GOVERNMENT OF KERALA

REPORT

OF THE

COMPTROLLER

AND

AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1988

No. 1 OF 1989

(COMMERCIAL)

THE KERALA STATE CASHEW DEVELOPMENT CORPORATION LIMITED

TABLE OF CONTENTS

PREFATORY REMARKS

This Report of the Comptroller and Auditor General of India containing a review on "The Kerala State Cashew Development Corporation Limited" has been prepared for submission to the Gcvernment of Kerala for presentation to the Legislature under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 as amended in March 1984. The points mentioned in the review are those which came to the notice during test audit.

The general view and results of audit of Government Companies and Statutory Corporations including Kerala State Electricity Board are contained in the Report of the Comptroller and Auditor General of India for the year 1987-88 (Commercial) - Government of Kerala to be submitted to Government for presentation to the Legislature under the Act, ibid.

O V E R V I E W

The Company incorporated in July 1969 with the object of purchasing raw cashew nuts from within and outside the country, processing and selling cashew kernels within and outside the country had 34 cashew factories, three tin factories and one tannin factory.

(Paragraph No.1)

During the five years up to 1987-88, the Company imported 62,702 tonnes of raw cashew nuts of the value of Rs.87.07 crores from African countries and in the transactions incurred loss/extra expenditure to the tune of Rs.2.61 crores on account of payment of higher rate for the import (Rs.109.12 lakhs), extending benefit to the sellers outside the scope of the contracts in regard to quality claims (Rs.26.68 lakhs), delay in nominating vessel and consequent loss due to variation in exchange rate (Rs.16.84 lakhs), delay in booking dollars (Rs.30.14 lakhs), low quality of cashew nuts purchased (Rs.34.79 lakhs), non-adherence to the terms of the contract (Rs.12.40 lakhs), excess payment due to incorrect computation of interest (Rs.10.79 lakhs), demurrage on vessels (Rs.0.52 lakh), transportation due to getting shipment at far away port (Rs.3.21 lakhs), delay in realising excess payment made and consequent loss of interest (Rs.3.89 lakhs), payment of higher rate of interest than that permissible (Rs.4.20 lakhs), extra payment of interest due to non-availing of usance credit facility (Rs.6.76 lakhs) and expenditure incurred in respect of quantity not supplied (Rs.2.52 lakhs). In addition, there was shortage of imported raw nuts of the value of Rs.1.56 crores during shipment, transportation and storage.

(Paragraph No.5.3.)

Procurement of indigenous raw cashew nuts during the period was 49,726 tonnes of the value of Rs.54.72 crores. There was no prescribed policy for determining the purchase price taking into account the quality and driage involved. The Company incurred an extra expenditure of Rs.11.26 lakhs in purchasing low quality raw cashew nuts at higher prices from outside the State and a cash loss of Rs.7.67 lakhs in their processing and sale. Further, a loss of Rs.6.43 lakhs on account of higher percentage of driage occurred in the procurement at Quilon depot in 1984, 1986 and 1987. The shortage during transportation and storage of raw cashew nuts was of the value of Rs.36.71 lakhs, while the expenditure incurred in avoidable inter unit transfer of raw cashew nuts

amounted to Rs.5.74 lakhs.

(Paragraph Nos. 5.2., 5.3. and 5.5.)

The procurement of raw cashew nuts was so low that the factories could be worked only to the extent of 15 to 38 per cent of their capacities. The recovery of higher grades of cashew kernels also declined from 26.3 per cent in 1983-84 to 25.7 per cent in 1987-88 either due to poor quality of raw cashew nuts or due to low efficiency of the workers. There were losses to the extent of Rs.36.30 lakhs due to delays in processing, Rs.42.53 lakhs in reprocessing necessitated on account of defective packing and shortage of cashew kernels of the value of Rs.84.65 lakhs during transportation from factories to packing units.

(Paragraph Nos. 6.1.(ii), 6.3. and 6.5.)

In the export of cashew kernels, the Company suffered an aggregate loss of revenue of Rs.71.55 lakhs on account of diversion of cargo and consequent short realisation (Rs.2.35 lakhs), variation in fixing sales price (Rs.4.41 lakhs), concession in rates given to a particular country (Rs.42.05 lakhs), delay in preparation of invoices (Rs.14.70 lakhs), delay in realisation of dues (Rs.2.16 lakhs) and sale of good quality kernels as oil stained (Rs.5.87 lakhs).

(Paragraph Nos.5.3.(k), 7.4. to 7.7.)

Though the Company exported cashew kernels for an f.o.b. value of Rs.158.56 crores during the five years up to 1987-88, it could get import entitlements in respect of exports to the value of Rs.90.49 crores only. The Company suffered loss of revenue of Rs.56.02 lakhs on account of its failure to get import entitlements of the value of Rs.6.89 crores. The Company had to give a consideration of Rs.13.71 lakhs to a private party for pointing out the relevant provision of Import and Export Policy in getting import entitlements.

(Paragraph No.8.)

There was excess consumption of tin plates and solders of the value of Rs.13.96 lakhs in the manufacture of tin containers, low utilisation of tannin factory and consequent payment of idle wages to the extent of Rs.11.24 lakhs and excess consumption of furnace oil of the value of Rs.3.28 lakhs.

(Paragraph Nos. 9. and 10.)

Apart from the above, there were losses/extra expenditure of Rs.3.06 lakhs in the import of tin plates from Japan, Rs.2.12 lakhs in discounting bills

without assessing the actual requirement of funds, ₨.90.65 lakhs in the disproportionate engagement of shellers and peelers, ₨.2.63 lakhs in payment of transit insurance premium not actually required, ₨.24.20 lakhs in payment of interest on unnecessary borrowing of funds and ₨.22.01 lakhs due to non-realisation of duty draw back. The Company incurred an accumulated loss of ₨.33.94 crores up to 1984-85 and failed to finalise its accounts from 1985-86 onwards.

(Paragraph Nos.12. and 16.)

THE KERALA STATE CASHEW DEVELOPMENT CORPORATION LIMITED

1. Introductory

The Company was incorporated in July 1969, with the object to:

- purchase raw cashew nuts from within and outside the country,
- establish, maintain and operate factories in the State for processing cashew nuts and extracting oil from cashew shells,
- sell processed cashew nuts (kernels), cashew shell liquid and other by-products of cashew within and outside India.

As on 31st March 1988 the Company was running 34 cashew processing factories (including 25 hired), three tin factories and a tannin factory.

2. Organisational set up

The Management of the Company is vested in a Board of Directors appointed/nominated by the State Government. As on 31st March 1988, there were nine directors of whom four were official members (including the full time Managing Director) and the rest were non-official members (including the part-time Chairman) nominated to represent the trade and trade union interests.

During the period of the Company's working for 15 years up to June 1984, three persons held the post of Managing Director, but there were five changes in that post between July 1984 and June 1988; the duration of each ranged from 5 to 17 months. The Company did not have a qualified Secretary from its very inception and a qualified Finance Manager since July 1986. Frequent changes in the post of Managing Director and absence of a qualified person to head the finance department of the Company have adversely affected the performance of the Company as may be seen from the paragraphs dealt with below.

3. Scope of Audit

The working of the Company up to 1978-79 was reviewed in the Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial) and the Report was discussed by the Committee on Public Undertakings (1984-86) in its Thirtieth Report. This report deals with the performance of the Company for the five years up to 1987-88.

4. Funding

4.1. Share capital

The authorised capital of the Company as on 31st March 1988 was Rs.3100 lakhs against which the paid-up capital (excluding share capital advance of Rs.2841.77 lakhs) stood at Rs.154 lakhs. The entire

paid-up capital was subscribed by the State Government.

In March 1985, the State Government had decided to convert loans aggregating Rs.1825.45 lakhs disbursed to the Company between March 1978 and August 1979 together with the interest of Rs.1040.80 lakhs accumulated up to March 1984 into share capital. However, the Company had not issued shares in this regard pending issue of revised orders from Government rectifying the quantum of conversion of accumulated interest which according to the Company (November 1987) actually worked out to Rs.1016.32 lakhs only.

Government had also not issued orders in respect of the interest accrued during the period April 1984 to March 1985.

4.2. Borrowings

4.2.1. The borrowings of the Company as on 31st March 1988 amounted to Rs.1856.08 lakhs consisting of medium term loan of Rs.63.18 lakhs obtained (August 1987) from Government, key loan of Rs.350 lakhs and cash credit of Rs.1442.90 lakhs from the State Bank of Travancore. The key loan and the cash credit had been guaranteed by the State Government to a maximum of Rs.1650 lakhs.

3A

The Company is required to pay guarantee commission at 0.75 per cent per annum with a rebate of 0.25 per cent per annum for prompt payment of the guarantee commission. As per the orders of Government (December 1983), guarantee commission in respect of the guarantees issued by Government should be paid without availing of rebate, on half yearly basis on 1st October and 1st April every year and the rebate, if any, admissible should be got adjusted on settlement of accounts with the financial institutions. However, in respect of the guarantees provided by Government for Rs.650 lakhs, the guarantee commission due on 1st April 1987 amounting to Rs.2.20 lakhs was paid only on 30th September 1987 thereby losing the benefit of rebate of Rs.0.73 lakh. Similarly, the guarantee commission in respect of the guarantee for Rs.1000 lakhs for the half year ended 30th September 1987 due on 1st October 1987 was paid only on 30th March 1988 after availing of the rebate at 0.25 per cent. The inadmissible rebate thus availed of by the Company amounted to Rs.1.11 lakhs. The half yearly commission payable on 1st October 1987 in respect of the guarantee for Rs.650 lakhs and that payable for the half year ended March 1988 in respect of both the guarantees were paid on the due dates, but after deducting the rebate despite the Government's direction that the rebate was to be adjusted only on

final settlement of the loans. The amount of rebate thus incorrectly availed of amounted to ₨.3.98 lakhs.

The Company stated (February 1988) that the delay in the remittance of the guarantee commission due in April 1987 was due to delay in getting (July 1987) the orders of the State Government. As regards availing of rebate against the directions of the State Government, the Company approached (April 1988) the State Government for ratifying the action of the Company on the plea of paucity of funds.

4.2.2. Avoidable payment of interest

The Company had obtained between March and June 1985 short term loan of ₨.375 lakhs from the State Government (₨.300 lakhs from ways and means advance provided by the Central Government to the State Government and ₨.75 lakhs from the State Government's own funds) bearing interest at 17 per cent per annum towards margin money with an intention of raising its credit facility limit obtained from the State Bank of Travancore on hypothecation of current assets, loans and advances from ₨.14.50 crores to ₨.20 crores. The short term loan which was to be repaid by 31st December 1985 was actually repaid by the Company in July - September 1986.

It was noticed during audit that the maximum credit facility was not actually enhanced from ₨.14.50

crores to Rs.20 crores as it was not required. Further, the maximum credit availed of by the Company on any day from the date of applying for short term loan in February 1985 till its repayment in September 1986 had not exceeded Rs.7.51 crores. The enhancement of the credit limit was not required and the short term borrowing was thus unnecessary. The Company paid (December 1986) Rs.82.11 lakhs towards interest on the short term loan.

The Company stated (June 1988) that the borrowing was necessitated in order to maintain the minimum current ratio and to bring long term source of finance to meet the requirements as advised by the Company's bankers.However, the quantum of current assets, loans and advances had never been below the required minimum margin of 20 per cent of the maximum credit limit. Further, before availing of the short term loan, the Company had already purchased (up to 26th April 1985) raw cashew nuts worth Rs.250 lakhs (approximately) which had further improved the current ratio. The Company decided to enhance the credit limit to Rs.20 crores in February 1985, when the volume of business during 1985 and 1986 procurement seasons did not warrant such an enhancement. Thus due to the failure on the part of the Company to forecast its

requirements of cash credit limit correctly, unnecessary short term borrowings at 17 per cent per annum compared to the lower rate of interest of 12 per cent per annum for cash credit had to be resorted to. This resulted in payment of avoidable interest of Rs.24.20 lakhs.

5. Purchase analysis

5.1. Purchase policy

The Company's requirement of raw cashew nuts was being met by import and from indigenous sources. Up to March 1981 the import of raw cashew nuts was canalised through Cashew Corporation of India Limited and thereafter the processors were given permission to make their own imports. During the seven years of liberalisation of imports up to 1987-88, the Company imported 75208 tonnes of raw cashew nuts. Irregularities/deficiencies in the import are dealt with in paragraphs 5.3(a) to (k).

The procurement of indigenous raw cashew nuts up to 1976 was done through advance contracts with traders. This system was changed from 1977 when monopoly procurement by the Kerala State Co-operative Marketing Federation was introduced by Government. The raw cashew nuts so procured by the Federation were allotted by the State Government at prices fixed by the latter from time to time. From 1983 onwards, the monopoly procurement of raw cashew nuts was stopped and the processors were allowed to procure directly from the open market.However, from 1988, the monopoly procurement system was re-introduced and Kerala State Cashew Workers Apex Co-operative Society was entrusted with the work of procurement for allotment to the processors at the price fixed by the State Government.

During the period 1983 to 1987, direct procurement was done by the Company through various depots opened temporarily in different districts, under the direct supervision of the Managing Director except during 1984 season, when the procurement was supervised by a Committee consisting of the Chairman, the Managing Director and two other Directors on rotation basis. The prices paid were stated to be the then prevailing market rates and had the approval of the Managing Director. However, in the absence of any prescribed policy for fixation of prices of indigenous raw cashew nuts taking into account the driage and quality, and in the absence of any evidence justifying the prices paid on any dates, the reasonableness of the prices paid in the highly fluctuating market could not be vouchsafed in audit. Instances of payment of exorbitant prices for purchases noticed in Audit are given in paragraph 5.3(l) and (m).

