CHAPTER-II

Performance Reviews of Government companies

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2.1 Construction activities of Orissa Construction Corporation Limited

Highlights

Orissa Construction Corporation Limited was incorporated mainly to construct, execute, carry out, improve works like dams, barrages, reservoirs, powerhouses, etc. Audit scrutiny revealed that:

- **the Company largely depended on works allotted by the State Government and the value of works secured through negotiations/tenders was negligible;**
- **targets fixed by the Company for completion of works were not achieved;**
- **the Company failed in its objective of expediting the works through engagement of job workers.**

(Paragraphs – 2.1.1, 2.1.8, 2.1.20 and 2.1.26)

The targets for execution of works were fixed disregarding the contracted schedule of completion of works. The achievements fell short of targets except during 2001-02 and the shortfall ranged from 11 to 41 *per cent* during the period 2002-03 to 2005-06.

(Paragraph – 2.1.8)

The Company completed only nine works within the scheduled time, 56 works were completed with delays ranging from one to 38 months and 43 works were in progress beyond the scheduled dates of completion which caused delay in realisation of full value of overhead charges of Rs.26.66 crore.

(Paragraphs – 2.1.7 and 2.1.17)

The Company accepted value of works without providing for reimbursement of overhead charges, sales tax, submitted rates based on incorrect lead distance and without assessment of site conditions leading to loss of contract income of Rs.22.22 crore.

(Paragraphs – 2.1.10 to 2.1.13)

Acceptance of value of works at lower than fair estimates led to loss of contract income of Rs.4.26 crore.

(Paragraph – 2.1.15)

The Company had to bear extra liability of Rs.1.66 crore and loss of contract income of Rs.1.68 crore due to delay in execution of works.

(Paragraphs – 2.1.18 and 2.1.19)

Introduction

2.1.1 Orissa Construction Corporation Limited was incorporated on 22 May 1962 with the main objectives to:

- construct, execute, carry out, improve, work, develop, administer, manage or control works like dams, barrages, reservoirs, powerhouses, etc.;
- apply for tenders, purchase or otherwise acquire any contracts for, in relation to the above works.

In pursuance of its objectives, the Company has been executing construction contracts secured through negotiations with various Departments of the Government of Orissa and also participating in tenders.

Besides construction activities, the Company has been executing Information Technology related projects such as software development, website hoisting, procurement of hardware and networking for various Government Departments.

The Management of the Company is vested in a Board of Directors consisting of eight Directors including the Chairman and the Managing Director. The Managing Director, being the Chief Executive of the Company, looks after the day-to-day operation and is assisted by one Director (Mechanical), one General Manager (Civil works), one General Manager (Mechanical), one Financial Advisor-cum-Chief Accounts Officer and one Company Secretary at Head office. Besides, there was one General Manager at each of the four zonal offices. The post of Director (Mechanical) was lying vacant since June 2004 (July 2006).

A review on execution of works through sub-contracting by the Company was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1995, Government of Orissa. The Report was discussed in May 2001 and May 2003 by the Committee on Public Undertakings. The recommendations of the Committee were awaited (October 2006).

Scope of Audit

2.1.2 The present Performance Audit, conducted during the period from 1 January 2006 to 12 May 2006, covered the construction activities of the Company for the five years' ending 31 March 2006. Audit examined the records maintained at the Corporate Office, one out of four zonal offices and 12 out of 27 project offices. Further, 28 contracts (Rs.424.27 crore) out of 73 contracts (Rs.627.80 crore) of value more than Rs.1 crore were examined.

Audit Objectives

2.1.3 The Performance Audit on the construction activities was conducted to assess whether:

- the targets for execution of works were fixed with reference to completion schedule of works;
- the achievements were consistent with the targets;
- reasonable care was taken in preparing the estimates for submission of offers for securing works;
- the works were executed within the prescribed time schedules and delays were properly analysed; and
- an effective monitoring system was in place.

Audit Criteria

2.1.4 The following audit criteria were adopted:

- cost estimates prepared by the Company;
- recommendations of the Tender Committee and Technical Committee;
- general conditions of contract, terms and conditions of construction contracts and standard agreements with job workers;
- operating procedures prescribed by the Company; and
- budget estimates, bill of quantities registers, measurement books, etc.

Audit Methodology

2.1.5 For the purpose of collection of data and gathering evidence, Audit adopted the following methodology:

- Examination of Minutes and Agenda papers of meetings of the Board of Directors and those of Sub-Committees, estimates and offers, contract documents, correspondences with the administrative department and clients;
- Physical inspection of work sites;
- Interaction with the Management in the entry and exit conferences.

Audit Findings

Audit findings as a result of Performance Audit of the Company were reported to the Management/Government in July 2006 and discussed in the meeting of Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 12 July 2006 which was attended by the Commissioner-cum-Secretary, Water Resources Department (DoWR), Government of Orissa and the Managing

Director of the Company. The views expressed by the Government/ Management have been taken into account during finalisation of the Performance Review.

Audit findings are discussed in the succeeding paragraphs.

Sources of Fund

2.1.6 The Company executes works allotted by the DoWR. It also secures works through participation in tenders and negotiations.

In respect of works allotted by the DoWR, a payment schedule keeping in view the period of completion of the works is drawn up by the Chief Engineer, which forms part of the contract. Funds required for execution of the works are released to the Company as interest-free advance in accordance with the payment schedule. The subsequent advance required for execution of works is released after the previous advance is utilised and adjusted up to 75 *per cent*.

In respect of works obtained through tenders and negotiations, the Company arranges its own funds for execution of the works where advances are not available as per the agreement.

Position of works in hand

2.1.7 On the grounds of considerable financial investment of the Government, ensuring quality of works and providing adequate employment opportunity to technical personnel, the Government of Orissa, Department of Irrigation (later renamed as Department of Water Resources) decided (March 1972) to allot a minimum work load to the Company sufficient to ensure its survival as a viable economic unit. In pursuance to this, Government decided (September 1990) to allot annually at least works valued at Rs.20 crore plus 15 *per cent* overhead charges. The Government later (June 2002) raised the minimum annual limit of allotted works to Rs.100 crore plus 15 *per cent* overhead charges.

In addition to the works allotted by DoWR, the Company is free to compete alongwith other tenderers for any other works of the Department. Besides these allotted works, the Company secures works relating to other Government Departments/Undertakings, etc. through negotiations/ tenders.

The year-wise position with respect to booking, execution and balance work in hand for the five years' ending 2005-06 was as under:

(Rupees in crore)

Year	Spillover from the previous year		Works booked during the year		Total		Works executed/ completed		Spill over to the next year	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
2001-02	67	25.71	15	118.28	82	143.99	29	27.89	53	116.10
2002-03	53	116.10	33	48.54	86	164.64	13	37.52	73	127.13

Year	Spillover from the previous year		Works booked during the year		Total		Works executed/ completed		Spill over to the next year	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
2003-04	73	127.13	38	143.11	111	270.24	15	52.62	96	217.62
2004-05	96	217.62	20	168.49	116	386.11	30	61.85	86	324.25
2005-06	86	324.25	38	175.63	124	499.88	18	62.20	106	437.68
Total			**144**	**654.05**			**105**	**242.08**		

Audit analysis of 108 works due for completion by 31 March 2006 revealed that only nine works were completed within the scheduled date of completion, 56 works were completed with a delay ranging from one month to 38 months and 43 works were still in progress under extension of time as discussed in Paragraph 2.1.16 infra.

Targets and Achievement

2.1.8 For execution of works, the Company fixes annual work-wise targets based on the proposals collected from the field units. The targets set by the Company *vis-à-vis* the targets required to be fixed as per the contracted schedule of completion and achievements thereagainst were as under:

(Rupees in crore)

Year	Target fixed for value of work done	*Required Target as per completion schedule	Shortfall in fixation of targets	Percentage of shortfall in fixation of targets	Value of works executed	Percentage of shortfall in achievement vis-à-vis target fixed	Percentage of shortfall in achievement vis-à-vis required target as per schedule
2001-02	26.65	48.35	21.71	44.89	27.89	Nil	42.32
2002-03	62.93	69.03	6.10	8.84	37.52	40	45.65
2003-04	59.38	140.66	81.28	57.79	52.62	11	62.59
2004-05	87.98	184.11	96.14	52.22	61.85	30	66.40
2005-06	105.50	278.58	173.07	62.13	62.20	41	77.67
Total	**342.44**	**720.73**			**242.08**		**66.41**

The following points were noticed in audit.

- The targets were fixed disregarding the contracted schedule for completion of works. This indicates that either the commitments made by the Company to its clients were unrealistic or it had altogether ignored the same while fixing the targets.
- The gap between the value of works that should have been completed as per commitments made to the clients and the value of works actually completed has widened over the years and at the end of 2005-06, the backlog amounted to Rs.216.38 crore (Rs.278.58 crore less Rs.62.20 crore) against Rs.20.46 crore at the end of 2001-02.

* The target that should have been fixed by the Company by taking into account the schedule period of completion of the works

- The achievements of the Company in terms of value, however, showed an increasing trend, as the value of work done increased from Rs.27.89 crore in 2001-02 to Rs.62.20 crore in 2005-06. The actual achievements, however, fell short of the targets except in 2001-02. The shortfall ranged from 11 to 41 *per cent* during the preceding four years and showed an increasing trend after 2003-04. The shortfall was mainly due to slow progress of work as discussed in Paragraph 2.1.17 infra.

The Management stated (July 2006) that the time period allowed for execution was not sufficient in most of the cases. The reply is not tenable as the Company entered into agreements only on accepting the time schedule.

Preparation of estimates and acceptance of works

2.1.9 In respect of works allotted by the Government (DoWR), the Company prepares estimates on the basis of fair assessment of market rate as per the order (6 September 1990) of the erstwhile Department of Irrigation, Government of Orissa. The estimate is initially scrutinised by the Project Level Technical Committee (PLTC) of DoWR. The recommendation of the PLTC is placed before the Tender Committee (TC) of the State Government for further scrutiny and recommendation of TC is finally forwarded to the Government for award of work. The Company enters into agreement on item rate contract basis in F2[*] form. The Company is allowed overhead charges at the rate of 15 *per cent* of the value of work which are paid on the basis of actual value of work executed.

Audit noticed the following deficiencies in preparation of estimates for works.

Non-inclusion of overhead charges

2.1.10 For execution of earth dam in Titilagarh Irrigation Project, the Company submitted (July 2001) offer for Rs.9.13 crore (estimated cost: Rs.7.94 crore and overhead charges: Rs.1.19 crore). The Government awarded (November 2001) the work for a total contract value of Rs.7.28 crore and did not include overhead charges. The Company also accepted the value of the work as decided by the Government and signed the agreement without any provision for reimbursement of overhead charges. The Company, thus, had to forgo an income of Rs.1.09 crore (15 *per cent* of Rs.7.28 crore).

Acceptance of work without provision for reimbursement of overhead charges resulted in loss of contract income of Rs.1.09 crore

The Management stated (July 2006) that the offer was accepted without overhead charges as a special case keeping in view the goodwill and the long standing relationship of the Company with the Department. The reply is not tenable as the overhead charges at the rate of 15 *per cent* were as per the approved practice of the Government. Moreover, being a commercial organisation, the Company should safeguard its financial interest.

[*] The standard format of contract signed by the Government for execution of works.

Non-inclusion of sales tax

The Company sustained loss of Rs.20.01 crore due to non-inclusion of sales tax in the offer rates

2.1.11 The Company, as a contractor, is liable to pay sales tax* under Orissa Sales Tax Act, 1947 as assessed by the sales tax authorities on work contracts executed by it except on labour component. The Company is, therefore, required to include the element of sales tax in its offers. Test check of contracts valued above Rs.1 crore entered into by the Company during the last five years ended 31 March 2006 revealed that in respect of 24 contracts valued at Rs.376.05 crore, the Company had not included element of sales tax in the offered rates. The agreements for these contracts also did not provide for reimbursement of sales tax. This resulted in loss of Rs.20.01 crore to the Company due to non-passing of the liability towards sales tax to the clients.

The Management accepted (July 2006) the audit observation. In the ARCPSE meeting the Managing Director of the Company stated that every care would be taken to include the sales tax component in the basic rate.

Incorrect provision for lead distance

Consideration of improper lead distance in offer rates resulted in loss of contract income of Rs.34.16 lakh

2.1.12 At the time of quoting offers in November 2000 and May 2001 in respect of Tel Syphon, Dharmagarh and Spillway, Khariar, the Company considered the lead for transportation of steel as 294 Kms and 125 Kms respectively. As against this, the Company actually had to procure steel from Bhubaneswar which is 480 Kms from the work sites. Thus, due to defective offer, the Company suffered loss of Rs.10.14 lakh on account of additional transportation charges on the value of works executed up to March 2006. It would further incur loss of Rs.24.02 lakh on the balance portion of both the works.

The Management stated (July 2006) that in case of Tel syphon, Dharmagarh there was no loss on this account. The reply is not tenable as there was loss to the Company on account of under recovery of transportation cost.

Deficient assessment of site conditions

2.1.13 The Government (DoWR) awarded (July 2001) the work of "Design, Manufacture, Supply, Erection and Commissioning of Naraj Barrage Gates" to the Company at a price of Rs.21.83 crore. The Company, while submitting its offer considered installation of 46 trestles** without assessing the site conditions properly. As per the site conditions and actual execution of the work, the Company had to put a total of 56 trestles against which it could raise bills for 46 trestles only as per the agreement. Further, for additional 10 trestles, other miscellaneous materials were also used though these were

* Sales Tax (8 *per cent*) changed into Value Added Tax (12.5 *per cent*) with effect from 1 April 2005.

** An open braced framework used to support an elevated structure such as a bridge.

Improper assessment of site conditions put the Company to incur additional expenditure of Rs.77.95 lakh

not included in the offer. As a result, the Company had to incur additional expenditure of Rs.77.95 lakh.

The Company claimed (December 2004) reimbursement of additional cost on this being pointed by Audit (March 2004). The Department refused (December 2004) to accept the claim stating it to be a part of the contracted work and asked for justification of the extra cost incurred. The Company did not pursue the matter thereafter.

The Management stated (July 2006) that the matter was under consideration by the Department. The fact, however, remains that inappropriate offer rates without considering the site conditions coupled with lack of timely action to get prior approval of the Department for execution of these additional items of work put the Company to a loss of Rs.77.95 lakh.

Signing of agreements without price adjustment clause

2.1.14 As per Clause-31 (Price Adjustment Clause) of the General Conditions of Contract, reimbursement on variation in prices of materials, labour and petrol, oil and lubricant is applicable only in respect of contract period of one year or more provided the work is completed within the stipulated time. In case, where the original contractual period is less than one year but subsequently its validity is extended beyond one year, escalation clause shall be applicable only for the balance portion of the work to be executed beyond one year provided the delay is not attributable to the contractor.

The Company could not claim reimbursement of price escalation of Rs.48.54 lakh due to non-inclusion of price adjustment clause in the agreements

Audit scrutiny revealed that in respect of five contracts, the completion schedule of works was originally less than one year but the same was subsequently extended beyond one year. The Company, however, executed the agreements without provision for reimbursement of cost of escalation. In the absence of such an enabling clause, the Company could not claim reimbursement of escalation charges amounting to Rs.48.54 lakh. Non-inclusion of an escalation clause in the agreements, thus, resulted in the Company losing revenue on account of price escalation.

The Management stated (July 2006) that to obviate extra financial burden on the State exchequer, it accepted works without insisting for price adjustment clause. The reply is not tenable as the non-inclusion of price adjustment clause was an omission and the Company, being a commercial organisation, should operate on business principles.

Acceptance of works below estimates

Acceptance of works below fair estimates led to short realisation of contract income of Rs.4.26 crore

2.1.15 The Company accepted value of contracts at lower than fair estimates in seven cases which led to realisation of less contract income of Rs.4.26 crore (Cases listed in **Annexure-9)**. In these cases, the Company was awarded balance work as the private contractors had failed to complete the works and the Government had closed their contracts.

As the contracts were awarded to the Company at value lower than their fair estimates, the possibility of helping the private contractors by reducing their liabilities towards risk and cost can not be ruled out in these cases. It is pertinent to mention that in respect of construction of Spillway, Manjore Irrigation Project, (Sl. No. 5 of **Annexure-9**) the Tender Committee (TC) decided (May 2001) that the contract with the private contractors should be closed without imposing any penalty, as the balance work would be executed through the Company. Similarly, in case of four works, (Sl. No. 2,3,6,7 of **Annexure-9**) in the TC meeting, it was opined that the balance work should be executed through the Company to avoid legal complications and audit objections.

