

Chapter III

Performance Audit relating to Statutory Corporation

Gujarat State Warehousing Corporation

Working of Gujarat State Warehousing Corporation

Executive Summary

Introduction

Agriculture is one of the most critical sectors of the Indian economy. Agricultural growth was facing a setback due to lack of adequate handling and post-harvest infrastructure facilities such as warehousing. Gujarat State Warehousing Corporation was established in December 1960 with an objective to construct warehouses within the State to facilitate storage and transportation of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities. The Corporation started with a capacity of 930 MTs which increased to 1.45 lakh MTs by 1992 and thereafter there was no increase in the storage capacity. Performance Audit on the working of the Corporation covers the period from 2010-11 to 2014-15.

Planning for capacity augmentation

The warehousing capacity in the State was 13.08 lakh MTs of which the Corporation's share was 1.45 lakh MTs. In absence of scientific assessment of requirement and proper planning, non-construction of godowns under Private Entrepreneurs Guarantee (PEG) Scheme and absence of financial support from Government of Gujarat for augmentation of capacity, no capacity addition was achieved by the Corporation. Further, the vacant land of 1,24,988 sq.mts. at different locations remained unutilised.

Capacity Utilisation

The utilisation of the Corporation's warehouses including owned and hired increased from 50 per cent in 2010-11 to 82 per cent in 2014-15. This increase was owing to the contribution of hired godowns wherein the occupancy was 90 to 100 per cent during the review period though the occupancy in owned godowns remained up to 65 per cent. 97 out of 129 godowns of the Corporation remained vacant for a period of 1,809 months during the review period. The possible reasons attributable were poor condition of godowns, lack of marketing strategy, non-creating of awareness of the storage facilities among the depositors, especially farmers.

Operation and Financial Management

During the last ten years, the Corporation revised its tariff twice in 2005 and 2012. The tariff does not detail various aspects of the tariff structure such as exclusion/inclusion of advalorem insurance charges in the storage charges collected on sq.ft. basis, collection of storage charges on sq.ft. basis in respect of reservation on lock and key basis etc., nor did the Corporation re-categorise the godowns during last revision in 2012.

Warehouse charges and rent income constituted the major income of the Corporation and it earned profit during 2011-12 and 2012-13. The Corporation did not recover warehouse charges as per applicable rates leading to loss of revenue of ₹0.25 crore. The Corporation did not apply the prevailing sq. ft. rate on Central Warehousing Corporation (CWC) for the Inland Container Depot /Container Freight Station godowns lent to them resulting in revenue loss of ₹11.70 crore.

Monitoring and Internal Control

The Corporation did not have specific written delegation of powers to the hierarchy and decisions were also taken at lower cadres. There were no procedures in place to inspect

godowns by personnel from head office either on regular intervals or as a surprise check. The Corporation's Executive Committee met only four times as against required 30 meetings in the last five years up to March 2015.

Recommendations

- The Corporation may gather the data of warehousing capacity in the State, assess the additional requirement and formulate a plan of action in co-ordination with other agencies such as CWC, Food Corporation of India (FCI) etc., for capacity augmentation.
- The Corporation may review the monthly data of occupancy furnished by the warehouse centres periodically, analyse the reasons for godowns remaining vacant for long period to take remedial action and fix godown-wise break-even occupancy.
- The Corporation may review the tariff and categorisation of centres on a periodic basis before fixing the tariff and give required details to bring clarity regarding the system of collection of warehouse charges and applicability of rates.
- The Corporation may ensure recovery of warehouse charges as per the prevailing tariff rates.
- The Corporation may develop a sound monitoring system and also evolve a mechanism for periodical reporting to the top management on the working of the warehouses.

Introduction

3.1 Agriculture is one of the most critical sectors of Indian economy. Growth and development of agriculture and allied sector directly affects well-being of people at large, rural prosperity and employment and forms an important resource base for a number of agro-based industries and agro-services. The agricultural growth in India has been facing a setback due to lack of adequate handling and post-harvest infrastructure facilities such as warehousing. The post-harvest loss was estimated at 8 to 10 per cent in respect of food grains. The capacity of warehouses available as against the production of important agricultural produce requiring warehousing facilities is tabulated below:

Table 3.1: Production and warehouse capacity in India and Gujarat

(in lakh MTs)		
Important produce	Production (2013-14)	Warehouse capacity (2014-15)
All India		
Food grains	2,647.70	985.50 (Government owned warehouses other than cold storages) which is 32 per cent of the total production
Cotton	62.20	
Oil seeds	328.80	
Total	3,038.70	
Gujarat State		
Food grains	93.82	13.08 (Government owned warehouses other than cold storages) which is 7 per cent of the total production
Cotton	17.15	
Oil seeds	74.70	
Total	185.67	

Source: Published Reports of GOI and GOG, Annual Reports and information furnished by Corporation

It is clear from the table above that there is shortage in the storage capacity at the state level when compared with the capacity at the national level.

Gujarat State Warehousing Corporation (Corporation) was established in December, 1960 under the provisions of Agriculture Produce (Development and Warehousing) Act, 1956 and subsequently came under the purview of Warehousing Corporations (WC) Act, 1962 enacted by the Parliament.

Government of Gujarat (GoG) and Central Warehousing Corporation (CWC) have 50:50 share capital in the Corporation. It has its Corporate Office at Ahmedabad.

The Corporation started functioning with storage capacity of 930 Metric Tonnes (MTs) inherited by it at three centres *viz.*, Derol, Unjha and Bodeli, upon bifurcation of Bombay State into Maharashtra and Gujarat. As on 31 March 2015, the Corporation has 42 Centres¹ having 210 own godowns of 1.45 lakh MTs capacity.

The Corporation rented godowns to the depositors under two systems *viz.*, general reservation either on quantity basis (i.e., per bag/MT) or on area basis (part or full godown); and lock and key basis². The warehouse charges are collected from the depositors as per the rates of tariff, which is revised from time to time. The major depositors storing commodities in the Corporation's godowns are government agencies, private companies, cooperative bodies, traders and farmers.

