CHAPTER-2

2. Performance Audit relating to Government companies

2.1 Finalisation of rate contracts and procurement of materials by Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited

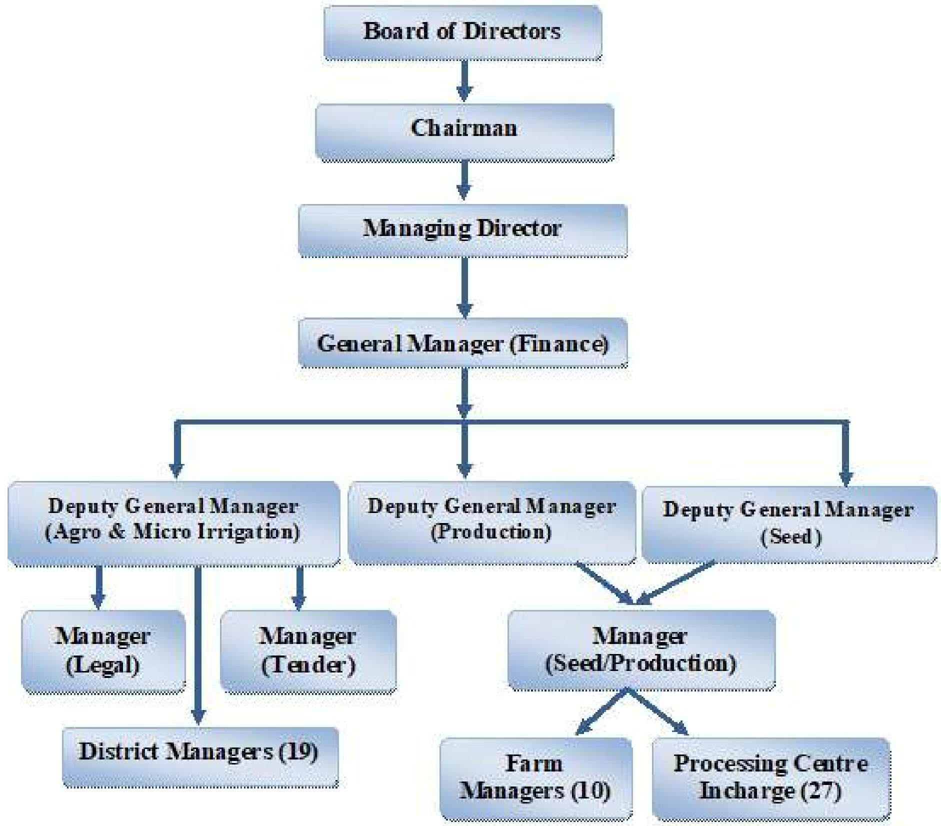
Introduction

2.1.1 The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (Company) was incorporated on 8 October 2004 as a wholly owned Government Company under the Department of Agriculture, Government of Chhattisgarh (GoCG). The main activities of the Company are production, processing/procurement and distribution of certified seeds to the farmers; finalisation of rate contracts (RCs) for supply of agricultural implements, pesticides, hybrid vegetable seeds etc., to various departments of GoCG and production of bio fertiliser.

Organisational setup

2.1.2 The Company is under the overall administrative control of the Agriculture Department of GoCG (Department) headed by the Additional Chief Secretary. The Management of the Company is vested in a Board of Directors (BoD) comprising nine Directors including a Managing Director (MD) and a non-executive Chairman appointed by GoCG. The MD is the Chief Executive Officer (CEO) who looks after the day-to-day activities of the Company and is assisted by a General Manager (Finance) and three Deputy General Managers (DGM) at Head Office level.

The Head Office of the Company is located at Raipur. The Company has 27 seed processing centres, 19 District Offices (for procurement and supply of rate contract items), 10 Agriculture Farms at different parts of the State and a Bio Fertiliser Plant. The Head Office has four wings viz., Seed wing, Micro Irrigation & Agro wing, Finance & Accounts wing and Administration & Establishment wing. Seed Processing Centres are headed by Processing Centre in-charge, District Offices are headed by District Managers and Farms are headed by Farm Managers. The organisation structure of the Company is as follows:



Audit Objectives

2.1.3 The performance audit was conducted to assess whether the Company had:

- finalised RCs for Government purchases and procurement of materials economically, effectively, efficiently and in a timely manner;
- an effective and efficient financial management system; and
- an efficient and effective monitoring system and internal control framework.

Audit Criteria

2.1.4 The audit criteria adopted for the Performance Audit were derived from:

- Chhattisgarh Stores Purchase Rules - 2002 (SPR) and subsequent amendments;
- Memorandum and Articles of Association of the Company, Board agenda notes and resolutions, delegation of powers and circulars/instructions issued by the Company;
- Circulars and instructions issued by the GoCG;
- Financial Accounts, Annual Reports, Management Information System (MIS) reports and returns submitted or published by the Company; and

- Relevant provisions of the Companies Act, 1956/2013 and the Income Tax Act, 1961.

Scope and methodology of Audit

2.1.5 The Performance Audit was conducted during March to August 2017 covering the Company's activities on finalisation of rate contracts (RCs) and procurement of materials during 2012-13 to 2016-17. Audit examined records relating to all 70 RCs finalised by the Company during review period.

The Entry Conference was held with the Additional Chief Secretary (ACS), Department of Agriculture, GoCG and Managing Director (MD) of the Company on 13 July 2017 wherein the objectives, scope and methodology and criteria were discussed. The Audit findings were reported to the Company and GoCG in August 2017. The reply of the Department, approved by the ACS was received in December 2017, which was mere endorsement of Company's reply. The Exit Conference was held with the ACS, Department of Agriculture and the MD of the Company on 12 March 2018. The reply of the Department and views expressed by them in the Exit Conference have been considered while finalising the Performance Audit Report.

Audit acknowledges the cooperation extended by the Management in timely completion of Audit.

Audit Findings

The audit findings are discussed in the succeeding paragraphs.

Manpower Management

2.1.6 The GoCG approved (February 2011) 316 posts for the Head Office and the field offices of the Company. Thereafter, the GoCG increased (May 2015) the sanctioned strength from 316 to 383. Details of category wise sanctioned posts *vis-à-vis* men in position as on 31 March during 2012-13 and 2016-17 are given in table - 2.1.

Table - 2.1: Statement showing sanctioned posts vis-à-vis men in position						
Particulars	**Sanctioned posts (2012-13 to 2014-15)**	**Manpower as on 31 March 2013**		**Sanctioned posts (2015-16 to 2016-17)**	**Manpower as on 31 March 2017**	
		Men in position	**Vacant posts**		**Men in position**	**Vacant posts**
Head Office	**62**	**44**	**18**	**71**	**53**	**18**
Processing Centres (PC)						
PC in-charge[1]	19	7	12	24	9	15
Other staff	66	38	28	104	45	59
Total (PC)	**85**	**45**	**40**	**128**	**54**	**74**
District Offices (DO)						
District Manager[2]	16	9	7	21	7	14
Other staff	86	48	38	91	45	46
Total (DO)	**102**	**57**	**45**	**112**	**52**	**60**
Farms						
Farm Manager	10	5	5	10	5	5
Other staff	50	12	38	55	11	44
Total (Farms)	**60**	**17**	**43**	**65**	**16**	**49**
Bio Fertiliser Plant (BFP)						
BFP Manager	1	0	1	1	0	1
Other staff	6	3	3	6	4	2
Total (BFP)	**7**	**3**	**4**	**7**	**4**	**3**
Grand total	**316**	**166**	**150**	**383**	**179**	**204**
(Source: Data compiled from Company's records)						

On scrutiny of files relating to manpower management, Audit observed the following:

- There was acute shortage of manpower in the Company during the review period (2012-13 to 2016-17) which ranged from 42 *per cent* to 53 *per cent*. Though, the Company had advertised (March 2012) to fill up 82 vacant posts, only 31 posts[3] were filled up. Thereafter, the Company did not take any initiative to recruit against the remaining vacant posts, for reasons not on record.

  Further, after approval of increased sanctioned strength in May 2015, the Company requested (July 2015/ August 2015/ November 2015/ March 2016) Department of Agriculture for permission to recruit against 128 vacant posts, which was granted (March 2016). However, the Company officials did not take any action to recruit against the vacant posts. The issue of shortage of manpower was also not apprised by the MD to BoD during the review period (2012-13 to 2016-17).

  The men-in-position as well as sanctioned strength were inadequate keeping in view the volume of transactions of the Company as the Company added 11 field offices[4] during the review period and there were

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[1] GoCG approved (February 2011) sanctioned strength of 19 PC, which was subsequently revised (May 2015) to 26 PC.

[2] GoCG approved (February 2011) sanctioned strength of 16 DO, which was subsequently revised (May 2015) to 19 DO.

[3] In some posts selected candidates did not join and in some posts, the Company did not find eligible candidates.

[4] Eight PC and three DO

57 field offices[5] as on 31 March 2017. Shortage of manpower was the major reason for abnormal time taken in finalisation of rate contracts and improper scrutiny of the bills of suppliers as discussed in *paragraphs - 2.1.9.4* and *2.1.10.3* respectively. Further, there were shortages of accounting staff as only 11 Accountants/Junior Accountants were posted in the Company as against the sanctioned strength of 34 as on 31 March 2017. Only four Processing Centres and one bio fertiliser plant had one Accountant each and no Accountants were posted[6] in any District Office and Farms as on 31 March 2017. Shortage of Accountants was the major reason for delayed finalisation of accounts of the Company as discussed in *paragraph - 2.1.8.3*.

- As per manpower setup[7] of the Company, every District Office (DO) should be headed by a Deputy Manager or Assistant Manager, Processing Centre (PC) by the Senior Production Assistant, and Farm by the Farm Manager. However, the Company failed to post required officials in each DO, PC and Farm due to shortage of staff as discussed above. The vacancies of these posts in the field offices were in the range of 38 *per cent* to 62 *per cent* during the review period. As a result, lower rank officials[8] were handling the charge of these field offices.
- As per Central Vigilance Commission circular of 2001, all the companies should identify sensitive posts in their organisation and should rotate the officials posted on sensitive post every two/three years to avoid developing vested interest. The Company, however, has not identified sensitive posts and employees/officials are working in one post continuously for upto 12 years[9].

The acute shortage of manpower adversely affected the functioning of the Company as is evident from the delay in finalisation of Accounts (*paragraph - 2.1.8.3*) and delay in finalisation of rate contracts during 2012-13 to 2016-17 (*paragraph - 2.1.9.4*).

The Department, while accepting the Audit observation stated (August 2017) that the vacant posts would be filled shortly by direct recruitment. The Department further stated that at present nine accounting staff is working at head office, Chartered Accountants (CA) were engaged (January 2014) for preparation of accounts of District Offices and in processing centres accountants were outsourced. Regarding identification of sensitive posts, the Department stated that the Company would act according to the suggestions of Audit.

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[5] 19 DO, 27 PC, 10 Farms and a Bio Fertiliser Plant

[6] Two accountants were working as District Managers in two DOs.

[7] Manpower setup refers to approved manpower strength of Department/PSU by the Government. It comprises details of sanctioned designations and number of posts.

[8] Accountants, Sales Assistant, Assistant Grade -I and Plant Operator

[9] Some instances are Manager (Seed) posted since 1 August 2005, Manager (Legal) posted since 1 August 2005, Deputy Manager (Admin) posted since 3 September 2009, Deputy Manager (Accounts) posted since 8 March 2007, Cashier posted since 18 July 2012 etc., though these posts were interchangeable.

The reply is not acceptable since, despite engaging CA and outsourcing of Accountants, the Company could not finalise the accounts for 2016-17 so far (July 2018).

Recommendation:

The Company should recruit manpower as per the approved sanctioned strength without further delay.

Internal Control and Monitoring

2.1.7 The Internal control and monitoring mechanism of the Company was deficient as there was no effective control/monitoring for timely finalisation of accounts and payment of income tax (*paragraphs - 2.1.8.3* and *2.1.8.4*), realisation of auction proceeds *(paragraph - 2.1.8.7)* and purchase from cancelled RCs/ disqualified bidder *(paragraph - 2.1.10.3)*.

Besides, the following other deficiencies in the internal control system and monitoring mechanism were also observed during audit.

Inadequate Internal Audit

2.1.7.1 The Company does not have its own internal audit wing and it also does not have an internal audit manual. No internal audit was conducted in the Company from 2012-13 onwards as no internal auditors were appointed. As the turnover of the Company was always in excess of ₹ 200 crore during this period, the internal auditor should have been appointed as required under Section 138 of the Companies Act, 2013.

The Department while accepting the Audit observation stated (December 2017) that the internal audit for the year 2016-17 was being conducted by the Company's staff.

The reply does not address the issue of non-conducting of internal audit during 2012-13 to 2015-16. Further, the Company has entrusted the internal audit work for 2016-17 to its two Accountants and no supervisory officers have been deployed. Moreover, no training was given to the staff and no guidelines/ manual for internal audit was formulated.

Recommendation:

The Company should prepare the internal audit guidelines/manual and deploy suitable and adequate manpower for internal audit.

Embezzlement of cash – ₹ 50.93 lakh

2.1.7.2 District Offices and Processing Centres of the Company receive payments on behalf of the Company on account of sale of agricultural materials and seeds to farmers and Department of Agriculture. The amount so received by these field offices should invariably be deposited in the bank account immediately within same day or next working day as stipulated in the Rule 4 of Financial Code of the State Government.

The PC in-charge and the Junior Assistant had embezzled ₹ 50.93 lakh.

Audit observed that in one of the Processing Centres i.e., Geur, Ambikapur, two officials Shri D.P. Phathak, PC in-charge and Shri Yadvendra Singh Baghel, Junior Assistant received (June 2013) ₹ 50.93 lakh towards sale of seeds to farmers/ societies. However, the same was neither deposited in the bank nor shown as Cash in hand/ chest and was embezzled by these officials.

The prevailing internal control mechanism failed to prevent and detect the embezzlement timely.

The Company came to know about this embezzlement only after complaint[10] received in June 2015. In response, the Company suspended (July 2015) both the officials and initiated (August 2015) departmental enquiry (DE) against them. The DE against Shri Yadvendra Singh was completed (25 July 2017) and charges of embezzlement of ₹ 50.93 lakh were proved correct. However, DE against Shri D.P. Phathak is still in progress (July 2018).

As embezzlement of public money is a criminal offence, the Company should have lodged FIR against the officials for criminal prosecution. Surprisingly, before completing DE, both the officials were reinstated (7 April 2017) by the MD without recording any reasons. Recovery of the embezzled amount is still pending (July 2018).

During the Exit Conference, the ACS directed (March 2018) the Company to take action against the responsible officials, to recover the embezzled amount in a time bound manner and take other legal action as necessary.

Recommendation:

The Department may conduct an enquiry to fix the accountability of the MD in not lodging the FIR, and for reinstating the charged officials before completion of enquiry.

Non-holding of regular meetings of Board of Directors

2.1.7.3 Section 285 of the Companies Act, 1956 and Section 173 of the Companies Act 2013, stipulates that the BoD of every Company, shall meet at least once in every three months and at least four times in a year.

Audit scrutiny revealed (April 2017) that the BoD of the Company conducted 14 meetings during the five years ended on 31 December 2017 against the minimum required 20 meetings. The Company also did not adhere to the quarterly schedule of at least one meeting in each quarter. Audit further observed that significant matters viz., status of failed seeds under seed production programme, surplus seeds and its proper disposal, progress of implementation of various schemes of Central and State Government, amount outstanding against farmers due to failed seeds, implementation of RCs finalised by the Company, shortage of manpower, status and progress of various Public Private Partnership Projects of the Company and internal audit and internal control mechanism prevailing in the Company were not discussed by the BoD.

The Department accepted (December 2017) the Audit observation.

Absence of Management Information System

2.1.7.4 The Company does not have any policy on Management Information System (MIS) and it has not prescribed any periodical returns/ performance reports for submission to higher authorities regarding status of finalisation of Rate Contracts (RCs) and time taken for each activity of tender finalisation; details of indent received from Department for purchase of materials through

[10] The complaint was received from the Assistant Seeds Certification Officer, Chhattisgarh State Seeds Certification Agency, Geur.

RCs; details of supplier wise and item wise purchases made under any RC, status of recovery of outstanding sale proceeds from Department, status of surplus seeds available in its Processing Centres, status of auction of surplus seeds and receipt of auction proceeds, report regarding unsatisfactory performance of the RC holders etc.

The Department stated (December 2017) that the Company was preparing its accounts on Tally software and works relating to distribution of agriculture implement and micro irrigation projects were carried out through Chhattisgarh Agriculture Mechanisation & Micro-irrigation Monitoring Process System (CHAMPS), a GoCG scheme w.e.f. 1 April 2017. The Department also stated that the National Informatics Centre (NIC) is developing an online software for Seed wing of the Company. Regarding MIS, the Department further stated that as and when any deficiencies occur it will be rectified and MIS will be improved.

The reply does not address the issue raised by the Audit as it only provided details of computer software/online system and did not provide any details of MIS for the issues stated above. Further, the reply regarding rectification/improvement of MIS system is also not relevant keeping in view that the Company did not have any MIS for the items mentioned above.

Financial Management

2.1.8 The major sources of income of the Company are commission on the sales of agriculture implements and various seeds, sale of tender forms and registration fees, miscellaneous income etc., and major items of expenditure of the Company are procurement of materials, packing and transportation expenses, establishment expenses etc.

2.1.8.1 The overall financial position and working results of the Company for the period from 2012-13 to 2015-16[11] are given in the ***Annexure - 2.1.1***. The sales of the Company were ₹ 472.89 crore in 2012-13 which decreased to ₹ 440.42 crore in 2015-16 due to less demand from the user departments. Profit decreased due to decrease of interest income on bank deposits, increase in packing expenses, transportation charges and employee benefit expenses on account of pay revision. As a result, the Net Profit of the Company decreased from ₹ 41.73 crore in 2012-13 to ₹ 26.99 crore in 2015-16 which consequently resulted in decline in return on capital employed from 48.60 *per cent* in 2012-13 to 18.47 *per cent* in 2015-16.

