisation, keep the control registers complete and updated, strengthen its Internal Control System and improve MIS.

(Chapter-III)

Introduction

3.1 Bihar State Warehousing Corporation (Corporation) was established in March 1957 under the Agricultural Produce (Development and Warehousing) Corporation Act, 1956. Government of India repealed this Act and replaced it by the Warehousing Corporation Act, 1962 (Act). The Corporation was deemed to be a State Warehousing Corporation under the provision of Section 2(k) of this Act. The main objectives of the Corporation are to provide scientific storage facilities for agricultural and notified commodities and to help depositors, particularly the primary producers in obtaining credit against stored commodities.

In furtherance of the objectives, the main functions of the Corporation are to acquire and build godowns and warehouses within the State, to provide storage facilities in its warehouses and hired godowns for agricultural produce, fertilizers and other notified commodities and to arrange facilities for transportation of the aforesaid commodities to and from warehouses.

The Corporation is under the administrative control of Department of Co-operative, Government of Bihar. As on March 2009, the Corporation had 173 Godowns (74 owned and 99 Hired) at 44 warehousing centres with a total available storage capacity of 32.62 lakh metric tonnes (MT) which was reduced to 154 godowns (84 owned and 70 hired) at 37 warehousing centres with a total available storage capacity of 31.99 lakh MT by 31 March 2013.

The Management of the Corporation is vested in a Board of Directors (BoD) consisting of 11 Directors including a Chairman and a Managing Director (MD) appointed by the State Government. Out of these Directors, five are nominated by the Central Warehousing Corporation (CWC) and six by the State Government. The BoD is assisted in the performance of its functions by an Executive Committee consisting of the Chairman, the Managing Director and three Directors. The MD is assisted by eight Managers in charge of different functional wings, viz. Finance, Business, Engineering, Technical and the divisions of the Corporation. Further each centre is managed by a Centre Superintendent under the supervision of a Divisional Manager who reports directly to the Managing Director.

Scope and Methodology of Audit

3.2 The working of the Corporation was last reviewed and incorporated in the Audit Report of the Comptroller and Auditor General of India (Commercial), Government of Bihar for the year ended 31 March 2005. The Committee on Public Undertakings (CoPU) discussed the review and made recommendations in its Report No.166 of 2006-07 which was presented in the State Legislature in February 2008. The recommendations, wherever applicable, were considered in the Performance audit.

The present Performance audit, conducted between May and August 2013, covers the warehousing activities of the Corporation for the period 2008-13. Records of the Corporation at headquarters and 12¹ State Warehousing Centres (SWCs) with total storage capacity of 18.94 lakh MT out of 37 warehousing centres (total storage capacity of 31.99 lakh MT) were test checked. The SWCs were selected by adopting the Random Sampling Method.

The methodology adopted for attaining audit objectives with reference to audit criteria consisted of explaining audit objectives to the Management in the entry conference, examination of records, documenting and analysing evidence collected from the Headquarters office and field offices of the Corporation, examination of agenda and minutes of BoD meetings, issue of audit enquiries and interaction with the Management.

¹ Ara, Aurangabad, Barauni, Biharsharif, Bettiah, Buxar, Gaya, Gulabghat (Purnea), Motihari, Muzaffarpur, Samastipur and Sasaram.

Audit findings were reported to the Corporation and the State Government in August 2013 and discussed in an 'exit conference' held on 24 October 2013. The exit conference was attended by Joint Secretary, Department of Co-operative, Government of Bihar and the Managing Director, Bihar State Warehousing Corporation. While the replies of the Corporation were received in October 2013, the response of the State Government was awaited (December 2013). The Management's replies and views expressed in exit conference have been considered while finalising this Performance audit.

Audit Objectives

3.3 The Performance audit was conducted with a view to ascertain whether:

- storage capacities were utilised optimally, effectively and efficiently;
- adequate measures were taken to minimise losses of foodgrains and other commodities during storage;
- the Corporation raised bills accurately for providing storage within the stipulated period and recovery of storage charges were made as per tariff;
- storage facilities were constructed/created in economical and efficient manner;
- proper financial management of the funds existed; and
- internal control was adequate and commensurate with the nature and size of business of the Corporation.

Audit Criteria

3.4 Audit criteria considered for assessing the achievement of the audit objectives were as follows:

- Guidelines/directions issued by Food Corporation of India/Central Warehousing Corporation relating to warehousing activities;
- Guidelines/directions of the Board of Directors;
- Provisions of the Warehousing Corporation Act, 1962, Bihar State Warehousing Corporation Rules, 1958 and General Regulations of Bihar State Warehousing Corporation;
- Standard procedure for award of contract for construction of godowns; and
- Orders/instructions of the Corporation in respect of delegation of power.