The Management stated (July 2006) that the Company accepted the negotiated amount considering the utilisation of existing old establishment of Rengali Project, which was idle without any major work at that time. The fact, however, remains that two out of seven works are not related to Rengali Project and no such justification (i.e. utilisation of idle establishment) was put forth by the Company at the time of accepting the balance five works at rates below the fair estimates.

Execution of works

2.1.16 The Company obtained 144 works valued at Rs.654.05 crore during the five years period 2001-02 to 2005-06. Out of these, 108 works were due for completion by 31 March 2006. The extent of delays in execution of works are shown in the following table:

Scheduled time for completion of work (in months)	Total no. of works	Delay in months				
		1-6	**7-12**	**13-18**	**19-24**	**24-38**
Completed works						
Upto 6	33	16	7	4	5	1
7-12	18	6	3	1	5	3
13-18	4	-	2	2	-	-
19-24	-	-	-	-	-	-
More than 24	1	1	-	-	-	-
Total	**56**	**23**	**12**	**7**	**10**	**4**
Incomplete works		**1-6**	**7-12**	**13-18**	**19-24**	**More than 24**
Upto 6	7	1	4	-	-	2
7-12	19	2	1	7	-	9
13-18	10	1	2	3	4	-
19-24	4	2	-	-	-	2
More than 24	3	-	-	1	-	2
Total	**43**	**6**	**7**	**11**	**4**	**15**

2.1.17 Audit analysis revealed the following reasons for delay in execution of works:

- Delay in mobilisation/ engagement of job workers (17 out of 108 cases) where the works actually commenced only after expiry of 2 to 12 months from the scheduled date of commencement of works.
- Improper deployment of job workers (10 out of 28 cases).

- Ineffective liaison with the client (18 out of 28 cases).

The delays in completion of the projects also resulted in cost overruns and loss of intended socio-economic benefits such as irrigation potential, improved roads, accommodation for students in schools, etc. from the projects. Further, the Company receives 15 *per cent* of the value of works executed as overhead charges to meet its fixed overhead expenses. Delay in execution would result in delayed inflow of this revenue even though the Company would continue to incur fixed overheads whether works are executed or not.

Delayed completion of works resulted in delay in realisation of overhead charges of Rs.26.66 crore

Thus, delay in completion of works in turn caused delay in realisation of the overhead charges amounting to Rs.26.66 crore in respect of 99 works for which the scheduled date of completion had already been over by 31 March 2006.

Extra liability due to delay in execution of work

2.1.18 The works of execution of 'Head Regulator' and 'Spillway' of Lower Indra Irrigation Project (LISP) could not be completed by the scheduled dates i.e. 18 October 2004 and 25 November 2004 respectively due to delay in engagement of job workers. As a result, the Company incurred additional expenditure of Rs.55.72 lakh on procurement of steel in respect of Head Regulator (Rs.31.30 lakh) and Spillway (Rs.24.42 lakh) upto February 2006. The Company would incur loss of Rs.88.35 lakh (in respect of Head Regulator - Rs.6.59 lakh and Spillway - Rs.81.76 lakh) on the agreed quantity. Besides, the job workers were to be paid at higher rates due to delay in execution of Head Regulator resulting in additional expenditure of Rs.22 lakh. Thus, the Company had to bear extra liability of Rs.1.66 crore due to delay in execution of these works.

The Company had to bear extra liability of Rs.1.66 crore due to delay in execution of works

The Management stated (July 2006) that the extra expenditure incurred due to delay in execution of these works would be compensated through price escalation. The reply is not tenable as the price escalation had already been disallowed (December 2004) in case of Head Regulator work and in case of Spillway of LISP the normal price escalation may only compensate the extra expenditure to the extent of Rs.29.90 lakh.

Loss of price escalation benefit

2.1.19 In five cases where the agreements provided for price escalation, the DoWR, though, allowed extension of time (EoT) beyond the original contract period, did not allow escalation in prices attributing the reasons for the delay to the Company as detailed in the following table:

Name of the work	Agreement Value (Rs. in crore)	Period of work	Date upto which EoT allowed without escalation	Work executed beyond schedule period (Rs. in crore)	Escalation involved in the extended period (Rs. in crore)	Status of the work
Construction of Head Regulator of LIIP	5.86	19 July 2003 to 18 October 2004	18 January 2006	2.28	0.23	In progress
Naraj barrage gate Civil works	4.41	1 December 2001 to 31 March 2004	30 June 2004	0.83	0.08	Completed
Balance works of spillway of MIP	8.16	21 August 2001 to 20 July 2002	20 June 2004	2.60	0.26	Completed
Naraj barrage gate mechanical works	21.83	25 July 2001 to 31 December 2003	31 March 2006	4.05	0.59	In progress
Dismantling of old anicut at Jobra	3.68	22 January 2003 to 21 March 2004	31 March 2005	2.09	0.52	Completed
Total					**1.68**	

Delay in execution of works put the Company to forgo price escalation benefit of Rs.1.68 crore

As a result, the Company has already incurred excess cost of Rs.1.68 crore on these works as on 31 March 2006 and may have to incur further cost in respect of two out of five works which were still in progress.

The Management stated (July 2006) that the matter would be finally decided at the Government level.

Execution of works by Job workers

2.1.20 In respect of contracts allotted by DoWR, the Company is not allowed to sub-contract the work except for piecework. The Company, however, engages job workers either on item rate basis or on labour contract basis. The component of works executed by the job workers ranged from 56 to 65 *per cent* of the total value of the works executed during last four years ending 2004-05*.

* Figures for the year 2005-06 were not available.

Selection of job workers

2.1.21 The Company maintains a panel of job workers (JW)/ machine owners for engagement on works. For deployment of job workers, the field unit calls a short quotation from amongst empanelled contractors and awards the job work to the lowest bidder. It also hires machinery and engages job workers from outside the panel through the tendering process.

The following deficiencies were noticed in selection of job workers:

- The Company got (August 2001) the work of construction of Spillway of Manjore Irrigation Project. It was, however, observed that the Company, even before getting the work and calling for quotations for selection of job workers, permitted (May 2001) one JW to start the work in anticipation of selection of the JW through the Contract Committee. Subsequently, the Company formally regularised the appointment of the JW by calling quotation (September 2001). Thus, the selection of agency for the work lacked transparency and the bidding process was made perfunctory.

In the ARCPSE meeting, the Managing Director of the Company stated (July 2006) that the prescribed procedures were not followed for engagement of job workers for quicker execution of work. However, Commissioner-cum-secretary, DoWR, Government of Orissa agreed with the audit observation and stated that the Company should follow the prescribed procedures to avoid misuse of the exceptions to the procedures.

Undue favour extended to job worker amounting to Rs.48.74 lakh

- For executing the work of dismantling and removal of old anicut at Jobra, the Company invited (December 2002) tenders for engaging grab dredger. The tender notice was not given wide publicity due to which the Company's scope of getting the best competitive price was restricted. While executing the work, the grab dredger became ineffective due to erratic flow of water and the JW had to engage an excavator for the purpose. The alternative methodology involved 11 operations for removal of 1 cum of debris for which Company was already paying at the rate of Rs.22 per cubic metre to another JW. As such, the JW should have been paid at the rate applicable for removal of debris using excavator 11 times i.e. at Rs.242 per cum (at the rate of Rs.22 per cum for 11 operations). The Company, however, did not revise the rate keeping in view the type of actual machinery used in the work and paid at Rs.422 per cum applicable in case of use of grab dredger resulting in undue favour of Rs.48.74 lakh to the JW.

The Management stated (July 2006) that the cost of execution by deploying excavator was evaluated at Rs.423.25 per cum (against the rate of Rs.422 per cum for grab dredger). The reply is not tenable as the Company was making payment at the rate of Rs.22 per cum to another JW engaged in offshore disposal with the help of an excavator.

Engagement/deployment of Job workers

2.1.22 For efficient and planned execution, the work is to be split up into reaches and convenient small values so that maximum number of job workers can be deployed simultaneously for their effective utilisation and timely completion of works. The following deficiencies in engagement/ deployment of job workers were noticed in audit, which delayed completion of the works.

- For quicker execution of Titilagarh Spillway Project, the work was divided into two independent reaches. Though the quotations were called for both the reaches, yet the field unit instead of engaging separate job workers deployed a single job worker for both the reaches one after another. The objective of dividing the work into two independent reaches was, thus, defeated. Further, against the scheduled date of completion of 14 February 2003, the work was still under execution as on 31 March 2006 and the work had already suffered time overrun of over 37 months.
- The Company engaged (November 2003) one job worker for excavation of foundation of Head Regulator of Lower Indra Canal Project with stipulation to complete the work by April 2004. Although the job worker completely stopped the work in December 2003, the Company took more than 11 months in awarding (November 2004) the left over work to another job worker with stipulation to complete the work by December 2004. The delay in excavation of foundation led to delayed start of construction. Similarly, though the site was cleared in April 2005 in respect of the Canal portion, the Company called quotations for engagement of job workers only in January 2006 and the job worker was engaged in March 2006. This delay on the part of the Company in engagement of job worker contributed to non-completion of the work till date (July 2006) as against the stipulated date of completion of October 2004 i.e. a time overrun of 17 months as on 31 March 2006.

The Management stated (July 2006) that due to restricted working area and frequent local disturbance, there was delay in execution of the work. The reply is not tenable as there was considerable delay on the part of the Company in withdrawing the work from the defaulting JW and awarding it to another JW.

Execution without approval

2.1.23 In the execution of left side periphery Road of Manjore Spillway Project, the Company uprooted (July 2003) stumps of the trees by engaging excavator hired from a job worker (JW) though it was neither included in the scope of the work nor the Company sought approval for this extra item. Based on actual engagement of machinery, the unit office claimed Rs.12.54 lakh (February 2004) from DoWR. The claim was rejected (December 2005) on the ground that there was no approval for execution of these items of work. As a result, the Company suffered a loss of Rs.12.54 lakh.

The Management stated (July 2006) that the Company had not sustained any loss as it had not released any payment to the JW. The reply is not tenable as the Company is liable to discharge the liability towards the work which the JW had executed.

2.1.24 In respect of Spillway, Manjore Irrigation project, the Company engaged a job worker for clearing of mud/slurry and incurred an expenditure of Rs.13.89 lakh between September 2001 and February 2002. The Company, however, did not obtain approval from the client before carrying out the work, though this item was not provided for in the agreement.

The Company raised (February 2002) the bill for this expenditure as an extra item but the client rejected the claim on the ground that the removal of the slurry was a part of the contract. Thus, the Company had to bear the extra liability of Rs.13.89 lakh due to not obtaining specific prior approval of the client.

Advance to job workers

Advances were given to job workers without measurement of work executed and without obtaining security

2.1.25 The standard agreement with JWs did not provide for payment of advances to the JWs. As a prudent practice, the advances, if necessary, should be extended only after considering actual progress of work executed and duly safeguarding the advances by way of bank guarantee, etc. It was observed that Rs.3.57 crore were pending as advances against 28 job workers for periods upto two years. Further, the works executed by the JWs were either not measured or not entered in the measurement book. In certain cases, advances were given without any recommendation of the site engineers.

In the absence of agreement as to extension of advance and any security, the payment of advances to the Job Workers exposed the Company to an unwarranted risk apart from loss of interest.

In the ARCPSE meeting, the Management stated (July 2006) that the advances were given on the basis of visual measurements. Sometimes, due to delayed approval of the running account bill by the client, the Company had allowed advances. It was suggested that the Company needed to devise a system of granting advances to the Job Workers instead of arbitrarily paying advances without any security. Financial Advisor of the Company assured that a standardised format would be designed for the purpose so as to exercise proper control over the advances.

Tender/negotiation works

2.1.26 In addition to the works allotted by DoWR, the Company also secures works from other Government agencies/Departments *ab initio* through negotiations and participation in tenders. For participating in tenders of Government works, the Company is exempted from Earnest Money Deposit (EMD). All negotiation offers and tenders before submission to the clients are required to be approved by the competent authority on the recommendation of the Technical Sub-Committee of the Company.

The table below exhibits the position of works secured by the Company under various categories during the last five years ended 31 March 2006:

(Value: Rs. in crore)

Year	Works secured on allotment basis (DoWR works)	Works secured through negotiations/ tenders (other Deptt works)	Total	Percentage of tenders/ negotiations works to total works	Percentage of allotted works to total works
	Value ***(No.)***	***Value*** ***(No.)***	***Value*** ***(No.)***		
2001-02	111.64 (11)	6.64 (4)	118.28 (15)	6 (27)	94 (73)
2002-03	31.69 (15)	16.86 (18)	48.54 (33)	35 (55)	65 (45)
2003-04	134.03 (27)	9.08 (11)	143.11 (38)	6 (29)	94 (71)
2004-05	168.39 (18)	0.10 (2)	168.49 (20)	0.06 (10)	99.94 (90)
2005-06	155.80 (28)	19.83 (10)	175.63 (38)	11 (26)	89 (74)
Total	**601.55 (99)**	**52.51 (45)**	**654.05 (144)**	**8 (31)**	**92 (69)**

Audit observations on examination of works for bidding, participation and success rate during the period 2001-02 to 2005-06 are discussed below:

- The percentage of the value of works secured through negotiations/tenders to the total value of works ranged between 0.06 and 11 during the period from 2001-02 to 2005-06 except in 2002-03 when it was 35 *per cent*. Thus, the Company was largely dependent on the works allotted by the DoWR.

The Company largely depended upon the works allotted by DoWR and success rate was only four *per cent* in case of competitive tenders

- The Company participated only in 70 tenders (i.e. 16 *per cent*) valued at Rs.517.40 crore out of total 446 tenders scrutinised during five years. The Company, however, could secure only eight works valued at Rs.20.13 crore, the rate of success being four *per cent* in terms of value.
- The Company negotiated for 78 works valued at Rs.120.88 crore and got 37 works valued at Rs.32.38 crore, the success rate being 27 *per cent* in terms of value.
- The reasons for not succeeding in obtaining works through tenders and negotiations were neither analysed nor put up before the Board of Directors for their review and suggestions for betterment of performance.
- In respect of civil works, the Company submitted bids and negotiated without the recommendation of the Technical Sub-committee.

Pradhan Mantri Gram Sadak Yojana (PMGSY) works

2.1.27 The Government of Orissa (Rural Development Department) awarded (August 2002) ten packages of work consisting of 22 roads under PMGSY to the Company on negotiation basis at five *per cent* over and above the estimated cost.

The package-wise physical and financial achievements alongwith working results are detailed in **Annexure-10**. As on 31 March 2006, nine packages had been completed while one package was in progress. The Company, however, could not complete any of the packages within the scheduled time i.e. by 31 March 2003. Periods of delay in all these packages ranged between 15 and 37 months. For slow progress of work and delayed completion, the Department recovered penalty of Rs.4.12 lakh from the Company in respect of five packages. The Company sustained losses in all the packages, except one package, and the net loss aggregated to Rs.52.51 lakh.

The Company sustained loss of Rs.52.51 lakh due to poor performance in execution of PMGSY works

Audit scrutiny revealed the following:

- The Company accepted the Department's estimates without making its own assessments regarding the cost of the works.
- The approved rates for the JWs were revised upwards in respect of certain items. The unit offices at Baripada and Balasore, however, settled the bills of the JWs at the higher rates for the works executed prior to the date of revision. This resulted in making of inadmissible payments of Rs.18.10 lakh to the job workers.
- The delay in approval of working estimates did not provide the unit offices a firm basis for engagement of job workers.
- The Company did not call quotations for selection of job workers. In most of the cases (Mayurbhanj and Balasore district packages), the agreements were signed long after the work had commenced and in certain cases even after the stipulated period of agreement was over.

The Management did not offer any specific comments on the audit observation.

Monitoring System

Budgetary Control

2.1.28 Timely preparation of budgets and analysis of the variations noticed in the execution of works to take suitable remedial measures for achievement of desired objectives make budgetary control important.

The following deficiencies were noticed in the budgetary control system of the Company:

- The budget for 2001-02 was not approved by the Board while budgets for 2002-03 and 2003-04 were approved at the fag end of the year. Further, the budget provisions for 2003-04 were not intimated at all to the field units.

Delayed finalisation of budget weakened the budgetary control system

- The budgets for 2004-05 and 2005-06 were approved by the Board on 20 May 2004 and 25 June 2005 and thereafter intimated to the field units on 10 June 2004 and 29 September 2005 respectively. Delayed finalisation of the budgets and communication of the approved budget to the field units grossly weakened the budgetary control system.

