

Chapter-II

Performance reviews relating to Government companies

Orissa Bridge and Construction Corporation Limited

2.1 Construction activities

Highlights

Orissa Bridge and Construction Corporation Limited was incorporated (January 1983) with the aim of constructing bridges, buildings, roads, irrigation projects, channels and other structures. The Company largely depended on works allotted by the State Government. However, the value of works secured through open tenders was negligible.

(Paragraphs –2.1.1 and 2.1.6)

Out of 75 works obtained (including 47 spill over works), the Company could complete 33 works during five years period ending March 2007. Out of 25 works completed after scheduled date of completion, eight works were completed with delay of more than three years.

(Paragraphs –2.1.6 and 2.1.8)

The targets for execution of works were fixed disregarding the contracted schedule of completion of works. The gap between the value of works that should have been completed as per the commitments and actual work executed ranged between 56.70 to 80.36 per cent.

(Paragraph – 2.1.7)

The Company lost Rs.13.04 crore towards overhead charges in respect of 19 works surrendered or withdrawn by the clients due to delay in execution of works.

(Paragraph – 2.1.9)

Allotted works were split into piece work and offloaded to sub-contractors in violation of the prescribed procedure.

(Paragraph – 2.1.12)

In the absence of enabling clause in agreement with the sub-contractors, the Company could not recover service charges of Rs.2.05 crore.

(Paragraph – 2.1.15)

The Company failed to realise sales tax of Rs.1.40 crore from the sub-contractors.

(Paragraph – 2.1.16)

Introduction

2.1.1 Orissa Bridge and Construction Corporation Limited (Company) was incorporated (January 1983) as a wholly owned Government Company with the main objectives of constructing bridges, buildings, roads, irrigation project channels and other structures.

However, the Company has been primarily executing the works allotted by the Department of Works (DoW) of the State Government. The Company also undertakes deposit works from other Government agencies. The Company also collects toll from vehicles on behalf of the State Government for the use of the bridges and approach roads.

The Management of the Company is vested in a Board of Directors (BoD) consisting of eight Directors including the Chairman and the Managing Director (MD). The MD, who is the only functional director, is the Chief Executive of the Company and is assisted by General Manager (Civil) and General Manager (Finance) besides three Senior Managers at the Head Office for carrying out day to day works.

The Head Office is located at Bhubaneswar and there are six* unit offices headed by Senior Project Managers, who are responsible for monitoring and execution of works. The Company also has a Quality Control Division headed by a Senior Manager.

During the period 2002-03 to 2006-07, there were 15 Managing Directors, with tenures ranging from one day to nine months. Frequent changes of the incumbent in the post of the Chief Executive impeded the pursuit of the organisation for stable and consistent approach in management.

A review on the working of the Company was included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Orissa for the year ended 31 March 1999. Another performance review focusing on the monitoring aspects in respect of the works entrusted by the State Government to the Company was included in the Report of the Comptroller and Auditor General of India (Civil), Government of Orissa for the year ended 31 March 2003. Findings appearing in these Reports are yet to be discussed by COPU/PAC (October 2007).

Scope of audit

2.1.2 The present performance review covers the construction activities of the Company for the period from 2002-03 to 2006-07. Audit examined the records maintained at the Corporate Office, five** out of six unit offices and the Quality Control Division. Further, nine contracts (Rs.148.32 crore) out of 12 contracts (Rs.186.39 crore) of value more than Rs.5 crore and 26 contracts (Rs.51.45 crore) out of 63 contracts (Rs.97.08 crore) of value less than Rs.5 crore were examined in audit.

* Bhubaneswar, Cuttack, Choudwar, Berhampur, Bolangir and Balasore

** Bhubaneswar, Balasore, Bolangir, Cuttack and Choudwar.

Audit objectives

2.1.3 The performance review on the construction activities of the Company with regard to execution of works was carried out to assess whether:

- targets for execution of works were fixed with reference to completion schedule of works;
- the planning for the execution of works was consistent with the targets;
- reasonable care was taken in preparation and timely submission of the estimates to the Technical Committee for approval in respect of allotted works and for submission of offers for securing works through tender;
- the works were executed efficiently and effectively to achieve economy and an effective monitoring system was in place; and
- the internal control systems in the Company were adequate and sufficiently sensitive to lack of documentation of various transactions and compliance with the controls and procedures prescribed.

Audit criteria

2.1.4 The audit criteria considered for assessing the achievement of audit objectives were:

- Targets for turnover set by the Company;
- Time schedule for various contracts/works as prescribed by the clients;
- Cost estimates prepared by the Company;
- Recommendations of the Technical Committees;
- Instructions/ guidelines issued by the State Government/Company;
- Various terms and conditions provided in the contracts;
- Budget estimates of the State Government and the Company; and
- Provisions of Orissa Public Works Department Code and Central Public Works Department Code.

Audit methodology

2.1.5 The methodologies adopted to achieve the audit objectives with reference to audit criteria were:

- Scrutiny of minutes and agenda papers of the meetings of the Board of Directors, estimates and offers, contract documents, correspondences with administrative department, budget files, bill of quantity register, measurement books, etc. and Monthly Progress Reports from the field offices to the Head Office.

- Examination of circulars and office orders, instructions of the Government of Orissa and Government of India with reference to the relevant issue/activity, reports relating to physical inspection of work sites and internal audit reports; and
- Interaction with the Management and issue of audit queries.

Audit findings

Audit findings as a result of performance review of the Company were reported (June 2007) to the Government/Management and also discussed (26 July 2007) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) which was attended by the Financial Advisor-cum-Joint Secretary, Department of Works of the State Government and the MD of the Company. The views expressed by the members have been taken into consideration while finalising the report. The major audit findings are discussed in the succeeding paragraphs.

Position of works in hand

2.1.6 The works executed by the Company are broadly divided into three categories:

- Works allotted by the Department of Works, Government of Orissa;
- Tender works; and
- Deposit works.

As per the Accounting Procedure issued (May 2001) by the Department of Works (DoW), **the Department allotted works valuing Rs.10 crore per year directly to the Company without call of tenders.** As such, the Company gets these works directly from DoW without participating in tenders. Besides, the Company also participates in tenders and also obtains other deposit works.

The details of different types of work received, executed and remaining in hand during the five years ending 31 March 2007 were as follows:

(Rupees in crore)

| Year | Spill over the previous year | | Works allotted/obtained during the year | | Total | | Works withdrawn/surrendered | | Total works being executed | | Works completed | | Spill over to the next year | |
|--------------|------------------------------|--------|---|---------------|-------|--------|-----------------------------|---------------|----------------------------|-------|-----------------|--------------|-----------------------------|--------|
| | No. | Value | No. | Value | No. | Value | No. | Value | No. | Value | No. | Value | No. | Value |
| 2002-03 | 47 | 158.74 | 8 | 69.28 | 55 | 228.02 | 4 | 3.23 | 34 | 16.62 | 4 | 3.72 | 47 | 208.17 |
| 2003-04 | 47 | 208.17 | 4 | 11.33 | 51 | 219.50 | -- | 0 | 31 | 22.20 | 7 | 11.13 | 44 | 197.30 |
| 2004-05 | 44 | 197.30 | 4 | 5.17 | 48 | 202.47 | 6 | 25.03 | 32 | 37.48 | 12 | 40.70 | 30 | 139.96 |
| 2005-06 | 30 | 139.96 | 5 | 13.12 | 35 | 153.08 | 5 | 47.26 | 32 | 22.33 | 6 | 7.46 | 24 | 83.49 |
| 2006-07 | 24 | 83.49 | 7 | 25.83 | 31 | 109.32 | 4 | 47.21 | 21 | 9.87 | 4 | 19.35 | 23 | 61.80 |
| Total | | | 28 | 124.73 | | | 19 | 122.73 | | | 33 | 82.36 | | |

It would be seen from the table that during the period 2002-03 to 2006-07, the Company secured 28 works valued at Rs.124.73 crore. Of these, 22 works

(Rs.120.76 crore) were directly allotted by DoW and only one work (Rs.1.33 crore) was obtained through open tender. The remaining five works were deposit works (Rs.2.64 crore). Out of 75 works (including 47 spill over works) obtained by the Company, the Government withdrew 15 works valued at Rs.102.27 crore due to slow progress in execution and the Company surrendered four works valued at Rs.20.46 crore. As against 28 works allotted during 2002-07, 19 works (68 per cent) were withdrawn/surrendered. Thus, the business received was only for Rupees two crore during the above period. Further, out of 23 works valued at Rs.61.80 crore pending for execution as on March 2007, 20 works were due for completion by March 2007. It was observed that out of 33 works (valued at Rs.82.36 crore) completed during 2002-03 to 2006-07, the Company could complete only eight works within the scheduled period of completion. The remaining 25 works were executed with delays ranging from two to 94 months as discussed in paragraph 2.1.8 *infra*. Thus, the track record of the Company for completing works within the stipulated period was far from satisfactory.

Targets and achievements

2.1.7 For execution of works, budget containing work-wise annual targets based on the progress of work reported by the field units is prepared. The targets set by the Company vis-à-vis the targets required to be fixed considering the contracted schedule of completion and the achievement there against for the last five years ending 2006-07 were as follows:

| (Rupees in crore) | | | | | | | |
|-------------------|---|---|----------------------------------|--|-------------------------|---|--|
| Year | Target fixed for value of work to be done | *Required target as per completion schedule | Shortfall in fixation of targets | Percentage of shortfall in fixation of targets | Value of works executed | Percentage of shortfall in achievement vis-à-vis target fixed | Percentage of shortfall in achievement vis-à-vis required target as per schedule |
| 1 | 2 | 3 | 4 (3-2) | 5 | 6 | 7 | 8 |
| 2002-03 | 21.93 | 76.64 | 54.71 | 249.47 | 16.62 | 24.21 | 78.31 |
| 2003-04 | 20.68 | 91.83 | 71.15 | 344.05 | 22.20 | Nil | 75.82 |
| 2004-05 | 30.70 | 86.56 | 55.86 | 181.95 | 37.48 | Nil | 56.70 |
| 2005-06 | 21.07 | 113.70 | 92.63 | 439.63 | 22.33 | Nil | 80.36 |
| 2006-07 | 35.94 | 41.37 | 5.43 | 15.10 | 9.87 | 72.51 | 76.12 |

The following points were noticed:

- The targets were not fixed as per the contractual schedule of completion of works. The gap between the value of works that should have been completed as per commitments made to the clients and the value of works actually completed ranged between 56.70 to 80.36 per cent.
- Further, the availability of funds was not properly considered while fixing the targets.

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

- In respect of 15 works, budget provision of Rs.14.38 crore was made against fund allotment of Rs.36.41 crore by the client. In case of six works, budget provision was made on higher side by Rs.16.98 crore compared to the provisions made by the DoW, whereas in case of 13 works, though the DoW made a provision of Rs.17.73 crore, no provision was made by the Company in the budget.

Targets were fixed disregarding contractual schedule of completion as well as budgetary provisions.

It is obvious that the targets were not fixed on realistic basis as neither the commitments made to the clients nor availability of funds were factored in. As the targets for the year are an outcome of the planning process, unrealistic targets reflected faulty planning.

The Management/Government stated (August 2007) that the changes made in the supplementary budget of the State Government could not be carried out in the budget prepared by the Company. Hence, the target and achievement varied from work to work. The reply is not tenable as the audit observations made are based on the original budget of the State Government on the basis of which the Company fixed the targets and not on the basis of the supplementary budget of the State Government.

Delay in completion of works

2.1.8 During 2002-2007, the Company completed execution of 33 works including 11 works received during the period. Of these, 25 works were completed after the scheduled date of completion and the delay in respect of eight works was more than three years. The maximum delay in execution was more than seven years over the scheduled date of completion. Even in respect of on-going works, the scheduled period of completion was already over in respect of 20 works. The extent of delay in execution of works is detailed below:

| | Total no. of works | Delay in months | | | | | | |
|-----------------|--------------------|-----------------|------|-------|-------|-------|-------|---------------------|
| | | 1-6 | 7-12 | 13-18 | 19-24 | 25-30 | 31-36 | More than 36 months |
| Completed works | 25 | 2 | 4 | 3 | 4 | 1 | 3 | 8 |
| On-going works | 20 | 6 | - | 2 | - | - | 1 | 11 |

The extent of delays at various stages was analysed in audit in respect of both completed and ongoing works and the same is depicted in the following table:

| | Total no. of works | Delay in months | | | | | | |
|------------------------------------|--------------------|-----------------|------|-------|-------|-------|-------|---------------------|
| | | 1-6 | 7-12 | 13-18 | 19-24 | 25-30 | 31-36 | More than 36 months |
| Delay in commencement* | 34 | 18 | 5 | 2 | 2 | - | - | 7 |
| Delay in submission of estimates** | 36 | 16 | 8 | 2 | 6 | - | 2 | 2 |
| Delay in approval by TC*** | 34 | 6 | 7 | 4 | 2 | 2 | 3 | 10 |

* After allowing two months time for preliminary work for commencement of work.

** After allowing one month time from the date of allotment for preliminary preparation.

*** After allowing four months time from the date of allotment.

Audit scrutiny revealed that the following were the main reasons causing delay in execution of works:

- Delay in commencement of work;
- Delay in submission of estimates for obtaining approval of rates from the Technical Committee;
- Improper selection of sub-contractors on the basis of quotations instead of open tenders;
- Deployment of one sub-contractor in more than one work;
- Poor monitoring and supervision of works; and
- Delay in release of funds by the client.

The delay in completion of works was up to seven years leading to delay in creation of infrastructure.

Thus, the delay in completion of works can be attributed to faulty planning as well as poor supervision and monitoring. This resulted in cost overrun and loss of socio-economic benefits from the projects. Further, the Company receives 15 *per cent* of the value of works executed as overhead charges to meet its fixed overhead charges. Delay in execution resulted in delay in inflow of revenue, thereby causing financial deficiency in meeting Company's fixed overheads. Failure in completion of work also led to withdrawal of works by the client, besides loss of credibility, as discussed in the succeeding paragraphs.

Withdrawal/surrender of works

Delay in execution of works led to withdrawal and surrender of works resulting in loss of Rs.13.04 crore to the Company.

2.1.9 During the period 2002-07, DoW withdrew 15 works valued at Rs.102.27 crore due to slow progress, delay/non-execution of works, lack of monitoring and control over the sub-contractors, etc. Similarly, during the said period, the Company surrendered (July 2004) four works valued at Rs.20.46 crore. It was observed that one out of four works was surrendered (July 2004) even before its commencement and three works were surrendered between May to July 2004 after execution of works partly, the value of which ranged between Rs.24.56 lakh to Rs.2.90 crore (i.e. 5.40 *per cent* to 48.92 *per cent*). Due to withdrawal and surrender of works, the Company lost overhead charges of Rs.13.04 crore[#] on the balance unexecuted works.

Further, it was observed that out of the withdrawn and surrendered works, three surrendered works and two withdrawn works were awarded by the DoW to private contractors at Rs.26.06 crore against the balance work of Rs.14.92 crore (detailed in **Annexure-9**). The State Government was, thus, put to extra financial burden of Rs.11.14 crore which was mainly attributed to the failure of the Company to execute the works in time.

The Government/Management stated (August 2007) that owing to denial of market rates and non-cooperation from the DoW for execution of works, the Company was forced to abandon and surrender some of the works. It was further stated that the Company would have suffered financial loss had the

[#] 15 *per cent* of value of work withdrawn/surrendered Rs.122.73 crore less work executed Rs.35.79 crore.

work been executed at the original rates. The reply is not tenable because the DoW was already taking care of the increase in the cost of the works by allowing the revised schedule of rates from time to time. Moreover, the Company executed the works through sub-contractors in contravention of the prescribed procedures and the delay in completion of works was mainly due to improper selection and deployment of sub-contractors.

Execution of works

Successful implementation of a project depends upon efficient contract management, maintenance of quality, sound financial management and financial propriety while incurring expenditure. Scrutiny of the execution of works by the Company revealed that the contract management was deficient and failed to protect the interest of the Company as discussed in the succeeding paragraphs.

Sources of funds

2.1.10 In respect of works allotted by DoW, the Company executes the works through sub-contractors and funds are also arranged by the sub-contractors. The Company receives payment from the DoW on submission of Running Account (RA) bills. In respect of works of DoW executed departmentally and tender works, funds are met from the advances released by DoW, the overhead charges received for the works executed and margin from toll collection. In respect of deposit works, the Company executes the works from the funds deposited by the client.

Preparation of estimates

2.1.11 In respect of allotted works, the plan, tentative estimates and designs of the works are finalised by the DoW and allotment orders for works are issued. On receipt of allotment order for a work, the Company executes an interim agreement with the DoW for getting the order for commencing the execution of work. The validity of the interim agreement is for four months within which the Company is required to finalise the rates with the approval of Technical Committee (TC) of the State Government and draw up the final agreement.

Audit scrutiny revealed that in case of 19 allotted works, the Company submitted (between February 2003 to April 2006) detailed estimates after a delay of one to 42 months. This led to delay in approval of rates by TC, delay in signing of agreement and delay in finalisation of bills of the sub-contractors. Out of 23 ongoing works as on 31 March 2007, final agreements had not been drawn up in 10 cases despite lapse of the validity of the interim agreements. Similarly, out of 33 completed works, final agreements were not drawn up in six cases due to non-approval of rates by TC. Thus, reasonable care was not taken in preparing the estimates and submitting these timely to the TC for approval.

Execution of allotted works

2.1.12 As per the accounting procedure issued (August 1983, March 1990 and May 2001) by the State Government, **the Company is not allowed to sub-contract the work allotted by DoW except for piece work.** In the five units test checked by Audit, it was observed that out of 42 works executed during the period 2002-2007, 40 works were offloaded to the sub-contractors in contravention of the prescribed procedures. Only two works were executed departmentally.

Audit scrutiny further revealed the following:

The Company off-loaded works to the sub-contractors by splitting up the entire work without inviting open tenders.

- Rates approved by the DoW (as prepared by the Company and approved by TC) includes 15 *per cent* as overhead charges to be received by the Company *plus* inflation percentage on the Schedule of Rates (SR). When the sub-contractor quotes, he also quotes his margin hence, the costs of works are overloaded to that extent to be borne by the DoW. By sub-contracting the works the Company has undergone loss/excess expenditure incurred by the DoW to the extent margin of profit of sub-contractors.
- Costs of the works further gets inflated due to service charges payable to the Government of Orissa on the total value of the works executed by the sub-contractors.
- While offloading the works to the sub-contractors, the Company split the entire work into different parts limiting each to Rs.5 lakh for timely commencement and completion as per the decision (November 1998) of the BoD. The Company awarded (November 1998 to February 2006) the works on quotation basis without calling for competitive rates through open tender as required under OPWD code. Thus, on the one hand the rates were not competitive and on the other there was no transparency in award of works. In respect of 33 works, the Company split the works into parts ranging from six to 328 parts, limiting each part to Rs.5 lakh. However, out of 33 works, 25 works were completed with delays ranging from two months to almost eight years as discussed in para 2.1.8 *supra*.
- The Company engaged (between April 2002 to April 2006) six contractors for execution of 16 works i.e. more than one work was awarded to a single contractor. This led to delay in completion. Thus, the intended objective for splitting the works i.e. completion of works in time could not be achieved.
- Of the 23 works (Rs.61.80 crore) continuing as of March 2007, five *per cent* works were being executed through piece work contractors and 95 *per cent* through sub-contractors. It was noticed that in some cases the sub-contractors had, in turn, further sub-contracted the allotted works.
- Due to sub-contracting of works, the manpower, machine and equipment of the Company remained idle.

The Government/Management stated (August 2007) that it was not possible to do the entire work either by open tender or departmentally in view of the long time taken by DoW for finalisation of rates. It was further added that they were searching for an alternative method like introduction of vendor system, departmental execution, etc. to make the system more transparent and efficient for execution of works. The reply is not tenable as the Company did not take up the matter with DoW either for the approval of rate within the scheduled time or for redefining the objective clause/revision of accounting procedure to allow for competitive rates and transparency in award of contracts.

Non-verification of antecedents of sub-contractors

2.1.13 The BoD decided (October 2001) to introduce vendor system for execution of works and a pre-qualification Vendor Evaluation Committee (VEC) was formed (February 2004) to scrutinise the applications received from the vendors. Based on the recommendations (March 2004 to March 2005) of the VEC, the BoD approved a list of 67 vendors till March 2007 for offloading of works by the Company. It was, however, observed that the Company did not verify essential details such as the capability of the contractors, registration with State PWD and its subsequent renewals, labour license, etc. before offloading the works to them. It was, further, noticed that the Company appointed (March 2004 to March 2005) six construction firms without verifying their turnover for the past three years. The Company also did not cross-check the antecedents of the applicants from other sources and relied entirely on the information furnished by the applicants.

The Management/Government stated (August 2007) that the applicants who had executed their works earlier and those who participated in their tenders were given preference. It was further stated that the vendor system has not yet been adopted by the Company. The reply is not tenable since the Company had failed to follow the prescribed essential parameters while selecting sub-contractors. The fact thus remains that there were instances where the sub-contractors could not execute the works and had offloaded the same to other sub-contractors.

Non-recovery of earnest money deposit and initial security deposit

2.1.14 As per PWD Contractor's Registration Rules, 1967, all contractors for the purpose of participation in tender have to deposit one *per cent* of the bid amount as earnest money deposit (EMD) at the time of submission of tender and another one *per cent* of the bid amount at the time of signing of agreements as initial security deposit (ISD). It was noticed that in respect of 12 works, the Company did not collect EMD and ISD amounting to Rs.1.31 crore from the sub-contractors during the period 2002-03 to 2006-07 and also lost interest thereof.

The Government/ Management stated (August 2007) that out of 12 works, 11 works had since been completed without any defect and the other work which was partly completed had been withdrawn by the Government. The fact, however, remains that the Company failed to collect EMD and ISD and it has neither stated whether EMD/ISD will be collected in future.

The Company did not collect earnest money and initial security deposits amounting to Rs.1.31 crore from the sub-contractor.

Execution of agreements with sub-contractors

2.1.15 The Company enters into agreements with sub-contractors for execution of works. The following deficiencies were noticed:

- There was no uniformity in the terms and conditions of the contracts executed with different sub-contractors.
- No penal clause was incorporated in the terms and conditions of the contracts/ agreements for timely completion of works. Further, no clause regarding execution of works at the risk and cost of the contractors in case of poor performance, etc. was included in the contracts. As a result, the Company was at the mercy of the contractors.
- The DoW decided (April 2003) to collect service charges @ 5 per cent of the estimated cost from the Company which would not be included in the estimated cost. As the Company executes works through sub-contractors, it should have collected the service charges. During the period 2003-04 to 2006-07, the Company executed 18 works valued at Rs.40.91 crore but, in the absence of any enabling clause in the agreement, the Company could not recover service charges amounting to Rs.2.05 crore.

Due to absence of enabling clause in the agreement with the sub-contractors, the Company could not recover service charge of Rs.2.05 crore.

The Government/ Management stated (August 2007) that the service charges prescribed by DoW was not applicable to the Company as the Company executed the works of the parent department (DoW). It was also assured that the Government would issue an order containing a clarification to that effect. The reply is not tenable as the service charges are payable to the Government and so far no exemption has been granted by the Government.

Non-recovery of sales tax

2.1.16 Under the Orissa Sales Tax Act, the principal contractor is to be assessed for the liability of sales tax and not the sub-contractor. The Technical Committee (TC) fixes the rate including the sales tax component. The Company, therefore, is required to reduce the sales tax element from the TC rate while offloading the works to the sub-contractors. In case of failure to do so, the Company has to meet the same from its overhead charges. The Company, instead of reducing the sales tax component from the TC rate, included a clause for deduction of sales tax in the agreement while awarding the works to the sub-contractors. Meanwhile, the Managing Director (MD) of the Company instructed (July 2005) not to deduct sales tax from the sub-contractors on the ground that sales tax should be deducted from the principal contractor (i.e. the Company) and not from the sub-contractors.

Audit scrutiny revealed the following:

- In five cases (July 2005 to March 2007), the Company neither revised the rates nor recovered sales tax from the sub-contractors. As a result, the Company could not realise sales tax of Rs.1.40 crore from the sub-contractors.

Non-reduction of sales tax component from the rates offered to the sub-contractors resulted in loss of Rs.1.40 crore.

- The Company procured 13,770 quintals* of steel through the sub-contractors for executing five works during the period 2002-03 to 2006-07. As the steel was not procured by the sub-contractors in the name of the Company due to non-inclusion of enabling clause in the agreement, refund for sales tax of Rs.34.99 lakh already paid could not be claimed by the Company at the time of final assessment. As a result, the Company had to pay double sales tax i.e. to the sub-contractors as well as to the Sales Tax Authorities.
- In respect of ten works, the Company recovered sales tax of Rs.19.26 lakh from the sub-contractors as per the agreements and deposited the same with the sales tax authorities although DoW had already recovered the sales tax from the bills of the Company against these works. This resulted in double deposit of sales tax against the same works. The Company was not legally authorised to deduct sales tax from the sub-contractor. Thus, due to lack of proper procedure for recovery and deposit of sales tax, the Company could not claim refund and sustained loss of Rs.19.26 lakh.

The Government/Management, while admitting the above facts, stated (August 2007) that the Company was negotiating with sub-contractors to bear the sales tax burden and would also appeal before the appropriate authority for relief against sales tax paid on material procured by the sub-contractors. Further developments are awaited (October 2007).

Undue favour to the sub-contractor

Construction of Jokadia Bridge

2.1.17 The work of construction of High Level Bridge and approach road over river Kharasuan near Jokadia was allotted (May 2001) to the Company at Rs.7.83 crore with stipulation to complete the work by March 2004. The Company sub-contracted (December 2001) the work to SSM Construction (P) Limited for completion by March 2004. The sub-contractor commenced the work in December 2001. However, no penalty clause was incorporated in the agreement for timely completion of work. The work could not be completed in time and the DoW withdrew (January 2007) the work. The Company also rescinded (January 2007) the contract with the sub-contractor after execution of work valuing Rs.4.26 crore (54.41 *per cent*) upto December 2006. In the absence of the penalty clause, the Company could not claim penalty of Rs.0.71 crore as applicable under the OPWD rules. Due to termination of the contract, the Company also failed to earn overhead charges of Rs.20.87 lakh on balance work.

Similarly, the Company deployed (April 2002) one of its cranes at the work site of the sub-contractor without entering into a formal agreement for hire-charges. The crane remained in the custody of the sub-contractor (August 2007). As a result, the Company could not claim the hiring charges of

* Orders were placed in quintals instead of MTs.

Rs.78.15 lakh (excluding Rs.1.05 lakh already recovered) for the period April 2002 to March 2007 from the sub-contractor.

The Management/Government stated (August 2007) that the crane of the Company was engaged as and when required in the work and the sub-contractor supplied the operator and POL for the crane and hire charges of Rs.1.05 lakh has been recovered. The reply is elusive. Reasons for sub-contracting, not binding the contractor for delays in execution through penal clause in agreement and non-signing of agreement for recovering hire charges for crane were not furnished to audit.

