CHAPTER – II

2. Review of Statutory Corporation

Functioning of the Chhattisgarh State Warehousing Corporation

Executive Summary

Introduction

Main activity of the Chhattisgarh State Warehousing Corporation (Corporation) during the period 2009-10 to 2013-14 was rendering services of storage of rice, wheat, sugar, grams and other commodities mainly to the Chhattisgarh State Civil Supplies Corporation Limited (CSCSCL) and Food Corporation of India (FCI) by constructing/hiring godowns. The Corporation held 14.02 lakh MT (9.11 lakh MT own and 4.91 lakh MT hired) storage capacity as at the end of March 2014.

Planning and construction of godowns

The Corporation does not undertake any assessment of the future storage requirements and systematic planning to construct godowns as storage requirements are assessed by State Level Committee. It executes construction of godowns as sanctioned under Private Entrepreneur Guarantee (PEG) Scheme, 2009, a Central Scheme and various schemes of the Government of Chhattisgarh (GoCG) as per its instructions issued from time to time to strengthen the Public Distribution System (PDS) in the State.

The Corporation could construct 2.87 lakh MT as against the target of 4.92 lakh MT under PEG Scheme and there was shortfall of 2.05 lakh MT in storage capacity additions as at the end of March 2014.

The Corporation incurred extra expenditure of ₹ 73.36 lakh for construction of godowns at unsuitable land/forest land and ₹91.46 lakh blocked up due to construction of godowns at disputed land.

There was violation of Delegation of Powers as the Managing Director sanctioned additional works valued ₹67.98 lakh beyond his powers.

The Corporation did not recover risk and cost amount of ₹ 32.30 lakh from a contractor who did not complete the work.

The Corporation short levied penalty of ₹ 84.40 lakh and did not recover business loss of ₹3.92 crore from the contractors for delay in construction of godowns and it violated environmental norms by using clay bricks instead of fly ash bricks.

Financial management

The total income of the Corporation increased from ₹52.39 crore in the year 2009-10 to ₹ 78.50 crore in 2012-13.

The Corporation suffered loss of interest of ₹ 88.89 lakh due to delay in raising of bills on FCI.

Outstanding claims of ₹ 1.01 crore in Backward Region Grant Fund (BRGF), a Central Scheme and ₹ 1.25 crore in State Schemes were not realised due to lack of pursuance.

The Corporation paid a penalty of ₹72.24 lakh due to delay in payment of service tax.

Capacity utilisation of godowns

Overall utilisation of godown capacity was above 90 per cent in all the five years under Review. However, godowns at two branches were never utilised and the utilisation was below 50 per cent in four to 13 branches in case of own godowns and in nine to 14 branches in case of hired godowns.

Operation and maintenance of godowns

Despite recurring losses by six branches in all the years under review, the Corporation did not take any concrete steps to reduce the losses.

In contravention of the provision of storage tariff, FCI withheld ₹ four crore from the bills for storage charges towards storage losses.

The Corporation violated norms by using pesticide below standard norms and by non-disposal of empty chemical containers.

Conclusion

The Corporation was to construct godowns under PEG Scheme 2009 with capacity of 4.92 lakh MT but could only construct 2.87 lakh MT as at the end of March 2014. There was thus a shortfall of 2.05 lakh MT in capacity addition due to delay in construction of godowns because of non-availability of land/disputed land etc.

Storage charges of ₹ 4.55 crore were outstanding for more than three years from Chhattisgarh State Civil Supplies Corporation Limited (₹ 3.22 crore) and Laghu Vanopaj Sangh (₹ 1.33 crore outstanding since May 2002). Out of this, ₹ 2.59 crore related to a case of shortage of rice found in physical verification referred (September 2005) to Economic Offence Wing of the GoCG for investigation which is under progress.

Introduction

2.1 Chhattisgarh State Warehousing Corporation (Corporation) was formed (May 2002) under the Warehousing Corporations Act, 1962 (Act). Main activities of the Corporation during the period 2009-10 to 2013-14 was rendering services of storage of rice, wheat, sugar, grams and other commodities mainly to the Chhattisgarh State Civil Supplies Corporation Limited (CSCSCL) and Food Corporation of India (FCI) by constructing/hiring godowns.

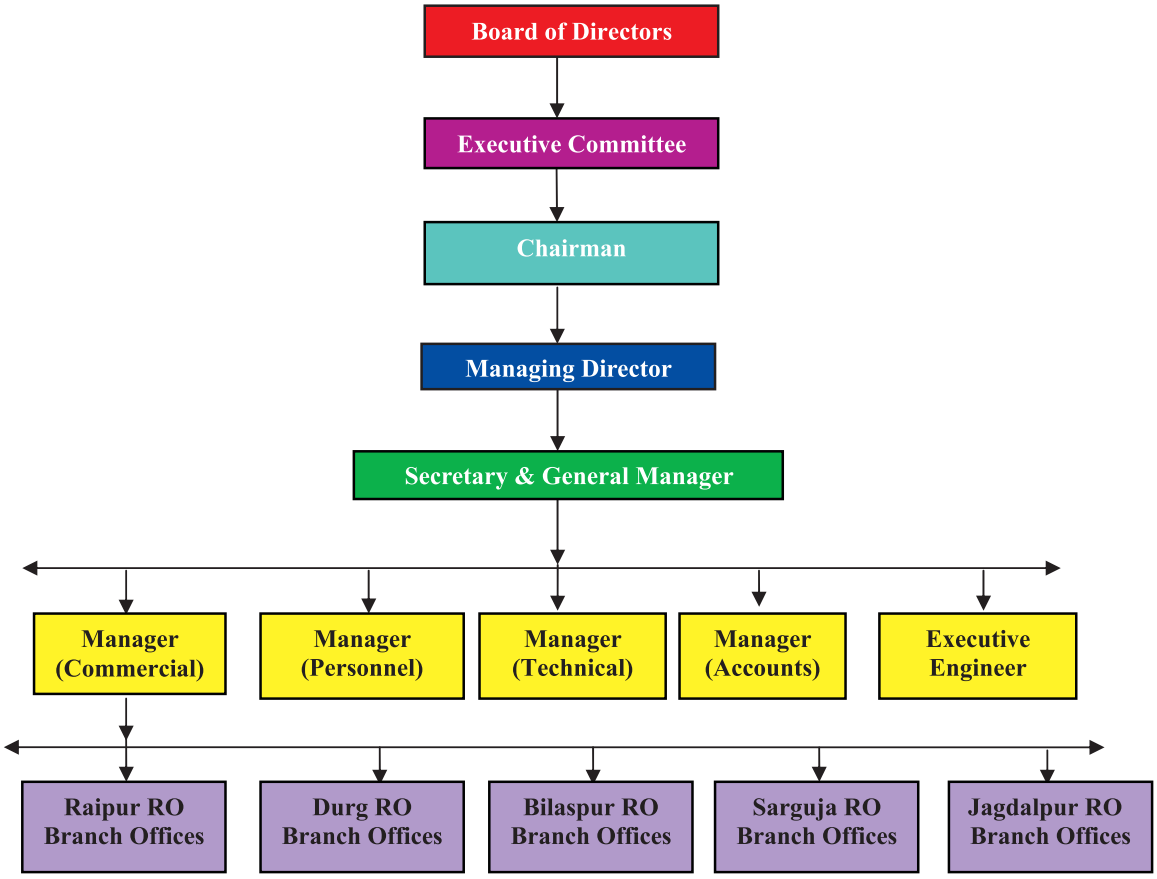
The Corporation utilised the storage spaces of own godowns as well as hired godowns as per its storage needs based on location, availability of storage space and as per the requirement of depositors.

