

This inspection report has been prepared on the basis of information provided by Kichha Sugar Company Ltd. The office of the Accountant General (Audit) Uttarakhand, Dehradun disclaims any responsibility for any misinformation, non submission or submission of incomplete records of the company.

Audit inspection of accounting records of Kichha Sugar Company Ltd. for the period from October 2011 to March 2016 was carried out in exercise of the power conferred by section 19 of the C&AG, DPC Act 1971 read with section 619 (3) (b) of the Companies Act 1956 & section 143 of Companies Act 2013. Audit Inspection was conducted by Shri Ghanshyam Das Pal, AAO and Shri Vasu, Auditor under the supervision of Shri Sohrab Husain Sr. AO during the period from 17.08.2016 to 09.09.2016.

### **Part-I**

1. **Introduction:-** The last audit of this unit was carried out by Shri Vikas Dhyani AAO, from 16.03.2012 to 24.03.2012 under supervision of Shri Rajesh Gupta, AO in which accounting records of the period from April 2007 to September 2011 were generally examined. In current audit, accounting records of the period from October 2011 to March 2016 were examined.

2. (i). **Functions and geographical jurisdiction of the unit:**

The function of the Company is to procure sugarcane from growers (farmers) of the reserved area of the Company and to manufacture the sugar from it .Company sells the manufactured sugar in the market as well to the Government of Uttarakhand for Public Distribution System. During the course of manufacturing of sugar three by-products also emerged i.e. Molasses, Bagasse and Press Mud which are also sold in the market. The Company is situated in Kichha Distt. Udham Singh Nagar. Surroundings of the Company are in north Pantnagar, in south Baheri, in east Sitarganj and in west Rudrapur.

**(ii) Auditing methodology and scope of audit:**

Audit of Kichha Sugar Company Ltd. was conducted according to compliance auditing guidelines. This inspection report is based on the findings emerged during the course of audit and on detail examination of vouchers, contracts agreements of selected test months, January 2013 & March 2016.

**(iii)**

Year	Revenue	Expenditure	Profit/Loss (in lakh)
2011-12	689915190.77	943723190.00	(-)2538.08
2012-13	994683287.00	1169124287.00	(-)1744.41
2013-14	900021745.00	1249471745.00	(-)3494.50
2014-15	1030978360.19	1848584360.00	(-)8176.06
2015-16	125260561.41	14115156115.00	(-)1589.10

**(iv)**

Copy of organisation structure is enclosed.

**Part II (A)**

**-NIL-**

## **Part II (B)**

### **Para: 1- Loss of ` 4.62 crore due to improper storage of sugar.**

The company produces sugar from sugarcane and sells the same. The sale of sugar is controlled by the Central/State Government which as per the various administrative directions. The quality of sugar deteriorates due to prolonged storage, poor storage facilities and improper maintenance of godowns. The deteriorated sugar is defined as semi-moist, moist and damaged. The inferior quality of sugar is sold at lower rates in the market.

Scrutiny of records revealed that during the period 2011-12 to 2015-16 the company disposed off 7381 qtls of moist sugar and 108209 qtls of semi-moist (as detailed in annexure enclosed) at the lower rates as compared to those for sale of fresh sugar at PDS rate This has resulted into a loss of ` 4.62 crore to the company as worked out in the enclosed annexure Had the godowns been maintained properly and storage of sugar been done on scientific basis, the quality of sugar might not have been deteriorated. This has resulted into a loss of ` 4.62 crore due to deterioration of sugar which could have been avoided, had it been sold on time or having proper storage facilities.

In turn company stated that Sugar is highly Hygroscopic Product in nature therefore it gets easily moist as it is exposed to atmospheric conditions. Location of Kichha Sugar Co. Ltd. is in Tarai Region which experience excessive rains and humidity is always on a higher side in this region. Reply of Company is not convincing because if the godowns were maintained properly and storage of sugar was done on scientific basis then deterioration of sugar could have been avoided.

Matter is brought to the notice of higher authority of the company.

