

CHAPTER - III

3. Reviews relating to Statutory corporations

3.1 Outstanding dues of Bihar State Electricity Board

Highlights

The sundry debtors for sale of power increased from Rs 2,819.83 crore in 2000-01 to Rs 3,698.17 crore in 2002-03, whereas collection decreased from Rs 1,011.35 crore during 2000-01 to Rs 786.76 crore in 2002-03.

[Paragraph 3.1.6]

As on March 2004, Rs 1844.68 crore was outstanding against State Government departments. Due to non-reconciliation of dues with the State Government departments, the Government could provide only Rs 134.71 crore in the budget.

[Paragraph 3.1.10]

Dues of Rs 149.40 crore against Hindustan Fertilizer Corporation Limited (under closure) remained unrealised due to non transfer of bills of the consumer, to a running connection of the consumer.

[Paragraph 3.1.11]

Dues of Rs 92.06 crore against three High Tension consumers were inflated by Rs 90.41 crore due to faulty billing.

[Paragraph 3.1.13]

Dues of Kalyanpur Cement Ltd. mounted to Rs 126.89 crore due to non-implementation of Court order.

[Paragraph 3.1.15]

Due to non-filing of certificate cases against consumers in time, Rs 41.81 crore became time barred.

[Paragraph 3.1.17]

Due to delay in correction of a High Tension consumer's bill, and intimation to the Court, Rs 9.44 crore remained unrealised.

[Paragraph 3.1.18]

The Board suffered loss of Rs 5.60 crore for not claiming from the State Government concession allowed to HT consumers under Industrial Policy, 1995.

[Paragraph 3.1.19]

Delay in decision in remission of claims from High Tension consumers for Board's inability to supply power resulted in blocking of Rs 25.78 crore.

[Paragraph 3.1.20]

The Board sustained loss of Rs. 11.86 crore by withdrawing fuel surcharge due to issue of defective tariff notification.

[Paragraph 3.1.21]

Due to non-transfer of dues to running connections of defaulting consumers, Rs 169.19 crore remained unrealised.

[Paragraph 3.1.22]

Advances of Rs. 15.80 crore were outstanding against suppliers/contractors, from three to 33 years without adjustment.

[Paragraph 3.1.24]

Introduction

3.1.1 Bihar State Electricity Board sells power on credit to different types of consumers, realising the sales consideration subsequently by issuing bills. The unrealised amount is shown as sundry debtors in the accounts under the head current assets. The advances paid to the suppliers/contractors also form part of the current assets.

The current assets of Bihar State Electricity Board (Board) consisted of sundry debtors for sale of power (Rs 3,171.74 crore) and loans and advances (Rs 106.95 crore) as on 31 March 2002*. While the Board considered the advances realisable, it made provision for bad and doubtful debts for Rs 1,572.62 crore. The review has been conducted with a view to examine the outstanding dues, their follow-up and realisation, especially of high-tension (HT) consumers.

The organisational set up of the revenue management of the Board is given in **Annexure - 13**. It is headed by the Member (Revenue), duly assisted by Financial Controller (Revenue) and Director (Revenue) at headquarters and General Manager cum Chief Engineer, Electrical Superintending Engineer and Electrical Executive Engineer in the field.

Scope of audit

3.1.2 The outstanding dues of the Board for the period 2000-01 to 2004-05 were reviewed during January 2005 to May 2005. Audit was carried out through examination of records of five (70 percent) Area Boards[♦], both Transmission Zones[♥], and 11 (50 percent) Circles* considering revenue-yielding capacity of the units.

[♦] The period upto which the accounts have been prepared.

[♦] Bhagalpur, Darbhanga, Gaya, Muzaffarpur and Saharsa

[♥] Gaya and Muzaffarpur

* Bhagalpur, Darbhanga, Gaya, Motihari, Mungar, Muzaffarpur, Nalanda, Purnea, Saharsa, Samastipur, and Sasaram

Audit objectives

3.1.3 Evaluation of the performance of the Board with regard to outstanding dues was carried out in order to assess whether:

- the credit policy for sale of power of the Board was efficient and consistently applied,
- categorisation and status of outstanding dues was made with special reference to HT consumers, and was consistent with its nature of business,
- the Board managed its receivables efficiently,
- control mechanism for monitoring outstanding dues at Board Headquarters and in the field units was effective,
- record keeping of outstanding dues was adequate and reliable,
- the Board has devised effective ways and means for recovery of dues from various consumers and used them when required.

Audit criteria

3.1.4 The clause 15.3(b) of Tariff (June 1993) provides that a security deposit equivalent to three months' consumption should be obtained from each consumer and the amount should be reviewed twice every year. A close watch over accrual of outstanding dues of the consumers should be kept. The line of a consumer should be disconnected if he fails to pay the energy bill within the due date after giving 7 days clear notice in writing. For realisation of dues, certificate cases^Y against the disconnected consumers should be filed promptly. Remission claims filed by the HT consumers should be decided within four months of filing of the claims. Advances paid to the suppliers/contractors should be adjusted promptly.

Audit methodology

3.1.5 A mix of the following methodology was used: Examination of records of the selected offices including interviewing, documenting, and analysing the evidences collected from the Headquarters' office, as well as field offices of the Board. Audit queries seeking the preliminary comments of the concerned officers of the Board, were issued on the issues taken up in the review.

Audit findings

The audit findings were reported to the Government/Board in July 2005 and discussed in meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 19 October 2005, where the Board was represented by the Chairman and the Member (Finance). The review was finalised after considering the views of the Board. The Government viewpoint however

^Y Certificate case is filed in the court of Certificate Officer of the State Government for realisation of revenue dues.

could not be taken into account due to non-participation of the Government representative.

Audit findings are discussed in the succeeding paragraphs.

3.1.6 Outstanding dues for sale of power

The details of sundry debtors for sale of power for the last three years up to 2002-03 is as shown below:

(Amount: Rupees in crore)				
Sl. No.	Year	2000-01	2001-02	2002-03* (Provisional)
i	Opening balance of debtors for sale of power	2,643.40	2,819.83	3,171.74
ii	Debtors for sale of power at the end of the year	1,187.79	1,196.83	1,313.19
iii	Total debtors for sale of power (i+ii)	3,831.19	4,016.66	4,484.93
iv	Total collection during the year	1,011.35	844.92	786.76
v	Percentage of collection against total debtors (iii÷iv)	26	21	18
vi	Closing balance of debtors for sale of power (iii-iv)	2,819.83	3,171.74	3,698.17

It would be seen from the above table that:

(i) The debtors for sale of power increased, while total collection during the year decreased progressively from 26 to 18 *percent* during the three years ended 31 March 2003.

The Board stated (October 2005) that the collection depends on the total quantity of power available and as the quantum of power available for sale declined over the years, the collection per unit of power available for sale also declined. The reply is not tenable as the Board was not able to realise even the current year's dues fully. The Board did not furnish the break-up of collections against the current year's dues and previous dues.

(ii) The total collection in each year was less than the debtors for the sale of power during that year.

The Board stated (October 2005) that the total debtors had been increasing due to inclusion of substantial amount of DPS[♦]. The Board's reply is not tenable as DPS is a part of the dues.