As on 1 April 2009, total storage capacity was 9.98 lakh MT (own godowns: 4.97 lakh MT and hired godowns: 5.01 lakh MT). The total storage capacity increased to 14.02 lakh MT (own godowns: 9.11 lakh MT and hired godowns: 4.91 lakh MT) as on 31 March 2014. The capacity utilisation of own and hired godowns together ranged between 91 *per cent* and 101 *per cent* during the period of review.

The Performance Audit on Construction, Operation and Maintenance of Warehouses in Chhattisgarh State Warehousing Corporation included in Audit Report 2005-06 of Government of Chhattisgarh was discussed by Committee on Public Undertakings (COPU) in July 2009 and its recommendations are awaited (September 2014).

Organisational setup

2.2 The Corporation is managed by Board of Directors (BoD). As on 31 March 2014, the BoD consisted of nine Directors[1] including a full time Managing Director (MD) and all the directors are functional. The day-to-day activities of the Corporation are managed by the MD who is assisted by four Managers in-charge of Finance, Commercial, Personnel and Technical divisions. A Chairman and an Executive Committee[2] also review the activities of the Corporation through its monthly meetings. As of March 2014, the Corporation had five Regional Offices (ROs) and 125 Branch Offices (BOs) consisting of 632 own godowns and 330 hired godowns. The BOs are managed by Branch-in-charges who are assisted by Technical Assistants and supporting staff. The organisational chart is given below:



[1] Secretary, Food, Civil Supplies and Consumer Protection Department; Joint Secretary, Finance and Planning; Managing Director, Chhattisgarh State Civil Supplies Corporation Ltd; Executive Director, Chhattisgarh Laghu Vanopaj Evam Sahakari Sangh; General Manager, Central Warehousing Corporation; Regional Manager, Central Warehousing Corporation; Managing Director, Chhattisgarh State Warehousing Corporation; Deputy Secretary of Ministry of Consumer Affairs, Food and Public Distribution and Deputy General Manager, State Bank of India

[2] Executive Committee consists of the Chairman of the Board of Directors, the Managing Director and three other directors

Audit objectives

2.3 Review of the Corporation was conducted to assess whether:

- A well-established planning and construction mechanism for godowns was in place and was followed effectively and economically;
- Fund management was efficient;
- Capacity utilisation of own and hired godowns was optimal; and
- Operation and maintenance of godowns was efficient.

Audit criteria

2.4 The Performance of the Corporation was assessed with reference to the:

- The Warehousing Corporations Act 1962 and Warehousing (Development and Regulation) Act 2007 (WDR Act);
- Agenda and Minutes of Meetings of BoD of the Corporation;
- Guidelines of Rural Infrastructure Development Fund (RIDF)/ Gramin Bhandaran Yojna (GBY)/ Sarguja and Uttar Vikas Pradhikaran (SUVP)/ Bastar and Dakshin Kshetra Adivasi Vikas Pradhikaran (BDKVP)/ Private Entrepreneur Guarantee (PEG) Scheme, 2009;
- Norms for fixation of godown rent, hiring of godowns and storage charges fixed by the Corporation;
- Norms for maintenance and capacity utilisation of godowns fixed by the Corporation; and
- Norms for pest control/fumigation as per the Warehouse Manual for Operationalising of Warehousing (Development & Regulation) Act 2007 and norms for storage losses adopted by the Corporation.

Scope and methodology of audit

2.5 The Review conducted from 24 March 2014 to 30 June 2014 covered the functioning of the Corporation covering the transactions at Head Office, two (Bilaspur and Raipur) out of five ROs and 12 (Bagbahara, Durg, Bilaspur, Abhanpur, Rajim, Mandirhasuad, Mahasamund, Akaltara, Janjgir, Loharsingh, Kirodimal Nagar and Rajnandgaon) out of 125 BOs for the period from 2009-10 to 2013-14. The BOs were selected considering quantum of business done and capacity utilisation of godowns by each BO.

We explained the objectives of audit to the Corporation/Government of Chhattisgarh (GoCG) during an Entry Conference held on 23 April 2014. The audit findings were reported to the Corporation and the State

Government in July 2014 and the replies of the Corporation were received on 9 September 2014. However, the replies of the Government have not been received so far (October 2014). The replies furnished by the Corporation have been considered while finalising the Performance Audit. The Exit Conference with the Principal Secretary of the Department was held on 12 September 2014 to discuss the audit findings.

Audit findings

2.6 The audit findings are discussed in the succeeding paragraphs.

Planning and construction of godowns

Planning

2.7 The Corporation did not undertake any assessment of the future storage requirements and systematic planning to construct godowns as storage requirements are assessed by State Level Committee (SLC)[3]. It executes construction of godowns as sanctioned under PEG Scheme and various other schemes of the GoCG at identified locations to strengthen the Public Distribution System (PDS) in the State. Under PEG Scheme the SLC assesses the storage needs in the State and sends its recommendations for construction of godowns to a High Level Committee (HLC)[4] for approval.

