Chapter-III

3. Performance review relating to Statutory corporation

Assam State Warehousing Corporation

Construction and operation of warehouses by Assam State Warehousing Corporation

Highlights

Utilisation of warehouses declined from 71.61 *per cent* in 2003-04 to 65.56 *per cent* in 2005-06 and again increased to 70 *per cent* in 2007-08 against the norm of 75 *per cent.* Underutilisation was attributable to unplanned creation of storage capacity and lack of scientific storage facilities.

(Paragraphs 3.11, 3.12 and 3.13)

Against rebate of 15 *per cent* on tariff allowed by the Board, the Managing Director extended rebate upto 77.35 *per cent* and sustained loss of Rs. 1.34 crore in four centres during 2003-04 to 2007-08, besides loss of potential revenue of Rs. 63.09 lakh at two centres.

(Paragraph 3.15)

The Corporation incurred revenue loss of Rs. 40.41 lakh and also had foregone potential revenue of Rs. 43.66 lakh due to unjustified de-rating of centres.

(Paragraph 3.16)

The Corporation never followed its laid down credit policy and as a result total accumulated dues from the depositors as on October 2007 stood at Rs. 5.53 crore.

(Paragraph 3.17)

The Management failed to submit records relating to cases of misappropriation/ shortage of stock for audit scrutiny. Misappropriation/ shortage of stock valuing Rs. 51.85 lakh remained unrecovered, as noticed from the five files made available to audit.

(Paragraph 3.22)

The Corporation had an elaborate system of internal controls which was, however, not followed appropriately.

(Paragraph 3.23)

Introduction

3.1. Assam State Warehousing Corporation (Corporation) was established in August 1958 under the Agricultural Produce (Development and Warehousing) Corporation Act, 1956 (subsequently replaced by Warehousing Corporation Act, 1962), with the main objective of construction and maintenance of warehouses in the State for storage of agricultural produce, fertilisers, seeds *etc.*

The main functions of the Corporation are to:

- acquire and build godowns and warehouses within the State and to run the same for the storage of agricultural produce, seeds, manures, fertilisers, agricultural implements and other notified commodities;
- arrange facilities for transportation of the aforesaid commodities to and from warehouses; and
- act as an agent of the Central Warehousing Corporation (CWC) or of the Government for purchase, sale, storage and distribution of the said commodities.

Organisational set up

3.2 The Management of the Corporation is vested in a Board of Directors (BOD). As on 31 March 2008, the BOD consisted of eleven Directors including the Chairman and the Managing Director (MD), five of whom were nominated by 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 four Directors. The MD is assisted by eight Managers in charge of different functional wings in day to day affairs of the Corporation. During the period of five years ending 2007-08, six persons held the charge of MD of which only two were full time MDs, remaining four MDs held additional charge. Further, out of eight posts of Managers, five posts had been lying vacant for a period ranging from one to five years. This hampered smooth functioning of the Corporation.

The working of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial), Government of Assam for the year ended 1999-2000 which was discussed in November 2001 by the Committee on Public Undertakings (COPU). The recommendations of COPU have, however, not been received so far (September 2008).

Scope of audit

3.3 The present performance review conducted from January 2008 to April 2008 covered the activities of the Corporation during the period from 2003-04 to 2007-08. Besides examining the records at the Head Office of the Corporation, 18 warehousing centres with total storage capacity of 1,29,527 MT out of 45 warehousing centres (155 godowns with total storage capacity of 2,54,695 MT) were selected randomly for audit scrutiny covering minimum four centres from each of the four zones.

Audit objectives

3.4 The main objectives of the review were to ascertain whether:

- storage capacities were utilised optimally;
- funds meant for creation of storage capacity were utilised economically, efficiently and effectively;
- proper and adequate storage facilities were constructed/created and made available to consumers in an economic and efficient manner at right time and at right locations;
- storage charges were fixed on a competitive basis taking into consideration all the aspects and the same were reviewed/revised from time to time;
- adequate measures were taken to minimise losses of foodgrains and other commodities during storage; and
- internal control was adequate and commensurate with the nature and size of business of the Corporation.

Audit criteria

3.5 Audit criteria considered for assessing the achievement of the audit objectives were:

- applicable statutes, rules and regulations, instructions/orders, financial sanctions, guidelines from State/Central Government *etc.*, agenda notes, Minutes of BOD meetings;
- guidelines and instructions/directions issued by Government of India (GOI)/ State Government/ CWC/ BOD for purchase of land and construction of godowns and techno-economic feasibility reports of godowns;
- codal provisions for entrustment and execution of works and terms and conditions of agreements entered into with contractors for construction of godowns; and
- Tariff for warehousing charges.