Audit Findings

3.5 The audit findings are discussed in subsequent paragraphs.

Warehousing operations

Capacity utilisation

3.6 Warehousing facilities in the State were being provided by the Corporation through its owned as well as hired godowns. As on 31 March 2013, the Corporation had 154 godowns (owned: 84, hired: 70) at 37 centres with a total available storage capacity of 31.99 lakh MT. During the Performance audit period, available storage capacity of 6.11 lakh MT² was created by the Corporation through construction of 10³ new godowns with a storage capacity of 50310 MT. The summarised position of the storage activities of the Corporation for the last five years ending 31 March 2013, is shown in the table below:

Table No: 3.1

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	No. of warehousing centres	44	42	40	40	37
2	Annual capacity available (in lakh MT)					
	Owned warehouses	17.38	17.38	17.38	19.83	21.04
	Hired warehouses	15.24	14.35	12.64	11.18	10.95
	Total	32.62	31.73	30.02	31.01	31.99
3	Annual capacity utilised (in lakh MT)					
	Owned warehouses	14.79	13.91	13.86	15.83	18.89
	Hired warehouses	17.85	14.94	12.78	10.74	10.51
	Total	32.64⁴	28.85	26.64	26.57	29.40
4	Percentage of capacity utilization					
	Owned warehouses	85.10	80.03	79.75	79.83	89.78
	Hired warehouses	117.13	104.11	101.11	96.06	95.98
	Total	100	91	89	86	92
5	Decline in capacity utilisation (in lakh MT) (as compared to 2008-09)	-	3.79	6.00	6.07	3.24

(Source: Information provided by the Management)

It is evident from the above table that:

- The owned capacity remained at 17.38 lakh MT during 2008-11 and marginally increased during 2011-12 and 2012-13.

² During 2011-12, 2.45 lakh MT (19.83 lakh MT-17.38 lakh MT) and during 2012-13, 3.66 lakh MT (21.04 lakh MT-17.38 lakh MT), i.e. 6.11 lakh MT (2.45 lakh MT+3.66 lakh MT) added as compared to 2010-11.

³ Chapra (two godowns of 5000 MT each), Fatuha (two godowns of 5000 MT each), Kasba (one godown of 6000 MT), Mohania (one godown of 5000 MT), Motihari (one godown of 5000 MT), Muzaffarpur (one godown of 4310 MT) and Samastipur (two godowns of 5000 MT each).

⁴ Capacity utilisation was in excess of 100 per cent of the available capacity due to increase in height of stacks and use of alleyways.

- Utilisation of available capacity declined from 32.64 lakh MT (100 per cent) in 2008-09 to 26.57 lakh MT (86 per cent) in 2011-12 and again increased to 29.40 lakh MT (92 per cent) in 2012-13.

The overall average capacity utilisation was commendable and was more than industry norm of 60 per cent, however, the capacity utilisation of own warehouses were lower than hired warehouses

The average capacity utilisation was commendable as the capacity utilisation ranged from 86 to 100 per cent as against the industry norm of 60 per cent and above which is generally considered as satisfactory. It was further observed that the capacity utilisation of own warehouses (80 to 90 per cent) were lower than hired warehouses (96 to 117 per cent). The lower utilisation was mainly because of non-repair of godowns at Muzaffarpur (3000 MT), Ara (425 MT) and Sasaram (3250 MT). Further the utilisation of own godowns located at Jankinagar (1000 MT) was “nil” upto 2011-12 and Murliganj (4360 MT) was 0.17 per cent to 18.16 per cent during 2008-13 respectively, due to poor demand. We noticed that there was absence of any marketing strategy to augment capacity utilisation of the centres. It was also observed that the Corporation had no policy/programme for education of farmers on scientific utilisation of storage capacity.

During the exit conference (October 2013), the Management accepted the observation.

Non-accrual of benefits to the Primary producers (Farmers)

3.7 The Corporation was formed with the main objective to provide scientific storage facilities for agricultural and notified commodities, and to help depositors, particularly the primary producers in obtaining credit against stored commodities. The details of the depositor-wise utilisation of storage capacity for the five years ending March 2013 were as follows:

Table No: 3.2

(in lakh MT)

Year	Bulk depositors (FCI and Fertilizer Companies)	Primary producers (Farmers)	Traders (other PSUs ⁵)	Others	Total	Percentage utilisation of total capacity by bulk depositors
2008-09	24.96	Nil	3.20	4.48	32.64	76.47
2009-10	22.96	Nil	2.60	3.29	28.85	79.58
2010-11	20.76	Nil	2.30	3.58	26.64	77.93
2011-12	21.54	Nil	3.13	1.90	26.57	81.07
2012-13	23.71	Nil	3.48	2.21	29.40	80.65

(Source : Information provided by the Management)

Warehousing facility was mainly utilised by the bulk depositors. The primary producers (farmers) did not utilise the warehousing facility of the Corporation at all

As is evident from the above table, the warehousing facility was mainly utilised by bulk depositors for storage of foodgrains and fertilizers and their combined utilisation ranged between 76.47 per cent and 81.07 per cent (2008-13). The primary producers (farmers) did not utilise the warehousing facility of the Corporation at all. We noticed that the Corporation had neither taken any initiative in conducting any training programme for education of farmers regarding the benefits of scientific storage of stock nor analysed the

⁵ Bihar State Text Book Publishing Corporation Limited and Bihar State Beverages Corporation Limited, etc.

reasons for non-utilisation of the warehousing facility by primary producers. Thus, the Corporation failed to achieve its main objective.

During the exit conference (October 2013), the Management accepted the observation and stated that the utilisation by primary producers would be encouraged.

Deficiencies in warehousing activities

3.8 As per the laid down instructions issued by the Corporation from time to time, the following procedures were required to be followed in the management of warehouses:-

- Quarterly and Annual physical verification of the stock is required to be done for timely detection of shortages and deterioration of stock;
- Stocks should be issued on First In First Out (FIFO) method;
- The Stock should be kept in stacks in a scientific manner so as to ensure better utilisation of storage space; and
- Prescribed books of records should be maintained properly for effective control.