Organisational Structure and functions

3.2 The Management of the Corporation is vested with a Board of Directors (BoD) consisting of Managing Director (MD), five Directors nominated by GoG and five Directors nominated by CWC, headed by a Chairman, appointed by the GoG. The MD is assisted by Managers, Secretary, Accounts Officers and other staff.

Though as per Section 20(2) and Section 20(1)(c) of WC Act, 1962, State Government shall appoint a Chairman and a Managing Director respectively, it did not appoint Chairman since October 2012 and did not appoint a Managing Director on a full time basis since September 2003.

The Corporation is under the administrative control of Agriculture and Cooperation Department, GoG. Major activities of the Corporation 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 GoG to help purchase these commodities.

Audit Objectives

3.3 The objectives of the Audit were to ascertain whether:

- the Corporation had assessed the overall requirement of storage facilities for the State; surveyed the existing capacity and taken steps to bridge the gap by creating additional capacity through construction or hiring of godowns;

¹ Centre comprises a group of two or more godowns.

² The full godown is handed over to the depositor with lock and key. The responsibility of storage, stacking, withdrawal of goods lies with the depositor. The warehouse charges in this system are collected on area (sq.ft.) basis.

- the Corporation has put its warehouses to optimum use; made available its warehouses to farmers at reasonable/ economical tariff rate; created awareness among farmers; provided handling and transportation facility and performed as an agent of CWC/ Government;
- the warehouses were managed efficiently by providing safe storage for commodities through proper manpower and financial management and timely maintenance of warehouses; and
- adequate monitoring system, internal control system and Management Information System were in place and were effective.

Audit Criteria

3.4 The performance of the Corporation was assessed against the audit criteria drawn from the following:

- Warehousing Corporations Act 1962,
- Gujarat State Warehousing Corporation (Amendment) Rules 1964,
- Warehousing Development and Regulation Act 2007,
- Corporate/ Annual/ Vision documents of the Corporation,
- Minutes and Agenda of the Meetings of Board of Directors,
- Agreements with Depositors for storage of various commodities,
- Agreements with private parties for hiring of godowns,
- Guidelines of various schemes,
- Directions of Governments/Food Corporation of India(FCI)/ CWC,
- Operational Manual of the Corporation and
- State specific Acts/ rules/ guidelines/ directions relating to warehouses.

Scope and Methodology of Audit

3.5 The Performance Audit on the working of the Corporation covers the period from 2010-11 to 2014-15. It evaluates the assessment done by the Corporation for future capacity requirements, planning done for capacity augmentation and the implementation of such plans. It also evaluates the optimum utilisation of the Corporation's godowns and its efficient and effective management. Besides, the existence of a sound internal control and monitoring system and its effectiveness was also reviewed in Audit.

Scope, methodology and objectives of the performance audit were explained in an entry conference (3 March 2015) to representatives of GoG and Management of the Corporation. The entry conference was followed up by interaction with the auditee institution, raising audit queries after scrutiny of documents at the Corporate Office and selected godowns, analysis of data obtained from management, discussion of audit findings with the management and issue of draft Performance Audit Report to the Management and the concerned Department for comments. The exit conference was held on

10 September 2015 in which the audit findings were discussed with the Management and the Government. The reply of the Management was received and has been considered while finalising the performance audit report. The reply of the Government is awaited (November 2015).

Total 16 centres³ having 85 godowns out of total 42 centres having 210 godowns were randomly selected for detailed examination. The audit findings are discussed in the following paragraphs.

Audit Findings

Planning and implementation of capacity augmentation

3.6 The warehousing capacity in the State is tabulated below:

Table 3.2: Storage capacity in Gujarat State

(in lakh MTs)

Sl. No	Organisation	2010-11	2011-12	2012-13	2013-14	2014-15
1	Food Corporation of India	5.00	5.00	5.00	5.00	5.00
2	Central Warehousing Corporation	3.69	3.64	3.68	3.68	3.66
3	Gujarat State Civil Supplies Corporation Limited	2.40	2.49	2.84	2.93	2.97
4	Gujarat State Warehousing Corporation	1.45	1.45	1.45	1.45	1.45
	Total	12.54	12.58	12.97	13.06	13.08

Source: Annual Reports and information furnished

In respect of the Corporation there has not been any increase in capacity after 1992. The own storage facility of 1.45 lakh MT of the corporation is about 11 *per cent* of government owned warehouses. The capacity with private sector in the state is not available from any reliable sources.

We reviewed the increase in the capacity of warehouses in 15 State Warehousing Corporations for the period 2010-11 to 2013-14 and it was observed that only in Gujarat and West Bengal there was no increase in capacity. In seven⁴ States the increase during the period 2010-11 to 2013-14 as compared to capacity in 2009-10 ranged between 21 to 81 *per cent*. In four⁵ states the increase ranged between 10 to 19 *per cent* during the same period. The production of important agricultural produce in Gujarat increased from 168.83 lakh MTs in 2010-11 to 185.67 lakh MTs in 2013-14⁶ and hence, there was need for increasing the warehousing capacity.

Audit findings in relation to capacity augmentation are enumerated below:

Assessment of requirement of godowns

3.6.1 As per Warehousing Corporations Act, 1962 (WC Act, 1962), State Warehousing Corporations (SWCs) may run warehouses for storage of

³ Anjar, Bharuch, Bhuj, Bodeli, Dashrath (General), Dashrath (ICD Godowns given to CWC), Himmatnagar, Idar, Kandla Port, Mahuva, Mehsana, Salal, Talod, Unava, Unjha and Visnagar.

⁴ Andhra Pradesh, Bihar, Chattisgarh, Haryana, Karnataka, Maharashtra and Odisha.

⁵ Madhya Pradesh, Meghalaya, Rajasthan and Tamil Nadu.

