

## **CHAPTER-II**

### **2. PERFORMANCE REVIEW RELATING TO GOVERNMENT COMPANY**

#### **PERFORMANCE REVIEW ON PRODUCTION, PROCUREMENT, STORAGE AND SALES OF SEEDS BY ASSAM SEEDS CORPORATION LIMITED**

##### **Highlights**

The Company was incorporated (27 January 1967) with the main objective of procuring and producing certified seeds and marketing it at reasonable prices. The present activities of the Company are restricted to the supply of seeds to the Director of Agriculture, Government of Assam for implementation of various developmental schemes sponsored by the State Government and the Central Government. Open market operations involving direct sales of seeds to non-governmental agencies and farmers are almost non-existent.

*(Paragraph 2.1)*

Purchase of total quantity of 19,427.50 quintals of wheat at ex-plant rates from private parties instead of at FOR rates from a State Government company resulted in excess expenditure of Rs.19.47 lakh.

*(Paragraph 2.8.8)*

The Company was eligible to receive Central Transport Subsidy against expenditure incurred on transportation. Non-submission of required certificate and challans resulted in short receipt of transport subsidy of Rs.33.29 lakh. Further, against the certified amount of Rs.2.64 crore for the years 2003-04 and 2004-05, the Company received only Rs.2.44 crore, resulting in short receipt of Rs.20.37 lakh.

*(Paragraph 2.8.11)*

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**The Company sold 2,494.99 quintals of seeds as non-seeds for Rs.23.30 lakh against their procurement price of Rs.47.55 lakh without the approval of the Board.**

*(Paragraph 2.9.6)*

**The Company irregularly advanced money to the officers of the Directorate of Agriculture, mostly against acknowledgement on plain papers without obtaining any undertaking. The Directorate neither made repayment of advances since December 2002 nor confirmed the outstanding amount of Rs.20.54 lakh.**

*(Paragraph 2.10)*

**The Company incurred an avoidable expenditure of Rs.6.51 crore on pay and allowances of 120 surplus employees during April 2002 to March 2007 due to non-utilisation of available funds and non-receipt of further funds for VRS.**

*(Paragraph 2.12.1)*

**Against alleged misappropriation of Rs.1.87 crore detected before October 2001, the Company recovered from the concerned employees only Rs.5.62 lakh upto July 2006. No deterrent penal action was taken against the concerned employees in any of the case.**

*(Paragraph 2.13)*

## **Introduction**

**2.1** Assam Seeds Corporation Limited (Company) was incorporated (January 1967) under the Companies Act, 1956 with the main objective of procuring and producing certified seeds and marketing it at a reasonable price.

The present activities of the Company are, however, restricted mainly to supply of certified seeds to the Director of Agriculture (DOA), Government of Assam for implementation of various developmental schemes sponsored by the State and the Central Government. Open market operations involving direct sales of seeds to non-governmental agencies and farmers are almost non-existent.

The Company produces seeds (mainly paddy seeds), plants and grafts in its seed farms and nurseries on a limited scale. A small quantity is also purchased from registered growers within the State. The bulk of the requirements of seeds as indented by the DOA are, however, procured from the private seed dealers located outside the State.

The Management of the Company is vested in a Board of Directors (BOD) consisting of maximum 12 directors. The Managing Director (MD) appointed by the State Government is the Chief Executive. The General Manager (Marketing & Trade) of the Company has been holding the charge of the Managing Director since 1 March 2004. A full time MD has not been appointed by the State Government so far (August 2007).

**2.2** The Company finalised its annual accounts up to 1998-99 and had prepared provisional accounts up to 2000-01. The main reasons for delay in finalisation of accounts as analysed by audit are:

- delay in receipt of required returns/ statements from Branch offices;
- non-reconciliation of branch accounts and inter-unit transactions; and
- shortage of professionally qualified personnel.

Due to delay in finalisation of accounts, audit has not been able to comment upon operational and financial performance of the Company.

The financial position and working results of the Company on the basis of provisional accounts abstracted from the General Ledgers and other connected records by audit are given in *Annexures 9 & 10*. It is evident from these Annexures that the Company incurred losses during all the five years upto 2006-07. The cumulative loss of Rs.17.33 crore as on 31 March 2007 eroded its entire paid up capital of Rs.1.46 crore as on that date. The main reasons for the continued losses, as analysed by audit, were wide fluctuations in the demand of seeds by the State Government, shortfall in the utilisation of land available, excess manpower and weak internal controls, resulting in loss of revenue, etc.

**2.3** The performance of the Company was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 1998—Government of Assam. The review was discussed in COPU (17 May 2004) and their recommendations are, however, awaited.

### **Scope of audit**

**2.4** The present performance review conducted during February 2007 to April 2007 covers the performance of the Company with regard to production, processing, procurement, storage and sales of seeds, plants and grafts during the last five years ending 31 March 2007.

The audit findings are based on the test check of records of the Head office and of all the 14 branches, as available in the Headquarters of the Company.

### **Audit objectives**

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

- production and procurement of seeds with reference to demand/indents received from the Director of Agriculture, Government of Assam was done economically and efficiently;
- destruction of seeds was minimum and within reasonable limit; and
- internal control mechanism was efficient and effective.

