

CHAPTER-III

CHAPTER - III

Performance Audit relating to Statutory Corporation

3 Construction, operation and maintenance of storage facilities by Tamil Nadu Warehousing Corporation

Executive Summary

Tamil Nadu Warehousing Corporation (TNWC) was established in May 1958 under the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, which was subsequently replaced by the Warehousing Corporations Act, 1962. The main objectives of TNWC are to provide scientific storage facilities for agricultural and notified commodities and to help depositors in obtaining credit against stored commodities. A Performance Audit of warehousing activities of TNWC was conducted between April and July 2015 and important audit findings noticed during audit are as under:

TNWC did not undertake any assessment of the future storage requirements of the State and have a systematic plan for construction of godowns.

There was no co-ordination among various Government and co-operative agencies involved in warehousing activity in the State.

There were delays in construction of godowns resulting in loss of guaranteed business and TNWC had not invoked penal provisions in agreements for slow progress of work.

TNWC added 17 godowns with storage capacity of 71,200 MT during the period 2010-15. However, utilisation of its own storage capacity by depositors was below the norm of 90 per cent fixed by Government of Tamil Nadu. It came down from 86 per cent in 2012-13 to 74 per cent in 2014-15.

Utilisation of warehousing facility by farmers was less than one per cent indicating the need for creation of awareness among farmers.

There were substantial arrears of storage charges (₹15.86 crore).

Only 36 out of 56 warehouses were registered under the Warehousing (Development and Regulation) Act, 2007 for part capacity and insurance coverage was provided only for the quantity of stock held in those partly registered warehouses.

There were deficiencies in provision of scientific storage, safety measures and adequate infrastructure in warehouses.

Adequate funds were not provided for maintenance of warehouse buildings. Warehouses were operated with 47 to 63 per cent vacancies in various categories of staff.

Introduction

3.1 Tamil Nadu Warehousing Corporation (TNWC) was established (May 1958) with the objectives of providing scientific storage facilities for agricultural and notified commodities and helping depositors in obtaining credit against stored commodities under the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, which was replaced by the Warehousing Corporations Act, 1962 (Act). The Central Warehousing Corporation (CWC) and the Government of Tamil Nadu (GoTN) have 50:50 share capital in TNWC. As on 31 March 2015, TNWC had 242 godowns at 58 warehouses (WHs) (56 owned and two hired) with a storage capacity of 6.79 lakh metric tonnes (MT). Out of the total warehousing capacity available in the State in public and co-operative sectors, the market share of TNWC was 16 *per cent*. TNWC earned profits continuously and accumulated profit (reserves and surplus) at the end of March 2015 stood at ₹ 94.55 crore. Financial position of TNWC and its working results for the period 2010-15 are given in **Annexure-11**.

Organisational setup

3.2 TNWC is under the administrative control of Co-operation, Food and Consumer Protection Department of GoTN. Management of TNWC is vested with a Board of Directors (BoD) headed by a Chairman, who is appointed by GoTN. The Managing Director (MD) of TNWC is assisted by a General Manager, who is assisted by a Financial Advisor and Chief Accounts Officer and five Assistant General Managers⁶⁶ and a Construction Engineer. Field activities of TNWC are managed by seven Senior Regional Managers/Regional Managers⁶⁷ (SRM/RM), each in-charge of one region and the WHs are managed by Warehouse Managers (WM).

Audit objectives

3.3 Audit objectives were to ascertain whether:

- TNWC assessed the future storage requirements of the State and had a systematic plan for construction of godowns;
- TNWC put its warehouses to optimum use, created awareness among farmers about scientific storage of commodities and provided negotiable warehouse receipts;
- warehouses were managed efficiently by providing scientific storage facility with adequate manpower and carrying out periodical repairs to warehouse buildings; and
- adequate monitoring and internal control systems were in place and effective.

⁶⁶ Finance, Administration, Business, Technical and Flying squad.

⁶⁷ Coimbatore, Cuddalore, Kancheepuram, Madurai, Salem, Tirunelveli and Trichy.

Audit criteria

3.4 The Audit criteria adopted for the Performance Audit were:

- provisions of the Warehousing Corporations Act, 1962 and the Warehousing (Development and Regulation) Act, 2007.
- provisions of the Tamil Nadu Transparency in Tenders Act, 1998, the Tamil Nadu Transparency in Tenders Rules, 2000 and the Tamil Nadu Warehouses Rules, 1953.
- Manuals, guidelines, instructions, directions of GoTN / TNWC and the Warehousing Development and Regulatory Authority(WDRA), agenda papers and minutes of Board meetings and agreements for construction of godowns and other works.

Scope and methodology of Audit

3.5 Working of TNWC was last reviewed and audit findings were included in the Audit Report of the Comptroller and Auditor General of India (Commercial), GoTN for the year ended 31 March 2000. The Committee on Public Undertakings (COPU) in its Report (852nd Report) presented to the Assembly in August 2015, while calling for additional information or reports on most of the paragraphs, gave specific recommendations/directions on revision of storage charges and holding of Board meetings. The present Performance Audit, conducted between April and July 2015, covered warehousing activities of TNWC for the period 2010-15. Records of the Department at the Secretariat, TNWC Head Office (HO), four⁶⁸ out of seven Regional Offices (RO) and 15⁶⁹ out of 58 Warehouses (WHs) selected by adopting random sampling method were test checked.

Audit scope, methodology and objectives were explained to the Principal Secretary to Government, Co-operation, Food and Consumer Protection Department in an Entry Conference held in April 2015. Audit methodology included examination of records, documenting and analysing evidence collected from HO and field units of TNWC, examination of agenda and minutes of BoD meetings, raising audit enquires and interaction with management. An Exit Conference with the Principal Secretary was held in January 2016 wherein the audit findings were discussed. The views of Government on audit findings and formal reply, wherever received, have been taken into consideration while finalising the audit findings.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the management of TNWC in conducting this Performance Audit.

⁶⁸ Kancheepuram, Salem, Tirunelveli and Trichy.

⁶⁹ Ambasamudram, Arakkonam, Aranthangi, Dharmapuri, Katpadi, Nagapattinam, Namakkal, Salem Town, Tenkasi, Tirunelveli, Tiruvallur, Tiruvarur, Trichy, Tuticorin Town and Vellore.

Audit findings

3.6 Augmentation of storage capacity

Plan for augmentation of storage capacity

3.6.1 Audit noticed that TNWC did not undertake any assessment of the future storage requirements of the State and have a systematic plan for construction of godowns. Even though the BoD constituted (December 1990) a Committee⁷⁰ to examine issues relating to business potential, suitability of site for construction of godowns and cost involved and to recommend in each case before taking up construction, the Committee did not function during the period 2010-15. In the absence of a plan for construction of new godowns and non-functioning of the Committee, TNWC took up construction of godowns as and when announced by GoTN.

Government stated (December 2015) that TNWC, generally, took up construction of godowns whenever need for storage facilities arose, after conducting market study. However, TNWC constructed godowns during 2010-15 based on Government announcements, which were not based on any proposal of TNWC. TNWC conducted market studies and started identifying lands for the godowns only after the announcements and no godown was taken up for construction *suo motu* by TNWC by conducting proper feasibility studies.

