

Chapter II

Performance Reviews relating to Government Companies

Andhra Pradesh Power Generation Corporation Limited

2.1 Performance audit of “Construction and Performance of Rayalaseema Thermal Power Project, Stage II”

Highlights

The Company could not avail interest rebate on loan from PFC due to delay in commissioning of units, as per schedule. The Company also failed to avail interest subsidy on loan from REC.

(Paragraph 2.1.8)

Due to deferring performance guarantee tests, neither necessary corrective action to control consumption of inputs and auxiliary consumption could be taken nor penalties for non-achievement of parameters could be levied.

(Paragraph 2.1.11)

Due to installation of low rated compressors, ash handling system could not evacuate entire ash, leading to manual removal. Expenditure incurred therefore could not be recovered from contractor in absence of suitable clause. This led to running units at reduced load and consequent loss of generation besides tripping of both units.

(Paragraph 2.1.14)

Negligence of contractor during excavation for installation of wagon tippler led to collapse of adjacent concrete trench and expenditure incurred for rectification could not be recovered from contractor despite a suitable clause in the contract.

(Paragraph 2.1.16)

Increase in prices of cement and steel supplied by Company for civil works, beyond scheduled date of completion could not be recovered from contractor in absence of a specific clause.

(Paragraph 2.1.20)

Failure to adhere to norms for consumption of coal, fuel oil, demineralised water and auxiliary power resulted in extra expenditure.

(Paragraph 2.1.23 to 2.1.26)

Compliance to various Acts/Statutes for pollution control was not total. No efforts were made by Company to check the same nor any penalty was levied.

(Paragraph 2.1.27 to 2.1.31)

Introduction

2.1.1 Rayalaseema Thermal Power Project (RTPP) with an installed capacity of 420 MW (2X210 MW) is one of the four Thermal Power Projects of Andhra Pradesh Power Generation Corporation Limited (Company), a wholly owned Company of the State Government formed (February 1999) consequent on re-organisation of the erstwhile Andhra Pradesh State Electricity Board (APSEB). To increase the Power generation from 420 to 840 MW for meeting the anticipated demand for power, the company added two more units of 210 MW each under Stage II by utilising the available infrastructure at the existing Rayalaseema Thermal Power Project.

The Company management consists of Managing Director and seven functional Directors for Finance, Commercial, Hydel, Technical, Thermal, Projects and HRD. Director (Projects) assisted by Chief Engineer (Thermal Project Construction) monitors the Project at Corporate level. The execution of the project at field level is looked after by Chief Engineer (O&M).

Scope of Audit

2.1.2 The total expenditure of Rs. 1,947.77 crore incurred on construction of Unit 3 and 4 under the project to the end of March 2008 towards supply, erection of equipment and other related civil works, operational performance and drawal and utilization of loans (Rs. 1,653.29 crore) was reviewed at Corporate and Project offices between February and April 2008.

Audit Objectives

2.1.3 The Performance review of the RTPP Stage II was conducted with a view to ascertain whether:

- sources of funding the project were identified prior to taking up the project; funds were released as per requirement and were utilized judiciously to facilitate uninterrupted construction;
- the construction of the project was as per the scheduled plan;
- the procurement, supply, erection and commissioning of project equipment were carried out economically and efficiently;
- consumption of inputs were as per the norms envisaged;

- the envisaged quantum of power was generated; and
- the rules and regulations governing the policies/procedures for environmental protection were complied with.

Audit criteria

2.1.4 The following audit criteria were adopted:

- Norms/guidelines of the Central Electricity Authority (CEA) regarding planning and implementation of project.
- Project report, terms and conditions of Purchase orders and Specifications.
- Procurement Manuals, Approved tender procedure, Standard Schedule of Rates, estimates and tender evaluations.
- Terms and Conditions of agreements with financial institutions for availing loans.
- Rules and Regulations for Environment Controls.

Audit Methodology

2.1.5 The mix of following methodologies was adopted.

- Review of agenda notes, resolutions and minutes of Board of Directors meetings, directives issued by MoP/Central Electricity Authority (CEA)/State Government relating to construction activities.
- Analysis of project report, loan documents etc. relating to project.
- Evaluation of estimates, tenders and stores purchase committee minutes.
- Examination of MIS reports, power generation particulars and records relating to consumption of inputs.
- Evaluation of environment control measures.
- Issue of audit queries and interaction with the management.

Audit Findings

2.1.6 The audit findings were reported (21 May 2008) to the State Government/Management and discussed (4 July 2008) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) where the Government/Management was represented by Special Secretary to Government and Managing Director of the Company.

The review was finalized after considering the views of the Government and reply of the Management. The audit findings are discussed in succeeding paragraphs.

Project Planning

2.1.7 Central Electricity Authority (CEA) forecast requirement of installed capacity of 13,921 MW in the state in 2000. The installed capacity in Andhra Pradesh in the year 1989-90 was 3,824.5 MW in the State. The gap between required capacity and existing installed capacity worked out to 10,000 MW (approximately). About 1,000 MW per year was required to be added to meet the anticipated demand. Keeping in view the demand, the Company proposed to establish two units of 210 MW each in Thermal Power Project in Rayalaseema, besides other projects in the State. Since the existing Rayalaseema Thermal Power Project Stage-I (2 units of 210 MW each) was having infrastructure facilities for adding identical units, the Company decided to install two more units to make use of these facilities. The Andhra Pradesh State Electricity Board (APSEB) prepared (August 1990) a Detailed Project Report (DPR) at an estimated outlay of Rs. 1,273 crore (including Rs. 228 crore towards interest during construction period) and obtained (July 1993) the Techno Economic clearance of Central Electricity Authority (CEA). The APSEB till 1998 was negotiating with financial institutions and executing agencies for funding the project and on assurance by latter to extend credit facility, global tenders were called (November 1998) for execution of the project on turnkey basis. Subsequently the APSEB was bifurcated into two companies*. Due to general increase in rates over the period (1992 to 1998) the company, based on the rates quoted by the contractors, revised the project cost to Rs. 1,640 crore (including Rs. 200 crore towards interest during construction period) and got the approval (October 2000) of Government of Andhra Pradesh (GoAP). Techno Economic clearance of Central Electricity Authority (CEA) was obtained (March 2001) for revised project cost and the Consultant (Desein) was again appointed (May 2001) for preparation of bid documents and approval of drawings submitted by tenderers. Since the lowest tenderer did not turn up till September 2003, negotiations were held (November 2003) with BHEL, the second lowest tenderer and the work was awarded (December 2003) at a cost of Rs. 1125 crore to it.

* Andhra Pradesh Power Generation Corporation Limited and Transmission Corporation of Andhra Pradesh Limited.

Project Funding

Interest rebate could not be availed due to delay in commissioning of units.

2.1.8 The Project cost of Rs. 1,640 crore (including Rs. 200 crore towards Interest during construction period) was proposed to be financed through loans from Power Finance Corporation (PFC) (Rs. 1,215 crore), Rural Electrification Corporation (REC) (Rs. 101 crore) and Commercial Banks (Rs. 124 crore). The Company availed loans (up to March 2008) aggregating Rs. 1653.29 crore, from PFC (Rs. 1,174.77 crore), REC (Rs. 130.87 crore) and Commercial Banks (Rs. 347.65 crore). The company was eligible for a rebate (0.25 *per cent*) from PFC in case the project was commissioned as per schedule. Further, an interest subsidy on the loans drawn from PFC and REC under the Government of India scheme “Accelerated Generation and Supply Programme” (AG&SP) was also available.

As per Purchase Order placed on Bharat Heavy Electricals Limited (BHEL) for construction of Power House the target dates for commissioning of the plant were December 2006 (Unit 3) and March 2007 (unit 4). The project work– commenced in December 2003 and synchronized for trial operation in January 2007 (unit 3) and November 2007 (unit 4). The units were finally commissioned in August 2007 (unit 3) and March 2008 (unit 4) after a delay of seven and twelve months respectively.

The following was observed:

- as there was delay in commissioning of units due to delayed supply and erection of project equipment by BHEL, interest rebate of 0.25 *per cent* (Rs. 1.59 crore) from PFC receivable as per the circular issued (7 April 2006) could not be availed.
- the Company claimed interest subsidy available under AG&SP only in February 2008 after being pointed out by Audit, from REC even though REC started charging interest from April 2004. Due to non-pursuance of claim, company failed to avail interest subsidy of Rs. 7.62 crore as REC also could not claim this amount from Ministry of Power, Government of India.

Government accepted (July 2008) the observation and stated that in spite of all efforts, the units could not be commissioned as scheduled and hence rebate from PFC could not be availed. It was also stated that in respect of REC, that REC itself did not receive the subsidy from Ministry of Power, Government of India.

However, had the company pursued the matter in time, it could have availed the interest subsidy.

2.1.9. As per clause 6 of the terms and conditions of Purchase Orders, Company paid (March 2004) advance of Rs. 147.22 crore (15 *per cent* of the value of purchase order) to BHEL. The advance was to be adjusted against the progressive supplies and erection. Out of the above advance, Rs. 126.07 crore (being the value of supplies) was adjusted till the scheduled date of completion (March 2007) and Rs. 12.16 crore was adjusted during 2007-08, leaving a balance of Rs. 8.99 crore unadjusted so far (March 2008) due to

delay in supply and erection of project equipment by BHEL. In the absence of any clause in the agreement for levying interest on unadjusted advance beyond the scheduled date of completion, the Company could not recover interest loss suffered (Rs. 1.10 crore).

Government while accepting the observation stated that in view of the tight market conditions and in a seller's market, it was difficult to incorporate a clause in the agreement to levy interest on unadjusted advance retained beyond the scheduled date of completion.

Execution of project works

2.1.10 All the 14 major contracts for works involved in construction of power project were reviewed. Deficiencies were noticed only in seven contracts. The same are discussed in succeeding paragraphs. As against the estimated project cost of Rs. 1,640 crore, the actual expenditure incurred till March 2008 was Rs. 1,947.77 crore including provision. The cost overrun was Rs. 307.77 crore. While reviewing the entire project cost, deficiencies involving Rs. 77.35 crore (including loss of generation of power) were noticed. The deficiencies can be broadly categorised into Financial (Rs. 17.86 crore), Execution (Rs. 7.39 crore), Operation (Rs. 46.86 crore) and Generation (Rs. 5.24 crore).

Power house

2.1.11 The contract for supply and erection of Power Plant for Units 3 and 4 was awarded (December 2003) to Bharat Heavy Electricals Limited (BHEL) on turnkey basis at competitive rates for Rs. 1,125 crore by calling for Global tenders. The delay in completion of Unit 3 and 4 by seven and twelve months respectively was due to delay in supply and erection of equipment by BHEL. As the delay in completion was attributed to BHEL, the Company had levied and recovered Rs. 52.74 crore towards penalty (Rs. 47.25 crore for unit 3 and Rs. 5.49 crore for unit 4) as per clause 7 and 8 of the Purchase Orders.

The following was observed:

- Achievement of Performance parameters could not be verified by the Company as the Performance Guarantee tests (as per clause 10 and 11 of the contract), though offered (August 2007) to be conducted by BHEL, were not conducted so far (March 2008), since Company was not prepared to shut down the plant for tests to avoid power interruption. As a result, corrective action necessary to control the excess consumption of inputs and auxiliary consumption could not be taken and penalty, if any, leviable as per the contract provisions could not be levied. Further, similar action for non-achievement, if any, of parameters also could not be taken.
- The work of supply, commissioning of coarse screens including stop log gates for Clarified Water (CW) Pump House (part of turnkey contract) was got done (November 2005) through another Contractor (Rs. 48.48 lakh) at the request (January 2005) of BHEL but Company could recover Rs. 31.43 lakh only from BHEL, being the cost of coarse

screens leaving a balance (Rs. 17.05 lakh) representing the value of stop log gates, since BHEL refused to include installation of stop log gates as part of erection of coarse screens. Due to failure of the Company to clearly mention these items distinctly in the contract with BHEL, it had to forego claim of Rs. 17.05 lakh.

Government stated (July 2008) that the PG tests were not conducted as there was severe demand in the grid and the Company would have lost 5.0 MU. The matter would be taken up with BHEL for recovery of value of stop log gates.

However, had the PG tests were conducted in time, some of the technical aspects would have been rectified by BHEL which could have reduced the number of trippings on account of technical reasons and increased the generation of power.

Fabrication and erection of Structural steel work

Works of fabrication not completed despite time extension.

2.1.12 The work of design, fabrication and erection of structural steel was awarded (September 2004) to Harji Engineering Works Private Limited for Rs. 11.65 crore to be completed by December 2005. Subsequently, (September 2006) additional quantities (Rs. 2.64 crore) were added. Despite granting extension of time twice (March 2006 and April 2007) up to June 2007, the work has not been completed so far (March 2008).

The following was observed:

- Though the consultant (Desein) recommended 12,000 tonnes of structural steel based on revised drawings (including the newly added items) against 10,500 tonnes originally estimated, the Company issued additional 559.851 tonnes without the approval of consultant. In the absence of approval by consultant, audit was not in a position to conclude whether the additions were necessary or otherwise. The issue of steel (559.851 tonnes) in excess of recommended quantity resulted in additional expenditure of Rs. 2.37 crore towards cost of steel (559.851 tonnes - Rs. 1.88 crore) and labour charges (Rs. 0.49 crore). The reasons for excess issue of steel were not on record.
- Though the penalty of Rs. 13.33 lakh was recovered through the running bills for delay in execution, the same was released (June 2007) without any justification.