Recovery of Trade Receivables

2.1.8.2 The Department of Agriculture, GoCG is the primary customer of the Company. The timely recovery of dues from the Agriculture Department reduces the borrowing liability of the Company from outside agencies.

Audit observed that as per accounts of the Company, Trade Receivables were ₹ 185.95 crore as on 31 March 2016. However, as per the records of the functional wings of the Company i.e., Agro Wing and Seed Wing, the Trade Receivables were ₹ 102.02 crore. Similar difference existed in the previous

[11] The Company has not finalised accounts for the year 2016-17 so far (July 2018). The Company also did not furnish the provisional figures for this period.

year also when the accounts reflected Trade Receivables as ₹ 150.89 crore whereas as per the records of Agro and Seed Wings, the same was ₹ 92.81 crore. The officials[12] of the Company neither analysed the reasons for this difference which has increased, nor made any efforts to reconcile the data so far (July 2018) though Audit has pointed out it in July/ August 2017. Audit also observed that the Company neither maintains the age-wise records of Trade Receivables nor prepares the quarterly accounts, in the absence of which, the Company is not aware of the age of outstanding dues.

The Department stated (December 2017) that the difference in Trade Receivables occurred due to non reconciliation of primary records and accounting records of the Company. The Department further stated that the reconciliation is being done and efforts are being taken to recover the outstanding dues. During the Exit Conference, the ACS instructed (March 2018) the Company to prepare age wise analysis since inception and reconcile the Trade Receivables at the earliest.

Recommendation:

The Company should prepare the age wise analysis of Trade Receivables and reconcile the same with primary records. The Company should also take effective steps to recover the Trade Receivables in a time bound manner.

Delay in finalisation of accounts

2.1.8.3 As per the Companies Act, 2013, the BoD is responsible for placing the approved accounts of the Company in the Annual General Meeting of the shareholders within six months of the close of the financial year i.e., by September end. Audit observed that there was backlog in preparation of the annual accounts of the Company. As on December 2016, three years' annual accounts (2013-14 to 2015-16) were in arrears due to non preparation of accounts by field units mainly caused by shortage of accounting staff as discussed in *paragraph-2.1.6*.

The issue of arrears in finalisation of accounts was earlier reported vide paragraph no. 4.3.8 of the Report of CAG of India (Civil & Commercial) for the year ended 31 March 2010, Government of Chhattisgarh. In response, the Department issued (July 2010) directions to the Company to prepare the accounts in time. The Company outsourced (January 2014) the work of finalisation of accounts to private CAs in Head Office as well as District Offices/ Processing Centres in view of shortage of accounting staff and cleared all the backlog of accounts upto 2015-16 in March 2017. The Company is yet to finalise accounts for 2016-17 (July 2018).

Delay in finalisation of accounts not only violates the provisions of the Companies Act, 2013 but also results in unavailability or loss of crucial records over a period of time, which is fraught with the possibilities of misrepresentation of facts, fraud and misappropriation.

The Department (December 2017) stated that the Company had made all efforts to clear the arrears of accounts.

[12] General Manager (Finance), Deputy General Manager (Seed) and Deputy General Manager (Agro & Micro Irrigation)

The reply is not acceptable as the Company has not been able to clear the backlog of accounts even after passage of eight years since the Department instructed the Company to finalise the accounts in time.

Recommendation:

The Company should ensure that its accounts are finalised in time, so that it does not continue to violate the Companies Act.

Avoidable payment of penal interest of ₹ 3.84 crore due to incorrect estimation of Income

2.1.8.4 As per Section 208 of the Income Tax Act, 1961 (Act), advance tax is payable during a financial year, in every case, where the tax payable by the assessee during the year is rupees ten thousand or more. In case of failure, the assessee is liable to pay penal interest as per Section 234A/B/C of the Act.

Audit observed that the Company failed to estimate its income accurately for the years 2012-13 and 2014-15 to 2016-17 leading to shortfall in payment of advance tax which resulted in payment[13] of penal interest of ₹ 3.84 crore.

The Company had to pay ₹ 3.84 crore towards penal interest due to non adherence of quarterly schedule for payment of advance tax under the Income Tax Act.

On the other hand, for the year 2013-14, the officials[14] of the Finance Wing of the Company estimated (10 September 2014) total income of ₹ 46.90 crore at the time of filing of the provisional return on which the Company had paid (June 2013 to September 2014) income tax of ₹ 16.64 crore[15]. However, at the time of actual finalisation/closure of accounts for 2013-14 (January 2017), the actual total income was ₹ 24.74 crore. Audit noticed that estimated income was assessed on higher side mainly due to under estimation of purchase cost of materials. Accordingly, the actual tax liability was ₹ 8.43 crore which was just half of the advance tax paid on estimated total income. Thus, due to poor estimation, excess income tax of ₹ 8.21 crore was paid by the Company.

However, as the time limit[16] for filing revised return under Section 139(5) of the Act was over on 31 March 2016, the Company filed the revised return on 27 April 2017 (after the Central Board of Direct Taxes condoned the delay) and the matter is pending with Central Board of Direct Taxes (July 2018).

While accepting the Audit observation, the Department stated (December 2017) that due to delayed finalisation of accounts, advance tax was paid on the basis of projected income and final tax was paid on the basis of final accounts. During the Exit Conference, the ACS directed (March 2018) the Company to take action against the responsible officials.

Recommendation:

The Company should devise a mechanism for accurate estimation of quarterly profit to avoid penalty under the Income Tax Act.

[13] Penal interest paid between May 2012 to March 2017.
[14] General Manager (Finance), Deputy Manager (Accounts) and Accountant
[15] Advance tax - ₹ 10.89 crore, Self Assessment Tax - ₹ 5.53 crore and TDS - ₹ 0.22 crore
[16] One year from the end of the relevant assessment year or before completion of the assessment, whichever is earlier.

Avoidable payment of Income Tax of ₹ 4.27 crore due to non deduction of TDS from fees paid to CSSCA

2.1.8.5 The Income Tax Act, 1961 (Act) stipulates that, tax deducted at source (TDS) is to be effected at the rate of 10 *per cent* on any fees paid for professional/ technical service. In case of failure to deduct such TDS, the expenditure on payment of professional/ technical services shall not be allowed to be deducted while computing the income chargeable to income tax.

Failure of the Company to deduct TDS from the fees paid to CSSCA resulted in disallowing the expenditure while computing the income, and the Company had to incur loss of ₹ 4.27 crore on account of payment of Income Tax.

Audit observed that during 2012-13 to 2015-16, the Company had paid seed certification fees (SCF) amounting to ₹ 9.77 crore to the Chhattisgarh State Seed Certification Agency (CSSCA). However, the Finance Wing[17] failed to deduct TDS as required under the Act. Hence, the expenditure towards SCF was disallowed by the Tax Auditor while computing total income of the Company for the years 2012-13 to 2015-16. As a result, the Company had to pay additional income tax of ₹ 3.22 crore on such disallowed expenditure which was otherwise avoidable.

The matter of non deducting TDS was pointed out[18] by the Statutory Auditors in their Auditor's Reports for the years 2012-13 to 2015-16. However, the General Manager (Finance) failed to take any corrective action and further made payment to CSSCA of ₹ 3.09 crore for the year 2016-17 without deducting TDS which resulted in additional tax liability and consequent loss of ₹ 1.05 crore on account of disallowance of expenditure.

The Department, while accepting the Audit observation stated (December 2017) that CSSCA had informed that they were exempted from Income Tax but did not submit any proof of the same. It was further stated that the Company has instructed (14 August 2017) the field offices to deduct the TDS from CSSCA bills w.e.f. 1 April 2017.

The reply is not acceptable as the Company did not deduct TDS despite CSSCA not submitting proof of exemption leading to disallowance of expenditure. The reply regarding deduction of TDS w.e.f. 1 April 2017 is also not acceptable because the Company was well aware in April 2016 itself about disallowance of this expenditure when it was pointed out in Statutory Audit, despite which, it failed to deduct TDS on payment of SCF w.e.f. April 2016.

Non recovery of ₹ 64.80 lakh due to allowing lifting of auction material without collecting sale proceeds

The in-charge of Processing Centre, Kokamunda allowed the lifting of auctioned material without collecting the sale proceeds, thereby resulting in non-recovery of ₹ 64.80 lakh.

2.1.8.6 The Processing Centres (PC) of the Company auction the surplus seeds to private traders through *Krishi Upaj Mandis (Mandi)* at the end of seed marketing season twice in a year. After each successful auction, a tripartite agreement is executed between the Company, the concerned *Mandi* and the highest bidder in the auction. As per the agreement, the purchaser shall pay the auction proceeds on the same day of auction, and thereafter, lift the materials from the concerned PC.

The PC in-charge, Kokamunda, Bastar sold (31 October 2015) 6,027.50 quintal surplus paddy seed with total sales proceeds of ₹ 64.80 lakh in an

[17] General Manager (Finance) and Deputy Manager (Accounts)

[18] 11 April 2016 (2012-13), 6 January 2017 (2013-14), 30 March 2017 (2014-15) and 31 March 2017 (2015-16)

auction through *Mandi* to M/s Chaman Trading Company (Purchaser) and executed the tripartite agreement. Audit, however, observed that the PC in-charge, Kokamunda permitted (27 February 2016) the purchaser to lift the auctioned seeds without payment. The Deputy General Manager (Seed) in Head Office, who monitors the auction of surplus seeds, also failed to ensure payment before lifting.

The Department accepted the Audit observation and stated (December 2017) that ₹ 16.64 lakh has been recovered and assured to recover the balance amount shortly. The Department further stated that the action would be taken against the then in-charge of PC.

During the Exit Conference, the ACS directed (March 2018) the Company to recover the amount from the concerned official.

Recommendation:

The Company should take appropriate action against the PC in-charge and the purchaser. Further, the Company should strengthen its monitoring mechanism to avoid such instances in future.

Irregular receipt of old currency denomination notes which was not legal tender

2.1.8.7 In terms of Government of India (GoI) Gazette Notification issued (No. 2652 dated 8 November 2016) existing bank notes in the denominations of ₹ 500 and ₹ 1,000 ceased to be legal tender with effect from 9 November 2016. However, GoI notified various service/ transactions from time to time for carrying out certain emergent and urgent transactions using the specified old bank notes for the convenience of public. Accordingly, GoI allowed (20 November 2016) the State Seed Corporations to receive of payments from the farmers towards purchase of seeds in old ₹ 500 notes.

The Company had accepted old demonetised currency violating GoI notification on demonetisation.

Audit observed that even before the issue of the 20 November 2016 notification, 12 out of the 57 units of the Company had accepted old dues of ₹ 52.82 lakh in old currency notes of rupee five hundred and rupee thousand between 10 November 2016 to 19 November 2016, in violation of the notification of GoI. Further, five units had received ₹ 8.90 lakh during the period 20 November 2016 to 30 December 2016 in the old notes of denomination of rupee one thousand in violation of the GoI notification, which allowed only rupee five hundred denomination old notes to be accepted for purchase of seeds.

During the Exit Conference, the ACS directed (March 2018) the Company to take immediate action against the responsible officials.

Finalisation of rate contracts

2.1.9 Consequent upon formation of the Company, GoCG instructed (July 2005) that work relating to the erstwhile MP State Seed and Farm Development Corporation Limited and MP Agro Industries Development Corporation Limited in the State of Chhattisgarh would now be carried out by the Company. Accordingly, the Company has been finalising Rate Contracts (RCs) for agricultural implements, pesticides, hybrid vegetable seeds etc., for various departments of GoCG.

Under the tender for RCs, the bidder is required to submit the technical bid and financial bid. The technical committee evaluates the technical bids based on specified eligibility criteria and recommends opening of the price bids of the technically qualified bidders. The financial bid is opened after approval of the MD on the recommendation of technical committee. The financial committee evaluates the financial bids and fixes the counter offer rate[19]. After approval of the MD, the counter offer is made to all technically qualified bidders by the Agro Wing of the Company and after receipt of acceptance from the bidders, the RCs are finalised. Thereafter, the head office of the Company circulates the finalised RCs to District Offices and accordingly, the District Offices purchase the materials on the basis of indents received from user departments.

Details of RCs finalised by the Company during the years from 2012-13 to 2016-17 are given in the table - 2.2.

Table - 2.2 RCs finalised by the Company

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
No. of RCs finalised	13	13	12	20	12
No. of parties with whom the RCs were finalised	79	80	64	155	85
Purchases made by the Company under the RCs (₹ in crore)	287.12	310.44	233.32	225.95	312.43

(Source: Data compiled from Company's records)

Deficiencies noticed in finalisation of RCs are discussed in succeeding paragraphs.

Non-compliance of findings of Special Audit Report

The Company has not complied with the observations of Special Audit Report despite assurance given by the Department.

2.1.9.1 The Principal Secretary, Department of Agriculture, GoCG (PS) had requested (December 2012) the Accountant General (Audit) to conduct the Special Audit of the Company. Accordingly, the Special Audit was conducted for purchases made by the Company during 2010-11 and 2011-12 and the Report was issued to GoCG in May 2013. During the Special Audit of the Company, Audit had raised (May 2013) various issues viz., finalisation of RCs with ineligible bidders, instances of collusive biddings, finalisation of RCs at higher rates, issue of supply order to RC holders in ad-hoc manner by the District Offices, non-formulation of purchase policy etc.

Accordingly, PS had directed (July 2013 and March 2014) the MD of the Company to take corrective action and fix responsibility of the concerned officials. However, Audit observed that these irregularities still persist (as discussed in the succeeding *paragraphs nos. 2.1.9.2, 2.1.9.5, 2.1.9.6, 2.1.9.9* and *2.1.10.1*) and no responsibility has been fixed. Thus, the MD failed to ensure corrective action on the Special Audit findings. The Department also failed to monitor the compliance to the Special Audit Report after March 2014 despite assurance given to Audit (September 2013), as no correspondence was made with the Company thereafter.

[19] The rate offered by the financial committee to all the eligible bidders which is based on L1 rates received in the tender.

Delay in preparing Purchase Manual/Policy and deficiencies therein

2.1.9.2 The Special Audit Report of April 2013 pointed out non-preparation of Purchase Manual/Policy by the Company, leading to abnormal delays in finalisation of tenders. In reply, the Management had assured (April 2013) that efforts would be made to prepare guidelines as suggested by Audit.

The Company, however, took almost three years to finalise its Purchase Policy which was approved by BoD on 6 April 2016. The reasons for delay were not found on record. The Company had finalised 44 RCs and purchased materials worth ₹ 768.57 crore between June 2013 to March 2016 without a Purchase Policy.

Audit further observed that though the Purchase Policy was finalised in April 2016, it was not circulated to field units for implementation upto July 2017, for which no reasons were found on record.

During the Exit Conference, the ACS directed (March 2018) the Company to prepare detailed guidelines for procurement of materials.

Invitation of rate contract offers without finalisation of terms and conditions of tender in violation of Chhattisgarh Store Purchase Rules

2.1.9.3 As per clause 4.1 and 4.2 of Chhattisgarh Store Purchase Rules (SPR), the terms and conditions of tender should be prepared before inviting tender for public procurement.

Audit observed that in 51 out of 70 RCs finalised during 2012-13 to 2016-17, the Company officials[20] finalised terms and conditions of rate contracts upto 360 days after invitation of tenders for which no reasons were found on record. This was not only in violation of provision of SPR but also created a potential high risk area for malpractice as it may give scope for manipulation in framing the terms and conditions of RCs to suit a particular potential bidder which may be unfavourable for some other potential bidders. This also delayed the finalisation of RCs and as a result, the Company had to purchase the materials at old rates under previous RCs till finalisation of new RCs. As the Company did not maintain the RC wise/ supplier wise purchase details, Audit could not quantify the purchases made under these RCs during delayed period.

During the Exit Conference, the ACS directed (March 2018) the Company to strictly comply with the SPRs. The MD stated that in compliance to the Audit observation, the Company was now finalising the terms and conditions of RC before publishing the NIT.

Abnormal time variation in finalisation of rate contracts

2.1.9.4 The Company has not fixed any time limit for finalisation of tenders. However, the other State PSUs[21] has adopted a time limit of 100 days for finalisation of tenders (from opening of bids to approval of proposal).

The Company had finalised 70 RCs for various types of agricultural items during 2012-13 to 2016-17 taking a time period of 11 days to 1,085 days from date of issue of NIT as detailed in the ***Annexure - 2.1.2***. Out of this,

[20] MD, GM and DGM (Agro)

[21] Power Sector PSUs

in 11 cases the RCs were finalised by taking more than a year, whereas in three cases RCs were finalised within 60 days. Audit observed that in the absence of specified time limit for finalisation of RCs, the technical committee and the financial committee[22] had taken abnormal time for evaluation of bids which is also evident from the ***Annexure - 2.1.2***. As a result, the finalisation of RCs was delayed and consequently, the Company had to purchase the materials under old RCs at old rates till finalisation of new RCs. As the Company did not maintain the RC wise/ supplier wise purchase details. Audit could not quantify the purchases made under these RCs during delayed period.

Accepting the Audit observation, while, the ACS directed the Company during the Exit Conference (March 2018) to finalise the RCs within a reasonable time so that the sanctity of rates would be ensured.

Finalisation of RCs with ineligible bidders and purchase of materials worth ₹ 16.56 crore

2.1.9.5 The pre-qualification criteria for the bidder to participate in the rate contract offer (RCO) of the Company is mainly based on certain turnover, having valid licence/authorisation for the items offered, past experience of business with Government/PSUs, essential documents relating to credibility of the products to be supplied/ bidders etc. Audit observed in many cases that though the bidders did not fulfil the eligibility criteria, the technical committee qualified them and accordingly, RCs were issued to them, as discussed in the succeeding paragraphs.

