Chapter II

2. Performance audit relating to Government companies

2.1 Orissa State Civil Supplies Corporation Limited

Procurement and distribution activities under Public Distribution System

Executive summary

The Company was incorporated in September 1980 with the main objective of procurement of paddy from farmers and supply of Custom Milled Rice (CMR) as well as procurement of rice/wheat and levy sugar from Food Corporation of India (FCI) and sugar mills respectively for distribution under Public Distribution System (PDS). The present performance audit was conducted with a view to assess performance of the Company with regard to effectiveness and efficiency in financial management of PDS operation, efficiency in management of food grain procurement operations, adequacy in planning for procurement, lifting and distribution of PDS commodities, adequacy in preference of subsidy claims and effectiveness of internal control and monitoring activities of top management.

Financial management of PDS operations

During 2006-11, the Company financed the paddy procurement operation by availing cash credit aggregating ₹ 8,494.73 crore which was recouped by sale proceeds of CMR and subsidy received from Government of India (GoI)/Government of Odisha (GoO). The financial management of the Company, however, suffered with several deficiencies causing adverse impact on Company's financial health. Instances of huge interest loss on availing higher cash credits were noticed on account of several reasons, like, delays in remittance of funds by District Offices/ Primary Agricultural Co-operative Societies (interest loss: ₹8.23 crore), delays in preferring subsidy claims (₹52.20 crore) due to deficient documentation, non-finalisation of up-to-date KMS accounts, non-receipt (₹7.76 crore) of required documents from Custom Millers, etc.

Inadequate planning for procurement of paddy

There were deficiencies in procurement of paddy as well as conversion and delivery of CMR. In 10 selected districts the Custom Millers (CMs) delivered 4.31 lakh MT out of 14.45 lakh MT of CMR after delays of 6 to 510 days from the due date of delivery during KMS 2008-11 resulting in loss of interest of ₹ 20.28 crore on blockage of funds (₹627.86 crore) towards cost of corresponding quantity of paddy. Despite delay in delivery of CMR within the stipulated period, the Company waived ₹ 3.69 crore during KMS 2006-07 to 2008-09 and did not impose holding charges of ₹ 9.88 crore on 111 CMs for KMS 2009-10. Mandi labour charges of ₹ 32.44 crore were paid in 11 districts during 2006-10 without obtaining requisite certificates and voucher/supporting documents from District Managers/ Custom Millers. There was undue benefit of ₹ 7.16 crore to the CMs due to irregular payment of joint custody charges and driage. There was loss of ₹ 5.78 crore due to non-claiming of storage and handling loss of CMR from GoI at Rice Receiving Centers. Allowing irregular lifting of paddy by defaulting CMs resulted in loss of ₹4.57 crore.

Distribution of PDS commodities

Due to short-lifting of rice, wheat and sugar by the Company for distribution under GoI Schemes deprived 1.98 crore, 0.95 crore and 11.20 crore beneficiary families respectively of availing foodgrains at subsidised rates besides revenue loss of ₹11.09 crore to the

Company. Further, short-lifting of APL rice by the Company during August 2008 to March 2011 for distribution to Below Poverty Line (BPL) and Above Poverty Line (APL) beneficiaries in Koraput-Bolangir-Kalahandi districts also resulted in avoidable financial burden of ₹ 53.95 crore to GoO.

Delay in cancellation of 66,525 bogus BPL cards led to irregular allotment of 4,574 MT of rice valuing ₹7.75 crore. Further, improper planning for transportation of PDS commodities resulted in avoidable expenditure of ₹ 6.57 crore.

Man power deployment, internal control and monitoring by top management

Due to shortage of man power the Company deployed employees on ad-hoc and daily wage basis which affected the updating of records, timely reconciliation of quantities of paddy delivered and rice obtained, finalisation of accounts, etc. There were deficiencies in internal control system prevailing in the Company. MIS data and monitoring by top management was also inadequate.

Conclusion and Recommendations

Proper planning by the Company could have enabled it for procurement, lifting and distribution of commodities under the PDS for distribution to the poor and needy people. This performance audit contains four recommendations to improve the procurement, lifting and distribution of PDS commodities i.e. monitoring the transfer of surplus funds by District Offices and streamlining the procedure for timely submission of claims with complete documents; strengthening the control mechanism on the functioning of the Custom Millers and release of payments to them as per guidelines; lifting and distribution of PDS commodities as per allotment for timely distribution to beneficiaries; and strengthening the Quality Control System, Monitoring Mechanism, Internal Control System and Manpower Deployment in line with the growing activities.

Introduction

2.1.1 Orissa State Civil Supplies Corporation Limited (the Company) was incorporated in September 1980 as a wholly owned Government Company with the main objective to procure, store, process, transport, distribute and sell food grains, food stuff, sugar and other essential commodities as well as to provide assistance and services thereof. The present activities of the Company *inter alia*, were:

- procurement of paddy, conversion of paddy to Custom Milled Rice (CMR), storage and transportation of CMR for supply under Public Distribution System (PDS) as well as delivery of surplus CMR to Food Corporation of India Limited (FCI) under Decentralised Procurement Scheme (DPS) of Government of India (GoI); and
- procurement of rice/wheat from FCI and levy sugar from sugar mills as well as distribution to retail fair price shops through Storage Agents (SAs) under PDS.

2.1.2 The Management of the Company was vested in a Board of Directors (BoD) with the Secretary of the Department of Food Supplies and Consumer Welfare as the Chairman and seven Directors, appointed by the Government of Odisha (GoO). The Managing Director (MD), who was the Chief Executive of the Company, was assisted by Financial Advisor-cum-Chief Accounts Officer (FA & CAO) and Deputy General Manager (Finance), five General Managers (in-charge of Procurement, Administration, Public Distribution System, Accounts and Audit) in carrying out the day-to-day activities of the

Company. The Company had District Offices (DOs) in all 30 districts headed by District Managers-cum-Civil Supplies Officers (DM-cum-CSO). The DM-cum-CSOs were the employees of the GoO and discharging the duties of CSO under the control of the Department of Food Supplies and Consumer Welfare. The DM-cum-CSOs were also performing the duties of DM, under the control of the Company and were responsible for overseeing the procurement and distribution of PDS items in the districts.

As on 31 March 2011, the Company had 2,795 Paddy Procurement Centres (PPCs) and 212 Rice Receiving Centres (RRCs).

Scope of Audit

2.1.3 The present performance audit, conducted during February to May 2011 covers the performance of the Company with respect to the procurement and distribution activities under Public Distribution System for the five years period from 2006-07 to 2010-11. The audit findings are based on the test check of the records of Company's Head Office at Bhubaneswar and in 11[22] out of 30 District Offices of the Company selected based on highest volume of procurement of paddy (six) and distribution of PDS commodities (five).

A performance audit on procurement and distribution of rice by the Company was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2005, Government of Odisha. The Committee on Public Undertakings (COPU) discussed (March 2007) the Report and their recommendations, *inter alia*, included that PDS should be properly regulated, quality control system be strengthened, Management Information System (MIS) data should be reconciled with the actual lifting position by the beneficiaries and the system of appointment of Storage Agents (SAs) be streamlined. The Food Supplies and Consumer Welfare (FS&CW) Department submitted (October 2007) the Action Taken Note (ATN) on the recommendations of COPU, the status of implementation of which had also been verified and commented upon wherever necessary.

Audit Objectives

2.1.4 The performance audit of the Company was conducted to assess whether:

- the financial management of the PDS operations was effective and efficient;
- the Company framed Annual Plan for procurement, lifting and distribution of paddy and rice in line with the Food and Procurement Policy of GoO;

[22] Balasore, Bargarh, Bolangir, Ganjam, Kalahandi, Koraput, Mayurbhanj, Rayagada, Sambalpur, Sonepur and Sundargarh

- paddy procurement operations and conversion of paddy to Custom Milled Rice (CMR) under Decentralised Procurement Scheme (DPS) was efficient and transparent;
- procurement operations of food grains under different GoI Schemes were managed economically and efficiently, allotment, lifting, off-take and distribution of rice, wheat and sugar to targeted section under different GoI Schemes was adequate and effective;
- deployment of manpower and quality control mechanism were effective; and
- Internal Control System and monitoring by top management were effective.

Audit Criteria

2.1.5 The performance audit of the Company with regard to procurement and distribution activities under Public Distribution System (PDS) was assessed against:

- Annual Plans, Budgets, Annual targets fixed for procurement and milling of paddy, PDS (Control) orders issued by GoI/GoO;
- Food and Procurement Policy of GoO and Guidelines of the Company for decentralised procurement of paddy and supply of rice;
- monthly allotment orders for PDS commodities issued by GoI/GoO, lifting plan, appointment of and agreement with SAs and custom millers;
- approved economic cost of CMR issued by GoI, agreement with banks for Cash Credit (CC) Loan, Memorandum of Understanding (MOU) with GoI, guidelines for claiming subsidy and related expenses; and
- MIS data generated by the Company for appraisal to the Board and Management.

Audit Methodology

2.1.6 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- review of Food and Procurement Policy of GoO, guidelines of the DPS, PDS (Control) Orders;
- scrutiny of instructions of the GoI/GoO in regard to procurement and distribution of food grains and sugar under various schemes;
- scrutiny of agenda notes and minutes of meetings of the Board of Directors, minutes of monthly conference of DM-cum-CSO;
- examination of records relating to allotment, lifting, procurement, and distribution of rice, wheat and sugar by SAs/MFPS under different schemes;

- scrutiny of MIS reports and of various reports and returns relating to stock and accounts, records relating to cash credit, internal audit reports and Action Taken Reports;
- scrutiny of records relating to subsidy claims submitted to GoI;
- interviewing the farmers of the selected districts in presence of representatives of the Company; and
- interaction with the Management and issue of audit queries.

Audit Findings

2.1.7 We explained the audit scope, objectives, criteria and methodology to the Company during the 'Entry Conference' held on 23 February 2011. Subsequently, we had reported the audit findings to the Company and the Government on 26 July 2011 and discussed the same in the 'Exit Conference' held on 31 October 2011 which was attended by the Commissioner-cum-Secretary (Secretary), Food Supplies and Consumer Welfare (FS&CW) Department and the Managing Director (MD) of the Company. The Management furnished the replies to the audit findings on 27 October 2011. Government endorsed the views of the Company on 31 October 2011. The views expressed and deliberations made by them have been duly considered while finalising the performance audit. The audit findings are discussed in the succeeding paragraphs.

Financial Position and Working Results

Financial Position

2.1.8 The Company had finalised its accounts only upto 2008-09 and prepared provisional accounts for the year 2009-10. The Company, however, had not compiled even the provisional figures for the accounting year 2010-11, hence, the accounting figures for 2010-11 could not be included and analysed in the performance audit. The delays in finalisation of accounts were attributed by the Management to lack of qualified staff in the District Offices (DOs) commensurate with the high volume of paddy procurement since 2003-04. The financial position and working results of the Company for the last four years ended 31 March 2010 are shown in **Annexure 7**.

It can be seen from the Annexure that:

- The secured loan increased from ₹ 588.77 crore in 2007-08 to ₹ 3,210.28 crore as the Company resorted to higher borrowings through Cash Credits to meet the procurement cost of increased volume of paddy. The increase in procurement activities from 2007-08 onwards also correspondingly increased the Current Liabilities (payment to custom millers/storage agents etc.), Inventories as well as Other Current Assets (Subsidy Receivable) during the said period.

- The Company prepared its accounts on 'no profit no loss' basis. The excess of Expenditure over Income was met from the subsidy from the GoI/GoO. Sales decreased from ₹ 1,022.22 crore in 2007-08 to ₹ 736.88 crore in 2009-10 due to operation relating to distribution of BPL rice at ₹ 2 per kg as against ₹ 5.65 per kg prevalent prior to August 2008.

- Miscellaneous Income increased from ₹ 2.24 crore in 2006-07 to ₹ 18.25 crore in 2009-10 due to accounting of differential claim from FCI and increase in interest income from fixed deposits.

- Purchase of Traded Goods increased sharply by ₹ 555.83 crore in 2007-08 over 2006-07 and further by ₹ 2,198.23 crore in 2009-10 over 2007-08 due to increase in the volume and cost of paddy procured. This had correspondingly increased the Trade Expenses, Procurement Expenses and Interest charges during the same period.

Fund Management

2.1.9 The Company financed the paddy procurement operations through Cash Credit Account opened by the Head Office (HO) against hypothecation of stock of rice. During 2006-11 the Company availed Cash Credit (CC) aggregating ₹ 8,494.73 crore with interest rate ranging from 6.50 to 13.50 *per cent* per annum. The HO disbursed funds out of CC to the District Offices (DOs) to be utilised in the procurement and distribution operations. The CC was recouped by sale proceeds of CMR received from DOs and subsidy claimed by HO from Government of India (GoI)/Government of Odisha (GoO). Thus, it was imperative that sale proceeds of CMR were remitted by the DOs immediately and subsidy claims were also submitted promptly for expeditious settlement by GoI/GoO so as to reduce the burden of the CC interest. In this connection we observed the following deficiencies.

Retention of heavy cash balance by District Offices

2.1.10 The District Offices (DOs) of the Company maintained Decentralised Procurement Centre (DPC) accounts (non-interest bearing) with designated scheduled banks for meeting expenditure on procurement of paddy under Decentralised Procurement Scheme (DPS). The sale proceeds generated in the DPCs were deposited to the DPC accounts. In addition, the DOs maintained Revenue Accounts in which the funds allocated by HO from CC for meeting the expenditure on procurement of rice/wheat from FCI and sales revenue realised from distribution of commodities were deposited.

2.1.11 As per the operational guidelines (2006-07 to 2010-11) and directions (May/December 2008) of MD, the DMs were responsible to monitor the funds in the DPC accounts and the Revenue Accounts regularly to avoid idling of surplus funds in DPC/Revenue Accounts.

Delays in remitting unutilised fund lying in DPC/Revenue Accounts resulted in avoidable interest burden of ₹ 6.92 crore

In this connection, we observed the following:

- The DMs did not submit the periodical details/returns of receipt and utilisation of funds in the DPC/Revenue Accounts to avoid idling of fund. The HO had also not devised any control mechanism to oversee the release and utilisation of funds to and by the DOs by fixing the amount and time limit for retaining the surplus funds in the DPC/Revenue Accounts. In ten[23] out of 11 DOs test checked, average minimum month-wise surplus funds (ranging from ₹ 5.16 lakh to ₹ 10.03 crore) lying in DPC Accounts were not remitted to the HO immediately thereby causing avoidable interest burden of ₹ 5.43 crore[24] on CC during the period from 2006-07 to 2010-11.

- Similarly, in 8 out of 11 DOs, the Revenue Accounts had the minimum monthly surplus funds ranging from ₹ 8.85 lakh to ₹ 3.11 crore during 2006-07 to 2010-11, which were not transferred to Head office accounts. This had resulted in avoidable payment of interest of ₹ 1.49 crore on CC.

The Government/Management stated (October 2011) that steps were being taken to open sub-limit Revenue Accounts at DO level for monthly purchase from FCI. In the Exit Conference, the Secretary assured (October 2011) to fix necessary norms in this regard.

Non-receipt of subsidy claim

2.1.12 Under Decentralised Procurement Scheme (DPS) launched by GoI, the GoO started procurement of rice from Khariff Marketing Season (KMS) 2003-04[25]. GoI determines State-specific Economic Cost of rice and the difference between the Economic Cost[26] and Central Issue Price[27] (CIP) was passed on to the Company as food subsidy. In terms of GoI's instruction (April 2003), 95 *per cent* of food subsidy claimed quarterly by the Company was to be released in advance by GoI as provisional subsidy and balance five *per cent* was reimbursable on submission of audited Annual Accounts of each KMS to GoI not later than six months after close of the respective KMS. We noticed the following deficiencies:

Delay in preparation of KMS accounts

2.1.13 The Company did not prepare and submit the KMS accounts from 2005-06 to 2009-10 to GoI. Resultantly, the Company could not claim probable food subsidy aggregating ₹ 245.77 crore from GoI. Had the said

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[23] Balasore, Bargarh, Bolangir, Ganjam, Kalahandi, Koraput, Rayagada, Sambalpur, Sonepur and Sundargarh

[24] Worked out on month-wise minimum surplus funds at cash credit interest rates

[25] Khariff Marketing Season (covering October 2003 to September 2004)

[26] Cost of procurement and distribution of rice under Public Distribution System

[27] The price at which rice was issued by GoI to State for distribution under Public Distribution System.

Delays in submitting subsidy claims resulted in extra interest burden of ₹ 23.01 crore on Cash Credit

subsidy been received by the Company, interest burden on CC Account could have been reduced to the extent of ₹ 23.01 crore.

The Government/Management stated (October 2011) that expenditure already incurred for various years were less than subsidy due; hence there would be no probable subsidy and consequential extra interest burden. The reply was not acceptable as the Company was actually deprived of the additional cash inflow towards balance five *per cent* of GoI subsidy. In the Exit Conference, the Secretary assured (October 2011) to take action for early completion of pending audited accounts of KMS.

Non-release of GoI subsidy due to delay in submission of requisite documents

2.1.14 As per instructions of the GoI, the differential amount of Value Added Tax (VAT) paid on the purchase of paddy (input VAT) and VAT collected on sale of rice (output VAT) would be reimbursable from GoI provided GoO exempted VAT on distribution of rice. The GoO, though, exempted VAT (July 2005) but did not furnish necessary clarification in this regard to GoI. The Company also did not pursue the matter with GoO. On this being pointed out (1 July 2011) by us, though GoO furnished (9 June 2011) the requisite clarification to GoI, the reimbursement of VAT on paddy for KMS 2005-06 to 2009-10 by GoI was still pending due to ineffective pursuance by the Company/GoO.

Non-submission of requisite details/documents to GoI led to non-release of subsidy claim of ₹ 449.46 crore

Similarly, for claiming reimbursement of storage and handling loss[28], the Company was required to furnish the details of storage and handling loss along with the Stock Statements to the GoI. The Company, however, did not furnish the details of storage/handling loss for the KMS 2006-07 to 2010-11 to GoI so far (November 2011). Thus, delay in furnishing the clarification in regard to VAT and non-submission of details of storage loss led to non-release of subsidy claim aggregating ₹ 449.46 crore for the period from KMS 2005-06 to 2009-10.

While accepting the facts, the Government/Management stated (October 2011) that steps had been taken to finalise the storage and handling losses and include the same in the final KMS accounts of those years.

Delay in submission of claim for advance subsidy

2.1.15 The GoI instructed (July 2009) that by 25th of the month following the end of the quarter, provisional subsidy claim (95 *per cent*) for previous quarter and advance subsidy claim (90 *per cent*) for next quarter were to be submitted by the Company to GoI.

We observed that the Company submitted the claim for advance subsidy (₹ 1,231.54 crore) and provisional subsidy (₹ 1,411.34 crore) during KMS 2006-10 after delays upto 79 days and 62 days respectively resulting in corresponding delay in receipt of subsidy from GoI. Timely submission of

[28] Loss of quantity of rice during storage, handling including transportation

Delay in lodging advance subsidy and provisional subsidy claims led to avoidable payment of interest of ₹ 22.33 crore

subsidy claim could have correspondingly reduced the interest burden of ₹ 22.33 crore[29] on CC acount

While accepting the audit observation, the Government/Management stated (October 2011) that the delay in preferring subsidy claims with GoI was caused mainly due to excessive time taken in compiling the data at field level. The Secretary stated (October 2011) in the Exit Conference that steps were being taken to computerise the transactions.

Delay in preferring claims with FCI for CMR

2.1.16 As per the instructions of the Company (March 2010), the Custom Millers (CMs) were required to deliver the surplus CMR to FCI on the basis of Enforcement Certificates issued by District Managers (DMs) and to furnish the original copy of acceptance note and analysis reports received from FCI to the DOs of the Company within two days of delivery of surplus CMR. Thereafter, DMs were required to submit the claims to FCI along with requisite documents within next two days. Thus, DMs were responsible to ensure the receipt of requisite documents from the CMs and to promptly submit the claims with necessary documents to FCI.

Inordinate delays by the Company in submitting the claims for CMR caused corresponding delays in settlement of the same by FCI resulting in interest loss of ₹ 7.76 crore

We observed that in 10[30] out of 11 districts test checked, DMs lodged claims aggregating ₹ 326.87 crore with FCI for delivery (February-December 2010) of 2.41 lakh MT of CMR relating to 975 cases after delays of 4 to 382 days. Similarly, in eight[31] districts, against 1.06 lakh MT of CMR delivered (February-December 2010) by CMs to FCI, the Company did not submit the claims for supply of 45,296.80 MT of CMR valued at ₹ 82.77 crore till May 2011. The delay was attributable mainly to failure on the part of DMs to collect the requisite documents from the CMs with consequent delay in settlement of claims of 2.86 lakh MT of CMR resulting in avoidable payment of interest of ₹ 7.76[32] crore on availing higher CCs.

While accepting the audit observation, the Government/Management stated (October 2011) that the delay in preferring claims with FCI was due to delay in submission of documents by millers, shortage of staff and delay in receipt of requisite certificates from FCI in regard to delivery of rice. The fact, however, remained that delay in submission of claims with FCI and ineffective follow up by HO led to avoidable payment of interest of ₹ 7.76 crore.

Non-realisation of differential amount of levy sugar

2.1.17 The Company had been procuring levy sugar[33] from the GoI allotted sugar mills inside and outside the State at the GoI approved price. The differential price of the purchase cost over the Consumer Index Price (CIP)

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[29] Calculated for the period of delay in claiming the subsidy

[30] Bargarh, Bolangir, Ganjam, Kalahandi, Koraput, Mayurbhanj, Rayagada, Sambalpur, Sonepur and Sundargarh

[31] Ganjam, Jharsuguda, Jeypore, Kalahandi, Khurda ,Rayagada, Sonepur and Bolangir

[32] Calculated at the cash credit interest rate on the blockage of funds

[33] Levy sugar means the sugar requisitioned by the Central Government from the sugar mills under the Essential Commodities Act, 1955.

fixed by GoI was reimbursed to the Company by way of subsidy from Levy Sugar Price Equalisation Fund (LSPEF) of GoI. While approving the Sugar Accounting Policy, the BoD directed (June 2001) the Company to lodge subsidy claim through GoO for reimbursement of the differential price by 15th of the month following the month of lifting. In this connection we observed the following deficiencies.

2.1.18 The Company preferred the monthly claims on FCI during April 2006 to November 2007 for realisation of the differential cost after slippages of 50 to 282 days. The said claims were settled by FCI after a further delay of 64 to 233 days thereby causing the loss of interest of ₹ 1.49 crore to the Company. Further, the monthly claims for the subsequent periods from December 2007 to March 2011 amounting to ₹ 78.80 crore were lodged after delays ranging from 16 to 327 days of which only ₹ 15.46 crore was received from FCI during December 2010 to March 2011. The balance amount of ₹ 63.04 crore was yet to be released by FCI (November 2011) which led to interest loss of ₹ 5.37 crore for the period from December 2007 to March 2011. Thus, due to inordinate delays in preferring claim and lack of pursuance at appropriate level with GoO, the Company sustained loss of interest of ₹ 6.86 crore upto 31 March 2011.

The Government/Management stated (October 2011) that (a) sugar mills located outside the State did not submit the required documents to facilitate the submission of claim and (b) the matter was pursued with FCI for quick settlement of claim. The contention is not acceptable because despite non-recovery of huge claims, the Company did not take up the matter with GoO for settlement of claim with FCI during last five years. In the Exit Conference, the Secretary agreed (October 2011) to review the system of submission of claim after examining the procedure adopted by other States.

Delay in realisation of sale proceeds of sugar

2.1.19 The Company was required to issue the release orders to the Storage Agents (SAs) for lifting the levy sugar for distribution under the PDS only on receipt of bank drafts by the DOs from the SAs towards cost of sugar. The bank drafts so received should promptly be transmitted to the Head office for deposit in the Levy Sugar Control Account. We observed that during 2009-11, the DOs deposited the bank drafts valuing ₹ 223.37 crore to the Head Office account after delays ranging from 2 to 65 days (after allowing two days for transit of drafts). Consequently, the Company was burdened with additional interest of ₹ 63.64 lakh for the corresponding periods on additional CC availed.

In the Exit Conference, the Secretary stated (October 2011) that steps were being taken to tie up with Axis bank for prompt transfer of money.

Excess disbursement of fund to Primary Agricultural Co-operative Societies (PACSs) for purchase of paddy

2.1.20 The Company had engaged Primary Agricultural Co-operative Societies (PACSs) who functioned under the Department of Co-operation, GoO for procurement of paddy from the farmers. The Company was required to provide advances to the Orissa State Co-operative Bank (OSCB) for onward transmission to the District Central Co-operative Banks (DCCBs) for payment to the farmers by the PACSs of the respective districts. The DMs were responsible to monitor the utilisation of funds so as to avoid idling of funds with DCCBs.

We observed that against the excess advances of ₹ 41.78 crore lying with DCCBs for KMS 2009-10, only ₹ 34.30 crore was refunded by the DCCBs to the Company. Though the paddy procurement operation was over by June 2010, the balance amount of ₹ 7.48 crore was refunded by six DCCBs in 16 districts only in July 2011. In the absence of enabling provision in the agreement the Company could not claim interest of ₹ 67.32 lakh on the unutilised funds from the DCCBs.

In the Exit Conference, the MD stated (October 2011) that the recovery of interest in case of delay in remitting the funds had since been included in the agreement with DCCBs for KMS 2010-11.

Procurement of paddy under Decentralised Procurement Scheme

2.1.21 The GoI's food grains management strategy under Public Distribution System (PDS) involved procurement of food grains from growers at remunerative prices. In order to ensure availability of Minimum Support Price (MSP) of paddy to farmers and to maximise procurement of rice, GOI introduced (November 1997) Decentralised Procurement Scheme (DPS). GoO had been following the DPS since Khariff Marketing Season (KMS)[34] 2003-04. Accordingly, GoO issued Food and Procurement Policy (FPP) for each KMS. The Company also formulated operational guidelines before commencement of each KMS prescribing the procedure for procurement of paddy and distribution of Custom Milled Rice (CMR).

The Company procured paddy through its Paddy Procurement Centres (PPCs) as well as through different agencies like Primary Agricultural Co-operative Societies (PACSs) (from KMS 2009-10), Women Self Help Groups (WSHGs) and Pani Panchayats (PPs). Paddy so procured was converted into CMR through the Company appointed Custom Millers (CMs) at the pre-determined out-turn ratio. The CMR so received at Rice Receiving Centres (RRCs) was distributed in the PDS channel through Storage Agents (SAs) and retail outlets under various schemes of PDS.