### **Audit criteria**

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

- guidelines/instructions issued by the State Government and the Board of Directors;
- area available for cultivation and production of foundation seeds and certified seeds;
- targets fixed for production of seeds, norms regarding yield from breeder and foundation seeds as fixed by the Company;
- demand/indents received from the Director of Agriculture;
- system for procurement of seeds from outside agencies;
- sales prices as fixed by the Company;
- norms for manpower utilization; and
- internal control mechanism as prevalent in the Company.

### **Audit methodology**

**2.7** The methodology adopted for attaining the audit objectives with reference to audit criteria were examination of:

- agenda and Minutes of Board meetings, Stock Statements, Monthly Summary of Transactions *etc.*;
- guidelines/orders issued from time to time by the State Government;

- records relating to the production, procurement and sales of seeds;
- records relating to the fixation of prices of certified seeds; and
- interaction with the management and issue of audit queries.

### **Audit findings**

**2.8** The audit findings were reported (May 2007) to the Company /State Government and discussed in a meeting (2 July 2007) of the Audit Review Committee on Public Sector Enterprises (ARCPSE) where the General Manager (Finance) represented the Company. The State Agriculture Department was, however, not represented. The review was finalised after considering the views of the Management/Government. The audit findings are discussed in the succeeding paragraphs.

### **Production and procurement of seeds**

#### **2.8.1 Seed Development Process**

Research Institutes and Agricultural Universities produce nucleus seed and multiply this seed into first generation seed called 'Breeder seed'. The Agriculture Department of the State Government obtains 'Breeder seeds' from Research Institutes/Universities and allots the same among the seed farms under its control including seed farms owned by the Company for production of second generation seed called 'Foundation seed'. 'Foundation seeds' are used for production of third generation seed called 'Certified seeds' as these seeds are tested and certified by the Assam State Seed Certifying Agency (ASSCA) of the State Government. Certified seeds produced by the Company are supplied to the State Government for issue to farmers for general cultivation.

#### **2.8.2 Production performance**

The Company produces seeds in its 12 farms having a total area of 373.80 hectares. Details of total gross area, cultivable area and area actually cultivated during the five years upto 2006-07 was as under:

Year	Total area	Cultivable area	Cultivated area	Unutilised land	Percentage of unutilised land to cultivable land
2002-03	373.80	276.87	241.00	35.87	12.96
2003-04	373.80	275.00	235.62	39.38	14.32
2004-05	373.80	275.00	217.03	57.97	21.08
2005-06	373.80	275.00	173.72	101.28	36.83
2006-07	373.80	257.80	132.76	125.04	48.50

Underutilisation of cultivable land ranged between 12.96 to 48.50 per cent during 2002-03 to 2006-07

It can be seen from the table that the *percentage* of unutilised land ranged between 12.96 to 48.50 *per cent* of the available cultivable land. It was noticed that the production department has been fixing targets for cultivation on the lower side, without recording any reasons and even the actual area cultivated by the farms always fell short of these targets. The Management stated (July 2007) that the variation was mainly due to lack of infrastructural facilities, fund constraints and labour disturbances. Since these are controllable factors, the Management should have taken adequate steps to remove these constraints.

### 2.8.3 Production of foundation seeds

The details of production of different type of foundation seeds (paddy, pulses and oil *etc.*) from breeder seeds during 2002-03 to 2006-07 is summarised below:

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	Total
	(Quantities in quintals)					
(i) Breeder seeds utilised	23.24	24.18	20.45	33.52	23.10	124.49
(ii) Standard production	1,564.50	1,333.75	1,359.31	1,880.39	1,254.05	7,392.00
(iii) Actual production	331.16	462.20	604.48	884.52	593.70	2,876.06
(iv) Shortfall in production	1,233.34	871.55	754.83	995.87	660.35	4,515.94
(v) <i>Percentage</i> of actual production to standard production	21.17	34.65	44.47	47.04	47.34	38.91

Reasons for low production performance were neither collected nor analysed by the Company

It would be seen from above that the Company could produce a total quantity of 2,876.06 quintals of foundation seeds of different varieties during the five years upto 2006-07 against standard production of 7,392.00 quintals. The actual production varied from 21.17 *per cent* to 47.34 *per cent* of standard production representing an average of 38.91 *per cent* for the five-year period upto 2006-07. Reasons for low production performance were not compiled/analysed by the Company. The value of shortfall in production of foundation seeds with reference to the procurement cost of certified seeds amounted to Rs.1.30 crore.

As analyzed in audit, one of the reasons for low production performance was frequent failure of crops from which no production was obtained against utilisation of breeder seeds as detailed below:

Year	Crop	Area (Hectare)	Breeder seed utilised (Quintal)	Standard production (Quintal)	Actual production (Quintal)	Name of the Seed Farm
2002-03	Black gram	7.41	2.00	37.00	Nil	Dalgaon SF
2003-04	Lentil	6.27	1.88	31.33	Nil	Dalgaon SF
	Nizer	10.00	1.20	50.00	Nil	Dalgaon SF
		4.17	0.50	20.83	Nil	Golakganj SF
	Green gram	12.40	3.10	62.00	Nil	Dalgaon SF
	Mustard	7.20	0.72	36.00	Nil	Golakganj SF

