CHAPTER-II

2. Reviews relating to Government Companies

Uttar Pradesh State Agro Industrial Corporation Limited

2A. Working of Uttar Pradesh State Agro Industrial Corporation Limited

Highlights

Uttar Pradesh State Agro Industrial Corporation Limited (AICL), established in March 1967, undertook the activity of sale of tractors, installation of hand pumps, production and sale of agricultural implements and cattle feed, distribution of agricultural inputs etc.

(Paragraph 2A.1.1)

The accumulated losses of AICL (Rs.61.93 crore at the close of March 2001) completely wiped out its paid up capital (Rs.40 crore). Poor financial health of AICL was mainly due to not analysing segment-wise profitability of operation, absence of proper procurement system, mismanagement of activities etc.

(Paragraph 2A.1.5)

Contrary to the models approved by the Government of India for sale of tractors being subsidised by it, AICL sold 1042 un-approved model of tractors resulting in passing of inadmissible subsidy aggregating Rs.3.13 crore.

(Paragraph 2A.3.1)

AICL suffered loss of Rs.0.65 crore on procurement of defective (Rs.0.19 crore) and short weight GI pipes (Rs.0.46 crore) and loss of Rs.1.38 crore in procurement of hand pumps at higher rates. Installation of hand pumps was marked by higher consumption of casing pipes (Rs.0.69 crore) and charging of excessive margin (Rs.3.93 crore) from Basic Siksha Parishad. Further, AICL incorrectly made double/avoidable payment of UPTT amounting to Rs.0.58 crore.

(Paragraphs 2A.3.2.1 to 2A.3.4.3 and 2A.5.1)

Marketing of fertilisers through private entrepreneurs resulted in passing of undue benefit of Rs.0.85 crore to them. Further, in sale of imported diammonium phosphate, AICL facilitated passing of subsidy of Rs.9.49 crore by MMTC to a Dubai firm.

(Paragraphs 2A.4.2 and 2A.4.4)

Cattle feed plant suffered loss of Rs.18.31 lakh due to use of costly bags for packing of animal feed.

(Paragraph 2A.6.2)

2A.1.1 Introduction

The Uttar Pradesh State Agro Industrial Corporation Limited, Lucknow (AICL) was established in March 1967. The main objectives include; aiding, assisting, promoting or establishing, developing or executing agro-industries, projects or enterprises or programmes for manufacture or production of such equipment or goods that will promote or advance agro industrial development of Uttar Pradesh. The object clause was modified in February 2000 to include (i) manufacture and trading of implements/inputs used in agriculture, horticulture, dairying, bee-keeping, animal husbandry etc., (ii) activities relating to rural development, agriculture, horticulture, floriculture, rural industries and other programmes of diversified nature to increase productivity, promote employment and income generation in rural areas, (iii) any other activity or business that increases turn over or improves financial position or are assigned to it by Government and/or other agencies etc.

The thrust of the National Agricultural Policy (NAP) was to devise mechanism for price structure of inputs and outputs so as to ensure higher return to the farmers and bring about cost effectiveness throughout the economy. It further stressed on "adequate and timely supply of quality inputs such as seeds, fertilisers, plant protection chemicals, bio-pesticides, agricultural machinery and credit at reasonable rates, soil testing, quality testing of fertilisers and seeds and ensure checking of spurious inputs being supplied."

In the backdrop of these objectives, AICL undertook the following main activities supported or funded mainly by the State Government during the period of five years from 1996-97 to 2000-01:

Activities	Executing divisions
➢ *Sale of tractors, installation of hand pumps and manufacturing and sale of agricultural implements*	⇒ *Servicing division*
➢ *Distribution of fertilisers/ pesticides/ insecticides/seeds etc. to the farmers*	⇒ *Marketing division*
➢ *Production of agricultural implements including tool kits, disc harrow, grain bins etc.*	⇒ *Agricultural workshop division*
➢ *Production and sale of cattle feed*	⇒ *Cattle feed division*

2A.1.2 Organisational set up

MDs were frequently changed affecting planning, implementation and follow up of schemes

The overall management of AICL vests in a Board of Directors (BOD) comprising of a Chairman, a Managing Director (MD) and six other directors. MD is the chief executive of AICL. The BOD did not have persons with professional expertise. Four Chief/General Managers (one each for marketing, servicing, cattle feed and workshop divisions), one Financial Advisor cum Chief Accounts Officer from State Finance and Accounts Services (all posted at headquarters Lucknow) and one Divisional Engineer (posted at Noida for controlling activities relating to non-conventional energy sources) assist the

MD in managing day-to-day affairs. Marketing and servicing activities are spread all over the State with control points at 13 regional managers and 18 divisional engineers offices.

The directives issued (December 1979) by the State Government *inter-alia* provide for a minimum tenure of three years for high level posts in public sector undertakings. It was, however, noticed that eight persons held the post of MD during five years up to March 2001 for periods ranging from 10 days to 213 days (except for Sri Siraj Hussain for 550 days), thus, depriving the management of consistent leadership for effective planning, implementation and follow up of schemes undertaken by the Company.

2A.1.3 Scope of Audit

The activities of AICL from 1987-88 to 1991-92 were reviewed and the results featured in the Report of the Comptroller and Auditor General of India, Government of Uttar Pradesh (Commercial), 1992-93 (the review is under discussion in COPU). The present review was conducted during December 2001 to May 2002 covering a period of five years from 1996-97 to 2000-01. The records of head office and field offices relating to tenders, purchase orders, payments, invoices, sale/adjustment bills, costing data, drawings and designs etc. were examined. Audit findings on performance of AICL as a support to the State Government's efforts in revamping the agriculture sector in respect of its main activities[27] are discussed below.

2A.1.4 AICL's failure to keep pace with the technological developments

Objective of promoting or advancing agro industrial development could not be achieved due to lack of interaction with other similar PSUs/research institutions

AICL's activities were only in traditional areas notwithstanding technological advancements in the agro industrial environment. A comparison of the activities with other agro industrial corporations in the country revealed that except for vermiculture[28] and bee-keeping, AICL could not plan such activities[29] that include (i) value addition to agriculture/horticulture produce for promotion of agro/food processing industries (ii) export marketing, (iii) post harvest management (proper grading, pre-cooling, increasing shelf life etc.), (iv) contract farming (integrated approach creating linkages from the lab-to land-to factory-to market under a single umbrella), (v) promotion of processed food, (vi) floriculture etc. This indicated a lack of innovative approach to take advantage of technological developments made in the country.