State Level Co-ordination Committee

3.6.2 To rationalise and integrate construction programmes of State level agencies and to co-ordinate the activities of TNWC and Tamil Nadu Civil Supplies Corporation (TNCSC), GoTN constituted (February 1971) a State Level Co-ordination Committee (SLCC) to make recommendations regarding annual construction plan and other aspects of storage. GoTN also constituted (1988) a Committee⁷¹ to examine the viability and usefulness of Public Sector enterprises and autonomous bodies of GoTN. The Committee recommended that there should be co-ordination between TNCSC and TNWC so as to avoid duplication of activities and that TNCSC need not construct operational godowns and it could hire private or FCI godowns. GoTN, while accepting the former recommendation, stated that the latter would be considered by the SLCC and a decision taken.

Audit noticed that there was no co-ordination between TNWC and TNCSC in construction of godowns to avoid duplication of activities. The SLCC meeting was last held in July 2009 and thereafter, it was not convened. Due to non-functioning of SLCC, the issue of hiring of godowns, instead of construction of own godowns, by TNCSC was not decided. During the period 2010-15, TNCSC constructed 59 godowns with a total capacity of 0.79 lakh MT and as

⁷⁰ Consisting MD, TNWC, Deputy Secretary to Finance Department, Joint MD of TNCSC Ltd., Deputy Secretary to the Administrative Department and the Regional Manager of CWC, Chennai.

⁷¹ K.V. Ramanathan committee.

a result, the storage space hired by TNCSC from TNWC decreased by 36 per cent from 1.89 lakh MT (2012-13) to 1.20 lakh MT (2014-15). Similarly, in 19 TNWC warehouse locations, Co-operative Societies constructed 40 godowns, each with a capacity of 1,000 MT and above.

MD, TNWC, being the Member Secretary of the SLCC, had also not initiated any action to convene the SLCC meeting. TNWC, while admitting (June 2015) that construction of godowns by TNCSC and other organisations hampered their business activities, stated that a proposal for reconstitution of the SLCC has been submitted to Government. During the Exit Conference, the Principal Secretary stated (January 2016) that convening of SLCC was under process.

Non-diversification of business

3.6.3 To diversify TNWC's business activities and to widen the scope of warehouse business, BoD instructed (October 2000) TNWC to establish specialised warehouses for storing drugs, garments *etc.* However, TNWC had not taken any initiative to establish specialised warehouses as of June 2015.

In reply, Government, without giving specific reasons for non-compliance of BoD's instructions by TNWC, stated (December 2015) that in case of downward trend in the occupancy rate of godowns and poor business in future, TNWC would consider diversification of their business activities. However, TNWC had not diversified their business activities despite the downward trend in occupancy rate from 86 per cent in 2012-13 to 74 per cent in 2014-15.

Construction of godowns

3.7 Capacity addition

3.7.1 TNWC, which had 225 godowns as on 31 March 2010, added 17 godowns with storage capacity of 0.71 lakh MT at a cost of ₹ 31.48 crore during 2010-15. Details of godowns targeted for construction and completed, with details of capacity are shown in Table 3.1:

Table 3.1 : Capacity addition during the period 2010-15

Year	Targeted		Created		Shortfall	
	No. of godowns	Capacity (MT)	No. of godowns	Capacity (MT)	No. of godowns	Capacity (MT)
2010-11	13	61,800	12	55,200	1	6,600
2011-12		Nil		Nil		Nil
2012-13	10	34,000	5	16,000	5	18,000
2013-14	25	1,25,000	Nil	Nil	25	1,25,000
2014-15		Nil		Nil		Nil
Total	48	2,20,800	17	71,200	31	1,49,600

(Source: Information furnished by TNWC HO)

- Out of 13 godowns announced by GoTN during the year 2010-11, TNWC completed (February 2011 to November 2014) 12 godowns for

a capacity of 55,200 MT (45,000 MT capacity for FCI and 10,200 MT capacity for other users) and one godown proposed at Namakkal was dropped due to non-availability of adequate land.

- Out of 10 new/additional godowns announced during the year 2012-13, TNWC completed (September 2013 to March 2014) five godowns for a capacity of 16,000 MT. Construction of additional godowns at Nagapattinam and Tiruchengode WHs, which were awarded to contractors in December 2014 and February 2015, were in progress (August 2015). For construction of godown at Tirupattur, TNWC identified land in May 2015 only and it did not acquire (July 2015) land for godowns at Nannilam and Valangaiman. Government stated (December 2015), that the land identified for Tirupattur godown was not suitable for construction of godown and that action would be taken to commence works at Nannilam and Valangaiman at the earliest.
- Out of 25 godowns for a capacity of 1.25 lakh MT announced in 2013-14, TNWC proposed to construct 21 godowns for a capacity of 1.05 lakh MT for exclusive utilisation of FCI and four godowns for a capacity of 0.20 lakh MT for other users by availing loan assistance from NABARD. GoTN accorded (December 2013) administrative sanction for construction of the godowns at an estimated cost of ₹ 118.60 crore. However, 10 godowns for a total capacity of 50,000 MT, intended for FCI use, were dropped by FCI due to non-acquisition of land by TNWC and construction of two godowns at Musiri (10,000 MT capacity) were also dropped subsequently in view of poor business viability. Sanction for revised proposal for construction of 13 godowns for a capacity of 65,000 MT, submitted to GoTN was awaited (July 2015). TNWC also could not avail the loan sanctioned for the project by NABARD.

In reply, Government stated (December 2015) that revised sanction has been obtained (October 2015) from NABARD for construction of 23 godowns during 2015-16, which included the 13 godowns sanctioned earlier and that the project would be completed by March 2018.

Thus, out of 48 godowns to be constructed as per Government announcements, only 17 godowns were constructed during 2010-15. The sanctions for construction of new godowns and subsequent dropping of some godowns indicate that the announcements were made by Government without receiving any proposal from TNWC for construction of godowns after conducting feasibility studies and ascertaining availability of land.

Delay in construction of godowns

3.7.2 Under Private Entrepreneurs Guarantee (PEG) Scheme 2008 (Phase I), FCI extended guaranteed utilisation for nine years in respect of godowns constructed by TNWC in their own lands for exclusive utilisation of FCI. TNWC took up (December 2009) construction of nine godowns for a capacity

of 45,000 MT in five⁷² places. The construction was to be completed within 12 months (December 2010). However, TNWC decided (December 2010) to construct the godowns through its Construction Wing after a delay of one year. There were delays ranging from 27(five cases) to 45(one case) months in preparation of estimates, designs and drawings and tender process due to shortage of technical staff and also on the part of contractors in execution of works. Even though FCI was ready to occupy the godowns immediately on completion and there was guaranteed business for nine years from December 2010, the completed godowns were handed over to FCI between April 2013 and October 2014. The delay resulted in loss of guaranteed warehousing business to TNWC during the period of delay.

During the Exit Conference (January 2016), it was stated that apart from inadequate technical staff, difficulty in acquiring land also caused delay in completion of works. It was stated that action would be initiated to engage specialised construction agencies such as State Public Works Department and Tamil Nadu Police Housing Corporation in future for construction activities.

As per Rule 14(6) of the Transparency in Tenders Rules, 2000, tender and contract documents should include a clause for recovery of liquidated damages from contractors in the event of non-fulfilment of conditions of any or whole of the contract. As per clauses 57.2 and 57.3 of General Conditions of Contract, if a contractor delays commencement of work, neglects or delays the progress of work, penalty not exceeding five *per cent* of the value of the work is to be imposed.

