Chapter III

Performance Audit of Statutory Corporations

Chapter III

Performance Audit of Statutory Corporations

Maharashtra State Road Transport Corporation

3.1 Procurement of Buses and Working of Workshops

Executive Summary

Introduction

The Maharashtra State Road Transport Corporation (Corporation) incorporated on 1 July 1961 by Government of Maharashtra (GoM) under Section 3 of the State Road Transport Corporations Act, 1950 (Act), is mandated to provide an efficient, adequate, economical and properly coordinated public road transport in the State. The Corporation has a monopoly in stage carriage in mofussil (rural) areas while it also operates city services in seven urban/semi urban locations of the State. During the period 2010-11 to 2014-15, the Corporation carried 69.93 lakh passengers per day; the total number of passengers carried decreased from 253.68 crore in 2010-11 to 245.60 crore in 2014-15. The Corporation had three Central Workshops entrusted with bus body building on new chassis while Repairs and Maintenance (R&M) of buses was carried out at 32 Divisional Workshops and 250 Depot Workshops. During the period from 2010-11 to 2014-15, the Corporation incurred total expenditure of ₹ 1,899.75 crore on purchase of 651 ready built buses, in-house bus body building of 8,207 buses and 1,852 buses built from private agencies. As on 31 March 2015, the Corporation owned an operational fleet of 18,008 buses consisting of 15,891 Ordinary buses, 953 Semi Luxury buses, 536 City buses, 592 Midi Buses, 36 Air Conditioned (AC) buses. Further, 73 AC buses were taken on hire for select routes.

(Paragraph 3.1.1)

Planning

The GoM had not formulated a Passenger Transport Policy to develop an integrated and holistic perspective delineating the specific role of the Corporation in a fast changing transport scenario. The Corporation could not achieve planned operations during the period 2010-11 to 2014-15 and had cancelled total 17.24 crore planned kilometres mainly due to shortage of crew besides other avoidable reasons like shortage of buses, defective buses, delay of buses from line/depot *etc*. Annual Production/Procurement plan was not worked individually for each type of bus service category *i.e.* Ordinary, Semi-Luxury, AC, Midi, City *etc*. Further, defective Annual Plans were formulated without considering operational restrictions on buses procured under Manav Vikas Scheme (MVS).

(Paragraphs 3.1.7, 3.1.9, 3.1.10 and 3.1.11)

Procurement of chassis/buses

During the period 2013-14, there was avoidable delay in finalisation of tenders for procurement of chassis which adversely impacted the Annual Production/Scrapping Plans of Ordinary Buses leading to increased cancellation of planned operations and plying of overaged buses. There was no system to monitor the economy and efficiency of overaged buses. Further, the Corporation did not ensure procurement of adequate/ required buses for operating profitable AC and Semi Luxury services which had adversely impacted the operational performance leading to reduction in schedules/operated kilometres and profitability. Quality assurance of 1,955 buses built from private agencies was not ensured since the contracts did not provide for random check of materials utilised.

(Paragraphs 3.1.12, 3.1.13, 3.1.14, 3.1.15, 3.1.16 and 3.1.19)

Working of Workshops

Production plan for bus body building at three Central Workshops was formulated on the basis of available manpower without considering cost of production. Despite being the most cost efficient workshop, production of Ordinary buses was lowest at Nagpur in comparison to other two Central Workshops and in particular Aurangabad which was the costliest. The Central Workshops were functioning with very old machineries in the absence of long term plan for augmentation/ modernisation as well as gross under utilisation of budgetary allocations. The Corporation had fixed Standard Man Hours (SMH) for production related activities at Central Workshops in an arbitrary manner without any scientific study and hence reasonability of existing SMH as well as production incentives paid could not be ensured. There were various instances of chassis lying idle at workshops and delays in production/ dispatch of buses due to lack of effective monitoring system. Incorrect system for payment of production incentives on incomplete buses and prematurely failed engines were noticed at Central Workshops. Reconditioning of buses was carried out by Central Workshops in lieu of production of new buses due to non availability of chassis, without adhering to prescribed maintenance manual leading to unwarranted excess expenditure of ₹ 42.80 crore, when the Corporation was already reeling under financial constraints.

(Paragraphs 3.1.20, 3.1.23, 3.1.25, 3.1.27, 3.1.30, 3.1.31, 3.1.33 and 3.1.37)

Other topics of interest

The Corporation could not receive grants/ reimbursement of expenditure to the extent of ₹ 66.43 crore under Central/State Schemes due to improper submission of proposals, non-compliance with mandatory conditions and failure to follow up with the State Government. Further, the Corporation did not submit proposal for availing benefit of grants for procurement of city buses under a Central scheme.

(Paragraphs 3.1.40 and 3.1.42)

Monitoring and Internal Control

The Corporation had not maintained Service category wise details of cancellations of planned operations, cost per kilometre and profitability in respect of each type of operation.

(Paragraph 3.1.44)

Recommendations

Audit has made six recommendations which included formulation of Integrated Passenger Transport Policy for the State, preparation of Annual Plans considering requirements of each bus service category and operational restrictions on MVS buses, streamlining of tendering process to avoid delays in awarding contracts, formulation of long term plans for augmentation/modernisation of workshops and production plan at Central Workshops considering their cost effectiveness, scientific fixation of standard man-hours/time limits for production activities along with implementation of production stage wise monitoring system and ensuring proper/timely actions for availing benefits of grants under Central/State Government schemes.

Introduction

3.1.1 The Maharashtra State Road Transport Corporation (Corporation) was incorporated on 1 July 1961 by Government of Maharashtra (GoM) under Section 3 of the State Road Transport Corporations Act, 1950 (Act). The Corporation is mandated to provide an efficient, adequate, economical and properly coordinated public road transport in Maharashtra. The Corporation has a monopoly in stage carriage in *mofussil* (rural) areas. It also operates city services in seven urban/semi urban locations[1] of Maharashtra. The Corporation has employed 1.07 lakh employees as on 31 March 2015. The Corporation has carried on an average 69.93 lakh passengers per day during the review period. The total number of passengers carried by the Corporation, however, decreased from 253.68 crore in 2010-11 to 245.60 crore in 2014-15.

The working of the Corporation is based on four tier system *i.e.* Central Office, six Regional Offices**,** 31 Divisional Offices and 250 Depots. The Corporation has three Central Workshops, 32 Divisional Workshops and 250 Depot Workshops.

The Corporation is under the administrative control of the Home Department (Transport) of the GoM. The Management of the Corporation is vested with a Board of Directors (Board) comprising of Chairman and 17 Directors including Vice Chairman & Managing Director (VC&MD), three Central and two State Government representatives. The day-to-day operations are carried out by the VC&MD who is the Chief Executive of the Corporation with the assistance of other executives.

[1] Sangli-Miraj, Nashik, Vasai-Virar-Nalasopara, Chandrapur, Ratnagiri, Nanded and Aurangabad

During the period 2010-11 to 2014-15, the Corporation had incurred total expenditure of ₹ 1,899.75 crore on purchase of 651 ready built buses, 8,207 in-house bus body building and 1,852 buses built from private agencies. As on 31 March 2015, the Corporation owned an operational fleet of 18,008 buses consisting of 15,891 Ordinary buses, 953 Semi Luxury buses, 536 City buses, 592 Midi[♣] Buses and 36 Air Conditioned (AC) buses. Further, 73 AC buses were taken on hire for operating services on select routes[2].

Financial Position and Working Results

3.1.2 The Corporation incurred losses during 2012-13 to 2014-15, though it had earned profit during 2010-11 and 2011-12. Consequently, accumulated losses had increased from ₹ 356.82 crore in 2010-11 to ₹ 1,676.46 crore in 2014-15. Despite huge accumulated losses and current liabilities/trade dues, the Corporation could manage the liquidity/cash flow with the help of Capital Contribution from GoM, Passenger Tax, Capital Grants received under various schemes and funds from internal resources. During the period from 2010-11 to 2014-15, the Corporation received capital contribution of ₹ 1,200.14 crore from GoM which were utilised for meeting overall working capital requirements including procurement of chassis/ready built buses and production of buses.

Scope of audit and objectives

3.1.3 The Performance Audit (PA) was conducted during April 2015 to July 2015 covering the procurement of Buses and working of workshops for five years from 2010-11 to 2014-15. The records at Corporation's Head Office, three Central Workshops, eight Divisional Workshops and 25 Depot Workshops were selected in Audit.

3.1.4 The audit objectives were to ascertain whether:

- proper planning existed for procurement/production of buses to cater to public service;
- due processes were followed for procurement of ready built buses/chassis and bus-body building;
- economy, efficiency and effectiveness was achieved in operations of Workshops/Depots and utilisation of resources; and
- mechanism existed for monitoring of various functions and activities of the Corporation and internal control/internal audit system.

Audit criteria and methodology

3.1.5 The audit criteria adopted for achieving the stated audit objectives were derived from the following documents:

- Provisions of State Road Transport Corporations Act, 1950, Government Resolutions issued by State Government and Policies of the Corporation;

[♣] Having seating capacity between 23 to 34 passengers plus driver as per Automotive Industry Standards (AIS)-052

[2] Mumbai-Pune-Mumbai, Pune-Nashik-Pune, Pune-Aurangabad-Pune *etc.*

- Purchase manual, Accounts manual, rules and regulations adopted by the Corporation and Plant Operating Manuals;
- Budget Estimates and Production Targets/norms prescribed from time to time by the Corporation;
- Preventive Maintenance Manual for activities like reconditioning/docking/ engine oil change *etc*.; and
- Internal Audit Reports, Agenda and Minutes of Board meetings and Management Information System (MIS).

The audit methodology adopted for attaining the objectives involved explaining audit objectives to the Management during an Entry Conference held in May 2015, analysis of data/records with reference to audit criteria, issue of audit enquiries and draft Performance Audit Report to the Management/Government for their comments. The draft PA Report was issued (September 2015) to the Corporation and Government. The replies of the Corporation (October 2015) have been considered while finalising the PA Report. The audit findings were also discussed in an Exit Conference (October 2015) wherein the representatives of the Corporation and GoM were present.

Acknowledgement

3.1.6 Audit acknowledges the co-operation and assistance extended by the Corporation at various stages of conducting the Performance Audit.

Audit findings

Planning

Absence of Comprehensive Passenger Transport Policy

3.1.7 An integrated/comprehensive Passenger Transport Policy was required to ensure an economic and efficient public transport system in the State, so as to provide better/adequate services to commuters at reasonable prices, eliminate operations of illegal passenger transport vehicles and reduction of congestion/pollution caused due to substantial increase in individual/private vehicles. The Corporation had submitted (February 2008) a concept paper for formulating the transport policy which was yet to be considered by the GoM (December 2015). It was felt that GoM needed to redefine the role of the Corporation in a fast changing transport scenario by formulating an Integrated Transport Policy.

Annual Planning

3.1.8 The Corporation prepares Annual operational plan for different types of bus services[3], on the basis of assessment of estimated traffic requirements, indicating 'Average Schedules' and 'Kilometres' to be operated per day

[3] Ordinary, Semi Luxury, Air Conditioned (AC), City *etc*.

during ensuing year and during May[4] of the following year. Schedule refers to trip wise planned operation of a vehicle during 24 hours of a day and for every schedule, one vehicle is required. The annual requirement of buses is assessed on the basis of 'Average Schedules' to be operated plus provision for spare buses at five *per cent* during May and eight *per cent* during remaining period of the year. Thereafter, Annual Plan for procurement of chassis, production[5] of new buses and purchase/hiring of ready built buses is prepared considering total buses required for operations and buses available as on 31 March of the previous year less buses due for scrapping during the year as per the norms[6].

Non achievement of planned operations

3.1.9 The Corporation has stated that it prepares the Annual Operational Plans considering the traffic requirements/demand and accordingly plans production /procurement of buses for meeting the operational requirements. Hence, it is essential to ensure availability of required crew[7] as per the prescribed norms[8], for ensuring achievement of planned operations as well as optimum utilisation of available buses. Summarised position of schedules/kilometres planned, actually operated and cancelled during 2010-11 to 2014-15 is as given below:

Year	Planned		Actually operated		Cancelled	
	Average Schedules (No.)	Kilometres (in crore)	Schedules (No.)	Kilometres (in crore)	Schedules (No.)	Kilometres (in crore)
1	2	3	4	5	6 (2-4)	7 (3-5)
2010-11	14,780	185.13	14,448	180.11	332	5.02
2011-12	15,428	193.45	14,958	189.03	470	4.42
2012-13	15,824	197.30	15,127	190.75	697	6.55
2013-14	16,052	201.58	15,450	195.08	602	6.50
2014-15	16,155	204.89	15,609	198.97	546	5.92
	Total				**2,647**	**28.41**

(Source: Monthly Operational Reports of the Corporation)

It could be seen that 2,647 planned schedules (ranging between 332 and 697) involving 28.41 crore kilometres were stated to be cancelled during the period 2010-11 to 2014-15. We observed that out of this, cancellation of 10.28 crore kilometres was attributed purely to shortage of crew which ranged between 27.84 and 47.60 *per cent* of total cancellations during these years. There was continuous shortage of crew for operation of planned schedules during the review period, though shortfall reduced from 7,307 in 2010-11 to 4,851 in 2014-15. The Corporation had to deploy available crew on overtime basis[9] for operations of planned schedules incurring overtime expenditure of ₹ 326 crore during the review period. Besides, 6.96 crore planned kilometres were cancelled due to other avoidable reasons such as shortage of buses, delay of

[4] May is the peak season for traffic and as a matter of abundant precaution, the requirement of vehicles is being calculated by considering the operation in May of the following year

[5] In-house production at Central Workshops and bus body building from outside agencies

[6] As per the policy of the Corporation, buses are scrapped after plying more than eight years

[7] A crew refers to one driver to one conductor

[8] Crew required for operating planned schedules is based on the norms of 1.40 per schedule considering their absenteeism and leave/holidays

[9] Double duty, off cancellation and cancellation of mandatory nine hours rest

buses from line/depot, defective buses and mechanical faults/breakdowns of buses. Therefore, there was cancellation of total 17.24 crore planned kilometres attributable to the above reasons. Remaining 11.17 crore kilometres were cancelled due to reasons beyond management control like less/no traffic, traffic jam, heavy rains, strike/agitation *etc*.

The Corporation accepted that there was shortfall of crew despite recruitments which had resulted in cancellation of kilometres.