No policy or plans formulated by the Corporation for construction of godowns.

The fact of non-formulation of policy regarding construction of godowns was reported in Paragraph 6.2.9 of the Report of the Comptroller and Auditor General of India (Civil and Commercial) for the year ended 31 March 2006. Based on discussion in COPU on Construction, Operation and Maintenance of Warehouses in Chhattisgarh State Warehousing Corporation, the Corporation has submitted a policy for construction of godowns in its 20th meeting of BoD (March 2010) which was deferred to next meeting of BoD for discussion. However, no discussion on the policy was held in the subsequent meetings of BoD and the Corporation did not formulate any policy or plans for construction of godowns so far (September 2014).

Non-achievement of the targeted construction under PEG Scheme

2.8 Private Entrepreneur Guarantee Scheme, 2009 envisages construction of godowns for FCI storage and State requirement. The storage charges are guaranteed by FCI and GoCG for nine years under this scheme. For this purpose the SLC examined (September 2010) storage

[3] SLC consisted of the Secretary (Food) and Director (Food) of the State, Executive Director (Zone) and General Manager (Region) of the Food Corporation of India (FCI), Regional Manager of Central Warehousing Corporation (CWC) and Managing Director of the Corporation

[4] HLC consisted of the Additional Secretary & Financial Advisor, Ministry of Consumer Affair, Food and Public Distribution, Government of India, CMD of FCI, MD of CWC and State Government representatives

needs in the State and sent its recommendations for construction of godowns with total storage capacity of 3.02 lakh MT to the HLC which approved (March 2011) total capacity addition of 2.17 lakh MT with 1.92 lakh MT to be constructed by the Corporation and 0.25 lakh MT to be constructed by the Central Warehousing Corporation (CWC). In August 2011, SLC recommended storage capacity of 3.22 lakh MT for construction of godowns and HLC approved (November 2012) a capacity of 3.20 lakh MT with a total capacity of 3.00 lakh MT to be constructed by the Corporation and 0.20 lakh MT to be constructed by CWC.

There was shortfall of 2.05 lakh MT in construction of godowns under PEG scheme.

Audit observed that the Corporation could construct godowns with capacity of 2.87 lakh MT[5] as against the target of 4.92 lakh MT. Thus, there was shortfall of 2.05 lakh MT in creation of storage capacity with reference to the approval of HLC under PEG Scheme as at the end of March 2014. Out of this, 1.19 lakh MT capacity godowns were delayed due to non-availability of land/disputed land and non-availability of sand for construction of godowns and remaining 0.86 lakh MT capacity godowns were not completed due to delay on the part of contractors. It was further observed that 2.87 lakh MT capacity godowns were constructed under the nine years storage guarantee from FCI and GoCG, however, the Corporation could hand over (September 2014) godowns with a total capacity of 0.40 lakh MT only to FCI due to non-installation of weighbridges and non-completion of other works such as construction of boundary wall, approach road etc. in the remaining constructed godowns. As a result the Corporation could not avail the nine years storage guarantee in respect of 2.47 lakh MT capacity godowns under PEG Scheme.

The Management stated (September 2014) that construction work for remaining godowns is in progress. It further stated that as per PEG Scheme guidelines electronic weighbridges are being installed in constructed and under-construction godowns and installation work has been completed in 34 godowns.

The fact remains that due to non-completion of construction work and installation of weighbridges in godowns, the Corporation could not avail benefits under PEG Scheme.

Construction of godowns

2.9 The Corporation constructs godowns with own funds and also by availing loans/ grants under various Central/ State schemes ***(Annexure - 2.1)*** for storage of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities. The Corporation also hires godowns according to its storage needs. The details of addition of own storage capacities during the five years ending 2013-14 are given in the ***Table - 2.1***.

[5] 1.87 lakh MT and 1.00 lakh MT as against the target of 1.92 lakh MT and 3.00 lakh MT sanctioned in the years 2011 and 2012 respectively

Table - 2.1

(Capacity in MT)

Year	Existing capacity at the beginning		Actual additions during the year		Total capacity at the end of the year	
	No. of godowns	Capacity in MT	No. of godowns	Capacity in MT	No. of godowns	Capacity in MT
2009-10	412	497412	6	8000	418	505412
2010-11	418	505412	38	78436	456	583848
2011-12	456	583848	46	89864	502	673712
2012-13	502	673712	47	90600	549	764312
2013-14	549	764312	83	147400	632	911712
Total			**220**	**414300**		

(Source: Business Reports of the Corporation)

A test check of records of 50 out of 127 cases of construction of godowns awarded during 2009-14 revealed the following shortcomings:

Extra expenditure/blockage of funds in construction of godowns

2.10 From scrutiny of records, it was observed that the Corporation incurred extra expenditure of ₹ 73.36 lakh in three cases due to construction of godowns at unsuitable lands and delay in application for allotment of land. Rupees 91.46 lakh had been blocked up due to construction of godown at disputed site. The details of these cases are given in the ***Annexure - 2.2.***

Awarding of additional construction work in violation of Delegation of Powers

2.11 As per the Delegation of Powers (DoP) of the Corporation, the Managing Director (MD) is competent to sanction additional work up to 20 *per cent* of the awarded work and for more than 20 *per cent*, tender committee is empowered. In two cases, MD, in violation of delegation of powers sanctioned additional works of ₹ 67.98 lakh for construction of boundary wall at Mahasamund and Janakpur. These works were sanctioned though they were beyond 20 *per cent* of the original work,

Additional works of ₹ 67.98 lakh were awarded by the MD in violation of the Delegation of Powers.

The Management stated (September 2014) that the Corporation called tenders as per the model estimate as the GoCG did not make available the land and cost of construction increased during the execution of work and construction of boundary wall. The Corporation further stated that the works of construction of godown and boundary wall were different from each other and might not be treated as same work.

The reply of the Management is not acceptable as the construction of the boundary wall was allotted as an additional work without calling for fresh tender, hence it cannot be called as separate work. Thus, the Corporation failed to obtain the sanction of the competent authority for execution of additional works.

Non-compliance of tender procedure

2.12 During the test check, the following irregularities were noticed relating to non-compliance of tender procedure in implementation of construction of godowns.

(i) Award of work without following tender procedure

The Corporation awarded (December 2011) land filling work at Dhamtari to M/s. Rahul Constructions for ₹ 48.74 lakh without inviting tenders by treating it as an additional work of another contract at a different location at Dhamtari.

