

CHAPTER-IV

4. Performance Audit relating to Non-Power Sector Company

Activities of Odisha State Seeds Corporation Limited

Introduction

4.1 Seed is the basic and primary input for agricultural production. Efficacy of other agricultural inputs⁷⁸ is largely determined by the quality of seed. Quality seeds alone can increase the production to the extent of nearly 20 *per cent*⁷⁹. It is, therefore, important that quality seeds are made available to the farmers.

Odisha State Seeds Corporation Limited (OSSC) was incorporated (24 February 1978) as a State Government Company under the Companies Act, 1956. The main objectives of OSSC *inter-alia* includes production, processing, storage and distribution of certified seeds to the farmers at reasonable prices. OSSC organised seed production programme through seed growers at various places in the State of Odisha. The unit offices were primarily engaged in executing the seed production programme.

Seed production and distribution process

4.1.1 Breeder seeds⁸⁰ constitute the basis of seed production. Breeder seeds were provided by institutions under Indian Council of Agricultural Research (ICAR) and State Agricultural Universities. OSSC sold breeder seeds to the registered⁸¹ seed growers and Government firms in the State to produce foundation seeds⁸². Foundation seeds were supplied to the registered seed growers to produce raw seeds. Raw seeds were processed in the processing plants. Processed seeds were then certified by Odisha State Seed and Organic Products Certification Agency (OSSOPCA), a State designated authority for seed certification for ultimate distribution to farmers. The seed development process is depicted below:

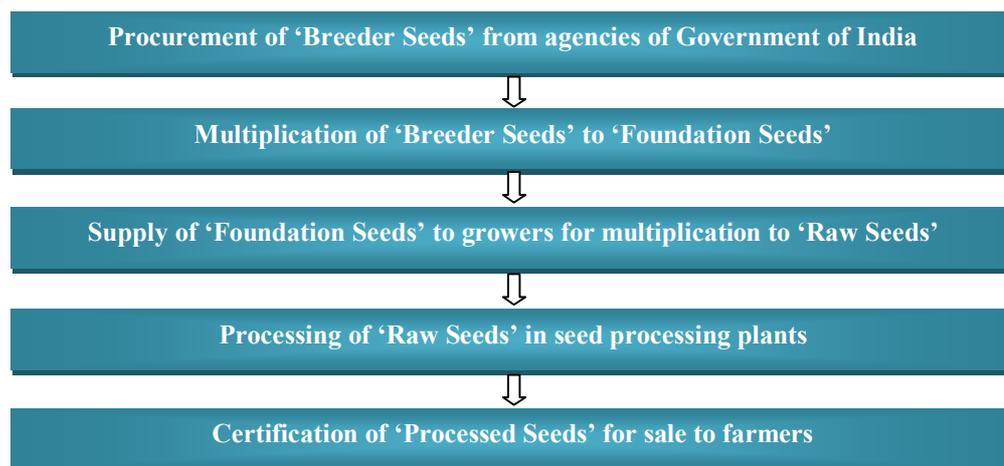
⁷⁸ Fertilizers, pesticides, micro nutrients, agricultural implements and irrigation etc.

⁷⁹ As per State Agriculture Policy, 2013

⁸⁰ Breeder seeds are genetically pure seed used for producing foundation seeds

⁸¹ Registered with Odisha State Seed and Organic Products Certification Agency (OSSOPCA) to carry out seed multiplication programme under the banner of OSSC.

⁸² Foundation seeds have genetic purity of 99 *per cent* and are used for producing certified seeds



4.1.2 OSSC fixes the procurement price of certified seeds on the basis of recommendation of Pricing Committee⁸³ considering the Minimum Support Price of crops fixed by Central Government or prevailing market price whichever is higher as base price. To this, the cost incurred by the growers till certification of seeds is also added. GoO revised (October 2015) the price fixation formula for procurement of seeds as per which, procurement price was fixed by adding a fixed percentage⁸⁴ to the base price towards cost incurred by the grower for production of seeds.

Similarly the selling price of seeds to farmers was fixed by the State Seed Pricing Committee⁸⁵ taking the procurement price as a base price and adding thereto different costs⁸⁶ incurred by OSSC to make the seed saleable, at the all in cost price. Subsidy component is reduced from this price to arrive at the sale price of seeds to the farmers.

Organisational Set up

4.2 The management of OSSC was vested in a Board of Directors (BoD) consisting of 13 Directors including the Chairman and the Managing Director (MD). OSSC is under the administrative control of the Department of Agriculture and Farmers' Empowerment, GoO. The MD being a full time Director looked after the day to day affairs of OSSC. The MD was assisted by four officers *viz.*, (i) Production Manager, (ii) Processing Manager, (iii) Marketing Manager and (iv) Company Secretary (who was also head of Finance and Establishment). The Production Manager was assisted by the Seed Production Officers who headed each of the seven units of OSSC to look after the field operations.

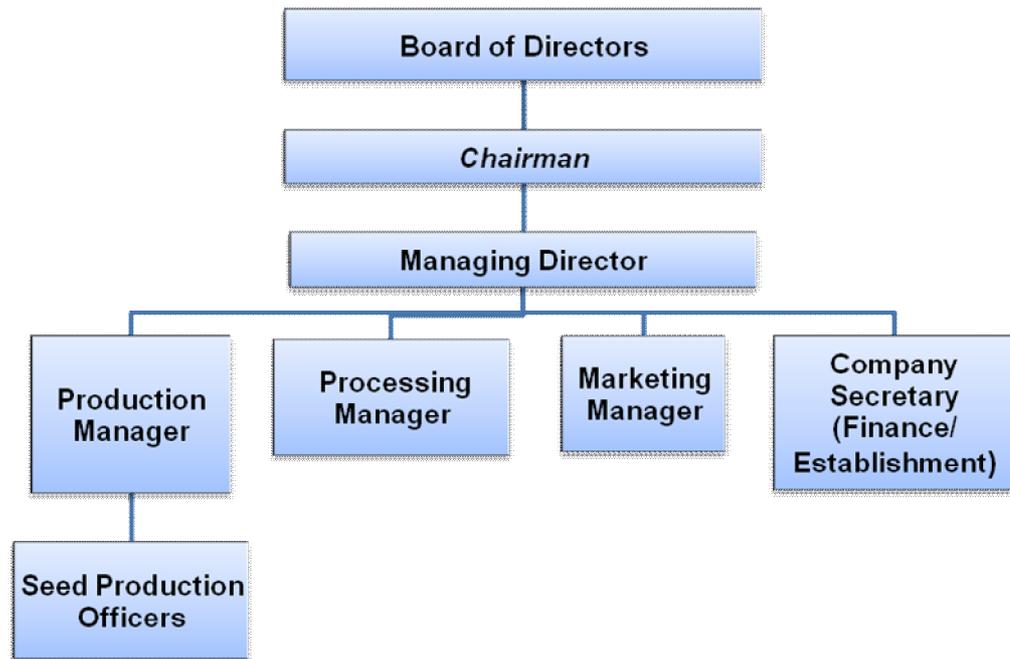
⁸³ Committee constituted of Managing Director of OSSC, representatives from OSSOPCA, Department of Agriculture and Farmers' Empowerment of GoO, Growers Shareholders and Odisha University of Agriculture and Technology