- The existing resources of the Company in respect of mechanical works were not being adequately utilised. In order to make full use of the available resources and expertise in mechanical works, the Company needs to explore new areas of construction activities. The Company however, did not resort to long-range budgeting/planning for the purpose.
- The Company did not prepare cash budgets for planning its operational activities.

Project Monitoring and Management Information Systems

2.1.29 As per the working manual of the Company, all the field units are required to send a Monthly Progress Report (MPR) in the prescribed format by fifth of the following month. The Company is required to furnish the MPRs of the works executed by 20^{th} of the following month to the Government (DoWR). The Government (DoWR) takes up the monthly plan expenditure review meeting in which the Managing Director of the Company participates.

The following deficiencies were noticed in Project Monitoring and Management Information System:

- In most of the cases, receipt of the MPRs from the field units at the Head office was delayed. Similarly, all the MPRs were submitted to the Government (DoWR) after delays ranging between one week and 16 weeks. In certain cases, MPRs for two to four months were submitted at a time.
- The Board is apprised of the progress of work done in each meeting i.e. on a quarterly basis. The MPRs received from the field units were not reviewed at the Head office to suggest remedial measures for slow progress of work and other difficulties encountered by the field units and were merely consolidated at the Head office.
- The Company received the proceedings of the Monthly Plan Expenditure meeting taken by the Commissioner-cum-Secretary, DoWR. The decisions taken in the meeting relating to the Company were, however, not communicated to the field units for taking necessary remedial action until October 2004. The communication to the field units on the decisions taken thereafter also was not regular.
- The Company had not fixed any norm as to the periodicity, etc. for field inspections by the higher officers from the Head office.

Closure of the Projects

2.1.30 The working manual of the Company stipulates that on physical completion of the project, the Project Monitoring Section (PMS) of the Head office will issue an order on closure of the project. The Company declared

44 project offices comprising 235 works as defunct between 8 July 2002 and 31 March 2005. Audit scrutiny revealed the followings:

- The PMS is not maintaining any history sheet of the works/projects to ascertain the up-to-date status of the projects and to advise, in time, declaration of the project as defunct[*]. The proposal for declaration of the projects/works as defunct, therefore, was not mooted by the PMS but was initiated by the Accounts Compilation Section of the Head office, causing delay in declaring the projects as defunct.
- Three project offices namely Harbhangi, Paradeep and School Building Project, Cuttack comprising of 34 works was declared defunct after periods ranging from 12 to 43 months from the dates of their physical completion. Due to delay in declaring Harbhangi Project as defunct and consequent delay in shifting of the project establishment including construction equipment and stores, the Company had to incur idle establishment expenses of Rs.16.73 lakh.

Maintenance of works accounts

2.1.31 The following deficiencies were noticed in audit during test check of works accounts of 12 project offices:

- Bill of Quantities registers which help to reconcile the utilisation of material as recorded in the site accounts with actual execution of works had not been maintained in five project offices in respect of 16 contracts.
- Site accounts, which are required to be maintained for exercising control over receipt and issue of materials, had not been maintained in case of four contracts.
- Measurements of the works executed were not being recorded in the Measurement Books (MB) at regular intervals. The entries were made in the MBs only after the client took measurements.

The Management assured (July 2006) to take action for maintenance of Bill of Quantities registers and site accounts. Regarding MBs, it was stated that measurements were taken jointly with the Departmental officers. The reply is not tenable as running bills were required to be submitted to the Department every month on the basis of measurements taken by the Company.

Financial statements

2.1.32 Financial statements provide data, which are used for taking decisions by the Management. The audited accounts of the Company showed profit of Rs.19.52 lakh, Rs.13.04 lakh and Rs.15.38 lakh for the years 2001-02, 2002-03 and 2003-04 respectively. The Statutory Auditors, however, in their Audit Report for these years stated that profit shown by the Company would

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[*] The project where work has already been completed but final bills, etc. are yet to be settled.

stand converted into loss of Rs.7.37 crore, Rs.7.87 crore and Rs.7.37 crore during these three years had their observations been taken into account. Further, irregularities were also pointed out by the Comptroller and Auditor General of India during supplementary audit of accounts of the Company for the years 2001-02 and 2003-04 under Section 619(4) of the Companies Act, 1956 and had these comments been taken into account, the loss pointed out by Statutory Auditors would further increase by Rs.2.23 crore in 2001-02 and Rs.3.23 crore in 2003-04.

Thus, the net profit shown in the financial statements does not reflect the true financial results of the Company.

Other related issues

Non-submission/delayed submission of TDS certificates

2.1.33 In respect of works executed by the Company, income tax (IT) is deducted at source from the bills. The IT assessment up to Assessment Year (AY) 2003-04 had been completed (July 2006). The following points were noticed:

- The Company filed returns up to AY 2005-06 but did not submit the TDS certificates for an amount of Rs.29.48 lakh, which included Rs.27.01 lakh up to AY 2003-04. The Company could have got refund of Rs.27.01 lakh had the balance TDS certificates been submitted in time. The Company is yet to collect TDS certificates for Rs.22.60 lakh, which includes certificate of Rs.17.13 lakh pertaining to the year 1998-99.
- Non-submission of TDS certificates resulted in blockade of funds of Rs.29.48 lakh and loss of interest of Rs.13.92 lakh at the rate of 6 *per cent* per annum (for eight years) since the interest on amount of TDS is not admissible as the delay in submission of TDS certificate is attributable to the Company.

The Management stated (July 2006) that efforts were being made to collect the TDS certificates to be submitted to the IT Department at the earliest.

Delay in presentation of bills

2.1.34 As per the working manual of the Company, measurement of work done in respect of each contract shall be taken by the field engineers during the last week of every month and recorded in a separate measurement book. On the basis of measurements, a bill shall be submitted to the client. As regards final bill, it shall be prepared by the officers of the client (DoWR) in the presence of the officers of the Company within one month of the date fixed for completion of the work. Price adjustment shall be determined for the work done during each quarter.

The following points were noticed in audit:

- Measurements of the work executed were not taken in the last week of every month. The running account bills, therefore, were not raised on the client on monthly basis. In most of the cases, instead of raising the bills, the Company's engineers were only accepting the quantity recorded in the bills prepared by the clients as per their convenience. This caused delay in realisation of the value of work executed including adjustment of advance from the client for fresh instalment of advance.
- There were inordinate delays in preparation and presentation of bills on escalation dues. In six cases, the escalation bills had not been presented even after expiry of the original contract period of the works. The escalation bills had not been submitted in eight cases even after periods ranging from one year to four years of passing of first RA bills.
- As regards final bills for completed works, the working manual of the Company provided that the unit offices should submit a report including the position of final bills on any closed work within a period of two months from the date of its physical completion. The required reports in respect of 65 works completed during 2001-02 to 2005-06 were not available at the Head office.
- The Company incurred an expenditure of Rs.14.87 lakh in restoration of the damaged Aqueduct at Baghalati spillway on the Left Main Canal. Though the work had been completed in June 2004, the estimate was not submitted (July 2006) to the Department to claim reimbursement.

Conversion of Security Deposits into interest bearing deposits

The Company sustained loss of interest of Rs.20.61 lakh due to non-conversion of Security Deposits into interest bearing deposits

2.1.35 The Government of Orissa, DoWR allowed (January 1998) the Company to convert performance security deposits (SD) deducted from the bills in respect of all its running contracts into interest bearing SDs. The interest bearing SDs shall be in the name of the Company and pledged with the Department. The total deduction on account of performance security deposits from the running bills of the Company stood at Rs.9.29 crore as on 31 March 2005 out of which only Rs.89.39 lakh had been converted into interest bearing SDs. It was noticed in audit that in respect of 26 contracts pertaining to ten project offices, SDs of Rs.2.01 crore had not been converted into interest bearing deposits. The loss of interest calculated at the rate of six *per cent* per annum in respect of these deposits worked out to Rs.20.61 lakh.

The reason for such loss is attributable to the following:

- The unit offices concerned did not make timely requests for conversion. In case of nine contracts, the unit offices requested for conversion after delays ranging up to four years. In other 17 cases, the unit offices had not made any request even after lapse of seven years.
- No system was in place at the Head office to effectively monitor the position of conversion of SDs into interest bearing SDs.

Manpower

2.1.36 The Company had retained 1338 employees as of April 2000. Out of these, 433 employees were separated during the year 2002 through Voluntary Retirement Scheme, Voluntary Separation Scheme, etc. reducing the employee strength to 851 as of April 2004. A fresh exercise was made (April 2004) to rationalise the manpower of the Company based on the current and future workload and 117 employees were identified as surplus. Of the 117 surplus employees, 108 are working in Central Workshop, Rasulgarh which has been incurring loss since 1996-97 due to decline in availability of mechanical works.

The Company spent Rs.1.54 crore (at the rate of Rs.6.20 lakh per month) up to March 2006 towards monthly remuneration of surplus employees since their identification in May 2004.

The Company has not yet formulated any concrete proposal for utilisation of the identified surplus manpower or their retirement. As a result, while on the one hand the Company is saddled with surplus manpower, on the other hand it is unable to complete the works assigned/ awarded.

The above matters were reported to the Government (June 2006); their replies have not been received (October 2006).

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 review.

Conclusion

The Company was largely dependent upon the works allotted by the Department of Water Resources of the State Government as the value of works secured through negotiation/ tenders to total value of works were negligible. The targets fixed by the Company for completion of the works fell short of the schedule dates, while the achievements were even less in all the five years reviewed. The Company completed only nine works within the schedule time and 56 works were completed after delay

ranging from one month to 38 months. There were cases of incorrect estimation of works, acceptance of works below the estimates, disregarding price adjustment clause, actual site conditions, overhead charges, etc. causing loss to the Company. The objective of expediting the execution of works through engagement of job workers could not be achieved due to deficiencies in selection of job workers and monitoring of their works. The budgetary control system, monitoring of project execution, maintenance of works accounts, etc. was found to be deficient.

Recommendations

- **The Company should participate in tenders and obtain works to avoid perpetual dependence on allotted works of Government.**

- **The Company should fix targets based on the schedule of completion of the works and should also plan in such a manner that works are completed in time.**

- **The Company should take into account all the factors affecting the works costs while making the offer and entering into agreements with the client.**

- **The Company should take adequate care in selection of job workers. Further, there should be synchronisation in engagement/deployment of job workers for timely execution of works.**

- **The Company should improve its overall monitoring system in the areas of budget and execution of works.**

2.2 Raising, maintenance and auctioning of cashew plantations by Orissa State Cashew Development Corporation Limited

Highlights

Orissa State Cashew Development Corporation Limited was incorporated with the main objectives to develop land, raise cashew plantations, implement cashew development programmes in the State of Orissa. Audit scrutiny revealed that:

- **no long term Corporate Plan was evolved for identification of new areas for expansion and optimum utilisation of available area for plantation. No new area was brought under cashew plantations during the period of the review;**
- **plant density remained below the norm reflecting inefficient utilisation of land;**
- **the Company failed to take adequate steps for cultural operations like bush cleaning, fertiliser application, plant protection measures, etc., which adversely affected productivity.**

(Paragraphs – 2.2.1, 2.2.6, 2.2.8, 2.2.16, 2.2.18 to 2.2.21 and 2.2.23)

The Company lost revenue of Rs.9.52 crore per annum and employment generation opportunities to the extent of 21.25 lakh mandays due to non-replantation of trees in vacant patches and in plantations damaged by the super cyclone.

(Paragraphs – 2.2.11 and 2.2.12)

The Company did not take any action towards removal of old and senile trees till 2004-05 thereby denying itself revenue generating potential of Rs.4.31 crore from the first yield onwards. Loss of yield due to low productivity computed with reference to the norms worked out to Rs.47.85 crore.

(Paragraphs – 2.2.13 and 2.2.23)

Shortfall in sales realisation below the upset price worked out to Rs.3.33 crore. The Company failed to take remedial measures to check controllable problems for enhancing the auction value.

(Paragraph – 2.2.27)

The Company failed to spend Rs.2.47 crore under Integrated Cashew Development Programme and did not utilise its own surplus funds towards plantation activities.

(Paragraph – 2.2.30)

Introduction

2.2.1 Orissa State Cashew Development Corporation Limited was incorporated in April 1979 as a wholly owned Government Company with the main objectives to develop land and raise cashew plantations and other suitable species in the State of Orissa, deal in cashew nuts, fertilisers, pesticides, etc. implement cashew development programmes in the State and render technical guidance and assistance to cashew growers. The main activities undertaken by the Company are:

- maintenance and upkeep of the existing cashew plantations;
- raising of high yielding cashew clonal grafts so as to provide a boost to cashew cultivation in the State of Orissa; and
- harvesting through temporary lease or departmental collection.

As on 31 March 2006, the Company was in possession of 956 cashew plantations over an area of 30,599.94 hectare (ha) (75,581.85 acre) in the State. The Company obtained lease for 13,722.34 acre and its request for lease for 24,474.25 acre was pending with the State Government. The Company has not so far applied for lease for the remaining 37,385.26 acre so far (July 2006).

The Management of the Company is vested with a Board of Directors consisting of eight Directors including the Chairman[*] and the Managing Director. As on 31 March 2006, all the Directors, except the Managing Director, were part time Directors. The day-to-day affairs of the Company are looked after by the Managing Director who is assisted by three group officers viz. General Manager (Finance and Accounts), General Manager (Technical) and Manager (Land, Personal and Administration). The Company has six[**] divisional offices to look after the field operations headed by the Divisional Manager/Assistant Manager and seven[***] nurseries.

The working of the Company was last reviewed and reported in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1986, Government of Orissa.

The Committee on Public Undertakings (COPU) discussed the Report and recommended (September 1989) that:

- the Company should make adequate budgetary provision to overcome the shortcomings viz. absence of adequate provision of fertiliser and pesticides as compared to the area of plantation, timely supervision of field work by the Company executives, gap filling in the plantations, proper fencing, drainage and guard system to safeguard the plantations which create hindrances for successful achievement of cashew nut programme;

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[*] The Principal Secretary to Government of Orissa, Agriculture Department.
[**] Baripada, Chandikhol, Dhenkanal, Jeypore, Khurda and Sundargarh divisions.
[***] Bhangamala, Bhuinpur, Ghatikia, Khunta, Lahanga, Raijhara and Solar nurseries.

- the Government should consider providing larger patches of lands to the Company as far as possible for plantation which would be effective for better management and so also to prevent pilferage from the Company in the long run;
- the Government should take adequate steps to evict the unauthorised possessors from the earmarked land when it is allotted to the Company for plantation which would help it in achieving the targets;
- entertainment of lower tender by the executive officials for sale of cashew nuts reduced the revenue proportion of the Company which should be avoided and the officers concerned connected with the above lapses should be taken to task.

In addition, the Committee also commented that being a commercial organisation, the option of the Company to dispose its stock through departmental sale at a minimal price was not justified which could have been avoided.

It was seen during audit that despite the above recommendations of COPU, the Company has not been able to overcome the deficiencies as discussed in Paragraphs 2.2.9, 2.2.15 to 2.2.22 and 2.2.27 *infra*.

Scope of Audit

2.2.2 The present Performance Audit covered the performance of the Company in respect of activities such as raising, maintenance and auctioning of cashew plantations for the five years ending 2005-06. Audit selected three* out of six divisions and three** out of seven nurseries for detailed examination.

Audit Objectives

2.2.3 The Performance Audit was conducted to assess whether:

- the Company had evolved a long term Corporate plan for identification of new areas for expansion of cashew plantations and plantations on the available existing land;
- the available land was efficiently utilised for the purpose of cashew plantation;
- the replantation was carried out in vacant patches, plantations damaged by super cyclone and by replacing old and senile trees efficiently, effectively and economically;
- maintenance of the cashew plantations was carried out efficiently, effectively and economically;

* Chandikhol, Dhenkanal and Khurda divisions
** Bhangamal, Raijhar and Solar nurseries

- auctions of plantations were made efficiently, thereby optimising the revenue realisation;
- nursery activities were managed effectively and efficiently; and
- capital investments were made in plantation activities.

Audit Criteria

2.2.4 The following audit criteria were adopted:

- Guidelines/ recommendations of the Directorate of Cashew and Cocoa Development (DCCD), National Research Centre for Cashew (NRCC), Orissa University of Agriculture and Technology (OUAT).
- Technical circulars/ guidelines issued by the Company.
- COPU's twenty-fifth Report of ninth assembly (1989-90) and Action Taken Notes of the State Government.
- Norms fixed by the Company from time to time.
- Analysis made by the Cashew Development Board, Government of India in respect of plantations in Orissa, DCCD, NRCC and OUAT.
- Technical Committee's Report.