Audit methodology

3.6 During performance audit, the following methodology was adopted:

- scrutiny of Government orders, agenda notes/minutes of the BOD and executive committee meetings;
- scrutiny of budget estimates, allotment of funds and financial statements;
- examination of project reports, tenders for the construction project, work order, works bills*;*
- scrutiny of storage charges bills*;*
- scrutiny of monthly returns received from centres, internal audit reports, field inspection reports of Corporation's Inspection Wing; and
- issue of audit enquires and interaction with the Management.

Funding

Capital Structure

3.7 As on 31 March 2008, against the authorised capital of Rs. 16 crore, the paid up share capital of the Corporation was Rs. 11.54 crore contributed by the State Government (Rs. 6.07 crore) and the CWC (Rs.5.47 crore). During the five years up to 2007-08, the Corporation received Rs. 40 lakh on account of paid up share capital from the CWC and Rs. 1.40 crore from the State Government.

Centrally Sponsored Scheme

Parking of funds by State Government

There was delay ranging from two to eight years in release of Central grant by the State Government.

3.8 In order to strengthen the infrastructural facilities for the Public Distribution System, the GOI sanctioned (1996-97 to 1998-99) Rs.5.22 crore (Rs.2.61 crore as loan and Rs.2.61 crore as subsidy) to the State Government for construction of 19 godowns. These funds were released by the State Government to the Corporation on a piecemeal basis during the period from March 1999 to March 2008 with a delay ranging from two to eight years.

Besides, GOI sanctioned and released (2006-07) funds amounting to Rs.3.43 crore to the State Government for construction of warehouse meant for storage of Food Corporation of India's (FCI) customs. However, even after a lapse of one year, this amount had not been released to the Corporation. The impact of delay in release of fund has been analysed in the succeeding paragraphs.

Financial position and working results

3.9 The Corporation had finalised its accounts up to 2002-03. However, provisional accounts up to 2006-07 have been prepared so far. The financial position and working results of the Corporation for the five years ended on 31 March 2007 based on provisional accounts are shown in ***Annexure 9.*** The Corporation incurred loss every year during the five years (totalling to Rs.5.20 crore) ending 31 March 2007. The accumulated loss of the Corporation as on 31 March 2007 was Rs. 7.73 crore, eroding the share capital by 71 *per cent*. Barring 2003-04, the Corporation incurred cash loss every year, totalling to Rs. 2.59 crore during the above period. Reasons for losses have been analysed in the succeeding paragraphs.

The Corporation incurred cash loss of Rs.2.59 crore during 2002-03 to 2006-07.

Audit findings

3.10 Audit findings emerging from the performance audit were reported to the Government /Management in June 2008 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 25 July 2008. The meeting was attended by the Secretary, Co-operation Department, Government of Assam and the Managing Director of the Corporation. The views expressed by them were taken into consideration while finalising the review.

Warehousing operations

3.11 Warehousing facilities in the State are provided by the Corporation through its owned as well as hired godowns. As on 31 March 2008, the Corporation had 155 godowns (owned:124, hired:31) at 45 centres with a total storage capacity of 2,54,695 MT of which 65,558 MT storage capacity was available in rural areas and 1,89,137 MT in urban areas spread over 19 districts in the State. During the period 2003-04 to 2007-08, storage capacity of 14,009 MT was created by the Corporation through construction of eight new godowns.

The summarised position of storage activities of the Corporation for the last five years is shown in the following table:

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
(i)	**(ii)**	**(iii)**	**(iv)**	**(v)**	**(vi)**	**(vii)**
1	Number of warehousing centres	45	43	45	45	45
2	Number of warehouses					
	i) owned	117	118	121	123	124
	ii) hired	42	33	28	30	31

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
(i)	**(ii)**	**(iii)**	**(iv)**	**(v)**	**(vi)**	**(vii)**
3	Annual available storage capacity (in MT)					
	i) owned	1,99,736	2,00,186	2,03,742	2,06,435	2,08,700
	ii) hired	63,685	55,388	44,936	47,418	45,994
	Total	**2,63,421**	**2,55,574**	**2,48,678**	**2,53,853**	**2,54,694**
4	Storage capacity utilised (in MT)					
	i) owned	1,39,484	1,27,026	1,25,357	1,37,096	1,42,220
	ii) hired	49,154	48,263	37,679	38,905	36,063
	Total	**1,88,638**	**1,75,289**	**1,63,036**	**1,76,001**	**1,78,283**
5	*Percentage* capacity utilised					
	i) owned	69.83	63.45	61.53	66.41	68.15
	ii) hired	77.18	87.14	83.85	82.05	78.41
	Total	**71.61**	**68.59**	**65.56**	**69.33**	**70.00**
6	Expenditure per MT of utilised capacity (In Rupees)	363.79	422.16	450.66	430.97	NA
7	Income from warehousing operation per MT of utilised capacity (in Rupees)	336.09	333.42	338.53	379.49	NA
8	Net loss from warehousing operation per MT of utilised capacity (In Rupees)	(-) 27.70	(-) 88.74	(-) 112.13	(-) 51.48	NA