Government stated (July 2008) that the difference between the executed quantity and the quantity recommended by consultant for steel was due to execution of works for which drawings were approved at a later date. The reasons for delay were not attributable to the contractors, extension of time was granted but penalties were recovered for slow progress.

The reply does not address the point that the consultant after duly considering the revised drawings, had recommended the quantity of 12,000 tonnes as against 10,500 tonnes originally estimated. Further, the reasons for delay in completion was attributed to Contractor, as is evident from the fact that

penalties were levied for slow progress and same was released without any justification.

Ash handling plant

2.1.13 Construction of Ash Handling Plant (AHP) was divided into three sections i.e. Fly Ash Handling System (FAHS-Section-I), High Concentrated Slurry Disposal System (HCSDS-Section-II) and Dry Fly Ash Transport System (DFATS-Section-III). The audit observations on each section are discussed in the succeeding paragraphs.

Section I - FAHS

2.1.14 The work of designing, manufacturing, testing, commissioning and operation and maintenance for one year of Fly Ash Handling System (FAHS) (Section-I) was awarded (May 2005) to Indure Private Limited for Rs. 19.40 crore. As per clause 11 of the terms and conditions of the agreement, the FAHS for unit 3 and 4 was to be completed by August and November 2006 respectively. However, it was completed in January and November 2007 with a delay of 5 and 11 months for Unit 3 and 4 respectively.

Non-evacuation of ash completely led to tripping of units and incurring of expenditure of Rs. 18.34 lakh on manual removal.

It was seen that ever since commissioning of unit 3 (January 2007) and unit 4 (November 2007), the FAHS of both the units was not evacuating the entire ash. This led to tripping/shutting down of the units four times (March 2007 to August 2007 and January 2008) for removal of ash from ESP Hoppers and also the units were run at reduced load (170 MW) against the rated capacity of 210 MW to reduce the ash flow.

The following was observed:

- The failure of the company/consultant to approve the appropriate size of the Compressors led to erection of low rated Air compressors and finally loss of generation of 695.29 MUs (March 2007 to March 2008) valued (net) at Rs. 5.24 crore due to tripping (174.57 MUs valued at Rs. 1.32 crore) from March 07 to January 08 and running the plant at reduced load (520.72 MUs valued at Rs. 3.92 crore) from September 2007 to March 2008 as indicated in **Annexure-10** and the accumulated ash was removed manually by incurring Rs. 18.34 lakh between March 2007 and March 2008.
- The expenditure incurred on manual removal of Ash was not recovered from the contractor in the absence of a suitable clause in the Agreement.
- Though the consultant appointed (December 2007) for suggesting remedial measures to overcome the problem opined that the Air Compressors installed were undersized and have to be replaced with a higher capacity, the same was yet to be done by the contractor (March 2008).

Government while accepting the audit observations stated (July 2008) that as per the third party recommendations, five compressors were replaced (June 2008) with higher capacity blowers by Indure Private Limited and the Ash Handling System was now working satisfactorily.

Section II & III

Improper planning led to interest loss of Rs. 81 lakh due to locking of funds.

2.1.15 The Contract for High Concentrated Slurry Disposal System (HCDS) and Dry Fly Ash Transport System (DFATS) were awarded in July and August 2005 respectively to Macawber Beekay Private Limited for Rs. 28.29 crore for supply of material and Rs. 2.31 crore for erection of HCDS and Rs. 12.62 crore for supply of material and Rs. 3.38 crore for erection in respect of DFATS. As per clause 11 of the terms and conditions of the Purchase Orders, installation of HCDS for unit 3 and 4 was scheduled to be completed by August 2006 and November 2006 respectively and DFATS for unit 3 and 4 was scheduled to be completed by June and August 2006 respectively. In respect of HCDS, though the contractor supplied material valued Rs. 24.34 crore and received Rs. 23.12 crore between February 2006 and September 2006, he commenced the erection work in November 2006 and the same was still in progress (March 2008). Similarly in respect of DFATS, though the contractor supplied material valued Rs. 5.11 crore in August 2006 and received Rs. 4.85 crore in August 2006, he commenced the erection work in November 2006. Lack of proper planning to synchronise supply and erection resulted in material lying idle without erection leading to locking up of borrowed funds and consequential loss of interest of Rs. 81 lakh (Section II - Rs. 72 lakh and Section III - Rs. 9 lakh).

Government stated (July 2008) that due to involvement of number of agencies and also due to site related problems, the erection of equipment could not be taken up immediately on receipt of material.

However, the Company should have planned the sequence of works to be done and accordingly the logistics should have been arranged.

Wagon tippler

Non-commissioning of Wagon tippler due to collapse of trench led to payment of demurrage charges of Rs. 95.53 lakh to railways.

2.1.16 The contract for supply of material, erection and related civil works for Wagon tippler-3 was awarded (28 September 2005) to Elecon Engineering Company Limited for Rs. 26.42 crore to be completed by 24 October 2006. During earthwork excavation, due to negligence of the contractor, the adjacent concrete trench collapsed (March 2006) damaging control cables and cable trays etc., which resulted in stoppage of Wagon Tippler No.2 of Stage-I which was later rectified (February 2008) by the Company. Extensions of time for Wagon tippler 3 were granted from time to time upto 30 September 2007. Despite this, the Wagon tippler had not been commissioned (March 2008).

The entire coal required for Unit-1 to 4 had to be tipped by the only Wagon tippler 1 of Stage-I leading to abnormal delays in unloading the Wagons which resulted in payment of demurrage charges of Rs. 95.53 lakh to Railway authorities during the period from March 2006 to February 2008.

The following was observed:

- Cost of rectification of concrete trench (Rs. 21.35 lakh) was not recovered from the contractor, despite a clause (4.01.4 of General conditions) in the contract.
- Demurrage charges paid to Railways (Rs. 95.53 lakh) could not be recovered from the contractor, since there was no clause in the contract to recover such consequential losses.
- As per clauses 2 to 5 of Purchase Order, the prices accepted were firm and are inclusive of work contract tax and not subject to any variation on any grounds. However, amendment was issued (January 2006) to pay tax as additional item (involving Rs. 38.75 lakh) which lacked justification.
- Though the supply and erection were to be taken-up simultaneously, the contractor supplied material valued Rs. 9.82 crore between November 2006 and October 2007 and received payment of Rs. 9.33 crore thereon but commenced erection in October 2007 due to non-engagement of sufficient manpower, leading to locking up of borrowed funds and payment of interest thereon to the extent of Rs. 34.15 lakh on the material kept idle.

Government stated (July 2008) that (i) the Wagon tippler 2 was not in service from 5 March 2006 to 9 April 2006 only and the same was kept in operation by shunting loco and the demurrages incurred were only due to jamming of coal and bunching of rakes but not attributable to stoppage of wagon tippler 2. (ii) as per the clause 2.3 of the agreement, if there were any variation in statutory taxes within the scheduled completion period, the same was to the account of the company. (iii) the equipment would be delivered progressively depending upon the sub vendors delivery schedule.

Audit cannot agree with the contention in reply as (i) even though the wagon tippler was in operation with loco it took time to unload the wagons which led to demurrages as clearly seen from the demurrages paid prior to the collapse of wagon tippler and after collapse (ii) the said clause was not there in this agreement (iii) the equipment should have been delivered according to the erection schedule and not according to the sub vendor delivery schedule.

Coal conveying system

Expenditure of Rs. 11.13 lakh incurred on equipments relating to CHP remained un-recovered.

2.1.17 The work of structural steel fabrication, erection of all equipments including civil works, testing and commissioning of conveyors and auxiliaries relating to Coal Handling Plant (CHP) of RTPP, Stage II was awarded (March 2005) to Radha Engineering works, Chennai for Rs. 1.84 crore. Because of the modifications carried out i.e. construction of concrete hoppers in place of structural steel hoppers, the cost of construction of hoppers (excluding the value of structural steel), worked out to Rs. 28.87 lakh as against Rs. 40.00 lakh quoted by the firm, resulting in excess payment of Rs. 11.13 lakh. The same was not recovered so far (March 2008).

Government stated (July 2008) that the matter was under examination and a final decision to recover Rs. 11.13 lakh would be taken as pointed out by audit.

Delay in execution of general civil works

2.1.18 The work of construction of Power House super structure, ESP Control room, BCW Pump house, Cable and Pipe trenches and other miscellaneous works was awarded (March 2006) to RPP Constructions for Rs. 9.44 crore to be completed by November 2006. Subsequently, two supplementary estimates (Rs. 1.83 crore) were issued in October 2006 and February 2007 besides deleting works worth Rs. 1.37 crore. It was also seen that though extension of time was granted from time to time till December 2007, the work was yet to be completed (March 2008). The revised estimates were not prepared.

It was observed that due to unrealistic estimation, there were additions and deletions resulting in net increase of Rs. 48.80 lakh. The Company failed to coordinate with different contractors and monitor different works periodically which resulted in delay in execution of work.

Government stated (July 2008) that the work is interrelated with other civil works which were being executed by other agencies due to which work fronts were released to the firm in phased manner.

As the project is well conceived with detailed activities, the Company should have released the work fronts without affecting other civil works.

Staff quarters

2.1.19 The requirement of staff quarters (G type) was assessed (March 2005) at 468 Nos. and an amount of Rs. 8 crore was allocated in the Project cost. Two tenders were issued for construction of 240 staff quarters within a gap of 50 days between March 2006 and May 2006 (120 quarters each time) and the work was awarded to two different contractors at a cost of Rs. 2.09 crore and Rs. 2.39 crore respectively.

It was observed that despite availability of budget, assessing the requirement in advance (March 2005) and there being no change in the design or specifications, awarding of two contracts for the same number of quarters to two different contractors at different cost, resulted in additional expenditure of Rs. 51 lakh on actual execution of the work.

Government stated (July 2008) that calling two tenders in 50 days is not intentional and was necessitated due to shortage of quarters and representation of various unions as some of the Operation & Maintenance work are common for stage I & II.

The reply is not convincing as the requirement of the quarters was known to the Company even before calling for tenders.

Additional expenditure of Rs. 51 lakh due to awarding construction work to two contractors.

Cement and steel

2.1.20 The Company entered into agreements with twelve contractors for execution of different civil works. In all these contracts, Cement and Steel was supplied by the Company either free of cost or on cost recovery basis depending on the terms and conditions of the agreement. Since the civil works were not completed within the scheduled time (between May 2005 and January 2007), extensions were given to the contractors.

Non-recovery of cost of escalation of price on cement and steel from contractors.

It was observed that rise in the prices of cement and steel for the quantities issued beyond the scheduled date of completion of works borne by the Company (Rs. 1.02 crore) could not be recovered from the contractors (**Annexure-11**) in the absence of a clause in these contracts to that effect.

Government stated (July 2008) that due to complexity involved in power project works, the clause related to recovery of escalation in prices of material supplied by the company beyond scheduled date of completion was not incorporated in the agreement.

However, such a clause is necessary to safeguard the interest of the company in the event of delay on the part of contractors.

Operational Performance

Power generation

2.1.21 The generation of power during the period from the date of synchronization (Unit 3-January 2007 and Unit 4-November 2007) to end of March 2008 was 1,288.30 MUs as against envisaged 2,205.50 MUs (at Plant load factor of 80 per cent of installed capacity) resulting in short generation of 801.26 MUs after reducing auxiliary consumption as per norms (115.94 MUs). The shortfall in generation was because of frequent trippings, derated operations due to malfunction of Ash handling system as discussed in paragraph 2.1.14 and other technical reasons.

Consumption of in-puts

Extra expenditure on excess consumption of inputs against norms/specifications.

2.1.22 The Thermal Power Stations have to comply with the norms prescribed by the Central Electricity Authority in respect of consumption of fuel oil and comply with the norms prescribed in the design specifications in respect of consumption of coal and demineralised water. The consumption of in-puts for operation of unit 3 and 4 for the period from the date of synchronization to the end of March 2008 was reviewed and the following was observed.

Coal

2.1.23 Coal is the primary fuel to run the thermal generating Stations. As per the Boiler Design specifications the usage of coal shall be 138.7 tonne per hour or 660.19 tonne per one MUs of power generated. It was seen that the actual consumption of coal exceeded the specifications by 41,125.51 tonne valued at Rs. 7.49 crore for the period from March 2007 to January 2008 and as a result the Company had to incur extra expenditure of Rs. 7.49 crore.

Fuel Oil

2.1.24 Fuel oil is used for initial firing of the boiler and for stabilizing flames during restart after interruptions of coal flow. As per norms of Central Electricity Regulatory Commission (CERC), Coal based generating Stations shall consume 2 ml of fuel oil per kwh power generated (during stabilization period also). It was seen that during the period of ten months (unit 3) and five months (unit 4) of operation, the actual consumption of fuel oil was 14.82 ml and 38.94 ml per kwh respectively. As against the required consumption of 1,360.90 KLS[†] (unit 3) and 424.10 KLS (unit 4) for generating 680.46 MUs (unit 3) and 212.16 MUs (unit 4), the actual consumption was 9,824.48 KLS (unit 3) and 7,805.50 KLS (unit 4). This resulted in excess consumption of fuel oil by 8,463.58 KLS (622 per cent) for unit 3 and 7,381.40 KLS (1,740 per cent) for unit 4 with consequent extra expenditure of Rs. 36.08 crore (Rs. 19.18 plus Rs. 16.90 crore) (**Annexure-12**).