The Management stated (September 2014) that as per clause 13 of tender, additional/alteration work upto 25 *per cent* of the contract amount might be given to the same contractor at the same rate.

The reply of the Management is not correct as the land filling work at a different site was a separate work and not an additional/alteration work.

(ii) Non-recovery of risk and cost from a contractor

The Corporation awarded (July 2010) the work of construction of 3600 MT capacity godown at Pendraroad to M/s Vishwakarma Fabricators, Manendragarh. The contractor left the work after completion of 34 *per cent* of the work. The balance work was got executed through another contractor, M/s Sai Infrastructure, by incurring additional expenditure of ₹ 32.30 lakh. The Corporation did not recover additional expenditure of ₹ 32.30 lakh as per risk and cost of the contract from M/s Vishwakarma Fabricators.

The Management stated (September 2014) that action for recovery of risk and cost amount is being taken.

The reply of the Management is not correct as even after a lapse of more than two years no action for the recovery of the amount on account of risk and cost was taken.

Non-recovery of business loss/penalty for delayed execution of works

2.13 The terms and conditions of tender provided for levy of penalty upto six *per cent* of the total value of the contract for delay in construction of godowns. Further, business loss was also to be recovered from the contractors at the rate of godown rent (full capacity) per MT per month, if construction was delayed by more than three months.

There was short/ non-imposition of penalty ₹ 84.40 lakh and non recovery of business loss of ₹ 3.92 crore for delayed completion of work.

We observed that in 25 out of 127 cases as detailed in ***Annexure - 2.3***, the Corporation had granted time extension of 81 to 705 days. The reasons for delays attributed by the contractor mainly include heavy rains, Naxal problem, hard rock, hilly area, non availability of material, labour problem, water problem, additional work etc. These reasons were accepted by the Corporation and accordingly, lesser penalty or no penalty was imposed. The action of the Corporation in accepting these reasons for delays is not justified as these were deemed to be in the notice of the contractors at the time of submitting tender, which should have been taken into account while accepting the scheduled date of completion. Non-imposition of penalty at prescribed rate resulted in short levy of penalty of ₹ 84.40 lakh as detailed in ***Annexure - 2.3.***

We further observed that even though there were delays in construction of godowns for more than three months in 25 cases, the Corporation did not

recover business loss of ₹ 3.92 crore from the contractors as detailed in ***Annexure - 2.4***.

The Management stated (September 2014) that due to heavy rain, naxal problem, hard rock, hilly area, existence of trees, black soil, non-availability of water, labour problem, existence of electric pole in the site etc., construction work could not be completed in time.

The reply of the Management is not acceptable as General Terms and Conditions of the contract clearly stated that the contractor would be responsible for any delay in execution and therefore, penalty and business loss for the entire delay was leviable.

Violation of environmental norms in construction of godowns

2.14 As per the instructions issued (August 2003) by the Ministry of Environment and Forest (MoEF), use of fly ash bricks in all types of building construction works within the radius of 100 KMs of the thermal power plants of National Thermal Power Corporation was made compulsory. At the State level, the Chhattisgarh Environment Conservation Board (CECB) is the regulating agency to ensure compliance with the above provision.

Godowns were constructed at Korba in violation of instructions issued by MoEF.

Audit observed that the Corporation used clay bricks instead of fly ash bricks in construction of 3600 MT capacity godown in Korba during 2009-10. On receipt (January 2010) of notice from CECB to stop the use of clay bricks, the Corporation assured (January 2010) CECB to use fly ash bricks in all future construction works. The Corporation again used clay bricks in construction of two godowns each of which having a capacity of 1800 MT at Korba during 2010-11.

The Management stated (September 2014) that the Corporation was not aware of the instructions of the MoEF issued in 2003 in which use of fly ash bricks was made compulsory within the radius of 100 km of the thermal power plants of National Thermal Power Corporation. As such, clay bricks were used in construction of godowns.

The reply of the Management is silent about use of clay bricks in 2010-11 despite giving assurance (January 2010) in reply to the notice to CECB for use of fly ash bricks in all future construction works.

Financial management

2.15 The financial position and working results of the Corporation for the last four years are given in ***Annexure - 2.5***. The total income of the Corporation increased from ₹ 52.39 crore in the year 2009-10 to ₹ 78.50 crore in 2012-13. Profit before tax also increased from ₹ 33.17 crore in 2009-10 to ₹ 40.51 crore in 2012-13. An analysis of financial position and working results for the years 2009-10 to 2012-13 shows the following:

- Capital employed in the Corporation increased from ₹ 103.42 crore in 2009-10 to ₹ 220.61 crore in 2012-13.

- Return on capital employed increased from ₹ 21.85 crore in 2009-10 to ₹ 41.60 crore in 2012-13. However, rate of return on capital employed decreased from 21.13 *per cent* in 2009-10 to 18.86 *per cent* in 2012-13.
- Ratio of **e**xpenditure of the Corporation to the total income increased from 36.69 *per cent* in 2009-10 to 48.39 *per cent* in 2012-13.

Issues relating to financial controls have been discussed in succeeding paragraphs:

Delay in recovery of outstanding Storage Charges

2.16 Warehousing charges are payable by the depositors only at the time of delivery of commodities to the depositors or their agents except for guaranteed hired space where monthly storage bills are paid by the depositors within 15 days. The year-wise revenue earned from warehousing charges and arrears thereof are given in the ***Table - 2.2.***

Table - 2.2

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Annual revenue towards warehousing charges	46.58	46.53	56.26	66.35	Accounts not compiled
Average monthly revenue	3.88	3.88	4.69	5.53	
Warehousing charges receivable at the end of year	13.20	17.17	26.82	34.94	
Percentage of dues to total revenue	28.34	36.90	47.67	52.66	
Number of months' revenue in arrears	3.40	4.43	5.72	6.32	

(Source: Figures compiled from the Annual Accounts of the Corporation)

It could be seen from the above that about three to six months' revenue was in arrears which constitutes 28.34 *per cent* to 52.66 *per cent* of the total revenue.

As on 31 March 2014, an amount of ₹ 16.84 crore was outstanding from various depositors out of which ₹ 6.98 crore was outstanding for more than three years as per the details given in the ***Table - 2.3***.