It would be observed from the above table that the overall capacity utilisation decreased from 71.61 *per cent* in 2003-04 to 65.56 *per cent* in 2005-06 and again increased to 70 *per cent* in 2007-08 against the norms of 75 *per cent* fixed by the Corporation to meet its expenses. Due to below target capacity utilisation, even marginal increase in income per MT of utilised capacity could not offset rise in expenditure. The reasons for poor occupancy and losses were analysed in audit and are discussed in the succeeding paragraphs:

Unplanned creation of storage capacity

3.12 Commercial viability was not assessed before setting up the warehouses. Audit analysis of performance of individual centres during the period covered in the review revealed that out of total 43 to 45 centres, 11 centres[1] incurred losses in all the five years amounting to Rs. 1.20 crore. During the period under review, additional storage capacity of 14,009 MT created by setting up eight godowns at a total cost of Rs. 2.74 crore failed to improve overall occupancy position of the centres.

[1] (a) Bordoloni, (b) Gossaigaon, (c) Jamunamukh, (d) Jonai, (e) Langhin, (f) Machkhowa, (g) Nalbari, (h) Rangia, (i) Sarupathar, (j) Udalguri, (k) Dhing.

Commercial viability was not assessed before setting up the warehouses.

The Management stated (July 2008) that the godowns were constructed as per scheme approved by the GOI in rural areas, as such improvement in occupancy position could not be achieved and also that viability and other aspects were generally looked into before setting up the warehouses, but due to change of Government policies and non availability of agricultural produce loss occurred in these centres.

The facts remains that commercial viability was not considered and with the decreased flow of the PDS commodities, the centres started incurring losses.

Lack of scientific storage facility

3.13 Although the Corporation is the single largest provider of warehousing facility in the State with a network of 155 godowns spread over 19 districts, it lacked adequate scientific storage facilities. 25 godowns at 10 centres in urban areas with a total capacity of 12,500 MT were in dilapidated condition needing immediate repairs and renovation. As the Corporation failed to generate enough revenue surplus from its operations, it failed to undertake major repair and renovation works thereby causing further aggravation in the condition of the godowns. Financial assistance (Rs. 1.50 crore) sought (August 2007) from the State Government for undertaking major repair of these centres also failed to elicit any response.

Tariff Structure

The Corporation lacked consistency in revision of tariff.

3.14 Determination of competitive tariff in warehousing service is a critical exercise requiring utmost skill as it takes into consideration past business performance, future business trend and potential, its market share, cost of service, tariff structure of other operators, projected future profit and at the same time providing cushion for adjustment in the event of exigencies in future.

In the above context, audit scrutiny revealed that the Corporation had been following the practice of revising its tariff biennially. However, the Corporation revised its tariff in March 2003 by enhancing existing rates by 15 *per cent* based on projected increase in overhead to the same extent. Out of 63 scheduled commodities, rates of only five commodities were revised in March 2006. Reasons for non adherence to the adopted policy and circumstances under which partial revision were resorted to were not on record.

The Management stated (June 2008) that the Executive Committee (EC) of the BOD decided not to revise the tariff in March 2005 to attract more depositors. The decision of EC was not based on any survey of the then prevailing market rates or any feedback from the centres to justify continuance of the existing tariff. Further, the Management could not justify part revision of tariff in March 2006.

Undue reduction in tariff

The Corporation incurred loss of revenue of Rs. 1.34 crore against four centres and potential loss of revenue of Rs.0.63 crore against two centres due to undue reduction in tariff.

3.15 The Board authorized the Chairman and the MD jointly to allow rebate on tariff up to 15 *per cent* in special and genuine circumstances in the interest of growth of business. It was noticed in audit that instead of sparingly using this discretion, rebate to the extent of 77.35 *per cent*, was liberally allowed to the depositors even in case of high rated centres. Further, the Corporation often entered into long term agreements spanning three to five years at such reduced rates. As the Corporation adopted a policy of revision of tariff biennially, such reduction in tariff, especially in case of a long term contract, adversely affected income of the Corporation.