Demineralised water

2.1.25 Raw water is required to be demineralised before sending to the boilers to protect them from the effects of minerals. As per norms demineralised water is allowed at three *per cent* of 690 tonnes (designed capacity of the plant) per hour, which works out to 20.70 tonnes per hour. It was seen that the actual consumption of DM Water exceeded the norms by 45,410 tonnes for unit 3 and 28,076 tonnes for Unit 4 from January 2007 to February 2008 due to number of trippings and as a result the Company had to incur extra expenditure of Rs. 19.84 lakh on demineralised water.

Auxiliary consumption

2.1.26 As per the CERC norms, Coal based generating stations with Cooling Towers should consume only 9 *per cent* of its generation towards auxiliary consumption (during stabilization period also). It was seen that in respect of Unit 3, the auxiliary consumption ranged between 9.21 and 166.73 *per cent* during the period from February 2007 to March 2008 and in respect of Unit 4, it ranged between 9.21 and 62.32 *per cent* during the period from November 2007 to March 2008. Failure of the Company to adhere to norms led to excess consumption of 10.15 MUs of power (valuing Rs. 1.47 crore) which otherwise could have been sold.

The reasons for excess consumption were reported to be frequent tripping and operation of the plant at reduced load on account of technical reasons.

Government stated (July 2008) that norms for consumption of inputs were applicable only after COD and does not include the period of stabilisation.

However, the stabilisation related norms ceased to be effective from 1 April 2006; therefore the design specifications and Central Electricity Authorities regulations were applicable during stabilization period also.

[†] KLS : Kilo Litres

Environmental Issues

2.1.27 Andhra Pradesh Pollution Control Board (APPCB) is the agency to ensure compliance with the provisions of various acts enforcing environmental protection and to grant consent for operation of Thermal Power Plants in the State. Ministry of Environment and Forests (MoE&F), Government of India is also vested with powers under various statutes to issue directions to the pollution causing Industries/Bodies directly.

Air Pollution

2.1.28 Flue gas[‡] emission from thermal power plants affects the environment. Hence control of dust levels in flue gas is one of the important responsibilities of Thermal Power Stations. APPCB prescribed (June 1995) the Suspended Particulate Matter (SPM) emission level to be maintained at 115 mg/Nm³ for all the thermal power stations located in Andhra Pradesh.

It was observed that:

- The actual SPM level recorded was between 59 and 112 (during the period from October 2007 to February 2008) though within the norm prescribed by APPCB, was higher than what was envisaged (50 mg/Nm³) in the contract. No penalty could be levied on BHEL, as the performance Guarantee test was not conducted so far (March 2008).
- The Monitoring equipments to record Co (Carbonyl monoxide), Nox (Nitrogen oxide), Sox (Sulfur oxide) emission levels were to be installed along with the plant. The equipments were erected in September 2007. The equipments for unit 3 though commissioned (February 2008), were not functional for want of calibration. The equipment for unit 4 was not yet commissioned (March 2008). Thus, these equipments (Rs. 52 lakh) were not serving the purpose for which they were installed.

Monitoring equipments not commissioned.

Government accepted the audit observation and stated (July 2008) that after conducting PG tests, if the units are not meeting the guaranteed parameters, BHEL would be requested to take corrective measures or else penalty would be levied and on line monitoring systems were commissioned in May 2008.

Noise pollution

2.1.29 Government of India vide Noise Pollution (Regulation & Control) Rules, 2000 prescribed ambient air quality standards in respect of noise for different Zones/Areas. In order to maintain the prescribed sound level, noise emission from equipment should be controlled at source by providing adequate silencing equipment at various noise sources and a green belt should be developed around the plant area to diffuse noise dispersion. The Thermal Power Stations are required to record sound levels in all the areas stipulated in the rules referred to above.

[‡] The gas emanating from the combustion of coal in the boiler is sent through the chimney (Flue).

It was observed that the noise produced during day time in 50 out of 90 sample readings was well within the norms (75 db). It, however, ranged between 76 db and 97 db on remaining 40 occasions. The noise levels during night time were not recorded. There was no record to show that company made efforts to bring down the noise level.

Government while accepting the audit observation stated (July 2008) that necessary accoustics[§] are being provided to keep the noise levels within the norms.

Water pollution

2.1.30 As per the provisions of Water (Preventions & Control of Pollution) Act, 1974, APPCB prescribes conditions and stipulations to contain water pollution for compliance by Thermal Power Stations. As per these stipulations, total suspended solids (TSS), effluents from main plant, colony, domestic and ash pond should not exceed 100 mg per litre. It was seen that in 18 out of 30 samples taken during the period from October 2007 to February 2008, the TSS was within norms (100 mg) and in remaining 12, TSS ranged marginally higher i.e. between 102 and 124 mg per litre. The main reasons for exceeding TSS standards were absence of sedimentation and effluent treatment plants (ETP).

Government while accepting the audit observation stated (July 2008) that ETP was being constructed for the effluent treatment and it was in advanced stage of completion.

Hazardous Waste

2.1.31 APPCB while giving consent to operate thermal plant, stipulated that the Company shall comply with Hazardous Waste (Government & Handling) Rules, 1989 and obtained a specific commitment from the Company that it would operate a facility for collection, treatment, storage, transportation and disposal of hazardous waste viz., used mineral oil, synthetic oil, non-ferrous metal scrap and used lead acid batteries. As per these rules, (i) all hazardous waste should be disposed off only to the authorized agents of APPCB; (ii) inventory of hazardous waste should be maintained in Form-3 (iii) information should be furnished once in every six months, on batteries (Form-VIII) showing consumption, treatment, storage, disposal as per the Batteries (Management & Handling) Rules, 2001.

It was observed that though the company has been filing the hazardous waste annual return in Form-IV, inventory of hazardous waste in form-3 and information to be furnished once in every six months on batteries in Form-VIII was not compiled. The company was disposing of the hazardous waste to agencies other than those authorized by APPCB. Government stated (July 2008) that in most of the cases, hazardous waste was being disposed of to authorized agents of APPCB.

[§] Accoustics enclosure is a room with glassed partition provided for the shift personnel at various locations of the plant.

However, the list of authorized dealers did not contain the dealers to whom the waste was sold.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the performance Audit.

Conclusion

The Company failed to claim the eligible interest subsidy available on the loan. Due to lack of monitoring, Civil works were delayed resulting in delay in erection of machinery and led to (a) loss of interest rebate from PFC (b) loss of interest due to non adjustment of interest free advance paid to the BHEL (c) loss on account of price escalation beyond schedule date on steel and cement issued free of cost to the contractor. Non-commissioning of the Units on target dates due to lack of proper co-ordination between supply and erection of equipment resulted in delay leading to locking of borrowed funds and consequential loss of interest thereon. There were cases of consumption of inputs for generation in excess of norms. The Company did not achieve the envisaged power generation due to malfunctioning of Ash handling plant.

Recommendations

- **The Company should make more sustained efforts to co-ordinate with all the contractors, so that constraints can be identified in early stages and works completed on due dates.**
- **The Company in their future contracts should protect their interest by inclusion of clauses for (a) linking supply payments to erection milestones, (b) recovery of consequential losses (c) recovery of interest on advances retained by contractors beyond scheduled dates, and (d) recovery of escalation in prices of material supplied by Company (free of cost) beyond scheduled date of completion.**
- **The Company needs to ensure that it strictly adheres to the norms for consumption of inputs and generation of power as envisaged by taking necessary steps to avoid frequent trippings.**

Andhra Pradesh State Housing Corporation Limited

2.2. Implementation of Housing Schemes

Highlights

Though Central subsidy was drawn, there was delay in completion of houses under VAMBAY due to failure to tie up with banks for loan component.

(Paragraph 2.2.10)

Though orders issued earlier for conversion of houses under Urban Permanent Housing (UPH) to VAMBAY were revoked and release of funds withheld, 928 houses were converted and remained incomplete rendering the expenditure (Rs. 7.48 crore) unfruitful.

(Paragraph 2.2.14)

The Company released the entire unit cost to beneficiaries without providing funds for common infrastructure and facilities as required under scheme guidelines.

(Paragraph 2.2.16)

Utilization certificates for Central subsidy amounting to Rs. 16.97 crore for 2004-06 were not furnished within the prescribed time as per GOI guidelines. Rs. 4.03 crore (2002-03) of Central subsidy was refunded due to non-utilisation for various reasons.

(Paragraph 2.2.18)

Due to non-release of matching grant on time by State Government for Indira Awas Yojana (IAY), funds from other schemes were diverted.

(Paragraph 2.2.21)

Approved unit cost of houses under Rural Permanent Housing (RPH) was increased and G+2 pattern houses were taken up though not permissible. Government approval for deviation was also not obtained.

(Paragraph 2.2.24)

Failure to take up the matter with Government regarding partial release of subsidy by State Government in respect of Urban Permanent Housing (UPH) resulted in non-achievement of objective to provide houses to economically weaker sections.

(Paragraph 2.2.26)

Introduction

2.2.1 Andhra Pradesh State Housing Corporation Limited (Company) was incorporated in July 1979 as a wholly owned Government Company with the main objective to formulate, promote and execute Housing schemes for the benefit of people in general and the weaker sections in particular.

The Company undertakes the following stage-wise activities for achievement of its objectives:

- Formulation of housing schemes as per direction of Central/State Government.
- Mobilization of finances.
- Sanction of houses to the identified beneficiaries.
- Supervision of the construction of houses by the beneficiaries; arranging and disbursing finance, material and providing other relevant technical guidance.

During the period under review (2003-08) the Company undertook 14 housing schemes^{**} sponsored by Central and State Governments for the benefit of rural and urban poor.

The Company implements housing schemes for the houseless families below poverty line (BPL) belonging to different occupational groups in the State with Central/State assistance by arranging finance, material and technical assistance. Independent houses are constructed by the beneficiaries in all rural areas and in urban areas wherever sites are available on self help and mutual help basis. A pattern of G+1 or G+2^{††} houses is taken up in all urban areas where there is scarcity of land.

The management of the Company is vested in a Board of Directors (Board). As on 31 March 2008, there were 11 Directors including a Chairman. The Managing Director is the Chief Executive and is assisted by an Executive Director, three General Managers and one Chief Engineer at the head office. The Company has set up offices in all the districts headed by District Managers, assisted by Deputy Executive Engineers (Divisional level), Assistant Engineers and Work Inspectors (Mandal level).

^{**} Indira Awaas Yojana (IAY), Valmiki Ambedkar Awaas Yojana (VAMBAY), Integrated Housing and Slum Development Programme (IHSDP), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Rural Permanent Housing (RPH), Urban Permanent Housing (UPH), Rajiv Gruhakalpa (RGK), Fishermen Housing, Weavers Housing, Beedi workers Housing, Dukan-O-Makan, Namak Mazdoor Awaas Yojana, Housing for Victims of Tsunami 2004 and Artisan Housing.

^{††} Ground and 1 or 2 upper floors.

Scope of Audit

2.2.2 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial), Government of Andhra Pradesh. The report is yet (September 2008) to be discussed by the Committee on Public Undertakings (COPU).

The matters relating to implementation of two centrally sponsored Schemes viz., Valmiki Ambedkar Awaas Yojana (VAMBAY), Indira Awaas Yojana (IAY) and two State sponsored schemes viz., Rural Permanent Housing Scheme (RPH) and Urban Permanent Housing Scheme (UPH) covering the transactions at Head Office and eight^{**} out of 23 District Offices, selected based on the volume of expenditure, representing 38.6 per cent of the total expenditure and quantum of houses constructed representing 37.75 percent of the total houses completed for the period from 2003-04 to 2007-08, were reviewed during February to April 2008.

Audit Objectives

2.2.3 Performance audit of implementation of Housing Schemes by the Company was conducted with a view to assess whether:

- the funds were mobilized on time and on proper assessment;
- the scheme guidelines were followed scrupulously in execution;
- the schemes were implemented as per schedule of Government;
- proper Management Information System (MIS) was in place to monitor and was functioning efficiently;
- internal control and internal audit mechanism was effective; and
- environmental aspects had been taken care of.

Audit Criteria

2.2.4 The following audit criteria were adopted:

- Scheme Guidelines relating to VAMBAY, IAY, RPH and UPH;
- Government Orders and relevant instructions in regard to implementation and monitoring of the housing schemes, mobilization of funds etc;

^{**} Khammam, Visakhapatnam, East Godavari, Chittoor, Ranga Reddy, Hyderabad, Kurnool and Nalgonda districts.

- Norms prescribed by Town Planning Authorities and Municipal Corporations; and
- Policies framed by the Company for implementation of housing schemes.

Audit Methodology

2.2.5 The methodology adopted for the performance audit include:

- scrutiny of agenda and minutes of Board Meetings, Constituted Committee Meetings and other records relating to implementation of housing schemes maintained at Corporate and district offices;
- analysis of data relating to beneficiaries with reference to eligibility criteria; and
- issue of audit enquiries and interaction with the management.

Audit findings

2.2.6 The audit findings were reported (21 May 2008) to the State Government/Management and discussed (4 July 2008) at the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) where the Government/Management was represented by Principal Secretary to Government and Managing Director of the Company. The review was finalized after considering the views of the Government and reply of the Management.

The audit findings are discussed in succeeding paragraphs.