Audit Methodology

2.2.5 The audit methodology adopted for the Performance Audit was as follows:

- Examination of records maintained at the Corporate Office, budget files, annual reports and progress reports submitted to various agencies.
- Physical inspection of sites.
- Discussions in the entry and exit conferences with the officers of the Company.

Audit Findings

Audit findings as a result of the Performance Audit of the Company were reported to the Company/Government in June 2006 and were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 12 July 2006 which was attended by the Deputy Secretary, Agriculture Department, Government of Orissa and Managing Director of the Company. The views expressed by the members have been taken into consideration while finalising the report.

The major audit findings are discussed in the succeeding paragraphs.

Planning

No new area was brought for plantation during the period of report

2.2.6 The Company did not evolve any long term Corporate plan for identification of new areas for expansion of cashew plantations and optimum utilisation of available area for plantation. During the period of report, no new area was brought for plantation. No strategy was made to surrender the uneconomical land holdings and to approach the Government for larger patches of land as recommended by the COPU. Further, the Company failed to formulate any concrete plans for identifying the vacant patches and to fill them by planting trees with a view to maintain optimum productivity. The planning aspects regarding operational activities are discussed in paragraphs relevant to the different activities.

Utilisation of Land

2.2.7 The available land (30599.94 ha) was utilised under the following three categories:

Seedling plantations - 19,922.31* ha, 65.11 *per cent* of the total land holding, were raised up to 1979-80 without any specified variety for the purpose of soil conservation.

World bank aided seedling plantations (improved variety) - 7,524.64 ha, 24.59 *per cent* of the total land holding, were planted between 1980-81 and 1993-94 with improved seedlings (seed nuts collected from high yielding progeny trees).

Clonal plantations** - 3,152.99 ha, 10.30 *per cent* of the total land holding, were raised between 1999-2000 and 2005-06 by using high yielding variety cashew grafts.

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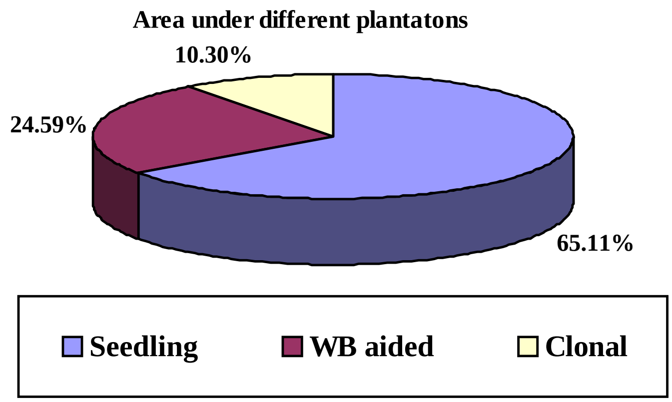
* Including 2352.17 ha lying vacant.
** Plantations raised by using high yielding variety cashew grafts.



Density of plantation

2.2.8 The efficient utilisation of land requires achieving optimum density of plantation i.e. number of trees per hectare. The Company has not fixed any norms for density of plantations per hectare. It was observed from the studies conducted by other agencies that the norm* of the density of the plantation per hectare in seedling plantation, World Bank aided plantation and clonal plantation are 100 trees (considering 70 *per cent* survival of older plantations), 150 trees and 200 trees respectively. The status of density of the Company's plantations per hectare for the five years ending 2005-06 was as given below:

(No. of trees per hectare)

Year	Seedling Plantation	Shortfall compared to norm (in *per cent*)	World Bank aided plantation	Shortfall compared to norm (in *per cent*)	Clonal plantation	Shortfall compared to norm (in *per cent*)
2001-02	93	7	83	45	36**	82
2002-03	94	6	84	44	111	45
2003-04	85	15	77	49	164	18
2004-05	85	15	80	47	178	11
2005-06	86	14	82	45	145	28

* Source: **Seedling trees** – Analysis made by Cashew Development Board, Government of India in respect of plantations in Orissa, **World Bank aid trees** -The World Bank – Cashew nut project and **Clonal trees** - DCCD, NRCC and OUAT.
** Clonal plantation was started from 1999-2000 onwards.

Poor density of plantations was due to non-replantation in available vacant patches/space and non-rehabilitation of plantations damaged in the super cyclone

It would be observed that the percentage of shortfall with reference to norms ranged from 44 to 49 and 11 to 82 in respect of World Bank aided plantations and clonal plantation respectively. Thus, there is scope for improving the density of plantations for generating additional revenue. Since clonal variety gives higher yield, improving the density of plantations by planting clonal variety would generate significant additional revenue.

Audit scrutiny revealed that the poor density of plantations was due to:

- non-replantation in available vacant patches as well as in the spaces that became vacant due to death and decay of old and senile trees (discussed in Paragraphs 2.2.11 and 2.2.13 *infra*).
- non-rehabilitation of plantations damaged in the super cyclone (discussed in Paragraph 2.2.12 *infra*).

Uneconomical land holdings

2.2.9 As per the recommendations of COPU, the Government/Company decided (September 1989) that 40 ha of land and above would be the minimum patch for plantation for economic operation. In the Action Taken Notes (ATN), the Government had replied (July 2000) that the recommendation of the Committee would be sent to the Revenue Department of the Government for providing larger patches of land at the time of future expansion. It was, however, observed that the Company did not pursue with the Government for providing larger patches of land on lease. As on 31 March 2006, out of 956 plantations, 532 plantations were on the land holdings below 40 ha and constituted 33.15 *per cent* (10,145.49 ha) of the total land holding of 30,599.94 ha.

Audit scrutiny revealed as follows:

- The minimum uneconomical land holding ranged between 1.38 ha and 17.45 ha in all the six divisions of the Company.
- The average annual sales revenue per ha in respect of uneconomical land holdings for the years 2001-02 to 2004-05 ranged between Rs.936 (2002-03) and Rs.1147.48 (2003-04). In respect of economical land holdings the annual sales revenue per ha for the above period was in the range of Rs.1200 (2002-03) to Rs.1596 (2004-05).
- In Sundargarh division, out of 337 plantations, 308 plantations (4864.66 ha) were patches of below 40 ha and constituted about 80 *per cent* of area. During the period 2001-02 to 2004-05, the average sales realisation was in the range of Rs.385 to Rs.485 per ha which was much lower than the Company's average realisation of Rs.1115 to Rs.1447 per ha during the above period.

Replantation

2.2.10 To maintain optimum productivity, it is necessary that the vacant patches are efficiently identified and filled by planting trees and also the old and senile trees are identified, removed and replaced with new trees.

The Company proposed (July 2000) to carry out a plantation programme to cover 1,050 ha every year from the 2000 planting season to the 2005 planting season over a period of six years for replanting cashew plantations in old and senile plantations and in cyclone affected areas. An expert committee was to be formed every year for selection of sites for the above replanting programme.

The following table indicates the comparative position of plantations/ replantations for the years 2001-02 and 2005-06:

	Area as on 1 April 2001 requiring plantation/ replantation (in ha)	**Area added during 2001-02 to 2005-06 requiring plantation/ replantation (in ha)**	**Plantation/ replantations during 2001-02 to 2005-06 (in ha)**	**Balance area as on 31 March 2006 (in ha)**
Vacant patches	2352.17	4480.59	2709.87	4122.89
Super cyclone damaged patches	5256.67*	--	565.00**	4691.67
Old and senile trees requiring replantation	5955.05	1617.13	--	7572.18
Total	**13563.89**	**6097.72**	**3274.87**	**16386.74**

It would be seen from the above table that the replantations achieved during 2001-02 to 2005-06 were merely 24.14 *per cent* of the area requiring replantations as of April 2001. This was despite availability of surplus funds. Besides, the Company had also received a sum of Rs.1.61 crore for the replanting programme under the Integrated Cashew Development Programme (ICDP) between 2000-01 and 2004-05, but it spent only Rs.1.01 crore on replanting trees in vacant patches and cyclone damaged areas.

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* 5256.67 ha = 5513.17 ha (fully damaged area) less 256.50 ha (area replanted in damaged area up to 2000-01)

** 565.00 ha = 821.50 ha (total area replanted up to 2005-06) less 256.50 ha (area replanted in damaged area up to 2000-01)

The plantation activities of the Company in vacant patches, replantations in areas damaged by super cyclone and replacement of old and senile trees through replantations are discussed in the succeeding paragraphs.

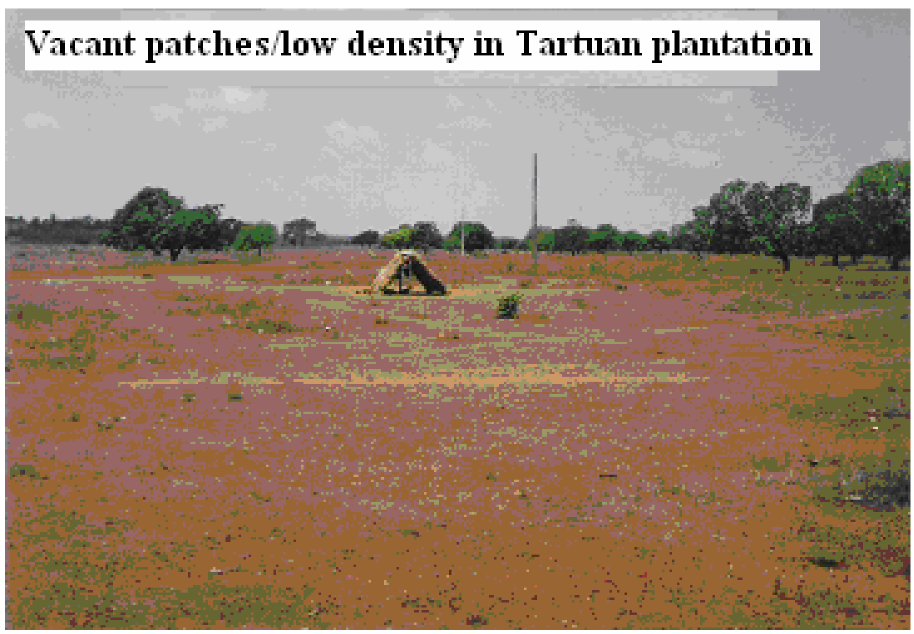
Planting/Replanting in vacant patches

2.2.11 The Site Selection Committee of the Company during 2001-02 to 2005–06 had approved replanting in vacant patches of 4,480.59 ha in 160 plantations considering the site characteristics and agro-climatic requirement. Against this target, the Company replanted new clonal grafts only in 2,709.87 ha (60.48 *per cent*).

Site Selection Committee failed to identify 2352.17 ha of entirely vacant patch for replantations. The Company also failed to replant in an identified area of 1770.72 ha

Audit scrutiny revealed as follows:

- There were 130 plantations spread over 2,352.17 ha which were entirely vacant. The Site Selection Committee, however, failed to identify these vacant areas.
- An area of 1,770.72 ha constituting 39.52 *per cent* of the area identified had not been replanted up to 2005-06.



The Management stated (July 2006) that replanting in the above areas could not be done due to presence of stone/unsuitable patches, nullahas, water logging, etc. and was not found suitable for using clonal grafts. The reply is not acceptable as the Site Selection Committee selected the sites after taking into consideration the above obstacles and considering the proposals of Divisional Managers/Assistant Managers in regard to area to be replanted.

Thus, as on 31 March 2006, there were vacant patches of 4,122.89 ha to be replanted. These had future potential annual revenue of Rs.4.45 crore per annum from the first yield onwards at the conservative basis of 2 kg per tree (i.e., the expected yield from fourth year of replantation with clonal grafts) for clonal variety and potential for employment generation of 9.94* lakh mandays.

Rehabilitation of plantations affected by super cyclone

2.2.12 In October 1999, Orissa was hit by a super cyclone. As per the final damage report (December 1999), 9,53,350 cashew trees over an area of 15,111.78 hectares in 188 plantations were partially/fully damaged. Out of these, 3,47,808 trees over an area of 5,513.17 ha were fully damaged. Replantation was taken up initially in 2000-01 to rehabilitate the plantations affected in the super cyclone.

Audit analysis of work done during 2001-02 to 2005-06 revealed the following:

- Information regarding extent of replantation on fully damaged area and partially damaged area, though called for, was not furnished to Audit. Scrutiny of reports in respect of cyclone damaged plantations submitted by field units made available to Audit revealed that during the period from 1999-2000 to 2005-06, only 821.50 ha in 36 plantations (5.44 *per cent* of total area of damage) were covered under the replantation programme and the balance 94.56 *per cent* of damaged area was yet to be replanted (July 2006).

The Company failed to replant trees over fully damaged area of 4,691.67 ha affected by the super cyclone

- Even considering that the whole of 821.50 ha of replantation was spread over the fully damaged area, the Company failed to replant trees over fully damaged area of 4,691.67 ha. The Company, by replanting the fully damaged area, would have generated additional revenue of Rs.5.07** crore per annum from the first yield onwards at the rate of 2 kg per tree besides creating employment opportunity of 11.31*** lakh mandays.

The Management stated (July 2006) that sizeable number of trees affected by the super cyclone during 1999 had recovered and continued to yield nuts though in a reduced manner. The reply is not tenable as the Management failed to fully replant even fully damaged plantations which had hardly any scope for recovery.

Replanting by removal of old and senile trees

2.2.13 Cashew plantations of more than 35 years of age are reckoned as old and senile and need to be replaced preferably with high yield clonal variety grafts. As of April 2001, old and senile trees over an area of 5955.05 ha were due for replacement. No replantation was done during 2001-02 to 2005-06. Though the Company decided in July 2000 to constitute a Committee for selection of sites for the replanting programme, a technical committee was

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* 4122.89 ha X 241 days/ha for raising activities = 9,93,616 mandays
** 4691.67 ha X 2 Kg/tree X 180 trees/ha X Rs. 30/Kg = Rs. 5,06,70,030
*** 4691.67Ha X 241 days/ha for raising activities = 11,30,692 mandays

formed only in June 2005 i.e. after nearly five years, to identify the old and senile trees for replacing those with high yielding grafts.

The Company failed to take any action towards removal of old and senile trees and to replant by clonal variety grafts

It was noticed during audit that 7,18,816 trees extended in 7,572.18 ha had already crossed the age of 35 years up to 31 March 2005 (**Annexure – 11**) and constituted 24.75 *per cent* of the total area and 30.14 *per cent* of the total population of trees (23,84,532 trees).

Audit scrutiny revealed the following:

- The Company did not take any action towards removal of old and senile trees till 2004-05. The Technical Committee of the Company, recommended (July 2005) for removal of 22,804 trees in 1317 ha in that 37 plantations only.
- No replantation has been undertaken by removing old and senile trees so far (July 2006).
- The existing old and senile trees are of seedling variety; removal of these and replacement by clonal variety would have generated revenue of Rs.4.31[*] crore per annum from the first yield onwards.

Mortality

12 plantations (319.12 ha) suffered high mortality and Company failed to take adequate steps to control mortality

2.2.14 A mortality rate of 15 *per cent* is allowed by the Government of Orissa (Agricultural Department) and the upper limit of 50 *per cent* has been fixed to consider a plantation to be a failed one. During 1999-2000 to 2004-05, replantation on vacant patches/super cyclone damage area of 2380.99 ha in 111 plantations was done. Audit scrutiny revealed that out of these 111 plantations:

- in 12 plantations (319.12 ha), the mortality rate was recorded to be above 50 *per cent*; and
- in 31 plantations (625.36 ha), the mortality rate was recorded to be 15 *per cent* and up to 50 *per cent*.

Thus, of the total replantations on over 2,380.99 ha, 43 plantations (39 *per cent* of total plantations damaged) suffered high mortality rate (September 2005) rendering expenditure of Rs.96 lakh[**] incurred towards raising these plantations wasteful.

In the survival reports on replanting of grafts submitted by the divisions, the following reasons for high mortality were attributed:

- excessive temperature (heat);
- use of premature grafts;
- shade caused by heavy jungle growth and old trees; and

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[*] 7,18,816 nos of trees X 2 Kg/tree X Rs. 30/Kg = Rs. 4,31,28,960.
[**] Failed /high mortality plantation (944.48 ha X Average cost of Rs.10144.35 per hectre on raising of new plantation).

- water logging, etc.

The Company, however, did not take adequate steps to control mortality though most of the reasons viz. use of premature grafts, water logging and shade caused by heavy jungle growth and old trees were controllable and huge funds were available with the Company.