AICL failed to interact with other similar companies/corporations, research institutions and as a result it could not achieve its main objective of promoting and advancing agro industrial development in the State.

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27 Activities not covered in the review include (i) procurement of wheat and paddy, as the same was not the main activity (ii) free boring and (iii) activities of non-conventional energy sources division at NOIDA in view of only marginal works undertaken.

28 Process of manufacturing compost fertilizers by inducting imported earth worms into cow dung that annihilates and converts it to fertilisers.

29 Source: Each years Annual Reports and Accounts of Punjab Agro Industries Corporation Limited, Chandigarh from 1995-96 to 1999-00.

2A.1.5 Financial position and working results

AICL's financial health was poor as would be noticed from the financial position and working results during the period of five years up to 2000-01[30] (detailed in Annexure 11 and 12). The summarised financial position and working results is given below:

(Rs. in crore)

Particulars	1996-97	1997-98	1998-99	1999-00	2000-01 (Provisional)
(1)	(2)	(3)	(4)	(5)	(6)
Capital Employed	(-)5.85	(-)3.07	(+)8.35	(+)1.35	(+)15.10
Net Worth	(-)29.06	(-)25.82	(-)12.04	(-)14.81	(-)21.93
Current Assets, Loans and Advances	69.49	77.29	112.48	109.63	97.69
Current Liabilities	70.48	75.13	101.18	105.46	78.76
Operating Loss/Profit	(-)1.96	(+)0.49	(+)2.79	(+)0.53	(-)3.17

The factors responsible for its poor financial health were as under:

- The capital employed was negative during 1996-98, became positive in subsequent years and net worth was negative during all these years, indicating shortage of working capital.
- Current liabilities have increased from Rs.70.48 crore at the close of March 1997 to Rs.105.46 crore at the close of March 2000. It dropped down to Rs.78.76 crore during 2000-01.
- AICL incurred operating losses during 1996-97 and 2000-01, whereas it posted operating profits for intermittent three years.

Main reasons for deteriorating financial health as analysed by Audit were as follows:

Poor financial health was mainly due to not analysing segment-wise profitability of operations, absence of procurement system, mismanagement of activities etc.

(i) AICL has not done segment-wise profitability analysis to identify and address weak areas.

(ii) Mismanagement of activities of servicing, marketing, agricultural workshop and cattle feed division contributed to losses. Some instances are given below:

- Absence of proper procurement procedure (Paragraph 2A.2),
- Loss due to short/defective weight supplies (Paragraph 2A.3.2.1),
- Procurement of hand pumps at higher rates (Paragraph 2A.3.2.2),
- Excess cost on consumption of casing pipes (Paragraph 2A.3.3.1),
- Excess/avoidable payment of UPTT (Paragraphs 2A.3.4.1 to 2A.3.4.3 and 2A.5.1),
- Ultra vires sales of inputs through entrepreneurs (Paragraph 2A.4.2)
- Avoidable loss due to use of costly bags for packing in cattle feed division (Paragraph 2A.6.2)

[30] Figures for 2000-01 are provisional.

(iii) Increase in staff debtors (embezzlements, shortages etc.) from Rs.2.49 crore (at the close of March 1997) to Rs.3.06 crore (at the close of March 2000) and included Rs.0.52 crore recoverable from employees who have either expired or not in the service of AICL, unreconciled balance of "money-in-transit" (Rs.1.80 crore and overdrafts Rs.0.31 crore) at the close of March 2000, (b) unreconciled and unadjusted suspense under the head sundry advances (Rs.4.88 crore) at the close of March 2000, and (c) investment aggregating Rs.0.64 crore made in Uttar Pradesh State Horticulture Produce and Marketing Corporation Limited, no longer in operation since the past several years and having substantial losses.

The cases of mismanagement in various activities are discussed in the succeeding paragraphs:

2A.2 Absence of proper procurement procedure

AICL prepared a booklet containing stores procurement procedure (*Bhandar Kraya ki Niyamawali*) for the first time in January 2000, which was made effective from April 2000. Accordingly, items up to the value of Rs.15,000 could be procured without quotation on the basis of market survey, items valuing above Rs.15,000 and up to Rs.5 lakh on the basis of sealed quotations, opened and decided by a committee and items valuing more than Rs.5 lakh on the basis of tenders invited, opened and decided by a committee at the headquarter and approved by the Managing Director.

Proper procedures for procurement and evaluation of tenders were not in place

It was noticed by audit that the small booklet on procurement could not serve the purpose of a guide for the enormous procurement functions. It does not address the following main deficiencies:

(i) The booklet does not provide for proper methodology to obtain offers and criteria for evaluation of tenders. As a result the comparative statements were not being prepared with each segment of basic rate, excise duty, sales tax etc. noted thereon to identify the status of the supplier and in respect of ED/sales tax to link and control manipulation or unscrupulous use of the tax collected. These were also not being signed by the members of the committee;

(ii) The comparative statements were not being subjected to independent checking by internal audit wing/other authorised staff than those involved in opening and finalisation of tender and no safeguard were taken to protect financial interests of AICL. The same individual carried out the procurement and payment functions. Internal control mechanism was, therefore, deficient to this extent;

(iii) The tender forms were not serially numbered, each and every page of the tender forms issued were not signed by the authorised signatory, a register of control for tender forms prepared, sold, received back and balance with the custodian thereof was not being maintained. This was fraught with the risk of manipulations, inadvertent errors etc.;

Management stated (July 2002) that action is being taken to implement the suggestions made by Audit.

The division-wise activities are discussed in the succeeding paragraphs:

2A.3 Servicing Division

The servicing division was engaged in sale of tractors at subsidised rates, installation of hand pumps and manufacturing and sale of agricultural implements etc. The activities of the division were marked by irregularities detailed in following paragraphs:

2A.3.1 Passing of subsidy on unapproved model of tractors

Government of India (GOI) approved (August 1996) implementation of centrally sponsored scheme "Promotion of agricultural mechanisation among small farmers.[31]" The scheme envisaged grant of subsidy @ 30 *per cent* (subject to maximum of Rs.30,000) of the cost of small tractors (delivering up to 30 horse power at rear power take off shaft) sold to small and semi-medium farmers through AICL. The GOI also circulated between October 1996 and July 2000, a list of tractors of the specified make/models on which subsidy was admissible. Further, the district level committee responsible for selecting the beneficiary and the make of tractors had one representative from AICL's local unit.