Construction of High Level bridge over river Birupa

Adoption of revised schedule of rates from the retrospective effect resulted in loss of Rs.75.17 lakh to the Company.

2.1.18 DoW allotted (December 2002) the work of construction of High Level Bridge over river Birupa at Paga-Gopinathpur at a cost of Rs.12.85 crore for completion by July 2004. The Company engaged (January 2003) a sub-contractor to execute the work at Schedule of Rate (SR)-2000. The BoD, however, decided (March 2004) to allow SR-2003 plus 7.5 per cent to the contractor from January 2003 subject to reimbursement of Sales Tax by DoW to the Company. Subsequently, the Company, without approval of BoD, negotiated (July 2006) for 3.5 per cent over SR-2003, but Sales Tax was to be borne by the Company. As the SR-2003 was effective from 1 October 2003, allowing the sub-contractor SR-2003 plus 3.5 per cent from 1 January 2003 retrospectively was not justified. Thus, the sub-contractor was extended undue benefit of Rs.26.82 lakh towards excess payment due to revision of rates and the Company had to bear the Sales Tax liability of Rs. 48.35 lakh not paid by the DoW.

The Management/Government stated (August 2007) that the negotiation with the sub-contractor was for 3.5 per cent excess over SR-2003 instead of 7.5 per cent and the excess payment was reduced to Rs.26.82 lakh. The reply is not tenable since the Company adopted SR-2003 with retrospective effect without considering the financial implications. Further, the reply is silent as to why the Company accepted the Sales Tax liability.

Excess release of payments

Payment to the sub-contractors were made in excess of actual value of work executed ranging between Rs.0.45 lakh to Rs.2.97 crore.

2.1.19 As per the terms of agreement, the Company was receiving payments from DoW against Running Accounts bills and payment to sub-contractors was to be made on the basis of check measurement. From the payments received from DoW, the Company after retaining 15 per cent towards overhead charges makes payment to the sub-contractors as per the actual value of work done. Audit scrutiny in respect of four works revealed that though the actual work done by the sub-contractor was far less, higher measurements were taken and payments released to the sub-contractors although the work done was far less. The excess payments on this account ranged between Rs.0.45 lakh to Rs.2.97 crore during the period from October 2002 to September 2005.

The Management/Government replied (August 2007) that in respect of Kandarpur-Machgaon Road, less amount was released by DoW/paid to sub-

contractor as compared to the actual work executed. It was further stated that all the payments were made to the job workers in respect of Solapur bridge and Ballavighat bridge after execution of work by them and release of funds against running bill by the client department. The reply was factually incorrect as the value of work actually executed by the sub-contractor up to 31 March 2003 was Rs.54.15 lakh. While DoW released Rs.1 crore, the Company paid Rs.96.38 lakh to the sub-contractor.

Construction of High Level Bridge over river Kelua

2.1.20 The work of construction of High Level Bridge over Kelua river at Kaima-Narasinghpur-Niraghat Road was allotted (October 2000) to the Company at an estimated value of Rs.6.08 crore for completion by January 2003. The Company sub-contracted (January 2001) the work to SSM Construction (SSM). The sub-contractor started the work (January 2001) and executed 25 *per cent* of the work valued at Rs.1.50 crore (June 2001). Thereafter, SSM offloaded the work to another sub-contractor (ECMM) who did not have the required infrastructure. As a result, 48 *per cent* of the work valued at Rs.2.90 crore could be executed by both the contractors. Due to poor financial condition of the Company and incapability of the sub-contractors to execute the work, the work was withdrawn by the DoW at the request (July 2004) of the Company. The Company was, thus, deprived of earning overhead charges of Rs.41.55 lakh.

The Government/ Management stated (August 2007) that the executing agency (SSM – ECMM) was a joint venture of the firms SSM and ECMM which had taken up the work. Due to poor financial status of the Company, the progress of work was not up to the mark for which the work was withdrawn. The reply is not tenable as the Company did not verify the capability of the sub-contractor before award of the work.

Construction of High Level Bridge over river Baitarani

2.1.21 DoW allotted (December 2002) the work of construction of High Level Bridge over Baitarani River at Ballavighat for Rs.17.59 crore, for completion by June 2006. Though the bridge was completed (June 2005), the approach roads remained incomplete (March 2007). Audit scrutiny of the work revealed the following:

- Out of the quotations received from the three firms, the lowest quotation (B.V. Subba Reddy Construction) was on original letter head whereas the quotations of the other two sub-contractors, viz. Tirumala Constructions and Sree SSM Constructions were on the photocopy of letter heads. However, the Company did not confirm the genuineness of these quotations. **As these two firms did not deposit EMD/ISD, they were not eligible for bidding.**
- The Company split the work into 328 parts limiting the value of each part to Rs.5 lakh each so as to complete the work as per schedule but awarded all the 328 parts to B.V. Subba Reddy Construction on quotation basis without adopting the normal open

tender procedure for obtaining competitive rates and ensuring transparency.

- As per the agreement with the sub-contractors, measurements were to be taken at least once in a month by the unit. As the measurements in Measurement Book (MB) were not recorded regularly, the actual value of work done in each month could not be vouchsafed in audit. The Government/ Management stated (August 2007) that measurements had been recorded in the MB as and when it was taken by the DoW as per work executed at the site. The reply indicates that the measurements were not recorded regularly as per the prescribed procedure.
- Though there was no clause in the agreement for revision of the rates, the Company submitted (April 2006) a proposal for revision of rates to TC. The Company, in anticipation of approval of TC for the proposed rates, paid advance of Rs.1.35 crore to the sub-contractor. These advances were still to be adjusted. The Government/ Management stated (August 2007) that advance given to the contractor will be adjusted after executing the agreement as per instructions (September 2006) of Head Office. The reply is not tenable since advances were given in violation of OPWD rules.

Irregularities in the construction of Kandarpur- Machgaon Road work

2.1.22 The Company was allotted (March 2003) the work of repairs and reconstruction of Kandarpur-Machgaon Road for Rs.16.47 crore for completion by June 2006. The sub-contractor engaged (March 2003) by the Company executed only a certain portion of the work valued at Rs.1.16 crore up to May 2003 and thereafter stopped the work. The District Collector complained (April 2003) that the quality of works done by the sub-contractor was very poor and the thickness of the black topping was not as per the estimates. In the meantime, nine other sub-contractors were engaged (between October 2003 and January 2005) by the Company for execution of the balance works (value: Rs.15.31 crore). The total cost of the work was revised (July 2006) to Rs.38.57 crore due to change in schedule of rates and also increased scope of work. Further, as per advice of the State Government, the work was withdrawn (December 2006) from the Company after completion of 55 *per cent* of the work (value: Rs.21.27 crore as per revised estimate). The Vigilance Department filed (December 2006) an FIR and seized (January 2007) related records of the Company. As per the details recorded in the FIR, the sub-contractors were extended undue benefit of Rs.25.34 lakh by way of the payments made to them against substandard works. The final results of the Vigilance case were awaited (August 2007). Splitting of the works in contravention of the prescribed procedure did not help in completion of works as per schedule.

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|--|
| Loss due to execution of work without prior approval to deviation of work |
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2.1.23 DoW allotted (January 1996) the work of construction of High Level Bridge over Brahmani River on Dhenkanal- Kamakhyanager Road at a cost of

Rs.55.70 lakh for completion by June 2001. The Company engaged (December 2000) a sub-contractor and executed work valued at Rs.27.35 lakh. Due to non-payment, the sub-contractor moved (July 2004) the court and as per the court order (February 2006) the Company paid the dues to the sub-contractor. The DoW, however, did not release payment of Rs.27.35 lakh to the Company as there was no budget provision and the Company executed the work without prior approval of the deviations. The Management/ Government stated (August 2007) that though there was no budget provision, the work was executed to make the bridge motorable and steps were being taken for approval of extension of time, deviation and release of dues. The reply confirms that the work was executed without taking prior approval for deviations in work and disregarding budgetary provision.

Works obtained through participation in tenders

The Company could secure only one work through participation in tender for 34 works.

2.1.24 The Company also secures works from other Government agencies/ Departments through negotiation and participation in open tenders. For participating in tenders of Government works, the Company was exempted from Earnest Money Deposit (EMD). During the period from 2002-03 to 2006-07, out of 34 tenders valued at Rs.116.03 crore in which the Company participated, it could secure only one contract of Rs.1.33 crore. The success ratio in bidding was only 3 *per cent*. This indicated that the Company was not able to compete with other tenderers.

Audit scrutiny revealed the following:

- The Company did not analyse reasons for its failure to secure work orders through tenders and take remedial measures.
- No feed back was taken from the Company nominees who attended tender finalisation meetings.
- Rates quoted by the Company were not based on the market trend and varied with the prevailing rates in respect of steel and RCC work which ranged between (-) 98.84 to 206.60 *per cent* of SR-2006. Thus, the Company did not have a uniform policy for preparation of estimates, hence, bids were lost.
- The offers submitted by the Company were substantially higher than the estimated cost, hence, the bids were lost.
- Scrutiny of tender files relating to construction of road works under Prime Minister Gramin Sarak Yojana (PMGSY)* revealed that though the Company was the single bidder, it lost the order as the tender documents were wrongly submitted to Superintendent Engineer (SE), Rural Works (RW) Circle, Angul instead of SE (RW), Keonjhar. No responsibility was fixed by the Company for this lapse. The Management stated (August 2007) that the box in which the tender was submitted was ultimately transferred to Keonjhar RW Circle.

* Package No.OR-28- ADB -09

- Though the Company participated (October 2002) and pre-qualified for construction of HL Bridge over Baitarini River, it did not participate in the tender for no recorded reasons. The Management/Government stated (August 2007) that another work, “Construction of HL Bridge over Baitarini River at Ballavighat”, with an estimated cost of Rs.14.72 crore was awarded to the Company by the Government. Due to shortage of technical personnel to look after the tender works, it was decided not to participate in the tender for the above work. The reply is not acceptable as the Company sub-contracts its work and this work was also on Baitarini River and it could have cut costs to execute both the works.

As regards the low success in obtaining the tender works by the Company, the Management/Government admitted (August 2007) that the percentage of success in participation of tender was low as the rate quoted by the Company was high in comparison to private bidders. The reply substantiates the fact that the offers submitted by the Company were not based on any realistic analysis of market trend.

Deposit works

2.1.25 Though the Company executes construction works on deposit basis, it did not get any deposit work during 2002-03 to 2005-06. In 2006-07, it undertook five deposit works valued at Rs.2.64 crore from Utkal University, Bhubaneswar (UU) on the basis of an MOU signed (August 2006) for completion by February 2007. The UU was to pay 50 *per cent* of the project cost to the Company within a week from receipt of the estimate of the project, another 20 *per cent* of the project cost after receipt of utilisation certificate (UC) against the deposited funds, 25 *per cent* on receipt of UC against previous deposits and the balance 5 *per cent* kept towards performance security which was to be released after one year from the date of completion of the project.

Audit scrutiny revealed the following:

- Out of the five works, the Company submitted (August 2006) estimates for three works only as a result, the advances against the value of other two works (Rs.0.21 crore) were not released (March 2004) by UU. The reasons for not submitting estimates for the other two works were not on record.
- Against three works valued at Rs.2.43 crore, the Company received (August 2006) Rs.1.22 crore (50.21 *per cent*). The process for procurement of material was, however, initiated after a delay of four months (December 2006) and the major portion of material was procured (February 2007) (i.e. the scheduled date of completion). The Company could execute the work valued at Rs.0.46 crore only (including Rs.0.45 crore being the value of material) by February 2007 and submitted (March 2007) UC. The

balance amount of Rs.1.21 crore had not been released by the UU due to delay in completion of work by the Company (August 2007).

Thus, due to delay in submission of estimates and despite availability of funds and material, the works remained incomplete. Further, though the physical progress of completion was almost nil, the work valuing Rs.0.46 crore (including Rs.0.45 crore being the value of material) shown as executed appears to be doubtful.

Inadequate financial management

2.1.26 As on 31 March 2006[#], the accumulated loss of the Company was Rs.12.81 crore as against paid up capital of Rs.5 crore on that date. Following deficiencies were noticed in the financial management of the Company:

Advances

Advances to suppliers

2.1.27 An amount of Rs.28.82 lakh advanced to 199 suppliers between 1987-88 to 2000-01 for supply of material remained outstanding (March 2007). Steps for recovery of outstanding advances from the suppliers was, however, not taken (August 2007). The Management/Government stated (August 2007) that the cases were very old and necessary steps were being taken by the Company for recovery/ adjustment of advances.

Outstanding advances against contractors

2.1.28 The Company released advances to the sub-contractors in contravention of provision in the agreements. Scrutiny of the records of five divisions revealed that an amount of Rs.13.37 crore was outstanding against the sub-contractors pertaining to the period 1989-90 to 2006-07. It was further observed that in case of four works, an amount of Rs.21.89 lakh was given (from April 2002 to August 2003) as advance over and above the work executed by the sub-contractors.

Irregular adjustment of long outstanding advances

2.1.29 Deputy Project Manager (DPM), under Senior Project Manager (SPM), Bhubaneswar who was on deputation from DoW during the period from December 1987 to December 1995 did not hand over the charge for Rs.13.75 lakh (cash account of Rs.0.69 lakh and stores account of Rs.13.06 lakh) when he was relieved (December 1995) and failed to do so even after several reminders. Consequently, a draft charge sheet was submitted (August 1996) to the State Government. Since the Company did not send the supporting documents, no action was taken by the Government.

The above officer subsequently joined (January 2005) as Managing Director of the Company and submitted (May 2005) accounts for an amount of Rs.3.47 lakh. It was noticed that the division, however, adjusted (up to May 2005)

[#] Accounts for the year 2006-07 had not been compiled by the Company.

Rs.10.28 lakh through journal vouchers without supporting vouchers. The SPM, Bhubaneswar submitted (June 2005) 'no dues certificate' to the Head Office stating that ex-DPM (present MD of the Company) had already submitted the cash and stock accounts which had also been adjusted and there was no outstanding advance against him. On verification of the concerned journals and ledger, it was, however, noticed that neither the journals had been numbered nor the same were adjusted in the accounts.

The Management/Government stated (August 2007) that the amount of Rs.13.75 lakh as shown by audit is not correct. Every year the amount was adjusted against the GL and vouchers submitted by the Deputy Project Manager. At last, the above accounts were submitted by the Ex-DPM and adjusted in the year 2005. The reply is not acceptable as no records in support of adjustment of advances were produced to audit for verification.

Advances to staff

2.1.30 As on 31 March 2007, an amount of Rs.22.46 lakh was outstanding against 180 ex-officials of four units since 1991-92. The concerned SPMs did not mention the amount of outstanding advances in their LPCs when these officials were relieved from the Company. The Company did not take any action against these ex-officials for realisation of outstanding advances.

Further, it was noticed that though the works were awarded to sub-contractors, instances were noticed where advances were given to DPMs/APMs and the same were adjusted against the expenditure incurred by them towards work which was irregular. The following instances are worth mentioning:

- The DPM, Bhubaneswar unit received (April 2005) advance of Rs.0.80 lakh. The entire amount was booked on the same day against procurement of material and wages for the work (construction of service road) which had already been completed (March 2005) by the sub-contractor. As the DPM was empowered to pass the payments up to Rs.500, he regularised the payments of the entire amount of Rs.0.80 lakh by splitting the same into 162 transactions limiting each to Rs.500. The Management/Government replied (August 2007) that some works were also taken up departmentally depending on the urgency and the DPM was empowered to pass the vouchers up to Rs.500. The reply is not tenable as the work for which the advance had been drawn, had already been completed and the vouchers were deliberately split up limiting each to Rs.500, which the DPM was authorised to pass.
- In Cuttack unit, the DPM/APMs in charge of three* works booked Rs.6.22 lakh during the year 2003-04 to 2006-07 towards maintenance of these works though these works were under execution by the sub-contractors. The Management/Government stated (August 2007) that out of the above expenditure, Rs.2.21

* Construction of Bridge over river Chitrotpala at Narendrapur, Birupa Bridge at Paga-Gopinathpur and Kandarpur- Machgaon Road.

lakh was spent for maintenance related to vehicles used by DPM/APM, which was mainly for inspection of works and expenditure were charged to the above works. The Management, however, did not contest for the balance amount of Rs.3.87 lakh drawn by the DPM/APMs and adjusted against the works under construction by the sub-contractors.

Security Deposit

2.1.31 As per the guidelines (March 1997) of the State Government, the DoW was to deduct security deposit at the rate of two *per cent* from each Running Account (R.A.) bill. Scrutiny of records of Bhubaneswar and Choudwar unit revealed that during the period of five years from 2002-03 to 2006-07, DoW deducted five *per cent* security deposit of Rs.85.63 lakh from the R.A. Bills in respect of eight works. Though DoW deducted security deposit at the rate of five *per cent* from the R.A. Bills, the Company did not lodge any claim for refund of the excess deduction of security deposit of Rs.50.59 lakh. DoW, however, refunded Rs.15.72 lakh between March 2006 and September 2006 against these works. The balance excess security deposit of Rs.34.87 lakh had not been released by DoW nor did the Company pursue to get the same.

Delay in finalisation of bills

2.1.32 Sundry debtors as on 31 March 2007 stood at Rs.267.22 crore towards 253 works against which the Company received Rs.237.40 crore as advance from the DoW. The Company did not maintain work-wise details of funds received from the clients and adjusted against each work. The Company had not obtained project completion certificate in respect of completed works.

Audit observed the following:

- In respect of 41 old works (completed-24, withdrawn-17) executed during the period between March 1992 and August 2001, balance unspent amount of Rs.8.44 crore had not been refunded to DoW till date (March 2007). The Company had not finalised the pending bills for these works.
- In case of eight works, final bills were not raised though these projects were completed (November 2003 to November 2006).
- The Company had no system of periodical reconciliation of dues of the Company with the clients.

The Management/Government stated (August 2007) that the adjustment of deposit for works against sundry debtors was not made for want of completion certificates to be issued by the clients. In most of the cases, the final bills raised by the Company had not been accepted and passed by the Department due to which delay was occurring in adjustment of sundry debtors against deposits. The Company was constantly pursuing the matter and was able to realise its dues and adjust the same against the works in which the Company had received excess payment. The reply is not tenable since the Company not only delayed the raising of final bills of completed works but also failed to carry out the periodical reconciliation of dues.

Delay in application for extension of time

2.1.33 The application for extension of time (EoT) should be made to DoW one month before the stipulated date of completion of the concerned work. In respect of 20 works (executed between April 2002 to March 2007), there was delay in submitting application for EoT ranging from two to 67 months. DoW withheld (between April 2002 to February 2007) an amount of Rs.40.71 lakh from the RA bill of the Company due to non-approval of EoT in eight works. The Management/Government while accepting the fact stated (August 2007) that EoT had been sanctioned in respect of four works and action was being taken by the Company to obtain sanction of EoT in respect of other works.

Maintenance of works accounts

2.1.34 As per the Accounting Procedure prescribed (March 1990) by DoW, the Company was to be treated as a contractor. It further envisaged that the Company had to maintain all initial accounts and measurement books (MB) as required under Central Public Works Department (Amendment) and Orissa Public Works Department code. Scrutiny of records maintained at five units revealed that there was improper/non-maintenance of initial accounts like site account, bill of quantities registers etc. by the Company.

Maintenance of Measurement books

2.1.35 Measurement book (MB), which records the quantity of works executed periodically, had not been maintained properly. The following deficiencies/irregularities were noticed in the maintenance of MB:

- The name of the officer in charge of MB, index of measurement taken, name of the work, period of work, date of measurement and dated initials of the concerned officers were not recorded.
- The dates of first entry and last entry in respect of rescinded or withdrawn works had not been mentioned.
- Over-writings were not attested by the competent authority.
- Check measurement of the works executed were not taken at the end of each month. The gap between one measurement date to next measurement date in respect of three works ranged between 3 to 54 months.

Monitoring of works

2.1.36 The Company introduced (July 1996) a system of submission of Monthly Progress Reports (MPR) by the units to Head Office for monitoring the progress of works being executed by them. Scrutiny of records revealed the following deficiencies:

- The units were not submitting MPR every month. Non-submission of reports ranged from 19 to 49 months.
- The MPR for rest of the period submitted by the units were incomplete and not in the prescribed form.

- The Planning and Design Division, which was in charge of monitoring the works, neither insisted for submission of information by the due dates nor in the prescribed proforma. After being pointed out (February 2007) in audit, the division instructed (February 2007) the units to submit the MPR in the prescribed proforma.
- As per Clause-14 of the agreement with the DoW, the works were to be opened for inspection and supervision of the Chief Engineer. The Company, however, did not include any such clause in the agreement with the sub-contractors.

Internal control

2.1.37 Internal control system is an essential part of the Management activity. An efficient and effective Internal Control System helps the Management to achieve the objectives. Its function, *inter alia*, include examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control system. The following deficiencies were noticed in the internal control system being followed by the Company:

Functional Manuals

2.1.38 The Company had not prepared any functional manuals since inception (January 1983) and the activities were managed on the basis of executive instructions and circulars issued from time to time. The Company compiled its Accounting Manual in 1985-86 which had not been updated since then.

Budgetary Control

2.1.39 In addition to Works budget, the Company prepares Revenue budget annually containing the income and expenditure during the year by collecting data from the units. In order to have a better and effective financial control, the annual budgets should be prepared and got approved well in advance before commencement of the year concerned.

During the course of audit, the following points were noticed:

- During 2002-03 to 2006-07, the budgets for the particular years were approved by the Board of Directors between June 2002 and December 2006. The delay in approval of annual budget ranged from three (2002-03 in June 2002) to 12 months (2003-04 in March 2004);
- There were variances ranging from (-)50 to 316.40 *per cent* between the Works budget and actual work executed during the period 2002-03 to 2006-07. Variances between revenue budget and actual expenditure in respect of toll gate was between (-)19.70 and 100 *per cent*. No variance analyses were, however, done by the Company so as to know the reasons for variance and take corrective action.

- The approved budgeted targets were not communicated to the unit offices responsible for executing the works thereby defeating the very purpose of budgeting.

Thus, the Company failed to use budget as a means of internal control.

Stores and Inventory control

2.1.40 In the maintenance of accounts for stores and inventory of various materials, the following deficiencies were noticed in audit:

- During 2002-03 to 2006-07, on 65 occasions, the mechanical wing did not send the duplicate copy of Goods Transfer Issue (GTI) to Bhubaneswar Division resulting in non-claiming of hiring charges of Rs.83.10 lakh from the sub-contractors.
- During the period between April 2003 and December 2006, in 13 cases, second copy of the gate pass was not given by the Central store to the receiver of the goods for handing over the same to the gate keeper.
- Gate passes were issued without the signature of the Assistant Manager (Finance) (78 cases) and construction equipments and machinery (116 cases) was issued through hand receipt without entry in the stock register.
- Though goods (construction machinery) were received from site offices, these were not accounted for in the stock book since June 2006.
- One concrete mixer was issued (29 November.2006) from the Central store for Toshali Plaza work without approval of the competent authority.

Stock lying at closed work site

2.1.41 It was noticed that as on 31 March 2006, stock worth Rs.2.25 crore was lying at closed work sites in six units^{*}. There was theft of materials worth Rs.15.85 lakh in two units^{**}, shortage of materials worth Rs.1.21 crore was noticed in four units[@] and obsolete and unserviceable stores and equipments worth Rs.59.64 lakh were lying in four units^f. Further, in Choudwar unit, value of surplus stock of Rs.12.94 lakh received from closed work sites was assessed at Rs.0.65 lakh.

The Management/Government stated (August 2007) that in respect of shortage of materials of Rs.83.46 lakh of Bolangir Division, departmental proceedings had already been initiated (July 2007) against some officials. Further progress is awaited (August 2007).

^{*} Choudwar, Cuttack, Bhubaneswar, Berhampur, Bolangir and Balasore.

^{**} Bolangir and Choudwar.

[@] Berhampur, Bolangir, Balasore and Cuttack.

^f Berhampur, Bolangir, Balasore and Choudwar.

Physical verification of store and stock

2.1.42 Physical verification of stores/ equipments, etc. had not been conducted though required under OPWD code. Due to non-conducting of annual physical verification, the following deficiencies were noticed:

- The ex-DPM, in charge of Central store, Bhubaneswar, from November 1997 to May 2001 was caught red handed (March 2001) shifting some store materials unauthorisedly from the Central store. He was repatriated (May 2001) to his parent Department. An F.I.R. was lodged only six months later (November 2001). As per the enquiry report of the SPM, Bhubaneswar (January 2002), the Ex. DPM had neither submitted accounts for an amount of Rs.2.09 crore nor handed over the stock lying in three godowns. The Company, however, issued his LPC and no departmental proceedings were initiated.

The next DPM took over charge (August 2003 to January 2007) of 78 out of 112 machinery/vehicles. The whereabouts of the balance 34 machinery/vehicles valued at Rs.48.30 lakh (book value) were not available in the records maintained by the Company. Even though the handing over and taking over of stock in the three godowns was not completed, the SPM auctioned (August 2003 to January 2007) 19 items from the godown stock.

- The APM, under Choudwar unit, received (February 2001) three concrete mixers from the Central store for use in construction work of school building and received (April 2003) channels of different sizes (165.24 meters), 'H' frame (200 numbers) and cross bracing (182 pairs) for use in Rana Bridge. The receipt of these machinery and equipment was neither entered in the stock register nor the hire charges were realised. The Management did not take any action for recovery of the hire charges as well as the accounts of machinery and equipment from the APM.

The above deficiencies indicate absence of proper internal control mechanism for maintenance of stores and inventory records and system of physical verification in the Company.

Quality control

2.1.43 Scrutiny of records relating to quality control revealed the following deficiencies:

- The Quality Control Division never selected the samples independently from the work site.
- Tests could not be conducted as either sample materials were not received along with the request letter (nine works) or samples were received very late (three works).
- In case of Phirphiraghat Bridge, the DPM sent the materials for mix design test of M-30 after execution of work. The Management/Government stated (August 2007) that the Division provided the test result when necessitated by the DPM in charge of

the work. The fact, however, remained that the materials for the mix-design test were sent after execution of work defeating the objective of the exercise.

- Due to lack of proper compaction and field testing in respect of Nandini Nallah Bridge, concrete grouting had developed cracks. The Management/Government admitted (August 2007) that the necessary tests for the particular work had not been done by the Quality Control Division.

Restructuring of the Company

2.1.44 The State Government, while reviewing the progress of works of the Company decided (October 2003) to restructure the Company to make it an efficient organisation. Accordingly, the BoD decided (December 2003) to restructure the Company. The Company appointed (May 2004) National Productivity Council (NPC) to study and submit a restructuring proposal. Although NPC submitted its report in July 2004, its recommendations were pending for approval and implementation by the Company (August 2007).

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and the Management of the Company at various stages of conducting the performance audit.

Conclusion

The Company was incorporated to function as a civil construction agency. The Company, however, largely depended on the works allotted by the Department of Works of the State Government and could secure only one work through participation in tenders. The targets for works set by the Company were deficient as the same were fixed disregarding the contractual schedule of completion as well as the budgetary provisions for the works.