2.1.22 GoO fixed the target of procurement of paddy for each KMS. We observed that the Company achieved the target of procurement of paddy and CMR ranging between 93 and 98 *per cent* (paddy) and 91 and 98 *per cent* (CMR) during the last four KMS 2006-07 to 2009-10.

Notwithstanding the performance of the Company in regard to procurement with reference to targets, deficiencies were noticed in procurement of paddy and conversion/ delivery of CMR as discussed in the succeeding paragraphs.

[34] October of current year to September of subsequent year

Procurement at Paddy Procurement Centres (PPCs)

Signature of farmers were not recorded in the PPRs at the time of paddy procurement

2.1.23 As per the operational guidelines, the farmers were required to sign in the Paddy Purchase Registers (PPRs), while delivering the paddy at the PPCs. We observed that during KMS 2008-09 and 2010-11 in 266 out of 1,489 cases test checked, the signatures of farmers were not obtained in the PPRs in Bolangir district and Sonepur district against purchase of 2,051 MT and 156 MT of paddy respectively. Thus, procurement of paddy from the genuine farmers could not be vouchsafed.

The Government/Management stated (October 2011) that as purchase of paddy from the farmers was made on issue of 'vendor receipts' to the farmers due to rush of work, signatures of some farmers were wanting in the PPRs, which were obtained subsequently. In the Exit Conference, the Secretary stated (October 2011) that action would be taken to maintain the PPRs as per the guidelines.

Payment to farmers was delayed upto 60 days in four districts

2.1.24 In four districts[35], 15 PPC paid the cost of paddy (2.03 lakh quintals) to 3,200 farmers after a delay of 8 to 60 days from the date of sale of paddy though payment was to be made within maximum seven days. Further, 180 farmers in Bolangir district were not paid against delivery of 0.21 lakh quintals of paddy even after a lapse of 49 days (*i.e.,* upto the date of audit) in violation of the guidelines.

In the Exit Conference, the Secretary assured (October 2011) to pay the farmers timely in future.

Procurement of paddy through Primary Agricultural Co-operative Societies

2.1.25 The Company deployed Primary Agricultural Co-operative Societies (PACSs) to act as its agents for procurement of paddy since KMS 2009-10 against payment of commission at the rate of 2.5 *per cent* of the MSP of paddy per quintal. PACSs were responsible to purchase paddy from genuine farmers and also to ensure that the payment to farmers was made within maximum of seven days from the date of purchase of paddy.

We observed the following deficiencies:

Commission of ₹ 19.24 crore was paid to PACSs for procurement of paddy without obtaining the details of farmers

- During KMS 2009-10 in 11 districts, 11.07 lakh MT of paddy valued at ₹ 1051.38 crore was procured by PACSs. Against ₹ 26.27 crore payable towards commission, ₹ 19.24 crore was paid till April 2011 without obtaining the details of payments made to farmers for paddy purchase. On this being pointed out, the Company directed (October 2011) DOs to collect the procurement data farmer-wise from the PACSs and to release commission to them on receipt of required information and after reconciliation of procurement accounts.

[35] Bargarh (farmers: 16) [based on interview]; Bolangir (farmers: 1,489, quantity: 16,286 quintals), Sambalpur (farmers: 13) [based on interview] and Sonepur (farmers: 1,682, quantity: 1,86,967 quintals)

- In Kalahandi district, 15,096 MT of paddy procured during KMS 2009-10 by five PACSs (Utkela, Charbahal, Khairpadar, Narla and Faranga) were directly lifted by the Custom Millers (CMs) from the door step of farmers without being routed through PPC.

  While accepting the fact, Government/ Management stated that ₹ 4.70 crore was withheld from commission due to PACSs on account of above lapse.

- In Bargarh district, eight[36] PPCs operated by PACS were allowed to desptach the stock of paddy irregularly to the CMs without weighment and grading in PPCs during KMS 2010-11. Similarly, PACS of Barpali area directly delivered paddy to three CMs who had not executed a formal agreement with the Company for custom milling for the KMS 2010-11 which were serious lapses.

  The Government/Management stated (October 2011) that paddy procured by the concerned PPCs, under the control of Regulated Market Committee (RMC), had been weighed with the weighment facilities provided by the same RMC. The contention was not factually correct as our observation was based on the report of Assistant Civil Supplies Officer of the Company.

Procurement of paddy in Regulated Market Committee yard

2.1.26 The Company procured paddy from farmers in the State from market yards/temporary yards/krushak bazaars of Regulated Market Committees[37] (RMCs) against the payment of market fee at the rate of two *per cent* of MSP per quintal. As per the instructions (November 2008) of the MD to DOs which were also reiterated (September 2010) by GoI insisting upon the need of obtaining a certificate from the RMCs on providing the necessary infrastructural facilities[38] in market yards out of the funds earned by them in the form of market fees. Further, the State Level Conference (SLC) held in October 2006, it was decided that if paddy was procured by the Company through RMCs outside the notified RMC yard, market fees could be paid subject to the certificate to be furnished by the concerned RMCs that the requisite infrastructural facilities were provided to the farmers during purchase of such paddy.

Contrary to the directions of GoI, ₹ 91.51 crore was paid to RMCs as market fees without obtaining details of facilities provided to market yards by them

We observed that in all the 11 districts test checked, ₹ 91.51 crore was paid from KMS 2006-07 to 2010-11 (Khariff) towards RMC market fees without obtaining details/requisite certificates from the RMCs for providing necessary infrastructural facilities at the market yards/PACSs/WSHGs/PPs during

[36] Salana, Sindurbahal Chowk, Ghess, Shatli, Keseipali, Lahanda, Satlama and Kumbhari PPC of PACS

[37] Regulatory Market Committees are established under the provisions of the Orissa Agricultural Produce Markets Act, 1956 for regulation of purchase and sale of agricultural produce.

[38] Infrastructural facilities to be provided were sampling and quality analysis equipment, weighing equipment, computer infrastructure, tarpaulins, minimum required furniture, rest shed, etc.

procurement of paddy. Thus, market fees were paid as a routine matter without ensuring its utilisation for development of infrastructural facilities. The Management/Government stated (October 2011) that market fees were paid as per statutory provisions. The reply was, however, silent on furnishing certificates from RMCs as required under GoI guidelines.

Conversion and delivery of CMR by Custom Millers

2.1.27 The Company procured paddy under the Decentralised Procurement Scheme (DPS) to deliver it to the Custom Millers (CMs) for milling into Custom Milled Rice (CMR). The CMs were required to deliver the resultant CMR at the pre-determined ratio as per the agreements executed with the Company. The operational guidelines/agreements, *inter alia*, provided that the CMs must complete the delivery of due quantity of CMR at the designated Rice Receiving Centre (RRC) within a maximum period of 20 days for KMS 2006-07 and 2007-08 and within 40 days of delivery of paddy to them for KMS 2008-09 and 2009-10. The Company was to recover holding charges at the rate of ₹ 0.20 per quintal of rice per day of delay by CMs in supplying CMR beyond the agreed period of 20 days and 40 days from the date of issue of the paddy. Further, in case of delay caused due to unjustifiable reasons, the concerned District Managers (DMs) of the Company were to report the actual cause of delay to the District Collectors and Head Office (HO) of the Company after conducting immediate inspection of the mills. In this connection, we observed the following irregularities:

Delays in delivery of CMR upto 510 days by CMs resulted in blockage of fund ₹ 627.86 crore with consequential loss of interest of ₹ 20.28 crore

2.1.28 The HO of the Company had a district-wise database in regard to supply of CMR by CMs. No MIS was, however, generated in regard to CMR supplied by each CM against the paddy issued to them so as to assess the performance of individual CMs. In 10 selected districts[39], against 14.45 lakh MT of CMR scheduled to be delivered, CMs delivered 4.31 lakh MT after delays of 6 to 510 days from the due dates of delivery during KMS 2008-09 to 2010-11. Delay in delivery of CMR resulted in blockage of fund of ₹ 627.86 crore (equivalent paddy cost) and consequential loss of interest on investment amounting to ₹ 20.28 crore[40]. DMs, however, did not take action against the defaulting CMs. The HO also did not call for the reports from DMs about the non-delivery of CMR for review on regular basis, which showed the casual approach of the Company in addressing the issue despite huge interest loss sustained by the Company on this account.

The Government/Management stated (October 2011) that delay in receipt of CMR were attributed to delivery of excess amount of paddy to CMs beyond their milling capacity and failure to accept CMR offered by CMs due to non-availability of scientific storage facility. The reply was not acceptable since in case of inadequate number of millers in the district, the District Collectors could have assigned the milling work to millers in other districts. In the Exit Conference, the Secretary stated (October 2011) that the GoO had been taking

[39] Bargarh, Balasore, Bolangir, Ganjam, Kalahandi, Mayurbhanj, Rayagada, Sambalpur, Sonepur and Sundargarh

[40] Interest calculated for delayed period of delivery beyond the stipulated period at the interest rate applicable for cash credit

steps for increasing the storage capacity in the State and FCI was also being requested to create storage space for State procured rice.

2.1.29 As per the Food and Procurement policy, the Enforcement Officers (EOs) were required to verify the paddy and levy rice stocks of the miller agent periodically and not less than once a week and furnish all information to the District Collectors for issue of the Enforcement Certificate. We observed that weekly verification was never conducted in 10 selected districts test checked. In actual, physical verification was conducted only at the time of issue of Enforcement Certificate for delivery of CMR by the CMs monthly/ bi-monthly.

The Government/Management stated (October 2011) that the EOs found less time to conduct regular weekly physical verification because of their pre-occupation with different works in PDS, enforcement measures, etc., and the DMs did not have adequate control over EOs to ensure weekly physical verification of stock of paddy/CMR. The reply was indicative of deficient control mechanism over the stock lying with CMs. Reply was, however, silent on the corrective action, if any, taken to ensure compliance with the Food & Procurement Policy.

Non-recovery of holding charges from the defaulting Custom Millers

The Company waived holding charges of ₹ 3.69 crore payable by CMs

2.1.30 We observed that in seven DOs [41] an amount of ₹ 10.16 crore was withheld towards holding charges from the bills of 358 CMs during KMS 2006-07 to 2009-10 on account of the delays in delivery of CMR beyond the stipulated period (20/40 days). The MD, however, waived the holding charges amounting to ₹ 3.69 crore based on representations received from the CMs, without enquiring into reliability of the reasons contrary to the operational guidelines. We further observed that the Company did not apprise the total loss incurred by the Company due to waiver of holding charges to the BoD despite their direction (April 2008) in this regard.

Holding charges of ₹ 9.88 crore was not imposed on 111 CMs in five districts

2.1.31 We noticed that in five[42] out of 11 districts test checked, holding charges aggregating ₹ 9.88 crore were worked out by DOs for imposition on 111 CMs for KMS 2009-10 on account of delays in delivering the CMR. The matter was, however, neither reported to the HO nor any action was initiated for recovery of holding charges and the dues payable to defaulting CMs were released in full without adjusting the said holding charges.

The Government/Management stated (October 2011) that delays in delivery of CMR by CMs arose from allotment of paddy more than the milling capacity, space constraint, electricity failure etc., and the holding charges waived would be recovered after examining the reasons for delay in delivery. The contention was not acceptable because the DMs could not verify the reasons for delay, put forth by CMs after a long period from the conclusion of concerned KMS leading to waiver of holding charges without proper documentation. The reply was, however, silent on Management's failure in acting upon the directions of

[41] Balasore, Bargarh, Bolangir, Kalahandi, Mayurbhanj, Sambalpur and Sundargarh
[42] Balasore, Bolangir, Sambalpur, Sonepur (KMS 2007-08 to 2009-10) and Sundargarh

the BoD. In the Exit Conference, the Secretary assured (October 2011) that the matter would be looked into for prescribing further detailed documentation towards waiver of holding charges.

Irregular lifting of paddy by defaulting Custom Millers

2.1.32 As per the operational guidelines issued by the Company for 2010-11 defaulting millers who failed to deliver any quantity of CMR due from them in any earlier KMS without any justifiable clause should not be considered for appointment as Custom Miller (CM) in the KMS 2010-11. Further, before appointing a CM, the DM had to verify their track records through verification of certificates issued by the concerned authorities on milling capacity, Income Tax, Sales Tax, Electricity Duty, any other statutory certificates etc.

2.1.33 Verification of records by us in Sambalpur District revealed that Shree Krishna Rice Industries (SKRI), a rice mill owned by Ashok Kumar Agarwal was a defaulting CM for the year 2009-10 who failed to mill and deliver rice against 166.60 MT of paddy valuing ₹ 32 lakh. During KMS 2010-11, the owner of SKRI mill was appointed as CM by the DM in the name of another mill *viz.,* Shree Krishna Food Product which was actually non-existent. The party (CM) was delivered 15,415 quintals of paddy during KMS 2010-11 against which 10,482 quintals of CMR valuing ₹ 2.07 crore was not delivered to the Company. Though the District Office lodged (March 2011) an FIR against the defaulting CM, the chance of recovery of ₹ 2.07 crore was bleak due to non-existence of the mill.

Lack of internal control led to loss of CMR valuing ₹ 4.57 crore

2.1.34 Utkal Rollers Flour Mills (URFM) was a defaulting CM for the KMS 2006-07 and was debarred from procurement operation from KMS 2007-08. Consequent on representation (March 2009), District Collector (DC) appointed URFM as CM from the year 2009-10 with the condition that they would be allowed to lift paddy within the security deposit of ₹ 20 lakh. URFM had, however, been allowed by DM to lift 3,133 MT of paddy valuing ₹ 3.13 crore from the PACS during KMS 2010-11 ignoring the restriction imposed by DC on lifting of URFM. Against 2,130 MT of CMR due to be received, URFM delivered 749 MT and misappropriated 1,381 MT valuing ₹ 2.50 crore. The said loss could have been avoided had the DM restricted the lifting of paddy by URFM within the security deposit. The matter needed investigation to fix responsibility for the lapse.

Irregular payment of mandi labour/handling charges

2.1.35 Mandi Labour Charges (MLCs) represented the charges incurred in the mandis for engaging the labour to perform various activities like cleaning of grains, filling grains in bags, weighing, stitching, stacking, labelling, loading of grain bags in truck etc. The Company was to pay MLCs at the rate of ₹ 5.76 to ₹ 8.41 per quintal during KMS 2006-07 to 2009-10 to CMs and the amount was to be released only after obtaining the necessary certificates from CMs regarding actual completion of the work and other documentary evidences like bills, muster rolls, vouchers etc.

MLC of ₹ 32.44 crore was paid to CMs without supporting evidences

We observed that the DMs of nine[43] out of 11 districts test checked, paid ₹ 30.57 crore to the CMs towards MLC during the KMS 2006-07 to 2009-10 without obtaining the requisite certificates and vouchers/ supporting documents from CMs. In Koraput district, MLC of ₹ 1.87 crore was paid for KMS 2006-07 to 2009-10 to the CMs even without countersigning the certificates of CMs by the DMs.

The Government/Management stated (October 2011) that since flat rate per quintal of paddy handled was fixed for mandi labour charges, documentary evidences were never instructed in guidelines and payment was released at flat rates. The contention was not acceptable because release of payment towards MLC without obtaining requisite certificate/documentary evidence in support of the expenditure was in violation of the provision of the operational guidelines.

Irregular payment of joint custody and maintenance charges

2.1.36 In view of inadequate storage facility for storage of paddy and maintenance of its quality and quantity, the BoD decided (October 2009) to implement a system of custody and maintenance of paddy jointly by the CMs and the Company for interim storage from the date of delivery from purchase centres till the date of issue for milling with effect from KMS 2009-10. The BoD also approved (April 2010) the payment of custody and maintenance charges to the CMs on quantity of paddy kept under joint custody for two months at the rate of ₹ 1.84 per quintal per month. The Company entered into agreements with CMs between 2 July 2010 and 4 July 2011 which *inter alia*, provided that CMs were (a) to construct Cover and Plinth (CAP) storage facility for storing paddy and to separate the paddy stock under joint custody from the stocks of other agencies; (b) to deliver rice within the stipulated time period of 40 days; (c) to take insurance policy at their cost, covering the stock lying at the mills; and (d) the DMs/ his designated Authorised Officers (AOs) were responsible to conduct physical verification of the paddy stock and to issue Release Orders (ROs) for delivery of paddy to CMs for custom milling. The stock of paddy milled without proper RO would be treated as unauthorised conversion.

The MD directed (December 2009) the DMs to obtain all the documentary evidence from the CMs in support of hiring/arranging storage space by them for storing the surplus paddy of the Company under scientific storage. Further, as per the GoI guidelines (September 2010) for submission of incidentals, in case of storage of paddy at the millers' premises or for which no separate storage cost was paid, no storage cost would be entertained by GoI under 'custody and maintenance cost'.

We observed that:

- As per the agreement, the CMs were to deliver rice within a period of 40 days from the receipt of paddy. Hence, the decision of the BoD to

[43] Balasore, Bargarh, Bolangir, Kalahandi, Mayurbhanj, Rayagada, Sambalpur, Sonepur and Sundargarh

allow joint custody and maintenance charges to the CMs for two months' storage was contradictory and was indicative of Company's indirect consent to accept the delivery in upto 60 days period.

Custody and maintenance charges of ₹ 3.33 crore was paid to CMs without documentary evidences

- The DMs of four districts[44], in contravention of MD's direction and contractual provision, paid amount aggregating ₹ 3.33[45] crore to 139 CMs towards custody and maintenance charges on 9.50 lakh MT of paddy during KMS 2009-10 without obtaining any documentary evidence in regard to creation or having arranged the space for storage of paddy, amount spent for storing paddy as well as insurance policies for insuring the paddy stock. Further, none of the CMs delivered the due 6.46 lakh MT of CMR within the stipulated period of 40 days.

Paddy stored unscientifically in miller's storage point (Kaptipada Agro Products, Baripada) of Mayurbhanj district

Thus, payment of ₹ 3.33 crore towards custody and maintenance charges without obtaining the documentary evidence in support of expenditure and in violation of the directions of BoD was irregular and tantamount to undue benefit to the CMs.

The Government/Management stated (October 2011) that custody and maintenance charges were paid to CMs at a flat rate without insisting for production of documentary evidence since paddy was stored safely by them and the objective of joint custody was achieved. The reply was not acceptable since the instructions issued by the Company regarding payment of custody and maintenance charges were not complied with.

Undue benefit to custom millers due to payment of driage

2.1.37 The economic cost of CMR (raw rice) approved by GoI contained driage[46] at the rate of one *per cent* of MSP as an item of incidental since KMS 2003-04. The driage so allowed was, however, subject to occurrence of actual weight loss of paddy stock during its storage. We observed that during KMS 2003-04, the GoI while releasing the incidentals, had disallowed the driage

[44] Bargarh, Balasore, Bolangir and Mayurbhanj
[45] Including ₹ 1.23 crore paid to 82 CMs of Bargarh district for storage of 3.35 lakh MT of paddy delivered (October 2009 to March 2010) i.e., before decision (April/March 2010) for joint custody and maintenance was taken
[46] Element of incidental allowed by GoI to compensate the weight loss of paddy during storage period

element as there was no actual shortage in paddy stock. Till KMS 2007-08, amount provided in the economic cost towards driage was retained by the Company.

We observed that during KMS 2009-10, the Company passed the driage element amounting to ₹ 3.83 crore to 463 CMs on 4.45 lakh MT of paddy kept under joint custody in five districts[47] despite non-incidence of actual weight loss/shortage of paddy as per the Stock Statements for KMS 2009-10. While taking *post facto* approval (April 2010) of the BoD for payment of driage to CMs, the Management did not apprise the BoD of the reasons for passing on the driage incidentals to CMs.

Driage of ₹ 3.83 crore was paid to CMs despite no actual weight loss in paddy stock

Thus, there were least possibilities of GoI allowing reimbursement of the driage of ₹ 3.83 crore already paid by the Company to CMs and would result in loss to the Company.

The Government/Management stated (October 2011) that the paddy was required to be dried after it was received by CMs for production of raw rice and as such driage allowance was allowed to them as per GoI guidelines and decision of BoD. The reply was not acceptable since no actual shortage was reported during storage of paddy as per the Stock Statements furnished by CMs and the GoI may disallow reimbursement of said driage which would result in loss to the Company.

Procurement of gunny bags

2.1.38 To meet the requirement of gunny bags for packing of CMR to be delivered by CMs to Rice Receiving Centres/FCI, the HO assessed the requirement of gunny bags for each KMS year and placed the advance indent with the Director General of Supply and Disposal (DGS&D). Gunny bags were procured from the DGS&D approved source at the rate prescribed by DGS&D. In the event of non-receipt of gunny bags from the approved sources, the shortfall quantity was met out of supply from CMs who were paid by the Company. We noticed that during KMS 2006-07 to 2008-09, the Company procured 50,159 bales from CMs during KMS 2006-07 to 2008-09. As per the operational guidelines and direction (October 2006) of the BoD, gunny bags should be as per the specification of DGS&D and the DMs were responsible to certify that gunny bags supplied by CMs met all the specifications. Though the CMs enclosed the procurement bills of gunny bags to the DMs, they did not mention the specification of the 50,159 bales supplied by them. We observed that the DMs also did not insist for the specifications from the CMs nor did they certify the quality of the bags. Subsequently, the DMs reimbursed ₹ 56.08 crore to the CMs towards gunny cost.

Gunny cost of ₹ 56.08 crore was paid to CMs without ensuring gunny bags conforming to the required specification

In the Exit Conference, the Secretary assured (October 2011) for issue of instructions for prescribing a format for certification by the DMs before release of gunny cost to the CMs.

[47] Bolangir, Ganjam, Kalahandi, Koraput and Rayagada

Rice Receiving Centers

2.1.39 Rice Receiving Centers (RRCs) were the godowns either owned or hired by the Company used for receipt and storage of CMR under PDS. The CMs were required to deliver CMR at Company's own RRCs or at the hired godowns as per the plan given by the concerned districts. The rice was to be received after quality test and stored stack-wise in a scientific manner to avoid deterioration in the quality. The Company had prescribed the registers and records to be maintained and the details of equipment to be kept available at RRCs. On test check of records at 20 RRCs of nine districts[48] we observed that:

- Storage Loss Register, Stack Register, Inspection Register, Lot Rejection Register and Chemical Treatment Register were not maintained in any of the 20 RRCs for the test checked period from April 2006 to September 2010.

In absence of the control measures, there was shortage of rice at RRCs valued at ₹ 1.14 crore

- As per the Manual of Operating Procedure for RRC issued by the Company, the stacks of rice at RRC were to be inspected fortnightly by the Purchase Officer and findings noted in the Purchase Register. We observed that in all the 20 RRCs inspected by us, neither such register was maintained nor periodical inspection of stock was conducted. In the absence of the said control measures, there was shortage of 638 MT of rice valued at ₹ 1.14 crore in three RRCs[49] during KMS 2009-10. While the Management initiated action against one official in Rayagada for shortage of 122 MT of rice, no action was taken against the shortage of balance quantity of 516 MT valued at ₹ 92.47 lakh.

The Government/Management stated (October 2011) that (i) all the registers were maintained in the RRCs except the Chemical Treatment Register in Jaleswar RRC, and (ii) the shortage was arrived by Audit on the basis of available incomplete records as the Purchase Officer could not produce the stock and issue register which were subsequently made up-to-date and steps were being taken for recovery of shortages noticed in Sonepur district. The contention was not acceptable as the copies of the registers provided along with the replies pertained to the periods after September 2010, *i.e.,* after the period test checked by us. Reply was, however, silent on the reasons for not taking any action against the shortages valuing ₹ 92.47 lakh.

Storage and handling loss of CMR at RRCs

2.1.40 The economic cost of CMR approved by GoI for different years included the provision for reimbursement of handling and storage loss sustained by the Company through quarterly subsidy claim. The rates of handling and storage loss were fixed by the GoI as a percentage of CMR cost, which varied from 0.35 *per cent* to 0.50 *per cent* during 2006-07 to 2010-11.

[48] Balasore, Bolangir, Kalahandi, Koraput, Mayurbhanj, Rayagada, Sambalpur, Sonepur, and Sundargarh
[49] Bolangir- RRC, Belpora; Sonepur- RRC, Pandiktala; Rayagada- RRC, Padmapur

In this connection we observed the following:

- the Company did not fix any norm for determination of storage and handling loss in RRCs upto 2006-07. From the year 2007-08, however, a norm of 0.10 *per cent* to 0.30 *per cent* or actual whichever was less was fixed for storage loss in RRCs. Further, a norm of 0.5 *per cent* or actual whichever was less, was fixed for handling transit loss in movement of stocks of CMR by rail through the Handling and Transport contractors of the Company and godown owners.

Storage loss and transit shortage of ₹ 5.78 crore was belatedly reported by District Offices

- During 2007-08 to 2009-10 storage and handling loss was 3,464 MT valued at ₹ 5.78 crore which was belatedly reported (April 2010) to the HO by the DOs. The HO neither monitored the incidence of storage and handling losses nor ensured the reports periodically from DOs. As a result of inordinate delay in reporting, the said loss could not be included in the quarterly subsidy claim made by the Company with GoI. The Company was also not in a position to claim said losses at later stage as the CMR utilisation certificate furnished to GoI along with the quarterly subsidy claim did not reflect incidence of any such loss.

The Government/Management stated (October 2011) that (i) HO monitored the incidence of storage and handling loss by issue of guidelines from May 2010 to April 2011, (ii) the Company, in the mean time, preferred claim for reimbursement of shortage of 1,447 MT relating to KMS 2009-10 with GoI during the quarter ending March 2011. The reply indicated that the Company had not monitored the incidence of storage and handling loss prior to May 2010.

Distribution of PDS commodities

2.1.41 The Company distributed rice, wheat and levy sugar under the Targeted Public Distribution System (TPDS) for different schemes. It purchased rice and wheat from FCI at the Central Issue Price (CIP) based on the monthly allocation available from GoI. Rice and wheat collected from FCI were directly lifted by the Company appointed Storage Agents (SAs) as per the allotment made by the District Collectors for storing in their godowns. Besides, CMR collected by the Company through decentralised procurement operation were stored in the godowns owned or hired by the Company for handing over to the SAs. The Company procured the levy sugar from the allotted sugar mills of Odisha and other States based on the allocation available from GoI and stored in the four zonal depots of the Company for onward transmission to the SAs.

Thereafter, SAs issued rice, wheat and sugar to the retail outlets for distribution to the beneficiaries as per the allotment made by the Block Development Officers (BDOs) in rural areas and by the Executive Officers (EOs) in urban areas based on the number of ration cards under various schemes as detailed in **Annexure 8**.