The Company passed on subsidy of Rs.3.13 crore on unapproved model of tractors

It was noticed by Audit that contrary to the models approved, AICL sold 1042 unapproved[32] model of tractors (out of 2995) during five years from 1996-97 to 2000-01 and passed on inadmissible subsidy aggregating Rs.3.13 crore (out of Rs.8.96 crore) on it. The GOI to whom the matter was referred by Audit, confirmed (March 2002) that the subsidy was available only on 20 specified makes circulated by it.

Thus, AICL 's attempt in selling unspecified make tractors resulted in release of inadmissible subsidy of Rs.3.13 crore. The potential liability for refund of such inadmissible subsidy devolved on AICL .

Management stated (July 2002) that tractors were within 30 horsepower and there was no difference between model approved by the Government of India and those on which subsidy was paid. The reply is not tenable as only those model of tractors were included in the list which had passed the minimum performance standard tests conducted by the Central Farm Machinery Training and Testing Institute, Budni, District-Sihor, Madhya Pradesh and only such model of tractors were eligible for subsidy.

2A.3.2 Procurement and installation of ISI India Mark II hand pumps

AICL was entrusted with the work of procurement of components used in India Mark II hand pumps and their installation for providing drinking water facilities in primary/higher primary schools run by Basic Siksha Parishad

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[31] Now subsumed in Macro-management of agriculture - supplementation/complementation of States.

[32] Eicher 242 NC DB, Tafe 30DI(J), Mahindra 275 DI, Escort 325 N and 335 N.

under recommendations from Tenth Finance Commission. AICL was also allotted the work of installation of hand pumps under schemes like Member of Parliament Local Area Development Schemes (MPLADS), Minimum Need Programme of the District plan allocation etc.

During five years from 1996-97 to 2000-01, AICL installed 75556 hand pumps valued at Rs.105.33 crore and earned a margin of Rs.19.76 crore as indicated below:

(Rs. in crore)

Year	Number of hand pumps installed	Cost incurred	Revenue realised	Margin earned
1996-97	5417	7.23	8.54	1.31
1997-98	14453	19.66	22.91	3.25
1998-99	19970	27.87	32.92	5.05
1999-00	22577	31.87	38.28	6.41
2000-01	13139	18.70	22.44	3.74
Total	**75556**	**105.33**	**125.09**	**19.76**

Absence of guidelines resulted in varying rates adopted for billing to increase profit margins by the field units

Procurement of material (pipes, hand pumps etc.) was done centrally and supplied to the field units. The field units installed these hand pumps. It was noticed by Audit that the headquarters office had not issued guidelines and rates for individual material/components were fixed arbitrarily without due regard to the Government directives. The centres, in turn, charged various rates at billing stage to increase their own margin of profit.

The deficiencies noticed in the procurement and installation of hand pumps are discussed below:

2A.3.2.1 Loss due to procurement of defective and short weight GI pipes

DGS&D rate contracts invariably provide for procurement of pipes on weight basis. However, AICL procured them on length basis allowing suppliers to take advantage of permissible variations and supply pipes having uniformally lower weights thereby making the average weight supplied much lower than the prescribed average weight. Since inputs of GI pipes, such as HR coil/skelp and zinc are measured in weights only and also since price variation (if any) is calculated on the basis of weights only, there is no justification to procure the pipes on length basis to the disadvantage of the Company.

(a) According to IS code 1239 (Annexure-13), the weights of medium series pipes supplied by the manufacturers are subject to permissible variation of $\pm$ 10 % for single pipe and $\pm$ 7.5 % for quantities per load of 10 tonnes. Further the codes provide "for the purpose of minimum weighment of 10 tonnes lot, the weighment may be done in convenient lots at the option of the manufacturer". It was noticed by Audit that against 74 orders placed by AICL with Agarwal Iron and Steel, Delhi during 2000-01, the firm supplied pipes valuing Rs.2.06 crore that were below - 7.5 % weight as indicated on the next page:

Length (m)	Weight range (in kg) for the lot for light category (95% and 105%) at 2.54 kg/m		Weight range (in kg) for the lot for medium category (92.5% and 107.5%) at 3.13 kg/m		Weights (in kg) of pipes procured (range)
	95 %	105%	92.5%	107.5%	
1,150	2,807.725	**3,103.275**	**3,329.538**	3,869.463	**3,310**
1,200	2,895.600	**3,200.400**	**3,474.300**	4,037.700	**3,420**
1,250	3,051.875	**3,373.125**	**3,669.063**	4,205.938	**3,595**
1,800	4,394.700	**4,857.300**	**5,211.450**	6,056.550	**5,101**
2,000	4,883.000	**5,397.000**	**5,790.500**	6,729.550	**5,660-5,775**
2,100	5,127.150	**5,666.850**	**6,080.025**	7,065.975	**5,935-6,010**
2,200	5,308.600	**5,867.400**	**6,369.550**	7,402.450	**6,290**
2,400	5,858.600	**6,476.400**	**6,948.600**	8,075.400	**6,650-6,920**
2,514	6,066.280	**6,704.840**	**7,278.66**	8,458.980	**7,210**
2,600	6,347.900	**7,016.100**	**7,527.650**	8,748.350	**7,315-7,480**
2,700	6,592.050	**7,285.950**	**7,817.175**	9,084.825	**7,665-7,810**
3,000	7,324.500	**8,095.500**	**8,685.750**	10,094.250	**8,470-8,655**

GI pipes valuing Rs.2.06 crore were not only defective but also resulted in excess payment of Rs.18.77 lakh due to short weight

Scrutiny by audit, however, revealed that even after allowing variation of -7.5% (column 4), weights of supplies (as shown in column 6) were found to be short resulting in excess payment of Rs.18.77 lakh. Further, the pipes supplied, while falling short of the minimum permissible weight for medium series pipes (column 4), were also in excess of the maximum permissible weight for the light series (column 3) and were, thereby rendered defective for the purpose of executing works as per IS: 9301 given in Annexure-14.

Thus, AICL's failure to vouchsafe the weights with reference to IS codes while making payment of the bills resulted in procurement of defective pipes worth Rs.2.06 crore.