**Para: 2- Avoidable financial burden due to non-conversion of loan and interest accrued thereon in to Share Capital – ` 185.30 crore.**

Company has been taking loan from the Government of Uttarakhand from 2003-04 for payment to farmers on account of sugarcane purchased from them at the rate of interest ranging between 18 percent per annum to 9.25 percent per annum. Company had taken loan aggregating to ` 108.31 crore till 31 March 2015. Company has not repaid any amount of loan and interest till March 2016 as financial position of the Company was very poor. Audit noticed that in order to avoid financial burden of loan and recurring amount of interest accrued thereon, Government of Uttarakhand, decided ( In July 2013 ) to convert loan amount and interest accrued thereon into share capital of the Company to improve the financial position of company. But Prior to conversion of loan and interest into equity share capital, Government of Uttarakhand called for information regarding the existing amount of share capital and total amount of share capital after conversion of loan and interest into equity share capital from the Chief Executive Officer, Uttarakhand Sugar, Dehradun vide letter dated 17 July 2013 ( as the both Sugar Companies were under his jurisdiction). It was also directed to analyse the Profit/Loss to the Government on conversion of this loan and interest into share capital. As per records produced to audit the desired information for conversion of loan and interest into share capital was not provided to the Government of Uttarakhand till date (August 2016) Further, for conversion of loan and interest accrued thereon, Govt. of Uttarakhand directed to the Company vide letter dated 19.02.2014 for providing Commercial viability Study of the Company. In turn Company responded (19 March 2014) that present cost of production of sugar is about ` 4000/ per quintal leaving the impact of interest expense on Govt loans & average Market price of sugar is ` 3000/ per quintal, resulting in cash loss of about ` 1000/ per quintal. Accordingly, Company had already incurred heavy accumulated losses as per audited annual accounts up to F.Y. 2012-13 to tune of ` 102 crore. Thus, Commercial viability of the Company is very poor. In order to make the Commercial viability of the company and to convert negative Net Worth in to positive, it would be appropriate to convert the Govt loan together with interest accrued thereon in to Equity Share Capital. Audit further noticed that since, more than two and half years have been elapsed but no pursuance has been made with the Government for

conversion of Government loan and interest accrued thereon in to Equity Share Capital. Company has taken loan of ` 116.32 crore from the GoU till 31 March 2016 and interest thereon has also accrued to ` 95.34 crore, thus aggregate amount of loan and interest thereon was ` 211.66 crore. The accumulated loss of the Company was ` 234.60 crore as on 31.03.2016. If the loan and interest was converted into equity share capital the financial position of the Company would have improved and financial burden of ` 185.30 crore on the Company could also have been avoided.

Thus in order to convert negative Net Worth in to positive Net Worth, there is urgent need to convert Govt. loan amount and interest accrued thereon in Equity Share Capital which would enable to the company to borrow loan from the banks for setting up of cogeneration plant, Ethanol Plant and Distillery plant. On being installation of these plants financial position of the Company may improve.

Company having accepted the audit observation stated that, as per advice of audit necessary efforts will be made to convert Govt. loan and interest accrued thereon in to Equity Share Capital.

Matter is brought to the notice of higher authority of the company.



### **Para: 3- Corporate Governance**

Corporate Governance is the system by which Companies are directed and controlled in the best interest of the shareholders and others to ensure greater transparency and better and timely financial reporting. The Board of Directors is responsible for the governance of the companies. The Companies Act, 1956 was amended in December 2000 by providing inter alia Directors responsibility statement (Section 217 ) to be attached to the Directors reports to the shareholders and formation of Audit Committee by companies having paid up share capital of ` 5.00 crore and above (Section 292-A). According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting records for safe guarding the assets of the company and for presenting and detection of fraud and other irregularities. According to Section 292-A of the Companies Act 1956 notified in December 2000, every public limited company having paid up capital of not less than ` 5.00 crore shall constitute an Audit Committee at the Board level. The Audit Committee should have a minimum of 3 Directors other than Managing Directors or whole time Directors. It has also been provided in the Act that the Statutory Auditors, internal auditors, if any, and the Director in-charge of finance should attend and participate in the meeting of the Audit Committee but without any voting right. In the case of every company, a meeting of its Board of Directors shall be held at least once in every three months and at least four such meetings shall be held in every year.

During the examination of Minutes Book of the meeting of Board of Directors, it was noticed that 06 meeting were held during the four and half years from October 2011 to March 2016. (meetings were held on 30.12.2011,19.04.2012, 05.10.2012, 25.08.2014, 28.09.2013 and 24.09.2015,) instead of minimum 18 meeting during the above period as required under Section 285 of the Companies Act 1956 and as the paid up capital of the Company was Rs 17.99 crore.

Further, it is also provided in the companies Act, 2013 that every Company shall hold the first meeting of the Board of Directors within 30 days of the date of its incorporation and thereafter hold meetings in a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board. It is also provided in Companies Act that every company, a meeting of its Board of Directors shall be

held at least once in every three months and at least four such meetings shall be held in every year.