There were delays ranging from 47 (one case) to 554 (one case) days in completion of 17 godowns by the contractors. Despite abnormal delays in completion of works, TNWC sent only routine reminders to contractors instructing them to complete the works and failed to take action against the contractors and impose penalty even though the delays were on the part of contractors. The liquidated damages that should have been recovered from the contractors at five *per cent* of total value of works completed with abnormal delays, works out to ₹ 1.57 crore as given in **Annexure-12**.

In reply, Government stated (December 2015) that requests of contractors for extension of time in view of non-availability of construction material and labour and contractors' other personal reasons were accepted by TNWC and that the delays were unavoidable. The reply is not acceptable as procurement of materials and labour was the responsibility of the contractors and these were not valid reasons for granting extension of time.

Avoidable expenditure due to delay in finalisation of tenders

3.7.3 In response to tenders invited (June 2011) by TNWC for construction of four godowns at Karaikudi (three godowns) and Kovilpatti, two bids were received. TNWC failed to finalise the tender within the validity period (1 September 2011). TNWC invited lowest bidder (L-1) for negotiation of

⁷² Aruppukottai, Chinnasalem, Karaikudi, Kovilpatti and Madurantagam.

rates on 7 September 2011, after expiry of the validity period of the tender. Though L-1 stated that the rates after negotiation specified in his letter dated 10 January 2012 would be applicable only up to 31 January 2012, TNWC took 147 days after the validity period of tender for completing the tender process such as negotiation with the contractor for reduction of rates and obtaining approval of the Tender Sub-Committee and finally issued work order on 27 January 2012. L-1 refused to accept the work order, stating that the work order with antedate as 27 January 2012 was received by him on 7 February 2012 *i.e.*, after the extended validity period. TNWC cancelled (March 2012) the work order with forfeiture of the earnest money deposit. In the re-tender, TNWC entrusted (June 2012) the works to other agencies at higher rates and completed them incurring an extra expenditure of ₹ 35.15 lakh (**Annexure-13**).

In reply, TNWC, without assigning any specific reason, stated (November 2015) that the delay in finalisation of tenders was due to non-availability of adequate technical staff in TNWC and due to unavoidable circumstances.

Delay in installation of weighbridges

3.7.4 Installation of lorry weighbridge at the premises of WHs was one of the requirements of FCI under PEG scheme. TNWC proposed (January 2013) to install weighbridges at seven godowns⁷³ including the four newly constructed godowns under PEG 2008 Scheme (Phase I). As there was no response to tender invited in July 2013, the condition regarding furnishing of bank guarantee for the contract value by all bidders and certain technical specifications regarding the capacity of weighbridges, included in the tender document, were deleted/relaxed based on suggestions of an Expert Committee and tender document revised (June 2014).

Though five firms participated in the re-tender (11 August 2014) only one firm offered the product as specified in the tender document and hence the Tender Sub-Committee suggested to go in for re-tender again after a detailed study on appropriate technical specifications required by TNWC. After finalisation of the third tender, TNWC placed order with L-1 firm on 21 February 2015 for supply and erection of electronic lorry weighbridges at seven WHs for a value of ₹ 1.08 crore with a condition to complete the work within 120 days.

Audit scrutiny revealed the following:

- TNWC failed to assess its requirement and finalise the technical specifications of weighbridge before floating tenders and it modified the specifications and tender conditions twice, which caused abnormal delay of more than two years in the tender process.
- The firm supplied (May 2015) weighbridges at four⁷⁴ out of seven WHs and installation of weighbridges in the four locations was in

⁷³ Arupukkottai, Karaikudi, Kovilpatti, Maduranthagam, Krishnagiri, Thirumangalam and Vellore.

⁷⁴ Karaikudi, Kovilpatti, Maduranthagam and Vellore.

progress (August 2015). However, TNWC did not invoke the penal provisions in the agreement for the delay in supply and installation.

- Due to non-availability of weighing facility, FCI declined (November 2014) to take over the four new godowns (PEG 2008) under guaranteed business scheme and stored foodgrains on Actual Utilisation Basis (AUB). As a result, TNWC had to incur weighment charges of ₹ 20.62 lakh for the period from April 2013 to March 2015 towards weighments made in private weighbridges for FCI stock. The delay in procurement and installation of weighbridges also resulted in loss of storage revenue of ₹ 1.37 crore on account of utilisation of WHs by FCI on AUB as against Area Basis Reservation (ABR) (**Annexure-14**).

In reply, TNWC stated (July 2015) that the delay was due to non-availability of adequate technical staff for finalising the specifications and that TNWC had to ascertain the technical specifications from various departments before forwarding the proposals to Tender Sub-Committee for approval. However, had TNWC consulted and obtained the specifications in time from CWC/FCI/other State warehousing corporations, which procure and install weighbridges in their godowns, the delay could have been avoided.

Utilisation of storage capacity

3.8 Occupancy of storage space

3.8.1 Major clients of TNWC are FCI, TNCSC, Tamil Nadu State Marketing Corporation (TASMAC), Tamil Nadu Text Book Society (TNTBS), Government departments, Fertiliser companies and co-operative institutions. Details of depositor-wise quantity stored and percentage of occupancy of storage space during 2010-15 are given in **Annexure-15**. For capacity utilisation, TNWC was mainly dependent on Government and co-operative agencies and fertiliser companies.

- Utilisation of godowns by farmers was less than one *per cent* of the occupancy, despite the availability of Negotiable Warehouse Receipts (NWRs), against which farmers can get loans from banks/other financial institutions. GoTN announced (July 2014) that TNWC would undertake awareness and training camps to the farmers and supply materials at a cost of ₹ 50 lakh. The programme envisaged training to farmers to acquire knowledge for storage of foodgrains stocks in pest-free condition under scientific method, quality control activities, availing credits, *etc.* It was, however, noticed that TNWC did not avail funding from GoTN and failed to conduct any training / awareness programme to farmers in the State as of August 2015.

During the Exit Conference, MD stated (January 2016) that initiatives were being taken to conduct awareness camps and increase provision of NWRs for improving the utilisation of warehouses by farmers. It was also stated that action would be taken to encourage farmers to store even smaller quantities in TNWC warehouses.

To ascertain reasons for the low occupancy by farmers, a survey was conducted by Audit along with WMs, from 385 farmers residing in the areas

coming under the districts in which the sampled WHs are located. Results of survey revealed that lack of awareness among farmers about the storage facilities, location of WHs at far away places and lack of transport facilities, immediate cash requirement necessitating selling of produce on the day of harvest and selling to traders from whom they obtained loans for farming activities were main reasons for low utilisation of storage facilities by them.

Details of available storage capacity and capacity utilised during the period 2010-15 are tabulated in Table 3.2:

Table 3.2 : Details of available storage capacity and capacity utilised during the period 2010-15

Year	Capacity in MTs			Utilisation in MTs			Percentage of utilisation		
	Own	Hired	Total	Own	Hired	Total	Own	Hired	Total
2010-11	6,24,721	16,824	6,41,545	5,34,382	16,094	5,50,476	86	96	86
2011-12	6,33,587	9,423	6,43,010	5,24,388	9,423	5,33,811	83	100	83
2012-13	6,32,629	13,082	6,45,711	5,42,586	13,082	5,55,668	86	100	86
2013-14	6,64,421	9,087	6,73,508	5,37,517	9,087	5,46,604	81	100	81
2014-15	6,79,412	25,148	7,04,560	5,04,033	25,148	5,29,181	74	100	75

(Source: Information furnished by TNWC HO)

The capacity utilisation in respect of hired godowns (two godowns only) was 100 *per cent* as they were hired based on specific demands by depositors. The capacity utilisation in own godowns came down from 86 *per cent* in 2012-13 to 74 *per cent* in 2014-15 and the occupancy rate was below the norm of 90 *per cent* fixed by GoTN in all the years. Even though the overall storage capacity increased from 6.33 lakh MT in 2012-13 to 6.79 lakh MT during 2014-15, the utilised storage capacity decreased from 5.43 lakh MT to 5.04 lakh MT during the period.