(a) Horticulture/ Forestry produce and processing equipment (RC16 - February/March 2013)

The Company invited (20 March 2012) RCO for supply of Horticulture produce and processing equipment, following which, RCs were issued (February 2013 and March 2013) to three bidders[23].

Audit observed that one bidder[24] did not mention the turnover and also did not submit documents in support of turnover as against the turnover criteria of rupees three crore during the last three years. However, the technical committee[25] had qualified (10 July 2012) the bidder without recording any reasons. Accordingly, the Company awarded (March 2013) RC to an ineligible bidder and procured materials amounting to ₹ 9.12 crore from the firm during 2013-14.

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[22] These committees were constituted as per the provisions of Chhattisgarh Store Purchase Rules by MD. The members of these committee included officials of the Company and experts from various outside agencies. The technical experts were selected from nominated members of various outside agencies viz., State Agriculture Directorate, State Directorate of Horticulture and Forestry. Indira Gandhi Krishi Vishwavidyalaya (IGKV), Industrial Training Institutes (ITI) and Chhattisgarh State Industrial Development Corporation Limited (CSIDC) vide Department instructions of February 2012.

[23] M/s LakshyaTechnocarts India Private Limited, M/s Modern Scientific Company and M/s Agrotech Corporation

[24] M/s LakshyaTechnocarts India Private Limited

[25] In-charge Additional Director, Agriculture Engineering; Department of Agriculture (DoA); Deputy Director, Horticulture, DoA; DGM (Administration) and Deputy Manager (Marketing)

(b) VA Mico Rhiza (RC 26 – May 2014)

As per the terms and conditions of tender, bidders were required to furnish the details of TIN, PAN, turnover details, audited balance sheet along with income tax return, sales tax clearance certificate, dealer price list, license etc., along with the bid.

Audit observed that nine out of 10 bidders who participated in the tender had not submitted one or more documents required to fulfill their technical eligibility (details in ***Annexure - 2.1.3***). However, the technical committee[26] disqualified (24 February 2014) only one bidder and qualified nine bidders including the eight ineligible bidders, without recording any reasons. The Company had purchased (May 2014 to October 2015) materials worth ₹ 2.65 crore from these eight ineligible bidders.

(c) Plant Protection Equipment and Light Trap (RC 9–May/June 2016)

The Company finalised (May/June 2016) the RCs of plant protection equipment (PPE) with nine bidders and light trap with 11 bidders. Audit observed that in the case of one selected bidder i.e., M/s Nagarjuna Agro Chemical Private Limited, Hyderabad (M/s Nagarjuna) for PPE item, the Department had intimated (April 2016) the Company that the firm was black listed by the Government of Karnataka and directed the Company not to allow the firm to participate in any tender of the Company. However, flouting the orders of the Department, the technical committee[27] qualified the firm and the MD awarded (June 2016) the RC to the firm.

Further, one bidder i.e., M/s Green Brigade, Rajnandgaon had not furnished any document in support of the minimum turnover requirement of ₹ 25 lakh as per the tender conditions. Similarly, for light trap item, one bidder, M/s Sai Agrotech, Yavatmal, did not furnish any document in support of recognition by "National Centre for Integrated Pest Management" New Delhi (NCIPM). However, the technical committee qualified both the bidders without recording any reasons and the Company awarded (June 2016) the RCs to them.

The Company procured (June 2016 to March 2017) materials amounting to ₹ 1.12 crore from these three bidders.

(d) Agriculture micronutrients (RC 23 – November 2015)

Three bidders i.e., Sujata Chemical Industries, Raipur, Shri Tulsi Phosphate, Mahasamund and Shriram Fertilisers & Chemicals, Raipur did not fulfill the turnover criteria[28] of rupees one crore per annum during the last three years. Despite this, the technical committee[29] qualified (29 October 2015) all of them without recording any reasons/justification. The Company awarded (November 2015) RCs and purchased (November 2015 to June 2017) materials worth ₹ 1.35 crore from them.

[26] Joint Director (Agriculture), DoA; Joint Director (Horticulture), DoA; Head of Department (Soil Science), IGKV and DGM (Seed)

[27] Additional Director (Agriculture Engineering), DoA; Professor (Agriculture Engineering), IGKV; DGM-I (Seed); DGM-II (Seed) and GM (Finance)

[28] The Company fixes the minimum turnover criteria for ascertaining the financial soundness and experience of the bidder.

[29] Joint Director (Horticulture), DoA; Deputy Director (Agriculture), DoA; Professor (Soil Science), IGKV and DGM (Seed)

(e) Horticulture, Forestry, Herbal plant (RC 4 - August/ December 2012 and February 2013)

As per the tender conditions, bidders were required to furnish proof of having own nursery or agreement with other nursery owners. Despite two bidders viz., M/s Shri Ram Biotech, Raipur and M/s Shri Sai Baba Krishi Sewa Kendra, Raigarh not furnishing such proof, the technical committee[30] qualified these bidders without recording any reasons/ justification and the Company awarded (December 2012/February 2013) the RCs to them, against which the Company purchased (August 2012 to July 2016) plants worth ₹ 90.42 lakh.

(f) Hybrid Maize seed (RC 54 - March 2015/ October 2015)

As per the eligibility criteria, bidders should have valid Registration Certificate for in-house research and development (R&D) facility issued by GoI and should attach "Molecular Markers" details issued by breeders for quoted seeds. Further, as proof of notified variety of seed, the bidder has to submit notification of GoI. However, two bidders i.e., M/s Syngenta India Limited, Raipur and M/s Monsanto India Limited, Raipur did not submit the Molecular Markers for their quoted varieties. Similarly, M/s Shriram Fertiliser and Chemicals, Raipur (M/s Shriram) had submitted the Registration Certificate and Molecular Markers of another firm i.e., M/s Bioseed Research India Private Limited, Hyderabad. Despite these three bidders being ineligible for RC, the technical committee[31] qualified them without recording any reasons/justification and RCs were issued to them. The Company procured hybrid maize seeds worth ₹ 67.74 lakh from these three bidders during March 2015 to March 2017.

(g) Weedicides (RC 55 – October 2015)

As per the eligibility criteria of online tender for rate contract of Weedicides, the bidders must have valid license[32] for sale in Chhattisgarh from Director of Agriculture, GoCG. The technical committee[33] qualified (19 May 2015) 10 bidders and disqualified two bidders[34] for not having valid sale license. The MD approved (8 June 2015) the recommendations of technical committee. However, the technical committee *suo motu* again evaluated (23 June 2015) the technical bids and qualified all the 12 bidders. As there was contradiction in both the evaluations, the MD directed (3 July 2015) revaluation, following which, the same technical committee again evaluated (7 July 2015) the technical bids and qualified 11 bidders including two bidders who had been disqualified in the first evaluation and disqualified one bidder due to non submission of proof of running industry. The Company purchased (October 2015 to March 2017) materials worth ₹ 32.68 lakh from the selected vendors.

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[30] Joint Director (Agriculture), DoA; Joint Director (Horticulture), DoA; Scientist (Horticulture), DoA; Manager (Quality Control) and DGM (Establishment)

[31] Joint Director (Agriculture), DoA; Deputy Director (Agriculture), DoA and Professor (Agronomy), IGKV

[32] Valid sale license issued by GoCG is mandatory for sale/supply of weedicides/pesticides in the State.

[33] Deputy Director (Agriculture), DoA; Additional Director (Agriculture), DoA; Professor (Soil Science), IGKV and Assistant Manager (Accounts)

[34] M/s Agro Blend and M/s Central Insecticides & Fertilizers

Audit was unable to fathom the reasoning behind the process of selection, which was opaque, and irregular.

(h) Corrugated Box (RC 51-October 2013 and RC 52-February 2015)

The tender condition for corrugated box stipulated that the bidder must be self manufacturer[35]. Audit observed that though the bidder, M/s Sharda Offset Printers Private Limited, Raipur did not furnish the certificate in support of this criteria, the technical committee[36] qualified the bidder without recording any justification. The Company had purchased corrugated boxes amounting to ₹ 24.08 lakh from the supplier during the period October 2013 to March 2016. Though, the RC was cancelled (March 2016) after the irregularity was pointed out (March 2016) by Audit, no action was taken to fix responsibility on the technical committee.

(i) Vermi Compost Bed (RC 31 – November 2015)

The eligibility criteria for vermi compost bed required bidders to have minimum turnover[37] of not less than rupees three crore, for which, bidders had to upload report showing turnover of Vermi Compost Bed separately, duly verified by the Chartered Accountant (CA). Further, the bidder was required to upload the license issued by District Trade and Industries Center (DTIC) certifying that the bidder was a self manufacturer. Audit observed that four out of total seven bidders had not fulfilled these criteria, as detailed in table - 2.3 below:

Table - 2.3: Details of criteria which were not fulfilled by the bidder

Name of the bidder	Remarks
M/s Lamifab Industries, Mumbai and M/s V.K. Packwell Private Limited, Kanpur	Turnover details of Vermi Compost Bed not furnished separately.
M/s Aadinath Polyfab Private Limited, Thane	Turnover details certified by CA not furnished.
M/s Texel Industries Limited	DTIC license not furnished.

(Source: Data compiled from Company's records)

However, the technical committee[38] qualified the above four bidders without recording any reasons for ignoring their ineligibility. The Company purchased (November 2015 to May 2017) Vermi Compost Beds amounting to ₹ 17.06 lakh from these ineligible firms.

The Company finalised RCs with ineligible bidders which resulted in irregular purchase of ₹ 16.56 crore.

From all the nine cases mentioned above it could be concluded that the technical committee qualified the ineligible bidders, resulting in irregular purchases worth ₹ 16.56 crore from these ineligible bidders.

During the Exit Conference, while accepting the Audit findings, the ACS assured (March 2018) strict action against all the responsible officials and bidders/suppliers and instructed the MD to take action in a time bound manner in all the cases mentioned above.

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[35] The Company prefers procurement from manufacturers for obtaining most economical rates and products as per its specifications.

[36] DGM-I (Seed); DGM-II (Seed); Manager (Seed) and Deputy Manager (Accounts)

[37] The Company fixes the minimum turnover criteria for ascertaining the financial soundness and experience of the bidder.

[38] Additional Director (Agriculture), DoA; Project in-charge, IGKV and DGM (Seed)

Recommendation:

The Company should initiate disciplinary action against the members of the technical committee who qualified ineligible bidders. The Company should also evolve a full proof tender evaluation system in line with the Store Purchase Rules so that such instances are avoided in future.

Finalisation of rate contracts and procurement of materials worth ₹ 36.40 crore from suppliers who indulged in collusive bidding/ made more than one offer under different names

2.1.9.6 The standard tender document stipulates that not more than one RCO will be accepted from any bidder, and offers from individuals representing more than one organisation in one or different names participating in the RCO, will not be entertained. Further, no RC would be executed with bidders who had engaged in corrupt or fraudulent practices.

Audit observed clear instances of collusive bidding and malpractices by the bidders in the following 11 cases of finalisation of RCs.

(a) Hybrid Paddy Seed (RC53 - May 2013 and May 2015)

The Company finalised (May 2013) RCs with 13 suppliers for supply of Hybrid Paddy Seed. Audit observed that two bidders i.e., M/s Shriram Fertilisers and Chemicals, Raipur and M/s Shriram Bioseed Genetics, Raipur had mentioned the same PAN, TIN and even quoted the same rates. Further, both the bidders were divisions of M/s DCM Shriram Limited, Hyderabad. Despite this, the technical committee[39] recommended the bidders and the Company procured Hybrid Paddy Seeds worth ₹ 5.53 crore (Shriram Fertiliser - ₹ 0.88 crore and Shriram Bioseed - ₹ 4.65 crore) during July 2013 to April 2015 from these two bidders.

Further, the Company again finalised (May 2015) RCs with these two firms in the RC-53 as well ignoring their collusive bidding and purchased Hybrid Paddy Seeds amounting to ₹ 3.01 crore (Shriram Fertiliser - ₹ 1.11 crore and Shriram Bioseed - ₹ 1.90 crore) during May 2015 to July 2016.

Accepting the Audit observation, the Management stated (July 2016 and July 2017) that RCs of both the firms were cancelled (9 May 2016) and both the firms were blacklisted (5 July 2016) for five years.

(b) Certified Potato Seed (RC 56 - November 2015)

The Company finalised (November 2015) RCs with three suppliers i.e., M/s Avani Traders, Raipur, Royal Seeds & Fertilizers Private Limited, Kolkata (Royal Seeds) and Laukik Seeds and Fertilizers LLP, Raipur (Laukik Seeds) for supply of Certified Potato Seed.

Audit observed that all the three bidders had indulged in collusive bidding which is evident from the fact that the office address of two firms i.e., M/s Royal Seeds and M/s Laukik Seed were the same. Further M/s Avani Traders

[39] Joint Director (Agriculture), DoA; Scientist (Breeder), IGKV; Manager, Head Office and DGM (Seed)

and Royal Seeds were also associated[40] firms. Moreover, Shri Mukesh Choradiya, who was the authorised signatory of M/s Royal Seeds, had signed the declaration of M/s Avani Traders as witness by name of Shri Mukesh Jain, and the signatures of both Shri Mukesh Jain and Shri Mukesh Choradiya were the same. However, the technical committee[41] failed to identify the collusive bidding. Thus, finalisation of RCs from all these three bidders were irregular. The Company had procured Potato Seeds worth ₹ 2.12 crore from them during November 2015 to March 2017**.**

Here it is pertinent to mention that during Special Audit of the Company (April 2013) Audit had pointed out the Company's failure to detect the corrupt practices/ collusive bidding in RCO of Certified Potato and Coriander Seeds for 2011-12 by the bidders namely, M/s Raj Traders, Bhopal, M/s Rama Traders, Bhopal, M/s Avani Traders, Raipur and M/s KBA Traders, Indore. In reply, the Company had assured (September 2013) that in future they would act more vigilantly.

In the present Audit it was observed (May 2017) that though in one RCO (RC 62 of 2015-16), the Company had rejected the bids of M/s Raj Traders and M/s Rama Traders who previously had indulged in collusive bidding, in the instant case, the bid of M/s Avani Traders was not rejected on the same ground.

(c) Agriculture Pesticides (RC 22 – May 2016)

The Company finalised (May-June 2016) RCs with 27 bidders for supply of Agriculture Pesticides. Audit observed that 10 out of 27 successful bidders had indulged in collusive bidding as detailed in succeeding paragraphs:

(i) Shri Vinay Garg had participated in the tender while representing as the contact person for six[42] bidders.

(ii) Similarly, Shri Rakesh Singh Thakur represented as the contact person for three bidders viz., M/s Microplex India, Wardha, M/s Microplex Biotech & Agrochem Private Limited, Wardha and Datta Grotech & Equipments, Wardha. Further, the registered addresses, landline/mobile numbers of the first two bidders were also same.

(iii) Shri Abhishek Dudhe had participated in the tender representing as the contact person for three different bidders viz., M/s Om Agro Organics, Yavatmal, M/s Sai Agrotech, Yavatmal and M/s Sugway Agri biotech & Research Foundation, Yavatmal. The RC was finalised with the third firm i.e., M/s Sugway Agri biotech.

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[40] The authorised signatory of M/s Royal Seeds i.e., Mr. Mukesh Choradiya was also the authorised signatory of one of the associated firm of M/s Avani Traders i.e., M/s Unique Associates. The Company had considered (April 2016) M/s Avani Traders and M/s Unique Associates as one firm as discussed in succeeding sub paragraph (i).

[41] Deputy Director (Agriculture), DoA; Assistant Professor (Horticulture), IGKV and DGM (Seed)

[42] Allwin Chemical & Fertilizers Private Limited, Dhar; Allwin Industries, Raipur; Boss Agro Chemicals Private Limited, Raipur; International Biotech Products, Ratlam; Ojas Agro Chemical, Champa and Samridhi Bioculture Private Limited, Bhilai

Despite above clear instances of collusive bidding, the technical committee[43] had qualified the above bidders and the Company procured agriculture pesticides valued ₹ 7.50 crore from them[44] during June 2016 to March 2017.

(d) Dunnage Pallets (RC 30 –February 2015)

The Company invited (1 July 2014) RCO for supply of Dunnage Pallets[45]. Audit observed that all the three bidders[46] who participated in the tender indulged in collusive bidding, as all the three bidders had mentioned the same telephone/fax number and email address. Further, both the successful bidders i.e., Deluxe (a private limited company) and M/s Ashapura (a partnership firm) had the same director/ partner i.e., Shri Lakhamshi Shah and Manilal Shah. Despite this, the technical committee[47] recommended both the firms for RC without recording any justification and the same was approved by the MD. The Company had purchased (July 2015 to March 2017) Dunnage Pallets valued ₹ 11.01 crore (Ashapura – ₹ 5.39 crore and Deluxe – ₹ 5.62 crore) from these ineligible bidders.

(e) Horticulture Hybrid Seed (RC 01 – November 2015/January 2016/ February 2016)

The Company finalised (November 2015 and January/February 2016) RC with 16 bidders for supply of Horticulture Hybrid Seed. Audit observed that two bidders i.e., M/s Beejo Sheetal Seeds Private Limited and M/s Kalash Seeds Private Limited who participated in the tender, had the same address, contact number and fax number. Similarly, two more bidders i.e., M/s West Bengal Hybrid Seeds & Bio-Tech Private Limited and M/s Royal Seeds & Fertilisers Private Limited had the same address, contact number and fax number. Despite this, the technical committee[48] qualified these collusive bidders without recording any reasons and the same was approved by the MD. Accordingly, the Company issued RCs to them and procured the materials amounting to ₹ 4.91 crore during November 2015 to July 2017.