Operational restrictions on buses procured under Manav Vikas Scheme

3.1.10 The Corporation formulated Annual Plans for passenger transport considering 'operational fleet available as on 31 March of the previous year'. We observed that the Corporation had procured (May to October 2012) 625 buses from funds provided by GoM for free transport facility to girl students in Government Schools of rural areas under Manav Vikas Scheme (MVS). As per the Scheme, these buses were being operated for school services for 215 days in a year. The Corporation was permitted to operate these buses for passenger transport during balance 150 days of the year within the concerned districts only. The Corporation, however, did not consider restrictions on use of these 625 buses while formulating Annual Plans and included them in the Annual fleet routinely. This adversely impacted operational planning at Depot level. These buses had to be operated on routes within the districts despite low passenger traffic[10] leading to low earnings per kilometre[11] thereby making the operations unviable. The Corporation requested (January and March 2015) the GoM for waiver of restrictions on these buses which was not accepted till date (December 2015).

The Corporation accepted that Annual Plan was formulated including MVS buses without considering their restricted availability and assured to take necessary corrective action in future.

Non formulation of service category wise procurement plan for buses

3.1.11 The Corporation operates different types of bus services *i.e.* Ordinary, Semi-Luxury, Air Conditioned (AC), City *etc.* The fare structure of each type of service is different and is intended to cater to different socio-economic categories of the society. As has been discussed earlier, the Corporation prepares Service category-wise average schedules per day to be operated during the year. Accordingly, assessment of requirement of buses and Annual Production/Procurement plans should have been worked out individually for each type of service category. Instead the Corporation had formulated requirement of buses and Annual Production/Procurement plans on aggregate of 'Average Schedules' to be operated which was not a proper approach. As a result, Corporation did not work out/maintain service category wise details of requirement of buses and cancellation of planned schedules/kilometres due to

---

[10] Load factor (in percentage) of MVS buses was 35.94 and 35.90 as against the overall load factor of 58.28 and 57.16 of the Corporation during 2013-14 and 2014-15 respectively

[11] During 2013-14 and 2014-15, Earnings per kilometre (EPKM) from MVS buses were ₹ 14.97 and ₹ 16.44 as against overall EPKM of Corporation of ₹ 25.94 and ₹ 27.57 respectively

shortage of buses. Though, the Corporation managed to increase the operational fleet of Ordinary buses from 14,211 in 2010-11 to 16,483 in 2014-15, there was reduction in operational fleet of Semi luxury buses and AC buses leading to overall shortage of buses during the review period as discussed in the subsequent paragraphs.

The Corporation accepted the facts and assured that Service category-wise assessment of requirement of buses and production/procurement plan will be formulated in future.

Procurement of chassis and buses

Annual Plans for Production/Procurement

3.1.12 For meeting annual requirement of buses, the Corporation planned procurement of chassis for production of new buses at three Central Workshops considering their manpower availability as well as bus body building from private agencies. Besides, procurement of ready built buses and hired buses was also planned. Year-wise details of production/procurement planned, actually achieved and shortfall during 2010-11 to 2014-15 was as detailed below:

Year	Production		Purchase of ready built/ hired buses	Total
	Central Workshops	Private agencies		
	Planned production/procurement			
2010-11	2,080	436	365	**2,881**
2011-12	2,160	675	50	**2,885**
2012-13	1,983	845	0	**2,828**
2013-14	2,200	150	450	**2,800**
2014-15	1,863	645	0	**2,508**
	Actual Production/procurement			
2010-11	2,013	417	219	**2,649**
2011-12	2,063	393	429	**2,885**
2012-13	2,015	941	3	**2,959**
2013-14	1,441	101	0	**1,542**
2014-15	675	0	0	**675**
	Shortfall in production/procurement			
2010-11	67	19	146	**232**
2011-12	97	282	-379	**0**
2012-13	-32	-96	-3	**-131**
2013-14	759	49	450	**1,258**
2014-15	1,188	645	0	**1,833**

(Source: Information furnished by the Corporation)

The Corporation, except in 2011-12 and 2012-13 could not achieve production/ procurement targets and the shortfall in production targets for the remaining three years ranged from 232 to 1,833 buses. This resulted in continuous shortage of buses during the review period leading to cancellation of 2.93 crore planned kilometers besides operation of overaged buses.

Avoidable delay in finalisation of tender for supply of chassis

3.1.13 The Corporation had planned for production[12] of 2,350 buses and 2,508 buses during 2013-14 and 2014-15 respectively. The production was planned considering the requirement of additional buses and buses due for scrapping during the period. Thus, timely finalisation of tenders was essential to ensure adequate availability of chassis to meet the production targets and scrapping of buses.

We observed that the purchase order for supply of ordinary bus chassis awarded (September 2012) was valid upto 12 December 2013. Subsequent tender for supply of chassis[13] was, however, awarded (30 June 2014) after a lapse of more than six months due to administrative delays such as belated invitation of tenders (October 2013) and non issue of offer letter to the successful bidders before Model Code of Conduct (MCC) of Lok Sabha Elections (effective from 5 March 2014) despite Board's approval (February 2014). Delivery of chassis against new tender commenced from 6 September 2014. As a result, there were no chassis available for production of new buses at three Central Workshops during the period 25 January 2014 to 5 September 2014 which led to non achievement of the operational plans and scrapping plans.

The Corporation attributed delay in finalisation of tender to financial constraints and imposition of code of conduct during the election period. The reply was not acceptable as the running contract for procurement of chassis was to expire in December 2013. The Corporation was also well aware of the restrictions due to model code of conduct, and hence adequate efforts should have been made for timely finalisation of the contract for procurement of chassis and for utilisation of the available budget provisions. Besides, during 2013-14 and 2014-15, the Corporation had to cancel 1.47 crore kilometres due to shortage of buses which was more than the combined total of kilometres cancelled during previous three years (1.46 crore kilometres).

Operation of overaged Ordinary buses

3.1.14 The Corporation had adopted (August 2009) policy for scrapping the buses after plying for eight years. This policy was adopted on the grounds that operation of overaged buses was not financially viable. Besides, 'Environment Tax' was payable[14] annually on passenger transport vehicles which were more than eight years old. Year-wise details of overaged buses due for scrapping,

---

[12] In-house production at Central Workshops and bus body building from private agencies

[13] 1,800 chassis

[14] 2.50 *per cent* or 10 *per cent* of the applicable Motor Vehicle Tax

actually scrapped and shortfall thereof during 2010-11 to 2014-15 was as detailed below**:**

Particulars	Year				
	2010-11	2011-12	2012-13	2013-14	2014-15
Buses due for scrapping	2,485	2,235	2,198	2,152	2,006
Actually scrapped	2,419	1,988	2,163	1,518	372
Shortfall in scrapping	66	247	35	634	1,634

(Source: Information furnished by the Corporation)

It could be seen that there was shortfall in scrapping of old buses during all these years which had increased from 66 in 2010-11 to 1,634 in 2014-15. The shortfall had increased substantially during 2013-15 because of shortfall in production of buses due to delayed finalisation of tender for procurement of chassis. As on 31 March 2015, the Corporation had 1,634 overaged buses. The Corporation had, however, neither quantified financial impact of operating overaged buses nor maintained separate records related to operating costs and repairs and maintenance (R&M) expenses on such overaged buses. Further, the Corporation paid ₹ 41.55 lakh for the period 2010-11 to 2015-16 as environment tax for operation of overaged buses.

The Corporation accepted that there was no Management Information System to work out bus wise R&M cost and it was under their active consideration.

Shortage of Semi Luxury buses

3.1.15 Year-wise details of Semi Luxury buses held and operational performance thereof during 2012-13 to 2014-15 is given below:

Year	No. of operational semi luxury buses	Average schedules operated	Effective kilometre (in lakh)	Passenger carried (in lakh)
2012-13	1,284	1,284	2,024	780
2013-14	1,086	1,093	1,706	679
2014-15	953	837	1,370	516

It could be seen that the operational fleet of Semi Luxury buses reduced from 1,284 in 2012-13 to 953 in 2014-15 which had reduced operated schedules from 1,284 to 837 (35 *per cent*) and effective kilometres from 2,024 lakh kilometres to 1,370 lakh kilometres (32 *per cent*). The Corporation had planned operation of 1,388, 1,364 and 1,423 schedules of semi luxury buses during the month of May 2012, May 2013 and May 2014 respectively. As against the requirement[15], the Corporation had, however, only 1,284, 1,086 and 953 buses leading to shortage of 173, 346 and 541 buses for meeting operational requirements during 2012-13, 2013-14 and 2014-15 respectively. We further observed that during 2012-13 to 2014-15, the Corporation converted[16] 868 'semi luxury buses' into 'ordinary buses' while only 472 new semi luxury buses were inducted in service. Thus, conversion of 'Semi luxury

[15] Considering provision of spare buses at the rate of five *per cent,* requirement worked out to 1,457, 1,432 and 1,494 respectively

[16] As per the policy (August 2004) of the Corporation, semi luxury buses are converted into ordinary buses after three years from the date of registration

buses' into 'Ordinary buses' coupled with non-procurement of matching/ additional new buses led to shortage/reduction of semi luxury buses which had an adverse impact on their operational performance.

The Corporation stated that there was operational shortage of semi luxury buses as the proposal for hiring of 600 semi luxury buses was not approved by the GoM. The reply was not acceptable as conversion should have been postponed till arrangement of matching or additional new procurement of semi luxury buses. Further, the Corporation had hired 500 AC/Non-AC buses in August 2015 without obtaining approval of GoM.

Shortage of Luxurious Air Conditioned buses

3.1.16 The Corporation is operating luxurious Air Conditioned (AC) buses on selected routes like Pune-Mumbai, Pune-Nashik, Pune-Aurangabad. During March-June 2011, the Corporation purchased 25 Volvo make AC buses while 90 buses were hired from private agencies during May 2009 to June 2013 on kilometres payment basis[17]. The Corporation had consistently earned profits from AC bus services during the review period. Thus, the Corporation needed to augment its operational fleet and increase operations on these established routes to maximise profits.

It was observed that the operational fleet of AC buses reduced from 115 in 2012-13 to 98 in 2014-15. This led to reduction of operated kilometres by 19 lakh kilometers. There was substantial reduction of AC buses during 2014-15, as 16 hired buses were removed from operations against which new buses were not procured. As against the requirement of 150 buses assessed (July 2014) by the Corporation, there were only 98 buses as on 31 March 2015. We further observed that:

3.1.17 Agreements with the private bus owners were entered into for a period of three years (extendable upto maximum five years). The hired buses were compulsorily removed from operation after completion of five years from the date of agreement/operation. As the Corporation was aware that 18 hired buses were completing five years operation in March-April 2015, procurement (hire/purchase) of matching number of buses was to be ensured accordingly to avoid loss of revenue.

The Board approved (July 2014) initiating tendering process for hiring of buses which were due for removal in March-April 2015. Simultaneously, Board approved for initiating tendering process for purchase of 25 AC buses for augmentation of the existing fleet. E-tender for hiring of buses was invited (October 2014) which did not materialise due to technical flaws in the e-tendering system. Meanwhile, technical and financial bids of two successful bidders[18] against tenders invited (August 2014) for procurement of buses was

[17] New air-conditioned buses provided by private agencies with drivers and expenditure on their running. The Corporation was to provide conductors, pay fuel charges at agreed rates and make payment as per the actual kilometres operated

[18] Scania Commercial Vehicles India Private Limited (SCVIPL) and Volvo Buses India Private Limited (VOLVO)

opened (December 2014) and the Board subsequently decided (March 2015) to procure 70 buses including replacement against buses due for removal in March-April 2015 by awarding purchase order to both the bidders (35 each). The purchase order was finally placed (April 2015) after a period of more than four months from the date of opening of bids leading to shortage of AC buses. The Corporation (Pune Division) removed nine AC buses which completed five years during the period 20 March 2015 to 20 April 2015 against which new buses were received only during 13 May 2015 to 3 June 2015. Consequently, Corporation had to cancel 2.17 lakh kilometres thereby foregoing potential profit of ₹ 46.36 lakh[19] besides causing inconvenience to passengers.

The Corporation attributed the same to non-materialisation of tender for hiring of AC buses due to exorbitant rates received.

The reply was not convincing as the tender for hiring of buses were invited only in October 2014 which had not materialised as the technical flaws noticed in the system were not resolved. The Corporation should have finalised the procurement of AC buses well in advance so as to ensure availability of buses during peak season, as it was a profitable segment.

Avoidable cancellation of trips of AC buses due to non-availability of drivers

3.1.18 The Pune Division had 10 own Volvo make AC buses which were procured during March-June 2011. The Division received nine new Volvo make AC buses during May-June 2015 thereby making total fleet of own buses to 19. As per the tender condition, suppliers were to impart free training to drivers of the Corporation for operation of AC buses. The Corporation, in accordance with procurement plan, should have ensured training of drivers for operation of AC buses and no cancellation of trips on account of non-availability of drivers.

We observed that due to shortage of trained drivers, Pune Division cancelled 691 trips of these AC buses (1.05 lakh kilometres) during May to July 2015. The Division had only 36 drivers as against requirement of 51 drivers leading to shortage of 15 drivers to operate available AC buses. It indicated improper planning due to which Corporation was deprived of potential profit of ₹ 25.63 lakh.[20]

The Corporation attributed cancellation to absenteeism of drivers, shortage of vehicles, breakdowns *etc.* and not due to shortage of trained drivers. The fact was that the records/information furnished by the Pune Division clearly indicated shortage of 15 trained drivers resulting in cancellation of trips.

---

[19] Considering average profit of ₹ 21.41 per kilometre (hired buses) during March-June 2014

[20] Considering average profit per kilometre of ₹ 24.41 for 1.05 lakh kilometres earned from operations of own AC buses during May-July 2014

Quality assurance of buses built by private agencies

3.1.19 During the period 2009-10 to 2012-13, the Corporation awarded seven contracts for fabrication and mounting of bus bodies (bus body building) on 1,955 chassis for total contract cost of ₹ 141.32 crore. As per contract, the fabrication and mounting of semi luxury bus bodies was to be carried out in accordance with the drawings and specifications of materials prescribed by the Corporation. However, there was no provision in the tender/contract for laboratory testing of materials at accredited laboratories so as to ensure that specified/standard quality of materials was used in fabrication of buses by the private agencies.

We observed that the Corporation had ensured quality assurance of buses produced at Central Workshops through random sample testing of materials at accredited laboratories[21]. Further**,** State Road Transport Undertakings (SRTUs) of Gujarat, Uttar Pradesh and Rajasthan had incorporated material sample testing clause in the contracts awarded by them to private agencies at different stages of bus body building. The Corporation, however, got 1,955 buses worth ₹ 141.32 crore fabricated without sample testing of materials and therefore the quality/specification of materials used by private agencies could not be assured.