Lack of planning in distribution

2.1.42 Based on their estimates on the number of Below Poverty Line (BPL)/Antyodaya Anna Yojana (AAY) families, GoI provided 97,131 MT and 44,260 MT of rice (December 2000) for 27.75 lakh BPL and 12.65 lakh AAY families respectively at the rate of 35 Kg rice per family per month for the State. The CIP of the rice for BPL and AAY categories was ₹ 5.65 and ₹ 3 per Kg respectively. Though the GoI's PDS Control Order, 2001 envisaged revision of BPL list by the State Government by conducting BPL survey, the same was pending due to non-conducting of said survey by State Government. GoO, while accepting the GoI's estimates for AAY families, had adopted the number of BPL families at 37.58 lakh based on BPL survey of 1997 conducted by the State Rural Development Department as against the GoI estimates of 27.75 lakh. Besides, GoO had also been providing rice to 5.56 lakh APL families in KBK districts at the BPL rate. Thus, as against the GoI monthly allocation of 97,131 MT of BPL rice, the actual requirement as per GoO's estimates was enhanced to 1,07,850 MT for 43.14 lakh families (*i.e.,* 37.58 lakh BPL families *plus* 5.56 lakh Above Poverty Line (APL) families in KBK districts[50]). The requirement of rice for enhanced beneficiaries was met by reducing the per family allocation from 35 Kg to 25 Kg. Even after this reduction, there was still deficit of 10,719 MT over the GoI allotment which remained un-allotted till July 2008.

Since August 2008, the GoO (August 2008) had been providing rice to BPL families, APL families in KBK districts and to all AAY families at uniform rate of ₹ 2.00 per Kg. In addition to this, the shortfall quantity of 10,719 MT was being allotted from the State procured rice under DPS. The entire cost of rice over the CIP of GoI allotment and the cost of additional allotment of 10,719 MT was borne by the GoO.

No BPL survey was, however, conducted so far in the State for updating the BPL list and the existing beneficiaries continued to get rice at the rate of 25 Kg per month against GoI stipulation of 35 Kg. No specific reply was offered by Management/Government.

Allotment and lifting

2.1.43 The position of allotment *vis-à-vis* lifting of rice under BPL and AAY, wheat and sugar for different schemes for the last five years upto 2010-11 is shown at **Annexure 9**. The table below indicates the synopsis of allotment and lifting.

Year	Rice			Wheat			Sugar		
	Allot-ment	Lifting	Short lifting	Allot-ment	Lifting	Short lifting	Allot-ment	Lifting	Short lifting
	(In lakh MT)								
2006-07	17.39	14.47	2.92(17)	1.49	1.32	0.17 (11)	1.07	0.65	0.42 (39)
2007-08	17.09	16.34	0.75 (04)	1.41	1.31	0.10 (07)	1.06	0.35	0.71(67)
2008-09	18.16	17.83	0.42 (02)	1.58	1.25	0.33 (21)	1.00	0.33	0.67(67)

[50] KBK districts include undivided Kalahandi, Bolangir and Koraput districts which are poverty striven

Year	Rice			Wheat			Sugar		
	Allot-ment	Lifting	Short lifting	Allot-ment	Lifting	Short lifting	Allot-ment	Lifting	Short lifting
	(In lakh MT)								
2009-10	18.90	18.57	0.33 (02)	3.93	3.66	0.27 (07)	1.08	0.66	0.42 (39)
2010-11	18.64	18.26	0.38 (02)	4.33	3.77	0.57 (13)	1.09	1.07	0.02 (02)
Total	**90.18**	**85.47**	**4.71 (05)**	**12.74**	**11.31**	**1.43 (11)**	**5.30**	**3.06**	**2.24 (42)**

(Figures in the bracket indicate percentage of short lifting)

Short-lifting of 4.71 lakh MT of rice led to depriving beneficiaries from getting subsidised rice

As can be seen from the **Annexure 9** and the table above, the lifting of rice had increased from 83 *per cent* in 2006-07 to 98 *per cent* in 2010-11 and the levy sugar from 61 *per cent* in 2006-07 to 98 *per cent* in 2010-11, while the lifting of wheat increased from 89 *per cent* in 2006-07 to 93 *per cent* 2009-10 but reduced to 87 *per cent* in 2010-11. Since allotment of rice by GoI was meant for ultimate supply to the poor families at subsidised rate, non-lifting of 4.71 lakh MT of rice by the Company resulted in depriving 1.98 crore BPL families from the legitimate claim during 2006-07 to 2010-11. Similarly, short-lifting of wheat and levy sugar was persisting during 2006-07 to 2010-11 which resulted in depriving 0.95 crore and 11.20 crore beneficiary families respectively from getting their claim at subsidised rate. Further, as per the approved Cost Sheet of GoI, the Company was entitled to get the administrative charges per quintal for handling this operation. As a result of non-lifting of rice, wheat and sugar the Company was deprived of earning revenue of ₹ 11.09 crore during 2006-07 to 2010-11.

Non-lifting of APL rice for distribution under BPL

Short-lifting of 55,710 MT of APL quota rice resulted in avoidable subsidy burden of ₹ 53.95 crore on GoO

2.1.44 The GoO decided (April 2008) to distribute the APL quota of rice allotted by GoI to the BPL and APL beneficiaries of KBK districts at ₹ 2 per kg with effect from August 2008. The GoI allocated 1,20,596 MT of rice at the rate of ₹ 9.30 per kg for distribution to APL beneficiaries in the State during August 2008 to March 2011. The Company, however, lifted 64,886 MT of APL rice (54 *per cent*) during that period. Due to short lifting of 55,710 MT of rice under APL quota provided by GoI, the Company resorted to supply the CMR rice, procured at ₹ 16.88 per kg (2008-09), ₹ 18.90 per kg (2009-10) and ₹ 19.16 per kg (2010-11) to the BPL and APL beneficiaries of KBK districts resulting in avoidable subsidy burden of ₹ 53.95 crore on GoO during that period. Further, the price difference between the CMR rice and subsidised rates of APL rice under distribution was not reimbursable by GoI to the Company. No action was, however, taken by the Company/GoO to avoid such loss.

The Government/Management stated (October 2011) that the entire APL rice provided by GoI in each month was allocated to the districts, but actual lifting was not uniform and diversion of unlifted stock of rice to other schemes was also not feasible. In the Exit Conference, the Secretary, however, agreed (October 2011) to look into the matter with reference to the GoO decision (April 2008).

Non-recoupment of rice supplied under Supplementary Nutrition Programme

2.1.45 Supplementary Nutrition Programme (SNP) was a Government of India sponsored scheme under which BPL rice was provided to the District Social Welfare Officers (DSWOs) for implementation of the scheme. Due to delay in receipt of allotment of rice under SNP from GoI for April and May 2008, GoO directed (April 2008) the District Collectors to utilise the idle stock of CMR and to replenish the stock after the allocation was received under SNP from GoI. In case of non-receipt of allocation from GoI, the cost of CMR was to be paid by the Women and Child Development (W&CD) Department of GoO to the Company.

We observed that in May 2008 the W&CD Department deposited an advance of ₹ 5.95 crore with the Company for supply of 9,444 MT of CMR under SNP in 22 districts. For distribution under SNP 6,435 MT of CMR was lifted by the DSWOs of different districts during April and May 2008, but only 581 MT of rice was recouped (September 2010). No action was taken by the Company to recoup the balance 5,854 MT of rice valuing ₹ 2.56[51] crore from the DSWOs even after lapse of three years. This resulted in loss of interest of ₹ 0.65 crore on blocked funds.

While accepting the audit observation, the Government/Management stated (October 2011) that GoO in FS&CW department and W&CD department had been moved (20 June 2011) for realisation of cost of rice as well as loss of interest on blockage of funds. In the Exit Conference, the Secretary assured (October 2011) to pursue the matter with W&CD department for early realisation of dues.

Irregular allotment of rice to Storage Agents against Bogus ration cards

2.1.46 Under the PDS (Control) Order 2001, GoO was required to conduct periodical checking of ration cards to weed out ineligible and bogus units and bogus ration cards so as to check diversion of essential commodities. GoO instructed only in November/December 2008 the District Collectors to carry out intensive campaign to review the existing list of BPL and AAY families, to verify ration cards issued to them by cross checking details of such families as well as to verify the APL cards in KBK districts. As per the stipulation the entire process should have been completed by 5 January 2010.

Delay in cancellation of bogus ration cards led to irregular lifting of 4,574 MT of rice valuing ₹ 7.75 crore

We observed that during March to June 2010, 66,525 (BPL- 49,021, AAY-7,067 and APL- 10,437) bogus cards were detected by the Civil Supplies Officers (CSOs) in 10 districts[52]. However, bogus cards were cancelled after a lapse of 2 to 5 months. Consequently, rice was allotted in favour of those bogus/fake card holders for the said period. SAs also lifted 4,574 MT during March to July 2010 against those allotments (BPL-3,655 MT, AAY-633 MT

[51] 5,854 MT X ₹ 14,543 per MT being the reasonable rate decided by the Company less ₹ 5.95 crore = ₹ 2,56,34,722 X 8.5% X 3 years = ₹ 65,36,854

[52] Balasore, Bargarh, Bolangir, Ganjam, Kalahandi, Koraput, Mayurbhanj, Rayagada, Sambalpur and Sundargarh

and APL-286 MT). As the allotment was made against the bogus card holders, the chance of mis-utilisation of subsidy of ₹ 7.75 crore against 4,574 MT of rice lifted by SAs was not ruled out.

The Management stated (October 2011) that the Company did not deal with ration cards nor did it make periodical checking of ration cards. The Government also endorsed (October 2011) the views of the Management without assigning the reasons for delay in cancellation of bogus cards.

Transportation of PDS commodities

2.1.47 For timely operation of PDS operation, the Company prepared monthly lifting plan for the entire 30 districts which was approved by GoO. The lifting plan for each district quantified the rice to be procured from FCI, use of own CMR to be lifted from other districts through transport contractors etc. The approved lifting plan was also provided to FCI for facilitating provision of rice by each divisional office of FCI.

Extra expenditure on transportation

Deficient lifting plan for inter-district movement of rice led to avoidable payment of transportation charges of ₹ 3.89 crore

2.1.48 As per HO's decision (February 2010), the District Offices (DOs) of the Company were required to deliver surplus rice to the nearest divisional offices of FCI. Nine deficit DOs[53] of the Company, however, delivered 13,134 MT of rice to FCI, while they transported equal quantity of rice from other four surplus DOs[54] of the Company to meet their requirement in each month during March to September 2010. This indicated deficiency of monthly lifting plan. Had the deficit DOs of the Company utilised their own quantity of rice for their consumption during each of those months instead of delivering the same to FCI, the Company could have avoided ₹ 1.41 crore towards cost of transporting 13,134 MT from other four surplus DOs of the Company.

The Government/Management stated (October 2011) that it delivered the rice to FCI as per MoU of GoO with GoI. The reply was not acceptable since as per the MoU and instruction of GoO (January 2010) the deficit DOs of the Company should not have delivered the rice to FCI so as to avoid transportation costs.

2.1.49 During May 2009 to March 2011, five surplus DOs[55] of the Company transported 65,358 MT of rice to eight deficit DOs[56] (including Puri DO, Nayagarh DO and six others) which were located far away from these five DOs. On the contrary, seven deficit DOs[57] (including Angul DO and six others) lifted 50,625 MT of rice from FCI, though they were adjacent to the said five surplus DOs of the Company. Thus, had these seven DOs lifted in the same month rice from five nearby surplus DOs of the Company and the eight deficit

[53] Balasore, Cuttack, Jagatsinghpur, Jajpur, Kandhamal, Keonjhar, Mayurbhanj, Nawarangpur and Puri
[54] Bargarh, Bolangir, Kalahandi and Sonepur
[55] Bolangir, Baragarh, Kalahandi, Sambalpur and Sonepur
[56] Cuttack, Dhenkanal, Jajpur, Jagatsinghpur, Khurda, Mayurbhanj, Nayagarh and Puri
[57] Angul, Dhenkanal, Kandhamal, Nawarangpur, Nuapara, Rayagada and Sundergarh

DOs lifted required stock in the same month from FCI, the Company could have avoided expenditure of ₹ 2.48 crore on transportation of 47,533 MT of rice.

The Government/Management stated (October 2011) that (i) even though it involved additional transportation cost it could safeguard the national interest since old stock of Angul, Rourkela, Jharsuguda and Phulbani was lifted as required by FCI, and (ii) the differential cost calculated by Audit was not correct since the longer the distance, the lesser was the transportation cost and there would have been no savings. The reply was not acceptable since (i) mention of three DOs (other than Angul DO) was not relevant as same were not covered in our observation. Further, the old stock of Angul DO could have been cleared by lifting under other schemes and (ii) the actual transportation cost incurred in the movement of rice had only been pointed out by us.

2.1.50 The operating procedure for Rice Receiving Centres (RRCs) provided that in case of non-availability of weighbridge at RRC, the delivery of the stock should be accepted based on the weighment of 10 *per cent* of stock in the electronic weighing machine available in RRCs. We observed that 46 RRCs in 14 districts did not have the weighbridge. DMs in deviation of the operating procedure, however, allowed the transporters to move to private weighbridges in other places to carry out the weighment of loaded truck and empty truck for tare weight. This led to transportation for distance ranging from 2 to 60 Kms which entailed an expenditure of ₹ 2.68 crore towards transportation of 37,312 MT of rice.

Further, out of 10 DOs of the Company test checked, three DOs[58] had adopted the 10 *per cent* weighment procedure in case of receipt of rice, but certified that the transporter had carried out 100 *per cent* weightment at private weighbridges whereby payment of ineligible claims towards transportation costs for weighment of stock with private weighbridges could not be ruled out.

The Government/Management stated (October 2011) that the Manual of Operating Procedure for 10 *per cent* weighment was prescribed only for receipt of stock from the millers in RRCs where weighbridge facility was not available and not from other DOs of the Company. The reply was not acceptable since as per the operating procedure for 2009-10, 10 *per cent* test weighment was prescribed for the RRCs irrespective of stock received from millers or from other DOs of the Company. Further, the DOs certified for reimbursement of the transportation cost to the transporters without actual movement of vehicles for weighment, which was irregular.

Non-utilisation of own godowns

2.1.51 The Company had 212 godowns with storage capacity aggregating 1,20,328 MT varying from 184 MT to 3,000 MT during 2006-11. Out of 212 godowns, only 146 godowns (capacity: 81,763 MT) were utilised for storing rice stocks procured by the Company under PDS operations or were let out to

[58] Khurda, Rayagada and Puri

private SAs of the concerned districts. The balance 66 godowns (capacity: 38,565 MT) remained unutilised during the performance audit period from 2006-07 to 2010-11 due to damaged condition, absence of approach roads, incomplete and unauthorisedly occupied by Government offices/organisations.

There was lack of planning in making 66 damaged/un-authorisedly occupied godowns operative

Despite this, the Company did not formulate any concrete plan for taking up the construction/repair works of those godowns so as to utilise them effectively. Further, the Company failed to effectively pursue the issue of unauthorised occupation of godowns at appropriate level of the Government/Administrative Department concerned. The BoD also did not take stock of the situation for addressing the issue despite more than 32 *per cent* of Company's own storage capacity remaining unutilised for more than five years period and the fact that the Company had been hiring godowns against payment of ₹ 16.95 crore during KMS 2009-11. Had the Company taken effective steps for utilisation of its own godowns, expenditure on hiring charges could have been reduced at least to the extent of ₹ 3.36 crore.

The Government/Management stated (October 2011) that the Company requested Central Warehousing Corporation (CWC)/Rural Works Department (RWD)/ Public Works Department (PWD) to undertake repair/ reconstruction of godowns but no response was received and continuous efforts were being taken to remove encroachment/ unauthorised occupation from the godowns.

The fact remained that out of 66 unutilised godowns only three were repaired by July 2011 and the balance godowns of 36,365 MT had not been put to use. In the Exit Conference, the Secretary stated (October 2011) that the Company did not have technically qualified persons to oversee the repair and renovation work for which staff would be brought from Government/PSUs on deputation.

Quality Control

Quality control mechanism was deficient

2.1.52 As per the guidelines of GoO/GoI paddy procured from farmers and rice obtained through conversion for distribution under PDS should be of prescribed standard. Hence, it was imperative on the Company to have quality management of food grains. During 2003-04 to 2008-09, the Company entrusted the quality management work to the Purchase Officers deployed at each Paddy Procurement Centre (PPC) and Rice Receiving Centre (RRC). The MD directed (April 2008) the DMs for operating district laboratory to coordinate quality analysis and maintain scientific storage of paddy and rice. We, however, observed that in none of the districts such laboratory was in operation. To monitor the quality control mechanism at the PPC/RRC, the Company established Quality Control Cells (QCC) at District level (November 2009) and at Head Office level (December 2009).

We observed that the function of the Head Office Level Quality Control Cell (HLQCC) was limited to train the field level staff on procurement and scientific storage and to carry out periodical inspection of PPCs and RRCs. The quality management of paddy and rice was, however, entrusted to the District Level Quality Control Cell (DLQCC). The DLQCCs were to ensure availability of required infrastructure, maintenance of prescribed records at

PPCs/RRCs, scientific storage of rice at RRCs and to ensure receipt of prescribed quality rice from millers. Further, they were required to visit PPC/RRC/OSWC/CWC godowns every week so as to cover all the godowns at least once in a month.

RRC at Sundargarh in wretched condition

We, however, observed that none of the DLQCC had carried out inspection of PPC/RRC and did not perform the duty assigned to them since their formation (November 2009). As such there was no effective quality control mechanism in place in the procurement of paddy and distribution of rice even after formation of the DLQCC. In the absence of quality control mechanism it was left to the POs/RRCs to receive paddy from farmers and rice from millers without quality testing. In this connection, we observed the following:

- In three districts (Sonepur, Bolangir and Ganjam) covering 13 PPCs, 60,832 MT of paddy was procured during January 2009 to March 2010 from the farmers without conducting any quality test.

- In three market yards (Fashimal, Charmal and Jujomora) out of five test checked in Sambalpur district, no quality test was conducted during procurement of 9,383 MT of paddy for KMS 2009-10 and 2010-11. The analytical testing, grading, moisture content was not recorded in the Paddy Procurement Register.

- Out of 20 RRCs test checked, in nine RRCs[59] the quality testing equipment like moisture meter, analysis kit and sample driver were not maintained as a result of which 7,976 MT of rice against these RRCs was received without determining moisture, grading and colour of the rice during KMS 2009-10 and 2010-11.
- In four districts[60], 36 WSHGs/PPs procured 20,231 MT of paddy during KMS 2009-10 and KMS 2010-11 without any quality testing report, violating the instructions contained in the operational guidelines.

The Government/Management stated (October 2011) that (i) many district Quality Control (QC) cells could not perform their assignments for want of staff and officers and arrangements were being made for recruitment of 145

[59] Titilagarh, Jogimunda RRC (Bolangir), RRC, Sundargarh, RRC, Bhawanipatna and RRC, Padmapur (Rayagada), Kanisi, Kodala, Begunia pada, Patrapur (Ganjam)
[60] Bolangir, Ganjam, Koraput and Sambalpur

Quality Control Analysts and 341 Procurement Inspectors, and (ii) QCC of the HO visited 76 RRCs and QC official of GoI visited 80 RRCs for KMS 2010-11 in a period of nine months. The fact, however, remained that quality control of paddy and rice during KMS 2009-10 was inadequate to meet the requirements of GoI/GoO guidelines.

Receipt of rice of Beyond Rejection Limit quality

2.1.53 GoI fixed uniform grade specification of rice for every KMS. Depending upon the conditions of the crops, out-turn ratio, maximum limit of different refractions[61] and other related factors were prescribed to qualify the rice grain as Fair Average Quality (FAQ) standard. Acceptance of rice could only be made subject to maximum limits of different refractions in the lot of rice. In case of detection of Beyond Rejection Limit (BRL)[62] stock by any Inspecting Authority/Quality Control Wing, the same should be returned to the CM concerned for necessary replacement. Immediate intimation was to be given to the CMs for taking back the stock at his own cost and delivering FAQ rice as per specification within a period of three days. While returning the stock, 'BRL Return Note' was also to be executed by the concerned DM so as to bring the fact on records.

In this connection, we observed the following:

Custom millers were yet to replace 5,501 MT of BRL rice

- All 15 RRCs[63], test checked in five districts[64], received 5,501 MT of rice during KMS 2009-10 and KMS 2010-11 which was found to be BRL grade during joint inspection of the GoI and the Company's representatives, since the rice was received without conducting quality tests. The said rice was required to be replaced by the Custom Millers with FAQ rice. However, no action was taken by the DMs to get the rice replaced and the same was irregularly issued under PDS.

- Further, 379 MT of rice relating to RRC at Kesinga was seized by the local police in February 2010, based on FIR lodged by DM for forceful supply of sub-standard rice by CMs out of which 204 MT was found to be of BRL category as per the quality analysis report. The DMs, however, did not take steps for replacement of the BRL rice of 204 MT from the CMs concerned.

The Government/Management stated (October 2011) that the millers had replaced (July 2011) 2,574 MT of FAQ rice against 3,053 MT of BRL rice in Bolangir district, while 379 MT was issued under PDS in Kesinga (Kalahandi district) as per orders of court after retaining sample from each bag. The reply

[61] Refractions-Broken, foreign matter, damaged/slightly damaged/discoloured, red grain, chalky grain, dehusked grain, admixture of lower classes, moisture

[62] BRL-Custom Milled Rice with refractions beyond the percentage prescribed under uniform specification of GoI

[63] Belpara, Bolangir, Jogimunda, Kantabhaji, Titilagarh (Bolangir district), RRC CG-I, RRC Sirgida, CG-VII, G.R Mill Campus, CG-V Govindpur, CG-VI BCSM (Bargarh district), CWC Choudwar (Cuttack district), Polsara, Hinjilikot (Ganjam district), Bhawanipatna-I (Kalahandi district), Bareipalli (Sambalpur district)

[64] Bargarh, Bolangir, Ganjam, Kalahandi and Sambalpur

was not acceptable that on further verification of records of RRCs it was found that 2,574 MT of FAQ rice stated to have been replaced was not so recorded in the Rice Stock Register and the RRCs did not hold such quantity of BRL rice (3,053 MT) on the dates on which the Management claimed to have replaced the BRL rice. Further, 379 MT stated to have been issued under PDS was not issued on the date of verification of records (November 2011).

Deployment of manpower

High incidence of vacancies in man-power strength had adversely affected the PDS operation

2.1.54 The Company was set up (September 1980) to operate the PDS. With the backdrop of the initial operation of the Company, the area and volume of present activities had increased substantially over the years mainly due to activities undertaken since 2003-04 for procurement of paddy, milling of paddy into rice as well as storage and handling of rice under the Decentralised Procurement Scheme. The procurement of paddy increased nearly four fold from 8.12 lakh MT in KMS 2006-07 to 32.48 lakh MT in KMS 2009-10. Similarly, turnover ranged between ₹ 736.88 crore and ₹ 1,022.22 crore during 2006-07 to 2009-10.

As of March 2011, against the sanctioned strength of 981, the Company had 485 employees with 496 posts lying vacant in different cadres. The vacancy was predominant in Senior Assistant level (52), Junior Accountant (109) and Storage Assistant-cum-Godown assistant (203). Due to shortage of manpower the Company deployed employees on *ad-hoc* and daily wage basis. This had adversely affected the updating of the records and returns relating to district offices, reconciliation of paddy delivered and rice obtained, finalisation of accounts as well as physical verification of paddy and rice at the premises of CMs and quality control.

In view of increased volume of activities and decisions (February 2011) of the GoO to discharge the functions of SAs departmentally, GoO approved (March 2011) the additional requirement of manpower at 2,497 which included 763 for the present requirement and 1,734 for storage agency operation. The recruitment process was in progress (November 2011).

Monitoring by top management

MIS data and monitoring

2.1.55 The activities of the Company had been increasing due to increased volume of operation of paddy and distribution of CMR under PDS. With a view to efficiently discharge its function, an effective MIS and monitoring is a pre-requisite. In this connection, we observed the following:

- The Company had prescribed submission of various returns by DOs relating to PDS operation. But it did not devise any MIS policy to generate reliable consolidated information and to detail the action to be taken on the consolidate MIS data. The Company did not generate physical and financial operational results and put up to the BoD for appraisal.

- Though there were deficiencies in the areas of utilisation of funds, holding of surplus funds, payment to CMs in deviation of the order of HO, top-level monitoring was not adequate to plug the shortcomings.

- Physical verification of stock of PDS commodities was not conducted periodically. No monitoring was, however, exercised by General Manager (PDS) to get the verification conducted periodically.

- FCI was required to visit PPCs/RRCs periodically to oversee the operation of procurement and distribution of rice under Decentralised Procurement Scheme (DPS). No supervision was, however, conducted by FCI. HO also did not address the issue seriously and pursue with FCI for periodical supervision.

Internal Control and Internal Audit

Internal control

2.1.56 Internal control system is an essential part of the managerial control system. An efficient and effective control system helps the management to achieve the organisational objectives efficiently and effectively. The following deficiencies were noticed in internal control system being followed by the Company.

Internal control was deficient

- The Company had not prepared the Accounts Manual.

- The Company formed the Audit Committee under section 292 A of the Companies (Amendment) Act, 2000 in March 2005. No Audit Committee meeting was, however, held so far (October 2011) due to frequent changes in the BoD. As a result, the Committee could not review the Report of the Internal Auditors, Report of the Statutory Auditors, periodical and physical and financial performance of the Company. The Government/Management stated (October 2011) that steps were being taken to convene the meeting of the Audit Committee.

- As per the MD's order (February 2006), in case of non-availability of PDS commodities to the consumers by 1st day of the month, the reasons for delay in availability were to be brought to the notice of the GoO. None of the DM-cum-CSO, however, furnished the requisite information, despite instances of delays in lifting/non-lifting of PDS commodities.

- DOs and RRCs did not maintain the Register of Assets (computer, quality testing equipment, dunnage materials, pest control equipments, weighing scale, weighing materials), as required under HO's instruction (November 2010).

There was lack of control over the receipt and issue of paddy stock under joint custody

- No Authorised Officer was appointed by the DMs to maintain stock and issue records of paddy stored in joint custody for each mill. RO Register was also not prepared to indicate the paddy issued for milling.

DMs did not carry out any physical verification of paddy stock in any mill.

- Gunnies purchased from the manufacturers were entirely shown as issued to the CMs instead of recording the purchases and issue of gunnies to arrive at the closing stock. The Company did not carry out the reconciliation district-wise to identify the quantity of gunnies purchased and issued separately.