Table - 2.3

Sl. No.	Name of the Depositors	(₹ in crore)
1	District Marketing Federation (DMF)	2.27
2	Food Corporation Of India (FCI)	0.16
3	Chhattisgarh State Civil Supplies Corporation Limited (CSCSCL)	3.22
4	Laghu Vanopaj Sangh (LVS)	1.33
Total		**6.98**

(Source: Figures compiled from the data furnished by the Corporation)

Out of ₹ 3.22 crore outstanding from CSCSCL, ₹ 2.59 crore related to a case of shortage of rice found in physical verification referred (September 2005) to Economic Offence Wing of the GoCG for investigation which is under progress. Rupees 1.33 crore outstanding since May 2002 from LVS. No concrete efforts were made by the Corporation to realise the outstanding dues.

The Management stated (September 2014) that against the outstanding of ₹ 2.27 crore from DMF, the Corporation also withheld amount of ₹ 2.30 crore towards rent of the godowns payable to DMF and ₹ 0.16 crore outstanding from FCI due to non-availability of bill of storage charges which has now been provided to FCI for release of payment.

The reply of the Management confirms that no efforts are being made to settle old outstanding dues from DMF and reply is silent about the efforts made to realise the outstanding dues from CSCSCL and LVS.

Delay in raising of bills of storage charges

2.17 The Corporation stores foodgrains of different depositors and collects storage charges from the depositors other than FCI, as per the rate notified by the Corporation. In case of FCI, the Corporation claims the storage charges at the rate notified by the GoI from time to time. GoI revised the rate of storage charges per bag[6] per month to ₹ 2.07 in June 2011, ₹ 2.13 in July 2011, ₹ 2.45 in October 2011, ₹ 2.73 in October 2012 and ₹ 2.92 in September 2013 with retrospective effect from April 2006, April 2007, April 2008, April 2009 and April 2010 respectively. The Corporation claimed differential storage charges from FCI and the same was paid to the Corporation by the FCI.

Corporation suffered loss of interest ₹ 88.89 lakh due to delay in raising of bills and non-imposition of penal interest for delayed payment of storage charges.

Audit observed that the Corporation claimed the differential storage charges from the FCI belatedly for the period ranging between 29 and 220 days after allowing 15 days towards raising the bills from the receipt of the letter on rate revision in the Corporation which has resulted in loss of interest of ₹ 34.29 lakh.

Audit further observed that as per the Storage Tariff of the Corporation if depositors failed to pay storage charges within 15 days from the date of raising of the bill, interest at 12 *per cent* per annum would be charged. However, the Corporation failed to claim the interest inspite of delayed payment by FCI for the period ranging between 13 and 365 days. As a result, the Corporation suffered a loss of revenue of ₹ 54.60 lakh.

The Management stated (June 2014) that the rates of storage charges to be collected by the CWC from FCI are decided by the GoI and the same rates are adopted by the Corporation. After finalisation of rates, bills were raised on FCI for payment and during this process the delay occurred. Further, penal interest was not claimed as there was no provision in the tariff rules prior to bifurcation of the Corporation from the Madhya Pradesh Warehousing and Logistics Corporation.

The reply of the Management is not acceptable as audit worked out the delay in raising the bills after considering 15 days period for raising the bills and as regards the provision for penal interest, the Corporation is required to follow the provisions of storage tariff effective from 1 January 2009 and not tariff rates prior to bifurcation.

[6] One bag contains 50 kg foodgrains.

Non-realisation of amounts from GoCG in Central/ State Schemes

2.18 The Corporation constructs godowns with its own funds and also by availing loans/ grants under various Central/ State schemes for storage of notified commodities. A scrutiny of availing of grant under Backward Region Grant Fund (BRGF), a Central Scheme and State schemes viz., Bastar and Dakshin Kshetra Adivasi Vikash Pradhikaran (BDKVP) and Sarguja and Uttar Vikash Pradhikaran (SUVP) revealed the following deficiency in management of fund:

Outstanding Claims under Backward Regions Grant Fund (Central Scheme)

Rupees 2.26 crore towards the share of GoI/GoCG in construction of godowns under Central/State schemes was not realised due to lack of pursuance.

The Backward Regions Grant Fund is designed to redress regional imbalances in development. Under this scheme, GoI extends financial assistance through State Government for infrastructure development. During the years 2009-10 to 2013-14, construction of 10 godowns were sanctioned under this scheme. Construction of nine out of 10 godowns had been completed and construction of one godown was under progress (September 2014). The Corporation incurred ₹ 1.06 crore in excess of amount sanctioned in construction of eight godowns and it saved ₹ 5.05 lakh in construction of one godown. However, the Corporation did not pursue with the GoI through GoCG for reimbursement of the amount. This has resulted in blocking of ₹ 1.01 crore apart from loss of interest.

Outstanding Claims under State Schemes

Construction of godowns under BDKVP and SUVP are taken up as per the instructions of GoCG to strengthen the Public Distribution System (PDS) in the regions covered under the schemes. Under these schemes 50 *per cent* of the cost of the godown is funded by the GoCG through grant and the balance 50 *per cent* of the cost is to be borne by the Corporation.

The Government of Chhattisgarh (GoCG) directed (March 2010) the Corporation to construct 27 godowns at a total cost of ₹ 13.27 crore during the years 2010-11 to 2013-14 under the above schemes. Fifteen out of 27 godowns had been completed at a total cost of ₹ 9.08 crore and 12 godowns have not been completed so far.

An analysis of 15 completed godowns revealed that the Corporation incurred ₹ 1.56 crore in excess of amount sanctioned for construction of eight godowns and it saved ₹ 30.95 lakh in construction of seven godowns. However, the Corporation did not pursue with the GoCG for reimbursement of the amount. This has resulted in blocking of ₹ 1.25 crore apart from loss of interest.

Audit observed that the Corporation did not include cost of approach road and boundary wall in the proposals submitted to GoCG for technical sanction for construction of godowns. However, it constructed the same later on at its own cost.

While accepting the audit observation, the Management stated (September 2014) that proposal for reimbursement of excess expenditure will be sent to GoCG.