A few illustrative cases of undue favour to the depositors for which the Corporation incurred loss of revenue amounting to Rs. 1.97 crore are discussed below:

Panjabari Centre

3.15.1 The Corporation hired out godown space under Panjabari centre to Bharat Sanchar Nigam Limited since August 1991. Scrutiny of agreements in audit revealed that the rates agreed upon, from time to time, were 32 to 65 *per cent* below the prevailing tariff rates. The storage charges of Rs. 85,096 per month[2] realised by the Corporation barely covered the godown rent (Rs. 41,276) and salary and wages (approximately Rs. 43,000) of the staff deployed in the centre leaving aside Head Office overhead and other incidental expenses like repair and maintenance *etc.*. Thereby, the centre had been incurring losses up to 2005-06. However, reasons for such huge reduction in tariff rates were not on record. In view of the fact that godowns being located in Guwahati were high rated where demand for godown space was high, undue reduction in tariff led to loss of revenue of Rs. 80.99 lakh for the five years ended March 2008 besides foregoing potential revenue of Rs. 51.49 lakh in future from April 2008 to August 2011.

The Management stated (July 2008) that in order to ensure full occupancy by a single depositor, the tariff rate was negotiated. Reply is not tenable in view of the fact that Panjabari centre was a high rated one and also that allowing reservation on lock and key basis in no way reduced the overhead cost of the Corporation. Therefore, reduction in tariff by 32 to 65 *per cent* was detrimental to the interest of the Corporation.

[2] Calculated on the rates effective from June 2005.

Paschimboragaon Centre

3.15.2 The Corporation hired out (February 2004) Paschim boragaon centre to Tea Store Warehouse (TSW) for three years at monthly rent of Rs. 2.50 per square foot for the first year, Rs. 2.75 per square foot for the second year and Rs. 3 per square foot for the third year. On expiry of the reservation period, the BOD decided (26 February 2007) to invite offers (NIT) from interested parties and simultaneously decided that in the absence of any suitable response, the existing party would be allowed to continue reservation at Rs. 4 per square foot. Accordingly, quotations were invited (March 2007) through a local daily allowing seven days for submission of offers. This was followed by an extension notice in the office notice board. Thus, the entire tendering process lacked fairness as adequate time to respond was not given initially.

Due to lack of response the Board decided (16 October 2007) to lease out the godown to TSW for three years at a monthly rent of Rs. 4 per square foot for the initial two years and at Rs. 4.60 per square foot for the third year. These rates were below the prevailing rates by 47 to 54 *per cent*. Thus, by granting undue reduction in tariff to the existing occupant (TSW) the Corporation not only lost revenue of Rs. 7.11 lakh up to March 2008 but would also incur loss of potential revenue of Rs. 11.60 lakh in future from April 2008 to January 2010.

The Management stated (July 2008) that the godown was leased out to TSW at rebated rate to save the Corporation from 'nil' occupancy. The Management's contention lacked justification since the centre was high rated and they had not explored the possibility of getting offers through inviting fresh bids and allowing adequate time.

Bongaigaon Centre

3.15.3 The Corporation entered into an agreement with Jain Brothers, Bongaigaon for hiring out two temporary sheds under Bongaigaon centre from April 1997 and January 1999. The storage charges were fixed at Rs. 10,000 and Rs. 6,000 *per month* respectively for these two sheds. The rates allowed were 77.35 *per cent* lower than the prevailing tariff.

The higher Management of the Corporation directed the Warehouse Manager (WM), Bongaigaon Centre on three occasions (June 2004, April 2006 and October 2006) to increase the storage charges. WM, however, entered into agreement with the party without effecting any increase in rent, and continued to bill the party at the initial rate of Rs. 16,000 per month for these two sheds on the ground that the condition of the sheds was deplorable. However, the Corporation never took up repairing of these sheds, so as to have better bargaining power for fixation of storage charge.

During audit inspection of the centre, the WM, Bongaigaon Centre stated that the temporary sheds were sufficiently equipped to store salt and Jain Brothers continued occupation of these sheds over a period of 11 years at a stretch. Thus, due to undue benefit extended to the depositors, the Corporation lost revenue amounting to Rs. 32.78 lakh[3] during the last five years ending 2007-08.

The Management stated (July 2008) that the two sheds were not fit for storage of any other commodity except salt and there was no other aspirant salt dealer interested in storage space. The reply is not acceptable since no such possibility was explored. Further, no action has been taken against the defaulting Warehouse Manager.

Maidamgaon III Centre

3.15.4 Maidamgaon III centre, a licensed warehouse for auction tea was partly utilised for storage of non auction tea. Mc Leod Russel (MLR), one of the depositors of tea in the centre, approached the Management for reduction of storage charge for non auction tea and produced unsigned bills preferred by two private warehouses. The Management without verifying the authenticity of the bills and the period of storage of customs reduced the rate to Rs. 9.50 per bag, irrespective of period of storage against the Corporation's approved tariff of Rs.11.35 per bag per month. Total revenue loss for the undue reduction was Rs. 13.60 lakh.