The Corporation assured that suitable clause for random sample testing will be incorporated in contracts awarded in future in line with the other STUs.

Working of Workshops

3.1.20 The Corporation has three Central Workshops, 32 Divisional Workshops and 250 Depot Workshops. These workshops are under the administrative control of the Mechanical Engineering Department at Head Office headed by General Manager (ME).

Central Workshops

3.1.21 Three Central workshops at Aurangabad, Nagpur and Pune were established in February 1975, June 1972 and February 1950 respectively. The Central Workshops are entrusted with production related activities like bus body building on new chassis, re-body building of old buses, reconditioning and repairs of engines/Fuel Injection (FI) pump and tyre retreading[22].

As per bus building code (Automotive Industry Standard-AIS: 052) made mandatory by Ministry of Road and Transport Highways (MoRTH), GoI with effect from 1 April 2015, every bus manufacturer is required to obtain accreditation certificate from Central Institute of Road Transport (CIRT) to demonstrate their capabilities to build buses as per the standards prescribed in the code. The Corporation has adopted AIS 052 for bus body building with effect from 1 April 2015.

[21] CIRT, Pune, Automotive Research Association of India (ARAI) Pune, and Indian Rubber Manufacturers Research Association (IRMRA) Thane *etc*.

[22] Tyre retreading activity was carried out only at Pune

Details of production activities carried out at Central Workshops during 2010-11 to 2014-15 were as given below:

Particulars	Year					Total
	2010-11	2011-12	2012-13	2013-14	2014-15	
Bus body building (new)	2,013	2,063	2,015	1,441	675	**8,207**
Re-body building of buses/RBB	14	25	6	10	114	**169**
Reconditioning of buses/RC	44	12	13	774	1,509	**2,352**
Reconditioning/Repair of Engines	2,864	2,553	2,367	2,580	3,204	**13,568**
Reconditioning/repair/calibration of Fuel Injection Pumps	4,988	4,832	4,781	5,293	6,820	**26,714**

It could be seen that during 2010-11 to 2014-15, three Central Workshops carried out bus body building and re-body building of 8,207 and 169 buses respectively. Reconditioning (RC) of 2,352 old buses, reconditioning/repair of 13,568 engines and 26,714 fuel injection pumps (including calibration of pumps and automiser nozzles) was also done during the same period.

Non-determination of installed capacity of Central Workshops

3.1.22 Installed capacity of production workshop is to be determined considering the existing infrastructure (area), layout, different machineries/ equipment, man power and number of shifts, identification of idle capacity and constraints in production and efficient utilisation of resources.

We observed that the production capacity of Central Workshops was worked out annually by the Corporation considering available manpower at various incentive levels without considering existing infrastructure and capacity of the installed machineries/equipment. Consequently, the Corporation had not ensured optimum and efficient utilisation of resources.

The Corporation assured that steps would be taken to determine the installed capacity of the Central Workshops.

Modernisation/Augmentation of Central Workshops

3.1.23 Modernisation and replacement of deteriorated/overaged machineries is essential for improvement of production performance, quality of production/ maintenance works and cost reduction (manpower cost and material cost due to reduction of wastages). Since these three Central Workshops of the Corporation at Aurangabad, Nagpur and Pune were functioning with very old machineries, the average age of machines installed at the three workshops ranged from 20 to 28 years[23] against average life of 10 years prescribed by the Corporation as detailed below:

Name of Central Workshop	No. of machines installed/working	Average age of machineries (years)
Aurangabad	146	20
Nagpur	126	21
Pune	84	28

(Source: Information furnished by the Corporation)

[23] Age of the machineries at three Central Workshops ranged between 1 to 63 years

The Corporation had replaced 20 machines and nine machines were installed on trial basis during the review period. However, there was no long term plan for modernisation and augmentation of production capacity of the workshops. Further, no study was undertaken for exploring the scope for outsourcing cost saving manufacturing activities involved in bus production.

The Corporation stated that a Committee for modernisation and replacement of deteriorated/overaged machineries has been constituted and detailed report with recommendation was awaited.

3.1.24 The Corporation prepares Annual Capital Budget based on the requirements received from the field offices. The Corporation provided fund for procurement of Plant, Machinery and Equipment required for upgradation/replacement in the Capital Budget. Summarised position of Budgeted and actual capital expenditure for procurement of Plant, Machinery and Equipment for the year 2010-11 to 2014-15 was as given under:

Year	Provision made in the Budget	Actual expenditure	Under-utilisation of Budget	
	Amount (₹ in crore)			Per cent
2010-11	34.65	7.43	27.22	79
2011-12	27.88	6.76	21.12	76
2012-13	10.00	2.20	7.80	78
2013-14	12.00	2.66	9.34	78
Total	**84.53**	**19.05**	**65.48**	

During 2010-11 to 2013-14 though ₹ 84.53 crore was sanctioned in the budget for procurement of Plant, Machinery and Equipment, only ₹ 19.05 crore was spent leading to under-utilisation of budgeted funds to the extent of ₹ 65.48 crore (ranging between 76 and 79 *per cent* every year). As a result, upgradation/replacement of machineries as envisaged and planned for did not materialise.

The Corporation stated that under-utilisation of budgeted funds was due to lack of response to tenders as well as non-participation of major/renowned manufacturers in view of their higher rates. The Corporation assured that necessary steps would be taken to ensure modernisation of machineries in workshops.

Absence of scientific criteria for fixation of standard man hours for production

3.1.25 The Corporation has fixed Standard Man Hours (SMH) for production related activities at Central Workshop which are revised from time to time. The workers engaged in production are eligible for payment of production incentive for number of units produced in excess of standard production calculated with reference to prescribed SMH. Hence, proper/scientific fixing of SMH on the basis of findings/reports of time and motion study (or other appropriate studies) was very critical to ensure optimum utilisation of available manpower, avoid idle wages and unwarranted payment of production incentives.

Production activity wise SMH at three Central Workshops as on 31 March 2015 were as detailed below:

Production Activity	Type of Bus	Pune	Aurangabad	Nagpur
Bus body building on new chassis and Re-body building	Ordinary	1,000	972	962
	Semi-luxury	1,200	1,166	1,154
Reconditioning of Engines	Ordinary/Semi Luxury	95	106	93
Reconditioning of FI Pumps		7.70	7	7

It could be seen that different SMH were fixed for similar production activities at three Central Workshops due to variations in plant layout. The SMH for all the production activities were however lowest at Central Workshop, Nagpur.

The Corporation had fixed SMH without any scientific study. The Corporation had appointed (1991) a consultant (Kirloskar Consultant Limited, Pune) for carrying out scientific study of all three Central workshops. The SMH recommended by the consultant for ordinary and semi luxury bus body building ranged between 665 to 757 and 812 to 918 respectively. However, the recommendations made by Consultant were not implemented due to resistance from labour unions. The Corporation, however, had reduced the SMH for bus body building of ordinary and semi luxury buses in phased manner from 1,650-1,700 and 3,300-3,400 prevailing in 1992 to 962-1,000 and 1,154-1,200 in 2013 despite the fact that installed plant and machineries were getting old. Thus, reasonability of existing SMH and consequent payment of production incentives could not be ensured.

The Corporation accepted the facts and stated that proposal to carry out time and motion study for working out SMH for bus body building as per AIS 052 implemented with effect from April 2015 would be considered.

3.1.26 It was also observed that the Corporation had not revised SMH for reconditioning/repair of Engines and FI pumps since 2003. The Central Workshops had submitted (September 2013) proposals for reduction of SMH for engine by 16-18 hours and for FI pump by 1.20-1.30 hours. The Corporation, however, decided not to implement the same for which no reasons were found on records.

The Corporation stated that re-assessment of SMH for engine and FI pumps was not the part of the wage settlement and as such the same could not be linked with SMH for bus body building. The Corporation may undertake timely review for suitable revision of SMH of production activities related to engines/FI pumps as was done in case of bus body building.

Cost of production of bus body building at Central Workshops

3.1.27 Monthly production cost statements are prepared indicating element wise cost (material, labour and overheads) and average cost of production of bus body building undertaken at three Central Workshops. However, production plan for bus body building (Ordinary/Semi Luxury) at three Central Workshops was formulated without taking into consideration cost of production. Year-wise details of Ordinary buses produced, cost of production per bus and average man-hours utilised per bus at the three Central Workshops during 2010-11 to 2014-15 was as given below:

Particulars	No. of buses produced			Cost per bus (₹ in lakh)			Actual Manhours utilised per bus		
	Aurangabad	Pune	Nagpur	Aurangabad	Pune	Nagpur	Aurangabad	Pune	Nagpur
2010-11	582	700	516	5.70	5.45	5.22	964	1,044	836
2011-12	643	779	541	6.41	5.66	5.45	945	958	767
2012-13	644	872	499	6.51	5.96	6.16	944	857	853
2013-14	478	623	340	6.57	6.63	6.57	964	873	837
2014-15	159	243	145	7.13	6.81	6.84	887	970	853
Total	**2,506**	**3,217**	**2,041**	**6.46**	**6.10**	**6.05**	**941**	**940**	**829**

It could be seen that during 2010-11 to 2014-15, Central Workshops at Aurangabad, Pune and Nagpur produced total 2,506, 3,217 and 2,041 Ordinary buses at average cost per bus of ₹ 6.46 lakh, ₹ 6.10 lakh and ₹ 6.05 lakh respectively. The average cost of production was lowest at Nagpur followed by Pune, while it was highest at Aurangabad during the same period. The actual man-hours utilised per bus as well as SMH fixed by the Corporation were lowest at Nagpur which contributed to lower labour cost. Further, there was no octroi/local body tax on materials procured at Nagpur unlike the other two workshops. Despite being the most cost efficient workshop, production of Ordinary buses at Nagpur was lowest as compared to other two Central Workshops and in particular Aurangabad which was the costliest.

The Corporation had also carried out in-house body building of 160 Semi Luxury buses at Aurangabad and Pune workshops during 2010-11[24]. The Aurangabad workshop produced 112 buses at average cost of ₹ 7.99 lakh whereas the Pune Workshop produced 48 buses at average cost of ₹ 6.85 per bus. Thus, cost of production of Semi Luxury buses was higher at Aurangabad by ₹ 1.14 lakh mainly on account of material cost (₹ 0.78 lakh) and overheads (₹ 0.30 lakh). This led to excess expenditure to the extent of ₹ 1.28 crore on production of 112 semi luxury buses.

The Corporation could have reduced production expenditure by reduction of production/manpower at Aurangabad[25] and proportionately enhancing production of buses at Nagpur and Pune by increasing existing manpower, but no such deployment was done. Thus, it was in the financial interest of the Corporation to plan production of buses considering cost effectiveness of the workshops.

The Corporation acknowledged the fact that Nagpur Workshop was most economical/cost effective and hence production level needed to be increased. It was further stated while conducting fresh recruitments, vacancies at Nagpur Workshop would be filled on priority to increase the production level.

[24] No production of semi luxury buses during 2011-12 to 2013-14 while during 2014-15 production was undertaken at Aurangabad workshop only

[25] As on 31 March 2015, sanctioned/actual manpower at Aurangabad, Pune and Nagpur was 618/362, 1,134/563 and 407/271 respectively

Bus body building on new chassis

3.1.28 The purchase orders for supply of chassis (Ordinary/Semi Luxury) were awarded to two automobile manufacturers during the period from 2010-11 to 2014-15. During the period from 2010-11 to 2014-15, Central Workshops received 8,808 chassis for bus body building. The bus body building on 8,207 chassis was completed while balance 601 chassis were either lying in yard or were in process as on 31 March 2015.

Blocking of funds due to chassis lying idle in yard

3.1.29 As per terms and conditions of the purchase orders, chassis were to be supplied at three Central Workshops for bus body building according to delivery schedule given by the Corporation from time to time *i.e.* 50 *per cent* of the scheduled quantity before 15th and balance 50 *per cent* by last day of every month. The Corporation had the right to make changes in the delivery schedule *i.e.* to cancel, increase or decrease the quantity of chassis ordered. Further, before actual delivery of chassis, the supplier was required to give intimation to the concerned Central Workshop stating number of chassis being supplied and date on which chassis would be supplied. The intimation was required to be given in advance so that concerned Workshop could plan inspection of chassis and production programme of bus body building.

Keeping in view of the terms of the contract, delivery schedule should have been planned in such a manner that chassis should not remain in yard (stock) for more than 15 days. Out of 8,207 buses produced during the period under review, production data related to 6,689 buses was analysed and the results thereof were as under:

Sl. No.	Particulars	Aurangabad	Nagpur	Pune	Total
1	Production data of no. of buses analysed	2,054	2,046	2,589	6,689
2	No. of chassis lying in yard for period beyond 15 days	1,265	1,332	268	2,865
3	Percentage of chassis lying in yard for period beyond 15 days (2/1)*100	62	65	10	43
4	Total no of days (cumulative) chassis remained idle above 15 days	13,262	19,399	4,285	36,946
5	Interest loss due to blocking of funds (₹ in lakh)	21.68	37.81	8.21	67.70

(Source: Information furnished by the Corporation)

There were 62 *per cent* chassis at Aurangabad, 65 *per cent* at Nagpur and 10 *per cent* at Pune lying idle in stock for period ranging between 16 to 164 days. In 55 cases[26], chassis remained idle for a period above one month. This had resulted in blocking of funds and consequent loss of interest to the extent of ₹ 67.70 lakh during the period under review.

The Corporation stated that fixed cost in terms of labour charges of the three Central Workshops was permanent financial burden and hence actual receipt of the chassis was planned in such a way that there should not be any shortage of chassis for production due to some uncontrollable reasons. The Corporation,

[26] Aurangabad: 31, Pune : 16 and Nagpur: 8

however assured to streamline production process and avoid delays as pointed out by audit.