Non-claiming of excess amount paid to GoCG

2.19 Under BDKVP, GoCG instructed (March 2011) the Corporation to construct 1800 MT capacity godown at Awapalli and Beejapur and sanctioned (March 2011) ₹ 25.20 lakh for each godown being 50 *per cent* of the cost of the godown (₹ 50.39 lakh) as per the estimate of the GoCG. The Corporation invited (June 2011) tenders for construction of 1800 MT capacity godowns at both places separately in which it received the offers at 89 *per cent* and 64 *per cent* above Schedule of Rates for Awapalli and Beejapur respectively. As the rates quoted by the bidders were very high, the tenders were cancelled and amount returned to the GoCG as per the instruction of the GoCG. The GoCG got the construction work done through District Works Committee at ₹ 1.31 crore at Awapalli and ₹ 1.11 crore at Beejapur and instructed the Corporation to remit ₹ 1.06 crore and ₹ 85.96 lakh respectively as its share and the Corporation remitted (February 2013/July 2013) the same.

There was non-reimbursement of ₹ 70.38 lakh in construction of godowns at Awapalli and Beejapur in BDKVP Scheme due to non-pursuance with GoCG.

Audit observed that even though the cost of the godown was to be borne equally by the Corporation and the GoCG as per the scheme, the Corporation paid ₹ 1.06 crore and ₹ 85.96 lakh instead of ₹ 65.50 lakh and ₹ 55.58 lakh respectively. However, the Corporation did not claim reimbursement of excess amounts of ₹ 40 lakh and ₹ 30.38 lakh paid to the GoCG for construction of godowns at Awapalli and Beejapur respectively.

While accepting the audit observation, the Management stated (September 2014) that proposal for reimbursement of excess expenditure will be sent to GoCG.

Non-receipt of balance grant

2.20 The Corporation taken up (March 2010) construction of 1800 MT capacity godown under BRGF Scheme at Janakpur at an estimated cost of ₹ 60 lakh based on the request (January 2010) of District Panchayat, Koria and the Panchayat released (March 2010) ₹ 30 lakh as first installment. The work of construction of the godown was awarded (March 2010) to M/s Gautam Construction, Raipur for ₹ 64.96 lakh which was under progress (September 2014).

As per the condition of approval of District Panchayat, Koria second installment would be released after receipt of utilisation certificate for the first installment. The Corporation had utilised the first installment by February 2012, however, the utilisation certificate and demand for balance grant was sent in July 2013, but no amount was received so far (September 2014). This has resulted in non-receipt of balance grant of ₹ 30 lakh and loss of interest of ₹ 6.98 lakh[7].

The Management stated (September 2014) that a letter had been sent (July 2013) to District Panchayat for balance grant ₹ 30 lakh.

The reply of the Management is silent about the delay in submission of utilisation certificate and pursuance of the demand after July 2013.

[7] ₹ 30.00 lakh x 31 months x 9 *per cent per annum*

Payment of penalty for delay in payment of service tax

2.21 The services of loading, unloading, packing, storage or warehousing of rice in godowns were brought under the ambit of service tax vide Finance Act 2012 with effect from 1 July 2012. Subsequently, GoI exempted these services from service tax vide Notification No. 4/2014-Service Tax (February 2014). As such, service tax was applicable on these services in the intervening period i.e., between 1 July 2012 and 16 February 2014.

GoI introduced (May 2013) a Voluntary Compliance Encouragement Scheme (VCES) which *inter alia* provided for exemption of interest on unpaid service tax for the period from 1 October 2007 to 31 December 2012 as on 1 March 2013. In this scheme, at least half of the service tax should be paid before 31 December 2013 and the remaining half to be paid by 30 June 2014.

The Corporation stored the commodities of FCI and CSCSCL in its godowns between 1 July 2012 and 31 December 2012 and paid (31 December 2013) service tax of ₹ 2.87 crore without interest by availing the benefit of the scheme. However, for the services rendered during the period between 1 January 2013 and 16 February 2014, the Corporation did not pay the service tax of ₹ 6.51 crore in time which had resulted in payment (March 2014) of penal interest of ₹ 72.24 lakh.

Delay in payment of service tax resulted in avoidable interest burden of ₹ 72.24 lakh.

Audit further observed that though the details of deposit of commodities are available with the branch office of the Corporation it did not compile the information and depended on data inputs of the depositors (FCI & CSCSCL) for claiming of reimbursement of service tax. As such it claimed reimbursement of service tax from the depositors on receipt of data from them. Due to delay in receipt of data from depositors and lack of follow up action with depositors, an amount of ₹ 8.32 crore[8] rendered unrealised so far (September 2014).

The Management stated (September 2014) that the payment of service tax was made based on the information received from the depositors regarding actual quantity of rice stored and it had realised ₹ 1.06 crore from the depositors**.**

The reply of the Management is not acceptable as it failed to pay service tax in time due to non-maintenance of proper records and depending on the depositors for the details of quantity of rice deposited had resulted in avoidable payment of penal interest of ₹ 72.24 lakh and due to lack of pursuance with the depositors an amount of ₹ 8.32 crore was not realised so far (September 2014).

[8] ₹ 6.51 crore + ₹ 2.87 crore - ₹ 1.06 crore

Capacity utilisation of godowns

Utilisation of storage capacity of godowns

2.22 The average capacity availability and actual average capacity utilisation of godowns of the Corporation in respect of own and hired godowns are given in the ***Table - 2.4.***

Table - 2.4

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
	No. of Branches of the Corporation	**106**	**111**	**119**	**123**	**125**
A	**No. of own Godowns available**	**413**	**429**	**475**	**516**	**597**
1	Average capacity available (in lakh MT)	4.98	5.27	6.23	7.01	8.49
2	Average capacity utilised (in lakh MT)	4.87	4.73	5.49	6.24	7.87
3	Percentage utilisation of own capacity	98	90	88	89	93
B	**No. of hired Godowns**	**320**	**338**	**342**	**360**	**307**
1	Average Storage capacity hired during the year (in lakh MT)	4.27	4.41	4.14	4.62	4.24
2	Average capacity of hired godowns utilised during the year (in lakh MT)	4.43	4.34	4.05	4.34	4.10
3	Percentage of utilisation of hired Godowns	104[9]	98	98	94	97
C	**For both types of storage capacity (own/hire)**					
1	Average capacity available (in lakh MT)	9.25	9.68	10.37	11.63	12.73
2	Average capacity utilisation (in lakh MT)	9.30	9.07	9.54	10.58	11.97
3	Percentage of utilisation to capacity available	101	94	92	91	94

(Source: Business Reports of the Corporation)

It could be seen from the table that the overall utilisation of capacity was above 90 *per cent* in all the years. However, the utilisation of own capacity was less when compared to utilisation of hired capacity available in all the years 2009-10 to 2013-14. A scrutiny of records relating to capacity utilisation of own godowns as well as hired godowns in 106 to 125 branches of the Corporation during 2009-10 to 2013-14 revealed the following shortcomings:

- Utilisation of storage capacity of own godowns was below 50 *per cent* in four to 13 branches and between 51 *per cent* and 75 *per cent* in two to nine branches. The reasons for low utilisation were neither studied by the Corporation nor recorded in the files made available to Audit.

