

Chapter II

Performance Audit relating to Government Company

2. Production, Procurement, Processing, Storage and Sale of seeds by Andhra Pradesh State Seeds Development Corporation Limited

Executive Summary

Introduction

Andhra Pradesh State Seeds Development Corporation Limited was incorporated on 26 March 1976 with authorized share capital of ₹ 5.00 crore. The paid up share capital of the Company as at 1 June 2014 stood at ₹ 275.80 lakh. The share of Government of Andhra Pradesh was ₹ 107.51 lakh (39 per cent), GoI was ₹ 90.00 lakh (33 per cent) and Seed Growers was ₹ 78.29 lakh (28 per cent).

- There was shortfall in production of 16.40 lakh quintals certified seeds during the period 2012-13 to 2016-17 compared to targets. The reason for shortfall was insufficient distribution of breeder and foundations seeds to the seed growers (individual farmers), considering Seed Multiplication Ratios lesser than the norms in respect of Paddy and higher in respect of Blackgram, Greengram and Groundnut and short supply of foundation and certified seeds by the seed growers.
- The agreements made with the seed organisers were defective in respect of Earnest Money Deposit which led to undue favour amounting to ₹ 5.16 crore. Further, the Company had released an excess amount of ₹ 33.06 crore to seeds organisers as advance and thus, had to bear a loss of interest ₹ 0.75 crore on excess release.
- The delay in procurement of Bengalgram JG-11 certified seeds from the seed organisers during Rabi season 2015-16 led to re-fixation of higher procurement prices thrice. This had resulted in excess procurement cost of ₹ 38.24 crore.
- The Company revised the price incentive twice within one year. This revision was made on the request of seed Growers' Directors without any cost analysis of the component of additional cost incurred by the growers on production of foundation and certified seeds.
- The Company had planned construction of 25 godowns (3.78 lakh sqft) under schemes of GoI. The Company could complete the construction of only eight godowns (1.40 lakh sqft) till March 2016 and could not complete (June 2017) construction of four godowns (1.18 lakh sqft). They did not construct remaining 13 godowns due to which the grants amounting to ₹ 28.39 crore was lying with the Company as on March 2017. Delay in construction of godowns by the Company led to hiring of private godowns incurring an expenditure of ₹ 5.24 crore, which was avoidable.
- Due to delay in construction of godowns, the commissioning of processing equipment in the godowns was also delayed. The delay led to

avoidable expenditure of ₹ 91.39 lakh on processing of seeds through outside agencies.

- The Company sold seeds to the farmers at subsidy under different schemes of GoAP through distribution system. As on 31 March 2017, ₹ 12.26 crore was outstanding from distributing agencies, of which, ₹ 5.84 crore was outstanding for more than three years. It was due to defective system of collection of sale proceeds from the distributing agencies.
- One of the objectives of the Company was to distribute certified and other quality seeds to the farmers. However, complaints were received against the supply of 4,945.60 quintals of poor quality seeds valuing ₹ 1.40 crore. Out of the above, the Company replaced seeds valuing ₹ 33.24 lakh free of cost and paid compensation of ₹ 15.06 lakh.
- Company failed to sell 3.69 lakh quintals of seeds during their validity period. The delay led to loss of vigour, viability and loss of rate of germination. The Company had to condemn the seed and sell these seeds as grain. This resulted in a loss of ₹ 25.25 crore.

2.1 Introduction

Andhra Pradesh State Seeds Development Corporation Limited (Company) was incorporated on 26 March 1976 with authorized share capital of ₹ 5.00 crore. The purpose of establishing the Company was to improve quality seed production and to implement the National Seed Project. After implementation of Andhra Pradesh State Reorganisation Act, 2014, a demerger scheme was prepared³², bifurcating the Company into two separate companies. It was effective from 2 June 2014 and approved on 30 April 2015 by the Expert Committee (EC) appointed for the purpose. The demerger scheme was approved by the EC and communicated to both the State Governments³³. The demerger was to be effected after approval of the scheme by Government of India, (GoI). The approval of GoI was awaited (October 2017). The paid up share capital of the Company as at 1 June 2014³⁴ stood at ₹ 275.80 lakh. The share of Government of Andhra Pradesh (GoAP) was ₹ 107.51 lakh (39 per cent), GoI³⁵ was ₹ 90.00 lakh (33 per cent) and Seed Growers³⁶ was ₹ 78.29 lakh (28 per cent).

The main objectives of the Company were:

- to undertake the production of the certified seeds of all crop varieties and distribution of the same to farmers at reasonable prices and in sufficient quantities;
- to enter into contracts with individuals, cooperatives and other agencies in growing, processing, drying, procuring, storing, transporting and marketing of certified and other quality seeds;
- to make arrangements for supply of foundation seeds to seed growers;
- to undertake state or centrally sponsored programmes; and
- to install, manage and operate processing plants and seeds storage facilities.

2.2 Organisation Structure

The organisation structure of the Company is given below:



³² Company falls under Schedule IX of Andhra Pradesh State Reorganisation Act, 2014.

³³ Government of Andhra Pradesh and Government of Telangana.

³⁴ Prior to appointed day of AP Reorganisation Act, 2014, i.e., 2 June 2014.

³⁵ Through National Seeds Corporation Limited (NSCL).

³⁶ Farmers, who take up the production of seeds based on the agreement entered with the Company.

The Company had 20 Units³⁷ located in various parts of the combined State. Out of these, 12 Units fall in the State of Andhra Pradesh. Each Unit was headed by a District Manager, who played key role in the overall activity of the Company and reported to the Vice Chairman & Managing Director (VC&MD). In the combined State of Andhra Pradesh, the actual strength of manpower was 215 on the appointed day (2 June 2014) against the sanctioned strength of 354 employees. Andhra Pradesh was allotted a sanctioned strength of 207 employees and with existing strength of 125 employees.

2.3 Financial Results

The assets and liabilities of the Company, on the appointed day were divided between the two Companies on provisional basis³⁸ pending approval of demerger scheme by GoI. The reasons for delay in approval of demerger scheme were not on record. The Company reflected the un-bifurcated opening balances of assets and liabilities in its annual Financial Statements.

The financial results of the Company for the past five-year period is in Table No. 2.1 below:

Table 2.1: Statement showing financial results of the Company

(₹ in lakh)					
Particulars	2012-13 ³⁹	2013-14	2014-15 ⁴⁰	2015-16	2016-17
Income	54,590.22	48,875.33	46,725.94	44,448.11	55,948.66
Expenditure	54,061.12	48,646.09	46,492.80	44,279.36	55,810.43
Gross Profit	529.10	229.24	233.14	168.75	138.23
Net Profit	521.25	135.82	158.26	115.71	92.53

Source: Annual Reports of the Company.

2.4 Audit Objectives

The objectives of audit were to ascertain whether:

- Adequate quantity of breeder and foundation seeds were organised to achieve the targeted production of certified seeds;
- The procedure followed in procurement of seeds was economical, efficient and effective;
- The processing units and storage godowns had been created & utilized economically, efficiently and effectively; and
- The Company had efficient and effective system for sale of seeds.

³⁷ (12 Units in Andhra Pradesh) Ananthapuramu, Chittoor (Srikalahasti), East Godavari (Kakinada), Guntur, Kadapa, Krishna (Vijayawada), Kurnool, Nellore, Prakasam (Ongole), Vizianagaram, Srikakulam and West Godavari (Eluru/ Tanuku), (8 Units in Telangana) Mahabubnagar (Wanaparthy), Warangal, Karimnagar, Khammam, Nizamabad, Nalgonda (Nidamanoor), Rangareddy (Jeedimetla) and Adilabad (Nirmal).

³⁸ As per the Andhra Pradesh State Reorganisation Act, 2014.