⁸⁴ 25 per cent in case of paddy and 30 per cent in case of non-paddy seeds

⁸⁵ Committee constitutes Principal Secretary to Agriculture Department, representatives from OSSOPCA, Directorate of Horticulture, Director of Agriculture and Food production, OUAT and OSSC

⁸⁶ Processing charges, cost of packing materials, certification charges, cost of seed treating chemical, storage charges, interest for blocking of fund, cost of transportation, loading, unloading charges, insurance charges, margin to OSSC and dealers etc.

The organisation chart of the company is depicted below:



Audit Objectives

4.3 Performance Audit of OSSC was conducted with a view to assess whether:

- targets for production/procurement of certified seeds were fixed with reference to the plan approved by Government of India/ Government of Odisha and these were achieved economically, efficiently and effectively;
- processing, storage and sale/distribution of seeds were carried out economically and efficiently; and
- internal control and monitoring mechanism were adequate and effective.

Scope and Methodology of Audit

4.4 A Performance Report on the activities of OSSC was included in the report of the C&AG of India for the year ended 31 March 2007. The report, however, was not discussed. CoPU had decided (November 2014) to transfer Audit Reports up to 2007-08 to the concerned Administrative Departments for necessary follow up action and intimate the action taken thereon to Odisha Legislative Assembly with a copy to Principal Accountant General. The Action taken thereon is however, yet to be received. The present Performance Audit covered the activities relating to the OSSC, involving examination of records maintained at Head Office and seven unit offices for the period 2013-18. Issues pointed out in the report for the year ended 31 March 2007 were included wherever relevant in the present report.

The scope, methodology and objectives of the Performance Audit were explained in an Entry Conference (May 2018) to the representatives of GoO and OSSC. The audit findings were reported to the Government in September 2018 and discussed in the Exit Conference held in November 2018. Exit Conference was attended by Special Secretary (Agriculture & Farmers'

Empowerment), GoO and the senior officials of OSSC. The reply of the Government (November 2018) has been included in the Report.

Audit Criteria

4.5 Following were the audit criteria:

- National Seeds Policy 2002, Seeds Act 1966, Seed Rolling Plan, State Agricultural Policy 2013, Corporate Governance Manual of GoO, Minutes of Board of Directors, Audit Committee and Pricing Committee;
- Instruction/Guidelines of GoI/GoO/OSSC relating to procurement, production, processing and distribution of seeds; and
- Terms and conditions of agreement/ tender for procurement and sale of seeds, financial rules and regulations etc.

Audit Findings

4.6 Audit findings are detailed in the succeeding paragraphs.

Planning

Seeds plan

4.7 Supply of quality seeds is not a one-time affair. Three years time is required to produce certified seeds from breeder seeds. The National Seeds Policy, 2002 required each State to prepare a perspective plan for seeds production and distribution over a rolling period of five to six years. The policy also emphasised enhancement of the Seed Replacement Rates (SRR)⁸⁷ of various crops in order to achieve the food production targets of the future. During 12th plan period, GoI directed (July 2012) each State to prepare a crop-wise Seed Rolling Plan (SRP) for the period 2013-17 crop season. The SRP was to be prepared considering the minimum SRR or SRR already achieved whichever is higher. Accordingly, based on proposal of GoO, SRP for Odisha for 2013-17 was approved by GoI. The GoO had directed (May 2013) all seeds producing agencies including OSSC to carry out production as per the SRP. SRP for 2017-21 was also approved by GoI for implementation by the State.

It was observed that OSSC had carried out production as per their annual plan without considering the SRP. The production targets fixed by OSSC were lower than what were envisaged in the SRP during 2013-14 and 2016-18. Directorate of Agriculture & Food Production, Odisha (DAFP) approved the annual plan submitted by OSSC, though the targets of production were not in accordance to the SRP.

In the exit conference, Government stated that SRP has less relevance as production programme of OSSC was implemented as per annual plan. The fact remains that the OSSC has overlooked the fact that the purpose of formulating a long term plan was to provide quality seeds to the farmers and enhancement of SRR.

⁸⁷ SRR is the percentage of area sown out of total area of crop planted in a season by using certified quality seeds other than farm saved seeds

State seeds policy

4.7.1 Department of Agriculture and Farmers Empowerment, GoO had proposed (August 2015) to formulate a comprehensive State Seeds Policy. The proposed policy included policy recommendations on research and development, production, distribution, marketing of seeds. The Government, however, was yet to approve the proposed policy (August 2018). In absence of any policy, the seeds production and distribution activities were carried out based on executive instructions and guidelines issued from time to time in an adhoc manner.

Government stated that the seed policy was in the process of finalisation.

Corporate plan

4.7.2 The Corporate Governance Manual (CGM) of GoO (November 2009) required preparation of a corporate plan by every State Public Sector Undertaking (PSU). The corporate plan is a three year plan with annual operating and financial plans. It would provide a detailed description of how the PSU intended to deliver on its long-term goals and objectives. It was observed that despite being in existence for over 40 years, OSSC had not prepared any corporate plan as per CGM.

Government stated that OSSC was being instructed to prepare the corporate plan at the earliest.

Thus, Government/OSSC had not followed any long term plan and formulated any policy for production and distribution of seeds to increase the Seed Replacement Rate in the State.