5.2. Quantum of purchase

The table below indicates the quantity and value of imported and indigenous raw cashew nuts procured during the five years up to 1987-88:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
(a) Imported :					
(i) Quantity (Tonnes)	15303	5129	5478	13205	23587
(ii)Value (Rupees in lakhs)	1281.53	705.21	651.61	2200.60	3868.19
(iii)Average cost per tonne (Rupees)	8374	13750	11895	16665	16400
(b) Indigenous :					
(i) Quantity* (Tonnes)	16051	13238	5323	5940	9174
(ii)Value (Rupees in lakhs)	821.10	1579.70	577.23	833.81	1660.34
(iii)Average cost per tonne (Rupees)	5115	11933	10844	14037	18098
(c) Total :					
(i) Quantity (Tonnes)	31354	18367	10801	19145	32761
(ii)Value (Rupees in lakhs)	2102.63	2284.91	1228.84	3034.41	5528.53
(iii)Average cost per tonne (Rupees)	6706	12440	11377	15850	16875
(d) Percentage of :					
(i) Imported nuts	48.81	27.93	50.72	68.97	72.00
(ii)Indigenous nuts	51.19	72.07	49.28	31.03	28.00

* Represents quantity after driage

5.3. Irregularities/deficiencies in the procurement of raw cashew nuts

(a) Extra expenditure in the import of 1500 tonnes of raw cashew nuts

The Company concluded (September 1986) a contract with a firm of Singapore for the purchase of 1500 tonnes of raw cashew nuts of West African origin (Abidjan variety) afloat on ship at the rate of US $ 1320 per tonne (Rs.16909) c.i.f. Cochin/ Tuticorin on landed weight/ landed quality basis. The contract was finalised at the rate quoted by the supplier's agent on 26th September 1986 without negotiation and without considering the merits and demerits of the purchase when the ship with the cargo had already anchored at Tuticorin port on 26th September 1986.The following irregularities were noticed:

(i) The season for the import of quality nuts was February to June each year. Purchases made during off season were generally of low quality, for which the price was usually less. During the four years up to March 1987 the Company had not paid a rate higher than US $ 1269 per tonne in any other contract for the import of raw cashew nuts. Compared to the price of US $ 1225 per tonne c & f Cochin paid for the previous import of nuts of same origin made in July 1986, the extra expenditure in this purchase worked out to

Rs.16.77 lakhs on the actual quantity of 1377 tonnes. The Company stated (June 1988) that the contract was concluded, when the ship was on voyage, whereas in the previous contract of July 1986 the shipment was done after concluding the contract. It was noticed during audit that before concluding the contract on 29th September 1986, the ship had already been berthed in the port on 27th September 1986 and the Company had not made use of the opportunity available for bargaining.

(ii) The yield obtained on processing the above raw cashew nuts was only 17.78 kgs. of cashew kernel per bag (80 kgs.) of raw nuts as against the average yield of 18.70 kgs. of cashew kernel obtained for imported nuts, during the year 1986-87. The shortfall in the yield in processing 1377 tonnes of raw nuts received worked out to 15.83 tonnes of cashew kernel valued at Rs.14.29 lakhs based on the average sales realisation of Rs.90,290 per tonne of kernel.

(iii) The cargo discharged at Tuticorin port by 30th September 1986 and kept at the port was finally cleared only on 25th October 1986 due to delay in getting the bill of lading duly endorsed by the suppliers. This resulted in payment of demurrage charges to the extent of Rs.0.52 lakh. Though the delay in clearance of the cargo was solely due to non-receipt of the documents from the suppliers, the Company had not formally lodged any claim on this account with the suppliers (October 1988). The Company stated (June 1988) that a debit note was being sent to the agent.

(iv) The offer was for delivery at Tuticorin port. But at the instance of the Company, the contract was made on c.i.f. Cochin/Tuticorin basis. However, the change did not result in any benefit to the Company, as the cargo was delivered at Tuticorin, though Cochin is the nearest port. The extra transportation cost from Tuticorin amounted to Rs.1.01 lakhs. Had the Company insisted on delivery only at Cochin instead of at 'Cochin/Tuticorin', or in the alternative insisted for an enabling provision in the contract to get reimbursement of the extra transportation cost if delivered at Tuticorin, the extra expenditure could have been avoided.

(v) The contract which was on landed weight/ landed quality basis as certified by the surveyors in India, provided for a maximum of ten per cent towards defective raw cashew nuts including spotted, diseased, void, etc., and the Company was entitled for full compensation for the defective nuts in excess of the tolerance limit. As per the certificate issued (December 1986) by the surveyors, the total percentage

of defective nuts (rotten, spotted, void and immature) was 28.7. Though the Company was entitled to get price reduction for 18.7 per cent of nuts in terms of the contract, the Company claimed (December 1986) price reduction for 10.85 per cent only treating fifty per cent of 'spotted and immature' nuts as permissible. The extra concession thus extended to the suppliers, outside the scope of contract, amounted to Rs.18.92 lakhs. The Company stated (June 1988) that in all ports, immature and spotted nuts were treated as fifty per cent good. However, it was noticed during audit (June 1988) that in all imports made by the Company at Cochin port the entire spotted and immature nuts were reckoned for purpose of computing quality claim. Further, there was no justification in extending such a concession in view of the clear stipulation in the contract that the percentage of all kinds of defective nuts should not exceed ten.

(vi) Imported raw cashew nuts contained 'foreign matters' and the contracts concluded for import of raw cashew nuts usually provided for enabling clauses to claim compensation for excess quantity of foreign matter present in the cargo. The tolerance limit prescribed for this purpose in other contracts pertaining to purchase of West African raw cashew nuts was half of one per cent of the total quantity. The Company failed to incorporate such a clause in this contract. The certificate issued (August 1986) by the surveyors at the port of shipment showed the presence of 'foreign bodies' to the extent of 0.86 per cent. The foreign matter in excess of the tolerance limit of 0.50 per cent was 4.956 tonnes of the value of Rs.0.84 lakh. In the absence of a provision in the contract for recovery of compensation in this regard, the Company could not raise any claim against the suppliers.

(vii) The Company had intimated the suppliers on 13th October 1986 that in view of excess defective nuts over and above the tolerance limit and suspected heavy shortage exceeding 5 per cent, the payment would be limited to 90 per cent of the total value instead of 95 per cent against documents. However, the Company advised the bankers (October 1986) to honour the documents on presentation despite discrepancies and accordingly the bill of the suppliers for US $ 19.68 lakhs (US $ 18.99 lakhs towards 95 per cent value on shipped quantity basis and US $ 0.69 lakh towards usance interest) was paid as against US $ 16.75 lakhs actually due (after adjusting quality claim to the extent of 10.85 per cent as against the eligibility for 18.7 per cent) as worked out by the Company in April 1987 resulting in excess payment of US $ 2.93

lakhs. The supplier's agent gave an undertaking in June 1987 to reimburse the excess payment. After adjusting US $ 0.57 lakh due to the agent, the balance amount recoverable as on the date of expiry of usance period on 23rd February 1987 was US $ 2.36 lakhs equivalent to about ₨.30.84 lakhs against which the Company obtained US $ 1.75 lakhs in 7 instalments of US $ 0.25 lakh each in August 1987, January, March, April, May, August and October 1988. The loss of interest due to excess payment worked out to ₨.3.89 lakhs up to October 1988 at the rate of interest of 9.5 per cent per annum applicable for the Company's cash credit account. The Company stated (June 1988) that the party was reminded to settle the dues immediately and that the question of interest would be considered while finalising the account.

(b) Extra expenditure in the import of Tanzanian raw cashew nuts

The Company imported in July - August 1984, 5129 tonnes of raw cashew nuts of East African origin at US $ 1098 per tonne f.o.b. Dar-es-Salam on the basis of a contract entered into on 16th March 1984 with a firm in London through an agent at Madras. The contract was finalised after rejecting an offer of 5th March 1984 from an agent at Bombay for the supply of 7500 tonnes of nuts of the same origin @ US $ 1060 per tonne f.o.b. Mutwara. The rejection of the lower offer resulted in an extra expenditure of US $ 1.95 lakhs equivalent to ₨.21.05 lakhs.

The Management stated (May 1988) that the offer received on 5th March 1984 was only a tentative quotation. The reply was not tenable, as all the offers were of a tentative nature till they were accepted. Further, before concluding the contract on 16th March 1984 one of the Directors had recommended rejection of the offer in view of the high price. The following points were also noticed:

(i) Though the sellers communicated on 22nd March 1984 their readiness to ship the cargo and asked the Company to nominate the vessel, the Company nominated a vessel only on 17th April 1984 and the ship reached the loading port only by the end of June 1984. The cargo arrived at Cochin port in July 1984 and was cleared in July - August 1984. The documents were, however, cleared only in August - September 1984 after availing of the usance facility since obtained from the suppliers. The dollar exchange rate which was ₨.10.72 to ₨.10.85 during April 1984 went up to ₨.11.45 per dollar at the time of actual negotiation in August - September 1984. Thus due to the delay in nominating the vessel, the Company had to make an extra payment of ₨.33.79 lakhs on account of increase

in exchange rate of dollar by 60 paise. There was no justification for the delay in nominating a vessel, as a ship readily available at the loading port from 27th March to 7th April 1984 was not nominated by the Company, since the freight demanded was US $ 40 per tonne (about Rs.434). Against the Company's counter offer on 9th April 1984 for a freight of Rs.425 per tonne, the shipping agents intimated that they would call back the vessel which had already sailed from the port if deviation charge at Rs.25 per tonne was paid. The Company not only did not gain anything due to the rejection of this offer but also incurred a loss on account of the fluctuation in exchange rate consequent on nominating an alternate vessel, on 17th April 1984 at a freight rate of Rs.450 per tonne. The Company stated (May 1988) that though there was failure to nominate the vessel available on 7th April 1984 and there was delay in taking a decision to accept the increase in freight, the delay in shipment was a blessing in disguise in view of the tight financial position in April 1984. According to the Management, had the shipment taken place during the first week of April 1984, payment of higher rate of interest to bank would have been necessitated till the documents were retired after securing required funds, and therefore the extra expenditure was not a loss to the

Company. However, the interest at higher rate of 16.5 per cent per annum payable to bank, had the shipment taken place in the first week of April 1984, would amount to Rs.39.02 lakhs only against the actual payment of Rs.22.07 lakhs towards interest on the usance facility and extra payment of Rs.33.79 lakhs on account of fluctuation in exchange rate. Thus the net loss to the Company due to delay in arranging vessel worked out to Rs.16.84 lakhs.

(ii) The terms of payment on 'sight basis' originally agreed to in March 1984 was got amended in July 1984 at the instance of the Company to 'usance credit basis up to 90 days' at 15.75 per cent interest per annum which was more than the prime rate of interest of 12.75 per cent per annum of the country in the currency of which the goods were invoiced. Acceptance of the interest rate more than the prime rate was a violation of the provisions of Exchange Control Manual of the Reserve Bank of India. The extra payment in this regard amounted to Rs.4.20 lakhs. The Management stated (June 1988) that they were not aware of the stipulation in the Exchange Control Manual at that time.

(iii) The supplier in London, through the same agent in Madras, had entered into a contract with the Company in December 1983 for the supply of 5000

tonnes of raw cashew nuts at US $ 985 per tonne. However, as the supplier failed to supply the material, the Company had to cancel the contract in February 1984 accepting a compensation of US $ 15 per tonne. But just after a month, the same firm quoted in March 1984 a rate of US $ 1098 per tonne for the same quantity of cashew nuts of same origin which was accepted by the Company. The difference in price for the actual quantity of 5129 tonnes supplied worked out to US $ 504,577 equivalent to about ₨.54.49 lakhs after setting off the compensation of US $ 75000.

(c) Contract for the import of 6200 tonnes of raw cashew nuts

The Company concluded in June 1985 a contract with a firm in London for importing raw cashew nuts of 5200 tonnes of CDJKL quality and 1000 tonnes of DSM quality at f.o.b. price of US $ 900 and US $ 880 per tonne respectively for shipment in June - July 1985. As the supplier extended credit facility up to 90 days, revised rates of US $ 926.60 and US $ 906.01 respectively (which included interest at 11 per cent per annum for 90 days) were agreed to by the Company in July 1985. The Company obtained 3000 tonnes and 2264 tonnes of CDJKL variety in August 1985 and September 1985 respectively, and 642 tonnes of DSM variety in May 1986.

The following points were noticed:

(i) Generally, in f.o.b. contracts, the practice was for the buyers to nominate the vessel. But in this case, while confirming the sale order the seller informed the Company in June 1985 that they had already arranged shipment for discharge at Tuticorin port and out of which 3000 tonnes were allocated to the Company. Due to difference of Rs.72.50 per tonne in the rate for clearance, forwarding and transportation from Tuticorin and that from Cochin, the Company had to incur an extra expenditure of Rs.2.20 lakhs on this quantity. The Company had not asked the seller to reimburse the extra cost on transportation, though the shipment to Tuticorin port was made by the seller at their convenience. The Company stated (July 1988) that in exceptional cases, Tuticorin was also accepted as the port of discharge and there was no precedence to recover extra expenses incurred on transportation. Non recovery of extra expenditure, on the ground that there was no precedence, was not justifiable.

(ii) As per the terms of the contract, the seller was required to furnish inter alia certificate of quality issued by the foreign surveyors indicating separately the percentage of rotten, spotted,

diseased, void, partly damaged and immature raw cashew nuts and if the total defective raw cashew nuts exceeded 12 per cent, proportionate deduction was to be made from the invoice value. However, no such certificate of the foreign surveyors was obtained for the consignment of 3000 tonnes covered under two invoices. The seller, however, made arrangements with Indian surveyors for certification at Tuticorin. The Company also requested the same surveyors for the survey of the consignment. According to the quality certificates dated 4th September 1985 of the surveyors, 2500 tonnes covered by one invoice contained 14.9 per cent defective nuts and 500 tonnes covered by the other invoice contained 18.5 per cent defective nuts as against the tolerance limit of 12 per cent. Subsequently, on 13th September 1985, the surveyors issued addendum to their earlier certificates indicating that 50 per cent of the immature and spotted raw cashew nuts were good. This addendum was not accepted by the Company stating that it was issued on an afterthought. Moreover, there was no clause in the contract to consider any percentage of defective nuts as good. Accordingly the Company made a claim for US $ 98683 towards defective nuts over and above the permissible limit in terms of the provisions of the contract. The Company, however, adjusted only US $ 35326 towards quality claim at the time of making final payment. Reasons for non-recovery of the balance claim amounting to US $ 63357 equivalent to about Rs.7.76 lakhs were not on record. The matter was also not brought to the notice of the Board.