(f) Bullock drawn/ hand operated agriculture implement (RC 12 – November 2012)

The Company finalised (November/December 2012) RCs for supply of bullock drawn/ hand operated agriculture implement with 12 bidders. Audit observed that Shri Pitambar Gupta had participated in the tender representing

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[43] Joint Director (Agriculture), DoA; Additional Director (Horticulture), DoA; Deputy Director (Agriculture), DoA and Professor (Soil Science), IGKV

[44] Allwin Chemical & Fertilizers Private Limited – ₹ 18.52 lakh; Allwin Industries, Raipur – ₹ 70.46 lakh; Boss Agro Chemicals Private Limited – ₹ 15.52 lakh; International Biotech Products, Ratlam – Nil; Ojas Agro Chemicals – ₹ 37.68 lakh; Samridhi Bioculture Private Limited – ₹ 0.68 lakh; Microplex Biotech & Agrochem Private Limited – ₹ 1.37 crore; Microplex India – ₹ 29.24 lakh; Shri Datta Grotech & Equipments – ₹ 0.61 lakh and Sugway Agribiotech & Research – ₹ 4.40 crore

[45] Dunnage pallets are used in the godowns as floor base of seed bags to keep the seeds free from floor moisture.

[46] M/s Hydro Marine Services, Mumbai; M/s Ashapura Recycling System, Mumbai (Ashapura); and M/s Deluxe Recycling Private Limited, Mumbai (Deluxe)

[47] Joint Director (Agriculture), DoA; Deputy Director (Agriculture), DoA; Professor & HOD (Chemical Engineering), IGKV and District Marketing Officer, Markfed

[48] Joint Director (Horticulture), DoA; Deputy Director (Agriculture), DoA; Professor (Horticulture), IGKV and DGM (Seed)

himself as the contact person in three different organisations i.e., M/s Gupta Motors, M/s Agrotech Corporation and M/s Aqua Engineers. Similarly, Shri Parag Kumar Boddum had participated in the tender representing as the contact person in two different organisations i.e., M/s Baliram & Sons and M/s Swastik Agro Industries. Despite this, the technical committee[49] qualified and the Company finalised RCs with them and procured implements worth ₹ 1.71 crore from these bidders during November 2012 to June 2016.

(g) Diesel/ Petrol pump sets (RC 43 – June 2016)

The Company finalised (June 2016) RCs for supply of Diesel/Petrol pump sets with 12 bidders. Audit observed that Shri Pitambar Gupta had participated in the tender with representing in two different organisations i.e., M/s Gupta Motors and M/s Botliboi Limited. Despite this, the technical committee[50] qualified these collusive bidders without recording any reasons and the same was approved by the MD. Accordingly, the Company issued RC and procured materials valued ₹ 37.31 lakh from these ineligible bidders during June 2016 to March 2017.

(h) Agriculture Micronutrients (RC 61 - April 2015 and RC 23 - November 2015)

The Company finalised (1 April 2015) RCs (RC-61) for supply of Agriculture Micronutrients with 17 suppliers. Audit observed that out of 17 bidders with whom RCs were finalised, one bidder had submitted two bids in different names (M/s Microplex India, Wardha and M/s Microplex Biotech & Agrochem Private Limited, Wardha) with the same registered address, landline, mobile numbers and signature. Despite this, the technical committee[51] qualified these ineligible bidders without recording any reasons/justification, and the MD also approved the proposal.

Similarly, the Company again finalised (November 2015) rate contracts (RC-23) with both the ineligible bidders, on the recommendation of the technical committee[52] despite repetitive collusive bidding and procured agriculture micronutrients valued ₹ 23.58 lakh from them during April 2015 to June 2017.

(i) Horticulture/ Forestry/ Flower/ Fruit seeds and planting material (RC 4 –July 2016)

The Company finalised (5 July 2016) RCs with five bidders for supply of Horticulture/Forestry/Flower/Fruit seeds and planting materials. Audit observed that one successful bidder i.e., M/s Unique Associates, Raipur had submitted two bids in different names (M/s Unique Associates and M/s Avani Traders, Raipur) who shared the same registered address. Despite this, without recording reasons, and in violation of tender clauses, the MD instructed (April

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49 Joint Director (Agriculture Engineering), DoA; DGM (Seed) and Deputy Manager (Marketing)

50 Additional Director (Agriculture), DoA; Professor (Agriculture Engineering), IGKV; DGM-I (Seed); DGM-II (Seed) and GM (Finance)

51 Joint Director (Agriculture), DoA; Additional Director (Horticulture), DoA; Deputy Director (Agriculture), DoA and Professor (Soil Science), IGKV

52 Joint Director (Horticulture), DoA; Professor (Soil Science), IGKV and DGM (Seed)

2016) to consider both the firm as one firm for finalisation of RC and accordingly RC was finalised with M/s Unique Associates.

The Company finalised 11 RCs with the 29 suppliers who were indulged in collusive bidding and procured materials valued ₹ 36.40 crore from them.

In all the 11 cases mentioned above, though there were evidences of malpractice, the technical committee did not verify the bid documents and credentials of the bidders properly while finalising RCs. Instead of rejecting the collusive bids and blacklisting such bidders, the members of the technical committee qualified them and the same was also approved by the MD. The Company had procured materials valued at ₹ 79.21 crore from these 29 collusive bidders through various RCs during the review period from 2012-13 to 2016-17 as detailed in ***Annexure - 2.1.4***, out of which materials valued at ₹ 36.40 crore was procured under the RCs in which the bidders indulged in collusive bidding.

Accepting the Audit findings during the Exit Conference, the ACS assured (March 2018) that strict action would be taken against all the responsible officials and bidders/suppliers and instructed the MD to take action in a time bound manner in all the cases mentioned above. There was no indication on the action contemplated against the MD who had issued *suo motu* directions in the case of M/s Unique Associates.

Recommendation:

The Company should take action against the firms who indulged in collusive bidding as per the terms and conditions of tender, and also against the members of the technical committee and the MD for providing undue benefit to ineligible firms.

Lack of standard criteria for assessment of reasonability of rates

The Company has no laid down procedure for assessing the reasonability of rates and it has been fixed in ad-hoc manner.

2.1.9.7 Audit observed that there is no laid down procedure in the Company for assessing the reasonability of rates. The financial committee decides counter offer of rates without recording any justification/ analysis. In some cases the Company decides to issue counter offer on the basis of lowest quoted rate or quoted maximum retail price (MRP) reduced by certain percentage or last purchase price increased by certain percentage. In some cases the financial committee simply issues counter offers at lowest quoted rates without any analysis of reasonability of rates.

Significant instances of deficient finalisation of counter offer rates by the financial committee are discussed below:

Finalisation of rate contracts for Soil Testing Lab Equipment without assessing reasonability of rates

2.1.9.8 The Company invited (18 February 2016) tender (RC-20) for supply of soil testing lab equipment for the year 2015-16 onwards. After financial evaluation, the financial committee[53] decided (21 September 2016) to issue counter offer to all the 11 bidders at the lowest rates received. The RCs were

[53] Joint Director (Horticulture), DoA; Deputy Director (Agriculture), DoA; Professor and HoD (Soil Science and Agriculture Chemistry), IGKV and Assistant Director (Finance)

issued (8 December 2016) for 44 lab equipment to four[54] bidders who accepted the counter offer.

Audit noted that there were large variations between quoted lowest and highest rates for almost all items. For instance, the rates of M/s Popular Sciences Appratus Workshop Private Limited (M/s Popular) ranged between 150 *per cent* to 37,129 *per cent* above the counter offer rates. Despite this, M/s Popular accepted the counter offer rates. A main reason for this tendency of quoting higher rates by the bidders is the Company's policy to issue counter offer to all the qualified bidders ignoring the abnormal difference in rates quoted by the bidders. Thus, due to guarantee of receipt of counter offer, the bidders quote higher rates and there is risk of finalisation of RC at higher rate.

The Department stated (December 2017) that the counter offers were issued to all the bidders as per the prevailing practice to ensure availability of more suppliers.

The reply is not acceptable as the prevailing practice of the Company to issue counter offer to all the bidders encourages the tendency to quote higher rates. Here it is also pertinent to mention that after the Audit observation, the financial committee[55] cancelled (May 2017) the RC-77 of tall plants for 2017-18 due to huge variation i.e., 10 times to 500 times in minimum and maximum quoted price.

Recommendation:

In order to get more competitive rates, the Company should re-evaluate the present practice of issuing counter offer to all the bidders.

Finalisation of rate contracts at higher rates resulted in loss of ₹ 1.08 crore

2.1.9.9 The Company finalised the RCs at higher rates as discussed in the following paragraphs:

(a) Zinc EDTA (RC 23/ 61 – April 2015)

The Company had finalised RCs at higher rates in without assessment of reasonability of rates resulting in loss of ₹ 1.08 crore.

The Company invited (October 2014) tender for supply of Chealted Zinc (Zn-EDTA). On opening (19 January 2015) of the price bid, the lowest rate of Zn-EDTA was ₹ 85, ₹ 165 and ₹ 325 for 250 gram, 500 gram and 1 kg packing respectively which was lower than the last purchase price (LPP)[56] of ₹ 106.66, ₹ 195.33 and ₹ 376.19 respectively. Accordingly, the financial committee recommended (4 February 2015) the counter offer rate at the lowest rate found in the tender. However, the DGM (Seeds) proposed[57] (19 February 2015) not to finalise the RC by stating that as the quoted rate for Zn-EDTA was lower than the LPP, the quality of the same may not be ensured, which was accepted by the MD. Accordingly, the Company did not finalise the RC for Zn-EDTA and continued the old RC at higher rate.

[54] Varad Corporation, Raipur; Popular Sciences Appratus Workshops Private Limited, Ambala Cantt; Gennext Lab Technologies Private Limited, Delhi and Aadarsh Enterprises, Jabalpur

[55] Joint Director (Horticulture), DoA; Project in-charge, IGKV; Deputy Forest Officer, Department of Forest; GM (Finance) and DGM (Seed)

[56] The Company had finalised RC for supply of Zn-EDTA in June 2013 with 11 suppliers.

[57] The recommendations of financial committee were submitted for approval of MD through DGM (Seed).

Audit further observed that in the next tender (June 2015), the rate was found to be even lower[58] than the previous tender. This time, the Company accepted the rates and finalised (November 2015) RC ignoring the apprehension of poor quality expressed during the previous tender.

The decision of the Deputy General Manager (Seeds) and the MD to not finalise the RCO 61 (October 2014) on the ground of poor quality even without testing the quality of material lacked justification. Moreover, the issue of quality and specification of materials is assessed by the technical committee and financial bid of only technically qualified bidders is evaluated by the financial committee. Further, in case of poor quality supplied by the RC holder, the Company can reject the material as per tender conditions (clause 2.18-a). The decisions to reject the lowest offer resulted in purchase of Zn-EDTA at higher rates during the period of extension of period of previous RC (March 2015 to November 2015) in the absence of finalisation of new RC and extension of undue financial benefit of ₹ 1.08 crore to the suppliers.

The Department stated (December 2017) that rate found in February 2015 was much lower and quality of Zn-EDTA may be affected due to this. In the subsequent tender the rate was also found lower and after assurance of the quality the RC was finalised.

The reply is not acceptable because the bidder, who quoted the lowest rate, was technically qualified and thus it cannot be assumed that the quality of material would be poor. Further, action could have been taken against suppliers of inferior materials as per the tender condition.

(b) Oil cake and Neem cake (RC25 -January 2016)

The Company issued (January 2016) RC of Oil Cake and Neem Cake to two suppliers[59]. As per RCO documents, the bidders had to quote three rates in the price bids i.e., quoted rate, maximum retail price (MRP) and distributor price of the item for better comparison. In the instant case, the Company finalised the RCs for these items with both the bidders at rates higher than the MRP and after adding VAT and Company's Margin the prices of all the items were between 9.51 *per cent* to 25.79 *per cent* higher than the MRP. This is irregular under the Consumer Goods (Mandatory Printing of Cost of Production and Maximum Retail Price) Act, 2006 which stipulates that the MRP is inclusive of all taxes and a retailer/seller cannot sell at a price above MRP. The Company has purchased the material valued ₹ 36.39 lakh under this RC. This has resulted in extension of undue financial benefit to the suppliers and also loss to the farmers as they had to buy the goods at rates higher than the MRP.

The Management while accepting the Audit observation (raised in February 2016) stated (March 2016 and August 2017) that the RCs were cancelled on 11 March 2016.

The fact remains that though the RCs were cancelled in compliance to Audit observation, no action was taken against the officials of the financial committee[60] responsible for procurement at higher rates so far (July 2018).

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[58] ₹ 59, ₹ 115 and ₹ 225 for 250 gram, 500 gram and 1 kg packing of Zn-EDTA respectively

[59] Disha Bhoomi Biotech Private Limited and Shri Annpurna Agro Industries

[60] Professor (Soil Science), IGKV; GM (Finance) and DGM (Seed)

The Department stated (December 2017) that the bidders did not accept the counter offer rates due to increase in rates of raw materials of quoted items and consequently MRP would also be increased.

The reply seems to be an afterthought because nowhere in the proceedings of financial committee is there any record of the facts now stated by the Department.

Procurement of materials

2.1.10 The Company is responsible for distribution of adequate quantity of certified seeds of various crops to the farmers as per the requirement assessed by the State Agriculture Directorate (SAD). The Company fulfils the demand of SAD by in-house production or through procurement of seeds from outside agencies.

The Company also procures various agricultural implements, pesticides, hybrid vegetable seeds etc., through RCs. After adding its profit margin, the same is then supplied through its District Offices to various departments/ beneficiaries as per the requirements of the concerned Department. The District Offices issue purchase orders to the suppliers having valid RCs for supply of items at specified destination on payment after receipt of funds from the concerned department. After receipt of certificate of satisfactory completion of supply from concerned departments, the District Offices prepares bills for payment to the suppliers and sends the same to Head Office for checking and making payment.

Deficiencies/irregularities observed in the procurement of seeds and other materials are discussed in the succeeding paragraphs.

Undue favour to selected suppliers by District Managers by issuing purchase orders in ad hoc manner

2.1.10.1 During the Special Audit of the Company in April 2013, Audit had pointed out that there was no proper system in the District Offices of the Company regarding issue of purchase orders against requisitions received from the indenting departments. District Managers issue purchase orders to a few selected suppliers in an arbitrary and *ad hoc* manner.

The Company has not fixed any criteria for distribution of supply orders amongst the RC holders.

In response, the Management had assured (April 2013) that the District Managers had been instructed to issue orders to all the registered suppliers. The Department directed (7 September 2013) the Company to take action on certain irregularities pointed out in Special Audit Report, wherein the Department had also endorsed the views of the Audit.

Audit observed, however, that the Department failed to ensure compliance to their orders, as a result of which the irregularities persisted in all District Offices.

Some illustrative instances are given in table - 2.4.

Table-2.4: Illustrative cases of purchase orders placed by District Managers in *ad hoc* manner

Sl. No.	RC No.	Item	No. of RC holders	Total purchase (₹ in crore)	Maximum purchase value from a supplier (₹ in crore)	Name of the suppliers who got the maximum order value
1	RC 26 - May 2014	VA Mico Rhiza	9	2.83	1.79	M/s Aakash Laboratories
2	RC 16 - February/ March 2013	Horticulture, forestry produce	3	9.43	9.12	M/s Lakshya Technocrate Private Ltd.
3	RC 4 - July 2016	Horticulture, forestry, fruit plants and seeds	2	6.08	6.08	M/s Mahamaya Agro
4	RC 12 - June 2016	Bullock drawn hand operated agricultural implements	2	6.00	5.46	M/s Agrotech Corporation
5	RC 25 - January 2016	Oil cake, Neem cake, Rice bran and Bone meal	2	0.38	0.38	M/s Disha Bhoomi Biotech Private Limited

(Source: Data compiled from Company's records)

The Department stated (December 2017) that due to demand of specific brand by the user departments, the purchase order was issued to suppliers of the specific brands. The Department further stated that it is not feasible and practical to place the supply orders to all the suppliers because if the indented quantity is distributed among all the RC holders, the purchased quantity from each will be very less.

The reply is not acceptable and seems to be an afterthought as the Department and the Company had assured the Audit from time to time[61] that the procedure of placement of orders by District Offices would be made more transparent. Further, user departments had not demanded the material of particular brands, and in any case, as per terms and conditions of RC, suppliers are bound to supply the brands specified by the District Offices.

Recommendation:

The Company should ensure that District Offices place purchase order to RC holders in a transparent manner, and appropriate action is taken against employees who failed to follow its orders.

[61] Special Audit Report (May 2013) and Inspection Report of 2015-16 (16 May 2016)

Loss of ₹ 32.14 crore due to lack of proactive marketing strategy for sale of surplus seeds

2.1.10.2 The Company procures[62] seeds as per the requirement intimated by the State Agriculture Directorate (SAD). Further, the Company distributes the seeds to farmers through its Processing Centres and seed marketing cooperative societies. Crop wise details of demand, availability, procurement, distribution and status of surplus seeds for the period from 2012-13 to 2016-17 are given in ***Annexure - 2.1.5*** and summarised in table - 2.5.

(Quantity in quintals)

Table-2.5: Statement showing details of demand, availability, procurement, distribution and surplus seeds

Crop	Demand intimated by the Agriculture Department	Availability			Distribution	Surplus
		Seeds produced in the State	Purchase from outside State	Total availability		
Paddy	34,69,475	33,23,429	1,70,634	34,94,063	31,34,428	3,59,635
Soyabean	3,40,942	1,06,359	1,71,183	2,77,542	2,44,151	33,391
Wheat	3,20,029	2,56,893	51,147	3,08,040	2,72,885	35,155
Gram	2,17,145	1,26,756	1,00,015	2,26,771	1,94,758	32,013
Others	2,27,617	53,001	1,21,474	1,74,475	1,63,384	11,091
Total	**45,75,208**	**38,66,438**	**6,14,453**	**44,80,891**	**40,09,606**	**4,71,285**

(Source: Data compiled from Company's records)

After distribution of seeds, surplus seeds (if any) are auctioned in the *Krishi Upaj Mandis (Mandi).*The auction of surplus seeds every year is essential to minimise the holding cost as the seeds cannot be issued[63] to farmers in succeeding marketing year. The Company had auctioned 2,95,514 quintal paddy[64], soyabean[65], gram[66] and wheat[67] seeds (6.86 *per cent* of total procurement) in the *Mandis* during 2012-13 to 2016-17 at total sale proceeds of ₹ 45.35 crore against the actual value of seeds of ₹ 77.49 crore which resulted in loss of ₹ 32.14 crore.