Seed Replacement Rate

4.8 National Seed policy, 2002 as well as Seed Rolling Plan (SRP) emphasised enhancement of the Seed Replacement Rate of various crops. As per the State Agriculture Policy, 2013, one of the main reasons for the low productivity of food crops in Odisha was the low SRR. The SRP emphasised increase of SRR to 33 *per cent* in case of major crops produced in the State. Agriculture Policy, 2013 of GoO also aimed to enhance productivity of important crops by enhancing SRR. The SRR in respect of four major seeds produced in the State during the period 2013-18 is given in the following table:

Table 4.1: Seed Replacement Rate of major crops in the State during 2013-18

(in percentage)

Crop/Year	Ideal SRR	National Average/ Actual for Odisha	2013-14	2014-15	2015-16	2016-17	2017-18 (Provisional)
Paddy	33	National Average	57.55	32.80	36.76	39.81	Not Available
		Actual for Odisha	25.50	31.55	36.01	27.75	21.54
Groundnut	33	National Average	25.38	23.65	23.56	25.24	Not Available
		Actual for Odisha	23.35	12.39	12.15	9.05	6.21
Moong	33	National Average	49.63	23.55	30.72	33.55	Not Available
		Actual for Odisha	7.65	5.36	16.25	12.63	12.18
Urad	33	National Average	49.55	30.27	33.72	37.97	Not Available
		Actual for Odisha	1.86	2.07	2.90	5.12	6.22

(Source: Department of Agriculture, GoI and DAFP, GoO)

It could be seen from the above, the SRR in respect of four major seeds was below the normative level (Ideal SRR) as well as the national average during all the years except in case of paddy during 2015-16. Paddy is the most important crop of Odisha. The SRR of paddy, which increased to 36.01 per cent in 2015-16, again decreased to the below normative level during 2016-18.

One of the reasons attributable for low SRR was non-availability of quality seeds for seed replacement due to shortfall in production and distribution of certified seeds by OSSC as mentioned in paragraph 4.11.

Government stated that steps would be taken for achieving the SRR in the coming years.

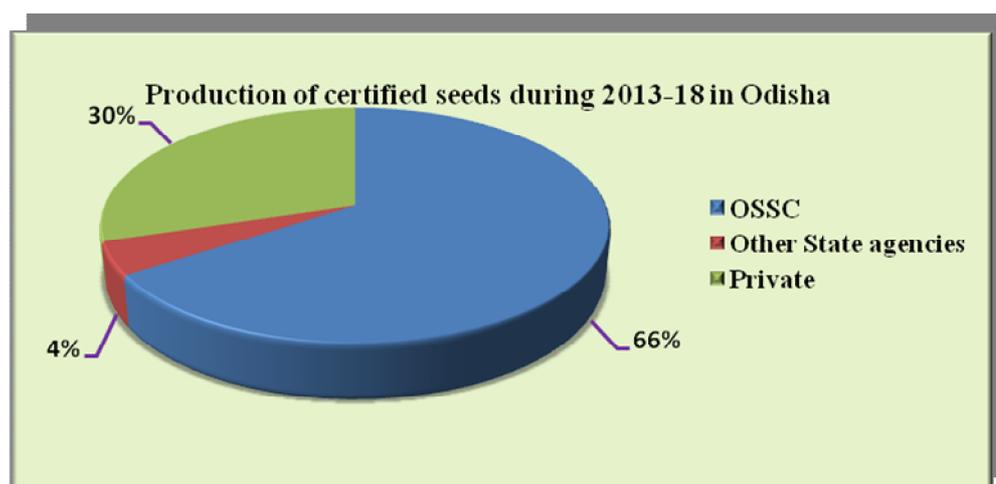
Production performance

4.9 Production performance of OSSC during 2013-18 is detailed below:

Contribution of OSSC towards Seed production in the State

4.10 The following chart indicates the average percentage of contribution of OSSC towards production of certified seeds in the State during 2013-2018.

Chart 4.1: Production of certified seeds during 2013-18 in Odisha



(Source: Information submitted by OSSOPCA)

It can be seen from the above chart that the share of OSSC in seed production in the State was 66 per cent during 2013-18. While private seed producing agencies contributed 30 per cent, other government agencies⁸⁸ contributed four per cent.

Government stated that OSSC was being instructed to increase its share of production of certified seeds in the State.

Shortfall in production of certified seeds

4.11 Odisha State Seeds Corporation Limited prepares the production programme for certified seeds for each season (Kharif and Rabi), which is approved by the Directorate of Agriculture and Food Production (DAFP), GoO. Production programmes are prepared considering availability of

⁸⁸ National Seed Corporation, Government Agriculture Firms, Odisha University of Agriculture and Technology, DAFP etc.

foundation seeds, seeds requirement of each district assessed by the unit offices and leftover seeds of previous seasons.

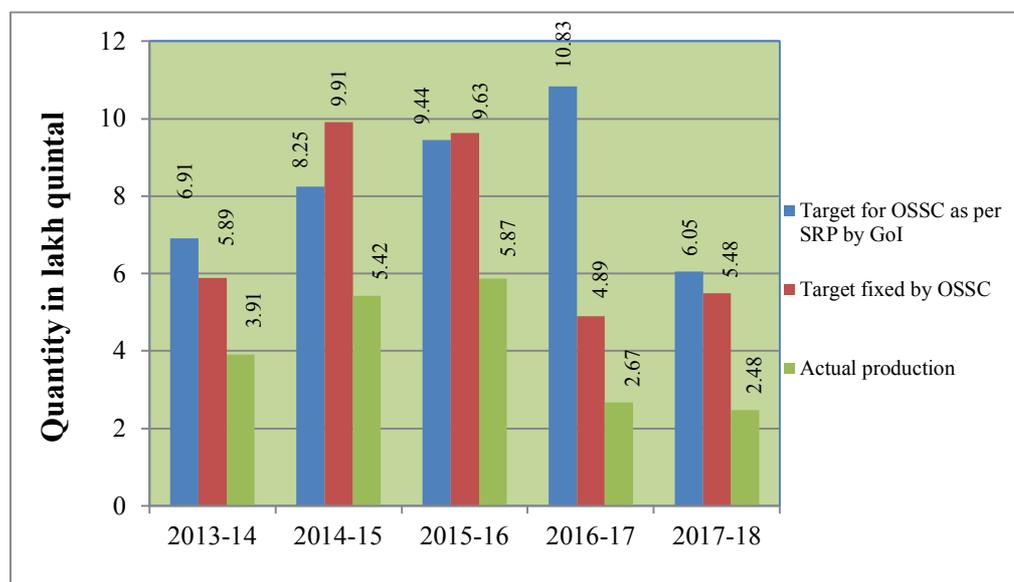
The table below indicated the production of certified seeds *vis-a-vis* targets fixed by OSSC and target as per Seed Rolling Plan during the period 2013-18.