⁶ The figures for 2014-15 are not available.

agricultural produce, seeds, manures, fertilizers, agricultural implements and notified commodities. Thus, considering the growth in the production of above commodities besides the age and poor condition of the existing godowns, there was need to assess the requirement of godowns on a time to time basis to ensure availability of adequate storage facilities. However, no such assessment was carried out by the Corporation during the last five years.

We observed that based on the estimates prepared by the Corporation and the proposals for funding sent to GoG and financing agencies, as tabulated below, some plans for capacity augmentation existed though none of them materialised due to funds not being sanctioned.

Table 3.3: Capacity additions planned as per financing documents

Particulars	(in lakh MTs)			
	2011-12	2012-13	2013-14	2014.15
Capacity addition planned	0.52	0.35	0.70	0.84

Source: Information furnished by the Corporation

The proposals for increasing the capacity were made based on the open space available in the premises of the 12 existing godowns instead of any scientific study for the requirement. The estimated cost was ₹ 44.43 crore for the increase of 0.84 lakh MTs. Thus, in the absence of scientific assessment of requirement, proper planning and want of financial support from GoG for augmentation of capacity, no capacity addition was achieved by the Corporation.

The Management stated (October 2015) that the Corporation had tried to increase the capacity but could not augment due to lack of technical equipment, technical staff, infrastructure facilities and also non-receipt of financial support from financial institutions like National Bank for Agriculture and Rural Development and also GoG. The Management, however, stated that Corporation will make efforts for assessment of requirement of godowns scientifically.

Submission of Programme of Activities and Budget estimates

3.6.2 Section 26(1) of WC Act, 1962 stipulates that every Warehousing Corporation shall prepare before the commencement of each year a statement of programme of activities (PoA) to be done during the forthcoming year as well as a financial estimate (Budget Estimates) (BE) in respect thereof. Further, Section 26(2) of the said Act stipulates that a statement prepared under Section 26(1) shall, not later than three months before the commencement of each year, be submitted for approval to CWC and State Government in case of a State Warehousing Corporation. The details of submission of PoAs and BEs to CWC and GoG are as follows:

Table 3.4: Delays in submission of PoA and BE

Sl. No.	Year	Due date of submission of PoA and BE	Actual date of Submission to CWC		Delay in sending BE
			PoA	BE	
1	2010-11	31-12-2009	Not sent	29-01-2010	29 days
2	2011-12	31-12-2010	Not sent	29-03-2011	2 months 29 days
3	2012-13	31-12-2011	Not sent	10-12-2012	11 months 10 days
4	2013-14	31-12-2012	Not prepared	Not prepared	Not prepared
5	2014-15	31-12-2013	Not sent	22-10-2013	No delay
6	2015-16	31-12-2014	Not sent	Not sent	10 months (Oct 15)

Source: Information furnished by the Corporation

The Corporation did not prepare PoAs and BEs for the year 2013-14 and for the remaining periods it did not submit the PoAs to CWC as required under the provisions of the WC Act. However, neither PoAs nor BEs were submitted to GoG as stipulated under the Act. Audit observed that approval from CWC was awaited (31 May 2015) for BE 2012-13 and 2014-15.

The Management stated (October 2015) that in the past years BEs and PoAs were not passed in BoD and hence were not sent to CWC and the GoG.

However, the Management had not even put up the BEs and PoAs prepared before BoD seeking its approval.

Construction of godowns under PEG Scheme

3.6.3 During the year 2008, FCI introduced Private Entrepreneurs Guarantee (PEG) Scheme under which the private parties would invest in construction of godowns, which would be hired by FCI for seven year guarantee scheme. These godowns, during construction and subsequent maintenance, would be under the supervision of the respective SWCs. As part of this, FCI assigned (July 2010) the task of creating a total capacity of 3.07 lakh MTs to CWC in Gujarat. Out of this, CWC allotted 52,000 MTs to the Corporation, for taking up the construction with private investment. However, Corporation decided (December 2010) to construct the godowns on its own in the vacant land available at Dashrath, Parapipaliya and Amreli. However, on reviewing the progress of the work, FCI decided in its High Level Committee meeting held on 8 April 2011 that it was unlikely that the Corporation would complete the capacity allotted to it within the next one year and hence withdrew the capacity and transferred the same under PEG for construction by private party.

Audit observed that the decision of the Corporation to construct the godowns on its own in absence of adequate trained manpower and financial resources led to delay in taking action for construction of godowns and consequential withdrawal of allotted capacity by FCI.

The Management stated (October 2015) that in the absence of sufficient manpower and financial resources there was delay in taking action which led to withdrawal of allotted capacity for construction of godowns under PEG.

Registration of godowns as per WDR Act, 2007

3.6.4 As per the provisions of Warehousing (Development and Regulations) (WDR), Act 2007, registration under Section 3(1) was compulsory if the warehouses intended to issue Negotiable Warehouse Receipt under the provisions of the Act.

Audit observed that while CWC and other SWCs⁷ have initiated action to register their warehouses; the Corporation has not registered any of its warehouses under the provisions of the WDR Act. The Corporation, therefore, is not entitled to issue Negotiable Warehouse Receipts under the provisions of WDR Act. Though the registration under WDR Act is not mandatory, Audit is of the view that by doing so, the Corporation could have increased its business opportunities as many potential customers interested in negotiating their warehousing receipt might have been lost.

The Management stated (October 2015) that due to inadequate manpower, lack of technical staff and absence of technical equipment, the Corporation had not registered its godowns under WDR Act, 2007.

However, the Corporation could have initiated the process and registered some of its godowns in a phased manner as done in other states as the process of registration would require compulsory improvement in quality of infrastructure which in turn might help in increasing its occupancy.