Maintenance of plantations - cultural operations

2.2.15 Maintenance activities (i.e. cultural operations) are undertaken to maintain and improve the quality of the existing cashew trees. These activities involve bush cleaning, watch and ward, nutrient management, plant protection measures, irrigation and inter-cropping. The COPU had taken note (September 1989) of the shortcomings like improper and inadequate maintenance of existing plants, inadequate provision for fertiliser and pesticide as compared to area of plantation, timely supervision of field work by executives, etc. essential for proper and adequate maintenance of plantations. The deficiencies noticed during audit are discussed in the succeeding paragraphs.

Bush Cleaning

2.2.16 Bush Cleaning involves cleaning (i.e. removal of jungle growth) and pruning (i.e. removal of dead wood, criss-cross branches). These activities help to enhance the yield and to improve collection and are taken up immediately after the harvest i.e. between July and December.

Audit scrutiny revealed the following:

- No targets were fixed for cleaning of the jungle growth during 2001-02 to 2003-04. The bush cleaning operation was not taken up during the year 2001-02 while in 2002-03, only Rs.0.22 lakh was spent on bush cleaning against budget of Rs.1 lakh. No data was, however, available on the area cleaned.

- The Company started to set a target for the area to be cleaned only from 2004-05. The Company till 2004-05 did not measure the area having jungle growth and therefore needing bush cleaning. While fixing target for 2005-06, the area having jungle growth and therefore needing bush cleaning was estimated to be 18,573.41 ha. Target of bush cleaning for 2004-05 and 2005-06 was 10,207 ha each year, against which only 8,868.40 ha and 6,837 ha respectively was cleaned leaving a shortfall of 13.12 and 33.02 *per cent* of the target and leaving uncleaned area of 11,736.41 ha as of March 2006.

Shortfall in bush cleaning adversely affected the productivity and loss of employment generation

- Shortfall in bush cleaning resulted not only in lower productivity thereby adversely affecting the revenue earning capacity, but also in loss of employment generation of 93,891 mandays at the rate of 8 days per hectare as per norms fixed by the Company in November 2004 for uncleaned area of 11,736.41 ha.

Watch and Ward

2.2.17 Watchers are engaged for safeguarding the plantations. They also perform bush cleaning activities. As per the yardstick, one watcher each should be engaged for 45 ha of plantations. Further, the watchers are required to utilise 23 *per cent* of their mandays (i.e. 6 days out of 26 mandays) for bush cleaning activities as per the decision in the meeting of DMs/AMs held in April 2000.

Audit scrutiny revealed the following:

- As against the requirement of 627 watchers for 28,248 ha of plantations, the Company engaged 399 and 401 watchers in 2003-04 and 2004-05 respectively.
- The Board decided (November 1999) to reduce the number of watchers considering the damages during super cyclone. Accordingly, the Company reduced its watchers from 528 in 2000-01 to 401 in 2004-05. As a result, in 2004-05, the Company could not provide any watch and ward for 171 out of 572 plantations put to auction. This was also one of the factors for poor progress in bush cleaning during the period of the review.
- A review conducted (October 2004) by the Company on cleaning operation in cashew plantations also disclosed that the watch and ward staff were either under-utilised or never utilised in some cases for bush cleaning operations.
- The Company did not have adequate information on the condition and number of bush cleaning equipments with the watch and ward staff. Further, in Khurda and Dhenkanal divisions, major equipments were in damaged condition.

Nutrient management

2.2.18 A balanced application of fertilisers with organic and inorganic nutrients would act as nutrition support as application of nutrient is specific to a tree. Adoption of proper horticultural practices would increase the nut yield by 25 to 30 *per cent* besides arresting burning of flowers and drop of nuts in summer.

Nutrient management in seedling plantations

2.2.19 In case of seedling plantations (i.e. old plantations) foliar[*] application of urea (two *per cent*) alongwith pesticides at a moderate dose of 20 gram mixed in one litre of water has to be sprayed on the leaf surface of the plant to facilitate assimilating of energy for fruiting. Besides, this application of nutrients NPK[**] as basal application[***] at recommended doses increases the productivity of the plantations.

Audit scrutiny revealed as follows:

The Company did not take up the basal application and foliar application in old seedling plantations

- The basal application (manuring activities) of fertilisers in seedling plantations was not done during the period under review.
- During the year 2001-02 to 2003-04, no foliar application (spraying operation) of fertiliser was taken up in the seedling plantations.
- The fertiliser application was given, that too as a foliar application, along with pesticides to a population of only five lakh old trees (21 *per cent* of the total population of 23 lakh trees) during 2004-05 and 2005-06.

Nutrient management in clonal plantations

2.2.20 As per the recommendations of the Directorate of Cashew and Cocoa Development, National Research Centre for Cashew and the Company's own technical circulars, the norms for nutrition support to be provided per plant are as given below:

Recommended fertiliser schedule for cashew plant			
Age of Plant	**Fertiliser (gram/plant)**		
	Urea	**Phosphate**	**Potash**
1st year	330	200	70
2nd year	660	400	140
3rd year	1100	625	208

It was observed in audit that in respect of new plants raised in 2,380.99 ha during 1999-2000 to 2004-05, the nutrition support was not as per norm as indicated in the following table:

[*] Foliar application: Spraying of pesticides and fertilisers to the plants.
[**] Nitrogen (N), Phosphate (P) and Potash (K).
[***] Application of nutrients (NPK) by manuring activities.

(Figures in quintals)

Year	Requirement as per norm			Quantity purchased/ utilised*		
	Urea	Phosphate	Potash	Urea	Phosphate	Potash
2001-02	1,042.31	624.91	216.96	51.883	46.069	20.429
2002-03	1,689.45	995.11	340.85	813.50	907.00	309.00
2003-04	1,852.31	1,071.25	361.68	793.16	459.00	205.28
2004-05	1,417.61	844.57	291.84	1014.00	53.50	321.50

There was inadequate nutrition support to old plantations and new plantations

It would be observed from the above table that there was inadequate nutrition support to both the categories of plantations (i.e. old seedling plantations and new plantations). The shortfall in application of urea, phosphate and potash ranged between 28 to 95 *per cent*, 9 to 94 *per cent* and 9 to 91 *per cent* respectively.

The Management accepted the facts during the ARCPSE meeting and stated (July 2006) that in 2000-01 to 2003-04 the procurement of nutrient was very less as there was no budgetary support. The reply is not acceptable as the Company had surplus funds which could have been utilised for nutrient management.

Plant protection measures

2.2.21 Cashew plants are subject to various diseases and attack by pests and insects. Plant protection measures (i.e. spraying of pesticides and chemicals) are required to prevent and control plant diseases. The spraying pesticides can also give 30 *per cent* more yield (approximately) besides providing protection against plant diseases.

Audit scrutiny revealed the following:

The Company failed to take adequate plant protection measures in the plantations

- In 2001-02, the Company did not take up plant protection measures due to non-provision of budgetary support despite having sufficient surplus funds.
- In 2002-03, only Rs.0.36 lakh were spent against the budget provision of Rs.0.50 lakh towards protection measures. The number of trees that received plant protection was not made available to Audit.
- During 2003-04 no plant protection measures were taken up in Chandikhol, Khurda, Sundargarh and Jeypore divisions.
- In 2004-05 and 2005-06 protection was given to a tree population of five lakh each year which constituted only 21 *per cent* of the total population (23 lakh) of trees.

* Includes fertilisers purchased/ utilised for application beyond third year and also for scion bank (mother trees maintained for cutting young shoots for grafting).

- Comparing the number of fruit bearing trees in 2005-06 with 2001-02, it was observed that the number of fruit bearing trees in Sundargarh, Dhenkanal and Baripada divisions were decreased by 20.52, 30.22 and 16.39 *per cent* respectively which reflects poor plant protection measures. The estimated revenue loss on this account worked out to Rs.51.47 lakh.

Thus, the plantations were not provided with adequate protection measures.

The Management stated (July 2006) that plant protection measures were being taken from 2004-05 onwards conforming to the budget provision. The reply is not tenable as the measures taken for plant protection were not found to be adequate.

Management and supervision of plantations

2.2.22 Services of plantation supervisor and plantation assistants are critical for proper implementation of cashew expansion programme, management and supervision of plantations. As per the norms fixed (May 1982) by the Company, one plantation assistant is required for 100 ha and one plantation supervisor for 300 ha of plantation.

Audit scrutiny revealed the following:

- As per the norms, 102 plantation supervisors and 306 plantation assistants are required for 30,599.94 ha of plantation. The sanctioned strength was, however, only 15 plantation supervisors and 101 plantation assistants against which only three plantation supervisors and 88 plantation assistants were in-position as on 31 March 2006. Further, all the three plantation supervisors were posted as Divisional Manager-in-charge and the 45 plantation assistants were looking after the work of supervisors as well as plantation assistant.
- In Chandikhol and Dhenkanal divisions, it was observed that in the absence of plantation supervisors, the plantation assistants were looking after the field management of plantations. Further, plantation area looked after by plantation assistants in the above two divisions ranged from 355 ha to 569 ha and 380 ha to 910 ha respectively which was much higher than the norms.

The Management in reply (July 2006) admitted the facts.

Analysis of productivity

Non-maintenance of plantations due to various factors like bush cleaning, watch and ward, nutrient management, plant protection measures and inadequate technical manpower resulted in low yield per tree as discussed in the succeeding paragraphs.

Low yield per tree

2.2.23 According to the yield pattern estimated by the Directorate of Cashew and Cocoa Development (DCCD) and National Research Centre for Cashew (NRCC), cashew trees start giving yield from the fourth year of planting. The maximum potential yield period of the trees is considered to be between the 10th and 30th year. The yield per tree is dependent on variety, maintenance and protection etc. of the plantations.

The yield norm per tree (in Kg) in respect of three varieties of plantations is given below:

Variety/age (years)	4-5	6-9	10-15	16-20	21-30
Seedling	--	1.0	1.5	2.0	2.5
World Bank aided plantation	1	4	6	6	6
Clonal	2	4	5 to 10	More than 10	More than 10

The Company has no system to collect and ascertain the details of the actual yield with respect to norms

The Company does not have a system to collect and ascertain the details of actual yield. The yield performance of the plantations was analysed in audit by 'back calculation' of yield from sales realisation, based on average sales realisation at the rate of Rs.30 per kg.

The yield as per the norms *vis-à-vis* the yield obtained from the total fruit bearing trees and the loss of revenue for the four years ended 2004-05 was as under:

Year	Yield as per the norm (In kgs)	Yield obtained (In kgs)	Loss of production (In kgs)	Loss of revenue (Rs.in crore)
2001-02	49,02,602	6,73,588	42,29,014	12.68
2002-03	48,98,724	6,45,923	42,52,801	12.76
2003-04	44,30,678	8,09,534	36,21,144	10.86
2004-05	46,46,630	7,96,396	38,50,234	11.55
Total	**1,88,78,634**	**29,25,441**	**1,59,53,193**	**47.85**

Audit analysis revealed the following:

- The overall yield realised worked out to only 15.50 *per cent* of the norms during 2001-02 to 2004-05.

- The average yield per tree[*] as worked out ranged between 560 gms and 770 gms during the four years from 2001-02 to 2004-05.
- The loss of yield computed with reference to the norms worked out to 15,953.19 MT during 2001-02 to 2004-05 resulting in short generation of revenue of Rs.47.85 crore which was attributable to poor maintenance of existing trees.

The productivity of existing fruit bearing trees could have been increased through proper maintenance, improved cultivation practices and plant protection measures for optimisation of revenue realisation. Overall production could have been further increased by replanting high yielding grafts in the entire available vacant patches and replacing the old, senile and damaged trees by new trees.

The Management stated (July 2006) that realisation of funds from plantation through auction had no correlation with the yield factor which was rather dependent on various factors like climatic condition, social factors, law and order problems, local encroachment, etc.

The reply is not tenable as the Company did not have a system to monitor the yield or even to collect and ascertain the details of the actual yield. Social factors, law and order problems and local encroachment were all controllable factors and could have been addressed. Further, there was low productivity due to poor maintenance activities.

Low gross revenue per hectare

2.2.24 The Company has 75,581.85 acre of plantation land under its possession. Year-wise gross revenue realisation and average gross revenue realisation per acre from plantations and nurseries during the period from 2001-02 to 2004-05 were as follows:

Year	**Gross revenue receipts**	**Per acre gross revenue earned**
	(Rupees in crore)	*(In Rupees)*
2001-02	3.71	491
2002-03	3.70	490
2003-04	4.61	610
2004-05	5.06	669

As would be seen from the above, the gross revenue per acre ranged between Rs.490 and Rs.699 which was extremely low and was attributable to under-utilisation of land (reflected in poor tree density due to inadequate plantation on vacant patches and cyclone damaged areas and non-removal of old and senile trees), inadequate maintenance of existing plantations and disposal of plantations below upset price (as discussed in Paragraphs 2.2.8, 2.2.11 to 2.2.13, 2.2.15 to 2.2.21 *supra* and 2.2.27 *infra*).

[*] Average yield per tree per year = Actual yield per year/Total fruit bearing trees

Auctioning of Plantations

2.2.25 Cashew plantation starts flowering by the end of December each year and the crop is ready by the end of March of the following year. For disposal of the crop from the cashew plantations the Company sells the rights of harvest at flowering stage through annual auction. The Board of Directors constitutes a Tender Committee each year for fixation of upset price for disposal of the crop before auctioning. In case the plantations are not taken over by the bidders or where bidders fail to deposit the auction proceeds and back out, the company collects the crop departmentally and sells the nuts.

Fixation of upset price for auctioning the plantations

2.2.26 The Tender Committee fixes the upset price of each plantation based on average bid value of the last three years or previous year bid value, whichever is higher to which 10 *per cent* is added. The following points were noticed during audit:

- The division offices submit the yield forecast report every year for fixation of the upset price. The data furnished regarding crop yield is based totally on visual estimation. The Chairman of the Company had observed (March 2000) that the visual estimation of the crop yield was a faulty system and instructed to conduct crop cutting experiment every year. The yield assessment through crop cutting experiment was done by the Company only in 2000-01 and no assessment through this method was done thereafter. The yield assessment arrived at by the above method was 152 kg per ha. The upset price fixed during 2000-01, however, did not reflect the produce obtained.
- The average yield based on auction price fetched during 2001-02 to 2004-05 stood at 37 kg per ha in 2001-02 and 48 kg per ha in 2004-05. Thus, sales realisation was far less than the yield obtained in crop cutting in 2000-01 which resulted in fixation of lower upset price.

Disposal of plantations below upset price

2.2.27 In case the bid value of the plantations is below the upset price, the Tender Committee places the matter before the Board to accept the offered price/negotiated price. The following table indicates the number of plantations disposed below upset prices with shortfall in sales realisation during the years from 2001-02 to 2004-05.

Y e a r	Total no. of plantations*	Plantations clubbed into lots put to auction (Nos.)	Plantation lots disposed in auction (Nos.)	No. of plantation lots disposed below upset price (Nos.)	Plantation lots disposed below upset price (in *per cent*)	Shortfall in sales realisation due to sales below the upset price (Rs. in crore)
2001-02	826	577	452	315	69.69	0.82
2002-03	826	568	429	354	82.52	1.44
2003-04	826	571	549	185	33.70	0.22
2004-05	826	572	531	189	35.59	0.85
Total						**3.33**

It would be seen from the table above that the Company sold 185 to 354 plantations constituting 33.70 to 82.52 *per cent* of plantations put to auction during 2001-02 to 2004-05 below upset price. The shortfall on this account in sales realisation worked out to Rs.3.33 crore.

The Company failed to take remedial measures for controllable problems for enhancing the auction value.

The Management stated (July 2006) that due to various local compelling factors, competition had been quite limited and in many cases there were single offers. In many cases bidders were also influenced by local problems, adverse climatic situations and encroachments while offering their bid offers. The reply is indicative of the fact that Management was not taking adequate remedial measures for problems which were controllable viz., local problems and encroachments.

The COPU had also viewed seriously the acceptance of lower sale price of cashew nuts by the Management resulting in shortfall in revenue and recommended (September 1989) that the officers concerned connected with the lapses should be taken to task. The Government, however, did not take any action and stated (July 2000) in the Action Taken Note that no clear-cut responsibility could possibly be fixed on the officers for loss of income as it depended upon various factors like natural calamities, prevailing climatic condition, price of cashew nuts in the internal/ international market, response of the bidders and co-operation of villagers, etc.

Departmental collection

2.2.28 Plantations for which either no offer is received or which, though awarded to the bidders, are withdrawn due to non-payment of dues, are brought under departmental collection. The Company fixes annual targets for departmental collection.