(iii) Though in terms of the contract the entire quantity of 6200 tonnes had to be shipped in June - July 1985, 5264 tonnes only were supplied up to September 1985. At the request of the suppliers in April 1986, the Company opened a letter of credit for US $ 602290 in April 1986 towards the value of additional quantity of 650 tonnes against which 642 tonnes were shipped in May 1986. However, it was noticed during audit that the rate prevalent at the time of supply in May 1986 was only US $ 900 per tonne c & f Cochin as against US $ 946.66 per tonne (US $ 906.01 towards f.o.b. price plus US $ 40.65 towards freight) incurred by the Company. The Company had not taken any action for the non-supply of 1000 tonnes of DSM quality in June - July 1985 as per the contract, but also incurred an extra expenditure of US $ 29957 equivalent to about Rs.3.73 lakhs in acceptance of the supply of 642 tonnes in May 1986 at a rate higher than the then prevailing rate.

(d) Import of 2000 tonnes of raw cashew nuts from Africa

The Company concluded in July 1986 a contract with a firm of Switzerland for the purchase of 2000 tonnes of raw cashew nuts at US $ 1225 per tonne c&f 'free out' Cochin. As per the contract, the raw cashew nuts should be of latest crop. For the quantity in excess of the tolerance limit of ten per cent towards damaged raw cashew nuts including rotten, spotted, diseased, void, partly damaged, immature and defective, the sellers were to pay proportionate allowance to the Company. The certificates issued by the foreign surveyors or their representatives in regard to weight, quality and condition of the raw cashew nuts at loading ports were to be considered as final. The Company was to appoint its representative who was to supervise loading operation as well as to attend to the inspection of the cargo. In addition, the Company was also entitled to appoint an inspection agency at the discharging port to ensure that unloaded goods conformed in weight and quality to the certificates issued at loading port. In case, the goods were suspected to be not in conformity with contract terms and/or relevant certificates delivered at the loading ports, the buyers were to notify sellers immediately, provided goods were still totally available, and a representative contradictory sample was to be drawn from the whole cargo, in participation both with the buyer's and seller's representatives who would be appointed for, to attend to resampling and new analysis.

In terms of the contract, the seller shipped 1806 tonnes of raw cashew nuts from Dakar, Abidjan, Lome and Bissau ports between 15th August and 13th September 1986 after giving intimation on 14th August 1986 to the Company to appoint a representative for inspection/supervision. The Company, however, did not appoint a representative. The vessel arrived at Cochin port on 16th November 1986 and completed its discharge of the cargo on 22nd November 1986. Though the Company arranged (December 1986) for certification of weight and quality by surveyors and survey by insurance surveyors for torn/slack/damaged bags and weight, the same were conducted without giving notice to the seller and without the participation of the seller's representative. According to the Company's surveyors there was a shortage of 53 tonnes and the percentage of defective

nuts in respect of the despatches made from the ports of Dakar, Abidjan, Lome and Bissau were 17.4, 14.1, 15.2 and 17.3 respectively as against the percentage of 1.3, 11.1, 4.2 and 1.1 respectively, certified by the foreign surveyors at ports of loading.

The Company assessed (December 1986) the net claim for shortage and defective nuts at 76 tonnes valued at Rs.12.40 lakhs treating 25 per cent of the immature raw cashew nuts as good and adjusting 23 tonnes of sweepings. The seller rejected (11th December 1986) the claim on the ground that the Company had violated the terms of the contract in regard to inspection/supervision by not appointing its representative at loading ports and the weighment, sampling and quality test were done at Cochin without the seller's representative. The legal adviser of the Company to whom the matter was referred (December 1986), also gave (December 1986) his opinion against preferring the claim towards quality and quantity. Thus on account of non-adherence to the terms of the contract, the Company could not enforce its claim for Rs.12.40 lakhs.

(e) Extra expenditure in the import of 400 tonnes of raw cashew nuts

The Company entered into a contract in April 1987 with a firm of Paris for the import of 3000 tonnes of raw cashew nuts of mixed varieties (including Ivory Coast and Togo) from the latest crop at US $ 1240 per tonne of shipped weight c&f 'free out' Cochin with ten per cent plus or minus at the discretion of the seller. The payment was to be made at sight on presentation of documents. The cargo was shipped between 13th and 30th June 1987 and was cleared between 25th and 29th July 1987.

When loading into ship was in progress, the Company received on 25th June 1987 an offer from the same party for the supply of 400 tonnes of raw cashew nuts of Ivory Coast/Togo origin from the same crop for shipment by the same vessel at US $ 1300 per tonne, other terms and conditions remaining the same. The above offer was accepted by the Company on 25th June 1987 itself without stipulating or insisting that the quantity to be shipped against the original contract of April 1987 should be 3000 tonnes plus 10 per cent. The foreign supplier supplied a total quantity of 3144 tonnes out of which 2703 tonnes were treated as supply against the contract of April 1987 at US $ 1240 per tonne and 441 tonnes were treated as

supply against the contract of June 1987 at US $ 1300 per tonne. As the total quantity shipped was only 3144 tonnes which was within the permissible limit of 3300 tonnes (including 10 per cent) against the original contract of April 1987, treating 441 tonnes as supply against a second contract at a higher rate resulted in an extra expenditure of Rs.3.45 lakhs. The Management stated (May 1988) that the seller had not violated the terms of contracts, though he took advantage of the option of ten per cent plus or minus in his favour. However, the Company had not acted in a business like manner by not insisting that the supply of 441 tonnes should be treated as part of 10 per cent tolerance i.e. 3300 tonnes (3000 + 300).

(f) Extra expenditure in the import of 967 tonnes of raw cashew nuts

On 10th May 1987, the Company entered into a contract with a firm of Geneva through an agent of New York for the import of 1000 tonnes of West African raw cashew nuts at US $ 1240 per tonne c & f Cochin on shipped weight basis for shipment in May - June 1987. The Company also entered into another contract just after 20 days for the import of 1000 tonnes of West African raw cashew nuts at US $ 1300 per tonne c & f Cochin for delivery in June - July

1987 with the same supplier and on same terms and conditions . In July 1987, the quantity was enhanced to 1500 tonnes. 950 tonnes against the first contract and 617 tonnes against the second contract were shipped in August 1987. The seller failed to supply in full the contracted quantity within the stipulated period. However, though the price came down to US $ 1090 per tonne c & f, the Company accepted on 1st December 1987 an offer of the supplier made on 27th November 1987 to ship 350 tonnes against the second contract of May 1987 at the price of US $ 1300 per tonne and the material was accordingly shipped in December 1987.At the time of acceptance of this offer on 1st December 1987, the Company was well aware of the fall in price and had in fact concluded another contract with a firm in Singapore for the import of 1000 tonnes at US $ 1090 per tonne c & f Cochin. The extra cost in the purchase of 350 tonnes at a rate higher than the then prevailing rate worked out to Rs.9.63 lakhs. The Management stated (July 1988) that the quantity of 350 tonnes of raw cashew nuts was purchased on a clear understanding that 3250 cartons of cashew kernels would be purchased by the firm at the old rate. However, it was noticed in audit that 3250 cartons were sold in January and February 1988 at the then prevailing rate of US cents

326 per lb. for W 320 grade cashew kernels and not at the old rate of US cents 345 per lb.

The following points were also noticed in this connection:

(i) The letter of credit opened in December 1987 for the purchase of 350 tonnes of raw cashew nuts could not be utilised due to non-receipt of the same by the supplier and the Company had to request the suppliers in January 1988 to send the sight drafts for payment. The bank charges of Rs.0.15 lakh incurred for opening the letter of credit thus became infructuous.

(ii) At the time of entering into the two contracts in May 1987 the Company had not requested the suppliers for usance credit facility, which was generally available up to 180 days, eventhough the Company was faced with financial strain and the cash credit facility availed of amounted to Rs.15.66 crores in May 1987 as against the credit limit of Rs.14.5 crores.

However, in September 1987, the Company asked for usance credit facility up to 180 days in respect of the first contract which request was turned down by the supplier on the ground that the request was made after the shipment since reasonable time before shipment was required to arrange 180 days credit. The supplier subsequently extended (November 1987) 90 days usance credit at 7.5 per cent from the date of the bill of lading. The Company could not honour this bill of the supplier on the due date (18th November 1987) as the cash credit had been utilised to the maximum limit. The bankers, however, met the bill for which the Company had to pay ₨.9.74 lakhs towards overdue interest at 18.5 per cent for 122 days up to 18th March 1988. Had the Company applied in time for usance credit facility for 180 days at the time of concluding the contract or before shipping arrangements were made the Company could have availed of the facility for 180 days instead of 90 days and avoided an extra payment of ₨.4.27 lakhs towards overdue interest. In respect of the second contract, the Company failed to apply for usance credit facility and when 967 tonnes were received in October 1987 (617 tonnes) and March 1988 (350 tonnes) against the acceptance of offers in May and November 1987, the Company made payments at sight from the overdraft account which carried interest rate of 9.5 per cent. Failure to apply for the usance credit facility in these cases resulted in avoidable payment of interest amounting to ₨.2.49 lakhs (₨.1.57 lakhs by way of difference in interest rate at two per cent for 180 days each on the cost of raw cashew nuts and ₨.0.92

lakh towards transit interest from the date of payment by the foreign bankers and the date of adjustment made by the Company's bankers). The Company stated (April 1988) that the credit facility was not availed of as a matter of course and the facility was availed of only if there was no adequate funds. However, the Company's cash position at the time of concluding contracts warranted availing of usance credit facility.

(g) Import of low quality Nigerian raw cashew nuts

Import contracts were being entered into by the Company taking into consideration the workability of raw cashew nut price with reference to the kernel market and the schedule for fulfilment of export contracts. Inspite of the fact that the raw cashew nuts of Nigerian origin were of inferior quality, the Company purchased 1002 tonnes (f.o.b. value ₨.165.80 lakhs) of Nigerian raw cashew nuts from a firm of Paris in June 1987 and another 53 tonnes (c & f value: ₨.7.42 lakhs) from a firm of London in February 1987. On processing (September - October 1987) the raw cashew nuts, the Company obtained only 190.6 tonnes of kernels; the out turn being 14.45 kgs. per bag of 80 kgs. of raw cashew nuts as against the average yield of 20.52 kgs. for all imported cashew nuts during 1987-88. With reference to the cost of raw materials of Rs.178.56 lakhs (including freight and handling charges), cost of processing amounting to Rs.19.47 lakhs and sales realisation of Rs.172.08 lakhs, the cash loss incurred by the Company in processing these low quality Nigerian cashew nuts worked out to Rs.25.95 lakhs.

(h) Oil stained quantity in the imported Abidjan variety raw cashew nuts

During the years 1986-87 and 1987-88, the Company had procured two consignments of Abidjan variety of raw cashew nuts. The first consignment of 1377 tonnes in September 1986 was from a firm of Singapore at US $ 1320 per tonne c & f Cochin/Tuticorin [vide paragraph 5.3.(a)] and the second consignment of 1003 tonnes was procured in June 1987 at US $ 1300 per tonne (110 tonnes) and at US $ 1240 per tonne (893 tonnes) c & f Cochin from a firm of Paris [vide paragraph 5.3.(e)]. In respect of the consignment of September 1986, the surveyors had reported in December 1986 inter alia that two bags were having nuts other than raw cashew nuts and 3 bags were oil stained. The Company claimed in December 1986 US $ 564.93 towards cost of the above 5 bags from the suppliers. Though the report of the surveyors was based only on sample test, the Company failed to assess the total oil stained raw

cashew nuts in the consignment and to claim full compensation from the suppliers. However, it was noticed during audit (May 1988) that between November 1986 and August 1987, the Company processed 49 tonnes of oil stained raw cashew nuts of Abidjan variety (cost Rs.8.29 lakhs) and obtained 10.3 tonnes of cashew kernels after incurring Rs.0.94 lakh towards processing charges. Though these oil stained cashew kernels were unfit for human consumption, the Company sold them mainly to three traders for Rs.1.25 lakhs (as against the normal value of Rs.9.25 lakhs for good quality). In the transactions, the Company not only incurred a net loss of Rs.8 lakhs, but also marketed kernels of inedible quality.

The Management stated (July 1988) that oil staining could be visible only after peeling of cashew kernels and that the extent of damage could not be established by independent surveyors at the time of shipment or at the time of discharge. However, the fact remained that the surveyors at the discharge port on a sample checking reported oil staining in three bags of cashew nuts.

(i) Excess payment of interest on usance credit

In respect of import of raw cashew nuts, the Company used to get credit facility at low rate of interest varying from 7 to 11.5 per cent per annum with foreign banks at the instance of the suppliers. The facility provided monetary advantage to the Company in as much as domestic borrowing rate was higher (12 per cent up to 31st July 1986 and 9.5 per cent thereafter). Under the usance credit facility, payments to the supplier's bankers were made on the date of expiry of the credit period by the bankers of the Company.

A review of the payment of interest on usance credit in respect of the imports made by the Company during the four years up to 1987-88 revealed that out of 17 shipments where usance credit facility was availed of by the Company, in 7 shipments, interest was calculated by the suppliers from the date of bill of lading instead of from the date of presentation of documents by the suppliers to the foreign banks with the result that interest was paid in respect of the period between the date of bill of lading and the date of presentation of documents to the banks. The excess claim thus paid to the supplier amounted to Rs.10.79 lakhs. The Management stated (April 1988) that the payments were in terms of the contracts.

t
et

a
ni
r

However, it was noticed during audit that as per the terms of the contract, interest was payable from the date of presentation of negotiable documents to the advising bank till the date of maturity of the bill. Calculation of interest from a date prior to the date of presentation of documents was therefore irregular.