Utilisation of vacant land

3.6.5 The Corporation holds vacant land at 14 locations admeasuring 1,24,988 square meters (sq.mts) (Own land: 1,16,736 sq.mts. and lease hold land: 8,252 sq.mts.) adjoining to existing godowns. The Corporation acquired these land between 1972 and 1992. The details are as follows:

⁷ CWC (173 godowns of 5,37,476 MTs); Rajasthan State Warehousing Corporation (24 godowns of 2,76,850 MTs); Tamil Nadu State Warehousing Corporation (36 godowns of 2,36,486 MTs); Maharashtra State Warehousing Corporation (26 godowns of 1,69,425 MTs); Andhra Pradesh State Warehousing Corporation (14 godowns of 36,410 MTs); Uttar Pradesh State Warehousing Corporation (5 godowns of 36,031 MTs); Punjab State Warehousing Corporation (8 godowns of 15,450 MTs); Kerala State Warehousing Corporation (10 godowns of 8,516 MTs); Karnataka State Warehousing Corporation (one godown of 4,254 MTs); Assam State Warehousing Corporation (one godown of 1,016 MTs).

Table 3.5: Area of vacant land

Sl. No.	Location	Land area (in Sq.mts.)	Cost of Land ⁸ / Lease rent per annum (in ₹)	Open Area (in Sq.mts.)	Date of Purchase/ Possession
1.	Anjar	14,799	68,563	3,180	14-02-1973
2.	Amreli	24,281	4,37,058	24,281	22-01-1991
3.	Bavla	8,094	36,423	1,300	04-11-1982
4.	Botad	5,890	62,000	3,390	09-03-1973
5.	Kapadvanj	7,077	5,610	1,245	01-03-1973
6.	Dashrath (Vadodara)	80,000	64,51,000	48,000	18-02-1984
7.	Deesa Lease hold land	9,752	9,752	6,252	22-11-1988
8.	Khambhat	7,457	36,433	3,000	24-04-1979
9.	Parapipaliya (Rajkot)	20,235	6,07,500	20,235	03-07-1992
10.	Rakhiyal (Dahegam)	3,583	21,420	1,015	18-04-1973
11.	Salal	5,563	3,30,000	2,060	15-07-1988
12.	Sarodhi (Valsad)	20,234	5,46,318	8,230	31-07-1979
13.	Thasra Lease hold land	4,047	750	2,000	01-01-1972
14.	Geetanagar (Vapi)	1,756	43,900	800	06-01-1978
	Total			1,24,988	

Source: Information furnished by the Corporation

In this regard, Audit observed that:

- In respect of land at Dashrath, CWC requested (14 November 2011) for hiring of open space along with godowns. However, despite several requests (November 2011 to November 2014) from CWC, the Corporation did not make use of the opportunity, for which no justification was on record.
- As brought out in *paragraph 3.6.1 and 3.6.3* above, the Corporation had planned to construct new godowns at vacant land at 12 locations to increase storage capacity by 83,640 MTs with an estimated cost of ₹ 44.43 crore. As the finance was not forthcoming the capacity creation did not materialise.
- The Corporation did not explore the feasibility of at least giving the vacant land as “Covered and Plinth”⁹ to store commodities, as is being done by other SWCs.

Thus, the land parcels remained idle without yielding any benefits to the Corporation. Further vacant land also remained unprotected rendering them prone to encroachments.

⁸ Cost of land at the time of purchase / possession.

⁹ This is an improvised arrangement for storing food grains in the open, generally on a plinth which is damp and rat proof. The grain bags are stacked in a standard size on wooden dunnage.

Picture 3.1: Showing vacant land and unprotected godown premises at Dashrath



Thus, by not conducting scientific assessment of the requirement of the godowns in the State, coupled with absence of financial assistance from GoG, the Corporation did not construct any new godowns. It did not utilise the vacant land for capacity augmentation during the review period. As a result, there was no capacity augmentation even though there was increase in the agricultural production.

The Management stated (October 2015) that the Corporation proposed to construct godowns on its own under PEG scheme but the loan was not sanctioned, hence it did not materialise. It further submitted proposal for financial assistance under Rashtriya Krishi Vikas Yojana (RKVY) and Rural Infrastructure Development Fund Scheme but all these proposals were rejected. Therefore, due to non-availability of required funds the Corporation could neither construct godowns nor construct compound walls to safeguard the vacant land. During the exit conference, Government stated that Corporation would focus on development of new storage facilities and upgrading existing facilities.

Capacity Utilisation

3.7.1 The year wise utilisation particulars of own and hired godowns during the period 2010-11 to 2014-15 are given in the table below:

Table 3.6: Capacity utilisation of the Corporation

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Own godowns						
1	No. of Centres	42	42	42	42	42
2	Average capacity available (MTs)	1,45,056	1,45,056	1,45,056	1,45,056	1,45,056
3	Average Capacity utilised (MTs)	71,156	89,657	91,683	87,579	94,131
4	Percentage utilisation*	49	62	63	60	65
Hired godowns						
5	Average capacity of godowns (MTs)	4,513	3,100	3,100	63,398	1,38,578
6	Average capacity utilised (MTs)	4,056	2,868	2,968	63,308	1,38,547
7	Percentage utilisation*	90	93	96	100	100
8	Total available capacity (MTs) (Sl.No. 2+ 5)	1,49,569	1,48,156	1,48,156	2,08,454	2,83,634
9	Total utilisation (MTs) (Sl.No. 3 + 6)	75,212	92,525	94,652	1,50,887	2,32,678
10	Percentage utilisation*	50	62	64	72	82
11	Estimated utilisation in Budget estimates (In per cent)	68 (Rev 50)	60	75	75	75
	Shortfall (-)/ Excess (+)(Own)	(-) 19	(+) 2	(-) 12	(-) 15	(-) 10
	Shortfall (-)/ Excess (+) (Hired)	(+) 22	(+) 33	(+) 21	(+) 25	(+) 25
	Shortfall (-)/ Excess (+) (Total)	(-) 18	(+) 2	(-) 11	(-) 3	(+) 7

* Percentage utilisation has been rounded off to the nearest integer.