Table 4.2: Target and achievement of production of certified seeds during 2013-18

Year	Season	Target for OSSC as per SRP	Target fixed by OSSC	Actual production	Shortfall	Percentage of shortfall to OSSC target
		<i>(in lakh quintal)</i>				
1	2	3	4	5	6 (4-5)	7 (6/4)
2013-14	Paddy	6.10	5.44	3.76	1.68	30.88
	Non-Paddy	0.81	0.45	0.15	0.30	66.67
	Total	6.91	5.89	3.91	1.98	33.62
2014-15	Paddy	7.21	9.24	5.30	3.94	42.64
	Non-Paddy	1.04	0.67	0.12	0.55	82.09
	Total	8.25	9.91	5.42	4.49	45.31
2015-16	Paddy	7.93	9.00	5.61	3.39	37.67
	Non-Paddy	1.51	0.63	0.26	0.37	58.73
	Total	9.44	9.63	5.87	3.76	39.04
2016-17	Paddy	8.61	4.36	2.49	1.87	42.89
	Non-Paddy	2.22	0.53	0.18	0.35	66.04
	Total	10.83	4.89	2.67	2.22	45.40
2017-18	Paddy	5.50	5.22	2.33	2.89	55.36
	Non-Paddy	0.55	0.26	0.15	0.11	42.31
	Total	6.05	5.48	2.48	3.00	54.74
Total		41.48	35.80	20.35	15.45	43.16

(Source: Information submitted by OSSC)

Chart 4.2: Target and achievement of production of certified seeds during 2013-18



It could be seen from the above that:

The production targets fixed by OSSC were always lower than what were envisaged in the SRP except for the period 2014-16. Fixation of targets in deviation to SRP defeated the purpose of framing SRP that aimed to increase SRR in the State.

There were shortfalls in achievement against its own reduced targets. Overall *percentage* of shortfall in case of paddy ranged from 30.88 *per cent* to 55.36 *per cent* during 2013-18. In case of non-paddy crops, the shortfall in achievement ranged from 42.31 *per cent* to 82.09 *per cent* during 2013-18. The reasons for shortfall in production as analysed in audit were as follows:

Utilised area was less than the targeted area

4.11.1 The target for production of certified seeds were prepared considering expected area for utilisation of various crops during each season. It was observed that the actual utilised area for sowing of seeds by growers was less than the targeted area. As against a targeted area of 138406 hectares of land during 2013-18, the actual area utilised for production of seeds was 95183 hectares, resulting in shortfall of 31.23 *per cent*.

Government stated that due to shortage of manpower at field level, the targeted areas could not be achieved.

Growers had not supplied seeds to OSSC

4.11.2 Growers participating in the production programme of OSSC had not supplied all the seeds produced by them to OSSC. The details of seeds produced *vis-à-vis* supplied by the growers to OSSC for the period 2014-17 were as follows:

Table 4.3: Details of seeds produced *vis-à-vis* supplied by the growers to OSSC

(Quantity in Quintals)

Crop year	Area certified for production in Ha	Total Seeds produced by the growers	Actual quantity supplied to OSSC	Shortfall	Percentage of shortfall
2014-15	21721	774983	559388	215595	28.82
2015-16	24667	876347	607764	268583	30.65
2016-17	17138	451778	273194	178584	39.53
2017-18	13804	424657	256269	168388	39.65
Total	77330	2527765	1696615	831150	33.10

(Source: Information submitted by the Odisha State Seed Certification Agency)

As against 25.28 lakh quintal seeds produced during 2014-18, growers supplied 16.97 lakh quintal seeds to OSSC. They sold the remaining seeds either to outside agencies or kept it for their own consumption. This was mainly due to the delay in release of seeds cost and incentive to growers and non-enforcement of agreement with them.

Delay in release of seed cost

OSSC released the cost of seeds to the growers in two phases. GoO issued (August 2015) a guideline as per which initial payment (60 *per cent*) was to be made within seven days of processing of raw seeds and final payment (40 *per cent*) was to be released within 30 days of certification.

It was observed that OSSC had not released seed cost to the growers in time. A detailed analysis of payment made to seed growers in respect of six unit offices during 2015-17 revealed that the average delay in release of initial payment and final payment ranged up to 99 days and 241 days respectively.

Government stated that due to lack of manpower at field level, the payment had been delayed and assured to resolve the delay shortly.

Delayed payment of incentive to the seed growers

Integrated Scheme of Oilseed, Pulses, Oil Palm and Maize (ISOMP) of GoI provided incentives for production of different oil seeds. Production incentive⁸⁹ was available on production of oilseeds of less than 10 years varieties to the growers and OSSC.

It was observed that OSSC claimed incentive of ₹4.70 crore for the year 2013-17 out of which GoO released ₹1.58 crore. The growers share was ₹1.18 crore. OSSC had released only ₹0.27 crore. The balance incentive ₹0.91 crore was not released over a period of one to four years due to non collection of bank account and other details of growers in advance. Delay in release of incentive discouraged the growers to participate in production programme of oilseeds and pulses.

Government stated that necessary steps will be taken to release the incentive in time.

Agreement with the registered growers were not enforced

OSSC did not execute any agreement till 2015-16 with the growers to supply their entire produce. OSSC entered into mandatory agreements with the growers from Kharif 2016. As per agreement, growers who failed to supply seeds would be debarred from further participation in the production programme. OSSC had not debarred any grower so far in spite of the facts that seed growers of OSSC had short supplied 3.47 lakh quintals of seeds during 2016-18.

Government stated that OSSC would take steps to debar seed growers who failed to supply seeds.

Shortage of technical manpower with OSSC

4.11.3 Odisha State Seeds Corporation Limited did not have adequate technical manpower to carry out the production programme. The Seed Production Officers (SPOs) at unit offices were looking after the production as well as the distribution activities. The shortage of technical manpower particularly in the Assistant Seed Production Officers (ASPO) level resulted in improper monitoring of seed production programme.