Management stated (July 2002) that clarifications have been sought for from the suppliers and Bureau of Indian Standard after which necessary action would be taken.

GI pipes procured on the basis of length instead of weight resulted in short weight supplies of Rs.46.15 lakh

(b) Further, AICL placed orders for 10.16 lakh mtr pipes valued at Rs.7.66 crore on seven firms without mentioning average weight. The materials actually delivered were short in average permissible standard weight by 191.498 MT against which 61176 mtr pipes worth Rs.46.15 lakh could have been procured additionally.

Management stated (July 2002) that pipes were being procured after testing thereof by DGS&D/RITES according to prescribed specifications. Further, there is no loss in procurement of these pipes. The reply is not tenable as the DGS&D procured them on weight basis to avoid loss due to short weight supplies over the normal prescribed weights.

Failure to evaluate composite comparative rates of hand pumps resulted in loss of Rs.1.38 crore

2A.3.2.2 Procurement of hand pumps at higher rates

AICL suffered loss of Rs.1.38 crore in procurement of hand pumps due to its failure to correctly evaluate the comparative rates as detailed below:

(i) During 1998-2000, AICL procured 26837 hand pumps from firms outside Uttar Pradesh at the rate of Rs.3,208 (6735 pumps), Rs.3,199 (16930 pumps) and Rs.2,700 (3172 pumps) per pump including CST at the rate of 4 *per cent*. In addition, it had to pay UPTT at the rate of 7.5 or 8 *per cent* on subsequent sale within the State, which was not considered in evaluation of offers. This resulted in avoidable expenditure of Rs.0.84 crore as detailed below:

Year	Pumps	Unit rate including CST (Rs.)	Cost of pumps (Rs. in lakh)	UPTT[33] paid (Rs. in lakh)	Total	Quoted rates within UP including UPTT (Rs.)	Total cost (Rs. in lakh)	Loss (Rs. in lakh)
1	**2**	**3**	**4 (2X3)**	**5**	**6 (4+5)**	**7**	**8 (2X7)**	**9 (6-8)**
1998-99	6735	3208	216.06	36.94	253.00	3283.43	221.14	31.86
1998-99	16930	3199	541.59	48.46	590.05	3283.43	555.88	34.17
1999-00	3172	2700	85.65	21.56	107.21	2830.00	89.77	17.44
Total	**26837**		**843.30**	**106.96**	**950.26**		**866.79**	**83.47**

Management stated (July 2002) that they procured hand pumps at the lowest rates. The reply is not tenable as the procurement from outside Uttar Pradesh and subsequent sale in Uttar Pradesh attracted UPTT at the rate of 7.5 *per cent* which was not given due weight while evaluating offers and so ultimately a higher cost was incurred.

(ii) Singhal Steel Tubes (Pvt.) Limited, Kanpur (Rs.3,283.43 per pump including UPTT of Rs.226.29 per pump) were exempted from UPTT. However, while evaluating the rates, the UPTT of Rs.226.29 was not excluded. This resulted in increase in cost by Rs.0.54 crore on the purchase of 23665 hand pumps (6735 + 16930) during 1998-99.

2A.3.3 Installation of hand pumps

2A.3.3.1 Excess cost on consumption of casing pipes

Excess consumption of casing pipe resulted in avoidable expenditure of Rs.0.69 crore

The IS: 9301: 1990 indicating specification for deep well hand pumps[34] provides for use of casing pipes of nominal diameters from 100 to 150 mm from 'installation mark' (ground level) up to the bottom of the cylinder assembly fitted at the bottom of GI pipe. AICL uses 110-mm PVC pipes (casing pipes) for this purpose. Within the PVC pipe, GI pipes is used and it is connected with cylinder assembly at the bottom for the purpose of lifting the water above the ground level. The length of GI pipe depends upon the water table of location and it varies from 15 mtr., 18 mtr., 21 mtr. and 24 mtr. The 110-mm PVC pipe needs to be used only up to the length of GI pipe and thereafter PVC pipe of lesser dia (i.e. 63 mm) can be used in order to economise cost of installation of hand pumps. AICL is invariably using 110-mm PVC pipe up to the length of 24 mtr. Thus, by using PVC pipe of 110 mm up to the length of 24 mtr, AICL is incurring avoidable expenditure in the

[33] Unit selling price of column 3 ranges between Rs.3,210 to Rs.4,169 on which UPTT was paid as per column 5.

[34] Refer Annexure-14 for specification of riser pipes and Annexure-15 for diagram of India Mark II, hand pumps.

installation of hand pump and an amount of Rs.0.69 crore[35] of such expenditure was incurred during the period 1996-97 to 2000-01, as per information made available to Audit.

The above figure of avoidable expenditure is based on cases where consumption of PVC pipe was more than the consumption of GI pipe. The justification of using a particular length of GI pipe and PVC pipe could not be verified as the information relating to water table and strata chart was not made available to audit in spite of vigorous pursuance.

Management stated (July 2002) that the matter was being investigated.

2A.3.3.2 Charging of excessive margin

AICL undertook installation of hand pumps as deposit work. The over all cost ceiling for ISI India Mark-II hand pumps for schools of Basic Siksha Parishad was Rs.15,000 for plains and Rs.20,000 for the hilly terrains. According to the Government's order of February 1997, the executing agencies were eligible for centage charges of 12.5 *per cent*. However, the headquarters office of AICL did not circulate any guideline to the field staff indicating the modus operandi of charging the rates to be adopted for the works done.

Absence of guidelines to the field staff resulted in charging of excessive margin of Rs.3.93 crore

An analysis by Audit of the costs incurred and revenue realised in respect of 13 divisions[36] test checked for a period of five years from 1996-97 to 2000-01 revealed that excessive margin was charged as given in the table below:

(Rs. in crore)

(a)	Amount to be charged inclusive of 12.5 per cent centage	65.09
(b)	Amount actually charged	69.02
(c)	Amount charged in excess of 12.5 per cent centage	3.93
(d)	Excess charged being equivalent in terms of cost of hand pumps (nos.)	2469

There was lack of control by head office of AICL, resulting in different rate of centages (varying from 2 to 125 per cent) added to cost by various centres.