- Advance extended to the staff on account of Travelling Allowances, medical, festival, House Building Advances and working advances to Supervisors, Marketing Inspectors were not reconciled periodically. As on 31 March 2009, such advances amounting to ₹ 6.96 crore were lying un-reconciled.

Lack of control on documentation/maintenance of stock records

2.1.57 The Company handled huge stock of paddy (ranging from 8.12 lakh to 32.48 lakh MT) and CMR (ranging from 5.37 lakh to 22.04 lakh MT) during KMS 2006-07 to 2009-10. This requires efficient documentation and maintenance of stock records. We observed that:

No investigation was conducted on shortage of stock of ₹ 3.90 crore

- The physical verification report of 2007-08 indicated the shortage of 48,983 quintals of PDS items valuing ₹ 3.90 crore with SAs. Even after lapse of more than three years the Company did not investigate the reasons for shortage to take appropriate action. The Closing Balance of paddy in 2007-08 at the miller's premises in Nuapada district was 1,02,452 quintals equivalent to 69,667 quintals of CMR while the Opening Balance in 2008-09 was 60,079 quintals. The differential 9588 quintals of CMR valuing ₹ 1.53 crore could not be vouchsafed by us in the absence of Reconciliation Statements and relevant records.

Existence of stock valued at ₹ 5.59 crore was doubtful

- During 2008-09, five DOs despatched 2.27 lakh quintals of rice to six DOs. However, the stock records of six receiving DOs indicated 1.92 lakh quintals as 'received quantity' and the balance 0.35 lakh quintals was not even shown as 'stock-in-transit' in the records. The Company did not take any action to trace the existence of 0.35 lakh quintals of rice valued at ₹ 5.59 crore, despite more than two years lapsed.

In the Exit Conference, the Secretary assured (October 2011) that issue of non-reconciliation of inter-district movement of rice would be examined.

Internal audit

2.1.58 The Company has no internal audit wing of its own. The Company appointed Chartered Accountant firms for conducting the internal audit of the Company. The Company did not prepare any internal audit manual nor did it put in place the prescribed system to prepare the action plan for internal audit with priorities. We noticed that internal auditors covered the routine areas without any emphasis on the key areas of operation like payment to

CMs/RMCs/PACSs, accumulation of paddy at miller point, issue of paddy under joint custody, verification of records at RRCs, verification of paddy procurement registers. The Company did not have any data base in regard to the number of internal audit reports and paras outstanding. The results of internal audit and action taken thereon were not brought to the notice of BoD for perusal and action. Thus, the internal audit as a control tool was non-existent.

In the Exit Conference, the Secretary and the MD agreed (October 2011) to take corrective action against the internal control deficiencies as well as to prepare the internal audit manual.

Acknowledgement

We acknowledge the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance Audit and the Entry Conference and the Exit Conference.

Conclusion

- **Financial management of the Company for paddy procurement was deficient which resulted in retention of heavy unutilised cash balances in district offices with consequential avoidable interest burden on cash credit. The position was further aggravated due to delay in settlement of subsidy claims/advance subsidy claims by GoI/FCI on account of various reasons like, delay in submission of claims by the Company, non-finalisation of up-to-date KMS accounts, submission of claims without complete documents, etc.**

- **Company's operations under Decentralised Procurement Scheme were deficient. Despite delay in delivery of Custom Milled Rice by the Custom Millers (CMs) there was non-imposition/waiver of holding charges recoverable from CMs. Further, there were inadequacies in documentations in releasing payments to CMs towards mandi labour charges, joint custody and maintenance charges, driage, etc. Documentation as well as the quality control check at the Paddy Purchase Centres and Rice Receiving Centres was also inadequate.**

- **Short-lifting of rice, wheat and sugar by the Company for distribution under GoI Schemes deprived the beneficiaries of getting PDS commodities at subsidised rate.**

- **Manpower Management, Internal Control System, Quality Control Mechanism and Monitoring by top management were also deficient.**

Recommendations

The Company may like to put emphasis on the following:

- **Monitoring the transfer of surplus funds by District Offices and streamlining the procedure for timely submission of claims with complete documents;**

- **Strengthening the control mechanism on the functioning of the Custom Millers and release of payments to them as per guidelines;**

- **Lifting and distribution of PDS commodities as per allotment for timely distribution to beneficiaries; and**

- **Strengthening the Quality Control System, Monitoring Mechanism, Internal Control System and Manpower Deployment in line with the growing activities.**

2.2 The Orissa State Police Housing and Welfare Corporation Limited

Construction activities

Executive summary

The Company was incorporated in May 1980 as a wholly owned Government company with the main objective to execute residential/ non-residential building projects of Police, Prison, Fire Services and Judiciary department of Government of Odisha (GoO) under different schemes of GoO and Government of India (GoI). The present performance audit covers activities of the Company for five years period from 2006-07 to 2010-11 with regard to planning, execution and handing over of residential/ non-residential building projects, utilisation of funds, monitoring by top management and internal control mechanism.

Planning for execution of projects

Though the Company was in existence for three decades, it did not evolve any long term plan for execution of projects. The first Perspective Plan prepared by the Company in September 2009 for 2009-14 was also not placed before the Board of Directors (BoD) for approval. The Company also did not formulate any action/working plan nor did it fix any yearly target with reference to the Annual Action Plans (AAPs) of User Departments of GoO in order to prioritise the execution of projects and to ensure optimum utilisation of funds. The Budgetary Control was deficient as Annual Budgets were prepared without obtaining inputs from GoO and without assessing adequacy of budget proposals based on physical parameters of works. The utilisation of available funds was poor ranging from 24 to 39 per cent during 2006-11.

Execution of projects

There were deficiencies in formulation of estimates and according Administrative Approvals (AAs). There were slippages in completion and handing over of projects. No time frame was fixed for submission of estimates by the Company and according AAs by User Departments, there were delays of 4 to 390 days and 3 to 720 days at two stages respectively. These delays correspondingly delayed commencement and execution of the projects. Formulation of work estimates suffered with various deficiencies like, non-consideration of prevailing Schedule of Rates (SoR), lump sum provision for external electrification, non-revision of estimates in line with the cost provided in AAs etc., which resulted in loss of ₹27.52 crore to the Company. The Company did not adopt transparent procedure for engagement of Job-workers and Architects. Payment of higher labour rates/fees to Job-workers and Architects led to loss of ₹ 2.89 crore.

Project Management

Project Management System of the Company had several deficiencies like, non-existence of Project Management Techniques, delays in commencement of works due to not engaging the job-worker in time, delay in placing orders for supply of materials, deficient monitoring in execution of works by contractors, etc. Against 3,014 projects awarded to the Company upto March 2011, 1,124 projects were either ongoing (731) or not started (393) which was indicative of inadequate co-ordination between the Company and the User Departments. Further, analysis of 1,645 projects out of 1,890 handed that over projects during 2006-11 revealed that only 120 projects (seven per cent) were handed over within the stipulated period and 1,525 projects were handed over with delay ranging from 1 to 81 months. The delays in execution of projects led to extra expenditure of ₹24.25 crore. Execution of 37 pre-fabricated projects at higher rate resulted in extra expenditure of ₹2.32 crore. Due to deficiency in procurement of building material the Company incurred extra expenditure of ₹ 1.08 crore.

Internal control and monitoring by top management

The Company did not devise any mechanism to monitor the works under execution, periods of delay and data of physical and financial achievement so as to take remedial action.

Conclusion and Recommendations

Proper planning and co-ordination with the User Departments of GoO by the Company could have enabled it for execution of more number of building projects so as to meet the requirements of the User Authorities. This performance audit contains four recommendations to improve the performance of the Company for execution of works, i.e., prepare Annual Action/Working Plan and set priorities for execution of works duly linked with the Annual Action Plans of the User Departments; prepare realistic estimates after considering all relevant factors to avoid cost over-run and accept funds towards project costs duly linked with actual progress of works; execute and hand over works as per schedule and within the cost provided in the Administrative Approvals; and strengthen the Monitoring and Internal Control Mechanism.

Introduction

2.2.1 The Orissa State Police Housing and Welfare Corporation Limited (Company) was incorporated in May 1980 as a wholly owned Government company with the main objective to execute the residential and non-residential building projects of the Police, Vigilance and Fire Service departments of Government of Odisha (GoO) as well as schools, hospitals, clubs for the benefit of police personnel of the GoO. Presently, the activities of the Company were confined to execution of residential/non-residential building projects of Police, Vigilance, Prison, Fire Service and Judiciary departments of GoO under different schemes[65]. Besides, the Company also executed deposit works of the State Universities and other organisations.

2.2.2 During 2006-11, the Company completed and handed over 1,890 residential/non-residential building projects, which were executed through engaging job-workers/turnkey contractors at an expenditure of ₹ 324.98 crore. Besides, the expenditure against 731 on-going projects stood at ₹ 332.60 crore as on 31 March 2011.

2.2.3 The last Performance audit on the working of the Company was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2005, Government of Odisha.

The Committee on Public Undertakings (COPU) discussed (October 2006 – March 2007) the Report and recommended (March 2008), *inter alia,* that the Company should:

- formulate Annual Action Plan to ensure optimum utilisation of available fund and achievement of targets as per the scheme formulated by Government of India (GoI)/GoO;

[65] Modernisation of Police Force (Centrally sponsored), Security Related Expenditure (Centrally sponsored), Special Infrastructure Scheme (Centrally sponsored), Centrally Sponsored Non-plan Scheme (CSNP), State schemes under State Plan and Non-Plan

- constitute a committee to recommend the specific guidelines for preparation of estimates;
- prepare realistic and location specific estimates based on ground reality; and
- strengthen the monitoring of construction works as well as internal control, budget mechanism and physical verification of stores and stock.

The Action Taken Note (ATN) on the recommendations of COPU was submitted by the Home Department of GoO in April 2010. Deficiencies relating to absence of Annual Action Plan, non-utilisation of funds optimally, deficient preparation of estimates, ineffective monitoring and internal control mechanism, however, still persisted, as discussed in the present Performance audit.

2.2.4 The Management of the Company was vested in a Board of Directors (BoD) consisting of the Chairman-cum-Managing Director (CMD) and seven Directors appointed by the GoO as on 31 March 2011. The CMD was the Chief Executive of the Company, who was assisted by the Chief Engineer (Civil), Financial Advisor, Company Secretary-cum-Joint General Manager (Finance), Deputy General Manager (Administration), three Joint Managers (JMs) to carry out day-to-day activities of the Company. The Company had eight divisions headed by JMs/Deputy Project Manager who were responsible for overseeing the execution of works in all 30 districts.

As a part of restructuring of staffing pattern of the Company, GoO had sanctioned (June 2007) one post of General Manager (Civil) and two posts of Deputy General Manager (Civil) at the Head Office level to be filled up by way of deputation from GoO. The same were, however, not filled up as the GoO was yet to depute them (November 2011).

Scope of Audit

2.2.5 The present Performance audit of the Company conducted during February to June 2011 covers the performance of the Company during the last five years from 2006-07 to 2010-11 with respect to planning of construction activities, execution/completion and handing over of residential and non-residential building projects, utilisation of funds, monitoring by top management and internal control mechanism. The audit findings were based on test check of records of the Head office of the Company at Bhubaneswar and in nine[66] out of 30 districts as well as records of the Home Department and State Police Headquarters. The districts were selected on the basis of high value of expenditure incurred in respect of the on-going projects during 2006-07 to 2010-11. The selected districts covered five[67] out of eight divisions of the Company where the expenditure incurred represented 63 *per cent* of the total expenditure on the on-going projects.

[66] Cuttack, Deogarh, Jajpur, Khurda, Koraput, Malkanagiri, Mayurbhanj, Rayagada and Sambalpur
[67] Balasore, Bhubaneswar, Cuttack, Rayagada and Sambalpur

Audit Objectives

2.2.6 The Performance audit of the Company was conducted to assess whether:

- the planning for undertaking and executing the projects was adequate and timely;
- the financial management of the Company was efficient and an effective Budgetary Control system was in place;
- the projects were completed in time in an economic and efficient manner and were handed over to the User Departments as per the schedule; and
- project monitoring and internal control mechanism were effective.

Audit Criteria

2.2.7 The audit criteria adopted for assessing the achievements of the audit objectives were:

- Perspective plan and Annual Budget, plan documents;
- Orders and instructions issued from time to time by GoO and Board of Directors (BoD), codal provisions;
- Guidelines issued by the GoI /GoO in executing the works;
- Norms and standards fixed for different activities in execution of projects, Management Information System (MIS) prescribed; and
- Orissa Public Works Department (OPWD) Code.

Audit Methodology

2.2.8 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- study of agenda notes and minutes of meetings of BoD and Annual Action Plan of GoO;
- scrutiny of scheme guidelines of GoI/GoO and budget documents;
- examination of Schedule of Rates and estimates prepared for the projects with analysis of rates;
- study of progress and performance reports and analysis of data/information on execution of the works;
- scrutiny of records relating to selection of Job-workers, Architects/Consultants;
- scrutiny of measurement books, stock records, physical inspection reports, payments to job-workers and suppliers, etc.;

- study of project handing over reports and correspondence with administrative department/other agencies;
- scrutiny of Internal Audit Reports and instructions of the GoO and the Company; and
- issue of audit queries and interaction with the Management.

Audit Findings

2.2.9 We had explained the audit scope, objectives and methodology to the Company during the 'Entry Conference' held on 28 February 2011. We had reported audit findings to the Company and the Government in August 2011 and also discussed the same in the 'Exit Conference' held on 29 September 2011, which was attended by the Special Secretary, Home Department, GoO, and Chairman-cum-Managing Director of the Company. The Company and GoO also furnished replies to the audit findings in September and November 2011 respectively. The views expressed and deliberations made by them had been duly considered while finalising this Report on Performance audit. The audit findings are discussed in the subsequent paragraphs.

Financial Position and Working Results

Financial Position

2.2.10 The financial position of the Company for the last five years ended 2010-11 was as under:

(Amount: ₹in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
(A) Liabilities					
a) Paid-up capital	5.63	5.63	5.63	5.63	5.63
b) Reserves & Surplus	8.25	14.15	21.80	28.24	33.88
c) Current Liabilities and Provisions					
(i) Advance against projects	228.08	325.52	405.81	498.09	652.97
(ii) Other Current Liabilities and Provisions	15.51	16.70	21.04	21.35	17.43
Total Current Liabilities and Provisions	243.59	342.22	426.85	519.44	670.40
Total	**257.47**	**362.00**	**454.28**	**553.31**	**709.91**
(B) Assets					
Fixed Assets					
a) Gross Block	5.38	2.14	2.26	2.49	2.67
b) Less: Depreciation	1.10	1.19	1.28	1.44	1.54
c) Net Block	4.28	0.95	0.98	1.05	1.13
d) Capital Works-in-Progress	0	0	0.61	2.42	4.29
e) **Current Assets, Loans and Advances**					
(i) Works-in-Progress	98.32	117.06	175.00	258.77	333.93
(ii) Other Current Assets, Loans and Advances	154.87	243.99	277.69	291.07	370.56
Total Current Assets, Loans and Advances	253.19	361.05	452.69	549.84	704.49
Total	**257.47**	**362.00**	**454.28**	**553.31**	**709.91**

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Capital Employed	13.88	19.78	27.43	33.87	39.51
Net Worth	13.88	19.78	27.43	33.87	39.51

Note: 1. Capital Employed represents Net Fixed Assets plus Capital Works-in-Progress and Working Capital
2. Net Worth represents Paid-up Capital plus Reserves and Surplus less Intangible Assets

From the above table it can be seen that during 2006-07 to 2010-11, the Works-in-Progress increased by more than three times from ₹ 98.32 crore (2006-07) to ₹ 333.93 crore (2010-11) with corresponding increase in the Current Assets, Loans and Advances from ₹ 253.19 crore (2006-07) to ₹ 704.49 crore (2010-11) mainly due to non-completion of large number of projects in hand as discussed in **Paragraph 2.2.33**. Thus, due to delays in execution of works, advances received from GoI/GoO against the projects remained unadjusted and accumulated from ₹ 228.08 crore (2006-07) to ₹ 652.97 crore (2010-11). This caused corresponding increase in the Current Liabilities from ₹ 243.59 crore (2006-07) to ₹ 670.40 crore (2010-11).

The Management stated (September 2011) that the User Departments released the full amount for the projects without considering practicality of physical progress of construction during the same financial year and a large amount of money remained unutilised due to delay in handing over of site and security issues. They also added that the User Departments might formulate medium and long term plan for 2 to 4 years and release funds in a phased manner. The reply was not acceptable since the Company should have addressed the issue of non-availability of site effectively in co-ordination with the User Departments before preparation and submission of estimates. Further, the Company had never intimated the User Departments for release of funds in a phased manner so as to avoid accumulation of funds.

Government stated (November 2011) that the Action Plans under the various schemes approved the full cost of the projects which was being given to the Company and it would be difficult to release part payments when GoI released funds in full. The issue, however, needed to be resolved on priority basis to avoid accumulation of funds.

Execution of Government projects out of the share capital without authorisation

2.2.11 The Company received ₹ 5.63 crore towards share capital during 1979-90. It, however, incurred expenditure of ₹ 5.20 crore out of the share capital towards construction of 72 residential/non-residential projects for Police Department during 1986-91 though there was no direction from the GoO in this regard and had made requests to GoO for reimbursement of the amount. The matter was brought to the notice (May 2010) of the BoD and as per its directions, the Company again requested (7 August 2010) GoO for reimbursement of ₹ 5.20 crore. GoO, however, sought (28 August 2010) clarification from the Company whether they had any authorisation from GoO for construction of 72 projects out of the Paid-up Capital of the Company and commitment to reimburse the cost of construction. The Company had not yet submitted clarification on this matter to GoO (September 2011).

In the Exit Conference, the CMD admitted (September 2011) that no specific letter was available to indicate that the Company was asked to use its share capital to carry out construction. Government stated (November 2011) that a decision in the matter would be taken in consultation with the Finance Department.

Working Results

2.2.12 The working results of the Company for the five years ended 2010-11 were as under:

(Amount: ₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
(A) Income					
Income from completed projects	71.13	63.23	122.08	154.35	186.36
(B) Expenditure					
a) Direct expenses	68.38	63.49	118.02	147.96	179.89
b) Personnel expenses	3.90	4.85	4.90	6.10	6.43
c) Other expenses	0.65	1.19	1.28	1.30	1.72
d) Depreciation	0.07	0.11	0.14	0.17	0.19
Total Expenditure	**73.00**	**69.64**	**124.34**	**155.53**	**188.23**
(C) Operational Profit/Loss(-) (A-B)	**(-)1.87**	**(-)6.41**	**(-)2.26**	**(-)1.18**	**(-)1.87**
(D) Other Income					
i) Interest on fixed deposits	10.22	15.09	13.63	11.63	12.05
ii) Others	0.26	0.31	0.25	0.68	0.53
Total other income	**10.48**	**15.40**	**13.88**	**12.31**	**12.58**
(E) Profit for the year (C + D)	8.61	8.99	11.62	11.13	10.71
Less. Provision for taxation	3.15	3.09	3.98	3.78	3.56
Prior period adjustment (Dr.)	0.04	(-)0.01	0.01	0.91	1.51
Net Profit carried to Balance Sheet	5.42	5.91	7.63	6.44	5.64

The operational income of the Company mainly consisted of the supervision charges at a fixed rate on the estimated value of the projects executed. As can be seen from the above table that though the Company's income from completed projects increased from ₹ 71.13 crore in 2006-07 to ₹ 186.36 crore in 2010-11, it could not earn operational profits in any of the five years. The Company was, however, able to achieve overall positive working results during all five years from 2006-07 to 2010-11, which increased from ₹ 8.61 crore (2006-07) to ₹ 10.71 crore (2010-11) mainly due to significant interest income on fixed deposits ranging between ₹ 10.22 crore (2006-07) and ₹ 15.09 crore (2007-08) during the said period.

The Management stated (September 2011) that the operating loss was attributable to non-receipt of cost escalation from the User Departments as well as curtailment of cost estimates. The fact remained that the Company did not attempt to prepare and submit the revised estimate to the User Departments to avoid the cost escalation. The reply, however, did not indicate any effective plan in co-ordination with User Departments for timely completion of the on-going projects so as to increase the operating income of the Company.

Government stated (November 2011) that the Company's proposal to utilise the interest income against the cost escalation was under consideration of the State Level Empowered Committee and appropriate decision in consultation with the Finance Department would be taken.

Planning

2.2.13 The Company was engaged in the construction activities for more than two decades. It, however, did not attempt to evolve any long term plan after obtaining requisite input from User Departments. In September 2009, the Company, for the first time, prepared the five-year Perspective Plan (PP) for 2009-14 envisaging to construct 1,490 residential/ non-residential building projects (Police 750, Prison 390, Fire 250 and Judiciary 100). The PP was, however, not placed before the BoD for approval.

Perspective Plan lacked focus and direction in augmenting the construction activities

We observed that the basis of formulation of PP was not documented nor did it indicate the year-wise number of projects to be executed during 2009-14 with projected revenue despite the slippages caused in completion of large number of projects during previous years. Thus, PP lacked focus and direction in augmenting the construction activities and enhancing revenue generation of the Company. In the Exit Conference, the CMD stated (September 2011) that the PP could not be placed before the BoD for *post-facto* approval due to oversight.

2.2.14 The different User Departments forward their Annual Action Plans (AAPs), approved by GoO, to the Company with details of projects to be undertaken by the Company each year. The execution of works involved preparation and sanction of estimates, issue of work orders to the executing divisions by the Head Office (HO) of the Company, deployment of job-workers/turnkey contractors for execution of works and arrangement of material by the divisional offices. An effective work plan by the Company in line with the requirements forwarded by the User Departments of GoO was thus, a pre-requisite for timely and efficient completion of works. Despite recommendation of the COPU, the Company had not formulated any action/working plan prioritising the activities/projects and monitoring the projects for execution. The Company did not fix any physical and financial targets to exercise proper control over activities. This had adversely affected the execution of projects as discussed in **Paragraph 2.2.33 to 2.2.36**.

No action/working plan was formulated

The Management/Government stated (September/November 2011) that the Company formulated financial and physical target for each division and it had started work on implementing Enterprise Resource Planning (ERP) system to improve project management, review and monitoring. The contention was not acceptable because the Company had not fixed any physical target division-wise, while financial target for each division was fixed only in 2010-11. The reply was, however, silent on the reasons for not preparing the action/working plans despite recommendations of the COPU.

Budgetary control

2.2.15 An effective Budgetary Control is essential to assess and monitor the actual Receipt and Expenditure against the Budget and also to take timely corrective action against the adverse variations. Annual Operational Budgets (AOBs) prepared by the Company though indicated the financial parameters such as Budgeted Receipt and Expenditure for execution of projects by the Company as a whole, it did not indicate any physical parameters to assess the adequacy of the expenditure with reference to the actual physical progress of the works. Further, while preparing the AOB, the Company had not taken any input from the budget of the GoO relating to fund allocation towards execution of works. As regards the approval of AOBs by BoD, we noticed that the AOBs for the years 2006-07, 2007-08 and 2010-11 were approved by the BoD after a delay of 1 to 8 months after commencement of the respective financial year.

2.2.16 The table below indicates the Budgeted Receipt and Expenditure vis-à-vis actuals and excess/shortfall over the budgets during 2006-11.

(Amount: ₹ in crore)

Year	Budgeted		Actual		Excess (+)/Shortfall (-) (in *per cent*)	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(2)	(7)=(5)-(3)
2006-07	87.81	81.56	81.26	68.38	(-) 6.55 (7)	(-) 13.18 (16)
2007-08	99.98	83.10	127.55	63.49	(+) 27.57 (28)	(-) 19.61 (24)
2008-09	108.03	80.79	150.56	118.02	(+) 42.53 (39)	(+) 37.23 (46)
2009-10	154.55	150.88	153.07	147.96	(-) 1.48 (1)	(-) 2.92 (2)
2010-11	155.80	185.56	258.95	179.89	(+) 103.15 (66)	(-) 5.67 (3)

(Source: Budget documents, Annual accounts/Annual Reports)

Budgetary mechanism was not effective

As can be seen from the above table, the budgeted expenditure were less as compared to the budgeted receipts in all the years except in 2010-11, indicating deficiencies in planning for utilisation of funds for execution of projects. Though, the percentage of variance between the budgets and the actuals ranged between 7 and 66 (Receipt) and 3 and 46 (Expenditure) during 2006-11 (except in 2009-10), the Company had not made any attempt to analyse the reasons for such variations despite COPU's recommendations in this regard. The BoD also did not call for variance analysis to evaluate the effectiveness of Budgetary Control.

The Management/Government stated (September/November 2011) that budgetary exercise depended on inflow of funds which was beyond their control and budgets were prepared by extrapolating averages with projections made available to them by User Departments. They, further, added that the Company had made careful analysis of the differential, as recommended by the COPU, but had not been able to find out a satisfactory solution in view of the fact that the issue was related to various departments of the GoO and GoI. The reply was not acceptable as the Company prepared their Budgets without obtaining any input from the Budget of GoO towards execution of number of projects under different schemes. Further, the year-wise variance analysis was also not documented. Huge variations and failure to analyse the variances over the Budgets indicated that Budgets were not realistic.

Funding of projects

2.2.17 The Company undertook construction work on receipt of funds from GoI/GoO under different schemes. Though the Company maintained a database of scheme-wise receipt of funds, the scheme-wise utilisation of funds was not documented. The table below indicates the funds utilised *vis-à-vis* total funds received during 2006-11.

(Amount: ₹ in crore)

Year	Opening Balance	Funds received	Total funds available	Funds utilised	Percentage of funds utilised to total funds available	Unspent balance	Shortfall in fund utilisation w.r.t opening balance (in *per cent*)
2006-07	119.67	81.26	200.93	68.38	34	132.55	43
2007-08	132.55	127.55	260.10	63.49	24	196.61	52
2008-09	196.61	150.56	347.17	118.02	34	229.15	40
2009-10	229.15	153.07	382.22	147.96	39	234.26	35
2010-11	234.26	258.95	493.21	179.89	36	313.32	23
Total		**771.39**		**577.74**			

(Source: Annual Accounts/Annual Reports, Advance against project account)

Utilisation of funds ranged between 24 and 39 *per cent*

As can be seen from the table above, the utilisation of funds to total funds available was poor ranging from 24 to 39 *per cent* during 2006-11. The annual utilisation even fell short of the balance of funds lying at the beginning of respective financial year by 23 to 52 *per cent* during the same period. The main reason for poor utilisation of funds could be attributed to lack of proper planning to complete the works in time leading to huge accumulation of on-going works (731) and receipt of funds during 2000-11 for works yet to be commenced (393). Neither the Company nor the User Departments of GoO analysed the reasons for delayed execution of the projects by way of periodical review of physical and financial progress of works.