Implementation of housing schemes

2.2.7 All the four housing schemes* were formulated for the benefit of people below poverty line (BPL) living in rural and urban areas (including slums). The cost of house under each scheme is funded by subsidy, loan and beneficiary contribution. The details of unit cost, subsidy, loan, etc. under each scheme are given in **Annexure-13**. The role of the Company is of a nodal agency responsible for tie up with banks for arranging loans to beneficiaries, drawing subsidies from both Government of India (GOI) and Government of Andhra Pradesh (GoAP), rendering accounts for the same and collection of beneficiary contribution, besides supervision and technical assistance to beneficiaries for construction of houses. The beneficiaries were identified by Members of Legislative Assembly (MLAs), Urban Development Agencies, District Development and Review Committees (DDRCs), Mandal teams,

* Valmiki Ambedkar Awaas Yojana, Indira Awaas Yojana, Rural Permanent Housing and Urban Permanent Housing.

District Rural Development Agencies (DRDAs), Grama Sabhas up to 2005-06. From 2006-07 beneficiaries are being selected by village/ward wise survey conducted by the district administration to cover all eligible people to achieve saturation in the selected villages/wards under Integrated Novel Development in Rural Areas and Model Municipal Areas (INDIRAMMA). The GoAP releases funds depending on the schemes sanctioned and allocations in Budget approved by Legislative Assembly. GOI releases funds towards subsidy through Housing and Urban Development Corporation Limited (HUDCO) in respect of schemes proposed by Company through GoAP and approved by GOI. The unit cost of each house is disbursed to the beneficiaries in the form of cash and material viz., cement, steel, etc. in a phased manner based on the progress of work.

Valmiki Ambedkar Awaas Yojana (VAMBAY)

2.2.8 Valmiki Ambedkar Awaas Yojana (VAMBAY) was launched in December 2001 by GOI to provide adequate shelter to the below poverty line (BPL) Urban families living in slums, on the basis of survey conducted (1998) under Swarna Jayanthi Shahari Rojgar Yojana (SJSRY), as per which there were 33.08 lakh BPL slum dwellers in the State. The primary objective of the Scheme was to provide adequate shelter to the BPL families in urban slums in a march towards the goal of cities with healthy urban environment. As per the funding pattern GOI will release 50 per cent of the unit cost as subsidy after mobilizing 10 per cent of unit cost as Beneficiary Contribution (BC) and the balance 40 per cent as loan. The municipalities concerned will identify the slums notified prior to 1995 for development *in situ* or relocation and communicate the list of beneficiaries who are living in respective slums to the Company at district level. Based on this a project report is prepared and after scrutiny by the District Level Committee, the same is sent to the State Government through the Company for onward submission to GOI for sanction of the scheme. During the course of its operation (2001-02 to 2005-06) the Company submitted Project Reports for 1,18,278 houses with an estimated project cost of Rs. 537.76 crore. The project cost comprised of Rs. 268.88 crore as subsidy, Rs. 215.10 crore as loan to be tied up with banks and Rs. 53.78 crore as BC. The scheme was discontinued from 2006-07 after introduction (December 2005) of another centrally sponsored Scheme namely Integrated Housing and Slum Development Programme (IHSDP).

Construction taken up deviating the scheme guidelines.

2.2.9 During the period of scheme (2002-03 to 2005-06), against the sanction of 1,14,278 houses by GOI the company had taken up 95,231 houses at an estimated cost of Rs. 431 crore out of which 89,639 houses were completed as on 31 March 2008. Construction of 5,160 houses was in progress and that of 432 houses was yet to start. Thus, total percentage of houses completed worked out to 94.13 per cent as indicated in **Annexure-14**.

2.2.10 Though it was intended to complete the houses within one year from the date of sanction, there was delay ranging from one year to six years as indicated in **Annexure-15**. Taking-up houses without ensuring loan tie up

with banks was the main reason for non-completion as well as delay in completion. A test check of records (in eight districts) revealed that though 58,873 houses were completed (2002-08), loans were released by banks in respect of only 35,669 houses. It was observed that funds amounting to Rs. 42.17 crore were diverted from other schemes to complete the balance (23,204) houses.

The Government replied (July 2008) that though the bankers had issued sanction letters, the loan amount was not released in full for which district collectors were requested to pursue. In such cases the funds were met from Company's funds.

The fact remains that construction of houses was taken up without release of loans from banks in deviation from the scheme guidelines.

2.2.11 In Ranga Reddy district, out of 4,268 houses taken up for construction during the years 2001-02 to 2003-04, 2,530 houses were yet (January 2008) to be completed in spite of company having incurred an expenditure of Rs. 7.46 crore. The reasons attributed for non completion were non receipt of bank loans and beneficiary contribution.

The Government replied (July 2008) that the houses could not be completed due to increase in cost of construction. Further it was stated that as these houses were transferred to Greater Hyderabad Municipal Corporation (GHMC) and would be completed by them.

The fact remains that in spite of spending Rs. 7.46 crore over a period of 4 to 6 years the objective of providing shelter to the BPL beneficiaries could not be met.

2.2.12 In 2005-06, against sanction of 40,651 houses the company had taken up 24,076 houses. Accordingly, sanction number was also reduced. The reason for reduction was restriction to the extent of subsidy released by GOI. The company's inability to furnish the Utilisation Certificates (UCs) in time for earlier sanctions resulted in non-release of subsidy amounting to Rs. 36.17 crore.

Irregular drawal of subsidy

2.2.13 As per the Scheme guidelines subsidy was to be drawn from GOI after deposit of equivalent amount of loan component and BC. It was observed that the Company, during the period from February 2002 to August 2005 opened several VAMBAY bank current accounts/fixed deposit accounts at Head office and deposited an amount of Rs. 267.49 crore (in lieu of BC and mobilized loans) by transfer of funds from Company's current account/FDRs and had drawn subsidy of Rs. 232.71 crore. Thus, the Company circumvented the procedure prescribed for drawal of GOI subsidy. This also resulted in temporary diversion of funds relating to other schemes.

Government replied (July 2008) that since drawal of loans from banks takes considerable time the Company drew the GOI subsidy by showing as matching funds in order not to lapse the GOI subsidy.

The fact remains that the scheme guidelines were not strictly adhered to in drawal of funds.

Funds were diverted from other schemes.

Unauthorised conversion resulted in unfruitful expenditure of Rs. 7.48 crore.

2.2.14 The State Government issued (March 2006) orders for conversion of 992 UPH houses into VAMBAY Scheme in Visakhapatnam, which were later revoked (March 2006). In spite of such revocation, the Visakhapatnam district office converted (March 2006) 928 houses of UPH Scheme to VAMBAY Scheme and incurred an expenditure of Rs. 7.48 crore. Due to such unauthorized conversion, Head Office did not release funds and these houses could not be completed rendering the expenditure of Rs. 7.48 crore unfruitful, thus depriving the targeted families of housing facility.

The Government replied (July 2008) that these 928 houses formed part of conversion proposal for 8,472 houses. These houses would be completed shortly.

However, the construction of houses despite revocation of conversion was irregular.

Irregular drawal of Central subsidy of Rs. 1.28 crore.

2.2.15 A reference is invited to the Paragraph 2.1.23 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial), Government of Andhra Pradesh wherein it was mentioned that 426 houses of Township Housing Project (THP) at Uppal constructed at a cost of Rs. 5.38 crore remained unoccupied due to delay in selection of beneficiaries. It was observed that:

- The Company transferred (March 2005) these 426 completed houses to VAMBAY and central subsidy of Rs. 1.28 crore was drawn.

Government replied (July 2008) that the conversion was allowed since guidelines for both the schemes were similar and 300 houses were already occupied.

The reply is not relevant as approval of GOI for conversion was not obtained. The fact however, remains that Rs. 1.59[⊗] crore spent on 126 houses remained unfruitful.

- Scheme guidelines stood violated by taking up construction even before identifying beneficiaries and including the ineligible people in the beneficiaries list.

The Government replied (July 2008) that beneficiaries were identified by Municipal authorities.

The reply is not acceptable as the onus of adhering to scheme guidelines was on the Management/Government.

Non-utilisation of funds for infrastructure and common facilities

Non-utilisation of earmarked funds for infrastructure.

2.2.16 As per the Scheme guidelines an amount of Rs. 5,000 out of the unit cost has to be utilized for providing common infrastructure and facilities. The Company during the period 2002-08 completed 89,639 houses, on which an amount of Rs. 44.82 crore* should have been spent on these facilities. However, a test check of records revealed that in none of the VAMBAY colonies the earmarked funds for common infrastructure and facilities were

[⊗] Rs. 1.26 lakh x 126 houses

* 89,639 houses x Rs. 5000

utilized. It was observed that the Company released the entire unit cost, including Rs. 5,000 meant for infrastructure and development to the beneficiaries for constructing houses.

The Government replied (July 2008) that the local bodies were providing infrastructure by taking up funds under various schemes. Further, it was replied in the Audit Review Committee meeting (July 2008) that Rs. 5,000 per house was only optional as per guidelines and the Company released this amount also to the beneficiaries due to high cost of construction.

The reply does not explain the reasons for non maintenance of data of infrastructure which was provided by the local bodies. The project reports were prepared by deducting Rs. 5,000 per house for providing infrastructure from unit cost in order to get it approved from GOI.

Recovery of administrative charges

2.2.17 The guidelines of the VAMBAY scheme did not stipulate levy and collection of administrative charges from the beneficiaries. However, four district offices* deducted Rs. 68.14 lakh towards administrative charges resulting in reduced disbursement of unit cost to the beneficiaries, which was unauthorized and irregular.

Government while admitting that administrative charges were not to be collected stated (July 2008) that necessary instructions were issued to the district offices to refund the amount collected to the beneficiaries. However, the refund was not done so far (August 2008).

Submission of utilisation certificates

Delay in furnishing of utilization certificates, refund of unutilized amount and drawal of irregular subsidy.

2.2.18 As per the guidelines issued by the GOI, UCs are required to be furnished for the central subsidy within 12 months after close of the financial year in which funds were released. The Company furnished UCs for Rs. 192.02 crore in time but it was observed that:

- UCs were not furnished for Rs 16.97 crore (2004-05: Rs. 4.08 crore; 2005-06: Rs. 12.89 crore) even after a lapse of 12 to 24 months of becoming due.
- Rs. 4.03 crore pertaining to the year 2002-03 was refunded (February/March 2005) to GOI due to non-utilisation because of land disputes, court cases and local disputes.
- In Chittoor district, construction of 601 VAMBAY houses (2003-04) for rehabilitation of beneficiaries (who were evicted from Tirumala hills) was done by Tirumala Tirupathi Devasthanams (TTD) with their funds. However, the Company had drawn (June 2003) subsidy of Rs. 1.20 crore from GOI and furnished (December 2005) UCs which was irregular.

Government replied (July 2008) that the delay in submission of UCs was due to delay in sanction and release of bank loans. In respect of Chittoor district it was stated that the beneficiaries are residing in slums at Tirupathi and for livelihood they are residing at Tirumala up hills. The subsidy amount is to be

* East Godavari, Visakhapatnam, Nalgonda and Ananthapur.

reimbursed to TTD after getting clarifications regarding beneficiaries and in anticipation the UC was furnished. The fact however, remains that the Company submitted irregular UC without utilizing the funds for the purpose for which it was meant.

Environmental aspects

Environmentally clear habitats was not provided to the beneficiaries

2.2.19 As per the VAMBAY Scheme guidelines the funds available to the State under National Slum Development Programme (NSDP) should be used for environmental improvement. Development of green areas, open spaces and recreational areas must be an integral part of VAMBAY colonies. It was observed that except getting approvals to the Project Reports as per the norms of town and country planning, the Company did not coordinate with other agencies or made efforts to ensure provision of environmentally clean habitats to the beneficiaries.

Monitoring

2.2.20 A State Level Coordination Committee (SLCC) was constituted (October 2002) with the Secretary of State Government as Chairman. The main functions of SLCC are to monitor progress of construction of VAMBAY houses and recommend for any changes/modifications in the Scheme. The committee was to meet frequently to monitor the progress and remedy bottlenecks in execution. However, the SLCC conducted only four meetings between March 2005 and August 2006 so far (March 2008) indicating lack of effective monitoring. The Government replied (July 2008) that there were no policy issues on which decision was to be taken by SLCC and a review by SLCC was being conducted shortly. However, the fact remains that the scheme lacked effective monitoring.

Indira Awaas Yojana

2.2.21 Indira Awaas Yojana (IAY) is a Government of India sponsored scheme to provide houses primarily to the poor Scheduled Castes/Scheduled Tribes, freed bonded labourers and other below the poverty line non-SC/ST people in the rural areas. The scheme is fully subsidized on cost-sharing basis between the Central and the State Governments in the ratio of 75:25. As against total number of 7,05,057 houses allocated (2003-08) a total number of 6,80,113 houses completed (inclusive of 84,798 spill over houses of previous years) and 1,09,742 houses (15.56 per cent of allocated houses) were under progress. Further, as against Rs. 1583.67 crore received (GOI: Rs. 1187.98 crore, State Government: Rs. 395.69 crore), Rs. 1566.82 crore (including interest of Rs. 1.90 crore earned on Short Term Deposits) were utilized as detailed in **Annexure-16**.

Non-reconciliation of progress reports.

It was observed that:

- The Progress Reports were not reconciled regularly resulting in differences in head office figures when compared to district office figures. The discrepancies noticed in six district offices test checked are enumerated in **Annexure-17**. In the absence of any reconciliation,

exact number of completed houses against a programme year at the end of March 2008 could not be ascertained.

It was stated (July 2008) by the Government that there was no discrepancy in the progress reports of Head office and District Office figures. The reply is not acceptable as discrepancies were existing and no regular reconciliation of the progress reports was conducted to rectify the differences.

Delay in release of funds by the State Government, resulted in diversion of funds from other sources by the Company.

- Due to non completion of the houses in the year of allocation, back log was increasing year after year.