* The Board has not prepared even provisional accounts for 2003-04 and 2004-05.

♦ Delayed Payment Surcharge

3.1.7 Category-wise details of dues

The category-wise details of dues against different classes of consumers as per the records of the revenue department of the Board were as shown below:

(Amount: Rupees in crore)

Category	As on 31.3.2003	As on 31.3.2004	Percentage increase
High Tension	1,050.17	1,188.51	13
Low Tension Industrial Service	279.45	317.86	14
Commercial	389.19	451.43	16
Agriculture	223.92	264.18	18
Domestic	665.34	808.28	21
Others*	1,188.60	1,433.28	21
Total	3,796.67	4,463.54	17

Note: The figures as on 31.3.2005 were not furnished by the Board, though called for.

It would be seen from the above table that the percentage increase in dues of various consumers ranged between 13 and 21 and the highest increase i.e. 21 per cent each was recorded in domestic and other categories of consumers.

The Board stated (October 2005) that 87 per cent of the total number of consumers were domestic consumers. Due to shortage of technical staff at junior level they were not able to follow up on small defaulting consumers. It was observed in audit that the Board had decided (May 2002) to fill the vacant posts in technical and financial cadres promptly and methodically to sustain the Board's critical infrastructure support. This had, however, not been followed up (October 2005).

The Board further stated that Municipal bodies were generally not paying for the public lighting and public works and the State Government also did not own up the liability. The matter had been taken up with the Government. The Board's reply is not correct as the State Government had paid Rs 32 crore against outstanding dues of municipal bodies during 2002-04.

Dues against Government/private parties

3.1.8 The details of outstanding dues with Central/State Government departments, Central/State Public Undertakings and private consumers are given in the table below:

* Public lightings, public water works, inter-state sale, etc.

(Amount: Rupees in crore)

Category	As on 31.3.03		As on 31.3.2004	
	Amount of dues	Percentage to total	Amount of dues	Percentage to total
Central Government departments	10.03	0.26	5.04	0.11
State Government departments	1,736.00	45.73	1,844.68	41.33
Central PSUs	151.80	4.00	151.90	3.40
State PSUs	18.60	0.49	18.50	0.42
Private consumers	1,880.25	49.52	2,443.42	54.74
Total	3,796.68		4,463.54	

Major defaulters in payment of dues were the State Government departments and private consumers.

It would be seen from the above table that the major defaulters were State Government departments and private consumers.

The Board stated that major contribution to the dues against the State Government was due from the urban local bodies, which did not pay. The matter had been taken up with the Government and improvements would be made.

Dues against the Central Government departments

The dues with Central Government departments included disputed amount of Rs 3.60 crore with East Central Railway, Dhanbad.

3.1.9 Dues of Rs 5.04 crore shown against Central Government departments included Rs 3.60 crore of Gaya Transmission Circle on account of amount deducted by the East Central Railway, Dhanbad due to dispute on power factor surcharge relating to the period April-July 1994. An amount of Rs 54.75 lakh was deducted by Railways from fuel surcharge bill (April 1997). But neither the line of the consumer was disconnected nor the amount, which mounted to Rs 4.15 crore received (December 2004).

The Board clarified (October 2005) that the dispute with the Railways was on technical issues and a settlement was expected shortly.

Dues of Rs 4.19 crore were not pursued with Railways.

The above dues did not include Rs 4.19 crore lying outstanding against the Railways relating to the period 1989-90 to 1999-2000 which were shown as 'amount kept in abeyance' in Board's revenue records. No settlement could, however, be reached as of September 2005.

The Board stated (October 2005) that concerned field offices had been requested to settle cases expeditiously.

Dues against the State Government departments

3.1.10 Board outstanding dues with State Government departments as on 31 March 2004 were Rs 1,844.68 crore against which the budget provision of Rs 134.71 crore was made by the State Government in 2004-05 for clearance of their outstanding dues. The Board, however, received allotment of Rs 128.26

crore only. This meagre budget provision was due to non-reconciliation of dues with the State Government departments despite issue of directive by the State Government in December 2003.

The Board stated (October 2005) that as on 31 March 2004 reconciliation had been completed for Rs 728.00 crore and submitted to the Government. The remaining major share of dues of Rs 1116.68 crore is yet to be reconciled.

The above dues included Rs 199.49 crore against Kosi Project, Saharsa, out of which Rs 105.90 crore was on account of DPS charged on DPS and not allowed as per tariff. Thus dues were inflated by Rs 105.90 crore.

The Board stated (October 2005) that instructions had been issued to the concerned office for rectification in the ledger.

Dues against the Central Government undertakings

3.1.11 Out of total dues of Rs 151.90 crore outstanding against the Central Government undertakings, Rs 150.19 crore (99 per cent) were outstanding against Hindustan Fertilizer Corporation Ltd. (HFCL), Barauni, under closure (Rs 149.40 crore) and Bharat Wagon Engineering Corporation Ltd., (BWECL), Mokamah (Rs 79 lakh). The dues against Hindustan Fertilizer Corporation Ltd., Barauni were to be transferred to a running connection of the consumer as discussed in paragraph 3.1.22. BWECL was defaulting in payments but neither was the line disconnected nor was a certificate case filed for realisation of the dues, which increased to Rs 1.90 crore in October 2005.

Dues of Rs 149.40 crore were with HFCL (under closure).

The Board stated (October 2005) that there was outstanding amount of Rs 1.94 crore on running connection of HFCL. But the Board could not disconnect its line as the consumer was storing sensitive material, which required electricity. The Board also stated that BWECL was making the payment in phases due to its financial constraints. The reply is not tenable, as the Board did not fix any instalment for payment. Rather the BWECL paid a meagre amount of only Rs 6.50 lakh as per its convenience during the period April 2005 to October 2005 against dues of Rs 1.90 crore.

Dues against the State Government undertakings

3.1.12 Out of Rs 18.50 crore outstanding against the State Government undertakings as on 31 March 2004 (**Annexure - 14**), an amount of Rs 3.66 crore was outstanding against defunct/under liquidation PSUs, which was doubtful of recovery. No age wise analysis has been done by the Board. The Board did not file certificate cases against them. Certificate cases against various units of Bihar State Sugar Corporation Ltd. were filed for Rs 1.80 crore against Rs 2.34 crore shown as outstanding. Reasons for not filing certificate cases for remaining dues of Rs. 0.54 crore were not on record. Thus, dues of Rs 1.86^α crore turned unrealisable.

Due to closure of five State PSUs, dues of Rs 1.86 crore turned unrealisable

^α Rs (3.66-1.80) crore = Rs 1.86 crore

The Board stated (October 2005) that efforts would be made to realise the amount with PSUs under reference.

Dues against private parties

3.1.13 The dues with the private consumers increased from Rs 1880.25 crore (49.52 per cent) in 2002-03, to Rs 2443.42 crore (54.74 per cent) in 2003-04. In order to avoid accumulation of arrears the Board's tariff provides for collection of security deposit from consumers estimated at three months' average consumption to be reviewed from time to time for enhancement. The tariff also provides for disconnection in case of failure to pay on due date after notice. But due to non-enforcement of the above provisions by the Board the arrears increased over the years.