The Company incurred loss of ₹ 32.14 crore due to lack of proactive marketing strategy for sale of surplus seeds.

Audit observed that the Company has not taken any steps to market these surplus seeds to other seed marketing agencies such as National Seeds Corporation Limited, NAFED, neighbouring State Seed Development Corporations etc., by participating in their tenders at the beginning of sowing season. The issue regarding auction of surplus paddy seed during Kharif 2015 season was reported vide para no. 3.3 of the Report of CAG of India (Public Sector Undertakings) for the year ended 31 March 2016, Government of

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62 The Company procures seed from farmers of the State at the rates fixed by the State Level Committee of GoCG and if the required seed is not available in the State, it procures seeds from seed marketing agencies of Government of India, other State PSUs and co-operative societies of Madhya Pradesh Beej Mahasangh at the mutually agreed rates.

63 Except some quantities of revalidated paddy seed which had been distributed in 2012, 2014 and 2015.

64 Auctioned 2,03,062 quintal (5.81 *per cent* out of total procurement of 34,94,063 quintal)

65 Auctioned 28,370 quintal (10.22 *per cent* out of total procurement of 2,77,542 quintal)

66 Auctioned 31,972 quintal (14.10 *per cent* out of total procurement of 2,26,771 quintal)

67 Auctioned 32,110 quintal (10.42 *per cent* out of total procurement of 3,08,040 quintal)

Chhattisgarh. During discussion (December 2016), the Joint Secretary, Department of Agriculture had stated that with an objective to develop the State as one of the prime seed exporting States in future, the Department has directed the Company to ensure export of surplus seeds to other seed marketing agencies. However, Audit observed that the Department has not issued any instructions to the Company for export of surplus seeds to other seed marketing agencies so far (July 2018).

Here it is pertinent to mention that the prices of seeds are always higher[68] than the prices of food grain and if the Company sold the seeds to the seed marketing agencies, it would definitely get better prices than the auction at *Mandi*. For instance the Company sold (November 2016) 5,125 quintal surplus paddy seeds to M/s Telangana State Seeds Development Corporation, on the basis of purchase request received from it, at the rate of ₹ 2,400 per quintal whereas the Company received average sale proceeds through auction at the rate of ₹ 1,140 per quintal.

The Department accepted (December 2017) the Audit observation.

Recommendation:

The Company should take steps to sell the surplus seeds to other seed marketing agencies to avoid losses.

Irregular purchase of materials worth ₹ 3.90 crore from cancelled RCs/ineligible vendor

2.1.10.3 As mentioned in *paragraph 2.1.9*, the list of approved RC holders is circulated to District Offices who purchase materials from suppliers based on indents received from user departments. Audit noticed three instances where the District Managers had purchased materials through cancelled RCs and in one instance where the District Managers had purchased materials from an ineligible supplier. The total value of such purchases was ₹ 3.90 crore as discussed in table - 2.6.

[68] The prices of seeds were higher than the prices of foodgrains during 2012-17 as it included subsidy/incentive component in addition to minimum support price of the foodgrain.

The Company purchased the materials worth ₹ 3.90 crore from the cancelled RCs/disqualified bidder.

Table - 2.6: Details of purchased made on cancelled RCs/disqualified bidder			
RC No.	**Name of the item**	**District Offices where purchase made**	**Remarks**
10 (January 2014)	Fencing iron pole, Barbed wire, RCC pole and Chain link fencing	Bilaspur, Dhamtari, Durg, Jadgalpur, Jashpur, Kanker, Baikunthpur, Rajnandgaon and Kawardha	The RC was cancelled on 15 January 2016 in view of clarification of GoCG that CSIDC and not the Company was authorised to finalise RC for these products under the Chhattisgarh Store Purchase Rules. However, District Managers of the concerned District Offices procured materials valued ₹ 37.62 lakh upto July 2017.
12 (June 2016)	Bullock drawn hand operated agricultural Implements	Balod, Sarguja, Surajpur, Balrampur, Mahasamund and Kanker	The RC was cancelled on 28 October 2016 due to wrong pre-qualification requirements fixed by the Company. The District Managers purchased the materials valued at ₹ 2.55 crore after cancellation of RC during November 2016 to May 2017.
22 (May-June 2016)	Agriculture pesticides	Balod, Jagdalpur, Bilaspur, Champa, Dhamtari and Mahasamund	The District Managers purchased (June 2016 to March 2017) agriculture pesticides valued ₹ 96.74 lakh from M/s Om Agro Organics, Yavatmal whose RC had already expired in May 2016. Further, in the subsequent RC finalised in May 2016, the firm was declared disqualified by the Technical Committee. Hence, purchases made after May 2016 were irregular.
(Source: Data compiled from Company's records)			

Thus, District Managers were grossly negligent in placing supply orders even after cancellation of RCs/ on the disqualified bidder, as also the Deputy Manager (Accounts) and GM (Finance) of the Company who failed to verify the bills and therefore, released payments to invalid RC holders.

During the Exit Conference, the ACS instructed the Company to take strict action against the responsible officials.

Recommendation:

The Company should take action against the officials who procured materials from cancelled RCs/disqualified bidder.

Procurement of materials from Special Purpose Vehicles formed under the Public Private Partnership project

2.1.10.4 The BoD of the Company approved (29 March 2012) a Concept Plan to promote integrated agricultural business and agro based processing and manufacturing industrial units in the Chhattisgarh State prepared by the Chhattisgarh Industrial and Technical Consultancy Centre (CITCON). The BoD further approved (3 September 2012) the draft MoU with CITCON and initial work plan and also authorised the Chairman and the MD for further actions in this regard.

As per the concept plan the Company entered (21 December 2012) into a tripartite agreement with CITCON and a private partner M/s Lakshya Natural Foods Private Limited, Raipur (Lakshya Natural) for establishment of PPP project. As per the tripartite agreement:

a) The private partner shall incorporate a Special Purpose Vehicle (SPV) for manufacturing of soya milk and millet processing.

b) The SPV shall pay 75 *per cent* share of annual premium[69] to the Company and remaining 25 *per cent* share to CITCON.

c) The Company would make efforts to facilitate procurement of raw material (agricultural produce) by SPV and provide support for marketing of the products manufactured by it.

d) CITCON shall make efforts to develop entrepreneur traits amongst farmers, act as a catalyst for agri-business and agro-industrial development in the State, provide consultancy for establishment of manufacturing units for above products in PPP mode and prepare the detailed project report of the project on payment of fee basis.

The details of SPVs formed by M/s Lakshya Natural and procurement made by the Company from these SPVs are given in table - 2.7.

Table - 2.7: SPVs formed by the private partner and procurement made

Sl. No.	Name of SPVs	Date of incorporation	Products	Value of purchase order placed made during 2013-17 (₹ in crore)
1	CG Soya Products Private Limited (CG Soya)	5 April 2013	Soya milk	12.02
2	CG Nutrivet Feeds Private Limited (CG Nutrivet)	17 April 2013	Multigrain flour	8.62
3	CG Nutraceutical Foods Private Limited	8 August 2014	Biscuits, Cake	0.94
4	CG Fermented Food Products Private Limited	26 September 2014	Fortified oil, fortified flour	-
5	Healthy Snacks Private Limited	17 November 2014	Crunch, *Upma* and *Halwa*	-
6	Indravati Grains Private Limited	4 January 2017	Fortified pulses, fortified rice	-
Total				**21.58**

(Source: Data compiled from Company's records)

Audit observed the following:

A. Non- achievement of the objective of formation of SPV

As per the concept plan and tripartite agreement, the main objective for formation of SPV was to promote integrated agricultural business and agro based processing and manufacturing industrial units in the State. Audit observed, however, that the SPV, CG Soya had purchased (May 2015 to October 2016) 232 MT Soyabean (out of total purchases of 276 MT soyabean) from traders in Madhya Pradesh instead of Chhattisgarh defeating the very purpose of formation of the SPV. Similarly, two other SPVs viz., CG Nutrivet Feeds and CG Nutraceutical had not installed any equipment for

[69] Annual premium (two *per cent* of annual turnover of SPV) was determined by the highest rate quoted by the winning firm (Lakshya Natural) at the time of selection of consortium partners.

The objective of formation of SPV was not achieved, as the raw materials for the project were purchased from outside the Chhattisgarh.

manufacturing of Cattle Feed and Biscuits respectively and these SPVs supplied the materials by purchasing from traders. The cattle feed was procured from Poshak Feeds, Raipur and biscuit from Sunder Industries, Nagpur on contract manufacturing. Thus, these SPVs neither purchased raw material from the farmers of the Chhattisgarh State nor generated any employment in the State. The GM (Finance), being Director in these SPVs, representing the Company, thus failed to monitor the activities of these SPVs.

The Department accepted (December 2017) the Audit observation.

B. Non-execution of agreement with SPVs

As per tripartite agreement, the SPV shall enter into suitable agreement with the Company, CITCON and Lakshya Natural. However, no such agreement was executed so far (July 2018) with any of the six SPVs. In the absence of the Agreement with SPVs, the Company may not be able to exercise effective control over the activities of the SPVs and take legal action for violation of concept plan and the tripartite agreement as these SPVs are separate legal entities different from the private partner of the consortium.

The Department stated (December 2017) that SPVs prepare the Memorandum of Association (MoA) and Article of Association (AoA), which was signed (April 2013, August 2014, September 2014, November 2014 and January 2017) by the nominated officer of the Company, CITCON and Lakshya Natural.

The reply is not acceptable as the required agreement has not been executed with incorporated SPVs so far. Preparation of MoA and AoA is a statutory requirement for formation of new Company and it is not a substitute of agreement by SPVs with the Company and CITCON.

C. Irregular procurement of materials worth₹ 21.58 crore without inviting tenders

In violation of SPR the Company procured materials valued at ₹ 21.58 crore from SPVs for various Government Departments without inviting tenders.

During 2013-17, CG Soya and CG Nutrivet supplied Soya Milk and Millets (cattle feed) valued at ₹ 5.74 crore and ₹ 8.62 crore respectively to the Company for onward supply to the Government Departments at the rates[70] decided by the consortium. Similarly, another SPV i.e., CG Nutraceutical Foods Private Limited[71] had supplied the biscuits valued of ₹ 94.42 lakh during the year 2016-17 for onward supply to Primary Schools and Anganwadi Kendra of Kondagaon District[72].

Further, the Department of School Education, GoCG announced (25 February 2017) a new scheme called *"Mukhyamantri Amrit Yojna"* (scheme) for weekly supply of flavoured soya milk to the students of Government school on trial basis for two districts viz., Bastar and Kabeerdham from 1 April 2017. The GoCG appointed (7 March 2017) the Company as the nodal agency for supply of flavoured soya milk. Accordingly, the Company placed (22 March

[70] ₹ 46.20 per litre (one litre pack) and ₹ 52.50 per litre (500 ml pack) for soya milk, ₹ 19 per 100 gram packet of biscuits and the price of cattle feed was charged on the basis of Chhattisgarh State Marketing Federation Limited rates (₹ 17,580 to ₹ 24,551 per ton) inclusive of VAT

[71] SPV (Sl. No. 3 of table -2.7) formed by the private partner

[72] The Company offered (November 2016) to supply biscuits to all the districts of the State, however, other districts did not purchase.

2017) orders on CG Soya for monthly supply of 1.20 lakh litre flavoured soya milk at the rate of ₹ 52.50 per litre at a total annual cost of ₹ 6.28 crore[73]. Audit cannot comment about reasonability of rates offered by SPV as the packaging of soya milk was different from the Soya milk available in the open market[74]. Audit observed that Company had placed supply order without inviting any tender or finalising any RCs, as is done in the procurement of other items by the Company, in violation of SPR which stipulates that all Government procurement exceeding ₹ 50,000 should be made by inviting open tenders from public. This has resulted in irregular placement of orders worth ₹ 21.58 crore (₹ 15.30 crore + ₹ 6.28 crore) at the rates arbitrarily decided[75] by the SPVs.

The Department stated (December 2017) that marketing of product of SPV is done by the Company and it need not invite tender for marketing.

The reply is not acceptable because the PPP project of the Company enables the Company to market the products of SPVs but it does not empower the Company to purchase for Government without inviting tenders in violation of SPR.

From the above observations on implementation of PPP project by the Company, it is evident that the Company failed to monitor the activities of the SPVs in accordance with concept plan and tripartite agreement, thereby providing undue favour to private partner by not binding them to procure the raw materials from the farmers of the State and not setting up manufacturing facilities for cattle feed and biscuits in the State. Further, there was undue enrichment of the private partner by procuring materials valued at ₹ 21.58 crore for Government from SPVs without inviting tenders.

Recommendation:

The Company should ensure that the SPVs only purchase raw materials from the farmers of the State and set up the manufacturing units in the State. Further, the procurement of items from SPVs by the Company for Government departments should be made by inviting open tender in accordance with the Stores Purchase Rules of GoCG.

Conclusion

- The functioning of the Company was adversely affected by the acute shortage of manpower during 2012-13 to 2016-17 which ranged between 42 *per cent* to 53 *per cent.* The Company failed to take effective steps to fill the vacant posts despite having permission from the Department.

[73] Monthly cost of ₹ 62.79 lakh per month for 10 months (April 2017 and July 2017 to March 2018)

[74] The soya milk available in the market is of tetra pack (1 litre and 200 ml packing), whereas the Company procuring the soya milk in poly packaging of 500 ml.

[75] ₹ 46.20 per litre (one litre pack) and ₹ 52.50 per litre (500 ml pack) for soya milk, ₹ 19 per 100 gram packet of biscuits and the price of cattle feed was charged on the basis of Chhattisgarh State Marketing Federation Limited rates (₹ 17,580 to ₹ 24,551 per ton) decided by the members of the consortium and tender committee.

- No internal audit was conducted in the Company during 2012-13 to 2015-16 though it was mandatory as per the Companies Act, 2013. The Company did not have any Management Information System relating to finalisation of rate contracts and procurement of materials as no reports/returns were prescribed for submission of information to higher management on above matters.
- The Company had to pay ₹ 3.84 crore towards penal interest during 2012-13 and 2014-15 to 2016-17, due to incorrect estimation of income for payment of advance income tax under the Income Tax Act.
- The Company incurred loss on account of avoidable payment of Income Tax of ₹ 4.27 crore due to disallowance of expenditure on account of non deduction of TDS from the fees paid to Chhattisgarh State Seed Certification Agency.
- The Company finalised 70 Rate Contracts (RCs) for procurement of various materials during 2012-13 to 2016-17, out of which in 51 RCs, the tender terms and conditions were finalised after invitation of tenders in violation of the Chhattisgarh Store Purchase Rules, 2002.
- The Company finalised nine RCs with 27 bidders who did not meet the specified eligibility criteria and 11 RCs with the 29 suppliers who were indulged in collusive bidding resulting in irregular purchase of ₹ 52.96 crore.
- The Company incurred loss of ₹ 32.14 crore on auction of surplus seeds due to lack of proactive marketing strategy for sale of surplus seeds.
- The Company executed a Public Private Partnership (PPP) Project to promote integrated agricultural business and agro based processing industries. The private partner incorporated six Special Purpose Vehicles (SPVs) for manufacturing of specified products. The main objective for formation of SPVs under PPP mode was defeated as these SPVs neither purchased raw material from the farmers of the State nor generated any employment in the State due to non-establishment of own manufacturing plant. Further, the Company procured materials valued at ₹ 21.58 crore from these SPVs for various Government Departments without inviting tenders.

2.2 Audit on construction activities of Chhattisgarh Police Housing Corporation Limited

Introduction

2.2.1 Chhattisgarh Police Housing Corporation Limited (Company) was incorporated in December 2011 as a wholly owned State Government Company under the administrative control of the Home Department (Department), Government of Chhattisgarh (GoCG). The Company commenced operations from February 2012. The main objective of the Company is to undertake construction of all types of police buildings viz., police stations, office buildings and residential quarters, etc., by engaging contractors. Being the Nodal Agency for execution of construction works of the Department, the Company receives construction requirements from Police Headquarters (PHQ), Home Department, GoCG and carries out construction activities viz., award, execution and monitoring of the works and on completion, the works are handed over to PHQ.

The construction activities are funded by Government of India (GoI) and GoCG under various schemes being implemented through PHQ. Therefore, the funds are initially disbursed by GoI/ GoCG to PHQ, who transfers the same to the Company as advance alongwith grant of administrative approval for the works. Out of the funds amounting to ₹ 620.42 crore received by PHQ up to 2016-17, ₹ 532.42 crore was disbursed to the Company and the balance ₹ 88.00 crore was kept by PHQ in non-interest bearing Personal Deposit account (₹ 35.00 crore) and in public account (K-deposit) of GoCG (₹ 53.00 crore) for disbursal to the Company as per requirement. During the first operational year 2011-12, no works were awarded by the Company. Details of works for the period 2012-13 to 2016-17 are given in table - 2.2.1. Out of the 181 works pending completion, 178 works were pending completion for periods ranging from two to 52 months beyond their scheduled date of completion.