Government stated that necessary steps were being taken for posting of ASPO at district level for smooth operation of production programme.

OSSC could not distribute seeds within validity period

4.11.4 The produced certified seeds were useable within a validity period of nine months after which they are declared substandard. It was observed that OSSC could not distribute all its produced seeds within the validity period. This forced OSSC to reduce its production target and also restricted procurement of different varieties of seeds from the seed growers.

⁸⁹ Production incentive at the rate ₹1000/- per quintal was payable on production of oilseeds. Out of which growers share was ₹750 and OSSC share was ₹250

Thus, OSSC had carried out its production programme as per its annual plan instead of as per the Seed Rolling Plan approved by GoI. It also failed to achieve its own production targets. Insufficient production of seeds also resulted in non achievement of stipulated SRR.

Procurement of seeds from outside agencies

4.12 Odisha State Seeds Corporation Limited had procured seeds from outside sources⁹⁰ in order to meet the shortfall in production from its own sources. In case of seeds produced through its own production programme, GoO had allowed a profit margin of 5 to 7.5 per cent. In case of procurement from outside sources, the margin to OSSC was three to five per cent.

It was observed that:

- OSSC procured 1.43 lakh quintal seeds from outside agencies during 2013-18 to meet the requirement as it failed to produce inside the State. The procurement price was higher than the cost of production through growers. In the procurement of 1.43 lakh quintal seeds, OSSC incurred an extra expenditure ₹13.03 crore.
- Out of 1.43 lakh quintal of seeds procured from other agencies, 0.62 lakh quintal included oilseeds. Production incentive was not available in case of procurement from outside agencies. As OSSC had purchased seeds from outside agencies, growers in the State as well as OSSC were deprived of production incentive of ₹6.27 crore.

Government, while accepting the fact, stated that steps would be taken based on observation of audit and ground realities.

Similar observations were raised vide paragraph 2.4.16 of Audit Report (Commercial), GoO of the C&AG of India for the year ended 31 March 2007. The Government had stated (July 2007) that steps were being taken for increasing the production of non-paddy seeds. The steps taken thereon were not effective as observed in the above paragraph.

Processing and Storage of Seeds

4.13 Processing and storage performance of OSSC is detailed below:

Underutilisation of seed processing plants

4.13.1 OSSC operated 37 processing plants as of March 2018 for processing of seeds. Six processing plants were utilised for processing of groundnut seeds. The rest (31) were being utilised for processing of paddy and other seeds. The processing capacity of these plants was 19.48 lakh quintals as of March 2014 which increased to 22.95 lakh quintal as of March 2018. The utilisation of processing plants is indicated in Table 4.4:

⁹⁰ Other state seed corporations including National Seed Corporation and private seed producing agencies both inside and outside state.

Table-4.4: Utilisation of processing plant vis-à-vis installed capacity*(in lakh quintals)*

Year	Paddy and Other seeds			Groundnut		
	Processing capacity	Processed quantity	Percentage utilisation	Processing capacity	Processed quantity	Percentage utilisation
2013-14	17.33	3.92	22.62	2.16	0.16	7.41
2014-15	18.90	5.60	29.62	2.16	0.07	3.24
2015-16	18.90	5.66	29.95	2.16	0.17	7.87
2016-17	18.90	2.83	14.97	2.16	0.17	7.87
2017-18	20.79	2.73	13.13	2.16	0.08	3.70

(Source: Information submitted by OSSC)

- It is evident from above table that there was underutilisation of the processing plants during all the five years. In 2017-18 the percentage utilisation for Paddy and Other seeds was 13.13 *per cent* while for Groundnut it was even lesser at 3.70 *per cent*. The main reason for underutilisation of the processing plants was due to insufficient production when compared to installed capacity during all the years. Underutilisation resulted in increase in operational cost. The processing cost of seeds incurred by OSSC during 2013-18 varied from ₹60 to ₹96 per quintal. On the other hand, OSSC received ₹60 per quintal towards processing cost as per GoO norm. Since the processing cost was higher than the rate fixed by GoO it resulted in loss of ₹4.39 crore⁹¹ in the processing of 17.47 lakh quintal of seed over a period of five years.

Government stated that reduction in production of seeds, old and ageing processing plants resulted in less capacity utilisation in comparison to installed capacity. Government further stated that Steps were being taken to optimize the utilisation of processing plants.

- OSSC received (September 2016 - October 2017) ₹31.33 crore as grant from GoO under Rastriya Krishi Vikas Yojana (RKVY) for renovation and modernisation of processing plants. Out of the above, OSSC utilised ₹6.01 crore (19.18 *per cent*) as of March 2018. OSSC, however, submitted utilisation certificate for ₹31.33 crore to GoO, which was highly irregular. The reasons for non-utilisation of funds were attributed to delay in initiating procurement action and delay in finalisation of tender.

Government stated that necessary steps would be taken for modernisation of processing plants in time without further delay. Government did not offer any specific reply regarding irregular submission of UC.

Thus, underutilisation of processing plant due to insufficient production and delay in modernisation resulted in higher processing cost over the norm and loss of ₹4.39 crore during 2013-18.

Audit had earlier in paragraph 2.4 of CAG Audit Report (Commercial), GoO for the year ended 31 March 2007 recommended for optimal utilisation of the processing plants. It is clear the recommendation has not been implemented so far.

⁹¹ Expenditure incurred (₹17.22 crore) – expenditure reimbursed (₹12.83 crore)

Shortfall in storage capacity

4.13.2 OSSC was in need of creation of storage facility for safe storage of seeds. As of March 2018, OSSC owned 86 godowns in 29 districts having 4.33 lakh square feet of space for storage of seeds. OSSC had also hired godowns from private agencies. The table below indicates the available OSSC owned godown capacity *vis-a-vis* requirement of space during 2013-18:

Table 4.5: Statement showing storage space *vis-à-vis* requirement during 2013-18

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Capacity at the beginning (Area in lakh square feet)	3.87	4.06	4.12	4.33	4.33
Capacity added (Area in lakh square feet)	0.19	0.06	0.21	-	-
Capacity at the end (Area in lakh square feet)	4.06	4.12	4.33	4.33	4.33
Storage Capacity (in lakh quintal)	2.54	2.58	2.71	2.71	2.71
Targeted production as per Seed Rolling Plan	6.91	8.25	9.44	10.83	6.05
Actual Production (in lakh quintal)	3.91	5.42	5.87	2.67	2.48
Percentage of shortage with reference to actual production	35.14	52.40	53.83	-	-
Expenditure on hiring of godowns (₹in Crore)	1.45	1.57	1.33	2.65	0.24

(Source: Information submitted by OSSC)

During the year 2013-14 the shortage of godown space *vis-à-vis* production was 35.14 *per cent* which went up to more than 50 *per cent* in the following two years 2014-15 and 2015-16. Thus, in order to meet the shortage of storage space, OSSC had to hire private godowns. During 2016-17 and 2017-18 though there was no shortfall in storage capacity, OSSC hired godowns for storage of previous season's seeds. OSSC incurred an expenditure of ₹7.24 crore during the five year period towards hiring private godowns.

