Chapter VI : Monitoring and Evaluation

The Commissioner exercises overall control and supervision of the functioning of the CSFs in the State. As the Registrar of Sugar Co-operatives, his powers under the Act include the power to register /de-register CSFs, to enforce performance obligations, to conduct statutory audit, to seize records, to inspect the working of CSFs, to change the Management Committees or appoint administrators, to prescribe periodical returns from the CSFs and to order inquires.

6.1 Appointment of qualified Managing Directors

The Managing Directors of the sugar factories are appointed by the Boards of Directors of the CSFs from the list prepared by a Committee[73] headed by the Commissioner. The Registrar is empowered by Section 74 of the MCS Act to fix the qualifications of the cadre of specified co-operative societies.

CSFs were being managed by Managing Directors not having the requisite professional qualifications

As the existing Managing Directors did not have general awareness and knowledge of modern techniques of the sugar industry, the Government directed (September 2003) the Commissioner to finalise a list of Managing Directors with the help of the Institute of Rural Management (IRMA), Anand. In all, 66 candidates were selected during 2003-04. In February 2005, the Government directed the CSFs to appoint new Managing Directors from the list of 66 candidates in place of the existing Managing Directors. Due to an interim stay order of the High Court, based on a writ petition filed (March 2005) by the Maharashtra Rajya Sahakari Sakhar Sangh, the appointment of the Managing Directors from the selected panel was pending and the existing incumbents continued. In 18 CSFs, where the existing Managing Directors had retired or resigned, the posts were filled on ad hoc basis and qualified and experienced persons were not appointed. Thus, the affairs of the CSFs were being managed by Managing Directors who did not have the professional qualifications. Government agreed (January 2008) that qualified Managing Directors were necessary for tackling the challenges of the sugar industry.

6.2 Conduct of audit by statutory auditors

The audit of CSFs is the most important tool available to the Commissioner under Section 81 of the MCS Act to exercise control over the CSFs. Audit reports provide vital information to the Commissioner to take necessary action against the Managements under the Act and also to avoid the recurrence of irregularities. The Commissioner receives returns from the RJDs about the audits conducted by the auditors as of March every year. Deputy Directors (Sugar) under the RJDs are responsible for scrutiny of the audit reports of the CSFs and to take appropriate action thereon. They are required to keep factory-wise registers of grave and serious irregularities pointed out in the

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[73] Committee consisted of Commissioner, Chairman of the Sakhar Sangh, Managing Director of MSC bank and Assistant Director, Administration of the Sugar Commissioner's office

audit reports and to get compliance thereon. The Commissioner did not prepare any annual audit programme. Instead, the statutory auditors, appointed by the Government, were allotted audit of five to six CSFs every year**.** As of March 2007, there was shortage of eight special auditors out of 35 sanctioned, of which seven posts were vacant for two years.

Audit of 61 CSFs was in arrears for periods ranging upto 15 years

Audit of 61 CSFs was in arrears for periods ranging from one to 15 years**.** Of these, the accounts of eight CSFs, which were under liquidation, were in arrears for more than 10 years. The Commissioner stated (January 2008) that out of 61 CSFs, audit of 29 CSFs was in arrears for more than three years. The audit was in arrears as the financial statements were not prepared, mainly because of shortage of manpower in the CSFs.

The paras in the audit reports were not being watched for compliance as the registers of outstanding paras were not being maintained by the RJDs. Out of the 22 test-checked CSFs, nine had not submitted compliance to their audit reports within the prescribed period of three months.

Further, audit fees amounting to Rs 2.52 crore, leviable under the provisions of Rule 74 of the MCS Rules were outstanding as of March 2007 from 35 CSFs. The earliest year for which the audit fees remained outstanding was 1992-93. Government stated (January 2008) that due to the sickness of the CSFs, the audit fees could not be recovered. A decision had, however, been taken (July 2007) by the Ministers' Committee that Rs 25 per bag of sugar produced during 2007-08 would be tagged for settlement of Government dues. As already stated earlier, given the quantum of Government dues outstanding, the recovery from this tagging for one year would be only 7.24 *per cent* of the total dues.

