

## Chapter II

### Performance review relating to Government company

#### Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited

#### 2 Performance review on the working of Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited

##### Highlights

**Absence of uniform system of accounting of apples, excess spoilage, excess payment of market fee and non-acceptance of the offer of highest bidder to lease out the idle assets of the Company resulted in loss of Rs. 2.45 crore.**

*(Paragraphs 2.11, 2.12, 2.14 and 2.29)*

**The production units did not achieve the targets fixed during 2003-08 due to inadequate procurement of fruits against the quantity required by the Company.**

*(Paragraph 2.15)*

**Fruit processing plants at Parwanoo and Jarol incurred losses of Rs. 2.92 crore (2004-07) and Rs. 0.33 crore (2005-07) respectively mainly due to under utilisation of their capacity.**

*(Paragraph 2.16)*

**The sales declined considerably from Rs. 43.33 crore in 2003-04 to Rs. 30.42 crore in 2007-08 mainly due to decrease in sale of processed fruit products, trading of fruits, packing materials and other items.**

*(Paragraph 2.23)*

**The Company could not execute decrees in two cases involving an amount of Rs. 2.83 crore due to non-availability of addresses of the parties concerned.**

*(Paragraph 2.26)*

**The Government/Company failed to reduce the surplus manpower and the wages paid to surplus manpower during February 2004 to March 2008 amounted to Rs. 1.23 crore.**

*(Paragraph 2.27)*

**Out of 24 branches, 11 branches were continuously incurring losses and loss suffered by these units during the last five years up to 2007-08 amounted to Rs. 4.26 crore due to inaction of the Management to improve their working.**

*(Paragraph 2.28)*

**Internal control system was deficient as the Management failed to control excess consumption of laminate paper and furnace oil, avoidable payment of electricity charges resulting in loss of Rs. 1.12 crore.**

*(Paragraphs 2.17, 2.19 and 2.20)*

## Introduction

**2.1** Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (Company) which was incorporated in June 1974 as a subsidiary of the Himachal Pradesh Agro Industries Corporation Limited, became a separate Government Company in March 1996. The main objects of the Company are to organise, promote, assist, develop and execute activities relating to the marketing and processing of apples and other fruits; undertake the procurement and supply of packing material on behalf of fruit growers; undertake the business of forwarding and transit warehousing; set up, acquire, purchase, sell and/or manage large scale commercial orchards on modern lines for feeding the canning and preservation units.

The Company runs 10<sup>\*</sup> packing and grading houses, five<sup>\*\*</sup> cold storages in apple producing areas and four<sup>@</sup> cold storages in terminal markets, 11<sup>#</sup> Regional Offices and three<sup>§</sup> fruit processing plants (FPPs).

The Management of the Company is vested with a Board of Directors (BODs) consisting of seven members including the Chairman and the Managing Director. The Managing Director is the Chief Executive. He is assisted in his day-to-day business by the General Manager, Deputy General Manager (Marketing) and Regional Manager (Headquarters) at the Head Office. The Regional Offices and FPPs are headed by the Regional Managers and Plant Managers respectively.

A review on the working of the Company was last included in the Report of the Comptroller and Auditor General of India (CAG) for the year ended 31 March 2001 (Commercial). The review was discussed by the Committee on Public

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\* *Bhunter, Chindi, Gumma, Jarol Tikkar, Oddi., Patlikuhl, Rajgarh, Rohru, Recong Peo and Tutupani.*

\*\* *Gumma, Jarol Tikkar, Oddi, Patlikuhl and Rohru.*

@ *Chennai, Delhi, Mumbai and Parwanoo.*

# *Chandigarh, Chennai, Delhi-1, Delhi-2, Kangra, Kolkatta, Kullu, Mumbai, Rampur, Rohru and Shimla.*

§ *Jabli, Jarol and Parwanoo.*

Undertakings (COPU) in October 2003. The main recommendations of the COPU and action taken thereon by the Company were received in June 2004 and August 2005 respectively. The main recommendations of the COPU were upgradation of cold storages by replacement of machinery and closing down branches at Nagpur and Ahmedabad.

### Scope of Audit

2.2 The present review conducted during January to April 2008 is based on scrutiny of records maintained at the Head Office of the Company, two fruit processing plants (Parwanoo and Jarol), six<sup>^</sup> regional offices, six<sup>^</sup> grading and packing houses, all cold storages in apples growing areas and three<sup>@</sup> cold storages in the terminal markets. These units were selected on the basis of turnover (Rs. 145.23 crore *i.e.* 72.64 per cent of Rs. 199.93 crore). The review covers a period of five years ended 31 March 2008.

### Audit objectives

- 2.3 The audit objectives of the review were to ascertain whether:
- The targets fixed for production and marketing of horticulture produce were as per the approved programme/plan and were achieved;
  - The facilities established for packing, grading, storage and processing of apples and other fruits were utilised to the optimum level;
  - Utilisation of resources was as per the norms;
  - System of purchase, sale, billing and recovery of dues was adequate and efficient; and
  - The internal control and Management Information System (MIS) prevalent in the Company was adequate and effective.

### Audit criteria

- 2.4 The following criteria were adopted for analysis:
- Instructions/guidelines issued by the State Government from time to time in regard to working of the Company;
  - Agenda papers and minutes of the meetings of the BODs;
  - Targets fixed by the Government/Company including rates fixed by the Government/Company for supply/sale of products;
  - Norms fixed by the Government/Company for production and wastages;

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<sup>^</sup> Chandgarh, Chennai, Delhi, Kangra, Rampur and Shimla.