Source: Information furnished by the Corporation

- It can be seen from the above table that the occupancy percentage of own godowns increased from 49 per cent to 65 per cent which indicates that Corporation had made efforts in this regard. Further, during the years 2010-11 to 2014-15 not only the hired godowns capacity increased multifold but also the percentage of utilisation was very good. The utilisation which was 90 per cent in 2010-11 gradually increased to 100 per cent occupancy in 2013-14.
- The percentage occupancy of own godowns in 2010-11 and 2011-12 was low which was even pointed out by CWC while approving the budget for 2011-12 and was suggested for increase in the ensuing years. Further, estimate for 2010-11 was revised to suit actual achievements, when Corporation could not achieve the original estimated occupancy of 68 per cent.
- A review of the centre wise occupancy of owned godowns revealed that annual occupancy percentage in many centres¹⁰ was below the estimated utilisation given in the budget. Further, 12 centres¹¹ registered annual occupancy below 10 per cent.
- The Corporation had no system of fixing godown-wise break-even occupancy, which could be a better parameter for monitoring the functioning of the godowns.

The Management accepted (October 2015) the observation and stated that measures would be taken to implement the break even policy for betterment of the godown occupancy.

¹⁰ 32 in 2010-11, 25 in 2011-12, 26 in 2012-13, 29 in 2013-14 and 20 in 2014-15.

¹¹ Dhanduka, Viramgam, Umreth, Unava, Harij (2010-11); Visnagar, Patan, Sidhpur (2011-12); Amreli, Jamnagar (2012-13); Surendranagar (2013-14) and Madhi (2014-15).

Non-occupancy of godowns for long period

3.7.2 A review of the occupancy details during the last five year period as received from 29 centres¹² out of 42 centres, revealed the following:

- 97 out of 129 godowns were fully vacant for one to more than one month in different spells of period during the years 2010-11 to 2014-15. This resulted in a total vacant period of 1,809 months and an average vacancy of 19 (1,809 /97) months during the period of 60 months under review.
- The two godowns at Thasra Centre were vacant during the entire five year period. Other than Thasra, the total vacant period of godowns at Bodeli centre for 183 months was highest followed by 147 months at Anjar Centre and 144 months at Valsad Centre. The Corporation did not analyse the reasons for not getting business for long period in these centres.
- We also observed that data on the monthly occupancy in godowns as received from the warehouse centres was not put up periodically to the top management or BoD for remedial action.

The Corporation should have maintained a database of all the depositors and evolved a system to constantly be in touch with the depositors and convey the vacancy position of godowns so that the depositors can hire them. In case, the reasons for the vacancy were poor conditions of the godowns then specific steps could be taken for improving the facilities.

The Management stated (October 2015) that Valsad, Thasra and Anjar were odd centres. It also stated that agricultural produce was mainly stored in the godowns during six months period October to April and during the rest of the period either non-agricultural commodities were stored or the godowns remained vacant. The Management further stated that Corporation would try its level best to increase the occupancy.

Occupancy of godowns by farmers

3.7.3 The table below gives the details of occupancy by different category of consumers:

Table 3.7: Category wise occupancy

(Figures in Percentage¹³)

Sl. No	Category of Depositor	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Government Companies					
(i)	FCI	2	1	Nil	Nil	Not Available
(ii)	CWC	13	10	10	6	
(iii)	GSCSCL	1	4	4	1	
(iv)	Other Government Companies & Departments	39	37	13	61	
2.	Cooperative Bodies	3	3	4	1	
3.	Private Firms	34	39	56	28	
4.	Farmers	8	6	13	3	
	Total	100	100	100	100	

Source: Information furnished by the Corporation

¹² Consisting of 129 godowns.

¹³ Rounded off to the nearest integer.

It can be seen from the above that major depositors are Government Companies and private firms. The occupancy percentage of farmers decreased from 8 per cent in 2010-11 to just 3 per cent in 2013-14. No concerted efforts were made by the Corporation to attract farmers to utilise the godowns by creating the required awareness amongst them. Only upon receipt of grant from Government of India (GoI) under RKVY Scheme in 2013-14, the Corporation conducted 15 farmers awareness programmes (FAP) at district level and 160 programmes at village level for farmers from February 2014 onwards. Audit observed that the FAPs were conducted only once in each village/ centre and there was no follow up on the issue. Test check in audit of the occupancy position in four centres¹⁴ after the conduct of FAP revealed that even after FAP, the occupancy by farmers during 2014-15 was low. The Corporation could have campaigned regarding their godowns in the market yards by distributing pamphlets and requesting Agricultural Produce Market Committee (APMCs) for indicating the vacancy position in their websites/notice board.

Thus, on one hand there was no increase in storage capacity, on the other there were numerous instances of several godowns lying vacant for a long period of time. The occupancy by farmers was also very low. **The possible reasons attributable were poor condition of godowns, lack of marketing strategy, non-creation of awareness of the storage facilities among the depositors, especially farmers etc. The Corporation did not make efforts to identify reasons for low occupancy and take remedial measures.**

The Management stated (October 2015) that as per general practice small farmers used to go to APMC or wholesalers to sell their produce. It also stated that National Agricultural Co-operative Marketing Federation of India Limited and FCI, which purchased groundnut and food grains respectively from small farmers utilised the Corporation's godowns. The Management however stated that Corporation would conduct more FAPs and create awareness among farmers. During the exit conference, Government stated that the effectiveness of the awareness programmes would be ensured and a list of available godowns and facilities would be provided to farmers with online reservation option.

Operation and Financial Management

3.8 The Corporation earns revenue primarily from collection of warehouse charges and rent income from Inland Container Depot (ICD) hired to CWC and renting of office building. The Corporation also earned interest income from fixed deposits. The financial performance of the Corporation for the period 2009-10 to 2012-13 is given in *Annexure-5*.

The Corporation's major source of revenue (operating revenue) was warehouse charges collected from depositors and rent income. The warehouse charges substantially increased during 2012-13 compared to previous year due to revision of tariff. The rent income had constantly increased during 2009-10 to 2012-13 as the rent income fixed with CWC towards ICD kept increasing

¹⁴ Mahuva, Talod, Unjha and Visnagar.

by 10 per cent every year as per the agreement. The total income was used to meet the expenses towards salaries, repairs and maintenance and other day to day expenses.

