Chapter-II

Performance Review relating to Government company

Working of The Madhya Pradesh State Agro Industries Development Corporation Limited

Executive Summary

The Madhya Pradesh State Agro Industries Development Corporation Limited (Company) was incorporated in March 1969 for establishment and promotion of agro based industries and allied activities. The performance audit of the Company for the period 2004-09 was conducted to assess efficiency and economy of the activities of trading fertilizers, pesticides, promotion and supply of Ready to Eat food (RTE), Bio fertilizers, cultivation activities at Mechanised Agriculture Farm (MAF) Babai and implementation of National Bio-gas Programme. Ability of the Company to meet its financial commitments alongwith increase in the profitability by realigning the activities were studied besides the management and monitoring aspects.

Finance and Performance

The accumulated loss of the Company stood at Rs. 9.90 crore against the paid up capital of Rs. 3.30 crore as on 31 March 2007. The Company did not prepare perspective plan and their annual operational plans were delayed upto seven months. These annual action plans were not compared with actual achievements and thus lacked focus in setting up priorities.

Performance of RTE plant and Joint Ventures (JVs)

The Company failed to approach the State Government for procurement of sugar at Public Distribution System (PDS) rates which had resulted in avoidable expenditure of Rs. 1.40 crore. The Woman and Child Development Department of the State Government fixed the sale price of RTE on the basis of inflated cost data supplied by the Company. Since uniform pricing was applicable to the Company as well as JVs, undue favour was extended for Rs. 16.83 crore to JVs and Rs. 1.88 crore to the Company. Further, undue favour of Rs. 1.49 crore passed on to JVs due to consideration of same transportation component for the Company as well as JVs though the Company's own plant was farther than the JVs plant.

Performance of Bio-Fertilizer Plant and Organic Manure Plant

The production by Bio-Fertilizer plant exceeded the demand leading to unsold stock. As the self life of Bio-fertilizer is of six months only, the Company incurred expenditure of Rs. 63.52 lakh for retrieval of lignite of Rs. 13.94 lakh only. Thus, expenditure of Rs. 49.58 lakh remained infructuous.

The Company established Organic Manure Plant of 22 MTs of waste per day at Bhopal out of city wastage /garbage. The production of manure was drastically reduced from 1,472 MTs to 263 MTs as sales did not pick up. Efforts were not made to increase sales.

Performance of Mechanised Agriculture Farm (MAF), Babai

The Company had 3,251 acres of land at Babai since inception of which 2,444 acres land was leve1led and made fit for cultivation. 231 acres land was used for building and roads. Despite passage of 38 years, 576 acres was still left as barren land, as a result, there was encroachment on 203 acres land valuing Rs. 2.59 crore by Jhuggi dwellers/ villagers. The Company did not achieve the norms in respect of cultivation of wheat and tuar. Harvested crop of wheat & paddy were sold in open market at less than the minimum support price fixed by Government of India/State Government and thereby a loss of Rs. 0.46 crore was incurred. The Company also failed in seed cultivation in 2005-06 and incurred loss of Rs. 0.77 crore on sale of sub-standard seeds. The by-product (Husk) produced from wheat cultivation during 2004-09 was not sold and hence revenue worth Rs. 0.24 crore was forgone.

Implementation of National Project on Biogas Development

National Project on biogas development through setting up of biogas plants and distribution of financial assistance to the beneficiaries was implemented by the Company. Due to non receipt of completion certificates since 1991-92 to 2008-09, the Company could not render assistance of Rs. 2.64 crore to the beneficiaries.

Conclusion and Recommendations

The performance of the Company with regard to establishment and promotion of agro based industry was dismal as it failed to achieve the targets during 2004-08 and it did not venture into diversification of activity for Agro based industries rather confined only to supply of RTE and farming at Babai. The review contained the three recommendations which included reduction in operation cost, increase in efficiency and establishing system for realistic cost determination for RTE.

Introduction

2.1 The Madhya Pradesh State Agro Industries Development Corporation Limited (Company) was incorporated in March 1969, as a joint venture of Government of Madhya Pradesh (State Government) and Government of India (GOI) under the Companies Act, 1956 with the objective of establishing agro-based industries in the State for manufacture of machinery and implements required for agriculture, fisheries, poultry farming etc. and promotion of agriculture and agro industries.

The Management of the Company is vested in a Board of Directors (Board). As on 31 March 2009, there were nine Directors, of whom eight (including a Chairman and a Managing Director) were nominated by the State Government and one by GOI.

The Managing Director is the Chief Executive of the Company who is assisted by two Deputy General Mangers, four Managers and the unit Managers who looks after the Ready to Eat food (RTE) manufacturing unit and the farming activities at Babai farm, Culture plant, Indrapuri and Organic Manure Plant. The Company had seven Regional Offices and 35 District Offices for carrying out its marketing activities.

Scope of Audit

2.2 The working of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2002 which was discussed (May 2005) by the Committee on Public Undertakings (COPU) but its recommendations were awaited (November 2009). The present performance audit conducted during April-July 2009, covered activities of trading of fertilizers, pesticides, production and supply of RTE, Bio fertilizers, cultivation activities at Babai farm and implementation of National Bio-gas programme by the Company during 2004-09. The records of Head Office, four Regional Offices[6], eight District offices[7] and RTE manufacturing unit, Badi and farming activities at Babai were examined during the course of audit. The selection of Regional offices and District offices under the respective Regional offices were made based on the geographical locations in the eastern, western, central and northern part of the State.

Audit objectives

2.3 The Audit Objectives were to ascertain whether:

- the Company has been successful in establishing and promoting agro based industries in the State;
- the activities of the Company are in accordance with the Memorandum/Articles of Associations;
- the targets fixed by the Central and State Government were achieved;
- the Company's core activities in the following areas fulfilled the overall objective set by it;

---

[6] *Bhopal, Gwalior, Indore and Jabalpur.*

[7] *Bhind, Bhopal, Gwalior ,Hoshangabad, Jabalpur, Katni, Morena and Vidhisha.*

- Trading of fertilizers, pesticides and other subsidised agriculture implements;
- Production and supply of RTE food, Bio-fertilizers and organic manure;
- Cultivation activities at Babai;

- the operational activities were carried out keeping in view the best interest of the Company, with regard to economy and efficiency;
- receipt and utilisation of subsidy followed the designed pattern;
- the Company is able to generate sufficient margin to finance and expand its activities and has flexibility in operations to cope with changing market situations in the context of liberalisation and entry of private entrepreneurs; and
- system of supply, billing, recovery and internal control were adequate.