TNWC attributed (January 2015) vacation of godowns by TNCSC due to construction of their own godowns, stoppage of procurement and storage of coconut kernel by TANFED/NAFED⁷⁵, reduction in reservation of storage space by fertiliser companies and storage of goods in private godowns by traders due to low tariff to reduction in occupancy rate. However, the reduction in occupancy due to construction of godowns by TNCSC could have been avoided had there been co-ordination between TNWC and TNCSC in construction of godowns as pointed out in paragraph 3.6.2.

The details of trends in occupancy rates during 2010-15 in three sampled WHs are given in Table 3.3:

⁷⁵ Tamil Nadu Co-operative Marketing Federation Limited and National Agricultural Co-operative Marketing Federation of India.

Table 3.3 : Details of Occupancy in WHs

Year	Decline/fluctuation in occupancy rate(in per cent)		
	Arakkonam	Tenkasi	Tirunelveli
2010-11	93	100	86
2011-12	90	100	94
2012-13	73	33	96
2013-14	71	88	76
2014-15	50	100	79

(Source: Information furnished by WHs Managers)

The WMs attributed the decline or fluctuation in the occupancy rate during the period to damaged godowns, poor internal roads and delay in carrying out repair works (Arakkonam), dependence on sugar mills and TNCSC for occupancy (Tenkasi), delay in carrying out repair works for damaged floor, leakage in roof, cracks in walls and entry of rain water inside godown (Tirunelveli). Had TNWC carried out the repair works in time in Arakkonam and Tirunelveli WHs, the decline/fluctuation in occupancy rate could have been avoided.

Scientific storage

3.9 Upkeep of stock in godowns

3.9.1 As per provisions in Chapter XIII (Warehouse Management System) of Warehouse Manual of WDRA, stacks should not obstruct light and free flow of air into godown, a minimum of 0.75 metre wide space between stacks, 0.6 metre between wall and stack and 1.20 metre between door points as haulage alleyways⁷⁶ should be provided for operational purpose. Stacking of bags/containers/packages should be done on a suitable dunnage material such as bamboo mats, polythene sheets, wooden crates, *etc.* Moreover, disinfestation equipment, fumigation covers and sufficient quantity of chemicals (pesticides) should be available in WHs for carrying out pest control measures.

- It was noticed that dunnage materials available in 10 out of 15 sampled WHs were inadequate when compared with the storage space available in godowns as given in **Annexure-16**. The maximum dunnage materials available during 2014-15 ranged between nine and 98 *per cent* of the storage area. Government stated (December 2015) that usage of dunnage material would vary from commodity to commodity and there was no specific norm for the quantity of dunnage material to be kept in WHs with reference to area of godown. However, the total area of all types of dunnage material available in WHs was less than the area of storage space in each godown.

⁷⁶ Passage ways.

- During joint inspection of sampled WHs with WMs, Audit noticed that huge quantity of grains spilled all over the godowns (including alleyways and gangways⁷⁷), platforms, upper portion of stacks (**Picture 1**) and open areas. Wooden / steel crates were not used for stacking foodgrains (**Pictures 2 and 3**).



Picture 1: Spillage of food grains in Arakkonam WH



Picture 2: Stacking of foodgrains without crates in Dharmapuri WH



Picture 3: Stacking of foodgrains without crates in Trichy WH

- FCI, during their inspection in Coimbatore district (November 2014), noticed infestation of wheat stock with pests, non-fumigation of infested stocks, non-maintenance of pesticides and fumigation records *etc.* Similarly, in Trichy, Kovilpatti, Dindigul and Aruppukottai WHs, FCI stocks were found infested badly and as a result, FCI proposed to impose (October 2014) 10 *per cent* cut on payment of storage charges payable to TNWC.
- TNWC provides Pest Control Services *viz.*, rat control, termite control and other general disinfection works to buildings of Government departments and others by engaging outside agencies. However, outside agencies were not engaged by TNWC for pest control / disinfection works in its own WHs. Reasons for not carrying out the disinfection works in godowns through firms or contractors were not furnished to Audit. Audit noticed that a meagre expenditure of ₹ 74.74 lakh (0.4 *per cent* of total warehouse receipts of ₹ 185.72 crore) was incurred by WHs during 2010-15 on procurement of chemicals and other expenses. Non-provision of adequate pest control measures was one of the reasons for absence of scientific storage in WHs.

In reply, Government stated (December 2015) that in the Regional Officers' meeting held in September 2015, instructions have been issued to SRMs/RMs

⁷⁷ Passages between stacks.

and WMs by TNWC to avoid infestation and damage to stocks by proper pest control activities. During the Exit Conference, MD stated that TNWC has taken action to utilise a facility (ultraviolet lights) developed and demonstrated by the Tamil Nadu Agricultural University to control pest menace.

Storage of foodgrains along with fertiliser

3.9.2 Rule 11 of the Tamil Nadu Warehouses Rules, 1953 states that goods of different classes or grades or qualities are to be stored separately. Further, as per provisions in Chapter XIII (Warehouse Management System) of Warehouse Manual of WDRA, WM should ensure that mixed storage of incompatible commodities, like fertiliser with foodgrains/sugar, is not done. However, it was seen from weekly reports on godown occupancy for the period November 2014 to February 2015 that foodgrains were stored in Godown 6 (capacity 1,310 MT) of Trichy WH, which has not been divided into compartments, along with fertilisers, even though space was available for storing it in another godown earmarked for fertiliser.

Government stated (December 2015) that SRMs/RMs have been instructed by TNWC to educate the warehouse staff suitably and to verify during regular inspections of WHs to avoid such mixed storages in future.

Storage in excess of capacity

3.9.3 The Tamil Nadu Warehouses Rules (Rule 2) define storage capacity as 73 *per cent* of the floor area of godown multiplied by actual height of stack and Rule 11 requires arranging and storing of goods in such manner as to facilitate easy and effective stock-taking and verification and building of stacks without touching the walls and with a space of about 0.6 metre around each stack.

- Monthly average occupancy reports of five⁷⁸ sampled WHs during 2010-15 revealed that there was storage in excess of the capacity of the WHs by up to 51 *per cent*. Utilisation of more than 100 *per cent* capacity indicates storage of stocks in alleyways and gangways with increased stack height.

Though TNWC Head Office was aware of the storage in excess of capacity through monthly reports received from the WMs/RMs, no critical analysis of the excess storage was done. In Dharmapuri WH, where FCI rice was stored, the storage as of March 2015 was 131 *per cent*. The SRM, Salem informed (March 2015) FCI of the adverse effects of such excess stocking namely, inability to conduct physical verification and disinfestation work, storage of stocks in alleyways and gangways and inability to release stock on first in first out/priority basis.

⁷⁸ Dharmapuri, Namakkal, Salem Town, Tirunelveli and Tiruvarur.