6.3 Inspection of CSFs

Neither the Commissioner nor the RJDs had carried out inspection of the CSFs as envisaged under the MCS Act

Under Section 89 A of the MCS Act, the Commissioner has to inspect the CSFs to ensure that the provisions of the Act, Rules and bye-laws are being properly followed, that the records and books of accounts are being kept by them in proper form and that they are following the co-operative principles and directives given by the Government. For the purpose of supervision over the CSFs, the Commissioner has access to the records and books of accounts of CSFs.

However, the Commissioner or the RJDs never carried out any inspections of the CSFs. The RJD, Ahmednagar stated that inspections were not conducted because of staff shortages during the period covered by Audit. Government stated (January 2008) that in future, CSFs would be inspected.

6.4 Conduct of cost and energy audits

In pursuance of the provisions laid down in Section 81 (2A) of the MCS Act, the Commissioner directed (August 2003) all the CSFs to conduct cost audit of the factories. Also, based on a recommendation of the Ministers' Committee, the Commissioner directed (December 2005) the CSFs to conduct energy audit through the agencies selected by the Maharashtra Energy Development Agency (MEDA).

The objective of cost audit is to ascertain the per unit cost of production of sugar and to ensure savings in costs. Although the 22 test-checked working CSFs had not exceeded the power cost norms prescribed by the Commissioner, the power costs were showing an upward trend from 2001-02 to 2005-06. The power consumption costs of the CSFs had increased by 31.6 *per cent* per MT during the period. It was noticed that the Sakhar Sangh had revised the cost norms in March 2007 and had pegged the costs at a lower rate of Rs 11.20 per MT. Compared to these norms, the average excess in costs in the CSFs was 29.37 *per cent.*

Fourteen CSFs did not conduct cost audit and energy audit during 2002-06

During 2002-06, none of the 14 test-checked working CSFs with regard to conducting of cost audits had done the same. In respect of nine working CSFs test-checked for conduct of energy audits, eight had not conducted the audit. The Commissioner had not applied Section 79 to get the energy and cost audits done and made the CSFs pay for the cost of the audits. In the case of the Rajarambapu Patil CSF which had got its energy audit done for 2006-07, the interim energy audit report recommended 10 key energy saving areas with a saving potential of Rs 4.34 crore annually after an approximate investment of Rs 5.79 crore by the CSF. The CSF would also become eligible for carbon credits worth Rs 3.20 crore. This points to the fact that conducting of energy audits by the CSFs could lead to significant savings in energy and earning of revenue through carbon credits.

At the exit conference, the Principal Secretary agreed that cost audit should be done by the CSFs. With regard to conduct of energy audit, the Principal Secretary stated that MEDA's scheme was not attractive to the CSFs as it was on a cost-sharing basis. However, MEDA would be approached to work out a strategy. The fact remains that the Government had not enforced action following its directions of 2003 and 2005.

6.5 Watching of prescribed returns for monitoring

The Commissioner did not maintain any systematic database from the returns submitted by CSFs

The Commissioner prescribed about 16 weekly, fortnightly and monthly returns to be submitted by the CSFs, relating to accounts, agricultural operations, manufacturing and distillation functions.

The Commissioner had no mechanism to watch the receipt of these returns. Though the returns were submitted by the CSFs, the Commissioner did not maintain any systematic database from those. As a result, corrective action could not be taken on the irregularities committed by the CSFs and the mismanagement of their affairs, could not be adequately tackled by the Commissioner. As the details of cane price payments, rates of sale of sugar, purchases of chemicals and crushing reports submitted by the CSFs were not systematically compiled and analysed, the Commissioner failed to prevent payments of excess cane prices by the CSFs, sale of sugar at lower rates, excess cost of chemicals over the prescribed consumption norms and CSFs taking away cane from the operational area of other CSFs, as commented elsewhere in this Report.

The Commissioner stated (January 2008) that the data received through the returns submitted by the CSFs regarding accounts, agricultural operations, manufacturing and distillation functions would be stored in computers and would be effectively utilised for the smooth functioning and management of the CSFs in future.

6.6 Maharashtra Sugar Information System

Unfruitful expenditure of Rs 52 lakh was incurred on Maharashtra Sugar Information system

With a view to ensuring effective monitoring of the important functions of CSFs viz, cane availability, cane crushing, financial position etc, providing speedy and better services to sugar factories by online exchange of information and facilitating integration, the Commissioner entrusted (November 2002) the development of the Maharashtra Sugar Information System (MSIS) to an agency[74] at a total cost of Rs 29 lakh. The software application comprising seven[75] modules was made operational in stages.