Government replied (July 2008) that all pending houses would be completed by December 2008.

- As per GOI's instructions the State Government should release its share (25 *per cent* of the subsidy component) within a month of receipt of central assistance. It was observed that there were delays ranging from one to seven months in releasing the matching funds by the State Government. An amount of Rs. 22.72 crore towards matching grant of 2003-04 programme year was not released by the State Government, due to which funds of other schemes were diverted for implementation of IAY. The matter was pursued with the Government up to May 2006 and thereafter there was no pursuance.

The Government stated (July 2008) that the delays were due to administrative reasons and ways and means position of the Government.

The reply is not acceptable as the matching contribution was to be released within the stipulated time for smooth implementation of the scheme.

- UCs were submitted to the GOI showing State Government's matching contribution as having been received, though the same was either not released or released belatedly.
- A review of the UCs and the expenditure recorded in accounting records for the years 2003-04 to 2006-07 (figures of expenditure are provisional for 2004-05 to 2006-07) revealed that there were huge differences in six out of eight district offices covered in audit as indicated in **Annexure-18**. It was observed that the company furnished 16 UCs (July 2004 to November 2006) for Rs. 245.30 crore against which the actual expenditure as per accounting records was only Rs. 45.71 crore.

The Government stated (July 2008) that the differences were based on provisional accounts figures which are subject to revision.

The reply is not factually correct as the figures for 2003-04 were based on audited accounts and in that year also UCs were issued for Rs. 44.71 crore against which Rs. 13.28 crore expenditure was incurred.

Rural and Urban Permanent Housing Schemes

2.2.22 Rural Permanent Housing (RPH) and Urban Permanent Housing (UPH) Schemes are being implemented under the Weaker Section Housing Programme (WSHP) of the State Government meant for people living below

poverty line in rural and urban areas respectively. The unit cost consists of subsidy (28 per cent) provided by the State government through budgetary allocation, loan component (70 per cent) mobilized by the Company and BC (two per cent) in respect of RPH and subsidy (7.5 per cent), loan component (87.5 per cent) and BC (five per cent) in respect of UPH. From 2006-07, the State Government re-launched the above schemes under a new caption Integrated Novel Development in Rural Areas and Model Municipal Areas (INDIRAMMA) to take up development of model villages and towns following a saturation approach over a period of three years from 2006-07.

Rural Permanent Housing Scheme

2.2.23 The table below indicates the number of houses allocated, sanctioned, taken-up for construction and completed under the scheme during the period from 2003-04 to 2007-08:

Year of Programme	Number of houses			Percentage of completed houses to sanctioned houses
	Sanctioned	Completed	Balance	
2003-04	3,77,000	2,12,530	1,64,470	43.63
2004-05	4,02,552	3,63,160	39,392	90.21
2005-06	3,67,870	4,19,623*	-	-
2006-07	16,78,902	9,97,201	6,81,701	59.40
2007-08	22,91,832	81,594	22,10,238	3.56

The following observations are made:

- The number of completed houses for the programme year 2005-06 were more than the number of sanctioned houses due to inclusion of spill over houses of earlier years completed during the year. Records showing the details of spill over houses and houses constructed against the fresh allocations were not available in the absence of which progress achieved in the year could not be evaluated.
- Test check conducted in six districts^{*} revealed that only 41.5, 39.23, 63.49 and 26.91 per cent of houses taken up in the years 2003-04 to 2006-07 respectively were completed during the year of allocation. Similar data for the company as a whole was not made available. The company has not maintained data for the number of houses to be completed in a scheduled time, how many were completed and the reasons for delay in completion.

* includes spill over houses of earlier years, hence completed houses are more.

^{*} Khammam, Visakhapatnam, East Godavari, Chittoor, Kurnool and Nalgonda.

Irregular construction of houses under G+2 pattern

Construction of G+ 2 houses under RPH in violation of government guidelines

2.2.24 Based on proposals received (December 2006) from Deputy Executive Engineer, Kakinada Rural Division, the District Collector, East Godavari accorded (December 2006) sanction for construction of 360 houses under G+2 pattern* in Kakinada rural mandal under RPH 2006-07 scheme.

It was observed that:

- Construction of G+2 pattern house under RPH was not permissible;
- The company had not obtained approval from the State Government for the deviation;
- As against the approved unit cost of Rs. 25,000 under RPH, the company approved the unit cost of these houses ranging between Rs. 1.10 lakh and Rs. 1.25 lakh as given below:

Particulars	Funding pattern	
	As per RPH scheme Rs.	As proposed for the G+2 houses (Rs.)
State Subsidy	7000	7000
Beneficiary Contribution	500	10500 to 25500
Loan	17500	84500
Others	--	8050
Total	25,000	1,10,050 to 1,25,050

- Since the limit of Rs. 25,000 was fixed under RPH, keeping in view of low income of BPL families, fixing of 4 to 5 times more cost gives rise to doubt that beneficiaries may be other than the BPL families.
- The Company started (May 2007) construction of only 168 houses and 192 houses were yet to be taken up for construction.
- The Company could not complete the houses even after more than 15 months from the date of sanction (December 2006) due to its abnormally high unit cost.

Government stated (July 2008) that the houses were sanctioned in G+2 pattern as the land cost was very high and it was with the consent of the beneficiaries. The estimates were also technically approved by the head office of the company and as such no deviation of guidelines was made.

The reply is not acceptable as G+2 construction under RPH was not permissible and permission for expenditure beyond Rs. 25,000 per beneficiary was not accorded by the Government.

Construction of Individual Sanitary Latrines (ISLs)

2.2.25 In response to the request (July 2006) from the company for according sanction for construction of bath-cum-toilet in the houses taken up under INDIRAMMA, State Government sanctioned (August 2006) construction of

* Ground floor plus two upper floors.

16,32,401 Individual Sanitary Latrines (ISLs). The unit cost of Rs. 3,050 per ISL was to be financed by contribution from GOI and State Government (Rs. 2,750) routed through Zilla Parishads, District Water and Sanitation Committees (DWSC) and BC (Rs. 300).

A review of the progress of the scheme revealed that as against Rs. 448.91 crore^{§§} required for the project, Rs. 92.18 crore were only released to the end of December 2007. Out of 16,32,401 ISLs sanctioned 11,03,751 were grounded and 3,02,280 ISLs were completed, the details of which are given in the **Annexure-19**.

It was observed that:

- in Chittoor district though the district office received (December 2006) Rs. 5.85 crore, UCs were furnished for Rs. 7.56 crore, thus incurring an excess expenditure of Rs. 1.71 crore. Excess expenditure of Rs. 1.71 crore were required to be released from Chittoor Zilla Parishad and DWSC. No pursuance was made for the reimbursement;
- in Khammam district an amount of Rs. 7.83 crore was received for construction of 11,316 ISLs (September/October 2006) but an amount of Rs. 3.11 crore only was utilized and the balance amount of Rs. 4.72 crore was refunded (November 2007) to Chief Executive Officer (CEO), Zilla Parishad. It was seen that 37,073 ISLs grounded were left without funds and could not be completed; and
- though instructions were issued (June 2007) to submit monthly progress reports and UCs for the amount released and spent, neither the reports nor the UCs were submitted to the Head office.

Though construction of toilet was an integral part of construction of houses and funds from GOI/GOAP were to be tied-up for such construction, no efforts were being made to obtain and utilize the funds provided by the Government in this regard. As against 9.97 lakh houses completed during 2006-07, ISLs were provided only in 3.02 lakh houses, thus defeating the objective of providing healthy environment.

The Government stated (July 2008) that the district offices have been instructed to take action for completion of the ISLs and furnish UCs.

Urban Permanent Housing Scheme

Non-release of entire subsidy led to non-completion of houses.

2.2.26 During the period 2004-05 to 2007-08 (data for 2003-04 not compiled by the company) the company sanctioned and taken-up 7.14 lakh houses out of 7.84 lakh houses allocated and only 1.24 lakh houses were completed leaving a balance of 5.90 lakh houses incomplete. The year-wise details of

^{§§} 16,32,401 numbers x Rs. 2,750

houses allocated, sanctioned, completed, in-progress etc., are detailed in **Annexure-20**.

It was observed that:

- The percentage of completed houses ranged between 11.19 (2004-05) and 46.22 (2005-06). The main reasons for the low achievement were non-availability of house sites, non-availability of basic infrastructure facilities in the sites available, migration of beneficiaries and disinterest of the beneficiaries.
- While the subsidy requirement for the years 2005-06, 2006-07 and 2007-08 was Rs. 45.54 crore, Rs. 73.64 crore and Rs. 83.00 crore respectively, the State Government released subsidy of Rs. 11.85 crore, Rs. 28.80 crore and Rs. 77.50 crore respectively. The Company failed to take up the matter with the State Government for release of subsidy which resulted in non-achievement of objective to provide houses by timely releasing financial assistance to economically weaker sections in time.
- Though tree plantation was integral part of the colonies constructed, the details of the trees planted or green areas developed in the colonies was not maintained by the Company.

The main reasons for non completion of houses were attributed (July 2008) by the Government to non-availability of land, non-suitability of land available, beneficiary migration and disinterest of the beneficiaries. It was also stated that action was being taken to remove the bottlenecks and improve the progress. It was further stated that the details of tree plantations would be furnished in due course.

The fact remains that the object of providing houses to economically weaker sections was adversely affected due to poor coordination between the Company and the State Government.

Conversion of houses under UPH scheme to VAMBAY scheme

2.2.27 Based on the proposals received from the district offices for conversion of houses from UPH scheme to VAMBAY scheme in order to utilize the entire subsidy sanctioned by GOI, the Company accorded (March 2006 / February-March 2008) permission for conversion of 28,515 houses constructed under UPH scheme to VAMBAY scheme with a project cost of Rs. 125.10 crore. Further, as per the scheme guidelines, the quantum of subsidy, loan and BC were different in both the schemes. In respect of VAMBAY, the loan component was tied-up directly to the individual beneficiaries with the banks making them liable for repayment whereas in respect of UPH, the loan component was mobilised by the Company on the guarantee given by the State Government; the onus of collection and repayment to the bank rested with the Company.

It was observed that:

- the Company received subsidy of Rs. 63.23 crore under VAMBAY scheme which was diverted to houses already constructed under UPH;

- the unit cost of the house under UPH scheme was Rs. 40,000 consisting of subsidy of Rs. 3,000, loan of Rs. 35,000 and BC of Rs. 2,000 whereas in respect of VAMBAY, the same were different depending on the location of unit viz. subsidy (Rs. 20,000, Rs. 25,000 and Rs. 30,000), loan (Rs. 16,000, Rs. 20,000 and Rs. 24,000) and BC (Rs. 4,000, Rs. 5,000 and Rs. 6,000);
- necessary adjustments due to conversion were yet (March 2008) to be made;
- in East Godavari district, loan (Rs. 26.13 crore) disbursed to the beneficiaries in respect of 7,466 houses under UPH scheme remained to be adjusted in the books of account, though these houses were accounted for under VAMBAY resulting in liability of repayment remaining with the Company instead of transfer to beneficiaries. Further, the subsidy (Rs. 2.24 crore) disbursed under UPH (GoAP funds) remained to be transferred from VAMBAY (GOI funds);
- similarly, in Visakhapatnam district, loan (Rs. 3.25 crore) and subsidy (Rs. 0.28 crore) in respect of 928 houses remained to be adjusted in the books of account. Further, the Company did not execute the required second mortgage for the loan disbursed under UPH since the banks did not agree for the same. Thus, the loan disbursed under UPH remained unsecured;
- due to the conversion, 28515 beneficiaries under UPH were deprived of housing as the Company did not take up further construction in place of the converted UPH houses.

During ARCPSE meeting (July 2008) the Company confirmed non-adjustment of subsidy and loan components of the converted houses.

Delay in completion of houses at Daminedu, Tirupati Municipality

Release of Rs. 11.50 crore without concluding MOU.

2.2.28 The Company issued (January 2006) orders for construction of 3,282 houses at Daminedu under Tirupati Municipality by Andhra Pradesh Scheduled Castes Cooperative Finance Corporation Limited (APSCCFCL) under UPH 2004-06 at estimated cost of Rs. 13.12 crore. All these houses were to be completed by 31 March 2006. Though APSCCFCL submitted (March 2006) draft Memorandum of Understanding (MOU) to the company for execution, it was not concluded so far (March 2008).

As against 3,282 houses, APSCCFCL showed as completed (April 2007) 1980 houses without completion of finishing items such as plastering, flooring, doors and windows, water supply, sanitary and electrification, etc. A total amount of Rs. 11.50 crore was released (January/February 2008) to APSCCFCL. The expenditure incurred so far remained unfruitful, as the houses can not be occupied till fully completed.

The Government replied (July 2008) that APSCCFCL had completed 90 per cent of finishing works and the balance work would be completed soon. The fact remains that the houses remained incomplete even after two years.

Township Housing Project at Mangalam

2.2.29 A reference is invited to Para 2.1.24 of the Report of Comptroller and Auditor General of India for the year ending 31 March 2003 (Commercial), Government of Andhra Pradesh, wherein it was observed that 684 Houses constructed at Mangalam between December 2001 and June 2002 at a cost of Rs. 88.52 lakh remained vacant.