Audit Criteria

2.4 To achieve the audit objectives, criteria were set up for audit evaluation from following sources/ documents;

- relevant rules and regulations, policies & directions framed or issued from time to time by GOI and State Government;
- programme objectives and targets/MOUs with State Government; and
- long term / short term plan and strategies adopted by the Company.

Audit Methodology

2.5 The audit undertook study and analysis of the following:

- agenda papers and minutes of Board;
- the performance/MIS reports submitted to Government departments and important decisions taken by the Company;
- observations on accounts, important issues and transactions;
- terms and conditions laid down by the State Government/GOI while releasing grants/subsidy; and
- basic data and records of transactions maintained at various levels.

Audit findings

Audit findings noticed during performance review were reported to the Company/Government in April/July 2009 and discussed in the exit conference held on 28 October 2009, which was attended by the Managing Director. The views of the Management were considered while finalising the review.

Financial position and working results

The accumulated loss stood at Rs. 9.90 crore against paid up capital of Rs. 3.30 crore and were mainly due to improper cultivation in farming activities.

2.6 The Company had finalised (June 2009) its accounts upto 2006-07. In absence of even the provisional accounts for 2007-08 and 2008-09, the financial position and working results of the Company for the period from 2004-05 to 2006-07 only have been summarised and given in ***Annexures 7& 8***

It was observed that there was growth in the business activities over three years ending 2006-07. The Company, however, sustained loss of Rs. 4.15 crore (2004-05), Rs. 4.90 crore (2005-06) and Rs. 2.35 crore (2006-07).

The accumulated loss stood at Rs. 9.90 crore against the paid up capital of Rs. 3.30 crore as on 31 March 2007. The major losses were witnessed in farming activities. The liabilities included unutilised Government subsidy and grants and advances amounting Rs. 4.28 crore. Further, subsidy and other amounts receivable from the State Government stood at Rs. 1.01 crore as on 31 March 2007, which indicated that the Company failed to inject finance into the schemes for which subsidy had already been received from the Government and also failed to obtain the subsidy due from the State Government.

The sundry debtors were Rs. 33.54 crore as on 31 March 2007 which were pending mainly from various State Government Departments in the form of subsidy component on sale of agriculture implements. The spurt in outstandings occurred due to lack of timely monitoring/follow up and lapse of departmental budgetary allocations of the Government in respective years.

Managing Director of the Company stated in the Exit conference (28 October 2009) that the issue regarding outstanding debtors from the Government departments would be taken up with State Government. The audit suggested that age-wise/ party-wise breakup of the debtors should be maintained for effective monitoring.

Investment of surplus funds

The Company did not explore competitive rates from other Banks for investment of surplus funds.

2.7 The Company was investing its funds in short term / long term Fixed Deposit Receipts for a maximum period of one year. The investment in fixed deposits had increased from Rs. 4.23 crore (31 March 2005) to Rs. 13.21 crore (31 March 2007) and to Rs. 29.52 crore (31 March 2009).

Audit scrutiny revealed that the Company invested most of its fund with Punjab National Bank since 1986, on the plea that the Bank is extending facilities like non-charging of commission for Money Transfers from Branch Offices. The Company, however, did not assess the benefits of competitive rates *vis- a- vis* the Bank Charges by inviting participation of other banks.

The Management Stated (October 2009) that surplus funds generated were not huge and hence competitive rates were not invited from other banks. Management further stated that due to core banking facilities status enjoyed by Punjab National Bank, the fund could be transferred to their 29 branches without any difficulty. The reply is not convincing, as other banks may also provide similar or better facilities, the possibilities of which has not been explored by the Company. Besides the core-banking facilities would be a recent development whereas the existing arrangement continues for a much longer period.

Budgetary Control

The Company did not prepare perspective plan and their actual operational plans were delayed upto seven months which lacked force in setting up priorities.

2.8 The Company prepares its Annual Operational plan, detailing budget of sales/turnover and expenditure in respect of trading, engineering, services, production, cultivation and biogas installations specifying the target for each activity. The overall performance in respect of budgeted turnover during the period 2004-09 was as under.

(Amount: Rupees in crore)

Turnover[8]	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Budgeted	200.00	232.70	252.00	337.47	287.97
Achievements	157.32	149.23	207.99	204.45	337.09
Percentage	78.66	64.13	82.54	60.58	117.06

Audit scrutiny of the Company's budgetary control systems revealed the following deficiencies:

- The Company did not prepare Perspective plan indicating plan for next five to ten years for sustainable growth of the organisation.
- The Company's annual operational plans were prepared with delay of seven months in 2004-05 and two months in 2005-06 and 2008-09.

[8] *Includes sales and services.*

- No activity-wise physical targets were fixed (except 2006-07) to monitor performance and also activity/segment-wise profit/loss analysis was not done to identify weak areas.
- While preparing the annual operational plan, the Company did not compare the actual achievements for each activity from 2006-07 onwards. The plan, thus, lacked focus in setting up priorities.
- The Company achieved more than the target in 2008-09, mainly due to increase in sales of products *viz*. Pump sets, sprinklers, tractor drawn implements, RTE Pesticides and other non traded items. However, the Company failed to achieve the budgeted turnover in other years due to fixation of unrealistic budget as they were not comparing and analysing the reasons with reference to past performance.

The Management stated (October 2009) that the Board of Director delayed approval of the annual budget. The financial figures of the budget are arrived at on the basis of physical targets, as such these are not shown in the budget. The whole budget would be dealing with financial outlays and the annual plans would focus on Performance targets. In the absence of performance targets, monitoring of the performance can not be effective.

Diversification in agricultural activities

There were no diversification activity as the Company did not perform in the areas of value addition, harvest management, marketing of agricultural produce and promotion of floriculture.

2.9.1 The main objectives of the Company are establishing and promoting the agro based industries in the state as per the schemes of GOI, State Government. Further, special emphasis was needed on agro processing units and creation of facilities for preservation and storage of fruits, vegetables and flowers to encourage entrepreneurship in these areas.

It was observed that the activities of the Company were confined only to traditional areas *i.e.* trading of fertilizers, supply of RTE food to the Woman and Child Development Department (WCD), supply of tractors, Bullock Driven (BD) implements to farmers and implementation of Bio-gas scheme of GOI. The Company's activities did not include following important areas.