The Company also failed to adhere to the scheduled dates of completion of works in most of the cases. During the period of review, the Company could complete 33 works out of which 25 works were completed after the scheduled dates. The time overrun was mainly due to faulty planning, delay in commencement of works, deficiencies in selection of sub-contractors, delay in execution of agreements with them and delay in submission of estimates for approval of rates by Technical Committee, etc. As a result of delay in completion of works, 19 works were surrendered or withdrawn by the Government during the five year period. The Company, instead of executing the allotted works departmentally, split the same into piece-works and offloaded to the sub-contractors in violation of the prescribed procedure. There were deficiencies in respect of budgetary control, stores and inventory control, quality control and monitoring mechanism which indicate weakness in the internal control system of the Company.

Recommendations

The Company needs to:

- **strengthen and overhaul their works wing to ensure that:**
 - **estimates are prepared realistically and expeditiously;**
 - **works are completed within targeted dates;**
 - **works estimates are not exceeded;**
 - **works strictly supervised and monitored.**
- **ensure that splitting of contracts are avoided;**
- **register contractors for undertaking on strict norms and black list non-performers. Contractors should also be categorised according to their experience and financial capacity;**
- **strictly follow OPWD norms for advances/recoveries;**
- **base its financial and stores management on sound principles and commercial practices; and**
- **tighten Internal Control System and maintenance of records.**

Orissa Tourism Development Corporation Limited

2.2 Hotel and transport activities

Highlights

The Company's share of domestic and foreign tourists was insignificant and ranged between 1.54 to 4.70 per cent during 2002-03 to 2006-07 as compared to total tourists who visited the State during the above period.

(Paragraph-2.2.7)

The Company could not achieve overall occupancy targets in any of the years during 2002-03 to 2006-07. The overall occupancy never exceeded 49 per cent during the period. The low occupancy was due to poor business generation through travel agents, inadequate publicity and absence of essential amenities and standard service norms in the hotels of the Company.

(Paragraphs-2.2.7, 2.2.9, 2.2.14 and 2.2.15)

The Company incurred extra expenditure of Rs.15.18 lakh in purchasing kerosene and diesel from unauthorised sources for its boating operations.

(Paragraph-2.2.25)

Despite recommendations of COPU, the Company extended credits to various customers resulting in increase in sundry debtors from Rs.1.04 crore as on 31 March 2002 to Rs.2.47 crore as on 31 March 2006.

(Paragraph-2.2.29)

Introduction

2.2.1 Orissa Tourism Development Corporation Limited (OTDC) was incorporated (September 1979) as a wholly owned Government company with the main objectives of developing tourism in the State by providing accommodation to tourists, developing places of tourist interest, providing transport services to tourists, creating different facilities for the interest and convenience of tourists and adopting methods and devices necessary to attract tourists in large numbers.

The Company took over (1980) eight hotels by way of transfer of assets and two other units on management lease* basis from the State Government and one unit from the Municipality. Subsequently, the State Government transferred (February 2005 to November 2006) 11 hotels to the Company on management lease basis. The Company constructed only one unit at Rourkela. After take over, one hotel unit (Yatrinivas, Konark) was merged with Panthanivas, Konark.

* The Company is authorised to run the hotels without any ownership right.

The Company has its Head Office in Bhubaneswar. As on 31 March 2007, the Company had 26 units in the State consisting of 22 accommodation and catering units with a total capacity of 1017 beds, one restaurant, two transport units and one air ticket division.

The management of the Company is vested in a Board of Directors (BoD) comprising the Chairman, Managing Director and three Directors nominated by the State Government. The Managing Director is the Chief Executive Officer of the Company. The organisation chart of the Company is given in **Annexure-10**.

The performance 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 1995, Government of Orissa. Committee on Public Undertakings (COPU) discussed (September 2001) the Report and issued (December 2001), *inter alia*, the following recommendations:

- Periodical review of the working of existing Panthanivases by Company officials to see that rules and procedures formulated and circulated to field units for better management are being followed strictly;
- Stringent action against officials accountable for extending unlimited credit without any authority;
- Maintaining cleanliness of the units;
- Analysis of loss in detail;
- Providing facilities to foreign tourists in order to increase the percentage of Company's share in the incoming foreign tourist traffic.

The recommendations of COPU had, however, not been placed (August 2007) before the BoD for appraisal and necessary action.

Scope of Audit

2.2.2 The present Performance Audit covers the performance of the Company in respect of its hotels and transport activities (both surface and water) for the period 2002-03 to 2006-07. Besides examining the records maintained at the Corporate office of the Company, audit also test-checked the records of eight* out of 26 units of the Company selected on the basis of volume of business and nature of activities like accommodation, catering, bar services, conference facilities, water transport and surface transport.

Audit objectives

2.2.3 The Performance Audit was conducted with a view to ascertain whether:

- the Company had prepared a strategy for implementation of State Tourism Policy, 1997;

* Six hotel units (Barkul, Bhubaneswar, Puri, Rourkela, YN Konark and Satapada) and two transport Units (Bhubaneswar and Puri).

- the hotel units were able to achieve the targets of occupancy;
- adequate infrastructural facilities, amenities and manpower existed in the hotel and transport units;
- there was a well defined marketing strategy to tap prospective tourists;
- the Company had managed its hotels, catering and transport units economically, efficiently and effectively; and
- the Company had formulated an effective credit policy and implemented it efficiently;

Audit criteria

2.2.4 The audit criteria adopted for assessing the achievement of audit objectives were as follows:

- State Tourism Policy, 1997;
- Guidelines/instructions issued by the State Government;
- Statistical bulletin published by the Department of Tourism, Government of Orissa;
- Occupancy targets fixed for different hotels;
- Norms and standards fixed by the Company for food quality and catering service; and
- Norms for fuel consumption in water and surface transport.

Audit methodology

2.2.5 The audit methodologies adopted for achieving the audit objectives with reference to audit criteria were as follows:

- Examination of agenda papers and minutes of meetings of the BoD;
- Examination of budgets, targets and monthly reports submitted by the units;
- Verification of the records of the selected units; and
- Interaction with Management and issue of audit queries.

Audit findings

Audit findings were reported (June 2007) to the Company/Government and discussed (27 July 2007) in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE). The meeting was attended by the Commissioner-cum-Secretary, Department of Tourism, Government of Orissa (who is also the Managing Director of the Company) and Financial Controller-cum-Secretary of the Company. The views expressed by the members have been taken into consideration while finalising the report. The audit findings are discussed in the succeeding paragraphs.

State Tourism Policy

2.2.6 Orissa occupies a unique place in the domestic and international tourism on account of its important tourist destinations such as Puri, Konark, Bhubaneswar and Chilka. The State Tourism Policy, 1997 envisaged that the State would:

- act as a promoter and catalyst to create an environment for planned and sustained development of tourism;
- encourage the non-Government sector (including private organisations, local bodies, autonomous organisations and corporate sector) to participate in tourism development in sectors like transport (by air, road and water), accommodation, other infrastructure and service requirements, operation of inter-state and intra-state tours including package tours, etc.; and
- encourage the private sector for establishment of new hotels in important tourist centres and also for certain tourism-related activities as envisaged in the Industrial Policy, 1996.

It was noticed that pursuant to the declaration of the Tourism Policy, 1997 the State Government did not specify the role of the Company in the development of tourism in the State nor issued any instructions for implementation of the policy. In the Inter-Ministerial Review Meeting (September 2005), it was recognised that the existing set up of the Company would not be able to compete with the private entrepreneurs to provide the facilities required by the customers and steps should be taken to privatise the Panthanivases. It was also decided that the Company would appoint a consultant to prepare a Comprehensive Reform Plan keeping in view the role of the Company in the present market scenario. The Reform Plan should also reflect its business plan and plan for privatisation of Panthanivases.

The State Government did not specify the role of the Company in pursuance of the Tourism policy nor issued any instruction for implementation.

Accordingly, M/s Price Waterhouse Coopers were appointed as consultant for preparing the Business/Restructuring Plan, which broadly made (January 2007) the following suggestions:

- The Company should gradually back-out from its traditional business of hoteliering and tourist transport in a phased manner. Out of 22 hotels units operated by the Company, 14 hotel units which have good potential were proposed to be developed through Public Private Participation (PPP) and the remaining eight hotel units which have moderate or less potential would be operated by the Company.
- The Company, instead of promoting only its properties, should promote the destinations and play a lead role in development of tourism in the State.
- The Company should act as catalyst for development of tourism with private participation in the State.

The above Business/Restructuring Plan was approved (March 2007) by the BoD in principle. The implementation of the plan was, however, awaited (October 2007).

Performance of Hotel units

Company's share in tourist traffic

2.2.7 The year-wise details of tourist inflow to the State and tourists who availed the accommodation facilities of the Company's hotels for five years ending 2006-07 are tabulated below:

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | Total |
|--|----------------|----------------|----------------|----------------|----------------|-----------------|
| Tourists who visited Orissa[#] | | | | | | |
| Domestic | 3429027 | 3805968 | 4326002 | 4695647 | 5377123 | 21633767 |
| Foreign | 23488 | 25556 | 30300 | 35731 | 39407 | 154482 |
| Total | 3452515 | 3831524 | 4356302 | 4731378 | 5416530 | 21788249 |
| No. of tourists who availed accommodation in the Company's hotels | | | | | | |
| Domestic | 57347 | 60015 | 58018 | 74020 | 83468 | 332868 |
| Foreign | 1255 | 1260 | 1287 | 1592 | 1869 | 7263 |
| Total | 58602 | 61275 | 59305 | 75612 | 85337 | 340131 |
| Tourists availing the facility (in per cent) | | | | | | |
| Domestic | 1.67 | 1.58 | 1.34 | 1.58 | 1.55 | 1.54 |
| Foreign | 5.34 | 4.93 | 4.25 | 4.46 | 4.74 | 4.70 |
| Total | 1.70 | 1.60 | 1.36 | 1.60 | 1.58 | 1.56 |

From the details in the above table, it would be observed that:

- out of 1.54 lakh foreign and 2.16 crore domestic tourists who visited Orissa during 2002-03 to 2006-07, only 0.07 lakh (4.70 *per cent*) foreign and 3.33 lakh (1.54 *per cent*) domestic tourists stayed in the Company's hotels. Thus, the Company's share was insignificant as compared to total inflow of tourists in the State; and
- while there was 56.89 *per cent* increase in tourists visiting the State in 2006-07 as compared to 2002-03, the increase in percentage of tourists who stayed in the Company's hotels was 45.62 *per cent* during the same period. Thus, there was decrease in percentage of the number of tourists who stayed in the Company's hotels.

The reasons for poor performance as analysed in audit were attributed to lack of proactive steps to attract tourists such as aggressive marketing, providing basic and essential amenities in the hotels and undertaking periodic renovation and upgradation of infrastructure. The COPU had also recommended (December 2001) for providing facilities to foreign tourists to improve the percentage of share of the Company in the incoming foreign tourist traffic. The Company, however, did not take any effective steps in this regard.

The Management/Government stated (July/August 2007) that the foreign tourists were normally high spending and they always preferred to stay in star hotels having better facilities. The share of the Company was low in the

The Company could secure only 4.70 per cent of foreign tourists and 1.54 per cent of domestic tourists due to ineffective marketing and inadequate amenities in the hotels.

[#] Source: Statistical bulletin published by Department of Tourism, Government of Orissa.

absence of ancillary facilities like swimming pool, health club, etc. The reply is, thus, indicative of the fact that the Company failed to create necessary facilities to attract tourists and to meet the challenges from the private sector.

Operational performance

2.2.8 The Company had 12 hotel units till January 2005. Subsequently, the State Government transferred (February 2005 to November 2006) 11 hotel units to the Company on management lease basis. After take over of the hotels by the Company, one unit (Yatrinivas, Konark) was merged (2005-06) with Panthanivas, Konark. Out of 22 hotel units as on March 2007, one hotel unit (Keonjhar) was transferred to the Company in November 2006 and one hotel unit (Mahodadhi Nivas, Puri) was leased out till September 2005 which has been lying vacant thereafter.

The operational performance of the remaining 20 hotel units for the four years ending 2005-06 is summarised below:

| Year | Profit earning hotels | | | Percentage of profit to turnover | Loss incurring hotels | | | Percentage of loss to turnover | Overall profit/loss |
|---------|-----------------------|------------------------|---------------------------------------|----------------------------------|-----------------------|------------------------|-------------------------------------|--------------------------------|---------------------|
| | No. of hotels | Turnover (Rs. in lakh) | Profit ^{&} (Rs. in lakh) | | No. of hotels | Turnover (Rs. in lakh) | Loss ^{&} (Rs. in lakh) | | |
| 2002-03 | 6 | 255.09 | 18.93 | 7.42 | 6 | 160.80 | 23.96 | 14.90 | (-)5.03 |
| 2003-04 | 4 | 224.85 | 16.49 | 7.33 | 8 | 219.16 | 36.63 | 16.71 | (-)20.14 |
| 2004-05 | 4 | 269.67 | 24.13 | 8.95 | 8 | 221.15 | 30.33 | 13.71 | (-)6.20 |
| 2005-06 | 11 | 379.37 | 23.31 | 6.15 | 9 | 324.31 | 37.36 | 11.52 | (-)14.05 |

Note: Figures for 2006-07 have not yet been compiled.

It would be seen from the above table that the Company incurred overall loss in the operation of the hotel units in all the four years ending 2005-06. Audit scrutiny revealed that two[#] units incurred losses for all these years. Four units which incurred losses during 2002-03 to 2004-05, earned profit in 2005-06 due to increase in turnover because of earnings from bar operations (Rourkela), merger of two units (Panthanivas and Yatrinivas at Konark), increase in occupancy (Gopalpur) and reduction in repair and maintenance expenses (Taptapani).

[&] The profit/loss has been derived after charging repair and maintenance expenditure incurred by Head Office and proportionate Head Office overhead.

[#] Panthanivas Bhubaneswar and Sambalpur.

Occupancy of Hotels

2.2.9 The overall occupancy targets and achievements of all the hotels of the Company and the range of targets and achievements of individual hotels for the five years ending 2006-07 were as follows:

(in per cent)

| Year | Overall average | | Individual hotels target/Achievement range | |
|---------|-----------------|-------------|--|-------------|
| | Target | Achievement | Target | Achievement |
| 2002-03 | 47 | 43 | 28 - 72 | 22 - 72 |
| 2003-04 | 48 | 45 | 28 - 81 | 22 - 68 |
| 2004-05 | 48 | 46 | 17 - 74 | 8 - 70 |
| 2005-06 | 50 | 46 | 26 - 65 | 27 - 64 |
| 2006-07 | 52 | 49 | 20 - 77 | 27 - 73 |

The Company could not achieve targeted occupancy in any of the five years ending 31 March 2007.

It would be seen from the above table that the Company did not achieve its targeted occupancy in any of the years during 2002-03 to 2006-07. Audit noticed that though the targets fixed were on the lower side in case of some of the hotels, the same could not be achieved. The targeted occupancy of Panthanivas, Sambalpur and Gopalpur for the year 2003-04 and Panthanivas, Gopalpur for the year 2004-05 was fixed as low as 28 and 17 *per cent* respectively, which also could not be achieved.

Audit further observed that as against the average all-India occupancy of 70.8 *per cent* during 2005-06 reported by the Federation of Hotel and Restaurant Association of India, the targeted occupancy for hotels of the Company was fixed at only 50 *per cent*. Audit analysis of occupancy in respect of individual hotels revealed the following:

- Out of 21[^] operational hotel units as on 31 March 2007, the occupancy of two units (Panthanivas, Puri and Rambha) exceeded 60 *per cent* during the period 2002-03 to 2006-07 while occupancy figures of six hotel units* were consistently below the overall average occupancy.
- The percentage occupancy of Panthanivas, Bhubaneswar during 2004-05 and 2005-06 was 34 and 52 *per cent* respectively while the occupancy[@] of private hotels at Bhubaneswar, having similar tariff structure and facilities, ranged between 51 to 68 and 58 to 66 *per cent* during the same period. Similarly, the percentage occupancy of Panthanivas, Rourkela during 2002-03 to 2006-07 was 30, 29, 56, 37 and 43 respectively as compared to occupancy of 40 to 60[@] *per cent* in private hotels.
- None of the hotels of the Company had star-grade facilities to attract high spending foreign tourists. As such, more than 75 *per cent* of the 30,189 foreign tourists (viz. around 22,641 tourists) who came to Bhubaneswar during January 2004 to September 2006 stayed in hotels having tariff range of Rs.950 to Rs.14,000 per day. During the same

[^] Excluding one Hotel unit (Mahodadhinivas, Puri) which was leased out till September 2005 and was lying vacant thereafter.

* Barkul, Gopalpur, Konark, Lulung, Sambalpur and Taptapani.

[@] Source: Tourist Offices, Bhubaneswar and Rourkela, Government of Orissa.

period, the total number of foreign tourists who stayed in Panthanivas, Bhubaneswar was only 831 (2.75 *per cent*), although the highest tariff of the unit was Rs.790 per day.

- Panthanivas, Rourkela could attract only 13 foreign tourists (1.06 *per cent*) out of 1221[∇] foreign tourists who stayed in hotels in Rourkela during the years 2003-2007.
- As per the hotel guide published (April 2006) by the Department of Tourism, Government of Orissa, none of the hotels of the Company had essential facilities like safety measures (fire extinguisher), doctors on call, credit cards, laundry service, parking space, Train Ticket Booking and On Line Booking facility.
- The monthly occupancy reports submitted by the units to the Head Office did not indicate the reasons for low occupancy. These were also not insisted upon by the Head Office. Thus, there was inadequate monitoring system at the Head Office level to analyse and take corrective action to improve the room occupancy. Even when the performance was reviewed during the Board meetings, causes for low occupancy were not analysed in-depth to take remedial action.

The Management accepted (July 2007) the fact of low occupancy and attributed the same to non-availability of facilities at par with the hotels in private sector, seasonal trafficking and huge discount allowed by private hotels. The reply is not tenable as creation of necessary facilities to attract high spending domestic and foreign tourists is not impossible if they have to continue in the business of tourism. In fact the consultants had recommended for PPP. The fact is that the customer is willing to pay high tariffs provided the Company provides the best of facilities and hospitality. Audit scrutiny revealed that the reasons for low occupancy were also due to inadequate marketing strategy, lack of essential facilities and lack of repair and maintenance of hotels which are discussed in paragraphs 2.2.14 and 2.2.18 *infra*.

A few interesting cases of poor performance of individual hotel units are discussed in the succeeding paragraphs.

Performance of hotel at Panchalingeswar

2.2.10 The Company took over (July 2005) the Panthasala at Panchalingeswar from the State Government on management lease basis pending fixation of lease rent. The unit had 10 rooms with 40-bed capacity and subsequently it was expanded (April 2006) to 19 rooms with 46-bed capacity. The expansion cost of Rs.66.59 lakh was met out of funds released by the Central Government (Rs.45 lakh) and the State Government (Rs.21.59 lakh). The occupancy of the unit was 47 *per cent* in 2001-02 when the State Government was running this hotel and 35 *per cent* in 2005-06 against the target of 51 *per cent*. The occupancy, however, decreased to 29 *per cent* in 2006-07.

[∇] Source: Statistical bulletin published by Department of Tourism, Government of Orissa.

The Unit management attributed (April 2006) poor infrastructure, inadequate marketing through advertisement, non-provision of intercom facility, TV sets, EPABX, generators and want of quality services as the reasons for low occupancy. The Management, however, failed to take corrective action to increase the occupancy.

Leasing out of Mahodadhivas, Puri for other than tourist purpose

2.2.11 The Mahodadhi Nivas complex at Puri is a heritage property situated at a prime location on the sea beach. The occupancy of the unit was above 80 *per cent* since 1992-93 and the unit was earning profit. The Company, without obtaining the approval of the State Government, leased out (December 2001) the unit to Biju Pattanaik National Steel Institute (BPNSI), a GOI body, for running its training centre. BPNSI vacated the building in September 2005.

Audit observed the following:

The Company leased out the hotel unit for non-tourist purpose in violation of its objective.

- Leasing out the tourist resort for non-tourism purposes defeated the main objective of promotion of tourism.
- Despite instructions (May 2002) from the State Government, the Company failed to revoke the agreement as per the contractual provisions. Further, the Company also extended (March 2004) the lease period for another year from December 2003.
- The building was lying in an inhabitable condition since October 2005 as the Company failed to take timely action for renovation and repair of the building.

The Management/Government stated (July/August 2007) that the unit was leased out to the institute on commercial considerations, as the lease rent was higher than the revenue being earned at that time and, thus, financially justified. The reply is not acceptable in view of the fact that leasing out the heritage building for purposes other than tourism was not in compliance with the objective of the Company.

Loss due to taking over tourist unit at Gopalpur

2.2.12 The Berhampur Development Authority (BDA) submitted (November 1999) a proposal to the Company for take over of the hotel unit at Gopalpur on hire by the Company. The preliminary study conducted (November 1999) by the Company indicated 35, 45 and 50 *per cent* occupancy in the first, second and third year of the lease period respectively, generating a net profit of Rs.7.75 lakh at the end of the third year. During discussions held (November 1999) with the BDA, the Company pointed out that the remnants of a partially collapsed building was lying in front of the hotel unit and requested BDA to remove the same in order to give a direct view of the sea from the hotel which would make it more attractive to tourists.

The Company, without getting the debris removed, took over (March 2000) the possession of the hotel unit for a period of six years (up to February 2005) at an annual rent of Rs.2 lakh for the first three years and Rs.2.30 lakh for the

remaining three years. The unit, however, incurred losses in each year and the aggregate loss worked out to Rs.8.20 lakh during 2000-01 to 2004-05 (up to September 2004). The Company surrendered the hotel unit to BDA in September 2004.

Audit noticed that BDA did not demolish the collapsed building structure and also failed to maintain the hotel unit. In spite of this, the Company did not terminate the lease agreement earlier as per the terms of the agreement.

Thus, the Company had to sustain loss in the operation of the unit due to taking over the hotel unit without demolition of the collapsed structure and non-maintenance of the building.

Performance of restaurant unit at Nandankanan

2.2.13 The Company was running a restaurant unit at Nandankanan Zoological Park, Bhubaneswar since 1982. The unit was closed for a short period (October 1999 to May 2001) on account of damage occurred in the super cyclone.

The Company sustained cash loss due to inferior quality of services rendered.

It was observed that though the unit had been incurring cash loss upto March 2006, the Management did not analyse the reasons for the same. The Director, Nandankanan Zoological Park stated (July 2005) that complaints had been received from the visitors to the zoo that the services rendered by the restaurant were bad and highly deplorable, food was cooked under unhygienic conditions and the response from the staff to the complaints was poor. No remedial measures were, however, taken by the Company to improve the services.

The Management/Government stated (July/August 2007) that there was restriction on sale of non-vegetarian food, poly-pack covered food, etc. as the restaurant was in a zoo area which was affecting the potentiality of the restaurant adversely. The Management further stated that though the issue of poor profitability was discussed many times, it was, however, felt that the unit may be retained to provide minimum facility to the tourists visiting the zoo. The reply is not tenable as poor performance of the restaurant was due to inferior quality of services provided.

Marketing strategy

Inadequate marketing and publicity

Adequate and aggressive marketing steps were not taken to attract more tourists.

2.2.14 Advertisement and publicity is necessary for business promotion and competition. The press and the electronic media provide an easy mode of publicity for attracting tourists from abroad and different parts of the country. Despite having a full-fledged Marketing Division which was responsible for sales, marketing and public relations, the Company had not taken adequate and aggressive steps to promote its hotels and other facilities to attract tourists though it was required to gear up in the face of stiff competition from the private sector.

Audit noticed the following:

- Out of the Company's total budget of Rs.18.99 crore during 2003-06, the Company provided only Rs.8 lakh (0.42 per cent) for advertisement and publicity, against which only Rs.1.60 lakh was spent on printing of tariff cards, brochures, development of website, etc. Thus, the priority given to this area was very low. On an average, the Company spent only Rs.0.53 lakh per year on advertisement and publicity which was indicative of the fact that adequate attention was not paid towards business promotion.
- During meetings (July 2005 to October 2006) of the Unit Managers, it was regularly brought to the notice of the Senior Management that hoardings/sign boards projecting the Company's hotels were not available at important places like Railway stations, market places, bus stands, etc. at Bhubaneswar, Barkul, Konark, Puri, Paradeep, Sambalpur, Rambha and Gopalpur. The Company, however, failed to take any action thereon. The Management, while accepting the fact, stated (July 2007) that signage would be installed shortly.
- The system of obtaining assessment sheets from the customers was introduced (July 2005) in one unit (Yatrinivas, Konark) and scrutiny thereof revealed that the tourists came to know about the unit mostly through friends (71 per cent) and travel agents (24 per cent) while only 5 per cent knew from press advertisements. No such system of obtaining customers' comments on assessment sheets was in place in other units.

The Management/Government stated (July/August 2007) that during 2005-06, the Company spent Rs.4.15 lakh on advertisement and publicity. The reply is not tenable as further scrutiny revealed that out of the total expenditure of Rs.4.15 lakh, the Company spent Rs.3.64 lakh on publication of tenders which can not be regarded as expenditure on publicity.

Business through Travel agents

2.2.15 Travel and marketing agents play a pivotal role in the promotion of tourism by providing facilities of advance reservation of accommodation and travel facilities to tourist destinations. The Company enters into agreements with travel agents for promotion of business activities for booking of accommodation in hotels. The Company had 11 authorised booking agents (nine agents operating from outside the State and two operating inside the State) in the year 2002-03 which increased to 17 (15 outside and two inside the State) in 2006. In July 2006, the Company increased the minimum target of business to be generated from Rs.10,000 to Rs.50,000 by each travel agent. The eight travel agents, however, did not give their consent to the increase in targets and the Company cancelled (February 2007) their agency.

The objective of promoting tourism through travel agents got defeated since 11 out of 17 travel agents did not give any business.

The Company received a total business of Rs.44.42 lakh through the agents during the five years ending 2006-07. Audit scrutiny revealed that 11 out of 17 travel agents did not give any business during the said period. The Company neither forfeited the security deposit of these agents as per the agreement nor analysed the reasons for such dismal performance by the agents.

Performance of Gold Card scheme

2.2.16 The Company introduced (September 1999) a scheme for its regular customers/repeated visitors by issue of a special card called “Gold Card” available on payment of Rs.650. The holders of such cards were entitled to 10 *per cent* discount on room rent, food bill and transportation. The Company issued 959 Gold Cards during September 1999 to March 2007. Of this, 373 cards (38.8 *per cent*) were issued between April 2002 and March 2007. As on 31 March 2007, only 281 cards (202 new and 79 old cards) were valid.

Audit scrutiny revealed that:

- Out of 757 old cardholders, 678 cardholders (90 *per cent*) discontinued their membership.
- The Company neither worked out the total business received through the scheme nor analysed the reasons for non-renewal of Gold Cards by the existing customers for taking remedial action.

Thus, the Gold Card scheme, though introduced for promotion of business, did not achieve the desired objectives.

Assessment of customers’ satisfaction

2.2.17 To assess the degree of satisfaction of customers with regard to accommodation facilities and quality of services rendered, the hotel units maintain visitors book/suggestion book. In respect of the hotel units selected for audit scrutiny, the following deficiencies were noticed:

The system of assessing the customers’ satisfaction was inadequate.