The deficiencies noticed in warehousing activities are discussed below:

Shortage of stock

3.9 The Corporation did not conduct physical verification of its stock during 2008-09, 2010-11 and 2011-12. Though physical verification of stock was conducted (March 2010) at SWC Biharsharif for 2009-10, no excess/shortage was reported, as the stock was not in countable position. We noticed that FCI conducted (March 2011) inspection of the centre and reported a shortage of 6063.72 MT of foodgrains valuing ₹ 12.63 crore. The Corporation lodged (July 2011) an FIR against the centre superintendent and also protested with the FCI contesting the quantum of shortage which was, however, not accepted by FCI. The payments of the Corporation were withheld (April 2011).

The Corporation incurred a loss of ₹ 12.63 crore due to shortage of foodgrains

Thus, the Corporation incurred a loss of ₹ 12.63 crore due to shortage of foodgrains which could not be detected over the years due to non-conducting of the periodical physical verification of the SWCs.

The Management accepted (October 2013) the observation and stated that due to paucity of manpower, physical verification of the godowns could not be done. Management also stated that an FIR has been lodged in this regard. The fact remained that the Corporation sustained loss due to inaction and lapses on the part of Management.

Inadequate system to monitor shortages

3.10 A shortage of 144 MT of wheat was detected during handing/taking over of charge at SWC Ara in July 2008. The Corporation lodged an FIR against shortage in July 2008. A departmental proceeding was also initiated but no responsibility for losses was fixed as one employee was finally exonerated (February 2011) due to lack of evidence, and the other had retired (May 2008) before the detection of shortage. FCI recovered a sum of ₹ 14.39 lakh against shortage. Thus, the Corporation incurred a loss of ₹ 14.39 lakh as it failed to recover the shortage amount.

The Management accepted (October 2013) the observation in the exit conference.

Non-observance of First In First Out (FIFO) method of stock issuance

Stock of rice worth ₹ 1.42 crore deteriorated and became non-issuable due to non-observance of FIFO method of stock issuance

3.11 As per the laid down instructions of the Corporation, the stock of foodgrains, deposited by the FCI in the godowns of the Corporation were required to be issued on FIFO method. We observed that 448 MT and 269 MT of rice at SWC Bettiah and SWC Raxaul respectively were lying unissued since 2010-11. The centres received various consignments of rice thereafter and issued the same but the old stock remained unissued till date (August 2013). The old stock of rice had become discoloured, infested, heavily broken and non-issuable. Thus, the quality of rice worth ₹ 1.42 crore⁶, deteriorated and became non-issuable due to non-observance of FIFO method. However, no action was taken against the centre in-charges (September 2013).

The Management accepted (October 2013) the observation and stated that all centre in-charges have been instructed to adhere to the FIFO system.

Engagement of Excess Capacity

The Corporation incurred a loss of revenue of ₹ 0.54 crore due to engagement of excess capacity of godown

3.12 Engagement of godowns for storage of fertilizers should be based on the capacity reserved by the depositors so that the unoccupied godowns may further be utilised for storage.

We noticed that Indian Farmers Fertilizers Corporation Limited (IFFCO) reserved a storage space of 5,000 MT during October 2009 to March 2012 (except 6000 MT in August 2010 and September 2010), and 7000 MT during 2012-13 for storage of fertilizer at SWC, Muzaffarpur. Though, based on capacity reserved by the IFFCO, engagement of four godowns (1400 MT each) during October 2009 to March 2012 and five godowns during 2012-13 was sufficient, the Corporation engaged six godowns having total storage capacity of 8,400 MT (i.e. 1,400 MT x 6) for storage of IFFCO stock, irrespective of its reservation. We observed that due to engagement of more godowns than required, the Corporation could not utilise the aggregate storage capacity of 98,000 MT during the period resulting in potential loss of ₹ 0.54 crore towards storage charge.

The Management stated (October 2013) that the godowns were also utilised by other depositors. The reply is not acceptable as no documentary evidence was

⁶ At the economic cost of rice of FCI at the rate of ₹ 1,983.11 per quintal.

provided to the audit regarding utilisation of capacity by other depositors. Further, the centre in-charge has confirmed the fact that the above six godowns were utilised by IFFCO only.

Improper handing over of charge

3.13 As per the Order⁷ of the Corporation, immediate handover/ takeover of the complete charge is to be made on transfer of an employee. We observed that subsequent to transfer of the centre in-charge of SWC, Samastipur to SWC, Buxar in July 2012, only the partial charge of fertilizers was handed over to the incumbent centre in-charge in February 2013. However, the complete charge of fertilizers has not been handed over to the incumbent centre in-charge so far (September 2013). We noticed that there were huge differences in the book balance of stock and the stock taken over, as detailed below:-

Table No: 3.3

Type of Fertilizers	Stock as per stock register as on the date of handing over		Stock taken over as per charge report		Stock not taken over	
	Bags	MT	Bags	MT	Bags	MT
IFFCO Urea	7941	397.05	3459	172.95	4482	224.10
Diammonium Phosphate (DAP)	25404	1270.20	3255	162.75	22149	1107.45
Ammonium Phosphate Sulphate (APS)	7430	371.50	133	6.65	7297	364.85

No action was taken for delayed/non-handing over of the charge for such a long period. As a result, timely identification of possible pilferage, theft or misappropriation of stock, and consequent loss to the Corporation could not have been ensured.