Year	Crop	Area (Hectare)	Breeder seed utilised (Quintal)	Standard production (Quintal)	Actual production (Quintal)	Name of the Seed Farm
2004-05	Black gram	6.11	1.65	30.56	Nil	Dalgaon SF
	Nizer	5.00	0.60	25.00	Nil	Dalgaon SF
	Mustard	15.00	1.50	75.00	Nil	Golakganj SF
<b>Total</b>		<b>73.56</b>	<b>13.15</b>	<b>367.72</b>		

There was no instance of crop failure during 2005-06 and 2006-07. Due to failure of crops during 2002-03 to 2004-05, the Company lost 367.72 quintals of foundation seeds valued Rs.15.21 lakh during the period 2002-03 to 2004-05. It was noticed that the Company had not prescribed any system of periodic reporting by the seed farms giving details of reasons for low production or no production of foundation seeds. In view of this, the possibility of under-reporting/non-reporting of actual production could not be ruled out.

#### 2.8.4 Production of certified seeds

The Company produced certified paddy seeds only in its 12 Seed Farms. The details of year-wise and farm-wise production of certified paddy seeds during the five years up to 2006-07 are given in *Annexure-11*. The position is summarised below:

Years	Area cultivated (Hectares)	Standard production	Actual production	Shortfall in production	Value of shortfall
		(Quantities of certified seeds in quintals)			(Rupees in lakh)
2002-03	156.37	3,909.25	2,947.95	961.30	8.17
2003-04	143.70	4,042.50	2,966.22	1,076.28	9.69
2004-05	85.00	2,125.00	1,778.13	346.87	3.12
2005-06	106.00	2,650.00	1,643.15	1,006.85	9.06
2006-07	63.00	1,833.00	974.68	858.32	8.58
<b>Total</b>	<b>554.07</b>	<b>14,559.75</b>	<b>10,310.13</b>	<b>4,249.62</b>	<b>38.62</b>

It would be seen from the above that the Company produced paddy seeds in 554.07 hectares of land during 2002-03 to 2006-07 against which minimum standard production was 14,559.75 quintals. The actual production was, however, 10,310.13 quintals only resulting in shortfall in production by 4,249.62 quintals valued at Rs.38.62 lakh at lowest rates of Rs.850/Rs.1,000 per quintal fixed for procurement of paddy certified seeds from the local registered growers during the respective years.

The range of actual production achieved by individual Seed Farms compared to targets/ standards fixed were as shown below:

Range of actual production compared to standards	2002-03	2003-04	2004-05	2005-06	2006-07
	(Number of Seed Farms)				
(i) Production not taken up	2	2	5	1	5
(ii) 0 to 20 per cent	-	1	-	-	-

Range of actual production compared to standards	2002-03	2003-04	2004-05	2005-06	2006-07
	(Number of Seed Farms)				
(iii) 20 to 30 per cent	-	-	-	-	2
(iv) 30 to 40 per cent	1	-	-	2	2
(v) 40 to 50 per cent	-	-	-	2	1
(vi) 50 to 60 per cent	2	2	-	3	-
(vii) 60 to 70 per cent	1	-	2	-	1
(viii) 70 to 80 per cent	1	1	2	2	-
(ix) 80 per cent and above	5	6	3	2	1
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>

It was noticed that none of the farms could achieve the standard production in any of the five years from 2002-03 to 2006-07 except Dhekiajuli Seed Farm (2003-04 to 2005-06). The actual production was below 50 per cent of standard in respect of five farms in 2005-06 and 2006-07. It was noticed that the reasons for low production performance were not compiled/analysed by the Company indicating absence of effective internal control system. In view of this, leakages of revenue through under-reporting of actual production could not be ruled out.

### **2.8.5 Production of plants and grafts (P&G)**

The Company has eight\* nurseries with total area of 31.60 hectares located at different places in the State. The budgeted production and actual production of P&G in these nurseries during the five years upto 2006-07 were as under:

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
	(Rupees in lakh)				
Budgeted production	57.92	30.50	56.46	37.97	31.37
Actual production	13.04	25.72	17.71	12.87	14.28
Shortfall in production	44.88	4.78	38.75	25.10	17.09
Percentage of shortfall	77.49	15.67	68.63	66.10	54.48

It would be seen from the above that there was reduction in shortfall in production from Rs.44.88 lakh (77.49 per cent) in 2002-03 to Rs.17.09 lakh (54.48 per cent) in 2006-07, but the reduction was due to fixation of lower target in the budgets. This indicates that the budgeted targets for production were not fixed on realistic basis.

### **2.8.6 Procurement of certified seeds**

The Company produced 10,310.13 quintals of certified paddy seeds in its own seed farms during 2002-03 to 2006-07. In addition to this, 11,631.70 quintals of seeds were purchased from the registered growers within the State during the same period. As the same was not sufficient to meet the requirement, the Company procured 56,259.90 quintals of paddy seeds from outside the State during 2004-05, 2005-06 and 2006-07. The requirement for other pulse and oil seeds were met by procuring the same from private seed dealers located

\* Dalgaon, Ulubari, Ketekibari, Dimoru, Ghoongur, Moran, Bamonigaon, Jorhat.



mostly in Uttar Pradesh, Uttarakhand and Delhi. The purchases are required to be made on the basis of open competitive tenders. In this connection, the following observations were made:

### 2.8.7 Purchase of seeds from private dealers on credit basis

**Purchase of seeds from private seed dealers on credit basis**

As per Chapter-IV of the Accounting Manual of the Company and the directions issued (September 1999) by the State Government, seeds were required to be purchased, as far as practicable, from Government agencies like National Seeds Corporation, State Seed Corporations, Government farms *etc.* The Company, however, made purchases only from private seed dealers located in Delhi, Uttar Pradesh and Uttarakhand as the Government farms did not supply seeds on credit.