The Board had no list of individual sundry debtors matching with the balances shown in the financial ledger/trial balance. In fact no reconciliation was being carried out between the dues shown in the revenue records and financial ledger. There was lack of monitoring and control over the debts both at field level and at headquarters level.

During scrutiny of outstanding dues in three supply circles[^], it was seen that Rs 92.06 crore were lying outstanding against three HT consumers, of which Rs 90.41 crore were inflated due to faulty billing as detailed in **Annexure - 15**.

The Board admitted (October 2005) that there had been increase in arrears from year to year for which efforts were being made to realise the same.

Audit findings on some of the major consumers are discussed below:

Winsome International Limited, Samastipur (Consumer No. MKP-4)

3.1.14 Dues of Rs 2.01 crore including DPS of Rs 82.81 lakh were outstanding against Winsome International Ltd., Samastipur as on 30 November 2003. On the request of the consumer the Board allowed (December 2003) the consumer to pay the dues in 40 monthly equal installments leaving aside the DPS of Rs 82.81 lakh which increased to Rs 1.01 crore in August 2004. Again on the request of the consumer the Board waived (August 2005) the DPS on fuel surcharge retrospectively.

The Board stated (October 2005) that the dispute with the consumer was settled now. It was, however, noticed in audit from the bill issued for the month of September 2005 that DPS (Rs. 1.01 crore) and security deposit (Rs. 36 lakh) were waived by making unauthorised amendment in the provisions of the tariff by the Board without the approval of the Bihar State Electricity Regulatory Commission as required under the provisions of the Electricity Act, 2003, which resulted in undue favor to the private party.

[^] Motihari, Patna and Saharsa

Kalyanpur Cement Limited, (Consumer No.HT-3/EHTS)

3.1.15 Kalyanpur Cement Limited (KCL) was an Extra High Tension consumer with a contract demand of 15 MVA. Clauses 1(c) and 3(a) of the agreement with the consumer provided that the electric supply was required to be measured at the point of supply by a meter to be fixed by the Board in the premises of the consumer. The Member (Technical), however, ordered (March 1996) to install a meter at the grid in KCL's feeder for metering the power supply going to KCL, which was to act as a check meter. But the billing was done during the period June 1996 to November 1997 on the basis of the readings of the meter installed in the grid instead of the readings of the meter installed in the consumer's premises as provided in the agreement. The consumer disputed the bills and filed a writ petition in the High Court. The reasons for not taking the readings of the meter at consumer's premises were not on record. The Court ordered (July 1997) to prepare the bill on the basis of readings of the meter installed at the consumer's premises. As the Board did not record the readings of the meter at the consumer's premises, it could not implement the order of the Court. In the meantime, the outstanding dues which had increased from Rs 20.07 crore in 1997-98 to Rs 126.89 crore in August 2005, remained unrealised.

Due to violation of rules, dues of Rs 126.89 crore remained unrealised.

The Board stated (October 2005) that there were many other issues of dispute related to this consumer and the matter was being placed before the Board for decision. The reply is not tenable, as the Board did not settle this specific issue despite Court order, which resulted in undue benefit to the consumer.

Rohtas Industries Limited, Dalmianagar (HT-30)

3.1.16 Rohtas Industries Ltd., Dalmianagar (in liquidation since 1996) started defaulting in payments and paid the energy bills partially/nominally from August 1992 and made last payment of Rs 1.78 lakh in March 1996 against dues of Rs 18.55 crore. But its line was disconnected on 11 September 2002, after a gap of more than six years when dues had mounted to Rs 36.94 crore. Certificate case had not been filed against the consumer so far (October 2005).

Due to delay in disconnecting line, dues of Rohtas Industries Ltd. mounted to Rs 36.94 crore.

In respect of 1700 domestic consumers in residential colony of the Company at Dalmianagar, the Patna High Court (the official liquidator of Rohtas Industries Ltd.) had ordered (January 1996) that their lines should be disconnected. Despite court's order the Board delayed disconnection by over eight years (April 2004). The reason for delay in disconnection was not on record. Meanwhile the amount of default mounted to Rs 4.99 crore.

Due to delay in disconnecting lines of domestic consumers in Dalminagar dues amounted to Rs 4.99 crore.

The Board stated (October 2005) that responsibility was fixed and administrative action taken against the officers concerned for delay. But details of action taken were not intimated to audit.

Time barred claims

3.1.17 In case of consumers whose lines have been disconnected due to non-payment of energy dues, certificate cases are required to be filed promptly, to

realise the dues. If no case is filed within three years the dues become time barred. In such cases the concerned officials would be liable for disciplinary action and the amount was realisable from them. Audit observed (May 2005) that the Board did not have details of dues against disconnected consumers, time barred cases and certificate cases filed, and as such no monitoring and control was being exercised by the Board.

**Dues of
Rs 41.81 crore lying
with consumers
became time barred.**

On scrutiny of records of HT consumers, Audit observed that in 121 cases involving a sum of Rs 39.03 crore, the recovery became time barred due to non-filing of certificate cases in time, as detailed in **Annexure - 16**. In 86 cases involving Rs 31.92 crore, certificate cases were not filed at all, and in 35 cases involving Rs 7.11 crore, certificate cases were filed beyond time limit of three years. Neither was any responsibility fixed nor action taken against the concerned officials responsible for the loss of revenue.

Further, during test check of the register of time barred claims of 16 supply divisions* from 1994 to May 2002, it was observed in audit that dues of Rs 2.78 crore had become time barred due to non filing of certificate cases against 13 Irrigation and Agriculture Service, 56 Low tension industrial service, 109 Non-domestic service and 755 Domestic service consumers in time.

The Board had filed (May 2005) 159 certificate cases involving Rs 139.87 crore in respect of HT consumers during the period 1977 to 2004. Certificate cases involving Rs 48.98 crore in respect of 25 disconnected HT consumers were yet to be filed for the period May 2002 to December 2004.

The Chairman's instructions (July 2003) to all electrical superintending engineers and electrical executive engineers to contact concerned District Magistrates for speedy disposal of the certificate cases were not complied with (October 2005), and the cases were not pursued by concerned ESEs/EEEs, and some certificate cases were pending since 1977.

The Board stated (October 2005) that the certificate cases were pending for disposal since long despite sincere efforts made by the field officers but certificate officers did not get time to hear the cases in time and some posts of the certificate officers remained vacant for years.

Amount kept in abeyance on the orders of Court/Board

3.1.18 On the basis of Court orders dues of Rs 13.28 crore and on the orders of the officers of the Board dues of Rs 1.87 crore were outstanding against 16 HT consumers and kept in abeyance as detailed in **Annexure - 17**. It was noticed from the list of court cases pertaining to the period 1999 to 2003, that the consumer (sl.no. 1 of **Annexure - 17**) was over-charged by Rs 39.76 crore from 5 February 1995 to 3 August 1995. The consumer did not pay the bill and filed a suit (August 1999) against the Board. Although the Board corrected (December 2000) the bill to Rs 9.44 crore, the correction was not

* Bhagalpur (rural), Barh, Betiah, Chapra (West), Fatuha, Hajipur, Kankerbagh, Motihari, Munger, Nawada, Patna City, Sasaram, Sheikpura, Sherghati, Supaul, and Rosera.