It was observed that at the request (February 2004) of Tirumala Tirupathi Devasthanam (TTD), the State Government permitted (March 2004) the Company to handover the land and half finished structures of Township Housing Project (THP) at Mangalam to TTD, subject to reimbursement of total expenditure along with interest amounting to Rs. 1.01 crore. The Company handed over (August 2004) the THP houses along with land. The TTD requested (October 2004) the Company for transfer of ownership of land in favour of the TTD, for reimbursement of expenditure. However, the Company had not transferred the ownership of land so far (March 2008). The total amount payable by TTD on alienation of land works out to Rs. 1.36 crore (including interest up to March 2008).

The Government replied (July 2008) that the alienation proposals were pending with it and soon after alienation the entire amount would be recovered.

Submission of Utilisation Certificates (RPH and UPH)

2.2.30 Since the construction of houses under both RPH & UPH schemes was to be completed during the year of sanction, UCs were to be submitted within 12 months after the close of the financial year in which the funds were released.

It was observed that:

- UC for an amount of Rs. 2.77 crore for the year 2004-05 was furnished in December 2007 after a delay of two years.
- Funds pertaining to a programme year were being released to the districts during the succeeding period also. It was observed that Rs. 432.26 crore pertaining to 2003-04 was released during 2004-07, Rs. 670.99 crore pertaining to 2004-05 during 2005-07 and Rs. 515.06 crore pertaining to 2005-06 in 2006-07. However, UCs were furnished to Government before incurring expenditure which was irregular.

Government replied (July 2008) that since copies of certificates could not be traced out by the office of the Commissioner WSHP, fresh UCs were issued. It was further replied that the Company submitted UCs for the amount released depending on the number of houses started and the commitment to meet the payments. However, the UCs originally furnished for the year 2004-05 were not available in the absence of which only fresh UCs were considered.

Loan drawal for UPH placed in FDs resulted in loss of interest of Rs. 2.45 crore.

The fact remained that UCs were issued before incurring the expenditure which was incorrect.

Drawal of loan without requirement (RPH and UPH)

2.2.31 A test check of records revealed that under both RPH and UPH schemes, Company mobilized loans without proper assessment of funds requirement and synchronization of drawal of loans, with the implementation of schemes. This resulted in extra expenditure of Rs. 2.84 crore as discussed in succeeding paragraphs.

2.2.32 For the programme year 2004-05, a loan of Rs. 215 crore was mobilized for UPH scheme during December 2004 and March 2005. Out of Rs. 215 crore mobilised, an amount of Rs. 100.44 crore was placed in Fixed Deposits (FDs) for a period ranging from 10 months to 19 months which indicates that the loan was drawn without immediate requirement. The Company paid an amount of Rs. 9.84 crore on the amount of loan drawn (calculated at the weighted average rate of borrowing during the period from January 2005 to July 2006) whereas the FDs earned an interest of Rs. 7.39 crore during the same period resulting in extra expenditure of Rs. 2.45 crore towards interest.

Government replied (July 2008) that the Company has to take advance action for drawal of loan and the actual utilization would depend on the progress of houses and that to minimize the loss the surplus funds in current account were kept in fixed deposits.

The reply does not address the fact that substantial portion of the loan drawn was parked in fixed deposits for longer periods which indicated a need for proper assessment of funds requirement.

2.2.33 The Company approached (January 2005) Housing and Urban Development Corporation Limited (HUDCO) for sanction of loan of Rs. 117 crore to take up construction of 66,857 Rural houses under RPH 2004-05 in tsunami affected districts. HUDCO sanctioned (March 2005) the loan and the amount was released between April 2005 and March 2006. Out of Rs. 117 crore, an amount of Rs. 26 crore was placed in short term deposits (STDs) (April 2005 to February 2006) as there was no immediate requirement of funds. As the Company was entitled to draw the loan amount in instalments, funds should have been drawn based on immediate requirement. While the company paid interest of Rs. 1.46 crore on the loan of Rs. 26 crore, it earned an interest of Rs. 1.07 crore on short term deposits resulting in extra expenditure of Rs. 39 lakh towards interest.

Government stated (July 2008) that for reasons beyond the control of the Company there was bound to be variations between projected requirement and actual requirement due to pace of implementation of the programme and drawal of funds cannot be postponed to avoid the situation of lack of funds.

The Company should have synchronised the drawal of loan with the physical progress with meticulous planning to avoid payment of interest on loan.

General

Non-existence of Management Information System

Management Information System

2.2.34 Management Information System (MIS) is a systematic collection of data relating to the working of an organization so as to facilitate data based decision. A reference is invited to Para 2.1.39 of Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial), Government of Andhra Pradesh, wherein non-existence of MIS reports was reported. However, in spite of reporting the deficiency the same situation was continuing. In the absence of effective MIS, flow of data from districts was lacking and the Company was not able to compile authentic information relating to progress of housing schemes, loan recoveries, documentation, etc.

Government stated (July 2008) that efforts were being made to develop suitable software on Human Resources, budget control and other related items.

Internal Control

Inadequate internal control and lack of monitoring system led to large number of cases of malpractice and misappropriations.

2.2.35 Internal control is a process designed for providing reliability of financial reporting and compliance with applicable Laws and Statutes. It was observed that the monitoring of malpractice and misappropriation cases noticed was very lax and casual as there was no regularity in reporting the status of the pending cases by the district offices. At the end of October 2007, a total of 216 cases were pending against the employees with Commissioner of Enquiries (3), Vigilance and Enforcement department (27), Anti Corruption Bureau (46) and departmental cases (140). Out of 216 cases, inquiries were not completed in 125 cases. As many as 383 employees (12.15 *per cent* of total strength) were involved in these cases. Age-wise analysis of these cases revealed that 143 cases were pending for more than three years, 18 cases for one to three years and balance 55 cases for less than one year. The amount involved in these cases was not readily known as in a number of cases the same was not assessed by the management. Though, Inquiries were completed (2004-07) in respect of 31 cases, inordinate delays were noticed in initiating action after completion of Inquiry.

Government replied (July 2008) that monitoring teams were constituted to Inquire into the cases reported and suitable instructions were given to the Inquiry officers to conduct inquiries and report the cases entrusted. Further, the Company was taking up the issue of the finalization and disposal of the cases on priority.

Internal Audit

2.2.36 A reference is invited to Para 2.1.40 of Report of the Comptroller and Auditor General of India for the year ending 31 March 2003 (Commercial), Government of Andhra Pradesh, wherein it was reported that the Internal Audit Wing of the Company was ineffective/inadequate. It was seen that no Internal Audit was conducted during the period from April 2003 to October 2007. The company appointed (October 2007) Chartered Accountants for conducting internal audit for the period 2007-08 for each of 22 districts who

were to submit consolidated report from April 2007 to October 2007 besides sending monthly reports from November 2007 onwards to Head Office. While no consolidated district reports were received for April 2007 to October 2007, monthly reports for November 2007 onwards were not regularly received.

It was stated by Government (July 2008) that the internal audit was not covered due to inadequate staff and that Chartered Accountants were appointed for the year 2007-08. It was further stated that reports were being received and sent to district offices for taking corrective measures.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the Performance Audit.

Conclusion

Loans were mobilized without proper assessment of requirement and synchronization of drawals with the implementation of schemes which resulted in avoidable payment of interest. The company drew central subsidy without loan tie-ups with banks and collection of beneficiary contribution flouting the scheme guidelines. Diversion of funds was resorted to by irregular conversion of houses from one scheme to another. There were delays in completion of houses and backlog in targets. Utilisation Certificates were furnished without actual utilization of funds. Management Information system was non existent affecting monitoring and functioning of the Company. Due to inadequate staff no internal audit was conducted from April 2003 to October 2007 reflecting weak internal control mechanism. Inadequate action was taken for providing environmentally clean habitats.

Recommendations

The Company should:

- **ensure release of subsidy for construction of houses only after ensuring loan tie up with banks and collection of beneficiary contribution;**
- **strengthen the MIS to get prompt feed back from unit offices;**
- **follow scrupulously the scheme guidelines while implementing the schemes;**
- **take steps to strengthen internal control and internal audit mechanism, and**
- **coordinate with other agencies to ensure provision of facilities for maintaining hygienic habitats.**

Andhra Pradesh State Seeds Development Corporation Limited

2.3 Production/procurement, processing and sale of seeds

Highlights

Due to not maintaining database of seed growers, the Company could not distribute all the available seeds to farmers and thus incurred loss of Rs. 20.56 lakh.

(Paragraph 2.3.9)

Production of certified/labeled seeds without properly assessing the requirement of units led to avoidable inter unit transfers involving expenditure of Rs. 11.28 crore on transportation.

(Paragraph 2.3.12)

Procurement of substandard quality seeds for distribution to farmers/suppliers led to avoidable payment of compensation of Rs. 2.44 crore for failure of germination.

(Paragraph 2.3.14)

Enhancement of price of Bengal gram after procurement from farmers resulted in additional expenditure of Rs. 17.62 lakh.

(Paragraph 2.3.15)

Processing plants were underutilised due to improper planning.

(Paragraph 2.3.16)

Targets were not fixed based on availability of certified/labeled seeds. Due to not fixing the proper targets, the Company could not dispose of the available seeds and incurred loss of Rs. 8.40 crore on condemnation.

(Paragraph 2.3.19)

Extending ineligible credit facility to dealers led to delay in recovery of sale proceeds (Rs. 5.04 crore).

(Paragraph 2.3.22)

Rs. 11.20 lakh paid for co-promoting R&D to ICRISAT became unfruitful due to not pursuing finalization of agreement.

(Paragraph 2.3.24)

Introduction

2.3.1 The Andhra Pradesh State Seeds Development Corporation Limited (Company) was incorporated in March 1976 with the objectives of production of certified and quality seeds of all crop varieties and market them to farmers at reasonable prices; to undertake and promote research in agriculture in general and seed production, processing and storage techniques in particular. For this purpose, the Company purchases breeder seeds from Agricultural Universities and Crop Research Institutes through the Government of India and the State Government and organizes production through seed growers as per the Seed Production Programme approved by the Board of Directors (BOD) for each year. These seed growers are farmers who have 15 to 25 acres in a village with proper irrigation facilities.

The Management of the Company is vested in a BOD with the Principal Secretary, Agriculture & Co-operation Department, Government of Andhra Pradesh as Ex-officio Chairman. The Vice Chairman & Managing Director, the only whole time Director is the Chief Executive of the Company and is assisted by five Managers looking after Production, Marketing, Quality Control, Engineering and Finance respectively. The Company is having 21 Units or field offices headed by District Managers.

Scope of audit

2.3.2 A comprehensive appraisal of the activities of the Company was included in the Audit Report (Commercial) for the year ended 31 March 2002 and the same was yet (September 2008) to be taken up for discussion by COPU. The present performance review was conducted during January and April 2008 at Head Office and six^{***} unit offices out of 21 unit offices, selected on the basis of production /procurement of seeds representing 57 per cent (22.33 lakh quintals) of total production/procurement (39.07 lakh quintals) of the Company during 2003-08.

Audit objectives

2.3.3 The performance review was conducted with a view to ascertain whether:

- the targets for production of seeds were based on demand and the same were achieved;
- yield expected from breeder and foundation seeds was obtained as per seed multiplication ratio;

^{***} Tanuku, Vijayawada, Warangal, Nidamanoor, Kurnool and Kadapa.

- an effective monitoring system was in place and was working efficiently;
- seed processing plants were utilized to their optimum capacity;
- the Company ensured supply of quality seeds to farmers;
- sale prices fixed were reasonable;
- the Company made any progress in Research and Development of seeds; and
- a well defined internal control mechanism was in place to ensure efficient and effective functioning to achieve the desired objectives.

Audit criteria

2.3.4 The following audit criteria were adopted :

- targets for production and sale of seeds;
- agreements with growers;
- installed capacity of seeds processing plants;
- elements of cost for fixation of sale price;
- agreement with dealers;
- canons of financial propriety; and
- Standard Multiplication Ratio fixed by the Government of India.

Audit methodology

2.3.5 The methodology adopted for attaining the audit objectives with reference to audit criteria were:

- review of the agenda and minutes of the meetings of the Board of Directors;
- analysis of data regarding fixation of targets, expected yield, production, sale of seeds, quantity of seeds processed in the seed processing plants etc.;
- review of records relating to fixation of sale price of certified seeds, inter unit transfer of seeds and condemned seeds; and
- issue of audit enquiries and interaction with the management.

Audit findings

2.3.6. The audit findings were reported (21 May 2008) to the State Government/Management and discussed (4 July 2008) at the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) where the

Government/Management was represented by Special Secretary to Government and General Manager (Finance) of the Company. The review was finalized after considering the views of the Government and reply of the Management/Government.