Management stated that cost estimates were approved by the Government and accordingly enhanced rates were charged. The reply is not tenable as the cost estimates were for the purpose of releasing advances as clarified in G.O. of March 1998. The adjustment bills as per the actual cost plus centage were to be submitted and the excess if any was refundable to the Government.

Similarly, against the works under 'Member of Parliament Local Area Development Scheme (MPLADS)' undertaken by AICL where implementing agencies were strictly prohibited to collect any administrative charges, centage etc. for the services of preparatory work, implementation, supervision etc. AICL realised Rs.10.03 crore for installation of 6,121 pumps during five years up to 2000-01 at a cost of Rs.8.59 crore. The excess realisation was on account of charging higher rate than the cost of the item used in the hand pumps, by adding a margin Rs.1.44 crore. The inadmissible charge was equivalent to the

[35] Cavity boring not separated for want of details.

[36] Except divisions of newly created Uttaranchal State.

cost of 1026 additional hand pumps worked out at the average rate of Rs.14,030 per pump. AICL incorrectly certified that it did not charge any margin on such works.

Management did not offer any comment on realising more than the cost. However, it stated (July 2002) that the adjustments against advances received were made at regional level.

2A.3.4 Excess/avoidable payment of UPTT

2A.3.4.1 Double payment of Uttar Pradesh Trade Tax

Section 3 AAAA (i) of Uttar Pradesh Trade Tax Act, 1946 provides that no tax is payable on hand pumps that has been taxed at the point of sale by the manufacturer in Uttar Pradesh and AICL's Tax Consultant had also given similar opinion in December 1996. In contravention of these provisions and despite the fact that procurement rates were inclusive of UPTT, AICL incorrectly paid Rs.9.50 lakh on 3191 such hand pumps during five years from 1996-97 to 2000-01.

Thus, AICL's failure to take notice of the statutory provisions and its own consultant's advice resulted in double payment of UPTT for which responsibility has not been fixed as of May 2002.

Management stated (July 2002) that the divisional engineers have been directed to furnish justifications/comments to the headquarters. Same are awaited by audit as of September 2002.

2A.3.4.2 Excess payment of Uttar Pradesh Trade Tax

AICL should have billed the value of hand pumps separately and claimed centage separately. Instead, AICL billed the Government for the total cost of installation of hand pumps including centage and paid Rs.17.96 lakh as UPTT on the value of margin during five years up to 2000-01 on 46,729 hand pumps. On the other hand, Mau centre of AICL correctly billed the Government by showing the value of components and departmental charges (i.e. centage) separately.

Thus, AICL's failure to identify itself as an implementing agency (and not as a seller) resulted in payment of UPTT as of May 2002.

Management stated (July 2002) that it had to issue bills/cash memos for the works executed by it. It was, however, silent on why it could not resort to issue of bills in the manner in which Mau Centre issued such adjustment bills and avoided payment of UPTT.

2A.3.4.3 Loss due to non availing of concessional UPTT for want of recognition certificate

The divisions of AICL procure raw materials for manufacturing agricultural implements, tool kits, grain bins, cattle feed etc. A concessional rate of UPTT of 2 *per cent* (plus 25 *per cent* surcharge, if applicable) was available on such purchases provided a recognition certificate (under section 4 B of UPTT Act) was made available to the suppliers. Despite its Tax Consultant's advice (March 1996) to apply for recognition certificate (application forms and procedures forwarded by him), the headquarters office did not circulate the same to its Lucknow Service Division (circulated to Kanpur, Agra, Bareilly and Gorakhpur Service Divisions in March 1996) and none of the service divisions had applied (May 2002) for the recognition certificate.

It was noticed by Audit that only agricultural workshop division (registered for availing concessional rate of 2 *per cent*) availed the benefit sparingly (used the certificate for purchase of material worth Rs.0.55 crore out of total purchase of 2.49 crore), other units did not avail the facility. AICL therefore, paid UPTT at the rate of 4 *per cent* (excluding surcharge) instead of 2 *per cent*. This resulted in avoidable payment of Rs.21.79 lakh (excluding surcharge) on account of failure of its divisions to apply for recognition certificate.

AICL had not fixed responsibility for the lapse as of May 2002.

Management stated (July 2002) that the divisional engineers are being asked to clarify the reasons for not being able to avail the benefit.

2A.3.5 Production of disc harrow and its sale at exorbitantly higher rates

Bullock drawn disc harrow (six discs and eight discs of offset and trailing type) are manufactured by Bareilly workshop and sold to farmers through the service centres all over the State. The headquarters office had not standardised the system for costing of various products. However, costing was done by the workshop by loading 10 *per cent* as profit margin and 20 *per cent* to cover the overheads. These rates were furnished for final approval of the headquarters. Subsidy to the extent of 50 *per cent* of selling price was available to the farmers on the disc harrow.

During five years from 1996-97 to 2000-01, the workshop produced 20904 harrows valued at Rs.3.94 crore, and sales realisation was Rs.4.80 crore.

2A.3.5.1 Providing of disc harrow to farmers at exorbitant rates

Despite the provision in NAP to provide agricultural inputs at fair and reasonable prices to farmers, the headquarters office approved much higher rates (Rs.2,200, Rs.2,450 and Rs.2,700 per harrow) than the rates (including profit margin of 10 *per cent* and overheads of 20 *per cent*) proposed by the Bareilly division (Rs.1,890, Rs.2,200 and to Rs.2,480 per harrow). This resulted in excess charging of margin to the extent of Rs.60 lakh, half of which was to be claimed as subsidy and balance Rs.30 lakh was to be borne by the farmer in shape of higher cost.

This, not only defeated the very purpose of providing agricultural inputs at reasonable rates to the farmers as envisaged in NAP but also increased the burden on subsidy by Rs.30 lakh.

Management stated (July 2002) that in addition to 20 *per cent* overhead charges, rates also included transportation charges of harrows from workshop to centres. Further, the rates fixed by a Committee were not higher. The reply is not tenable as the rates already included profit and overheads and has been further enhanced without justification.

2A.4 Marketing Division

2A.4.1 Marketing of agricultural inputs (fertilisers[37], pesticides etc.)

AICL has around 288 sale centres (retails outlets) spread through out the State to market fertilisers, pesticides, insecticides etc. The centres are under the administrative control of district sales officer, latter being under the control of regional Managers. The centres mainly market Urea and DAP to the farmers. Maximum retail price of procurement and sale of inputs are fixed by the Government of India.