The Management, while accepting the audit contention, stated (October 2013) that departmental proceeding would be initiated against the centre in-charge for non-handing over of charge.

Non-availability of safety measures and other facilities

3.14 Safety measures and other warehousing facilities are required to be provided in the warehouses for safe storage and preservation of stock. We observed that the following safety measures and facilities were not available in the warehouses:

- Security arrangement for the safety of warehoused stock;
- Fire fighting equipments and fire bucket with sand for the safety against fire;
- Electric installation/connection in the warehouses;
- Facilities for grading and sampling of the commodities stored; and

⁷ Office Order no: 283 dated 31 July 2012.

- Maintenance of proper cleanliness and hygiene.

The Management stated (October 2013) that the Corporation was maintaining safety methods and cleanliness. The reply is not acceptable as the above stated deficiencies were noticed during audit. Further, FCI had regularly intimated the Corporation about non-availability of the safety measures and other facilities at the warehouses.

Non-recovery of Storage Loss

The Corporation lost ₹ 1.28 crore due to non-recovery/ non-fixation of responsibility for shortage of foodgrains

3.15 As per the instructions of the Corporation, the centre in-charge is required to submit a monthly report of storage loss⁸ to FCI for waiver. Storage loss not waived by FCI, was to be recovered from the centre in-charge. We observed that at SWC, Sasaram though no monthly report of storage loss was submitted to FCI for waiver, a quantity of 218 MT of wheat and 430 MT of rice valuing ₹ 1.06 crore was deducted by the centre in-charge from the stock register of FCI as storage loss during 2005-09. The Corporation fixed responsibility (May 2009) for storage loss against the centre in-charge and recovered a sum of ₹ 1.20 lakh only till his retirement (October 2010). The remaining amount (₹ 1.05 crore) could not be recovered as on date (October 2013). No action was taken by the Corporation for recovery of balance storage loss even after lapse of more than two years from the date of retirement of the concerned staff.

Despite continued storage loss at the centre, the Corporation neither investigated the reasons nor took any initiative to plug the loopholes. As a result, a further storage loss of 145 MT of wheat and 171 MT of rice valuing ₹ 23.13 lakh was reported at the same centre during October 2009 to February 2011. The Corporation took no step to fix the responsibility of loss, resulting in a further loss of ₹ 23.13 lakh.

The Management stated (October 2013) that the matter of writing off of the storage loss has been taken up with FCI and recovery, if any, would be made from the concerned centre in-charge. The reply is not acceptable as no documentary evidence has been provided to the audit for taking up the matter with FCI and besides the Corporation took no step to fix the responsibility of subsequent losses.

Deficient protective measures

3.16 In order to provide scientific storage, the Corporation undertakes fumigation work of the godowns to protect the stored commodities from insects, rodents, etc. Though the Corporation has prescribed norms for use of dunnage and fumigation material to carry out the periodical protective measures, the actual utilisation of such material was much lower than the norms. The following table indicated the usage of consumables like dunnage and fumigation material during 2008-13:

⁸ Loss in weight of foodgrains due of moisture content.

Table No: 3.4

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1	Reservation of FCI (in lakh MT)	12.74	14.47	15.53	17.31	19.36
2	Fertilizer (in lakh MT)	12.22	8.49	5.23	4.23	4.35
3	Total Reservation (in lakh MT)	24.96	22.96	20.76	21.54	23.71
4	Average monthly reservation (in lakh MT)	2.08	1.91	1.73	1.79	1.98
5	Average Monthly reservation of FCI (in lakh MT)	1.06	1.21	1.29	1.44	1.61
6	Norms of consumption of Dunnage at the rate of 80 kg for 1000 MT on total reservation (KG)	16640	15280	13840	14360	15840
7	Quantity utilised (KG)	8350	8570	9825	9800	7681
8	Shortage in utilisation of dunnage in KG with respect to actual requirement (<i>per cent</i>)	8290 (50)	6710 (44)	4015 (29)	4560 (32)	8159 (52)
9	Norms of consumption of Cellphos at the rate of 3 tablets of 3 gram each / MT twice in a year 5 x 9 x 2 (KG)	1908	2178	2322	2592	2898
10	Quantity utilised (KG)	398	472	277	655	200
11	Shortage in KG with respect to actual requirement (<i>per cent</i>)	1510 (79)	1706 (78)	2045 (88)	1937 (75)	2698 (93)
12	Norms of consumption of Deltametharine at the rate of 5 kg for 1000 MT 3-4 times in a year	2120	2420	2580	2880	3220
13	Quantity utilised (KG)	168	148	124	216	108
14	Shortage in KG with respect to actual requirement (<i>per cent</i>)	1952 (92)	2272 (94)	2456 (95)	2664 (93)	3112 (97)

(Source:- Budgeted norms and data provided by the Management)

Utilisation of dunnage and other fumigation materials was below norm

It is evident from the table that there were under fumigation, and shortage in utilisation of dunnage material ranged between 29 *per cent* and 52 *per cent*, Cellphos ranged between 75 *per cent* and 93 *per cent* and Deltametharine ranged between 92 and 97 *per cent*. Utilisation of dunnage and other fumigation material below norms may damage the foodgrains and other stocks kept and defeat the intended objective of scientific storage.