- Utilisation of storage capacity of hired godowns was below 50 *per cent* in nine to 14 branches and between 51 *per cent* and 75 *per cent* in six to 12 branches. The reasons for low utilisation were neither studied by the Corporation nor recorded in the files made available to Audit.

[9] Capacity utilisation was more than 100 *per cent* due to storing of foodgrains beyond the capacity of the godowns

- Own godowns at two branches[10] were never utilised during the period covered in the review and the Corporation did not explore the alternate use of the godowns.

The Management stated (September 2014) that the actual utilisation of godowns was looking low due to adoption of First In First Out delivery method and deposit and delivery of foodgrains from the same godown. It was further stated that the Audit might have considered only actual utilisation whereas the Corporation took both actual and reservations together for calculation of utilisation of godowns. Further, due to low utilisation, Orchha and Halba godowns were attached to Narayanpur and Narharpur BOs respectively and the scope for alternate utilisation for forest produce had been explored.

The reply of the Management for low utilisation was not correct as Audit worked out the utilisation by considering the average of actual utilisation and reservation of the godowns.

Operation and maintenance of godowns

2.23 Despite shortage of manpower, the Corporation could manage to utilise its overall capacity at more than 90 *per cent* during the years 2009-10 to 2013-14. However, the Corporation identified three risks inhibiting satisfactory performance and goal fulfillment viz., fire accidents of stocks kept in godowns, shortage of commodities stored and misappropriation of cash. The Corporation exercises the following controls to address these risks.

- Insurance of commodities and installation of firefighting equipment to address the risk of fire;
- Yearly/ six monthly physical and technical verification of stores to address the risk of shortages of commodities stored; and
- Internal audit through Chartered Accountants, pre-audit of various payment bills and issue of cheques for payments under joint signatures of the Manager (Finance) and the Managing Director to address the risk of misappropriation of cash.

However, unavailability of Technical Assistants in its 36 BOs poses a risk of inaccuracy in technical analysis of foodgrains as well as risk of damage to stocks due to improper fumigation through unqualified staff and deployment of workers on daily wages for watch and ward of the godowns poses a risk of theft/shortage of foodgrains as responsibility might not be fixed on them. No controls have been exercised by the Corporation to address these risks. Shortcomings noticed by Audit in the operation and maintenance of godowns are discussed in the succeeding paragraphs.

Recurring loss making Branch Offices

2.24 The Corporation earned accumulated net profit of ₹ 135.44 crore during 2009-10 to 2013-14. However, six branches having one godown

[10] Halba used upto 2006-07 and Orchha used upto 2008-09

each incurred losses persistently in all the five years as given in the ***Table - 2.5*** and the Corporation had not taken any concrete steps to reduce the losses.

Table - 2.5

Sl. No.	Name of the Godown	Nature of Godown (Own/Hired)	Capacity (in MT)	Reasons for losses
1	Badedongar	Own	800	Very old godown and no business area
2	Dharsiwa	Own	3800	High establishment cost and poor business
3	Kushmi	Own	1800	High establishment cost and poor business
4	Orchha	Own	800	Very old Godown and Poor business area
5	Halba	Own	800	Very old godown and Poor business due to nearby Narharpur godown
6	Dornapal	Hired	418	High establishment cost and poor business

(Source: Figures compiled from the Income and Expenditure statement of Branch Offices)

As could be seen from the above, reasons for loss were low income, high establishment cost and poor business response. Early steps could have been taken by closing idle branches like Orchha and Halba or by exploring the possibility of alternate use of the godowns for improving the performance of the loss making branches.

The Management stated (September 2014) that the GoCG directed the Corporation to operate all branches for storage of foodgrains of PDS. All the six branches had been suffering losses due to excess establishment cost as compared to the capacity of godowns. The Orchha branch had not been operated due to naxal problem and its business had been transferred to Narayanpur branch. Godowns under Halba Branch office were very old and business had been transferred to Narharpur Branch office. The Management further stated that the Dornapal branch office with capacity of 418 MT had been operated as per the instructions of the GoCG for smooth function of the PDS.

The reply of the Management confirms the operation of loss making branches, however, no efforts were made to make operation of the godowns viable.

Storage losses

2.25 The terms and conditions of the storage tariff effective from 1 January 2009 stipulated that the depositors should not deduct/ withhold any amount towards storage losses from the bills for storage charges. Separate claims might be raised for storage losses and these claims would be settled through joint meetings. The Corporation follows the GoI's storage loss norm at 0.70 *per cent* weight loss for driage of one *per cent* moisture.

Audit observed that in contravention of the above provision, FCI withheld ₹ four crore from the bills for storage charges towards storage losses above

0.50 *per cent* weight loss. Out of this, ₹ 0.49 crore related to storage losses ranged between 0.52 *per cent* and 0.69 *per cent* which was withheld by the FCI though it was within the norms and ₹ 3.51 crore related to storage losses ranged between 0.71 *per cent* and 4.32 *per cent* which was above the permissible norm for storage losses. However, the Corporation neither analysed the reasons for such huge storage losses nor pursued the matter with the FCI for return of withheld amount of ₹ four crore which has resulted in loss of interest of ₹ 0.62 crore upto 31 March 2014 apart from blocking up of the amount.

FCI withheld ₹ four crore towards storage losses in deviation of storage tariff.

The Management stated (September 2014) that the Corporation requested (August 2012) FCI for release of withheld amount of ₹ four crore. It further stated that in the joint meeting held (February 2014) between FCI and the Corporation, it was decided that the amount withheld towards storage losses more than 0.50 *per cent* would be refunded by FCI.