(j) Infructuous expenditure

The Company concluded in December 1986 a contract with a firm of Quilon, an agent of a firm of London for the import of 2000 tonnes of West African raw cashew nuts at US $ 1350 per tonne c & f Cochin on .anded weight basis for shipment in December 86/January 1987. A letter of credit valid up to 15th ebruary 1987 was also opened by the Company in ecember 1986. The shipping date and the validity period of the letter of credit were extended four times at the request of the supplier; the last extension of shipping date being up to 15th April 1987. However, the seller's request for the fifth time on 26th March 1987 to amend the letter of credit to 20th April 1987 was turned down by the Company and the bank was requested (May 1987) to cancel the letter of credit. In connection with the contract, the Company had incurred an expenditure of Rs.3.04 lakhs (Rs.2.14 khs towards bank charges for opening and amending .etter of credit and Rs.0.90 lakh towards fee for registration with the Cashew Corporation of India Limited) out of which the Company received (July 1987) a part of the registration charge amounting to Rs.0.67 lakh. Apart from issuing a registered notice in June 1987 and legal notice in September 1987 to the firm in Quilon, the Company had not taken any effective steps to recover the balance amount (Rs.2.37 lakhs) from the firm.

The Management (April 1988) stated that legal steps were being initiated.

(k) Extra expenditure due to delay in booking of dollars

The Company enters into contract with its bankers for making available the required dollars, on the stipulated future dates in respect of the contracts for the import of raw cashew nuts where usance credit facilities were availed of. Such advance booking of dollars was resorted to for availing the benefit of variation in exchange rates as the exchange rate prevalent on the date of booking would be made applicable even though payment would be actually effected subsequently. However, two cases noticed during audit, where there was lack of prompt action on the part of the Company for booking in advance the dollars which resulted in loss of Rs.30.14 lakhs are given below:

(i) The bankers had advised the Company on 12th July 1984 to book dollars required for the payments in respect of contract of March 1984 in two or three days. The Company booked between 16th and 25th July 1984 US $ 20 lakhs and US $ 38.24 lakhs for payment to suppliers due on 29th August 1984 and 28th September 1984 respectively. The exchange rate (average) prevalent on the dates of booking was Rs.11.45 per dollar. Had the Company acted upon the advice of the bankers, booking of dollars could have been made at the rate of Rs.11.40 per dollar prevailed between 12th and 15th July 1984 as against the rate of Rs.11.45 per dollar at which booking was done subsequently. Failure to initiate action on the basis of the advice of the bank thus resulted in an extra payment of Rs.3.88 lakhs.

(ii) In order to make payment of US $ 39.19 lakhs due on 15th December 1986, in respect of import of raw cashew nuts (contract of June 1986), the Company made advance booking of dollars between 14th November and 15th December 1986 at the exchange rates varying from Rs.13.20 to Rs.13.27 per dollar. However, the shipment against the contract was made in June 1986 and the invoice was obtained as early as in July 1986. Had the Company made advance booking of dollars in July 1986 at the then prevailing rate of Rs.12.58

(average) per dollar itself, the Company could have made a saving of about Rs.26.26 lakhs.

The Company stated (May 1988) that there was no machinery available to predict the flow of dollar value 5 or 6 months ahead. It was noticed during audit that the Company had been maintaining records for the daily exchange rates. Had the Company reviewed the daily trend in exchange rate and sought the advice of bank and acted promptly, the extra payments could have been saved. There were also instances where the Company had made advance booking four months ahead of maturity date.

(1) Exorbitant price paid for purchase of raw cashew nuts from outside the State

The Company had been procuring indigenous raw cashew nuts from within the State only up to 1985-86. However, during the year 1986-87 the Company purchased 70 tonnes from an agent of Goa and 130 tonnes from a firm of Rajamundry at Rs.15,157 and Rs.15,323 per tonne respectively as against the average procurement price of Rs.13,994 per tonne of raw cashew nuts from within the State. Similarly during the year 1987-88 also, the Company procured 178 tonnes from Goa, 305 tonnes from Rajamundry and 145 tonnes from Tanjore at the rates of Rs.19,415, Rs.19,252 and Rs.18,241 per tonne respectively as against the procurement price of

₨.17,677 per tonne for the Kerala cashew nuts. The extra cost in the procurement of raw nuts from outside the State compared to the cost of procurement of cashew nuts from within the State worked ~~to~~ out to ₨.11.26 lakhs during these years. The procurement at extra cost from outside the State lacked justification on account of the following:

(i) The quality of the raw nuts procured from sources outside the State was poor compared to that procured from within the State as indicated below:

Source of procurement	Yield per bag (80 kgs.) of raw cashew nuts	
	1986-87	1987-88
	(kgs.)	
(i) Goa	18.68	17.87
(ii) Rajamundry	16.69	16.75
(iii) Tanjore	-	18.62
(iv) Kerala	18.94	20.59

Compared to the yield for the raw cashew nuts procured from within the State, the shortages in yield in respect of the purchases made during these years from outside the State worked out to 28 tonnes of kernels.

(ii) A test check in audit (March 1988) of the cost of processing and sales realisation of 429.6 tonnes of dried nuts out of the procurements made from Goa and Rajamundry in 1987-88 revealed that the Company obtained a sales realisation of Rs.83.06 lakhs (on 92 tonnes of kernels obtained) as against the cost of raw materials, processing and packing and forwarding amounting to Rs.90.73 lakhs (raw material cost: Rs.82.92 lakhs, processing cost : Rs.6.14 lakhs and packing and forwarding : Rs.1.67 lakhs) and thereby incurred a loss of Rs.7.67 lakhs in this lot alone.

(iii) With processing capacity of 280 tonnes of raw cashew nuts per day of the factories, the procurements of 200 tonnes in 1986-87 and 628 tonnes in 1987-88 in India but from outside the State were insignificant and were hardly sufficient for meeting one day's and 2½ days' requirements of the factories and cannot be taken to have materially served the purpose of giving employment to workers.

(m) Extra expenditure in the purchase of undried indigenous raw cashew nuts in Quilon depot

The table below gives the details of undried indigenous raw cashew nuts procured by Quilon depot, quantity obtained after drying, percentage of driage, average percentage of driage in other depots, etc., during the seasons 1984, 1986 and 1987:

		1984	1986	1987
(1)	Quantity of undried raw cashew nuts procured (Tonnes)	490	49	481
(2)	Average cost paid per kg. of undried raw cashew nuts (Rupees)	10.57	11.98	16.55
(3)	Quantity obtained after drying (Tonnes)	416	45	434
(4)	Average cost per kg. of dried raw cashew nuts (Rupees)	12.45	13.06	18.33
(5)	Average cost per kg. of dried raw cashew nuts paid in other depots (Rupees)	11.69	13.76	17.58
(6)	Percentage of driage in Quilon depot	15.1	8.2	9.7
(7)	Percentage of driage in other depots (average)	7.0	6.4	6.2

Note : There was no direct procurement in Quilon depot during the year 1985.

Though there was high percentage of driage for the raw cashew nuts purchased in Quilon depot, adequate care had not been taken while fixing/settling the price of undried raw cashew nuts purchased during 1984 and 1987. Consequently, the cost of dried raw cashew nuts in respect of Quilon depot was more by 76 paise and 75 paise per kg. respectively, compared to the cost of dried raw cashew nuts in other depots. The additional expenditure on this account during the years 1984 and 1987 worked out to Rs.6.42 lakhs. The extra expenditure lacked justification especially when adequate care was exercised in fixing the purchase price in 1986 with reference to the higher percentage of driage. Further, compared to the purchase price of Rs.18.06 per kg. of dried cashew nuts at Quilon in 1987, the cost of (Rs. 18.33 per kg.) dried nuts obtained through the purchase of undried nuts during the year, was higher.

5.4. Non-reconciliation of quantities of raw cashew nuts purchased and processed

Imported raw cashew nuts were purchased on shipped weight basis or landed weight basis and were transported on arrival at the destination port to various factories for processing, through the transporting agents. In the case of indigenous raw cashew nuts, these were stored initially in depots

opened temporarily in different districts in the State and later on transported to factories for processing.

It was noticed during audit that reconciliation between quantities purchased and processed was done by the Company up to 1983-84 only and that too without analysing the reasons for the shortages, if any. The table below gives the details of raw cashew nuts available for processing, quantity actually processed, shortages occurred at various points etc., during the five years up to 1987-88 :

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
1.Imported			(Quantity in tonnes)		
(i)Raw cashew nuts* available for processing	5009.8	15402.9	5286.6	13283.1	18155.5
(ii)Actually processed	5003.9	15288.3	5286.9	12905.7	17766.8
(iii)Shortage (i-ii)	5.9	114.6	(-)0.3	377.4	388.7
(iv)Shortage points :					
(a)During shipment	7.2	27.8	(-)20.9	308.7	416.7
(b)During transportation :					
(i) From port to factory	10.7	8.0	23.9	72.4	21.9
(ii)Between factories	-	1.7	0.5	0.5	1.4
(c)Godown shortage	0.7	7.3	3.6	7.7	6.3
(d)Unreconciled difference	(-)12.7	69.8	(-)7.4	(-)11.9	(-)57.6
2.Indigenous					
(1)Raw nuts available for processing*	16677.8	13853.3	6093.9	6306.9	9771.0
(2)Actually processed	15895.8	12561.8	5732.6	5913.3	9120.4
(3)Shortages (1-2)	782.0	1291.5	361.3	393.6	650.6
(4)Shortage points :					
(a)Driage at depots	676.7	1039.8	298.3	395.1	581.7
(b)During transportation:					
(i)From depot to factory	7.0	23.8	7.0	9.4	16.3
(ii)Between factories	3.4	1.7	0.3	1.4	-
(c)Godown shortage	7.1	170.9	44.0	6.2	8.1
(d)Unreconciled difference	87.8	55.3	11.7	(-)18.5	44.5

* Represents opening stock plus purchases less closing stock

The shortages in respect of imported nuts during 1986-87 and 1987-88 were high and represented about 2.8 and 2.1 per cent respectively. The shortage/loss of indigenous raw cashew nuts varied between 4.7 and 9.3 per cent of the quantity available for processing during the five years up to 1987-88.

The following points were also noticed :

(a) Shortages during shipment

Generally the imports of raw cashew nuts were made on shipped weight basis. The landed weight recorded at the port of destination at Cochin in many cases was less than the quantity shipped as detailed below :

	1983-84	1984-85	1985-86	1986-87	1987-88
			(Tonnes)		
Shortage	22.3 (2)	27.8 (1)	-	319.9 (5)	435.6 (11)
Excess	15.1 (2)	-	20.9 (1)	11.2 (1)	18.9 (1)
Net shortage (-)/ Excess (+)	(-)7.2	(-)27.8	(+)20.9	(-)308.7	(-)416.7

(Figures in brackets indicate number of shipments)

Out of the total shortage of 755.5 tonnes in the 16 shipments in 1986-87 and 1987-88, the shortage of 742.8 tonnes noticed in 14 shipments was more than the acceptable norm of half to one per cent in the industry. The shortages in these shipments in excess of the norm of one per cent were to the tune of 735.4 tonnes valued at Rs.121.45 lakhs. The Company stated (May 1988) that in order to obviate the shortage, contracts on landed weight terms only were resorted to during 1988-89.

(b) Shortage during transportation from port to factories

The imported raw cashew nuts arriving at port are cleared and transported to various factories by the transporting agents. As per the terms of the contracts with the agents, the raw cashew nuts should be weighed in the port weigh bridges before loading into lorries; covered with tarpaulins and the covering affixed with metallic seals at five places. Despite these precautions, there were short deliveries at the factories to the extent of 136.848 tonnes valued at Rs.20.49 lakhs during the five years up to 1987-88, out of which, shortage of 72.364 tonnes valued at Rs.12.06

lakhs related to 1986-87. The Company had neither investigated the matter nor fixed any responsibility so far (October 1988).

The Company stated (May 1988) that the shortages were due to difference in scales and the manner of taking weighment at port and factory, and not due to pilferage enroute, as the seals affixed in five places at the time of loading into lorries were always intact. However, despite persistent shortages noticed every year, the Company did not take any measures to ensure the correctness of the weighments taken at both ends and to include an enabling provision in the agreement with the transporting contractors to make good the loss.

(c) Loss due to driage

The undried raw cashew nuts procured from indigenous sources were dried in the yards at the procurement stations before transportation to the factories. The percentage of driage in various depots varied from 5 to 6.96 in 1983, 5.16 to 15.14 in 1984, 4.74 to 8.97 in 1985, 5.11 to 8.66 in 1986 and 4.12 to 9.71 in 1987. In spite of wide variations in the percentage of driage from depot to depot and from year to year, the Company had not fixed any norm for driage so far (October 1988). In the absence of any norm for driage and policy in fixing the purchase price taking into account the driage involved, the extra expenditure on account of payment of higher price could not be assessed.

(d) Loss in transit from depots to factories

The dried raw cashew nuts from the yards are transported to the various factories through lorries on contract basis. The details of raw cashew nuts despatched from the yards, quantity actually received at the factories and shortage in transit during the period from 1983-84 to 1987-88 are given below :

Year	Despatched weight (Tonnes)	Received weight (Tonnes)	Shortages (Tonnes)	Cost per kg. (Rupees)	Value of shortages (Rupees in lakhs)
1983-84	10751.969	10744.981	6.988	5.12	0.36
1984-85	11528.332	11504.516	23.816	11.93	2.84
1985-86	5434.490	5427.492	6.998	10.84	0.76
1986-87	5890.349	5880.903	9.446	14.04	1.33
1987-88	7586.968	7570.588	16.380	18.10	2.96
Total	41192.108	41128.480	63.628		8.25

The Company had not investigated the reasons for the shortages nor had taken any action to claim the loss from the transporting contractors, despite specific provisions in the agreements in this regard.