Though Corporation had carried out the operations, with the available resources and earned profits, there were deficiencies in the operations and a few instances of loss of revenue totalling ₹ 11.95 crore are discussed in the following paragraphs.

The Management stated (October 2015) that due to lack of infrastructure facilities and marketing strategy, the Corporation incurred loss. It was further stated that Management would try to find different ways and means to earn profit and carry out various activities to increase the profitability.

System of fixation and revision of tariff

3.8.1 For collection of storage charges from depositors, the Corporation has a category¹⁵ wise tariff structure. In 2007, the number of categories was increased from two to three with a specific tariff for Category III. In the last 10 years, the Corporation had revised its tariff only on two occasions viz., in 2005 and 2012. Last revision was effected from 1 March 2012. It is the practice of the Corporation to revise the tariff on the basis of tariff of CWC.

A review of the Corporation's tariff structure and the system of revising the tariff revealed the following:

- While revising the tariff in 2012, the Corporation adopted the respective rates of Category I and II of CWC of 2010 and revised the rates of Category III based on the percentage increase in category II as a result of adoption of CWC rates.
- The tariff of the Corporation does not detail the various aspects of the tariff structure such as exclusion/inclusion of advalorem insurance charges in the storage charges collected on sq.ft. basis, collection of storage charges on sq.ft. basis in respect of reservation on lock and key basis etc., as was done by CWC and other SWCs. The tariff structure may be suitably modified to provide these details explicitly.
- Though tariff was last revised in 2012 no re-categorisation of godowns was done since 2007. It was observed that during the last five years certain centres which are in Category-II (Kapadwanj, Patan and Talod) and Category-III (Rakhial and Bardoli) have registered improved percentage of occupancy but they have not been reviewed and re-categorised and levied tariff accordingly.

The Management stated (October 2015) that in next revision of rates the Corporation would take into consideration various aspects and change the category. During the exit conference, Government stated that tariff would be

¹⁵ Centres were divided into three categories viz., category I, category II and category III depending on the occupancy of the area in which the centres fall. Tariff is highest in category I and lowest in category III. For instance the tariff for wheat/bajra and others is ₹ 3.45 for category I and ₹ 2.75 for category III (as per March 2012 tariff).

revised based on scientific study and also based on services and condition of godowns and the category of the customers.

Collection of warehouse charges in lock and key system

3.8.2 The Corporation rented its godowns in six centres to three depositors¹⁶ on lock and key basis during February 2010 to March 2012. We observed that the Corporation in sanction orders (January 2010 to April 2011) intimated the depositors that warehouse charges would be collected on quantity basis (MT) i.e., (capacity of godown) for the commodities (Fertilizers) intended to be stored by the depositors. This was contrary to the Corporation's system of lock and key wherein tariff was to be levied on sq.ft. basis. Thus, due to incorrect collection of warehouse charges, the Corporation suffered loss of revenue of ₹ 0.25 crore¹⁷ as the tariff collected based on capacity of godown was lesser than the tariff leviable on sq.ft. basis.

The Management stated (October 2015) that incorrect collection has not been made and reservation has been made only in case of fertilizers in the year 2010-12 at the rate of ₹ 6.41 per sq.ft. per month.

The reply does not appear convincing because the records produced to Audit reveal that the Corporation has collected warehouse charges on quantity basis (MT) even though the godowns were given on lock and key basis.

Collection of warehouse charges at applicable tariff rate

3.8.3 The Corporation has an Inland Container Depot (ICD)/ Container Freight Station (CFS) at Dashrath (Vadodara) comprising of eight godowns viz., A1 to A4 and B1 to B4. The Corporation had outsourced operation of the facility to CWC through tender for a period of 10 years from April 2000 to March 2010 (godowns A-1 to A-4 from April 2000 and B-1 to B-4 from May 2003) at the rates mentioned in the agreement (₹ 2.50 lakh per month with annual 10 per cent increase for godowns A-1 to A-4 and ₹ 2.60 per sq.ft. per month with annual 10 per cent increase for godowns B-1 to B-4).

As the agreement was due to expire in April 2010, CWC requested (5 March 2010) the Corporation to extend the term of agreement for five years. After a series of correspondence between the Corporation and CWC, the Corporation accepted (23 March 2011) extending the tenure of operations of ICD/ CFS for further ten years from May 2010 retrospectively. A fresh agreement was executed (16 June 2011) between the Corporation and CWC, for the same eight godowns of ICD/ CFS with an annexure indicating the annual rates of warehouse charges. The annual rate payable in 2010-11 would be ₹ 1.08 crore, which would gradually increase to ₹ 2.55 crore by 2019-20.

We observed that instead of collecting warehouse charges as per its prevailing tariff, the Corporation agreed for lumpsum warehouse charges though CWC

¹⁶ Indian Potash Limited (IPL), Gujarat State Fertilizers Corporation (GSFC) and Gujarat Cooperative Marketing Society Limited (GUJCOMASOL).

¹⁷ Warehouse charges to be levied on sq.ft. basis ₹ 0.54 crore less Warehouse charges actually collected ₹ 0.29 crore.

rented the godowns of ICD for commercial purpose. The lumpsum warehouse charges work out to less than the warehouse charges as per sq.ft. rate of tariff. In this regard audit also observed that the tariff of storage charges being collected by CWC from its customers for the ICD Dashrath was much higher than the storage charges paid by it to the Corporation. The rate paid by CWC in 2014 was ₹ 4.67 per sq.ft. (derived) whereas the rate charged by CWC from its customers as per its revised tariff of 2014 was ₹ 16.73 per sq.ft. (derived) (for export), ₹ 29.73 per sq.ft. (for import) and ₹ 27.50 per sq.ft. (for open area), which indicates that CWC earned huge margin in the operations of ICD, Dashrath. Thus, by collecting lumpsum warehouse charges, instead of its tariff rates, the Corporation suffered loss of revenue of ₹ 7.07 crore for the period from 1 May 2010 to 30 April 2015 and would suffer further loss of ₹ 4.63 crore for the remaining agreement period upto April 2020 (*Details in Annexure-6*).