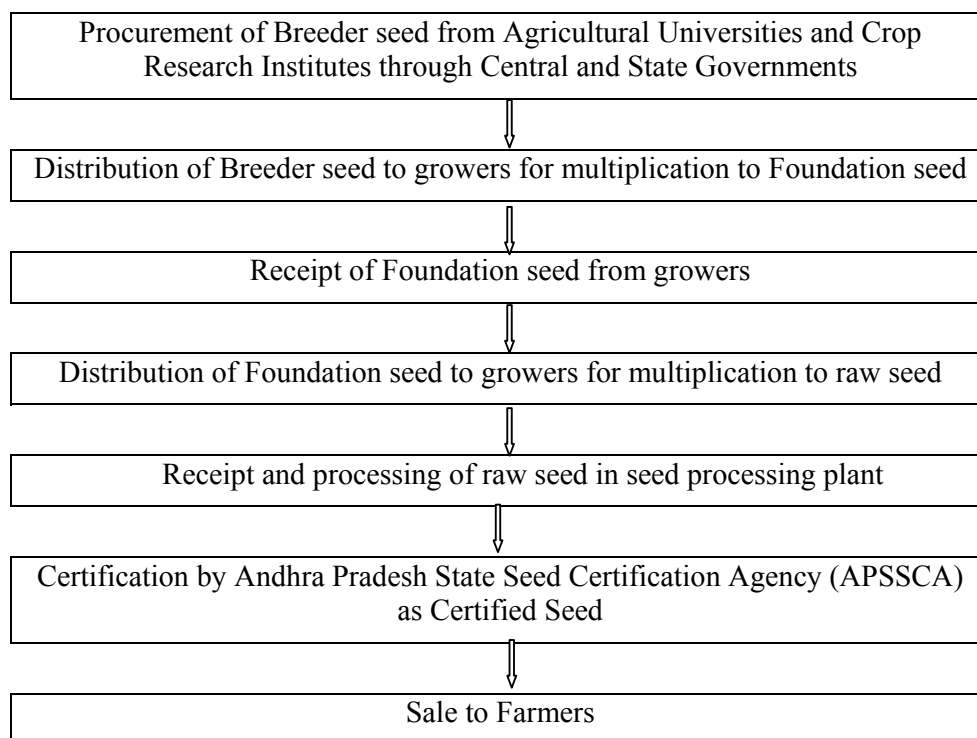
The audit findings are discussed in succeeding paragraphs.

Production/Procurement

Seed development process

2.3.7 Breeder Seed^{†††} is the basic seed from which foundation seed^{†††} is produced. The foundation seed is then multiplied into raw seed which after processing is certified /labelled and sold to farmers for raising crops on a large scale.

The process is explained below:



In addition, the Company also buys quality seed from other private suppliers and sells it to farmers after testing in its own laboratories and labeling it as truthfully labeled seeds. Seeds remaining unsold are condemned and sold as grain in the open market which fetches comparatively lower price.

^{†††} Breeder seed is genetically pure seed used for producing foundation seed.

^{†††} Foundation seed has genetic purity of 99 per cent and is used for producing certified seed.

Production performance

2.3.8 Agreements are entered into with growers before disbursement of breeder/foundation seeds. Conditions *inter-alia* include that estimated produce on the basis of field inspection by the Company or the quantity as per Schedule-II to the agreement, whichever is lower should be offered to the Company and in case of default the grower is liable to pay towards damages, an amount equal to twice the procurement price for such produce, for the shortfall.

Details of expected yield from breeder and foundation seeds as assessed by the Company on the basis of the field inspection reports and the seeds actually received from the growers for the period (2003-04 to 2007-08) are given in the **Annexure-21**. Targets fixed by the Company for and actual production of foundation and certified seeds of all crops for the above period is shown in the **Annexure-22**.

Non-receipt of expected yield of seeds resulted in shortfall valued at Rs. 29.26 crore.

It would be seen from **Annexure-21** that as against the expected yield of 0.96 lakh and 19.74 lakh quintals, only 0.83 lakh and 17.36 lakh quintals of foundation and certified seeds respectively were received by the Company. This resulted in short fall of 0.13 lakh quintals of foundation seed valued at Rs. 3.00 crore and 2.38 lakh quintals of certified seed valued at Rs. 26.26 crore.

It was observed that:

- The Company failed to monitor and ensure that the entire quantity produced by the growers was received by it.
- Despite penal clause in the agreement for short production, the Company neither assessed the shortfall nor invoked such clause against the defaulting farmers.
- Targets for production were fixed erratically without any basis like total area suitable for growing various varieties, area actually available and being used, demand from Agriculture Department, past experience in sale of seed, demand pattern in each season/year etc.
- Even the targets so fixed were not achieved in any of the year under review. Shortfall was 10.46 lakh quintals (Foundation seed 0.87 lakh quintals and Certified seed 9.59 lakh quintals).

Government stated (September 2008) that monitoring was done for procurement of entire seed produced from the seed growers and shortages were mainly due to crop failure and natural calamities, driage of seed and removal of under-sized seed during seed processing. Penal clause could not be invoked since the atmosphere in the farming community was volatile.

Further, it was replied that actual targets were fixed on previous experience and considering the demand from the Agriculture Department and due to erratic climatic conditions, demand for the varieties would be changing and assessment of actual demand of a variety becomes very difficult.

The reply is not acceptable as there were instances of selling the seed by farmers in the open market and the Company never made an attempt to invoke the penal clause. Further, the reply of the Government that the targets fixed based on previous experience is contrary to the fact that the targets fixed were higher over the previous year achievement by 46 to 99 *per cent*.

Distribution of breeder and foundation seed for multiplication

Failure to distribute seeds to farmers for want of database led to incurring loss of Rs. 20.56 lakh.

2.3.9 Quantum of breeder and foundation seeds of major crops distributed to growers for multiplication programme during the period under review are given in **Annexures 23 and 24**.

It was observed that:

- The Company did not maintain database of seed growers i.e., area available, type of soil, irrigation facilities etc., in the absence of which planning and proper distribution was not possible. Government stated (September 2008) that the database would be maintained after due computerization at Head office and Unit offices as recording of huge data manually has become difficult.
- Only 56 to 89 *per cent* of breeder seeds and 64 to 84 *per cent* of foundation seeds available were distributed to growers.
- The Company condemned (sold as grain) 582 quintals (seven *per cent*), out of the 8,237 quintals of breeder seeds available and 13,251 quintals (seven *per cent*) out of 1,87,904 quintals of foundation seeds available incurring a loss of Rs. 20.56 lakh. The reason for condemnation was Company's failure to distribute the seeds to the farmers in the absence of their database.
- Due to condemnation of the quantity mentioned above, the Company lost potential production of 29.70 lakh quintals of certified seeds.

Government replied (September 2008) that available seed could not be distributed as the demand of varieties required for production of seeds was erratic and the average condemnation worked out to only 0.3 *per cent* of the turnover which is normal in any seed industry.

The reply does not take into account the fact that the percentage of condemnation based on available seed ranged between 1.32 to 14.79 in respect of breeder seed and between 3.69 to 16.83 in respect of foundation seed.

Non- achievement of seed multiplication ratio

Norms prescribed for SMR not achieved.

2.3.10 Seed Multiplication Ratio (SMR) indicates the capacity of reproduction of the seed. The Government of India prescribed norms for SMR in respect of each crop. The SMR norms and actual achievement by Company in respect of Breeder Seed (Paddy and Groundnut), Foundation Seed (Paddy, Groundnut, Greengram and Blackgram) and loss of potential production for the period 2003-08 are detailed in the **Annexures 25 and 26**.

It was observed that the:

- Company neither achieved the standard SMR nor analyzed the reasons for the same.
- The loss of potential production of foundation seeds from breeder seeds (Paddy, Groundnut) was 47,781 quintals valuing Rs. 4.93 crore and that of raw/certified seeds from foundation seeds (Paddy, Groundnut, Blackgram and Greengram) was 28.80 lakh quintals.
- Government replied (September 2008) that efforts were being made to increase the seed productivity and planned to achieve 100 *per cent* SMR rates in coming years.

Issue of certified seed as foundation seed

Distribution of certified seed as foundation seed led to excess charging of Rs. 19.85 lakh.

2.3.11 It was seen that the Company during the period under review distributed 11,911 quintals of certified seed (6,768 quintals of paddy, 297 quintals of pulses and 4,846 quintals of groundnut) as foundation seeds for multiplication. Certified seed is cheaper than foundation seed, and as the rate charged was that of foundation seed this resulted in excess charging of Rs. 19.85 lakh (**Annexure-27**) from the farmers.

Government replied (September 2008) that the Company started charging certified seed rates from 2007-08 whenever certified seed was used for production purposes.

Inter unit transfers

Failure to assess the unit-wise requirement led to avoidable expenditure of Rs. 11.28 crore on inter unit transfers.

2.3.12 The Company produced 35.67 lakh quintals of certified/labeled seeds during the period under review. It was seen that 22.34 lakh quintals i.e. 62.62 *per cent* of it was transferred from one unit to another and an expenditure of Rs. 11.28 crore was incurred on transportation.

It was observed that:

- In four units (Tanuku, Warangal, Vijayawada and Nidamanoor) there were simultaneous inward and outward transfers as indicated in **Annexure-28**.
- Failure of the Company to plan the requirement and monitor production from time to time resulted in unwarranted transportation and avoidable expenditure.
- Government replied (September 2008) that the transportation of seed has become necessary for meeting the certified seed marketing since the state has six different agro-climatic zones and sowing of each agro-climatic zone differs from the other which would be in a period of 30-45 days. Hence the movement of seed has become necessary to meet the requirements of the sowing season.

It was further replied that due to high humidity and high temperature prevalent in Tanuku, Warangal and Vijayawada, the Company could not store the seeds

for longer period which was one of the reasons for movement of seeds and it was also stated that careful planning would be made in future to avoid extra cost on transportation.

However, by proper assessment of the requirement of each unit and organising production accordingly, inter unit transfers could have been avoided.

Kurnool unit office, during the years 2004-05 and 2006-07, accepted 23,943 quintals (17,186 and 6,757) of Groundnut seed from suppliers and re-transported the same to other district sale counters by incurring an expenditure of Rs. 20.88 lakh, though the agreement provided for supply of seeds at destinations by the suppliers.

Government stated that due to lack of demand, the suppliers were directed to handover the stocks at APSSDC godown. After ascertaining the requirement, seeds were transported to various stock points.

However, the Company should have assessed the demand before placing the purchase order.

Procurement of substandard seed

2.3.13 A review of records in the six selected units revealed that five units (Tanuku, Warangal, Vijayawada, Kurnool and Nidamanoor) procured 4,884 quintals of certified seeds valuing Rs. 72.29 lakh, despite declaration of these seeds by APSSCA as substandard. Further, five units (Warangal, Vijayawada, Kurnool, Nidamanoor and Kadapa) procured another 1.55 lakh quintals of seed valuing Rs. 54.96 crore which though not declared as substandard seed, did not match the standards prescribed by Central Seed Certification Board. Thus, procurement of sub standard seeds defeated the very objective of supplying quality seeds to farmers.

Quality seeds not procured as per standards.

Government replied (September 2008) that due to urgency and delay in declaration/receipt of Andhra Pradesh State Seeds Certification Agency (APSSCA) results would sometimes warrant the Company to procure the seed lots on quality control laboratory results to meet the need for timely supplies and to avoid carry over of seed stocks. It was further stated that instruction were being issued to all the field staff to procure only quality seeds meeting all seed certification standards and ensure sale of quality seeds to farmers.

Payment of compensation

2.3.14 Besides certified seeds, the Company also procures “truthfully labeled” seeds at the instance of Commissioner & Director of Agriculture (C&DA) of Andhra Pradesh at the rates finalised by the tender committee of Agricultural Department for distribution under subsidy schemes. Accordingly, the Company enters into agreements with the suppliers for supply of quality seeds as per the seed standards prescribed in the agreements.

Compensation of Rs. 2.44 crore paid to farmers for supplying sub-standard seeds.

It was observed that the Company paid compensation for supply of substandard seed as detailed below:

- During the period under review, compensation of Rs. 34.33 lakh was paid to farmers since the seed supplied failed to germinate.

Government replied (September 2008) that sometimes farmers lodge complaints on seed though the reasons were other agronomical factors.

- The Company procured (May 2006) 1,209 quintals of Blackgram T-9 from a supplier from Kurnool and supplied to farmers. Since the crop failed due to genetic impurity, the Company paid compensation of Rs. 1.80 crore and claimed the same from the suppliers as per the terms of the agreement. The supplier rejected the claim stating that the seed supplied were tested by the Company at their labs before release of payment. Though the Company initiated action to recover Rs. 1.54 crore after adjusting Rs. 26.10 lakh due to supplier, under the Revenue Recovery Act, the properties of the supplier could not be attached so far as the Company had not filed the required case in the court of law.

Government replied (September 2008) that germination test was conducted at the time of procurement and genetic purity could be known only after 60 days of sowing. It is not possible to conduct genetic purity test at the time of procurement since the seed was to be distributed within 30 days.

The reply does not address the fact that the Company was supposed to ensure genetic quality before making payment.

- The Company procured (June 2006) 493 quintals of Blackgram T-9 seed from National Agricultural co-operative Marketing Federation of India Limited (supplier) despite knowing that the seeds supplied were not properly processed and contained broken and infested grains. Since the crop failed, the Company agreed to bear one-third (Rs. 55.67 lakh) of the compensation in a meeting held (June 2007) between the Government, Company and the supplier.

Government replied (September 2008) that the compensation was claimed on genetic purity and not on physical purity of broken/infested grain.

The reply is not acceptable as the Company should have conducted genetic purity test before procurement.

Undue favour to certain growers of Rs. 17.62 lakh

Enhancement of rates after procurement led to additional expenditure of Rs. 17.62 lakh.

2.3.15 The Company procured (April/May 2006) 3,394.55 quintals of Bengalgram from farmers duly fixing the rate at Rs. 2,200 per quintal based on the market price. It was seen that some farmers of Kurnool of Rayalaseema region, on two occasions (May 2006 and August 2006 respectively) represented for enhancement of procurement price and the same was agreed to by the Company. This resulted in enhancing the procurement price from Rs. 2,200 to Rs. 2,400 (September 2006) and from Rs. 2,400 to Rs. 3,000 (March 2007).

It was observed that:

- Enhancement of price after (four and six months respectively) procurement was against the canons of financial propriety.
- Enhancement was done for partial (2,202.75 quintals) quantity which tantamount to undue favour to some of the farmers.
- The Company incurred additional expenditure of Rs. 17.62 lakh on above.