The Management stated (October 2013) that in many cases FCI itself arranged the pesticides and in some cases the Corporation had taken pesticides on loan from Central Warehousing Corporation (CWC). No documentary evidence was, however, produced to audit regarding pesticides arranged by FCI or taken on loan from CWC. Further, it was the Corporation's responsibility to undertake fumigation work of the godowns on regular basis to protect the stored commodities.

Tariff and Billing

3.17 The Corporation had not formulated any system of fixation of storage tariff of its own and had been following the storage tariff fixed by CWC from time to time. We noticed irregularities in implementation of tariff and billings thereof as discussed in the succeeding paragraphs :

Non-raising of revised bills of FCI

The Corporation could not recover storage charge of ₹ 3.16 crore due to non-raising of arrear bills at revised storage charges

3.18 The storage rates applicable to FCI for reservation for a minimum period of at least one year was revised in October 2011 to ₹ 49.00 per MT (effective from April 2008) and in September 2012 to ₹ 54.60 per MT (effective from April 2009). As such, the arrear bills for the revised rates were required to be sent to FCI. We noticed that arrear bills (April 2008 to March 2013) of ₹ 3.16 crore towards storage charges at revised rates were not preferred by seven⁹ centres (August 2013). Non-raising of revised arrear bills not only led to non-recovery of revenue amounting to ₹ 3.16 crore but also indicated the deficient internal control mechanism in the Corporation.

The Management, while accepting the audit contention, stated (October 2013) that the billing of arrear would be done.

Non-recovery of storage charge due to wrong application of tariff

The Corporation did not charge storage bills at applicable rates from FCI

3.19 As per the terms and conditions of tariff, if FCI agreed to keep the stock for a minimum period of one year, the Corporation was required to charge the concessional rate. In other cases, where utilisation was not guaranteed by FCI, the Corporation was allowed to charge the storage charges from FCI at the same rate as applicable to the private parties. We observed that at four SWCs¹⁰, FCI reserved (April 2012 to April 2013) storage space for less than a year but the Corporation did not charge storage bills at rates as applicable to the private parties. Due to non-billing as per the terms and conditions of tariff, the Corporation failed to claim and recover ₹ 19.43 lakh as storage charge.

The Management stated (October 2013) that FCI had taken continuous reservation in all the years under audit. The reply is not based on the facts as FCI took reservations of space for less than a year at above mentioned SWCs and the Corporation failed to charge storage bills at higher rates as applicable.

Non-realisation of revised tariff from Indian Farmers Fertilizer Co-operative (IFFCO) Limited

The Corporation failed to effectively pursue the applicability of tariff rates with retrospective effect which led to non-realisation of ₹ 44.04 lakh

3.20 Central Warehousing Corporation revised its tariff for fertilizers in March 2009 to ₹ 27 per MT (effective from November 2008), in March 2011 to ₹ 29 per MT (effective from April 2010) and in December 2011 to ₹ 31 per MT (effective from May 2011). As such the arrear was required to be realised from the date of effect of tariff revision. Although the arrear bills at the revised rate were issued by the Corporation, the enhanced rates were accepted by IFFCO from the next month of the receipt of tariff order, instead of its applicability with retrospective effect. The Corporation, however, failed to effectively pursue the applicability of tariff with retrospective effect which led to non-realisation of ₹ 44.04 lakh (July 2013).

⁹ Ara, Aurangabad, Barauni, Bettiah, Biharsharif, Samastipur and Sasaram.

¹⁰ Bhagalpur, Buxar, Dehri-on-sona and Sasaram.

The Management stated (October 2013) that the matter had already been taken up with IFFCO. No documentary evidence for pursuance of arrear was, however, provided to audit and the fact remains that realisation was still pending. As IFFCO is the regular and a major depositor, the matter needs to be pursued at higher level to avoid loss on account of storage charges.

Construction of godowns

3.21 The Corporation had not made any annual plan or perspective plan for increasing its storage capacity and undertook construction of warehouses as and when the scheme was sanctioned and funds were provided under Central/ State schemes. During the Performance audit period, the Corporation had undertaken construction of 10¹¹ godowns of 0.50 lakh MT capacity at seven centres under Rashtriya Krishi Vikash Yojana (RKVY), out of which only eight¹² godowns of 0.40 lakh MT capacity at five centres were completed. The Corporation had also constructed two godowns of 10,310 MT capacity from its own resources during the period.

Discrepancies noticed in execution of Scheme are discussed below:

Rashtriya Krishi Vikash Yojana (RKVY)-Government of India Scheme

3.22 The Government of India sanctioned ₹ 20.00 crore (at the rate of ₹ 2.50 crore per 5000 MT godown) for construction of eight godowns with total capacity of 40,000 MT at five locations¹³ and ₹ 6.30 crore (at the rate of ₹ 3.15 crore per 5000 MT godown) for two godowns with capacity of 10,000 MT at two locations¹⁴ in the financial year 2007-08 and 2008-09 respectively, under RKVY. The Government released ₹ 19.29 crore (April 2008) and ₹ 0.71 crore (June 2009) for eight godowns; and ₹ 3.03 crore (November 2009) and ₹ 3.26 crore (March 2013) for two godowns. The Corporation issued four different work orders at each location for the construction of aforementioned 10 godowns during January 2009 to June 2012. However, only eight godowns were completed (September 2013) with a delay ranging between 18 to 40 months as against the scheduled completion period of seven months.