- Value addition to agriculture/horticulture produce through seed cultivation etc. for promotion of agro/food processing industries;
- Domestic as well as overseas marketing of agricultural produce;
- Post harvest management like proper grading, pre-cooling;
- Contract farming (integrated approach of creating linkages for lab, farm, factory and market under a single umbrella); and
- Promotion of Floriculture.

Due to this also, growth in Capital formation and enterprise in agro-based industries in the state were adversely impacted.

The Management stated (October 2009) that they were doing only traditional business.

Trading of Agricultural inputs and Ready-to-Eat food (RTE)

Company's market share in fertilizers declined from 47.99 *per cent* to 11.96 *per cent*.

2.9.2 The substantial portion of turnover of the Company was from trading of various agricultural inputs *viz* fertilizers, pesticides, tractors, pump sets, sprinklers and other agricultural implements. The Government opened up the sale of fertilizers and agricultural implements to private sector since 2003-04. The sale price (except for fertilizers and pesticides) consists of two parts *i.e.* one part as cash receipt from the buyer at the time of sale including the margin and other part as subsidy receivable from the Agricultural/Horticultural Departments at the rates fixed from time to time by the State Government. The sale of fertilizers, subsidy items, RTE and other *vis*-a-*vis* total sale during 2004-09 are detailed below:

(Amount: Rupees in crore)

Year	Total Sales	Fertilizers		Subsidised items		RTE and others	
		Sales	Percentage to total sales	Sales	Percentage to total sales	Sales	Percentage to total sales
2004-05	156.26	74.99	47.99	73.79	47.22	7.48	4.79
2005-06	148.40	47.62	32.09	88.02	59.31	12.76	8.60
2006-07	206.65	63.69	30.82	120.58	58.35	22.38	10.83
2007-08	204.09	39.02	18.84	141.99	69.57	23.08	11.59
2008-09	336.86	40.30	11.96	224.97	66.78	71.59	21.26

The above figures indicate that with entry of private players, the Company's market share in fertilizers declined from 47.99 *per cent* to 11.96 *per cent* during the period 2004-05 to 2008-09 and the overall sales could be sustained through sale of subsidised items and RTE.

The Management stated (October 2009) that due to opening of fertilizer business to private sector; the Company has diverted its focus to RTE business as well as non trading items. The Company needs to make constant efforts to increase its sales in non-subsidised sector *viz*. fertilizers to remain viable even without Government support.

Operations for supply of Ready-to-Eat Food (RTE)

2.10.1 The Company was designated as Nodal Agency by State Government to supply RTE food and Dalia to Integrated Child Development Services Projects (ICDS) in the State. The sales and expenditure in respect of RTE activities during 2004-09 are as under:

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Quantity available for sales in own plant (Quantity in MTs)	3,362.50	3,534.35	3,153.88	1,221.52	3,810.10
JVs supplies (Quantity in MTs)	--	3,806.57	9,745.26	12,256.77	32,398.97
Total available for sales (Quantity in MTs)	3,362.50	7,340.92	12,899.14	13,478.29	36,209.07
Sales (Quantity in MTs)	3,362.50	7,336.09	12,824.69	13,464.35	36,124.67
RTE sales (Rs. in crore)	6.26	11.62	20.97	22.69	70.29
RTE Expenditure (Rs. in crore)	5.05	10.11	19.73	21.66	67.67
Profit (Rs. in crore)	1.21	1.51	1.24	1.03	2.62

RTE Manufacturing Unit at Badi with annual installed capacity of 6,000 MTs was set up (1994) by the Company. As the demand in the state for RTE exceeded Company's production capacity, the Company made RTE supply arrangement with the private manufacturer (*viz*. Murliwala Agro-tech, Bhopal) in 2004-05. Subsequently, to meet the increased demand, the Company also established (November 2006 and December 2006) two Joint Venture Companies (JVs) *viz*. Madhya Pradesh Agro Food & Industries Limited and M.P. Agro Tonics Limited having manufacturing units at Mandideep, Bhopal with capacity of 12,000 MTs each.

The Directorate of WCD entered into a Memorandum of Understanding (MOU) with the Company (September 2003), with a commitment to buy minimum quantity of 29,000 MTs of RTE per year for the period up to March 2007. Subsequently, another MOU was again entered (March 2007) for buying minimum quantity of 50,000 MTs RTE food per year during the period from April 2007 to March 2012 from its existing plant at Badi and other units promoted under joint ventures. The Company floated (August 2007) bid for Expression of Interest for establishing more joint venture companies for supply of RTE, but the State Government cancelled (August 2007) the Expression of Interest as RTE food supplied was found to be substandard and decided that the quality of RTE of the Company and the RTE available at local markets was to be compared for which some time was required. The Company did not explore any possibility of entering new JVs as on date (November 2009) after the decision of the State Government though there was apparently increased demand on evident from revised MOU.

In regard to operation of RTE supply activities audit observed the following:

Under utilisation of Badi Unit

Underutilisation of capacity of plant resulted in undue benefit to JVs.

2.10.2 The Company is having one production unit for RTE at Badi with installed capacity of 6,000 MT per annum. The details of opening balance, production and supply of RTE by Badi Unit during the last five years are as under: -

(Quantity in MTs)

Year	Opening Balance	Production of RTE	Total RTE available for Supply	Total Supply	Capacity utilisation in comparison to installed capacity of 6000 MTs[9] (in percentage)
2004-05	50.60	3,311.90	3,362.50	3,362.50	55.20
2005-06	---	3,534.35	3,534.35	3,529.52	58.92
2006-07	4.83	3,149.05	3,153.88	3,079.43	52.48
2007-08	74.45	1,147.07	1,221.52	1,207.58	19.11
2008-09	13.94[10]	3,810.10	3,810.10	3,725.70	63.50

Against the installed capacity for production of 6,000 MTs of RTE the unit produced RTE between 1,147 MTs to 3,810 MTs during 2004-09 and to meet the committed supply of RTE, the Company had to depend on JVs from whom 58,207.57 MTs of RTE was supplied during the period. Thus, underutilisation of capacity of Badi plant resulted in undue benefit to JVs.

The Management Stated (October 2009) that plant was installed in 1994 with the capacity of 6,000 MTs per annum for the production of 4,800 MTs of RTE and 1,200 MTs of Dalia and the reasons for not achieving the installed capacity of production of RTE were irregular power supply and old plants. Further, the Company stated that the production of RTE achieved during 2007-08 was 96 *per cent* for three months since the orders were received only for two months supply.