The Management stated (October 2015) that being an odd centre there was no income at Dashrath centre. The same godowns were allotted to CWC as per BoD approval. CWC had struggled a lot to build the business at Dashrath and incurred loss in past years.

The reply does not appear convincing as at least during the renewal of agreement in 2010, an analysis of the business of CWC could have been done and rates as per normal tariff of the Corporation adopted. Further, no record justifying the lower rates agreed to with CWC were furnished to Audit.

Thus, from the above instances it can be seen that had the Corporation handled the transactions properly, it could have avoided the above loss and the revenue could have been used for construction, repairs and maintenance of godowns.

Maintenance of godowns

Upkeep of infrastructure in godowns

3.9.1 Though WC Act, 1962 did not prescribe norms for requirement of essential equipments or security apparatus like moisture metre, fire extinguishers, fire buckets, tarpaulins, fumigation covers, weighing machine, wooden craters, sprayers, etc., the same were prescribed under the WDRA Manual¹⁸. Based on the information furnished by 12 out of 16 selected centres (67 godowns), the infrastructure available was as follows:

Table 3.8: Details of infrastructure

Name of the Item	Norm per godown	Total requirement	Total available	Shortfall
Moisture Metre	1	67	1	66
Fire Extinguisher	3	201	49	152
Ladder	1	67	30	37
Foot Spray	2	134	1	133

Source: Information furnished by the Corporation

¹⁸ Warehouse Manual for Operationalising of Warehousing (Development & Regulation) Act, 2007 (37-2007).

Audit observed that other essential items such as tarpaulin, fire buckets, fumigation covers, and wooden craters were not available¹⁹ in any of the 12 centres test checked against the norm²⁰ though all of them were basic necessities for any godown.

Availability of the above items is essential for the safety of the warehouses and to ensure the correctness of the quantum/ quality of commodities, especially keeping in view the claims that may be made by the depositors or by the banks in case depositor availed loan against the NWR issued by the Corporation.

The Management stated (October 2015) that due to inadequate manpower and non-availability of technical staff, the equipment was not purchased.

Long term plan for repairs and maintenance of godowns

3.9.2 The godowns of the Corporation are more than 20 to 30 years old and are in poor condition. As per the practice in vogue in the Corporation, repairs to the godowns are carried out based on the information received from the Warehouse Managers from time to time. The repairs are carried out at three levels²¹.

Picture 3.2: Showing poorly maintained Godowns



The provisions made and expenditure incurred on repairs carried out by Corporation funds are tabulated below:

¹⁹ Tarpaulin (134), Fire Buckets (1,005), Fumigation Cover (67) and Wooden Craters (as per need).
²⁰ Tarpaulin (2 per godown), Fire Bucket (13 per godown), Fumigation cover (1 per godown), and Wooden Craters (as per need).
²¹ (1) By engineering branch of Head Office, by deploying technical personnel to the warehouse centres who purchase required material and engage local labourers to get the repairs done, (2) By Warehouse Managers to whom advance amount is sanctioned by Engineering Branch for carrying out repairs locally by purchasing material and engaging local labourers and (3) By inviting e-tenders/offline tenders at Head Office level and awarding work orders/contracts.

Table 3.9: Details of expenditure towards repairs

(Amount: ₹ in crore)

Year	Provision made in internal budget	Expenditure on repairs carried out	Percentage
2010-11	0.20	0.11	55.00
2011-12	0.41	0.06	14.63
2012-13	2.70	0.20	7.41
2013-14	Nil	Accounts not finalised	--
2014-15	1.01	Accounts not finalised	--
Total	4.32	0.37	8.56

Source: Information furnished by the Corporation

In the absence of any budgetary support from GoG, the Corporation has not been carrying out any major repairs. Even the minor repairs carried out were of very small value spread over different godowns. In the proposals sent (January 2013) to GoG for budgetary allocation for 2013-14, it was estimated that it will cost ₹ 0.69 crore for major repairs to godowns (*viz.*, road, compound wall at seven centres) and ₹ 2.12 crore for medium and minor works at all centres. For the year 2014-15 also the Corporation had sent (February 2014) a proposal to GoG for an allocation of ₹ 17.41 crore for repairs, renovation and modernisation works at various centres. As no budgetary support was received to the proposals, the Corporation had not made any long term plans for repairs to godowns.

Due to the above, the godowns of the Corporation are lying in poor condition depriving the depositors of proper storage facilities.

The Management stated (October 2015) that due to lack of capable staff and financial support from GoG, repair work had not been undertaken.

Manpower Management

Utilisation of available manpower

3.10 Audit observed that:

- The cadre structure of the Corporation comprised of Class I to IV. Class III cadre consists of Managers (Grade-I & Grade-II), Senior Supervisors, Divisional Inspectors and Clerks while Class IV cadre comprises Peons and Watchmen. But as on date, Clerks, who are the lowest ranked personnel in Class III and who are not eligible to be posted as warehouse managers and branch heads are looking after the affairs both in head office and warehouse centres.
- There were instances of one official looking after two or more centres. There were no specific instructions with respect to the supervision by warehouse managers who were in-charge of two or more warehouse centres. The capacity of the 162 warehouses controlled by in charge warehouse managers (19) was 1,12,150 MTs, which was 77 per cent of the total storage capacity (1,45,056 MTs). Further, in four centres²², whose

²² Deesa (2,320 MTs), Bardoli (1,170 MTs), Idar (1,270 MTs) and Umreth (2,300 MTs).

storage capacity was 2,320 MTs and below, a regular warehouse manager of Grade-II had been posted, who should otherwise be posted in centres with higher capacity, considering their grade and experience (May 2015). Thus, the above action of the Corporation shows sub-optimal utilisation of available manpower.