³⁹ Accounts for 2012-13 and 2013-14 (for 14 months upto 1 June 2014) are for the combined State of Andhra Pradesh.

⁴⁰ Accounts for 2014-15 are for 10 months from 2 June 2014 to 31 March 2015 by consolidating the accounts of both Andhra Pradesh State Seeds Development Corporation Limited and Telangana State Seeds Development Corporation (a new Company was incorporated on 05 February 2015, upon demerger) for the combined state of Andhra Pradesh.

2.5 Audit Criteria

The audit criteria for the Performance Audit were drawn from the following sources:

- Seed Act, 1966, the Seed Rules, 1968 and Seed Control Order, 1983;
- Memorandum and Articles of Association;
- Instructions/ Guidelines/ Orders of GoI/ State Government/ Company/ Schemes;
- Agenda and Minutes of meetings of Board of Directors (BoD), Manuals of the Company;
- Annual Budgets/ Targets of Production, Procurement, Processing and Sale of seeds; and
- Terms & conditions of agreements entered with the individual seed growers/ co-operative seed growers/ seed organizers and Memorandum of Understanding (MOU) for execution of the infrastructure facilities.

2.6 Scope and Methodology of audit

Performance Audit covered the activities relating to the Company, involving examination of records maintained at Corporate Office and five selected Units⁴¹ for the period 2012-17. These five Units were selected for detailed study in order to cover major portion of activities of the Company.

Scope, methodology and objectives of the Performance Audit were explained in an Entry Conference (February 2017) to the representatives of GoAP and the Company. The audit findings were reported to the Government in August 2017 and discussed in Exit Conference held in November 2017. Exit Conference was attended by Special Chief Secretary (Agriculture & Cooperation), GoAP and the senior officials of the Company. The reply of the Government has been included in the Report.

2.3 Audit Findings

Seed multiplication chain

Breeder seed⁴² is the progeny of nucleus seed, from which foundation seed⁴³ is produced. As per Procedure Manual⁴⁴ (Production & Quality Control), the Company purchases breeder seeds from the Agriculture Research Institutes/ Universities (supplying agencies) based on the allocation⁴⁵ made by the GoI. The Company distributes the breeder seeds to identified seed growers for multiplication into foundation seeds and further into certified seeds. The certified seeds are certified by Government certifying agency⁴⁶. Company sells

⁴¹ Srikakulam, Vizianagaram, Vijayawada, Eluru (West Godavari), Srikalahasthi (Chittoor).

⁴² Breeder seed is produced from nucleus seed under the supervision of a qualified plant breeder in a research institute of Agricultural University.

⁴³ Off springs of the breeder seeds, which can be clearly traced to breeder seeds, are called foundation seeds.

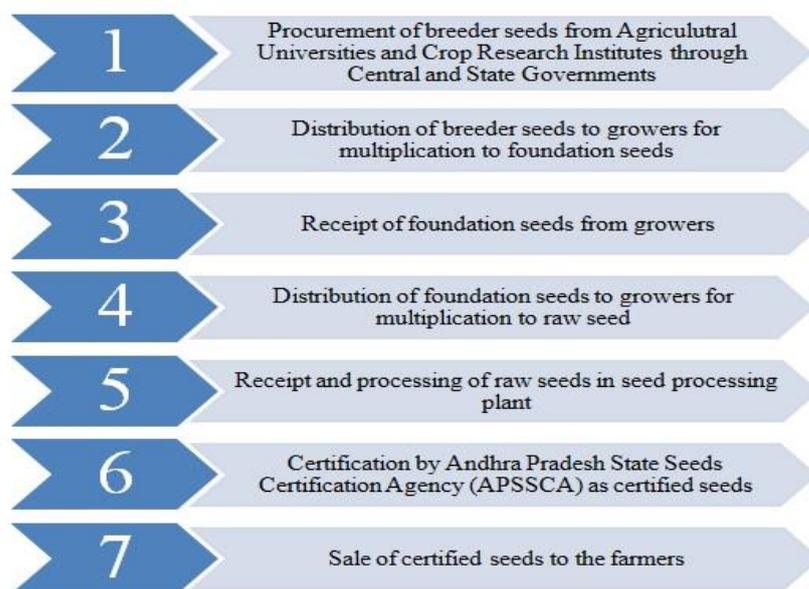
⁴⁴ Procedure for planning of breeder seeds and production of foundation and certified seeds.

⁴⁵ The Company submits indents to the GoI for the requirement of breeder seeds. The GoI, allocates the breeder seeds of various crops to the Company to be supplied by Agriculture Research Institutes/ Universities.

⁴⁶ Andhra Pradesh State Seed Certification Agency.

the certified seeds⁴⁷ to the farmers through its distribution system, i.e., own outlets, dealers, cooperative agencies⁴⁸ or by engaging officials⁴⁹ of Department of Agriculture (DoA). For sale of certified seeds, the Company receives indents every year from Commissioner & Director of Agriculture (C&DA), GoAP for positioning them at sale points. These yearly indents ideally form the basis for estimation of quantity of breeder seeds that need to be purchased.

A flow chart of seed multiplication chain followed by the Company is as under:



2.2.1 Production of seeds

2.7.1.1 Organising breeder seeds to achieve the targeted production of foundation and certified seeds

Company is engaged in production of seeds mainly of Paddy, Groundnut, Bengalgram, Blackgram, Greengram and Redgram and its sale to farmers. A scrutiny of the details of organising breeder seeds during the period 2012-13 to 2016-17 revealed that the supplying agencies had not supplied the full quantity of breeder seeds allotted by GoI to the Company in any of the period covered in audit, except 2013-14. Audit noticed that the Company had not followed and taken up the matter of short supply with the State Government and GoI. The short supply of breeder seeds ranged between 608.50 quintals (29 per cent) and 2,117.68 quintals (77 per cent). Short supply of breeder seeds, had affected further production of foundation and certified seeds.

Government during Exit Conference (November 2017) accepted and stated that presently the Company is pursuing with the supplying agencies to supply sufficient quantity of breeder seeds.

⁴⁷ Certified seed is the progeny of foundation seed and must meet the standards of seed certification prescribed in the Indian Minimum Seeds Certification Standards, 1988. This is the last stage of development of seed, which actually reaches a farmer.

⁴⁸ Primary Agriculture Cooperative Societies, Agriculture Marketing Cooperative Societies, Agro Rythu Seva Kendras, Girijan Cooperative Societies.

⁴⁹ Mandal Agriculture Officers.

2.7.1.2 Production of certified seeds

As per Procedure Manual⁵⁰ (Production & Quality Control), the Company should supply the breeder seeds & foundation seeds to the seed growers for production of foundation and certified seeds respectively. In this regard, the Company enters into agreements with seed growers.

Seed Multiplication Ratios⁵¹ (SMR) for multiplication of breeder to foundation seeds and foundation to certified seeds were prescribed by GoI for each crop variety⁵².

The Table No 2.2 depicts the production targets and actual achievement in production of certified seeds during the period 2012-13 to 2016-17:

Table 2.2: Statement showing production targets for certified seeds

(Quantity in quintals)				
Year	Production targets	Actual production	Short fall	Percentage of shortfall
2012-13*	14,35,030	8,95,261	5,39,769	37.61
2013-14*	10,07,520	5,70,784	4,36,736	43.35
2014-15	5,30,225	2,34,356	2,95,869	55.80
2015-16	8,35,650	6,63,571	1,72,079	20.59
2016-17	8,69,165	6,74,103	1,95,062	22.44
Total	46,77,590	30,38,075	16,39,515	35.05

Source: Information furnished by the Company.