The Management/Government stated (September/November 2011) that 65 *per cent* of the funds received had been utilised and the accumulation of funds was because of planning problems with User Departments and release of funds at one go without any consideration of natural progress of construction. The contention was not acceptable because only 24 to 39 *per cent* of the total funds available were actually utilised during 2006-11. As regards release of funds in one go by User Departments, the Company should prepare realistic work plan considering the AAP forwarded by User Departments as well as after assessing the actual conditions of the work site before accepting funds from the User Departments.

Interest on unutilised funds

2.2.18 The unspent funds (except that relating to Modernisation of Police Force (MPF) scheme for 2010-11) were kept in the term deposits and interest earned thereon was credited to the revenue of the Company. In the absence of any directions/ policy of GoO regarding utilisation of interest, there had been strong disincentive for timely execution of works as could be noticed from the increased 'Other Income' derived mainly from interest on funds parked in term deposits.

The Management stated (September 2011) that cost escalation was being met out of interest income without approval and the State Level Empowered Committee (SLEC) was moved to regularise the process. The reply itself indicated irregular utilisation of interest earned on scheme funds. Government stated (November 2011) that appropriate decision would be taken in consultation with Finance Department and others concerned regarding the parameters of the policy regulating the utilisation of interest on scheme funds.

Execution of works without receipt of funds

Execution of works without AA led to non-recovery of ₹ 9.94 crore

2.2.19 After receipt of Administrative Approvals (AAs) from the User Departments of GoO towards the cost estimates of projects, funds were placed with the Company by the departments concerned and thereafter, the work orders were issued to Divisional Offices (DOs) for execution of works. We observed that on receipt of the AA for 80 projects (Police: 62, Jail: 6 and Fire: 12) the Company, before release of funds (₹ 9.94 crore) by GoO, issued work orders between September 2006 and July 2010 to DOs for commencement of works in contravention of the prescribed procedure. As on 31 March 2011, the Company completed 51 projects, while the balance 29 projects were in progress. The Company had already incurred ₹ 7.63 crore on the said projects. Even after lapse of 467 to 1,546 days (Police projects), 269 to 897 days (Jail projects) and 1,661 days (Fire projects) from the dates of issue of work orders, the Company had not received ₹ 9.94 crore from the GoO though AA for the projects were given by User Departments. The Company, however, did not effectively pursue with User Departments to release the said funds. The matter regarding commencement of works without receipt of project costs was also not placed before BoD. Consequently, the Company sustained loss of interest of ₹ 2.10 crore[68] till 31 March 2011 on the funds incurred on those works out of its internal sources.

While accepting the facts, the Management stated (July/September 2011) that the Company had obliged the requests of the User Departments to start work in anticipation of placement of funds. They further added that in the proposed Memorandum of Understanding (MOU) with GoO, they had requested to accord the AA within 30 days of submission of plan and estimate which would be agreed upon and the delay in placement of funds would be reduced. Government stated (November 2011) that since AAs were to be given after provision of funds in the budget, the funds would be released after completion of due formalities. The reply was not acceptable as the funds were not received against those projects even after delays upto 1,661 days and the Company also had not followed-up the matter effectively.

[68] Worked out at the interest rate of eight *per cent* earned by the Company on Fixed Deposits

Execution of projects

2.2.20 The User Departments of GoO prepared Annual Action Plans (AAPs) for execution of projects under different schemes and forwarded the same to the Company for preparation and submission of estimates of those projects. The Design and Development Cell of the Head Office prepared the estimates based on Schedule of Rate (SoR) of Works Department of GoO, thereafter the same was being technically sanctioned by the Chief Engineer of the Company. Besides, the Company engaged Architects for preparing the estimates for major projects[69] during the period 2006-11. On receipt of technically approved estimates, User Departments accord AA and funds were released to the Company against the budgetary provision. Thereafter, the Company issued work orders to its Divisional Offices (DOs) for commencement of work. The DOs engaged job-workers at the item-wise labour rates approved by the Head Office (HO) of the Company. The building materials *viz.* bricks, sand, moorum, chips, stones etc., were procured by DOs on lowest tender basis, cement was procured mainly at the rates fixed by HO and steel was procured on Steel Authority of India Limited (SAIL) rates applicable from time to time. Besides, the Company engaged turnkey contractors with effect from October 2009 for execution of works. Further, as per the Government policy, once the AA was given/ accorded by the User Departments for the project costs estimated by the Company, no request for revision/enhancement to the approved project cost was to be entertained for any of the reasons. Thus, effective planning in line with the AAPs received from GoO and effective co-ordination from the stage of preparation of estimates to the handing over of completed projects were the pre-requisites for efficient and timely execution of works.

We observed deficiencies in the formulation of estimates, delays in preparation of estimates, with corresponding delays in according of AA to the estimates by User Departments and abnormal slippages in completion and handing over of the projects, as discussed in succeeding paragraphs.

Delay in submission of estimates and receipt of Administrative Approval

Delay upto 390 days for preparation of estimates by the Company and upto 720 days for approval by the User Departments

2.2.21 The COPU recommended that the Company should avoid delay in preparation of estimates. We, however, observed that no time frame was fixed for preparation/submission of estimates and according of AAs. The standard designs and plans were documented for construction of police stations, fire stations, residential quarters, barracks, police outposts, fortification of police stations/barracks etc. Despite this, the Company prepared and submitted the estimates (2006-11) of 396 out of 605 projects under these categories to GoO after delays of 4 to 390 days, while User Departments forwarded the AAs to 220 estimates after slippages of another 3 to 720 days (each after allowing 30 days period considered to be reasonable for preparation/ submission of estimates and according of AAs). These slippages ultimately delayed the commencement/ execution of works.

[69] Commissionerate Building, Bhubaneswar, Administration Building, Bayree, Ravenshaw University, Jamujhari Prison Academy Hostel, Rasulgarh Staff quarter, SOG, Chandaka etc.

The Management/Government stated (September/November 2011) that delays in preparation of estimates were attributable to change in standard plans, soil profile, land availability and specific requirements of User Departments. It was further added that the Chief Engineer (CE) personally looked into plans/estimates delayed beyond 30 days. The reply was, however, silent on the reasons for inordinate delays upto 390 days in preparing the estimates/plans despite personal supervision by the CE and the corrective action, if any, taken to avoid such delays.

Deficient preparation of Work Estimate

2.2.22 While according AA to the estimates, GoO clearly indicated that the cost of the estimates would not be revised in any case. Thus, the Company was required to prepare the realistic estimates based on current SoR of Works Department after assessing the requirement of User Departments. We observed the following deficiencies in formulation of estimates.

Non-consideration of enhanced labour rate in the estimates

2.2.23 The SoR indicated the daily labour rates of different categories of labour as fixed from time to time by the Labour Department of GoO under Minimum Wages Act. GoO enhanced (13 July 2009) the daily labour rates of different categories from ₹ 70 to ₹ 100 to ₹ 90 to ₹ 129. We observed that the Company prepared estimates for 23 Fire Station projects on 17 July 2009 adopting pre-revised daily labour rates instead of the revised enhanced rates for different categories of labour, leading to short provision of ₹ 21.85 lakh in the estimates. The estimates were also approved (September 2009) by the GoO. Thus, short provision of labour charges in the estimates resulted in loss of ₹ 25.07 lakh (including supervision charges of ₹ 3.22 lakh) to the Company.

The Management/Government stated (September/November 2011) that the estimates were prepared before the revision of minimum wages which were submitted in normal course. The reply was not acceptable since the Company prepared the estimates on 17 July 2009, after revision of rates and it did not approach the User Department for revision of estimates before getting AA in September 2009. In the Exit Conference the CMD stated (September 2011) that this systemic problem would be taken care of by introduction of System Application and Products in Data Processing (SAP) system. The fact remained that at present, there was no system in place to avoid lapses.

Preparation of estimates at pre-revised SoR

Preparation of estimates as per old SoRs resulted in loss of ₹ 1.06 crore

2.2.24 The Company submitted (November 2007 to April 2010) the estimates of 'civil cost item' relating to 13 Police/Jail projects of five districts aggregating to ₹ 30.71 crore as per the rates of old SoRs (2006, 2007 and 2008) instead of the revised prevailing SoRs (2007, 2008 and 2009) applicable for those projects, resulting in short provision of ₹ 0.92 crore. The estimates were also approved by GoO. Thus, the short provisioning of cost in the estimates resulted in loss of ₹ 1.06 crore (including supervision charges of ₹ 0.14 crore).

Similarly, the Company submitted (January 2010) an estimate for barrack building at Bayree in Jajpur district at ₹ 3.92 crore as per the SoR 2008. The AA for this project was accorded by GoO in March 2010. Meanwhile, SoR 2009 came into force in February 2010 with upward revision of cost of material. Though the revised SoR became effective prior to AA, the Company did not attempt to revise the estimate for submission to the GoO for AA. Consequently, short provision of ₹ 16.37 lakh in the estimates led to loss of ₹ 18.83 lakh (including supervision charges of ₹ 2.46 lakh).

While accepting the facts, the Management/ Government stated (July and September/ November 2011) that the Company prepared estimates as per the prevailing SoR, but at times because of the volume of works there was error due to oversight, which would be rectified. In the Exit Conference CMD stated (September 2011) that the systemic lapses would be taken care of by introduction of SAP system.

Adoption of lump sum provision for preparation of estimates

Adoption of lump sum provision for internal electrification works led to loss of ₹ 7.82 crore

2.2.25 The Company prepared cost estimates of projects which included lump sum provision towards external electrification. As per provisions of the OPWD code, lump sum provisions could be made only in case of non-availability of the required details of the works and costs involved at the time of preparation of estimates. In such cases, however, detailed estimates against the lump sum provision should immediately be prepared and sanctioned by the competent authority before execution of the work. The Company needed to obtain the detailed cost estimates towards external electrification from the Power Distribution Companies (PDCs). Despite the Company having its electrical wing headed by JM (Electrical) at Head Office and 13 other Assistant Project Managers (Electrical) at the Divisional Offices, it did not co-ordinate with PDCs to get the detailed estimates prepared by them in time. Instead, it continued to make lump sum provisions in estimates towards external electrification works, ignoring the recommendations of COPU (March 2008) to prepare estimates for external electrification considering the ground realities. In respect of all 475 projects test checked by us (sanctioned during 2006-11), the Company included lump sum provision of ₹ 8.99 crore towards external electrification works in the estimates on *ad-hoc* basis which were also approved by the GoO. Subsequently, PDCs prepared the estimates for those projects at ₹ 16.81 crore. Thus, there was a short provision of ₹ 7.82 crore in the approved estimates which would not be recoverable as the original estimates at ₹ 8.99 crore had already been approved by GoO and the Company also had not submitted revised estimate in this regard to the GoO so far (September 2011).

While accepting the facts, the Management/ Government stated (September/ November 2011) that the problem would persist where the plans and estimates were prepared before finalisation of sites. The reply contradicts the provisions of OPWD code which required that the Company should prepare estimates on realistic basis only after finalisation of sites which was a pre-requisite for preparation of estimates. In the Exit Conference, the CMD stated (September

2011) that direction had since been issued to the electrical section for preparation of detailed estimates for external electrification.

Non-consideration of VAT and transportation cost of wood in estimates

2.2.26 The Company purchased wood from Government sponsored Panchayat Industries at the rates fixed by the Director of Industries which were exclusive of the taxes and transportation costs and hence, these components were needed to be added separately at the time of preparing the cost estimates. While preparing the work estimates, the Company, however, did not include the Value Added Taxes (VAT) and transportation costs relating to the wood work items. During 2008-09 and 2009-10, against the estimate of total ₹ 2.13 crore for wood works in respect of all 146 Fire/Police projects, test checked by us, in 23 districts, the Company spent ₹ 2.41 crore. Consequently, the Company sustained a loss of ₹ 0.28 crore due to non-inclusion of VAT and transportation cost elements in the wood work estimates.

The Management/Government stated (September/November 2011) that the VAT and transportation cost was estimated at rates applicable for the year in which the estimates were prepared. The reply was not acceptable as the rates prescribed by Director of Industries and adopted by the Company were exclusive of VAT and transportation cost elements.

Curtailment of estimated cost

Curtailment of estimated cost by the User Departments led to short-recovery of cost of ₹ 15.68 crore

2.2.27 The Company prepared the estimates as per the prevailing SoR and submitted the same to the User Departments of GoO for according Administrative Approval (AA). GoO was to accord the AA to the entire amount of estimates in order to execute the works efficiently. We observed that during 2006-11, in case of 568 out of 636 Police/Fire projects under different schemes (MPF and State Plan), the User Departments of GoO restricted the AA to available budget allocation of ₹ 192.39 crore as against the cost estimates of ₹ 208.07 crore submitted by the Company. Hence, due to curtailment of the estimated cost *ab-initio*, there was short recovery of cost of ₹ 15.68 crore, which had adversely affected the financial health of the Company.

While accepting the fact the Management/Government stated (September/ November 2011) that there was no justification for curtailment of estimated cost which was affecting the financial health of the PSU. In The Exit Conference, the Special Secretary stated (September 2011) that policy had recently been framed for providing full estimated cost in phased manner. Copy of the policy decision was, however, not produced to us for verification.

Engagement of job-workers

2.2.28 Despite adoption of Labour Contract System since September 1990 for execution of the works, the Company had not formulated any procedure for selection of job-workers. It had also not taken any corrective steps to put in place a transparent procedure for selection of the job-workers so far (September 2011). We observed that the Head office of the Company approved the labour rates[70] from time to time against the tenders invited by the DOs. Job-workers were selected at the approved labour rates by the DOs. The DOs, however, did not maintain any panel for job-workers nor did operationalise any Vendor Rating Mechanism based on the past performance of job-workers despite huge slippages in completion of projects during previous years.

Payment of higher labour rate to Job-workers

The Company incurred extra expenditure of ₹ 2.55 crore due to payment of labour cost at rates higher than SoR

2.2.29 During 2007-11, the User Departments of GoO accorded AAs to the estimates for 67 Fire Station and 112 Police Station projects prepared by the Company based on labour rates included in the SoR as revised from time to time. Accordingly, the Company was required either to limit the labour cost to the approved cost estimate or to claim the excess amount wherever the actual labour rates were higher than the SoR. We observed that while awarding the works to the job-workers the Company considered (July 2007/ July 2009/ November 2010) the increased labour rates for 10 items (July 2007), eight items (July 2009) and 13 items (November 2010) of civil works in respect of the said projects based on the lowest rates received against the tenders. Consequently, the Company had to incur extra expenditure of ₹ 2.55 crore over the approved cost estimates. We noticed that no claim for the excess expenditure was preferred (September 2011) with the User Departments.

The Management stated (September 2011) that they were facing serious problem because of change in labour rates due to market factors and inflationary pressure and they were exploring ways for recovering the additional expenditure in consultation with GoO. In the Exit Conference the CMD stated (September 2011) that the job contracting system would be phased out by execution of works by open tender through turnkey contracts. Government stated (November 2011) that mode of execution of works through turnkey contracts was an internal matter of the Company to be decided by the BoD.

Award of work without inviting tender

2.2.30 In terms of provisions of OPWD code, works costing more than ₹ 0.50 lakh were to be executed through open tender and all tenders costing ₹ 20 lakh or above would be hosted in the e-procurement portal. The Company also introduced e-tendering of works with effect from October 2009. We noticed that the Company executed the Land Scaping work (₹ 17.60 lakh) and External/Internal Furnishing work (₹ 1.00 crore) of Commissionrate building project through Ashoka Kalinga Nursery and Zimmermann Company (Pvt.) Limited (ZCPL) respectively by inviting (December 2010/February 2011) quotations without going for the e-tender or open tender so as to maintain transparency and obtain competitive price. While accepting the facts the Management/Government stated (September/November 2011) that since the work was time bound and there was no time to go for full tender process, the works were awarded on quotation basis. The reply was not acceptable since a part of the project was awarded (November 2010) to a contractor on e-

[70] The term used by the Company for job work

tendering basis, the award of the remaining works relating to the same project without tender lacked justification.

Empanelment and engagement of Architects

2.2.31 The Company had been engaging architectural firms on nomination basis for preparation of plan and estimate since 1980. On being pointed out (March 2009) by the BoD to strengthen Project Monitoring System and to ensure quality construction work, the CMD informed (September 2009) the BoD that empanelment of Architects of proven repute was necessary to assist the Company in preparation of plan, estimates and monitoring project construction works so that the buildings constructed would meet aesthetic standards and functional requirement of User Agencies. In this connection we observed the following:

No policy was formulated for engagement of Architect

- The Company had neither formulated any policy/guidelines duly approved by the BoD nor had it put any transparent procedure for empanelling/engaging the Architects. The Company invited (July 2009) open tender for empanelment of Architects against which 3 out of 42 participants could only fulfil all the basic terms and conditions of the tender. We found that the Committee, subsequently formed by the Company, while finalising (October 2009) the tender, relaxed the basic terms and conditions of the tender. Accordingly, the Committee selected 18 firms for empanelment against which 25 firms were directed to deposit ₹ 3,000 each towards initial registration fees without any reason, of which 14 firms deposited the required fees.

- The Company also empanelled one firm who did not have architectural registration certificate. The reasons for acceptance of ineligible firm for empanelment and relaxing the terms and conditions of the tender were not on record.

- The Company engaged 13 firms for preparation of plan and estimates in 65 projects and incurred expenditure of ₹ 1.48 crore during 2006-11 towards Architects fees. The work orders, however, invariably did not stipulate the period for submission of plan and estimates. Further, the actual date of receipt of the plans and estimates by the Company were not documented. Though the objective of empanelment of Architects was to strengthen Project Monitoring System and to ensure quality construction work, the scope of work in the work orders was silent on these aspects.

- Though the Company paid ₹ 1.48 crore to the Architects, it did not operationalise any mechanism to evaluate their performance specially with reference to monitoring of project construction works when there were huge slippages in execution.

- The architectural firms were paid at the rate of 0.5 to 4 *per cent* of the estimated cost (excluding supervision charges) arbitrarily fixed by the Management without ascertaining market rates and without documenting the basis of fixation of the rates. We observed that the Company had been paying 1.6 and 0.5 *per cent* of estimated cost for preparation of plan and estimates and structural design respectively. During 2010-11, the Company, however, issued work orders for preparation of plan and estimates and structural design at the rate of 2.5 *per cent* instead of at the previous rate of 2.1 *per cent*, for reasons not on record. Further, despite availability of in-house expertise for preparation of structural design, outsourcing of such works lacked justification.

- In order to reduce the time and cost over-run of the execution of the Commissionerate Building project, the Company engaged (October 2009) Niharika Associates (NA), Bangalore through open tender for Project Management Consultancy (PMC) at a monthly fee of ₹ 1.75 lakh subject to maximum of 1.75 *per cent* of project cost. The terms of agreement with NA *inter alia*, included full time engagement of an Architect with interior designer background along with other services. Subsequently, NA requested (May 2010) the Company to dis-engage them as they were unable to provide adequate skilled technical personnel for providing PMC services due to their work load at Bangalore. Accordingly, the Company dis-engaged NA in June 2010. We observed that even before request (May 2010) of NA to dis-engage them, the Company engaged (December 2009) another Architect *viz*. Structural Analysis and Design Cell (SADC), for interior design out of the empanelled Architects at a rate of four *per cent* of the derived value of interior work of ₹ 10.71 crore on negotiation instead of GoO approved value of ₹ 2.98 crore for internal design of the project. Since SADC was not a registered architectural firm, it was also dis-engaged (March 2010) and the work was awarded to S.K. Nanda, Architect, not being an empanelled firm, at the same rate of four *per cent* of ₹ 10.71 crore. Thus, the Company extended undue benefit of ₹ 34.10 [71] lakh to a non-empanelled architectural firm by paying the higher fee of four *per cent* on derived value of interior design work instead of on the GoO approved value.

The Management/Government stated (October/November 2011) that due to difficulties like poor or no response of Architects towards competition, insufficient time for competition process, compliance to requirements of the guidelines of Council of Architects etc., Architects were engaged from the enlisted Architects. They were, however, assured that to obviate those difficulties a full draft policy document for appointment of Architects would be placed before the BoD for adoption.

[71] {(₹ 10.71 crore – ₹ 2.98 crore) x 4 *per cent*} + 10.3 *per cent* of Service Tax

Project Management

2.2.32 Project Management is one of the most important aspects for execution of the projects as per schedule and avoiding the cost over-run. The Project Management was vital for the Company as estimates were approved on the current SoRs and escalations were not provided in the sanction orders/AAs.

No time schedule for completion was fixed by the User Departments

We observed that the User Departments did not indicate any time schedule for completion of different types of projects while according AA to the cost estimates. The Company, however, stipulated the completion period while issuing work orders to the DOs against the projects for which AAs were obtained. Hence, the Company was required to complete the projects in time so as to avoid the cost over-run.

While accepting the fact, GoO stated (November 2011) that henceforth, the Company would mention the tentative time for completion of the projects in the plan and estimate so that it could be suitably incorporated in the AAs.

Project management techniques were non-existent

We further observed that the Company did not put in place any scientific method for monitoring the execution of projects such as, Programme Evaluation and Review Technique (PERT) charts with the Schedule of Completion of various activities in the projects. Instead, the Company merely generated on-line monthly progress reports with periodic updation in regard to the execution of projects. Further, while updating the said reports, the back-up of earlier progress reports were not maintained. Besides, the progress reports did not indicate the dates of commencement and dates of completion and the financial as well as physical progress parameters with various hold-points in respect of on-going projects.

The Management/Government stated (September/November 2011) that corrective measures had been taken for installing SAP for on-line project management and all the charts, schedules and analytical tool would aid management intervention. The fact remained that presently the Company had no effective project management mechanism.

We noticed instances of excessive time and cost over-run, delays in commencement/execution of the projects, non-handing over of completed projects, expenditure beyond the AA limit etc., in execution of projects by the Company as discussed in the subsequent paragraphs.

Status of the execution of projects

Percentage of projects completed to total projects was meagre

2.2.33 The Company fixed a time schedule of 4 to 18 months for completion of projects at the time of placement of work orders with the DOs. We observed that the percentage of completion to total projects in hand was meagre ranging between 19 and 28 as detailed in the table below.

Year	Projects-in-hand	New Projects Sanctioned	Total Projects in hand	Projects Completed[72]	On-going/ non-starter projects	Percentage of completed projects to total projects
2006-07	469	514	983	267	716	27
2007-08	716	940	1,656	322	1,334	19
2008-09	1,334	506	1,840	509	1,331	28
2009-10	1,331	311	1,642	418	1,224	25
2010-11	1,224	274	1,498	374	1,124	25
Total		**2,545**		**1,890**[73]		

Extent of delays

During 2006-11, 93 *per cent* of projects were completed after slippages of 1 to 81 months

2.2.34 Out of 1,890 completed and handed over projects during 2006-07 to 2010-11, we analysed the extent of delays in handing over in respect of 1,645 projects as detailed below.

Period of delay in months	Number of Projects				
	Judiciary	Police	Jail	Fire Service	Total
1 to 3	0	147	15	6	168
4 to 6	0	42	26	7	75
7 to 12	0	175	92	32	299
13 to 18	2	133	104	23	262
19 to 24	0	110	56	20	186
25 to 81	0	269	226	40	535
Total	**2**	**876**	**519**	**128**	**1,525**
Handed over in time	0	103	11	6	120
Total Projects handed over	**2**	**979**	**530**	**134**	**1,645**
Percentage of projects delayed to total projects handed over	100	89	98	96	93

As can be seen from the table, out of 1,645 handed over projects analysed by us, only seven *per cent* (120) were handed over within the stipulated period of 4 to 18 months and the balance 1,525 projects were handed over after slippages of 1 to 81 months.

[72] Completed projects include 337 CIPA projects handed over during 2007-11 but not accounted for by the Company

[73] Projects completed during 2006-07 to 2010-11 included 350 projects sanctioned prior to 2006-07

Completed Projects

2.2.35 The department-wise details of projects completed *vis-à-vis* projects sanctioned and handed over out of the sanctioned projects during 2006-07 to 2010-11 are given at **Annexure 10**. The synopsis of these projects is given below.

Year	No of project sanc-tioned	2006-07		2007-08		2008-09		2009-10		2010-11		Total	
		No of proj-ects sched-uled to be Comp-leted	No. of projects compl-eted and handed over	No of projects schedu-led to be Compl-eted	No. of projects compl-eted and handed over	No of proje-cts sched-uled to be Compl-eted	No. of projects compl-eted and handed over	No of project -ts sched-uled to be Comp-leted	No. of projects compl-eted and handed over	No of projects schedu-led to be Comp-leted	No. of proj-ects comp-leted and hand-ed over	No of projects sched-uled to be Compl-eted	No. of projects compl-eted and handed over
2006-07	514	42	4	458	114	8	105	1	93	4	46	513	362
2007-08	940			51	9	735	332	147	171	1	91	934	603
2008-09	506					23	3	442	70	35	64	500	137
2009-10	311							4	2	269	13	273	15
2010-11	274									2	nil	2	nil
Total	**2,545**	**42**	**4**	**509**	**123**	**766**	**440**	**594**	**336**	**311**	**214**	**2,222**	**1,117**[74]

Only 57 *per cent* of projects sanctioned and scheduled for completion during 2006-11, were actually completed

As can be seen from the table above that against 2,222 projects sanctioned and scheduled for completion during 2006-11, only 57 *per cent* (1,265[75]) projects were completed and handed over. Further, 275 projects, though completed, were not handed over. Moreover, against 122 projects scheduled for completion during the respective year of sanction (2006-11), only 18 projects were completed and handed over.

Status of incomplete projects

All the 462 on-going projects test checked were lagging at different stages of execution

2.2.36 The year-wise analysis of the incomplete projects which were at different stages of completion as well as projects not yet started as of March 2011 is shown in **Annexure 11**. As can be seen from the annexure:

- As of March 2011, 731 projects sanctioned during 2000-11 remained incomplete, while the execution of 393 projects had not yet commenced (June 2011). Out of 731 on-going projects, we verified 462 projects (63 *per cent*) sanctioned during 2001-10 and found that though work orders against those projects were issued during the period February 2003 to April 2010 with stipulation to complete those within 4 to 18 months, the same remained incomplete even after delay of 8 to 100 months (October 2011). As per the Progress Reports made available to us, those 462 on-going projects were at different stages of completion *viz.,* finishing (41), plastering, painting and flooring (84), excavation and brick work (55), rod binding and centring and shuttering (25), layout (64) and other miscellaneous stages (193).