(e) Shortage during inter-factory transportation

In order to equalise the number of processing lots in all the factories, inter-factory transportation of raw cashew nuts was made. During the five years up to 1987-88, 12,912 tonnes of raw cashew nuts were transported from one factory to another. There were shortages aggregating 12 tonnes valued at Rs.1.38 lakhs in the inter-factory transfer. The Company had not taken any action to investigate the reasons for such shortages.

(f) Shortage in godowns

The dried raw cashew nuts obtained at factories were being kept in the godowns till these were taken for processing. Shortages during storage in godowns during the five years 1983-84 to 1987-88 aggregated 327 tonnes (91 tonnes of imported and 236 tonnes of indigenous) valued at Rs.40.64 lakhs of which 243.6 tonnes related to 1984-85 alone. The Company stated (May 1988) that the shortages were due to driage, spillage, etc., which could not be avoided fully. As the Company was storing only dried raw cashew nuts, there was no justification for shortages due to driage during storage in godowns.

5.5. Avoidable expenditure in inter unit transfer of raw cashew nuts

After the raw cashew nuts were initially received at a factory from the procurement depots/ports, inter-factory transfers were being effected in some cases. The inter unit transfers thus made during the five years up to 1987-88, were to the extent of 12,912 tonnes at a cost of Rs.5.74 lakhs. The Company stated in May 1988 that the interim shifting was necessitated to equalise the number of processing lots in all the factories. However, this could have been avoided to a very great extent, had there been proper planning at the time of allocation before transportation from the procurement depots/ports of import. It was further noticed that when some quantities were transported from one factory to another, some other quantities were transported from the latter factory to the former factory in the same month. The above would indicate that there was no planning in the initial allotment of the raw cashew nuts to the various factories for processing.

6. Production performance

6.1. Capacity utilisation

The annual aggregate rated capacity of all the 34 factories of the Company was fixed at 9.28 lakh bags of raw cashew nuts of 80 kgs. each on the basis of 265 working days. The table below gives the budgeted and actual utilisation of capacity for the five years up to 1987-88 :

Year	Budgeted capacity	Actual utili-sation	Percentage of utilisation to Rated capacity	Percentage of utilisation to Budget
	(In lakh bags)			
1983-84	3.75	2.61	28.17	69.67
1984-85	4.38	3.48	37.53	79.57
1985-86	2.19	1.38	14.85	62.97
1986-87	2.50	2.35	25.36	94.10
1987-88	3.50	3.36	36.24	96.03

The following points were noticed :

(i) The Company had been fixing a low annual target compared to the processing capacity available; the reason for which though called for by audit in February 1988 had not been received (October 1988). Despite decanalisation of the import of raw cashew nuts in April 1981 and discontinuance of the system of monopoly procurement of indigenous raw cashew nuts from 1983, the Company had fixed only a very low target for the year 1985-86. The achievement as compared to the target was even below 70 per cent.

(ii) The Company had been discontinuing the processing work in factories even when there were sufficient stocks of raw cashew nuts for processing. Apart from idle capacity of factories, the delay in processing of raw cashew nuts in stock resulted in loss of interest on the idle stock of raw cashew nuts and belated realisation of sales proceeds. The loss in eight such cases of stoppage of processing work between December 1983 and June 1987 worked out to ₨.36.30 lakhs.

6.2. Yield

Raw cashew nuts after drying are first roasted and then shelled manually to segregate kernels. The kernels are treated by controlled heating in borma drums to facilitate easy peeling of cashew testa. The

kernels are then graded into 'wholes', 'brokens', 'Indian grades' and 'rejection grades'. There are about seven grades under 'wholes', ten grades under 'brokens' and thirteen under 'Indian grades' including 'rejection grades'. The table below gives the break up of yield obtained during the five years up to 1987-88:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
(1)Raw cashew nuts roasted :					
Bags of 80 kgs.	261247	348127	137744	235238	336060
Tonnes	20900	27850	11020	18819	26885
(2)Kernels obtained : (Tonnes)					
(i) Wholes	4061	5064	2010	3393	4341
(ii)Brokens	1041	1503	593	1016	1657
(iii)Indian grades	201	369	134	262	512
(iv)Rejection grades	196	353	119	201	361
Total	5499	7289	2856	4872	6871
(3)Yield of kernels per bag of raw cashew nuts (kgs.):					
(i) Wholes	15.55	14.55	14.59	14.42	12.92
(ii)Brokens	3.98	4.32	4.30	4.32	4.93
(iii)Indian grades	0.77	1.06	0.97	1.11	1.52
(iv)Rejection grades	0.75	1.01	0.87	0.86	1.07
Total	21.05	20.94	20.73	20.71	20.44
(4)Percentage of each grade to total yield:					
(i) Wholes	73.85	69.47	70.38	69.64	63.18
(ii)Brokens	18.93	20.62	20.76	20.85	24.12
(iii)Indian grades	3.66	5.06	4.69	5.38	7.45
(iv)Rejection grades	3.56	4.85	4.17	5.13	5.25
Total	100.00	100.00	100.00	100.00	100.00
(5)Percentage of total yield to total raw cashew nuts processed	26.31	26.17	25.92	25.89	25.56

The percentage of yield of kernels per bag of raw cashew nuts roasted had been declining steadily from 26.31 in 1983-84 to 26.17 in 1984-85, 25.92 in 1985-86, 25.89 in 1986-87 and 25.56 in 1987-88. The 'wholes' obtained per bag of raw cashew nuts as well as the percentage of 'wholes' to total yield had also been declining and touched the lowest level in 1987-88. The yield of 'wholes' to total yield obtained from imported raw cashew nuts was only 68.52, 67.57, 67.59, 66.98 and 58.74 per cent during the five years up to 1987-88, as against 75.61, 71.92, 73.10, 75.62 and 71.86 per cent obtained from indigenous raw cashew nuts during these years despite payment of higher price for imported nuts. Though the profitability depended on the recovery of 'wholes' which fetched the highest price among the grades, the Company had not analysed the reasons for the low recovery with a view to taking remedial action. The recovery of 'wholes' varied widely from factory to factory also. The variation ranged between 11.4 and 15.4 kgs. per bag of raw nuts during 1985-86, between 12.9 and 15.3 kgs. in 1986-87 and between 10.5 and 12.8 kgs. in 1987-88 in respect of imported raw nuts. The Management stated (July 1988) that cashew being an agricultural product, out turn depended on quality of raw cashew nuts. However, variations in the recovery of 'wholes' from factory to factory in respect of the same quality of raw cashew nuts imported during the same season were also noticed. This would indicate that the Company had not been exercising proper control over the operation.

6.3. Loss on account of rework of cashew kernels

Cashew kernels are to be filled in air tight tin containers within eight days of roasting to avoid chances of infestation and to ensure prolonged storage without affecting the quality. These tins are packed in cartons as per specifications against specific export orders and despatched after getting clearance from the Controller of Exports. However, in certain cases, cashew kernels held in stock had to be reprocessed due to rejection by the Export Inspection Agency as these were found contaminated and infested. The reopening of tins and cartons and consequent reprocessing entailed extra expenditure by way of labour charges on re-opening and repacking, loss of kernels due to borma heating and other overheads. The table below gives the details of total number of tins packed, tins re-opened for reprocessing, expenditure incurred on reprocessing (including shortage during reprocessing and inspection fees), etc., for the four years up to 1987-88 :

Year	Containers filled originally	Containers reopened	Percentage of containers reopened	Expenditure on reprocessing and retinning (Rupees in lakhs)
1984-85	725574	162817	22.4	21.08
1985-86	266090	34067	12.8	5.09
1986-87	433870	19371	4.5	3.83
1987-88	481525	55032	11.4	12.53
Total				42.53

Percentage of tins reopened went up in 1987-88 indicating decline in control exercised at the time of packing.

It was stated (July 1988) by the Company that specific instructions had been given to all concerned to be vigilant in all steps of operations of filling and packing and to keep accounts of re-working.

6.4. Shortage of kernels in transit

The processed cashew kernels are filled in baskets, weighed in the factory and transported from the factories to the group filling centres where these are again weighed, filled in tins and stocked for the purpose of sale. A review of the actual receipt of kernels in the filling centres with that despatched from factories had shown weight differences. The details of net shortages noticed during 1985-86 to 1987-88 are given below :

Year	Number of factories where shortages occurred	Shortage (Quantity in Kgs.)
1985-86	19	23064
1986-87	18	64832
1987-88	13	18591
Total		106487

The total value of shortages worked out to Rs.84.65 lakhs at the average sales realisation of Rs.65.49 per kg. during 1985-86, Rs.81.83 per kg. during 1986-87 and Rs.90.28 per kg. during 1987-88.

The Company had not investigated the reasons for the shortages (October 1988).

7. Sales policy and performance

7.1. Sales policy

There are about 30 grades of cashew kernels produced by the Company. Of these, 17 are of export grades, eight grades cater to the needs of indigenous markets and the remaining five are of rejection grades. While the latter 13 grades are disposed of by

the Company through auction conducted periodically, the export grades (both wholes and brokens) are exported mainly to USA, USSR and East European countries through agents on payment of commission ranging from half to two and a half per cent of the invoice value. During the five years up to 1987-88, the Company paid commission totalling Rs.2,26.53 lakhs on exports aggregating Rs.1,58,55.61 lakhs, which worked out to 1.4 per cent.

7.2. The table below indicates the sales performance of the Company for the five years up to 1987-88 :

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
(a)Export sales (Quantity in tonnes)	5166	6967	2782	4430	4934
Value (Rupees in lakhs)	2288	3685	1822	3605	4455
Average sales realisation per tonne (Rupees)	44290	52893	65496	81385	90290
(b)Internal sales (Quantity in tonnes)	260	341	291	322	NA
Value (Rupees in lakhs)	36.86	33.53	NA	NA	NA
Average sales realisation per tonne (Rupees)	14176	9832	NA	NA	NA
(c)Total sales (Quantity in tonnes)	5426	7308	3073	4752	NA
Value (Rupees in lakhs)	2324.86	3718.53	NA	NA	NA
Average sales realisation per tonne (Rupees)	42847	50884	NA	NA	NA
(d)Country's exports (Quantity in tonnes)	36280	31676	34280	38811	35522*
Value (Rupees in lakhs)	14819	17651	20976	30899	31163*
Average sales realisation per tonne (Rupees)	40847	55724	61119	79613	87730
(e)Company's share in country's exports (Percentage)	14.2	22.0	8.1	11.4	13.9

* Up to February 1988 only

NA Not available

Though the country's total exports had been steadily increasing from year to year, the Company's share to total exports during 1985-86, 1986-87 and 1987-88 had declined heavily compared to its export performance in 1984-85.

7.3. Extra expenditure due to diversion of cargo

In April 1987 the Company finalised two contracts with a firm of London for the sale of 650 cartons of 'W 240' grade of cashew kernels at US$ 3.31 per pound f.o.b. Cochin and 1300 cartons of 'W 320' grade at US$ 3.30 per pound f.o.b. Cochin. In both the contracts, the shipments were to be made in June 1987 and the buyer was to nominate the vessels. The Company shipped the entire quantity on 3rd July 1987 in the vessel nominated by the buyer and discounted the bill on 7th July 1987 for Rs.41.45 lakhs. The buyer did not agree to the payment of the bill and clearance of the cargo at Rottardam, the port of destination and consequently the buyer's bank did not honour the bill drawn by the Company on the plea that the 'Shipped on board' notation in the bill of lading was not dated by the steamer agents. The Company then entered (August 1987) into afloat sale contract/adjustment against the contract entered in June 1987, with two parties in

London through an agent at New York at US$ 3.455 per pound c&f Norfolk for 'W 240' grade of kernels and at US$ 3.42 per pound c&f Norfolk for 'W 320' grade of kernels and diverted the cargo to Norfolk at an extra expenditure of ₨.2.35 lakhs by way of short realisation of sale proceeds (₨.19,977), overdue interest for 57 days due to delayed realisation of bills (₨.91,655), difference in exchange charged by the bank (₨.93,897) and difference in freight due to diversion (₨.29,028). The Company failed to raise any claim against the steamer agents for realisation of loss incurred due to their omission to enter the date under shipped on board notation.

7.4. Variation in fixing sale price

The Company had no definite policy as to the fixation of export sale price of cashew kernels of various grades. While the selling price accepted for the same grade of kernels on a day against various contracts finalised during the year 1985-86 was uniform, in respect of the contracts concluded during 1986-87 and 1987-88 there had been variations in prices up to 8.29 US cents per pound for the same grade of kernels in the contracts entered into on the same day with same/various buyers through the same/various agents for the supplies scheduled to be

made during the same period as indicated in Annexure I. With reference to the highest price prevalent on each day, conclusion of contracts at lower selling prices resulted in loss of revenue of Rs.4.41 lakhs. The Management had not offered any remarks in the matter so far (October 1988).

7.5. Concession in price

(i) The Company had been exporting cashew kernels to USSR mainly through two agents. A review of the exports to this country during the three years up to 1987-88 revealed that the prices agreed to and realised in respect of contracts settled through the agent (N) of Bombay were far below the rates obtained for the sales through the other agent (P) or the prevailing market rates resulting in loss of revenue to the Company. The loss thus sustained in the export of 49,086 cartons of kernels to USSR under four contracts through the Bombay agent (N) worked out to Rs.42.05 lakhs compared to the prices at which contracts were settled on the same days through other agents/market rate for the supplies to be made during the same period as indicated below :

Kernel Grade	FOB price (US Cents per lb.)	Market rate* (FOB in US Cents per lb.)	Difference in rate (US Cents per lb.)	Quantity supplied (cartons)	Loss (US Dollars)
1985-86					
(i) Contract dated 22.5.1985					
W320	204.78	228.30	23.52	220	2587.200
W450	197.59	213.67	16.08	220	1768.800
SW	192.20	218.55	28.35	220	2898.500
B	177.83	203.92	26.09	661	8622.750
S	177.83	203.92	26.09	1323	17258.535
					33135.785
			(Rs.4.14 lakhs at Rs.12.50 per US$)		
(ii) Contract dated 9.9.1985 and amendment dated 30.10.1985					
W240	264.15	285.00	20.85	5800	60465.000
W320	253.30	275.00	21.70	7966	86431.100
W450	246.06	265.00	18.94	3198	30285.060
SW	240.63	265.00	24.37	531	6470.235
					183651.395
			(Rs.22.79 lakhs at Rs.12.41 per US$)		
1986-87					
(iii) Contract dated 11.9.1986					
W450	313.63	333.24	19.61	3683	36111.815
B	299.38	310.07	10.69	479	2560.255
F	299.38	310.07	10.69	7385	39472.825
SS	288.68	299.38	10.70	2474	13235.900
					91380.795
			(Rs.11.51 lakhs at Rs.12.60 per US$)		
1987-88					
(iv) Contract dated 22.4.1987					
W320	323.76	337.78	14.02	661	4633.61
W450	317.30	331.34	14.04	300	2106.00
SW	306.88	310.43	3.55	7380	13081.75
LWP	216.93	219.50	2:57	6585	8461.73
					28283.09
			(Rs.3.61 lakhs at Rs.12.76 per US$)		

* Based on the contracts finalised by the Company and bids received from foreign buyers.

