



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)**

FIRST REPORT

(Presented on 21-6-2012)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2012

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On

**Kerala State Cashew Development Corporation Limited,
based on the Report of the Comptroller and
Auditor General of India for the year
ended 31-3-2008 (Commercial)**

825/2012.

CONTENTS

		<i>Page</i>
Composition of the Committee	..	v
Introduction	..	vii
Report	..	1
Appendix : Summary of main Conclusions/ Recommendations	..	30

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Smt. Lima Francis, Under Secretary.

INTRODUCTION

I, Chairman, Committee on Public Undertakings (2011-14), having been authorised by the Committee to present the Report on their behalf, present this First Report on Kerala State Cashew Development Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March 2008 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2008 was laid on the Table of the House on 23-6-2009. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2008-11.

This Report was considered and approved by the Committee at the meeting held on 1-2-2012.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Cashew Development Corporation Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries and Finance Department and the officials of Kerala Cashew Development Corporation who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
21st June 2012.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT
ON
KERALA STATE CASHEW DEVELOPMENT CORPORATION LIMITED

PERFORMANCE REVIEW ON THE WORKING OF KERALA STATE CASHEW DEVELOPMENT
CORPORATION LIMITED

Introduction

2.1.1 The Kerala State Cashew Development Corporation Limited was incorporated in July 1969 under the Companies Act, 1956 with the objective of purchase of raw cashew nuts from within and outside the country; establish, maintain and operate factories in the State for processing cashew nuts and sell the processed cashew nuts (kernels) and other by-products of cashew within and outside India thereby providing fair number of employment days to cashew workers in the State. As on 31st March, 2008, the Company was operating 30 cashew-processing factories (including 20 hired factories).

The Management of the Company is vested in a Board of Directors consisting of the Chairman, Managing Director and nine directors. As on 31st March, 2008 there were eight directors excluding Chairman and Managing Director. The Managing Director is the Chief Executive of the Company who is assisted by General Manager (Personnel), Commercial Manager, Production Manager, Materials Manager, Finance Manager and the Company Secretary.

The activities of the Company were last reviewed in the Report of the Comptroller and Auditor General of India for the year 1996-97 (Commercial). The review was discussed by the Committee on Public Undertaking (COPU) and their recommendations as presented (July 2003) to the Legislature were as follows:

- The Company should adopt well defined sales and marketing policy in consultation with an expert agency.
- The Internal audit wing should be strengthened and the Internal Audit Cell should inspect all the major transactions like import, export, sales of cashew nuts, etc.

Both the recommendations had not received adequate attention and the deficiencies still persist as discussed in the audit findings *infra*.

Scope of Audit

2.1.2 The present performance review, conducted during the period November 2007 to April 2008, covers the activities of the Company during 2003-2008. The audit findings are based on a test check of records at the Corporate office and eight* out of 30 factories (five own and three hired) of the Company selected on the basis of ownership (50 per cent of own factories and 15 per cent of hired factories) as well as quantity processed (33.5 per cent).

Audit Objective

2.1.3 The audit objectives of the review were to ascertain whether:

- The funds available and received from the State Government/other agencies were efficiently utilised;
- There existed purchase policy and procedure and the procurement was efficient and economical;
- Processing was done efficiently and capacity available in the factories was utilised to the optimum level;
- There existed sales policy and procedures, pricing policy and marketing strategy to earn maximum revenue;
- The Company fulfilled its objective of providing maximum days' employment to cashew workers in a cost effective manner;
- There was effective manpower management and corporate governance; and
- Internal control and internal audit were adequate and efficient.

Audit criteria

2.1.4 The following criteria were adopted for analysis:

- Government Orders and policies prescribing the manner of utilisation of funds provided;
- Procedures fixed for procurement and processing of raw materials and marketing;
- Workability statements prepared by the Company at the time of raw material purchase;

* Ayathil, Kottiyam, Chittumala, Talassery, Pullur, Kayamkulam, Nooranadu and Chengamanadu.

- Processing norms fixed by the Company;
- Terms and conditions in the contracts and agreements in connection with procurement and sales; and
- Targets fixed by the Company for employment days.

Audit Methodology

2.1.5 The performance audit was conducted using the following methodology:

- Review of State Government budget and policy declarations relating to the industry;
- Scrutiny of contracts for procurement of raw nuts, sale of kernels, production statements and workability statements;
- Review of study reports of various committees and detailed system study in the Company;
- Review of internal audit reports and internal control system; and
- Interaction and discussion with the Management.

Audit findings

2.1.6 Audit findings as a result of performance review were reported (May 2008) to the Management/Government and discussed in the meeting (30th July, 2008) of the Audit Review Committee for State Public Sector Enterprises (ARCPSE), which was attended by the Principal Secretary to Government of Kerala, Industries Department and Managing Director of the Company. The views expressed by the Management/Government have been taken into consideration while finalising the review.

Audit findings are discussed in succeeding paragraphs.

Finance and Resources

Capital Structure

2.1.7 The Authorised share capital of the Company as on 31st March, 2008 was ₹ 120 crore against which the paid up capital was ₹ 116.79 crore held by the State Government. In addition, the State Government released share capital advance of ₹ 83.85 crore which was pending allotment since 1999.