Due to lapse of the Board, dues of Rs 9.44 crore remained unrealised.

brought to the notice of the Court even after a lapse of five years. The case is still pending (October 2005). As a result, Rs 9.44 crore remained unrealised due to lapse on the part of the Board.

Audit scrutiny further revealed (May 2005) that in four supply circles*, there were seven consumers whose dues were kept in abeyance on the orders of the officers of the Board as detailed in **Annexure - 18**. But no review of the cases was conducted from time to time. As a result, dues of Rs 1.87 crore were lying unrealised/unadjusted.

The Board disputed the amounts shown against consumers mentioned in **Annexure - 18** at sl.no. 4, 5, 6 in its reply on the ground that the figures did not tally with their records. The reply is not correct. The figures were furnished to audit by the circles in writing.

Concession allowed to Industrial Consumers under Industrial Policy, 1995 not claimed from the State Government

3.1.19 Under Industrial Policy, 1993/1995, the Government of Bihar directed (September 1996) the Board to allow concession to the industrial consumers who set up industrial units or enhanced their production capacity or diversified activities, for contract demand upto 500 KVA, during the period 1 April 1993 to 31 August 2000. The Board, while approving the resolution of the Government, decided (October 1996) not to levy Annual Minimum Guarantee (AMG) charges on such consumers with stipulation that the State Government should be requested to compensate the loss sustained by the Board on this account. The Board directed (August 1997) its circles to furnish the details of revenue foregone for claiming the amount due from the Government.

The Board sustained loss of Rs 5.60 crore due to non-claiming of subsidy from the State Government for incentive allowed to industrial consumers.

It was noticed (May 2005) that the circles did not comply with the above directive. Therefore, the loss due to non-charging of AMG charges from the HT consumers during the above period could not be claimed from the Government. On the basis of the information collected (May 2005) from 11 circles by Audit, the total loss worked out to Rs 3.99 crore during the review period (2000-01 to 2004-05) in addition to Rs. 1.61 crore, which pertained to the period 1996-97 to 1999-2000, as detailed in **Annexure - 19**.

The Board stated that the Government refused (February 1996) to compensate for the loss on account of the concession allowed to these consumers. The Board's reply is not tenable in view of the fact that the Board knowing fully Government's refusal to compensate the loss while approving the scheme in October 1996, ordered for claiming the loss from the Government. The Board had also directed (August 1997) the field offices to compile and submit losses on this account for claiming from the Government. The loss was neither compiled nor claimed from the Government, in violation of the Board's order.

* Muzaffarpur, PESU (West), Purnea and Samastipur.

Amount kept in abeyance due to pending remission cases under Clause 13 of the agreement with HT consumers

3.1.20 As per Board's notification (July 1994), remission is allowed in AMG to HT consumers for shortfall in consumption due to inability of the Board to supply or inability of consumers to draw power for valid reasons. For claiming remission, the consumer is required to deposit 50 per cent of the amount of AMG bill and file claim within 90 days of the due date of the bill. The concerned Electrical Executive Engineer is required to submit the interruption report within one month of the close of the relevant financial year. The concerned General Manager-cum-Chief Engineer (GM-cum-CE) is required to settle the case within four months of the date of filing the claim.

It was observed (May 2005) that the above provisions were not being complied with. The concerned officials took time ranging from 1 to 20 years in settling the cases. The EEs also took long time in sending interruption reports as against one month's time envisaged in the order. In fact no EE sent the report on his own, and on repeated reminders from the Area Boards they sent the reports with delays ranging from one to seven years.

The results of scrutiny of remission cases are detailed below:

Sl. No	No of cases	Amount involved (Amount: Rupees in crore)			Audit comment
		Review period	Prior period	Total	
1	295	5.22	4.31	9.53	Claims of remission of HT consumers, where 50 per cent amount of AMG bills deposited by the consumers were pending in the Area Boards for 1 to 20 years against time limit of four months allowed (Annexure - 20). The amount was kept in abeyance.
2	63	1.64	13.17	14.81	Claims of remission cases were shown pending in the Area Boards which should have been rejected outright due to non-payment of 50 per cent amount of AMG bill (Annexure - 21). In Bhagalpur Area Board cases were accepted violating Clause (5)* of the notification (included in serial 2) as they pertained to the period 1986-91 and claims were submitted in November 2000; thus, the claims were prima facie inadmissible. Amount was unnecessarily kept in abeyance.
3	49	0.78	0.52	1.30	Amounts of AMG bills were shown in abeyance in 10 Circles but they were not found recorded in the concerned Area Boards where remission claims are dealt with (Annexure - 22). Amount was unnecessarily kept in abeyance.
4	3	0.02	0.12	0.14	Adjustment bills were not issued/short issued by the circles in cases where remissions were

* Provides that remission claims upto 1990-91 cannot be entertained if the same were submitted after three years from July 1994.

					granted by the concerned GM-cum-CE, resulting in overstatement of amount kept in abeyance in the accounts (Annexure - 23). Amount was unnecessarily kept in abeyance.
5	8	0.01	0.12	0.13	Remission of AMG granted to consumers in excess of AMG charged by GM-cum-CE, Kosi Area Board, Saharsa in violation of clause (1) ^φ of the notification (Annexure - 24) and as result Board sustained loss
6	2	Nil	0.37	0.37	Remission granted by a GM-cum-CE of Area Boards Darbhanga and Gaya in violation of clause (1) ^β and (4 C) of the notification was ordered by Board for review in June 1996/October 1998. The review had still not been done.
	Total	7.67	18.61	26.28	

As a result, the Board suffered loss of Rs 13 lakh (sl. no. 5) and an amount of Rs 25.78 crore (sl. no. 1,2,3 and 4) was blocked.

The Board stated (October 2005) that GM-cum-CEs of the Area Boards have again been directed (October 2005) to expedite the disposal of remission claims of consumers. The Board has, however, neither fixed any responsibility nor taken action against the officers responsible for delay.

Outstanding dues of fuel surcharge receivable from HT consumers having induction furnaces

3.1.21 The Board notified (March 2001) the rates of fuel surcharge for HT consumers having induction furnaces to be levied during 1 April 1999 to 31 March 2001 as follows:

1 April 1999 to 31 August 1999	190.43 paise/KWH
1 September 1999 to 31 March 2000	23.26 paise/KWH
1 April 2000 to 31 March 2001	53.58 paise/KWH

The bills were to be issued before 31 March 2001. The Board, however, stipulated (7 May 2001) that the fuel surcharge would be withdrawn subject to Government of Bihar approving the tariff schedule and as such billed amount of fuel surcharge was kept in abeyance by the respective circles. Though the Board's proposal was included the above provision, the tariff notification published in the official gazette (20 November 2001) did not include the above provision.

The Chief Engineer (Commercial) instructed (May 2003) the circles that if bills for fuel surcharge for the period for 1 September 1999 to 31 March 2001 had not been issued and fuel surcharge not collected, a fresh bill for arrear fuel surcharge may be issued. In compliance of this order, arrear bills for fuel surcharge were

^φ Clause 1 provides that remission would not be allowed more than the amount of AMG charged in the bill.