- Joint visit (May 2015) to the godowns of Dharmapuri WH by Audit with WM also confirmed excess stock (**Picture 4**). As against the capacity of 3,000 MT each for godowns 1 and 2, the stock kept was 4,194 MT (140 *per cent*) and 4,102 MT (137 *per cent*) respectively. Due to the excess stock in the godowns, adequate disinfection works could not be carried out by WH staff even though large-scale infestation was noticed during the period.



Picture 4: Stacking of foodgrains in alleyways in Dharmapuri WH

In reply, Government stated (December 2015) that, as per the request of FCI, the excess stocks were accommodated by increasing the height of stacks and stacking on alleyways and gangways to help FCI avoid huge expenditure on diversion of wagons and payment of demurrage/wharfage charges and that storage of stock in excess of capacity would be avoided in future. The reply confirms deviation from the Rules and non-adherence to the norms for scientific storage of foodgrains.

Warehousing charges

3.10 Non-revision of tariff in time

(i) In paragraph 3A.9.3 of the Audit Report (Commercial) for the year ended March 2000, it was pointed out that there was loss of revenue to TNWC due to fixation of lower tariff than CWC tariff. After discussion of the paragraph, COPU recommended (August 2015) to revise the storage charges periodically and to ensure that TNWC's rates were not less than CWC rates at any point of time. TNWC adopted CWC's rates from 2009-10 and proposed to make revisions as and when CWC revised its rates. Audit noticed that TNWC did not revise the tariff on par with CWC for the year 2010-11, even though CWC revised the rates with effect from 1 April 2010. Non-revision of tariff by TNWC during 2010-11 resulted in loss of revenue of ₹ two crore as given in **Annexure-17**.

(ii) TNWC revised the tariff for the years 2011-12 and 2014-15 belatedly (August 2011 and December 2014) with retrospective effect (from 1 May 2011 and 1 April 2014 respectively), deviating from the provisions of TNWC's Business Manual, which states that the revised rates are applicable only from the date of notification. Audit noticed that 37 private depositors refused to pay storage charges of ₹ 7.49 lakh at revised rates claimed by five WHs⁷⁹ with retrospective effect from 1 April 2014, as the revision was communicated to them after eight months from the date of effect of revision.

⁷⁹ Arani, Kancheepuram, Katpadi, Polur and Vellore.

In reply, Government stated (December 2015) that after adoption of CWC's rates with effect from July 2009, the increase in TNWC's rates was 40 to 50 *per cent* over the pre-revised rates and the revision process was completed in March 2011 and that revising the rates once again with effect from April 2010 on par with CWC rates was practically not possible to TNWC. With regard to retrospective revisions done by TNWC during 2011-12 and 2014-15, MD stated that TNWC did not receive communication from CWC about the revisions. However, TNWC was aware of annual revision of storages charges by CWC which holds 50 *per cent* of the shares of TNWC and thus, failed to ascertain and adopt the revised rates in time.

Non-collection of storage charges at revised rates from Tamil Nadu State Marketing Corporation (TASMAC)

3.10.1 TNWC had let out godowns at 10 locations⁸⁰ for a total capacity of 18,508 MT on gross area basis reservation (ABR) to TASMAC during 2010-15.

(i) In Vellore WH (sampled WH), TASMAC was allotted (November 2005) a total area of 1,660 sq mt with terms and conditions including payment of storage charges at ₹ 50 per sq mt per month. In October 2010, additional clause was included in the terms and conditions that the storage charges were subject to be revised as and when revised by Head Office. TASMAC settled the bills for storage charges up to 2012-13 at the applicable rates (₹ 119.70 per sq mt). However, TASMAC did not agree to the revision of tariff for the years 2013-14 (₹ 137.75 per sq mt) and 2014-15 (₹ 149.15 per sq mt) and continued to settle bills at the rates applicable for 2012-13. This had resulted in short collection of storage charges of ₹ 10.70 lakh from TASMAC in respect of Vellore WH.

(ii) The short-collection of storage charges in respect of the remaining nine locations was ₹ 1.06 crore. Even though TASMAC informed (April 2015) TNWC that action was being taken by them to settle the claims, the dues were not settled (September 2015).

In reply, Government stated (December 2015) that MD, TASMAC has been addressed (October 2015) by TNWC to settle the dues early.

Short levy of charges for storage area allotted on Area Based Reservation (ABR) basis

3.10.2 Para 5 (iii) of the Business Manual states that warehouse user can reserve storage space on gross ABR for full godown/ a compartment for a minimum period of three months. Monthly storage charges have to be paid irrespective of utilisation in full or part thereof.

However, in respect of nine depositors in Tirunelveli WH and two depositors in Tenkasi WH, charges were levied proportionately for the period of

⁸⁰ Dharmapuri, Gobichettipalayam, Karur, Krishnagiri, Ranipet, Thirumangalam, Tiruppur, Tiruvannamalai, Vellore and Villupuram.

occupation instead of collecting it on monthly basis, leading to short levy of ₹ 7.44 lakh and ₹ 2.38 lakh respectively. MD, TNWC stated (November 2015) that reports have been called for from WMs of the WHs concerned and on receipt of reports from them, reply would be furnished to Audit.

Arrears of storage charges

3.10.3 As per Paragraph 2 (Payment of Corporation's dues) of the Business Manual, warehouse users have to settle the warehousing charges within 30 days from the date of bill. However, there is no provision in the Manual for levy of penalty / interest on delayed payment.

(i) Scrutiny of records showed that there was huge pendency in collection of storage charges from October 1999 onwards. The charges pending collection, which was ₹ 7.09 crore in 2010-11, steeply increased to ₹ 15.86 crore (2.24 times) in 2014-15 (**Annexure-18**). Storage charges pending for more than three years as on 31 March 2015 was ₹ 3.48 crore (21.90 *per cent*). The defaulters include FCI, TNCSC, public sector companies and private depositors. Out of ₹ 3.59 crore due from private depositors, an amount of ₹ 1.43 crore related to occupancy of storage space on gross ABR and ₹ 2.16 crore on tonnage basis. TNWC, after reviewing (September 2013) the long pending storage charges, issued a circular to WMs/SRMs/RMs directing them to avoid delay in collection of storage charges as the internal resources of TNWC were being utilised for payment of Service Tax in respect of pending storage charges and advance Income Tax. However, no improvement was noticed in collection of dues.

In reply, Government stated (December 2015) that the storage charges could not be collected in full as majority of the defaulting depositors are from Government sector and that action would be taken to make provision for levy of penal interest for delayed payments. However, the reply was silent on recovery of dues from private depositors. During the Exit Conference, the Principal Secretary stated that a co-ordination committee meeting would be conducted with FCI to sort out the issues on pending bills.

(ii) Service Tax on storage charges are payable to GoI before 5th of succeeding month for the month in which storage bills were issued to the depositors and irrespective of the fact whether TNWC collected the storage charges in time or not. It was noticed that TNWC remitted service tax of ₹ 1.27 crore on the pending storage charges though the depositors failed to make payments which resulted in blocking of TNWC's funds.

(iii) In Tuticorin Town WH, a private depositor to whom 750 sq mt of space was let out on ABR from July 2012 paid monthly storage charges of ₹ 64,635 upto October 2012. Cheques received from the depositor for November and December 2012 bills were returned by bank for want of sufficient funds and the depositor vacated the godown in May 2013 without settling the dues (₹ 5.97 lakh). Though the GM of TNWC requested (March 2014) the District Collector, Tuticorin to initiate action against the depositor

for recovery of the amount under the Revenue Recovery Act, the amount was not recovered even after one and half years.