The Management stated (July 2008) that the warehouse was meant for auction tea only. The Corporation was using the unutilised spaces for storing the non-auction tea meant for overseas sales and storage charges for such non auction tea was fixed at Rs. 9.50 per bag per month on negotiation with MLR.

Reply is not tenable in view of the fact that the Corporation had an approved tariff for non auction tea, and there was no scope for negotiation. As regards reduction of rates on the basis of unauthenticated evidence, the Management did not furnish any justification.

De-rating of centres

Warehouse centres are categorized under high, middle and general.

3.16 The Corporation follows three tier system of tariff, classifying warehouse centres into three categories *viz.* high, middle and general. Again, under each category, storage charges leviable for general stock (charges per container/bag/metric ton *etc.*) were different from charges on area basis (per square feet of reserved space). Storage charges in respect of the middle rated and the general rated warehouses were 86.8 and 56.6 *per cent* of the high rated warehouse respectively.

[3] Worked out on the basis of differential of the charges payable as per tariff and the actual rates.

Due to erroneous de-rating of two centres, the Corporation lost revenue.

Four centres *viz*. Amingaon, Amingaon ICD, Haibargaon and Tezpur categorised as middle rated centres in its tariff for the period April 2003 to March 2005 were downgraded/de-rated to general after identifying them as loss making centres. Audit analysis, however, revealed that out of above centres de-rated, two centres at Amingaon never incurred loss during the period of two years prior to de-rating. Further, CWC which has its own warehousing facility at Amingaon considered Amingaon as high rated area.

Thus, due to de-rating of these two centres on erroneous ground, the Corporation incurred revenue loss of Rs. 40.41 lakh against eight depositors[4] who stored their customs on reservation basis**.** The actual loss would be more if charges levied against general stock were taken into consideration.

The benefit of up-gradation of Amingaon centre could not be availed due to long term agreement resulting in loss of potential revenue of Rs. 0.44 crore.

The Corporation upgraded (April 2008) all the four centres and enhanced the rate from Rs. 4.50 per square foot (general) to Rs. 7.59 per square foot (middle). The Corporation, however, could not take the benefit of upgradation of the Amingaon centre due to long term agreement (up to March 2011) with MLR at general category rates, thereby, foregoing potential future revenue of Rs. 43.66 lakh for the period April 2008 to March 2011.

Credit control

3.17 As per tariff policy of the Corporation, if the depositors fail to pay their dues within seven days from the date of bill, they would be liable to pay interest at the rate of 12 *per cent* on the outstanding dues. However, in practice the Corporation never enforced this policy. In order to monitor, control and ensure early recovery of debts, the Corporation has a dues recovery department. However, the debt recovery position had deteriorated over the period of five years as indicated below:

Year	Income from warehousing operation	Warehousing income receivable at the end of the year	*Percentage* of receivable to income	Receivable in terms of months of income
	(Rupees in lakh)			
I	II	III	IV	V (12 X III ÷ II)
2002-03	577.18	608.19	105.37	13
2003-04	634.00	690.24	108.87	13
2004-05	584.44	699.42	119.67	14
2005-06	551.92	708.77	128.42	15
2006-07	667.90	752.05	112.60	14

Audit scrutiny revealed that total accumulated dues from depositors (as on October 2007) stood at Rs. 5.53 crore against 14 State Government

4 (a) Bikener Assam Road Lines (India) Ltd, (b) Cargil India Private Limited, (c) Harlarkar RG & Company, (d) Kumar Enterprises, (e) Prakash Industries, (f) Sajid Enterprises, (g) Assam Sarba Siksha Abhiyan Mission, (h) MLR.

Departments (Rs. 2.11 crore), 14 PSUs (Rs. 2.57 crore) and private depositors (Rs. 0.85 crore). Dues amounting to Rs. 1.27 crore remained outstanding against five Government departments and one PSU for more than five years.

The Corporation lacked diligence in recovery of dues.

Audit scrutiny of returns from the centres, revealed the following:-

- The debts included Rs. 31 lakh receivable from 19 private parties (Rupees nine lakh) and two PSUs (Rs. 22 lakh) with whom the Corporation had no business transaction for a long time. Hence, the possibility of recovery of the dues appeared remote.

- The Corporation served (April/May 2005) legal notice to 47 defaulters without any follow up action thereon till April 2008.

Thus, the Corporation lacked due diligence in prompt recoveries of its dues.

The Management stated (July 2008) that the dues accumulated since 1970 and included short payment against storage bills carried over for years together and also that some PSUs had adjusted value of shortage of stock from their bills without preferring any claim with the Corporation. It also stated that the interest on dues was not charged in the interest of business.