(ii) Delay in realisation of dues

In the exports made to USSR, the buyer used to retain five per cent of the invoice value towards claim for compensation for the difference in quality and quantity, if any, noticed at the port of destination. The balance amounts so retained after settling claims, if any, were to be released within 40 days from the date of acceptance of the goods at the port of destination.

However, the foreign buyers had been releasing the balance amounts consequent on the acceptance of the goods at the port of destination after a considerable delay. In 23 such cases during the years 1985-86 to 1987-88 involving Rs.61.33 lakhs, the delay in realisation of amount ranged between 7 and 218 days. The loss of interest in these cases worked out to Rs.2.16 lakhs at the rates of interest applicable on cash credit. The Company stated (July 1988) that there was no clause in the contract for recovery of interest for the delayed remittances. However, the Company failed to take up the matter with the customers to realise the dues within the period stipulated in the contracts.

7.6. Delay in raising and presenting invoices

In the case of exports of cashew kernels, the Company despatched the goods from the factory to the port for shipment on receipt of the details of the letter of credit opened by the buyer. As soon as the goods reach the port, the steamer agents prepare the bill of lading and hand it over to the Company for raising invoice for presentation to the bank along with other documents. The bank credits the invoice value to the Company's cash credit account. There were delays ranging up to 30 days in preparing invoices involving amounts between Rs.0.40 lakh and Rs.109.83 lakhs after receipt of the bills of lading. Further, there were also delays ranging up to 25 days in presenting the invoices to the bank. The loss of interest on account of such delays during the period 1983-84 to 1987-88 worked out to Rs.14.70 lakhs at the rate applicable to the cash credit from time to time.

The Company had not adduced any reason for the delays though called for in audit in March 1988.

7.7. Sale of good quality cashew kernels as oil stained

During the years 1986-87 and 1987-88, the Company sold 9.5 tonnes of 'wholes' and 11.3 tonnes of

'brokens' varieties of cashew kernels treating them as 'oil stained'.

However, a review made in audit (May 1988) of the production records of the Company revealed that only 49 tonnes of oil stained raw cashew nuts were processed during 1986-87 and 1987-88 and the yield obtained was only 6.4 tonnes of 'wholes' and 4 tonnes of 'brokens' varieties as against the disposal by sale of 9.5 tonnes and 11.3 tonnes of 'wholes' and 'brokens' respectively. The average sale price realised per tonne of oil stained 'wholes' and 'brokens' was only Rs.0.15 lakh and Rs.0.07 lakh as against Rs.1.03 lakhs and Rs.0.50 lakh for good quality 'wholes' and 'brokens' respectively. Sale of 3.1 tonnes of good quality 'wholes' and 7.3 tonnes of good quality 'brokens' as 'oil stained' resulted in loss of Rs.5.87 lakhs. The Management had not investigated the matter (October 1988).

7.8. Quality claims

In the case of exports during 1983-84 to 1985-86 and 1987-88 the Company admitted claims of Rs.6.07 lakhs on 25,530 cartons on the ground of large scale infestation. The Company had neither investigated the reasons for such large scale infestation nor had fixed any responsibility for the loss (October 1988).

8. **Import replenishments**

The Company, being a registered exporter classified under processed goods, was eligible for import entitlement (REP licences) to the extent of ten/eleven per cent of f.o.b. value of exports. The table below indicates the details of f.o.b. value of export, exports in respect of which replenishments were actually obtained, value of REP licences obtained, premium on transfer of REP licences to others etc. for the five years up to 1987-88 :

Year	F.o.b. value of export sales	Value of exports on which replenishments obtained	value of REP licences obtained	Premium obtained on transfer of licences to others	Percentage of premium to value of licences
		(Rupees in lakhs)			
1983-84	2288.00	2156.17	231.79	38.58	16.6
1984-85	3685.26	2742.68	286.08	55.07	19.2
1985-86	1822.10	Nil	Nil	Nil	Nil
1986-87	3605.33	1313.57	139.09	14.60	10.5
1987-88	4454.92	2836.85*	317.36	33.32	—
Total	15855.61	9049.27	974.32	141.57	

* Up to September 1987 only

The following points were noticed :

(i) The Company could not claim REP licences in respect of export sales for a value of Rs.4,411 lakhs between January 1985 and September 1986 as the same were set off against the advance licences obtained for the import of tin plates. It was noticed during audit that the Company had obtained (March 1985) advance licence for importing tin sheets for a value of Rs.63.70 lakhs, bearing an export obligation against which the export sales for Rs.4,411 lakhs were adjusted. However, in March 1985 itself, the Company had transferred REP licences for a value of Rs.4,00 lakhs at a premium of 20.5 per cent. Instead of obtaining advance licence, had the Company utilised REP licence for a value of Rs.63.70 lakhs in importing tin sheets, the necessity for setting off export sales of Rs.4,411 lakhs could have been avoided and the Company could have obtained further REP licence for a value of Rs.4,41 lakhs and earned a sum of Rs.33.25 lakhs by way of difference in premium in transferring the licence.

(ii) In respect of exports on which the foreign buyers initially paid value of invoices to the extent of 95 to 98 per cent retaining 2 to 5 per cent for

final settlement later, after inspection, the REP licences were received only in respect of the f.o.b. value of 95 to 98 per cent initially received in some cases though in some other cases licences on 100 per cent of f.o.b. value were sanctioned. Though the Company had not obtained licences in respect of the retained f.o.b. value amounting to ₨.54.82 lakhs, it did not take up the matter with the department even after getting the amount subsequently from the foreign buyers. The licences thus lost to the Company were ~~was~~ of the value of ₨.5.48 lakhs and consequent loss of premium worked out to ₨.0.94 lakh at the prevailing rate of premium which ranged from 10.5 to 21.75 per cent during the respective periods.

(iii)(a) The Company exported cashew kernels for a value of ₨.119.37 lakhs through a firm of Bombay during the years 1986-87 and 1987-88. Though the contracts entered into with the firm specifically provided that all the export benefits were on the Company's account and the firm would give necessary papers to the Company for availing of the benefit, the Company failed to demand and obtain the necessary 'disclaimer' certificates for the purpose of claiming the REP licences. Consequently, the Company lost REP licences to the value of ₨.11.94 lakhs. The loss of revenue on account of premium for the licences worked out to ₨.1.25 lakhs at 10.5 per cent prevalent during the period.

(b) Out of 41 exports made by the Company through Minerals and Metals Trading Corporation Limited and State Trading Corporation of India Limited between December 1985 and October 1987, in 17 cases involving f.o.b. value of ₨.456.60 lakhs, the Company failed to demand and obtain necessary 'disclaimer' certificates for the purpose of claiming REP licences. The loss of REP licences worked out to ₨.45.66 lakhs with a resultant loss of premium of ₨.4.79 lakhs at 10.5 per cent.

(iv) The Company was obtaining advance licences for importing tin plates for the manufacture of tin containers for packing the cashew kernels. According to paragraph 6 of Appendix 19 of the Import Policy 1983-84 and Import Policy 1984-85, if advance licence was obtained for an item which was used as packing material, there was no need to deduct the equal value of advance licence from the value of applications for REP licence. However, the Company had deducted ₨.88 lakhs being the value of three advance licences obtained in March 1982, June 1983 and February 1984 for the import of tin plates, while applying for REP

licences for the period October 1982 to December 1983, as the Company was not aware of the provisions of the Import and Export Policy. While transferring the REP licences for the value of Rs.311.88 lakhs pertaining to the period April 1983 to September 1984 to a firm of Bombay at a premium of 21.62 per cent, the firm suggested to the Company in January 1985 that they would intimate the relevant provision in the Rules and Regulations of the Import Policy which could be applied to the benefit of the Company in getting REP licences for Rs.88 lakhs also with a stipulation that the additional licences so obtained would be transferred to the firm at a premium of Rs.5.31 lakhs which worked out to only 6.04 per cent of the value of licences as against the average premium of 21.62 per cent obtained while transferring REP licences for Rs.311.88 lakhs to the same firm in January 1985. This was agreed to by the Company and additional licences for a value of Rs.87.97 lakhs so obtained were transferred to the firm at an agreed premium of Rs.5.31 lakhs as against Rs.19.02 lakhs that could have been obtained at the rate of premium applicable for the other licences. Thus due to ignorance of the relevant provisions of the Import and Export Policy, the Company lost Rs.13.71 lakhs.

(v) On the basis of the application made in November 1986, the Company obtained in June 1987 against future export of kernels, advance licence under duty exemption scheme, for the import of tin plates for a value of ₨.34.40 lakhs. Accordingly, the Company placed orders in September 1987 for the import of 350 tonnes of tin plates. Against this, 340 tonnes were received and cleared in March 1988 by the Company after executing an agreement as required under the rules.

One of the conditions prescribed in the advance licence as well as in the agreement executed was that the Company should earn foreign exchange to the extent of ₨.1848 lakhs over a period of nine months from the date of clearance of the consignment of import into India by exporting 1.45 lakh cartons of cashew kernels using the containers made out of the imported tin plates. The Company would not be entitled to claim REP licences on these exports as per rules in force.

In this connection, it was noticed in audit that the Company had obtained in September 1987 REP licence for a value of ₨.139.09 lakhs in respect of the exports made during 1986-87 and this licence was transferred to a firm at Cochin in April 1988 for

premium of ₨.14.60 lakhs. Instead of transferring the licence, had a portion of it valued at ₨.34.40 lakhs been used for the import of tin plates (339.57 tonnes) as per the import orders placed in September 1987, in lieu of the advance licence obtained in June 1987, the Company would have got the following advantages:

(a) The Company would be entitled to claim REP licences for a value of ₨.184.80 lakhs and earn a premium of about ₨.19.40 lakhs at 10.5 per cent.

(b) There would not have been any time limit for using the imported tin plates.

(c) There would not have been any necessity to fulfil the export obligation to the extent of ₨.1848 lakhs.

(d) The contingent liability towards payment of customs duty in case of default in fulfilling the export obligation within the prescribed time limit could have been avoided.

The decision taken to utilise advance licence for importing tin plates instead of importing them by utilising REP licence resulted in a net loss of Rs.15.79 lakhs and was therefore not in the best interest of the Company.

(vi) In March 1985, the Company received from the Chief Controller of Imports and Exports an advance licence for the import of tin plates for Rs.63.70 lakhs under duty exemption scheme. Under the above licence, the Company imported between July 1985 and June 1986 a quantity of 695.6 tonnes of tin plates from Japan. As per the conditions attached to the advance licence, the Company should export 3.08 lakh cartons of cashew kernels to foreign countries within a period of six months from the date of clearance of the first consignment against the advance licence. A bond duly countersigned by the bankers was executed in this regard at the time of clearance of imported tin plates. Eventhough the period of fulfilment of export obligation expired on 12th January 1986, this was got extended in June 1986 up to the end of September 1986. However, as the export obligation was fulfilled only to the extent of 3.07 lakh cartons, the Deputy Chief Controller of Imports and Exports assessed in December 1987 the unutilised portion of tin plates as 12.1 tonnes and directed the Company to pay the customs duty together with interest at 18 per cent per

annum from the date of import. Accordingly the Company paid (July 1988) Rs.1.05 lakhs towards customs duty and Rs.0.38 lakh towards interest. It was also directed (December 1987) to surrender REP licence/entitlement for a c.i.f. value of Rs.0.97 lakh. It was noticed in audit that during the period of six months from the date of import of tin plates, the Company had exported 5790 cartons of cashew kernels of the value of Rs.83.45 lakhs through other private parties which were not reckoned by the Deputy Chief Controller of Imports and Exports for the purpose of fulfilment of export obligation. It was noticed that 695.6 tonnes of tin plates imported between July 1985 and June 1986 were not fully utilised by the Company during the period of export obligation up to September 1986 and that there was a balance of 165 tonnes as on 30th September 1986 indicating that the import was much in excess of the requirement rendering the Company liable for refund of the concession under the duty exemption scheme.

9. Performance of tin factories

9.1. Consumption of tin plates

Mention was made in paragraph 3.14.2.(a) of the Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial) regarding the non-fixation of norms for the consumption of tin plates in the production of containers. The Committee on Public Undertakings (1984-86) had, in their Thirtieth Report published in March 1986, recommended that the Company should fix norms for the consumption of tin plates taking into account the facilities available in each factory. The consumption continued to vary from factory to factory and from year to year in the same factory as indicated below:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
(a) Number of containers produced					
1. Ayathil	180145	237905	98322	175970	194905
2. Kottarakara	132863	205352	76222	122400	195493
3. Mukhathala	125262	171979	66822	121842	197479
Total	438270	615236	241366	420212	587877
(b) Tin plates consumed (Tonnes)					
1. Ayathil	188.6	262.2	104.7	188.7	210.2
2. Kottarakara	148.3	224.4	82.3	134.0	211.0
3. Mukhathala	137.1	187.9	92.2	146.5	212.5
Total	474.0	674.5	279.2	469.2	633.7
(c) Production of containers per tonne of tin plates consumed (numbers)					
1. Ayathil	955	908	939	933	927
2. Kottarakara	896	915	926	913	927
3. Mukhathala	914	915	725	832	929
Average	925	912	865	896	928

Based on the maximum output of 955 containers obtained per tonne of tin plates consumed during 1983-84 in Ayathil factory and 927 and 929 containers obtained per tonne of tin plates consumed during 1987-88 in Kottarakara and Mukhathala factories respectively, the excess consumption of tin plates for the four years from 1984-85 to 1987-88 at Ayathil factory and for the four years from 1983-84 to 1986-87 in the other two factories worked out to 76 tonnes valued at Rs.7.27 lakhs.