Non- co-ordination in award of work led to delay in execution with consequential potential loss of revenue of ₹ 5.32 crore

We observed that the main reasons attributed for delay in construction of godowns were awarding of four separate work orders for a single work, lack of co-ordination in award of works and delay in execution of the work by the contractors. Delay in construction of godowns resulted in potential loss of revenue of ₹ 5.32 crore on account of storage charges (Details of projects indicated in *Annexure-7*).

The Management stated (October 2013) that reasons for delay in construction were delay in issue of work contract for Pre-engineered, Pre-fabricated

¹¹ Chapra (2x5,000 MT), Fatuah (2x5,000 MT), Mohania (5,000 MT), Motihari (5,000 MT), Samastipur (2x5,000 MT), Ara (5,000 MT) and Sasaram (5,000 MT).

¹² Chapra (2x5,000 MT), Fatuah (2x5,000 MT), Mohania (5,000 MT), Motihari (5,000 MT), and Samastipur (2x5,000 MT)

¹³ Chapra (10,000 MT), Fatuah (10,000 MT), Mohania (5,000 MT), Motihari (5,000 MT), and Samastipur (10,000 MT).

¹⁴ Ara (5,000 MT) and Sasaram (5,000 MT).

structural steel building (PEB) roofing, Parliamentary/State election, court case at Motihari centre and removal of high tension wire at Fatuha centre. We, however, noticed that there was lack of planning at the time of award of work order, as single work was divided into four different works.

During exit conference, the Management accepted (October 2013) that the delay was caused due to deficiencies in the planning part.

In case of remaining two incomplete godowns at Ara and Sasaram, (Sl.Nos.6 and 7 of *Annexure-7*), we noticed that after partial completion of civil and roofing works, the work of construction of godowns was stopped (December 2011) by the contractors for want of funds. Though the Corporation took up (August 2009) the matter for release of balance fund with the Government, the same was, however, received only in January 2013. In the meanwhile, the Corporation decided (October 2012) to foreclose the existing agreements and prepared the revised estimate for remaining work. The estimate of remaining work increased by ₹ 25.58 lakh as compared to the original estimate. The process of award of the remaining work was still under progress (September 2013).

The Management did not offer any comment on the audit observation.

Construction of godowns from own funds

The godowns were completed with a delay of 19 and 21 months as against scheduled completion period of seven months

3.23 The Executive Committee of the Corporation sanctioned (March 2010) ₹ 6.43 crore for construction of two godowns at two centres (Kasba-6000 MT, Muzaffarpur-4310 MT) from its own funds. The Corporation issued (March 2010 to August 2011) four different work orders at each centre for the construction of aforementioned godowns. However, the godowns were completed with a delay of 19 and 21 months as against the scheduled completion period of seven months.

We observed that the main reasons for delay in construction of godowns were award of four separate work orders for a single work, non-synchronisation of different work orders and delay in execution of the work by the contractors. Thus, delayed completion of godowns deprived the Corporation of the revenue on account of storage charges.

During exit conference, the Management stated (October 2013) that the delay was caused due to deficiencies in the planning part.

Implementation of Private Entrepreneurs Guarantee (PEG)-2008 Scheme

3.24 Ministry of Consumer Affairs & Public Distribution, Government of India, framed (July 2008) Private Entrepreneurs Guarantee- 2008 (PEG-2008) Scheme for construction of godowns for storage requirements of Food Corporation of India. The Scheme envisaged, *inter alia*, construction of godowns by private participation through Central Warehousing Corporation/ State Warehousing Corporation on revenue sharing basis at locations finalised by the High Level Committee (Committee) of the FCI.

With a view to augment storage capacity in the state of Bihar, FCI approved (May 2009) construction of three lakh MT capacity of godowns under PEG-2008. Tenders were floated by the Corporation in February 2011 and the Committee approved (June 2011 to February 2013) the rates for 1.55 lakh MT capacity at 10 locations¹⁵. We observed that the Corporation entered into agreement with the entrepreneurs at five locations (Capacity-70000 MT) only with a delay of period ranging from four to 12 months. Agreements for remaining locations were pending (September 2013) for want of no objection certificate from District Authorities. The details of approved locations under PEG-2008, their capacity, and present status of construction work are given in *Annexure-8*.

Thus, due to delay in agreement and failure of the Corporation to get the construction work completed on time through proper co-ordination with entrepreneurs, no capacity had been added under PEG Scheme (September 2013). As a result, intended objective of capacity addition and revenue generation could not be achieved.

The Management, while accepting the observation, stated (October 2013) that godown at Motihari had been completed in October 2013 and agreement for construction of godown at Jamui had been cancelled while godowns at remaining five places were expected to be completed by March 2014.