- 631 complaints/suggestions were received (2002-03 to 2006-07), out of which in 122 cases adverse comments on reception service, room service, restaurant service, food quality, etc. were recorded.
- In Yatrinivas, Konark and Satapada, separate suggestion books were maintained to record suggestions of VIP tourists and dignitaries only.
- The action taken by the Management for redressal of these complaints/grievances received from the guests was not on record.

The Management/Government stated (July/August 2007) that they had designed pre-stamped customers complaint letters for the year 2007 alongwith arrangement for scrutiny and effective rectification measures.

Inadequate repair and maintenance of hotels

2.2.18 It is necessary that the Company’s hotels are properly and aesthetically maintained, periodically refurbished and renovated if they are to compete with the private sector to attract more domestic and foreign tourists.

Audit scrutiny revealed the following:

- The Company did not have any annual strategic plan for routine and preventive maintenance of the hotel units.
- The expenditure on repair and renovation of tourist accommodation was only Rs.1.28 crore against the budgetary allocation of Rs.1.60 crore during 2001-02 to 2005-06. Despite the fact that the BoD also noted (March 2005) the requirement of further investment in order to make the hotels at par with private hotels, adequate attention was not paid on such an important aspect.
- During the period January 2005 to January 2007, the managers of three units (Konark, Rourkela and Puri) had requested for repair and maintenance work in 38 cases. Out of these, no repair and maintenance work had been done in 18 cases i.e. the work remained pending for a period up to 26 months (March 2007).

The repair and maintenance of hotel units were inadequate.

The Management, while accepting the fact, stated (July 2007) that during 2002-03 and 2003-04, there was considerable reduction in spending on capital account due to shortfall in revenue. The reply is not tenable as the Company ought to have arranged the funds from other sources for renovation which was essential to keep the hotels in proper shape to attract tourists. Even the budgetary provisions for the purpose were not fully utilised.

Performance of catering service

2.2.19 The Company provides self-managed catering service in the accommodation units and also runs one restaurant at Nandankanan zoo departmentally. Although the BoD decided (September 2000) to treat the catering units as profit centres, the Company did not work out the operating profit / loss of the catering units separately.

Audit scrutiny revealed the following:

- During 2002-03 to 2006-07, the Company revised (September 2006) the menu rates only once. The basis of determination of the menu rates was not made available to audit.
- The Company fixed the norm for food cost (46 *per cent*) and fuel cost (two *per cent*) of the sale price. The actual food and fuel cost in the six units selected for audit scrutiny ranged between 42 to 64 *per cent*. In respect of five[§] units, the food cost of 15 mostly commonly ordered items as per standard recipe, menu chart and the market price of ingredients was worked out by audit. It was noticed that the food cost of these items ranged between 14 and 42 *per cent* as against the norm of 46 *per cent* fixed by the Company. Thus, fixation of food cost was on the higher side.

The Management/Government stated (July/August 2007) that a cushion was allowed to cover up normal wastage and shrinkage. The reply is not tenable as

[§] Puri, Barkul, Satapada, Konark and Rourkela.

the norm was much higher than the food cost range computed in audit and the Management did not fix any criteria for wastage and shrinkage.

- Despite directions of the COPU (December 2001) to give emphasis on maintaining the cleanliness of the kitchen utensils and other dining accessories, there was nothing on record to indicate that any concrete steps had been taken by the Company in this direction.
- Further, no records were produced to audit regarding visit of public health authorities and their findings with regard to maintenance of hygiene in the kitchens of the hotels. It was noticed that complaints were also received from customers regarding lack of cleanliness in the units. Steps taken for redressal of such complaints were not on record.

Performance of Bars

2.2.20 The Company operates bars at Panthanivas, Rourkela and Sambalpur and two beer parlours at Panthanivas, Puri and Barkul. The turnover from bars constituted 5 to 8 *per cent* of the total turnover during 2002-03 to 2006-07. Though the Company earned profits on operation of bars, no norm for profit margin was fixed.

The cost percentage and the profit margin on bar sales in respect of three units selected for audit (out of four units having bar facility) for five years from 2002-03 to 2006-07 are given below:

(Rupees in lakh)

| Name of unit | Particulars | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 [#] | |
|--------------|-------------|---|---------|---------|---------|----------------------|-------|
| Puri | Beer | Sale (Rs) | 7.03 | 6.96 | 10.03 | 6.13 | 7.03 |
| | | Cost of Beer consumed (Rs) | 3.36 | 3.51 | 5.31 | 3.67 | 4.70 |
| | | Cost percentage | 47.80 | 50.43 | 52.94 | 59.87 | 66.86 |
| | | Gross profit margin (in <i>per cent</i>) | 52.20 | 49.57 | 47.06 | 40.13 | 33.14 |
| Barkul | Beer | Sale (Rs) | 2.31 | 5.68 | 12.09 | 9.15 | 18.08 |
| | | Cost of Beer consumed (Rs) | 1.31 | 3.26 | 7.16 | 5.08 | 11.23 |
| | | Cost percentage | 56.71 | 57.39 | 59.22 | 55.52 | 62.11 |
| | | Gross profit margin (in <i>per cent</i>) | 43.29 | 42.61 | 40.78 | 44.48 | 37.89 |
| Rourkela | Beer | Sale (Rs) | 2.29 | 5.87 | 8.64 | 10.76 | 12.12 |
| | | Cost of Beer consumed (Rs) | 1.42 | 3.51 | 5.36 | 6.66 | 7.81 |
| | | Cost percentage | 62.01 | 59.80 | 62.04 | 61.90 | 64.44 |
| | | Gross profit margin (in <i>per cent</i>) | 37.99 | 40.20 | 37.96 | 38.10 | 35.56 |
| | Liquor | Sale (Rs) | 2.37 | 4.28 | 7.20 | 14.25 | 19.98 |
| | | Cost of liquor consumed (Rs) | 1.01 | 2.01 | 3.48 | 7.11 | 10.33 |
| | | Cost percentage | 42.62 | 46.96 | 48.33 | 49.89 | 51.70 |
| | | Gross profit margin (in <i>per cent</i>) | 57.38 | 53.04 | 51.67 | 50.11 | 48.30 |

[#] Figures are provisional and as provided by the management.

It would be seen from the table that:

- The profit margin on sale of beer at Puri and Barkul decreased over the years (except in 2005-06 for Barkul).
- The profit margin on liquor sale at Rourkela decreased from 57.38 *per cent* in 2002-03 to 48.30 *per cent* in 2006-07.

The Management had not analysed the reasons for declining margin on sale of beer and liquor. The reasons for reduction in the profit margin as analysed by audit were due to non-revision of sale prices since April 2002, except for the beer prices at Rourkela, which were revised in April 2006.

- In Panthanivas Barkul, records relating to beer stock, beer purchases and bar sales had not been maintained properly.

The Management/Government stated (July/August 2007) that the Company resorted to low margin to increase the sale volume. It further stated that action was, however, being taken to revise the rates. Fact is that to avoid decrease in profits, it is necessary to redefine overall strategy based on sound marketing principles and commercial practices and at the same time providing the customers the required comfort and ambience.

Penalty for short drawal of liquor

2.2.21 The Company obtains license from the State Excise Department for sale of Indian Made Foreign Liquor (IMFL). The Department, while issuing the license, fixes the Minimum Guaranteed Quantity (MGQ) for the bar unit. The Excise Rules provide for imposition of penalty against failure to lift MGQ. As the bar units of the Company failed to lift the MGQ during 1997-98 to 2004-05, the State Excise Department imposed* penalty of Rs.15.36 lakh. The Company paid Rs.11.03 lakh (March 2007) and balance Rs.4.33 lakh had not been paid (August 2007). The Management stated (July 2007) that since sale at Panthanivas was low, lifting was less compared to MGQ. The reply is not tenable as the Management should have conducted feasibility study before opening of bar.

Performance of transport services

Surface Transport

2.2.22 The Company had surface transport units[#] at Bhubaneswar and Puri to provide transport facility to tourists for sight-seeing and also to provide vehicles on hire on requisition from tourists or from other institutions.

* April 2004, March 2005 and May 2005.

[#] Besides, the Company had one vehicle operating from Panthanivas, Chandipur.

The performance of the surface transport units for the years 2002-03 to 2006-07 was as follows:

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 [§] |
|----------------------------------|-------------------------|--------------|--------------|--------------|----------------------|
| | (Rupees in lakh) | | | | |
| 1. Revenue from transport sale | 71.22 | 54.05 | 47.22 | 61.19 | 70.35 |
| 2. Expenditure | | | | | |
| (a) Employee Cost | 27.63 | 25.60 | 22.92 | 23.57 | 26.61 |
| (b) Running & Maintenance Cost | 43.66 | 32.70 | 28.96 | 35.83 | 45.92 |
| (c) Other Expenses | 2.65 | 2.81 | 2.93 | 2.45 | 2.55 |
| Total-2 (a+b+c) | 73.94 | 61.11 | 54.81 | 61.85 | 75.08 |
| Operational Profit/ (Loss) (1-2) | (2.72) | (7.06) | (7.59) | (0.66) | (4.73) |

As would be seen from the above table, the Company had been incurring loss (excluding depreciation and Head Office overhead) consistently for five years up to 2006-07 in the operation of transport units. The BoD, while reviewing (March 2005) the performance of surface transport operation, observed that the recurring loss was attributable to deployment of old and aged vehicles, poor capacity utilisation and non-availability of medium-sized vehicles.

Audit analysis revealed that the following factors also contributed to loss:

Excess consumption of fuel and non-revision of rates were the other reasons for loss.

- During the period 2002-03 to 2006-07, there was excess consumption of 21,674 liters of diesel valued at Rs.5.81 lakh over the norms fixed for consumption of fuel for different types of vehicles operating in the transport units.

The Management/Government stated (July/August 2007) that sometimes actual fuel consumption was more due to traffic jam, bad road condition, engine condition and hilly roads. The reply is not acceptable since the norms were fixed considering all these factors.

- The Company is conducting sight-seeing tours through its transport units in Puri and Bhubaneswar covering different routes. In spite of increase in the cost of diesel every year, the Company did not increase the rates of the conducted tours operated from Puri during 2002-03 to 2006-07. The unit at Bhubaneswar increased the rate of conducted tours only in April 2005. The excess expenditure on procurement of diesel oil alone (over the rate of 2002-03) was Rs.8.52 lakh. The Company, however, did not revise the rates and had to sustain loss. It was also noticed that the Company did not follow any definite basis in fixation of rates of conducted tours.

The Management/Government stated (July/August 2007) that the rates were not revised due to market conditions and low occupancy. The reply is not tenable as the Company must run its transport services on sound principles and commercial practices. The fact is if its services were efficient, attractive and comfortable, tourists would not mind paying extra costs.

[§] Figures are provisional and as provided by the Management.

Water transport (boating operations)

2.2.23 The Company provides boating facilities to the tourists in its four[#] hotel units, which are located near Lake Chilka and Sea Mouth (Chandbali). These units provide motor launches or country boats with different seating capacities[&]. The Company acquired (December 2002) one floating restaurant with 50 seater capacity and was operating it at Panthanivas, Barkul. The number of boats available with the Company varied between 15 and 18 during the five years ended 2006-07.

The location-wise availability of boats is given below:

| Place | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--------------|-----------|------------|------------|-----------|-----------|
| Barkul | 8 | 9 | 8 | 7 | 8 |
| Satapada | 4 | 5 | 6 | 7 | 7 |
| Rambha | 2 | 1 | 2 | 2 | 2 |
| Chandbali | 1 | 1 | 1 | 1 | 1 |
| Total | 15 | 15* | 16* | 17 | 18 |

The Company made operating profit of Rs.97.47 lakh from boating operations during the five years ended 2006-07.

Audit scrutiny revealed the following:

- The percentage utilisation of the big boats at Barkul was 68 in 2002-03 and 45 in 2003-04. The Company, however, without considering the utilisation of boats in Barkul, increased (April 2004) the number of big boats from two to three at a cost of Rs.19.34 lakh. Even after increase in the number of big boats, percentage utilisation did not improve and remained between 45 to 49 *per cent* during 2004-05 to 2006-07.
- In Barkul, the percentage utilisation of medium boats was 67 (2002-03) which increased to 84 in 2006-07; while the percentage utilisation of small boats was 48 (2002-03) which increased to 81 in 2006-07. In Satapada, only medium and small boats were in operation during 2002-03 to 2006-07. The percentage utilisation of medium sized boats and small sized boats at Satapada decreased from 76 (2002-03) to 59 (2006-07) and from 49 (2002-03) to 33 (2006-07) *per cent* respectively. This indicates that utilisation of medium and small size boats at Barkul was higher compared to the boats at Satapada. The Company, however, transferred one medium boat each in the year 2003-04 and 2004-05 from Barkul to Satapada unit.

Uneconomic operation of Floating Restaurant

2.2.24 The Floating Restaurant was purchased (December 2002) at a cost of Rs.43.85 lakh out of Government fund so as to promote tourist activities. It could contribute only Rs.2.64 lakh (after deduction of fuel cost, salary,

[#] Barkul, Satapada, Rambha and Chandbali.

[&] Big boats above 20 seating capacity, medium with 11 to 20 and small with up to 10 seating capacity.

^{*} One boat is common between Barkul and Satapada. One boat each was transferred from Barkul to Satapada during the year.

During 2002-03 to 2006-07, the floating restaurant could be utilised only 14 per cent of the available days.

insurance, etc.) during 2003-04 to 2006-07. The break-even hours of the floating restaurant as worked out by audit on the basis of the fixed cost and contribution per running hour was 4.92 hours per month. Out of the total 48 months of operation (December 2002 to September 2004 and January 2005 to February 2007), it operated below break-even hours in 25 months. During the above period, the floating restaurant was operated for only 204 days against availability of 1435 days resulting in meager utilisation of 14 per cent only. Thus, the Company could recover only Rs.2.64 lakh out of cost of Rs.43.85 lakh paid for the floating restaurant. Hence, the investment in the floating restaurant for promotion of tourism was a non-starter.

The Management, while accepting the facts, stated (July 2007) that the Company was presently hiring out the floating restaurant to different customers to improve capacity utilisation.

Purchase of Kerosene oil from unauthorised sources

Excess expenditure of Rs.15.18 lakh due to purchase from unauthorised sources.

2.2.25 In Panthanivas Barkul and Satapada, kerosene is used as the primary fuel for running the boat engine. Mobil and petrol are used as supplementary fuel. The unit management was getting a quota of two - three thousand litres of kerosene per month from the District Administration. With the increase in inflow of tourists resulting in increase in boating operation, the unit management (Barkul) purchased upto 9,860 litres of kerosene oil in a month (December 2006) beyond the monthly allotment from the open market to meet the extra requirement. During the period 2002-07, these units purchased 1,36,553 litres of kerosene oil costing Rs.27.14 lakh from unauthorised sources paying extra amount of Rs.15.01 lakh (being the difference between open market rate and control price). Besides, Satapada unit also purchased 9,380 liters of diesel oil costing Rs.2.53 lakh from other than authorised outlets paying extra cost of Rs.0.17 lakh during 2002-03 to 2006-07 (January 2007).

The Management/Government stated (July/August 2007) that although the District Administration was requested several times for increasing the quota of kerosene, but on most of the occasions, the same was refused. The reply is not tenable as examination of records revealed that the Corporate office of the Company requested the District Collector for extra quota for Satapada only once in September 2004 and no pursuance was made thereafter.

Non-adherence to safety measures and statutory requirements

2.2.26 The operation of boats requires compliance to the Orissa Boat Rules, 2004, which were effective from 4 March 2004. The Company had not complied with various provisions of the said Rules as detailed below:

- None of the boats being operated at Barkul and Satapada had obtained registration certificate under Orissa Boat Rules, 2004.
- The maximum carrying capacity had not been displayed on the boats.
- As against the minimum required crew of 3 members, the boats had only 1 to 2 crew members.

The Company did not comply with the statutory safety measures.

- Fire extinguishers were available only in 1 out of 8 boats operating at Satapada and in 3 out of 8 boats operating at Barkul (March 2007).

The Management/Government stated (July/August 2007) that the concerned Managers had been instructed to register the boat with the appropriate authority and they were trying to fix fire extinguishers in each boat.

Financial management

Diversion of funds

2.2.27 The Company did not have any arrangement for short term borrowings to meet its working capital needs. It met its working capital needs from income from business activities. Further, it also resorted to temporary diversion of funds received for project work from the State Government. The diversion of fund ranged between Rs.0.27 crore to Rs.0.97 crore during the period 2002-03 to 2005-06.

Income from non-operational activities

2.2.28 During 2002-03 to 2005-06[#], the Company earned profit of Rs.1.09 crore during the years 2003-04 (Rs.15.70 lakh), 2004-05 (Rs.40.35 lakh) and 2005-06 (Rs.52.45 lakh). The profit was, however, earned from sources other than the core activity of the Company, as discussed below:

- The Company earned interest income of Rs.54.56 lakh during the period 2002-03 to 2004-05 on investment made out of funds received for project works in fixed deposits. This had been taken as revenue and appropriated towards working capital needs. The State Government instructed (June 2005) the Company to keep the interest income earned from such deposits separately and utilise the same only on project works.
- The Company also earned Rs.89.28 lakh towards administrative and supervision charges for execution of projects during the period 2002-03 to 2005-06 which was not the core activity of the Company.
- In the absence of finalisation of terms and conditions of lease with the State Government, the Company did not make any provision towards payment of lease rent.

The Management/Government stated (July/August 2007) that there was improvement in profitability for 2005-06 without taking into account the interest income. The reply is not correct as the improved profitability during 2005-06 was on account of revenue earned from sources other than the core activities.

Outstanding dues

2.2.29 The total outstanding dues of the Company, which were Rs.1.04 crore as on 31 March 2002, increased to Rs.2.47 crore as on 31 March 2006

[#] Figures for 2006-07 have not compiled by the Company.

The profit of the Company constituted earning from non-core activities.

including Rs.52.78 lakh relating to transport units. The COPU recommended (December 2001) that stringent action should be taken against officials extending credit sale without any authority and all out efforts should be initiated to recover the outstanding dues.

The following points were noticed in audit:

- Despite the BoD's decision (March 2002), the Company had not prepared a database of sundry debtors and had also not framed credit policy defining the time schedule for collection of dues and imposition of penalty in the shape of interest at 18 *per cent* per annum on defaulters.
- The Managers of 21 units allowed credit facilities to private and Government visitors for accommodation and transport services without the approval of the competent authority.
- The details of sundry debtors of Rs.0.82 crore relating to 17 units were also not made available to Audit.
- In respect of the other four units (Air ticketing division, Barkul, Rourkela and Transport unit, Bhubaneswar), against total outstanding dues of Rs.1.65 crore, party-wise details for Rs.16.56 lakh were not made available to audit. Out of the balance amount of Rs.1.48 crore, Rs.1.30 crore was due from the State Government Departments and Rs.18.77 lakh from private parties.
- The Company had no system for obtaining confirmation of dues from the private parties.

Deployment of manpower

2.2.30 Manpower management plays a significant role in the tourism service industry. Deployment of adequate and skilled manpower conforming to the nature of services is essential to run the tourist units profitably.

Audit scrutiny revealed the following:

- The Company took over 11 new tourist hotel units between February 2005 and November 2006. The sanctioned strength of 162 posts, however, was not revised accordingly. As on December 2006, 582* personnel (including 114 persons engaged through service providers) were in position.
- The Company had not fixed any norms of bed-staff ratio keeping in view the nature and volume of business in each unit. The ratio of bed to service staff# ranged from a minimum of 1:0.05 to a maximum of 1:0.41. Further, there was no rational deployment of service staff with reference to bed capacity and income of the unit.

* Managerial-55, Supervisory-92 and others-435.

Service staff constitutes Shift supervisor, Receptionist, Waiter, Room boy, Sweeper and Bell boy.

- Out of 26 managers, only seven managers had professional qualifications in hotel and catering business of whom two were posted in Transport units at Puri and Bhubaneswar. During 2002-03 to 2006-07, the Company organised trainings for cooks, waiters, gardeners and supervisory staff, but no training programme was organised for the managerial staff.
- The hotels' front office should be manned by professionally trained personnel. In eight units[§] receptionists were not posted during the period 2002-03 to 2005-06 and the work was managed by deploying staff of other job descriptions.
- The Company had not verified the qualifications, experience and antecedents of the persons provided by the service provider and some of the units complained about the lack of skills and experience of the persons provided.

The Management/Government stated (July/August 2007) that uniform staff ratio was not possible due to capacity utilisation, scattered rooms, extra facilities like bars and restaurants and extra floor area. The reply is not tenable as the Management should have fixed norms for manpower for different hotels considering the above factors.

Internal Control

2.2.31 Internal control is a management tool used to provide reasonable assurance that the Management's objectives are being achieved in an efficient and effective manner.

The following deficiencies in internal control system were noticed:

- The Company had no Accounting Manual.
- During 2002-03 to 2006-07, the post of Managing Director was held by four incumbents with tenures ranging from eight to 31 months. Frequent change of the incumbent in the post of Chief Executive was not conducive to smooth management of the Company.
- During the five years ending March 2007, the BoD held only 11 meetings as against 20 meetings (one meeting in each quarter) required to be held during the period as per provisions of section 285 of the Companies Act, 1956.
- Out of the six hotel units selected for audit, meetings of the purchase committee were not being held at periodical intervals in five hotel units. In Yatrinivas, Konark the purchase committee was not constituted at all.
- Though the BoD decided (May 2000/ June 2005) to constitute a flying squad for surprise check of the units on regular basis to improve the

[§] Panthanivas at Konark, Chandipur, Rambha, Taptapani, Panchalingeswar, Paradeep, Lulung and Yatrinivas at Satapada.

standard of services, the Company had not yet constituted the same (August 2007).

- The cash book entries were neither attested nor the cash book countersigned by the Managers of the concerned units. Surprise verification of cash was also not done in any of the units. In Panthanivas, Rourkela, cash/bank receipts and disbursements were not recorded on the date of the transactions thereby giving an incorrect position of cash and bank balance. In Yatrivas, Satapada, the Manager himself was handling cash, writing the cash book and countersigning it.
- No limits were prescribed for holding maximum cash balance by the units.
- Monthly and year-end bank reconciliation statement was not done in any of the units.
- Physical verification of crockery, cutlery and linen was not done.
- Advances were given to the staff for catering purchase, etc. without adjustment of the earlier advances. In PNS Barkul, advances amounting to Rs.2.34 lakh relating to the period 2002-03 to 2006-07 (up to January 2007) remained unadjusted. Advances were also paid without any requisition for the same and without approval of the competent authority.
- Norm for consumption of oil for boats was not fixed by the Management.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the Performance audit.

Conclusion

Although the State has immense potential for becoming an important tourist destination, the tourist potential of the State remained largely untapped due to lack of planning and professional approach in the management of the business of the Company. Despite being in the business since 1979, the Company failed to meet the challenges from private operators. During the period of review, the Company's share of domestic tourists varied between 1.34 and 1.67 per cent and foreign tourists ranged between 4.25 per cent and 5.34 per cent indicating that the Company had not been able to attract tourists.

The Company incurred overall loss in the operation of hotels during the period 2002-03 to 2005-06. The targets were fixed on the lower side which also could not be achieved in most of the cases. The occupancy in the hotels never exceeded 49 per cent and in six units, the occupancy was consistently below the average occupancy. Poor occupancy was due to failure to provide necessary facilities to the tourists and to give adequate

attention to advertisement and publicity. Further, the Company had no system of redressal of complaints/grievances received from the customers. The profit margin in respect of bar sales declined over the years due to non-revision of sale prices of beer since April 2002. The surface transport wing incurred persistent loss due to deployment of aged vehicles, poor capacity utilisation and non-availability of medium-sized vehicles. Deficiencies in the internal control mechanism were noticed in crucial areas like maintenance of cash book and physical verification of inventories.

Recommendations

- The Company should prepare a strategic Corporate Plan defining its role and activities as per the Tourism Policy of the State and indicating the long-term and short-term goals to be achieved.
- The terms of lease of the newly acquired units should be finalised with the Government.
- The Company should upgrade, refurbish and renovate all its properties in a phased manner.
- Hotel, restaurant and transport services should be professionalised to provide efficient, attractive and comfortable services to compete with the private sector. In addition, steps should be taken to:
 - improve occupancy;
 - revise tariff for rooms, food and beverages commensurate with efficient, effective and economic services;
 - adopt aggressive marketing and publicity practices; and
 - promote public private participation.
- The monitoring mechanism should be strengthened to ensure compliance with the rules and procedures.
- Internal Controls should be strengthened.

Orissa Power Transmission Corporation Limited

2.3 Procurement, performance, repairs and maintenance of transformers

Highlights

Excess transmission loss over the OERC's benchmark during the last six years up to 2006-07 (except in 2002-03 and 2004-05) resulted in loss of Rs.42.43 crore.

(Paragraph-2.3.7)

Construction of substation despite being aware of fall in demand of load led to idle investment and consequential loss of interest of Rs.55.25 crore.

(Paragraph-2.3.9)

Non-commissioning of 18 transformers of total capacity of 2830 MVA by seven months to almost nine years of their receipt led to foregoing of revenue of Rs.139.43 crore per annum.

(Paragraph-2.3.10)

Due to delay in finalisation of contract, the Company suffered loss of Rs.35.14 crore towards cost overrun, loss of interest and wastage of materials.

(Paragraphs-2.3.13)

Delay in handing over of land and non-completion of the incoming line resulted in loss of interest Rs.10.27 crore.

(Paragraph-2.3.14)

Extra expenditure of Rs.10.92 crore was incurred towards re-ordering of auto and power transformers.

(Paragraphs-2.3.16 and 2.3.20)

Piecemeal placing of purchase orders deprived the Company of availing price benefit resulting in extra expenditure of Rs.2.86 crore.

(Paragraphs-2.3.23 and 2.3.24)

Load restrictions due to over-loading, voltage fluctuations, trippings and interruptions resulted in loss of revenue of Rs.2.34 crore.

(Paragraph-2.3.28)

Introduction

2.3.1 Orissa Power Transmission Corporation Limited (OPTCL) was incorporated (March 2004) under the Companies Act, 1956 as a company wholly owned by the Government of Orissa with the main objectives of effectively operating transmission lines and substations in the State,

maintaining the existing lines and substations for power transmission, undertaking power system improvement by renovation, upgradation and modernisation of the transmission network, wheeling electricity and carrying on the functions of State Load Despatch Centre (SLDC).

The Company started commercial operations from 1 April 2005 as a transmission licensee and it became fully operational with effect from 9 June 2005, consequent upon issue of Orissa Electricity Reform (Transfer of Transmission and Related Activities) Scheme, 2005 under the provisions of the Electricity Act, 2003 and the Orissa Reforms Act, 1995 enacted by the State Government for transfer of transmission related activities from the Grid Corporation of Orissa Limited (GRIDCO) to OPTCL.