^β Provides for deposit of 50 per cent AMG bill within due date and claim within 90 days by the consumer.

The Boards suffered loss of Rs 11.86 crore due to defective tariff notification.

issued to all such consumers. But the consumers did not pay the arrear bills and went to the court of law. As a result, the amount of Rs 11.86 crore on account of arrear of fuel surcharge kept in abeyance relating to the review period remained unrealised as detailed in would be withdrawn subject to approval of the Government.

The Board stated (October 2005) that the fuel surcharge during the period under question was withdrawn in July 2005. Consequently, the Board suffered a loss of Rs. 11.86 crore due to defective notification.

Non-recovery of dues of one connection from another of the same consumer

Delayed payment surcharge of Rs 42.54 crore could not be realised due to non-transfer of dues of one connection to another running connection of the consumers.

3.1.22 As per para 7 of tariff notification No. 477 dated 29 October 2002, outstanding dues of disconnected consumer may be transferred to any other live connection of that consumer. It was observed in audit that the above provision of tariff were not being applied, or were applied after significant delay in the case of nine HT consumers as detailed in the **Annexure - 26**. As a result, an amount of Rs 169.19 crore remained unrealised. Had the Board taken prompt action to transfer dues of disconnected lines to other live connections of such consumers, delayed payment surcharge of Rs 42.54 crore could have been realised.

The Board stated (October 2005) that the consumers under question were all Government bodies, so it was not feasible to transfer dues of one connection to another. The reply is not tenable, as the Board had already transferred dues of disconnected connection of Barari Water Works of Bhagalpur Municipal Corporation to another live connection of the consumer.

Non-adjustment of dues against suppliers

3.1.23 It was noticed that Rs 28.33 lakh were lying outstanding against four suppliers (**Annexure - 27**) of power and oil. Due to non-adjustment of dues with the bills of these suppliers, Board's fund of Rs 28.33 lakh remained unrealised.

The Board stated that the field offices had been directed (October 2005) to make efforts for realisation of dues against these consumers.

Outstanding advances to suppliers/ contractors

3.1.24 The Board and its units pay advances to suppliers/contractors for purchase of materials and execution of works from time to time. The advances are adjusted on receipt of material against running account/final bills. The Board had shown Rs 98.68 crore as outstanding advance as on 31 March 2002 in their finalised accounts. The Board did not make any provision for doubtful loans and advances, and treated all such advances as good. The Board did not furnish the party wise and age wise details of outstanding advances.

**Advances of
Rs 15.80 crore paid to
suppliers/contractors
remained unadjusted
for three to 33 years.**

On scrutiny of the records of two accounting units^z it was observed that a sum Rs 17.59 crore was lying unadjusted as on 31 March 2005 (**Annexures - 28 and 29**). Out of advances of Rs. 16.19 crore outstanding in Board (Headquarters), Rs 15.80 crore was 3 to 33 years old. The undue delay in adjustment of advances paid by Board headquarters was due to non-receipt of information from field offices and lack of monitoring and persuasion. At BTPS the record keeping of advances paid to suppliers/contractors was deficient. The closing balances were being carried forward from year to year, party wise and not purchase order wise. As a result, it was difficult to watch the amount lying unadjusted against a particular purchase order.

The Board stated (October 2005) that all the advances were realisable, so no provision was required. The Board further stated that the outstanding advances at Board Headquarters were Rs 4.13 crore only as per accounts for 2001-02 and BTPS had been directed to submit details. The Board's claim could not be verified in audit due to non-maintenance of details of party wise and age wise advances. Some advances were lying outstanding since 1972.

Conclusion

The outstanding dues of the Board as on 31 March 2004 were Rs 4463.54 crore, comprising dues with the State Government departments (Rs 1844.68 crore) and with private consumers (Rs 2443.42 crore). Debtors for sale of power increased while collections during the year showed a declining trend during the period 2000-03. Dues of Rs 90.41 crore were overstated due to faulty billing. Dues of Rs 41.81 crore became time barred due to non filing of certificate cases in time. The dues of Rs 139.87 crore involved in the certificate cases were not pursued. The certificate cases of Rs 48.98 crore were yet to be filed. The Board did not claim subsidy of Rs 5.60 crore from Government on account of concession allowed to HT consumers under the Industrial Policy of 1995. Dues of Rs 25.77 crore were kept in abeyance due to non-settlement of the remission claims of the HT consumers in time. The Board sustained loss of Rs 11.86 crore on account of withdrawal of fuel surcharge due to issue of defective tariff notification by the Board. Dues of Rs 169.19 crore remained unrealised and DPS of Rs 42.54 crore was not earned due to non-transfer of dues of one connection to another running connection of the same consumer. Advances of Rs 17.59 crore with suppliers/contractors were lying unadjusted.

^z Deputy Director of Accounts (Board Headquarters) (Rs. 16.19 crore) and Barauni Thermal Power Station (Rs. 1.40 crore)

Recommendations

The Board should:

- **improve its record keeping in order to correctly work out the outstanding dues;**
- **file certificate cases in time and pursue these cases with appropriate authorities;**
- **transfer the unrealised dues of disconnected consumers to other running connections of these consumers;**
- **strengthen its Internal Control mechanism of monitoring outstanding dues, particularly with HT consumers;**
- **expedite reconciliation of dues with Government departments so that provision is made in the budget and outstanding dues of the Board with Government departments are reduced.**

The matter was reported to the Board/Government (July 2005). Reply of the Board was received (October 2005), but Government's reply has not been received.

3.2 Storage activity of Bihar State Warehousing Corporation

Highlights

Performance of the Corporation with regard to availability/utilisation of storage capacity was found to be sub-optimal. The annual available capacity decline by over 17 per cent from 31.47 lakh MT to 25.94 lakh MT during 2000-05 while utilisation of available capacity declined by over 23 per cent from 26.71 lakh MT to 20.45 lakh MT.

[Paragraph 3.2.6]

Unprofessional management of capacity utilisation led the Corporation from a profit of Rs 15 lakh in 2000-01 to a loss of Rs 29 lakh in 2004-05. The Corporation suffered an aggregate loss of Rs 89.15 lakh during 2000-05 in the 25 warehousing centers selected for review. Increase of expenditure per MT per year from Rs 13.57 to Rs 20.05 over 2000-05 also contributed to the losses.

[Paragraphs 3.2.6, 3.2.11 and 3.2.14]

There was a mismatch between additional capacity requirement and locations of new godowns constructed. Instead of focusing on FCI approved locations for availing guaranteed revenue stream, the corporation diverted its resources to locations where the utilisation of existing capacity was only 52.66 per cent.

[Paragraph 3.2.12]

The Corporation failed to put in place an effective system of Internal Controls which led to shortage, storage losses, misappropriation of stock worth Rs 1.33 crore during 2000-05.

[Paragraphs 3.2.8 and 3.2.16]

The capacity utilisation of the Corporation owned godowns was as low as 57 to 70 per cent. Despite this the Corporation did not dehire private storage capacity of 4335 MT for over two years leading to avoidable rental outgo of Rs 10.06 lakh.