<sup>^</sup> Bhuntar, Gumma, Jarol Tikkar, Oddi, Patlikuhl and Rohru.

<sup>@</sup> Chennai, Delhi and Parwanoo.

- Purchase, sales and marketing procedures/policies; and
- Provisions in the Accounting Manual.

#### **Audit methodology**

- 2.5** The performance audit was conducted using the following methodology:
- Examination of directions/orders issued by the State Government from time to time;
  - Scrutiny of agenda papers and minutes of the meetings of the BODs and committees constituted by BODs;
  - Scrutiny of records relating to fixation of installed capacity and utilisation thereagainst;
  - Scrutiny of records relating to actual production, wastage, use of raw material with reference to norms, if any;
  - Review of management information and internal control system; and
  - Issue of audit enquiries and interaction with the Management.

#### **Audit findings**

**2.6** Audit findings arising from the performance audit review on the working of the Company were issued (June 2008) to the Government/Company and were discussed (12 September 2008) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The Principal Secretary (Horticulture), Government of Himachal Pradesh and Managing Director of the Company attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

Audit findings are discussed in succeeding paragraphs.

#### **Financial position and working results**

**2.7** The financial position and working results of the Company during the last five years ended 31 March 2008 are given in the **Annexures 10 and 11**.

It would be seen from the Annexures that the Company had an accumulated loss of Rs. 42.92 crore as on 31 March 2008 which had eroded the paid-up capital of Rs. 17.81 crore. The Company had earned profit of Rs. 1.28 crore during 2003-04 and incurred loss of Rs. 16.75 crore during 2004-08. The Company was incurring loss since 2004-05. The loss substantially increased from Rs. 1.79 crore in 2004-05 to Rs. 6.30 crore in 2006-07. The loss, however, decreased to Rs. 3.86 crore in 2007-08 due to increased processing and sales. Audit observed that the losses were mainly attributable to partial implementation of restructuring plan, change in Market Intervention Scheme (MIS) by the State Government, spoilage

**The accumulated loss of Rs. 42.92 crore as on 31 March 2008 had eroded the paid-up capital of Rs. 17.81 crore.**

of apple in fruit processing plant, excess payment of market fee, excess consumption of raw material, packing material and fuel, absence of uniform marketing policy, non-achievement of production target by FPPs, under-utilisation of the capacity of grading and packing houses and cold storages in apple producing areas.

The State Government waived off (June 2005) interest and penal interest of Rs. 11.36 crore (as on March 2005) on its loan of Rs. 4.38 crore (prior to 1991), which had not been provided in the accounts. Besides, the entire loan of Rs. 9.11 crore was converted into interest free soft loan. The outstanding liability of loans was Rs. 17.46 crore as on 31 March 2008.

The Government attributed (September 2008) losses due to change in pricing policy for charging cost of apples from apple season 2003, discontinuation of subsidy on corrugated cartons from 2003-04, high staff cost and paucity of working capital. The Government further stated (September 2008) that repayment of loans could not be made due to paucity of funds. Audit observed that the Company failed to chalk out a long term corporate plan to carry out its activities and to enforce economy measures to decrease the losses as discussed in succeeding paragraphs.

#### **Partial implementation of restructuring plan**

**2.8** To improve the working of the Company and to wipe out the accumulated losses, the State Government approved (August 2000) a restructuring plan which *inter alia* included utilisation of vacant plots of land at various places, reduction of surplus manpower, dis-investment of Jarol plant, strengthening of market strategy, improvement in capacity utilisation of plants, producing Apple Juice Concentrate (AJC) to meet only domestic requirements, producing cider/wine and selling it throughout the country and tapping institutional buyers for supply of fresh fruit and vegetables.

Audit noticed (January 2008) that the Company had not fully implemented the restructuring plan except sale of its land (March 2004 and March 2007) at Kiratpur and Kundli for Rs. 46.33 lakh and Rs. 9.11 crore respectively.

The Government stated (September 2008) that restructuring plan was still under consideration. To meet the financial obligations and requirements of working capital, the Company had sold properties at Kundli and Kiratpur. Steps for technological up-gradation of grading and packing houses in fruit growing areas, utilisation of vacant land at Chennai and closure of non-performing branches had been initiated. As the steps taken for restructuring were inadequate, the accumulated losses showed an increasing trend since 2004-05.

**Implementation of MIS and procurement of apple**

**Implementation of MIS**

**2.9** The Company is the procurement agency under the Market Intervention Scheme of the State Government and procures fair average quality apples from the growers at the rate fixed by the State Government each year. The procurement price is paid by the Company to the growers after receipt of amount from the State Government. The handling charges incurred by the Company are reimbursed by the State Government. Based on its requirement, the Company retains the quantity required for processing in its plants and the rest is sold in the open market through auction. Based on average auction price realised, the Company pays for the quantity used for processing. The scheme provides for procurement of 2.5 per cent of excess apples from the growers to meet the evapo-transportation and respiration losses and the growers are paid for 100 kg against the receipt of 102.5 kg apples.