Financial Management

Financial Position

3.25 The summarised position of the income and expenditure of the Corporation for last five years ending 31 March 2013, is shown in the table below:

Table No: 3.5

Particulars	(₹ in crore)			
	2008-09	2009-10	2010-11 ¹⁶ (provisional)	2011-12 (provisional)
Warehousing charges	8.69	9.31	9.33	12.37
Other income	47.29	50.74	56.56	57.88
Total	55.98	60.05	65.89	70.25
Establishment charges	5.00	4.96	6.53	8.14
Other Expenses	48.51	52.23	58.47	61.87
Total	53.51	57.19	65.00	70.01
Profit (+) / Loss (-) before tax	2.47	2.86	0.89	0.24

As would be seen from the above table, the profit of the Corporation has decreased drastically from ₹ 2.47 crore in 2008-09 to ₹ 0.24 crore in 2011-12. The main reasons for decrease in profit as analysed in audit are write off of

¹⁵ Begusarai, Gopalganj and Khagaria in June 2011, Bettiah, Jamui, Motihari and Siwan in August 2011 and Ara, Aurangabad and Sasaram in February 2013.

¹⁶ Figures for the financial year 2010-11 and 2011-12 are provisional. Figures for the financial year 2012-13 were not available.

debtors¹⁷ and provision made in accounts for losses due to shortage of stock at SWC Biharsharif (discussed in para 3.9).

We observed that the Corporation did not effectively pursue the recovery of its dues on account of transportation and handling and storage charges. The following instances were observed:

- Transportation and handling bills payable by the Corporation on behalf of FCI for the period from January 2012 to August 2012 amounting to ₹ 1.29 crore including supervision charges of ₹ 9.56 lakh had not been submitted to FCI for reimbursement due to non-authentication of bills by FCI.
- Bills amounting to ₹ 11.99 lakh for the period 2008-13 for storage charges on account of one godown of 425 MT capacity at SWC Ara by District Election Officer, Ara were not raised till July 2013.
- Out of transportation and handling bills for ₹ 1.95 crore preferred on FCI by the Corporation on account of flood relief work, an amount of ₹ 1.60 crore was outstanding on the part of FCI for more than five years till October 2013.

During exit conference (October 2013), the Management accepted the observation.

Non- finalisation of Accounts

3.26 As per para 31(10) of the Warehousing Corporation Act, 1962, the Annual Accounts of the Corporation together with the Audit Report thereon shall be placed before the Annual General Meeting (AGM) of the Corporation within six months of the close of the financial year. We noticed that the Corporation had finalised its Annual Accounts upto the year 2009-10, while the Accounts for 2010-11 to 2012-13 were yet to be finalised (September 2013). Under such circumstances, it could not be ascertained whether the investments and expenditure were properly accounted for and the purpose for which the funds were invested, was achieved. Further, apart from violation of the provisions of Act, delay in finalisation of Accounts may result in risk of financial irregularities including fraud.

Improper maintenance of cash book

3.27 Rule 13 (v) of the Bihar State Warehousing Corporation Rules, 1958, stipulates that all monetary transactions shall be entered in the cash book as soon as they occur and be attested by an Officer of the Corporation duly authorised in this behalf. The cash book shall be closed daily and checked by the Managing Director or the Officer so authorised shall verify the cash book and the cash in hand and record a signed and dated certificate to that effect. We observed that the cash book was not maintained properly by the Corporation in the manner as envisaged in the Rule. Monetary transactions were not entered in the cash book as soon as they occurred. It was neither

¹⁷ ₹ 3.78 crore in 2008-09, ₹ 2.12 crore in 2009-10.

attested nor verified by the person authorised or Managing Director as required.

The Management stated (October 2013) that accounting of daily transactions is done through computerised tally software. The reply was, however, silent about violation of above mentioned Rule which specifically states that Managing Director or the Officer so authorised shall verify the cash book and the cash in hand and record a signed and dated certificate to that effect.

Non-reconciliation of payment received through Real Time Gross Settlement (RTGS)

3.28 The storage charge is the main source of income of the Corporation. The Corporation receives payment of storage charge from FCI through RTGS¹⁸ since June 2011. Though FCI credited the bank account of the Corporation, it did not reconcile the credit given by FCI with storage bills of the centres. We observed that the Corporation did not have prescribed procedures/modalities for reconciliation of payment received through RTGS with revenue register maintained at headquarter. As a result, the centre-wise amount claimed and payments received were not reconciled by the Corporation. Non-availability of the centre-wise/bill-wise details of the storage charges was indicative of poor financial control of the Corporation.

The Management stated (October 2013) that all warehouses kept records for such transaction and payment received against storage charge from FCI through RTGS were recorded and reconciled at warehouse levels. It further stated that the systems were being adopted to keep up the memorandum account at headquarter. The reply is not acceptable as the centre-wise amount claimed and payments received were neither reconciled at warehouse levels nor at the headquarter’s level.

Deficient Manpower Planning

3.29 Manpower planning involves adequate and efficient utilisation of human resource in an organisation and appointment of capable persons as per requirement of specific job. The detailed staff position of the Corporation during the last five years up to 2012-13 is tabulated below:

Table No: 3.6

Category	Sanctioned position	Men in Position (as on 31 March)				
		2009	2010	2011	2012	2013
Group A viz. Executive Engineer, Divisional Manager, Superintendent, etc.	60	3	3	3	3	3
Group B viz Assistants, Accountants	143	55	59	58	55	50
Group C viz PCDO ¹⁹ , drivers, etc.	290	181	186	179	168	153
Total	493	239	248	240	226	206

¹⁸ A funds transfer system where transfer of money takes place from one bank to another on a real time and on gross basis.

¹⁹ Peon cum Dusting Official.