Government replied (September 2008) that three varieties of Bengal gram were procured and increase for procurement price was sought by the growers of only one variety.

The reply is not acceptable as the prices of other two varieties had also increased in the market.

Processing

Processing Units

2.3.16 The Company has 19 Processing Plants in various districts of the State with an installed annual processing capacity of 4.94^{§§§} lakh quintals. The details of plant wise installed capacity, utilization and percentage of utilization are indicated in **Annexure-29**. It could be seen therefrom that the capacity utilization was less than 50 *per cent* in all the five years under review in two units (Vijayanagaram and Jeedimetla), in four years in one unit (Armoor), in two years in two units (Nellore and Ongole) and the utilization declined from 65 *per cent* (2003-04) to 38 *per cent* (2007-08) in one unit (Vijayawada).

**Inadequate
production planning
led to under
utilization of
processing plants.**

It was also seen that in respect of the six units reviewed, though there was an overall gradual increase in the capacity utilization, the Company could not utilize the full capacity in any of the years. The main reason for this was inadequate production planning.

It was observed that:

- The Company did not initiate any remedial action despite under utilization.
- While keeping plants idle, the company resorted to custom processing^{****} incurring Rs. 26.34 lakh.

Government replied (September 2008) that due to severe drought conditions and non-availability of groundwater the production was reduced. It was further replied that custom processing was resorted to as the farmers were not willing to bring the seed to the processing plant.

^{§§§} Calculated on a basis of two shifts per day

^{****} Custom processing is a processing of seeds taken up outside the unit office through private agency.

The main reason for under utilization as observed by audit was inadequate production planning. Further, since the procurement price paid to farmers included element of transportation of seed to the processing plant, option of custom processing in order to accommodate farmers not willing to bring the seeds to processing plant was in violation of agreement conditions.

Physical verification of stocks

2.3.17 During the five year period ending March 2008, the Company found a total of 2,153 quintals of seeds as excess and 652 quintals as shortage on physical verification. Without analyzing the reasons for excess/shortage, the same was being taken into stock/eliminated from the stock. For the shortage, write off orders of the competent authority were also not obtained.

Government replied that the variations were regularized in the books of accounts with the approval of the competent authority. The reply was not acceptable as on verification it was found that write off orders of the competent authority were not obtained for shortages.

Sales performance

2.3.18 The Company sells the Certified and labeled seeds through its distribution network consisting of own outlets, dealers and Government agencies viz., Department of Agriculture etc. The details of targets for sale, availability and actual sales during the five years period ending March 2008 are shown in the **Annexure-30**. It could be seen therefrom that the target for sales was very much less compared to their availability and actual sales were substantially more than the targeted sales. It was observed that actual sales had no link with targets and availability.

Government replied (September 2008) that the Company fixes its target taking into consideration the actual sales in previous financial year at different districts, indents of department of Agriculture, varietal preference by farmers in different districts etc.

Incorrect assessment of demand

2.3.19 The details of quantities condemned are shown in the **Annexure-31**. Due to not fixing the targets with reference to available seed the Company could not dispose of the available seed and as a result 2,68,076 quintals of certified seed were condemned during the period under review incurring a loss of Rs. 8.40 crore. Instances of incorrect assessment of demand resulting in condemnation of substantial quantities of seed were noticed as indicated below:

- During Kharif 2003, the Company held stock of 2,22,076 quintals of paddy. The Company could sell 38 *per cent* (84,003 quintals) and condemned 61 *per cent* (1,35,074 quintals) of available seed thereby incurring loss of Rs. 2.13 crore.

Non-fixation of targets for sale led to condemnation and loss of Rs. 8.40 crore.

- During 2003-04 and 2004-05, the Company held stock of 9,557 quintals of Dhaincha seed at its Vijayawada unit. The Company could dispose of 74 *per cent* (7,111 quintals) and condemned 26 *per cent* (2,446 quintals) of available seed thereby incurring loss of Rs. 22.33 lakh.

Government replied (September 2008) that the seed stocks kept at different stock points, if left unsold could not be utilised for other seasons. Hence the Company would be forced to sell the seed as condemned seed to realise the procurement and other costs incurred by the Company.

The reply does not explain the incorrect assessment of demand.

Pricing

2.3.20 The Sale price for the seeds is fixed by Prices Sub-committee. Various elements considered by the Committee for fixing the price are procurement price (as fixed by the Committee), processing expenditure, packing charges, transportation charges, storage and handling charges and interest (at a rate pre-determined each year). Besides this, overhead charges (ranging between six and seven *per cent*) based on budgeted expenditure, dealer's commission and margin are also added. It was seen that the committee while fixing the procurement price for paddy seeds was adding 19 *per cent* (two *per cent* for drriage loss, two *per cent* for packing and process loss and 15 *per cent* for rejections) to market rate of each year.

Non-review of sale price led to extra burden on farmers – Rs. 5.81 crore.

- Scrutiny of data relating to ten processing plants revealed that average (of five years) actual loss due to rejections was only ten *per cent*. The Company did not attempt to review the actual loss in order to revise the percentage addition to procurement price on this account. This resulted in excess fixation of procurement price by Rs. 23.55 per quintal, which in turn led to fixing of excess sale price.
- During the period under review, the Company incurred an expenditure of Rs. 10.71 lakh towards interest and recovered Rs. 3.37 crore from the farmers through sales of 11.53 lakh quintals of paddy by including interest as element of cost. This has put an extra burden on farmers to the tune of Rs. 3.27 crore.
- Against the recovered overhead charges of six to seven *per cent* the actual overhead charges worked out to four *per cent* on an average as percentage of actual overheads to actual turnover. As a result, the Company overcharged overhead charges by two *per cent*. During the period under review, the Company overcharged overhead charges by Rs. 2.54 crore on sale of 11.53 lakh quintals of paddy.

Thus, the excess charging of overhead and interest had put extra burden on farmers to the tune of Rs. 5.81 crore. This was not reviewed by the Company and no revision carried out. This defeated the very objective of making seeds available to farmers at reasonable prices as the prices fixed were uncompetitive in the market.

Government replied (September 2008) that a detailed analysis would be made on the processing loss, different costs being incurred on the seeds. Steps would be taken to fix the prices at reasonable rates after making an in depth study into the issue.

Sale through Authorised Dealers

2.3.21 The Company appoints private parties as authorized dealers for marketing seeds produced. The company appointed 778, 1062, 899, 757 and 745 number of dealers during the period from 2003-04 to 2007-08. These dealers are required to enter into an agreement regarding minimum turnover, commission and other terms and conditions.

It was seen that the Company fixed a minimum turnover of Rs. 10 lakh for each dealer on which a commission (ranging between six and ten *per cent*) depending on the crop (Paddy, Groundnut, Pulses etc.) was payable. Additional commission was also payable for dealers who crossed the turnover over and above Rs. 15 lakh. Business with dealers was on 'cash and carry basis' and they were required to lift seeds from the Company premises at their own cost.

A test check of the records of six unit offices (Tanuku, Warangal, Vijayawada, Nidamnoor, Kadapa and Kurnool) revealed that only one dealer each out of 46 and 243 dealers at Warangal and Tanuku respectively had achieved minimum turnover. In Vijayawada, 39 out of 231 dealers, in Nidamanoor 11 out of 87 dealers, in Kadapa 82 out of 267 dealers and in Kurnool 7 out of 85 dealers had achieved the minimum turnover.

It was observed that:

- The Company arranged transport of stocks of seeds to the premises of the dealers by incurring Rs. 3.84 crore during the five year period which was against the terms and conditions of contract.
- In Vijayawada and Nidamanoor unit, during the period under review, Agricultural Marketing Committees were allowed to lift stocks on credit and were also paid dealers commission (Rs. 34.84 lakh). These committees neither registered themselves as a dealer nor entered into any agreements with the Company.

Government replied (September 2008) that the Company would review the terms and conditions and revise the clauses of minimum turnover in the future agreements while appointing dealers.

It was further replied that the credit facility to Agricultural Marketing Committees (AMC) was extended as they were Government agencies and they would be registered as dealers soon.

However, the extension of credit facility even to Government agencies and payment of commission to these unregistered dealers was in violation of extant policy.

Realisation of sale proceeds

2.3.22 The details of category wise outstandings of Sundry Debtors (Sale value) as at the end of March 2008 were as follows:

Ineligible extension of credit facility led to delay in recovery of sale proceeds.

(Rupees in lakh)

Party	Less than 6 months	6 months to 1 year	1 to 2 year	2 to 3 year	3 years and above	Total	Percentage to total outstanding
Dealers (including AMCs)	102.74	222.47	54.44	4.11	120.40	504.16	28
Department of Agriculture (i) JDA	239.19	320.46	19.13	3.04	9.13	590.95	33
(ii) ADA, A.Os & MAOs	344.63	116.46	36.01	10.76	12.16	520.02	29
Growers	22.78	0.32	1.08	0.03	1.73	25.94	1
Interstate	15.83	3.62	0.01	2.08	2.98	24.52	1
Distributors	0	0	0	0	98.91	98.91	5
N.S.C.	37.19	0	0	0	0	37.19	3
Total	762.36	663.33	110.67	20.02	245.31	1,801.69	100

It was seen from the above that the Company was yet to recover:

- Rs. 5.04 crore from dealers though they were expected to lift stocks on cash and carry basis. Out of this Rs. 80.81 lakh involved in legal cases was outstanding for more than three years.
- Rs. 11.11 crore from Agriculture Department being the non-subsidy portion of seed price collected from the farmers.
- Rs. 98.91 lakh from Distributors was involved in legal cases and was outstanding for more than three years.

The Company blocked its finances in Sundry Debtors mainly due to:

- Extending of credit facility to dealers though they were not eligible.
- Absence of any guidelines for collection of sale proceeds from Agriculture Department.

Government replied (September 2008) that a detailed review would be made on the dues from dealers, growers, Government departments and others and reconciliation would be taken up and amounts recovered from the parties.

Subsidy

2.3.23 The Company receives subsidy from the Commissioner and Director of Agriculture, Government of Andhra Pradesh for implementation of various schemes/programmes sponsored by both Central and State Governments. Government provides subsidy in advance and on execution, the Company submits utilization certificates. It was seen that as on 31 March 2008, Rs. 122.48 crore was refundable in respect of 18 programmes and Rs. 262.03 crore was receivable from the State Government in respect of 35 programmes. These amounts were stated to be pending for want of reconciliation.

It was observed that non-maintenance of proper records, non-receipt of completed utilization certificates from the district units led to non-reconciliation of amounts.

General

Non-development of new varieties

Non-pursuance of R&D with Research Institute led to unfruitful payment of Rs. 11.20 lakh.

2.3.24 During October 2005, the Company agreed to co-promote research and development of Groundnut and Chickpea varieties with International Crop Research Institute for Semi Arid Tropics (ICRISAT) and released Rs. 6 lakh as advance to ICRISAT. ICRISAT submitted (April 2006) the draft Memorandum of Agreement (MOA) according to which the responsibility of ICRISAT was to conduct research on new Groundnut and Chickpea varieties and the Company was to commercialize these varieties. Though the MOA was not signed, the Company released (March 2006) further Rs. 5.20 lakh.

It was observed that due to Company's haste in making payment before entering into MOA and inaction to deliberate on the business proposal given by ICRISAT (October 2005) the payment of Rs. 11.20 lakh was rendered unfruitful as the programme could not be initiated so far (March 2008).

Group of Ministers decided (February 2007) that a tripartite agreement should be entered into by the Company, the Administrative Department in the Government of Andhra Pradesh and Acharya N.G. Ranga Agricultural University for development and supply of new varieties/hybrids of different crops. Though more than a year has lapsed, no initiative has been taken by the Company for finalizing the agreement.

Government replied (September 2008) that the payment was made by the Company to ICRISAT for getting the new varieties for multiplication in advance which could perform substantially.

The reply is not acceptable as the new varieties developed by ICRISAT would be supplied to others also for multiplication and the Company can not acquire any patent rights on the new varieties developed by the ICRISAT in the absence of MOA.

Internal control and internal audit

2.3.25 Internal Control is a Management tool to ensure that the objectives are achieved in an effective manner, assets are safeguarded and procedures are complied with. The Company had not formulated any manual for

documentation of rules and procedures of its various activities, particularly Accounting, Seed production, purchase, seed storage and marketing. Though the Company is having its own Internal Audit (IA) wing it had not formulated internal audit manual and is only maintaining a checklist of items to be covered during internal audit.

It was also seen that though a decision to hire a Chartered Accountant was taken (March 2007) to strengthen the internal audit, no action had been initiated so far (March 2008).

Government replied (September 2008) that quotations had been called for from the leading firms in Hyderabad and a decision would be taken to entrust the work to external agencies from August 2008 to take up the internal audit for the financial year 2008-09.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the Performance Audit.

Conclusion

The Company neither achieved the standard multiplication ratio nor obtained the yield as expected. Targets for both production and sales were fixed without any basis. Huge quantities of seeds were condemned and sold as grain leading to loss. There were cases of payment of compensation to farmers for defects in seeds. Processing plants were not utilized to their optimum capacity. Sale price fixed was not competitive. Guidelines, rules and procedures were not found documented. There was lack of monitoring with respect to production, processing and sales. The only attempt to get associated with research activity was not properly pursued.

Recommendations

The Company should:

- **monitor more stringently production and receipt of yield from farmers;**
- **review the actual expenditure and revise sale price to make it more competitive; and**
- **prepare manuals for accounting, internal audit, seed production, storage and marketing.**