**Procurement of apples**

**2.10** The quantity and value of apples procured and the loss suffered by the State Government under the MIS during the last five years ended 31 March 2008 are detailed below:

(Rupees in crore)						
Year	Quantity procured and paid for (MTs)	Procurement cost*	Handling charges@	Total procurement cost (3+4)	Sale proceeds of quantity sold and processed in FPPs#	Loss to the State Government (5-6)
1	2	3	4	5	6	7
2003-04	21,681	8.67	2.82	11.49	4.88	6.61
2004-05	22,585	9.60	3.39	12.99	5.44	7.55
2005-06	12,713	5.40	1.91	7.31	3.80	3.51
2006-07	4,776	2.03	0.72	2.75	1.44	1.31
2007-08 (Provisional)	15,918	7.56	2.39	9.95	4.08	5.87
<b>Total</b>	<b>77,673</b>	<b>33.26</b>	<b>11.23</b>	<b>44.49</b>	<b>19.64</b>	<b>24.85</b>

The procurement of apples under MIS had also resulted in a loss of Rs. 24.85 crore to the State Government during 2003-08. The total procurement cost is reimbursed to the Company by the State Government. The Government stated (September 2008) that the objective of procurement of apples under MIS was social rather than economic one.

\* Procurement cost of apple per kg was Rs. 4 (2003-04), Rs. 4.25 (2004-05 to 2006-07 and Rs. 4.75 (2007-08).

@ Handling charges of apple per kg were Rs. 1.30 (2003-04) and Rs. 1.50 (2004-05 to 2007-08).

# Average auction rate of apple per kg was Rs. 2.25 (2003-04), Rs. 2.41 (2004-05), Rs. 2.99 (2005-06), Rs. 3.02 (2006-07) and Rs. 2.56 (2007-08).

***Loss due to improper system for accounting of apples***

**Lack of uniform and foolproof system for accounting of 2.5 per cent excess apples procured resulted in non-accounting of apples valued at Rs. 55.27 lakh.**

**2.11** During 2003-08, FPP Parwanoo procured 26,427 MTs of fair average quality of apples, while cold storage Parwanoo, FPP Jarol and Jabli procured 53,189 MTs from various collection centres. The FPP, Parwanoo recorded receipt against gross quantity including 2.5 per cent, the FPPs Jarol and Jabli and Cold Storage, Parwanoo recorded receipt against net quantity excluding 2.5 per cent. Failure of the Company to evolve a uniform and foolproof system for accounting of 2.5 per cent apples procured under the MIS resulted in non-accounting of 1,297 MTs of apples valued at Rs. 55.27 lakh by FPP, Parwanoo.

The Government accepted (September 2008) the lack of uniform system for accounting of apples. It further stated that instructions were being issued to plants to follow the uniform pattern for accounting of apples.

***Loss due to excess spoilage of apples***

**Spoilage of apples over and above 2.5 per cent margin resulted in loss of Rs. 49.94 lakh.**

**2.12** The percentage of net spoilage of apples over and above 2.5 per cent margin ranged between 1.5 and 8.04 of the quantity received in FPP, Parwanoo, which was a direct loss to the Company as the State Government did not reimburse any loss on this account. Thus, the FPP, Parwanoo incurred loss of Rs. 49.94 lakh on account of net spoilage of 1,180 MT apples during 2003-08. In FPPs Jarol and Jabli, the Management had not maintained records relating to such spoilage of apples.

The Government stated (September 2008) that the apples collected at centres remained unlifted for days together due to lack of transportation, which led to driage, evaporation and rotting of the apples. As the loss due to spoilage is a direct loss to the Company, measures should have been taken to minimise the spoilage of apples.

***Delay in payment to growers***

**2.13** The Company makes payment to growers for the apples procured each year. The Company had cleared all the dues to the growers up to the season 2006. For the procurement season 2007, the Company procured 15,918 MT of apples under MIS 2007 at a cost of Rs. 9.95 crore. The Company had so far paid Rs. 5.73 crore to growers and an amount of Rs. 4.22 crore was still (March 2008) to be paid to growers.

Audit noticed (May 2008) that neither the State Government nor the Company had fixed any time limit for making payment to the growers towards procurement of apples. Though the Company itself had received the entire payment due from the State Government, the amount of Rs. 4.22 crore outstanding for payment to the growers indicated utilisation of growers' money for working capital purpose causing hardship and financial loss to growers.

The Government stated (September 2008) that due to paucity of working capital and piling up of inventory of AJC, the Company was not able to release payment

to the growers. As the Company had received (March 2008) full payment from the State Government, the utilisation of the amount of the growers by the Company was irregular.

***Loss due to excess payment of market fee***

**2.14** The apples procured under the MIS were transported to the FPPs for processing and Cold Storage at Parwanoo which conducts auctions of the balance quantity. As per Section 21 of the Himachal Pradesh Agricultural Produce Market Committee Act, 1969 (Act 9 of 1970), market fee on *ad-valorem* basis at the rate ranging from one to two *per cent* was payable on agriculture produce bought or sold by licensees in the notified market area.

As against the payable market fee of Rs. 28.89 lakh for procured quantity of 77,673 MT valued at Rs. 19.64 crore during 2003-08, the Company paid Rs. 63.20 lakh resulting in excess payment of Rs. 34.31 lakh. Audit analysed the reason for excess payment and found that in addition to the market fee being paid by FPPs and Cold Storage, Parwanoo, the market fee had also been paid by the transporters at the barriers in Shimla, Kinnaur and Kullu districts which was reimbursed by the Company.