Table No. 2.2.1: Year-wise works awarded and physical & financial progress achieved

(₹ in crore)

Year	Status of year-wise works taken up (as on November 2017)					Cumulative expenditure on all works (as on 31 March of respective year)
	Number of works awarded	Value of works awarded	No. of works completed	No. of works pending for completion	Expenditure incurred on works	
2012-13	52	89.77	33	19	78.76	6.28
2013-14	76	186.46	32	44	160.64	46.70
2014-15	98	138.29	32	66	107.40	161.75
2015-16	41	92.07	8	33	48.45	289.10
2016-17	19	40.10	0	19	15.41	384.32
Total	**286**	**546.69**	**105**	**181**	**410.66**	

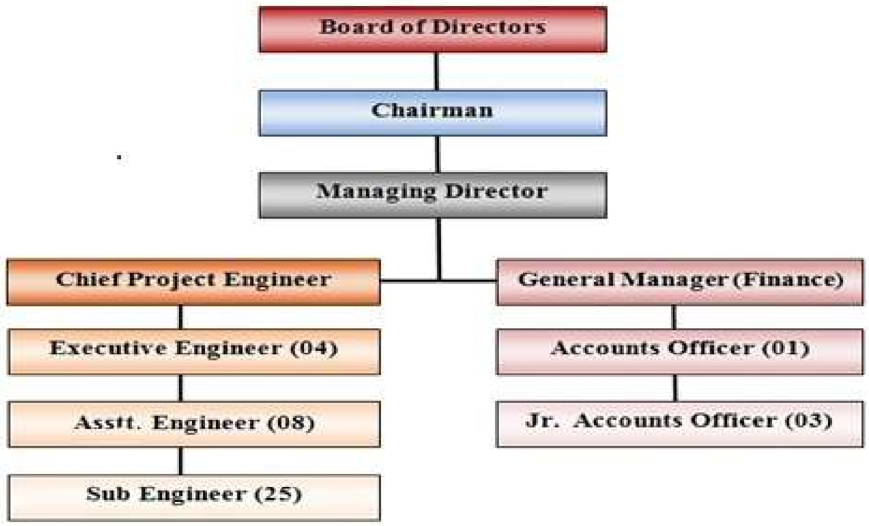
(Source: Data compiled from the Company's records)

As only 105 works (37 *per cent*) out of total 286 works awarded by the Company upto 31 March 2017 were completed and the Company has already spent ₹ 410.66 crore (77 *per cent*) out of total funds of ₹ 532.42 crore received from PHQ, the Company should review the sufficiency of funds for completing the balance works.

Organisational Setup

2.2.2 The Company is under the administrative control of the Home Department, GoCG headed by the Principal Secretary. The management of the Company is vested in a Board of Directors (BoD) comprising five Directors including a Chairman[1] of BoD and a Managing Director (MD) who is the Chief Executive Officer of the Company looking after its day-to-day activities. The organogram of the Company is given in chart - 2.2.1**.**

Chart - 2.2.1: Organogram



Audit Objectives

2.2.3 The audit was conducted to assess whether:

- Standard practices were followed and contractual provisions were adequate to protect the financial interests of the Company;
- Works were awarded ensuring economy and fair competition and executed efficiently in time bound manner;
- The Company has an effective and efficient financial management system, internal control system and monitoring mechanism.

Audit Criteria

2.2.4 The audit criteria have been derived from the following sources:

- Memorandum of association/ Articles of association of the Company, BoD agenda notes and resolutions, Delegation of Powers (DoP) and circulars;
- Orders and instructions issued by GoCG/ GoI;
- GoCG Works Department Manual (WD Manual), Chief Vigilance Commission (CVC) guidelines, and

[1] Holds the rank of Director General of Police and appointed by GoCG.

- The Companies Act, 1956 and 2013, Income Tax Act, relevant provisions of Service Tax (ST).

Scope and Methodology of audit

2.2.5 The audit was conducted from April 2017 to August 2017 to assess the performance of the Company during the period from 2012-13 to 2016-17 with respect to the audit objectives. Correspondence (including reminders) was made with Principal Secretary of the Department for conducting the entry conference. However, due to no response from their end, the objectives, scope and methodology of audit was intimated (July 2017) to the Principal Secretary and MD of the Company. The audit findings were reported (September 2017) to the Company and Department including the proposal for conducting exit conference. In response, the reply of the Department, approved by the Additional Chief Secretary[2] was received (December 2017) which was merely endorsement of the Company's reply. The reply has been duly considered while finalising the audit report. However, there was no response from the Department regarding exit conference.

Audit test checked 86 works contracts (30 *per cent* out of the total 286 works contracts) valued at ₹ 178.85 crore (32.72 *per cent* of the total money value of ₹ 546.69 crore of 286 works contracts) awarded by the Company during the review period (2012-17).

There are seven audit observations[3] on the test checked works, which are of a nature that may reflect similar errors/ omissions in other works being executed by the Company, but not covered in the test audit. The Company therefore may, like to internally examine all the other works being executed by them with a view to ensure that they are being carried out as per requirement and rules.

Audit Findings

The audit findings are discussed in succeeding paragraphs.

Manpower Management

2.2.6 As an initial manpower setup, GoCG sanctioned a total of 109 posts for the Company in July 2011. Later, the sanctioned posts were enhanced (February 2012) to 147 by GoCG. The MD was authorised by BoD to fill all the necessary posts as per the approved set-up. Details of sanctioned strength *vis-a-vis* actual deployment as on 1 April 2012 and 31 March 2017 are given in the table - 2.2.2.

[2] Previously Principal Secretary.
[3] *Paragraphs. - 2.2.9.2 (i) & (ii), 2.2.9.4, 2.2.10.1, 2.2.10.2* and *2.2.10.3 (i) & (ii).*

Table - 2.2.2: Manpower position of the Company						
Name of the Post	1 April 2012			31 March 2017		
	Sanctioned strength	Actual deployment	Shortage	Sanctioned strength	Actual deployment	Shortage
Chairman	01	01	00	01	01	00
Managing Director	01	01	00	01	01	00
General Manager (Finance)	01	00	01	01	01	00
Chief Project Engineer	01	01	00	01	01	00
Project/ Executive Engineer	04	00	04	04	04	00
Accounts Officer	01	00	01	01	00	01
Assistant Engineer	08	02	06	08	08	00
Jr. Accounts Officer	03	00	03	03	01	02
Sub Engineer	20[4]	07	13	25	24	01
Other Staff[5]	107	19	88	107	59	48
Total	**147**	**31**	**116**	**152**	**100**	**52**
(Source: Data compiled from the Company's records)						

Audit observed (June 2017) the following deficiencies in manpower management:

The post of General Manager (GM) (Finance) was not filled up in 2012-13 and 2014-15 and the post of Accounts Officer had never been filled up since inception of the Company. Due to these reasons, adequate monitoring of financial activities was not ensured which led to deficiencies in financial management (discussed in *paragraphs - 2.2.7.1, 2.2.7.2* and *2.2.7.3*). Further, due to shortage of accounting staff, the accounts of the Company were being maintained by an outsourced accounting and financial consultant[6].

Further, against the four sanctioned posts of Project/ Executive Engineer, three posts were vacant up to 2014-15. Similarly, against the 17 sanctioned posts of sub-engineers (civil), only six posts were filled up initially in 2011-12 and the remaining 11 posts were filled up in 2014-15. Delay in filling up of vacancies had resulted in inadequate supervision of works under execution and consequential delay in completion of works {discussed in *paragraph-2.2.10.3(i)* and *(ii)*}. Subsequently, considering the increase in activities of the Company, GoCG sanctioned (August 2015) additional five posts of sub-engineers (civil), out of which, four posts were filled up during the year 2015-16.

Further, there was significant shortage of supporting/ other staff in the Company during the initial period[7] (2012-13 to 2013-14). Later, with the

[4] Including 17 sub-engineer (civil), two sub-engineer (electrical) and one sub-engineer (architect).

[5] Assistant Programmer, Head Clerk, Draftsman, Short Hand Grade I, II & III, Assistant Grade-I, II & III, Assistant Draftsman, Data Entry Operator, Driver, Peon, Chowkidar and Unskilled labour etc.

[6] A qualified chartered accountant.

[7] Against 107 sanctioned posts, only 19 posts were filled up upto 2012-13 and five more posts were filled up during 2013-14.

increase in the activities of the Company, 35 posts of other staff were filled up during the year 2014-15. However, there was no new appointment since then.

Recommendation:

The Company should fill up the vacant posts in a time bound manner to ensure adequate monitoring over the construction activities and financial management.

Financial Management

Financial Position and Working Results

2.2.7 The Company has finalised its accounts upto the year 2016-17. The financial position and working results of the Company are given in the table -2.2.3.

Table - 2.2.3: Financial position and working results

Financial position

(₹ in crore)

Sources of funds:					
Particulars	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Share capital	2.00	2.00	2.00	2.00	2.00
Reserves and surplus	4.95	15.35	22.05	28.36	34.08
Current liabilities and provisions[8]	256.55	268.98	231.63	197.84	181.23
Total	**263.50**	**286.33**	**255.68**	**228.20**	**217.31**
Application of funds:					
Fixed assets	0.42	0.45	0.63	0.72	0.84
Other non-current assets	5.91	0.03	0.04	0.08	0.29
Cash and bank balance	255.29	276.98	231.89	226.72	211.24
Short-term loans and advances	1.34	4.79	4.85	0.04	0.04
Other current assets	0.54	4.08	18.27	0.64	4.90
Total	**263.50**	**286.33**	**255.68**	**228.20**	**217.31**

(Source: Data compiled from the Company's records)

[8] Includes provision for taxes, trade payables, provision for employees' benefits, security deposits and closing balance of funds received from PHQ for execution of various projects (i.e., fund received *less* expenditure incurred on projects).

Working results (₹ in crore)					
Particulars	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Income					
Supervision charges[9]	0.25	-	-	-	-
Other income (i) Interest from bank (FD)	8.11	16.17	10.51	9.72	9.03
(ii) Establishment grant	-	1.41	2.35	3.83	4.65
(iii) Misc. Income	0.03	0.19	0.07	0.03	0.01
Total	**8.39**	**17.77**	**12.93**	**13.58**	**13.69**
Expenditure					
Employee benefit expense	1.05	1.45	2.01	3.31	4.22
Administrative expenses	0.18	0.45	0.57	0.52	0.44
Depreciation	0.10	0.12	0.18	0.29	0.29
Taxes	2.18	5.36	3.46	3.16	3.01
Total	**3.51**	**7.38**	**6.22**	**7.28**	**7.96**
Net profit	**4.88**	**10.39**	**6.71**	**6.30**	**5.73**
(Source: Data compiled from the Company's records)					

The Company had received establishment grant amounting to ₹ 12.24 crore[10] from GoCG during the year 2013-14 to 2016-17 and incurred an expenditure of ₹ 12.37 crore on establishment during the same period.

Significant observations relating to financial management are discussed in succeeding paragraphs:

Avoidable payment of income tax on interest on funds received from PHQ

2.2.7.1 As stated in earlier *paragraph - 2.2.1*, the Company carries out construction activities for PHQ for which funds are received in lumpsum as advance before the execution of works. This resulted in accumulation of unspent balance of advances ranging from ₹ 148.09 crore to ₹ 250.72 crore during the year 2012-13 to 2016-17 as given in table - 2.2.4.

Table - 2.2.4: Year-wise disbursement of funds and expenditure incurred (₹ in crore)					
Year	**Opening Balance**	**Advance received during the year**	**Funds available during the year**	**Expenditure on constructions during the year**	**Closing Balance**
A	**B**	**C**	**D = B + C**	**E**	**F = (B+C) - E**
2011-12	-	127.98	127.98	-	127.98
2012-13	127.98	125.86	253.84	6.28	247.56
2013-14	247.56	43.58	291.14	40.42	250.72
2014-15	250.72	76.06	326.78	115.05	211.72
2015-16	211.72	91.28	303.00	127.35	175.65
2016-17	175.65	67.66	243.31	95.22	148.09
Total		**532.42**		**384.32**	
(Source: Data compiled from the Company's records)					

[9] The Company recovered supervision charges at the rate of 3.5 *per cent* (5.0 *per cent* for works under Fortified Police Stations Scheme) on the value of works executed during 2012-13. No supervision charges were recovered in subsequent years as GoCG provided establishment grant to meet the establishment expenditure of the Company.

[10] ₹ 1.41 crore (2013-14), ₹ 2.35 crore (2014-15), ₹ 3.83 crore (2015-16) and ₹ 4.65 crore (2016-17).

The Company did not remit ₹ 53.55 crore i.e., interest earned on advances received from PHQ and made avoidable payment of income tax amounting to ₹ 17.52 crore thereon.

Audit observed (July 2017) that during 2012-13 to 2016-17 interest of ₹ 53.55 crore was earned on these unspent balances which were parked in term deposits. The Company accounted for the same as own income instead of crediting the same to the project funds or remitting to PHQ. Consequently, the Company had to make avoidable payment of ₹ 17.52 crore as Income Tax during 2012-13 to 2016-17, as detailed in table - 2.2.5.

Table - 2.2.5: Year-wise details of income and tax paid thereon

(₹ in crore)

Financial Year	As per Annual Report		Total tax paid as per income tax return	Tax on interest earned[11]
	Total Income	Interest income		
2012-13	8.39	8.11	2.49	2.41
2013-14	16.36	16.18	5.83	5.77
2014-15	12.93	10.51	3.51	2.85
2015-16	9.75	9.72	3.19	3.18
2016-17	9.04	9.03	3.31	3.31
Total	**56.47**	**53.55**	**18.33**	**17.52**

(Source: Data compiled from the Company's records)

The Department stated (December 2017) that the Company had treated the interest income as its own income because it had not charged any supervision charges from GoCG for the construction activities carried out on their behalf. Further, as there was no clear instruction on the utilisation of interest income, the same would be adjusted against supervision charges after completion of the projects.

The reply is not acceptable as the Company is getting establishment grant from GoCG each year in lieu of supervision charges. As per the condition for disbursement of grant, the Company cannot claim supervision charges. Therefore, the Company cannot adjust the interest earned on project funds against the supervision charges. Hence, accounting of interest earned on Government funds as its own income and payment of avoidable income tax of ₹ 17.52 crore was not justified.

Recommendations:

1. The Company should credit the interest earned on project funds to the project accounts or remit the same to PHQ to avoid unnecessary payment of income tax.

2. The PHQ should disburse funds to the Company as per actual requirements of the projects instead of disbursing lumpsum amounts.

Non-obtaining of Service Tax registration and non-payment of applicable Service Tax

2.2.7.2 Service Tax (ST) Registration is necessary for depositing ST, filing returns and undertaking various processes being regulated by law relating to ST. Section 69 of the Finance Act, 1994 (Act) stipulates that every person liable to pay ST shall make an application for registration.

As per GoI notification[12] (June 2012), in cases of works contracts, ST is chargeable on service portion of the works, which is 40 *per cent* of the total

[11] Tax paid during the year x Interest income for the year (as per annual report)/ Total income for the year (as per annual report).

[12] No. MoF/ Service Tax/ 24/2012 dated 06 June 2012.

value of the works executed, while the payment of ST is governed by Reverse Charge Mechanism (RCM). According to RCM, 50 *per cent* amount of ST payable on the works would be paid directly by the Company to the Government account, and the balance 50 *per cent* would be paid by the contractors. Further, the works agreements of the Company provide that the ST paid by contractors shall be reimbursed by the Company to them on submission of proof of payments.

The Company failed in timely deposit of Service Tax of ₹ 1.95 crore and created an avoidable liability of penal interest and penalty of ₹ 60.51 lakh.

Audit observed (July 2017) that the construction activities of the Company were exempted from ST up to February 2015. Though, the exemption was withdrawn with effect from 1 March 2015, the Company[13] did not obtain the ST registration and belatedly (October 2015) took up the matter with tax consultant who confirmed (October 2015) that the Company is liable to pay ST. However, instead of acting on the tax consultant's advice, the Company referred the matter belatedly (February 2016) to GoCG who advised (March 2016) the Company to consult a tax consultant. Instead the management referred (March 2016) the matter to the BoD, without disclosing the fact that the matter had already been referred to GoCG. Therefore, BoD instructed (March 2016) to obtain opinion of GoCG. Thereafter, no action was taken on the matter upto November 2016, when, after this was pointed out in audit, the MD obtained (January 2017) ST registration and deposited ₹ 2.27 crore towards ST so far (November 2017). However, due to undue delay in depositing ST by nearly two years, the Company had created an avoidable liability of penal interest of ₹ 39.07 lakh and penalty of ₹ 21.44 lakh on itself as per Section 75 and 76 of the Finance Act, 2014.

The Department's reply (December 2017) did not deny the audit observation.

Recommendation:

The Company should fix responsibility for the avoidable creation of liability due to belated payment of ST.

Parking of surplus funds ignoring the directives of GoCG

2.2.7.3 The Company receives funds under various schemes/ projects for construction works and unutilised funds are invested in bank deposits (discussed in *paragraph - 2.2.7.1*).

The Company parked surplus funds amounting to ₹ 57.22 crore in three ineligible banks ignoring the directives of GoCG.

Audit observed (July 2017) that the Company was maintaining 16 different bank accounts. In this regard, BoD instructed (September 2013) MD to carry out a detailed analysis to assess the requirement of so many bank accounts and to present a note for its consideration. However, for reasons not on record, no such analysis was conducted and the Company Secretary (outsourced) who was responsible for reporting compliance to the BoD failed to do so.

Further, GoCG had notified (April 2013, August 2014, March 2015 and July 2016) list of eligible banks and directed all State owned Public Sector Undertakings (PSUs) to park their surplus funds in these notified banks only. However, the Company had parked surplus funds amounting to ₹ 10.55 crore, ₹ 27.89 crore and ₹ 18.78 crore as of March 2017 in RBL Bank, IndusInd

[13] Junior Account Officer, GM (Finance) and MD.

bank and ING Vysya Bank respectively though these banks were not included in the GoCG notification. These bank accounts were opened by MD who obtained *ex-post facto* approval from BoD[14]. The opening of the bank accounts and the *ex-post facto* approval were unauthorized.