The Company is designated as the State Transmission Utility in terms of Section 39 of the Electricity Act, 2003. It is presently carrying on intra-state transmission and wheeling of electricity under a license issued by the Orissa Electricity Regulatory Commission (OERC). The Company owns Extra High Voltage[#] transmission system and operates about 9550 circuit kms of transmission lines at 400, 220, and 132 KV levels besides 81 substations with transformation capacity of 7000 MVA.

The management of the Company is vested with the Board of Directors (BoD) consisting of six Directors including the Chairman-cum-Managing Director (CMD) who is the only functional director in the BoD. The CMD is assisted by Director (Finance, not a member of the BoD) and three Chief General Managers (Construction, Human Resource Development, Operation and Maintenance) and a Senior General Manager (Information Technology).

The procurement activities are handled by various departments functioning under the overall control of the Chief General Manager (Construction). Prior to 1 April 2005, the award and execution of contracts for World Bank funded projects were looked after by Project Monitoring Unit (PMU), while contracts for other projects were handled by the Transmission Project (TP) wing. With effect from 1 April 2005, all contracts for procurement of transformers required for augmentation of new substations or for up-gradation of existing substations are awarded by the Central Procurement Cell (CPC) and the execution of the contracts is looked after by TP. The indents for the transformers are raised either by TP or Operation and Maintenance Department (O&M).

As on 31 March 2007, the Company had 194 working transformers comprising 165 Power Transformers (PTs), 27 Auto Transformers (ATs) and two Inter Connecting Transformers (ICTs). Besides, there were 29 damaged transformers (4 ATs and 25 PTs) awaiting repairs and 14 dismantled PTs in working condition but lying idle. In addition, there were 28 distribution transformers awaiting disposal.

[#] Voltage above 33 KV is termed as extra high voltage.

Scope of Audit

2.3.2 The present performance review covers the performance of the Company in respect of Procurement, Performance, Repairs and Maintenance of Transformers during the last five years ending 31 March 2007. The audit findings are based on test check of records at the Corporate Office, five * out of six circles and nine# out of 15 divisions of the Operation and Maintenance Wing, selected for detailed study on the basis of materiality, number and age of transformers, transmission capacity of substations and geographical coverage.

Audit objectives

2.3.3 The Performance Review was conducted with a view to ascertain whether:

- the performance of the transmission system met the standards of stability and availability, transmission losses, outages and voltage fluctuations were kept to the minimum;
- the Company had prepared plans for procurement of transformers after due consideration of the load demand forecast and changes in the load and generation capacity;
- appropriate procedure existed for the procurement of transformers and the procurements were made in a transparent, economical, efficient and effective manner; and
- the Company had devised and put in place a well-rounded maintenance policy/schedule and there was an effective mechanism for repair and preventive maintenance of transformers and associated equipment.

Audit criteria

2.3.4 The audit criteria considered for assessing the extent of achievement of audit objectives were as follows:

- the norms, standards, directions and guidelines of the Company, OERC and Orissa Grid Code;
- commissioning schedules of transformers, substations and transmission lines and terms and conditions of contracts;
- planning and security standards and manufacturers' guaranteed parameters/specifications;
- provisions in the Electricity Supply Act, 2003, schedule of maintenance of transformers as per the Company's repair and maintenance manual and recommendations of the laboratory test reports of transformer oil; and

* Berhampur, Burla, Chainpal, Cuttack and Jajpur-Keonjhar Road.

Balasore, Bhanjanagar, Berhampur, Burla, Chainpal, Choudwar, Jajpur-Keonjhar Road, Rourkela and Theruvalli.

- benchmarks and directions of OERC on repair and maintenance, guidelines on overhauling and Government's directions on disposal of scrap and retrievals.

Audit methodology

2.3.5 The following methodologies were adopted for attaining the audit objectives with reference to audit criteria:

- Scrutiny of the agenda and minutes of the Board of Directors and of State Advisory Committee, reports submitted to various statutory agencies, progress and performance reports and analysis of data/information on forecasting, implementation plan, checking of basis for assessment of requirement, Consultant's recommendation on procurement of transformers.
- Examination of tender specifications, tender evaluation, files relating to purchase orders/contracts, execution of contracts, test reports, transformer related records at Head Office and O&M divisions/substations, budgets, targets, finance records and system performance records.
- Scrutiny of maintenance programme, cause-wise reasons of system disturbances and records relating to unused and dismantled transformers.
- Interaction with the Management and issue of audit queries.

Audit findings

The audit findings were reported (June 2007) to the Company/Government and also discussed (27 July 2007) in the meeting of Audit Review Committee for State Public Sector Enterprises. The meeting was attended by the Additional Secretary-cum-Financial Adviser, Department of Energy, Government of Orissa and the Chairman-cum-Managing Director of the Company. The views expressed by the members have been taken into consideration while finalising the report. The major audit findings are discussed in the succeeding paragraphs.

Transmission system

2.3.6 A transformer is a static equipment installed for stepping up or stepping down voltage in transmission of electricity. Power is usually generated at a very low voltage (11 KV to 15.75 KV) and thereafter it is stepped up (132 KV/ 220 KV/ 400 KV) through Inter-Connecting Transformers (ICT) and Auto Transformers (AT) for bulk transmission to the substations. At the receiving substation, voltage is stepped down to 33 KV through Power Transformers (PT) for supplying power to various distribution companies. The principal benefit of transmitting power at Extra High Voltages (33 KV and above) is to minimise transmission losses.

2.3.7 During the period from 1996-97 to 2006-07, the Company spent Rs.1953 crore on transmission projects completed (Rs.1093 crore) and under execution (Rs.860 crore) for the purpose of system improvement and reducing

transmission losses. During 2000-01, the Company submitted a business plan to OERC to gradually reduce the percentage of transmission loss and to bring it down from 4.60 *per cent* to the level of 3.70 *per cent*. The following table indicates year-wise percentage of actual transmission losses vis-à-vis OERC's benchmark and consequential financial impact thereof during the years 2001-02 to 2006-07.

| Year | Total quantity transmitted (MU) | OERC's benchmark (<i>per cent</i>) | Actual | | Excess loss | | Amount of loss at Rs.1.20 [#] per unit (Rs. in crore) | |
|--------------|---------------------------------|--------------------------------------|-----------------|--------|-----------------|--------|--|--------------|
| | | | <i>Per cent</i> | in MU | <i>Per cent</i> | in MU | | |
| 2001-02 | 13739.00 | 4.18 | 4.31 | 591.67 | 0.13 | 17.86 | 2.14 | |
| 2002-03 | 13490.22 | 3.88 | 3.75 | 506.02 | - | -- | - | |
| 2003-04 | 14670.27 | 3.58 | 3.97 | 581.77 | 0.39 | 57.21 | 6.87 | |
| 2004-05 | 15411.71 | 4.00 | 3.56 | 549.14 | - | -- | - | |
| 2005-06 | 15797.32 | 4.00 | 4.43 | 700.40 | 0.43 | 67.93 | 8.15 | |
| 2006-07 | 20244.95 | 4.00 | 5.28 | 941.12 | 1.28 | 210.55 | 25.27 | |
| Total | | | | | | | | 42.43 |

Transmission loss was in excess of norm by Rs.42.43 crore.

As would be seen from the above table, the transmission losses were higher than the OERC's benchmark in all the years except during 2002-03 and 2004-05. The total impact of excess transmission loss over the OERC's benchmark in four years was Rs.42.43 crore. The State Advisory Committee expressed (February 2006) concern about high transmission losses in spite of huge investments made for system improvement.

The Management stated (August 2007) that the increased trend of transmission losses was mainly due to partial/non-completion of planned schemes. Thus, it is obvious that despite spending huge amount on system improvement works, the Company could not achieve the objective of reducing excessive transmission losses due to partial/ non-completion of planned schemes.

Identification of requirement of transformers

2.3.8 The Asian Development Bank (ADB) was providing technical assistance to the GOI and the Orissa State Electricity Board (OSEB) for study of power system planning in Orissa. ADB engaged (1995) Monenco AGRA Inc. (MA) as consultant to carry out the study on power system planning in Orissa. The requirement of transformers was identified on the basis of the long-term transmission system plan prepared by the consultants in March 1996. The Company used this plan as a basis for preparation of its transmission expansion project implementation plan (PIP). In the long-term plan and PIP prepared (September 1997) by the Company, it was clearly indicated that the plans recommended were by no means definitive and, therefore, cautioned that:

- the demand should be monitored closely and the transmission plans must be updated and revised whenever significant changes in the load and generation occur. All the relevant facts of the proposed High

[#] Average rate per unit during 2001-02 to 2006-07.

Tension (HT) industries must be obtained before proceeding to update transmission plans.

- the programme for each aspect of the transmission schemes should be very closely coordinated and the delivery programmes of transformers should synchronise with installation programmes of the connected facilities like lines and substations.

2.3.9 The Company is required to prepare and submit every year to OERC the long-term load forecast for the succeeding ten years along with assumptions thereof. The Company started (October 2000) forecasting on a long-term basis (ten years) with effect from 2002.

Audit scrutiny revealed the following:

- As per earlier forecast (1996) the projected demand for 2006-07 was 3652 MW. The updated (May 2006) forecast and the actual peak demand (March 2007), however, came down to 2761 MW and 2574 MW respectively, which was mainly due to non-materialisation of the expected load (600 MW) from two major steel industries* which did not come up.
- Despite being aware that neither of the two industries were committed for completion of their projects, the Company spent (September 1999) borrowed funds of Rs.100 crore on construction of 220 KV substation at Narendrapur with two 160 MVA auto transformers along with connected line to supply power to these two industries. As the industries did not come up, the facilities created could be utilised upto 25 per cent only (till September 2004) resulting in loss of interest of Rs.55.25[#] crore on the investment made on the construction of substation.

Construction of substation despite being aware of fall in demand of load led to idle investment and consequential loss of interest of Rs.55.25 crore.

The Management stated (August 2007) that as funding was tied up it was not possible to drop the project half-way even if the load growth could not match as anticipated. The fact, however, remained that the investment had a deleterious effect on timely completion of other ongoing transmission projects as also admitted (February 2005) by the Company before OERC.

Procurement of transformers

2.3.10 The Company procures transformers through two types of contracts- either as a separate package involving supply and commissioning of transformers alone or as a composite package involving supply and commissioning of transformers as a part of erection and commissioning of the concerned substation. The Company is required to coordinate and synchronise the delivery of transformers with actual commissioning of connected substations and lines.

* TISCO and L&T.

[#] Interest @ 13 per cent on Rs.100 crore for two years and on 75 per cent of Rs.100 crore for three years.

The Company placed (1999-2001) orders for procurement of 57 transformers, of which 49 were to be commissioned by the beginning of the year 2001-02. Details of these transformers and others ordered/received/ commissioned between 2001-02 and 2006-07 are indicated in the following table:

| Year | No. | ICT | | | AT | | | PT | | | TOTAL | | |
|---------------------------|-----|-------------|-------------|------------|-------------|-------------|------------|-------------|------------|------------|-------------|-------------|-------------|
| | | MVA# | O | R | C | O | R | C | O | R | C | O | R |
| 1999-00 and 2000-01 | No. | 8 | 4 | 0 | 12 | 8 | 2 | 37 | 12 | 6 | 57 | 24 | 8 |
| | MVA | 2520 | 1260 | - | 1320 | 920 | 320 | 873 | 433 | 240 | 4713 | 2613 | 560 |
| 2001-02 | No. | - | 2 | - | - | - | - | - | 10 | 12 | - | 12 | 12 |
| | MVA | - | 630 | - | - | - | - | - | 140 | 220 | - | 770 | 220 |
| 2002-03 | No. | - | - | - | - | - | 1 | 1 | - | - | 1 | - | 1 |
| | MVA | - | - | - | - | - | 100 | 20 | - | - | 20 | - | 100 |
| 2003-04 | No. | - | 2 | - | - | - | 3 | 3 | 16 | 5 | 3 | 18 | 8 |
| | MVA | - | 630 | - | - | - | 300 | 60 | 320 | 140 | 60 | 950 | 440 |
| 2004-05 | No. | - | - | - | 2 | 4 | - | 1 | 3 | 8 | 3 | 7 | 8 |
| | MVA | - | - | - | 320 | 400 | - | 40 | 60 | 160 | 360 | 460 | 160 |
| 2005-06 | No. | - | - | 2 | - | - | - | 4 | - | 5 | 4 | - | 7 |
| | MVA | - | - | 630 | - | - | - | 140 | - | 93 | 140 | - | 723 |
| 2006-07 | No. | - | - | - | - | 2 | 1 | 3 | 1 | 1 | 3 | 3 | 2 |
| | MVA | - | - | - | - | 320 | 100 | 60 | 40 | 20 | 60 | 360 | 120 |
| Total | No. | 8 | 8 | 2 | 14 | 14 | 7 | 49 | 42 | 37 | 71 | 64 | 46 |
| | MVA | 2520 | 2520 | 630 | 1640 | 1640 | 820 | 1193 | 993 | 873 | 5353 | 5153 | 2323 |

O = Ordered, R = Received and C = Commissioned

ICT: Inter-connecting Transformer, AT: Auto Transformer, PT: Power Transformer

Audit observed the following:

- The total cost of 71 transformers ordered (March 1997 to December 2006) was Rs.96.53 crore. Out of these, seven transformers of 200 MVA capacity costing Rs.14.81 crore were yet to be received (July 2007). Out of 64 transformers received (September 1998 to August 2007), 18 transformers of 2830 MVA capacity costing Rs.37.39 crore were awaiting commissioning for the last seven months to almost nine years of their receipt. The uncommissioned transformers constitute 27 per cent of the total number of transformers and account for 55 per cent of the transformer capacity.
- Due to non-commissioning of 18 transformers of 2830 MVA capacity, the Company could not avail the opportunity of earning potential additional revenue of Rs.139.43 crore per annum (at Rs.4.927 lakh* per MVA).
- Purchase orders for procurement of 31 transformers (8 ICTs, 6 ATs and 17 PTs) were placed 11 months before the award (June 1999) of contracts for construction of the connected substations. The Company

Non-commissioning of transformers deprived the Company of earning revenue of Rs.139.43 crore

Mega Volt Ampere.

* Rs.344.89 crore being the income earned during 2006-07 / 7000 MVA being total installed capacity of transformers as on 31 March 2007.

did not coordinate the actual deliveries of the transformers with commissioning of the related substations/lines. The consequences of the delays in commissioning are discussed in the succeeding paragraphs.

Inter Connecting Transformers (315 MVA - 400/220 KV)

Procurement of transformers without awarding contract for substation

2.3.11 With a view to evacuate power from the two new generating units anticipated to be constructed[#] at Ib Thermal Power Station, the Company proposed (September 1997) to construct a 400 KV substation at Ib and 400 KV Double-Circuit (D/C) line from Ib to Meramundali. Accordingly, the Company awarded (July 1998) a contract to BHEL for procurement of two ICTs (315 MVA) to be commissioned in April/June 2001 at Ib substation. Though commissioning of the ICTs was dependent on completion of Ib substation and connecting 400 KV D/C line from Ib-Meramundali, the contract for construction of the substation was not awarded for installation of the two ICTs ordered. The Company awarded (September 1998) the contract for construction of the connected line. The line work was slowed down on the ground that the generating units did not come up. Subsequently, the work was held up (October 2004) due to non-finalisation of sources of funds and the contract was finally terminated (February 2005). As a result, the investment on the procurement of two ICTs (Rs.5.60 crore), conductors (Rs.45.99 crore) issued to the work and the payments made to the line contractor for supply of material (Rs.44.28 crore) and erection of services (Rs.14.74 crore) became unproductive (October 2004) resulting in loss of interest of Rs.22.95 crore till March 2007. Further, due to frequent thefts of conductors, towers and other line material (February 2002 to December 2004), the Company would have to incur additional expenditure of Rs.52 crore being the estimated cost of restoration of the damaged/lost material for completion of the line.

Non-finalisation of sources of funds led to non-completion of projects and consequential loss of interest of Rs.22.95 crore.

The Management, while accepting the facts, stated (August 2007) that problems relating to construction of substation at Ib were being sorted out. Thus, by procuring ICTs before finalising the substation contract and slowing down the execution of the line work, the Company suffered losses towards interest on borrowed funds blocked and cost of restoration material lost/damaged.

Delay in commissioning of transformers due to non-commissioning of connected substation

2.3.12 For procurement of two ICTs (315 MVA), the Company awarded (July 1998) the contract to BHEL with stipulation to commission the transformers by April-July 2000 at Meramundali substation. Supplies were received in February 2004 i.e. 44 months after the delivery schedule (March 2000).

[#] by AES Ib Valley Corporation.

Audit observed as follows:

Due to delay in commissioning of substation, the Company sustained loss of Rs.1.86 crore towards interest and theft of material.

- Due to delay in commissioning of the connected substation, these ICTs were commissioned in May 2005 i.e. after a delay of 15 months after their receipt. As a result, the borrowed funds of Rs.5.60 crore spent on procurement of two ICTs became unproductive and thereby the Company had to sustain a loss of interest of Rs.97.07 lakh.
- Further, despite being aware of the delay in completion of the substation, the Company neither took over the completed portion of the connected LILO* line nor safeguarded it against theft/damage. Consequently, the Company had to incur avoidable expenditure of Rs.89.20 lakh towards replacement of material lost due to theft.

The Management stated (August 2007) that the delays were due to various reasons and action for realisation towards cost of restoration and replacement was being taken. The reply is not tenable as despite the decision (February 2003) of the Board to recover the additional cost from the contractor, the Company could not recover the same so far (October 2007). Further, the chances of recovery are remote as the entire payment including security deposit had already been released to the line contractor.

Delay in commissioning of transformers due to non-completion of connected line

2.3.13 The Company awarded (July 1998) a contract to BHEL for procurement of two ICTs (315 MVA) for Duburi substation. The two ICTs were deemed to have been delivered (September 2000 for payment purpose) but were kept with the supplier, as the 400/220 KV Duburi substation was not ready. The commissioning of the ICTs and the substation were dependent on the connected incoming line viz. 400 KV Meramundali-Duburi, which was scheduled to be completed in April 1997 as per the contract awarded (May 1996) to the line contractor (Ranjit Singh and Co).

Audit scrutiny revealed the following:

Due to delay in finalisation of contract, the Company suffered loss of Rs.35.14 crore towards cost overrun, loss of interest and wastage of materials.

- Due to increase in scope and value of work (from Rs.43.42 crore to Rs.73.80 crore), the line contractor requested the Company (May 2002) for waiver of price variation ceiling of 20 *per cent* provided in the contract. As the Company did not agree to the same, the contractor stopped (October 2002) the work. The stalemate continued and finally the Company awarded (April 2006) the line work to Power Grid Corporation of India Limited (PGCIL) at an estimated cost of Rs.88.84 crore with a completion time of 30 months i.e. by September 2008. As a result, there would be cost over run of Rs.15.04 crore (Rs.88.84 crore – Rs.73.80 crore).
- In view of non-completion of the connected line due to the continued stalemate, the borrowed funds of Rs.71.48 crore spent on procurement of two ICTs (Rs.5.48 crore), on the construction of substation

* Loop in and Loop out (LILO) line of the existing 220 KV Balimela-Talcher (BTTL) Line.

(Rs.28.78 crore) completed (January 2006) and on the line materials (Rs.37 crore) already received (February 2004) remained idle with consequential loss of interest of Rs.14.44 crore.

- Meanwhile, certain line material valued at Rs.5.66 crore (out of materials received for Rs.37 crore) and tower foundation work already completed at a cost of Rs.69.67 lakh became wasteful as they were found to be unsuitable for any of the works.

The Management, while accepting the delays and loss due to discarding of tower foundation work, stated (August 2007) that PGCIL did not agree to utilise certain materials already procured by the Company. Thus, the Company sustained loss towards cost over run, interest and wastage of materials due to delay in finalisation of the contract for line work.

2.3.14 The Company awarded (July 1998) a contract to BHEL for procurement of two ICTs for Mendhasal substation. The two ICTs were deemed to have been delivered as per the contractual schedule (June-September 2000) but were kept at the supplier's works, since the substation could not be charged. The substation and the connected line, to be commissioned (January 2002 and August 2001) had not been completed so far. The delay in commissioning of the substation was attributed to delay in handing over the land to the contractor for construction of the substation and non-completion of the incoming 400KV line viz. Meramundali to Mendhasal. Audit scrutiny revealed that even though 95 per cent of the line was completed by March 2006, it was not charged as the sub-contractor stopped the work due to non-receipt of payment from the main contractor. The balance work is yet to be completed (July 2007). As a result, the investment of Rs.98.36 crore on the two ICTs (Rs.5.48 crore) received (September 2000) and on the incoming line (Rs.69.15 crore) and substation (Rs.23.73 crore) substantially completed (January/March 2006) remained idle with consequential loss of interest of Rs.10.27 crore on such idle investment.

Delay in handing over of land and non-completion of the incoming line resulted in loss of interest of Rs.10.27 crore.

In reply, the Management accepted (August 2007) the delays. The Company, thus, sustained loss due to absence of close coordination and synchronisation of various activities for timely commissioning of transformers along with the connected line and substation.

Auto Transformers (100 or 160 MVA - 220/132 KV)

Ill-planned procurement of transformers

2.3.15 The Company awarded (July 1998) a contract to APEX Limited for procurement of eight ATs (100 MVA) at an FOB Price of Rs.1.16 crore each to be commissioned between September 1999 and September 2000 in four substations (two each at Bidanasi, Burla, Bolangir and Khurda). As the substations were not ready, the Company extended (November 2000) the commissioning schedule of the ATs upto October 2002. In the meanwhile, the supplier delivered (September 2000) two ATs meant for Bidanasi substation. As the actual commissioning of the substation (September 2003) was delayed by 20 months from its contractual schedule (January 2002), the two ATs valued at Rs.2.32 crore remained idle for a period of 33 months (from January

Procurement of transformers before making the substation ready resulted in loss of interest of Rs.0.83 crore.

2001 to September 2003). As a result, the Company had to sustain loss of Rs.82.94 lakh being interest on such idle investment till the date of commissioning of the substation.

The Management accepted (August 2007) that commissioning of ATs were delayed due to delay in commissioning of the substation. The reply confirms that the Company did not synchronise the actual delivery of the transformers with the actual commissioning of the substation resulting in blocking up of borrowed funds with consequential loss of interest.

Extra cost on purchase of ATs

2.3.16 After receipt (September 2000) of two out of eight ATs (100 MVA) ordered for Bidanasi substation, the Company terminated (October 2001) the unexecuted part (six ATs) of the contract with APEX on the ground that the firm was supplying transformers to other parties in preference to the Company though there was urgent requirement of the ATs by the Company.

Audit observed the following:

- At the time of termination (October 2001) of the contract, there was still 18 months' time for scheduled commissioning (April 2003) of the related substations. Besides, four similar ATs received under other contracts were lying idle for 38 to 54 months. Thus, the termination of the contract on the ground of urgency was not justified.
- Further, after termination of the contract, bids were invited (March 2002) and contract was awarded (October 2002) to another contractor viz. ABB for procurement of four ATs (100 MVA) at an FOB price of Rs.1.95 crore each. The total extra cost on purchase of the four ATs worked out to Rs.3.16 crore.

Injudicious decision to cancel the order for procurement of ATs (100 MVA) resulted in excess expenditure of Rs.3.16 crore on their procurement subsequently.

The Management stated (August 2007) that it cancelled the order and went for fresh bidding since APEX failed to keep its commitments. The reply is not tenable as the cancellation of the order was not justified and the ATs procured under the fresh bidding were also not commissioned as per the schedule. As such, the injudicious decision to cancel the contract and fresh procurement of ATs resulted in avoidable expenditure of Rs.3.16 crore.

Non-commissioning of transformers due to theft of line

2.3.17 As per contract with ABB, the four ATs (100 MVA) were scheduled to be commissioned (April/May 2003) at two substations (two each at Burla and Bolangir). These substations have, however, not yet been commissioned (May 2007) since the outgoing/incoming 220 KV line "Budhipadar-Burla-Bolangir" was not completed due to rampant theft of conductors and line material after partially taking over of the work (August 2005) from the line contractor (RPG Transmission Limited).

Audit scrutiny revealed the following:

- After taking over (August 2005 to November 2006) of the line, the Company did not revalidate the insurance coverage for the line till actual commissioning. As a result, despite spending Rs.1.28 crore towards watch and ward upto March 2007, the line material (viz. towers, conductors etc.) could not be safeguarded against loss by theft/damage and thereby the Company would have to incur expenditure of Rs.29.20 crore on restoration of damaged/lost material for completion of the line.
- Due to non-completion of the line, the investment of Rs.89.61 crore made on four ATs (Rs.7.80 crore) received (December 2003), on the two substations (Rs.45.14 crore) substantially completed (March 2006) and on construction of line (Rs.36.67 crore) since August 2005 was blocked up with consequential loss of interest of Rs.10.25 crore.

Due to non-completion of line, investment of Rs.89.61 crore on purchase of ATs, construction of substation and line remained blocked with consequential loss of interest of Rs.10.25 crore.

The Management stated (August 2007) that subsequent to rampant theft, the damaged and theft materials were replaced for one circuit and modalities for the restoration in other circles were being finalised. The reply establishes the fact that due to delay in finalisation of modalities, there was inordinate delay in commissioning of the line.

Abnormal delays in commissioning of transformers

Procurement of transformers before ensuring timely completion of substation led to loss of interest of Rs.3.38 crore.

2.3.18 The Company received (June 1997 and September 1998) one CGL-make AT (Rs.1.60 crore) and three BHEL-make ATs (Rs.1.67 crore each) for commissioning at Meramundali and Paradeep substations. Audit observed that one BHEL-make AT was commissioned (April 2002) after a delay of 42 months due to delay in completion of Meramundali substation. The CGL-make AT was also commissioned (May 2006) after keeping it idle for almost nine years due to delay in getting a minor defect rectified. Of the other two BHEL-make ATs meant for Paradeep substation, one was shifted and commissioned (March 2004) after a delay of 65 months to replace a failed AT at Jayanagar substation. The other AT had not been commissioned (March 2007) due to non-completion of the substation and the connected line. Consequently, the investment on four ATs (Rs.6.61 crore) was blocked for a period ranging between 42 and 106 months with consequent loss of interest of Rs.3.38 crore.

The Management stated (August 2007) that the delays in commissioning of ATs were due to rampant theft, prolonged right of way problems, etc. Thus, the borrowed funds spent on procurement of ATs remained idle for a period upto 106 months due to non-synchronisation of various activities.

2.3.19 For upgradation of capacity of Budhipadar substation from 200 MVA to 320 MVA to meet the increased industrial demand, a contract was awarded (March 2005) to BHEL for supply and commissioning of two ATs (160 MVA) at an FOB price of Rs.3.13 crore each with a delivery period of six months (September 2005). The ATs were received (January 2007) after a delay of 15 months. As the cable was not procured, the ATs were yet to be commissioned

(August 2007). Considering normal time for commissioning (from January to March 2007), the Company could not transmit the additional power of 4,66,600* KWH per month for three months (April-June 2007) and had to forego potential revenue of Rs.3.08 crore (at Rs.0.22/KWH).