The reply is not convincing as due to poor quality of supply during 2007-08 the Company could not get sufficient orders. Even though the demand increased in 2008-09, the Company did not take any steps to modernise and increase the capacity of the plant as well as seeking alternative arrangement i.e. operating a generator for power supply, to cope up with the problem of frequent power failure.

Purchase of Sugar in open Market

Purchase of sugar from open market instead of from PDS resulted in extra cost of Rs. 1.40 crore to the Company.

2.10.3 The main ingredient of the RTE food is Wheat. In order to reduce the cost of RTE, the WCD allot wheat through Food Corporation of India (FCI) to the Company at BPL rates. The Company, however, purchases Sugar from open market through limited tender from different sources *viz*-direct procurement from the sugar mills and wholesale markets from Indore, Bhopal and Hoshangabad. During 2004-09, the Company purchased 1,33,345.56 quintals of wheat and 31,393 quintals of sugar.

Though the Company was to procure huge quantity of sugar during 2004-09, it failed to establish a definite source for supply of sugar in Bhopal, the nearest

9 *Total capacity available in Badi unit was production of 6,000 MTs per annum.*

10 *Opening stock of RTE of which self life expired.*

point to Company's unit at Badi (103 KMs.) and the Company purchased sugar from far off places *viz*. Indore, Hosangabad and sugar Mills at Gadarwada, district Narsinghpur which involved transportation cost for 180 Kms to 305 Kms. The average procurement price (2004-05 to 2008-09) of Sugar in Bhopal market was Rs. 1,684 per quintal whereas the Company procured sugar at Rs. 1,746 per quintal from sugar mills, Rs. 1,802 per quintal from market at Indore and Rs. 1,859 per quintal from market at Hoshangabad. Thus, due to failure to procure its entire requirement of sugar from nearest market i.e. Bhopal; the Company incurred an avoidable expenditure of Rs. 27.51 lakh towards the extra cost during the period from April 2004 to March 2009.

Further, the Company had not made any effort for the allotment of sugar under Public Distribution System (PDS) (on the lines of wheat, being issued at the rates of BPL) which could have brought down the cost of RTE food by Rs. 1.40 crore, being the difference between the market price and PDS price of Rs. 1,326 per quintal during the period from April 2004 to March 2009.

The Management stated (October 2009) that it has followed best commercial practice to purchase sugar at competitive prices from open market and there was no policy of the Government to allot sugar to WCD at controlled price. Further, it also stated that view of Audit will be taken care of at the time of sugar purchase in future.

Supply of RTE through JVs

Avoidable payment of transportation cost

Undue benefit in transportation for Rs. 1.49 crore to JVs.

2.10.4 The State Government fixed the price of RTE on the basis of expenditure towards raw materials, production loss of eight *per cent* of the cost of raw materials, direct cost, overheads including transport and profit margin proposed by the Company's Badi unit and accordingly fixed the prices of RTE (i.e. Rs. 12,500 upto 31 August 2006, Rs. 16,200 from 1 September 2006 and Rs. 20,680 per MT from 18 June 2008) applicable for the supplies made both from Badi and JVs.

The Badi unit is located at a distance of 103 KMs from Bhopal and the costs of all raw materials was FOR Badi, whereas JVs manufacturing units were located at Mandideep (25 KMs from Bhopal). The Company assessed (August 2008) that if the Badi plant was shifted to Bhopal, there will be a reduction of transportation expenditure of Rs. 346 per MT.

As the said transportation expenditure was not being incurred by JVs, the Company should have negotiated with JVs to reduce the price by Rs. 346 per MT towards the cost of transportation. During discussion, the Management agreed (October 2009) in principle and explained that JVs are established at Mandideep, which is 25 kms away from Bhopal. Even after considering the unavoidable transport for 25 kms, the Company gave undue benefit of

Rs. 1.49 crore to JVs during the period from 2005-09 for avoidable transportation of raw material to the extent of 78 kms.

Pricing

2.10.5 The price of RTE fixed by the State Government includes the profit margin of 7.5 *per cent* upto May 2008 and thereafter it was increased to ten *per cent*, in June 2008. For the purpose of fixing the price of RTE, the Company was furnishing the cost data of Badi unit to the Government from time to time. The price of RTE was uniform to the supplies made from the Badi unit as well as through JVs. The details of the supplies from Badi unit and through JVs were as under:

Particulars	2007-08	2008-09
Supplies made from Badi unit (in MTs)	1,208	3,726
Supplies made through JVs (in MTs)	12,257	32,399
Total supplies (in MTs)	13,465	36,125
Percentage of supply by JVs to the total supplies	91.03	89.69
Actual cost per MT as per accounts of the unit (in Rs.)	12,509	15,025
Cost per MT projected in cost sheet (in Rs.)	15,041	17,707

It was observed from the above that:

- Out of the total supplies of RTE made to WCD during 2007-09, 90 *per cent* was made out of the production of JVs,
- The actual cost incurred by the Badi unit was less than the cost projected to the Government, for the price revision,
- The Company had not obtained the cost data of JVs to compare with the cost of Badi unit.

Undue Price advantage passed on to JVs of Rs. 16.83 crore.

A review of pricing of RTE revealed that, the price of Rs. 12, 500 per MT was fixed (June 1995) which continued up to August 2006. As the cost and sales price was almost same during 2004-06, the Company incurred marginal loss (Rs. 0.59 lakh) on supply of RTE during 2004-06. However, after the entry of JVs, the State Government had revised the price to Rs. 16,200 from 1 September 2006 and Rs. 20,680 per MT from 18 June 2008. Consequently, the Company earned profit 29.50 *per cent* (2007- 08) and 37.64 per *cent* in 2008-09, which was very high, against the approved margin of 7.5 and 10 *per cent* by the State Government.

This resulted in extra profit to the Company by Rs. 1.88 crore on RTE produced and supplied by Badi unit as well as undue price advantage passed on to JVs for Rs. 16.83 crore due to the inflated cost data furnished by the Company to Government during the period 2007-09 ***(Annexure-9).***

The Management stated (October 2009) that certain cost element *viz.* transportation charges from plant to project, interest on working capital, actual overheads of branches and head office testing charges were not included in the final accounts of Badi unit. Further, the cost of JVs could not be compared due to shortage of staff in Badi plant and the delay in payment of bills to JVs were about three months involving huge amount which involved interest cost considerably.