* The figures are for the combined State of Andhra Pradesh;

As seen from the above table, the Company had not achieved the production targets of certified seeds in any of the years. The shortfall in achievement ranged from 20.59 per cent to 55.80 per cent.

Audit observed that the main reasons attributable to shortfall in achievement in production of certified seeds were:

(i) Sufficient breeder and foundation seeds were not distributed to seed growers because the Company had not maintained any database⁵³ of the seed growers. In the absence of database, proper planning for distribution of seeds was not possible. It was noticed that the Company had condemned 3,024.74 quintals of breeder seeds and 39,684.38 quintals of foundation seeds. As production of breeder seed requires lot of effort apart from supervision of a Plant Breeder, its wastage and condemnation is matter of serious concern. The condemnation of breeder and foundation seeds affects the production of foundation and certified seeds, which affects the production of various crops ultimately;

(ii) While fixing the production targets, the Company considered lesser SMRs in respect of Paddy (1:50) and higher in respect of Blackgram (1:100), Greengram (1:50) and Groundnut (1:9) than the norms of GoI;

⁵⁰ Procedure for production of seeds.

⁵¹ Seed Multiplication Ratio (SMR) is the reproduction capacity of the seed.

⁵² Paddy (1 : 80), Redgram (1 : 100), Blackgram (1 : 40), Greengram (1 : 40) and Groundnut (1 : 8)

⁵³ Area available, type of soil, irrigation facilities etc.

(iii) Seed growers had not supplied the foundation seeds (0.91 lakh quintals) and certified seeds (3.99 lakh quintals) as per the agreements made. The Company had not monitored and ensured that the entire quantity produced by the seed growers was received by it. Despite penal clause in the agreement for short supply, the Company neither assessed the reasons for short supply nor invoked penal clause against the defaulting growers. This had resulted in non-recovery of ₹ 565.48⁵⁴ crore (double the procurement cost of foundation and certified seeds) from the defaulting growers.

Failure to achieve seed production targets led to a shortfall in production of 16.40 lakh quintals of certified seeds during the period 2012-13 to 2016-17.

In Exit conference (November 2017), Government stated that presently the Company is distributing the breeder and foundation seeds fully. The Company was told to adhere to the SMR norms, notified by GOI as they are prepared by Indian Council of Agricultural Research (ICAR) on a scientific basis. In regard to short supply of seeds by growers, Government directed the Company to convey the farmers that they are bound to adhere to the provisions of the agreement which was signed by them. The Company was told to convey the farmers that in case of short/ non-supply penalty will be imposed as per the agreement.

2.7.1.3 Failure to estimate the requirement and prepare suitable production plan

The Company receives the indents for various seeds from C&DA, GoAP. These indents form the basis for estimation of quantity of breeder seeds that need to be purchased and multiplied to produce the required quantity of certified seeds. As per the Procedure Manual⁵⁵ (Production and Quality Control), the annual marketing demands were to be assessed by the Marketing Division at Head Office. The assessment was to be based on the information received from the Units. The marketing demands so assessed were to be communicated to the Production Division for finalization of production plan of various seed varieties. Audit observed that the Company had not carried out any such exercise as prescribed in the Manual. In the absence of the procedure to be carried out, the Company failed to estimate the required production quantities.

Government stated (October 2017) that the Company had been advised for estimation and preparation of production plan.

2.2.2 Procedure followed in procurement of seeds

2.7.2.1 Defective agreements with the individual seed growers for production of seeds

Some of the important clauses of the format of agreement⁵⁶ with the individual seed growers for production of foundation/ certified seeds given in Procedure

⁵⁴ Foundation seeds (2012-13: ₹ 1.33 crore; 2013-14: ₹ 2.33 crore; 2014-15: ₹ 1.84 crore; 2015-16: ₹ 7.96 crore; 2016-17: ₹ 48.31 crore = ₹ 61.77 crore) and Certified seeds (2012-13: ₹ 30.69 crore; 2013-14: ₹ 45.35 crore; 2014-15: ₹ 18.14 crore; 2015-16: ₹ 47.56 crore; 2016-17: ₹ 79.23 crore = ₹ 220.97 crore).

⁵⁵ Procedure for finalisation & Monitoring of Production and Marketing targets.

⁵⁶ Doc No.F/Prodn/03/01, effective from December 2010.

Manual (Production & Quality Control) are as under:

- Details of seed variety to be produced, seed type (foundation/certified), required quantity of breeder/foundation seeds purchased from the Company and quantity of foundation/ certified seeds to be supplied to the Company after production;
- The Seed Officer/ District Manager (Seeds) of the Company should conduct the field inspections during the cultivation as per minimum seed certification standards and issue Field Inspection Reports;
- As per Condition (4c) of Schedule (1) of agreement, the production, estimated based on the final field inspection by the Company or the quantity as per the Schedule-2 to the agreement, whichever is lower should be supplied to the Company by the seed grower. In case of default, the seed grower is liable to pay towards damages, an amount equal to twice the procurement price for such produce, for the shortfall.

During audit, it was observed in five selected Units that:

(i) The details⁵⁷ as required in the format were not recorded in the agreements entered with the seed growers in two Units⁵⁸. The date of agreement was also not mentioned. Vijayawada Unit had not even entered into agreements with the seed growers in 2016-17.

(ii) The Field Inspection Reports were not signed by the seed growers in two Units⁵⁹ and in one Unit (Vijayawada), the Field Inspection Reports were not signed by the Seed Officer. The field inspections as prescribed in the Manual were not conducted in two Units⁶⁰. In Vijayawada Unit, the first and second field inspections in respect of Blackgram (Rabi season 2016-17) were conducted within a gap of one day as against 20 to 30 days prescribed in the Manual. The quality of certified seed cannot be stated to be of the prescribed standards in the absence of field inspections.

The reasons for not adhering to the procedure laid down in the manual were not on record.

The Government replied (October 2017) that as observed by Audit the seed growers' agreement will be verified once again and defects, if any, will be rectified without giving scope for loss to the Company.

2.7.2.2 Inability to procure seed through seed growers

The Company produces seeds through individual seed growers, some of whom are its shareholder growers. The Board of Directors (BoD) advised (June 2012) the Company that efforts should be made to develop relation with the individual seed growers in achieving production targets.

The Company, with the approval (November 2013) of the BoD, had allowed the production of seeds (Groundnut and Pulses) through organisers⁶¹. BoD

⁵⁷ Crop variety, quantity of seed to be supplied after production and the signature of the grower and Company representative.

⁵⁸ Srikalahasti and Tanuku.

⁵⁹ Tanuku & Vijayawada.

⁶⁰ Tanuku and Vijayawada.

⁶¹ The organisers are private seed producing Companies.

envisaged that 50 per cent production through individual growers and 50 per cent through organisers. Further, priority was to be given to the individual seed growers to produce beyond 50 per cent also. The details of seeds produced through seed growers and organisers are given in the Table No. 2.3:

Table 2.3: Statement showing production of seeds through seed growers and organisers

(Quantity in lakh quintals)

Year	Certified seed production		Total certified seed production	Percentage of production	
	Through seed growers	Through seed organisers		Through seed growers	Through seed organisers
2012-13*	7.68	1.27	8.95	85.81	14.19
2013-14*	5.30	0.41	5.71	92.82	7.18
2014-15	2.29	0.06	2.35	97.45	2.55
2015-16	2.89	3.74	6.63	43.59	56.41
2016-17	2.57	4.17	6.74	38.13	61.87
Total	20.73	9.65	30.38	68.24	31.76

Source: Information furnished by the Company.

* The figures are for the combined State of Andhra Pradesh.

It can be seen that the production of certified seeds through seed organisers increased from 2.55 per cent (2014-15) to 61.87 per cent (2016-17) vis-a-vis production through seed growers. The production through seed organisers was at the cost of the seed growers and it was against the directions of the BoD.