While confirming the increased industrial demand the Management stated (August 2007) that it did not upgrade transformer capacity till June 2007 as it could not avail shut-down of existing ATs. The reply is not tenable since despite removal of one existing AT (100 MVA) after availing shutdown in April 2007, the Company could not commission the new AT for want of cable etc. resulting in foregoing of potential revenue.

Power Transformers (12.5/20/40 MVA - 132/33 KV or 220/33 KV)

Extra expenditure on procurement of Power Transformers

2.3.20 Two contracts were awarded (July 1998) on APEX Limited for supply and commissioning of 17 PTs (12.5/20 MVA) between July 1999 and November 2000. The delivery period was extended twice till March 2002, as the connected substations were not ready. After receipt of two transformers (April/May 2000), the Company, before expiry of the extended delivery period, terminated (October 2001) the contract for the balance 15 PTs on the ground that supplies of transformers to other parties were being done in preference to the Company. Subsequently, a new contract was awarded (February 2003) to another firm viz. ALSTOM initially for supply of 16 PTs which was later on increased to 19 PTs whose delivery period was extended till August 2004.

Audit scrutiny revealed the following

- There was no urgency of the requirement in view of the fact that two PTs (cost: Rs.0.75 crore) received (April/May 2000) under the first contract were actually commissioned at Sundargarh and Budhipadar substations in December 2003 and August 2005. Delayed commissioning resulted in blocking of funds for a period of approximately four to five years respectively with a consequential loss of interest of Rs.0.43 crore.
- The ex-works price (Rs.0.94 crore and Rs.1.00 crore each) of PTs as per the new order were higher than the prices (Rs.0.42 crore and Rs.0.50 crore each) of the terminated contract (July 1998) and the total extra cost on purchase of fifteen PTs worked out to Rs.7.76 crore[@].
- Out of 19 PTs procured under the new contract, 15 were commissioned belatedly (March 2004 to July 2006), of which seven were commissioned in non-identified substations[#] which indicates that the identification of requirement was not prudent.

* 120 MVA x 0.9 being power factor x 0.60 being ideal load x 24 hours x 30 days x 1000 KW.

[@] 13 nos. (Rs.0.94 crore – Rs.0.42 crore) + 2 nos. (Rs.1 crore – Rs.0.50 crore).

[#] Joda-2, Jajpur town-1, Jajpur Road-1, Jayanagar-1, Jaleswar-1 and Polasaponga-1.

- The remaining four PTs procured during December 2003 to January 2004 under the new contract were lying uncommissioned (August 2007) due to non-completion of substations*/transmission lines. As a result, the investment of Rs.36.47 crore made on four PTs (Rs.3.88 crore) and on the two substations (Rs.32.59 crore) which were completed (March 2006) remained blocked for a period ranging between 12 and 38 months with consequential loss of interest of Rs.3.49 crore.

The Management stated (August 2007) that the commissioning of PTs were delayed due to unavailability of interconnecting lines. It was further stated that since APEX failed to keep its commitments, the Company cancelled the order and went for fresh bidding. The reply is not tenable as the cancellation of the order five months before expiry of the extended delivery schedule was not justified as the new order was placed 16 months after cancellation of the first order and PTs procured under the new order were also not commissioned as per the schedule.

Diversion of transformers procured for cyclone restoration purposes

2.3.21 For immediate replacement of PTs in the substations damaged in the super cyclone (October 1999), the Company placed (January 2000) a repeat order on ALSTOM on the basis of order of November 1998 for supply and commissioning of ten PTs (40 MVA, 132/33KV) at an FOB price of Rs.0.88 crore each to be installed in ten substations with scheduled commissioning during April to July 2000.

Audit scrutiny revealed the following:

- Out of the ten PTs procured (January 2000), only four were commissioned (September 2000 to May 2001) in the envisaged/proposed substations** and the balance six were commissioned (June 2000 to September 2003) in other substations# not envisaged. Thus, the very purpose of procurement (viz. restoration of the damaged substations) on urgent basis was defeated.
- Out of six PTs commissioned (June 2000 to September 2003) in non-envisaged substations, two were commissioned (September 2003) in Narendrapur substation with an abnormal delay of three years after the receipt of the PTs resulting in blocking of funds with consequential loss of interest of Rs.68.64 lakh.

The Management stated (August 2007) that the transformers were diverted to other substations due to rapid load growth in that area. The reply is not tenable as the transformers were procured for replacement in substations damaged in the super cyclone and the purpose, thus, was defeated. Further, diversion indicates deficiencies in planning and proper identification of requirements.

* Balimela, Rengali, Baragad and Phulnakhara.

** Bhadrak, Kendrapara, Jajpur town and Cuttack.

Balasore, Bolangir, Bhadrak-II, Cuttack-II, Narendrapur-I & II instead of Pattamundai, Jagatsinghpur, Paradeep, Jaleswar, Soro and Choudwar.

Piece meal placement of orders

2.3.22 The Company has not devised any system for periodical assessment of requirement of transformers for the purpose of upgrading the substations. It was observed that the Company placed orders on piece meal basis within a short period of time and had to incur additional expenditure as it could not avail the benefit of bulk purchase. Few interesting cases noticed in audit are discussed below.

Piecemeal placing of purchase order deprived the Company of availing price benefit resulting in additional expenditure of Rs.2.86 crore.

2.3.23 An order for procurement of one PT (40 MVA) was placed on 16 February 2005 on BHEL at a firm price of Rs.1.28 crore. Within a fortnight thereafter, the Management decided (3 March 2005) to place repeat order for two more PTs. Since BHEL did not agree to supply at the same price, a new order was placed on it for three PTs (December 2005) at a negotiated price of Rs.1.92 crore each (with Price Variable clause). Audit noticed that despite a large gap of 24 months between the notice for inviting tender (March 2003) and award of contract (February 2005), the Management failed to identify the additional requirement during the intervening period and to place order for the consolidated requirement. Consequently, the Company had to incur an extra expenditure of Rs.1.92* crore.

The Management stated (August 2007) that the repeat purchase order and consequent amendment thereof was placed after the proposal was thoroughly discussed by different units and decided by the Board. The reply is not acceptable as the extra expenditure due to piece meal purchase could have been avoided by making a system of proper assessment of requirement.

2.3.24 In another case, it was noticed that the Company placed (May 2006) an order on BHEL for one PT (20 MVA) at Rs.1.68 crore (ex-works) and in the same month a requisition was received from O&M Department for two more similar PTs to keep them as standby. The Company processed the latter requisition separately and placed another order on BHEL (December 2006) at negotiated price of Rs.2.15 crore (ex-works) for each PT. The Company could have saved Rs.0.94# crore, by consolidating the requirement before placement of each order.

The Management stated (August 2007) that the requisitions for additional requirements in the above cases were received and processed separately. The reply establishes the fact that there was no system of periodical assessment and consolidation of requirement of transformers for the purpose of upgrading the substations.

Additional cost in turnkey contracts compared to individual contracts

2.3.25 Project Monitoring Unit (PMU) issues tenders and awards contracts for procurement of transformers as separate packages. Audit noticed that in some of the cases the Transmission Project (TP)/CPC included the transformers in the turnkey contracts of the substation. Since the cost of transformers in the

* 3 nos. (Rs.1.92 crore – Rs.1.28 crore) (excluding actual price variation).

2 x (Rs.2.15 crore –Rs.1.68 crore).

turnkey contracts was higher than that of similar transformers procured separately during the same period, the Company had to incur extra expenditure as discussed in the succeeding paragraph.

2.3.26 The Company awarded (January 2006) a contract to ABB for supply and erection of one PT (20 MVA) at Rs.3.08 crore (inclusive of taxes) on turnkey basis at Balimela substation. In response to the offer received (January 2006) for a similar transformer for Barakote substation, a separate contract was awarded to BHEL at Rs.2.01 crore (inclusive of taxes). Thus, by procuring the PT under turnkey contract, the Company incurred extra expenditure of Rs.1.07 crore.

Performance of transformers

Voltage control

2.3.27 The transformers, *inter alia*, play a major role in controlling the system voltages. The Orissa Grid Code (OGC) and the operating standards of the Company require that the Company should make all possible efforts to ensure that the grid voltage always remains within the operating range i.e. not lower than 90 *per cent* (minimum level) and not higher than 110 *per cent* (maximum level) of normal voltage. Accordingly, the Company's standard technical specification for manufacturing of transformers specified the system voltage variation as ± 10 *per cent* of normal voltage.

Audit scrutiny revealed as follows:

- During 2001-02 to 2006-07, maximum system voltage ranged from 117 to 122 *per cent* (220 KV substations) and 110 to 114 *per cent* (132 KV substations) as against the maximum limit of 110 *per cent*. The minimum system voltage during the same period ranged from 73 to 80 *per cent* (220 KV side) and 62 to 71 *per cent* (132 KV side) as against the minimum limit of 90 *per cent*.
- Out of 12 major 220 KV substations, in four substations[>] the maximum voltage (between 113 to 120 *per cent*) during 2001-02 to 2006-07 was beyond the norm and in two substations (Balasore and Chandaka) the minimum voltage (between 73 to 89 *per cent*) was below the norm. The minimum voltage (between 62 to 71 *per cent*) in all the six major 132 KV substations was below the norm during 2001-02 to 2006-07.

Unplanned trippings and interruptions

2.3.28 As a result of overloading and high voltages, there had been increase in cases of tripping of transformers/feeders and system interruptions. The trippings and interruptions led to non-availability of transmission capacity, even though power was available for transmission.

[>] Jayanagar, Narendrapur, Theruvalli and Bhanjanagar.

Audit scrutiny revealed the following:

- The average rate of tripping per day was three in 2001-02 and it reduced to one during 2002-03 and 2003-04 but increased abnormally between 17 and 20 in the subsequent three years (2004-07).
- Total number of major interruptions increased progressively from 74 in 2003-04 to 127 in 2006-07. As a result, the objective of uninterrupted power transmission could not be achieved. OERC expressed (March 2007) grave concern about the interruptions occurring in the system due to snapping of conductors, burning of jumpers, insulation failure, damage to transmission towers and failure of substation equipment causing dislocation of power supply.
- As per the OERC norm, non-availability of transmission system should not exceed two *per cent* of the total time. While this was 4.43 *per cent* in 2002-03, the same had risen between 7.52 and 8.49 *per cent* in the subsequent four years (2003-07).
- Due to non-availability of transmission capacity despite availability of power for transmission, the Company resorted to unplanned load restrictions in all the five years (2002-07) resulting in non-transmission of 81.45 million units of power with consequential loss of potential revenue of Rs.2.34 crore[#].

Load restrictions due to over-loadings, voltage fluctuations, trippings and interruptions resulted in loss of potential revenue of Rs.2.34 crore.

The Management admitted (August 2007) that the system interruption and non-availability of transmission capacity were mainly due to overloading of the system, failure of equipment and non-completion of envisaged transmission schemes in targeted time.

Maintenance and Repairs of Transformers

2.3.29 The Maintenance and Repairs of Transformers by the erstwhile OSEB was reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1994 (Commercial). The report was discussed by the Committee on Public Undertakings (COPU) in March 2006 (4th Report 13th Assembly). COPU recommended that the Company should take preventive measures towards maintenance of transformers as per the prescribed schedule. Further, the Department of Energy should be vigilant towards maintenance of transformers by the Company and periodically check the maintenance records.

The Department of Energy and the Company in the compliance report stated (March 2006) that due to paucity of funds, maintenance work could not be done earlier and the situation was now improving. Audit scrutiny, however, revealed instances of not carrying out preventive maintenance of transformers as per the prescribed schedules, failure of transformers, non-conducting of repairs immediately after break-down/failure of transformers etc. which are discussed in the succeeding paragraphs.

[#] Calculated at transmission cost ranging between Rs.0.22 and Rs.0.32 per unit applicable for the years 2002-03 to 2006-07.

Inadequate infrastructure for maintenance at desired levels

2.3.30 The preventive maintenance of transformers is being carried out departmentally while the break-down repairs are being carried out through outside agencies. As per OERC norm, the Company is entitled to spend annually 5.4 per cent of the value of gross fixed assets at the beginning of each year towards repairs and maintenance. The details of actual expenditure vis-à-vis the norm, requirement projected and amount sanctioned and spent on repairs and maintenance are indicated in the following table.

| Year [#] | Opening balance of gross fixed assets (GFA) | R&M Expenses benchmark at 5.4% of GFA | R&M expenses proposed by the Company | R&M expenses approved by OERC | R&M expenses actually spent by the Company | Percentage of Actual R&M expenses to | |
|-------------------|---|---------------------------------------|--------------------------------------|-------------------------------|--|--------------------------------------|------------------|
| | | | | | | Proposed by the Company | Approved by OERC |
| (Rs. in crore) | | | | | | | |
| 1999-00 | 666.22 | 35.98 | 48.00 | 19.84 | 9.51 | 20 | 48 |
| 2000-01 | 778.01 | 42.01 | 23.74 | 14.67 | 9.91 | 42 | 68 |
| 2001-02 | 912.11 | 49.25 | 27.16 | 15.99 | 8.81 | 32 | 55 |
| 2002-03 | 998.55 | 53.92 | 28.73 | 17.43 | 9.35 | 33 | 54 |
| 2003-04 | 1130.72 | 61.06 | 13.35 | 13.35 | 7.03 | 53 | 53 |
| 2004-05 | 1200.18 | 64.81 | 17.59 | 14.07 | 4.39 | 25 | 31 |
| 2005-06 | 1271.90 | 68.68 | 20.53 | 14.8 | 6.94 | 7 | 47 |

It is evident from the above table that the requirement proposed by the Company from 2000-01 onwards was not only below the benchmark, but the actual expenditure was also much below the amounts approved by OERC. As a result, the transmission system was not maintained at the desired levels. The adverse consequences of inadequate R&M expenses on maintenance and repairs of transformers are discussed in the succeeding paragraphs.

The Management accepted (August 2007) that inadequate infrastructure and less manpower under O&M were the reasons for less expenditure on repair and maintenance of transformers. The reply establishes that the transmission system was not maintained at the desired level.

Non-adherence to the preventive maintenance schedules

2.3.31 The transformer requires close monitoring of its auxiliaries like bushings, tap changers, cooling system, protective devices, etc. If these are maintained properly and repaired on time, the lifespan of the transformer can be increased. Preventive or periodic maintenance of transformers helps to deliver the expected performance. The R&M manual prescribes various preventive maintenance checks to be done periodically (daily, weekly, monthly, quarterly, half-yearly and yearly).

[#] Figures for 2006-07 are not yet compiled by the Company.

Scrutiny of records relating to maintenance of transformers revealed the following:

The maintenance action was not in conformity with the prescribed guidelines and operating manual.

- As per the prescribed norm, the Company should ensure maintenance of transformers once in every month. Out of 115 transformers test checked, only nine to 20 transformers were maintained as per the prescribed norm. In respect of five to 21 transformers in a year, no maintenance was carried out and in respect of 63 to 90 transformers in a year, the maintenance was not carried out every month as per the prescribed norm. Even in the months where the maintenance was carried out, all the required tests/checks (like checking of bushings, insulation resistance, Buchholz relay) were not carried out and recorded.
- As per the Company's maintenance manual, transformer oil is required to be tested at least once in a six months span and in case the test results indicate violation of any parameter, the oil should be filtered or replaced as per the recommendations. Even though oil testing was carried out in respect of 76 running transformers, in none of the cases the prescribed time schedule of conducting the test at least once in six months was followed. Further, only in five out of 76 cases, the recommendations in the test reports were implemented and that too after a delay of 10 to 56 months. In the remaining 42 cases, even after lapse of periods up to 73 months from the date of recommendation, the filtration/replacement of oil had not been carried out so far (July 2007).
- As per maintenance manual of the Company and the maintenance schedules prescribed by the manufacturers, the transformers are required to be overhauled once in every 7-10 years. It was noticed that 71 running transformers which were more than 10 years old by March 2007, were due for overhauling. The Company, however, did not plan or undertake any overhauling of these transformers during the years 2002-03 to 2006-07.

The Management accepted (August 2007) the audit observations on non-adherence to preventive maintenance schedules and stated that the same was due to inadequate manpower/spare capacity/infrastructure at substations.

Premature failure of transformers

2.3.32 The Electricity Act, 2003 prescribes the normal period of power/auto-transformers as 35 years. In the event of non-adherence to maintenance schedules and non-implementation of recommendations of the oil test reports, premature failure of the transformers can not be ruled out. During 2002-03 to 2006-07, 15 auto/power transformers failed. Out of them, 14 transformers failed/broke down after rendering only six to 26 years of service due to various reasons like short circuit/failure of winding, puncture of bushing or higher tan value of transformer oil.

The Management admitted (August 2007) that though the transformer life is 35 years, transformers failed within their life span due to various unforeseen

reasons and steps were being taken by the Company to keep the transformers in healthy operating condition.

Absence of mechanism to ensure prompt repairs

2.3.33 The damaged transformers can be made serviceable after repair. It was noticed that 29 damaged transformers (including 13 damaged during the period covered in the review) having a total rated capacity of 566 MVA were awaiting repairs for periods ranging from 6 to 214 months as on March 2007.

Audit observed the following:

- The effective usage of many transformers was 6 to 30 years only as against a normative standard of 35 years.
- The Company did not have any mechanism to ensure prompt repair of break-down transformers so as to make them fit for reuse. There was also no system of carrying out survey to ascertain whether the transformers were repairable or were to be declared obsolete and promptly disposed of to prevent further diminution in their value.
- One CGL-make AT (costing Rs.1.80 crore) commissioned (December 1988) at Jayanagar substation and one NGEF-make AT (costing Rs.2.80 crore) commissioned (June 1984) at Bhanjanagar failed (June 2003 and July 2004 respectively) within 15 and 20 years of their commissioning. Even after expiry of more than three years after their failure, the Company did not send these for repair so far (August 2007). As a result, the two auto transformers were lying idle for more than three years without yielding any benefit.

The Management stated (August 2007) that Master Maintenance Plan was under finalisation for replacement/installation of old equipments so as to enhance the transmission capacity availability.

Delay in repair of transformers

2.3.34 The Company did not prescribe any time limit/norms for finalisation of repair order from the date of failure of transformers. Audit scrutiny revealed that two 40 MVA transformers of Bharat Bijili make (costing Rs.1.28 crore each) commissioned in June/November 1995 at Bidanasi and Balasore substations failed prematurely (December/May 2000) within 5.5/4.5 years of their commissioning. The work orders of Rs.0.77 crore for repair of these two transformers were, however, issued (July 2004) after 42 and 49 months respectively of their failure. Further, against the contractual duration of four months (i.e. by November 2004), the transformers were repaired and delivered (August/ March 2005) belatedly by 9 and 5 months. There was a further delay of 8 and 4 months in commissioning (April 2006/ August 2005) of the repaired transformers. Considering even 12 months time required for award, repair and re-installation after break-down, the delay in placement of repair orders/receipt back after repairs of the two PTs resulted in blockage of inventory of Rs.2.56 crore for periods ranging between 52 and 47 months.

The Management stated (August 2007) that the delay was due to observing prescribed procedures. The reply is not tenable as the delays occurred due to not prescribing of any time limit/norms for finalisation of repair order from the date of failure of transformers.

Dismantled working transformers kept idle

2.3.35 The Company envisaged in the long-term plan that upgrading/augmentation of substations would result in release of old working transformers. No procedure was, however, laid down for prompt reuse of removed transformers in other substations nor were the opportunities explored for earning income by hiring them out. Audit further observed as follows:

- Four 12.5 MVA transformers, which were removed (between March 1998 and September 2004) due to upgrading of substations, were reinstalled (between January 2003 and February 2007) in other substations after keeping them idle for periods ranging between 29 and 72 months.
- Further, 14 working transformers having rated capacity ranging from 5 MVA to 20 MVA, removed (June 1999 to December 2006) due to upgrading of the substations, were yet to be reinstalled. As a result, their effective life ranging from 15 to 81 months expired (by March 2007) after their removal from the fleet.

The Management stated (August 2007) that action was being taken for use/disposal of the working transformers.

Transformers not uprated

2.3.36 During 2002-03, one transformer (25 MVA) failed at Joda substation and was got repaired and uprated to 40 MVA through a private firm at a cost of Rs.0.52 crore. The repaired transformer was commissioned in September 2003 at Chend substation and has been working satisfactorily since then. Since the replacement cost of 20 and 40 MVA transformer was Rs.1.68 crore and Rs.1.92 crore respectively whereas uprating cost was Rs.0.52 crore only, the O&M Division requested (December 2005) the Central Procurement Cell (CPC) to float tenders for uprating of the existing idle 25 MVA and 10 MVA transformers to higher capacities viz. 40 MVA and 20 MVA respectively in anticipation of future requirement. Instead of uprating the idle transformers, as per the advice of O&M Division, CPC placed orders (May and December 2006) for procurement of transformers (20 and 40 MVA). The reason for not considering the advice was not on record. As a result, the Company incurred avoidable extra expenditure of Rs.2.56[#] crore.

The Management stated (August 2007) that as there was an urgent requirement of 20 MVA and 40 MVA transformers and repair/uprating of the old transformers was a very time consuming process, they decided to procure new transformers to meet the exigencies. The reply is not acceptable as the decision taken was not in accordance with the recommendation of the O&M

[#] (Rs.1.68 crore – Rs.0.52 crore) + (Rs.1.92 crore – Rs.0.52 crore).

Division. Further, the scheduled duration of repair/uprating PT was about three months, whereas the scheduled duration of delivery of new PT was six to eight months. Moreover, the old PTs were kept idle since March/July 2003 and new PTs have not been commissioned so far (August 2007).

Non-disposal of scrap, used/burnt transformer oil, etc.

2.3.37 The Company does not have a scrap disposal policy nor has it evolved an effective mechanism for expeditious disposal of irreparable transformers. In view of accumulation of scrap and retrievals at various locations for a period of more than five years, the Government of Orissa directed (March 2001) the Company to dispose them within the first six months of the financial year 2001-02 positively. Accordingly, the Company entered into a marketing agency agreement for two years with Metal Scrap Trading Corporation Limited (MSTC) in November 2002.

Audit observed that:

- Despite the directive of the State Government, 6206 items of scrap, 168 KL of used/burnt oil and 1373 used batteries valued at about rupees one crore could not be disposed of due to delay in collecting and furnishing the details of items to be disposed of to MSTC before expiry of the validity period of the agreement.
- Further, even after closure of the Transformer Repair Workshop (TRW) in September 2000, 28 distribution transformers (26 repaired and two not repaired) valuing approximately rupees two crore are awaiting disposal (May 2007) due to delay in finalisation of the upset price. Even after lapse of 58 months after closure of TRW, the Management could finalise (May 2007) the upset price of only five out of 28 transformers identified for disposal. The upset price for the remaining 23 transformers had not been finalised (July 2007).
- As a result of non-disposal of surplus transformers, scrap and other retrievals, a total sum of about rupees three crore remained blocked for a period of seven to 10 years.

The Management stated (August 2007) that instructions had been communicated to MSTC to issue delivery order to the qualifying firm for lifting of oil. The fixation of upset price of distribution transformers was under process and was expected to be completed soon. Thus, the Management could not finalise the modalities of disposal before expiry of the original agreement with MSTC by October 2004 and there was abnormal delay in finalising the upset price of the transformers identified for disposal.

Internal Control System

2.3.38 Internal control is an important management tool to provide reasonable assurance that Management's objectives are achieved in an economical, effective and orderly manner, assets are safeguarded and rules and procedures are complied with/ adhered to. The following deficiencies were noticed in the

Internal Control system relating to procurement, performance, maintenance and repairs of transformers and allied activities:

- The Company did not have a procurement manual to guide the departments dealing with procurement activities and ensure adoption of uniform standards.
- The Company did not evolve a vendor rating system nor maintain a data bank of vendors relating to the performance of the transformers supplied/repared previously by various vendors and their manufacturing facilities based on site visits which could have helped for procurement/ repair/uprating of the transformers.
- Discrepancies noticed during physical verifications were neither quantified nor accounted for in the books of accounts of the Company with due approval of the competent authority.
- There was no system of timely investigation and adjustment thereof of loss/damage of materials due to thefts in completed and ongoing capital works.
- The Management did not ensure adequate insurance coverage by the contractors executing capital works as per the terms of contract so as to cover the risk of theft/damage of material till final acceptance of the works by the Company.
- There was also no system of timely identification and adjustment of obsolete, unserviceable and non-moving items.

The above matters were reported (June 2007) to the Government; their reply had not been received (October 2007).

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company at various stages of conducting the performance audit.

Conclusion

The Company did not consider changes in the load data from time to time based on the subsequent developments before assessing the requirement for award/ execution of contracts. As a result, huge amounts were invested on projects which were not completed. This had a deleterious effect on completion of the ongoing projects. Besides, lack of coordination to ensure delivery of transformers matching with the completion of connected substations/lines resulted in blockade of borrowed funds and loss of interest. Abnormal delays in completion of connected lines also led to theft of material and thereby increased the loss further. Due to non-completion/ partial completion of projects, there was over-loading on working transformers, which in turn had an adverse impact on the transmission system viz. voltage fluctuations beyond the prescribed norms, trippings and interruptions. The Company did not ensure

adherence to the maintenance schedules of transformers. Further, there was absence of adequate mechanism for ensuring prompt repairs, prompt identification of surplus transformers and disposal of scrap and retrievals. Internal Control mechanism was also found to be deficient in many areas.

Recommendations

The Company needs to:

- **evolve criteria for identification of realistic requirement of transformers for the purpose of up-gradation, replacement and stand-by;**
- **monitor the execution of projects closely so as to ensure proper synchronisation of activities;**
- **prepare a procurement manual including procedures/policies on amending the technical/commercial specifications, evaluation of price bids, incorporation of penalty clauses, enforcing the contractual clauses, awarding repeat orders, etc. and evolve a vendor rating system of both manufacturers and repair agencies;**
- **evolve a suitable mechanism to secure the material against losses due to theft or damage;**
- **put in place an effective mechanism to ensure preventive maintenance as per schedules for timely repairs;**
- **prepare guidelines for prompt identification of surplus transformers and ensure their effective redeployment;**
- **fix norms for retrieval of materials from failed transformers and prepare guidelines for timely disposal of unserviceable transformers, scrap and retrievals so as to realise maximum value; and**
- **strengthen the internal control system in areas like physical verification of lines and substations, equipment/ materials, etc. investigation and adjustment of loss of/ damage to materials.**

Orissa State Seeds Corporation Limited

2.4 Procurement, processing, storage and distribution of certified seeds

Highlights

The Company was incorporated (February 1978) with the main objectives of production of certified seeds and marketing it at reasonable price to the farmers. The Company could not achieve the targeted production of certified seeds during the period under review. The Company, therefore, had to procure seeds from outside agencies at a higher cost to meet the demand of the State.

(Paragraphs 2.4.1, 2.4.11 and 2.4.16)

During the period 2001-02 to 2006-07, there was shortfall in production of certified seeds by 8.42 lakh quintals valued at Rs.76.28 crore.

(Paragraph-2.4.11)

The Company fixed price at higher rates due to consideration of excess recovery towards dealers' commission, interest, cost of loading and unloading and transportation to the tune of Rs.2.97 crore.

(Paragraph-2.4.26)

Failure of the Company to sell substandard seeds during lean season resulted in loss of Rs.4.63 crore on its sale.