Audit scrutiny revealed the following:

- The average departmental collection per ha during the period 2001-02 to 2004-05 varied from 2.49 kg to 14.75 kg as against the average

* 826 plantations = (956 plantations less 130 plantations which were entirely vacant and not put to auction)

yield* of 42 kg per ha based on auction price realised during 2001-02 to 2004-05 (**Annexure-12**). The DMs/AMs attributed the low departmental collection to allowing the bidders to collect cashew nuts without issuing work orders before departmental collection, encroachment by the local people and allotment of cashew plantations to local people by the concerned tehsils.

- In 195 plantations, delay in issue of forfeiture orders from the date of auctioning exceeded the norms of seven days (as per agreement) and the delay was up to 107 days. The plantations were under the possession of the bidders during this period and the bidders could collect the nuts though no work orders were issued.
- In Sundargarh division, no bid was received for four plantations due to heavy jungle growth in the area.
- In three plantations in Khurda (2004 crop) and twelve plantations in Jeypore (2002 crop), no collection was possible due to encroachment by the local people.

The Company failed to take adequate steps to recover the dues in respect of departmental collection of 2002 crop and 2003 crop

- In 264 cases of 2002 crop (125 plantation lots) and 2003 crop (139 plantation lots), the bidders collected the nuts but did not deposit the dues. The loss of revenue of Rs.21.40 lakh on this account was assessed (November 2003) by the Company but no steps were taken to recover the dues from the defaulting bidders.
- During 2001-02 to 2004-05, 17 to 110 plantations were neither disposed of in auction nor any departmental collection made from these plantations.

The Management stated (July 2006) that departmental collection is the last resort of the Company when all efforts to dispose the plantations through tender/auction fails. Departmental collection is resorted to generally under compelling circumstances like encroachment by local people, collection of nuts by bidders forcefully with the help of local people/ villagers, absence of any competition, hailstorm and other natural calamities, etc. The Management also stated that in certain cases bidders' monopoly restricted the Company to go for other rounds of tender and divisional managers allow the bidders to collect the nuts which is approved *post facto* to avoid loss.

The reply is not tenable as the Company had not taken any remedial measures to overcome such situations.

Performance of nurseries

2.2.29 The Company established seven clonal nurseries during the period from 1996-97 to 2004-05 for production of high yielding cashew grafts under

* Average yield = Actual yield obtained divided by total area in hectares.

four[*] divisions for their requirement and also to supply to Government agencies and private farmers in different places at reasonable prices. These nurseries including Scion Bank functioned on a stretch of land measuring 52.42 ha as of March 2006 with 19,607 no. of mother plants in the Scion Bank. The Company utilised the grafts produced for its own replanting programme and also supplied them to the identified beneficiaries under the Integrated Cashew Development Programme through different Government agencies.

Review of activities of the nurseries by Audit revealed the following:

- The production of grafts showed good results during the period of report as 8.08 lakh grafts were produced during 2005-06 against 3.18 lakh during 2001-02. The shortfall in achieving the target decreased from 55.83 *per cent* (2001-02) to 10.17 *per cent* (2005-06).
- The production per mother plant increased from 19 grafts in 2001-02 to 41 grafts in 2005-06.
- The Company, however, could not meet the entire demand under the Integrated Cashew Development Programme as well as own replantation and had to procure 6,91,520 grafts from private nurseries during the period from 2002-03 to 2004-05.

The Management stated (May 2006) that steps had been taken for development of infrastructure to achieve production of ten lakh grafts from nurseries during the current year (2006-07) against production of few thousand of graft five years ago. Audit appreciates the fact that the Company has increased production over the years.

Non-utilisation of funds in plantation activities

2.2.30 The Company has been earning profit since 1993-94. The available surplus and unspent funds are mainly kept in short-term deposits. Such short-term deposits rose from Rs.3.16 crore in 2000-01 to Rs.9.96 crore in 2004-05 which included Rs.2.47 crore[**] being unspent balance under the Integrated Cashew Development Programme.

Audit scrutiny revealed the following:

- A capital investment of Rs.18,050 per hectare of land is required to develop the plantation by raising high yielding clonal variety plantation for the first three years, till it bears fruits. The Company could have utilised the surplus funds for replantation, maintenance

[*] Baripada, Chandikhol, Dhenkanal and Khurda.
[**] Rs.0.61 crore for replanting and Rs.0.10 crore for contingency received in 2000-01 and Rs.1.54 crore received in 2004-05 for establishment of new nurseries and for graft production and others – Rs. 0.22 crore.

activities like bush cleaning, fertiliser application and plant protection measures which could have generated significant returns.

- The Company by employing surplus funds* for plantations over vacant patches, replacing fully damaged, old and senile plantations, etc. could have achieved plantation over 6,823 ha of land and generated an additional employment opportunity of 37.59 lakh mandays per annum (calculated at 310 and 241 mandays per ha for replantation and harvesting activity respectively).

The Management stated (July 2006) that fruitful utilisation of surplus funds as pointed out was a viable proposition which could generate additional revenue and employment opportunities. In the ARCPSE meeting, it was stated that steps had been taken for replanting programme through removal of old and senile trees from 2006-07 in a phased manner to maintain required plant density and better utilisation of surplus funds.

The fact, however, remains that such proposal of the Company was delayed for more than five years in spite of the decision (July 2000) of the Board of Directors for replantation by replacing old and senile trees.

Internal Control and Monitoring

2.2.31 Internal Control System is an essential part of the Management activity. An efficient and effective Internal Control System helps the management to achieve the objectives. The following deficiencies in the Internal Control System in the Company were noticed by Audit.

The Company has not prepared Accounts and Audit Manual and Internal Audit Reports were not submitted to Board

- The Company has not prepared Accounts and Audit Manuals;
- Internal Audit (IA) was completed up to 2004-05 but the IA reports were not submitted to the Board during the period of the review. Thus, the Internal Audit did not serve as an effective tool of Internal Control.
- Three divisions** did not maintain cashew plantation registers indicating the name of the plantations, area, date of planting, variety planted with numbers, number of grafts died and gap filling done with date, mortality found, soil sample from the field, application of pesticides etc.;
- The work done in regard to cultural operation is recorded in the measurement book by the plantation assistant and is required to be checked 100 *per cent* by the plantation supervisors. As there were no plantation supervisors in position, this check was not being carried out.

* Short-Term deposits (Rs.9.96 crore) and interest thereon (Rs.2.36 crore)
** Chandikhol, Dhenkanal and Khurda divisions

- It was noticed in two divisions* that required 75 *per cent* checking of the work of bush cleaning was not done by the DMs/AMs.
- The nurseries did not maintain registers indicating the details of purchase/consumption of materials, date of seedlings raised, grafts made (variety wise) and date of grafting in the bed of grafts. These nurseries were also not maintaining graft stock register.

Ineffective Monitoring System

2.2.32 The following deficiencies were noticed in the monitoring system:

- Fortnightly progress report was not submitted by the DMs/AMs to the Head office on physical coverage and financial expenditure.
- The DMs/AMs were not furnishing regularly, to the Head office, the Utilisation Certificates in respect of funds received for maintenance activities.
- The DMs/AMs were not submitting tour diaries to the Head office regularly for appraisal of monitoring activities/field performance.
- Monthly survival report and plantation maintenance reports were not being submitted to the MD for appraisal regularly.
- Poor maintenance of existing plants reflected that the monitoring was ineffective.

The Management accepted (July 2006) the facts and assured that steps would be taken to ameliorate the position.

The above matters were reported to Government (May 2006); their replies have not been received (October 2006).

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 review.

Conclusion

The Company did not have a long term corporate plan for identification of new areas for expansion of cashew plantations. No new area was brought under plantation during the period of report. The land with the Company was not being utilised efficiently as the plant density was much

* Chandikhol and Khurda divisions

below the norm. Vacant patches spread over huge areas remained unidentified and even the areas identified were not replanted expeditiously. In fact, the Company failed even to replant trees over the area fully damaged by the super cyclone of 1999. The Company also failed to replace old and senile trees. The Company failed to take up maintenance activities despite availability of sufficient surplus funds. Lack of maintenance coupled with huge proportion of old and senile trees resulted in extremely poor productivity per tree. Low productivity of existing plantations and low density of trees led to loss of potential revenue. The internal control system in the Company was found to be deficient in many areas.

Recommendations

- **The Company should expeditiously take up plantations over the vacant patches so as to achieve optimum plant density. The Company should make sustained efforts to upgrade its plantations by planting high yielding varieties.**

- **The rehabilitation of plantations affected by the super cyclone needs to be done with the variety best suited, on priority basis. The Company should take steps for replacement of old and senile trees with new plants.**

- **The Company should take up maintenance activities regularly and also review the manpower requirements particularly at the level of plantation supervisors and assistants.**

- **The Company should explore ploughing available surplus funds back into its core activities of developing and maintaining cashew orchards.**

- **Internal control and monitoring systems should be strengthened.**

2.3 Information Technology Audit of Loan Accounting System in Orissa Rural Housing and Development Corporation Limited

Highlights

The system did not generate a system log in the absence of which it was difficult to fix responsibility for manipulation of data.

(Paragraph-2.3.5)

There were deficiencies in data validation and input controls which led to many irregularities like undue benefit to loanees as well as non-recovery/ delayed recovery of loans.

(Paragraphs-2.3.7 and 2.3.8)

Lack of proper process controls resulted in irregular sanction and disbursement of loans as well as incorrect calculation of interest.

(Paragraph-2.3.9)

Weak control mechanism in the system made it unreliable and completely vulnerable to misuse.

(Paragraph-2.3.10)

Rules and regulations governing sanction and disbursement of loans were not incorporated in the application system resulting in non-collection of pre-payment charges, less collection of interest, etc.

(Paragraph-2.3.11)

Introduction

2.3.1 Orissa Rural Housing and Development Corporation Limited (ORHDC), incorporated in August 1994, is in the business of financing, promoting and developing rural and urban housing finance related activities. Realising the importance of computerisation, the State Government at the time of incorporation of the Company, had emphasised that a modern management system including computerisation should be adopted for increasing the efficiency of the organisation. The Company has floated different loan schemes in rural and urban housing sector and computerised all these loan schemes except the scheme related to project finance.

The Company is headed by a Managing Director and assisted by a Financial Advisor and Chief Accounts Officer. Besides its Head office at Bhubaneswar, the Company had ten district offices, which are managed by Assistant Administrative Officers. The overall development, maintenance and updation in the Information Technology (IT) systems are looked after by one System Analyst, who is assisted by two Assistant System Analysts.

Scope of Audit

2.3.2 The audit of computerised Loan Accounting System of the Company for the period from April 2000 to September 2005 was conducted during October 2005 to February 2006. Out of five loan schemes computerised by the Company, Audit scrutinised individual housing loan schemes and corporate loan schemes since there was minimal activity in the other three schemes during the last five years covered under audit.

Audit Objectives

2.3.3 The audit of loan accounting system was conducted with a view to assess whether:

- proper input controls existed in the IT system;
- the information generated is complete, reliable and conforms to the business rules of the Company; and
- the system could be relied upon.

Audit Methodology

2.3.4 The Management furnished a copy of the database (as on September 2005) in respect of all the loan schemes in Zip format in a Compact Disk. Audit studied and analysed the Individual and Corporate Loan Database using the interrogation software Interactive Data Extraction and Analysis (IDEA) at the Head office. The result of the analysis was also cross checked and further analysed by verifying physical records available at the Head office in selected cases.

Audit Findings

It was observed in audit that the system had deficiencies with respect to access control, input/validation controls, process controls, etc. which resulted in ineffective and inefficient management of the system. The audit findings are discussed in the succeeding paragraphs.

Access Control

2.3.5 There are multiple nodes from where the database can be accessed and data entry as well as modification to the data can be done without any restriction. Besides, the system does not have provision to generate the system log due to which it is difficult to fix responsibility for the duplicate entry or undesired modification of the data.

Data validation and Input Controls

2.3.6 The input controls ensure that the data entered into the system are authorised, complete and correct. Input control deficiencies were observed in the database that not only allowed incorrect data entry but also left scope for manipulation of the database as discussed below:

Validation controls

2.3.7 Instances of improper validation control in sanction, disbursement and receipt of loans are discussed below:

Lack of validation of date of start of equated monthly instalment led to undue benefit to loanees

- As per guideline, no moratorium period is allowed for repayment of the loan and the equated monthly instalment (EMI) will start in the month following the month of last disbursement. It was observed that in 174 cases, the EMI was fixed after the expiry of 31 days. Out of 174 cases, in 118 cases the EMI started after a period of one year of disbursement of the last instalment of loan. Similarly in 330 cases where Rs.5.53 crore was disbursed, the EMI was not started at all and thus the loanees were not served EMI notice in all these cases. Out of these 330 cases, 108 loanees to whom Rs.2.08 crore was disbursed had not paid any amount. The non-starting of the repayment of EMI resulted in undue benefit to the loanees. Thus, lack of validation of date of start of EMI with the date of last disbursement led to undue benefit to the loanees.
- As per the board resolution, corporate loan sanctioned on or after 12 May 2000 was to be repaid in 72 instalments and sanctions prior to this date were to be repaid in maximum 120 instalments. It was, however, found in 23 cases where the loans were sanctioned after 12 May 2000 that the loanees were granted 120 instalments for repayment. Similarly, in 270 cases the repayment was to be made in 180 instalments and in one case it was 150 instalments. This indicates that validation for the maximum number of instalments for repayment was not built in.

Repayment period exceeded the superannuation age due to absence of validation control

- The guideline regarding fixation of repayment period with reference to the retirement age of the loanee was not followed as, in case of 279 corporate and 526 individual loanees, the repayment period exceeded the superannuation age (58/60 years) of the loanees and the same was accepted by the database in the absence of relevant validation control.

- As per rules, minimum repayment period of individual loans was six years and maximum period was 15 years. In 34 cases, the loan repayment period was fixed less than six years and in 18 cases, it was 20 years.
- As per rules, the loan to project cost ratio has to be in the range of 75 to 85 *per cent*. In 123 cases, the loan amount, however, exceeded 85 *per cent* of the project cost by Rs.26.66 lakh.
- As per the guidelines, the instalment income ratio is to be 35 to 45 *per cent* of take home salary. A comparison of EMI and net income of the loanee revealed that in 693 cases the EMI was more than 45 *per cent* of the net income of the loanee.
- As per guidelines, processing fee at the rate of 2 *per cent* was to be collected on the loan amount. In 57 cases, no processing fee was collected and in 90 cases, less amount was collected resulting in loss of processing fee of Rs.2.96 lakh.

Input controls

2.3.8 Proper input controls have to be in place to ensure data input by authorised persons in an authorised area and during certain designated hours. The following instances would indicate lack of such input control.

Receipt on Sunday

- Scrutiny of the receipt database revealed that an amount of Rs.32.20 lakh in respect of 1566 loan accounts was shown as cleared by the bank for credit to the loanee accounts on Sunday.

Advance Credit to Loan Accounts

Advance credit of Rs.51.85 lakh was given to 2,030 loanees

- Instances of advance credit to loan account was observed, where the cheques were received much later than the credit date. The advance credit of cheques ranged from one to 778 days before the actual date of receipt of cheques. It was observed that an advance credit of Rs.51.85 lakh was given to 2,030 loanees. Audit observed that in 166 cases, there was loss of interest of Rs.0.69 lakh due to this advance credit. The system should not have allowed the advance credit.

Closure of Loan Account without receipt of amounts due

- There was no linkage between the database relating to sanction and receipts. It was noticed in audit that in 50 cases, the loan accounts were closed even though they had repaid less than the amount disbursed to them, indicating lack of validation of the repayment with the disbursement before closure of accounts. Out of this, eight loanees did not pay any amount against Rs.5.35 lakh disbursed to them.

Non-existent loanees

Loan account in receipt database is not validated with the loan account in disbursement database

- A comparison of payment received from various loanees with their sanction and disbursement details revealed that though the loanees made payments, the loanee details are not available in the database. It was observed that in case of 79 loanees, though the Company received payments, the loan account did not exist. Similarly, in respect of 31 loanees, though the repayments were received, the disbursement was shown as 'zero'. This indicates that the loan account in the receipt database is not validated with the loan account in the disbursement database.

Double credit to loan accounts

Instances of double/ triple credits were noticed leading to excess credit of Rs.59.93 lakh

- The Company collects various loan dues either by cheque or through cash deposited through challans. The receipts are entered in the database after obtaining the challans from the Bank. Scrutiny of various receipt databases revealed instances where double/triple credits were given against one particular receipt. It was observed that excess credit of Rs.59.93 lakh was given to 1,560 loanees due to these multiple entries.