It was further observed in audit that the production of Bengalgram seeds through seed organizers during the year 2015-16 and 2016-17 was 90 and 84 per cent respectively and that of Groundnut seeds was 96 and 88 per cent respectively of the total seed production of these crops. This was against the norms (50 per cent) approved by BoD.

Thus, the objective of encouraging the individual seed growers was not ensured.

Government replied (October 2017) that necessary steps will be taken for production of Groundnut and Bengalgram seeds also to procure more seed through production programmes. During Exit Conference (November 2017), it was stated that the Company is now implementing Community Managed Seed System to eliminate production through organisers.

2.7.2.3 Defective agreements with the organisers for production of seeds

(a) As per the Procedure Manual (Production and Quality Control), the agreement with organizers shall contain clauses⁶² stipulating that the seed organiser shall pay an amount equivalent to five per cent of procurement cost of production allotted (i) based on last year's procurement price as Earnest Money Deposit (EMD) to the Company at the time of allotment of seed production, (ii) the seed organiser shall ensure delivery of at least 90 per cent of the expected production based on the average yield obtained in the production centre, otherwise the EMD collected will be forfeited by the Company.

⁶² Clause No.13 and 14 of the format of agreement with organisers.

A test check of the agreements with organisers for the seeds procured during the period 2014-15 to 2016-17 revealed that:

(i) agreements with organisers for production of groundnut during the year 2014-15 stipulated that EMD @ two per cent on procurement price of previous year/ season or ₹ 5.00 lakh, whichever is higher, shall be deducted from the advance payment. This clause in the agreement to deduct EMD from the advance payable to the seed organisers and at lower rate was in violation of the Manual provisions, which prescribed collection of EMD at the time of agreement. The Company was supposed to collect ₹ 1.66 crore⁶³ as EMD from the seed organisers who had not supplied the agreed seeds to the Company. **The Company had not collected EMD of ₹ 1.66 crore, which led to extending undue benefit to the seed organisers.**

(ii) The Company entered into agreements (October 2015 to August 2016) with the organisers for production of 1.97 lakh quintals certified seeds of Bengalgram. The agreement did not contain the clause to collect the EMD contrary to the format of agreement. The organisers supplied only 1.08 lakh quintals of certified seeds. The Company had not collected the EMD amount of ₹ 3.50 crore based on the five per cent of the procurement price of the previous year for short supply of seeds, as there was no clause in the agreement. Thus, defective agreement led to extension of undue benefit to the organisers.

(b) The agreements⁶⁴ entered with the organisers for production of groundnut certified seeds (Rabi season 2015-16) stipulated that 75 per cent of the value of the seeds supplied shall be released within 15 days of receipt of Goods Received Note/Acknowledgement on Invoice Receipt/ Delivery Challan from the Units of the Company to which the seed stocks have been sent. Balance 25 per cent will be released within 60 days after confirmation that no complaints were received from the seed distribution Units and for standard lots of seeds as per the quality control lab test results.

Audit observed that the Company received (April to June 2016) 2.49 lakh quintals of certified Groundnut seeds. The Company fixed (May 2016) the purchase rate of ₹ 6,850 per quintal. As per the agreement, the Company was to release ₹ 128.12 crore⁶⁵. The Company, however, paid ₹ 161.18 crore⁶⁶ resulting in excess payment of ₹ 33.06 crore in contravention of the terms and conditions of the agreement. The excess payment had also resulted in avoidable loss of interest of ₹ 0.75 crore⁶⁷ to the Company. The release of excess amount was undue benefit to the private seed organisers.

Government replied (October 2017) that due to urgency for positioning of Groundnut seeds as per the indent of DoA, and to accelerate the activity to meet the seed sales, the organisers were pressurised for immediate positioning of seeds and released the funds to suppliers. During Exit Conference (November 2017) Government stated that Company is not paying excess

⁶³ 76,052 quintals x ₹ 4,378.50 per quintal x 5 per cent = ₹ 1.66 crore.

⁶⁴ Condition No.13 of the agreement.

⁶⁵ @ 75 per cent of the purchase rate of ₹ 6,850 per quintal.

⁶⁶ April to July 2016.

⁶⁷ From the date of release of advance to the date of final settlement of the balance amount @7.25 per cent.

advance at present. It also advised the Company to collect EMD and implement the agreement without any deviation.

The reply regarding payment of excess advance was not acceptable as the advance paid was not in line with the terms of the agreement.

2.7.2.4 Delay in procurement resulting in avoidable expenditure

The Company organised production of certified seeds of Bengalgram JG-11 variety during Rabi season 2015-16 through organisers. The Company fixed procurement price of ₹ 5,485 per quintal in March 2016. As per the agreement⁶⁸, the organizers were to supply the seeds by May 2016.

Audit observed that the Company started procurement in July 2016 and continued till August 2016 instead by May 2016. Due to delay in procurement, the Company re-fixed higher procurement prices as given in Table No. 2.4 below:

Table 2.4: Price fixed for procurement of Bengalgram in Rabi season 2015-16

Dates of Price fixation committee meetings	Rate fixed per quintal (₹)	Quantity procured (in quintal)	Difference in price as compared to March 2016 (₹)	Extra expenditure (₹ in crore)
1	2	3	4	5 (col.3 x col.4)
03-03-2016	5,485	Nil	Nil	Nil
25-07-2016	9,357	28,411.75	3,872	11.00
19-08-2016	8,930	76,989.25	3,445	26.52
14-09-2016	8,486	2,392.50	3,001	0.72
Total				38.24

The delay in procurement of seeds resulted in excess procurement cost of ₹ 38.24 crore. The reasons for delay in procurement of seeds were not on record.

Government replied (October 2017) that procurement price of Bengalgram seed was fixed in March 2016 during peak harvesting period. It further stated that because of abnormal hike in Bengalgram market price and according to Buffer Seed Stocking Operations guidelines procurement price was fixed periodically from July 2016 to August 2016.

The reply was not acceptable as the Company failed to procure the agreed quantity seeds by May 2016 from the organisers, which resulted in payment at higher rates. The reply was silent on delay in procurement of seeds.

2.7.2.5 Delay in issue of supply orders resulting in avoidable excess expenditure

As per the Procedural Manual⁶⁹ (Marketing Division), the Company should enter into agreements with the suppliers and issue supply order on receipt of the approval from the VC&MD. As a practice, the Company submits the details of prices negotiated to Government for approval.

⁶⁸ Clause 4 of the agreement with organisers.

⁶⁹ Para 4.9 of the Procedure Manual (Marketing Division).

Based on the indents, the Company invited tenders for procurement of certified seeds of two seed varieties, i.e., Greengram and Bengalgram from open market. The offers received from the suppliers were valid for six months.

In respect of Greengram and Bengalgram the suppliers had represented in October 2015 and October 2016 respectively to the Company and expressed their inability to supply the seeds at the negotiated prices stating the prices have gone up. The Company went for retender (November 2015) in case of Greengram and renegotiation (October 2016) with the suppliers in case of Bengalgram. The details of prices finalised against initial tender and the prices obtained against retender/ renegotiation are given in the below Table No. 2.5:

Table 2.5: Statement showing details of seed procured at higher prices

Sl. No	Name of seed	Date of tender	Rate finalised per quintal (₹)	Revised negotiated rate/ Retender rate (₹)	Quantity procured (in quintals) at higher rate (₹)	Extra expenditure (₹ in crore)
1	2	3	4	5	6	7=(5-4)*6
1	Greengram	July 2015	8,500	10,500	6,869.60	1.37
2	Bengalgram	August 2016	9,800	11,000	8,889.75	1.07
Total						2.44

In this regard, Audit observed that:

- GoAP approved the prices in respect of Greengram certified seeds in August 2015. The Company had not issued supply orders but went for retender in November 2015. The reasons for not placing supply orders, were not on record.
- In respect of Bengalgram certified seeds, Director of Agriculture advised (August 2016) the Company to go for retender stating that the prevailing price on the day of tender was ₹ 7,800 per quintal and there was an indication of falling prices. The Company, however, had not gone for retender but renegotiated the prices with the suppliers and procured the seeds at higher price than the initial negotiated price. The reasons for deviation from Government instructions were not on record.