During five years from 1996-97 to 2000-01, AICL procured agricultural inputs valued at Rs.526.47 crore and sold (including opening balance) the same at Rs.542.65 crore.

A scrutiny of records of Urea and DAP revealed that private persons[38] were engaged by centre in-charges for operation of the sale centres, sale of private goods[39] were made from the sale centres and centre in-charges were deployed at one place for more than 5 to 15 years.

2A.4.2 Ultra vires sales of inputs through entrepreneurs

Despite the legal position[40] that "licence under the Fertiliser Control Order (FCO), 1985 is essential to carry on business in fertilisers and further sale by one retail dealer to another retail dealer is prohibited and is also opposed to the public policy being void under section 23 of Indian Contract Act", AICL approached[41] the BOD (August 1999) to approve sale of agricultural inputs (fertilisers, pesticides, insecticides and seeds) through private entrepreneurs in order to boost up overall sales performance. It was noticed by Audit that the action for passing the resolution was 'deferred' by the BOD in August 1999.

Agricultural Production Commissioner (APC) (September 1999) as Chairman of AICL gave the directives to obtain ex-post-facto approval and devise suitable scientific formulae to safeguard against loss and sale of spurious fertiliser. The approval was, however, not obtained. The scheme remained operative unauthorisedly and illegally during the period from October 1999 to

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37 Fertiliser means any substance used or intended to be used as fertiliser of the soil and/or crop and specified in Part A of schedule I and includes a mixture of fertiliser and special mixture of fertilisers (2(h) of FCO). This includes Urea and DAP.

38 Inspection report dated 26.12.2001 at 12.30 PM of Sri Sahdeo Singh, District Sales Officer, Pilibhit in respect of the Madnapur centre, (Shahjahnpur).

39 Inspection report dated 24.12.2001 of Sri Sehdeo Singh, District Sales Officer, Pilibhit in respect of Khuta centre (Shahjahnpur).

40 1996 (3) ALT 16, Balaji Trading Company Vs. Lingayya & Co., page 10 of the Fertiliser Control Order 1985 (5th edition of Asia Law House, Hyderabad).

41 Item no. 7 of 142nd Board Meeting held on 28 August 1999.

October 2001 effecting the turnover of Rs.543 crore. Though the scheme was not approved by the BOD in their 142nd meeting held on 28.8.1999 yet the scheme was suspended in October 2001 as per BOD's approval vide item No. 4 of 151st meeting held on 30.10.2001. The scheme was decided to be started again by misinforming the BOD in their 152nd meeting held on 22.3.2002 that the scheme was approved in the Board meeting of August 1999.

Regarding misinformation to the BOD, Management stated (July 2002) that a sentence remained to be added due to clerical error. Required modification was not got approved from the BOD even after noticing the mistake, so far (August 2002).

Further analysis of the transaction revealed that:

- The basic objective of the scheme was to boost overall sales performance without affecting AICL's own sales. However, AICL's own sales during 2000-01 (11,7391 MT) were reduced by 41,450 MT[42] compared to previous year (15,8841 MT). Thus, the very objective of the scheme was defeated.

Management stated (July 2002) that the reason for reduction in sale was due to Government's pressure to undertake paddy procurement for the first time. The staff engaged for trading of fertilisers were deputed for the purpose. The reply is not tenable as trading in fertilisers is generally minimum during such procurement seasons.

Reasons for denting into AICL's own sales are discussed subsequently.

The Company passed on undue benefit of Rs.0.85 crore to the private entrepreneurs

- The APC had directed to evolve a scientific formula for sharing of margin to avoid loss on the transaction. However, the terms and conditions did not spell out the sharing of margin properly. One of the conditions[43] provided that for meeting the cost on transport, godown rent and interest on capital, a part of the retailer's margin (Rs.30 to Rs.50 per tonne) only would be passed on to AICL. Obviously, the balance was passed on to the entrepreneurs to meet the cost of transport, godown rent and interest on capital. However, AICL ignored the fact that the rate structure for procurement fixed by the manufacturer/source supplier from time to time allowed rebates and discounts for secondary transport, godown rent and interest on capital (for a credit period of 30 days) and sharing of distribution margin was an additional benefit allowed to the entrepreneurs in the name of transport, godown rent and interest on capital. This resulted in undue benefit to the extent of Rs.0.85 crore at the rate of Rs.150 passed on from the dealers margin on 56786 MT of urea (based on MIS figures) traded during 2000-01.
- A test check of deployment of entrepreneurs in Agra, Kanpur and Bareilly regions revealed that out of 502 (Agra: 202, Kanpur: 69 and

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42 Based on MIS, bifurcation of sales figure into entrepreneur and AICL for the year 1999-2000 not made available to audit.

43 Condition No. 3.14 of the Agro Sewa Krishak Kendra ki Niyamawali.

In deployment of entrepreneurs, the field units violated the prescribed procedures at every stage

Bareilly: 231) deployments during the currency of the scheme, 251 deployments (Agra:77, Kanpur:124 and Bareilly:50) were made by flouting terms and conditions stipulated in the scheme as indicated below:

i. Despite the condition of obtaining application forms by releasing advertisements, no advertisements were released;

ii. Condition no. 3.6 stipulates that the entrepreneurs' sales centre shall be located at a radial distance of more than 10 kms. from the vicinity of AICL's own centres. However 78 such centres were located at a distance of 5 kms to 10 kms. Thus, the main reason for drop in AICL's own sales was the vicinity of entrepreneurs' sales point to AICL's sales points;

iii. The scheme was meant for educated unemployed youth having intermediate qualification. However, 29 entrepreneurs (Agra:22 and Kanpur:7) were already having their own business including fertiliser business and in 47 cases (Agra:2 and Kanpur:45), no documents for qualification were obtained.

iv. As AICL did not obtain any proof of sales, it could not be vouchsafed whether or not the sales were made to farmers and therefore passing on subsidy on such quantum was open to doubt.

The Management has not furnished any reply to the observation.