The reply is not convincing as price of RTE was fixed on higher side by considering inflated cost data even after including cost *viz.* Head office overheads, transportation and interest etc. Further, the audit insisted that separate price were to be fixed based on cost data of JVs and not based on prices of Badi unit as major sales of RTE were from JVs.

Non-recovery of fortification[11] charges.

Non recovery of fortification charges of Rs. 0.64 crore from State Government beyond the agreement date.

2.10.6 As per agreement signed between the Country Director of World Food programme (WFP) and Commissioner, WCD in November 2005, the Company had to issue bills for the fortification charges in the name of WFP after due verification from field offices of WCD. On submission of bills, WFP used to reimburse the charges as per bills raised by the Company. The Company was intimated (February 2006) that the reimbursement of fortification charges would be made up to 31 March 2007.

Audit observed when there was no order for reimbursement of fortification charges after March 2007, the Company supplied 8,702.075 MT of fortified RTE during the year 2007-08 for which Company was not entitled to Rs. 63.87 lakh. State Government as of November 2009 has not accepted the claim.

The Management accepted (October 2009) the observation.

Performance of the Bio-fertilizer and Organic manure plants

2.11.1 The Company's Bio-fertilizer plant (BFP), Bhopal manufactures different Bio-fertilizers/cultures *viz.* Rhizobium, Azetobactor, Azospirillum and Phosphate Solubilising Bacteria, which enhance the productivity of soil by fixing the atmospheric nitrogen and stimulating the growth of the agricultural production. The Ministry of Agriculture, GOI, issued the Bio-fertilizers under Fertilizer Control Order (January 2007) for promotion of bio-fertilizers and advised the State Governments, to educate the farmers about the importance of these products to increase agricultural yield.

The Production programme of the unit is based on the estimated demand of bio-fertilizers in the State as well as for Chhattisgarh State (from 2006-07) for

[11] *Addition of vitamins and minerals premixes as per prescribed specification in RTE, is called fortification.*

Rabi and Kharif seasons. Accordingly, the unit procures Lignite, being the main raw material, and other allied materials to manufacture the bio-fertilizers and markets the same through its District Offices, Co-operative societies and Block-level Agricultural development offices.

Audit analysis of the activities of Bio-fertilizer plant (BFP) for the period from 2004-05 to 2008-09 revealed the following:

2.11.2 The details of the production, sale of Bio-fertilizer and stock returned during the last five years ending 31 March 2009 are as follows: -

(In Packets)

Year	Production	Sales	Un-sold Stock returned to BFP by the depots for reprocessing	Percentage of stocks returned to production
2004-05	23,48,627	18,40,912	5,07,715	21.62
2005-06	20,68,083	15,45,632	5,22,451	25.26
2006-07	22,62,997	18,08,809	4,54,188	20.07
2007-08	25,03,119	16,05,898	8,97,221	35.84
2008-09	27,01,907	23,89,457	3,12,450	11.56

During 2004-09 the Company purchased Lignite, Chemicals and packing material for Rs. 70.88 lakh, Rs. 17.55 lakh and Rs. 103.20 lakh respectively. The total cost towards Lignite, Chemicals, packing material and conversion cost including transportation was around Rs. 2.16 (2007-08) and Rs. 2.64 (2006-07) per packet. Though production of around 22 lakh packets of 150/250g content was planned per annum based on the anticipated demand, the sale was in the range of 15.46 lakh packets (2005-06) and 23.89 lakh (2008-09) packets only. The District Offices had returned huge quantities of unsold Bio-fertilizer packets ranged between 11.56 *per cent* and 35.84 *per cent* during 2004-05 to 2008-09. The cost of manufacture of these returned stock was Rs. 63.52 lakh. As the self life of the Bio-fertilizer is of six months only, the unit processed such returned stocks to retrieve the Lignite component worth Rs. 13.94 lakh.

Infructuous expenditure of Rs. 49.58 lakh was incurred on stock unsold which was unfit for consumption.

Thus, the Company incurred infructuous expenditure of Rs. 49.58 lakh in the manufacture of returned unsold stock which was rendered unfit for consumption.

The Management accepted (October 2009) the views of audit and assured to analyse demand so as to minimise the unsold stock.

Encroachment of land at Bio Fertilizer plant

Failure of the Company to safeguard 4.60 acres land led to encroachment.

2.11.3 The Company was allotted (August 1983) 20.60 acres of land by the State Government at Indrapuri, Bhopal for erection of Bio-fertilizers plant. Out of the above, land admeasuring 4.60 acres were encroached by Jhuggi dwellers/ villagers. The Company, in order to avoid further encroachment of land at Indrapuri Bhopal, decided (February 2004) to construct the boundary wall at an estimated cost of Rs. 20 lakh. However, due to the dispute raised by a Private Housing Society, the boundary wall could not be constructed as of July 2009. The land is at prime location of Bhopal, for which no valuation was done as of July 2009. Thus, the Company's failure to take measures to safeguard the property by barbed wire fencing/construction of compound wall etc. resulted in encroachment of land.

Non recovery of dues from Chhattisgarh Government

2.11.4 The Company fixed (May 2006) the sale price of Bio-fertilizers of 250 gms packet at Rs. 6.50 and 150 gms packet at Rs. 5.25 to the Chhattisgarh Government against the prevailing rates of Rupees ten and Rupees eight in Madhya Pradesh. Despite less price offered by the Company to the Chhattisgarh Government, it failed to realise the sale proceeds in time and the dues accumulated to Rs. 30.37 lakh, pertaining to the period of 2005-09, could not be recovered as of June 2009. The Management stated (October 2009) that Rs. 16 lakh had been recovered from the Chhatisgarh Government.

Performance of Organic Manure Plants

2.11.5 Organic Manure improves soil porosity and water holding capacity of land. This manure is not chemical in nature and is manufactured through the process of aerobic and anaerobic decomposition. Fertilizers Control Order (FCO) also recommended (January 2007) the usage of this Organic manure for better agriculture.

In order to avoid open dumping of City waste/garbage, which creates environmental/health hazard, the Company set up two organic plants one at Bhopal (December 1993) and the other at Gwalior (September 1995) with the processing capacity of 22 MTs of waste per day for each. The Company sells the organic manure at its own plant site, district offices and through private dealers. The sale price was at Rs. 1,600 per MT Ex-factory to dealers and Rs. 2,800 per MT to retailers. The Company's failure to promote the products and develop market resulted in dismal performances of the plant at Bhopal and closure of the plant at Gwalior. Besides, the socio economic benefits expected from the plants of extracting organic manure from the waste generated in these cities were also not achieved.