The modules were not being used by the Commissioner's office, except for the website module, as the necessary data was not fed into the application system by the Commissioner's office. The expenditure of Rs 52 lakh[76] incurred as of May 2007 was rendered unfruitful**.** The Principal Secretary stated (December 2007) that the software application would be utilised.

6.7 Finalisation of inquiry cases instituted against CSFs

As per Section 83 of the MCS Act, 1960, the Commissioner as the Registrar has the power to hold inquiries to investigate into the constitution, working and financial conditions of the CSFs. Further, under Section 88 of the Act, he can order inquiries for assessment of damages against delinquent promoters of CSFs. For the inquiries instituted, the time allowed for completion ranges from 30 to 60 days, which may be extended by the Commissioner/RJD on requests made by the inquiry officers.

The status as on 31 December 2006 of 75 inquiry cases instituted between March 1988 and September 2006 by the Registrar and RJDs against the CSFs was as follows:-

[74] M/s ABM Knowledgeware, Mumbai
[75] Sugar cane availability and crushing monitoring system, By-product monitoring system, Finance monitoring system, Technical feasibility monitoring system, Co-operative sugar factory monitoring system, Audit information system and Website
[76] including cost of hardware

Number of cases pending finalisa-tion	Amount involved (Rupees in crore)	Inquiry cases finalised but action awaited from RJD/ Registrar	Amount involved (Rupees in crore)	Inquiry cases stayed by the Government	Amount involved (Rupees in crore)	Inquiry cases stayed by the High Court	Amount involved (Rupees in crore)
Inquiry cases under Section 83 of Maharashtra Co-operative Societies Act, 1960							
12	42.96	17	16.79	3	0.56	6	3.78
Inquiry cases under Section 88 of Maharashtra Co-operative Societies Act, 1960							
14	62.35	1	--	16	28.11	6	40.72
Total: 26	**105.31**	**18**	**16.79**	**19**	**28.67**	**12**	**44.50**

Of the 75 cases, three cases were pending for more than one year, 16 cases for more than two years, nine for more than three years, nine for more than four years, 34 for more than five years and the balance four cases were pending for less than a year.

6.7.1 Delays at inquiry officer level

Out of 75 inquiry cases instituted by the Registrar involving 54 CSFs, 26 cases involving Rs 105.31 crore, initiated between February 2001 and September 2006 were not finalised as of December 2006. These cases were pending with the inquiry officers due to various reasons viz, non-production of case records in four[77] cases by liquidators and CSFs, transfer of inquiry officers in 11[78] cases, cases pending with inquiry officers with frequent extensions granted by the Registrar in 10[79] cases and re-inquiry ordered by the High Court in one[80] case.

An inquiry was initiated in December 1999 under Section 83 against the Vasant CSF, Yavatmal for violation of the prescribed purchase procedure by the CSF and consequent loss of Rs 20 lakh. The case was stopped by the RJD, Amravati in December 1999 on orders from the Chief Minister's office. Following an Assembly question, the inquiry was re-started in September 2000 and was concluded in February 2001, confirming that the procedure followed was indeed suspicious and calling for further investigation. However, no further action had been taken as of January 2008. An inquiry under Section 83 of the MCS Act, 1960, instituted in January 2002 for investigating into important audit findings included in the statutory auditor's report for the year 1998-99 of the Tasgaon CSF, Sangli, like non-payment of cane prices,

[77] Bageswari, Jalna; Shetkari, Latur; Shivshakti, Osmanabad and Vinayak, Aurangabad
[78] Ajinkyatara, Satara; Bageshwari, Jalna; Belganga, Jalgaon; Godavari, Parbhani; Kada, Beed; Nashik, Palse; Parzarkan, Nashik; Sant Domaji, Solapur; Sahyadri, Kolhapur and Vasantdada, Sangli
[79] Balaghat, Latur; Gangapur, Aurangabad; Indira, Hingoli; Indira Gandhi Mahila, Kolhapur; Jai Bhavani, Beed; Kada, Beed; Niphad, Nashik; Shetkari, Latur; Tasgaon, Sangli and Vasantdada, Sangli
[80] Gangapur, Aurangabad

outstanding advances not recovered, misutilisation of pre-seasonal loans raised against Government guarantees and diversion of area development funds, had not been concluded as of June 2007. The Commissioner had issued three reminders to the inquiry officer but had neither taken any action under Rule 71 (3) calling for reasons for failure to complete the inquiry nor withdrawn the inquiry from the officer to conduct it himself or to entrust it to another person.