2A.4.3 Violation of Fertiliser Control Order 1985 in sale of fertiliser

(i) Clause 7 of Fertiliser Control Order 1985 (FCO) stipulates that no person including manufacturer, importer, a pool handling agency, a wholesale dealer, a retail dealer and industrial dealer shall offer to sell or carry on business of selling fertiliser at any place except under and in accordance with the terms and conditions of a certificate of registration unless the State Government exempts any person selling fertiliser to farmers in such areas and subject to such conditions as may be notified. It was noticed by Audit that AICL did not have such a certificate of registration[44] at district sale office (point of sale through entrepreneurs) for sale to licensed entrepreneurs of 74980 MT[45] of fertilisers (urea, DAP etc.) valued at Rs.38.53 crore during 2000-01.

Management stated (July 2002) that separate license for sale of fertilisers to entrepreneurs was not required and that the sale was conducted from the same building where the District Sale Manager's office was located. The reply is not tenable as it had licences for retail sales centres and not for district sale office and that the sale to entrepreneur was not a retail sale. For such distinct nature of sale, a separate registration was required as per note below paragraph 8 (application of registration) of FCO, 1985.

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[44] Informed during discussion. No certificate furnished as demanded by audit.

[45] Based on MIS, actual sales as per account not made available.

(ii) Clause 3 (3) of the FCO further stipulates that fertiliser can not be sold at a price exceeding the maximum retail price (MRP) or rate fixed by the Central Government. Further, the thrust of the national agriculture policy was to devise such mechanism that ensured higher return to the farmers to bring cost effectiveness throughout the economy. In contravention of this, AICL sold DAP at higher rates (Rs.9,000 to Rs 9,300 per MT) against the MRP of Rs.8,998 per MT (Rs.8,900 plus State levies of Rs.98 per MT) fixed by the Government of India for 2000-01.

Management did not furnish reply to this observation.

(iii) Clause 5 of the FCO stipulates issue of a cash or credit memorandum in form-M for retail sales indicating therein the certificate of registration number, name and address of the purchaser, quantity, rate and amount with sales tax/central sales tax shown distinctly. However, AICL's sales centres mostly prepare consolidated cash memo for the day's total sales (not issued to the buyers) and the same was not as per the prescribed columns. This was due to Management’s failure to circulate consolidated retail sale rates and to indicate the element of tax separately.

Management stated (July 2002) that instructions would again be reiterated to issue retail cash memo.

(iv) Contrary to provision of Clause 25 of FCO, AICL supplied 770 MT of subsidised Urea to its cattle feed plant for industrial use.

Management stated (July 2002) that there were no financial irregularities in sale to its own cattle feed factories. The reply is not tenable, as subsidised Urea can not be used for industrial purposes.

2A.4.4 Loss in marketing of imported DAP

Diammonium phosphate (DAP) is a decontrolled fertiliser since 1992, however, in case import are canalised through MMTC or State Trading Corporation (STC) or Indian Potash Limited (IPL), Central PSUs, the Government of India allows price concession (fixed sum) per MT of imported DAP for distribution to the farmers.

AICL floated tenders in April, 1999 for purchase of DAP and the bids were opened in May, 1999 but not finalised on the ground of expected reduction in concession (subsidy rates). Against this tender, MMTC had participated and offered to match the best terms and conditions offered by any other supplier. The tenders were again invited (2 June 1999) and opened on 11 June 1999. In this tender, a new firm M/s Greenland Fertilizers Limited, Lucknow (GFL) also participated and quoted a rate of Rs. 8000 per MT, for imported DAP, with a credit period of 30 days. MMTC offered (vide a letter dated 10.6.1999) the same terms as offered earlier against the tender of May 1999. AICL instead of considering the offer of MMTC (who had offered to match the best terms and conditions offered by any other supplier) entered into a memorandum of understanding (MOU) with GFL, having validity for the period from 1.8.1999 to 31.12.1999, for supply of 28000 MT imported DAP.

GFL was appointed as an associate of MMTC on specific request made by Emirates Trading Agency, (ETA) Dubai. GFL was to market in India the DAP imported by MMTC from ETA. The MOU clearly stipulated that all claims of concession for the sale of decontrolled fertilisers would be preferred by MMTC and necessary 'Utilisation Certificate' for the quantities sold by GFL to AICL were to be issued by AICL to MMTC. In terms of associate agreement between GFL and MMTC, after receipt of sales proceeds and realisation of subsidy, MMTC was to adjust proportionate expenses and service charges @ Rs. 100 per MT and to remit the balance to ETA.

In this transaction following irregularities were noticed by Audit:

(I) AICL did not import directly or approach MMTC for import of DAP on high sea sales basis.

(II) DAP could be imported, under open list, and marketed by AICL directly. However, AICL agreed to procure imported DAP {imported by MMTC from Emirates Trading Agency (ETA)} through GFL. It was mentioned in the MOU that entire DAP being supplied was under Joint Venture Agreement between MMTC and GFL wherein MMTC was the 'Importer' and GFL was 'Marketer' in India. Though the extant provisions for allowing concession for imported DAP specifically named the agencies (MMTC or IPL or STC) yet, AICL entered into MOU with GFL to act as 'Marketer' in India for DAP imported from ETA by MMTC. This facilitated passing on of subsidy (Rs. 9.49 crore) to the Exporter viz. ETA.

(III) Quantity of 16858 MT of DAP imported in November 1999 was found to be non-standard as per test certificate issued on 22.11.1999. To claim concession (subsidy), the imported fertilisers were to be tested and certified as 'standard'. Fertiliser Control Order banned sale of such non-standard DAP, till a second test certificate certifies the 'non-standard' DAP as 'standard'. Second test certificate, rating 16858 MT as standard was obtained only on 9.3.2000. Without waiting for mandatory quality certificate, AICL issued utilisation certificate during December 1999 to February 2000 on specific request made by the supplier. This facilitated the supplier to claim higher concession (subsidy) of Rs. 2150 per MT (as subsidy before February 2000 was Rs. 3200 per MT and from March 2000 it was reduced to Rs. 1050 per MT) amounting to Rs. 3.62 crore on 16858 MT.

(IV) Quantity of 70000 MT of DAP was offered by GFL for the Kharif season of 1999-2000. Against this, only 28000 MT was procured at net price of Rs. 7,950 (Rs. 8000 minus freight subsidy of Rs. 50 per MT), in terms of MOU. This necessitated procurement of 28,139 MT of DAP from five other parties at rates ranging from Rs.7,996 to Rs. 8,098 per MT. This resulted in excess expenditure of Rs. 36 lakh. Management in reply stated (July 2002) that quantities were reduced due to market condition. This is not borne by the facts as AICL subsequently procured 28,139 MT from other five parties.