(iv) In Tenkasi WH, 1,779 sq mt of space was let out on ABR basis to a private sugar mill from 13 February 2014. The depositor paid monthly storage charges up to May 2014 and defaulted in payments thereafter. Up to June 2015, storage charges of ₹ 37.86 lakh were due from the private sugar mill. WM neither collected the dues nor cancelled the reservation. MD, TNWC stated (November 2015) that RM, Tirunelveli has been instructed to take necessary action to collect the dues.

(v) In eight⁸¹ out of 15 sampled WHs, there was delay of three to six months in realisation of storage charges of ₹ 137.29 lakh (258 bills) and the delay was more than six months in respect of 166 bills involving ₹ 33.24 lakh. WMs replied that there were practical difficulties in collecting the charges and following the instructions strictly for prompt settlement of storage charges would affect the business. However, timely collection of dues is an important aspect to be monitored for effective management of WHs.

Operation and maintenance of Warehouses

3.11 Registration of Warehouses and provision of negotiable warehouse receipts

3.11.1 The Warehousing (Development and Regulation) Act (WDR Act) was enacted in 2007, the provisions of which came into effect from 25 October 2010. The objective of the Act was primarily to safeguard the interest of farmers and other stakeholders connected with financing farmers against the storage of the agricultural goods. Negotiable Warehouse Receipts (NWRs) issued by the WHs registered under this Act would help farmers to seek loans from banks against NWRs to avoid distress sale of their agricultural produce. As per the WDR Act, WHs which intend to issue NWRs were to be registered with WDRA. GoTN also directed (March 2011, May 2012 and December 2013) TNWC to register all the WHs compulsorily under WDR Act.

Scrutiny of records revealed the following:

(i) TNWC applied (July 2011) for registration of 42 out of 56 own WHs and got registered only a capacity of 2.74 lakh MT (39 *per cent*) in 36 WHs as against their total capacity of 4.19 lakh MT. Registration was refused (August 2012) by WDRA for six WHs⁸² citing non-fulfilment of requirements for registration such as adequate staff, laboratory facilities, weighment facility, insurance coverage to stock, *etc.* No action was taken to register the remaining WHs till the date of audit (June 2015).

(ii) Out of 36 WHs registered for part capacity under WDR Act, no NWR was issued by six WHs during 2010-15 as farmers did not store their farm produce in those WHs and 30 WHs issued 8,692 NWRs to 1,033 farmers and

⁸¹ Aranthangi, Namakkal, Salem Town, Tenkasi, Tirunelveli, Tiruvarur, Trichy and Tuticorin Town.

⁸² Arupukkottai, Dharapuram, Gobichettipalayam, Nanjikottai, Palani and Pattukottai.

1,240 traders and out of the 30 WHs, only seven WHs reported to TNWC that they issued NWRs to farmers. The meagre utilisation of storage space by farmers and consequent non-issuance of NWRs by a majority of WHs defeated the objective of providing support to farming community.

(iii) No farmer utilised the storage facilities in any of the 15 sampled WHs during 2010-15. WMs attributed non-utilisation of storage space by farmers to storage of their produce in godowns of Agricultural Co-operative Societies/Regulated Market Committees and production of perishable items only in some areas.

(iv) WMs of seven⁸³ sampled WHs, which were not registered, stated (May-July 2015) that the WHs were reserved on ABR basis to Government agencies and there were no private depositors necessitating issue of NWRs. The views of WMs are not correct since the registration is to be done in respect of WHs used for stocking non-foodgrain commodity like sugar also and WHs reserved for depositors on ABR basis are not excluded from registration.

(v) In three⁸⁴ sampled WHs, only a part of their capacity was registered. After expiry of the validity of registration in August and November 2014, WMs applied for renewal belatedly and the registrations were not renewed (August 2015). Hence, NWRs could not be issued by them after expiry of validity.

In reply, Government stated (December 2015) that TNWC registered 36 WHs, which were found necessary, obtained NWRs from WDRA and issued them to the depositors and that registration of full storage capacity of TNWC is not necessary as observed from the experience gained after constitution of WDRA. However, when the mandatory registration of all godowns with WDRA was reiterated by Audit during the Exit Conference, MD stated that the matter would be taken care of appropriately.

Insurance coverage to godown buildings and stock

3.11.2 As per provisions of Tamil Nadu WH Rules, the warehouse buildings and the stocks stored should be insured. TNWC introduced (April 2004) a Self-Indemnification Scheme in lieu of insurance of stock through insurance companies in order to reduce the expenditure on insurance premium and created a 'Revolving Fund' with a corpus amount of ₹ 50 lakh. As per orders of BoD, every year ₹ 50 lakh was to be transferred to the Fund. The quantum of the Revolving Fund was increased (October 2012) from ₹ five crore to ₹ seven crore with annual contribution of ₹ 75 lakh.

Audit scrutiny revealed the following:

(i) TNWC fixed the quantum of Revolving Fund at ₹ five crore and subsequently increased it to ₹ seven crore, taking into account the value of

⁸³ Ambasamudram, Dharmapuri, Nagapattinam, Salem Town, Tenkasi, Tirunelveli and Tiruvarur.

⁸⁴ Aranthangi, Trichy and Tuticorin Town.

annual average stock held in one WH, whereas the value of annual average stock kept in all WHs ranged between ₹ 275 crore and ₹ 385 crore. The quantum fixed for the revolving fund would not suffice, if more number of WHs are affected by fire or other natural disasters.

(ii) TNWC did not provide insurance coverage to any of the WHs buildings (except Cuddalore) till the occurrence (December 2011) of 'Thane cyclone', which damaged warehouse buildings at Cuddalore, Kallakurichi, Panruti, Villupuram and Virudhachalam. TNWC had to carry out major repair works in the damaged WHs incurring an expenditure of ₹ 1.62 crore during February 2012 to January 2013. After the cyclone, TNWC insured (June 2013) five⁸⁵ warehouse buildings located in coastal areas along with stock. As WDRA refused (2014) to renew the registration of the godowns on the ground that the self indemnification scheme for coverage of insurance was not sufficient, TNWC insured (February 2015) the actual stock kept (0.84 lakh MT) in 36 godowns registered under WDR Act, instead of to the registered capacity. The remaining 20 unregistered WHs were also not insured till the date of audit (June 2015).

In reply, Government stated (December 2015) that TNWC was taking action to provide insurance coverage to stocks stored in the WHs registered under WDRA and that stocks in unregistered WHs would be covered under Self Indemnification Scheme of TNWC. However, during the Exit Conference, the Principal Secretary assured (January 2016) that TNWC would submit a proposal to BoD for insuring the remaining warehouses with provision for payment of premium from the revolving fund.

Storage losses

3.11.3 For storage of rice and wheat in WHs for a period of less than one year, FCI fixed (July 1986) the admissible storage loss at 0.5 *per cent* and for storage period of one to two years at 0.75 *per cent* for rice and 0.5 *per cent* for wheat.

Audit noticed that out of 912 cases of storage losses reported by WMs, in 12 cases involving 532 MT of foodgrains for a value of ₹ 1.33 crore, the storage loss exceeded 0.5 *per cent* and the value of inadmissible storage loss was ₹ 71.32 lakh. FCI withheld the value of loss in excess of 0.5 *per cent* from the bills of storage charges payable to TNWC and issued directions to their field officers not to write off the storage/transit loss cases below 0.5 *per cent* in a routine manner. Details of storage losses written off or release of withheld amount by FCI were not furnished to Audit by TNWC.