Deviation from instructions of GoAP and procurement of seeds at higher prices, resulted in extra expenditure of ₹ 2.44 crore.

During Exit Conference (November 2017), Government stated that the conditions of tender will be enforced. It also stated that the bidders request for enhancement of prices would not be allowed in the current year.

2.7.2.6 Avoidable excess procurement

The C&DA instructed (June 2015) the Company to position 400 quintals of Guar gum seeds for distribution to the farmers in Ananthapuramu district in Kharif season of 2015. The Company, however, procured 593.60 quintals of Guar gum seed for a total value of ₹ 56.39 lakh from NSCL @ ₹ 9,500 per quintal. The seeds were delivered to Ananthapuramu Unit and the Company incurred an expenditure of ₹ 1.78 lakh towards handling charges. The GoAP, approved the sale price of ₹ 9,800 per quintal and allowed a subsidy of 50 per cent. The Company could sell only 24.32 quintals and the balance quantity of 569.28 quintals valuing ₹ 55.79 lakh were lying (October 2017) in the storage godown.

Company though dealt with the Guar gum seeds for the first time, had not assessed the market demand and ascertained the buyback arrangement from the C&DA, for the seeds produced by the farmers. Company had not explored the possibility of procuring and positioning a minimum quantity on trial and consignment basis. Thus, due to not following the procedure prescribed in the Manual and procuring excess quantity than the indent resulted in blocking up of ₹ 55.79 lakh in addition to storage space.

The Government replied (October 2017) that the Company procured Guar gum seeds as per the instructions of the C&DA. It further stated that the farmers had not preferred the seeds, as it was new crop to Ananthapuramu district and the farmers were unaware of the cultivation practices of the crop.

The reply was not acceptable as the Company dealt with the Guar gum seeds for the first time. It should have assessed the market demand before procuring huge quantity of this new seed. The Company had procured the seed in excess of indented quantity which will lose its vigour and germination capacity over a period of time leading to loss of ₹ 55.79 lakh.

2.7.2.7 Fixation of procurement price

As per the Procedure Manual⁷⁰ (Production and Quality Control), the procurement price of the seeds to be procured from identified seed growers is fixed by the Price Fixation Sub-Committee⁷¹. For fixation of the procurement price of clean seeds, as a practice, the Company considered the weighted average of highest price of the variety, prevailing⁷² in the prominent Agricultural Marketing Committees (AMCs) or the Minimum Support Price (MSP) announced by GoI for the variety, whichever was higher. The Company also added incentive⁷³ over and above the price to arrive at and fix the final procurement price.

Audit scrutiny of the details of price fixation revealed that the Company revised (December 2012) the incentive from 20 to 25 *per cent* for Paddy varieties and from 16 to 20 *per cent* for Greengram varieties from the Kharif season of 2012. It further revised (November 2013) to 30 *per cent* for Paddy varieties and to 20 *per cent* for pulses.

Audit observed that the revision of incentive was done within one year at the request of the Growers' Directors without any analysis of the additional cost incurred by the growers to substantiate the revision in the incentive. Test check revealed that during the years 2013-14 and 2014-15 the Company procured 6.74 lakh quintals of paddy certified seeds and the total procurement value with 25 *per cent* incentive was ₹ 118.98 crore and with 30 *per cent* incentive was ₹ 123.74 crore. The additional financial burden on account of revision of incentive was ₹ 4.76 crore. The revision of incentive also led to

⁷⁰ Procedure for finalisation of procurement and sale prices.

⁷¹ The Price Fixation Sub-Committee consists of the VC&MD as Chairman, Addl. Secretary, (Finance Dept.), GoAP, Nominee from C&DA, Regional Manager (NSCL) and Seed Growers' Directors as members.

⁷² The market rates prevailing at Seed Production Unit Centres through Directorate of Agriculture Marketing during previous 30 days period before convening Price Fixation Sub-Committee.

⁷³ As a percentage for additional cost incurred by the growers towards foundation seeds, registration and inspection charges paid to the Certification Agency, roughing charges, process rejection & loss and transportation charges (from the farm to the Company's processing plant).

fixation of consequential higher sale price making it uncompetitive. Audit further observed that the Telangana State Seeds Development Corporation Limited had, however, reduced the incentive on Paddy varieties from 30 to 25 per cent in June 2016 with a view to fix competitive sale price and to make seeds available at reasonable rates to the farmers.

During Exit Conference (November 2017), the Company assured that price fixation would be done on scientific basis.

2.2.3 Storage and Processing

2.7.3.1 Storage facilities

As of 1st April 2012, the Company had own godowns of 2.11 lakh sqft capacity, in five districts⁷⁴, for storing the seeds. As per Company's Annual Report⁷⁵ the requirement of storage capacity was 7.00 lakh sqft.

The Table No. 2.6 depicts storage capacity required, available, capacity augmented during the period 2012-13 to 2016-17:

Table 2.6: Statement showing augmentation of storage capacity vis-à-vis requirement

Particulars	(lakh sqft)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Required capacity	NA	NA	7.00	7.00	7.00
Capacity at the beginning	2.11	2.11	2.11	2.63	3.23
Capacity augmentation	0.00	0.00	0.52	0.60	0.00
Capacity at the end	2.11	2.11	2.63	3.23	3.23
Shortage	NA	NA	4.37	3.77	3.77
Percentage of shortage	NA	NA	62	54	54

Source: Information furnished by Company.

NA: Not available

It can be seen from the above that the storage capacity added during the five year period was only 1.12 lakh sqft (0.52 lakh sqft (2014-15) plus 0.60 lakh sqft (2015-16)). Thus, there was still shortage of 3.77 lakh sqft (54 per cent) of the required capacity as at 31 March 2017. As on date (October 2017), Company did not have its own godowns in five districts⁷⁶ of State. Audit observed that the Company had no concrete plan to increase the storage capacity to fulfil the needs in the State.

The Government stated (October 2017) that the Company will construct the godowns as per requirement upon allotment of lands.

2.7.3.2 Construction of godowns

The Company, during the period 2009 to 2011 made proposals for augmentation of 6.49 lakh⁷⁷ sqft. of storage capacity in Andhra Pradesh under various schemes of GoI viz., Rashtriya Krishi Vikas Yojana (RKVY), Central Sector Scheme (CSS), Seed Bank Scheme (SBS) and Additional Central Assistance (ACA). The total capacity of the godowns actually planned for

⁷⁴ West Godavari, Krishna, Chittoor, Ananthapuramu and Kurnool.

⁷⁵ Annual Report for the year 2014-15.

⁷⁶ Visakhapatnam, East Godavari, Guntur, Prakasam and Kadapa.