(V) Initially, GFL quoted Rs. 8000 per MT without any element of sales tax (UPTT). However, the Purchase Committee added UPTT as payable (extra). This resulted in undue benefit of Rs. 29 lakh on the entire quantity of 29,658 MT.

(VI) Besides above, following irregularities were also noticed :

(a) Payments were released to GFL without authorisation from competent authority.

(b) Rebate of Rs. 250 per MT allowed by MMTC to GFL, was not passed on to AICL. This resulted in undue benefit of Rs. 0.74 crore to GFL.

(c) AICL treated date of receipt of material as date of sale for claiming of concession (subsidy) by MMTC, though subsidy accrued only on sales to farmers.

2A.5 Working of agriculture Workshop Division

The division that belonged to Agriculture Department was transferred to AICL in May 1968. With the transfer of assembly work of Zetor Tractors to HMT Limited, Pinjore, only the manufacturing section of agricultural implements remained with it from 1974-75. During five years from 1996-97 to 2000-01, it manufactured nine varieties of cultivators, seven varieties of disc harrow, five varieties of tractor trailers and six cubic feet capacity wheel barrow valued at Rs.4.81 crore and traded its products through the Servicing Division.

The workshop was continuously incurring losses that ranged between Rs.0.89 crore and Rs.3.40 crore during five years from 1996-97 to 2000-01.

2A.5.1 Avoidable payment of UPTT in inter unit transfer

Commissioner, Rural Development, Uttar Pradesh nominated AICL as nodal agency under TRYSEM scheme for distribution of took kits in 48 districts. Workshop division was entrusted to assemble tool kits in a tin box used as packing case. The tool kits are exempt from UPTT and according to Section 3 AB (b) of UPTT Act, such packing material sold with goods are also exempt from tax. However, the workshop division obtained tin boxes from servicing division and the latter billed the former for UPTT of Rs.8.95 lakh during 1996-97 to 2000-01. UPTT was paid to the Sales Tax department. This payment could have been avoided if workshop division would have procured it directly instead of through servicing division. Servicing division had procured the tin boxes from market and supplied to the workshop division.

2A.5.2 Misuse of public fund received under tool kit distribution scheme

AICL distributed tool kits valued at Rs.22.04 crore during five years up to 2000-01 to carpenters, cobblers, masons, blacksmiths etc. The scheme being

The officers of the Company misused Rs.1.82 lakh out of the fund of tool kit distribution scheme

funded through the Rural Development department of the State Government did not stipulate distribution of incentive for obtaining orders or payments. However, Sri. A.K. Gaur, Assistant Engineer and Sri D.D. Agarwal, Divisional Engineer of the workshop division withdrew Rs.40,000 and Rs.1,42,000 respectively for distribution of cash incentive to staff. Sri Agarwal passed the voucher on sanction from Sri V.K. Garg, General Manager and showed the payment to himself for distribution to staff but acknowledgement from staff was not obtained in the acquaintance roll enclosed with the voucher. Sri Gajraj Singh, Accounts Officer responsible for disbursement also did not exercise any checks before payments.

Management stated (April 2002) that these payments were made for additional efforts to obtain orders, advance payments and adjustments. The reply is indicative of lack of financial discipline providing opportunity to misuse of public money.

2A.6 Cattle feed Division

2A.6.1 Working of cattle feed division

The cattle feed division had three cattle feed factories located in Lucknow, Gorakhpur and Moradabad having installed annual capacity of 3000 MT (increased to 6000 MT w.e.f September 1998), 1500 MT and 1500 MT (increased to 3000 MT w.e.f 1998-99) respectively. These divisions produced ISI type-II feeds that include compounded cattle feed, poultry feed, calf starter ration etc., for meeting the demand from Animal Husbandry Department of the State Government.

The division earned profits up to the year 1998-99 and started incurring losses thereafter. The losses were due to low capacity utilisation and lower sales during the five years up to 2000-01.

Low capacity utilisation was due to dependence of AICL solely on the demand of Animal Husbandry Department (AHD). Efforts to capture private markets by strengthening marketing strategy and resorting to sale through its own service/fertiliser centre located through out the state were absent.

Management stated (July 2002) that the low capacity utilisation was due to decreasing population of animals and birds of AHD. This was further compounded by creation of Uttaranchal State that procures its requirements from the co-operative factories located in Uttaranchal State.

2A.6.2 Avoidable loss due to use of costly bags for packing

The Company suffered loss of Rs.18.31 lakh due to use of costly jute bags instead of HDPE bags as per IS code

Clause 4.1 (Packing) of IS code No. 2052: 1979 stipulates that compounded cattle feed shall be packed in clean and sound plain or polyethylene lined jute or laminated paper bag. The code was revised in July 1990 to include HDPE bags also as packing material. AICL uses costly jute bags in 70 kg packing against economical HDPE bags (available in 50 kg packing). This resulted in loss of Rs.18.31 lakh during five years up to 2000-01.

AICL did not carry out cost benefit analysis of various bags for packing of animal feed. Management stated (July 2002) that no manufacturer could insist the customer to procure animal feed only in HDPE bags, jute bags have re-sale value and also that the life of feeds was longer in jute bags. The reply is not tenable, as there was no specific demand from any customer for supply of animal feed in jute bags.

Conclusion

AICL could not keep pace with the technological development due to lack of professional expertise of members on its Board and frequent changes of Managing Directors. Financial position of AICL was marked by losses due to absence of segment-wise analysis to identify weak areas, increase in inventory holding, increase in staff debtors, substantial unreconciled bank balances, unreconciled and unadjusted sundry advances, and investment in a subsidiary being no longer in operation due to heavy losses. Execution of activities was characterised by passing of inadmissible subsidy on unapproved model of tractors, loss due to short weight supplies of pipes/defective pipes, procurement of hand pumps at higher rates, excess consumption of casing pipes used in installation of hand pumps and excess/avoidable/double payment of UPTT etc. Unauthorised sale through private parties, violation of Fertiliser Control Order and procurement of DAP through a private party thereby facilitating passing of substantial subsidy by MMTC to a Dubai firm, were noticed during the period under Review.

AICL needs to work in a more professional and business like manner to achieve its objectives.

These matters were reported to the Government in July 2002, the reply is awaited (September 2002).