[74] Included 337 CIPA projects

[75] Besides, 1,117 projects handed over, 148 projects were also completed and handed over but dates of handing over were not available.

There was nothing on record to indicate any future time schedule for completion of the pending works.

Excessive delays in completion led to cost over-run of ₹4.81 crore

- The Company incurred expenditure of ₹ 134.83 crore against AA cost of ₹ 226.17 crore for the said 462 projects, which included ₹ 28.17 crore relating to 63 projects against AA amount of ₹ 23.36 crore as on 31 March 2011 leading to non-reimbursable cost over-run of ₹ 4.81 crore.

The Management/Government accepted (September/November 2011) the audit observations mentioned in **Paragraphs 2.2.33 to 2.2.36**.

The delays in projects were mainly due to delay in commencement of works after receipt of work orders, delays in placement of supply orders and delayed execution by contractors, as discussed in succeeding paragraphs.

Delay in commencement of work

Job-workers were engaged after delays upto 947 days for executing works

2.2.37 The DOs executed the works through engagement of job-workers. The DOs, however, did not engage the job-workers immediately after receipt of the work orders. We observed that in 100 out of 254 projects test checked in nine selected districts of the five divisions, the job-workers were engaged after delay[76] ranging from 1 to 947 days for engaging job-workers after receipt of work orders from the HO of the Company.

Delay in placement of orders for supply of materials

The Company placed orders for supply of materials after delays of 2 months to 4 years

2.2.38 We observed that in five[77] out of eight DOs test checked by us, orders for supply of materials in respect of 128 projects were placed with the suppliers after delay[78] of 2 months to 4 years from the dates of work orders.

Delays in placement of orders led to extra expenditure of ₹ 1.57 crore in 77 cases

Further, the cost of building materials like steel, cement, etc., were subject to frequent revision which led to price escalation. In view of this, the DOs were required to place orders for procurement of those materials immediately after receipt of the work orders. On test check of 77 out of 128 projects, we noticed that due to delay of 8 to 31 months in placement of supply orders by three DOs,[79] there was extra expenditure of ₹ 1.57 crore due to cost escalation of the materials, besides delay in execution of the projects.

The Management/Government stated (September/November 2011) that delays in placement of supply orders occurred due to placement of orders depending on the progress of work, shortage of space to store materials and non-acceptance of orders by the suppliers till the rates were revised. The contention was not acceptable since the price escalation as well as probability in pilferage of materials could have been avoided by proper procurement planning.

[76] After allowing reasonable margin of five days for engaging job-workers
[77] Balasore, Bhubaneswar, Cuttack, Rayagada and Sambalpur
[78] After allowing reasonable margin of five days for placement of supply orders
[79] Balasore, Cuttack and Rayagada

Delay by the contractors

2.2.39 The Company planned (October 2009) to execute the construction works through e-tendering in order to enhance its turnover. The works were awarded to the contractors under F2[80] agreements stipulating the date of commencement and the period of completion. In case of failure to complete the works in time, the contractors were liable to pay compensation at the rate of 1.5 *per cent* per month on the tender value subject to maximum of 10 *per cent*.

We observed that in case of 10 Fire Station projects awarded through e-tender during January to May 2010, which were scheduled for completion within eight months, none of the projects were completed (September 2011) by the contractors even after a delay of 266 to 388 days from the scheduled date of completion. The Company, however, did not claim compensation for ₹ 24.59 lakh from those defaulting contractors as per terms of the agreement with them. This not only resulted in undue favour to the contractors but also defeated the very purpose of awarding the works on e-tender for early completion.

The Management/Government stated (July and September/November 2011) that it would take some time to streamline the process of identification of wilful neglect by contractors and they would have to upgrade their documentation before a decision was taken for holding the contractors accountable for delay. The reply was not acceptable since despite the cases of slippage already identified and show-cause notices issued (September 2011), the Company did not claim compensation from the defaulting contractors. The Company needed to put an appropriate system in place to monitor execution of works by contractors as per schedule.

Cost over-run

Excessive delays in completion resulted in cost over-run of ₹ 17.87 crore

2.2.40 As a result of excessive delay in completion of projects, the Company spent ₹ 122.13 crore as against the sanctioned cost (AA) of ₹ 104.26 crore in respect of 457 out of 1,890[81] projects completed and handed over as on 31 March 2011. In the absence of provision for recouping the excess cost incurred from the GoO, the Company had to bear the cost over-run of ₹ 17.87 crore relating to those works.

The Management stated (September 2011) that the construction of projects were delayed due to delay in handing over of sites, difficulty in procuring material and delay in completion by the job-workers. It was further added that the time over-run would be minimised by installing ERP system and modern construction methods as well as by deploying turnkey contractors. Government stated (November 2011) that the Company was being requested to furnish detailed proposal for examination of the issue. The reply did not address the fact that the time over-run could have been avoided by effective co-ordination with the User Departments, efficient planning for procurement of materials and effective monitoring over the performance of the job-workers.

[80] Item rate tender and contract for works in F2 form of OPWD Code
[81] Includes projects sanctions prior to the period of review i.e. 2006-07

Non-Commencement of works

Construction of 393 projects had not been commenced even after a lapse of 7 to 108 months

2.2.41 The DOs were to commence the execution of projects after receipt of work orders from Head Office. We observed that during 2000-01 to 2010-11 the Company received AA for ₹ 143.05 crore for 393 projects (**Annexure 11**) and issued work orders to DOs for execution within 2 to 12 months. Even after a lapse of 7 to 108 months and despite receipt of full amount towards cost of said 393 projects, execution of all these projects was yet to be commenced (October 2011).

The Progress Reports indicated that the execution of 127 out of 393 works could not be taken up due to non-availability of site (70), security related problems (8), diversion of funds to other projects (34), change of sites (3) and change of plan/proposal (12). The reasons for non-taking up of the execution of the balance 266 projects were not spelt out in the Progress Reports. The BoD directed (August 2008) the Management to co-ordinate with the revenue departments as well as to organise the joint meetings with the local Superintendents of Police/District Collectors to sort out site problems. No action, however, was taken in this direction.

The Management stated (September 2011) that the concerned departments were approached on continuous basis to handover the sites, the divisional offices co-ordinated with User Departments to expedite the commencement of works and Joint Managers participated in the monthly review meetings taken by DIG/IG where delays in handing over sites were also discussed. Government stated (November 2011) that sincere efforts were being taken to sort out the land related problems. The reply, however, failed to indicate any action plan and time schedule for commencement of such long pending projects in co-ordination with User Departments. Further, the reply was silent on the reasons for not commencing the construction of 266 projects so far.

Unrealistic estimation of cost

2.2.42 The BoD directed (October 2007) the Management not to effect any major change to the approved project plan and design without concurrence from the competent authority and also to restrict the expenditure within the approved estimated cost. The Home Department of GoO approved (March 2010) the cost estimate submitted (January 2010) by the Company for construction of 150-men barrack with base kitchen at Chandaka at ₹ 2.88 crore. We observed that the above estimate included lump sum amount of ₹ 42 lakh for installation of semi-automatic Modern Kitchen System as against the realistic cost estimate of ₹ 78.31 lakh. Against the approved cost estimate of ₹ 42 lakh, the Company executed the work at a higher cost of ₹ 68.94 lakh without the prior approval of the User Department resulting in extra expenditure of ₹ 26.94 lakh. The extra expenditure was met out of Company's own source with the approval (February 2010) of BoD.

While accepting the facts, the Management/Government stated (September/ November 2011) that the BoD was authorised and justified spending small part of Company's earning in attending to the welfare of the policemen. The reply itself indicated that in the absence of enabling provisions in the

Memorandum and Articles of Association, the BoD's decision was not justified and was in contradiction of its own directions of October 2007.

Cost estimates not based on realistic Bill of Quantity

2.2.43 The Company obtained (July/October 2009) AA from GoO for cost estimates of ₹ 7.68 crore for execution of nine Fire Station buildings and four 100-men barracks in nine districts. We observed that in respect of six out of nine Fire Stations and for all four 100-men barracks, the cost estimates approved by GoO were based on inaccurate assessment of the related costs. The inaccuracies in preparation of cost estimates occurred as the Company did not prepare the realistic bill of quantity (BOQ)[82] based on the site condition for arriving at the realistic cost estimates as required under the OPWD code. Accordingly, the Company included quantity in the e-tender in respect of 177 items of the works in excess of the quantity considered in the estimates and awarded (January/May 2010) the works to the contractors. Resultantly, the Company had to incur extra expenditure of ₹ 40.16 lakh which was not reimbursable from the User Departments.

The Management stated (July/September 2011) that estimates were prepared as per SoR as a benchmark and before floating e-tender exact quantity was arrived at after preparation of BOQ. In the Exit Conference, the CMD stated (September 2011) that the User Department had agreed to give ₹ 40.16 lakh to the Company. GoO stated (November 2011) that the Company was being requested to furnish a detailed proposal for examining the issue.

Expenditure beyond approved estimates

2.2.44 While constructing the Commissionerate building at Bhubaneswar, the Company, without approval of the User Department (*i.e.,* Home Department of GoO), incurred additional expenditure of ₹ 1.57 crore towards Glass Reinforcement Concrete works (₹ 46 lakh), additional electrical works (₹ 65 lakh) and interior security related expenditure (₹ 46 lakh) over and above the approved cost estimate of ₹ 18.93 crore. As the expenditure was incurred beyond the approved cost estimate, the Company had to bear ₹ 1.57 crore out of its own sources. The Management/Government stated (September/ November 2011) that the revised plan and estimates had been submitted and GoO assured that additional work undertaken would be reimbursed either through budgetary provision or by authorising the Company to make good the amount by utilising the interest earned. The fact remained that the Company incurred avoidable expenditure of ₹ 1.57 crore beyond approved costs without obtaining prior approval of the User Departments.

Poor monitoring for completion/handing over of projects

2.2.45 The User Departments did not indicate any time schedule for completion of different types of projects while according AAs to the cost estimates. While issuing the sanction orders, the User Departments stipulated that assets so created would be immediately put to use. This aspect was not monitored by the User Departments/Company which led to delays in

[82] Item-wise detailed estimated quantity/volume of work

utilisation of projects as well as avoidable expenditure of the Company on watch and ward of completed projects. In this connection we observed the following deficiencies:

Non-compliance to GoO instructions

2.2.46 Home Department of GoO issued instructions to the police authority to (i) set target period for completion of the work, (ii) review the progress of the works to be executed by the Company, (iii) ensure timely completion of the projects and (iv) submit monthly progress reports to the Department. We observed that the said instructions were neither complied with by police authorities nor observed by the Company.

Non-reporting of completion/handing over of projects

2.2.47 There was absence of internal control in the Company regarding reporting of the completion and handing over of completed projects to the concerned departments. We observed that the progress reports prepared by the Company did not reflect the actual date of completion of projects. In absence of completion dates the delay in handing over of the projects after completion was not ascertainable. Further, the information on handing over of completed projects was not submitted by the Division Offices to Head office of the Company as a result of which the Company continued to book the completed projects under Work-in-Progress in their accounts. While accepting the audit observations, the Management/Government stated (September/November 2011) that steps were being taken to maintain the requisite data.

Expenditure on watch and ward of completed projects

As of March 2011, 275 projects completed at a cost of ₹ 57.07 crore were not handed over

2.2.48 The Progress Report showed that 275 police/fire/jail/judiciary projects had already been completed at a cost of ₹ 57.07 crore. Those projects were, however, not handed over (October 2011) to User Departments without any recorded reason. The Management did not pursue with the User Department nor did it apprise the BoD of the position of non-handing over of 275 projects. This indicated lack of co-ordination between the Company and the User Departments. Resultantly, the Company had incurred avoidable expenditure of ₹ 1.53 crore on watch and ward of the projects during the period from February 2008 [83] to March 2011. Besides, expenditure of ₹ 57.07 crore incurred on those projects had not been correctly reflected in the account.

While accepting the facts, the Management stated (September 2011) that delay was caused due to lack of close co-ordination between the Company and User Departments and added that the Director General of Police had since issued instructions to all field functionaries not to delay the taking over of the completed buildings. Government stated (November 2011) that appropriate directives would be issued to the User Departments for taking over possession of the completed projects immediately on completion.

[83] As the actual date of completion was not available, the extra expenditure had been worked out from the scheduled date of completion of the projects.

Execution of projects with pre-fabricated structures

2.2.49 The Company had been constructing different residential and non-residential projects of the Police Department with conventional RCC [84] structures. The Company, however, forwarded (October 2008 to February 2010) the estimates of 53 projects to the Police Department for construction of barracks in seven districts with pre-fabricated structures aggregating ₹ 50.76 crore under different schemes[85] of GoO/GoI and obtained the AA for ₹ 50.47 crore. The execution of all the 53 pre-fabricated projects were entrusted to Nipani Industries (NI), Jabalpur on lowest tender basis by inviting open tender in three occasions. We observed the following deficiencies in execution of those projects.

Deficiencies in tendering

2.2.50 GoO instructed (January 2009) to host all tenders costing ₹ 20 lakh or above in the e-procurement portal and the Company also introduced e-tendering with effect from October 2009. The Company, however, did not invite e-tender in respect of 37 projects awarded (February-March 2010) to NI, despite the individual tender value of the works ranging between ₹ 4.73 crore and ₹ 12.53 crore. While accepting the facts the Management/Government stated (July and September/November 2011) that though the e-tendering process was adopted in October 2009, it took six months to abandon the manual process. The pre-engineered structures could not also be subjected to e-tendering due to non-completion of training of the staff for the purpose. The reply was silent on the reasons for Company's failure in providing necessary training to its staff for adopting e-tendering process.

2.2.51 As per the provisions of the OPWD code, the Company was required to maintain the Register of Tenders which should contain the chronological record of the issue of the tender forms showing the particulars of the persons to whom it was issued, the number of forms issued and the amount received. The Company, however, had not followed the same for reasons not on record. Further, as per provisions of the OPWD code, in case of tenders costing ₹ 50 lakh and above, the tender form should be sold to the contractors at the rate of ₹ 10,000 each along with four *per cent* VAT. We noticed that the bid documents were issued to the bidders without collection of value of bid documents amounting to ₹ 2.60 lakh.

2.2.52 As per provisions of the GFR, bid security (Earnest Money Deposit) of 2 to 5 *per cent* of estimated value of the bids was to be deposited by all the bidders. This condition was not, however, included in the bid documents so as to fully safeguard the interest of the Company.

2.2.53 The Company did not call for two part bid *i.e.,* technical and financial bids, while inviting the tenders as required under the General Financial Rules (GFR)/OPWD code. Instead, the bidders who were found suitable against the technical bid were only asked through e-mail to submit the financial bids.

[84] Reinforced Cement Concrete
[85] State Plan (16 plus 4), SIS (11) and SRE (22)

Further, signatures were not obtained from the bidders/their authorised agents as evidence of their presence at the time of opening the bid documents. The comparative statement was not signed by the members of the Tender Committee and even by the Financial Advisor of the Company despite being a member of the Tender Committee.

Deficiencies in preparation of estimates

2.2.54 The Company prepared (February 2010) estimates for construction of 12 Hundred-men pre-fabricated barracks with 7,228 square feet (sq.ft.) for each barrack on lump sum basis at ₹ 1,400 per sq.ft. in four districts[86]. The detailed estimates indicating the analysis of item wise rate and quantity of material were, however, not prepared and submitted for sanction as required under OPWD code. Consequently, the efficacy of the estimates for pre-fabricated structures could not be ascertained by us. The Management/Government stated (September/November 2011) that the estimation was benchmarked at a flat rate. The reply, however, was silent about non-adhering to the codal provision before going for tendering.

Preparation of estimates below actual

2.2.55 With a view to provide accommodation to a large number of State and Central Police forces in the wake of violence in Kandhamal district in August 2008, the Company placed (November 2008) work orders on Nipani Industries (NI) for erection of 16 Hundred-men barracks in Kandhamal district valued at ₹ 4.06 crore without preparing the estimates and receipt of AAs. Subsequently, the Company prepared (February 2009) the estimates of those portion of the works for ₹ 3.46 crore leading to short-provision of ₹ 0.60 crore. The works were completed in June 2009 by NI and handed over (February 2010 and November 2010). Thus, despite preparation of estimates after award of works, the short-provision of cost in the estimate led to loss of ₹ 0.60 crore. The Company had not claimed the loss so far (October 2011). No specific reply was offered by the Management/Government on the issue.

Award of pre-fabricated works at higher rates

Award of pre-fabricated work at higher rates resulted in extra expenditure of ₹ 1.72 crore

2.2.56 The Company issued (March 2010) work order to NI for supply of truss and Galvanised Corrugated Iron (GCI) sheet for erection of 21 pre-fabricated projects. The civil works of these projects were, however, executed departmentally. The reasons for separately executing the works of civil and pre-fabricated portions were not on record. The erection of truss and GCI sheet depended on completion of civil works. Further, the estimated cost of ₹ 750 per sq.ft. was not segregated towards cost of civil construction and cost of truss and GCI sheet. Due to non-segregation of estimated cost, the left over amount for civil work after meeting the cost of pre-fabricated structure works was insufficient to meet the cost of the civil works. Hence, the concerned Divisional Office of the Company expressed inability to execute the civil portion of work within the available funds. We further observed that though the Company was procuring the truss and GCI sheet at the rate of ₹ 189 per

[86] Gajapti, Koraput, Malakanagiri and Rayagada

sq.ft. for departmental execution of two projects during the same period, it procured the same through NI at higher rates of ₹ 304 to ₹ 367 per sq.ft. for 21 projects which led to extra expenditure of ₹ 1.72 crore. During the Exit Conference, the CMD assured (September 2011) to examine the issue.

Delays in erection of pre-fabricated structures

No penalty was imposed on the contractor despite delays in completion by 9 to 17 months

2.2.57 The Company adopted the erection of pre-fabricated structures with a view to limit the time over-run in completion of projects. As per the provisions of OPWD code, failure of the contractor to complete the work as per the time allowed would attract compensation at the rate of 1.5 *per cent* per month, which was to be computed on day basis subject to maximum of 10 *per cent* of tender value of the work. Further, guidelines of Central Vigilance Commission (CVC) stipulated that the liquidated damages/penalty for delayed execution was to be incorporated in the bid documents for safeguarding the interest of the Company since it had indirect financial implication in the evaluation of offers and execution of contracts. We noticed that none of the bid documents incorporated such important clause except in one case (four 150-men barracks at Chandaka). We observed that in case of four projects the completion schedule was revised from eight months in the bid documents to nine months as per the work order for reason not on record and included the penalty clause in the bid only upto five *per cent* of contract value, which was not in lines with the provision of the OPWD code. We further noticed that though all the 53 projects were scheduled for completion by November 2010, only 24 were completed after delays of 5 to 12 months, while the balance 29 were lagging behind the schedule by 9 to 17 months as of August 2011. Despite huge slippages, the Company had not analysed the reasons for delay and had not imposed the penalty on the contractors either due to absence of enabling provision in the work orders or due to absence of proper documentation for delays.

The Management/Government stated (July and September/November 2011) that for inability of the Company to hand over the sites which hindered the execution of work, penalty could not be imposed routinely. It further added that imposition of penalty on one of the contractors would be unduly disruptive, discriminatory and lead to litigation. The reply was not acceptable because on further verification, we noticed that in the case of four projects, though the sites were provided in March 2010 to NI, it failed to complete those projects in time and hence penalty of ₹ 26.83 lakh for delay should have been recovered from NI as per provisions of the contracts. Further, the contention of the Management in regard to non-inclusion of penalty clause in the work orders indicated the deficient contract management as well as the violation of the provision of the OPWD Code which benefited the contractor only.

Inventory Management

2.2.58 The Company procured materials for departmentally executed projects on project specific basis. Prior to July 2009, the Company purchased building materials against the tenders called by the Head office. In order to execute the projects in time and maintain quality and accountability, the Management, however, decided to decentralise the procurement of building materials and instructed (July 2009) all the DOs to float separate tenders for building materials at their level except for steel and cement which were to be purchased from well established companies.[87]

Procurement of Steel

2.2.59 The DOs procured (July 2009) steel from the authorised dealers of established companies like Steel Authority of India Limited (SAIL), Rastriya Ispat Nigam Limited (RINL) and Tata Iron and Steel Company Limited (TISCO). The rates of steel of different companies were different and they also offered different schemes with competitive rates against bulk purchase. Further, Orissa Small Industries Corporation Limited (OSIC), a State Public Sector Undertaking (PSU) company being the sole distributor of TATA TISCON rods of TISCO in the State of Odisha was selling steel rods to different Government agencies/departments under Project Sales[88] without any quantity restriction at rates which were generally lower than the retail prices of SAIL. Hence, it was beneficial for the Company to compare the suitability of OSIC project sale rates and SAIL retail rates on case to case basis, before procuring the material.

The Project Sales Rates of OSIC were generally cost effective in the Bhubaneswar and surrounding areas while in distantly located areas, the OSIC rates might be costlier due to inclusion of the transportation cost element. We observed that the Divisional Offices of the Company, except its Rayagada division, did not attempt to procure TATA TISCON rods from OSIC under the Project Sales. The divisions at Bhubaneswar and Cuttack purchased 2,761 MT of SAIL steel rods of different dimension during August 2009 to March 2011 at the rate of ₹ 35,400 to ₹ 47,400 per MT instead of procuring TATA TISCON rods from OSIC under Projects Sales at rates ranging from ₹ 35,174 to ₹ 45,152 per MT during that period resulting in extra expenditure of ₹ 28.21 lakh.

While accepting the facts that quality of steel of both SAIL and TISCO were equally good, the Management/Government stated (June and September/ November 2011) that the Company procured SAIL steel because of availability of steel of a particular specification on a particular day so as to avoid delay and also due to insistence of OSIC for advance payment. In the Exit Conference, the CMD stated (September 2011) that Joint Mangers would be directed to contact both OSIC and SAIL and to make a comparison before procurement.

Procurement of other Materials

2.2.60 The Company decentralised (July 2009) the procurement of materials (bricks, sand, metal, chips, etc.) at DOs level as per their requirement.

[87] Steel: SAIL, RINL and TISCO and Cement: ACC, Lafarge and Ultratech

[88] Project sale rate was applicable for non-Government consumers for lifting of minimum 25 MT to 200 MT per month. However, for Government authorities/Government undertakings the said rate was available without any condition on lifting of minimum material.

According to the modalities of procurement (December 2009), the DOs were to procure the materials through tender/quotations. Supply orders on the identified parties were to be placed for required quantities on the basis of indents received from the project sites. The rates so finalised by the Head Office (prior to July 2009) or by the DOs (post July 2009) were to be valid for one year. In case of failure of the suppliers to supply material within the stipulated date at their quoted rates, Earnest Money Deposits (EMDs) were to be forfeited and the suppliers were to be blacklisted. In this connection, we observed the following deficiencies:

- The Company did not put in place any system for assessing the requirement of materials before inviting tenders in order to obtain competitive prices of the materials for the departmentally executed projects. While accepting the facts the Management/Government stated (September/November 2011) that the BOQ was normally prepared for the projects having F2[89] agreements for floating tenders. However, they assured to prepare the BOQ for departmentally executed projects also. The reply was, however, silent on the reasons for not taking the corrective action earlier.

- As per the General Conditions of the Tender (GCT) the rates finalised through the tender for procurement of material would be valid for one year. We observed that the Company finalised the rates of materials for Chandaka, Jamujhari, Khurda and Bhubaneswar sites during March 2008, which were to be valid up to February 2009. The Company, in deviation to the GCT, allowed (July 2008) upward revision in the rates of materials for Bhubaneswar, Chandaka and Jamujhari sites to seven suppliers[90] instead of blacklisting them for not supplying material at their offered rate valid for one year. This resulted in an avoidable expenditure of ₹ 80.22 lakh on purchase of material during July 2008 to February 2009.

  The Management/Government stated (June and September/November 2011) that the Company was compelled to revise the rates of building materials since the enlisted suppliers had not supplied the material as per the rates finalised through tenders due to adverse market driven escalation. The contention was not acceptable since during the same period in case of Khurda site, the similar material was procured at the contracted rates without any revision.

Non-accountal of material at site

2.2.61 The Company used to procure building material for execution of projects and the material being delivered at site were booked to the concerned projects irrespective of their actual utilisation which resultantly inflated the on-going project costs. DOs did not properly maintain the stock records

[89] Item rate tender and contract for works in F2 forms
[90] Debsib Construction (P) Limited, Golak Bihari Pradhan, Jagdish Prasad Pattanaik , Mohan Sundar Jena, Pratima Stone Crushing Unit, Ray & Ray Construction , and Sashi Bhusan Gajendra

depicting the day-wise receipt and issue of material. We observed that in the case of 13 on-going/not-started projects, though stock valuing ₹ 2.28 crore remained un-utilised, the same was booked under concerned on-going projects and thereby inflated the position of 'Work-in-Progress' at the year end. Further, physical verification of the site stores was not conducted during the period of Performance audit.

The Management/Government stated (September/November 2011) that they could not maintain any central/divisional stores and did not see any problem in showing the expenditure as funds utilised. The reply was not acceptable since the procedure followed by the Company was contrary to provision of Accounting Standard-7 and the unutilised material at site booked to accounts as utilised could lead to pilferage.

Quality test of projects

2.2.62 Though the Company was engaged with the construction activities for more than three decades, the BoD only in March 2009 emphasised the need of the quality of construction which was reiterated in February 2010. The BoD directed that proper testing of construction materials to ensure quality and safety of projects be undertaken and to entrust quality check of some projects at random basis to Chief Engineer (Quality Control) under Works Department of GoO.

Quality test of projects was non-existent

We observed that the Company had not entrusted the job of quality test of projects as well as of building materials to the Chief Engineer (Quality Control) so far (October 2011). The Company also did not maintain any database as to the complaints received from the User Departments towards defective/low quality construction/use of low quality materials and corrective action taken there against.

Monitoring

2.2.63 To watch the physical /financial progress and timely completion of the projects under different schemes an effective monitoring was a pre-requisite. As per the guidelines of the Modernisation of Police Force (MPF) scheme, State Level Empowered Committee (SLEC) was constituted (May 2001) at GoO level to review the implementation of the scheme by meeting at least once in three months. The SLEC, however, met only on six occasions during 2006-11 but did not review the progress of work done by the Company. In January 2011, SLEC decided to regularly review the construction activities of the Company once in a month to ensure the completion of the projects in time. No meeting of SLEC, however, was held thereafter (September 2011).