Performance of Bhopal plant

2.11.6 The details of production of organic manure and their cost during 2004-09 were as under: -

Sl No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Production (MT)	1,472	752	626	525	263
2.	Sales (MT)	1,522	806	701	727	321
2.	Cost of Raw material + Direct Factory Exps. (Rs. in lakh)	9.14	6.96	6.12	7.38	3.15
3.	Indirect Exps. (Rs. in lakh)	12.06	11.10	12.65	12.61	16.04
4.	Cost of production per MT (Rs.)	621	926	978	1,406	1,198
5	Indirect Cost per MT (Rs.)	819	1,476	2,021	2,402	6,099
6.	Total cost per MT (Rs.)	1,440	2,402	2,999	3,808	7,297

From the above, following points are observed;

Lack of promotion of organic manure generated out of city waste/garbage resulted in non achievement of socio economic benefit and spurt in indirect expenses due to posting of additional staff when sale decreased in 2008-09.

- The production of Organic Manure was reduced drastically every year. Reduction of production was mainly due to less demand of organic manure by the farmers. Though the State Government issued (July 1999) directions to Departments of Horticulture and Forest to buy this manure for their nurseries yet, the Company had not made any efforts to follow the matter with the concerned departments, to increase the sales.

- The indirect expenses comprise mainly pay & allowances of staff, which increased from Rs. 819 per MT to Rs. 6,099 per MT during 2004-09. The abnormal increase in indirect expenses during 2008-09 was due to increase of pay and allowances to Rs. 14.58 lakh in 2008-09 from Rs.8.62 lakh in 2007-08 as the additional managerial staff were posted.

The Management assured (October 2009) that the measures would be taken up to increase the sales.

Revival of the operation of Plant at Gwalior

Organic plant at Gwalior was not revived and hence assets worth Rs. 0.54 crore were lying idle.

2.11.7 The Organic Manure Plant, Gwalior stopped production (July 2000), due to technical and marketing problems. Subsequently, the Company decided (September 2003) to explore the possibilities of leasing out the Plant to Private / Government Agency and also inquired from Nagar Nigam, Gwalior for the possible take over of the plant. Though, Nagar Nigam had offered (January 2005) to take the plant for Rs. 30 lakh, the Board in its meeting dated 9 February 2005 decided to invite tenders. Accordingly, tenders were invited (February 2005) but only one offer from Shubham Industries, Indore was received at the rate Rs. 33,000 per month. After comparison of the offer of Nagar Nigam, Gwalior with the offer of Shubham Industries, the Board decided (June 2005) to transfer the plant to Nagar Nigam, Gwalior with prior permission from State Government.

Nagar Nigam Gwalior, however did not takeover the unit. The Company did not float any tender thereafter. Thus, the Organic Manure Plant, Gwalior, having assets worth Rs. 53.73 lakh was lying idle since June 2005.

The Management stated (October 2009) that there was a proposal to use the plant through public private participation (PPP). Further steps are awaited in this regard.

Performance of Mechanized Agriculture Farm, Babai

The Company did not utilise 576 acres out of 3,251 acres of land allotted by the State Government for farming activity and kept barren even after lapse of 38 years and land valuing Rs. 2.59 crore was encroached by Jhuggi dwellers /villagers.

2.12.1 The State Government allotted (1971) 3,251 acres land to the Company on the bank of Tawa river at Babai village in Hoshangabad District for establishment of Mechanised Agriculture Farm (MAF) with the following objectives:

- To produce and distribute quality seeds to the farmers.
- To use latest agricultural machinery/implements in farming and to demonstrate such cultivation methods to the farmers.
- To function as a training center for the farmers.

Out of 3,251 acres of land, 2,444 acres of land was levelled and made fit for cultivation purpose in 1978. Further out of the barren land, 231 acres was used for the buildings and roads while balance 576 acres of land is still left as barren, even after lapse of 38 years. No further land has been added for agricultural purpose thereafter. Out of the land allotted, the land to the extent of 203 acres were encroached by Jhuggi dwellers/villagers. The valuation of the encroached land was done (July 2005) by National Bank for Agriculture and Rural Development (NABARD) at Rs. 2.59 crore. The Company did not obtain any title in its favour or entered into formal lease agreement so far (March 2009).

Cultivatable land usage

2.12.2 Out of the cultivatable land of 2,444 acres, 2,022.33 acres with irrigation facilities were used for farming in Rabi season (wheat, mustard, potato and others) and Kharif season (paddy, arhar and others) during the period from 2004-05 to 2008-09 as per details below:

Utilistion for cultivation of irrigated land stood at 42.24 *per cent* to 58.57 per cent in Rabi season and in Khariff season it reduced from 67.99 *per cent* to 34.76 *per cent*.

(Figures in acre)

Particulars	2004-05		20025-06		2006-07		2007-08		2008-09	
Irrigated land	2,022.33		2,022.33		2,022.33		2,022.33		2,022.33	
Orchard Area	303		303		594.50		604.25		604.25	
Land available for cultivation	1,719.33		1,719.33		1,427.83		1,418.08		1,418.08	
Season	Rabi	Kharif	Rabi	Kharif	Rabi	Kharif	Rabi	Kharif	Rabi	Kharif
Actual utilization on land for cultivation	854	1,169	1,007	1,019	759	1,009	725	725	599	493
Percentage of land utilised	49.67	67.99	58.57	59.27	53.16	70.67	51.12	51.12	42.24	34.76

From the above it is evident that utilisation of irrigated land remained between 42.24 to 58.57 *per cent* during 2004-05 to 2008-09 in Rabi season and in Kharif season it reduced from 67.99 *per cent* (2004-05) to 34.76 *per cent* (2008-09). The use of irrigated land was declining and percentage of utilization was as low as 42.24 and 34.76 *per cent* in Rabi and Kharif season as per the data available for the year 2008-09.

Seed Cultivation Performance

The Company suffered loss of Rs. 0.77 crore in Seed cultivation during 2005-06.