Delay in production and dispatch of buses

3.1.30 The Corporation had not fixed any time limit for completion of bus body building and dispatch of buses from the date of receipt of chassis. The Corporation had stipulated time limit of 35 days for delivery of buses from the date of handing over of chassis (including time taken for transportation) in respect of bus body building work given to private agencies[27]. The private agencies were also liable to pay penalty for delay in delivery within stipulated period ranging from ₹ 2,000 to ₹ 5,000 per day. Results of analysis of production data relating to 6,751 new buses built at three Central Workshops during 2010-11 to 2014-15 were as under:

Sl. No.	Particulars	Aurangabad	Nagpur	Pune	Total
1	Production data of no. of buses analysed	2,093	2,147	2,511	**6,751**
2	Average no. of days taken from date of receipt to dispatch of buses	47	45	31	
3	No. of buses which were dispatched beyond a period of 35 days	1,604	1,527	392	**3,523**
4	Percentage of buses dispatched beyond 35 days (3/1)*100	77	71	16	
5	Cumulative delay in production and dispatch beyond 35 days (No. of days)	29,069	27,044	8,828	**64,941**

(Source: Information furnished by the Corporation)

It was observed that average time taken for dispatch of buses at Aurangabad and Nagpur was 47 and 45 days respectively from the date of receipt of chassis whereas in respect of Pune it was 31 days. Majority of buses at Aurangabad (77 *per cent*) and Nagpur (71 *per cent*) were dispatched after a period of 35 days from the date of receipt of chassis. Out of 6,751 buses analysed, 3,523 buses were dispatched beyond a period of 35 days. The delay was attributed to administrative reasons like delay in receiving bus allocation from Central Office, transit delay of drivers of the allocated divisions to reach workshop after intimation, extra time for Regional Transport Office (RTO) passing *etc.* Had the Corporation ensured production/dispatch of the buses within reasonable time, the buses would have been available for operations and started earning revenue. Total idle charges[28] for 64,941 days were ₹ 8.64 crore to the Corporation.

The Corporation assured to fix standard time limit for completion of bus body building work so as to streamline production process and avoid delays as pointed out by audit.

Premature failure of Reconditioned engines

3.1.31 As per the policy (March 2003) of the Corporation, the engines reconditioned at Central Workshops should normally run smoothly for minimum guaranteed 25,000 kilometres. During 2010-11 to 2014-15, the

[27] 1,955 buses during 2009-10 to 2013-14

[28] Idle charges (per day per ordinary bus) for buses remaining idle due to accidents ranged between ₹ 948.38 and ₹ 1,545.92 during 2010-11 to 2013-14

Corporation had reconditioned 13,154 engines, of which 2,302 engines had prematurely failed. The percentage of premature failure ranged between 12.28 and 23.76 *per cent*. In fact, 248 engines (10.77 *per cent*) had failed immediately at zero kilometres itself. The Corporation incurred an expenditure of ₹ 10.36 crore on reconditioning of these 2,302 prematurely failed engines. The Central Workshops attributed failure to poor maintenance by the concerned Divisions/Depots. The Corporation, however, did not put in place a monitoring system for fixing responsibility in cases of premature failures.

The Corporation stated that various steps were being taken to arrest premature failure of Reconditioning (RC) engines and MIS indicating analysis of premature failure was prepared by workshops. The reply of the Corporation was, however, silent on absence of monitoring system for fixing responsibility.

Incorrect system of payment of production incentives

3.1.32 Production of a bus is to be treated as completed only when the bus is ready for inspection/registration after completion of production activities by all the production shops. The Corporation had time and again directed the workshops to ensure to pay the production incentive only in respect of completed units.

During the period from 2010-11 to 2014-15, the Central Workshop, Aurangabad paid production incentive of ₹ 3 crore for bus body building. We observed that production of bus was incorrectly treated at 61 *per cent* completion stage. Balance works (39 *per cent)* were completed during subsequent months only. This practice was being followed by workshop since long time. As a result, monthly incentive was being paid on incomplete vehicles. This had resulted in irregular payment of incentive in advance on such incomplete vehicles which was otherwise payable only during subsequent month/s when the bus was completed and ready for registration.

The Corporation assured that the matter was being thoroughly investigated and instructions had been reiterated to ensure payment of incentive only for completed vehicles.

3.1.33 As per the policy of the Corporation, production incentive was not payable for attending repairs of prematurely failed engines which were reconditioned at Central Workshops.

We, however, observed that Pune workshop was making payment of production incentives for attending repairs of prematurely failed engines. During the period from 2010-11 to 2014-15, incentive of ₹ 14.51 lakh was paid which was inadmissible as per the policy of the Corporation. The other two Central Workshops (Aurangabad and Nagpur) had attended the same without payment of any incentives. The Corporation stated that the matter was being investigated.

Divisional Workshops

3.1.34 The 32 Divisional Workshops and 250 Depot Workshops of the Corporation were entrusted with various repair and maintenance (R&M) activities like RC of buses, docking of buses, obtaining periodical fitness certificates of vehicles from RTO, top up and engine oil change as per schedule prescribed by the Original Equipment Manufacturers (OEM). There was shortfall of manpower at workshops during all the years under review which ranged between 28 and 32 *per cent* of the sanctioned strength. Consequently, preventive maintenance activities of buses like docking, reconditioning *etc*. were not done in time. Delay in scheduled maintenance was one of the factors besides road condition, driving habits of drivers, age of the bus, engine condition, traffic congestion *etc.* which had an adverse impact on operational efficiency. Cancellation of kilometres due to breakdown of buses and defective vehicles increased from 25.89 lakh in 2010-11 to 36.20 lakh kilometres in 2014-15. Similarly, fuel efficiency[29] (kilometre per ten litre) also decreased from 49.47 in 2010-11 to 47.85 in 2014-15.

Docking of buses

3.1.35 Docking of buses was carried out at Depot and Divisional Workshops which involved checking and repair of various functions of the buses. The scheduled docking was revised from six to four dockings per year from 2012-13 as per the recommendation of chassis manufacturers. It was observed that percentage of timely dockings had reduced from 90.41 *per cent* in 2010-11 to 85.46 *per cent* in 2014-15 despite significant reduction (23 *per cent*) in number of buses due for docking. Further, details of stage wise number of dockings due and dockings actually carried out under each stage were also not available in the Monthly Operational Reports (MORs).

The Corporation stated that constant efforts were being made to complete the docking programme in time despite severe shortage of manpower.

Reconditioning of buses

3.1.36 Reconditioning (RC) of bus involves replacement of damaged parts of engine, clutch and transmission, steering and suspension, wheel and brake, bus body, seats, painting work *etc*. As per the policy of the Corporation, RC of buses is to be carried out three times during the life of a bus, first RC after three years from the date of registration, second RC after two years from the date of first RC and third RC after two years from the date of second RC. It was noticed that there was shortfall in reconditioning of buses during all the five years under review ranging between 853 and 928 buses which was attributed to shortage of manpower. Further, the Corporation had not generated Management Information System (MIS) on stage wise number of buses due for each RC (first, second, third and fourth) and actually reconditioned under each category.

[29] Consumption of High Speed Diesel

The Corporation assured that history of RC of individual bus would be maintained after computerisation of all its activities.

Excess expenditure on reconditioning of buses

3.1.37 The Corporation has established Divisional Reconditioning Units (DRUs) at Divisional Workshops which are carrying out periodical RC of buses. RC works have to be carried out as per the maintenance manual of the Corporation which stipulated replacement of damaged parts of engine, chassis and bus body. Due to non-availability of chassis for bus body building during 2013-14 and 2014-15 as discussed earlier in **Paragraph 3.1.13,** the Corporation was constrained to assign RC work to three Central Workshops in lieu of production of new buses. During the years 2013-14 and 2014-15, three Central Workshops carried out RC of 774 and 1,509 buses respectively (work related to chassis and bus body excluding engine).

We observed that Divisional Workshops had carried out RC (engine, chassis and body) by replacing only damaged/required bus parts in accordance with maintenance manual. On the other hand, Central Workshops had completely replaced majority of bus body parts (glasses, seats *etc.*) in a purely maintenance activity. Hence, replacement of majority of parts with new material instead of replacing only damaged parts at Central Workshops in accordance with the maintenance manual was unwarranted especially when the Corporation had been incurring huge losses.

Analysis of Monthly Production Cost Statements revealed that reconditioning cost per bus at three Central Workshops was ₹ 2 lakh and ₹ 2.38 lakh in the years 2013-14 and 2014-15 respectively. As against this, average reconditioning cost per bus at three test checked Divisional Workshops (Pune, Nashik and Kolhapur) was ₹ 0.31 lakh and ₹ 0.32 lakh respectively during the same period. As a result, the Corporation incurred excess expenditure of ₹ 42.80 crore on reconditioning of buses at Central Workshops, when it was already under financial constraints.

The Corporation stated that Central Workshops had utilised new material and hence RC done by Central Workshops was of superior quality and had longer life than that of Divisional Workshops. The reply of the Corporation was not convincing as RC was required to be done in accordance with the Corporation’s own maintenance manual which was being followed by the Divisional Workshops for RC work. The Central Workshops had done the work without adhering to prescribed maintenance manual thereby leading to unwarranted expenditure.

Delay in completion of reconditioning works

3.1.38 Three Central Workshops carried out reconditioning of 2,283 buses during 2013-14 and 2014-15 while only 69 buses were reconditioned during previous three years. Thus, there was sudden increase in withdrawal of buses from operations for RC works at Central Workshops solely due to non-availability of chassis for bus body production. Proper coordination and planning was required to ensure that buses withdrawn from operations for RC works at Central Workshops were reconditioned and dispatched to user divisions at the earliest.

Analysis of data relating to 2,218 buses reconditioned at three Central Workshops during 2013-14 to 2014-15 revealed the following:

Sl. No.	Particulars	Reconditioning of Buses			Total
		Aurangabad	Nagpur	Pune	
1	Data of no. of RC buses analysed	656	600	962	2,218
2	No. of buses which were dispatched beyond period of 35 days	284	55	89	428
3	Percentage of buses dispatched beyond period of 35 days (2/1)*100	43.29	9.17	9.25	
4	Cumulative delay in completion of RC and dispatch of buses beyond period of 35 days (No. of days)	6,022	385	900	7,307

(Source: Information furnished by the Corporation)

It could be seen that RC of 428 buses were completed and buses dispatched after a period ranging between 36 to 127 days from the date of receipt. The time taken for reconditioning and dispatch of buses was highest at Aurangabad workshop where 43.29 *per cent* of reconditioned buses were dispatched after 35 days. The idle charges for buses remaining off road for 7,307 days[30] at three Central Workshops worked out to ₹ 1.13 crore[31].

The Corporation stated that Central Workshops would be instructed suitably to ensure dispatch of reconditioned vehicles within time limit in future.

Other topics of interest

Non-maintenance of AC system of Sheetal buses

3.1.39 The Corporation introduced (September 2010) one semi luxury bus with Air Conditioned (AC) body called as 'Sheetal' on experimental basis with the objective of providing AC services at low fares. Considering the passenger response and profitable operations, the Corporation decided (March 2011) to operate additional ten 'Sheetal' buses on various routes. The contract for fabrication and mounting of AC bodies on ten semi luxury chassis was awarded (December 2011) to Antony Garages Private Limited (AGPL) for total contract price of ₹ 1.72 crore (₹ 17.22 lakh per bus). The Corporation purchased the semi luxury chassis and provided to AGPL for fabrication of bus body. After completion of body building by AGPL, buses were delivered to the Corporation during May 2012 to September 2012.

We observed that the Divisional/Depot Workshops of the Corporation did not have required expertise for preventive/periodical maintenance of AC buses and AC system in particular. Hence, it was essential to have Comprehensive

[30] Delay in excess of 35 days

[31] Aurangabad: ₹ 0.93 crore, Nagpur: ₹ 0.06 crore and Pune: ₹ 0.14 crore

Annual Maintenance Contracts (CAMC) for carrying out preventive maintenance of the buses. However, CAMC for six buses allocated to Nashik Division (four buses) and Pune Division (two buses) was not made till date (December 2015). Failure to carry out periodical/preventive maintenance of Sheetal buses thus caused deterioration and frequent failures/problems of the AC system (overheating of AC engine, air compressors *etc.*) since its introduction. As a result, AC system of all the six buses was not working since March 2013 / December 2014 till date, and these buses were being operated as semi luxury buses[32]. The cost of fabrication of Sheetal buses was higher by ₹ 9.63 lakh per bus compared to that of semi luxury bus which was procured under the same contract.

Thus, in absence of a contract for preventive maintenance of AC services, the six ‘Sheetal’ buses had to be operated as ‘semi-luxury’ buses thereby defeating the objective of providing low fare AC bus services to passengers. It is pertinent to note that five other ‘Sheetal’ buses were being successfully operated in Aurangabad Division since July-September 2012 as preventive maintenance of AC system was carried out through CAMC.

The Corporation stated that ‘Sheetal’ buses were not financially feasible due to costlier fare structure. It was further stated that buses were in working conditions on some routes while others were operated as semi luxury buses (Non-AC). The reply was silent regarding the reasons for non-maintenance of AC system and the fact that the Corporation was constrained to operate these buses as non-AC buses as their AC system had failed within one-two years.

Under recovery of operational cost of buses under Manav Vikas Scheme

3.1.40 The Corporation had procured 625 buses from the funds provided by the GoM for providing free transport facility to girl students of Government Schools of rural areas under Manav Vikas Scheme (MVS). As per the scheme (July 2011), the Corporation was required to operate an average 100 kilometres per day for which recurring/operational cost of ₹ 7.04[33] lakh per bus per annum was to be reimbursed by GoM. The Corporation, however, operated average 147 kilometres per bus per day for school operations instead of 100 kilometres per day stipulated in the scheme during 2012-13 to 2014-15. Consequently, the Corporation incurred operational cost of ₹ 11.09 lakh per bus as against ₹ 7.04 lakh per bus leading to additional expenditure of ₹ 62.76 crore[34]. The claims submitted (July 2014/January 2015) for reimbursement of additional expenditure was not accepted by the GoM till date (December 2015). In fact, Manav Vikas Commissioner, Aurangabad[35] had recommended (February 2015) to GoM for rejection of claims of the Corporation on the grounds of increase in operated kilometres against kilometres stipulated in the scheme.

[32] Nashik: three buses from March 2013 and one bus from March 2014 and Pune: one bus from 1 November 2014 and one bus from 26 December 2014

[33] Considering 215 school days per year and operation of average 100 kilometres per bus per day (daily 4 trips of 25 kilometres each)

[34] 2012-13: ₹ 12.12 crore, 2013-14 : ₹ 25.32 crore and 2014-15: ₹ 25.32 crore

[35] Implementing/Nodal agency appointed by GoM

We observed that standard of 100 kilometre per bus per day for reimbursement of operating cost was fixed by GoM on the basis of proposal submitted (March 2011) by the Corporation itself without route survey for actual kilometres to be operated. Further, immediately after notification of the scheme, the GoM had directed (July 2011) the concerned administrative department to submit detailed proposal before 31 October 2011 for changes in standards needed for reimbursement of expenditure stipulated under the scheme. However, proposal for change in procedure of reimbursement of operational cost according to actual kilometres to be operated was not made by the Corporation/department concerned. These factors had led to under recovery of ₹ 62.76 crore to the Corporation.