Process Control

2.3.9 Process controls ensure that the organisation's rules, procedures, etc. are followed while processing the data captured through various input in the system. It was observed during audit that these controls were not built in for many rules thus allowing wrong processing of data with undesirable results for the Company and consequent losses. Lack of proper process controls led to irregular sanction/disbursement of loans, incorrect calculation of interest, etc. as discussed below:

- The Company prescribed different interest rates from time to time for the loans sanctioned to its loanees. Scrutiny of the database revealed that in 72 cases less interest was charged than the prescribed interest rate. In nine cases though the EMI was calculated on the basis of correct interest rate, the rate of interest (RoI) entered in the database was wrong. Thus, the EMI calculation was not dependant on the RoI in the database indicating lack of adequate process control.
- A comparison of date of credit with the date of cheque revealed that in 1,482 cases, Rs.51.37 lakh was credited to different loan accounts, where the cheques were drawn more than 92 days before its clearing. This was not possible as a cheque has to be presented within three months of its drawal.

As per the guidelines, disbursements are to be made in three instalments at the rate of 40 *per cent*, 30 *per cent* and 30 *per cent* in case of construction and in one instalment in case of ready built house. The following irregularities were noticed in this connection:

Loanees were allowed disbursement in one instalment in violation of the guidelines

- In 930 cases, the loanees were allowed full disbursement in one instalment, of which in 508 cases (Rs.4.99 crore) the loan was for construction purposes. Out of 508 loanees, 215 loanees closed their loan accounts. From other 293 active loanees, 98 loanees to whom Rs.1.14 crore was disbursed had not paid any amount against Rs.1.45 crore overdue from them as on September 2005. Other 195 loanees paid Rs.1.05 crore against Rs.2.29 crore overdue from them (as of September 2005) of which 70 loanees paid Rs.3.03 lakh which was less than 10 *per cent* of the amount overdue from them (Rs.71.29 lakh).
- Similarly, 1,296 loanees were allowed full disbursement in two instalments, out of which in 957 cases (Rs.15.77 crore) the loan was for construction purpose. Out of 957 loanees, 301 loanees closed their loan accounts. Out of 656 active loanees, 72 loanees to whom Rs.2.26 crore were disbursed had not paid any amount against overdue amount of Rs.1.71 crore as of September 2005. Other 584 loanees paid Rs.3.85 crore against Rs.8.42 crore due from them (as of September 2005) of which 127 loanees paid Rs.8.99 lakh which was less than ten *per cent* of the amount due from them (Rs.1.90 crore).
- Scrutiny of the Loan Account statement generated by the system revealed that monthly EMI dues were not debited to the loan accounts and though there is a provision for levy of penal interest monthly at a rate of two *per cent*, the penal interest in case of non-payment of monthly dues was not debited to the loan accounts.

Impact of weak controls

2.3.10 Absence of controls made the system completely unreliable and vulnerable to misuse, as would be evident from the instances given below:

The Company did not have complete record of disbursement of loans to the corporate loanees

- The Company disbursed (March 2000 to March 2003) Corporate Loan assistance of Rs.126.36 crore to 28,364 loanees. The database, however, contained the details of 25,336 loanees to whom Rs.114.46 crore was disbursed. On receipt of the audit observation, the Management manually counted (March 2006) the loan applications and found that Rs.112.66 crore was disbursed to 24,494 loanees. Thus, the Company did not have a complete record of disbursement of loans to the loanees. This indicates the possibilities of loans being disbursed to non-existent loanees.
- Comparison of Cheque Issue Register (CIR) with the loan database revealed that a sum of Rs.8.15 lakh was disbursed to 14 loanees and cleared through bank but the details of the same were not available in the database for loan disbursed.

Details of collection of processing fee of Rs.1.36 crore received from 19,469 loanees were not entered into database

- A cross verification of the database with manual records revealed that in respect of 19,469 loanees from whom Rs.1.36 crore was collected as processing fee, the details of the receipts were not entered into the database.

- In respect of 397 loanees to whom Rs.4.31 crore was disbursed, the cheque number field was found as "***"/.../XXX. Out of these, no repayment was received in respect of 37 loanees to whom a sum of Rs.17.55 lakh was disbursed.
- The age of the loanees was entered in the range from one to 13 years in 30 cases and from 62 to 956 years in 31 cases. Absence of field for "Date of Birth" indicated lack of input control in respect of age of the loanees.
- Scrutiny of the receipt database revealed that Rs.16.25 lakh was credited to 439 loan accounts, where no cheque number had been mentioned against repayment of loan dues.
- In 32 cases, an amount of Rs.64.87 lakh was disbursed involving 16 cheques, where the cheque number was the same but the dates of cheques were different.

Same cheques towards repayment were shown as cleared on two different dates

- In the absence of proper validation control, in 1,983 cases in respect of 859 cheques an amount of Rs.5.08 crore was received, where the same cheque towards repayment of loans was shown as cleared on two different dates.
- Loans were sanctioned without reference name in 1,415 cases, without guarantor in 1,229 cases and with only one guarantor as against two in 905 cases, in violation of the rule provisions.
- In 1,133 cases, the mortgage details were not available in the database. Similarly, in 2,316 cases the mortgage was not verified at any stage during the sanction and disbursement of the loan.

Other findings

2.3.11 Analysis of the database revealed the following:

The Company lost Rs.24.36 lakh due to non-collection of pre-payment charges

- As per the guidelines governing loans to individuals, the Company can accept pre-payment of loan with a levy of maximum two *per cent* as prepayment charges/or without such charges as per decision of the Company from time to time. Scrutiny of prepayment database file revealed that the Company accepted Rs.12.17 crore as prepayment towards loan dues from 757 loanees and in no case prepayment charges were collected. Though the Company had the discretion of waiving the prepayment charges, in no case, the decision to waive the pre-payment charges was made. Due to non-collection of prepayment charges, the Company lost Rs.24.36 lakh.

Excess loans sanctioned in contravention of guidelines

- As per the guidelines for sanction of loans to individuals, maximum amount of loan sanctioned was Rs.10 lakh, but two loanees were sanctioned and disbursed (October 2000 and July 1999) Rs.20 lakh each.
- The Company floated schemes for project finance, which mainly included finance to builders and developers of housing projects. The

loans sanctioned to builders were of less repayment period and of higher interest rate compared to individual loanees. A comparison of sanction database with the receipt database revealed that the Company disbursed loans to different builders by bifurcating the loan amount among different individual loanees. This bifurcation of loans led to the following irregularities:

Loans disbursed to builder were shown as individual loans resulting in less collection of interest of Rs.1.31 crore

- The loans were disbursed directly to the builders but shown as disbursed to individual loanees. The loans dues were also received from the loanees through single cheque/ challan (in case of cash receipts) on the same date, which indicated that the loans were collected from the builders. Low rate of interest was, however, charged as if the loan was against individual loanees. This resulted in less collection of interest amounting to Rs.1.31 crore* (up to October 2005).
- The loan disbursed did not have any mortgage to cover the loan amount and interest thereon as the loans was disbursed on the basis of tripartite agreements and allotment letter from the builder. Sales deed for the flats purchased by the loanees from the builders was not obtained by the Company.
- A test check of receipts pertaining to the month of March and April for the years 2000-01 to 2004-05 with reference to Challans and Bank statement revealed instances where credit was given in March of that year even though the cheques were cleared in the month of April that is, in the next financial year. Thus, wrong entry of credit date resulted in interest benefit to the respective loanees for the whole year. It was observed that the Company allowed interest benefit of Rs.8.81 lakh in 163 cases due to such wrong entry of credit date.

Non-use of database for monitoring of recovery of loan

2.3.12 The Management had not utilised the database for timely action in effecting recovery of loan dues as scrutiny of database revealed 778 corporate loanees and 246 individual loanees, to whom Rs.8.94 crore was disbursed, did not repay any amount as on October 2005. Scrutiny of sanction and disbursement records revealed the following:

Disbursement of loans to employees of a non-existent institution

The Company disbursed Rs.8.80 lakh to 20 employees of State Federation of Labour and Construction Co-operative Limited and Rs.15.94 lakh was due from them. On the basis of audit observation (November, 2005), the Management verified (December 2005) the matter and found that there was no such institution. The matter was placed before the Board and the Management had initiated disciplinary proceedings against the officials responsible for the sanction and disbursement of the loan.

* Approximately calculated on average basis

Follow-up action on the last IT Audit

2.3.13 An IT Audit of the Company was conducted in the year 2000-01 (July 2001) wherein the following recommendations were made.

- Programs are to be developed with advanced languages to ensure better data security.
- There should be reconciliation between account and computer generated data to ensure correctness of the computerised data.
- The Company should frame IT policy and top management should be involved at the time of framing.
- The Internal Auditors were to be involved in checking the computerised data and to give periodical feedback to the management regarding the irregularities.

No action was taken by the Company on the recommendations made in last IT Audit

Although, the Management accepted the above recommendations and assured to rectify the deficiencies pointed out by the audit, no action was taken in this regard.

The above matters were reported to the Management/ Government (August 2006); their replies have not been received (October 2006).

Conclusion

The computerisation efforts of the Company were to enhance the efficiency of the organisation. The rules and regulation governing the sanction and disbursement of the loans, however, were not incorporated into the application system, resulting in irregular disbursement and repayment of the loans. Necessary input and validation controls were not present in the database, which led to many irregularities like undue benefit to the loanees, non-recovery/delayed recovery of loans, etc. The integrity of the data was further questionable in view of lack of access controls. Thus, the computerisation efforts of the Company to enhance the efficiency of the organisation did not yield the expected results.

Recommendations

- **The Company may upgrade/replace the existing application system.**
- **Necessary input, validation and process controls should be built into the application system.**
- **The Company should ensure adequate physical and logical access control so that the safety and security of data is not compromised.**

2.4 Action taken with regard to winding up of non-working companies in Orissa

Highlights

Of the 32 non-working companies as on 31 March 2006, 12 companies were under winding up either by Court/Tribunal (eight) or voluntary winding up (four). In respect of 19 companies, either decisions to wind up were not taken by Government/ Management or filing of petitions for winding up were pending and the winding up petition filed by one company was dismissed.

(Paragraph – 2.4.1)

The Management of Konark Televisions Limited did not declare the Company as closed under the Industrial Disputes Act even after suspension of production in May 1999 which resulted in avoidable liability of Rs.2.16 crore towards idle wages.

(Paragraphs – 2.4.12 and 2.4.17)

Non-replacement of Liquidator delayed the winding up of four companies under voluntary liquidation.

(Paragraph –2.4.15)

Despite decision of the Government, 14 companies did not file petitions for winding up. Further, delay in liquidation of three out of 14 companies resulted in avoidable expenditure of Rs.1.17 crore towards idle establishment.

(Paragraphs – 2.4.14 and 2.4.17)

Introduction

2.4.1 The State Government formed a large number of public sector undertakings (PSUs) with the objective of assisting in acceleration in economic growth, reducing economic imbalance, preventing the growth of monopolies, etc. Many of these PSUs ceased to be commercially viable either due to inappropriate technology or inadequate market or because of poor management, etc. These PSUs depended mostly on budgetary support for their survival. Due to shift in policy since July 1992, the Government also gradually reduced the budgetary support to these PSUs and many of them became non-working i.e. they have not been carrying on any operational activity.

As on 31 March 2002, there were 35 non-working companies (out of 68 Government companies in the State). The number of non-working Government companies decreased to 32 (out of 62 Government companies) as on 31 March 2006.

Of the 32 non-working companies as on 31 March 2006, eight companies were under winding up process by Courts/Tribunals and four companies were under voluntary winding up. In case of one company (Orissa State Handloom Development Corporation Limited) the winding up petition had been dismissed by the Hon'ble High Court (March 2006) with a direction to approach the court afresh after the completion of sale of finished goods. In respect of the remaining 19 companies, either winding up decision had not been taken by the management of these companies or filing of petitions was pending though decision had been taken for winding up/closure/striking off names by the Registrar of Companies (RoC).

Scope of Audit

2.4.2 Audit reviewed the progress of the winding up process in respect of the non-working companies during the months April-May 2006 and August 2006.

Audit Objectives

2.4.3 The review was conducted to ascertain whether:

- the decision to wind up was taken after options for revival, etc. had been explored;
- prompt decision to wind up irreversibly sick companies was taken to avoid further waste of money, manpower and other resources;
- a well defined plan for winding up was drawn selecting the best option for fast, efficient and economical closure i.e. winding up/striking off names by RoC;
- the Management took all steps in a time bound manner for quick retirement/ alternate deployment of surplus staff to complete the eligibility requirements; and
- the plants and machineries were disposed of at the highest possible rates avoiding unnecessary carrying cost.

Audit Criteria

2.4.4 The following audit criteria were adopted:

- Provisions of the Companies Act, 1956 with reference to winding up/striking off names by RoC and other Acts.
- Decisions of Government/ Board of Directors of the respective companies.
- Prescribed procedures and time frames.

Audit Methodology

2.4.5 Audit methodology adopted for the review was as follows:

- Examination of records relating to winding up in the offices of the companies and in the Public Enterprises Department, Administrative Departments and Directorate of Industries; and
- Examination of Minutes and Agenda papers of meetings of the Board of Directors, instructions of the State Government and the Department of Company Affairs.

Audit Findings

The audit observations emanating from the review are discussed in the succeeding paragraphs.

Legal provisions on winding up of Companies

2.4.6 Companies registered under the Companies Act, 1956 (Act) can be closed through the process of winding up, liquidation and getting the orders of dissolution of the company registered with the Registrar of Companies (RoC). Alternatively, the names of the companies can be *suo motu* struck off from the register of companies by the RoC as defunct companies.

Closing the company through the process of winding up

2.4.7 The closure of a company through the process of winding up may be either by the Court (Tribunal from the year 2003 onwards) or voluntarily by the members/ creditors as per Section 425 of the Act.

2.4.8 Section 433 of the Act *inter alia* provides that a company may be wound up by the Court/ Tribunal, if the company has, by special resolution, resolved to be wound up by the Court/ Tribunal and when the Court/ Tribunal makes an order for winding up of a Company, it would intimate the same to the official liquidator (OL) i.e. an officer appointed by the Central Government and attached to the High Court as well as to the RoC. Under Section 454 of the Act, the company under winding up is required to submit to OL a Statement of Affairs[*] in the prescribed form within a maximum period of three months from the appointment of provisional OL or from the date of winding up orders of the Court/ Tribunal. From the year 2003 onwards, it has been made mandatory under Section 446A of the Act for the directors and other officers of the company to ensure that the books of accounts of the

[*] Detailed information viz. assets, liabilities, debts, etc. of the company.

company are completed, audited up to the date of winding up order and submitted to the Tribunal.

Voluntary winding up

2.4.9 Section 484 of the Act provides that a company can be wound up voluntarily by its members or creditors. When the affairs of a company have been completely wound up, a copy of the documents to that effect as provided under Section 481, 497 and 509 of the Act is to be sent to RoC for registration of the dissolution.

Striking off the names of the defunct companies by the RoC suo motu

2.4.10 Section 560 of the Act empowers the RoC to strike off the names of defunct companies, on its own, after following the procedure prescribed in the Act. The Government of India, Department of Company Affairs (DCA) had announced several Schemes* from time to time (February 1987 to July 2005) for striking off the names of defunct companies from the records of RoC.

Policy of the State Government for liquidation

2.4.11 The Government of Orissa and the Department of Expenditure, Ministry of Finance, Government of India signed (11 October 2001) a Memorandum of Understanding to achieve fiscal sustainability under the Medium Term Fiscal Reform Programme for 2001-05 which included the Public Enterprise Restructuring Programme (PERP) in two phases. In the first phase of PERP (2002-2005), 11 PSUs were recommended for asset sale and two PSUs for immediate liquidation.

The State Government, for the first time, issued guidelines in July 2002 for sale of assets/liquidation of defunct/closed companies (which have been inoperative for more than five years). The guidelines, *inter alia*, envisaged re-constitution of the Board of Directors, where necessary, for sale of assets and preparation of Statements of Affairs required for liquidation of companies. Further, the State Government also directed (November 2002) an Asset Disposal Committee (ADC) be formed by each Administrative Department to expedite the sale of assets of eight defunct/closed companies identified by PERP.

* Simplified Exit Scheme, Fast Track Schemes, etc.

Delay in decision for winding up

Companies awaiting winding up decision

2.4.12 Though the State Government issued (July 2002) guidelines in respect of liquidation of companies, decisions for winding up by the Board of Directors/Government have been delayed in 19 companies due to non-filing of winding up petition either because of delay in decision or delay in implementation of the decision. The details of these companies are indicated in **Annexure-13**.