Thus due to non holding of the regular Board meeting as envisaged in the Companies Act, 1956 and 2013, the subsidy and loan given by the State Government could not be monitored as per terms and conditions of the sanction orders. Besides, this was also violation of Companies act 1956 and 2013.

In turn, company having accepted audit observation and stated that company is holding Board meeting every year for adoption of annual accounts of the company together with other business accordingly company hold **only six board meeting** for adoption of year wise annual accounts.

Matter is brought to the notice of higher authority of the Company.



**Para: 4- Non-functioning of Internal Audit Wing.**

Internal Audit is an indispensable tool of internal control. In a big organization, internal audit is conducted by well trained personnel at regular intervals. It checks each and every transaction of the company and highlights the major and minor irregularity to the higher management. Thus, the presence of internal audit is an assurance about the accuracy and authenticity of accounts.

Scrutiny of the records of the company revealed that no internal audit was conducted during the period from October 2011 to March 2016 while there was an Internal Audit wing headed by Secretary, Cane and Sugar Industry. Further this observation was also raised during the last audit by the AG Audit Party. In turn company assured that internal audit will be carried out very soon. However, no action in this regard was taken by the company. Thus it could be observed from the above that there was gross negligence on the part of the company.

Company having accepted the audit observation and stated that as against 3 post of Internal Auditor, Chief Accountant and Company Secretary, only 01 Internal Auditor/Chief Accountant was looking after whole work of Finance Accounts as well Company Secretary. Thus due to inadequate strength, Internal Audit could not be conducted.

Matter is brought to the notice of higher authority of the Company.

**Para: 5- Short procurement of Sugarcane, consequently short crushing season.**

The position of purchase of sugarcane, production of sugar and rate of recovery of sugar for the last five years is as under:

<b>Year</b>	<b>Procurement of Sugarcane (in quintal)</b>	<b>Production of Sugar(in quintal )</b>	<b>Rate of Recovery of Sugar (in Percentage)</b>
2011-12	34,26,936.45	3,24,880	9.47
2012-13	36,59,431.40	3,34,124	9.17
2013-14	31,82,097.26	2,77,302	8.64
2014-15	36,61,251.71	3,37,780	9.24
2015-16	31,31,613.56	2,99,980	9.63

It could be observed from the above table that procurement of sugarcane during the year (crushing season) 2013-14 & 2015-16 was short in comparison with the other years i.e. for the year from 2011-12, 2012-13 & 2014-15 but percentage of rate of recovery of sugar has improved in 2015-16 in comparison with earlier years. Further, the capacity of the plant is to crush 4000 quintals sugarcane per day, thus, keeping the period of season of 4 months, and in order to avoid under utilisation of plant at least 45 lakh quintal sugarcane should have been procured in each season leaving breakdown, shutdown etc.. Season for the period of 4 months is the standard period of the season. In short period of season there is extra expenditure on fixed cost (wages & salary)

Company stated in its reply that remedial measures were taken to improve procurement of sufficient sugarcane to utilize the optimum capacity of the plant, the company is quicker in cane price payments. But there was shortage of sugarcane in the reserved area of the Company. Reply of the company is not convincing because as such nothing on records was produced to audit that any efforts were made to procure the sufficient sugarcane as per capacity of plant.

Matter is brought to the notice of higher authority of the Company.

**Para: 6- Reasons for high losses of the Company and suggested remedial measures**

- (i) **Low rate of recovery of sugar:** Rate of recovery of sugar of the Company during the year 2011-12 to 2015-16, ranged between 8.64% to 9.63% which was low as compare to Sugar Companies of Maharashtra and Madhya Pradesh. The recovery of Sugar Companies situated in these states ranged between 11 *per cent* to 12 *per cent*.

Company having accepted the audit observation and stated that advice of audit has been noted and sincere efforts will be made to improve the recovery of sugar.

- (ii) As the plant is very old instances of breakdown and shutdowns are on higher sides, consequently maintenance as well fixed cost were also on higher sides. In order to avoid frequent break downs, shut downs, maintenance, fixed cost, saving of fuel (baggase) and improving the recovery rate of sugar it is necessary to modernise the plant.

In turn Company stated that a High Level Meeting was held in past with the Uttarakhand Government and it was proposed in that meeting that plant should be modernised simultaneously with Co-generation Plant so that Boiler of high capacity together with Turbines & other equipments be replaced at one time.

Reply of the Company is not acceptable because neither plant has been modernised nor further correspondence has been made with the Uttarakhand Government.