⁷⁷ 0.80 lakh sqft. (RKVY), 2.74 lakh sqft. (CSS), 2.51 lakh sqft. (SBS) and 0.44 lakh (ACA).

construction, based on the amount of grants⁷⁸ received under the four schemes was 3.78 lakh sqft. Out of the grants received, the Company had earmarked specific amounts of grants for construction of godowns. The Table No. 2.7 given below depicts the details of construction of godowns planned and constructed under the schemes:

Table 2.7: Statement showing construction of godowns under Schemes

Name of the Scheme	No. of districts where godowns planned	No. of godowns planned	Capacity of godowns planned (in lakh sqft.)	Amount earmarked out of grants (₹ in crore)	No. of godowns completed	Capacity of completed godowns (in lakh sqft.)	Amount spent for completed godowns (₹ in crore)
RKVY	5	5 ⁷⁹	0.80	9.10	4	0.77	6.93
CSS	2	2 ⁸⁰	0.33	4.00	2	0.33	3.11
SBS	10	15 ⁸¹	2.21	26.56	1	0.20	2.17
ACA	3	3 ⁸²	0.44	4.62	1	0.10	0.75
Total		25	3.78	44.28	8	1.40	12.96

Source: Information furnished by Company.

Audit scrutiny of records revealed that:

- Company had constructed only eight godowns under all the four schemes upto March 2016 and construction of four godowns⁸³ (1.18 lakh sqft) was yet to be completed (June 2017), indicating abnormal delay in construction.
- Company had not initiated any action for construction of 13 godowns under the schemes viz., one under RKVY, two under ACA, ten under SBS till date (June 2017) though an amount of ₹ 28.39 crore⁸⁴ was lying with Company as on March 2017.
- A single godown of 60,000 sqft. capacity was constructed at Srikalahasti under SBS by clubbing three godowns proposed at Kurnool, Ananthapuramu and Kadapa. This led to insufficient storage space in Kurnool and Ananthapuramu as storage capacity of only 1.15 lakh sqft. was available there and no storage facility was available in Kadapa district. Company had not completed the godown at Srikalahasti so far (October 2017) for want of third party inspection.

Audit observed that there was delay in acquisition of required lands at four locations by the Company. Further, the Company had changed the locations

⁷⁸ ₹ 40.42 crore (in February 2009 for RKVY), ₹ 4.00 crore (in October 2009 for CSS), ₹ 91.26 crore (between July 2012 to January 2015 for SBS) and ₹ 11.09 crore (in May 2012 for ACA) for the combined State of Andhra Pradesh, out of which the Company earmarked amounts for construction of godowns, location wise as given in Table 2.9.

⁷⁹ Srikakulam (20,000 sqft.), Vizianagaram (20,000 sqft.), Kadiri (Ananthapuramu) (10,000 sqft), Proddatur (Kadapa) (10,000 sqft.), Srikalahasti (Chittoor) (20,000).

⁸⁰ Kurnool (31,500 sqft) and Srikalahasti (1500 sqft).

⁸¹ As per Action Plan, Company planned construction of godowns during the scheme period 2011-12 to 2014-15 at Nellore (20,000 sqft.), Maruteru in West Godavari (5,000 sqft.), Vijayawada (two godowns: 20,000 and 8,000 sqft.), Ananthapuramu (2 x 10,000 sqft.), Kadapa (two godowns: 15,000 sqft. and 28,000 sqft.), Vizianagaram (20,000 sqft.), Guntur (10,666 sqft. and 15,000 sqft.), East Godavari (20,000 sqft.) and Prakasam (14,800 sqft.), Kurnool (1000 sqft. and 20,000 sqft.).

⁸² Kurnool (8,000 sqft.), Ongole (26,000 sqft.) and Guntur (10,000 sqft.).

⁸³ Maruteru (6,000 sqft), Salur & Nellivada (52,000 sqft) and Srikalahasti (60,000 sqft.)

⁸⁴ ₹ 2.28 crore (RKVY), ₹ 21.14 crore (SBS) and ₹ 4.96 crore (ACA).

and capacity of six godowns by clubbing two or more godowns, which led to delay in commencement of construction. While entering into MOU with Andhra Pradesh Medical Services Infrastructure Development Corporation and YSR Horticulture University to whom the work of construction of godowns was entrusted, had not specified the time schedule for completion of the construction.

Lack of proper planning led to delay in completion of construction of godowns and consequent shortage of storage space in the State. This led the Company to hire private godowns by incurring expenditure of ₹ 5.24 crore during the period from 2014-15 to 2016-17, which was avoidable, had the godowns been constructed in time.

The Government replied (October 2017) that the delay was mainly due to non-alienation of suitable, accessible Government land. It further stated that keeping in view the activities of the Company and proper utilisation of funds, the locations have been changed. It proposed to take-up the construction of godowns through Andhra Pradesh Industrial Infrastructure Corporation Limited. It also stated that necessary penalty clauses along with time schedule will be incorporated in future MoUs with executing agencies.

2.7.3.3 Processing of seeds

Seed received from the field often have typical contaminants such as weed seeds, small seeds, damaged seeds, broken and shriveled seeds, straw, chaff, leaves, twigs, stones and soil particles. As such, seed processing is necessary in order to remove or reduce to the extent possible the various contaminants and get the seeds of desired quality. For processing of seeds, processing plants are being used.

(i) Processing facilities

The Company had seven⁸⁵ processing plants (April 2012) in the residual State of Andhra Pradesh, with a processing capacity of 2.82 lakh quintals. The seed production (foundation and certified seeds) targets, seed processing capacity and shortfalls during the period are given in Table No. 2.8:

Table 2.8: Statement showing production targets vis-à-vis available processing capacity

Particulars	(lakh quintals)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Production target[#]	7.43	5.57	5.71	8.87	9.76
Processing capacity	2.82	3.88	3.88	3.88	4.40
Shortfall compared to target	4.61	1.69	1.83	4.49	5.36
Percentage of shortfall to target	62	30	32	56	55

Source: Information furnished by Company and Annual Reports.

[#]Includes production targets of foundation and certified seeds.

It is evident from above table that there was huge shortfall of processing capacity compared to the production target. The shortfall ranged between 30 per cent and 62 per cent.

⁸⁵ Srikakulam (0.18 lakh quintals), Vizianagaram (0.36 lakh quintals), West Godavari (1.03 lakh quintals), Krishna(0.32 lakh quintals), Prakasam (0.09 lakh quintals), Chittoor (0.67 lakh quintals), Kurnool (0.18 lakh quintals)

It was observed in audit that:

- The Company had not augmented the capacity, considering the targeted production in the subsequent years, though there was a shortfall of 4.61 lakh quintals in 2012-13, which went upto 5.36 lakh quintals in 2016-17.

Thus, due to lack of sufficient processing facility, seed processing was done through private custom processing plants. The Company had incurred an expenditure of ₹ 91.39 lakh on processing of the seeds through outside agencies during the period from 2014-15 to 2016-17.

The Government stated (October 2017) that the Company planned to provide new processing plants at required places.

(ii) Delay in commissioning of processing and allied equipment

In the year 2009, the Company received grants under RKVY for procurement of processing plants and allied equipment. An amount of ₹ 9.72 crore was allocated for this purpose. Company purchased seed processing line equipments⁸⁶ and allied⁸⁷ equipment from various firms through Andhra Pradesh State Agro Industries Development Corporation Limited. The equipments were to be commissioned at the godowns proposed for construction under the schemes. There was delay in commissioning/ utilisation of equipments due to delay in construction of godowns. The delay in commissioning of equipments ranged between 3 months and 83 months. The details are in **Annexure-2.1**.

During the audit, it was observed that:

1. Gravity Separator⁸⁸ of 4 TPH capacity along with feeding Vertical Bin Elevator and Holding Bin procured (May 2015) at a cost of ₹ 9.86 lakh were not put to use till date (October 2017). The equipment was procured specifically for Srikalahasti Unit, based on the request (8 November 2010 & 27 December 2012) of the Unit. As such, the purpose for which the machine was purchased had not been served.
2. Groundnut pod cleaner procured (November 2011) at a cost of ₹ 4.92 lakh was kept idle at Eluru till date (October 2017). Audit observed that installation of groundnut pod cleaner at Eluru Office was useless as the processing of seeds was not being done there.