[Paragraphs 3.2.6 and 3.2.13]

Introduction

3.2.1 The Bihar State Warehousing Corporation (Corporation) was initially established in March 1957 under the provisions of the Agricultural Produce (Development and Warehousing) Corporation Act, 1956. Government of India repealed this Act and replaced it by the Warehousing Corporations Act, 1962, and the Corporation was deemed to be a State Warehousing Corporation under this Act.

The main objectives of the Corporation are to provide scientific storage facilities for agricultural and notified commodities, and to help depositors, particularly the

primary producers in obtaining credit against stored commodities. The main functions of the Corporation prescribed under the Act are to acquire and build own godowns and warehouses in the state; run own and hired warehouses and godowns for storage of agricultural produce, seeds, manure, fertilizers, agricultural implements and notified commodities; facilitate their transport; and act as an agent of the Central Warehousing Corporation and of the Government for notified purposes.

In fulfillment of the above objectives, the Corporation is presently engaged in the following activities:

- Acquiring and building godowns and warehouses within the State.
- Providing storage facilities in its warehouses and hired godowns for agricultural produce, fertilizers and other notified commodities.
- Facilitating transport of agricultural produce, fertilizers and other commodities to and from the warehouses.
- Carrying out such other functions as may be prescribed.

As of end March 2005, the Corporation was operating 47 warehousing centres with 176 godowns, having a total capacity of 25.94 lakh MTs[▼]. Each centre is managed by a Centre Superintendent under the supervision of a Divisional Manager who reports directly to the Corporation's Managing Director.

The working of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial), Government of Bihar, which has been partly discussed by the Committee on Public Undertakings during 2004-05.

Scope of audit

3.2.2 The storage activities of the Corporation for the period 2000-05 were reviewed during January 2005 to May 2005. Audit examined records of the Corporation's headquarters, and 25[▲] (48 per cent of total capacity) out of 47 warehousing centres selected on the basis of their capacity utilisation.

Audit objectives

3.2.3 Performance audit of the storage activities of the Corporation was carried out to assess whether:

- the Corporation was able to maximize the capacity utilization of godowns owned by it, and minimize the hiring of private godowns,
- management was efficient to safeguard against loss of business,

[▼] 69 own godowns (12.72 lakh tons) and 107 hired godowns (13.22 lakh tons).

[▲] 1. Betiah 2. Bhagalpur 3. Begusarai 4. Buxar 5. Chapra 6. Danapur 7. Daltonganj 8. Fatuha 9. Gopalganj 10. Hajipur 11. Jasidih 12. Jankinagar 13. Kasba 14. Khagria 15. Lohardaga 16. Muzaffarpur 17. Murliganj 18. Madhepura 19. Masaurhi 20. Naugachia 21. Sitamarhi 22. Siwan 23. Saharsa 24. Trivenyganj 25. Warsaliganj

- there was any mismatch between additional capacity requirement and the location of new godowns constructed,
- planning, execution and completion of additional storage capacity were as per the targets and there was no loss of revenue due to delayed completion of godowns.
- the Corporation had formulated a reliable marketing policy for optimising the use of available storage capacity.
- there existed an effective Internal Control System to safeguard against shortages, storage losses and misappropriation etc.
- the Corporation focused its resources on the creation of new capacity at locations with highest potential revenue generation / utilisation.

Audit criteria

3.2.4 The following audit criteria were adopted for assessing the performance of the Corporation with regard to its storage activities:-

- its mandate, system and norms for capacity utilisation, hiring-dehiring of private capacity.
- rules, procedures, guidelines, Board's instructions, Government directions etc.
- delegation of powers, Internal Control and Internal Audit Systems etc.

Audit methodology

3.2.5 A mix of the following methodologies was used:

Examination of records, interviewing, documenting and analysing the evidences collected from the Headquarters' office as well as field offices of the Corporation. Audit queries seeking the preliminary comments of the concerned offices of the Corporation were issued during the review.

Audit findings

The Audit findings were reported to the Government/Management in June 2005 and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 4 October 2005, where the Corporation's Managing Director represented the management. The review was finalised after considering views of the management. The Government view point could not be taken into account due to their non-participation.

Audit findings are discussed in the succeeding paragraphs.

Storage activity

3.2.6 The summarised position of the storage activities of the Corporation for last five years ended on 31 March 2005, is shown in the table below:

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1	No. of warehousing centres	46	47	47	47	47
2	Annual capacity available (in lakh MTs)					
	(a) Own warehouse	11.64	12.60	12.24	12.48	12.72
	(b) Hired warehouse	19.83	17.68	15.78	14.73	13.22
	Total	31.47	30.28	28.02	27.21	25.94
3	Annual capacity utilised (in lakh MTs)					
	(a) Own warehouse	8.15	8.43	7.03	7.65	8.09
	(b) Hired warehouse	18.56	16.72	15.40	14.06	12.36
	Total	26.71	25.15	22.43	21.71	20.45
4	Percentage of utilisation of available capacity					
	(a) Own warehouse	70.02	66.90	57.43	61.30	63.60
	(b) Hired warehouse	93.59	94.57	97.59	95.45	93.49
	Total	84.87	83.06	80.05	79.79	78.84
5	Decline in capacity utilisation (in lakh MTs) as compared to 2000-01	-	1.56	4.28	5.00	6.26
6	Expenditure excluding transport & handling (Rs. in crore)	4.27	4.86	5.42	5.35	5.20
7	Expenditure per MT per year (in Rupees)	13.57	16.05	19.34	19.66	20.05
8	Income (warehousing charges) (Rs. in crore)	4.42	4.47	4.28	4.56	4.91
9	Income per MT per year (in rupees)	14.05	14.76	15.27	16.76	18.93
10	Profit/loss (-) (Rs. in crore)	0.15	(-) 0.39	(-) 1.14	(-) 0.74	(-) 0.29
11	Profit/loss (-) per MT per year (in rupees)	0.48	(-) 1.29	(-) 4.07	(-) 2.90	(-) 1.12

From the above table, it would be seen that:

- Annual available capacity declined from 31.47 lakh MTs in 2000-01 to 25.94 lakh MTs (17.57 per cent) in 2004-05.
- Utilisation of available capacity declined from 26.71 lakh MT (84.87 per cent) in 2000-01 to 20.45 lakh MT (78.84 per cent) in 2004-05.
- Expenditure per MT per year on storage activity increased from Rs 13.57 in 2000-01, to Rs 20.05 in 2004-05, due to increase in establishment cost.

Unless the trend of rising costs along with nearly stagnant revenue from storage activities is reversed, the losses of the Corporation in its core activity are likely to increase.

Capacity utilisation

3.2.7 The Corporation has fixed the norm of 80 per cent capacity utilisation for hiring of private storage capacity. Analysis of total storage capacity created by the Corporation through its own godowns as well as hired godowns and the utilisation of the available storage capacity during the last five years ended 31 March 2005, however, revealed that though capacity utilisation was 80 per cent as a whole, it was mainly due to storage at above 120 per cent of capacity in certain months in certain warehousing centres, (**Annexure - 30**). The capacity utilisation of above 120 per cent is against scientific storage norms and will lead to:

- improper stacking of stocks, and
- non-availability of space for chemical treatment and other works.