The storage capacity added during the five year period was only 0.46 lakh square feet. Based on the proposal submitted by OSSC, GoO released⁹² ₹12.98 crore to OSSC for construction of 14 godowns, which would have provided storage capacity for additional 56,107 quintals. It was observed that the proposed capacity addition on construction of 14 godowns was still insufficient to meet the required storage capacity. OSSC had assigned (December 2016) the construction work to Odisha Construction Corporation Limited (OCC) to complete construction within 18 months. The work, however, could not be completed (December 2018).

The delay in construction by OCC was mainly due to delay in identification of suitable land, frequent change in design and structure of godowns and scope of work by OSSC. Further, OSSC submitted utilisation certificate for ₹10 crore to Government without their actual utilisation, which was highly irregular.

⁹² ₹8.00 crore during March - September 2016 and ₹4.98 crore was released during September - October 2017.

Government while accepting the observation stated that OSSC was being instructed to expedite the construction work to increase the storage capacity. Government did not offer any specific reply in respect of submission of Utilisation Certificates.

Quality Control of Seeds

4.14 Under Seeds Act 1966, Odisha State Seed and Organic Products Certification Agency (OSSOPCA) is the seed certifying authority in Odisha, which has to certify the quality of the seeds. OSSC, being a seeds producing agency, was required to exercise quality control check at various stages of production and processing of seeds. The Board of Directors instructed (March 2012) to check the quality of unprocessed seeds at the time of receiving the same from growers in seed processing plants. To ensure quality of seeds, OSSC was required to set up quality control laboratories, engage technical manpower, imparting training to the field level officials, prepare quality control manual, etc.

OSSC did not have any quality control department to look into the quality aspects of the seeds. It had also not framed any quality control policy/manual for the purpose. In the absence of which, the unit offices were vested with the responsibility of ensuring quality of unprocessed seeds as per the instruction issued (March 2012) by Board.

Government stated that a quality control manual related to seed procurement and processing would be developed. It also stated that steps were being taken to set up a quality control laboratory in OSSC.

- Procurement price of seeds was fixed considering a processing loss of 6 *per cent* in case of paddy, 10 *per cent* in case of groundnut and 7 *per cent* in case of other non-paddy seeds. During the period 2013-18, the processing loss up to 8.30 *per cent*, 12.53 *per cent* and 9.66 *per cent* was observed in case of procured paddy, groundnut and other non-paddy seeds respectively. Higher processing loss than the norm resulted in loss of ₹0.26 crore to OSSC. Processing loss could have been minimised by proper verification of quality of seed by the plant in-charge at the time of receipt of seeds from growers.

Government stated that steps would be taken for ensuring quality control measures at the level of OSSC.

- The validity of certified seeds was nine months. In the event of sale through auction, the certified seeds were sent to laboratory to recheck the quality. During the period 2016-17, OSSC sold 2.39 lakh quintals of surplus seeds of Kharif 2015 produce through auction. Samples of the seeds were sent to testing laboratory for testing the validity. All of this 2.39 lakh quintals of seeds failed to meet the quality parameters and were considered substandard (September/October 2016).

It was observed that these seeds were certified during the month of February to June 2016 by OSSOPCA. Failure of the seeds within three to eight months of certification indicated that seeds were not stored properly to retain their germination capacity during the validity period, which was also accepted by the Management. Government while accepting the

observation stated that instructions were being issued to OSSC to ensure utilisation of seeds before expiry of the validity period.

Similar observation was made in paragraph 4.4 of CAG of India Audit Report (Commercial), GoO for the year ended 31 March 2007. Audit had recommended for scientific storage of seeds to retain quality of seeds.

Distribution of Certified Seeds

4.15 One of the main objectives of OSSC was to distribute certified seeds to farmers at reasonable price and sufficient quantities to support agricultural production programme of the State. OSSC distributed seeds to farmers through private dealer network and Primary Agriculture Cooperative Societies (PACS) and Large Area Multi Purpose Societies (LAMPS). Audit observed the following deficiencies in the process of distribution:

Shortfall in distribution of seeds

4.16 Odisha State Seeds Corporation Limited, before the start of the sowing season, received indents for certified seeds from Directorate of Agriculture and Food production (DAFP), Government of Odisha. The indented seeds were pre-positioned at designated godowns by OSSC. The dealers/ Primary Agriculture Cooperative Societies (PACS)/ Large Area Multi-Purpose Societies (LAMPS) on deposit of sale value lifted the stock from the designated godowns of OSSC for further distribution to the farmers. The table below indicates the distribution of certified seeds by OSSC *vis-a-vis* indent received from DAFP during the period 2013-18.

Table 4.6: Distribution of certified seeds by OSSC during 2013-18

Year	Indent by DAFP	Off-take of seeds	Difference	Percentage of
	<i>(In lakh quintals)</i>			
2013-14	10.00	5.14	4.86	48.60
2014-15	8.89	4.79	4.10	46.11
2015-16	8.33	5.06	3.27	39.25
2016-17	7.47	3.45	4.02	53.82
2017-18	5.95	3.40	2.55	42.86
Total	40.64	21.84	18.8	46.26

(Source: Information submitted by OSSC)

It may be seen from the above that though indent was placed by DAFP, off take of certified seeds was far lesser than the indented quantity all the five years. The difference ranged between 39.25 *per cent* and 53.82 *per cent*. The off-take of certified seeds reduced drastically in 2017-18 even against reduced indent. The reason for such decline in indent as well as distribution of seeds is detailed in the succeeding paragraphs:

Agriculture Department failed to ensure distribution of the seeds as per indent

4.16.1 Deputy Director of Agriculture (DDA) functioning at District level under the administrative control of DAFP had prepared the indents of different varieties of seeds for requirement of their districts. DAFP, after compilation of district wise requirement, arrives at the final requirement of seeds for the State and placed indent of supply of seeds by OSSC before start of the season. The duties and responsibilities of DDAs included monitoring and enforcing the

rules related to the sale of seeds in their district and guide the field functionaries of OSSC for movement of seeds for the particular block. DDAs were to ensure that seeds were prepositioned and sold within their district in time.