The Management's reply indicated lack of control over recovery of dues.

Construction of godowns under Revamped Public Distribution Scheme (RPDS)

3.18 In order to strengthen public distribution system in rural and remote areas, Government of India sanctioned (1996-99) Rs. 5.22 crore to the State Government for construction of 19 godowns. As mentioned earlier, these funds were released by the State Government on piecemeal basis to the Corporation during the period from March 1999 to February 2008. However, the Corporation had taken up 15 projects under RPDS. The particulars of these projects and their latest status are given in ***Annexure 10***.

It would be seen from the ***Annexure*** that 12 godowns had been completed so far at a total cost of Rs. 3.78 crore, with delays ranging from two months to six years from the scheduled dates for completion. As a result, the intended benefit could not accrue to the beneficiaries. Of these, eight projects which were completed during the period of review, seven were scrutinised in audit and irregularities noticed are discussed as under:

3.19 Irregular finalisation of tenders

- In case of Dhing, work was awarded to single bidder without inviting fresh tenders. Reasons for accepting the single bid were not on record.

- In respect of three projects at Karimganj, Kharupetia and Chirring Chapori, L_1 bids were not accepted stating that the prices offered by the bidders were below the estimated cost and were considered not workable. Before rejection of L_1 rates, the Management could have asked the contractors to justify the workability of their quoted rates.

- In respect of three projects at Kharupetia, Silapathar and Jonakinagar, cost estimates prepared by the Management before invitation of tenders were revised after opening of tenders to determine a workable price. Bids below the revised workable price were rejected and the lowest offered prices above this workable price accepted for award of contracts.

Excess expenditure of Rs. 0.09 crore against five projects for not awarding the work to L_1 bidder.

Audit observed that the Management arbitrarily considered *percentage* increase in current market price of only three to four items and this increase was applied on the pretendered cost estimates to find out the workable rates. However, the workable rates should have been calculated taking into consideration the P.W.D. Schedule of Rates (Building) prevalent during that period or on the basis of market rates of all the required materials including labour cost. Further, such a calculation should have been done before the opening of the tenders. Thus, revision of estimates after opening of tenders compromised on transparency.

As worked out in audit, the corporation incurred excess expenditure of Rs. 8.69 lakh against the five[5] projects for not awarding the works to L_1 bidders.

3.20 Lack of monitoring and control over work execution

- Although the structural work with tubular truss was an inalienable part of the civil work, the Corporation entered into two separate contracts with two different contractors, one for supply of tubular truss and another for civil works. Further, the Corporation failed to plan, monitor and co-ordinate the works of the two contractors. Delay in supply of truss material often disrupted the construction works of seven[6] projects.

Extension of time was allowed in all the above cases from time to time on the ground of avoidable factors *viz.* non payment of running bills, non supply of tubular truss, delay in handing over site to contractor *etc*.

The Management stated (July 2008) that fabrication of truss was a special work and hence could not be executed by the general contractors. The Management's contention was not tenable since supply and execution of truss work should have been allotted to one contractor for better monitoring and control.

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[5] (a) Karimganj, (b) Kharupetia, (c) Chirring Chapori, (d) Silapathar, (e) Jonaki Nagar.
[6] (a) Karimganj, (b) Kharupetia, (c) Chirring Chapori, (d) Silapathar, (e) Jonaki Nagar, (f) Dhing, (e) North Lakhimpur.

- The Corporation incurred excess expenditure of Rs. 8.92 lakh due to delay in handing over the site in respect of Dhing project which was avoidable.
- In spite of allowing repeated extension of time the contractor failed to complete the work at Kharupetia even after 68 months from the scheduled date of completion. The work was completed by another contractor at an extra cost of Rs. 0.92 lakh. The Corporation neither imposed any penalty on the defaulting contractor nor recovered the extra cost from his final bill. The Management stated (July 2008) that during execution of work by the contractor the Corporation started utilising storage space which prompted the contractor to suspend the work. The Management's reply is not factually correct in view of the fact that even after vacating the warehouse for facilitating completion of the work the contractor did not comply, for which no penal action was initiated against the contractor.

Leasing of commercial complex / land

3.21 Section 24 of the Warehousing Corporation Act, 1962 lays down the list of activities (as detailed in ***Paragraph 3.1 ibid***) the Corporation can undertake. It was noticed during audit that the Corporation constructed (1995) a commercial complex (cost Rs. 37.93 lakh) at Hojai centre and also leased out a plot of land at the same premises to a private entrepreneur. These activities were not covered by the Act.