### 2.8.8 Excess expenditure

The Purchase Committee of the Board approved (September 2002) the following lowest quoted rates for purchase of certified seeds of wheat and lentil for Rabi crop 2002-03 from outside the State:

Name of seed	Variety	Ex-plant rate (Per quintal)	FOR Guwahati rate (Per quintal)
Wheat	Sonalika	Rs.1,192	1,340
Wheat	U.P.262	Rs.1,188	1,340
Lentil	B-77 and L-9-12	Rs.3,500	-

While the ex-plant rates were quoted by private seed dealers of Uttar Pradesh, Uttarakhand and Delhi, the FOR Guwahati rate was quoted by West Bengal State Seed Corporation (WBSSC). As per the prescribed procedure, the stocks offered by the private dealers were verified before purchase and approved (October 2002) by the Director of Agriculture DOA. However, the stock of seeds offered by WBSSC was not verified by the DOA. Thus, the Company had to purchase from private parties 19,427.50 quintal of wheat seeds of three different varieties at a total cost of Rs.279.80 lakh at ex-plant rates including transport cost of Rs.48.52 lakh. The total cost of the same quantity at the rates (FOR Guwahati) as quoted by WBSSC and approved by the Purchase Committee worked out at Rs.260.33 lakh. Thus, purchase of 19,427.50 quintals of wheat at ex-plant rate resulted in excess expenditure of Rs.19.47 lakh.

**Purchase of wheat at ex-plant rates resulted in excess expenditure of Rs.19.47 lakh**

**2.8.9** As indicated above, the Purchase Committee had approved the rate of Rs. 3,500 per quintal ex-plant for B-77 and L-9-12 variety of lentil seed for the Rabi crop 2002-03. The same rate was also approved subsequently for Rabi crop 2003-04. It was noticed that one of the tenderers (Bhatia Quality Seeds, Uttar Pradesh) had quoted Rs.3,190 per quintal for lentil seeds of K-75 variety during Rabi crop 2002-03. The Purchase Committee, however, did not approve this rate without indicating the reasons for rejection of the lowest rates. It was observed in audit that the Company purchased 1,794.90 quintals

**Non-acceptance of lowest rates, the Company incurred excess expenditure of Rs.14.42 lakh on the purchase of Lentil K-75**

and 2,858 quintals of lentil seeds of K-75 variety during 2002-03 and 2003-04 respectively at the rate of Rs.3,500 per quintal. Thus, non-acceptance of lowest rates of Rs.3,190 per quintal resulted in excess expenditure of Rs.14.42 lakh on purchase of 4,652.90 quintals of lentil seed of K-75 variety.

***Procurement of excess quantity of certified black gram seeds***

**2.8.10** As per informal discussions (June-July 2006) by the Company with the State Agriculture Department, tender for supply of black gram seeds was invited (August 2006). The lowest quoted rate was Rs.5,175 per quintal. After negotiation with tenderers, the rate was brought down to Rs.5,050 per quintal, which was approved (August 2006) by the Purchase Committee.

The Company, thereafter, received (August 2006) a formal indent from the DOA for supply of 4,000 quintals of black gram seeds by 15 September 2006 for distribution under Calamity Relief Fund. The Company placed (August 2006) supply orders on two\* private seed dealers of Delhi for 'immediate' supply of 3,500 quintals of seeds at Rs.5,050 per quintal (ex-plant). Against these supply orders, the Company received (9 September 2006 to 15 September 2006) 1,342.80 quintals and 987.70 quintals (17 September 2006 to 22 September 2006) of black gram seeds. Out of this, 1,391.90 quintals and 907.10 quintals were delivered to the District/Sub-Divisional Agricultural Officers (DAO/SDAO) and Gram Panchayat Samabay Samities (GPSS) level respectively. The DAOs and SDAOs refused to accept the supply and returned the entire quantity (1,391.90 quintals) as the sowing season was over. The Company returned (16 September to 22 September 2006) 1,140.30 quintals of the seeds to the suppliers. The Company also informed (18 September 2006) the supplier not to make any further supply of black gram seeds. Thus, out of 2,330.50 quintals of black gram seeds, 283.10 quintals valuing Rs.15.01 lakh remained in stock undistributed (August 2007).

It was observed that the Company received (January 2007) 1,052.10 quintals of black gram seeds as replacement of 1,140.30 quintals returned (September 2006) to the supplier without obtaining approval of the DOA. Reasons for accepting 1,052.10 quintals after the sowing season were not on records.

Thus, a total quantity of 1,335.20 quintals (including 283.10 quintals from the first lot) valuing Rs.70.79 lakh was lying in the stock as on 31 August 2007 (Central Godown, Guwahati: 1,144.50 quintals; Field units: 190.70 quintals). As the validity of the seeds has already expired, there was likelihood of these seeds turning non-seeds with consequential loss to the Company.