Review of progress of works were not discussed at SLEC

2.2.64 The BoD in their meetings, though stressed upon effective and regular monitoring of progress of project works, had not reviewed the reasons for delay at different stages of execution of works. The progress of works under different schemes was reviewed at GoO level from time to time, but there was no prescribed periodicity for the same. During 2006-11, only 13 meetings were held, where mainly the review of progress of expenditure was discussed. No follow-up action on review meetings was documented.

2.2.65 BoD decided (September 2009) to execute an MoU with Karnataka State Police Housing Corporation Limited (KSPHC) with the approval of GoO for implementation of the Computerised Accounting System (CAS) so as to integrate progress of project execution to billing and ensure timely release of funds. Even after lapse of two years, instead of executing the MoU for adoption of CAS, the Company decided (July 2011) for implementation of ERP system at a cost of ₹ 3 crore for on-line Project Management System. Thus, due to delay in decision for implementing the CAS and non-implementation of CAS/ERP system so far, the Company failed to monitor the progress of projects on-line.

While accepting the facts, the CMD stated (September 2011) in the Exit Conference that the decision of the BoD to have a MOU with KSPHC did not receive the approval of GoO.

Internal Control

2.2.66 Internal Control System is an essential part of the Managerial Control System. An efficient and effective Internal Control System helps the Management to achieve the organisational objectives effectively and efficiently. The following deficiencies were noticed in the Internal Control System being followed by the Company.

Non-preparation of accounts and operating manual

2.2.67 The Company did not prepare the Accounts and Operating Manual as a result of which the different functions and activities of the Company could not be streamlined and systematised besides non-maintenance of uniformity at different levels of the Management. While accepting the fact, the Management/ Government stated (September/ November 2011) that there would be a systemic change with the implementation of ERP.

Irregular issue of Measurement Books

2.2.68 Acknowledgement of the receiver of Measurement Books (MBs) was not recorded and Check Measurement work was entrusted to Building Sub-Inspectors/APMs in violation of the provisions of the OPWD Code.

Non-handing over of MBs to the successors

2.2.69 As per the provision of OPWD code, payments made for execution of works were to be based on measurements recorded in the MBs and the return of the MBs was to be watched through Register of MBs. We observed that the ex-Deputy Project Manager, Balasore, submitted (March 2010) a Statement of Expenditure for ₹ 67.44 lakh relating to 15 projects without handing over the related MBs.

Improper maintenance of records

2.2.70 Though the Company adopted the Open Tender System for execution of works it did not maintain the Register of Tender Received as required under the OPWD code. Further, none of the five divisions covered under the Performance audit maintained project-wise stock books properly, as a result of which year-end closing balance of materials lying at different project sites could not be ascertained by us.

In the Exit Conference, the CMD stated (September 2011) that instructions had been issued for conducting physical verification of site stores and for maintenance of MBs properly.

Internal audit

Internal Audit was not effective

2.2.71 The Company did not have any Internal Audit Wing of its own. It engaged firms of Chartered Accountants for conducting Internal Audit for the routine account work such as preparation of Bank Reconciliation Statement and reconciliation of Advance to staff, Earnest Money Deposit, valuation of projects, Prior Period Items etc. Corrective action taken by the Management was not documented. The scope of Internal Audit did not cover the main areas of activities *viz.,* utilisation of materials, bills of contractors/ suppliers/ Architects, analysis of time and cost over-run and performance of contractors/job-workers. Despite the repeated comments of the Statutory Auditors during 2006-07 to 2010-11 to strengthen the Internal Audit, the Company had not taken effective steps to strengthen the same. The BoD also did not review the performance of Internal Auditors and pursue with the Management to improve this important control element. In the Exit Conference, the CMD stated (September 2011) that the matter for setting up an Internal Audit Wing would be placed before the BoD.

Acknowledgement

We acknowledge the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance Audit and the Entry and Exit conference.

Conclusion

- **The Company did not prepare the Annual Action Plan (AAP) for ensuring timely completion of projects nor did it fix any annual target in physical terms with respect to the AAPs of the User Departments. Funds towards project costs were obtained from User Departments based on the cost estimates prepared without physically verifying the actual site conditions. Consequently, execution of project was delayed leading to accumulation of huge idle funds.**

- **Annual budgets were prepared without obtaining any input from the GoO and without assessing the adequacy of budget proposals based on the physical parameters of the works. Further, the budget variances were not analysed.**
- **There were inordinate delays in commencement and completion/ handing over of the projects to the User Departments which were mainly due to deficiency in co-ordination between the Company and the User Departments/GoO.**
- **The estimates were not prepared based on ground reality. Several instances of preparing the deficient work estimates like, preparing estimates ignoring prevailing Schedule of Rates, adopting lump sum provisions for external electrification of works, inclusion of cost estimates in excess of the Administrative Approval work costs, etc., were noticed which led to huge financial loss to the Company.**
- **The internal control system and monitoring system of the Company were also deficient, which had adverse impact on the execution of projects.**

Recommendations

The Company may:

- **prepare Annual Action/Working Plan and set priorities for execution of works duly linked with the Annual Action Plans of the User Departments;**
- **prepare realistic estimates after considering all relevant factors to avoid cost over-run and accept funds towards project costs duly linked with actual progress of works;**
- **execute and hand over works as per schedule and within the cost provided in the Administrative Approvals; and**
- **strengthen the Monitoring and Internal Control Mechanism.**

2.3 The Orissa Mining Corporation Limited

Implementation of Systems, Applications and Products in Data Processing (SAP)

Executive summary

The Company, incorporated in May 1956 as a wholly owned Government Company for mining and selling of iron, chrome and manganese ores, implemented the System, Applications and Products in Data Processing-Enterprise Resource Planning (SAP-ERP) system in September 2004 with a view to streamline its production, sales and procurement activities. It incurred ₹ 11 crore towards implementation of five modules of the SAP-ERP system till March 2011. In order to examine the performance and effectiveness of the system it was desirable to conduct Information Technology (IT) Audit of 3 out of 5 modules of the SAP system during February to May 2011.

Production Planning in Sales Operation Module

The Company implemented this Production Planning in Sales Operation Module (PP-SOP) to facilitate capturing of daily posting of produced ore into the system which would give the stock overview on real time basis and better monitoring of sales activities. There were deficiencies in implementation of this Module with regard to input and validation control, customisation of accounting policies and limited use of the system in some key activities of production. The system was not customised to ensure timely posting of the materials into unanalysed and finished products as well as to prepare the bills of the raising contractors automatically on the basis of the production figures entered. As a result there was excess payment of ₹57.02 lakh to the contractor towards escalation charges in Khandadhar and Gandhamardan mines. Due to adoption of non-uniform rates for payment of wages escalation there was avoidable expenditure of ₹96.36 lakh in Gandhamardan mines. No alert was given in the system to restrict the production within the statutory limit as a result of which there was accumulation of stock valued at ₹ 82.68 crore.

Sales and Distribution Module

The Company implemented the Sales and Distribution (SD) Module for effective control on sale of materials. There were deficiencies with regard to defective customisation and deviations from the accounting policies etc. Due to defective customisation of SD Module, lifting of ore was made upto 29 days in advance in 386 cases before generation of Delivery Order. Delay in billing and delay in preparation of invoices by the Company resulted in loss of ₹10.30 lakh towards interest.

Non-implementation of SAP at weighbridges

The Company did not integrate the weighbridges into the SAP system for recording of the production quantity on real time basis and production figures were fed to the system manually. The weighbridge software was deficient with respect to input and validation control. During April to September 2010, material of 1,655 MT worth ₹ 64.31 lakh was despatched without being recorded in the system.

Financial and Controlling Module

Financial and Controlling (FICO) Module was designed for management of the processes involved in preparation of accounts. Defective customisation and absence of input and validation controls were noticed in the FICO Module. The system had not been customised for automatic adjustment of sale proceeds against the advance payment made by the customers. Due to non-generation of sales order and invoices for scrap sales in SAP system, advance received from buyers of scrap was credited to Sundry

Debtors Account. Lack of validation control and supervision to ensure the capture of narration in the text field compulsorily and correctly resulted in incomplete recording of transaction details for quality accounts. Valuation of finished goods was not done with the help of SAP system and calculation for finished stock was done manually for incorporation in the Annual Accounts.

Security Issues

The Company had not implemented a well documented IT Policy for important areas like User's Policy, Security & Backup Policy, Password Policy etc. There were irregularities in segregation of duties and responsibilities. Action needs to be taken to maintain User's database which should give complete and meaningful information.

Conclusion and Recommendations

The projected benefits of SAP could not be achieved to the full extent due to defective customisation of SAP with reference to the requirements besides deficiency in input and output controls which led to compromising with accuracy, reliability and integrity of data. Non-implementation of SAP at weighbridges also necessitated for manual input of data into the system as a result of which SAP-ERP system failed to meet the managerial and statutory requirements. The IT audit contains four recommendations for optimising the benefits of SAP system i.e., customisation and usage of the SAP system as per business/ statutory requirements, Government guidelines and policies of the Company; adoption of a suitable control mechanism for ensuring timely data entry to get real time information; integrating the weighbridges with SAP System; and formulation and implementation of a properly documented IT policy incorporating all the security related issues essential for continuity of the business.

Introduction

2.3.1 The Orissa Mining Corporation Limited (Company), incorporated (May 1956) as a wholly owned Government company, was engaged in mining of iron, chrome and manganese ores and selling/exporting minerals. The Company had the Head Office (HO) at Bhubaneswar and seven Regional Offices[91] (ROs) for mining operations in 23 mines and one shipment office at Paradeeep for handling export sale of minerals.

With a view to have an Integrated Information System across the Head office, Regional and Mining offices, the Board of Directors (BoD) engaged (March 2002) a consultant Dr. Krishna Sundar, Associate Professor of Indian Institute of Management (IIM), as the retainer Consultant. As recommended by the Consultant the System, Applications and Products in Data Processing (SAP) was found to be the best Enterprise Resource Planning (ERP) to meet the Company's requirements. The SAP implementation work was awarded to Bigtec Private Limited (BPL) in July 2004 to be completed by 30 April 2005 at a cost of ₹ 98.50 lakh. The 'Go-Live' dates for first and second phases of system were fixed as 24-31 January 2005 and 1 February – 1 March 2005 respectively. The implementation of ERP was aimed at:

- streamlining its production, sales and procurement processes;
- integrating all the functional areas such as Sales, Material Management, Finance and Production;

[91] Barbil, Bangur, Daitari, Gandhamardhan, JK road, Koira and Rayagada

- establishing standardised business processes, systems and management practices;
- reducing manual efforts by automated processes; and
- increasing customer services and responsiveness.

The Company commenced implementation of SAP-ERP in September 2004 and covered its entire business through five integrated SAP Modules[92] across all locations in a phased manner between September 2004 and November 2006. The SAP R/3 release version 4.7C had been installed on Windows platform and Oracle was used as Database Management System. The Company had incurred an expenditure of ₹ 11 crore towards implementation of the ERP-SAP till March 2011, which included the cost of additional software/hardware purchased and Annual Maintenance Charges paid during 2005-06 to 2010-11.

A brief outline of the different modules implemented is stated below:

Production Planning in Sales Operation (PP-SOP) Module

2.3.2 This module facilitates capturing of daily production of ore into the system, which gives stock overview of the marketable grade of ore mined on real time basis facilitating sale of materials.

Sales and Distribution (SD) Module

2.3.3 SD Module facilitates creation of contract at Head Office, sale order, financial document and billing at the Regional Office level and issue of delivery order at mines level online in the system and also facilitates capturing the status of lifting of material by the customers on real time basis.

Material Management (MM) Module

2.3.4 This module facilitates procurement of spares/equipment and services of works incidental to mining starting from the raising of purchase requisition, creation of purchase order, invoice verification and release of payments. Integration of MM with Finance and Controlling (FICO) module facilitates passing of information automated to Finance and reduce error.

Finance and Controlling (FICO) Module

2.3.5 This module ensures online posting and updating of General Ledger (GL) Accounts and Sub-ledger Accounts. Due to integration of functions of different departments automatic flow of documents from other modules was ensured. Further, online updating of GL Accounts, Trial Balance, Balance Sheet and Profit & Loss Account is generated at any time.

[92] Sales and Distribution (SD), Production Planning in Sales Operation (PPSOP), Material Management (MM), Finance and Control (FICO) and Human Resources (HR)

Human Resource (HR) Module

2.3.6 Implementation of HR Module facilitates processing of payroll, receipt and approval of loan applications, annual self appraisal through the online system. It also facilitates the employees in viewing their personal information such as salary slip, loan balance, leave balance etc.

Scope of Audit

2.3.7 The Information Technology (IT) Audit conducted during February to May 2011 covered the performance and effectiveness of 3 out of 5 modules namely Production Planning in Sales Operation (PP-SOP), Sales and Distribution (SD) and Finance & Controlling (FICO) modules of the SAP-ERP relating to five years ending 31 March 2011 including the aspects relating to integration of the legacy software installed at the weighbridges with the SAP system. The audit covered four[93] out of six working Regional Offices (ROs) based on the volume of production and sales.

Audit Objectives

2.3.8 The Performance audit was conducted with a view to assess whether:

- the projected benefits were achieved from the system;
- customisation in SAP was adequate with reference to the requirements;
- the input, processing and output controls were in place to ensure accuracy, reliability and integrity of data;
- the SAP-ERP solution met the managerial and statutory requirements of the Company; and
- an appropriate and well documented IT policy was in place on security related issues.

Audit Criteria

2.3.9 The audit criteria adopted for assessing the achievement of the audit objectives were:

- objectives set by the Company at the time of conceptualisation of SAP-ERP;
- corporate rules, procedures and guidelines/policies framed by the Company/Government;
- declared accounting policies; and
- best practices in IT development and implementation.

[93] Daitari, Gandhamardan, Khandadhar (Iron Ore), J.K. Road (Chrome Ore)

Audit Methodology

2.3.10 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were:

- study of minutes and agenda papers of the meetings of the BoD;
- study of the minutes of the Core Committee formed for implementation of the SAP-ERP;
- study of AS-IS study document as well as Business Blue Print documents ('To-Be' documents);
- data analysis of the standard and customised reports from the system using Computer Assisted Audit Techniques (CAAT);
- cross verification with records - manual and system generated; and
- interaction with the Management and issue of audit queries.

Audit Findings

2.3.11 We explained the audit scope, objectives and methodology to the Company during the 'Entry Conference' held on 21 February 2011. Subsequently, we had reported the audit findings to the Company and the Government in September 2011 and also discussed the same in the 'Exit Conference' held on 31 October 2011 which was attended by the Financial Advisor-cum-Joint Secretary, Department of Steel and Mines of the Government of Odisha (GoO) and the Managing Director (MD), of the Company. The Company also replied to the audit findings in October 2011. The views expressed and deliberations made by them have been duly considered while finalising this report. The audit findings are discussed in the subsequent paragraphs.

Production Planning in Sales Operation Module

2.3.12 The Company raises ore of different types mainly iron and chromite. The chrome ore was measured on volumetric basis and iron ore was measured on the basis of actual weighment at the weighbridges. The Company implemented PP-SOP Module to facilitate capturing of daily production of ore into the system which would give the stock overview on real time basis and better monitoring of the sales activities. In order to achieve this it was essential that the quantity of ores produced was directly fed into the system after actual weighment at the weighbridges, the data captured were accurate and free from errors and the software used had proper input and validation controls. Besides, the utilisation of the system by the Company to its full extent was also equally important for obtaining the optimum results of system implementation.

2.3.13 We observed that the Company used Legacy (LEO) software at the weighbridges for recording the production details like gross weight, tare weight, vehicle code, material code, party name[94] etc. A statement was generated from the system exhibiting party name, vehicle number, gross weight, tare weight and net weight from which a manual extract of party-wise material produced was prepared for entering into the SAP system. In the SAP system, the produced ore was first booked into unanalysed product (ZUNA) and after grade analysis the same quantity was posted into different categories of finished products (FERT) which was available for sale. The system generated different reports such as ZMOVE, MB51 and ZSTOCK[95] which were utilised by the Company for MIS purposes.

We observed deficiencies in customisation of accounting policies, non-use of the system in some key activities of production processes besides input and validation control in the system as discussed below:

Defective customisation

2.3.14 Customising the ERP package as per requirement and mapping the accounting policies was an important stage in implementation of the system. We observed deficiencies in customisation in the PP-SOP module, as discussed in the succeeding paragraphs.

Production booking of iron ore

2.3.15 The production of iron ore was booked on weighment basis. The produced ore was first booked into unanalysed product and after grade analysis the same quantity was posted into different categories of finished products. We observed that:

Non-customisation of SAP system to ensure timely posting of production quantity led to posting of bulk-quantity of production on a single day

- The maximum time allowed for posting of finished products was seven days from the date of posting into unanalysed products. The SAP system was not customised to ensure posting of the materials into unanalysed and finished products within the prescribed time limit. As a result finished products ranging from 1.00 lakh MT to 4.70 lakh MT were booked on a single day as against the average daily production of 8,863 MT and 9,476 MT in Gandhamardan and Khandadhar respectively as detailed below:

Year	No. of times the production quantity ranging from 1.00 lakh MT to 4.70 lakh MT booked in a single day	
	Khandadhar Mines	Gandhamardan Mines
2008-09	10	13
2009-10	8	10
2010-11	5	12

[94] Party name denotes Raising Contractors who are deployed in the mines for excavation of ore.
[95] The report ZMOVE generates production, sales and consumption report, MB51 generates movement of stock position and ZSTOCK generates the opening and closing stock of materials.

- The SAP system was not customised to capture the dates on which the samples of the unanalysed products were sent to the laboratories for grade analysis and the dates on which the analysis reports of finished products were received and matching them in the absence of unique tags.

  The Management stated (October 2011) that delays in posting of finished products against the unanalysed products were attributable to bulk-receipt of Chemical Analysis Reports of unanalysed products, non-availability of end users, connectivity failure, etc. It was also stated that capturing of date of sending samples to the laboratory and date of receipt of analysis report had no relevance to the objective. The reply did not address the fact that the system was not customised to capture the dates on which the samples of unanalysed products were sent and dates on which the chemical analysis reports were received to record the reasons for delay in posting. In the Exit Conference, the MD, however, agreed (October 2011) to explore the proposal.

- The system was not customised to calculate the bills of the contractors automatically on the basis of the production figures entered. The bills of the contractors were calculated outside the SAP system defeating the very purpose of the system.

  The Management stated (October 2011) that in SAP service entry sheet had to be done against the purchase order created for the contractor for the quantity delivered at the designated stack yard of the Company and after that the system generated the invoice/bill for release of payment to the Contractor. The contention was not acceptable as the quantity of ore delivered at the designated stack yard of the Company was not recorded timely in the system for raising the bills of the Contractor.

2.3.16 The above mentioned booking of production and defective customisation of the system resulted in excess payment to the Contractors in Gandhamardan and Khandadhar Mines as detailed below.

Irregular booking of production in the system resulted in excess payment of ₹ 57.02 lakh to the contractor

- As per the terms of agreement of the production contract, the contractor was eligible for getting payment at an escalated rate on Petrol, Oil and Lubricants (POL) and wage components when such rates were revised by the Government of India from time to time. We observed that in Gandhamardan mines 2,12,770 MT of ore produced in February 2008 was booked in April 2008 and 51,606 MT of ore produced in March 2010 was booked in April 2010. As the wage revision was applicable from April of the respective years, irregular booking of production in the system resulted in an excess payment of ₹ 6.07 lakh to the contractor.

- Similarly, in Khandadhar Mines although the revision of wages was effective from 20 May 2009, the entire production of 3.09 lakh MT for the month of May 2009 was considered for escalation. Similarly, 4.70 lakh MT of ore produced during the month of February and March 2010 was booked in April 2010. Such irregular booking of production into the system resulted in excess payment of ₹ 50.95 lakh on account of escalation of wages from April 2010 to the contractor besides understatement of closing stock by ₹ 14.95 crore as on 31 March 2010.

While accepting the facts, the Management stated (October 2011) that the matter was being examined for corrective action.

Production booking of Chrome ore

2.3.17 The production of chrome ore was booked on volumetric basis instead of weighment basis as done in case of iron ore. The weighment of chrome ore was done at the time of sale only. There was no control or mechanism in the system to ascertain the actual quantity of production of chrome ore. A test check of production data during April 2010 to March 2011 revealed the following:

No control in the system was in place to ascertain the actual quantity of production of chrome ore

- The contractor excavated 71,535 cum and 1,22,370 cum of chrome ore in August and September 2010 respectively, however, no production was booked during these months.
- The agreement with the raising contractor expired in December 2010. The production of 1,75,800 MT of earlier period was, however, booked against the contractor subsequently in January to March 2011.
- Although, on record, the stack numbers were maintained serially for sending the samples from the stack for grade analysis to the Government Laboratory, no physical stacking was available in the stack yard at South Kaliapani.

As chrome ore price was much higher than iron ore price, production of chrome ore was required to be recorded on the basis of weighment, which was more scientific and also followed in case of booking of iron ore. Further, regular booking of the chrome ore also needed to be ensured through SAP.

The Management stated (October 2011) that it was not possible to book the chrome ore on the basis of weighment as the freshly excavated ore contained high quantity of moisture which was allowed to be dried for few days. The reply did not address the fact that the volumetric measurement also failed to provide accurate figure of production in absence of proper stacking in the mines and there were instances of booking of ore even after the completion of the contract. In the Exit Conference MD stated (October 2011) that proper stacking were not maintained at the time of audit, however, from May 2011 onwards, proper physical stacking was being maintained for correct booking through volumetric measurement.

Defective customisation of price components

2.3.18 The Company fed the basic rates for raising ore into the SAP system at the Head Office (HO). Input for the escalation towards POL and wage components was, however, fed at the field office level despite connectivity between HO and field offices.

Defective customisation of price components into system led to excess payment of ₹ 96.36 lakh towards wages, contrary to agreement terms

We observed that the Company released payment to the Contractor (Kalinga Commercial Corporation Limited) in Gandhamardan Mines on the basis of the wage rates applicable to the Daily Rated Monthly Paid (DRMP) employees of the Company instead of the rate fixed by the Government of India (GoI), contrary to the contractual terms as followed in Khandadhar Mines and South Kaliapani Mines, where payment was made on the basis of the wage revision made by GoI. As the DRMP rates were higher than the GoI rates excess payment of ₹ 96.36 lakh was made to the contractor in Gandhamardan mines during the period from October 2006 to March 2011.

Thus, adoption of input of non-uniform base rates for payment of escalation towards wages by different mines resulted in avoidable expenditure of ₹ 96.36 lakh by the Company. Had the Company centrally input the escalation data which was available to them, for payment of escalated wages through the SAP system in line with the agreement, payment at higher rates could have been avoided.

While accepting the facts, the Management stated (October 2011) that due to lack of clarity in applicability of wages escalation in the agreement executed with the raising agency, excess payment was made to the raising contractor on account of escalation and it had taken necessary steps to rectify the same.

Defective customisation of MIS reports

2.3.19 The Company has customised five different MIS reports in the PP-SOP Module. On analysis of these reports we observed that none of the customised reports had been giving the accurate production figure. The key users of the PP-SOP module extracted data from different reports and compiled the same to arrive at the correct figures of production. We observed that in Khandadhar Mines, the production figures in the Annual Returns submitted to the Controller General of Indian Bureau of Mines (IBM) for the years 2008-09 and 2009-10 were different from the actual quantity of production as detailed below:

(Quantity in MT)

Year	Quantity of ore produced as per the returns submitted to IBM	Actual Production of ore (various sources)	Difference in production shown in the Returns
2008-09	23,99,900	25,18,146	1,18,246
2009-10	23,98,181	28,68,195	4,70,014

Due to defective customisation, MIS reports could not generate actual production quantity

The Management intimated (November 2010) that due to the Environmental Clearance (EC) limit to produce 24 lakh MT per year the production quantity was shown as 23,99,000 MT. We observed that though the system was capable of generating correct production figure, due to defective customisation, the MIS reports could not generate actual production quantity which led to manipulation of production quantity through manual intervention and resulted in understatement of closing stock and excess payment of wages to the Contractor as discussed in **Paragraph 2.3.16**. Besides, the Company was exposed against the penal action by Ministry of Environment and forest (MOEF), GoI under the provisions of Environment (Protection) Act, 1986.

The Management stated (October 2011) that they were expecting an enhancement in EC limit during that period which did not come up and stopping/controlling production all of a sudden in the mines being a Maoist prone area might have led to labour unrest. The reply was not acceptable as no control was built into the system to restrict the production beyond the EC limit. In the Exit Conference, the MD assured (October 2011) to incorporate control in the software so that production would not exceed the statutory limit.

Non-utilisation of SAP System

2.3.20 In order to achieve all the objectives envisaged in the implementation of ERP system it was imperative that capabilities of the system were utilised optimally. It was seen that the Company failed to achieve the envisaged benefits of implementing PP-SOP module in its production processes.

Non achievement of the objective of efficiency in production planning

2.3.21 In the Annual Reports of the Company it was stated that the implementation of PP-SOP module had facilitated creation of production plan for finished material in the system, material-wise and mines-wise separately so as to meet sales requirement. The annual plan was broken down to monthly plan and entered into the system. Updated stock overview facilities, sale of materials, MIS reports generated from the system, etc. facilitated the monitoring of the production activities and taking timely decision for achievement of production target.

No alert was given in the system to restrict the production within the statutory limit leading to accumulation of stock valued at ₹ 82.68 crore

We observed that though the statutory limit of production in Khandadhar mines was restricted to 24 lakh MT no alert was given in the system to restrict the production within the statutory limit as discussed in **Paragraph 2.3.19**. This indicated that the SAP system was not utilised to the full extent. Further, the annual production target of the contractor was revised[96] without analysing the sales requirement and even beyond the EC clearance limit of 24 lakh MT. This resulted in monthly average accumulation of stock of 26 lakh MT lying since April 2009 to February 2011 amounting to ₹ 82.68 crore in Khandadhar mines and the information being available in the system.

Thus, the Company failed to take the advantage of the system to regulate its production planning and restrict the production as per sales requirement as well as comply with statutory requirement.

While accepting the facts, the Management stated (October 2011) that action would be taken for implementation of the provision to generate appropriate alert/block of posting the production quantity beyond the statutory limit.

[96] Raised to 24.50 lakh MT, 26.50 lakh MT and 28 lakh MT against 20 lakh MT during the 3rd year (25 July 2007 to 24 July 2008), 4th year (25 July 2008 to 24 July 2009) and 5th year (25 July 2009 to 24 July 2010).

Sales and Distribution Module

2.3.22 The Company implemented Sales and Distribution (SD) module for effective control on sale of the materials produced right from allotment to lifting and billing. This required mapping of all activities of the sales and distribution function into the system.