9.2. Consumption of tin solder

Mention was made in paragraph 3.14.2.(b) of the Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial) of the non-fixation of norm for the consumption of tin solder. The Committee on Public Undertakings (1984-86) had recommended in their Thirtieth Report that the Company should fix the norm for consumption taking into account the facilities available in each factory. The Company fixed in October 1986 norms of 7.5 gms. of solder per container for power operated factory and 8 gms. per container for hand operated factories. The table below gives the number of containers produced, tin solder consumed for the production of containers and the rate of consumption in the power operated factory at Ayathil and in the two hand operated factories at Kottarakara and Mukhathala for the years 1983-84 to 1987-88:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
1.Ayathil (power operated)					
(a)Container produced (Numbers)	180145	237905	98322	175970	194905
(b)Consumption of tin solder (kgs.)	1399.8	1820.1	789.2	1507.3	1660.6
(c)Consumption per container (gms.)	7.77	7.65	8.03	8.57	8.52
2.Kottarakara and Mukhathala (hand operated)					
(a)Container produced (Numbers)	258125	377331	143044	244242	392972
(b)Consumption of tin solder (kgs.)	3072.1	3844.6	1539.2	2263.6	3426.6
(c)Consumption per container (gms.)	11.90	10.19	10.76	9.27	8.72

With refèrence to the norms fixed in October 1986, there was excess consumption of tin solder in all the factories during all the five years. The total quantity of excess consumption during 1983-84 to 1987-88 over and above the norms in the above three factories worked out to 3343 kgs. valued at Rs.6.69 lakhs at the average cost of Rs.200 per kg.

10. Performance of Tannin factory

10.1. Mention was made in paragraph 3.15.4 of the Report of the Comptroller and Auditor General of India

for the year 1978-79 (Commercial) of the poor performance of the machinery installed in June 1976 for the extraction of tannin from the cashew testa.

The Management had attributed the low performance to frequent breakdown of evaporators and insufficient water supply arrangements. Though these defects were rectified by commissioning a tube well (January 1981) and repairing the finisher evaporator (January 1981), production had not improved.

The table below gives details of actual production of tannin for the five years up to 1987-88 :

Year	Installed capacity (Tonnes)	Actual Production (Tonnes)	Percentage of production to installed capacity
1983-84	900	122.0	13.6
1984-85	900	109.7	12.2
1985-86	900	8.9	1.0
1986-87	900	113.7	12.6
1987-88	900	140.5	15.6

The Management stated in June 1988 that the capacity could not be achieved on account of outdated and defective equipments supplied by the suppliers at the time of implementing the project.

In April 1987, the Company appointed a firm of consultants on a fee of Rs.0.50 lakh for revitalising the unit. The firm's suggestions (April 1987) for changing the boiler and replacing the finisher evaporator had not been implemented. The Management stated (June 1988) that detailed studies were being conducted. The actual number of days for which the plant worked during the five years up to 1987-88 was 119, 142, 12, 106 and 155 respectively. For the remaining periods the staff and workers (44 persons) remained idle and the wages paid to them during the idle period amounted to Rs.11.24 lakhs (approximately).

10.2. Furnace oil was being used to fire the boiler for producing steam required for the production of tannin. The requirement of furnace oil was assessed by the Management in 1976 as 1350 litres per tonne of tannin produced. The table below gives the details of production of tannin, consumption of furnace oil and excess consumption of furnace oil for the five years up to 1987-88:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
1.Production of tannin (Tonnes)	122	110	9	114	140
2.Consumption of furnace oil (Litres)	179794	192956	12360	169023	224384
3.Furnace oil required at the norm of 1350 litres per tonne of tannin produced (Litres)	164700	148500	12150	153900	189000
4.Excess consumption (Litres)	15094	44456	210	15123	35384
5.Value of excess consumption (Rupees)	40754	121365	659	47184	117829

The Company stated (June 1988) that the norm could be achieved only if all the equipments had worked smoothly and that the unsatisfactory performance of evaporators coupled with the decreasing efficiency of the boiler contributed to the excess consumption.

10.3. As against a profit of Rs.6.63 lakhs per annum envisaged in the project report of March 1972, the unit had been incurring losses up to 1983-84 which aggregated Rs.34.11 lakhs. However, in 1984-85 the unit earned a profit of Rs.0.43 lakh. The actual working results for the years from 1985-86 to 1987-88 could not be assessed due to non finalisation of accounts. However, as per the provisional accounts for 1985-86 and 1986-87, the unit incurred a loss of Rs.5.06 lakhs and Rs.0.80 lakh respectively during these years.

11. Arrears in the preparation of annual accounts

The Company was not regular in finalising its annual accounts in all the years from the date of inception. The delay in finalisation of accounts for the years 1977-78 to 1984-85 ranged between 9 and 31 months, despite engaging outside agencies for the purpose by paying Rs.5000 for 1983-84, Rs.7500 for 1984-85. The accounts for the year 1985-86 and onwards are yet to be finalised (October 1988).

12. Working results

During the sixteen years of its working up to 1984-85, the Company earned profits in eight years and incurred losses in eight years. During the five years up to 1984-85, losses were incurred in four years amounting to Rs.18.30 crores and profit was earned in one year (1983-84) amounting to Rs.1.73 crores. The accumulated loss up to 1984-85 was Rs.33.94 crores

which represented about 113.3 per cent of the paid-up capital of Rs.29.96 crores (including the share capital advance of Rs.28.42 crores) as on 31st March 1985.

The working results of the Company for the three years up to 1984-85 are given below:

Particulars	1982-83	1983-84	1984-85
	(Rupees in lakhs)		
A.Income :			
Sales	2195.84	2342.59	3787.52
Other income	45.26	10.26	101.47
Total - A	2241.10	2352.85	3888.99
B.Expenditure :			
Manufacturing, selling and other expenses	2431.48	1779.36	4367.44
Miscellaneous purchases	25.91	12.01	0.95
Office administration and other charges	38.26	49.87	115.46
Interest and financial charges	257.06	338.84	207.22
Others	0.04	0.02	0.05
Total - B	2752.75	2180.10	4691.12
C.Profit (+)/ Loss (-)	(-)511..65	(+)172.75	(-)802.13

13. Financial position

The table below summarises the financial position of the Company under the broad headings for the three years up to 1984-85 :

	1982-83	1983-84	1984-85
		(Rupees in lakhs)	
I.Liabilities :			
a.Paid-up capital including share capital advance	154.00	154.00	2995.78
b.Borrowings	2048.44	2874.31	236.33
c.Trade dues and current liabilities (including provisions)	1455.31	2086.92	676.85
Total - I	3657.75	5115.23	3908.96
II.Assets :			
a.Gross block	125.74	129.12	130.06
b.Less : depreciation	62.65	69.19	75.05
c.Net fixed assets	63.09	59.93	55.01
d.Capital work-in-progress	1.16	2.05	2.77
e.Investments	0.10	0.10	0.10
f.Current assets, loans and advances	828.89	2461.39	457.19
g.Accumulated loss	2764.51	2591.76	3393.89
Total - II	3657.75	5115.23	3908.96
* Capital employed	(-)529.26	468.47	(-)130.58
**Net worth	(-)2610.51	(-)2437.76	(-)398.11

Notes : 1. * Capital employed represents net fixed assets plus working capital

2.** Net worth represents paid-up capital less intangible assets

14. Accounting manual

Mention was made in the Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial) regarding the absence of an accounting manual laying down the detailed accounting procedure and specifying the financial powers, duties and responsibilities of different officials.

The Company stated (May 1988) that an accounting manual prepared in February 1984 required certain modifications, the work of which was entrusted in June 1987 to the auditors of the Company for the year 1983-84 and the modified manual was awaited (October 1988).

15. Internal audit

The Company has an internal audit cell which is under the overall control of the Managing Director. The Committee on Public Undertakings (1984-86) in their Thirtieth Report based on the Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial) highlighted the necessity of preparing a manual for internal audit. In reply thereto Government intimated (February 1988) that the

draft manual prepared was pending approval of the Board of Directors. However, the manual has not been finalised so far (October 1988). The statutory auditors in their reports to the share holders for the years 1975-76 to 1984-85 had observed that the internal audit system was not adequate or commensurate with the size and nature of the Company's business. Government had also instructed in September 1983 all the public sector undertakings to adopt a system of internal audit in areas of sales, purchases and capacity utilisation and any other area considered relevant by the Board of Directors, to obtain reports of the internal audit for predetermined periods and place them before the Board, and to furnish copies of such reports with replies of the Company to the State Government. However, no such reports were placed before the Board and sent to State Government. The Management stated in April 1988 that action would be taken to place the audit reports before the Board as well as to send them to the State Government.

16. Other topics of interest

16.1. Excess engagement of shellers and peelers

The shelling and peeling of roasted cashew nuts in all the 34 factories were done by manual labour.

The workers are paid wages on piece rate system depending on the number of bags processed and dearness allowance on the basis of the attendance. As per the norms followed in the industry, three shellers and three peelers are required to process one bag of roasted cashew nuts. However, the engagement of shellers and peelers in all the factories during the five years up to 1987-88 was far in excess of the norms, resulting in extra payment of ₨.90.65 lakhs by way of dearness allowance as indicated in the table below:

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88
1.Number of bags of raw cashew nuts roasted	261245	348126	137474	235235	336090
			(Mandays)		
2.Shellers engaged	858271	1156610	450016	748022	1082249
3.Shellers required as per the norm	783735	1044378	412422	705705	1008270
4.Excess engaged	74536	112232	37594	42317	73979
5.Peelers engaged	974862	1296281	517162	856088	1218905
6.Peelers required as per the norm	783735	1044378	412422	705705	1008270
7.Excess engaged	191127	251903	104740	150383	210635
8.Total excess engagement of shellers and peelers	265663	364135	142334	192700	284614
			(Rupees)		
9.Dearness allowance per worker	5.55	6.60	7.70	8.06	8.92
			(Rupees in lakhs)		
10.Total extra expenditure	14.74	24.03	10.96	15.53	25.39

The Company stated (July 1988) that excess engagement was due to disproportion in the strength of shellers and peelers prevailing from the beginning, and that it was since decided to recruit additional shellers to remove the disproportion.

16.2. Import of tin plates

(i) The Company invited quotations in December 1985, for supply of 407 tonnes of imported tin plates as a part of the import utilising the advance licence obtained in March 1985 [referred to in paragraph 8.(vi)]. Though three firms M, S and A quoted the rates for the import and the rate of firm S was the lowest, the Company split the quantity and placed orders (January 1986) on the three firms as indicated below:

(a) 203 tonnes on firm M at US $ 639 per tonne c & f Cochin

(b) 102 tonnes on firm S at US $ 607 per tonne c & f Cochin

(c) 102 tonnes on firm A at US $ 593 per tonne c & f Cochin

As the firm A had quoted the rate of US $ 593 per tonne c & f Bombay for the full quantity, it refused to accept the order. Though the firm S quoted

the rate of US $ 607 per tonne c & f Cochin, they, however, intimated in January 1986 itself the difficulty in getting the vessel direct to Cochin and suggested to ship the cargo to Madras or in the alternative requested the Company to nominate the vessel for which they would give three to four weeks' notice of readiness of the cargo. The Company instead of nominating a vessel as was being done in other cases of imports, cancelled the order on firm S and placed orders for the entire quantity with firm M at the quoted rate of US $ 639 per tonne. Compared to the lowest rate of US $ 607 per tonne c & f Cochin of firm S, the Company incurred an extra expenditure of Rs.1.64 lakhs in the import of 403.4 tonnes (actual quantity) of tin plates.

(ii) The period of fulfilment of the export obligation which expired on 12th January 1986 in terms of the advance licence, was got (June 1986) extended up to 30th September 1986. In the meantime the first consignment of the tin plates arrived at Cochin port on 28th April 1986, and the free period allowed for clearing the cargo was up to 20th May 1986. But the port authorities did not allow the clearance of the cargo since neither the export obligation had been fulfilled nor extension of time thereof obtained till then. In the absence of fulfilment of export obligation, the only alternative available to the Company was to resort to in-bond-clearance of the cargo and keep it in bonded warehouse to avoid incidence of demurrage. The Company did not, however, plan these well in advance and measures to bond the materials were initiated only on 12th May 1986 i.e., after 14 days from the date of arrival of the ship. However, the Company could not also bond the cargo, because of the delay in complying with formalities for keeping the cargo in bond. The cargo was ultimately cleared on 26th June 1986, after paying demurrage charges to the extent of Rs.1.42 lakhs for the period from 21st May to 26th June 1986, eventhough the orders sanctioning extension of period of fulfilment of export obligation was received by the Company on 17th June 1986. The Company's request in September 1986 to the Port authorities for refund of demurrage charges was turned down in December 1986 on the ground of failure in fulfilling the export obligation.

Thus, on account of failure to keep the cargo in time at the bonded warehouse, nonfulfilment of export obligation and delay in clearing the cargo even after receiving extension orders for fulfilling the export obligation, the Company incurred avoidable demurrage charges of Rs.1.42 lakhs.