The Government stated (January 2008) that inquiries were pending because records in the cases of non-functioning CSFs and the concerned staff of the CSFs were not available. The problem was the same with the CSFs under liquidation as well. As manpower availability was the main problem, the Commissioner should have got the accounts prepared by employing outside agencies and recovered the cost from the CSFs under Section 79.

6.7.2 Delays at the Commissioner's level

In respect of 18 cases which had been finalised from 2000 to 2004 and whose results had been communicated to the CSFs by the Registrar, action was pending as of January 2008. In all these cases, the CSFs had not appealed to the Government. As 17 of these cases involving Rs.16.79 crore, were under Section 83, the Registrar was to take further action based on the replies furnished by the CSFs in order to fix responsibility and effect recoveries. However, this had not been done in all the cases. It was noticed that although an inquiry conducted (29 November 2005) under Section 83 against the Rajgad CSF, Pune confirmed a loss of Rs 69 lakh due to wrongful sale of sugar as 'damaged' during 2002-03, no action was taken by the Registrar to fix responsibility and recover the loss under Section 88.

Similarly, in Jijamata CSF, Buldhana, an inquiry constituted (20 March 1999) under Section 83, confirmed a loss of Rs 2 crore during 1995-96 due to a fire in the stores department, credit sale of scrap material, advances to staff, expenditure on H&T contractors etc. The inquiry held (July 2000) the Managing Director, Chief Engineer, Store Superintendent and the Management jointly responsible for the loss. However, no action was initiated by the Commissioner to recover the loss under Section 88. No action against the erring officials was also taken under Section 78.

6.7.3 Grant of stays by State Government and High Courts

In 19 cases involving a total amount of Rs 28.67 crore, the Government had granted stays under Sections 152/154. Various branches of the High Court had granted stays in 12 cases involving a revenue of Rs 44.50 crore.

Thus, in all, 63 out of 75 inquiries (84 *per cent*) instituted by the Commissioner to take action against irregularities committed by the CSFs were still to see any results. In addition, 20 inquiry cases initiated under Section 83 (10) and Section 88 (10) in the five RJD offices test-checked were in progress. As most of the inquiries were pending, the Commissioner could not fix responsibilities on the erring Managements and effect recoveries. As no remedial action was being taken, the irregularities would continue, causing further losses to the CSFs.

6.8 Evaluation of working of CSFs

As the CSFs are business enterprises, their financial strength is the most important test of their success. Evaluation of the financial strength of the 22 test-checked working CSFs in terms of their net worth and current ratios revealed that nine[81] of them had registered negative net worth and seven[82] had net worth which were badly eroded. These CSFs had diverted loans, invested in unworthy and unviable projects and had not pursued cane development. Twelve[83] of these CSFs had current ratios *ie.,* current assets to current liabilities, below one, indicating low liquidity apart from their lack of creditworthiness due to eroded net worth. Fourteen [84] CSFs had incurred accumulated losses of Rs 547.65 crore upto 31 March 2006. In the above circumstances, the liquidation of outstanding liabilities, including Government dues, was practically impossible.

All these 22 CSFs had continuously defaulted on payment of Government dues ranging from two to five years. Eleven[85] CSFs had continuously run below 75 *per cent* capacity for over three years, 15[86] CSFs had incurred losses continuously for three years and in nine [87] CSFs, the financial position was such that they could not pay even the SMP for the sugar cane. Payment of higher prices had been at the cost of depletion of the surpluses in the last three years.