The capacity utilisation of certain warehousing centres was, however, much below the average utilisation. A detailed scrutiny of capacity utilisation (March 2005) revealed the following:

1. Number of warehousing centres having utilisation below 80 per cent increased from 11 in 2000-01 to 19 in 2004-05 as detailed below:

Year	No. of warehousing centres below 80 per cent capacity utilisation	No. of warehousing centres having utilisation 80 per cent and above
2000-01	11	14
2001-02	11	14
2002-03	18	7
2003-04	18	7
2004-05	19	6

In 11 to 19 warehousing centres during the period May 2000 to March 2005 there was under-utilisation of capacity of 974960 MT.

2. The godowns of the Masaurhi (5000 MT), Murliganj, (4360 MT) and Kasba (1000 MT) were damaged since May 2000/June 2001. The Corporation did not take any steps for their repair even after lapse of four/five years.

3. One own godown of Muzaffarpur warehousing centre of 7000 MT came under 'No Entry Zone' declared by traffic police in February 2002. The Corporation had not taken any step to get them exempted from 'No Entry' restriction in view of essential service and public interest.

4. Due to declining trend of storage activity the Corporation lost business of 17.10 lakh MT during the period April 2001 to March 2005.

It was observed in audit that the business of the Corporation declined due to the following main factors:

- Existence of warehousing centres where there was no demand/meagre demand; viz. Jankinagar, Kasba, Murliganj, Masaurhi.
- Absence of a marketing strategy to increase storage activity.
- There was no programme for education of farmers on utilisation of scientific storage to reduce post harvest losses.
- The Corporation failed to complete construction of new godowns within the target dates.

Management in their reply (July 2005) accepted the sliding trend of storage activities due to decrease in storage of fertilizer.

Failure to fix responsibility for losses

3.2.8 The bulk depositors of the Corporation had recovered Rs 1.33 crore (Food Corporation of India - Rs 77.89 lakh, Indian Farmers Fertiliser

The Corporation took no action for recovery of loss of Rs 88.82 lakh.

Company - Rs 37.63 lakh, Kribhco - Rs 4.37 lakh, Hindustan Fertiliser Corporation - Rs 2.67 lakh, National Fertiliser Ltd. - Rs 1.90 lakh, and Paradeep Phosphate Ltd. - Rs 8.79 lakh) from the transport and handling bills of the Corporation on account of shortages, storage losses, misappropriation of stock etc. during the period from April 2000 to March 2005. The Corporation does not have the full details of recoveries, like quantity of material, month and place of occurrence, persons involved, etc. The Corporation had filed money suit (June 2003) for Rs 44.18 lakh against the officials involved in misappropriation of stock at Gaya and Lakhisarai. The action taken in respect of losses of Rs 88.82 lakh was not on record.

Loss due to deficient warehousing

3.2.9 At Sasaram warehousing centre, 3394 MT of FCI wheat was stored during 1998-99 to 2000-01. The entire stock was damaged. During liquidation of above quantity of damaged wheat, a quantity of 930.87 MT (27.4 per cent) was detected as storage loss. Consequently, FCI preferred a claim of Rs 1.70 crore against the Corporation (September 2002) and stopped payment of storage charges to the Corporation for adjustment of the losses.

The Corporation did not take any step for fixation of responsibility and/or recovery of losses (June 2005). Management in their reply (July 2005) stated that the Corporation had requested Food Corporation of India to write off losses of Rs 1.70 crore.

Pursuance of claim from BSFDC

BSFDC admitted claims of Rs 0.84 lakh only against liability of Rs 1.31 crore.

3.2.10 Rs 1.31 crore on account of storage charges for the period upto 1996-97 are outstanding against Bihar State Forest Development Corporation Ltd (BSFDC). BSFDC has, however, admitted claims of only Rs 0.84 lakh. For this, the Corporation sought appointment of an Arbitrator from the Hon'ble Patna High Court, which was dismissed in June 2004. The Corporation was directed to take up alternate legal remedies. The Corporation had not taken any alternate step (May 2005).

Activity wise profitability of the Corporation

3.2.11 The activity wise profitability of the Corporation is given in **Annexure – 31**. The summarised position is as under:

(Amount: Rupees in crore)

Activity	2000-2001		2001-2002		2002-2003		2003-2004		2004-05	
	Income	Expenditure	Income	Expenditure	Income	Expenditure	Income	Expenditure	Income	Expenditure
1. Warehousing i.e. storage	4.42	4.27	4.47	4.86	4.28	5.42	4.56	5.35	4.91	5.20
2. Transport & handling	6.56	5.34	5.65	5.05	6.62	6.47	13.54	12.90	16.23	14.96
3. Interest & other income	0.60	-	0.67	-	1.11	-	0.44	-	0.07	-
Total	11.58	9.61	10.79	9.92	12.01	11.89	18.54	18.25	21.21	20.16

The Corporation's profit of Rs. 15 lakh in storage activity in 2000-01 turned into loss of Rs 29 lakh in 2004-05.

It can be seen from the above table that the Corporation has been incurring loss in its core activity i.e., storage, since 2001-02. The Corporation earned cumulative profit of Rs 4.30 crore during the last five years ended 31 March 2005 mainly due to profit in transport and handling activity, and income from deposits.

Management in their reply (July 2005) stated that there was decline in storage activity and this was due to decrease in the business of fertilizers.

Construction of godowns

3.2.12 Ministry of Food, Government of India decided (August 2002) to give seven years capacity utilisation guarantee towards storage charge to Central Warehousing Corporation (CWC)/State Warehousing Corporation on immediate construction of one lakh MT storage capacity in Bihar, to be used by FCI for procurement. FCI decided (October 2002) that three lakh MT storage capacity would be created in Bihar of which 0.50 lakh MT storage would be constructed by CWC and 2.5 lakh MT by Bihar SWC at 33 centres to be completed by 31 December 2003. The capacity allotted to the Corporation was subsequently reduced (June 2004) to 1.22 lakh MT at 20 centers, the reasons for which were not on record.

Unfruitful expenditure of Rs. 3.56 crore on construction of 14140 MT unapproved capacity.

To meet the above requirement of FCI, the Corporation decided to construct (November 2002) godowns in three phases. In the first phase, construction work of 30640 MT storage capacity at eight centres and 10000 MT storage capacity at Muzaffarpur (not approved by FCI) had been taken up. At Sitamarhi, against the approved capacity of 2500 MT, 6640 MT was under construction in the first phase (**Annexures 32 and 33**). First phase work is still in progress (March 2005), and the work of the other phases will start after the completion of the first phase. Thus, instead of focusing on FCI approved locations for availing guaranteed hiring for seven years by FCI, the Corporation diverted its resources (Rs.3.56 crore) to construction of additional capacity of 10000 MT at Muzaffarpur and 4140 MT at Sitamarhi where the existing capacity utilisation was only 52.66 and 77.84 *per cent* respectively.

At five centres Corporation is constructing storage which is 22860 MT less than the approved capacity.