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\*United Agri Seeds Corporation, Mianwali Nagar, Rohtak Road, New Delhi-87 and Zee Tech Agro Industries, 46 Rajendra House, Old Sabzi Mandi, Delhi-7.

**Short receipt of transport subsidy**

**2.8.11.** The Company is eligible to receive transport subsidy against expenditure incurred on transportation of seed from (i) outside the State to the State capital and (ii) from the State capital to various district headquarters at applicable rates from the GOI. The transport subsidy claims of the Company were, however, required to be checked and countersigned by the DOA before forwarding the same to the GOI for payment. A scrutiny of records revealed that against total claims for Rs.6.22 crore submitted during 2002-03 to 2006-07, the DOA certified claims of only Rs.5.89 crore due to non-submission of copies of the gate pass and transporters' challans. This resulted in short receipt of subsidy of Rs.33.29 lakh as detailed below:

Year	Billed amount	Certified amount	Difference
	(Rupees in lakh)		
2002-03	78.11	65.76	12.35
2003-04	106.64	106.37	0.27
2004-05	178.89	158.22	20.67
2005-06	6.56	6.56	-
2006-07 <sup>†</sup>	252.00	252.00	-
<b>Total</b>	<b>622.20</b>	<b>588.91</b>	<b>33.29</b>

**Non-submission of required certificates and challans resulted in short receipt of Rs.33.29 lakh. Further, against certified amount of Rs.2.64 crore, the Company received Rs.2.44 crore only, resulting in short-receipt of Rs.20.37 lakh**

Further, scrutiny revealed that against Rs.2.64 crore as certified by the DOA for the years 2003-04 and 2004-05, the Company received Rs.2.44 crore only resulting in short receipt of Rs.20.37 lakh as under:

Year	Certified amount	Amount received	Short received
	(Rupees in lakh)		
2003-04	<b>106.37</b>	<b>102.17</b>	<b>4.20</b>
2004-05	<b>158.22</b>	<b>142.05</b>	<b>16.17</b>
<b>Total</b>	<b>264.59</b>	<b>244.22</b>	<b>20.37</b>

The Company did not pursue the recovery of balance amount of subsidy. The total short receipt of subsidy thus amounted to Rs.53.66 lakh.

**Sale of seeds**

**2.9.1** The Company mainly caters to the needs of the State Agriculture Department for various types of seeds for implementation of agricultural development and welfare schemes. Open market operations by way of sale of seeds to non-governmental agencies and individual farmers directly are negligible. The quantum of sales, therefore, depended on the quantity of seeds indented by the State Government in any year (which again depends primarily

<sup>†</sup> The claims for transport subsidy of Rs.2.52 crore for 2006-07 were certified (May 2007) by the DOA but the payment was, however, awaited (August 2007).

on the occurrence of floods/drought in the State). The details of sales made by the Company during the five years upto 2006-07 (as shown in their annual budget) are given in *Annexure-12*.

### ***Fixation of sale prices***

**2.9.2** The Company did not have any laid down procedure or guidelines for fixation of sales prices. The Purchase Committee of the Board fixes sales prices of seeds from time to time by adding agent's commission, sales tax and margin for the Company at 10 *per cent* of the landed cost\* of seeds. The prices so fixed, however, were not adequate even to recover the fixed employee costs as stated in para 2.12. The Management stated (July 2007) that it is considering inclusion of employee costs while determining the sale price.

### ***Collection of sales tax on sales of seeds***

**2.9.3.** The sale of seed is exempted from Sales Tax under Section 9 (1) of Assam General Sales Tax Act, 1993. It was noticed that while fixing the sale price of seeds during 2001-02 to 2004-05, the Company included Assam General Sales Tax as a component of cost. This resulted in billing and collection of Sales Tax of Rs.3.28 crore during the above period from the DOA. The Management stated (July 2007) that it has not charged Sales Tax separately in the bills raised on the DOA. The reply is not correct since the composite sales price billed to the DOA was inclusive of Sales Tax. Further, from 2005-06 onwards, the Sales Tax has not been included while arriving at the composite sale price.

### ***Billing procedures***

**2.9.4** The Company maintains Distribution Registers scheme-wise showing quantity allotted, quantity delivered and quantity certified by the receipt. A separate Bill Register is also maintained showing details of bills raised during the year. The Distribution Register and the Bill Registers were, however, deficient in respect of the following:

- no authorised officer of the Company authenticated the entries in these registers;
- the marketing section did not keep copies of certificates received from field units and hence the entries were not verifiable;
- cross-reference to bills raised were not made in the Distribution Register. Quantities of seeds delivered and certified as per Distribution Registers were not reconciled with quantities actually billed;

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\* The landed cost includes procurement price, transport cost, storage charges and provision for shortages.

- bills were raised without showing break-up of quantity billed and details of certificates on the basis of which a particular bill was raised;
- the billed quantities were not reconciled with those shown as delivered as per the Distribution Register;
- payments received against bills were recorded in the Registers without money receipt number and date rendering it difficult to trace the same in the cash book.