2.12.3 The unit had taken up the seed cultivation programme only in 2005-06. Out of 14,020 qtls. of different seeds produced during 2005-06, only 1,658 qtls. were sold as seeds and the balance of 12,362 qtls. of seeds (88 *per cent)* was declared as sub-standard. Defective germination, presence of weeds and other seeds including diseased one were cited as reasons for poor quality of seeds. These sub-standard seeds were sold in the open market at lesser rate, which resulted in a loss of Rs. 77.01 lakh being the difference in rate of seed and foodgrains as detailed below:

(Quantity in quintals)

Name of crop	Quantity produced	Quantity sold as seed	Qty. sold as food grain	Sale rate as seed Rs..	Sale rate as food grain Rs..	Rate difference Rs..	Loss of potential revenue Rs..in lakh
(1)	`(2)	(3)	(4)	(5)	(6)	(7))	(8 = 4x7)
Wheat	3,570	753	2,817	1,672	1,012	660	18.59
Paddy	8,590	451	8,139	1,088	583	505	41.10
Mustard	1,162	178	984	2,554	1,553	1,001	9.85
Tuar	698	276	422	3,022	1,252	1,770	7.47
Total	**14,020**	**1,658**	**12,362**				**77.01**

The seed cultivation programme taken up by the MAF was thus a total failure.

The Management accepted (October 2009) the failure in seed cultivation. The audit suggested that the Company might approach State Government for one-time foundation budgetary support/ subsidy for modernising the techniques of cultivation of seeds.

Analysis of cultivation/ farming activities of Mechanized Agriculture Farm (MAF)

Low yield

Yield in wheat and tuar was far below of the norms.

2.12.4 The crop-wise norms fixed by the agricultural department and the actual yield obtained in respect of different crops raised by MAF during 2004-09 were as under:

Crop	Norms per Acre/ Qntl.	Actual yield per acre				
		2004-05	2005-06	2006-07	2007-08	2008-09
Wheat	14	9.64 (69)	7.94 (57)	7.48 (53)	9.69 (69)	9.28 (66)
Paddy	16	17.97 (112)	18.65 (117)	8.72 (55)	16.15 (101)	7.63 (48)
Tuar	4	1.26 (32)	1.39 (35)	0.11 (3)	0.86 (22)	3.06 (77)
Average cultivated land (acres)		1,011	1,013	884	725	546
Cultivation expenditure (Rs. in lakh)		158.20	198.39	147.24	106.75	112.95
Cultivation expenditure per acre (Rs.)		15,648	19,585	16,656	14,724	20,687

(Figure in brackets denote percentage of yield per acre to the norms.)

The actual yield of wheat remained far below the norms. It remained 53 *per cent* to 69 *per cent* of the norm fixed. In respect of *tuar* yield was worse, and it was in the range of 0.11 quintal/acre to 3.06 quintal/acre only against the target of four quintal per acre.

From the above table it could be seen that there were wide variations in the cost of cultivation per acre and the actual yield obtained was less than the norms fixed. The cultivation was continued without analysing the reasons for low yield and no efforts were made to make the unit viable.

The Management stated (October 2009) that the reason for low yield were due to sandy land, electricity problem and less capacity of land in fixing nitrogen etc. The reply is not convincing since the Company was able to achieve the norms of yield as is evident in the crop of Kharif from the above table. This indicated that Company had not taken any concrete steps to increase the yield in respect of wheat and tuar.

The working results of the Unit during the last five years ending 31 March 2009 was as follows:

(Amount: Rupees in lakh)

	2004-05	2005-06	2006-07	2007-08 (Provisional)	2008-09 (Provisional)
Income	103.61	146.59	75.61	137.54	80.21
Variable Expense	158.20	198.39	147.24	106.75	112.95
Contribution	(-)54.59	(-) 51.80	(-) 71.63	30.79	(-) 32.74
Fixed Expenditure	35.23	58.13	33.84	38.97	38.53
Loss	**89.82**	**109.93**	**105.47**	**8.18**	**71.27**

The MAF incurred accumulated loss of Rs. 8.83 crore which represents 89 *per cent* of the total accumulated loss Rs. 9.90 crore of the Company.

The Unit incurred loss every year since its inception (1971) and accumulated loss of the unit amounted to Rs. 8.83 crore as on 31 March 2007, which represents 89 *per cent* of the accumulated loss of Rs. 9.90 crore of the Company as a whole as on 31 March 2007.

To mitigate the loss of Rs. 109.93 lakh during 2005-06, the Company on the basis of directives received from the State Government constituted (July 2006) three committees, to reduce the administrative expenditure, and adopt appropriate crop programme for increasing yield alongwith proper inspection of crops. Due to reduction of expenditure on purchase of seeds and fertilizers, wages and increase in sales, the loss of the unit in the year 2007-08 reduced to Rs. 8.18 lakh as compared to Rs. 105.47 lakh in 2006-07. The loss for the year 2008-09 again increased to Rs. 71.27 lakh due to reduction in sales and increase in cost of procurement of fertilizers and seeds. Thus, there is no significant improvement in the performance of MAF.

The Management stated (October 2009) that they improved their performance which resulted in reduction of loss for 2007-08. The fact, however, remained that the unit continued to incur losses and there was increase in the loss for the year 2008-09 over the year 2007-08.

Usage of old Tractors – higher cost of cultivation

2.12.5 Six old tractors and two harvesters occupied by the Company were procured in 1977-89 to cater to the needs of farming activities of the unit. The details of the expenditure incurred on tractors during 2004-09 is as under:-

(Amount: Rupees in lakh)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Repair charges	4.92	7.20	14.28	2.63	2.83
Running charges	21.49	19.78	18.14	15.14	18.41
Tractor hiring expenses	6.55	15.33	9.61	Nil	Nil
Average cultivated land (Rabi+Kharif) in acres	1,011	1,013	884	725	546
Running charges per acre (Rs.)	2,126	1,953	2,052	2,088	3,372

An audit analysis of the above revealed the following:

Old tractors could have been replaced instead of incurring repairs and maintenance expenses and hiring of tractors.

- The running charges per acre increased from Rs. 1,953 per acre (2005-06) to Rs. 3,372 per acre (2008-09).
- As all the tractors were very old, the operating cost was not economical and hence the unit hired the tractors during 2004-07 for Rs. 31.49 lakh.
- The unit had incurred repair/maintenance charges of Rs. 31.86 lakh on six old tractors and two harvesters which were procured in 1977-89.

Instead of incurring huge expenditure on repairs, the Company could have procured new tractors in phased manner.

The Management stated (October 2009) that if the financial position of the Company improves, the capital expenditure would be incurred on procurement of tractors. The reply is not convincing since the replacement could have been done in phased manner.