- (iii) **Suggestive remedial measures/ Recommendations for improving the financial position of the Company:**

The company is registered under section 617 of Companies Act, 1956. Thus it is a commercial organization and motive of it is to earn profit. Thus following steps are needed to be taken up by the management of the Company for improving the financial position:

- a) Company may explore possibility of establishing Ethanol Plant for production of Ethanol from molasses which is used as vehicle fuel as some sugar companies have already established such plants.

- b) Company may explore possibility of establishing Electricity Generation Plant (Cogeneration plant) for generation of electricity from Bagasse. As Uttam Sugar Mill Laksher, in Uttarakhand has already established Electricity Generation Plant and generated electricity is being sold to UPCL.
- c) Company may also explore possibility of establishing Distillery Plant for generation of liquor from molasses.
- d) Company should approach to the State Government for conversion of loan and interest accrued thereon in to Equity Share Capital of Government.
- e) In order to ensure proper and efficient use of Man-Power, weekly/Fortnightly work-done reporting system may be introduced, to identify, efficient employees as well as surplus/ inefficient employees which would help to minimize the expenditure on wages & salary.

### Part III

Detail of unsettled paras of previous inspection reports:-

Inspection Report period and number	Part- II (A) para number	Part-II (B) para number
April 1989 to March 1991	3	1,2
April 1991 to March 1993	1,4	1,2,3
April 1993 to March 1994	1	-
April 1994 to March 1995	1	-
April 1995 to December 1997	1,2,3	1,2,3,4,5,6
December 1997 to March 1999	1,2,3,4,5,6	1
April 1999 to March 2000	1,2,3,4,5,6	1
April 2000 to June 2000	1,2,3,4,5,6	1,2
July 2000 to June 2003	1,2,3	1,2,3,4,5,6
July 2003 to December 2004	1,2	1,2,3
January 2005 to March 2007	1,2	1,2,3,4,5,6
April 2007 to September 2011	-	1,2,3,4,5,6

#### **Compliance report of unsettled paras of previous inspection report-**

For furnishing of reply of the outstanding paras of old Inspection Reports an audit Memo No. 66 was issued to the Company. In turn Company stated that replies of these outstanding paras of old Inspection Reports are being prepared and same would be furnished as early as possible.

**Part IV**

**Best practices of the unit**

(Any good practices or innovations, if noticed, during the course of audit may be mentioned.)

No good practices or innovation noticed during the course of audit

**Part V**

**Acknowledgement**

1. Office of The Accountant General (Audit) Uttarakhand, Dehradun expresses gratitude towards Executive Directors of the Company and their officers and employees for promptly providing desired documents and information including infrastructure related co-operation during the course of audit.

**Documents were not produced during audit:**

-----NIL-----

**Persistent irregularities**

-----NIL-----

2. **The following officers held the charge of head of the Company during the audit period:**

<b>Sl. No.</b>	<b>Name</b>	<b>Post</b>
<b>1.</b>	Sh. Prashant Arya, since last audit to 01.06.2012.	Executive Director
<b>2</b>	Sh. Shrish Kuamar since 01.06.2012 to 10.07.2013	Executive Director
<b>3</b>	Smt. Deepti Singh, since 12.07.2013 to 14.09.2014.	Executive Director
<b>4</b>	Dr. M.M. khan, since 14.09.2014 to 30.09.2015	Executive Director
<b>5.</b>	Smt. Eva Ashish Srivastva, since 30.09.2015 to 23.11.2015.	Executive Director
<b>6</b>	Sh. Ashish Bhattgain, since 23.11.2015 to 18.07.2015.	Executive Director
<b>7</b>	Sh. R. K. Sharma, from 18.07.2016 to till date of audit.	Executive Director

**Sr. AO/ES-1**

**Subject- Transaction audit of Kichha Sugar Company Ltd. Kichha for the period from October 2011 to March 2016.**

Transaction audit of Kichha Sugar Company Ltd. Kichha for the period from October 2011 to March 2016 was conducted by Sh. Ghanshyam Das Pal, AAO and Sh. Vasu, Auditor under the supervision of Sh. Sohrab Husain, Sr. Audit Officer during the period from 17.08.2016 to 09.09.2016. During the course of audit 15 Audit Memos were issued to the Company. Out of them 4 were informatery and 11 were observation. On the basis of reply of Company, four observation (Audit memo No. 72, 75, 77 & 78 ) have been settled. Audit memo No. 80 & 82 have been clubbed. Draft Audit Inspection Report has been prepared and dully linked with the relevant K.Ds.

Draft Audit Inspection Report is submitted for approval please.