In reply, Government stated (December 2015) that SRMs/RMs/WMs have been instructed by TNWC to minimise the storage losses and that officials of FCI have been contacted frequently for regularisation of the storage loss and release of withheld amounts which are still pending. During the Exit Conference, the Principal Secretary stated (January 2016) that a co-ordination

⁸⁵ Meelavittan, Cuddalore, Nagapattinam, Tuticorin Port and Tuticorin Town.

committee meeting would be conducted with FCI to sort out the issues regarding disputes on storage losses.

Fire safety in warehouses

3.12 Inadequate fire fighting equipment

3.12.1 As per provisions of Internal Audit Manual, fire safety measures in the form of fire extinguisher (FE) and fire bucket (FB) are to be provided in WHs. FE is to be provided at each entrance of a godown and eight FBs have to be provided for every 3,000 MT capacity of a godown.

Scrutiny of stock registers of 11 sampled WHs⁸⁶ revealed that against requirement of 341 FEs, only 186 were available and in nine out of the above 11 WHs (except Trichy and Aranthangi) against requirement of 266 FBs, only 83 were available. Further, WMs did not send any proposal to SRM/HO for procuring adequate FEs and FBs despite non-availability of adequate equipment.

In reply, Government stated (December 2015) that SRMs/RMs have been directed (September 2015) by TNWC to instruct WMs to provide required fire fighting equipment in all godowns and to watch the compliance during regular inspection of godowns. Further, it was stated that SRMs/RMs have been instructed to submit requirements of equipment, if necessary, to HO for procurement.

Fire accident in hired godown

3.12.2 On receipt of request for storage space from a firm⁸⁷, WM, Chennai engaged (December 2009) a private godown without the approval of Regional Manager and accepted stocks from January 2010 onwards. The depositor stored paper reels and bundles worth ₹ 1.08 crore. In March 2010, a major fire accident occurred in the godown and entire stock got damaged and became unfit for sale and the depositor claimed damages amounting to ₹ 1.08 crore. The compensation was paid by TNWC in December 2010. Scrutiny of records revealed the following:

- (i) Engagement of this godown was neither approved by Regional Manager nor by the HO. The structural soundness of the building was not ensured by the engineers of TNWC/outside agency and warehouse licence for stocking articles like paper reels and bundles was not obtained by WM.
- (ii) As against TNWC's instruction (August 1990) not to hire godowns with less than 1,000 MT capacity, WM engaged 375 MT capacity narrow godown with only one ventilator on the top of the wall of both the sides of the entrance.
- (iii) No standard agreement form was adopted by TNWC for allotting space in hired private godowns. Only after the fire accident, TNWC issued (March

⁸⁶ Ambasamudram, Aranthangi, Dharmapuri, Nagapattinam, Namakkal, Salem Town, Tenkasi, Tirunelveli, Tiruvarur, Trichy and Tuticorin Town.

⁸⁷ M/S Hindustan Paper Corporation Limited.

2010) detailed guidelines to WMs in connection with hiring of godowns stating that insurance coverage for stock is the sole responsibility of depositors. The depositor failed to insure the stock. As a result, after the fire accident, TNWC had to pay compensation of ₹ 1.08 crore to the depositor, which was partly realised by way of auction sale of the paper bundles (₹ 57.00 lakh). This resulted in avoidable payment of ₹ 51.13 lakh from the revolving fund of Self Indemnification Scheme and other expenses of ₹ three lakh. No action was taken by TNWC against the official for the lapse.

In reply, Government stated (December 2015) that the WM accepted the stocks in anticipation of HO approval for hiring the private godown and WHs licence from the competent authority. The quantity stacked was only 275 MT as against the godown's capacity of 375 MT. It was further stated that the fire accident occurred due to electrical short circuit, which was unexpected and beyond the control of WM. However, TNWC failed to adopt standard agreement form for allotment of space in godowns incorporating clause regarding insurance coverage for stock by depositors.

Maintenance of warehouse buildings

3.13 Proper maintenance and timely repairs to WHs are essential for not only retaining the existing business, but also to attract new customers.

Audit observed the following:

- BoD directed (September 2001) TNWC to allocate adequate provision in the budget estimates for repairs and maintenance works. TNWC requested (October 2012) BoD to increase the provision for maintenance for 2012-13 to ₹ 13.20 crore from the revised estimate of ₹ 9.00 crore. BoD did not sanction additional funds and directed TNWC to limit their repair works within the revised estimate. BoD also instructed (November 2013) TNWC to restrict the maintenance expenditure to 10 *per cent* of turnover, as the huge expenditure on repairs during 2012-13 affected TNWC's profitability. Audit, however, noticed that even though the percentage of overall maintenance expenditure on repairs to godowns during 2010-15 was 10 *per cent* of total WHs receipts, no expenditure was incurred on repairs in four WHs (Ambasamudram, Kallakurichi, Sankarankoil and Tenkasi) and the expenditure was less than two *per cent* of WHs receipts in six WHs⁸⁸.
- TNWC did not have any norm or schedule/periodicity for carrying out periodical repairs in godowns/calendar for periodical inspection of godowns for assessing repair works to be undertaken.
- Construction Wing (CW) had only one Construction Engineer and one Assistant Construction Engineer. As there were no sanctioned posts of Assistant Engineer (AE)/Junior Engineer (JE) at the regional level, one or two AE/JEs were appointed temporarily on deputation basis from

⁸⁸ Arani, Kancheepuram, Karur, Katpadi, Madhurantagam and Mayiladuthurai.

other Government agencies, depending on workload in respect of construction of new godowns. As a result, urgent repairs reported by WMs/ RMs / depositors were not attended to by CW in time.

- TNWC, while submitting proposals to Government and BoD for sanction of additional staff and funds for repair works, stated (March 2013 and January 2015) that drop in occupancy of WHs in Tuticorin Port, Aranthangi, Nanjikkottai, Musiri, Theni and Trichy was mainly due to delay in carrying out repair works in time.
- During field visits (April to June 2015), Audit noticed cracks in walls of godown buildings, leakage in roofs, damaged floors, platforms/entrances, compound walls and approach roads. **Pictures 5 to 10** depicting the deficiencies in illustrative cases are given below.



Picture 5: Cracks in wall – Salem Town WH



Picture 6: Leaky roof in Namakkal WH



Picture 7: Damaged floor in Nagapattinam WH



Picture 8: Damaged platform in Tiruvarur WH



Picture 9: Absence of compound wall in Arakkonam WH



Picture 10: Damaged approach road in Vellore WH

Thus, inadequate provision of funds and non-fixation of schedule or periodicity for repairs to buildings and inadequate staff resulted in non-maintenance of warehouse buildings in proper condition.

In reply, Government stated (December 2015) that budget provision of ₹ six crore has been made for 2015-16 for repairs to warehouse buildings and that a schedule has been prepared for carrying out repairs and maintenance works on priority basis besides posting of adequate technical staff at regional level.