It was also noticed that the Company did not keep copies of the certificates on the basis of which bills were raised. The bills were also not supported by location-wise break up of the quantity delivered and billed. The Company was, thus, not in a position to prove their claim if and when required. In this connection, it was seen that against billed amount of Rs.658.40 lakh during 1994-95 to 2000-01, the DOA allowed (February 2005) Rs.374.91 lakh only and did not accept the claim for balance amount. The Company, thus, suffered a loss of Rs. 283.49 lakh due to its failure to prove their claims for the billed quantities with supporting documents. The Management agreed (July 2007) to maintain these registers as prescribed in the Accounting Manual.

**Loss of Rs.2.83 crore due to non-acceptance of Company's claim by the State Government**

### ***Rejection of black gram certified seeds***

**2.9.5** The Company procured (August 2001) a total quantity of 270 quintals of black gram certified seeds (T-9 variety) from the local registered growers at a total cost of Rs.7.83 lakh (@ Rs.2,900 per quintal) and supplied the same to Orissa State Seeds Corporation Limited (OSSCL). OSSCL rejected (September 2001) the supply as the same was found to be of inferior quality. Subsequently, the entire quantity was sold (September 2001) as non-seed for Rs.4.05 lakh (@ Rs.1,500 per quintal), which was not allowed to be accounted for in the books of the Company. The Branch Managers, instead, were directed (September 2001) to refund the entire advance of Rs.7.43 lakh sanctioned and disbursed (August 2001) to them for purchase of the seeds. The Branch Managers refunded (October 2001 to March 2002) Rs.3.55 lakh leaving a balance of Rs.3.88 lakh. Effective steps were not taken till date (August 2007) to realise the balance amount.

### ***Sale of certified seeds as non-seeds***

**2.9.6** The purity and quality of seeds deteriorate due to various reasons such as prolonged storage, attack by insects/disease and physical and chemical damage. These causes are mostly controllable and avoidable by careful preservation and protection and by selling the seeds within their validity period. When the potency of seeds fall below minimum germination level, the seeds are required to be categorised as non-seeds after carrying out germination tests and after taking necessary approval of the Board.

**The company sold 2,494.99 quintals of seeds as non-seeds at Rs.23.30 lakh against their procurement price of Rs.47.55 lakh without the approval of the Board**

The Company had sold a total quantity of 2,494.99 quintals of seeds categorising them as non-seeds during 2002-03 to 2006-07 at Rs.23.30 lakh against their procurement price of Rs.47.55 lakh without obtaining approval of the BOD. Out of 33 cases, test reports of 13 cases only were available. In this connection, the following further observations are made:

**Due to excess procurement of black gram seeds, the Company sustained loss of Rs.4.62 lakh**

**2.9.7** The Company received (March 2005) an indent from DOA for 100 quintals of black gram seeds for implementing Integrated Cereal Development Programme (ICDP) during 2005-06. The Company, however, procured (July 2005) 520 quintals of seed at a cost of Rs.18.98 lakh. Reasons for procurement of excess quantity were not furnished (August 2007). The Company could supply only 97 quintals leaving a balance of 423 quintals valued at Rs.15.44 lakh in stock. The seeds were found (September 2006) to be sub-standard on germination test and hence sold for Rs.10.82 lakh. Thus, excess procurement of seeds resulted in loss of Rs.4.62 lakh to the Company.

**2.9.8** The Company received indent for 450 quintals of green gram during 2005-06 from the DOA against which 450.60 quintals were procured for Rs.18.50 lakh and sent to (September 2005 to March 2006) branches for delivery to respective DAOs/SDAOs. The Branch Managers, however, returned 119.86 quintals valued Rs.4.92 lakh during 2006-07 without intimating any reasons for the same. These seeds were found to be sub-standard after germination test and hence sold during 2006-07 as non-seed without the approval of the BOD at Rs.2.27 lakh resulting in loss of Rs.2.65 lakh.

### **Loans and advances**

**2.10** It was observed that the Company was extending interest free advances to the officers of the DOA from time to time to enable the Directorate to meet urgent expenditure. However, the nature of urgency was not recorded. The position of this account for the five years from 2002-03 to 2006-07 was as under:

Year	Opening balance	Amount paid during the year	Amount refunded	Closing balance
(Amount in Rupees)				
2002-03	16.31	3.35	0.80	18.86
2003-04	18.86	1.38	Nil	20.24
2004-05	20.24	0.30	Nil	20.54
2005-06	20.54	Nil	Nil	20.54
2006-07	20.54	Nil	Nil	20.54

The Company irregularly advanced money to the officers of the Directorate of Agriculture mostly against acknowledgement on plain papers without obtaining any undertaking.

**In this connection, it was observed that:**

- there was no formal requests from the DOA for release of these loans;

- the loans both in cash/cheques were released from time to time without the approval of the BOD and without obtaining any undertaking. Only acknowledgements on plain paper were taken;
- the DOA neither made any repayments from December 2002 onwards nor confirmed the outstanding balance as payable by them. As such, the chances of recovery of Rs.20.54 lakh outstanding as on 31 March 2007 are remote;
- computed at a nominal rate of interest of nine *per cent* per annum on opening balances of respective years, the Company incurred loss of interest of Rs.8.69 lakh during the five years upto 2006-07.