The Corporation accepted the facts and stated that Corporation was pursing the matter with the GoM for reimbursement of increased operational cost. The GoM had also assured that needful action would be taken to resolve the issue.

Procurement of City buses under JnNURM

3.1.41 The Ministry of Urban Development, GoI announced (January 2009) a scheme for providing financial assistance for procurement of city buses under Jawaharal Nehru National Urban Renewal Mission (JnNURM).

Non-reimbursement of expenditure under JnNURM-I

3.1.42 The Corporation procured (May to July 2010) 100 city buses for Nashik under the scheme incurring total expenditure of ₹ 20.84 crore (basic cost:₹ 18.48 crore and VAT: ₹ 2.36 crore). As per the scheme, the Corporation was eligible for reimbursement of expenditure to the extent of ₹ 9.28 crore from GoI and ₹ 3.71 crore from GoM. In addition, GoM was required to reimburse VAT of ₹ 2.36 crore. It was however noticed that claim (December 2013) for reimbursement of VAT of ₹ 2.36 crore was rejected (June 2014) by the GoM without any reasons on record. The Corporation did not pursue the matter with GoM till date (December 2015). In addition, the Corporation did not receive last installment (10 *per cent*) of funds to the extent of ₹ 1.31 crore (GoI: ₹ 0.93 crore and GoM: ₹ 0.38 crore) till date (December 2015) due to non-compliance with mandatory conditions of the scheme[36].

The Corporation stated that process of compliance with mandatory conditions for reimbursement required professional monitoring which was being resorted to by the Corporation. The concerned authority of GoM advised the management to submit proposal for waiver/reimbursement of VAT as per the provisions of the scheme.

Non submission of DPR for availing benefits under JnNURM-II

3.1.43 The GoI announced (August 2013) Phase II of JnNURM under which projects were to be approved on first come first serve basis and last date for

[36] Setting up of dedicated urban transport fund, waiver/reimbursement of State Government/ Local Bodies taxes, setting up of city level unified metropolitan Transport Authority *etc*.

sanctioning projects was 31 March 2014. We observed that Corporation had belatedly (January 2014) initiated action for preparation of Detailed Project Report (DPR) for procurement of 275 buses under the scheme which was not considered (6 February 2014) by the Board citing non-availability of time for its preparation and submission to GoI before stipulated time limit. As a result, the Corporation could not avail benefit of grants to the extent of 50 to 80 *per cent* on purchase cost of city buses as the scheme was closed in March 2014 and the social objectives of the Scheme could not be achieved. The Board admitted (February 2014) that benefits of the scheme were not availed due to delay in taking action in this matter.

The Corporation assured that timely action would be taken for availing benefits under different schemes and would pursue with Government for benefits under the existing scheme also.

Monitoring and Internal Control

3.1.44 The monitoring and internal control system of the Corporation was deficient in the following areas:

- Monitoring systems to ensure completion of production and dispatch of buses within reasonable time from the date of receipt of chassis were not prevalent.
- There was no MIS for engines reconditioned/repaired at Central Workshops for ascertaining time taken from the date of receipt to dispatch and number of times a particular engine was reconditioned.
- Monthly Operational Report (MOR) did not contain Bus Service Category wise cancellations of planned operations, cost per kilometre and profitability of each type of operation.

Conclusion and Recommendations

The GoM had not formulated a Passenger Transport Policy to develop an integrated and holistic perspective delineating the specific role of the Corporation in a fast changing transport scenario.

The GoM may take steps for formulation of an Integrated Transport Policy redefining the role of the Corporation for ensuring an economical and efficient public transport system in the State.

Annual Production/Procurement plan was not worked individually for each type of bus service category *i.e.* Ordinary, Semi-Luxury, Air Conditioned (AC), City *etc*. Service category wise cancellations of planned operations, cost per kilometre and profitability for each type of operation was also not maintained. Further, Annual Plans were formulated without considering operational restrictions on buses procured under MVS which had made operations thereof unviable.

The Corporation may assess requirement of buses for each type of service category separately considering operational restrictions on MVS buses while formulating Annual plans. Service category wise cancellations of planned

operations, cost per kilometre and profitability for each type of operation may be maintained and reported through MORs.

There was avoidable delay in finalisation of tenders for procurement of chassis which adversely impacted the Annual Production/Scrapping Plans of Ordinary Buses leading to increased cancellation of planned operations and operation of overaged buses. There was no system to monitor the economy and efficiency of overaged buses. Further, Corporation could not ensure procurement of adequate number of buses for operating profitable Air Conditioned (AC) and Semi Luxury Services which had led to reduction in schedules/operated kilometres and profitability. Quality assurance of 1955 buses built from private agencies was not ensured as the contracts did not provide for random sampling of materials utilised.

The Corporation may streamline their procurement process so as to avoid delays in awarding contracts. The Corporation may augment its operational fleet of profitable AC and semi luxury buses to maximise revenue. Further, separate records related to operating cost and R&M expenses in respect of overaged buses may be maintained to monitor their operational efficiency and plying of overaged buses may be reduced considering the adverse impact on environment. Suitable clauses for random checking of materials may be incorporated in bus body building contracts awarded to private agencies.

Production plan for bus body building at three Central Workshops was formulated on the basis of available manpower without considering cost of production. Despite being the most cost efficient workshop, production of Ordinary buses was lowest at Nagpur in comparison to other two Central Workshops and in particular Aurangabad which was the costliest. Further, the Central Workshops were functioning with very old machineries despite adequate budgetary allocations for procurement/replacement of machineries.

The Corporation may formulate production plans at the three Central Workshops considering cost of production and accordingly rationalise existing manpower/prioritise future recruitments at cost effective workshop for reduction of cost. The Corporation may formulate long term plan for augmentation/modernisation of workshops and ensure optimum utilisation of budgets.

The Corporation has fixed Standard Man Hours (SMH) for production related activities at Central Workshops in an arbitrary manner without any scientific study and hence reasonability of existing SMH and production incentives paid could not be ensured. There were various instances of chassis lying idle at workshops and delays in production/dispatch of buses without effective monitoring system. Incorrect system for payment of production incentives on incomplete buses and prematurely failed engines were noticed at Central Workshops. Reconditioning of buses was carried out by Central Workshops without adhering to maintenance manual leading to unwarranted expenditure while non-maintenance of AC system of buses led to unfruitful expenditure.

The Corporation may ensure scientific fixation of Standard man-hours for production activities through time and motion study to ensure optimum

utilisation of manpower. The Corporation may streamline bus production process by evolving proper systems for planning delivery schedule of chassis and stage wise monitoring of production process. The system of incentive payment may be rectified in line with the Corporation's policy and internal control mechanism may be strengthened for avoiding such instances in future. The Corporation may ensure that preventive maintenance of buses is carried out in accordance with the maintenance manual.

The Corporation could not receive grants/reimbursement of expenditure to the extent of ₹ 66.43 crore under Central/State Government schemes due to improper submission of proposal, non-compliance with mandatory conditions and failure to follow up with the State Government. Further, the Corporation had foregone opportunity for availing grants for procurement of city buses under one scheme due to non-submission of proposal to the Central Government.

The Corporation may ensure timely submission of proposals for availing benefits under various Central/State Government schemes.

The matter was reported to the Government (September 2015); their reply was awaited (January 2016).

3.2 Working of Maharashtra State Warehousing Corporation

Executive Summary

Introduction

Maharashtra State Warehousing Corporation (Corporation) was established in September 1960 under the Agricultural Produce (Development and Warehousing) Corporations Act, 1956 which was subsequently replaced by the Warehousing Corporation Act, 1962. The objective of the Corporation was to acquire, build and operate Warehouses in the State for storage of agricultural produce/agriculture related items, operation of Bonded Warehouses and Container Freight Station for exporters/ importers.

(Paragraph 3.2.1)

Capacity augmentation

During the five year period 2010-11 to 2014-15, against the planned capacity addition of 11,41,670 MT, the Corporation constructed 3,79,940 MT of additional godown capacity, an increase of 33.28 *per cent* only. The shortfall in achievement was due to paucity of funds and absence of timely assistance from the State Government in form of financial guarantees. Despite having sufficient vacant land the Corporation purchased private land at 15 locations which remained partially unutilised. The Corporation purchased land at a cost of ₹ 1.07 crore which was in excess of requirements. The Corporation made excess payment of ₹ 21.20 lakh for purchase of private land at Ratnagiri. Further, the Corporation purchased encroached land at Chandrapur which resulted in reduction of constructed godown capacity. The Corporation suffered loss of revenue of ₹ 13.49 crore due to loss of guarantee period on account of delayed construction of godowns for the FCI at 15 locations. The Corporation also suffered a loss of revenue of ₹ 2.07 crore due to construction of godowns not conforming to the specifications of FCI. An important cold storage facility at Gultekdi, Pune could not commence since August 2013 as the Corporation did not execute a lease agreement despite having the required land in its possession since long.

(Paragraphs 3.2.9, 3.2.11, 3.2.13 to 3.2.15, 3.2.17, 3.2.18 and 3.2.20)

Operation of godowns and utilisation

During the five year period 2010-11 to 2014-15, the Corporation could utilise its warehouse (including hired and PPP) capacity in the range of 72 to 79 *per cent*. The utilisation of its own godowns decreased from 78 to 75 *per cent* from 2011-12 to 2014-15. The utilisation of godowns by farmers ranged between 5.84 to 6.13 *per cent* only of the total warehousing capacity. The Corporation did not review the categorisation of its warehouses periodically and revise the warehousing rates. The

Corporation extended unintended benefit of ₹ 1.84 crore to private parties by way of reduction in scheduled rates of storage charges, beyond the permissible limits. Non-incorporation of clause for collection of supervision charges in tenders for Handling and Transportation operations resulted in loss of revenue of ₹ 4.01 crore. Further, due to non-enforcing its discretionary powers for extending the contract of terminal operator for the Container Freight Station at Dronagiri (JNPT Mumbai), the Corporation incurred extra expenditure of ₹ 6.30 crore.

(Paragraphs 3.2.21, 3.2.22, 3.2.30, 3.2.33 and 3.2.35)

Efficiency in Management of warehouses

Due to non-utilisation of dunnages in the FCI godowns, the FCI withheld ₹ 6.05 crore of charges due to the Corporation. Even before commissioning of grain cleaning / grading machines, the Corporation made payment of Annual Maintenance Contract (AMC) charges for three years at a cost of ₹ 52.76 lakh.

(Paragraphs 3.2.39 and 3.2.40)

Recommendations

The State Government may assess the requirement of warehousing facility in the State comprehensively, so as to demarcate the role for Government and private agencies and also for perishable commodities separately. The State Government may also assess creation of cold storage and other modern storage facilities in the changing environment. The Corporation may acquire land only after feasibility study is carried out and proper plans for utilisation of acquired land are in place. The Corporation may ensure efficiency in tendering procedures and for timely construction of godowns and adhere to the norms prescribed by FCI for their schemes. Categorisation of warehouse centres may be reviewed periodically. Billing of storage charges as per the prescribed tariff/agreement and their timely recovery be ensured. The Corporation may enter into MOU with FCI with enabling provisions for recovery of Handling and Transportation charges and Rail Transit Losses. The Corporation may ensure that physical verification of stocks is carried out periodically by Regional Managers/ independent verifiers.

Introduction

3.2.1 Agriculture is one of the most critical sectors of the Indian economy. The agricultural sector contributed around 13.90 *per cent* (2013-14) of the National Gross Domestic Product and is estimated to grow at four *per cent* in future. Food grains production in India has grown from 192 Million Metric Tonne (MMT) in 1994-95 to 257.07 MMT (2014-15). This has drastically increased the need for storage capacity in India.

Warehousing plays a very important role in maintaining the supply chain of agricultural and other essential commodities as well as promoting agriculture marketing, rural banking, financing and ensuring Food Security in the country. Scientific warehousing avoids the distress sale of agricultural commodities by the farmers during peak harvest season and ensures uninterrupted supply of agricultural commodities to the consumers during off season. At present, there are three main agencies in the public sector *viz.* Food Corporation of India (FCI), Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs) which provide for 71 *per cent* of the warehousing capacity in India and the co-operative and private sector players provide the remaining 29 *per cent* of the capacity. The food grain production in the State of Maharashtra during the period 2012-13 to 2014-15 was in the range of 10.97 MMT to 10.12 MMT.

The Maharashtra State Warehousing Corporation (Corporation) was established on 30 September, 1960 with its Corporate Office at Pune under the Agricultural Produce (Development and Warehousing) Corporation Act, 1956 which was subsequently replaced by the Warehousing Corporations Act, 1962. The main objective of the Corporation was to acquire, build and operate warehouses in the State for storage of agricultural produce, agriculture related items, operation of Bonded Warehouses and Container Freight Stations (CFS) for exporters/importers. Further, the Corporation was in the process of registering its warehouses under Warehousing Development and Regulation Act 2007.

The Management of the Corporation was vested in a Board of Directors (Board) which shall consist; five Directors nominated by the CWC of whom one shall be nominated in consultation with the State Bank of India and one at least shall be non-official; five Directors nominated by the respective State Government and Chairman and Managing Director (CMD) appointed by the respective State Government in consultation with the Directors under intimation to CWC. The Board was assisted by an Executive Committee consisting of CMD and three Directors. The Corporation was having eight Regional Offices[1]and one CFS.

The performance of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2006 (Commercial) Government of Maharashtra (GoM) which was discussed (June 2015) by the Committee on Public Undertakings (COPU). The recommendations of the COPU have been considered while finalising the Performance Audit Report.