16.3. Duty drawback

As per the rules, the Company was eligible for drawback of duty paid on tin containers, tin solder, carbondioxide gas, cartons and high density polythene strap etc., consumed for packing the cashew kernels intended for export. During the five years up to 1987-88, 10.19 lakh cartons of kernels were exported to various countries, on which the Company was eligible for a drawback of Rs.19.67 lakhs towards duty paid on tin solder, carbondioxide, cartons and polythene straps, against which the Company got only Rs.8.80 lakhs. In addition, the Company was also entitled for the drawback of Rs.11.14 lakhs paid as excise duty on metal containers produced in the tin factory at Ayathil during 1983-84 to 1987-88; but no duty drawback was obtained for the same. The Company had not maintained proper records in respect of drawback claimed, details and dates of claims, amount admitted by the Customs Department in respect of each claim, the amount actually received, reasons for disallowance, if any, etc., in the absence of which, justification for the non-receipt of Rs.22.01 lakhs could not be verified.

16.4. Failure to obtain refund of excise duty

Under the MODVAT scheme effective from 1st March 1986, the amount of excise duty paid on raw materials, used for the manufacture of finished products which attracted excise duty, will be reimbursed by the Central Excise Department on the basis of request made duly supported by proper documents evidencing payment of excise duty on the raw materials consumed. Though the Company utilised 157 tonnes of tin plates out of 633 tonnes procured from indigenous sources between May and September 1987 for the production of tin containers, it did not lodge a claim for reimbursement of the proportionate excise duty paid amounting to ₨.1.52 lakhs on the tin plates consumed.

The Company stated (July 1988) that as the duty paid on tin containers was obtained as duty drawback, no loss was incurred. The reply of the Company is not acceptable as reimbursement of excise duty paid on tin plates used for manufacture of tin containers admissible as per rules had not been claimed or obtained by the Company. Further drawback of duty paid on tin containers was also not obtained during the past several years (vide paragraph 16.3.).

16.5. Discounting of bills without assessing the actual requirement of funds

During the year 1985-86, the Company was having credit facility up to a limit of ₨.14.50 crores under the hypothecation account with their bankers at an

interest rate of 12 per cent per annum. The value of bills discounted in respect of export sales was being credited to the above account. In such cases, the bankers used to charge interest at the rate of 12 per cent from the date of discounting to the date of realisation of amounts from the foreign banks, by raising separate debit slips from time to time. During the period from November 1985 to March 1986, when there was no procurement/processing of raw cashew nuts in the factories and there was only limited requirement of funds and the available credit facility was more than sufficient to meet the temporary working capital requirements, the Company continued to resort to discounting of bills. The Company had not assessed the disadvantage in discounting bills during the period on account of the variation in exchange rate due to increasing trend in dollar value in the money market. On account of the above failure, out of 25 cases of discounting, in 20 cases the Company suffered a loss of Rs.2.12 lakhs due to variation in exchange rate unfavourable to the Company while in the remaining 5 cases the gain was only Rs.0.11 lakh as indicated in Annexure.II.

16.6. Infructuous expenditure on transit insurance

The Company arranged transit insurance (March 1986) for a period of one year for the transport of indigenous raw cashew nuts for a value of Rs.10 crores and another comprehensive transit insurance (December 1986) covering all the materials handled by the Company for a period of one year from December 1986 for a value of Rs.95.01 crores including indigenous raw cashew nuts for a value of Rs.14.78 crores. The total insurance premia paid for the above two policies amounted to Rs.10.81 lakhs. It was, however, noticed (May 1988) in audit that apart from duplication in insurance for the transport of indigenous raw cashew nuts during the period December 1986 to February 1987, the agreement entered into by the Company with the transport contractors for the transport of indigenous raw cashew nuts during the above periods contained provisions regarding their responsibilities for the safe transport and delivery of the materials at the destination without any loss of weight or damage, with enabling provision to compensate the loss ,if any, occurred during transportation. As the rates quoted and paid to the transport contractors were inclusive of the coverage for the loss in transit, separate transit insurance by the Company for the

transport of indigenous raw cashew nuts was unnecessary and the proportionate insurance premium of Rs.2.63 lakhs thereof did not serve any purpose other than indirectly benefiting the transport contractors.

Trivandrum,
The 16 FEB 1989

(ANANDA SHANKAR)
Accountant General (Audit), Kerala

Countersigned

T.N. Chaturvedi

New Delhi,
The 20 FEB 1989

(T.N.CHATURVEDI)
Comptroller and Auditor General of India

ANNEXURES

ANNEXURE I

(i) Contracts for sale to the same buyer
Cashew Kernels on the same day with the

Sl. No.	Date of contract	Name of Buyer	Name of Agent	Grade of kernel	Contract price US cents per lb.	Delivery Date
1986-87						
1.	17-4-86	GE	PN	W 320	303.75 fob	May 1986
2.	17-4-86	GE	PN	W 320	299.70 fob	May 1986
3.	5-6-86	JHR	PN	W 320	287 fob	June 1986
4.	5-6-86	JHR	PN	W 320	285 fob	June 1986
5.	15-7-86	AC	VS	SW	300 fob	Aug.1986
6.	15-7-86	AC	VS	SW	296 fob	Aug.1986
7.	19-8-86	AC	VS	W 450	320 fob	Oct.1986
8.	19-8-86	AC	VS	W 450	315 fob	Oct.1986
1987-88						
9.	15-4-87	MP	CW	W 320	320 fob	June 1987
10.	15-4-87	MP	CW	W 320	319 fob	June 1987
11.	23-5-87	CC	AP	SPS	160 c&f	July 1987
12.	23-5-87	CC	AP	SPS	158 c&f	July 1987

(ii) Contract for the sale to different buyers
of cashew kernels on the same day with

1986-87						
1.	28-4-86	BM	RF	W 320	285 c&f	June 1986
2.	28-4-86	NB	RF	W 320	282 c&f	June 1986
3.	30-4-86	XA	CW	W 320	281 fob	June 1986
4.	30-4-86	BLB	CW	W 320	278 fob	June 1986
5.	30-4-86	CC	AP	W 320	281 fob	June 1986
6.	30-4-86	NC	AP	W 320	278 fob	June 1986
7.	18-6-86	SP	AP	W 320	295 fob	July 1986
8.	18-6-86	MP	AP	W 320	292 fob	July 1986

(Referred to in Paragraph 7.4)

through the same agent for the same grade of same delivery period with different rates.

Difference in rate us Cents per lb.	No. of cartons (50 lbs) supplied	Loss In USD	Loss In Rupees	Exchange rate
4.05	650	1316.25	16255.69	(Rs. 12.35/USD)
2	650	650	8222.50	(Rs. 12.65/USD)
4	650	1300	16302.00	(Rs. 12.54/USD)
5	650	1625	20442.50	(Rs. 12.58/USD)
1	650	325	4169.75	(Rs. 12.83/USD)
2	650	650	8183.50	(Rs. 12.59/USD)
		Total:	73575.94	

through the same agent for the same grade same delivery period with different rates.

3	1300	1950	23751.00	(Rs. 12.1/USD)
3	1300	1950	23946.00	(Rs. 12.2/USD)
	650	975	11973.00	(Rs. 12.2/USD)
3				
3	1300	1950	24511.50	(Rs. 12.57/USD)

(ii) Contract for the sale to different buyers of cashew kernels on the same day with

Sl. No.	Date of contract	Name of Buyer	Name of Agent	Grade of kernel	Contract price US cents per lb.	Delivery date
1987-88						
1.	15-4-87	DW	VS	W 320	325 fob	May/June '87
2.	15-4-86	BLB	VS	W 320	321 fob	May/June '87
3.	20-4-87	DW	VS	W 320	332 fob	July/Aug.'87
4.	20-4-87	JFB	VS	W 320	327 fob	July/Aug.'87

(iii) Contracts for sale to different buyers of kernels on the same day with same

1986-87						
1.	15-4-86	BN	RF	W 320	275 c&f	May/June 86
2.	15-4-86	ACI	AP	W 320	273.99 c&f	May/June 86
3.	30-4-86	BG	CW	W 450	276.00 c&f	June 1986
4.	30-4-86	NC	AP	W 450	272 fob	June 1986
5.	30-4-86	XA	CW	W 320	281 fob	June 1986
6.	30-4-86	JFB	RF	W 320	275.30 fob	June 1986
7.	30-4-86	HTC	FK	W 320	275.30 fob	June 1986
8.	30-4-86	KE	LM	W 320	275.30 fob	June 1986
9.	30-4-86	SL	LM	W 320	275.30 fob	June 1986
10.	2-5-86	MP	VS	W 320	295 fob	June 1986
11.	2-5-86	KE	CW	W 320	292 fob	June 1986
12.	15-7-86	NC	AP	SW	305 fob	August 1986
13.	15-7-86	AD	VS	SW	296 fob	August 1986
14.	23-10-86	KE	CW	LWP	218 fob	November 86
15.	23-10-86	NC	AP	LWP	215 fob	November 86

through the same agent for the same grade
same delivery period with different rates.

Difference in rate US cents per lb.	No. of cartons (50 lbs.) supplied	Loss In USD	Loss In Rupees	Exchange rate
4	650	1300	16679.00	(Rs. 12.8/USD)
5	650	1625	20848.75	(Rs. 12.8/USD)
		Total:	121709.25	

through different agents for the same grade
delivery period with different rates.

1.01	650	328.25	4086.71	(Rs. 12.45/USD)
4	650	1300.00	16185.00	(Rs. 12.45/USD)
5.70	650	1852.50	22748.70	(Rs. 12.28/USD)
5.70	650	1852.50	22748.70	(Rs. 12.28/USD)
5.70	650	1852.50	22748.70	(Rs. 12.28/USD)
5.70	650	1852.50	22748.70	(Rs. 12.28/USD)
	650			
3	650	975.00	12132.78	(Rs. 12.45/USD)
9	650	2925.00	36679.50	(Rs. 12.54/USD)
3	650	975.00	12558.00	(Rs. 12.88/USD)

(iii) Contracts for sale to different buyers of kernels on the same day witn same

Sl. No.	Date of contract	Name of Buyer	Name of Agent	Grade of kernel	Contract price US cents per lb.	Delivery date
1987-88						
1.	15-4-87	HH	FA	W 320	322 fob	June 1986
2	15-4-87	MP	VS	W 320	313.71 fob	June 1986
3.	20-4-87	LN	RF	W 320	340 c&f	June/July 87
4.	20-4-87	HTC	FK	W 320	338 c&f	June/July 87
5.	20-4-87	AM	FK	W 320	338 c&f	June/July 87
6.	7-5-87	MC	PN	W 320	340 fob	July1987
7.	7-5-87	CC	AP	W 320	338 fob	July 1987
8.	19-6-87	OW	CW	W 320	329 fob	October 1987
9.	19-6-87	XA	AP	W 320	325 fob	October 1987

through different agents for the same grade delivery period with different rates.

Difference in rate US cents per lb.	No. of cartons (50 lbs.) supplied	Loss		Exchange rate
		In USD	In Rupees	
8.29	650	2694.25	34567.23	(Rs. 12.83/USD)
2	650	650	8294.00	(Rs. 12.76/USD)
2	425	425	5423.00	
2	650	650	8151.00	(Rs. 12.54/USD)
4	650	1300	16627.00	(Rs. 12.79/USD)
		Total:	245744.05	

ANNEXURE II
(Referred to in Paragraph 16.5)

Sl. No.	Invoice Number	Amount in USD	Date on which discounted and exchange rate per USD in Rupees	Date of actual realisation & exchange rate per USD in Rupees	Difference (Rupees)	Loss due to variation in exchange rate (Rupees)
1.	81	74052.50	27-11-1985 11.99	17-12-1985 12.08	0.09	6665
2.	82	87946.25	27-11-1985 11.99	22-12-1985 12.18	0.16	14071
3.	83	76059.37	27-11-1985 11.99	22-12-1985 12.15	0.16	12170
4.	84	97598.75	27-11-1985 11.99	22-12-1985 12.15	0.16	15616
5.	85	92268.75	27-11-1985 11.99	17-12-1985 12.08	0.09	8304
6.	86	74052.50	27-11-1985 11.99	22-12-1985 12.15	0.16	11848
7.	87	191394.71	28-11-1985 12.03	12-12-1985 12.20	0.17	28709
8.	89	123000.00	2-12-1985 12.03	12-12-1985 12.20	0.17	20910
9.	91	28500.00	3-12-1985 12.03	23-12-1985 12.14	0.11	3135
10.	Cheque	10502.25	26-12-1985 12.15	15-1-1986 12.21	0.06	630
11.	100	211900.00	30-12-1985 12.10	9-1-1986 12.14	0.04	8476
12.	101	170300.00	30-12-1985 12.10	9-1-1986 12.14	0.04	6812
13.	102	105625.00	6-1-1986 12.15	16-1-1986 12.18	0.03	3169
14.	103 104 105	285612.20	7-1-1986 12.14	17-1-1986 12.20	0.06	17137

Contd.......

Sl. No.	Invoice Number	Amount in USD	Date on which discounted and exchange rate per USD in Rupees	Date of actual realisation & exchange rate per USD in Rupees	Difference (Rupees)	Loss due to variation in exchange rate (Rupees)
15.	107	111150.00	13-1-1986 12.13	23-1-1986 12.35	0.22	24453
16.	108	85475.00	17-1-1986 12.20	27-1-1986 12.35	0.15	12821
17.	110	111150.00	24-1-1986 12.37	3-2-1986 12.39	0.02	2223
18.	Cheque	20000.00	30-1-1986 12.31	18-2-1986 12.42	0.11	2200
19.	114	50400.00	5-3-1986 12.21	15-3-1986 12.25	0.04	2016
20.	115	95599.85	17-3-1986 12.21	27-3-1986 12.32	0.11	10516
21.	92	75734.37	10-12-1985 12.18	24-12-1985 12.14	0.04	(-)3029
22.	93	22800.00	10-12-1985 12.18	20-12-1985 12.15	0.03	(-) 684
23.	96	106600.00	11-12-1985 12.18	21-12-1985 12.15	0.03	(-)3198
24.	97	89181.25	13-12-1985 12.15	23-12-1985 12.14	0.01	(-) 892
25.	98	84290.00	23-12-1985 12.14	2-1-1986 12.10	0.04	(-)3372
				Net Loss:		200706