Lease deeds executed with the allottees provided for increase in rentals for five to 10 *per cent* per annum. However, the Corporation did not increase the rentals accordingly. Besides, an amount of Rs. 14.93 lakh equivalent to 75 months' rent (Rs. 13.27 lakh) in respect of commercial complex and 152 months' rent (Rs. 1.66 lakh) in respect of leased out land was outstanding against the lessees as on February 2008. However, the Corporation did not take any action either for recovery of the dues or taking back possession of the properties.

The Management stated (July 2008) that pleader notices had been served to the lessees for realisation of dues. However, the fact remained that pleader notices were served to allottees of commercial complex in 2005-06 but not followed up with any concrete step for more than two years.

Loss/misappropriation/shortage of warehouse stock

3.22 During the course of performance audit, the Management was requested to furnish the details of cases involving misappropriation/shortage of stock pending disposal at the beginning of the period under review, amount involved in each case and recoveries made so far as also details of cases occurring during the five years and status of departmental proceeding thereon. However, the Management failed to furnish the relevant information/ documents and submitted only five files relating to departmental proceedings against five officials[7] involving charges for misappropriation/ shortage of stock valuing Rs. 51.85 lakh.

Audit scrutiny of these files revealed that in three cases {Sl. No. (i), (ii) and (iii) of the foot note} officials were dismissed from service without recovery of loss to the extent of Rs. 28.97 lakh. In one case {Sl. No. (iv)} recovery of loss was being made at the rate of Rs. 500 per month. Therefore, recovery of total amount of Rs. 12.20 lakh within the remaining period of service was not feasible. In another case {Sl. No. (v)} the departmental proceedings were not initiated so far (August 2008), though, the official was suspended in September 2006.

In order to indemnify itself against such losses the Corporation though takes out a policy on fidelity guarantee insurance every year, in four cases {Sl. No. (i) to (iv)} the Corporation did not lodge any claim with the insurance company for minimizing the loss, while in another case {Sl. No. (v)} the Management failed to furnish necessary documents (copy of FIR, DPs, PF dues *etc.*) as demanded by the insurer for settlement of claims.

Internal control

3.23 The Corporation has an elaborate system of maintenance of records and registers for recording day to day transactions in a centre and laid down procedures for periodic inspection by inspecting official. Inspection of warehousing centres is carried out periodically by one Manager, three Divisional Managers and four Area Managers under their respective jurisdiction under the overall guidance of Head office. The inspecting officers are primarily assigned the task of physical verification of the warehoused stocks. The Board fixed (December 2004) periodicity of 45 days, 25 days and 15 days for inspection by Manager, Divisional Managers and Area Managers. The Board further decided that if any lapse is noticed in inspection, the concerned inspecting official would also be held responsible along with the Warehouse Manager. Scrutiny of inspection reports submitted to the head office and follow up action thereon by the Management revealed the following:

Although the facts of non maintenance, irregular maintenance of prescribed records, non disposal of damaged store, storage of perishable commodities beyond validity period, improper stacking of stores, non recovery of outstanding dues from depositors by the centres were brought to notice of the Head Quarters by the inspecting officials repeatedly, appropriate follow up action was not taken by the Management. Following cases would illustrate the point:-

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[7] (i) Pratap Kr. Singha W/M Silchar; (ii) Babul Baruah W/M Bennibari; (iii) Jyoti Prasad Hazarika W/M Bongaigaon; (iv) Fulleswar Basumatari W/M Goalpara and (v) Md. Kamaluddin Ahmed W/M Silchar.

- Inspection Reports of five centres[8] (as detailed in ***Annexure 11***) repeatedly mentioned about the deteriorating condition of the stores, which were unclaimed by or undelivered to the depositors for a long time. The reports also suggested the steps to be taken by the Warehouse Manager for early disposal of these damaged stores after due notification to the depositors. The Management, however, did not take any follow up action for their disposal by auction *etc.* so far (April 2008). Since the stores lost the realisable value due to prolonged storage, the chance of recovery of storage charges amounting to Rs. 2.41 lakh were remote.

- Cases were noticed where physical verification was not done on the ground that materials were not in a countable position, which put a question mark on the accuracy and efficacy of the physical verification.

- In two centres (Goalpara and Silchar) huge shortage of stocks valued at Rs. 17.79 lakh was detected either during handing over charge by the outgoing Warehouse Manager to the new incumbent or when the depositor lodged a claim with head office for shortage of stocks. In both the cases, though inspections closely preceded the dates of handing over and lodging of claims, inspecting officers failed to detect the same. Although departmental proceedings were initiated against Warehouse Manager concerned, no action was initiated against the concerned inspecting officials.

The Corporation took 17 to 71 months to take over possession of the reserved space against which storage charge of Rs.0.12 crore remained unrealized.