In this connection it was also noticed that the Corporation was constructing godowns at five centres^λ the storage capacity of which, was lower than the approved and allotted capacity of 45,000 MT, by 22,860 MT, due to non-availability of land. The Corporation failed to get suitable land at these centres for the construction of balance allotted capacity (22,860 MT), to avail the benefit of guaranteed revenue. Cases of land acquisition were pending at different levels and there is little possibility of getting land in the near future. Thus, due to the failure of the Corporation to acquire land, opportunity of guaranteed revenue of Rs 80.92^ψ lakh per annum from January 2004 could not fructify.

Management in their reply (July 2005) stated that the capacity constructed at Sitamarhi has been completed and handed over to Food Corporation of India under Seven Years Guarantee scheme, and the godown of 10,000 MT capacity under

^λ Betiah, Bhagalpur, Purnea, Raxaul, Sasaram.

^ψ 22,860 MT X Rs 29.50/MT/month X 12 months.

construction at Muzaffarpur would be brought under Gramin Bhandaran Yojana, because the 7,000 MT capacity godown at Malighat, Muzaffarpur had become unusable due to its location in a No Entry Zone, and was likely to be closed down shortly.

Reply of the management for construction of 10,000 MT godown at Muzaffarpur is not tenable because there has been a sliding trend of storage at Muzaffarpur (capacity utilization decreased from 20,078 MT in September 2000 to 6,599 MT in February 2005).

Hiring and de-hiring of godowns

3.2.13 To meet the requirement of customers, the Corporation was either constructing its own godowns or hiring storage space from others. The godowns are required to be de-hired when capacity utilization goes below 60 per cent for 3-4 months. During the period April 2000 to March 2005, the Corporation hired 51565 MT storage space, and de-hired 121280 MT storage space.

A summarised position of Muzaffarpur, warehousing centre showing capacity available, capacity utilised and vacant storage space for the last five years ending 31 March 2005 is given in **Annexure-34**.

Audit Scrutiny revealed that at Muzaffarpur warehousing centre, 8,820 MT own storage capacity was added (April 2001 and May 2003) taking the total capacity to 19,755 MT, and the average space capacity was 6,935 MT from September 2002 to January 2005. Thus retention of 4,335 MT hired storage space since September 2002 was not justified, and the rent of Rs 10.06 lakh paid for this storage capacity from September 2002 to January 2005, was avoidable.

Warehousing centres incurring losses

3.2.14 25 warehousing centres of the Corporation selected for audit test check incurred losses for one to five years as detailed below:

^ (A) No. of centres that incurred losses in all years	-	5
(B) No. of centres that incurred losses in four out of five years	-	3
(C) No. of centres that incurred losses in three out of five years	-	3
(D) No. of centres that incurred losses in two out of five years	-	9

The table below summarises that the capacity available, and capacity utilisation of warehousing centres that incurring losses:

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1	Annual capacity available (in lakh MTs)	14.86	14.43	13.60	12.89	11.79

^ A (Gopalganj, Jasidih, Masaurhi, Naugachia and Kasba)

B (Danapur, Siwan and Triveniganj)

C (Chapra, Janakinagar and Murli Ganj)

D (Bhagalpur, Begusarai, Daltonganj, Fatuha, Hajipur, Lohardagga, Madhepura, Nawadah and Sahebganj)

2	Annual capacity utilization (in lakh MTs)	11.60	11.21	9.13	8.26	7.03
3	Percentage of annual capacity utilization	78.01	77.70	67.10	64.10	59.60
	Loss (-) (Rs in lakh)	(-) 7.65	(-) 21.16	(-) 18.27	(-) 12.67	(-) 29.40

It is seen that the capacity utilisation progressively decreased from 78.01 *per cent* in 2000-01 to 59.60 *per cent* during 2004-05.

These centres incurred aggregate losses of Rs 89.15 lakh during 2000-01 to 2004-05. The reasons for losses were not analysed by the management.

Uneconomical operation of warehousing centres

3.2.15 The total earnings and expenses in storage activity and the average monthly storage capacity, average monthly utilisation percentage of 8 out of 25 test checked warehousing centres where the capacity utilisation of warehousing centres was abysmally low during the last five years ended 31 March 2005, are shown in **Annexures – 35 & 36**

Expenses on storage activity of these centres for the last five years were Rs 87.30 lakh, whereas the total earning was only Rs 52.65 lakh, resulting in loss of Rs 34.65 lakh.

The justification for the continuance of these uneconomical warehousing centres was not found on record.

The management in its reply stated that these godowns have been kept for making available storage capacity in rural areas.

Internal control and Internal audit

3.2.16 The periodicity prescribed by the Corporation for Physical Verification (PV) of stock was:

- (i) Quarterly by warehousing staff themselves,
- (ii) Annually by inter divisional staff.

The Corporation had prescribed quarterly physical verification of stocks by the local staff and annual verification by inter divisional staff. It was noticed in audit that no annual stock verification were carried out and in absence thereof cases of misappropriation were detected in Gaya and Lakhisarai warehousing centers. This situation was indicative of weak and non-operational Internal Controls fraught with the risk of more losses. Even though the Corporation had created an Internal Audit wing yet it was not made operational as no auditor was posted for the same.

The Corporation has not devised any comprehensive management information system for collection, consolidation and analysis of various information/data for effective governance. However, warehousing centres are rendering custom report[^] and profit & loss accounts each month to the corporate office. This report

[^] a term used for stock receipt and issued statement.

Corporation suffered loss of Rs. 34.65 lakh in operation of eight warehousing centres.

The Corporation had not evolved any Management Information System.

lacks information relating to storage losses. The monthly custom report and monthly profit & loss accounts were not used by the management for analysis or decision making purposes. The divisional offices were not rendering any periodical reports/statements to the corporate office. In the absence of an effective management information system, the management was not in a position to take prompt, effective and timely decisions for deployment of staff in warehousing centres, hiring, de-hiring of storage capacity, and improving the profitability of the warehousing centres.

Conclusions

The performance of the Corporation with regard to its storage activities was found to be sub-optimal. While there was significant decline in utilisation of storage capacity during the period 2000-05, the expenditure per MT on storage activity exceeded the income during the last four years. Under the Seven Years Guarantee scheme there was mismatch between the additional capacities created and the approved plan by FCI. In five centres the capacity was significantly lower than the plan whereas in two centres capacity created was in excess of the plan. The Corporation has yet to complete Phase I of the construction of the additional capacity. Despite losses on account of storage, shortages and misappropriation the Corporation has failed to evolve any dependable Internal Controls System.

Recommendations

The Corporation needs to:

- **revamp its system of hiring and de-hiring of godowns so as to maximise capacity utilisation of own godowns,**
- **rationalise augmentation of storage capacities so as to optimise utilisation /revenue generation,**
- **focus on its core activity i.e., storage by increasing capacity utilisation to generate more revenue,**
- **consider relocating staff in uneconomical godowns in view of rising cost of storage activity,**
- **construct new godowns under the Seven Year Guarantee Scheme strictly in accordance with the approved plan of FCI, and**
- **strengthen its Internal Control System so as to minimise losses due to improper storage, shortages and misappropriation.**