Sale of Agricultural produce

Sale at less than Minimum Support Price (MSP)

Sale of wheat & paddy in open Market resulted in less relaisation of Rs. 0.46 crore

2.12.6 The Government of India permitted the Madhya Pradesh State Civil Supplies Corporation to procure wheat, paddy and other grain at a Minimum Support Price (MSP). However, the Company sold, in the open market, the farm produce in Babai through inviting open tenders in leading newspapers.

Audit observed that, 8,174 qtls of Wheat produced in MAF (4,220 qtls in 2004-05 and 3,954 qtls in 2005-06) and Paddy of 9,240 qtls (2005-06) were sold in open market at the rates less than the MSP fixed by GOI/State Government resulting in less realisation of Rs. 46.42 lakh being the difference between the actual sales price and MSP.

Non-accounting of Wheat Bhusa / Husk

By-product husk from wheat was not sold resulting in loss of revenue of Rs. 0.24 crore.

2.12.7 During the process of Wheat harvesting, a by-product *viz.* Bhusa/husk is generated, which has demand in the market. The Company has not maintained any record for accounting of Bhusa/Husk. However, the unit estimated (March 2009) 1,200 Kgs of Bhusa per acre, could be generated and can be sold at Rupee one per Kg. It was observed that the Bhusa was not sold during 2004-09. Considering the total area of 1,982 acres, wherein wheat was cultivated during 2004-09, the Company lost revenue of Rs. 23.79 lakh.

The Management accepted (October 2009) the observation and assured to take action for sale of by-product of wheat.

Non fulfillment of objectives of MAF

2.12.8 The MAF at Babai was formed to implement the three objectives as discussed the paragraph 2.12.1 *supra.* However, the Company did not take any step with regard to use of latest agricultural machinery/implements in farming, to demonstrate such methods in cultivation and as to train the farmers, only 100 gardeners were trained in 2006-07.

Implementation of National project on Biogas development

2.13 The State Government nominated the Company as a Nodal Agency for implementation of National Project on Biogas development, a centrally sponsored scheme of Ministry of Non-Conventional Energy Sources (MNES), Government of India under the scheme. The Company installs the biogas plants and distribute the Central financial Assistance (CFA) to beneficiaries identified by the Agricultural Department of the State Government. As per the directives of GOI the CFA was to be disbursed only after the construction of biogas plants and claims were to be prepared only in respect of commissioned plants.

The details of performance conducted are in table below:

Year	Targets	No. of plants constructed	CFA received (Rs. in lakh)	No. of plants for which Completion Certificate awaited	CFA to be refunded to GOI (Rs. in lakh)
91-92 to 2003-04	NA*	NA*	NA*	2,629	47.32 (2629x1800)
2004-05	6,500	9,929	438.00	603	21.11 (603x3500)
2005-06	6,500	6,103	270.00	436	15.26 (436x3500)
2006-07	12,000	9,021	399.00	608	21.28 (608x3500)
2007-08	12,000	5,629	250.00	1,272	44.52(1272x3500)
2008-09	12,000	10,567	249.27	3,284	114.94 (3284x3500)
Total				**8832**	**264.43**

***** Not Available***

It may be seen from the above that in respect of 8,832 plants for which CFA was received by the Company, but the completion certificate were not obtained. The Company was, therefore, liable to refund the CFA of Rs. 2.64 crore involved in these cases.

The Management stated (October 2009) that they were taking appropriate action to obtain the completion certificates early.

Non-disposal of hazardous waste

Due to ban on sale of BHC, the Company did not dispose of 175 MTs of the unsold stock which was lying in the plant.

2.14 The Company was having (1977) pesticides formulation plant at Bina to produce and distribute quality wettable dusting powder and liquid to farmers at reasonable prices. As there was an abrupt ban (1991-92) on use of BHC[12] by the GOI/State Government, the Company could not produce BHC and also could not sell the stock held by them. Further due to restrictions in sale of the pesticides imposed by the State Government the plant incurred losses and was closed in June 2006. The Company was having 175 MTs of unsold BHC as on 31 March 2009. The Company decided to dispose such

[12] *Benzene Hexa chloride*

hazardous stocks at an estimated cost of Rs. 34.72 lakh and approached State Government for financial assistance (July 2007) but the State Government directed (March 2008) the Company to dispose off the same at the cost of the Company. The hazardous waste was lying with the plant without disposal as of July 2009.

Persistent irregularities

The Company failed to take corrective action in respect of accounting irregularities/ discrepancies pointed out by Auditors.

2.15 The Auditors of the Company repeatedly commented the following accounting irregularities/discrepancies since 2002-03 onwards.

- The Company was bifurcated into two companies i.e Madhya Pradesh State Agro Industries Development Corporation Limited and Chattishgarh Agro Industries Corporation Limited after Madhya Pradesh Reorganization Act, 2000.The final adjustments of assets and liabilities however is pending till date;
- The schedule of sundry debtors and age-wise break up is not maintained;
- No fixed assets register is maintained;
- Non-reconciliation of bank balances;
- Current liabilities, are being continued without verifying the actual liability;
- In the matters relating to benefits to the employees; and

The Company failed to take corrective action in respect of the above accounting lapses till date (November 2009).

Absence of Internal Audit system

2.16 The Internal Audit of the District offices and Production units was being conducted departmentally upto 2005-06 and thereafter it was discontinued due to shortage of staff. The internal audit for Head Office was not conducted as there was pre audit system before passing the bills. Weak internal controls in the organisation, resulted in mis-appropriation of funds by manipulating the records at Babai. Statutory Auditor also repeatedly commented on the inadequacy of Internal Audit system. However, the Company had not taken any measure to revive the internal audit system.

The Management stated (October 2009) that they have engaged the Chartered Accountants firms for internal audit for the year 2008-09 and 2009-10.

Conclusion

The performance of the Company with regard to establishment and promotion of agro based industry was dismal as it failed to achieve the targets during 2004-08 and it did not venture into the technological advancements for Agro based industries rather confined only to supply of RTE and farming at Babai. The Company did not optimise the production of installed capacity of RTE at their own plant and unrealistic costing of the product projected by the Company, resulted in extra burden to the Government besides undue benefit to the JVs. Efforts were not made by the Company to make the Babai farm viable.

Recommendations

The Company should consider;

- **reducing operational cost, increasing efficiency and achieve new milestones in farming through better agricultural method and technology;**
- **establishing system of arriving realistic costing of RTE to reduce burden on State Exchequer;**
- **taking suitable action plan to make organic fertilizer and bio-gas projects successful, keeping in view the environmental needs and Government of India initiatives.**