The fact, however, remains that the Corporation could not get any refund so far (September 2014) due to lack of pursuance in the intervening period between August 2012 and February 2014.

Non-maintenance of records of repair and maintenance works

2.26 The Corporation constructs godowns to meets its warehousing requirement. The godowns so constructed are required to be maintained by carrying out necessary repair and maintenance works from time to time.

In this connection, Audit observed that the Corporation spent ₹ 61.47 lakh ₹ 65.65 lakh, ₹ 1.15 crore and ₹ 83.82 lakh during the years 2009-10 to 2012-13 respectively on repair and maintenance works. However, neither record of requisitions received from BOs nor running account bills for repair and maintenance of the godowns were maintained in the files of the Construction Wing of the Corporation.

Records of requisitions received from BOs for repair and maintenance and copy of Running Account bill in construction files were not maintained in Construction Wing.

The Management stated (September 2014) that the BOs had submitted written or oral requests to Head Office for carrying out repair and maintenance works and the Sub-Engineer concerned prepared estimates of the works. On accord of Administrative and Technical sanctions by the Head office, works were carried out.

The reply of the Management is not acceptable as the Corporation did not maintain any record of the requests for repair and maintenance works received from the BOs for the last five years. As such, there is no monitoring and internal control on the payments made on the repair and maintenance works.

Non-conducting of joint inspection

2.27 As per the instructions of the Corporation, fortnightly joint inspection of goods stored should be conducted by the representative of the depositors and the warehouse in-charge for examining the moisture content, insects and joint signature should be made in the Inspection Report**.** A record of the inspection results should also be made in a register.

In two Branch Offices joint inspections were not conducted.

Scrutiny of records at 12 BOs revealed that in two BOs[11] neither such fortnightly joint inspections of goods stored were conducted nor any joint signatures obtained during the years 2009-10 to 2013-14. This was not only in contravention of instructions but leads to unnecessary dispute over storage losses.

The Management stated (September 2014) that the Branch Managers were instructed to conduct joint inspection of the godowns and record moisture content, to make entry in fortnightly progress register and to ensure signature of the depositors in the register. However, depositors did not take interest. Instructions have been issued once again to Branch Managers for compliance of the same.

The reply of the Management confirmed that there was non-compliance of instructions on joint inspection and record of storage losses.

Non-registration of godowns under WDR Act

2.28 Section 3 of the Warehousing (Development and Regulation) Act, 2007 stipulates that no person shall commence or carry out the warehousing business unless he has obtained a registration certificate in respect of concerned warehouse or warehouses granted by the Warehousing Development and Regulatory Authority. It further states that a person carrying on business immediately before the commencement of the Act (October 2007) shall be allowed to carry on such business, in case he had made an application for registration within 30 days from the date of such commencement.

Godowns were not registered in compliance with the provisions of Warehousing (Development and Regulation) Act, 2007.

Audit observed that the Corporation had not applied for registration under the Act for carrying out the warehousing business so far (June 2014).

The Management stated (September 2014) that the Corporation started the process of registering its own godowns with WDR Act in the phased manner for which necessary prerequisite actions were being undertaken.

The fact, however, remains that even after the lapse of more than six years since the commencement of the Act, the Corporation could not comply with the provisions of the Act so far (September 2014).

Violation of norms in operation and maintenance of godowns

2.29 The Corporation had violated environmental norms in operation and maintenance of godowns as discussed below:

(i) Use of pesticide below standard norms

The Warehouse Manual for Operationalising of Warehousing (Development & Regulation) Act 2007 (Warehouse Manual) prescribed use of nine grams of Aluminium phosphide for one MT in one godown for treatment of insecticides.

Audit observed that in three[12] out of twelve BOs , the above norms were not followed during the years 2009-10 to 2013-14. As against the standard norm of nine grams for one MT, only six grams Aluminium phosphide

[11] Abhanpur and Rajim
[12] Rajim, Mandirhasaud and Mahasamund

Prescribed norm for use of chemicals for treatment of insecticide in godowns were not followed.

was used. Audit further observed that there was no uniformity in maintenance of records in respect of chemical treatment of godowns. This has resulted in violation of the Warehouse Manual.

The Management stated (September 2014) that the Corporation had used Aluminium phosphide at the dose of nine grams per MT at the time of heavy insects and six grams per MT for fewer insects as per the provision of the Training Manual on Scientific Methods of Storage of Foodgrains issued (16 May 2000) by Ministry of Food, GoI.

The reply of the Management is not acceptable as Warehouse Manual for Operationalising of Warehousing (Development & Regulation) Act 2007 has prescribed nine grams per MT and technical inspection conducted by the FCI also objected for the use of less dosage for the treatment of insecticides.

(ii) Disposal of empty chemical containers

Branch offices did not maintain any record of empty containers and their disposal despite the hazardous nature of the chemicals.

As per Clause 5 (iii) of the Insecticide Act, 1968 the empty containers should be deformed, punctured at several places to prevent reuse and finally disposed off by burying in the soil at a depth of 45 to 50 cm.

During the visit of 12 BOs it was observed that in contravention of the above provisions, BOs neither disposed off empty containers nor maintained any record of empty containers/ tubes. Despite the hazardous nature of the chemicals which can contaminate the surroundings, pollute the atmosphere and cause human or animal poisoning, empty chemical containers/tubes were found dumped in the godowns.

While accepting the facts, the Management stated (September 2014) that the information had been called for from the field offices and the empty containers would be disposed off after receipt of the same.

Conclusion

The Corporation was to construct godowns under PEG Scheme 2009 with capacity of 4.92 lakh MT but could only construct 2.87 lakh MT as at the end of March 2014. There was thus a shortfall of 2.05 lakh MT in capacity addition due to delay in construction of godowns because of non-availability of land/disputed land etc. It is recommended that the Corporation take steps to complete the godowns and hand over these to FCI expeditiously.

Storage charges of ₹ 4.55 crore were outstanding for more than three years from Chhattisgarh State Civil Supplies Corporation Limited (₹ 3.22 crore) and Laghu Vanopaj Sangh (₹ 1.33 crore outstanding since May 2002). Out of this, ₹ 2.59 crore related to a case of shortage of rice found in physical verification referred (September 2005) to Economic Offence Wing of the GoCG for investigation which is under progress. It is recommended that the Corporation may pursue for early settlement of long outstanding storage charges.