### **Execution of projects under Technology Mission**

**2.11** The Company received Rs.1.06 crore under Technology Mission MM-II through Assam Small Farmers Agricultural Business Consortium (ASFABC), a registered society under the Government of Assam for establishment of a nursery at Bamunigaon (Rs.18 lakh) and Moran (Rs.18 lakh) and construction of a Model Floriculture unit at Ulubari, Guwahati (Rs.70 lakh) during the period from July to December 2002.

It was observed that:

- as per scheme submitted to the State Government, the Projects were required to be completed within 2002-03. The Company, however, utilised a total amount of Rs.73.95 lakh upto 2006-07 and construction of Model Floriculture unit at Ulubari is yet to be completed;
- an amount of Rs.4.59 lakh was utilised for purchase of one Maruti Van (Rs.2.59 lakh) and loan (Rs.2 lakh) to Assam Horticulture Society for the 11<sup>th</sup> State Level Annual Horticultural Show, which were not covered under the scheme; and
- an amount of Rs.4.50 lakh was paid to one contractor (Mr. Jamir Khan) during April to August 2003, which remained unadjusted till August 2007.

**The Company utilised Rs.2.59 lakh towards purchase of one Maruti Van and Rupees two lakh paid to Assam Horticulture Society as loan, which was not covered under the scheme**

**Rupees 4.50 lakh paid to a contractor between April and August 2003, remained unadjusted till August 2007**

### **Manpower**

**2.12** The Company produces/procures seeds as per requisitions received from the DOA and supplies the same at 10 *per cent* margin on landed cost. The quantum of such supplies made during 2002-03 to 2006-07 was, however, not adequate even to recover the fixed employee costs as shown in next page:

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
	(Rupees in lakh)				
(i) Fixed employee cost	312.15	351.72	338.68	334.18	335.49
(ii) Turnover required for recovery of fixed costs	3,121.50	3,517.20	3,386.80	3,341.80	3,354.90
(iii) Actual turnover	957.93	1,399.77	1,615.60	399.70	2,452.33
(iv) Percentage of required turnover	30.69	30.80	47.70	11.96	73.10

The fact that the Company could not recover its employee costs in any of the five years upto 2006-07 indicated employment of excess manpower.

**2.12.1** The Company received an amount of Rs.2.48 crore during 1997-98 under National Seed Project-III from GOI for Voluntary Retirement Scheme (VRS) of its employees and earned interest of Rs.70 lakh by investing the same. Thus, total fund available for VRS amounted to Rs.3.18 crore against which the Company spent Rs.2.58 crore for voluntary retirement of 119 employees upto March 2001 leaving a total manpower of 306. The balance amount of Rs.60 lakh remained unutilized so far (August 2007).

As per proposal submitted (September 2002) to the DOA, the requirement of manpower was 186 against actual manpower of 306. The Company, therefore, requested (September 2002) the State Government for sanction of an amount of Rs.5.48 crore for VRS of 120 employees. The Government neither sanctioned this proposal nor the Company pursued the same. The Company could have, however, released at least 17 employees under VRS, as assessed by audit, with the available funds (Rs.60 lakh *plus* interest) as there were sufficient optees for the scheme.

Due to non-utilisation of available funds meant for VRS and non-receipt of further funds from the State Government, the Company had incurred an avoidable expenditure of Rs.6.51 crore on pay and allowances of 120 surplus employees during the five years from April 2002 to March 2007.

**Due to non-utilisation of available funds meant for VRS and non-receipt of further funds, the Company incurred an avoidable expenditure of Rs. 6.51 crore towards pay and allowances of surplus employees**

### **Misappropriation of revenue receipts and stocks**

**2.13** The details of cases of misappropriation of revenue and stocks, *etc.*, as detected by the management and the steps so far taken for recovery thereof are given in **Annexure-13**. These are summarised below:

Sl No.	Name of the official with designation	Date of detection	Amount involved (Rupees)	Amount recovered upto 31 March 2007	Balance amount
				(In Rupees)	
1.	Shri Habibur Rahman, Field Officer I/C Morigaon.	March 1999	77,37,070.57	92,450	76,44,620.57
2.	Shri Babul Barkataki I/C Abhayapuri Sale Point	November 1999	61,86,756.10	Nil	61,86,756.10
3.	Shri Liladhar Saikia, Assistant Branch Manager, Hojai/Morigaon Branch	September 2000	18,26,162.40	64,000	17,62,162.40



Sl No.	Name of the official with designation	Date of detection	Amount involved (Rupees)	Amount recovered upto 31 March 2007	Balance amount
				(In Rupees)	
4.	Shri Khagendra Nath Talukdar, I/C Rangia Sale Point	September 1993	11,58,325.80	2,68,116	8,90,209.80
5.	Shri Ramesh Ch. Medhi, Asstt.Farm Superintendent	October 2001	8,70,100.00	Nil	8,70,100.00
6.	Shri Thaneswar Kalita, Junior Accountant,Rangia Sale Point	September 1993	2,70,504.00	Nil	2,70,504.00
7.	Shri Taznur Ali, Field Officer, Dhemaji /Jonai Sale Point	June 2000	2,59,025.00	88,400	1,70,625.00
8.	Shri Arun Kr. Gogoi, Junior Accountant, Dhemaji Sale Point	December 1996	2,37,125.00	20,000	2,17,125.00
9.	Shri Dharmeswar Nath, Junior Accountant, Morigaon Sale Point	July 2000	1,51,800.00	Nil	1,51,800.00
10.	Shri Dharani Kalita, Junior Accountant, Ulubari Nursery	June 1999	46,693.09	29,000	17,693.09
<b>Total:</b>			<b>1,87,43,561.96</b>	<b>5,61,966</b>	<b>1,81,81,595.96</b>