It was observed that initial assessment of seed requirement by the field level officials of DA&FP was not in accordance with the actual demand. Further, field functionaries of DAFP were not successful in persuading the farmers of the desirability of replacing the farm saved seeds with the certified seeds. This resulted in mismatch between the indent and actual off- take of certified seeds. DAFP had not ensured that seeds indented by the DDA were fully distributed to farmers as sale had fallen short of the indent during all the years.

Government stated that DAFP was being instructed to take necessary steps to coordinate with field functionaries to avoid mismatch in future.

Inadequate marketing efforts by OSSC

4.16.2 The primary responsibility of achieving the sale of indented quantity rested with the DAFP. The following shortcomings were observed:

- OSSC did not deploy required manpower for marketing of seeds. All the posts in the marketing function of OSSC except the post of Marketing Manager were lying vacant.
- OSSC had no system for collecting market information like demand, availability, its competitors' price, etc. of seeds, to evolve an effective marketing strategy. OSSC had not evolved any policy or strategy to sell its surplus seeds to outside states or through alternate marketing channel. There was no system of reviewing performance of dealers periodically, so as to take corrective measures for increasing sale.
- Brand name plays an important role on reliability of the product and creates a unique identity of the product to attract the customer. OSSC had a brand name called 'ORISEED'. OSSC did not make any expenditure on promotional activities to market its brand name. As a result, it has failed to create its distinctiveness and customer base.

Similar observation was made in paragraph 2.4.25 of CAG Audit Report (Commercial), GoO for the year ended 31 March 2007. Audit had recommended for revamping of marketing infrastructure of the company. Government while accepting the observation stated that OSSC was being instructed to take adequate marketing effort would be made to ensure sale of produced seeds.

Accumulation and disposal of substandard seeds

4.17 As per the approved norm, the validity of the seed certification is only for a period of nine months. OSSC could not sell/distribute all the certified seeds produced by it within the validity period. As a result, the seeds became substandard and OSSC incurred loss of ₹41.60 crore when seeds were sold after validity through auction. The details of loss incurred by OSSC during the period 2013-18 were depicted in the following table:

Table 4.7: Loss on disposal of substandard seeds during 2013-18

Year	Quantity (in quintal)	Loss on disposal (₹ in crore)
2013-14	36404	2.77
2014-15	20836	2.52
2015-16	94483	8.70
2016-17	253440	26.10
2017-18	18822	1.51
Total	423985	41.60

(Source: Information submitted by OSSC)

In this regard, audit observed the followings:

- OSSC did not have any approved procedure/policy for disposal of substandard seeds. It had not prepared any MIS reports in respect of accumulation and disposal of substandard seeds. Details of year wise, crop wise and unit wise availability of surplus stock was not compiled by OSSC so as to take timely action for disposal of stocks. Unit offices had not submitted the details of surplus seeds to Head Office in time.

Government stated that policy document would be framed for strengthening MIS for real-time assessment of availability of surplus seeds.

- OSSC sold 77.37 quintal of breeder seeds valuing ₹4.09 lakh and 18400 quintal of foundation seeds valuing ₹3.63 crore as substandard seeds during the period 2013-17. Breeder seeds, which are scarcely available, were procured from Research Institutes for multiplication into foundation seeds and attaining the seed multiplication chain. Condemnation of breeder seeds indicated that the entire chain of placing of indents with GoI, distribution of the same for seed multiplication and market demand of certified seeds were not assessed by OSSC/Government. Similarly, foundation seeds were procured for multiplication into certified seeds. 18400 quintal of foundation seeds had the potential of producing 14.56 lakh quintals of certified seeds worth ₹274.51 crore as per the seed multiplication norm. Condemnation of such huge quantity of foundation seeds indicated failure of OSSC to effectively utilise foundation seeds.

Government stated that due to non-lifting of breeder seeds by government firms/growers, the same could not be utilised. In case of foundation seeds, Government stated that surplus foundation seeds were sold as certified seeds but the dealers/PACs did not lift the seeds resulting seeds becoming substandard. The reply indicated improper assessment and monitoring of the procurement and distribution of seeds.

- OSSC had not prescribed any norm for storage loss in respect of seeds stored in godowns. OSSC also did not conduct any periodical verification of its seeds stock to ascertain storage loss, if any. Audit noticed shortage of 13983 quintal seeds valuing ₹1.78 crore during disposal of substandard seeds in 2013-18. OSSC, despite recognising the storage loss as undesirable, had not taken any action to investigate the matter.

Government did not offer any specific reply to the audit observation.

Thus, inadequate marketing efforts coupled with failure of the DAFP in ensuring lifting of indented quantity resulted in decline in sale of seeds. This resulted in decline of SRR of the major crops in the State as well as accumulation of surplus seeds which were disposed as substandard seeds.