The Government stated (September 2008) that the Company had taken up the matter with the Himachal Pradesh Agricultural Produce Marketing Board for refund.

***Non-achievement of production targets***

**2.15** The Company prepares production plan annually for processing apples, filling of tetra pak juices and processing of other products. The production targets fixed, actual achievement thereagainst and the percentage of shortfall against production targets during 2003-08 are given in **Annexure 12**.

It would be seen from the details in the Annexure that the production units did not achieve the targets fixed for production. While the percentage of shortfall in processing of apples, filling of tetra pak and processing of other fruits products ranged between 23.53 and 73.15 in FPP, Parwanoo, it was between 5.56 and 71.00 in FPP, Jarol. The percentage of shortfall ranged between 23.11 and 43.82 in FPP, Jabli. The reason for shortfall in production during 2005-08 was inadequate procurement of fruits against the quantity required by the Company for production. Deficiencies noticed in each activity are discussed in succeeding paragraphs.

The Government stated (September 2008) that the production plan is prepared on the basis of capacity utilisation as well as tentative demand of products in comparison to previous year's trend. The reply is contradictory to the fact that the target fixed for 2006-07 was high and was not based on the previous year's trend.

**The Company paid excess market fee of Rs. 34.31 lakh due to its failure to evolve a proper system for payment of market fee.**



### Capacity utilisation of FPPs

**2.16** The Company had two FPPs at Parwanoo and Jarol. Based on the directions of the State Government, it took over (July 2003) FPP, Jabli on lease. While FPPs at Jarol and Parwanoo produced AJC/apple juice, the other plant at Jabli produced apple juice only. The production norms prescribed for obtaining one kg AJC from 9.5 to 10.5 kg and 11.5 to 12.5 kg of apples for FPP Parwanoo and Jarol units respectively. The production norms prescribed for obtaining 650 ml of apple juice from one kg of apples for all the FPPs.

The capacity utilisation of these three plants during the last five years ended 31 March 2008 is given in **Annexure 13**.

Audit scrutiny revealed as under:

- The capacity utilisation in respect of apples ranged from 20.18 to 36.01 *per cent* in the FPP, Parwanoo and 18.20 to 77.28 *per cent* in the FPP, Jarol during the last five years ended 31 March 2008.
- Even though the capacity utilisation of the Company's own FPPs was very low, the Company did not bring to the notice of the Government the future financial implication while taking over FPP, Jabli on lease in July 2003.
- While FPP, Parwanoo earned a profit of Rs. 1.11 crore in 2003-04 and 2007-08 and incurred a loss of Rs. 2.92 crore in 2004-07, the FPP, Jarol earned a profit of Rs. 35.01 lakh in 2003-05 and 2007-08 and incurred loss of Rs. 32.52 lakh in 2005-07 due to sharing of activities with FPP, Jabli by the Company.
- As against above, the FPP, Jabli incurred loss of Rs. 4.14 lakh in 2003-04 and earned profit of Rs. 39.62 lakh in 2004-08 due to transfer of activities of extraction and bottling of juices and preparation of jams/pickles to it from FPP, Jarol.

Audit analysis revealed that the main reasons for losses in FPPs, Parwanoo and Jarol were change in market intervention scheme by the State Government, spoilage of apple, low yield of AJC and apple juice, excess consumption of raw material, packing material and fuel, *etc.*

The Government stated (September 2008) that capacity utilisation of FPPs depend upon availability of apples which were available for 60 to 90 days as against projected availability of apples for 150 to 180 days in a season as per project report. It was further stated that keeping this fact into consideration, the FPPs were not under utilised and the FPPs had achieved the rated capacity. The reply is contradictory to the fact that none of the FPPs had achieved its rated capacity

during 2005-08. This was due to inadequate procurement of apples for processing.

The audit findings on working of the FPPs, were as under:

As compared to norms, the Company obtained less yield of apple juice valued at Rs. 33.57 lakh after processing apples during 2003-05.

- In FPP, Parwanoo it was observed that extraction of one kg of AJC was obtained by consuming less apples than the norm of 10.5 kg during 2003-05 but the same was more than the norm during next three years (2005-08) which resulted in less yield of 46 MT AJC valued at Rs. 33.57 lakh and loss to the Company.

The reasons for under recovery of AJC were not on record. In FPP, Jarol, there was no shortfall in the production of AJC with reference to norms of the plant.

The Government accepted (September 2008) the loss due to under recovery of AJC and attributed it to deteriorated quality of apples owing to prolonged storage. The Company should have taken preventive measures to control excess consumption of apples. There was, however, no under recovery of AJC during the period 2003-05.

As compared to norms, the Company obtained less yield of AJC valued at Rs. 23.90 lakh after processing apples during 2003-08.

- The FPPs, Jarol and Jabli lost 98,074 litres of apple juice over and above norms fixed (2.5 *per cent*) as processing loss during 2003-08 resulting in loss of Rs. 23.90 lakh.

The Management had not analysed the reasons for under recovery of apple juice. Audit, however, observed that there was no under recovery of apple juice against norms in FPP, Parwanoo during 2003-08.