**The Company recovered Rs. 5.62 lakh only from the employees out of alleged misappropriated amount of Rs. 187.44 lakh**

It would be seen from the above that against alleged misappropriation of Rs.187.44 lakh detected before October 2001, the Company could recover only Rs.5.62 lakh upto July 2006 from the monthly pay bills of the officials. In this connection, the following further observations were also made:

- though recoveries were being made, the amount was so meagre that it would not be possible to recover the misappropriated amount within the service period of delinquent employees;
- due to slow recovery of misappropriated amount, the Company was loosing interest on the same;
- in the absence of its own laid down procedures, the Company was required to follow Assam Civil Services (Discipline & Appeal) Rules 1964. However, no deterrent penal action was taken against the delinquent employees (August 2007);
- as per general instructions issued by the State Government from time to time, suspension cases were required to be finalised within six months as far as possible. Sri Arun Kumar Gogoi (Serial No.8 of **Annexure-13**) was under suspension for more than ten years as on 31 March 2007. The total subsistence allowance paid to him during 2001-02 to 2005-06 amounted to Rs.1, 99,950 without any work;
- the services of Sri Habibur Rahman (Serial No.1 of **Annexure-13**) was terminated (January 2000) and subsequently reinstated (May 2002) as per direction of the State Government subject to drawal of de-novo departmental proceedings against him. Though five years have elapsed since then, departmental proceedings had not been initiated as yet (August 2007).

As the internal audit and finalisation of accounts of the Company are in arrears since 1999-2000, it could not be vouchsafed whether such cases exist even after October 2001.

### **Internal control and internal audit**

#### ***Internal control***

**2.14.1** Internal control is a Management tool to ensure that the objectives are achieved in an effective and orderly manner, assets are safeguarded and rules and procedures are complied with. The internal control system of the Company was weak in view of the following:

- the Company did not have any established Management Information System except one monthly report called Monthly Summary of Transactions (MST) that were mainly used for finalisation of accounts;
- during the six years from April 2001 to March 2007, only nine meetings of the BOD were held against a minimum of 24 Board meetings as required under Section 285 of the Companies Act, 1956;
- the General Manager (Marketing and Trade) was allowed to hold the charge of the MD temporarily from 1 March 2004. The State Government has not appointed a full-time MD as yet (August 2007);
- the annual accounts of the Company for 1998-99 to 2000-01 have not yet (August 2007) been finalised and accounts of the subsequent years has not been compiled and approved by the Board so far;
- the Company has only three officers including the MD who are professionally qualified in Agriculture. Similarly, except the General Manager (Finance), the Company did not have professionally qualified personnel in finance.

#### ***Internal audit***

**2.14.2** The Company has an internal audit wing comprising of one Audit Officer, One Senior Auditor and three Junior Auditors. The Audit Officer reports directly to the Managing Director. The internal audit wing was extremely weak in view of the following:

- no internal audit manual was prepared;
- check-list of audits required to be conducted periodically were not prepared and maintained;
- the scope of internal audit was not extended to Head office of the Company;

- details of audit actually conducted along with position of arrears, *etc.*, were not being maintained. As per information furnished, only 12 audit assignments were carried out during 2002-03 to 2006-07 indicating under-utilisation of available manpower;
- internal Audit wing was not associated with follow up action on internal audit notes and their ultimate disposal.

### **Conclusion**

The activities of the Company were restricted mainly to catering to the needs of State Agriculture Department for certified seeds. The economic viability of the Company was, thus, dependant on the Agriculture Department.

There was shortfall in utilisation of available cultivable land, lower yield compared to standard, frequent crop failure and absence of adequate supervision and control with regard to production of seeds and plants and grafts in its own seed farms and nurseries. The price fixation formula as adopted by the Purchase Committee was defective as the Company failed to recover employees cost. The billing procedure was also deficient due to non-reconciliation of quantity supplied/delivered with the quantity billed. The Company has advanced money to the officers of the Director of Agriculture against acknowledgement on plain papers.

Funds available and earmarked for voluntary retirement were not utilised fully although the Company was having excess manpower compared to its requirement. There was abnormal delay in finalisation of accounts as well as in taking follow-up action on cases of misappropriation detected by the Company. Internal control and internal audit system was also found extremely weak.

### **Recommendations**

The Company needs to:

- diversify its operations with a view to fully utilise the cultivable land and to achieve economic viability;
- undertake production in Seed Farms on modern scientific basis for optimum production of superior breeder/foundation seeds;
- ensure maintenance of production records;
- review the method of fixation of sales price for inclusion of all relevant components of costs;
- improve its billing procedures and connected records;

- **aggressively pursue all misappropriation cases and recover the amount advanced to the officers of DOA;**
- **take immediate action to compile and finalise its annual accounts;**
- **strengthen internal control and internal audit system.**

The matter was reported to the Board/Government in May 2007; their replies are awaited (September 2007).