Financial Performance

Financial Position and Working Results

4.18 OSSC had finalised its accounts up to the year 2014-15 as of December 2018. Based on audited accounts for the year 2013-15 and the provisional accounts for the years 2015-18, the financial position and working results of OSSC for five years ending March 2018 is given in the table below:

Table 4.8: Statement of Financial Position of OSSC for the period 2013-18

(₹ in crore)

Particulars	2013-14	2014-15	2015-16 (Prov.)	2016-17 (Prov.)	2017-18 (Prov.)
Paid up Capital	2.68	2.68	2.63	2.63	2.63
Reserves and Surplus	53.80	53.33	58.96	59.96	70.93
Long Term Borrowings	37.03	23.64	19.42	22.52	1.82
Current liabilities and Provisions	98.97	141.05	127.79	119.94	133.02
Total Liabilities	192.48	220.70	208.80	205.05	208.40
Net Fixed Assets	23.02	23.44	22.88	23.15	20.77
Inventories	70.33	91.91	79.05	67.73	66.59
Sundry Debtors	68.13	51.36	63.46	56.50	62.92
Cash & Bank Balance	11.31	32.56	24.91	38.07	39.50
Other Current Assets	19.69	21.43	18.50	19.60	18.62
Total Assets	192.48	220.70	208.80	205.05	208.40

Table 4.9: Statement of working results of OSSC for the period 2013-18

Particulars	2013-14	2014-15	2015-16 (Prov.)	2016-17 (Prov.)	2017-18 (Prov.)
Sale of seeds	159.19	138.86	153.69	144.53	145.66
Other income	2.94	2.44	1.85	1.73	2.41
Total Income	162.13	141.30	155.54	146.25	148.07
Purchase of seeds	123.36	107.20	122.76	128.43	117.78
Operational Expenses	14.89	14.53	13.13	13.30	12.45
Employee & Administrative Expenses	7.71	6.94	7.08	7.61	8.31
Other Expenses ⁹³	18.40	11.79	11.73	13.47	11.03
Total Expenditure	164.36	140.46	154.70	162.81	149.57
Profit(+)/Loss(-) before Tax	(2.23)	0.84	0.86	(16.56)	(1.50)
Current Tax	0.22	0.16	0.30	0	0
Net profit	(2.45)	0.68	0.54	(16.56)	(1.50)

(Source: Information submitted by OSSC)

The review of financial statement revealed that OSSC earned marginal profits during 2014-16 and incurred loss during the last three years. The deteriorating financial performance of OSSC during 2016-17 and 2017-18 was mainly due to decline in sale of seeds, increase in operational expenses and disposal of surplus seeds at below the cost of procurement.

⁹³ Depreciation, finance cost, selling expenses and Prior Period Adjustment Account(Net)

Accounts not finalised in time

4.19 As per provisions of the Companies Act, 2013 the financial statements of the Companies were required to be finalised by 30 September each year. It was observed that accounts of OSSC were in arrear since 2015-16. Non-finalisation of accounts in time resulted in non-availability of authenticated financial positions and working results of the Company to the stakeholders. Delay in finalisation of accounts was mainly due to non compilation of accounts and delay in reconciliation of bank accounts:

- Preparation of basic accounting records is prerequisite for compilation of accounts prior to finalisation of annual accounts. Adequate number of staffs was not deployed to prepare basic books of accounts such as purchase account, sale account, stock account, etc. during the respective year of transaction.
- OSSC maintained 145 bank accounts in different banks. Bank reconciliation was completed in respect of only 121 accounts as on 31 March 2014. No bank reconciliation was carried out for subsequent years.

Government stated that necessary steps were being taken for consolidation of accounts and reconciliation of bank accounts as soon as possible.

Internal Control and Monitoring

4.20 Following deficiencies in internal control and monitoring system were observed.

Deficiencies in functioning of Board of Directors and Audit Committee

4.20.1 Board of Directors (BoD) being the apex governance body, is responsible for setting the tone from the top in the organisation in regard to the control environment. Similarly, Audit Committee (AC) was to oversee the internal controls and financial reporting process including review of internal audit process. Audit observed the following deficiencies in their functioning during 2013-18.

Three meetings of BoD were held in 2013 and 2016 against the norm of four meetings as per Companies Act 2013. Attendance of eight out of 12 Directors ranged from 26 to 33 *per cent* during 2013-18 against the norm of minimum 75 *per cent* attendance as per Corporate Governance Manual (CGM) of GoO. Important items like approval of annual accounts, proceedings of Audit Committee, approval of production programme were not included in the agenda and placed as "other items" in the Board Meeting.

As per CGM, every PSU was to form an Audit Committee (AC) who should meet at least three times in a year. As per the Companies Act, 2013 AC should consist of a minimum of three Directors with Independent Directors forming majority. Audit observed that the first meeting of AC was held (February 2016) after four years of its formation (March 2012). Subsequent meetings were held as per the norm. Delay in constitution of AC resulted in delay in finalisation of Annual Accounts and internal audit system of OSSC. Further, AC did not have the minimum number of independent directors during 2017-18. Audit committee during its meetings did not review and monitor the auditor's performance and effectiveness of audit process.

Government stated that OSSC had been instructed to include all important items in the agenda. Government also assured effective functioning of AC as per the observation of audit.

Inadequate internal audit system

4.20.2 OSSC did not have an internal audit wing and had outsourced the internal audit activity to the firms of Chartered Accountants. Internal audit in OSSC was in arrears since 2014-15. The compliance to internal audit reports was not prepared. The internal audit reports were also not placed before Audit Committee/Board of Directors for appraisal. The reason for delay in internal audit was attributed to non-compilation of basic accounting records. Government stated that steps were being taken to strengthen the internal audit wing of OSSC.

Deficiencies in manpower management and other controls

4.20.3 Other deficiencies noticed in the internal control and monitoring system in OSSC are described below:

- OSSC did not have adequate manpower to carry out its operational and financial activities. OSSC had 111 employees against the sanctioned strength of 186 as of July 2018. The major vacancies were in key functional posts in Group A and B cadre. Such vacancies included Personnel officer, DGM (Finance), Accounts officer, Marketing Development Officer, Assistant Seed Production Officers, etc. OSSC submitted a manpower restructuring proposal in January 2011, which was pending with Government for approval.
- Procedural manuals are necessary to carry out the activities in a systematic and authorised manner. Such manuals include Seed Production Manual, Processing/Storage Manual, Marketing Manual, Purchase Manual, Accounts Manual, Quality Control Manual. OSSC had not formulated any manual relating to its core activities.
- Odisha State Seeds Corporation Limited had 4288 seed growers involved in the seed production programme as of March 2018. OSSC, however, had not prepared any database of growers who were involved in seed production process during 2013-18.
- Deficiencies in internal control system resulted in misappropriation of cash (₹0.41 crore), shortage of stock of 1449.70 quintal (₹0.35 crore) during 2013-14, which was detected during finalisation of annual accounts for the year 2013-14.

Government stated that necessary steps would be taken to correct the deficiencies in the internal control and monitoring system pointed out by audit.

Internal control and monitoring System in OSSC was weak due to inadequate functioning of Board and Audit Committee, irregular Internal Audit system and inadequate manpower for monitoring the business activities of the Company.