The Government accepted (September 2008) the loss due to under recovery of apple juice and attributed it to deteriorated quality of fruits due to prolonged storages. As the norms had been fixed after considering all such factors, the Company should have taken preventive measures to ensure recovery as per norms.

#### ***Loss due to excess wastage of laminate paper***

**2.17** The production of tetra pak is undertaken in FPP, Parwanoo only. Laminate paper is used for production of tetra pak. Audit scrutiny of records of FPP, Parwanoo revealed that against the norm of 2.50 *per cent* as wastage for production of tetra pak, the actual wastage ranged from 2.85 to 8.08 *per cent* during the last five years ended March 2008. The excess wastage of laminate paper resulted in loss of Rs. 20.06 lakh.

As compared to norms, there was excess wastage of laminate paper valued at Rs. 20.06 lakh.

Audit noticed (March 2008) that the Company had neither investigated the reasons for excess wastage of laminate paper nor made any attempt to restrict it to 2.50 *per cent*. Audit further noticed that the percentage of wastage during 2006-07 was abnormally high at 8.08 *per cent* due to discontinuation of base pack which facilitated the Company to assess the actual wastage.

The Government accepted (September 2008) the fact of excess wastage of laminate paper and attributed it for 2006-07 to phasing out of TBA-10 machine

with TBA-9 machine. The fact remained that the excess wastage above 2.5 per cent was not controlled.

### ***Electricity and fuel***

**2.18** The FPPs, Jabli, Jarol, Parwanoo and Cold Storage, Parwanoo had obtained high tension connections with a contracted demand of 85, 141, 450 and 274 KVA respectively. The Plants also consumed furnace oil for processing and packing of AJC and juices. The total expenditure towards electricity and fuel during 2003-08 was Rs. 8.35 crore. Audit observed the following:

### ***Loss due to payment of excess electricity demand charges***

**2.19** As per order (August 2002) of the Himachal Pradesh Electricity Regulatory Commission (HPERC), the contract demand for electricity should be the only basis for determining the demand charge. In cases, where the demand had not been contracted, the demand charges would be levied based upon the maximum recorded demand during the month with effect from 1 November 2001.

The Himachal Pradesh State Electricity Board (Board) implemented the above order with effect from February 2004 and the FPPs, Parwanoo, Jabli and Jarol and Cold Storage, Parwanoo signed agreements for revised contract demand in September 2004, March 2004, September 2004 and June 2003 respectively. Though as per *ibid* orders of the Board, the above consumers were to be charged based on maximum recorded demand from November 2001 to September 2004, March 2004, September 2004 and June 2003 respectively, the Board had charged these units for 80 to 100 per cent of the connected load resulting in excess charging of Rs. 26.33 lakh (FPP, Parwanoo: Rs. 19.85 lakh, FPP, Jabli: Rs. 0.81 lakh, FPP, Jarol: Rs. 2.60 lakh and Cold Storage, Parwanoo: Rs. 3.07 lakh) by the Board. These units neither noticed the excess charges levied (March 2008) by the Board nor claimed for refund. After pointed out by audit, the Company had taken up the matter of excess levy and claimed refund from the Board.

The Government stated (September 2008) that the Board was in the process of calculating the actual amount to be refunded to the Company. The amount, however, had not been received (August 2008).

### ***Loss due to excess consumption of furnace oil***

**2.20** The consumption of fuel is one of the major cost components of products manufactured by any organisation. The Company operates two boilers on furnace oil (FO) for extraction of AJC and filling of juices in tetra pak in the FPP, Parwanoo.

As per the norms fixed by the Company for consumption of FO, 440 and 1,300 litres of FO was required for extracting one MT of AJC and for manufacturing 4,000 trays of tetra pak respectively. Audit noticed that during the last five years ended 31 March 2008, the Company failed to restrict the consumption of FO to above limits resulting in excess consumption of FO valued at Rs. 66.03 lakh. The

**Failure of the Company to take up matter with the Board regarding excess levy of electricity charges resulted in excess payment of Rs. 26.33 lakh.**

**Furnace oil of Rs. 66.03 lakh was consumed in excess of the norms.**

Company had not analysed the reasons for excess consumption to control the same. It had not maintained separate account for consumption of furnace oil for production of AJC and tetra pak. As a result, it was not possible to identify the excess consumption of furnace oil under each category.

The Government accepted (September 2008) excess consumption of furnace oil and attributed it to operation of plant on two shift basis, additional steam consuming activities and unscheduled stoppages of machine due to break downs, product changes, *etc.* As all these factors were controllable, loss could have been reduced by better management and planning.

### **Quality control**

**2.21** Under the Food Preservation Order (FPO), all processed products should bear date of manufacture, batch number and the period within which the product should be used. Audit observed the following deficiencies relating to quality control:

- The Company had not laid down any system for conducting periodical surprise technical inspection of FPPs by a team of Officers from the Head Office.
- The Company did not have an independent quality control wing. The quality control cells in the FPPs were functioning under the overall control of the concerned Plant Managers.
- There was no system of retaining batch-wise and date-wise samples of products in the FPPs up to the expiry date of products to contest/verify the quality control complains at the later stage.
- The Company had not devised any system for conducting surprise inspection of kiosks on regular basis and obtaining feed back from all regions to ensure that no sub-standard juices were dispensed /sold through the kiosks.
- A Committee of Officers from the Head Office of the Company inspected (21-23 January 2008) FPP, Parwanoo. It observed that there was no cleaning of raw juice tanks prior to pasteurisation, non-adoption of proper procedure of detaching the cleaning system during treatment of tanks and standardisation of chemicals consumption. This had resulted in juice/products appearing darker in some tanks.
- The various processed products amounting to Rs. 15.52 lakh held in seven regional offices had exceeded the period of usage and remained unsold.