- In the next three years (upto 2018), 20 per cent²³ of existing employees in various cadres will be superannuating which will have further adverse impact on the functioning of the Corporation.

Audit is of the opinion that since the level of knowledge and experience of a Clerk is not sufficient to manage the warehouse as per the procedures keeping in view legal aspects and contractual and statutory provisions (payment of taxes etc.), posting Clerks as Warehouse Managers and also making them incharge of two Centres might adversely impact the management of warehouses.

The Management stated (October 2015) that due to shortage of manpower and non-availability of Class I and Class II officers, Class III staff had to manage the affairs of the Corporation and had to manage more than one centre to carry out the work properly.

Monitoring and Internal Control

3.11 Internal control is a management tool used to provide reasonable assurance that the management's objectives are being achieved in an efficient, effective and orderly manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets, competence of personnel commensurate with their responsibilities besides duties and review of the work of one individual by another whereby possibility of fraud or error is minimised.

We observed the following weaknesses in the internal control system with regard to warehouse management and other affairs:

- The Corporation did not have a specific written Delegation of Powers to the hierarchy. Consequently, certain decisions such as, signing of the agreement with depositors and extending the tenure of the agreement were taken at the lower cadre personnel *viz.*, clerks, in charge warehouse managers etc., in the day to day management of the warehouses.

The Management stated (October 2015) that the delegation of powers to Class III employees was done due to non-availability of staff at various levels.

- Charge of more than one centre was given to one Warehouse Manager (WM). No instructions or control mechanism existed at head office level regarding norms for WM's visit to the other centres. The WMs submitted

²³ 19 out of 96 employees.

travelling allowance (TA) bills every month in respect of their visits to other centres, which were not supported by any documents *viz.*, travel approval letter, fare paid etc. The bills were passed by the head office of the Corporation without any verification. This indicates lack of procedures in the supervision of warehouses as neither any prior approval was taken for such visits nor any procedure was followed for passing of bills.

The Management stated (October 2015) that WM submits his diary to head office and after proper verification only TA bills had been passed. It further stated that WM informs head office regarding his tour and daily affairs at the centre.

However, there were no records to show the tour programme of the WMs.

- There was no procedure to inspect the centres by personnel from head office either on a regular basis or as a surprise check to ensure that the commodities stored in godowns were as per the list notified under the Act and also as per the agreement with the depositors.
- In case of reservation on lock and key basis, the depositor, in the application for reservation, declares the commodity to be stored in godowns. Neither the WM nor personnel from head office conducted any inspection to ensure that the commodity stored in godown by the depositor was as per the declaration given in the application.

The Management stated (October 2015) that due to lack of regular and technical staff such inspection could not be undertaken.

- Approvals for reservation on lock and key system and extensions for such reservations are accorded by head office. It was observed that in certain centres, the WM himself gave the godown on lock and key system both for initial reservation period and for the extended period without the approval of the head office.

The Management stated (October 2015) that WM checks godown to ensure whether the commodities stored are as per the declaration of the depositor.

However, there were no records to show the monitoring of godowns by the WMs.

- As per Bombay State Warehousing Corporation General Regulations, 1959, as adopted by GoG, at least one meeting in two months of Executive Committee (EC)²⁴ was required to be held in a year. However the EC met only four times as against required 30 meetings in last five years up to March 2015.

The Management stated (October 2015) that since there was no regular MD, the meetings of EC were conducted only when complicated matters arose for discussion.

The above weaknesses in the internal controls indicate the risks of misuse of warehouses to the detriment of the Corporation's financial interest and

²⁴ EC consisting of Chairman, Managing Director and three directors, empowered to deal with the functioning of the Corporation as per the directions of the BoD.

deficient monitoring mechanism only leads to these risks remaining unaddressed.

Conclusion and Recommendations

3.12 Warehousing is one of the most important post harvest infrastructure facilities for agricultural sector. The Corporation owns 1.45 lakh MTs of storage facility which is about 11 *per cent* of government owned warehouses. The Corporation also hires warehouses as per the demand wherein the utilisation was 90 to 100 *per cent* during 2010-11 to 2014-15. However, there were some areas of concern in relation to the performance of the Corporation like capacity augmentation, capacity utilisation, operational and financial management, maintenance of its own godowns and monitoring and internal control as discussed below:

- The Corporation has been operating its godowns as a part of its functions but has not undertaken activities on a scale required to fulfil its mandate. As a result, it has not been able to make any significant impact that a warehouse provider would make on the agrarian market. The farmers have benefited little from its activities.
 - *The Corporation may gather the data of warehousing capacity in the State, assess the additional requirement and formulate a plan of action in co-ordination with other agencies such as CWC, FCI etc., for capacity augmentation.*
- Instances of many godowns remaining vacant for long period resulted in low occupancy. The Corporation had no system of fixing godown-wise break-even occupancy.
 - *The Corporation may review the monthly data of occupancy furnished by the warehouse centres periodically, analyse the reasons for godowns remaining vacant for long period to take remedial action and fix godown-wise break-even occupancy.*
- The Corporation did not re categorise its godowns while fixing tariff in 2012 and the tariff did not have details of tariff components as available in the tariffs of CWC and other SWCs.
 - *The Corporation may review the tariff and categorisation of centres on a periodic basis before fixing the tariff and give required details to bring clarity regarding the system of collection of warehouse charges and applicability of rates.*
- The Corporation did not recover warehouse charges as per applicable rates in certain cases leading to loss of revenue of ₹ 11.95 crore.
 - *The Corporation may ensure recovery of warehouse charges as per the prevailing tariff rates.*

- No system of monitoring/inspection of centres by the head office was in place and the top management was not periodically apprised of the working of warehouses based on the information received from the centres.
- *The Corporation may develop a sound monitoring system and also evolve a mechanism for periodical reporting to the top management on the working of the warehouses.*