The Department stated (December 2017) that the Company had opened scheme-wise/ work-wise bank accounts and the Government circulars are not directly received by the Company. Hence, the funds were parked in the private banks which were offering higher rate of interest.

The reply is not acceptable, as it does not address the issue of the management ignoring the directive (September 2013) of the BoD. Moreover, the relevant Government circular was available in the Company records seen by Audit. The contention of higher rate of interest offered by the un-notified private banks is also not correct as the rate of interest offered by these banks was not higher than the rates offered by the notified bank[15].

Recommendation:

The Department should take appropriate action against the MD for violating Government orders. The Company should also take appropriate action against the Company Secretary for failing to comply with BoD directives. The Company should assess the actual requirement of bank accounts so as to reduce the same to ensure ease of operation and it should immediately transfer the funds from accounts in ineligible banks to accounts in eligible banks.

Monitoring and Internal Oversight Mechanism

2.2.8. Significant observations on the oversight and internal control mechanism prevalent at the Department and Company level are discussed below:

- As discussed in *paragraph - 2.2.1*, the Company came into existence in December 2011 and works as the State Government's nodal agency for construction of police buildings under the administrative control of Home Department. The Department appoints the BoD members, Chairman and MD; approves the delegation of powers, sanctions the manpower set-up and provides establishment grant and funds for execution of projects. The activities of the Company are being monitored by the Department through PHQ headed by the Director General of Police, who is also Chairman of the Company. However, the role of PHQ was mainly confined to communication of Departmental orders, according administrative approval for the works and release of funds to the Company. Further, as per administrative approval and fund release orders issued by PHQ during 2011-12 to 2016-17, the Company

[14] IndusInd bank account no. 6451 and 4882 were opened on 18.02.2013 and 25.04.2014 while approval of BoD was obtained on 20.09.2013 and 08.09.2014 respectively, ING Vysya bank account no.5200 was opened on 26.06.2013 and approval of BoD was obtained on 08.09.2014 & RBL bank account no. 3520 and 3467 were opened on 26.10.2016 and 01.11.2016 while approval of BoD was obtained on 18.11.2016.

[15] The rate of interest offered by un-notified banks ranged between 5.5 to 7.25 *per cent* whereas rate of interest offered by State Bank of India was ranging between 5.25 to 7.5 *per cent* during 2016-17.

was required to submit monthly reports of physical and financial progress of works to PHQ. However, no such progress reports were submitted by the Company during 2012-13 to 2016-17 and PHQ also did not insist for the same. Thus, PHQ failed to effectively monitor the activities of the Company.

- The Company has not prescribed any format for periodical progress reports for works executed by it. In the absence of prescribed format, the progress reports prepared by the Project Engineer at headquarters of the Company did not contain important details such as date of commencement of work, scheduled date of completion, details of delays, time extension, penalties and payment made to contractor, etc. and the progress reports were not being submitted to higher management at regular intervals and uniformly for all the ongoing works. In the absence of regular submission of the progress reports the progress of works was not being regularly monitored by higher management/ BoD which caused delay in completion of works as discussed in *paragraph - 2.2.10.3 (i)*.

- The Company had no internal audit wing of its own. It has also not prepared any internal audit manual so far (December 2017). Internal audit is conducted by outsourced chartered accountants and is mainly confined to preliminary checking of accounts leaving out scrutiny of tendering process, review of time extension cases, analysis of delay in completion of projects, payment to/ recovery from contractors, payment of statutory dues, etc. Exceptionally, the internal audit reports for the period April 2013 to March 2014 highlighted the important issues like non-preparation of works/ process manual, non-levy of penalties on delayed works and non-adherence to prescribed time limit for extension of time (EoT), etc. In this regard, it was seen that the internal audit reports were submitted to MD, who failed to take follow up/ corrective action. Further, there was no practice/ procedure in the Company to place these reports before BoD.

- The Company maintains records of earnest money deposit (EMD), security deposit (SD), bank guarantee (BG), work orders, mobilisation advance and secured advance, etc., only as soft copy at the Company headquarters. Further, as these are not being maintained in any enterprise resource planning (ERP) system, these are susceptible to unauthorised changes and manipulation of data. It was also observed that the working files for the construction works being maintained under the supervision of Project Engineer (Headquarters) does not bear file identification numbers and page numbers. This indicated lack of adequate supervision over record keeping, leaving chances of unauthorised manipulation.

The Department stated (December 2017) that the SD, mobilisation advance, BG and secured advance registers are being maintained in the soft form, work progress is being reviewed monthly by the higher authorities. The services of experienced chartered accountants are being obtained as internal auditor to ensure proper maintenance of books of account.

The reply is not acceptable as the progress reports of the works were not being submitted to higher management on regular basis. Also, no details of monthly review of progress of works by the higher authorities were found in the records furnished to Audit. Further, the reply confirms that the internal audit conducted by chartered accountants was mainly confined to maintenance of books of account and the core activities of tendering process, delay in completion of projects, recovery of dues from contractors and payment of statutory dues, etc., were not covered.

Recommendations:

1. Progress reports should be prepared containing necessary details of works and should be submitted to higher management and PHQ on regular intervals for effective monitoring.

2. Internal audit should cover all the important activities of the Company.

Non-compliance to standard practices and deficiencies in contractual provisions

2.2.9 Audit observations on the adequacy of contractual provisions and their adherence during the execution of works, are discussed in succeeding paragraphs:

Non-preparation of works manual

2.2.9.1 Since its formation (December 2011), the Company has taken up 286 works valued at ₹ 546.69 crore till March 2017 for execution. However, it has not prepared any works manual so far (December 2017). Nor has the Company adopted the Works Department (WD) Manual which is being used by GoCG departments whose core functions are construction of buildings. Therefore, the execution of works was being regulated by terms of agreements. However, the same were also not adhered to as discussed in *paragraphs - 2.2.9.2, 2.2.10.2* and *2.2.10.3.*

In the absence of the works manual of the Company, the audit adopted WD manual as standard for comparison. The comparative position of provisions in WD Manual *vis-a-vis* status in works contracts of the Company is as given in table - 2.2.6.

Table - 2.2.6: Provisions of WD Manual *vis-a-vis* status in works contract of the Company			
Sl. No.	**Subject**	**Provision as per WD Manual**	**Status in the Company**
1	**Recovery of risk and cost**	As per Vol.-II/ Part-I - Conditions of Contract - Clause 3 (c), if the contractor left the work incomplete/ abandon, the work, the employer has a right to engage another contractor on the risk and cost of the original contractor making him liable to bear all additional costs incurred by the employer for execution of left over works.	As per clause 3, the Project/ Executive Engineer shall forfeit the earnest money and security deposit and further recover/ deduct/ adjust compensation at the rate of 10 *per cent* of the balance value of work left incomplete either from the bill and/or from available security/ performance guarantee or shall be recovered as arrears of land revenue. Thus, the agreement clauses limit the risk and cost liability of the contractors which was disadvantageous for the Company as discussed in *paragraph - 2.2.9.2 (i)*.
2	**Mobilisation advance**	As per Vol.-II/ Part-I para 3.23, mobilisation advance is applicable for contracts valued at rupees one crore or more subject to a maximum limit of five *per cent* of the contract value or ₹ 10 lakh whichever is less. This advance shall bear interest at the rate of 14 *per cent* per annum.	As per clause 11 (A) mobilisation advance is applicable for all contracts irrespective of value subject to a maximum limit of five *per cent* of the contract value without any monetary ceiling. This advance shall be interest free. The agreement clause was not in the financial interest of the Company as discussed in *paragraph - 2.2.9.3*.
3	**Award of works on single tender basis**	As per Vol.-II/ Part-II (Appendix 4.09 to para 4.078), the Single Tender system may be adopted in the case of small orders or when the articles required are of a proprietary character and competition is not considered necessary. In addition to the above, Public Works Department (PWD), GoCG instructed (28 January 2014) that single tender received on first call should not be opened.	The Company has not adopted any uniform procedure for awarding of works on single tender basis. The instances of award of works on single tender basis are discussed in *paragraph - 2.2.9.4*.
4	**Preparation of periodical progress reports**	As per Vol.-II/ Part-I, Appendix 1.28 to Para 1.129, the sub-engineers are required to prepare and submit periodical progress reports in the prescribed format.	The Company has not yet prescribed/ adopted any uniform/ standard format for periodical progress reports as discussed in *paragraph - 2.2.8*.

Recommendation:

The Company should immediately prepare its own works manual in line with the WD manual to regulate its construction activities.

Non-inclusion of suitable risk and cost clause in the agreements and non-recovery of compensation as per contractual provisions

2.2.9.2 (i) Audit observed (July 2017) that Company officials[16] did not ensure inclusion of risk and cost clause in any of the works contracts awarded during the review period despite the fact that this is a standard clause in works contracts and also prescribed in the WD manual as detailed in table 2.2.6. Further, there is no provision in the work contracts for blacklisting of defaulting contractors.

In seven[17] out of the 86 test checked cases it was seen that the works were terminated due to non/ poor execution by the contractors while in three out of these seven cases the works were re-awarded at higher cost as detailed in table -2.2.7. The remaining four cases are discussed in *paragraph - 2.2.9.2 (ii)*.

Table - 2.2.7: Details of works terminated due to non-execution

(₹ in crore)

Sl. No.	Name of the work	Name of the firm	Contract Value	Scheduled date of completion	Date of termination of contract	Value of work executed on the date of termination	Name of the firm re-awarded	Value of re-awarded work	Amount of risk and cost	Reasons for termination
1	Police Station Building, (PSB), Pakhnar	M/s Lambda Eastern Telecom., Gurgaon	1.49	07.03.14	08.12.14	Nil	M/s GRP Construction., Raipur	2.09	0.60	Execution of work was not started by the contractor even after granting of extension of time by the Company.
2	PSB, Bhopal-patnam	-do-	1.70	07.03.14	08.12.14	Nil	-do-	2.09	0.39	
3	PSB, Farsegarh	-do-	1.61	01.05.14	08.12.14	Nil	-do-	2.23	0.62	
Total			**4.80**						**1.61**	

(Source: Data compiled from the Company's records)

The Company incurred loss of ₹ 1.10 crore due to non-inclusion of risk and cost clause in agreements.

The works mentioned in the above table were scheduled to be completed by March/ May 2014. However, the contractor did not commence the execution of any of these works till the scheduled date of completion. The concerned Assistant Engineer/ Project Engineer did not initiate timely action for the termination of the contracts even after non-achievement of stipulated milestone[18] as required under clause 2 of the agreement, for reasons not on record. Later, all the three contracts were terminated (December 2014) by Chief Project Engineer and re-awarded (January 2015) at higher rates than the rates awarded on previous occasion with total extra cost of ₹ 1.61 crore. However, as per clause 3 in the agreements, the Company was entitled to recover ₹ 51.35 lakh[19] only (including EMD[20] of

[16] Chief Project Engineer and MD.

[17] Excluding eight cases where the contracts were closed/ terminated due to demise of the contractor, hence penal provisions of the agreement were not applicable.

[18] 30 *per cent* of the work should have been completed within half period/ extended period of contract.

[19] ₹ 48.00 lakh being 10 *per cent* of the value of work left incomplete *plus* ₹ 3.35 lakh being EMD held by the Company.

[20] As per clause 3.2.1 of the tender EMD is to be submitted by the contractor at the time of submission of bids at the rate of 0.75 *per cent* of the estimated cost of work for tenders valued up to ₹ 2.00 crore and at the rate of 0.50 *per cent* of the estimated cost of work for tenders valued more than ₹ 2.00 crore which is also in line with WD Manual.

₹ 3.35 lakh[21]) from the original contractor. Hence, due to non-inclusion of suitable risk and cost clause in the agreements the balance extra cost of ₹ 1.10 crore (₹ 1.61 crore – ₹ 0.51 crore) had to be borne by the Company.

Further, against the recoverable amount of ₹ 51.35 lakh, the Company could recover only ₹ 3.35 lakh by way of forfeiture of EMD and balance amount of ₹ 48.00 lakh remained unrecovered (December 2017) despite lapse of more than three years from the termination of these contracts due to failure of Assistant Engineer/ Project Engineer in taking action as per terms of the agreement i.e., initiating process for recovery of the amount as arrears of land revenue while reason for the same were not found on record.

Accepting the audit observation, the Department stated (December 2017) that notice for the recovery of ₹ 48.00 lakh has been served (September 2017) on the contractor.

Non-recovery of compensation as per contractual provisions

2.2.9.2 (ii) In respect of cases mentioned in table - 2.2.8, it was observed that the contracts were terminated due to slow progress of the works. However, compensation amounting to ₹ 55.70 lakh[22] as per the agreement clause 3 had not been recovered from the contractors due to inaction of Company officials[23]. They also failed to forfeit EMD and SD amounting to ₹ 16.84 lakh[24] available with the Company against these works.

Table - 2.2.8: Details of works terminated due to poor-execution

(₹ in crore)

Sl. No.	Name of the work	Name of the firm	Contract Value	Scheduled date of completion	Date of termination of contract	Value of work executed on the date of termination	Name of the firm re-awarded	Value of re-awarded work	Reasons for termination
1	Police Station Building, Pushpal	M/s R. Gangaiya	2.00	21.10.15	04.10.16	0.93	M/s Deepak Singh Chouhan	0.90	Works were stopped by the contractor even after granting of extension of time by the Company.
2	Police Station Building, Phoolbagdi	-do-	2.00	21.10.15	04.10.16	0.79	M/s S.K. Construction	1.04	
3	Administrative Building, Sukma	-do-	3.51	25.05.15	08.04.16	1.32	M/s Ram Sharan Singh	1.94	
4	Police Station Building,, Usoor	M/s Anil Majumdar	2.00	21.10.15	10.08.16	0.90	M/s Shanti Vijay Construction	0.88	
Total			**9.51**			**3.94**		**4.76**	

(Source: Data compiled from the Company's records)

[21] As per clause 3 of the agreements, SD was also to be forfeited. However, in the absence of any progress achieved in these cases, no bills were paid and no SD was deducted as the same was to be deducted at the rate of five *per cent* of the value of works executed.

[22] 10 *per cent* of value of balance work, left incomplete i.e., ₹ 5.57 crore.

[23] Assistant Engineer, Project Engineer and Chief Project Engineer.

[24] EMD ₹ 4.29 lakh and SD ₹ 12.55 lakh.

The Department/ Company have not replied to the audit observation till date (July 2018).

Recommendation:

The Company should incorporate a suitable clause for recovery at risk and cost in the agreements, and ensure timely recovery of penalty and compensation from defaulting contractors.

Grant of interest free mobilisation advances to contractors

The Company granted interest free mobilisation advances of ₹ 2.62 crore which resulted in interest loss of ₹ 42.84 lakh.

2.2.9.3 Audit observed (May 2017) that in deviation from the WD manual, (as detailed in table-2.2.6) the Company granted interest free mobilisation advance amounting to ₹ 2.62 crore in 32 works contracts during 2012-13 to 2016-17. This resulted in loss of interest amounting to ₹ 42.84 lakh to the Company. Further, out of ₹ 2.62 crore granted as interest free mobilisation advance, excess advances of ₹ 48.42 lakh were given in 12 contracts over and above ₹ 10 lakh per contract.

The Department stated (December 2017) that mobilisation advances were given as per the terms of the agreement.

The fact remains that the existing clause of the agreement for granting interest free mobilisation advances was not in line with the provision of WD Manual and thus did not safeguard the financial interest of the Company.

Recommendation:

The Company should modify its agreement clause in line with Works Department manual with respect to grant of mobilisation advance.

Award of works on single tenders basis

The Company awarded works valued at ₹ 30.23 crore on single tender basis ignoring stipulated rules.

2.2.9.4 Audit observed (July 2017) that in nine out of 86 test checked works valued at ₹ 30.23 crore {detailed in ***Annexure - 2.2.1 (a)***} the contracts were awarded[25], by the MD on single tender basis on first call of tenders i.e., without ensuring adequate competition, for reasons not on record. Further, contrary to the same, in other four cases as detailed in ***Annexure - 2.2.1 (b)*** pertaining to the works at same/ nearby locations, the single bid received on first call of tenders was rejected[26] by the MD on the grounds of inadequate competition. Thus, absence of own works manual/ guidelines as discussed in *paragraph - 2.2.9.1,* permitted the Company to engage in arbitrariness and adhocism in awarding of the works contracts.

The Department stated (December 2017) that in four out of nine cases awarded on single tender basis, the rates accepted by the Company were lower than the rates accepted by PWD in those locations[27] while the percentage of works awarded on single tender basis was nominal.

The reply regarding award of works at lower rates than the PWD awarded rates is not acceptable as the rates were higher than the Company's own awarded rates at the same/ nearby locations during that period. Further, the

[25] Awarded during the year 2012-13 to 2014-15.

[26] Rejected during the year 2012-13 and 2013-14.

[27] Bilaspur, Durg, Jagdalpur and Kanker.

percentage of works awarded on single tender basis was 18.34 *per cent*[28] of the total value of 86 test checked works which is not nominal. Also in tendering transparency is the primary criteria which needs to be scrupulously followed. The reply does not explain the reason for awarding contracts on single bid basis on first call, while in other cases the single bid received on first call was rejected.

Recommendation:

The Company should ensure adequate competition while awarding the works and ensure compliance to applicable rules and regulations.

Award, Execution and Monitoring of works

2.2.10 As stated in the preceding paragraph award, execution and monitoring of works are the core activities of the Company. The significant observations in this regard are discussed in succeeding paragraphs.

Award of works avoiding approval of competent authorities

2.2.10.1 As per Delegation of Powers (DoP) of the Company approved (July 2011) by GoCG, MD may accord technical sanction, approval of Notice Inviting Tender (NIT) and accept tenders for works valued upto ₹ 5.00 crore. Further, DoP empowers the Chairman to accord aforementioned approvals to the works valued more than ₹ 5.00 crore and upto ₹ 7.50 crore (₹ 10 crore w.e.f. April 2013) whereas works valued more than ₹ 7.50 crore (₹ 10 crore w.e.f. April 2013) are to be approved by BoD.