(Paragraph-2.4.28)

Delay in reconciliation of quantity of seeds sold to the Department of Agriculture and Food Production, dues amounting to Rs.11.77 crore remained blocked for over two to nine years leading to liquidity problem.

(Paragraph-2.4.29)

Introduction

2.4.1 Orissa State Seeds Corporation Limited (Company) was incorporated (February 1978) with the main objectives of implementing the State Seed Project forming part of the National Seeds Programme, increasing production of certified seed* and marketing it at a reasonable price to the farmers. In order to achieve these objectives, the Company organises seed production

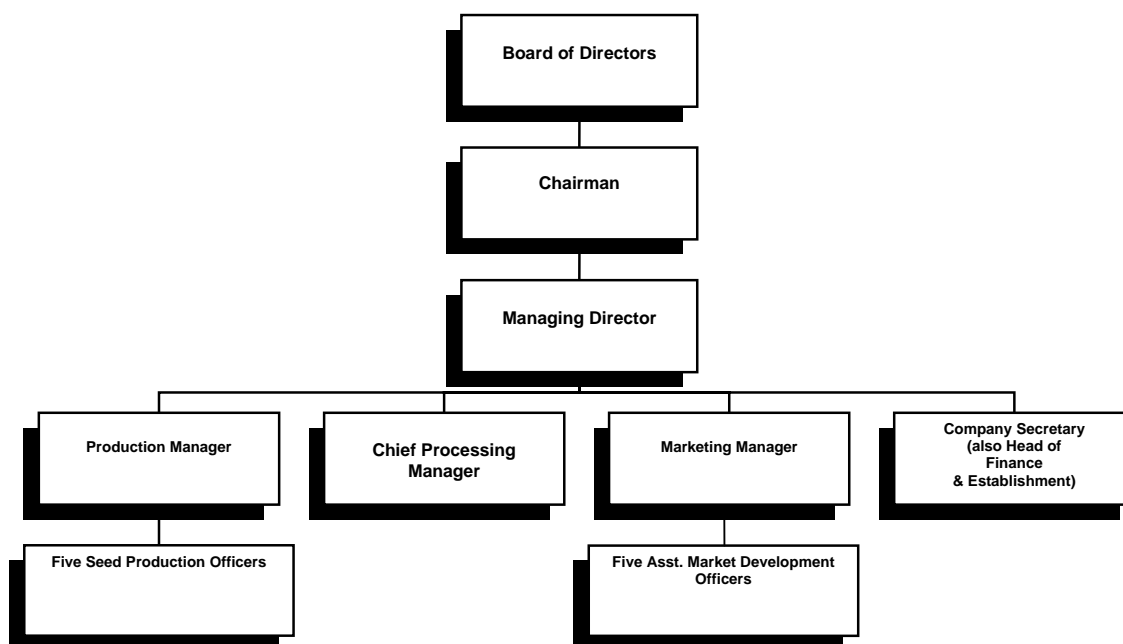
* Certified seed is the progeny of foundation seed which maintains specific genetic identity and purity according to specific standards for seed certification. It may also be progeny of certified seed provided this reproduction does not exceed two generations beyond foundation seed.

programmes through seed growers for production of 14 different types of crops of certified seeds[@].

The Company has its Head office in Bhubaneswar. It had five unit offices[>] along with 35 seed processing plants and 18 godowns as on 31 March 2007. The unit offices are under the supervision of Seed Production Officers (SPO). Production Manager looks after the field operations.

The management of the Company is vested in a Board of Directors (BoD) consisting of 12 Directors[#] including the Chairman and the Managing Director (MD). The management of the day-to-day affairs of the Company is vested with the MD, who is the only functional director.

The organisational chart relating to production, processing and marketing activities of the Company is depicted below:



The Company had finalised its accounts up to 2003-04 as of October 2007. Based on the provisional figures for the years 2004-05 to 2006-07, the financial position and working results of the Company for the five years' ending 2006-07 is given in **Annexure-11**. Against the authorised capital of Rs.10 crore, the paid-up capital of the Company was Rs.2.59 crore as on 31 March 2007, contributed by the State Government (Rs.2.11 crore), growers (Rs.0.09 crore) and National Seed Corporation Limited (Rs.0.39 crore). The

[@] Paddy, Maize, Ragi, Til, Groundnut, Moong, Biri, Arhar, Field pea, Mustard, Niger, Sunflower, Dhanicha and Gram.

[>] Balasore, Bargarh, Berhampur, Cuttack and Jeypore.

[#] Chairman, MD and six directors are from the State Government, one Director is from National Seed Corporation, one from GoI, one from GoO, University for Agriculture and Technology and one representative from the seed growers.

Company earned profits during the five years ended 31 March 2007 which ranged between Rs.0.12 crore and Rs.5.19 crore during the period. The Reserves and Surplus increased from Rs.7.27 crore in 2002-03 to Rs.11.45 crore in 2006-07.

Scope of Audit

2.4.2 The present Performance Review covers the activities of the Company in the area of procurement, processing, storage and distribution of certified seeds for the period of five years ending 2005-06[#]. The audit findings are based on the test check of records at the Head Office and three* out of five unit offices, selected on the basis of volume of certified seed procured/handled by each unit including 23 processing plants and 11 godowns attached to these units.

Audit objectives

2.4.3 The audit objectives of the performance review were to ascertain whether the:

- targets fixed for production of certified seeds for different crops were as per the approved programme and were achieved effectively and efficiently;
- procurement of seeds were made economically and as per the approved programme;
- seed processing plants were utilised to their optimum capacity;
- seeds were stored in a scientific manner to retain quality parameters;
- market for certified seed was explored fully and sale price of certified seed was fixed in such a way so as to provide seed to the farmers at reasonable prices; and
- internal control system was adequate and effective.

Audit criteria

2.4.4 The audit criteria used for assessing the achievement of audit objectives were:

- National Seeds Policy 2002, National Seed Plan and Perspective Plan 2003-04 to 2011-12;
- Targets fixed by the Company under production programme;
- Guidelines issued under different schemes like Oilseed Production Programme (OPP) and Integrated Scheme of Oilseed, Pulses, Oilpalm and Maize (ISOPOM).
- Installed capacity of seed processing plants and norms fixed for processing loss;

[#] Accounts of the Company for 2006-07 have not been finalised.

* Bargarh, Cuttack and Jeypore

- Seed certification standards;
- Recommendations of the Pricing Committee and guidelines issued by the Company in this regard; and
- Company's target for sale of seeds, minutes of the meetings of the State Seeds Pricing Committee (SSPC) and the basis adopted for fixation of the sale price.

Audit methodology

2.4.5 The following mix of audit methodologies were adopted for achieving the audit objectives:

- Examination of records relating to fixation of targets and production of seeds, fixation of sale price of certified seeds and sale of seeds;
- Examination of records relating to utilisation/hiring of storage space and operation of processing plants;
- Scrutiny of the agenda and minutes of the meetings of the Board of Directors, pricing circulars, cost structure details, etc.; and
- Interaction with the Management and issue of audit queries.

Audit findings

Audit findings, as a result of the performance review, were reported (May 2007) to the Company/Government and discussed (26 July 2007) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting was attended by the Principal Secretary, Agriculture Department, Government of Orissa and the Managing Director of the Company. Views expressed by the members have been considered while finalising the report. The audit findings are discussed in the succeeding paragraphs.

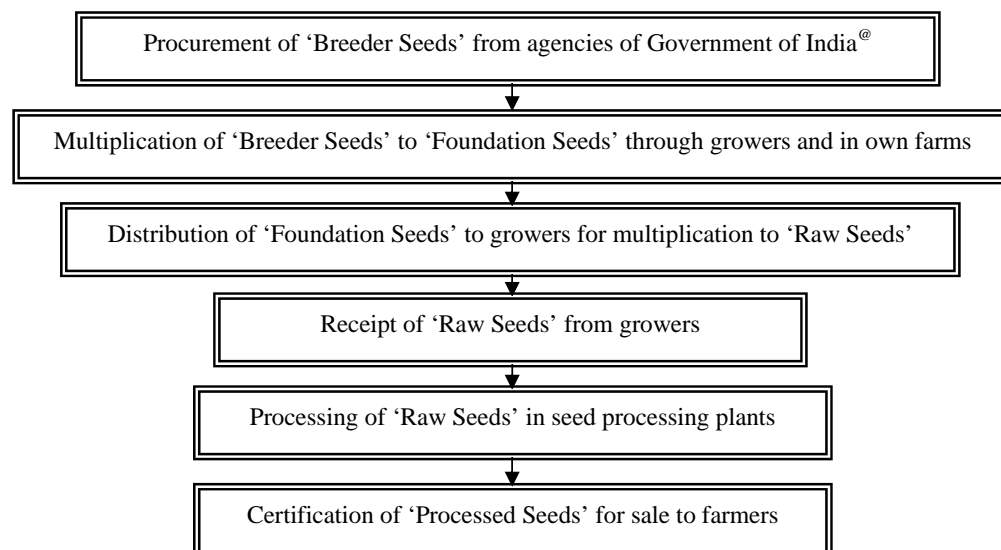
Seed development process

2.4.6 Breeder seed* constitutes the basis of all seed production and is used in production of foundation seed**. Breeder seed is provided by the Government of India through Research Institutions and is sold to registered seed growers and Government farms for multiplication to get foundation seed. Orissa State Seed Certification Agency (OSSCA), an autonomous body of the State Government for seed certification, inspects the fields of the seed growers and issues the Threshing Floor Certificate (TFC) showing the expected yield (raw seeds) based on the condition of the crop. The grower submits the TFC to the Company at the time of processing of seeds and the Company procures quantity of seeds from the seed growers as per the TFC or per hectare target fixed, whichever is lower. The foundation seed is ultimately used for multiplication/production of certified seeds, which are sold to farmers for raising crops on a large scale.

* Breeder seed is genetically pure seed used for producing foundation seed.

** Foundation seed has genetic purity of 99 per cent and is used for producing certified seed.

The seed development process is narrated below.



National Seeds Policy

2.4.7 The National Seeds Policy, 2002 aimed at achieving food and nutritional security for which sustained increase in agricultural production and productivity is imperative. The policy envisaged, *inter alia*:

- raising of Seed Replacement Rates (SRR^{*}) progressively with the objective of expanding the use of quality seeds;
- preparation of a perspective plan for seed production;
- distribution over a rolling (five to six years) period by the states;
- promoting the “Seed Village Scheme”(SVS) to facilitate production and timely availability of seed of desired crop/variety at the local level; and
- seed multiplication for building adequate stocks of certified/quality seeds by providing foundation seed to farmers.

Selection of seed growers for multiplication

2.4.8 The State Government promotes the Seed Village Scheme (SVS) to facilitate production and timely availability of quality seed of desired crops/varieties at the local level. The foundation seeds are supplied to seed growers for production of certified seeds under SVS. The guidelines of the State Government/Company relating to SVS envisages that experienced and innovative farmers should be selected and priority should be given to the growers holding shares of the Company. Further, the concerned Seed Production Officer (SPO)/ Assistant Seed Production Officer (ASPO) with the help of the officers of Agriculture Department should ensure registration of

[@] Procured from agencies like Orissa University of Agriculture and Technology (OUAT), Central Rice Research Institute, etc.

^{*} The percentage of certified/ quality seed sown to total seed sown in the State in a particular period.

the farmers as seed growers with the OSSCA. The Company enters into formal agreement with the growers for supply of certified seed produced by them through multiplication of foundation seeds supplied by the Company.

Audit scrutiny revealed the following:

- No records were maintained by the Company as to whether preference was given to the growers holding shares of the Company in selection of seed growers.
- Although the agreement with the growers included the condition of production/certification and supply of seeds of prescribed quantity per hectare at procurement rates fixed by the Company, it did not include a binding clause for the growers to supply the entire quantity of seeds produced only to the Company. As a result, the growers were selling these seeds to the farmers/private competitors in the market as discussed in paragraph 2.4.15 *infra*.
- The Company did not review and consider the performance of the growers in preceding years while selecting them for seed multiplication.

The Government/Management stated (July 2007) that seed production and seed certification was completely voluntary, hence procurement of agreed quantity could not be enforced. The reply is not tenable as the Audit noticed that other agencies viz. National Seed Corporation Limited and State Seed Corporations of several other states* have this binding clause in their agreements with the seed growers. The Company did not review the performance of the farmers and their selection to ensure that seeds were produced in the vicinity of the processing plants.

Production performance

Company's contribution towards the requirement of seeds in the State

2.4.9 The following table indicates the contribution of the Company towards production of major certified seeds like paddy, moong, biri and groundnut in the State during the crop years 2001 to 2006.

| Year | | Production of major seeds in the State | Major seeds produced by the Company | |
|---------|---------------------|--|-------------------------------------|------------|
| | | (in lakh quintal) | | Percentage |
| 2001-02 | Kharif [#] | 1.76 | 1.44 | 85.29 |
| | Rabi [§] | 0.28 | 0.30 | |
| | Total | 2.04 | 1.74 | |
| 2002-03 | Kharif | 1.22 | 0.85 | 72.19 |
| | Rabi | 0.29 | 0.24 | |
| | Total | 1.51 | 1.09 | |
| 2003-04 | Kharif | 1.54 | 1.08 | 71.91 |
| | Rabi | 0.24 | 0.20 | |
| | Total | 1.78 | 1.28 | |
| 2004-05 | Kharif | 1.58 | 1.12 | 70.43 |
| | Rabi | 0.28 | 0.19 | |

* viz. Andhra Pradesh, Gujarat and Rajasthan.

1st April to 30th September.

§ 1st October to 31st March.

| Year | | Production of major seeds in the State | Major seeds produced by the Company | |
|----------------------|--------|--|-------------------------------------|------------|
| | | (in lakh quintal) | | Percentage |
| 2005-06 [©] | Total | 1.86 | 1.31 | 71.08 |
| | Kharif | 1.40 | 1.01 | |
| | Rabi | 0.26 | 0.17 | |
| | Total | 1.66 | 1.18 | |

It can be seen from the above table that the Company's share was 85.29 per cent in 2001-02 which declined in subsequent years and remained around 70-72 per cent during 2002-06.

Low Seed Replacement Rate (SRR)

2.4.10 The Tenth Five Year Plan (2002-07) emphasised SRR enhancement along with quality improvement. The scientifically desirable level of SRR should be 25 per cent and 35 per cent in respect of self pollinated* and cross pollinated** crops respectively. The Government of India formulated the "National Seed Plan" (NSP) which also emphasised on raising productivity per unit of cultivable land as area under cultivation is unlikely to increase significantly. The Company resorted to multiplication of foundation seeds to certified seeds through identified seed growers under the guidelines of the Seed Village Scheme to accomplish an increase in SRR.

The Seed Replacement Rate varied between 0.15 and 28.74 per cent against the norm of 25/35 per cent.

It was observed that the SRR in respect of 11 crops varied between 0.15 to 28.74 per cent during the five year period from 2001-02 to 2005-06 as against the desired level of 25/35 per cent. The SRR in respect of major seeds like paddy, groundnut, moong and biri ranged between 0.59 to 17.17 per cent as given in the following table:

(Figures are in per cent)

| Name of the crop | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 [©] |
|------------------|---------|---------|---------|---------|----------------------|
| Paddy | 9.44 | 5.39 | 5.37 | 4.73 | 5.96 |
| Groundnut | 14.59 | 15.96 | 16.45 | 6.18 | 17.17 |
| Moong | 1.46 | 0.59 | 0.84 | 0.69 | 0.90 |
| Biri | 1.86 | 1.66 | 1.65 | 1.05 | 0.62 |

One of the reasons attributable for low SRR was non-availability of quality seeds for seed replacement due to shortfall in production of certified seeds as discussed in the succeeding paragraph.

[©] Figures for the year 2006-07 was not available.

* Transfer of pollen grains within the same flower.

** Transfer of pollen grains from one flower to another flower.

Shortfall in production of certified seed

2.4.11 In pursuance of the National Seeds Policy, 2002, the State Government finalised (January 2003) a perspective plan for the period 2003-04 to 2011-12. The Company prepares annual production programmes for all types of certified seeds for each season (Kharif and Rabi) on the basis of the perspective seed plan and availability of foundation seeds. The annual production programme of the Company, duly approved by the BoD, is sent to the Director of Agriculture and Food Production (DA&FP) for final approval. The approved programme is implemented through seed growers under the SVS.

The table below indicates the targets for production of certified seeds vis-à-vis the actual production and the shortfall in production there against during the period 2001-02 to 2006-07.

| Year | Season | Target | Actual production | Shortfall | Percentage of shortfall |
|--------------|--------|-------------------|-------------------|-------------|-------------------------|
| | | (In lakh quintal) | | | |
| 2001-02 | Kharif | 3.81 | 1.52 | 2.29 | 60.10 |
| | Rabi | 0.85 | 0.31 | 0.54 | 63.53 |
| 2002-03 | Kharif | 2.27 | 0.94 | 1.33 | 58.59 |
| | Rabi | 0.29 | 0.25 | 0.04 | 13.79 |
| 2003-04 | Kharif | 2.11 | 1.17 | 0.94 | 44.55 |
| | Rabi | 0.31 | 0.22 | 0.09 | 29.03 |
| 2004-05 | Kharif | 2.00 | 1.13 | 0.87 | 43.50 |
| | Rabi | 0.34 | 0.20 | 0.14 | 41.18 |
| 2005-06 | Kharif | 2.19 | 1.24 | 0.95 | 43.38 |
| | Rabi | 0.35 | 0.18 | 0.17 | 48.57 |
| 2006-07 | Kharif | 2.39 | 1.46 | 0.93 | 38.91 |
| | Rabi | 0.54 | 0.41 | 0.13 | 24.07 |
| Total | | 17.45 | 9.03 | 8.42 | 48.25 |

It would be seen from the above table that there was decline both in targets and actual production of seed during the period 2002-03 to 2005-06 as compared to 2001-02. However, there was increase in target as well as percentage of achievement in 2006-07 compared to the previous year. During 2001-07 the shortfall in Rabi certified seeds ranged between 13.79 *per cent* to 63.53 *per cent* and for Kharif between 38.91 *per cent* to 60.10 *per cent* as compared to targets. Further, against the total target for production of 17.45 lakh quintals of certified seeds during both the seasons, the actual production was only 9.03 lakh quintals. This resulted in short production of 8.42 lakh quintals (48 *per cent*) of certified seeds valued at Rs.76.28* crore. Due to shortfall in production, the Company had to resort to procurement of seed from outside agencies at higher cost to meet the shortfall as discussed in Paragraph 2.4.16 *infra*.

Shortfall in production of certified seeds by 8.42 lakh quintals valued at Rs.76.28 crore.

* Calculated for short production quantity of 8.42 lakh quintals considering cost of procurement of respective seeds in the respective period.

The reasons for shortfall in production as analysed in audit were as follows:

- Actual sowing area was less than the targeted area as per the approved plan. The shortfall in utilisation of land ranged from 1.71 to 94.17 per cent.
- Non-achievement of the targeted SMR.
- Due to non-distribution of available stock of foundation seeds to the growers for multiplication to certified seeds; the same became sub-standard and had to be sold at lower rates as discussed in paragraphs 2.4.12 and 2.4.28.
- The Company failed to ensure adequate control so as to avoid rejection of fields (due to isolation, disease, purity, etc.) and processed seed for certification (due to germination, physical purity, genetic purity, etc.) by OSSCA.
- Non-enhancement of procurement target of certified seeds per hectare, as done in Kharif 2002, despite the existence of production potential.

The Government/Management stated (July 2007) that the climatic factor and socio-economic constraints of the farmers resulted in low productivity. The reply is not tenable since the shortfall in production was due to low utilisation of area, non-achievement of targeted SMR, shortfall in procurement from the growers and rejection of both land and seed by OSSCA for certification.

Non-distribution of foundation seeds

2.4.12 A test check of records of three units (Cuttack, Bargarh and Jeypore) revealed that during the five year ended 2005-06, 3596 quintals of foundation seed valued at Rs.24.11 lakh remained unutilised due to non-distribution of the same to the growers for multiplication. Although the Company decided (April 2002) to request the DA&FP for giving concurrence to sell the surplus foundation seeds at the rate of certified seed, the proposal was not sent. These seeds were declared (October to December each year) substandard and sold (December to February each year) through tender at lower rates. Moreover, non-multiplication of this seed resulted in under production of 1,07,880 quintals^φ of certified seed.

The Government/Management stated (July 2007) that the new variety of seed introduced by OUAT was not accepted by the farmers. It added that DA&FP did not lift the indented quantity fully during 2001-05. The reply is not tenable since the new variety constituted a meager portion (3.5 per cent) of unutilised foundation seed. The reply is also indicative of fact that production was made without assessing the demand for the new variety.

^φ 3596 quintal x 30 (considering Seed Multiplication Rate (SMR) of 30 i.e. lower standard SMR among different varieties of paddy).

Production at Company's farms

2.4.13 The Company had five agricultural farms* with an area covering 109.40 hectares as on 31 March 2007. Out of this, 51.42 hectares was irrigated land and could be used during both Kharif and Rabi seasons. The remaining area of 57.98 hectares, being un-irrigated, remained unutilised in Rabi season. The Company utilised the farms mostly for production of foundation seed and the areas which could not be utilised for the production of foundation seed were being utilised for production of certified seed. The year-wise details of target vis-à-vis achievement of production of foundation and certified seeds for the five years ending 2005-06 is given in **Annexure-12**.

The Company incurred avoidable expenditure of Rs.83.19 lakh in procuring seeds from outside sources.

It would be seen from the Annexure that during 2001-06, there was shortfall of 11,334.38 quintal in the actual production of foundation seed (8,453.76 quintal) and certified seed (2,880.62 quintal) than the targeted yield. The Company, however, did not analyse the reasons for shortfall in yield. It also failed to take steps to increase the irrigated area which could have helped in increasing production. Audit observed that the Company, in order to meet the shortfall in production, procured foundation seeds and certified seeds valued at Rs.63.23 lakh and Rs.19.96 lakh respectively from outside sources#. Thus, the expenditure of Rs.83.19 lakh could have been avoided if the Company had produced foundation seeds/certified seeds as per targets.

The Government/Management stated (July 2007) that the yield was very low for want of proper irrigational facilities in those farms. The reply is not acceptable as the Company is controlling four farms since May 1991 and took no measures either to provide irrigation facilities or try growing crops like groundnut during rabi season. Further, the Management was aware of the un-irrigated land while fixing the targets. Even in case of irrigated areas, the yield was less than the targeted yield.

Procurement of seeds

Fixation of procurement price

2.4.14 In case of certified seeds procured from seed growers, the Company fixes the procurement price on the basis of the recommendations of the State Seed Pricing Committee (SSPC) and as approved by the BoD. While recommending the procurement price, the Pricing Committee considers the Minimum Support Price (MSP) fixed by the Central Government or prevailing market price, whichever is higher, and extra cost incurred towards certification of seeds. In case of oil seed and pulses, the Committee also considers production incentive given by the Central Government under Oilseed Production Programme (OPP)/ Integrated Scheme of Oilseed, Pulses, Oilpalm and Maize (ISOPOM).

* Babanpur, Paramanpur, Bargarh, Barikel (transferred in May 1991) and Barpalli.

Orissa University of Agriculture and Technology, Government farms, etc. (for foundation seeds) and NSC, SFCL, NAFED, Seed growers, etc. (for certified seeds).

Absence of binding clause in the agreement with the growers led to shortfall in procurement resulting in loss of revenue of Rs.28.75 lakh.

Procurement from seed growers

2.4.15 The Company enters into written agreements with the seed growers for multiplication and procurement of certified seeds under SVS, who registered themselves with OSSCA voluntarily on the recommendation of the Company. The agreements provide for supply of certified seeds of prescribed quantity per hectare at procurement rate. Audit observed that although during Kharif 2004 there was bumper crop of groundnut, the Company could procure only 319.40 quintals from the farmers against the targeted quantity of 12,400 quintals. Shortfall in procurement of seed not only deprived the farmers the supply of quality seeds but also caused procurement of costlier seeds from outside sources. As the Company retains service charges at the rate of 10 *per cent* of the cost of the seed (cost: Rs.2,380.10 per quintal), it was deprived of potential revenue of Rs.28.75 lakh towards service charges due to shortfall in procurement of 12,080.60 quintal.

The Government/Management stated (July 2007) that seed certification was completely voluntary according to the Seed Act, 1966 and hence seed production could not be enforced upon the farmers. The reply is not tenable since the Company enters into the agreement with such growers who voluntarily opt for entering into agreement. Further, there was no justification for not incorporating an enabling clause in the agreement even though other organisations viz. National Seed Corporation Limited (NSC) and Seed Corporations of other States have such provisions in the agreements with the seed growers.

Procurement from outside seed producing agencies

2.4.16 The SSPC recommended (October 2004) that the requirement of seeds of the State should be produced within the State, as procurement from outside would make the seed costlier to the farmers. The Company, however, failed to achieve targeted production of certified seeds of groundnut, moong and biri during 2001-02 to 2006-07. As a result, it procured 2.22 lakh quintals of certified/ Truthfully Labeled[#] (TL) seeds of different varieties from outside agencies (viz. NSC, APSSDC, SFCI, NAFED)* during the period under review.

[#] Truthfully Labeled (TL) means that the quality of seeds is guaranteed by the seller for the prescribed minimum standards but the purity and quality of such seeds are not certified by any seed certification agency under the provision of the Seed Act, 1966.

* National Seeds Corporation Limited (NSC), Andhra Pradesh State Seeds Development Corporation Limited (APSSDC), State Farms Corporation of India (SFCI) and National Agricultural Cooperative & Marketing Federation (NAFED).

The following table depicts sales made vis-à-vis outside procurement during the period 2001-02 to 2006-07.

(Quantity in quintals)

| Year | Groundnut | | | Moong | | | Biri | | |
|--------------|---------------------|---------------|--|---------------------|---------------|--|---------------------|---------------|--|
| | Outside procurement | Sale to DA&FP | Percentage of outside procurement to sales | Outside procurement | Sale to DA&FP | Percentage of outside procurement to sales | Outside procurement | Sale to DA&FP | Percentage of outside procurement to sales |
| 2001-02 | 37373 | 48909 | 76 | 1365 | 1964 | 70 | 1674 | 1895 | 88 |
| 2002-03 | 29342 | 41841 | 70 | -- | 485 | -- | 452 | 1431 | 32 |
| 2003-04 | 45439 | 56875 | 80 | 204 | 555 | 37 | -- | 1600 | -- |
| 2004-05 | 18997 | 21240 | 89 | -- | 843 | -- | -- | 1042 | -- |
| 2005-06 | 33621 | 56603 | 59 | -- | 1199 | -- | 66 | 450 | 15 |
| 2006-07 | 49092 | 76911 | 64 | 2562 | 3109 | 82 | 1896 | 2662 | 71 |
| Total | 213864 | 302379 | 71 | 4131 | 8155 | 51 | 4088 | 9080 | 45 |

Shortfall in production resulted in additional expenditure of Rs.11.40 crore in procuring from outside agencies.