Non-utilisation/ installation of above two equipments had resulted in blocking up of ₹ 14.78 lakh⁸⁹ and storage space.

The Government replied (October 2017) that the installation and commissioning of processing equipment in some of the locations had got delayed due to non-completion of godowns, and insufficient power. The

⁸⁶ 4 TPH Seed process line with Gravity Separator, Destoner, Treator and Air Pollution Control system, 4 TPH Seed process line with Destoner, Air pollution Control system.

⁸⁷ 4 TPH Automatic seed packing, weighing and sealing machines: 1 to 5 Kgs capacity and 10 to 50 Kgs, Heavy Duty conveyerised bag closing machines and Groundnut pod cleaners.

⁸⁸ The machine separates seeds of the same density, but of different sizes, seeds of the same size but of different densities. This method makes use of a combination of weight and surface characteristics of the seed to be separated.

⁸⁹ ₹ 9.86 lakh (Gravity Separator) + ₹ 4.92 lakh (Groundnut Pod cleaner).

gravity separator available at Srikalahasthi is to be installed in new godown soon after taking over from the executing agency.

2.2.4 Sale of seeds

The Company sells seeds to the farmers at subsidy under different schemes of GoAP as well as on full cost basis. The sale of certified seeds to farmers was through distribution system consisting of own outlets, dealers⁹⁰ and officials⁹¹ of DoA, GoAP. For distribution of seeds, service charges are paid to the seed distributing agencies at the rates prescribed the Head office from time to time. The concerned unit organises positioning of seeds at the sale points and based on the sales carried out, the District Manager collects the non-subsidy amount of the sales and deposits in Company account.

2.7.4.1 Sales performance

A scrutiny of sales targets, indents received from the C&DA, seeds positioned by the Company and the actual sales during the five year period ending 31 March 2017 is given in Table No. 2.9:

Table 2.9: Statement showing sale of seeds

(Quantity in lakh quintals)

Year	Sales targets (as per Budget) (Qty.)	C&DA Indent (Qty.)	Seeds positioned (Qty.)	Actual sales (Qty.)	Percentage of seeds positioned to the targets	Percentage of Actual Sales to the targets	Percentage of actual sales to positioned seed	Percentage of seeds positioned to the C&DA indents	Percentage of actual sales to the C&DA indents
2012-13*	14.21	17.20	12.49	11.67	87.90	82.13	93.43	72.62	67.85
2013-14*	15.28	14.88	11.97	10.48	78.34	68.59	87.55	80.44	70.43
2014-15	7.71**	7.46	4.45	4.24	57.72	54.99	95.28	59.65	56.84
2015-16	8.11	10.78	6.79	6.61	83.72	81.50	97.35	62.99	61.32
2016-17	9.99	11.74	9.51	7.50	95.20	75.08	78.86	81.01	63.88
Total	55.30	62.06	45.21	40.50	81.75	73.24	89.58	72.85	65.26

Source: Information furnished by Company

* The figures are for the combined State of Andhra Pradesh

** The budgeted targets of sales were prepared for combined State. Hence, the targets for Andhra Pradesh were taken as 58.32 per cent in the ratio of 58.32:41.68 as per the demerger scheme.

It can be seen from the above that the Company fixed sales target of 55.30 lakh quintals against which 45.21 lakh quintals were positioned and 40.50 lakh quintals were sold. The Company had positioned only 72.85 per cent of the seeds with reference to C&DA indent. Further, the Company neither positioned the seeds as per the sales targets nor sold fully the seeds positioned. The percentage of quantity positioned to the sales targets ranged between 57.72 per cent (2014-15) and 95.20 per cent (2016-17) and the actual quantity of sales to the target ranged between 54.99 per cent (2014-15) and 82.13 per cent (2012-13).

⁹⁰ Individuals, Mana Gromore Centres, Primary Agriculture Cooperative Societies, Agriculture Marketing Cooperative Societies, Agro Rythu Seva Kendras, Girijan Cooperative Societies.

⁹¹ Mandal Agriculture Officers.

Audit observed that the Company had not carried out the assessment of the market demands by obtaining information from the units as prescribed in the Procedure manual.

The Government accepted the observation during the Exit Conference (November 2017) and stated that maximum sales would be made as per the targets fixed.

2.7.4.2 Non-collection of sales proceeds

The seeds sold at subsidy constituted 89 *per cent* and on full cost basis constituted 11 *per cent* of the total sales. For seeds sold at subsidy, the subsidy portion was claimed from the GoAP and the non-subsidy amount from farmers. As per Procedure Manual (Marketing Division), the non-subsidy amount should be collected and deposited within one week from the day of sale.

A scrutiny of the details revealed that non-subsidy amount receivable from distributing agencies was ₹ 12.26 crore as on 31 March 2017 towards sale of seeds. Of the total non-subsidy amount receivable, ₹ 6.42 crore was outstanding for the last three years and the balance ₹ 5.84 crore for more than three years. The Company had not taken any action to recover the outstanding sale proceeds due from the distributing agencies.

Thus, defective system in collection of sale proceeds for subsidised seeds resulted in accumulation of ₹ 12.26 crore due from the distributing agencies.

The Government replied (October 2017) that the Company would make necessary arrangements to have a financial security to recover the seed cost/sale proceeds from the dealers/ distributors/ others to avoid accumulation of dues. Regarding subsidy receivable during Exit Conference (November 2017) it state that the Company would make efforts to get the amounts from GoAP.

The Company needs to improve its system of collection of sale proceeds to safeguard its financial interest.

2.7.4.3 Incorrect payment of service charges

Srikalahasti Unit entered into agreement (April 2011) with Chittoor District Cooperative Marketing Society (CDCMS) for distribution of seeds on subsidy at service charges of 1.5 *per cent* on the non-subsidy amount. The Head Office fixed (May 2011) service charges @ ₹ 33.00 per quintal. The service charges agreed by the Unit worked out to ₹ 53.38 per quintal⁹² as against the prescribed rate of ₹ 33 per quintal. Thus, due to entering into agreement by the Unit before fixing of services charges by the Head Office led to excess payment of service charges by ₹ 16.00 lakh. The excess amount of service charges paid was yet to be realized (March 2017).

The Government replied (October 2017) that the Company is continuously pursuing with CDCMS for recovery of this amount.

⁹² The total Service charges @ 1.5 *per cent* was ₹ 42.09 lakh on 78,867.30 quintals, which works out to ₹ 53.38 per quintal.

2.7.4.4 Sale of sub-standard seeds

One of the objectives of the Company was to distribute certified and other quality seeds to the farmers.

The Company received 31 complaints against the supply of 4,945.60 quintals of poor quality of the seeds valuing ₹ 1.40 crore during the period 2012-13 to 2016-17. The complaints were mainly with regard to poor germination, admixture of 'Other Distinguishable Varieties' (ODVs), mud particles, fungal growth and poor luster seed. Scrutiny of complaints together with details of compensation paid by the Company revealed that the Company replaced 1,277.80 quintals of seeds valuing ₹ 33.24 lakh free of cost. The Company paid compensation to the extent of ₹ 15.06 lakh for 675.80 quintals of seed.

Audit observed that the reasons attributable for supply of poor quality of seeds were unscientific storage system and lack of regular spraying of anti pest chemicals. It led to loss of ₹ 48.30 lakh⁹³ due to payment of compensation/ replacement/ write-off.