It was observed in Audit that:

- Orissa State Electronics Development Corporation Limited (OSEDC-Sl. No.14 of **Annexure-13**) was closed on 31 January 2006. Decision for winding up of the Company, however, has not been taken so far (July 2006).
- Konark Televisions Limited became defunct in May 1999. The State Government directed (March 2004) the Management to close down the Company under the Industrial Disputes Act, 1947 (ID Act) and go for liquidation under Section 433 of the Companies Act, 1956. The Management has yet to take action to close/liquidate the Company (July 2006).
- In respect of Orissa Fisheries Development Corporation Limited (OFDC-Sl.No. 12 of **Annexure-13**), the Board of Directors had not been constituted. Moreover, information/records were not made available to Audit.
- The Board of Directors was not existing in Konark Detergent and Soaps Limited. The Government (PE Department) had advised (June 2005) the Administrative Department for reconstitution of the Board of Directors. The holding company (Orissa Small Industries Corporation Limited) informed (May 2006) that basic records were not available for compilation of accounts. Information on reconstitution of the Board of Directors and winding up of the company was not made available to Audit either by the holding company or by the Government.
- The Director of Industries informed (March 2004) that the assets of Mayurbhanj Textile Limited had been transferred to New Mayurbhanj Textile Limited. The notification for transfer of assets, however, was not made available to Audit. The Company has not been wound up and the arrears in accounts are increasing from year to year.

Thus, the failure of the Management to initiate action and to clear the backlog in arrear in accounts and non-constitution of the Board of Directors by the Government delayed the winding up of these companies.

Companies under liquidation

2.4.13 The companies under liquidation (Voluntary and under Court's order) as on 31 March 2006 are detailed in **Annexure-14**. Audit scrutiny revealed the following:

- The three[*] subsidiaries of Industrial Development Corporation of Orissa Limited (IDCOL) were registered for liquidation by the Hon'ble Orissa High Court on the recommendations of BIFR[$]/AAIFR[#]. The BIFR recommended (April 2000 to May 2002) for winding up all the three companies as no rehabilitation package could be worked out due to the Government's failure to keep their commitment to settle the dues of financial institutions within the specified time. AAIFR also confirmed (April 2001 to December 2002) the orders of BIFR to wind up these companies. Further developments are awaited (July 2006).
- The attempt to privatise the three companies[£], (subsidiaries of OSEDC), during the period June 1993 to March 1997 did not materialise. The Government decided (March 1997) to close these companies under ID Act, 1947. The companies were closed down during February 1998 to August 1998. An amount of Rs.3.99 crore was paid to the employees towards retrenchment compensation. The companies filed (May 1998 to September 1998) winding up petitions before the Hon'ble Orissa High Court. The Orissa State Financial Corporation (OSFC), however, seized (February to March 1998) the assets of these companies under Section 29 of the SFC Act due to non-payment of their dues. Further developments are awaited (July 2006).
- Since Orissa Textile Mills Limited was incurring losses continuously, it was referred (June 1993) to BIFR for revival. As no revival package could be brought out, the Company was finally recommended (August 1997) for winding up. As per the recommendation of BIFR, a case was registered by the Hon'ble Orissa High Court and winding up order was given on 5 November 2004 with direction to sell the assets of the Company. Dissolution of the Company under section 481 was awaited (July 2006).
- In respect of Orissa State Handloom Development Corporation Limited (OSHDC), the Hon'ble Orissa High Court dismissed (March 2006) the petition for winding up on the basis of report of the provisional liquidator that the Company had decided to sell the finished products in piece meal across the counter. The Court further ordered that the Company approach afresh for winding up only after completion of sale. No further decision has been taken so far (July 2006).

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[*] Sl.Nos.5, 6 and 7 of Annexure-14
[$] Board for Industrial and Financial Reconstruction
[#] Appellate Authority for Industrial and Financial Reconstruction
[£] IPITRON Times Limited, ELCOSMOS Electronics Limited and Elco Communications and Systems Limited.

It would, thus, be observed that prompt decisions were not taken for winding up of the sick companies. The delay in taking decisions for winding up had resulted in payment of idle wages.

Delayed action by Government/Management

2.4.14 The State Government had decided (October 1994 to December 2005) for closure/ winding up/striking off names of 14* companies (Sl.No. 1 to 7, 9, 13 and 15 to 19 of **Annexure-13)**. The winding up petitions, however, have not been filed by any of these companies so far (July 2006).

In this connection, the following points were noticed in audit:

- Orissa State Textiles Corporation Limited (Sl.No.1 of **Annexure-13**) became defunct in May 1998. As per PERP (October 2001), the Company was to be liquidated immediately. The decision for winding up was, however, taken by the State Government only in March 2005 i.e. after seven years of becoming defunct. The petition for winding up has not been filed so far (July 2006).
- New Mayurbhanj Textiles Limited (Sl.No.2 of **Annexure-13**) became defunct since March 1997. The Board of Directors decided (August 2001) to close down the Company. The Government of Orissa (Textile and Handloom Department) directed (December 2005) the Management to take immediate steps to file petition for liquidation. The Petition, however, has not yet been filed (July 2006). The Board of Directors was not in existence in the Company and was reconstituted only after decision of the Government in June 2005.
- Kalinga Steels (I) Limited (Sl.No.8 of **Annexure-13**) is a defunct company since inception. Though the State Government (PE Department) decided (June 2005) to move the RoC for striking off the name by availing Simplified Exit Scheme (SES-2005), it did not materialise as the holding Company (IPICOL), while proposing liquidation of KSL to the Government, also proposed for reduction of its share capital by Rs.10 crore. The proposal was, however, still (July 2006) under consideration of the Project Approval Committee of the Government.
- The decision for winding up of Orissa Leather Industries Limited (Sl.No.9 of **Annexure-13**), a subsidiary of OSLC Limited, was taken in November 1997. The unit was closed under ID Act in April 1998 before commencement of its production. There is no existence of Board of Directors of the Company. Petition has not yet been filed for winding up of the Company (July 2006).

* Five of these companies have also been closed under Industrial Disputes Act, 1947.

Thus, delayed action of the Government in reconstitution of the Board of Directors and deciding the proposed reduction of share capital of IPICOL delayed the winding up process of the companies.

Non-compliance of the prescribed procedures

2.4.15 It was noticed in audit that winding up of the following companies have been delayed.

Delay in replacement of Liquidator delayed the winding up of four companies under voluntary liquidation

- There were four companies under voluntary liquidation for periods ranging from 27 to 32 years. The liquidator of the four companies (Sl.Nos. 1 to 4 of **Annexure-14**), appointed (March 1974 to August 1978) by the Shareholders, retired from Government Service (July 1994), but he did not return the records. The Government of Orissa directed (June 2005) that a new liquidator should be appointed and steps should be taken to recover the records from the liquidator who retired from Government service and also to file petition for liquidation of all these four companies. The liquidator had neither resigned nor had the Government removed him from his position so far (July 2006). Action has also not been taken to file petitions for winding up of these companies under provision of Section 440 of the Companies Act, 1956.
- In respect of Hira Steel and Alloys Limited (HSAL), (Sl. No. 8 of **Annexure 14**), the Hon'ble High Court of Orissa passed winding up order on 16 December 1980 with the direction that the official liquidator should take charge of all the properties and assets of the Company and the petitioner (IDCOL) was to advertise the notice within 14 days of the winding up order. The petitioner (IDCOL) was to serve a certified copy of the order to the RoC not later than one month from the date of order. Information on dissolution of the Company under section 481 of the Companies Act is awaited. IDCOL informed (November 2004) that the accounts of the Company were not available with them. In the meeting held (June 2005) under the chairmanship of Principal Secretary, PE Department, it was decided that the Industries Department would explore the possibility of striking off the names of HSAL as per Simplified Exit Scheme-2005. No further information on liquidation of the Company/striking off the name was made available to Audit (July 2006).

Thus, failure to take action for compliance of the procedure as per provisions of the Act delayed the winding up of the companies.

Non-compilation of accounts

2.4.16 For filing winding up petition, submission of statement of affairs is a pre-requisite, which need preparation of updated accounts. Non-updation of accounts was one of the main reasons for delay in winding up/filing petition for winding up of companies. Only two companies i.e. Kalinga Steels (India) Limited and ORICHEM Limited have finalised their accounts for the year

2005-06. As on 30 September 2006, the arrears in accounts in respect of 30 non-working companies ranged between four years and 40 years.

It was observed during audit that:

- in respect of Mayurbhanj Textiles Limited, Konark Detergents and Soaps Limited and Orissa Fisheries Development Corporation Limited, the arrear in accounts ranged between 23 and 35 years. In these companies, the Board of Directors was not existing. Though the Government decided (June 2005) for reconstitution of the Board of Directors of two out of these three companies, no action had been taken by the concerned administrative departments.

The accounts of eight defunct companies were in arrear from eight to 24 years which led to delay in winding up

- the accounts of eight companies of **Annexure-13** (from Sl. 1 to 9 except Sl.8, Kalinga Steel (I) Limited) were in arrears for eight to 24 years as on 31 March 2006. These companies have been defunct for seven to 20 years. Six of these companies could not compile and finalise their accounts due to shortage of staff and funds. Further, the Boards of Directors was not existing in five* companies. The Government (PE Department) advised (June 2005) the administrative departments to reconstitute the Board of Directors. The Board of Directors have, however, been reconstituted only in respect of two companies (Sl.No.2 and 4 of **Annexure-13**).
- in addition to above, there was arrears in accounts ranging from 35 to 40 years in respect of five companies (Sl. 15 to 19 of **Annexure-13**). There was also shortage of staff and funds for preparation of accounts. The State Government had appointed one Member Secretary for each of these companies during September 2001 to August 2002, to look after audit work and for placing proposals for liquidation before the Board. No progress was, however, made for clearance of arrears in accounts nor have proposals for liquidation been placed before the Board. Further, requests for funds were made to the Government in February 2004, but the funds have not been provided by the Government so far (July 2006).

Delay in separation of surplus employees

2.4.17 Though number of companies were not carrying on any business, retrenchment/separation of staff was delayed due to delay in decision for closure of the companies under Industrial Disputes Act, 1947/ winding up under Companies Act, 1956. As a result, idle wages were being paid. In this connection the following points were noticed during audit:

* Sl. 3,5,6,11 and 12 **Annexure-13**

- Despite the commitment made in August 1998, the Government did not provide any funds for revival of the Konark Televisions Limited. Owing to shortage of working capital, under utilisation of plant capacity, high establishment cost, etc., production of the Company was suspended in May 1999. Out of 552 employees, the Company released 535 employees during March 1999 to September 2005 in three phases. The Company had incurred liability of Rs.2.16 crore (June 1999 to March 2005) towards idle wages.
- In respect of three subsidiaries of OSEDC Limited, Rs.3.99 crore have been paid towards retrenchment compensation and VRS payments.
- Delay in liquidation of three companies (Sl. 4, 6 and 7 of **Annexure-13**) resulted in avoidable expenditure on idle establishment to the extent of Rs.1.17 crore during the period April 1998 to March 2006. The information in respect of the remaining companies, however, could not be compiled in the absence of necessary records.
- Loss due to delay in decision for closure in respect of Kanti Sharma Refractories Limited and General Engineering and Scientific Works Limited were already reported in the Report of the Comptroller and Auditor General of India (Commercial), Government of Orissa vide Paragraph 2.2.29 for the year ended 31 March 2003 and Paragraph 3A.2.1 for the year ended 31 March 2001 respectively.

It was further observed that most of these companies have been incurring losses and not have been able to pay salaries and wages to their employees and deposit the employer's share of statutory dues towards Provident Fund and Employees State Insurance. For closure under ID Act, 1947, these dues are to be paid to the employees alongwith closure compensation. These companies, however, could not discharge the statutory dues nor are able to pay closure compensation. Only after obtaining assistance from the Department for International Development (DFID)/State Government for implementation of Voluntary Retirement Scheme, Voluntary Separation Scheme and payment of closure compensation, the employees were retrenched/retired. The paucity of funds, thus, contributed to delay in closure of these companies.

Disposal of Assets

2.4.18 The Government of Orissa (PE Department) issued (July 2002) guidelines on sale of assets. The guidelines envisaged that sale of assets should take place as a part of the winding up proceedings irrespective of the pendency of accounts. The guidelines further provided that if the objective is to convert idle assets into productive assets, it is preferable to adopt this method as a prelude to the winding up/ liquidation proceedings.

Audit analysis revealed as under:

- Eleven* companies were identified for sale of assets in the PERP. In pursuance to the Government decision (November 2002) to expedite the sale of assets by constituting Assets Disposal Committees (ADCs) by the concerned four Administrative Departments, the ADCs were constituted (January 2003) by three** respective administrative departments for seven companies. In case of Orissa State Commercial Transport Corporation Limited (Commerce and Transport Department), the State Government had constituted (February 2000) a Technical Committee for disposal of assets. The other three companies, which were under liquidation in Court, had taken permission of the Court under Section 391 and 392 of the Companies Act for disposal of assets.
- Disposal of assets has not been completed in any of the above 11 companies.
- In respect of four of the above companies (Sl.No. 2, 3, 5 and 6 of **Annexure-13**), the assets were valued at Rs.6.35 crore against which Rs.70.58 lakh was realised. Land belonging to these companies is awaiting disposal.
- In respect of Orissa Instruments Company Limited (Sl.No.4 of **Annexure-13**), the Government decided (December 2005) to sell the assets of this company to Orissa Industrial Infrastructure Development Corporation and Directorate of Technical Education and Training. The decision has, however, not been implemented (July 2006).
- In respect of Orissa State Commercial Transport Corporation Limited, the Technical Committee segregated all the movable assets into 48 lots. Out of 48 lots, the Company could dispose off only 39 lots at Rs.81.01 lakh till July 2006 and eight lots (excluding one damaged lot) were pending for disposal even after lapse of six years. The Company was also not able to clear the backlog of accounts and had finalised its accounts only up to 1995-96 due to which it could not file winding up petition even after its closure in July 1998.
- In case of Orissa Leather Industries Limited (Sl.No.9 of **Annexure-13**), the Company was closed (April 1998) with realisable assets to the tune of Rs.4.22 crore. The OSFC seized the assets and sold them to a party for Rs.3.40 crore with a down payment of Rs.70 lakh only; the balance amount of Rs.2.70 crore has still not been recovered (July 2006).
- The assets of five companies (Sl.No. 15 to 19 of **Annexure-13**) have already been disposed off/seized by the financiers. The details

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* Sl. 1 to 7 and 13 of **Annexure-13** and Sl. 5 to 7 of **Annexure-14**.

** Industries Department (December 2003), Textiles and Handloom Department (January 2003) and Information Technology Department.

regarding date of sale of assets, date of realisation of sale proceeds and documents in support of deposits, bank passbooks, etc. were not made available to Audit.

- Assets of Konark Detergent and Soaps Limited (a subsidiary of OSIC Limited - Sl.No.11 of **Annexure-13**) had been seized by Orissa State Financial Corporation (the financier) under section 29 of SFCs Act, 1951 and sold for realisation of dues.

Thus, delay in disposal of assets delayed the winding up of these companies. This is also fraught with the risk of deterioration in quality of assets.

Lack of planning

2.4.19 The PERP had a plan for sale of assets/liquidation in respect of 13 companies. Out of the other 18 non-working companies, four were under liquidation by Courts and four were under voluntary liquidation. There was no plan in the PERP for the remaining 14 companies which were defunct or under voluntary liquidation. These companies continue to remain inoperative. Thus, lack of proper planning and monitoring resulted in non-liquidation of these non-working companies.

The above matters were reported to the Government (June 2006); their replies have not been received (October 2006).

Conclusion

The decisions for winding up and implementation of the decisions for closure/winding up of 32 non-working companies were delayed due to non-clearance of arrears in accounts and delay in disposal of assets. Non-existence of the Board of Directors of some of these companies, non-availability of basic records, delay in implementation of voluntary retirement and voluntary separation scheme due to shortage of funds were the other factors responsible for delay in liquidation. Lack of proper planning also contributed to delay in dissolution of the companies.

Recommendations

- **An Action Plan for winding up of non-working companies should be prepared and proper monitoring should be done to watch the implementation of the plan, as delay in this regard results in continued expenditure on idle wages.**

- **Disposal of assets should be expedited in case of companies which are in the process of winding up or where winding up decisions were taken, as delay in this regard is fraught with the risk of deterioration in quality of assets.**

- **Government should reconstitute the Board of Directors of companies in which it does not exist and extend financial assistance for clearance of arrears in accounts and implementation of closure and voluntary retirement/separation schemes.**

- **The Board of Directors of the companies/Government should expedite the decision for winding up of the non-working companies where decisions have not been taken.**