As against the sanctioned post of 493, actual available manpower of the Corporation was only 206 as on 31 March 2013. In this connection, we observed that:

- the sanctioned strength was last assessed in 1991 and thereafter no assessment had been made.
- there was huge shortage of manpower in managerial and other positions. In absence of Superintendents required as centre in-charge, the Assistants in 23 SWCs and PCDO/ Daftary/ Record keeper in 14 SWCs were given the charge of risk prone warehouses.
- despite the fact that men in position decreased from 239 to 206 during the period, the Management had not taken any action for appointment of employees.

Superintendents were required to be posted as in-charge of Godowns of SWCs. We, however, noticed that due to persistent shortage of manpower, Lower Cadre Personnel²⁰ were posted as in-charge of godowns as against Superintendents which resulted in poor maintenance of control registers as commented in para 3.30 infra.

The Management, while accepting the observation, stated (October 2013) that appointment in various vacant posts was under progress.

Internal controls

3.30 Internal control is a management tool used to provide reasonable assurance to see that management operation is being achieved in an efficient, effective and orderly manner. The internal control procedures were not commensurate with the size and activities of the Corporation as discussed below:

- The Corporation had not prepared any operation or functional manual nor had its own accounts manual.
- The Corporation had prescribed quarterly Physical Verification (PV) of stock by the local staff and annual verification by inter divisional staff. During discussion (July 2006) by CoPU on the Performance review of the Corporation which appeared in Audit Report (Commercial) for the year 2004-05, the Corporation had assured that monthly PV of the warehouses would be done. It was noticed in audit that despite assurance given to CoPU, monthly and quarterly PV was not done. Annual stock verification was also not carried out except in 2009-10 and 2012-13. Further, during 2009-10 and 2012-13, the annual stock verification was only partial as a sizeable lot of stock could not be verified as these were improperly stored and counting thereof was not possible. This puts a question mark on the accuracy and efficacy of the physical verification. In absence of a sound physical verification system, cases of shortages were detected in Biharsharif, Ara and Sasaram warehousing centres (referred in para no. 3.9, 3.10 and 3.15). This situation was indicative of persisting weak and

²⁰ Assistants, PCDO, Daftary and Record keeper.

non-operational Internal Controls fraught with the risk of more losses towards which the Management was not sensitive.

- As per the Corporation Regulation²¹, the meetings of BoD and Executive committee are required to be held bi-monthly and monthly respectively. We observed that in violation of the regulation, only 18 meetings of the BoD and 10 meetings of Executive Committee were held at irregular intervals against the required number of 30 and 60 meetings respectively during 2008-13.
- The Corporation had not devised any comprehensive Management Information System for collection, consolidation and analysis of various information/data for effective monitoring. Although the warehousing centres were rendering Custom Report²² and profit & loss accounts each month to the corporate office but this report lacked desired information relating to storage losses. The divisional offices were not rendering any periodical reports/statements to the corporate office. In absence of an effective Management Information System, the Management was not in a position to take prompt, effective and timely decisions for improving the efficiency, effectiveness and profitability of the warehousing centres.
- Though the Technical register, Dunnage register, Stock Treatment register, Inspection register, Godown-wise stock register, Stack register, Bill register, etc are required to be maintained as per the instructions of the Corporation, the same were found to be incomplete/not updated at the test checked SWCs.

Internal Audit

3.31 The Corporation had not prepared any internal audit manual. Even though the Corporation had an Internal Audit wing, yet it was not made operational due to non-deployment of manpower. The Chartered Accountants had been entrusted with both the work of preparation of accounts and internal audit of the Annual Accounts of the Corporation. Internal Audit Reports were not placed before the Board of Directors for review and issuance of direction to resolve shortcomings in the areas of interest for the Corporation. Thus, the purpose of Internal Audit was defeated.

Conclusion

The Corporation did not have a proper plan for construction of godowns. There were delays in construction of godowns which resulted in loss of potential revenue. Augmentation of storage capacity could not be done under Private Entrepreneur Guarantee Scheme for want of no objection certificate from district authorities. The Corporation failed to achieve its main objective of providing storage facility to primary producers (farmers) because of lack of initiative on the part of Corporation to educate farmers regarding the benefits of scientific storage of stock. The

²¹ Chapter II of Bihar State Warehousing Corporation General Regulations.

²² A monthly report in which customer-wise stock-position of centre is reported.

warehousing activities of the Corporation was deficient as it suffered loss on account of pilferage of stock, non-observance of prescribed FIFO method of stock issuance, etc. Proper safety measures and facilities were not available in the warehouses. There was underutilisation of fumigation material defeating the objective of scientific storage. There were instances of wrong application of tariff, billing and non-realisation of dues. The financial management and control of the Corporation with respect to preparation of financial records, non-reconciliation of the payments, etc. was deficient. Internal Control System was also deficient.

Recommendations

The Corporation needs to:

- prepare perspective plan for construction of godowns;
- ensure timely completion of work of construction of the godowns to increase storage capacity for revenue generation;
- ensure scientific storage and issuance of the stock as per prescribed methods and proper operation of godowns to avoid losses ;
- implement applicable tariff strictly, raise bills timely and pursue realisation thereagainst to avoid losses of revenue;
- complete and keep the Control Registers updated; and
- strengthen its Internal Control System and improve Management Information System.