[1]Amravati, Aurangabad, Kolhapur, Latur, Mumbai, Nagpur, Nasik and Pune

Financial position and Working results

Financial position

3.2.2 The financial position of the Corporation for the period from 2010-11 to 2014-2015 is given below:

(₹ in lakh)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
A	**Liabilities**					
1	Paid up capital	871.12	871.12	871.12	871.12	871.12
2	Reserve & Surplus	23,285.60	26,895.61	31,024.58	32,071.93	38,228.84
3	Secured loan	1,788.80	2,651.36	7,796.13	9,937.51	9,685.56
4	Current Liabilities & provisions	7,853.82	13,872.48	14,304.55	18,725.34	19,866.03
	Total A	**33,799.34**	**44,290.57**	**53,996.38**	**61,605.90**	**68,651.55**
Sl. No.	**Particulars**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
B	**Assets**					
1	Fixed Assets	21,724.59	26,631.75	32,711.99	38,954.02	41,458.41
2	Current Assets, Loans, Investments & Advances	12,074.75	17,658.82	21,284.39	22,651.88	27,193.14
	Total B	**33,799.34**	**44,290.57**	**53,996.38**	**61,605.90**	**68,651.55**
C	Debt Equity Ratio	0.07	0.10	0.24	0.30	0.25
D	Net Worth	19,017.46	22,089.48	25,583.62	25,946.90	31,351.01
E	Capital Employed	24,155.42	27,765.43	31,894.40	32,941.75	39,098.66

(Source: Annual accounts)

The Corporation is a profit making one and its net worth had increased from ₹ 19,017.46 lakh to ₹ 31,351.01 lakh, during the period 2010-11 to 2014-15. The capital employed by the Corporation also increased from ₹ 24,155.42 lakh to ₹ 39,098.66 lakh, during the same period.

Working results

3.2.3 The working results of the Corporation for the period from 2010-11 to 2014-2015 are given below:

(₹ in lakh)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
(1)	**Income**					
a)	Warehouse charges	11,566.74	15,383.39	19,397.16	25,766.99	31,219.04
b)	Other Income	325.41	587.39	602.34	419.39	275.53
	Total (1)	**11,892.15**	**15,970.78**	**19,999.50**	**26,186.38**	**31,494.57**
(2)	**Expenses**					
a)	Establishment charges	2,984.52	3,547.67	4,111.66	4,624.07	4,951.84
b)	Other expenses	6,118.61	8,429.14	11,363.94	17,318.11	20,632.14
	Total (2)	**9,103.13**	**11,976.81**	**15,475.60**	**21,942.18**	**25,583.98**
(3)	Profit (+)/ Loss(-) before tax	2,664.73	4,064.25	4,617.69	4,212.85	5,890.36

(Source: Annual accounts)

During the review period, the income from warehouse charges has registered an increase of 270 *per cent* from ₹ 11,566.74 lakh to ₹ 31,219.04 lakh.

Consequently, the profit earned by the Corporation has also increased from ₹ 2,664.73 lakh in 2010-11 to ₹ 5,890.36 lakh in 2014-15.

Scope of audit and objectives

3.2.4 Performance Audit (PA) on the working of the Corporation for the period 1 April 2010 to 31 March 2015 was conducted during March to July 2015 for evaluation of its activities.

3.2.5 The objectives of the Performance Audit were to ascertain whether:

- the State Government and Corporation had assessed the overall requirement of storage facilities for the State and taken steps to bridge the gap by creating additional capacity through construction or hiring of godowns;
- the Corporation had put its warehouses to optimum use at economical tariff rate and provided handling and transportation facilities;
- the warehouses were managed efficiently; and
- adequate monitoring systems and internal control systems were in place and effective.

Audit criteria and methodology

3.2.6 The audit criteria adopted for achieving the stated audit objectives were derived from the following documents:

- Warehousing Corporations Act, 1962;
- State Warehousing Corporation (Amendment) Rules;
- Warehousing Development and Regulation Act, 2007;
- State specific Acts/Rules/Guidelines/directives of Government/FCI/CWC in relation to warehouses;
- Corporate/Annual/Vision documents of the Corporation;
- Manuals, Minutes and Agenda of the Meetings of Board; and
- Agreements with Depositors/private parties for hiring of godowns/storage of various commodities.

The audit methodology adopted for attaining the objectives involved explaining audit objectives to the Management during an Entry Conference held (April 2015), discussion with officials of the Corporation, analysis of data with reference to audit criteria, issue of audit enquiries and draft Performance Audit Report to the Management/Government for their comments. The draft PA Report was issued (September 2015) to the Corporation and Government. The replies/views expressed by the Corporation and Government (October/ November 2015) have been considered while finalising the Performance Audit Report. The audit findings were also discussed in an Exit Conference (November 2015) wherein the representatives of the Corporation and the State Government were present.

Acknowledgement

3.2.7 Audit acknowledges the co-operation and assistance extended by the Corporation at various stages of conducting the Performance Audit.

Audit findings

Capacity management of storage facilities

3.2.8 The State Government had not assessed the total warehousing capacity requirement of the State. However, as of November 2015, the total warehousing capacity available in the State was 1,07,97,103 MT, of which the Corporation had capacity of 17,33,375 MT (16.05 *per cent*) and 46,13,067 MT (42.72 *per cent*) capacity was available with the private entrepreneurs.

Shortfall in capacity addition

3.2.9 During the period 2010-11 to 2014-15, the Corporation planned for an additional warehousing capacity of 11,41,670 MT. However, it could achieve only 33.28 *per cent* addition at capacity of 3,79,940 MT. The Corporation attributed the shortfall in achievement to inadequate funds, absence of assistance from Government of Maharashtra (GoM) in getting funds under Rural Infrastructure Development Fund (RIDF) and delay in execution of works for construction of godowns. Further, though the Corporation requested the GoM to make available loans under RIDF, (where loans were at concessional rates) the GoM did not facilitate the requests whereby they had to give guarantees for the loans and thus the Corporation could not avail any loans under the RIDF Scheme. As a result, the Corporation constructed godowns from its own funds, subsidy received from National Bank for Agriculture and Rural Development (NABARD) and loans from commercial banks.

Acquisition/purchase of land

3.2.10 Before constructing godowns, the Corporation makes an assessment of the viability of each of the proposed godowns and, if required, acquires/ purchases land for construction of these godowns. Accordingly, the decisions regarding acquisition/purchase of lands were taken by CMD after ascertaining their viability and the approval of the Board was subsequently taken.

Under-utilisation of acquired land

3.2.11 We observed that prior to 2010-11, of the total land of 32,10,883 square metres (sq.mtr) acquired, the Corporation had vacant land of 2,98,475 sq.mtr. Despite availability of sufficient land, the Corporation during the period 2010-11 to 2014-15, acquired/purchased land admeasuring 5,47,966 sq.mtr, at 15 locations valuing ₹ 13.36 crore and had partially utilised 2,53,928 sq.mtr of land. The Corporation had balance 5,92,513 sq.mtr of land unutilised till 31 March 2015.

The Corporation stated that it had underutilised land at 12 locations admeasuring 1,09,137 sq.mtr valued at ₹ 4.22 crore. The facts remained that the Corporation could not utilise the land as of March 2015, as discussed in succeeding paragraphs.

Purchase of land and construction of godowns under Private Entrepreneurs Guarantee Scheme, 2008 (PEG 2008)

3.2.12 Under Private Entrepreneurs Guarantee Scheme, 2008 (PEG 2008) implemented by FCI, the storage charges for the godowns of approved capacity constructed by the Corporation were guaranteed by FCI for a period of seven/nine years. Under PEG Scheme, all godowns of capacity 5,000 MTs and above upto 25,000 MTs should preferably be within eight kilometres of a Railway goods shed with full rake Railway siding facility. The godowns of 25,000 MTs or above capacity would preferably be Railway siding godowns and further, the godowns to be on National/State Highways. For construction of godowns under this Scheme, the Corporation had purchased land at several locations approved by the FCI.

The construction of godowns was undertaken by the Corporation by availing loans from commercial banks. Under Gramin Bhandar Yojana scheme of Government of India (GoI), 25 *per cent* of the total cost of construction should be paid to the Corporation as subsidy in respect of godowns constructed in rural areas.

Purchase of land under PEG scheme

Avoidable expenditure on purchase of land in excess of requirement

3.2.13 The Corporation purchased 1,73,342.9 sq.mtr of private land at five locations[2] for construction of warehouses under PEG scheme since the Corporation did not have the land acquired from the Government/Government agencies. The private land was purchased at market rates, the Corporation could have restricted the purchase of land as per the requirement of the Scheme. However, at four locations, the Corporation did not utilise the land (22,736.90 sq.mtr) valuing ₹ 1.07 crore till date (November 2015).

The Corporation stated that it had purchased additional land considering future expansion.

Excess payment due to non measurement of land before acquisition

3.2.14 The Corporation purchased land admeasuring 10.65 acres at Dhanwadewadi in Ratnagiri district in December 2011 at a cost of ₹ 1.81 crore at the rate of ₹ 16.96 lakh per acre. It was noticed that the land inspector, Ratnagiri carried out (December 2012) measurement of land at the location after a delay of one year, it was found that 1.25 acres of land was less. Thus, the Corporation had made an excess payment of ₹ 21.20 lakh which has not yet been recovered (December 2015).

[2] Ratnagiri, Jalna, Satara, Ahmednagar and Kurduwadi

The Corporation stated that the agreement was executed by making payment before measurement to meet the deadlines of the Scheme and the recovery was being pursued through Court of Law (November 2015). The fact, however, remained that the Corporation had made full payment without measuring/ verifying the land.

Purchase of encroached land at Chandrapur and consequential loss of revenue

3.2.15 The Corporation decided (April 2011) to purchase 2.56 hectares of land at Khutala in Chandrapur (Padoli) to meet the storage requirements of FCI. While transaction was under finalisation, the Corporation was aware that the portion of land admeasuring 0.24 hectares was encroached by unauthorised slums. The Corporation purchased (December 2011) the land at a cost of ₹ 49.59 lakh without evicting the encroachment on land valuing ₹ 4.65 lakh. The contract for construction of the godowns was awarded (March 2012) for a capacity of 22,255 MT. However, due to non availability of un-encroached land, the capacity of the godowns actually constructed was 18,605 MT thereby reducing the capacity of godown by 3,650 MT. This resulted in recurring loss of potential revenue to the extent of ₹ 2.68[3] crore for the period of guarantee.

The Corporation stated that they were pursuing with concerned authorities for removal of encroachment. The facts remained that the encroached land caused potential revenue loss to the Corporation and it could have been avoided with better pursuance for vacating the encroachment by concerned authorities.

Construction of godowns under PEG scheme

3.2.16 The Corporation constructed godowns in two different categories *viz.* under Private Entrepreneur Guarantee (PEG) Scheme formulated by FCI and under normal course. The Corporation had added storage capacity of 3.80 lakh MT during the period 2010-11 to 2014-15.

The decision making process for construction of godowns involved preparation of estimated cost of construction and obtaining approval of CMD/ Board, as per the delegation of powers.

Under PEG Scheme, the total capacity approved by FCI was 2,99,500 MT (Phase I-72, 500 MT, Phase II-87,000 MT and Phase III-1,40,000 MT) during July 2009 to May 2011.

[3] At the rate of ₹ 68 per MT per month for 3,650 MT per year for the period from April 2013 to March 2015 and for remaining period of guarantee *viz.* seven years

The targets and achievements in construction of godowns are given below:

Year	Target capacity for the year in MT	Achieved capacity for the year in MT	Shortfall for the year in MT
2009-2010	NIL	NIL	--
2010-2011	48,640	32,340	16,300
2011-2012	73,340	10,150	63,190
2012-2013	1,80,480	1,18,690	61,790
2013-2014	NIL	1,26,280	--
2014-2015	NIL	15,000	--
Total	**3,02,460**	**3,02,460**	**--**

Loss of revenue on account of delayed construction of godowns

3.2.17 Under PEG Scheme, the godowns were to be completed within a period of two years *i.e.* maximum time stipulated for construction of godowns. In case of delay beyond stipulated time, the period of delay was deducted from the total guarantee period.

The Corporation constructed a capacity of 3,02,460 MT for storage of FCI food grains under six/nine year guarantee scheme at 25 locations. It was however, noticed that of these 25 locations, godowns in 15 locations having capacity between 3,400 MT to 31,180 MT were completed and made available to FCI for use after the stipulated dates of completion with delays ranging from 32 to 833 days from the date of approval of capacity by FCI including the abnormal delays in finalising the tenders. In some locations the delays were on account of deficient construction as pointed out by FCI during their inspection.

Since the construction of godowns was delayed, the FCI (February 2014) decided to take over the godowns which have been constructed after the stipulated time with reduction in guarantee period. Accordingly, in 15 centres, the guarantee period was reduced by one month to 28 months. As a result, the Corporation had to sustain a loss of revenue to the extent of ₹ 13.49 crore.

The Corporation stated that delay in finalisation of tenders was due to procedural issues and delay in completion of works was due to non-availability of construction materials particularly sand, water scarcity, load shedding of electricity in rural areas and unusual heavy rains during execution period in monsoon which were beyond control. The fact however remained that the non-compliance under PEG scheme resulted in reduction in guarantee period and consequent loss of revenue.

Loss due to construction of godowns not conforming to specification of FCI

3.2.18 FCI issued broad guidelines (August 2010) for construction of godowns with specific stack plans and construction specifications relating to length, width and height.

It was observed that during the period January 2009 to December 2014, that of the capacity of 3,02,460 MT constructed and offered for storage of grains, the FCI pointed out the deviations in construction of effective capacity of

15,598 MT in 12 godowns[4]. This resulted in loss of revenue to the tune of ₹ 2.07 crore[5] since FCI reduced the effective capacity of the godowns due to deviations in construction.

The Corporation accepted that the difference in capacity was on account of difference in stack plan followed by the Corporation.

Short recovery of storage charges at Tadawale godown, Kurduwadi

3.2.19 Under PEG scheme, Corporation constructed godowns of 13,200 MT at Kurduwadi (Tadawale) as against the approved capacity of 10,000 MT. FCI as per joint inspection report actually assessed (August 2013) the capacity as 12,320 MT at Kurduwadi (Tadawale) and started (December 2014) utilising the godown at Kurduwadi (Tadawale). Though, the bills for storage charges were raised for 12,320 MT capacity, FCI was, however, making payments based on the initially approved capacity of 10,000 MT.

The Corporation did not pursue the matter with FCI and thereby had to forgo the revenue of ₹ 24.97 lakh for the period December 2014 to May 2015.

The Management stated that the matter regarding approval of 12,320 MT capacity was being pursued with FCI and in case the same was not approved, the balance capacity would be used for storing General Customer goods.

Construction of cold storage

Delay in commencement of cold storage project at Gultekdi, Pune despite availability of land

3.2.20 The Corporation appointed (August 2013) NABARD Consultancy Services (NABCONS) as consultant at a cost of ₹ 4.04 lakh for preparation of feasibility study report, DPR and Technical Consultancy for establishment of Cold Storage unit with 2,000 MT capacity at Gultekdi, Pune. The estimated cost of the project was ₹ 9.29 crore. The Corporation projected a revenue ranging between ₹ 2.28 crore (2015-16) to ₹ 3.16 crore (2028-29) from the unit. In response to proposal submitted by the Corporation, Agriculture and Processed Food Products Export Development Authority (APEDA) had agreed (September 2014) to sanction an amount of ₹ 8 crore as *grant-in-aid* for the project and released (October 2014) ₹ 3.80 crore as advance against BG.