The Government stated (September 2008) that the Company had now installed permanent cleaning process system to clean the tank. It further stated that the plant and machinery had been overhauled and the system had been thoroughly

checked for coming season so that quality parameters were not compromised. The fact, however, remained that there was no quality control mechanism in place.

**Compliance of pollution control/environment management**

2.22 The Pomace Dryer valued at Rs. 75.25 lakh was installed (September 1997) in the FFP, Parwanoo to overcome the problem of pollution due to throwing of apple pomace<sup>^</sup> in the open near the plant and to dry the wet apple pomace for sale. The Company discontinued the operation of Pomace Dryer from July 2004 and the same was idle since then. The wet pomace was again thrown in the open near the plant.

Thus, the intended purpose of scientific and pollution free disposal of wet pomace had not been served. Dumping of wet pomace in the factory premises causes air, soil, water and environmental pollution and is a violation of the provisions of Water Prevention and Control of Pollution Act, 1974.

The Government stated (September 2008) that the operation of pomace dryer was discontinued due to high operational cost. It further stated that for disposal of wet pomace, vermin compost unit would be made operational. As the dumping of wet pomace in the open is violation of the provisions of the Act *ibid*, corrective action needs to be taken urgently.

**Marketing activities and trading of products**

**Marketing**

2.23 The marketing plan is prepared and targets for marketing activities are fixed for Regional Offices/Cold Storages/Branch Offices. Audit observed that while production targets were prepared for the quantity to be produced, the marketing targets were prepared for the value of goods sold. Thus, it could not be verified in Audit whether the sales targets were fixed with reference to production targets. The Management fixes annual targets for sales on *ad hoc* basis.

The targets fixed, achievements and shortfall thereagainst during the last five years ended 31 March 2008 were as under:

(Rupees in lakh)

Sl. No.	Year	2003-04	2004-05	2005-06	2006-07	2007-08 (Provisional)
1	Target	4,556.07	4,592.58	5,097.14	5,127.73	5,460.05
2	Achievement	4,333.25	3,770.33	3,704.88	2,585.57	3,041.68
3	Shortfall (1-2)	222.82	822.25	1,392.26	2,542.16	2,418.37
4	Percentage shortfall	4.89	17.90	27.31	49.58	44.29

<sup>^</sup> Apple pomace means crushed apples waste.

It would be seen from the above table that shortfall in achievement of targets increased from Rs. 2.23 crore in 2003-04 to Rs. 24.18 crore in 2007-08. Targets and achievements of the Company under broad heads are given in **Annexure 14**. It would be seen that the sale declined considerably from Rs. 43.33 crore in 2003-04 to Rs. 30.42 crore in 2007-08 mainly due to decrease in sale of processed products food, trading of fruits, packing material, fertilisers/TSO/insecticides and other items. Audit observed that the Company did not introduce any incentive scheme for its employees to promote sale of its products nor was there any market study or additional marketing efforts. Constant decrease in sale and non-achievement of marketing targets were mainly due to failure to achieve production targets coupled with unrealistic fixation of sales targets.

The Government stated (September 2008) that over all decline in sales was due to shrinkage in working capital available with the Company. The reply is not acceptable as it was for the Management to arrange the requisite working capital.

### ***Deficiencies in Marketing***

**2.24** Audit observed that:

- There was no laid down marketing policy.
- Different regions were following different policies.
- The Company had not framed any set pattern for working out the direct and indirect cost of production of its products, but sold its products at different rates to different bulk buyers.

The following deficiencies were noticed in the marketing activity of the Company:

- The Regional Office, Chennai appointed (October 2002 and April 2005) a salesman for 45 and 41 sales booths in Tamil Nadu and Kerala States respectively. The allotment of booths in bulk to a single salesman without inviting tenders lacked fairness, competitiveness and transparency.
- The Company sold 243 MTs of AJC produced by FPP, Parwanoo to Nestle India Private Limited, Moga during 2003-06 at a rate less than the direct cost of production resulting in loss of Rs. 53.18 lakh. The sale to other\* customer was, however, made at comparatively much higher rates.

The Government stated (September 2008) that the demand of AJC in domestic and international market was very less and to avoid carrying cost, AJC was sold to Nestle India and the Company did not incur any loss. The fact, however,

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\* *Mohan Meakins Ltd. and Britannia Industries @ Rs. 51.41 and Rs. 67.91 per kg during 2003-04, Rs. 44.23 and Rs. 80 per kg during 2004-05 and Rs. 55 and Rs. 85.25 per kg during 2005-06 respectively.*

remained that the Company incurred a loss of Rs. 53.18 lakh on account of sales to Nestle India Private Limited, while it sold the same product to other customers at an increased price covering the total cost of production during the same period.

- The agreements entered into with the distributors did not include provision for payment of incentive for lifting more than the agreed quantity.