- In three cases the three depositors[9] though failed to pay their monthly storage bills for a long period against godowns space or godowns reserved by them, the Corporation took 17 to 71 months to take over possession of the reserve space or godown. As a result, accumulated storage charges amounting to Rs. 12.38 lakh against these depositors remained unrealised so far.

- The Head Office of the Corporation issued 400 tally slip books to Bongaigaon centre during the period from June 2005 to February 2008. After weighment of trucks the weighbridge operator used 243 tally slip books (containing 50 slips in triplicate) certifying the gross, tare[10] weight of the truck and net weight of the material and levied Rs. 32 per truck as service charge from the truck owners. Audit scrutiny revealed (April 2008) that two books were in circulation and 24 were in stock. Thus, shortage of 131 tally slip books was detected by audit. Thus, the value of the missing tally slips amounting to Rs. 2.10 lakh [11] remained unaccounted for (April 2008) and reflected the lack of monitoring of issue of tally slip by Head Office. The Management did not take any action against defaulting officials.

[8] (a) Dibrugarh; (b) Satgaon; (c) Tezpur; (d) Karimganj; (e) Hojai
[9] (i) Ajmera Industrial Services, (Maidamgaon-II) ; (ii) Army Welfare Projects (Amingaon); (iii) Kolleng Valley Enterprises (Haibargaon)
[10] The weight of a vehicle without any load.
[11] 131 Books × 50 sheets per book × Rs. 32 realisable per sheet

3.24 Internal audit wing of the Corporation consists of five officials and is headed by Manager (Audit). Two to three officials are occasionally engaged for auditing the accounts of centres. During the period 2002-03 to 2006-07 the audit team visited two to five centres each year. Considering the size of the organization with 43 to 45 centres operating under the Corporation and volume of transactions in each centre, number of centres covered during the above period was inadequate.

Loss in settlement of claims

3.25 In case of commodities which are susceptible to loss due to shrinkage, spoilage and handling *etc*, the Corporation had not laid down standard for normal loss and did not maintain claims register for monitoring settlement of claims from various depositors. The Corporation has also not devised any mechanism for recovery of loss of foodgrains from its officials. These would have enabled warehouse managers to settle the depositors' claims promptly.

Scrutiny of depositors' claims revealed that claims amounting to Rs. 1.01 crore pertaining to period prior to March 2005 mainly from Food Corporation of India (FCI) remained unsettled. In November 2006, a meeting was held between the Corporation and FCI wherein it was decided that claims for storage loss below 0.5 *per cent* would be written off by FCI provided the Corporation took up the matter with FCI with supporting documents. However, no progress had been made in this regard.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by different levels of the Management at various stages while conducting the performance review.

Conclusion

The Corporation had 155 godowns (including 31 hired godowns), with a total capacity of 2,54,694 MT at 45 centres covering 19 out of 25 districts of the State. The Corporation added eight godowns with storage capacity of 14,009 MT during the period 2003-04 to 2007-08 which did not have any significant impact on the creation of warehousing facility in the State. The capacity utilisation came down from 71.61 *per cent* to 65.56 *per cent* during 2003-04 to 2005-06 and again increased to 70 *per cent* in 2007-08 which was below the norm of 75 *per cent* fixed by the Corporation. The poor occupancy was attributable to lack of scientific storage facility at 10 centres and unplanned creation of gowdowns at 11 centres.

The Corporation had not revised its tariff biennially as per procedures and on the other hand the Management arbitrarily reduced the tariff in individual cases which resulted in undue financial benefit to the

customers to the tune of Rs. 1.97 crore in four cases, test checked in audit. Four centres were de-rated without any analysis leading to loss of Rs. 40.41 lakh in two centres test checked in audit. Had the Corporation properly managed its tariff policy and rating of centres, it could have reduced its loss of Rs. 5.20 crore during 2003-08 by at least Rs. 1.74 crore as noticed during test check. The Corporation never followed its laid down policy on credit. As a result, receivables increased upto 14 months average income. The Corporation even did not maintain any records for loss of food grains indicating poor internal control.

Recommendations

The State Government / Corporation should consider:

- **ensuring scientific storage facility and proper condition of godowns to avoid loss of food grains;**
- **implementation of tariff policy uniformly, avoiding undue reduction in tariff and proper rating of the centres;**
- **setting up an effective system for monitoring of outstanding dues;**
- **maintaining records of loss of food grains kept in the warehouses;**
- **strengthening the internal audit wing; and**
- **follow up of inspection reports of inspectors at appropriate levels ensuring accountability at all levels.**

The matter was reported to the Government in June 2008; their reply was awaited (September 2008).