Though, the Corporation had possession of Gultekdi land since December 1994 given by Agricultural Produce Market Committee (APMC) it did not execute lease agreement for the same with the APMC. In absence of the lease agreement, the necessary sanction for layout plan and drawings for the project could not be obtained from Pune Municipal Corporation (December 2015).

---

[4] Where the construction works commenced between October 2010 and April 2012

[5] Storage charges considered at the rate of ₹ 67.60 per MT per month for deviation in capacity

This delayed the project and the consequential anticipated revenue from the project, besides denial of warehousing facilities (cold storage) to the intended beneficiaries.

The Corporation stated that the matter was being pursued with Director of Marketing (GoM) and APMC. Director of Marketing has directed APMC to execute lease agreement with the Corporation.

Operation of warehouses and utilisation

Capacity utilisation

3.2.21 The details of capacity available and capacity utilised of owned, hired and PPP godowns and the percentage of utilisation of these godowns during the period 2010-11 to 2014-15 are given below:

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	**No. of godowns**					
a.	Own godowns	718	746	788	848	868
b.	Hired godowns	28	26	24	24	42
c.	PPP	-	-	14	61	85
	Total	**746**	**772**	**826**	**933**	**995**
2.	**Annual capacity available (in lakh MT)**					
a.	Own godowns	11.72	11.99	12.85	13.53	14.42
b.	Hired godowns	0.44	0.46	0.39	0.28	0.62
c.	PPP	-	-	0.04	0.76	1.56
	Total	**12.16**	**12.45**	**13.28**	**14.57**	**16.60**
3.	**Annual Capacity utilisation (in lakh MT)**					
a.	Own godowns	8.29	9.32	10.02	10.03	10.86
b.	Hired godowns	0.44	0.46	0.39	0.28	0.62
c.	PPP	-	-	0.04	0.76	1.56
	Total	**8.73**	**9.78**	**10.45**	**11.07**	**13.04**
4.	**Shortfall in utilisation (in lakh MT)**					
a.	Own godowns	3.43	2.67	2.83	3.50	3.56
b.	Hired godowns	0.0	0.00	0.00	0.00	0.00
c.	PPP	-	-	0.00	0.00	0.00
Total	Percentage of utilisation (own, hired and PPP godowns)	72	79	79	76	79
	Percentage of utilisation (own godowns)	71	78	78	74	75

(Source: Data furnished by Management)

During the period 2010-11 to 2014-15, the overall percentage of capacity utilisation of godowns (including hired and PPP godowns) ranged from 72 to 79 *per cent*. The capacity utilisation of PPP godowns and hired godowns was 100 *per cent* during 2010-11 to 2014-15 and the percentage of utilisation of own godowns declined from 78 *per cent* in 2011-12 to 75 *per cent* in 2014-15. Further, during 2010-11 to 2014-15 the utilisation of godowns excluding FCI business decreased from 61.86 to 41.72 *per cent*.

The Corporation stated that for general customers it was necessary to keep stock of each depositor separately and hence though horizontal space was utilised 100 *per cent*, vertical space was not utilised to the optimum.

Utilisation of storage facility by farmers

3.2.22 One of the main objectives of the Corporation besides providing storage to FCI is to help farmers to store their stocks for better realisation by avoiding distress sale and simultaneously avail credit. A rebate of 50 *per cent* in storage charges is allowed to eligible farmers.

The facility of warehousing was mainly utilised for storage of food grains by FCI which ranged between 38.14 to 58.28 *per cent*. The capacity utilisation of godowns by primary producers constituted only 5.84 to 6.13 *per cent* due to less number of farmers being associated with the Corporation and availability of unequal capacity throughout Maharashtra. With present infrastructure of Corporation, farmers were reluctant to bring their agriculture produce due to higher transportation cost. Further, the utilisation of godowns excluding FCI business decreased from 61.86 to 41.72 *per cent* during 2010-11 to 2014-15.

The farmers' awareness programmes under Maharashtra Agricultural Competitiveness Project (MACP) scheme 2011-12 were conducted in 40 warehouse centres only out of total of 187 centres.

The Corporation assured that the awareness programmes would be implemented for increasing the utilisation of godowns by farmers.

Beneficiary survey

3.2.23 A survey on farmers utilising the godowns of the Corporation was conducted based on questionnaire issued by Audit in selected centres of three Regions *viz*; Aurangabad, Nashik and Pune of the Corporation. The survey revealed that in respect of warehouse centres located in rural areas, the farmers expressed satisfaction over the services provided by the Corporation. However, though the Corporation was extending 50 *per cent* rebate in storage charges to farmers, they wanted further increase in rebate.

In Aurangabad Region, the farmers stated that in view of Minimum Support Price offered by FCI/other agencies during the past several years, the farmers were directly selling their produce to those agencies and, therefore, the necessity of storing their produce in the godowns did not arise.

Extension of loans to farmers under pledge loan facility

3.2.24 Maharashtra State Agricultural Marketing Board (MSAMB) initially implemented (1990) scheme of food grains pledge finance, wherein a farmer could store his produce in the godowns of APMC and could immediately get 50/75 *per cent* of the price of his produce which was later recovered when the farmer sold his produce. The pledge loan was provided at six *per cent* interest to farmers. For scaling up the efforts of MSAMB, GoM implemented Maharashtra Agriculture Competitiveness Project (MACP) with World Bank assistance. As part of this project the Corporation was designated as the agency for implementing pledge loan facility.

From 2010-11 onwards the Corporation has been entering into MoU with interested Commercial Banks for extending pledge loan facility. During November 2012 to May 2015 a total of 29,882 farmers were extended pledge loan facility, whereby ₹ 125.04 crore was disbursed to farmers upto May 2015. Considering the fact that the Corporation was operating 995 godowns in the State, efforts should have been made by the Corporation to extend pledge loan facility to large number of farmers as envisaged under MACP.

Online trading activity

3.2.25 The Corporation had planned to develop online trading facility at all its warehouse centres across the State. These centres would provide an access to national agricultural market through National Commodity Exchange (NCDEX). It was noticed that 40 centres have been registered/accredited by NCDEX and as on September 2015, 1,430 farmers were registered on commodity exchange. Further, online trading activity had started only in Latur centre and a quantity of 1,275 MT soyabeen valued at ₹ 5.05 crore was traded. The Corporation has completed necessary infrastructure and technical aspects for online trading. However, the activity was yet to be operationalised in balance 39 centres.

Non-disposal of stocks lying in storage for long periods

3.2.26 One of the most important aspects of storage management is maintenance of quality of food grains during storage. It was observed that under eight Regional Offices various commodities including rice and fertilisers were lying in warehouses of the Corporation for a long time, as indicated in the table below:

Sl. No.	Name of the Region	Quantity (in bags)	Period of storage	Rent recoverable
1.	Aurangabad	4,312	2 to 8 years	2,24,951
2.	Amravati	4,014	2 to 3 years	13,35,776
3.	Kolhapur	17,579	2 to 13 years	9,59,179
4.	Pune	5,884	2 to 13 years	2,46,652
5.	Latur	15,184	2 to 7 years	4,30,573
6.	Nashik	2,652	2 to 7 years	1,99,609
7.	Mumbai	122 (bonds)	more than 10 years	10,35,62,909
Total				**10,69,59,649**

(Source: Data furnished by Management)

The commodities were languishing from periods ranging from two to 13 years and stocks included foodgrains *etc*, perishable in nature, were likely to get damaged, infested and required heavy fumigation. They may also require additional expenditure for further usage.

The Corporation needs to formulate a policy for review of stocks in possession from time to time so that the stocks are taken away by the depositors without delay or else they are liquidated before they get damaged beyond salvage.

The Corporation stated that it had issued circulars/instructions from time to time to all centres for disposal of old stock lying at the centres. Further, Additional Chief Secretary, Co-operation, Marketing and Textile Department, GoM requested the Chairman and Central Board of Customs and Excise to issue instructions to concerned officials for expediting the process of disposal/ auction of material lying in Bonded Warehouse.

Tariff fixation and storage charges

Non review of performance of centres

3.2.27 The Corporation follows the system of tariff classifying warehouse centres into four categories *viz*. standard rated warehouses, average rated warehouses, below average rated warehouses, and low rated warehouses. The categorisation of warehouses was earlier decided by a Committee (November 2004) based on the warehouses located at Gram Panchayat, Taluka, District, profitability of warehouses, availability of rake point/railway goods shed *etc*. Again under each category storage charges leviable for general stock (charges per kg/bag) were different from charges on area basis (per square foot of reserved space).

The Corporation did not fix any breakeven point for categorisation of the centres into different categories. Our analysis, however revealed that 15 centres which were categorised as below average rated warehouses and low rated warehouses in its tariff for the period from April 2010 to March 2015 were located at Taluka/District places and railway goods shed/rake point facilities were also available in some of these centres. The centres were continuously in profit during the period of last five years upto March 2015 reviewed by audit. As the Corporation has not reviewed the categorisation of warehouses since November 2004, it may take steps for reviewing the same.

Godowns given on lock and key basis to private parties

3.2.28 In order to reduce losses incurred from godowns with low occupancy, based on the potential for business, the Corporation decided to let out godowns at some locations on lock and key basis. Under the scheme, the entire area is given on rent to the depositors and the possession of godowns is handed over to them during the contract period for commercial use. However, the Corporation has not formulated any policy or criteria for letting out godowns on lock and key basis. Further, based on the offers received from depositors or by inviting tenders the godowns are let out on lock and key basis. However, the process was not open, transparent and competitive. As per the delegation of powers, the CMD was empowered to give rebate upto six *per cent*.

Loss of revenue due to awarding of godown on carpet area

3.2.29 The Corporation has let out its 31 godowns at 14 centres on "lock and key" basis for the period from 2011-12 to 2014-15. Accordingly, agreements were entered into between Corporation and the agencies based on "built up area". We observed that the built up area of the godowns ranged between 4,818.87 square feet to 19,845.53 square feet and the carpet area ranged between 3,600 square feet to 18,683 square feet. The area allotted to agencies for use was actually carpet area which was less than the built up area. Thus, entering into agreements on "built up area" and actually allotting "carpet area" resulted in loss to the Corporation worked out to ₹ 1.13 crore during the period from 2011-12 to 2014-15.

The Corporation stated that there was no relation between carpet area and built up area and instructions were issued to revise/modify the lock and key storage agreements to avoid confusion in usage of nomenclature. The reply was not convincing as the storage charges were not collected as per the terms of the Agreement.

Loss of revenue due to unintended benefit granted to private parties by reduction in scheduled rates for hiring of godown space

3.2.30 The Corporation fixes tariff for storage facilities every year and for godowns on lock and key basis rates prevailing on the date of awarding was applicable. The power to grant rebate on storage charges upto six *per cent* in exceptional cases has been delegated to CMD. Our scrutiny revealed that the rates agreed were below the prevailing scheduled rates to the extent of 54 *per cent* without any recorded reasons. As the rebate was granted over and above the permissible limit, the approval for the same should have been obtained from the Board. However, the matter was not referred to the Board for decisions. In view of the fact that the godowns located at Pune, Aurangabad, Nagpur were high rated where demand for godown space was higher, undue reduction in scheduled rates led to loss of revenue to the extent of ₹ 1.84 crore for the four years ended March 2015.

The Corporation stated that rebate was granted to private parties as per powers delegated (December 2003) by Board to CMD in order to avail business opportunity. The reply was not acceptable as the resolution of Board was with regard to storage of sugar and fertilisers. Besides, the delegation to CMD was limited to six *per cent* as per the scheduled rates.

Non-recovery of storage charges at Nagpur

3.2.31 It is a common prudent practice that wherever godowns are let out on rental basis, security deposit is collected from the party. In case the party defaults in payment of rent, the Corporation can recover the rental dues from deposit. The Corporation leased out a complete warehouse centre at Butibori, Nagpur to M/s Glocal ICD (Party), Nagpur on long term lease for 15 years from July 2012 to June 2027,[6] without insisting for any security deposit.

As per agreement (August 2012) the party was required to pay rental amount every month in advance by 10th day of the month after the deduction of applicable taxes and two *per cent* penalty was payable in case of delay of more than 15 days in payment of rent. The possession of the area was handed over to party in September 2012 and it had made payment for initial period of one month.

---

[6] Open space-3,01,389 square feet (Sq.ft.) at ₹ 1.05 per Sq.ft. per month, covered space-26,087 Sq.ft. at ₹ 6.65 per Sq.ft. per month and office space-400 Sq.ft. at ₹ 15 per Sq.ft. per month

It was noticed that while executing the agreement the rent was reduced by CMD by ₹ 0.05 per square feet for open area and ₹ 0.13 per square feet for covered area with reference to rates mentioned in letter of acceptance resulting in loss of ₹ 5.54 lakh upto March 2015. A further rebate of 20 *per cent* in rent was allowed by CMD though as per tariff, maximum allowable rebate was only six *per cent*. Despite these concessions, the Party defaulted in payment of rent and ₹ 1.20 crore was due for the period October 2012 to March 2015. However, neither the Corporation terminated the Agreement for non payment of dues nor stood financially secured by any deposit money.

The Corporation (October 2015) stated that M/s Glocal ICD, Nagpur promised to pay the dues at the earliest and keeping in view of the future benefits, the agreement was not terminated. The reply of the management is not convincing in the view of the facts that the Corporation did not safeguard its financial interest by recovering rent of ₹ 1.20 crore and penalty (₹ 23.59 lakh) or securing by any deposit.

Operation of handling and transportation contracts

Deficiencies in Handling and Transportation contracts

3.2.32 The Corporation undertakes Handling and Transportation (H&T) activities on behalf of the FCI. The Corporation was getting reimbursement of actual expenditure incurred on H&T charges alongwith supervision charges at the rate of eight *per cent* thereon. During the period 2010-11 to 2014-15, the expenditure incurred by the Corporation on behalf of FCI on handling and transport activities was to the tune of ₹ 370.87 crore.