The sales activities of the Company were mainly regulated by the Annual Sales Policy for different ores during a particular year. Based on the terms and conditions of Sales Policy, quarterly Price Setting Tender (PST) was made for finalisation of the price. After finalisation of the price a quarterly allotment was made to different buyers for lifting of ores. On the basis of quarterly allotment a sales contract was executed with the buyers in the system. In the SD module the quantity in the sales contract was entered into the system and subsequent operations like issue of sales order, delivery of goods and billing were done in the system with reference to the sales contract. The sales quantity was, however, arrived at based on weighment of materials with the help of other software such as LEO, TURBO, WEIGHSOFT, etc., installed at the weighbridges in the different mines. Daily lifting of materials, so arrived with the help of these software, were manually prepared and entered into the SAP system.

We observed deficiencies with respect to defective customisation, deviations to the accounting policies etc., which are detailed as under.

Defective customisation

2.3.23 To reap full benefits of any ERP solution it was necessary for the organisation to customise the software as per its requirement. Instances of defective customisation in SD module in SAP were observed as detailed below:

Lifting before delivery order

In 386 cases lifting of ore was made upto 29 days in advance before the delivery order was generated

2.3.24 As per the procedure, lifting of ore by buyers was allowed only after Delivery Order (DO) was made. Thus, in no case, lifting could be done before generation of DO. The SAP system was, however, not customised to check this validation. We observed that, in 386 out of 54,815 cases during the period 2007-08 to 2010-11, lifting was done in advance for a period upto 29 days before the DO was generated.

While accepting the facts, the Management stated (October 2011) that clear cut guidelines had been issued to the field offices to allow delivery only after generation of DO.

Deviation from the Accounting Policies

2.3.25 As per the declared Accounting Policy of the Company, domestic sales were recognised based on the dates of lifting of ore from mines by the buyers. In actual practice, the buyers did not lift the material in a single day and lifting was done gradually over a period of time. In the SAP system, sales were, however, recognised when the Post Goods Issue (PGI),[97] which was done after the last date of lifting of the material by the buyers as PGI would freeze the lifted material in the DO. Such type of practice not only violated the Accounting Policy of the Company, but also resulted in non-updating of the Stock Account and recognition of Sales only after last day of the lifting though the buyer had already lifted substantial quantity before that date.

Delay in billing resulted in loss of interest of ₹ 10.30 lakh

On analysis of the daily DO-wise lifting for the period from 2007-08 to 2010-11, we observed that PGI was done for the quantity ranging from 435.62 MT to 27 lakh MT after a gap of 1 to 60 days from the date of actual lifting. Such practice also resulted in loss of interest to the Company where sale of ore was effected against the Letter of Credit (LC) due to delay in realisation of sales value. During the period 2007-08 to 2010-11, the Company lost ₹ 10.30 lakh[98] towards interest due to the practice of delay in billing followed by the Company, which was also in contravention to the Accounting Policy of the Company.

The Management stated (October 2011) that the present system of PGI did not affect the stock account as the quantity lifted on daily basis was deducted from the actual storage and added to the logical storage called STGE. The reply overlooked the fact that the system of depiction of movement of stock was not reflected in the stock ledger account, unless PGI was made. In the Exit Conference, the Management, however, assured (October 2011) to carry out necessary changes in the Accounting Policy.

Delay in preparation of invoices

Sales invoices were generated with delays upto 35 days from the date of PGI

2.3.26 The Company did not put in place any guideline for time-bound preparation of invoices. The system was also not customised with the control mechanism to force the end-users to make timely preparation of sales invoices after lifting of materials by the customers. Considering maximum seven days allowed for receipt of the Chemical Analysis Report of ore as per the Accounting Policies of the Company and one day for billing, the invoices should have been raised within eight days from the date of lifting. We observed that despite an automated system in place, the sales invoices were generated with delays upto 35 days from the PGI date, as detailed below:

Year	Total No. of Invoices raised	No. of cases where invoices were raised after eight days	Delay range in number of days
2008-09	3,187	627	1 to 27 days
2009-10	3,262	555	1 to 35 days
2010-11	3,128	326	1 to 12 days

[97] PGI was done to give effect to stock after lifting was completed.
[98] Interest calculated at the rate of eight *per cent* per annum after considering eight days for Chemical Analysis from the date of lifting.

While accepting the facts the Management stated (October 2011) that adequate monitoring was being carried out at the Head Office level to avoid instances of delays in preparation of invoices and the number of such cases was on the reducing trend.

Non-implementation of the SAP at weighbridges

2.3.27 The Company had not implemented the SAP system at the weighbridges where the productions as well as the sales quantity were measured. The production/sales figures were entered into the SAP system manually by extracting the figures generated in the Legacy Software such as LEO, TURBO, WEIGHSOFT installed at the weighbridges.

2.3.28 In order to integrate the weighbridges into SAP for real time and online operation and monitoring of all the weighbridges, the Company awarded (November 2005) the work for detailed feasibility study to Tata Consultancy Services (TCS) at a cost of ₹ 0.72 lakh. TCS in its report (December 2005) suggested the Company to explore the possibilities for integrating weighbridge system to SAP system as manual system was disadvantageous due to:

- possibilities of errors during data collection at weighbridge system and entry in SAP;
- inconsistency in data availability in weighbridge system and SAP System; and
- time lag in capturing data in weighbridge system and SAP system.

The Company did not take initiative to integrate the weighbridges into SAP system despite payment of ₹ 0.72 lakh to the consultant

We, however, observed that the Company did not take initiative to integrate the weighbridges into the SAP system despite elapse of six years after engaging a consultant at a cost of ₹ 0.72 lakh so as to reduce the manual efforts and to give real time and reliable information to the Management**.**

While accepting the facts, the Management stated (October 2011) that it was pursuing the issue for integration of weighbridges with SAP system or having a standalone integrated software to log data on real time basis which could also be visible across the Company. The reply was, however, silent on the reasons for not initiating any action for six years after submission of the Feasibility Study Report of TCS (December 2005). This led to non-availability of production/sales data on real time basis as manual postings were made for production and sales quantity after the data generated from the weighbridges.

We further observed that the Legacy System did not have proper input/validation control as test check of data in respect of 3 out of 4 unit offices[99] test checked revealed the following irregularities.

Deficiencies in production weighbridges

2.3.29 The Company had engaged raising contractors for raising and transport of the excavated ore in their vehicles which pass through the weighbridges to

[99] Daitari, Gandhamardan and Khandadhar

the stock yard. We observed that the Company had not made any time analysis so as to ascertain the minimum time required for round trip of a vehicle. The software installed at weighbridges had no input control due to which a particular vehicle could make a second trip within an unattainable time period[100].

We further observed that 4,717 out of 3,38,121 trips involving transportation of 1.10 lakh MT of materials were made during the year 2009-10 and 2010-11 within an unattainable time period in three unit offices as detailed below:

Name of the unit	No of trips	Quantity (in lakh MT)	Time limit considered by audit
Gandhamardhan	1,143	0.34	10 minutes
Khandadhar	3,500	0.75	5 minutes
Daitari	74	0.01	1 hour

Due to lack of input control, accurate recording of weighment quantity could not be ensured

There had been no proper input control in the Legacy System to generate alert messages at the time of weighment of the vehicles within an unattainable time. Due to lack of input control, accurate recording of weighment quantity could not be ensured.

While accepting the facts, the Management stated (October 2011) that wrong entry of vehicle registration numbers in the weighbridge software by the end-users and breakdown of a loaded truck might lead to achievement of round trip transport within unattainable time period. It was also assured that the matter was being examined and necessary action would be taken to avoid recurrence of the same.

2.3.30 The system accepted gross weight, though no tare weight was recorded in 34 out of 3,95,572 cases test checked. Similarly, the net weight was wrongly calculated by the software in five cases in Khandhadhar Mines for quantity ranging from 115 kg to one MT which was indicative of lack of input control to prohibit manual intervention/manipulation.

While accepting the facts, the Management stated (October 2011) that earlier practice of taking tare weight once in a week to expedite production had been done away with and action had been taken for daily recording of tare weight of each vehicle at least once in each shift.

2.3.31 In 4 cases out of 42,747 cases test checked by us, the final weighment slip was generated, though party code and material code were absent and in eight cases, wrong material/party code was entered, which was manually rectified in the printout in Daitari unit.

While accepting the facts, the Management stated (October 2011) that necessary steps were being taken to make the party code and the material code fields mandatory to create weighment slips.

[100] Unattainable time denotes the time within which it is impossible on the part of one vehicle to come for second time after unloading ore of the first trip.

2.3.32 Tare weight was recorded as gross weight in four cases in Daitari unit and two cases in Gandhamardhan. The Management attributed (October 2011) this to manual error and assured to take necessary steps to avoid reoccurrence of the same.

2.3.33 The software installed at weighbridge in one unit accepted minus figure (-120 Kg) as net weight. The Management stated (October 2011) that the old version of the LEO software could have accepted minus figure and assured to take steps to standardise the software.

2.3.34 In order to ensure correct weighment of production quantity, tare weight of the vehicles engaged in transportation needed to be taken on daily basis. As the software did not have validation checks to ensure this, the tare weights were not taken regularly. A test check of trip wise movement of vehicles during the year 2009-10 in Khandadhar mines revealed that out of 1,11,770 trips, tare weight was taken in 181 trips only. This might lead to incorrect recording of the production quantity.

While accepting the facts, the Management stated (October 2011) that action had been taken for daily recording of tare weight of each vehicle at least once in each shift.

2.3.35 We observed that the LEO software auto generated serial numbers for each weighment. Hence, serial numbers should be continuous and without any gap in between. There was, however, gap in serial numbers in 89 cases in two unit offices [101] during 2009-10 and 2010-11, which indicated strong possibilities of deleting the records manually from the database.

While accepting the facts, the Management stated (October 2011) that steps were being taken to standardise the software used at all the weighbridges with all necessary functional and non-functional features.

Deficiencies in sales weighbridges

2.3.36 As the software had no input control, the vehicles could take second trip within a very short span of time. Our test check of the trip wise movement of vehicles during 2009-10 and 2010-11 revealed that the vehicles made the second trip within unattainable time period in 342 instances, which indicates the possibility of the materials not reaching the destination. During the course of IT Audit, following further deficiencies were noticed, which were indicative of absence of the input control mechanism in the softwares installed in sales weighbridges:

The weighbridge software was deficient with respect to Input and validation control

- Due to absence of input control, the vehicles were allowed to carry load beyond the maximum legal permissible limit in seven cases and was accepted in the system.
- Vehicle numbers were erroneously entered in 144 cases in absence of proper validation control.

[101] Daitari and Gandhamardan

- The weighbridge software could not enforce entry of tare weight of vehicles for each trip and the same was left to the discretion of the user. While in JK Road and Gandhamardhan, trip-wise tare weight was being taken, in Khandadhar mines, the system of recording trip-wise tare weight was made only after October 2010.

  In case of Khandadhar mines, a comparison of average tare weight taken in a period, when it was not done on regular basis (April to September 2010), with the period when recording of tare weight was taken more rigorously (*i.e.*, after October 2010), revealed that the average tare weight was higher during April to September 2010 i.e., the period when regular tare weight was not taken. This was indicative of transportation of 1,655 MT of material worth ₹ 64.31 lakh[102] without being recorded in the system. Further, as the software had no input control, no trip-wise tare weight was taken in 195 cases even after the system of recording the trip-wise tare weight was commenced during the period October 2010 to March 2011.

There was transportation of material worth ₹ 64.31 lakh without being recorded in the system

- In Gandhamardhan mines, the weighbridge software (WEIGHSOFT) had the provision for entry of details of DO number generated from SAP, so that lifting could be monitored at the weighbridge end against a particular DO. No input/validation control was, however, inbuilt in the software in this regard, due to which the following irregularities occurred:
  - Lifting of 12,221 MT of material was allowed by entering dummy DO numbers in 16 cases, which was subsequently entered into the SAP system by pulling out DO's of later date;
  - Lifting was done by two buyers against one DO;
  - Expiry date of DO was before their issue date in six cases;
  - Lifting was done after the expiry date of DO in 2,847 cases; and
  - DOs having same number but different issue dates were noticed in 22 cases whereby uniqueness of the transactions could not be ensured.

In the Exit Conference, the Management stated (October 2011) that the deficiencies would be addressed after integrating the sales weighbridges with the SAP system.

Security and back up issues of the Legacy Software

2.3.37 Although the data backup of the SAP system was taken by the Company there was no system of taking the backup data of the Legacy Softwares installed at the weighbridges. In Daitari Mines sales data backup was not available with the Company, whereas backup of the production/sales

[102] This has been worked out on the basis of average sales price of iron ore (10-40 mm +62 Fe) for the period from April to September 2010.

data was available for an intermittent period in South Kaliapani, Daitari, Gandhamardan and Khandadhar Mines.

Poor security features in the database indicate the possibility of unauthorised access to the database

2.3.38 Analysis of User Tables revealed that the default user_id and password remained same in four selected units. Consequently, the chances of unauthorised access to the database and manipulation of data could not be ruled out.

The Management stated (October 2011) in the Exit Conference that suitable instructions would be issued for taking data backup of the Legacy Software by deputing designated persons from the Regional Office level.

FICO Module

2.3.39 FICO module was designed for management of the processes involved in preparation of accounts. It was inter-linked with all the modules in the SAP system and consolidates all the financial information to generate the Financial Statements of the Company. Deficiencies observed in the FICO module are stated below:

Defective customisation

2.3.40 Customising the ERP package as per requirements and mapping the Accounting Policies was an important stage in implementation of the system. We observed defective customisation in FICO Module with respect to various issues as detailed below:

- Out of 962 General Ledger (GL) codes created by the Company multiple codes were created for the same type of accounts in 32 cases. Though the Company blocked the duplicate codes in 20 cases for posting, it did not block the Input Screen, as a result of which the end user was given option for two account codes for the same type of account. In 12 other cases, the duplicate codes of accounts were still active and not blocked, out of which in six cases, transactions were entered in both the codes.

  While accepting the facts the Management stated (October 2011) that action was being taken to replace "GL Text" with "Block Text" for 20 GL codes.

Due to defective customisation there were inaccuracies in the figures of 'Sundry Debtors' and 'Current Liabilities' to the extent of ₹ 39.17 crore in 2009-10

- The system had not been customised for automatic adjustment of sale proceeds against the advance payment made by the customers. Thus, the adjustment was being carried out manually, which led to delay in adjustment in 'Sundry Debtors' and 'Current Liabilities'. As a result, 'Sundry Debtors' and 'Current Liabilities' were overstated by ₹ 35.09 crore during the year 2009-10.

  The Management stated (October 2011) that action would be taken for the required improvement.

Similarly, due to non generation of sales order and invoices for scrap sales in SAP system, advance received from buyers of scrap was credited to sundry debtors account instead of advance against customer/buyer accounts. This resulted in understatement of 'Sundry Debtors' and 'Current Liabilities' by ₹ 4.08 crore during 2009-10.

The Management stated (October 2011) that adjustments had been carried out in almost all the old cases and efforts were taken for generation of scrap sales orders/invoices in the system subject to further test checking by other modules.

Non-clearance of intermediary accounts

Due to lack of proper monitoring ₹ 46.71 crore was pending for clearance as on 31 March 2011

2.3.41 Goods Received/Invoice Received (GR/IR) account was an intermediary account used for payment against goods/services received and should have been cleared immediately. Analysis of the GL code for GR/IR services, however, revealed that ₹ 46.71 crore was pending for clearance as on 31 March 2010 indicating lack of proper monitoring by the Company. The Management stated (October 2011) that steps would be taken to analyse and adopt GR/IR clearing process as well as to examine the residual balances for clearance.

Similarly, 'Sundry Debtors' included a customer code "DUMMY" amounting to ₹ 0.43 crore as on 31 March 2010. Though such code was created at the time of uploading the data during 2004-05, it was not reconciled (October 2011). The Management stated (October 2011) that the rectification entry would be passed after reconciliation.

Non-use of text field of transactions

2.3.42 SAP had provision for entry of transaction details in the text field for every transaction affecting the GL codes. This detail helped in bringing more objectivity and clarity in general ledger accounts. We observed that text field in respect of 2,216 Journal Entries passed in the system during April to October 2010 was blank. This could have been avoided by a validation control at the Head Office level. Lack of validation control and supervision to ensure the capture of narration compulsory and correctly resulted in incomplete recording of transaction details for quality accounts.

The Management stated (October 2011) that the text-field which was not showing text was usually system generated and auto posted. It was also stated that the possibility of incorporating the auto text into the system would be explored.

Valuation of finished goods

2.3.43 Valuation of finished goods was not done with the help of the SAP system. We observed that, though all the inputs required for calculation of valuation of Closing Stock were derived from SAP, the calculation was done

Valuation of finished goods was not done through SAP resulting in variance in the value of Closing Stock by ₹ 5.77 crore

manually and subsequently incorporated in the Annual Accounts of the Company. Non-utilisation of the system left room for manipulation in valuation of Closing Stock. Scrutiny of the manual calculation of valuation of Closing Stock during 2009-10 revealed that the Company calculated the value of Closing Stock based on minimum of the average cost and average selling price on 'region basis' instead of 'mines basis' resulting in variance of Closing Stock by ₹ 5.77 crore.

The Management stated (October 2011) that steps were being taken to find out some 'good SAP consultant' to map this requirement as the initial implementation partner as well as TCS failed to map the same into the system. It was also added that during the year 2010-11, the valuation of Closing Stocks had been made based on the minimum of average cost and sale prices on mines basis.

Calculation of Accrued Interest on Fixed Deposits

Calculation of accrued interest on fixed deposits was done manually outside SAP

2.3.44 Calculation of accrued interest on Fixed Deposits was being done manually outside SAP using 'MS Excel' which might lead to errors of omission and commission. We observed that due to calculation of accrued interest manually, the Company accounted excess accrued interest of ₹ 4.58 crore during 2007-08, which was rectified through 'prior period adjustment account' during 2008-09. Similarly, during 2009-10 accrued interest of ₹ 2.76 crore had not been accounted for.

The Management stated (October 2011) that the implementation partner and TCS failed to meet their requirement and steps were being taken to formulate a suitable policy for mapping this requirement into the system.

Asset Accounting

2.3.45 Asset accounting was one of the important part of FICO module, which was used to manage and document the details of Fixed Asset transactions. Defective customisation, deviation from Accounting Policies, absence of Input and Validation Controls were noticed in the FICO Module as stated below:

There was defective customisation, deviation from Accounting Policies and absence of Input and Validation Controls in the FICO Module

- For calculation of Depreciation, individual assets were booked under 32 broad groups based on the nature of assets. Hence, assignment of a particular asset to a particular group needs to be validated in the system for correct calculation of Depreciation. Due to lack of adequate validation checks, same type of assets were misclassified and booked under different asset groups in 12 cases resulting in undercharge of Depreciation by ₹ 21.71 lakh.

- Due to defective customisation, Depreciation rate applicable for Heavy Machinery was wrongly charged at the rate of 13.91 *per cent* instead of applicable rate of 30 *per cent* resulting in understatement of Depreciation by ₹ 43.35 lakh, with corresponding overstatement of Profit by the same amount for the year 2009-10. This indicated incorrect mapping of Depreciation rates with the asset class and master data was not adequate.

- SAP provided fields for asset description. In 211 cases, assets valuing ₹ 30.31 crore were, however, created without complete description due to lack of Validation Control.

- As per Accounting Standard-6, effects of change in Deprecation rate were to be given in the year in which Deprecation rate was changed. Due to defective customisation, the Company was unable to give effect to the changed rate of Depreciation from the year of change in the rate.

- As per Companies Act, 1956, Assets valued at less than ₹ 5,000 should be fully depreciated during the year of acquisition. The system had, however, not been configured to automatically carryout this task and due to this, 14 assets were hundred *per cent* depreciated though their value was more than ₹ 5,000 resulting in overcharging of depreciation by ₹ 4.81 lakh.

- As per the Generally Accepted Accounting Principles, each asset should be separately entered into the Asset Register having a distinct asset number, location etc. In 544 cases Assets were, however, clubbed together and assigned a single asset number, although the SAP system had a provision for recording each asset separately.

- The system had not been configured to generate the schedule of Fixed Assets forming part of the Balance Sheet. This was being done manually leading to wrong reporting. The system balance of Plant & Machineries WIP, shown as Motor vehicle WIP, in the schedule up to 2008-09 was rectified in the year 2009-10. Similarly, transactions in respect of 'Roads WIP' were wrongly included under 'Building and Township WIP' in the schedule of Fixed Assets.

- As per the provisions of the Companies Act, 1956, the assets should be depreciated upto maximum of 95 *per cent* of their cost and balance 5 *per cent* of assets costs should be treated as their residual/scrap value. Though SAP provided for entry of residual/scrap value of the assets, the same was not entered into the system.

While accepting the facts, the Management stated (October 2011) that necessary rectifications had already been made in respect of observations relating to defective customisation of Depreciation rates applicable to Heavy Machineries, Assets costing less than ₹ 5,000 and incorrect depiction of WIP Assets in the Balance Sheet. For the remaining observations the Management stated that corrective action would be taken to improve the system.

Vendor Management

2.3.46 The Company put in place a policy for creation of Vendor Master Data. Different User Departments created 9,156 vendor records. We observed that the Vendor Master Data contained records carrying incomplete addresses. Data relating to 635 vendors were maintained without address or with incomplete address. This indicated absence of Validation Control which should be in place while entering/updating Master Data.

The Management stated (October 2011) that above mentioned mistakes occurred at the time of initial implementation ('Go-Live' period) of SAP system. The reply was not acceptable as aforesaid deficiencies in the vendor records persisted even after the period of 'Go-Live'.

Security Issues

2.3.47 Well documented IT Policy covering areas like Users' Policy, Security & Backup Policy, Password Policy and Disaster Recovery Policy were essential for the continuity of any business. The Company, however, was yet to implement an IT Policy covering such important issues (October 2011).

Segregation of duties

2.3.48 In SAP environment, emphasis should be given to proper segregation of duties and responsibilities. In order to have effective check and control, one user should not be authorised to access more than one related transaction. Due to non-segregation of duties there was absence of checks and internal control as observed in the following cases:

- Five users were authorised to create the Purchase Orders as well as to approve and release the same.
- Twelve users were authorised to receive goods and also to post invoices in the system.
- Nineteen users were allowed to create Purchase Orders as well as enter receipt of goods.

The Management stated (October 2011) that user authorisation had been restricted to specific plants/regions and no user could transact other than the plants/regions under his jurisdiction. The reply was not acceptable as the Company should segregate the duties of users within a region/plant also.

Roles and Authorisations

2.3.49 SAP recommended for not assigning the authorisation to any of the Users and creating only one User with this profile. It also recommended that instead of using SAP_ALL profile, authorisation should be distributed to the appropriate positions. Hence, individual Roles and Authorisations needed to be assigned to the authorised Users so as to ensure better Internal Control Mechanism. However, we observed that Profile SAP_ALL were assigned to 13 R/3 users.

The Management stated (October 2011) that Key Users were assigned SAP_ALL profile so that they would be able to perform their duties smoothly.

The reply was not acceptable as SAP had recommended that authorisation should be distributed to the appropriate positions only.

Incomplete Users' database

2.3.50 The Users' Master Database was not maintained properly. In respect of 81 out of 138 cases, first_name, last_name and department field were provided with incomplete information. In 36 cases, multiple names were provided against one user_id. In 80 cases, the users_valid_upto date was mentioned as 31.12.9999. Incomplete user database risks accountability of the transactions entered into the system.

The Management stated (October 2011) that action was being taken to configure the User Master Database as per the role assigned to the person in the system instead of person name which would be consistent throughout the entire period.

Absence of password policy

2.3.51 We observed that several users were sharing one user ID. In the absence of any documented security/password policy sharing of the user-id and password left the users without any individual accountability. Further, the System was not configured to compel the users to change their password regularly.

The Management stated (October 2011) that action had already been taken to impose mandatory change of password at regular interval.

Non-implementation of the Audit Information System

2.3.52 SAP Audit Information System (AIS) serves as a centralised repository for reports, queries and views of interest to auditors and also maintains log and audit trail. It was designed to address the overall system configuration as well as SAP business processes and their related control features, providing audit and security practitioners with the critical information they need to conduct effective reviews of their SAP systems. SAP administrators can use AIS for security auditing. The AIS plays a supportive role in providing security services for SAP systems. The Company had not implemented this module.

The Management stated (October 2011) that the feasibility and the impact of implementation of AIS module would be explored and suitable action taken accordingly.

Users' Training

2.3.53 In order to ensure smooth functioning of an IT system, it is necessary that the users associated with the system need adequate and continuous training in the relevant functions. The Company, however, did not assess the training requirement of end-users periodically to formulate Annual Calendar of the training programme for the end users. The Company had 19 weighbridges in the four selected Regional Offices. The users of those weighbridges were, however, not imparted training for operation of weighbridge software which resulted in wrong input of tare weight, gross weight, party name, vehicle number, material code etc., discussed in **Paragraph 2.3.22**. Further, deficiencies *viz.,* irregular production booking, delay in invoice preparation, entry of document date and posting date of a financial transaction, improper use of the text field, entry of incorrect asset descriptions etc., which could have been reduced by imparting required training to end-users.

In the Exit Conference, the Management stated (October 2011) that no such Annual Calendar of Training Programme was prepared at the Head Office level and assured to formulate the same.

Acknowledgement

We acknowledge the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the IT Audit and the Entry Conference and the Exit Conference.

Conclusion

- **The projected benefits of SAP could not be achieved to the full extent due to defective customisation of SAP with reference to the requirements;**
- **Input and output controls in SAP were deficient, which led to compromising with the accuracy, reliability and integrity of data;**
- **Non-implementation of SAP at weighbridges necessitated manual input of data in the system. Due to this, the SAP-ERP solution failed to meet the managerial and statutory requirements with regard to generation of MIS Reports, accounting of sales in lines with the accounting policy, calculation of depreciation as per the requirements of the Companies Act, 1956, etc.; and**
- **A well documented IT policy was non-existent leading to threats on security related issues.**

Recommendations

The Company should consider:

- **customisation and usage of the SAP system as per business requirements, statutory requirements, guidelines of the Government and policies of the Company;**

- **to adopt a suitable control mechanism for ensuring timely data entry to get real time information;**
- **the integration of the weighbridges with the SAP System; and**
- **to formulate and implement a properly documented IT policy incorporating all the security related issues, which were essential for continuity of the business.**

The matter was reported to the Government (September 2011); their reply had not been received (October 2011).