In two out of the above 31 cases, the Company was liable to pay compensation to the farmers due to poor quality as discussed below:

- In Tanuku Unit, the Company received a complaint in 2013-14 on Paddy BPT 5204, due to admixture of other varieties, wherein the farmers claimed compensation of ₹ 24.00 lakh for loss of crop. The Company advised the Unit to submit a detailed report, after field visit along with the scientists. However, the details of the report were not on record. The case is pending in State Council Forum, Vijayawada;
- Company distributed 1,044.90 quintals of Paddy RP-Bio226 certified seeds during Kharif season 2016 in East Godavari district, which was received from the NSCL. The farmers made complaint for supply of poor quality⁹⁴ seeds, which was confirmed by the technical team. The District Collector ordered the Company to pay compensation of ₹ 2.50 crore @ ₹ 10,000 per acre for 2,500 acres of land.

The Government replied (October 2017) that, whenever complaints were received, the seeds were replaced or seed cost was reimbursed to compensate the loss incurred by the farmers. In respect of compensation payable for supply of poor quality Paddy RP-Bio226 certified seeds, Company stated that NSCL agreed to take responsibility for poor quality seeds supplied by them.

The Government accepted the observation. However, the reply in respect of supply of poor quality Paddy RP-Bio226 certified seeds was not acceptable as the responsibility to settle the compensation lies with the Company as the seeds were supplied by the Company to the farmers.

2.7.4.5 Condemnation of seeds

The seeds, which are not fit for further seed multiplication, due to loss of germination, vigour and viability are condemned and sold in the market as grain.

The Company failed to sell 3.69 lakh quintals of various varieties of seeds

⁹³ ₹ 33.24 lakh (replacement of seeds) + ₹ 15.06 lakh (compensation)

⁹⁴ ODVs in the seeds ranged between 17 and 24 per cent as against 0.10 per cent.

during the period 2012-13 to 2016-17. The delay led to loss of vigour, viability and loss of rate of germination. The year wise details of quantity of seeds condemned are in Table No. 2.10:

Table 2.10: Statement showing quantity of breeder, foundation and certified seeds condemned

(Quantity in quintals)

Year	Class of Seed condemned			
	Breeder (Quantity)	Foundation (Quantity)	Certified (Quantity)	Total quantity condemned
2012-13	1,006.37	4,206.63	73,575.00	78,788.00
2013-14	111.78	4,878.12	16,489.06	21,478.96
2014-15	1,872.63	21,876.73	11,193.85	34,943.21
2015-16	32.46	7,371.55	1,40,616.25	1,48,020.26
2016-17	1.50	1,351.35	84,274.15	85,627.00
Total	3,024.74	39,684.38	3,26,148.31	3,68,857.43

Source: Information furnished by Company

As seen from the above table, the Company condemned a huge quantity of breeder seeds, which were procured from supplying agencies specifically for multiplication into foundation seeds and attaining the seed multiplication chain. Condemnation of breeder seeds, which are scarcely available, indicated that the entire chain of placing of indents with GoI, distribution to seed growers and market demand of certified seeds was not assessed by the Company on a scientific basis. Further, the Company also condemned huge quantity of foundation and certified seeds.

Audit observed that there were no norms to what extent the seeds could be condemned.

Condemnation of 3.69 lakh quintals (breeder, foundation and certified seeds) of seeds led to loss of opportunity to produce 1,350.21 lakh quintals⁹⁵ of grain. **The procurement cost of 3.69 lakh quintals of seeds which were condemned was ₹ 139.66 crore. The Company sold the same as grain for a value of ₹ 114.41 crore and suffered a loss of ₹ 25.25 crore⁹⁶.**

During Exit Conference (November 2017) Government accepted the audit observation and assured to look into the matter.

2.2.5 Internal Control System

2.7.5.1 Internal Audit

The Company had outsourced the internal audit activity to practicing Chartered Accountants from the year 2007. As per the terms and conditions of appointment of Internal Auditors, the scope of audit *inter alia* included review of, trial balance, general ledgers & schedules, fixed assets, production, marketing, engineering departments, costing, review of replies to AG audit paras, propriety audit, review of Reports of C&AG at Corporate Office.

Scrutiny of the Internal Audit Reports revealed that the Internal Auditors had not attended to the above items of work. Thus, the internal audit was not functioning effectively to address the issues relating to scope of work.

⁹⁵ Computed based on the Seed Multiplication Ratio of each seed variety.

⁹⁶ ₹ 139.66 crore (cost of seeds) minus ₹ 114.41 crore (amount realised).

Government replied (October 2017) that necessary steps are being taken to ensure that Internal Auditors comply with scope of audit.

2.7.5.2 Internal Controls

- (a) The Company had to constitute Audit Committee⁹⁷ as required under Section 177 of the Companies Act, 2013. The Company had not constituted the Audit committee so far (October 2017);
- (b) The Company had to constitute a Stakeholders' Relations Committee (SRC) as required under Section 178 of the Companies Act, 2013. The main function of the committee was to consider and resolve the grievances of shareholders of the Company. The Company had not constituted SRC so far (October 2017) to look into the grievances of shareholders;
- (c) The Company had not evolved any system to identify the farmer shareholders, who were not taking part in the seeds production programme of the Company. This is prescribed in the Memorandum of Association. The Company also had not evolved any system to identify and debar the farmers, who participated in the seeds production programme and not supplied the seeds to the Company.
- (d) The Company had no system of registration of individual seed growers, organizers and suppliers and updating the data at regular intervals. There was no system of black listing the defaulters.
- (e) The Company had no system in place for entering into agreements with seed distributing agencies and to obtain sufficient financial security for the seeds positioned with them.
- (f) The Company had not entered into MOU with the Public Enterprises Department (PED) for the years 2013-14 to 2016-17.

The Government replied (November 2017) that the Company (i) had taken necessary steps to constitute Audit Committee and SRC, (ii) prepared draft MOU and would submit the same to the PED, (iii) would enter into agreements with distributing agencies, and (iv) would maintain database of organisers and suppliers and the defaulters will be blacklisted.

The Company needs to develop Internal Control system to comply with the statutory regulations and to achieve its objectives.

2.2.6 Performance of the Company over the years - issues raised in previous CAG Reports

Performance audit report on the Company was previously included in the Report of C&AG of India for the years 2001-02 and 2007-08. Issues like production performance, issue of sub-standard seed, realisation of sale proceeds and condemnation of seed were raised in the previous reports. Audit noticed that these issues continued to persist during the period covered in this Report. There was some improvement with regard to the extent of seeds

⁹⁷ The functions of the audit committee include (i) recommendations for remuneration of Auditors of the Company (ii) examination of financial statements and Auditors' Report thereon (iii) scrutiny of inter-corporate loans and investments (iv) evaluation of internal financial controls and risk management systems (v) monitoring the end use of funds raised through public offers and related matters.

condemned, issue of quality seeds and realization of sale proceeds but no improvement with regard to production performance.

Conclusions

The Company had not achieved the production targets of certified seeds as it had not distributed sufficient breeder & foundation seeds to the seed growers and had not considered the SMR norms of GoI. The Company was not following the prescribed format of the agreement with seeds organisers. It had also not invoked the agreement terms/ conditions with seeds growers for short supply of seeds. The Company had not procured the seeds in time from the seed organizers which resulted in procurement at higher prices subsequently. The Company had neither augmented the required storage and processing capacity nor fixed the time schedule for construction of godowns and commissioning of processing plants. The Company had not recovered the sale proceeds in time from the distributing agencies which resulted in accumulation of dues with distributing agencies.

Recommendations

The Company should:

- *evolve plan to distribute available breeder & foundation seeds and consider Seed Multiplication Ratios norms to produce required certified seeds;*
- *incorporate suitable clause in the agreements with seed growers and organisers and invoke the same in default cases to protect the financial interest of the Company;*
- *fix the time schedule and monitor the completion of construction of godowns and commissioning of processing plants.*