The Company awarded works valued ₹ 46.80 crore avoiding approvals of competent authorities.

Audit observed (July 2017) that PHQ accorded administrative approval for five different works as given in the table 2.2.9 below**.** As per DoP the technical sanction and approval of BoD in four cases and Chairman in one case was required for award of these works. However, in none of these cases the required technical sanction and approval of the competent authority for award of the work was obtained and these were awarded by MD by splitting up in parts.

[28] i.e., Value of works awarded on single tender basis (₹ 30.23 crore) X 100/ Total value of test checked 86 cases (₹ 164.84 crore).

Table - 2.2.9: Statement showing details of works awarded by splitting up

(₹ in crore)

Sl. No.	Work originally sanctioned by the PHQ	Amount as per Admini-trative Approval	Approval required as per DoP ------------ 'actually given by'	Works after split	Admini-strative value of the split work	Name of contractor	Value of work order	Rates awarded/ (prevailing rates) in % above SOR	Price above the prevailing rates
1	12 NGO[29] & 78 HC[30]/ C[31] Qtrs.[32] at 11 Bn.[33], Janjgir-Champa	8.34	BoD ------------ 'Technical Sanction by CPE and award by MD'	12 NGO & 14 HC/ C Qtrs.	2.69	M/s Vikas Const. Co.	2.60	4.90 / (0.00)	0.12
				32 HC/ C Qtrs.	2.83	-do-	2.71	4.90/ (0.00)	0.13
				32 HC/ C Qtrs.	2.82	M/s Bishambhar Dayal	2.82	11.80/ (0.00)	0.30
2	12 NGO & 64 HC/C Qtrs., Kanker	7.11	Chairman ------------ 'Technical Sanction by CPE and award by MD'	32 HC/ C Qtrs.	2.83	M/s Rakesh Vaidya	2.95	14.21/ (9.19)	0.07
				12 NGO Qtrs.	1.45	-do-	1.52	14.25/ (9.19)	0.13
				32 HC/ C Qtrs.	2.83	M/s Vinayak Enterprises	2.83	14.50/ (9.19)	0.14
3	18 NGO & 72 HC/ C Qtrs., Gariyabandh	8.54	BoD ------------ 'Technical Sanction by CPE and award by MD'	8 HC/ C & 18 NGO Qtrs.	2.89	M/s Kishor Jaiswal	2.89	17.99/ (9.99)	0.22
				32 HC/ C, Qtrs.	2.83	-do-	2.82	17.99/ (9.99)	0.21
				32 HC/ C Qtrs.	2.82	-do-	2.82	17.99/ (9.99)	0.21
4	24 NGO & 96 HC/ C Qtrs., Durg	11.96	BoD ------------ 'Technical Sanction and award by MD'	24 NGO & 32 HC/ C Qtrs.	6.02	M/s UMSC Ltd.	5.79	9.18/ (7.99)	0.06
				64 HC/ C Qtrs.	5.94	-do-	5.91	9.18/ (7.99)	0.06
5	48 NGO & 96 HC/ C Qtrs., Raipur	11.30	BoD ------------ 'Technical Sanction by MD for 48 NGO' and 'by Chairman' for 96 HC/C' while 'award by MD'	48 NGO Qtrs.	4.36	M/s Manoj Agrawal	4.35	7.01/ (3.00)	0.16
				96 HC/ C Qtrs.	6.94	-do-	6.79	7.01/ (3.00)	0.25
	Total	**47.25**			**47.25**		**46.80**		**2.06**

(Source: Data compiled from the Company's records)

Audit observed that the technical sanction to the aforementioned works was accorded by CPE/ MD and works were awarded by MD. However, as the

29 Non-Gazetted Officer (NGO).

30 Head Constables (HC).

31 Constables (C).

32 Quarters (Qtrs).

33 Battalion (Bn).

amount of administrative approval for each of the work was more than ₹ 5.00 crore, CPE/ MD was not competent for granting technical sanction or according approval to work orders. Further, in two cases (Sl. No. 4 and 5 of table-2.2.9) out of the above, MD was not competent to award the works even after splitting up. Therefore, in all the cases DoP provisions were violated, with no justification on record.

The Department stated (December 2017) that (i) initially tenders were invited without split; however, due to lack of competition/ no response, tenders were re-invited by splitting in parts with due technical sanction; (ii) in all the cases tenders were awarded by the competent authority at the prevailing rates; and (iii) the approval of BoD for the subjected cases was being sought for.

However, the verification of replies revealed that (i) contrary to the reply, in two out of five cases (Sl. No. 4 and 5 of the table) tenders were never called without splitting up. In case of Sl. No. 2, 3 and 4, the works were awarded on single tender basis. Hence, the purpose of ensuring competition, as claimed by the Department, was not achieved. Further, the technical sanction of the competent authority as per the DoP was not obtained in any of these cases. Hence, the reply is not correct; (ii) in all the cases, awarded rates were higher (by 1.19 to eight *per cent*) than the prevailing rates[34] in nearby areas (as given in table 2.2.9) which resulted in additional cost of ₹ 2.06 crore to the Company; and (iii) the reply confirms that the due approval from the competent authority was not obtained.

Recommendations:

1. The Company should ensure strict adherence to Delegation of Powers (DoP) to ensure that due approval of the competent authority is obtained at every stage of award and execution of works.

2. GoCG may investigate the cases of award of works without obtaining approval of competent authority.

Non-recovery of secured advances

2.2.10.2 The standard agreement conditions provide for sanction of advances by Project Engineer on the security of materials brought to site.

The Company failed to recover secured advances of ₹ 1.11 crore against terminated contracts.

Audit observed (July 2017) that secured advances amounting to ₹ 1.00 crore against five works[35] were pending unrecovered (December 2017) from the contractor M/s JBS constructions, Pune (JBS), whose sole proprietor died (May 2016) and the contract was closed (May 2016) as per the terms of the agreement. However, even after lapse of more than one and half years, the Project Engineer and Chief Project Engineer (CPE) had not taken any action to recover the same as per clause 4 of the agreement such as, seizure/ disposal of material brought to site and tools/ plants/ stores etc., to recover the advances

[34] Rate at which the other similar works were awarded by the Company/PWD in the same/ nearby locations during the same period/ range of period.

[35] Construction of (i)16 NGO & 32 HC/C Qtrs. at 15 Bn., Bijapur (₹ 38.22 lakh), (ii) 08 NGO & 36 HC/C Qtrs. at Police Line, Bijapur (₹ 35.81 lakh), (iii) 16 NGO & 32 HC/ C Qtrs. at Narayanpur (₹ 11.33 lakh), (iv) 32 HC Qtrs. at 5th Bn. Jagdalpur (₹ 6.93 lakh) and (v) Police Station Building at Kirandul (₹ 8.13 lakh). The amount of secured advance pending against the works is given in bracket.

while reasons for the same were not found on record. Further, the status of availability of material at site against the security of which the advances were given was not furnished to Audit, despite repeated requests.

Similarly, secured advance amounting to ₹ 10.31 lakh in respect of M/s R. Gangaiya were pending unrecovered (December 2017) against two works[36] and the contracts were terminated (October 2016) due to abnormal delay in execution of work by the contractor (***Annexure - 2.2.2***). However, action for recovery of the same as per clause 4 of the agreement has not been taken by the Project Engineer and CPE for reasons not on record.

The above cases indicated lack of adequate system of monitoring the recovery of secured advances from the contractors causing loss to the Company.

The Department stated (December 2017) that the advances were given as per the terms of contracts and recovery is being initiated from the contractors.

The reply is not acceptable as the Company failed to recover advances amounting to ₹ 1.11 crore despite lapse of 15 months from the date of termination. Further, the reply does not address the reason for not initiating any action for seizure and disposal of material at site by the Project Engineers and CPE under clause 4 of the agreement.

Recommendation:

The Company should take timely action to recover secured advances given to contractors and should establish a system to monitor the recoveries.

Delayed/ poor execution of awarded works

2.2.10.3 As per clause 2 of the agreement, time is essence of the contract. However, it was observed that there have been lapses by the Company and the contractors in ensuring timely completion of works. Out of total 86 tests checked works (valued ₹ 178.85 crore), 49 works (valued at ₹ 117.45 crore) were pending for completion beyond their scheduled date of completion for the period ranging from eight to 45 months and remaining 37 works (valued at ₹ 61.40 crore) were completed with delay ranging from two to 20 months beyond their scheduled date of completion (November 2017). Thus, none of the 86 test checked works was completed in time. The main reasons for delay were delay in finalisation/clearance of sites and providing layout/ drawings etc., by the PHQ/Company and delay in execution of works by the contractors as discussed in subsequent paragraphs.

Blockage of funds on incomplete works

2.2.10.3 (i) Clause 2 of the agreement provided that till half of the contract period allowed for completion of any particular work, atleast 30 *per cent* of the total volume of work should be completed. In case of non-achievement of this milestone, the contract shall stand terminated after due notice to the contractor.

[36] Construction of Police Station Buildings at (i) Pushpal (₹ 6.72 lakh) and (ii) Phoolbagdi (₹ 3.59 lakh). The amount of secured advance pending against the works is given in bracket.

Audit observed that in 33 (valued at ₹ 92.08 crore) out of the 49 works which were in progress (November 2017), the milestone of atleast 30 *per cent* progress of the work till half of the contract period was not achieved. Out of these, in nine works (Sl. No. 1 to 9 of ***Annexure - 2.2.2***) the milestone was not achieved due to slow execution of works by the contractors and the Company officials[37] did not initiate any action for the termination of these works while reasons for the same were not found on record. In 11 works (Sl. No. 10 to 20 of ***Annexure - 2.2.2***) the milestone could not be achieved due to delay in finalisation/ clearance of site, drawings and layout etc. by the PHQ/Company.

Further, against seven works (Sl. No. 21 to 27 of ***Annexure - 2.2.2***) there was slow/no progress and eventual stoppage of works by the contractors. However, the concerned Assistant Engineers and Project Engineers did not initiate timely action for termination of the contracts even after non-achievement of stipulated milestone as per the agreement and the same were terminated belatedly after lapse of seven to 12 months beyond their scheduled date of completion while reasons for the same were not found on record. In case of other eight works[38] (Sl. No. 28 to 35 of ***Annexure - 2.2.2***) the contracts were closed due to demise of the contractor as per the terms of contract. It was further seen that there was abnormal delay on the part of the Company officials in re-award of the terminated/closed works for the period ranging from 13 to 19 months while reasons for the same were not found on record.

Delay in completion of construction works resulted in blockage of Company's funds of ₹ 29.32 crore.

The above delays in completion of works had resulted in non-achieving of envisaged purpose of the works i.e., providing security/ defence to the State and welfare/ benefit to the police personnel, and avoidable blockage of funds amounting to ₹ 29.32 crore[39] on partially executed works for the period upto 45 months (November 2017).

The Department stated (December 2017) that the works were re-awarded through re-tendering after allowing adequate chance to the legal heir of deceased contractor to execute balance works, on their request.

The reply is not acceptable as the agreement (clause 37) does not provide to give any chance to the legal heir of the deceased contractor for execution of balance work and Indian Contract Act (section 37) stipulates that if a sole proprietor (i.e., the contractor) dies, the contract cannot be enforced either by his representative or by the engager (i.e., the Company). Therefore, the delay in re-award of work on this ground was not justified.

Non/short recovery of penalty for delay in completion of works

2.2.10.3 (ii) As per clause 2 of the agreement, if the contractor fails to complete the work in time, the Project Engineer shall levy an amount equal to 0.5 *per cent* of the value of work as compensation for each week of delay with the maximum ceiling of six *per cent* of value of the work. Further, as per clause 5, if the contractor desires an EoT for completion of work, he must give the complete details in writing to Project Engineer, positively within 15 days of occurrence of such hindrance (s) and if he fails even within 30 days, it shall

[37] Assistant Engineers, Project Engineers and Chief Project Engineer.
[38] Including two works in which the milestone was achieved.
[39] Expenditure incurred on delayed works upto their respective scheduled date for completion.

be deemed that the contractor does not desire EoT and he has waived/ceased to hold his right to claim EoT for such cause of hindrance.

The Company did not recover ₹ 1.89 crore towards applicable penalty from contractors for delay in completion of works.

Audit observed (July 2017) that out of the 37 works completed with delays, (discussed in *paragraph - 2.2.10.3*) in 15 cases the delays were due to reasons attributable to the contractors including six works (valued at ₹ 18.44 crore) executed in normal areas (seven to 18 months delay) and remaining nine works (valued at ₹ 14.04 crore) executed in naxal affected areas[40] (seven to 20 months delay)**.** In each of these cases the Company officials[41] had granted EoTs on two or more than two occasions. However, the terms of agreement were not adhered to while granting EoTs, levying penalties for delays and recovering the same. This has resulted in non/ short levy/ recovery of penalty amounting to ₹ 1.89 crore (detailed in ***Annexure - 2.2.3***) mainly due to the following lapses:

- On 18 occasions EoTs were granted, even multiple times on the same grounds, without levy of penalty accepting common reasons for delay such as rains, hilly area, labour problem, non-availability of materials and naxal problem, etc. ignoring that these hindrances were part and parcel of the execution of construction works in concerned areas and was already known to the contractors at the time of submitting their bids. Also, the Company has already considered the higher rates (14.25 to 61 *per cent* above estimated cost) in naxal affected areas and accepted the bids, as compared to rates accepted in normal areas (i.e., 0.50 to 18.49 *per cent* above estimated cost). Therefore, grant of EoT without levy of penalty on such grounds lacked justification.

- In six cases it was seen that initially MD approved EoT based on recommendation of Project Engineer/ CPE as per clause 2 i.e., with levy of penalty at the rate of 0.5 *per cent* per week of delay, however later, the final bills of the contractors were approved by him without recovery of applicable penalty or by withholding/ deducting a nominal amount of ₹ 3.14 lakh against the actual amount of ₹ 34.66 lakh of penalty recoverable as per contractual provisions. This has resulted in violation of clause 2 of the agreement which stipulated that the decision taken by MD with respect to grant of EoT will be final, binding and conclusive and he has no right to change either the rate of compensation or reduce or condone the period of delay. Further, in one case it was seen that the MD imposed the penalty of ₹ 11.80 lakh as per clause 2 and withheld ₹ 1.97 lakh, however, CPE cleared the final bill without levy of any penalty and accordingly released the amount of penalty withheld.

- Sub engineers/ Assistant Engineers of the Company were required to forward the time extension requests of the contractors in the prescribed format/ application mentioning cost of work executed and payment made in original/ extended period, action plan for execution of balance work, cost of balance work to be executed, documents in support of reasons furnished for EoT and point-wise remarks of Sub engineers/ Assistant Engineers on the reasons furnished by the contractor for EoT. However, these details were not found filled up in the format/ application on 27 occasions, leaving the chances

[40] Kanker, Sukma, Kuknar, Kutru, Ghotiya, Aundhi, Bayanar, Dantewada and Dornapal.
[41] Assistant Engineers, Project Engineers, Chief Project Engineer and MD.

for bias in decision making in respect of grant of EoT. Further, the Project Engineer/ CPE recommended the EoT without obtaining the missing details.

- On 30 occasions, EoTs were granted on belated requests of contractors beyond the prescribed time limit of 30 days stipulated in the agreement.

The Department stated (December 2017) that the penalty was not recovered from the contractors as the reasons furnished by the contractors for delay in completion of works were accepted and EoTs were granted without levy of penalty. In several cases applications for EoTs could not be received in time. However, in cases where the contractors were found responsible the penalty was recovered.

The reply confirms that application for EoTs were not received in time. However, the reply is not acceptable to the extent (i) it does not address the reason for granting EoT on the contractors' requests received beyond the period stipulated by clause 5 of the agreements; (ii) EoTs were granted, even multiple times for the same reasons, ignoring the loss to the Company on account of interest on blocked funds and non-achieving of envisaged benefits of the works; (iii) penalties were initially levied and subsequently withdrawn, which is not permissible as per clause 2 of the agreements. Moreover, in 15 cases penalty amounting to ₹ 3.14 lakh only had been recovered, against the applicable penalty of ₹ 1.92 crore.

Recommendation:

The Company should ensure that terms of the agreement are invariably adhered to while levying/ recovering penalties and ensure timely completion of works.

Conclusion

- There was lack of adequate manpower, internal control and monitoring mechanism in the Company which caused delay in completion of works.
- The Company accounted the interest income of ₹ 53.55 crore on funds received from PHQ for execution of schemes/ projects as its own income instead of crediting the same to the project funds resulting in avoidable payment of income tax of ₹ 17.52 crore.
- The Company failed to ensure timely payment of Service Tax amounting to ₹ 1.95 crore and created an avoidable liability of ₹ 60.51 lakh towards penal interest and penalty.
- The Company failed to prepare its own works manual and also failed to adhere Works Department (WD) Manual of Government of Chhattisgarh, as a result its financial interests were not safeguarded.
- The Company did not include suitable risk and cost clause in the agreements for recovery of extra cost incurred on execution of works left incomplete by the contractors which resulted in avoidable extra cost of ₹ 1.10 crore. The Company also failed to recover compensation of ₹ 1.04 crore from the defaulting contractors as per the terms of contract.

- The Company failed to monitor the recovery of secured advances granted to the contractors resulting in non-recovery of ₹ 1.11 crore.
- Execution of works was delayed due to slow progress and stoppage of works by the Contractors and delay in taking action for termination/ re-award of delayed/ abandoned works by the Company. This resulted in non-achieving of envisaged purpose of works besides blockage of funds amounting to ₹ 29.32 crore for the period ranging upto 45 months.
- The Company did not recover penalty of ₹ 1.89 crore from the contractors for delay as per the terms and conditions of the contracts.