#### ***Undue favour to the distributors***

**2.25** The Company executed (February 2004) an agreement with Glacier Marketing Network (GMN), Delhi for appointing them as sole distributor for the sale of AJC and other products of the Company in the National Capital Territory of Delhi. The agreement was valid up to February 2008. Audit scrutiny of the terms and conditions of the agreement revealed that the Company had not exercised due care in safeguarding its financial interests and extended an undue favour of Rs. 29.72 lakh to GMN as detailed below:

- The Company through its Regional Office, Delhi, had over the years established a network of more than 60 kiosks/vendors as on 31 March 2004. These kiosks/vendors obtained products from the distributors after February 2004 onwards till February 2008. The GMN was assigned (February 2004) a sale target of Rs. 80 lakh though the Company made sale of Rs. 1.16 crore during 2002-03 on its own without any distributor.
- By authorising GMN to supply all products to kiosks/vendors, the Company passed on its own price margin of Rs. 29.72 lakh to the distributor during February 2004 to February 2008 as commission on sales.

The Government stated (September 2008) that appointment of sole distributor was a policy decision taken after detailed deliberations. The reply is contradictory as after the completion of the agreement period with GMN in February 2008, the Company had taken over the distribution activity again to be carried out by itself, thus failing to safeguard its financial interest earlier.

#### ***Sundry debtors and other receivables***

**2.26** As per the credit policy (March 2001) of the Company, credit sale up to 30 and 45 days was permissible to Kiosk holders and distributors respectively against post dated cheques. The total amount outstanding from debtors as on 31 March 2008 was Rs. 2.29 crore. The Company considered debtors of Rs. 61.10 lakh as doubtful of recovery as these pertained to period beyond 45 days.

Audit scrutiny of records relating to sundry debtors and other receivables revealed the following points:

- Age-wise classification of debtors and bifurcation of debtors before and after implementation of credit policy (March 2001) were not available at the Head Office.

**The Company could not execute two decreed cases of Rs. 2.83 crore due to its failure to trace out the parties.**

- As per details of court cases made available by the Company, 153 cases involving recovery of Rs. 1.09 crore (1978-79 to 2007-08) were pending in various courts for decision. In respect of debtors of Rs. 29.62 lakh outstanding for more than three years, no legal action had been initiated by the Company.
- In two\* cases involving an amount of Rs. 2.83 crore, decrees were awarded (1999 and 2000) in favour of the Company but the same could not be executed due to non-availability of addresses of the parties concerned. The Company had not taken action to trace out the parties.

The Government accepted (September 2008) the audit observation and stated that a Committee had been constituted to recommend the cases for fixing the responsibility for the non-recovery. In respect of decreed cases, efforts were being made to locate the properties of the debtors.

### ***Surplus manpower***

**During 2004-08, the Company paid Rs. 1.23 crore to 40 employees who were in excess of the requirement.**

**2.27** The Company incurred administrative expenses of Rs. 37.33 crore during 2004-08. Audit scrutiny revealed the following:

- The Company had incurred an amount of Rs. 1.23 crore on 40 surplus employees during 2004-08.

The Government stated (September 2008) that efforts were being made to adjust surplus employees in other corporations/departments. As no surplus employee could be got adjusted during 2004-08, urgent action is required to be taken.

**The Company failed to deposit its CPF contribution of Rs. 97.75 lakh as on 31 March 2008.**

- The Company did not transfer any amount of its own contribution to the CPF<sup>^</sup> Trust during January to March, May and July 2007. As on 31 March 2008, the outstanding balance was Rs. 97.75 lakh. In view of the penal provisions contained in the Employees Provident Fund and Miscellaneous Provisions Act, the non-payment of CPF dues would result in substantial financial implication in terms of levy of penal interest.

The Government stated (September 2008) that the Company was remitting monthly employees contribution to the CPF Trust regularly despite its fragile liquidity position. The reply is not based on the fact as the Company had an outstanding amount of Rs. 97.75 lakh payable as on 31 March 2008 to the CPF Authorities.

### ***Performance of Branch offices***

**2.28** The Regional Offices and Branches were 11 and 27 respectively as on 31 March 2008 as detailed in **Annexure 15**.

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\* *M/s SPI Beverages Pvt. Ltd., Delhi and M/s Gauri Sales Agency, Guwahati.*

<sup>^</sup> *Contributory Provident Fund.*



Eleven branches were continuously incurring losses and loss suffered during 2003-08 by these branches amounted to Rs. 4.26 crore but the Management did not take any action to improve their working or to close these branches.

Audit scrutiny of performance of 24 branches (except Mumbai Regional Office which had not maintained separate profit and loss account for branches), revealed that 11<sup>^</sup> branches had continuously incurred loss (Rs. 4.26 crore) during the last five years. The other 11\* branches incurred loss of Rs. 4.15 crore in four out of the last five years ended 31 March 2008. The Company had not reviewed the performance of branches nor taken any action to make them viable. In spite of the COPU recommending (August 2005) for closure of Nagpur and Ahmedabad branches after discussion on paragraph 2.10.3 of the Report of the CAG (Commercial- Government of Himachal Pradesh) for the year 2000-01, the Company had not taken any action for closure.

The Government stated (September 2008) that restructuring of branches and manpower was under active consideration and the decision for closing down of such branches would be taken after approval of the competent Authority. Non-implementation of COPU recommendation for more than three years indicates that the Company has not taken the COPU recommendation seriously.