Government stated (January 2008) that in the year 2002-03, the industry had suffered due to a steep fall in sugar prices and attack of white woolly aphids. The crushing seasons from 2003-04 to 2005-06 were affected by droughts prevailing in the State, which had adversely affected the productivity and

[81]Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Jaibhavani, Beed; Niphad, Nashik; Shiv Shakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant,Yavatmal

[82] Bhaurao Chavan, Nanded; Dr. Babasaheb Ambedkar, Osmanabad; Kukadi, Ahmednagar; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune and Siddheshwar, Solapur

[83] Bhaurao Chavan, Nanded; Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Jaibhavani, Beed; Kukadi, Ahmednagar; Niphad, Nashik; Pandurang, Solapur; Shiv Shakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[84] Bhaurao Chavan, Nanded; Dr. Babasaheb Ambedkar, Osmanabad; Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Kukadi, Ahmednagar; Niphad, Nashik; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune; ShivShakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[85] Jaibhavani, Beed; Kukadi, Ahmednagar; Indira Gandhi Mahila, Kolhapur, Krishna, Satara; Niphad, Nashik; Rajarambapu, Sangli; Rena, Latur; Sant Tukaram, Pune; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[86] Bhaurao Chavan, Nanded; Dr. Babasaheb Ambedkar, Osmanabad; Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Jaibhavani, Beed; Kukadi, Ahmednagar; Niphad, Nashik; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune; Shiv Shakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[87] Daulat, Kolhapur; Dr. Babasaheb Ambedkar, Osmanabad; Dr V.V. Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Niphad, Nashik; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune and Vasant, Yavatmal

production of cane for crushing. Therefore, GOI had announced a package of restructuring of term loans. During 2001-06, there was not much scope for diversion of loans or investing in unworthy or unviable projects. Since adequate generation of income was not there, the mills faced difficulties in payment of SMP to the cane growers. Certain management problems were also responsible for the financial weaknesses of the mills. The reply was not tenable to the extent that there were cases of diversion of various loans and specific purpose funds by the CSFs during 2001-06 also. Inappropriate managerial decisions, discussed in this report, had adversely affected the finances of the CSFs and caused hardships to the farmers.

There was no mechanism in place for periodic evaluation of the working of the CSFs

Government had appointed four Committees to look into the sickness of the CSFs viz, the Gulabrao Patil Committee in 1980, the Shivaji Rao Patil Committee in 1990, the High Powered Committee under Principal Secretary, Co-operation in 1990 (to examine the recommendations of the Shivaji Rao Patil Committee) and the Godbole Committee in August 1997, to suggest remedial measures for dealing with sickness of CSFs in the State. The Godbole Committee took into account the reports of the earlier Committees and analysed the causes for the sickness of the CSFs. The recommendations of the Committee have been given in **Appendix XI**. Deficiencies in the running and management of the CSFs could have been corrected had the recommendations been considered for implementation. The recommendations were, however, not implemented by the Government.

The Principal Secretary, stated (December 2007) that the Government's view was that the CSFs were people's organisations and were not driven by profit motive. However, there was a conscious move now for liquidation of the inefficient units. As a result, for the first time, three CSFs had been sold and 18 had been leased out. The inefficient units would be allowed to be phased out. The reply was not tenable because while social responsibility was important, even within these constraints, the achievement of profitable employment of funds and resources deployed in the business with the object of wealth maximisation should have been achieved. This would also have furthered the cause of improvement of the economic condition of the farmers in the form of higher cane prices.

6.9 Conclusion

Monitoring by the Commissioner was not effective as statutory audit of the CSFs were in arrears for one to 15 years and the response to audit was also unsatisfactory. Inspections were not being conducted by the Commissioner and the RJDs to properly monitor the working of the CSFs. Monitoring by the Commissioner was not complemented by the appointment of professional Managing Directors to run the affairs of the CSFs. Most of the inquiries against erring managements were inconclusive and corrective action was not being taken. The Commissioner failed to apply Section 79 to get energy and cost audits done by the CSFs. There was no mechanism in the Government for periodical evaluation of the working of CSFs. Though the Government appointed the Godbole Committee to look into the sickness of the CSFs, its recommendations had not been implemented as of January 2008.

6.10 Recommendations

- Appointment of qualified Managing Directors in all CSFs should be ensured.
- Conducting of statutory audit of all the CSFs, maintenance of control registers for watching outstanding objections and timely action by the CSFs on all audit observations should be ensured.
- Conducting of energy audit and cost audit by the CSFs should be ensured.
- Conducting of annual inspection of CSFs by the Commissioner and his officers should be ensured.
- Inquiries initiated against the CSFs should be concluded expeditiously and the damages recovered from the delinquent Managements.
- A mechanism for periodical evaluation of the working of CSFs should be instituted.

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