Manpower planning

3.14 Manpower planning involves adequate and efficient utilisation of human resource in an organisation. Details of sanctioned staff strength of TNWC and men-in-position during the period 2010-15 are given in Table 3.4:

Table 3.4: Statement of sanctioned strength and men-in-position

Name of the Unit	Sanctioned Strength	Men-in position as on 1st April											
		2010		2011		2012		2013		2014		2015	
		MIP	P	MIP	P	MIP	P	MIP	P	MIP	P	MIP	P
Head Office	85	92	108	94	111	87	102	78	92	75	88	66	78
Regional Offices	67	53	79	52	78	46	69	42	63	33	49	30	45
Warehouses	517	273	53	270	52	252	49	232	45	208	40	191	37

MIP: Men-in-position P: Percentage

(Source: Information furnished by TNWC HO)

In this connection, Audit observed the following:

- Staff strength of WHs was fixed in December 1990 based on the overall capacity of WHs (5.53 lakh MT) including rented capacity of 0.46 lakh MT as on that date. However, though the storage capacity of TNWC was increased to 6.79 lakh MT (March 2015), TNWC did not reassess and revise the sanctioned strength of staff in respect of WHs in the subsequent years.
- Against the sanctioned strength of 517 fixed in December 1990 in respect of staff in WHs, only 273 staff (52.80 *per cent*) were available as of April 2010 and as of April 2015 only 191 staff (36.80 *per cent*) were available.
- There was huge shortage of manpower in the categories of WM/Deputy Warehouse Manager (DWM)/Assistant Warehouse Manager (AWM). Out of 56 own WHs, 18 WHs⁸⁹ were functioning with less than 25 percent of sanctioned strength.
- In 37 WHs, as against three to five posts of WM/DWM/AWM sanctioned, only one post was filled up in 24 WHs and all activities of the WHs were looked after by one official and as there was no staff in four WHs, WM/DWM/AWM of other WHs held additional charge.

Thus, the WHs continued to function with meagre staff and the staff shortage contributed to low occupancy of warehouse space, deficiencies in scientific storage of stock, delay in carrying out repair works, pendency in collection of storage dues, improper maintenance of WHs and other lapses pointed out by Audit.

In reply, Government stated (December 2015) that as per announcements made (September 2015) by Government in the Assembly, action was being taken to fill up all the vacant posts and to strengthen the staff position according to the capacity of each WH.

⁸⁹ Ambasamudram, Attur, Cuddalore, Gobichettipalayam, Kancheepuram, Katpadi, Meelavittan, Musiri, Polur, Rajapalayam, Ranipet, Tenkasi, Tiruvallur, Tiruvannamalai, Tindivanam, Tiruvarur, Tuticorin Port and Virudhachalam.

Other points of interest

Non-remittance of contribution to Construction Workers' Welfare Fund

3.15 As per Section 8A of the Tamil Nadu Manual Workers (Regulation of Employment and Conditions of Work) Act, 1982, every person who undertakes or is in charge of any construction shall be liable to pay a sum not exceeding one *per cent* of the total estimated cost of the building or construction work as contribution to the fund constituted for the benefit of construction workers.

Audit noticed that TNWC took up construction of 24 godowns for a total value of ₹ 99.53 crore during 2010-15, out of which 17 works were completed and seven works are in progress. However, TNWC had not made provisions in the sanctioned estimates and included a clause in the agreements for payment of contribution/recovery of the amount from contractors' bills. The contribution of ₹ 77.96 lakh was not remitted to the Construction Workers' Welfare Fund so far (July 2015). During the Exit Conference, the Principal Secretary stated that TNWC would incorporate relevant provision in the agreements in future for recovery of the cess from contractors.

Monitoring and internal control

Monitoring

3.16 Regular monitoring of warehousing activities at all levels is essential for efficient and effective functioning of TNWC.

As per the TNWC General and Staff Regulations, 1965, Board is required to meet once in every three months and at least four such meetings should take place in a year. After discussing paragraph 3A.3 of Audit Report (Commercial) 1999-2000 on shortfall in Board meetings, COPU recommended (852nd Report presented to the Assembly in August 2015) that for effective control and review of its performance at least one meeting should be conducted every quarter in future.

Audit observed that as against 20 meetings to be held during 2010-15, the Board met only on 10 occasions resulting in shortfall in holding of 10 meetings.

Internal control

3.17 To ensure proper internal control in maintenance of accounts in TNWC, BoD approved a draft Accounts Manual as early as in January 1990. Similarly, BoD also insisted on preparation of Cost Accounting Manual for examining the viability of construction/hiring of godowns, fixation of storage charges and considering suitable rebates to enforce competitive business.

TNWC, however, neither adopted the Accounts Manual for preparation and finalisation of accounts nor prepared the Cost Accounting Manual.

In WHs where all the three posts of WM, DWM and AWM were created, only one post was operated even though there is segregation of duties for WM and DWM/AWM, thereby weakening the internal control system. In reply, Government stated (December 2015) that action has been taken by TNWC to prepare the Cost Accounting Manual. During the Exit Conference, the

Principal Secretary assured that TNWC would place an agenda/explanatory notes in respect of such pending items to BoD to ensure early compliance.

Internal Audit

3.18 As per norms fixed by TNWC (September 2007), internal audit (IA) of WHs should be conducted every quarter. In November 2014, TNWC increased the periodicity to once in two months in view of poor maintenance of stock registers and other records in WHs. TNWC operated 55 WHs (except newly established Batlagundu WHs) during the period 2010-15. As against 1,100 IAs to be conducted during the period, only 848 audits (77 per cent) were conducted due to shortage of staff in IA parties. Out of seven posts each of Deputy Manager (DM) and Assistant sanctioned for seven regions, Assistant posts in all regions were not filled since 2013 and three posts of DM were vacant. Though critical review of TNWC's systems, procedures and operations as a whole is one among the functions of IA, the IA mainly covered general aspects such as renewal of warehouse licence, storage loss, storage charges due, Service Tax, short claims of storage charges *etc.*, and critical review was not done. The IA reports received from IA Parties were not processed and placed before BoD for review and giving directions to field staff due to shortage of IA staff at HO.

During the Exit Conference, MD stated (January 2016) that, at present, the IA function has been entrusted to Regional Managers, as an *ad-hoc* measure, due to shortage of manpower and assured that the position would improve when recruitment of staff is made.

Conclusion

TNWC did not undertake any assessment for the future storage requirements of the State and not have a systematic plan for construction of godowns. There was no co-ordination among various Government and co-operative agencies in the State. There were delays in construction of godowns resulting in loss of guaranteed business. Capacity utilisation in own godowns was below the norm of 90 per cent fixed by Government and it came down from 86 per cent in 2012-13 to 74 per cent in 2014-15. Utilisation of warehousing facility by farmers was less than one per cent indicating the need for creation of awareness among farmers. There were substantial arrears of storage charges. Only 36 out of 56 warehouses were registered under the Warehousing (Development and Regulation) Act, 2007 for part capacity and insurance coverage was provided only for the quantity of stock held in those partly registered warehouses. There were deficiencies in provision of scientific storage facility, safety measures and infrastructure in warehouses. Adequate funds were not provided for maintenance of warehouse buildings. Warehouses were operated with 47 to 63 per cent vacancies in various categories of staff.

Recommendations

The Department / TNWC may consider:

- assessment of storage requirements of the State and preparation of a comprehensive plan for construction of godowns;
- improving utilisation of storage space by farmers by earmarking certain storage capacity for farmers to facilitate them to obtain loan against such stocks kept in TNWC godowns;
- registering all warehouses under the WDR Act and providing insurance coverage to buildings and stock of all warehouses; and
- ensuring scientific storage facility and proper maintenance of godowns to reduce storage loss and settling the issue of storage loss by negotiation based on FCI norms.