#### Other activities

#### *Loss due to non-acceptance of offers received for taking idle infrastructure on lease*

2.29 To utilise the idle assets<sup>♥</sup> available in the apples producing areas, the Company invited (December 2005) offers from private parties. The offers received were sent (May 2006) to the State Government for approval. Further information called (June 2006) for by the State Government was also furnished (July 2006). But, thereafter, neither the Company pursued the matter with the State Government nor the State Government had approved the proposal so far (July 2008). This would have assisted the Company a financial support (Rs. 1.05 crore *per annum*) on account of rent income and recovery of salary of staff. Besides, the agreed investment of Rs. 25.30 crore to be made by the lessee for up-gradation of facilities would have also benefited the Company and the fruit growers of the State. The Company had not invited fresh bids for leasing out these idle assets so far (March 2008).

Failure of the Company/State Government to accept the highest offer deprived the Company of annual income of Rs. 1.05 crore from its idle infrastructure.

The Government stated (September 2008) that the proposal could not be approved in time. As a result, the participants lost interest in it. It further stated that the Company had invited fresh offers during 2008-09. The fact remained that the

<sup>^</sup> Bangalore, Chamba, Cochin, Delhi-I, Delhi-II, Kangra, Kolkatta , Kullu, Lucknow, Manimajra and Rajgarh.

\* Bhopal, Chennai, Chopal, Jarol Tikkar, Kandrori, Mumbai, Patlikuhl, Rampur, Rekong Peo, Rohru and Secunderabad.

♥ Packing and grading houses and Cold Storages: Gumma, Jarol Tikkar, Oddi and Rohru, Grading houses: Rajgarh and Reckong Peo.

inaction on the part of the Company/ State Government had deprived the Company of substantial financial earnings.

***Cold storages in terminal markets***

**2.30** The Company operates four cold storages in terminal markets for providing storage facilities to growers. The apples and other products are stored in these cold storages and the Company receives storage charges from the customers. The Company had not evolved a system for fixation of storage charges based on market study so as to revise the storage charges periodically. The utilisation of three cold storages in terminal markets test checked during audit is given in **Annexure 16**.

It would be seen from the Annexure that cold storage, Delhi earned profit during 2003-08; cold storage, Parwanoo earned profit during 2003-08 except 2006-07 when it incurred loss of Rs. 5.25 lakh and cold storage, Chennai incurred loss of Rs. 1.36 crore during 2004-08 due to under utilisation.

The up-gradation of cold storages at Delhi, Mumbai and Chennai had not been carried out to compete with the private parties in the market though the COPU had recommended (August 2005) for up-gradation after discussion of the Report of the CAG (Commercial-Government of Himachal Pradesh) for the year 2000-01.

The Government stated (September 2008) that the up-gradation of cold storages at Chennai, Delhi and Mumbai could not be done due to paucity of funds and efforts were being made to utilise these properly in future.

**Despite recommendations of COPU (August 2005), the Company failed to up-grade its Cold Storages at Delhi, Mumbai and Chennai.**

**Internal control and internal audit systems**

***Internal control system***

**2.31** Internal control helps in creating reliable Management Information System (MIS) for effective decision making.

The following deficiencies were noticed in the internal control system:

- The Accounts manual prepared (1991) by the Company had not been revised and updated so far (September 2008).
- The Company did not have functional manuals for purchase, sales and other related activities.
- Internal controls in regard to consumption of raw material, packing material and fuel with reference to norms were non-existent.
- Absence of an adequate and proper system of periodical physical verification of stores and stocks to be carried out in branches.

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

**2.32** Internal audit is an integral part of internal control system of an organisation. The internal audit was carried out by firms of Chartered Accountants appointed by the Company on year to year basis. The Internal Auditors were required to furnish six monthly audit reports in respect of each unit. Audit, however, observed that:

- Internal audit reports were furnished annually by the Internal Auditors instead of furnishing half yearly reports.
- Consolidated and age-wise position of pending internal audit paras along with the reasons for their non-settlement were not available at the Corporate Office, which point out that due importance was not given to internal audit.
- Internal audit system did not commensurate with the nature and size of the business of the Company. In spite of being pointed out by the Statutory Auditors year after year, the Company had not taken steps to improve it.

The Government accepted (September 2008) the audit observations and stated that efforts were being made to receive the half yearly internal audit reports from the next year.

### **Acknowledgement**

Audit acknowledges the co-operation and assistance extended by the Company and officers of the State Government at various stages of conducting the performance audit.

### **Conclusion**

**The Government/Company has failed to draw a feasible and long-term rehabilitation plan to make the Company viable. The Management has also not succeeded in executing its activities of procurement, marketing and processing gainfully. The Company did not achieve its production and sales targets. The vast infrastructural facilities remained grossly under-utilised and marketing efforts were inadequate. The Management did not revitalise its continuously loss making branches or reduce surplus manpower. Internal control system was deficient as the Management failed to prevent excessive spoilage of apples and excess consumption of packing material and fuel.**

## **Recommendations**

**The Company needs to:**

- **draw a feasible and long-term rehabilitation plan and implement it;**
- **utilise the infrastructural facilities optimally;**
- **strengthen the marketing network and review the marketing policies in the best interest of the Company;**
- **improve the working of continuously loss making units or decide about their closure; and**
- **strengthen the internal control system.**