The H&T was being carried out on the basis of directives (September 1990) issued by the FCI without any MoU/Agreement. As per the existing procedure, the Corporation initially pays H&T charges to contractors and FCI reimburses these charges after deducting handling loss, if any. Though, the Corporation was making regular payments to H&T contractors within one month from the date of receipt of claims, FCI had withheld an amount of ₹ 21.32 crore for the period 2010-11 to 2014-15 on the reasons of disallowance of cleaning charges, cost of gunnies, with held amount of demurrages, Rail Transit Loss (RTL) *etc*. In the absence of MoU/Agreement, the Corporation was not in a position to settle this amount.

The Corporation stated that they were perusing with FCI by conducting meetings for release of amounts withheld for various reasons.

Non-incorporation of clause for collection of supervision charges in tenders for H&T operations

3.2.33 The H&T arrangements were made by the Corporation for both own and private investor godowns. As per the existing procedure, the charges for H&T operations (handling, loading, unloading and transportation) are initially paid to the contractors by the Corporation and FCI will reimburse the same. For this activity the Corporation receives supervision charges at the rate of eight *per cent* for both own and private investor godowns. However, in December 2012, FCI intimated that there was no provision for payment of supervision charges for private investor godowns. This issue should have been resolved with FCI. In the absence of this, the FCI refused to pay supervision charges of ₹ 4.01 crore of private investor godowns for the period March 2013 to 2015.

The Corporation stated that the issue of non-payment of supervision charges on PPP (Private investor) godowns arose only after communication received on 29 December 2014 from FCI. Further, it was stated that the matter was being pursued with FCI and the High Level Committee of FCI decided (May 2015) to form a Committee to examine this issue. The fact however remained that non payment of supervision charges for private investor godowns was communicated by FCI in December 2012 and thus the Corporation should have taken necessary steps in this regard.

Finalisation of tender on single bid at Container Freight Station (CFS), Mumbai at increased rates

3.2.34 The Corporation was operating Container Freight Station (CFS) (December 2004) at Dronagiri, JNPT, Mumbai for import, export and bonded business. For handling of cargo/containers and transportation of containers the Corporation appoints terminal operators.

Extra expenditure due to non-enforcing discretion for extending contract and awarding the contract despite unsatisfactory performance.

3.2.35 A contractor (M/s Orient Box Movers Private Limited) was appointed as terminal operator for a period of three years from September 2009 to August 2012. According to the terms and conditions of contract, the Corporation shall have the right to exercise its discretion of extending the contract period by one year. Considering the expiry of the existing contract of terminal operator in August 2012, tenders were invited in July 2012. As the required numbers of tenders were not received, the Corporation extended the tender date upto September 2012. The Corporation finalised single bid received from the previous contractor at increased rates and appointed the same party (October 2012). Had the Corporation exercised its discretion for extension of existing contract, the Corporation could have saved an additional expenditure of ₹ 6.30 crore (October 2012) caused due to increased rates.

The Corporation stated that since the performance of the H&T contractor was not satisfactory it had decided not to extend the contract as per the terms of contract. It further stated that since they had received a single bid only they appointed the party to avoid huge revenue loss. The reply of the Corporation lacked justification as if there was revenue loss, the Corporation could have continued the existing contract as per the Agreement. Besides, despite knowing about unsatisfactory performance of the contractor, the contractor was appointed at increased rates for four years on the basis of single bid.

Mis-appropriation of food grains at Umarkhed due to lack of supervision

3.2.36 During the period October 2013 to January 2015, 91 warehouse receipts were issued by Storage Superintendent (SS) of Umarkhed centre (Latur) for storing various commodities. These receipts were pledged with

Washim Co-operative Urban Bank Limited. When the inspection of the godowns was carried out (February 2015) by RM of the Corporation, 12,691 food grain bags valued ₹ 4.20 crore against 63 warehouse receipts were found short. An FIR was lodged (February 2015) at Umarkhed Police Station stating that SS and one depositor had colluded and the food grain bags were taken away without payment of warehouse charges and without making entry in stock record.

As per the policy of the Corporation, the RMs had to conduct annual/surprise inspection of warehouse centre. The inspection of this centre was carried out belatedly in February 2015 since the previous inspection was conducted in October 2013. Further, when the value of commodity pledged was more than ₹ 7 lakh, the counter sign of RM should have been obtained which was not done. The Corporation had taken insurance cover of ₹ one crore towards infidelity of its employees. As there was loss of stock due to misappropriation, the Corporation lodged (February 2015) a claim of ₹ 4.20 crore with the insurer which has not been settled so far (August 2015).

The Corporation stated that departmental enquiry had been initiated against the RM, Amravati for not carrying out inspection of Umarkhed centre since October 2013 and for not obtaining the counter signature. The facts however remained that the Corporation would not be able to make the losses good in the absence of sufficient insurance cover**.**

Huge arrears of storage charges

3.2.37 The Corporation had arrears of ₹ 24.66 crore recoverable from various agencies as on 31 March 2015. Out of this an amount of ₹ 7.51 crore *viz.* more than 30 *percent,* was outstanding for more than two years and of the total dues outstanding, nearly 85 *per cent* pertained to FCI. The reasons for arrears in respect of FCI were Storage Losses, Rail Transit Losses (RTL), Demurrage/ Wharfage/Rebooking charges *etc.* of the total dues in respect of fertilisers, more than 95 *per cent* pertained to Rashtriya Chemicals and Fertilisers Limited (RCF) Maharashtra Agro Industries Development Corporation Limited (MAIDC) and Zuari Industries Limited (ZIL).

The Corporation stated that billing recovery and reconciliation of outstanding dues was a continuous process. In the case of FCI, storage losses and RTL were major contributing factors for pending dues and the Corporation had been taking all measures for resolving issues and settlement of dues. The Corporation should make vigorous efforts to settle the outstanding claims in a time bound manner considering their financial interest.

Storage losses

3.2.38 Storage loss is revealed as and when each stock is completely cleared and represents the difference between the stock balance as per books and the physical stock balance. FCI fixed norms for storage losses at the rate of 0.2 and 0.50 *per cent* upto one year for rice and wheat respectively and 0.75 *per cent* beyond one year for both the commodities.

Scrutiny of records revealed that in 276 cases, storage losses valuing ₹ 8.90 crore were found to be in excess of the permissible limit during the last eight years upto 2014-15 as detailed below:

Year	No. of cases	Percentage of range of storage losses	Value (in ₹)	No. of cases written off	No. of cases partially written off	Value of partially written off cases (in ₹)
2007-08	1	0.64	94,724	-	1	94,724
2008-09	14	0.99-2.06	19,18,303	8	6	9,65,114
2009-10	15	0.66-1.02	37,35,651	6	9	26,32,814
2010-11	42	0.64-1.22	1,39,59,635	22	20	85,90,174
2011-12	64	0.62-1.48	2,16,43,171	34	30	1,17,49,692
2012-13	75	0.64-3.17	3,00,92,607	42	33	1,54,19,732
2013-14	45	0.52-2.10	1,21,49,112	25	20	44,74,651
2014-15	20	0.65-1.50	53,67,337	16	4	12,45,120
Total	**276**		**8,89,60,540**	**153**	**123**	**4,51,72,021**

The storage losses in the godowns ranged from 0.52 to 3.17 *per cent* which were beyond the norms. Further, since 2010-11 to 2013-14 the number of cases of storage losses also increased from 0.64 to 2.10 *per cent*. The FCI settled 153 cases of storage losses valuing ₹ 4.39 crore during last eight years. In respect of 123 cases valuing ₹ 4.52 crore, the FCI partially written off storage losses to the extent of ₹ 2.77 crore and balance amount of ₹ 1.75 crore had been rejected. In respect of 123 cases settled by FCI, 61 cases of ₹ 0.73 crore were discussed in the Board wherein it considered ₹ 0.44 crore as business loss and balance amount of ₹ 0.29 crore to be recovered from concerned Centre In charge. In remaining 62 cases valuing ₹ 1.02 crore, the Corporation has not yet taken any decision (December 2015).

The Corporation apprised that 44 out of 62 cases have been decided and ₹ 18.57 lakh was considered as business loss and ₹ 29.97 lakh was to be recovered from concerned centre in charges.

Maintenance of warehouses

Non utilisation of dunnages

3.2.39 As per FCI guidelines, wooden crates were to be used by the Corporation as dunnage and in case the wooden crates were not available, poly pallets may be purchased. The Corporation issued (December 2013) purchase order for 8,000 Nos. of poly pallets valuing ₹ two crore from a contractor (M/s Ojas Agro Packs Private Limited) at the rate of ₹ 2,499 per poly pallet based on the rate contract of CWC without inviting tenders and obtaining prior approval of Board. The Board while according post facto approval stated (March 2014) that as the amount involved was huge, prior approval should have been obtained. These poly pallets were received during January 2014 to July 2014. In April 2015, another purchase order valuing ₹ 3.05 crore was issued for 10,000 Nos. of poly pallets at the rate of ₹ 3,051 per poly pallet.

We observed that the additional order of 10,000 Nos. of poly pallets was placed without utilising 8,000 Nos. of poly pallets already received during January 2014 to July 2014. Due to non provision/utilisation of dunnages in the godowns, FCI was making payment of storage charges on actual utilisation basis instead of making payment on guaranteed storage capacity and withheld ₹ 6.05 crore due to the Corporation for the period 2014-15.

The Corporation stated FCI was paying storage charges on actual utilisation basis because poly pallets/wooden crates were not provided on 100 *per cent* basis and not because the procured poly pallets/wooden crates were not utilised. The reply was not convincing as the FCI had withheld the amount on account of non-fulfilling their model conditions of storage.

Non-commissioning of grain cleaning/grading machines and premature placement of Annual Maintenance Contract

3.2.40 The Corporation purchased (March 2012) for its various locations/centres 40 grain cleaning and grading machines and one additional sieve screen set at a cost of ₹ 2.34 crore and ₹ 4.80 lakh respectively. However, Annual Maintenance Contract (AMC) for three years at a cost of ₹52.76 lakh effective from expiry of two years warranty period from the date of commissioning of machines was placed with the supplier before commissioning of all the machines. The Corporation also made the payment (March 2013) before commissioning of all the machines.

The Corporation stated that three machines were yet to be commissioned due to non-completion of construction of cleaning and grading yards, non-availability of power supply *etc*. The reply of the Corporation was silent on the reasons for payment of ₹ 52.76 lakh towards AMC before commissioning of machines.

Avoidable expenditure on consultant for implementation of Government Scheme

3.2.41 The Corporation has been availing 25 *per cent* capital subsidy from NABARD towards construction of godowns in rural areas under Grameen Bhandar Yojana (GBY) implemented by GoI since 2002. As per the scheme, 50 *per cent* of subsidy was received in advance and the balance after construction of godowns. Further, NABARD implemented refinance scheme 2011-12 under which loans would be extended to beneficiaries from commercial banks and after repayment of loan as per schedule, the beneficiaries were entitled for interest subvention of 1.50 *per cent*.

We observed that though capital subsidy and interest subvention under the NABARD scheme were directly available to all beneficiaries availing the schemes, the Corporation appointed (September 2011) a consultant (M/s Innobiz Solutions Private Limited) with four *per cent* consultancy charges payable on capital subsidy and interest subvention receivable from NABARD. Further, the consultant was also appointed for reducing the interest rates offered by commercial banks under refinance scheme. Since the Corporation was a State owned agency and the NABARD being agency of GoI, the requirement of services of an intermediary consultant which costed the Corporation ₹ 31.11 lakh to implement the Scheme lacked justification.

The Corporation justified the appointment stating that subsidy and interest subvention were recovered/receivable due to the efforts of consultant and the consultant might not be treated as an intermediary but as a dedicated team. The reply was not convincing as the subsidy and interest subvention were receivable even without the services of the consultant on complying the provisions of the scheme.

Monitoring and Internal control

Internal control

3.2.42 The deficiencies noticed in Internal Control procedures are discussed below:

- Land required for construction of godowns was purchased without proper site survey of the conditions of the land and approach roads to the site.
- Payments for land purchases were released in full without complete measurement of the land by the authorised agencies.
- The Schedule of Rates for Rent to be recovered from licensees was not been followed there by making decisions arbitrary.
- The physical verification of stocks at warehouse centres was carried out by centre-incharge/Regional Manager (RM) responsible for handling/ supervision of the stocks, whereas periodical verification by independent stock verifiers was not carried out.
- In accordance with standing orders requiring RMs to carryout inspections of godowns/warehouses in a year, we noticed serious shortfalls in inspections.

Internal Audit

3.2.43 During scrutiny of records of Internal Audit (IA), several deficiencies were noticed which are discussed below:

- The General Manager (Finance) was holding the charge of General Manager (Audit) to whom all the Internal Audit reports were submitted. The duties of Finance and Audit should not have been discharged by the same person.
- Irregularities reported by Internal Audit wing were not placed before the Chairman and Managing Director/Board of Directors for scrutiny and the observations of internal auditors were not complied with.
- The periodicity of audit was not indicated in the audits conducted by the Internal Audit wing.

An independent internal audit wing needs to be set up and strengthened so that it would commensurate with the size and nature of the business of the Corporation as reported by the Statutory Auditors in their Reports since 2010-11.

Conclusion and Recommendations

The State Government has not assessed the warehousing requirement in the State as a whole.

The State Government may assess the requirement of warehousing facility in the State comprehensively, so as to demarcate the role for Government and private agencies and also for perishable commodities separately. The State Government may also assess creation of cold storage and other modern storage facilities in the changing environment.

Cases of non-utilisation of available land and purchase of land in excess of requirement and at unsuitable locations were noticed.

Corporation may acquire land only after feasibility study is carried out and proper plans for utilisation of acquired land are in place.

Abnormal delays in construction of godowns resulted in reduction of period of guarantee business of FCI and consequent loss of revenue. Deviations from specifications prescribed by FCI resulted in financial burden on the Corporation.

The Corporation may ensure efficiency in tendering procedures and for timely construction of godowns and adhere to the norms prescribed by FCI for their schemes.

The Corporation has not reviewed the categorisation of warehouses since November 2004.

Categorisation of warehouse centres may be reviewed periodically.

The Corporation did not enter into MOU with FCI for recovery of Handling & Transportation charges and Rail Transit Losses.

The Corporation may enter into MOU with FCI with enabling provisions for recovery of Handling and Transportation charges and Rail Transit Losses.

Physical verification of stocks of warehouses were not carried out by Regional Managers (RMs) responsible for the same and neither was independent physical verification of stocks carried out.

The Corporation may ensure that physical verification of stocks is carried out periodically by RMs/independent verifiers.

The irregularities reported by Internal Auditors were not reported to CMD/ Board.

The irregularities reported by Internal Auditors may be submitted to the CMD/Board for corrective measures.