The percentage of outside procurement in relation to the seed supplied for sale to the DA&FP ranged between 59-89 (groundnut), 37-82 (moong) and 15-88 (biri). The Company incurred an additional expenditure of Rs.11.40 crore on the procurement (groundnut-Rs.10.35 crore and moong and biri-Rs.1.05 crore) being the difference between the actual procurement cost (Rs.56.18 crore) and the cost if the Company had produced the seeds through seed growers (Rs.44.78 crore). This correspondingly increased the cost of the quality seeds supplied to the farmers.

The Government/Management stated (July 2007) that steps were being taken for increasing groundnut production through ISOPOM[§] during the year 2006-07. The fact, however, remains that OPP scheme was in force even in 2000-01 which was replaced by ISOPOM in 2004-05. The Company delayed to take steps to increase groundnut production under the above schemes.

Purchase of groundnut seed at higher cost

2.4.17 To meet the requirement of groundnut seed in Rabi 2004-05, the Company procured (November 2004) 7086 quintals of groundnut TL seed at Rs.2,700 per quintal from the SFCI and 8016 quintals at Rs.2,475 per quintal from NAFED. Though the procurement was for the same variety and during the same period, the price offered by NAFED was less than that offered by SFCI. Instead of procuring the entire quantity from NAFED, the Company procured 7,086 quintals of seeds from SFCI at higher rates for which no justification was found on record.

[§] Integrated Scheme of Oilseed, Pulses, Oilpalm and Maize.

Failure to purchase groundnut seed from the available cheaper source resulted in loss of Rs.15.94 lakh.

The Company did not devise the procurement plan in advance though it procured a sizeable quantity of groundnut seed from outside sources every year. Thus, failure to place the order in advance with NAFED resulted in incurring of additional expenditure of Rs.15.94* lakh on the procurement of 7086 quintals of seed.

Return of low quality Groundnut T.L seed by DA&FP

Failure of the Company in procuring quality seeds led to loss of Rs.22.96 lakh.

2.4.18 During Kharif 2005, the Company procured (October to November 2005) 22,379 quintals of unprocessed groundnut TL seed (at Rs.1,800 per quintal) from growers with a view to sell the seeds after processing to the farmers through DA&FP at a price determined by the SSPC. The entire quantity of seeds were supplied (during Rabi 2005-06) to DA&FP after processing for ultimate use by the farmers. It was observed that out of the seeds so supplied (October 2005 to March 2006), DA&FP returned (December 2005 to March 2006) 2,511.82 quintals of seed on grounds of poor quality caused by high moisture content. The Management, however, did not analyse the reasons for high moisture content for fixing responsibility. These seeds were subsequently disposed of as ordinary/substandard seed at a lower price (Rs.1,370 per quintal) resulting in loss of Rs.22.96 lakh# to the Company. This indicated the Management's failure in procurement of quality seeds for which the Company sustained loss.

The Government/Management stated (July 2007) that though the Deputy Directors of Agriculture (DDA) accepted the quality of seed, this could not be fully utilised (May 2005) because farmers got an opportunity to compare the stock with the stocks procured from outside the State. The reply is not tenable as the DDAs complained about the low quality of the seeds while returning the groundnut TL seed to the Company.

Incentive on production of certified seeds

2.4.19 The GOI, from time to time, announces incentives to the growers of certified seeds to meet the costs of production/certification, loss due to rouging and undersized seeds. The incentives so received by the canalising agencies should, thus, be passed on to the growers. The Company is, however, adopting two different methods for passing on the benefit of incentives so received in case of paddy, oilseeds and pulses. In case of paddy, the Company is passing on the incentives directly to the growers of the certified seed in addition to the procurement price paid. For oilseed and pulses, the Company is retaining the incentives received from the Government and deducting the same against the procurement cost of certified seeds, thereby, passing on the benefit of incentive to the farmers. Thus, different treatments of the production incentive extended by the Government with a single objective was not in order.

* 7,086 x Rs.225/- (difference between Rs.2700/- and Rs.2475/-).

Worked out on the basis of the procurement cost (Rs.1,800 per quintal) plus processing costs (Rs.484.40 per quintal) minus the disposal price (Rs.1,370 per quintal) for 2,511.82 quintal.

Non-availment of incentive

2.4.20 The GOI launched OPP in 2000-01 for oil seeds. The scheme was revamped (2004-05) and renamed as ISOPOM. Under these schemes, the GOI provided production incentive of Rs.500 per quintal (Company's share: Rs.125 and grower's share: Rs.375) on certified seeds of oil seed, pulses, oil palm and maize produced through SVP. In case of TL seed, the subsidy is available only when it is produced under Crash programme[&] under the supervision of NSC/SFCI, the nodal agency for implementation of Crash programme.

Procurement of groundnut TL seed under SVP instead of Crash programme deprived the Company incentive of Rs.60.50 lakh.

It was observed that during 2001-06, the Company procured 48402 quintals of groundnut TL seed under SVP instead of under Crash programme due to which the incentive of Rs.125 per quintal amounting to Rs.60.50 lakh* towards its own share could not be availed by the Company.

The Government/Management stated (July 2007) that the time period of supply was nearly one and a half months including the period for certification which was nearly one month. As the groundnut requirement of the State during Rabi was about 60,000-70,000 quintals, supply of groundnut certified seed of such a huge quantity was not possible and the Company supplied groundnut TL seed to meet the requirement of the farmers. The reply is not tenable as the requirement of groundnut during the period on which audit commented was only 319 quintals to 22,379 quintals; which the Company fulfilled from production within the State. Further, the Company also did not tie up with NSC/SFCI to get the benefit of incentive under OPP/ISOPOM scheme as TL seeds produced under Crash programme under the supervision of these agencies were also eligible for incentive.

Performance of processing plants

Utilisation of seed processing plants

2.4.21 The Company operated 35 processing plants[@] during the period 2001-02 to 2005-07. Out of these, 27 plants were owned by the Company and the remaining eight plants were owned by the State Government. Of these plants, two seed processing plants were being exclusively utilised for processing groundnut seed, while the rest (25) were being utilised for processing of other seeds. These plants had an annual installed capacity to process 3.72 lakh quintals of raw seeds (3.57 lakh quintal for paddy and other seeds and 0.15 lakh quintals for groundnut).

[&] Crash programme is a component under ISOPOM which has the objective of augmenting the production of quality seed to meet emergency/contingent requirement of seed.

* 48402 quintal X Rs 125 = Rs 60.50 lakh.

[@] Seed Processing Plants segregate foreign particles from the seeds through blowers and also segregate under-weight/ sized seeds from normal seeds.

The utilisation of plants in respect of groundnut and paddy/other seeds during the years from 2001-02 to 2006-07 ranged from 14 to 87 per cent and 33 to 51 per cent respectively as indicated in the following table.

(In lakh quintals)

| Year | Paddy and other seeds | | | Groundnut | | |
|---------|-----------------------|--------------------|------------------------|---------------------|--------------------|------------------------|
| | Processing capacity | Processed quantity | Percentage utilisation | Processing capacity | Processed quantity | Percentage utilisation |
| 2001-02 | 3.57 | 1.81 | 51 | 0.15 | 0.021 | 14 |
| 2002-03 | 3.57 | 1.17 | 33 | 0.15 | 0.025 | 17 |
| 2003-04 | 3.57 | 1.27 | 36 | 0.15 | 0.022 | 15 |
| 2004-05 | 3.57 | 1.45 | 41 | 0.15 | 0.046 | 31 |
| 2005-06 | 3.57 | 1.51 | 42 | 0.15 | 0.075 | 50 |
| 2006-07 | 3.57 | 1.55 | 43 | 0.23 | 0.200 | 87 |

The utilisation of the seed processing plants were below the installed capacity which ranged between 14 and 87 per cent.

It was noticed that the plant utilisation was below the capacity in all the years during the period of review. The Company, however, had not taken steps for their optimum utilisation. In particular, the capacity of groundnut processing plants remained at 15,000 MT which was marginally increased to 23,000 MT, as against the requirement of 60,000 MT to 70,000 MT assessed by the Company.

The Government/Management while accepting the fact of under utilisation of processing plants stated (July 2007) that:

- the seed production programme was being taken up in each revenue district to make awareness to use quality seeds among the farming community and production was taken up based on the indent made by the DA&FP. The requirement of the districts was much less than the capacity of the plants; and
- the seeds produced in the district could not be procured due to rejection of crop in the field by OSSCA and non-procurement of seeds due to damage of seeds by natural calamities and other factors.

The reply is not tenable as the indent by DA&FP was not based on demand survey.

Processing loss

Groundnut TL seeds

2.4.22 The BoD fixed (May 2003) norm of eight per cent for processing loss in respect of groundnut TL seed. If the actual loss exceeded the permissible norm, the Company proposed to recover the excess loss from the official(s) responsible. It was, however, observed that the actual processing loss on procurement of groundnut TL seed from seed growers under SVS during Kharif 2003 (220.92 quintals) and Kharif 2005 (751.39 quintals) was up to 25 per cent. The value of excess processing loss of 972.31 quintals worked out to Rs.18.11 lakh*. Though the Management initiated (December 2005) action to

Processing loss in excess of norm resulted in loss of Rs.18.11 lakh to the Company.

* (220.92 quintal x Rs.1700 + 751.39 quintal x Rs.1910).

recover the loss from the concerned officials, no recovery was made even after expiry of 2 to 4 years.

The Government/Management stated (July 2007) that the representation of the employees to the demand notice towards excess processing loss of groundnut (TL) seeds during 2003 and 2005 was under examination and further action in the matter would be taken. It was further stated that the permissible loss was revised to 10 *per cent* for procurement of Kharif 2005 due to excess moisture at the time of procurement of groundnut (TL) seed during 2005. The reply is not tenable since the revision of norms was done without the approval of the Board and the recovery towards the loss in excess of norms is still pending despite lapse of considerable time.

Processing loss in farm production

2.4.23 During 2001-02 to 2005-06, a quantity of 17,321 quintals of seed was produced in the Company's own farms. After processing, the Company obtained only 15,205 quintals of certified seed and the processing loss ranged between 5.09 and 21.05 *per cent* during this period. The Company, however, did not fix any norm for the processing loss (except for groundnut TL Seeds) so as to fix responsibility for failure in production of foundation/ certified seed.

The Government/Management stated (July 2007) that they were taking steps to fix norms for processing loss in case of their farm production.

Storage Performance

2.4.24 For safe storage and preservation of seeds, periodical assessment of the condition of the stored seeds, regular monitoring of relative humidity and temperature of each godown and fumigation and spraying of insecticides at regular intervals is essential. The Company, however, did not prescribe any norms for these items of work. Audit scrutiny revealed the following:

Unscientific storage of seeds resulted in seeds becoming substandard much before the validity of nine months.

- Seed became substandard within four to five months which was much before the certified validity period of nine months, thereby indicating that seeds were not stored properly to retain their germination capacity during the validity period. The quantity of such seeds and reasons for these becoming substandard could not, however, be ascertained in audit due to non-maintenance of records by the Company in this respect.
- Seed Health Reports furnished by the State Seed Testing Laboratory from time to time indicated attack by fungus and recommended for seed treatment by using seed treating chemical (thiram), but no action was taken by the Company. This also indicates that seeds were not properly stored to avoid attack by fungus.

The Government/Management stated (July 2007) that relative humidity and temperature were the most important environmental factors which influence seed germination in addition to previous history of seed before storage e.g. weathering in field, mechanical injury during harvesting and cleaning, damage

due to heat during drying, previous fumigation, etc. The fact, however, remained that Management had not taken preventive measures to avoid losses due to deterioration in quality of the stocks on account of controllable factors.

Sale Performance

2.4.25 National Seed Policy and Perspective Seed Plan envisaged gradual increase in production/distribution of certified seed to achieve the desired level of Seed Replacement Rate. Thus, mere production of certified seed will not increase SRR, if it is not distributed to farmers for cultivation in time. It was observed that the Company did not fix physical targets for sale of certified seed to the farmers. Instead, the actual indents for certified seeds made by DA&FP for distribution to the farmers were adopted by the Company as target of sales. The following table depicts the targeted sale of certified seeds as indented by DA&FP vis-à-vis the actual sales made by the Company during the last six years ending 2006-07:

| Year | Targeted sale (in quintal) | | Actual sale (in quintal) to | | | Percentage of actual sale to targeted sale |
|---------|----------------------------|---------------|-----------------------------|--------------|---------------|--|
| | Season | Seeds | DA&FP | Dealers | Total | |
| 2001-02 | Kharif | 317723 | 146198 | 54188 | 200386 | 65 |
| | Rabi | 102128 | 66612 | 5022 | 71634 | |
| | Total | 419851 | 212810 | 59210 | 272020 | |
| 2002-03 | Kharif | 228449 | 131933 | 6397 | 138330 | 66 |
| | Rabi | 59160 | 49533 | 1002 | 50535 | |
| | Total | 287609 | 181466 | 7399 | 188865 | |
| 2003-04 | Kharif | 113349 | 108904 | 284 | 109188 | 96 |
| | Rabi | 72872 | 69741 | -- | 69741 | |
| | Total | 186221 | 178645 | 284 | 178930 | |
| 2004-05 | Kharif | 79676 | 86896 | -- | 86896 | 81 |
| | Rabi | 62464 | 27834 | -- | 27834 | |
| | Total | 142139 | 114730 | -- | 114730 | |
| 2005-06 | Kharif | 108065 | 109518 | -- | 109518 | 97 |
| | Rabi | 69112 | 61507 | -- | 61507 | |
| | Total | 177178 | 171025 | -- | 171025 | |
| 2006-07 | Kharif | 124053 | 117315 | -- | 117315 | 97 |
| | Rabi | 98930 | 99729 | -- | 99729 | |
| | Total | 222983 | 217044 | -- | 217044 | |

The Company could not achieve the targeted sales in all the six years up to 2006-07.

It would be seen from the above that the sales upto the year 2004-05 showed a decreasing trend and achievement of the supply to DA&FP against the indent ranged between 65 to 97 *per cent* due to decrease in indented quantity. The Board attributed (February 2004) the low sale to limited capacity of the Department's sales centres and felt the need to explore the setting up of a dealer network apart from its own distribution network for enhancing the sale. The State Seed Pricing Committee held (October 2004) a similar view in this regard.

Audit scrutiny revealed the following:

- The function of the marketing wing of the Company was limited to procurement of seed from outside and selling of substandard seed.

- No demand survey was made by the Company to ascertain the requirement of certified seed for preparing production programme accordingly. Market promotional activities taken up by the Company were completely inadequate.
- No marketing strategy/policy was devised by the Company so as to increase sales by supply of seeds to outside States.
- The Company was producing certified seed on the basis of production programme approved by the DA&FP. There was, however, no agreement with the DA&FP to take the entire production of the Company. The Company had also not explored alternate marketing channel to sell surplus seed in case of non-lifting of the entire quantity by the DA&FP.

The Government/Management stated (July 2007) that due to various natural calamities viz. drought and flood, the entire seed produced could not be fully liquidated. It was further stated that sale of seed by the Company was completely dependent upon the decision of the Government. When the sale of seeds through dealers network got a momentum, it was suddenly discontinued by the State Government without any recorded reasons. The dealer's network was, however, resumed from Kharif 2006 and steps had been taken for appointment of dealers and sale of seed at Gram Panchayat level. The reply is not tenable as it was noticed that during 2001-02 and 2002-03, the achievement of sale targets was only 65 and 66 *per cent* respectively although there was a dealer's network. Therefore, the Company needs to analyse the factors adversely affecting distribution of seeds and take corrective measures.

Fixation of sale price of certified seed

2.4.26 The main objective of the Company is to provide certified seeds to farmers at reasonable prices. The sale prices of seeds of various crops are proposed by the Company to the DA&FP. DA&FP, after considering the Company's proposals, sends its recommendations to the State Seed Pricing Committee[#] to decide the final sale price of the certified seed.

Audit analysis of sale prices fixed during 2001-06 revealed that there was excess recovery in respect of interest, dealer commission, transportation and loading and unloading cost which is discussed below:

- The Company loaded interest on working capital at a pre-determined rate of 12.5 *per cent* (for six months) up to Rabi 2003-04 and 10.50 *per cent* thereafter. The financing cost of the Company in terms of interest rates towards cash credit and other short term loans from the Government of Orissa (to finance its seed procurement activity), however, ranged between 8.50 and 10.50 *per cent* during the period 2001-06. The Company actually recovered an amount of Rs.4.93 crore towards interest through sale price against the actual financing cost of

[#] Constituted by State Government, headed by Secretary to Agriculture Department, Director of Horticulture, Director of OSSCA, Director of Agriculture and Food production, Dean Research OUAT, Managing Director, OSSC Limited as members.

Rs.3.57 crore. This resulted in excess recovery of Rs.1.36 crore towards cost of seeds from the farmers.

The Government/Management stated (July 2007) that the cost structure was based on certain principles which was submitted to DA&FP for approval of sale price and the State Seed Pricing Committee fixed the price considering different factors. The fact, however, remains that interest was charged at higher rates than actually paid by the Company.

- The SSPC increased (October 2004) the service charge of 10 *per cent* (included in the sale price of foundation and certified seed) to 15 *per cent* on the consideration that the same would be utilised to meet the expenditure on commission payable to dealers for sales made through them from Rabi 2004-05. The Company recovered an extra amount of Rs.66.36 lakh during the period Rabi 2004-05 to Rabi 2005-06 on account of five *per cent* increase in the service charges. The sale through dealers, however, commenced only from Rabi 2006-07. Thus, recovery towards dealer's commission was made without incurring expenditure which made the seed costlier.

The Management stated (July 2007) that since the Government decided to implement dealer sale from Rabi 2006-07, it implemented the same from 2006-07.

- While fixing the sale price, the Company considered the average distance between any two locations to be 250 kms and accordingly recovered the transportation costs at the rates mentioned in the following table:

| Cost up to Department's godown towards | For groundnut (Rs. per quintal) | | For other seeds (Rs. per quintal) | |
|--|---------------------------------|------------------|-----------------------------------|------------------|
| | Up to Rabi 2004-05 | From Kharif 2005 | Up to Rabi 2004-05 | From Kharif 2005 |
| Transportation | 57 | 71 | 40 | 50 |
| Loading/unloading | 5 | 5 | 5 | 5 |

The sale prices were fixed at higher rates by Rs.2.97 crore due to excess consideration of financial charges, supervision charges and transportation cost than actual.

Audit scrutiny revealed that as the actual distance to the sale location was less than the distance factored in the sale price, the actual costs of transportation, loading and unloading charges was lower than the recovery made through the sale price. The total transportation, loading and unloading charges recovered during the five years ending 31 March 2006 were Rs.4.64 crore. Against this, the actual amount spent by the Company during this period was Rs.3.69 crore. Hence, there was excess incidence of transportation charges in sale price by Rs.94.88 lakh.

The Government/Management stated (July 2007) that the rate of transportation, loading and unloading included in the cost structure was based on some standard which was accepted by the SSPC. Any under or over absorption of transportation, loading and unloading was due to management of internal diversion of seeds. The fact remains that there was excess recovery towards transportation. Further, this rate was fixed on the basis of calculation of the distance from godowns at Bhubaneswar though the Company is having godowns at other places and transportation of seeds is being made from these godowns also.

Inter-unit transfers of paddy

Failure in production to meet location-wise requirement led to avoidable expenditure of Rs.1.06 crore.

2.4.27 The Company transported paddy seed between its units to meet the requirement of the farmers of different locations. In some cases, this involved a distance of more than 500 kms. Since paddy is produced in all the production units of the Company, the inter-unit transfer of paddy could have been avoided by proper assessment of the requirement at the respective locations. Audit scrutiny revealed that an amount of Rs.1.06 crore incurred on transportation of paddy during 2001-06 could have been avoided. Although the Company recovers the transportation cost through the sale price, proper production planning at the required location would have reduced the ultimate sale price. The Seed Village Scheme (SVS) also envisaged that the production of seeds should have been at local level for timely availability of seed at minimum handling/transportation costs.

The Government/Management replied (July 2007) that it had not made any actual demand survey and attributed (February/May 2007) the following reasons for incurring higher transportation costs:

- Seed production is a five year plan and demand of the farmers changes every year with the performance of cultivation;
- The Company does not have an extensive network at the village level where actual demand survey can be made;
- The Company sells seeds to DA&FP according to their requirement; and
- The Company does not have any autonomy to sell its produce through its own outlet.

The fact, however, remains that the Company did not make any demand survey and this had adversely affected production and distribution of seeds and also did not follow the principle of SVS to produce seed locally.

Disposal of substandard seed

2.4.28 During the five years ending 2005-06, the Company sold 1.68 lakh quintal of substandard seeds costing Rs.13.28 crore through tenders and suffered a loss of Rs.4.63 crore.

Failure of the Company to sell substandard seeds during lean agricultural season resulted in loss of Rs.4.63 crore.

Audit scrutiny revealed the following:

- The sale of substandard seed was made during November to February when the Kharif produce is available in the market and the market price is lower due to excess supply. The Company did not take steps to sell the substandard seed during the lean agricultural season i.e. during July to October to get a better price. The sale of substandard seed during the lean season was also recommended (1995) by M/s Price Water House, the consultants appointed by the Government of India to report on business strategy, autonomy of operations and financial health of the Company. Although there was a proposal (February

2000) to the BoD to fix a time frame for sale of substandard seeds, the BoD did not deliberate on the proposal.

- The Company delayed (from 2 months to 12 months) in sending the samples for testing*. Consequently, there was delay in receiving the test reports. As the Company sold the substandard seed after receiving the test reports from the laboratory, there was delay in disposal of seeds. As a result, the quality of seed further deteriorated and fetched low price.
- The DA&FP did not accept revalidated seed. The Company, therefore, should have sold the seed as substandard immediately after the validity period of nine months was over which could have helped to realise higher value.

The Government/Management did not offer specific reply to the above audit observations.

Realisation of dues

Delay in realisation of dues

2.4.29 It was noticed that there was delay in settlement of dues recoverable from DA&FP and the total outstanding as on February 2007 was Rs.28.64 crore. Of this, Rs.11.77 crore was outstanding for periods ranging from 2 to 9 years (viz. 1997-98 to 2005-06). The balance Rs.16.87 crore was outstanding for the year 2006-07 which included subsidy on sale through dealers amounting to Rs.2.99[#] crore.

Delay in reconciliation of quantity of seed sold to the DA & FP led to blockade of Rs.11.77 crore for over 2 to 9 years.

Audit analysis revealed the following:

- The reasons for outstanding was attributed to delay in reconciliation of the quantity sold with DA&FP. The Company has, however, not taken any steps for timely reconciliation after each season though non-realisation of dues created liquidity problem.
- In the joint meeting (June 2006) of DA&FP and the Company for reconciliation of the dues outstanding since 1997-98, the latter agreed to pay Rs.6.04 crore only against outstanding dues of Rs.12.83 crore as on that date. The remaining amount of Rs.6.79 crore, was to be examined by DA&FP based on the merits of the bills.
- Of the unreconciled amount, Rs.3.43 crore pertaining to the period 1997-2002, the Company was unable to produce the bills though the same were called for by DA&FP.
- Against the dues of Rs.6.04 crore admitted by DA&FP, it released only Rs.3.12 crore. The balance amount of Rs.2.92 crore has been disputed and referred to the Government for approval for making payment.

* Tested at State Seed Testing Laboratory, Government of Orissa to declare it substandard.

[#] Rs.0.25 crore pending for a period of less than 1 year and Rs.2.74 crore outstanding for periods ranging from 2 to 8 years.

Non-realisation of incentive under OPP and ISOPOM

2.4.30 In line with the arrangement under guidelines of OPP/ISOPOM, the Company claimed Rs.1.87 crore towards incentive during the period 2002-06. Against this, an amount of Rs.44.27 lakh was only received leaving an outstanding balance of Rs.1.43 crore which included claims relating to the period since 2002-03. Audit noticed that the production incentive under ISOPOM was released by DA&FP without providing the details for the same. On being pointed out by Audit, the Management worked out the details and took up (April 2007) the matter with the Department for release of the pending amount. This indicated that the Company's mechanism for realisation of dues needs improvement.

The Government/Management stated (July 2007) that the matter to settle the dues was being pursued at Government level and the Government was conducting a special audit to realise the outstanding dues of the Company. Further developments were awaited (August 2007).

Internal Audit and Internal Control

2.4.31 Internal control is an important management tool to ensure that the organisational objectives are achieved in an effective and orderly manner, assets are safeguarded and rules and procedures are complied with.

The following deficiencies in the Internal Control System in the Company were noticed:

- The Company has not formulated manuals like Seed Production manual, Seed Storage manual, Marketing manual, Purchase manual, Accounts manual, etc. for adherence/guidance of its employees in executing their responsibilities to achieve the Company's objectives.
- The Company did not have an Internal Audit Wing and had outsourced the internal audit activity to the firms of Chartered Accountants. The internal audit for the year 2001-02 was not taken up, internal audit for the years 2002-03 and 2003-04 had been completed and those for the years 2004-05 and 2005-06 were in progress. No significant observations were noticed in the reports of the Internal Auditor. However, the Internal Audit report was not placed before the Board of Directors for appraisal.
- Instance of stocks worth Rs.38.78 lakh being unaccounted/misappropriated by two employees {employee of the Company - Rs.27.87 lakh (Procurement-cum-Sale Assistant), staff of the Department- Rs.10.91 lakh (Overseer)} during the year 2001-02 was noticed by the Management. No recovery had been made till date (October 2007) even after lapse of five years which reflects inaction of the Management.

The Government/Management stated (July 2007) that they were taking steps to compile the instructions issued from time to time besides preparing manuals of different activities.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the staff and Management of the Company at various stages of conducting the Performance Audit.

Conclusion

The production targets were not based on demand survey but fixed on the basis of availability of foundation seed and perspective plan. Production of certified seeds was far below the target during the period under review resulting in non-achievement of the desired level of Seed Replacement Rates. The Company, therefore, had to procure certified seeds from outside agencies at a higher cost so as to meet the requirement of the State. The processing plants operated by the Company also remained underutilised due to low production.

Prices were also fixed at higher rates due to excess recovery towards dealers' commission, interest, cost of loading and unloading and transportation which led to higher cost being borne by the farmers. Thus, the primary objective of the Company was defeated. The Company did not fix physical targets for sale of certified seeds and it solely depended on the indent of DA&FP for sale of its stocks. The Company did not achieve the targeted sale in any of the years during the period under review though the targets were reduced over the years. As a result, the seed became substandard and were sold at lower prices causing loss to the Company. There was delay in realisation of dues from the Department.

Recommendations

- The Company should re-fix targets for production of certified seeds based on demands from growers, market and previous years' demand as per the guidelines of SVS.
- The Company should monitor production/procurement so that outside procurement at higher cost are curbed and seed processing plants can be optimally utilised.
- Steps should be taken for scientific storage of seeds so that quality of seeds does not deteriorate.
- Selling price needs to be rationalised and the excess recovery towards dealers' commission, interest, cost of loading and unloading and transportation needs to be corrected to make the price competitive. The marketing infrastructure should also be revamped.
- Timely reconciliation of dues with the DA&FP should be made and proper follow-up done to realise the claim towards production incentive for early realisation of sundry debts.