Financial position and working results

2.1.8 The Company had finalised its accounts up to 2004-05. The financial position and working results (including provisional) of the Company for the five years up to 31st March, 2008 are given in Annexure 10 and 11. It would be seen from Annexure 10 that:

- The borrowings of the Company as on 31st March, 2008 were ₹ 287.11 crore comprising of secured loans of ₹ 104.08 crore, State Government loans of ₹ 173.25 crore and loan from Kerala Minerals and Metals Limited (KMML) of ₹ 9.78 crore. In view of heavy cash losses, the Company had not made any repayment of principal or interest on borrowed funds. Interest accrued and due on these borrowings as on 31st March 2008 was ₹ 79.46 crore.
- The accumulated loss of ₹ 579.98 crore of the Company as on 31st March, 2008 had wiped out the equity capital ₹ 116.79 crore. The reasons as analysed in audit were exorbitant cost of procurement, low sales realisation and low productivity of workers as discussed in succeeding paragraphs.
- The current ratio during the five years ranged between 1:1 and 1:3.77 (acceptable ratio of 2:1) indicating that the current liabilities were not adequately represented by current assets. The ratio was as high as 1:3.77 during the year ended 31st March, 2006 mainly due to non-payment of employee benefits and amounts due to State Government.
- The quick ratio during the five years ranged between 1:1.33 and 1:5.91 (acceptable ratio of 1:1) indicating precarious liquidity position.

Audit further noticed that in all the years the Company had cash flow deficit. This was supplemented by long term loans from Government, non-payment of principal and interest on loans, fresh working capital arrangements through other sources, non-payment of gratuity to employees, etc. Against the total loss of ₹ 166.06 crore for the period 2003-2008, the cash loss was ₹ 124.38 crore. The total loss did not include provision for interest on Government loans and liability towards gratuity to workers for the years 2006-07 and 2007-08.

Details in Annexure 11 indicate that during the five years up to 2007-08 the Company's working resulted in losses ranging between ₹ 9.10 crore and ₹ 69.49 crore indicating that by processing cashew nuts and selling kernels, the Company could contribute to increased losses only. In the years 2006-07 and

2007-08 the loss declined to ₹ 12.44 crore and ₹ 9.10 crore respectively due to non-provision of interest on loans/gratuity.

Funds Management

2.1.9 The business operations of the Company were regulated on the basis of availability of funds from the Government and Banks. Due to inadequate stock to cover the credit, the working capital facility was suspended (August 2001) and hence there was no processing operation in the Company till December 2004 (except 17 days in 2003). During the five years ending 2007-08, the Company availed working capital loan of ₹ 60 crore* from consortium of banks, ₹ 27 crore from the State Government and usance LC[†] facility of ₹ 18.62 crore from State Trading Corporation (STC). Since adequate stock security was not provided and the credit account was overdrawn (31st March 2007) to the extent of ₹ 59.44 crore, the Company could not avail of further working capital facility.

Audit observed that the Company did not:

- have a business plan or a system for mobilisation of resources.
- Prepare periodical financial budgets including cash and fund flow statement.

Audit further observed that due to lack of adequate financial discipline in the management of working capital, the Company incurred financial losses as discussed below:

- The Company paid excess interest[‡] of ₹ 1.01 crore on defaulted LC payment of ₹ 18.46 crore during 2005-06 for import of 9029 MT of rawnuts.
- While there were sufficient funds in short term deposits earmarked for business operations as sanctioned (March 2002) by the Government, the Company failed to arrange funds for clearance of 1660 MT of GB origin and 762.45 MT of Ivory Coast origin raw nuts arrived (September 2003) at Cochin Port. The delivery was taken after a delay of two to three months (October to December 2003) involving avoidable payment of ₹ 11.90 lakh.
- To save interest payment on cash credit, the Company had to realise the export sale proceeds immediately after opening of Letters of Credit

* ₹ 50 crore as overdraft facility and ₹ 10 crore as bills discounting facility.

[†] A letter of credit payable at a determined future date after presentation of conforming documents.

[‡] At the rate of 2.75 per cent to 11.75 per cent over the applicable rate of 7.50 per cent.

by the buyers. Out of 156 cases of exports during the four years up to 2007-08, in 112 cases there was substantial delay ranging between 21 days and 96 days in shipment of kernels after opening of LC. The delay resulted in loss of interest of ₹ 12.54 lakh on deferred realisation of sale proceeds even after allowing 10 days as the normal time for shipment.

- The Company discounted bills for export of kernels and the Banks collected interest initially for a period of 25 days. On realisation of the sale amount, the excess interest collected would be refunded to the Company. Audit noticed that the earliest period within which the bank could collect the amount was 5 days. Out of 276 cases of exports during 2003-08, in 271 cases the delay in excess of five days (the earliest period within which payment was credited by the bank) varied between five days and 49 days. This resulted in interest loss of ₹ 16.57 lakh due to delay in collection by banks. The Company, however, failed to take up the matter with the banks for early collection of bills so as to avoid the loss of interest.

Procurement

2.1.10 The Company purchases raw cashew nuts from within and outside the country for processing. In emergent cases, the imported raw nuts are also purchased from the local agents. The Company invites tenders for supply of imported raw nuts by advertisements. Tenders are submitted by local agents of international suppliers. The bids are opened by the BoDs and compared with the workability rates (in the case of imports only) on which purchase decisions are made by the Company. These workability rates are arrived at after deducting procurement and processing cost from the expected sales value of kernels. The rates in the tenders opened are, however, considered as the market rates. The rate quoted by tenderer depends upon the out turn in pounds (one lb = 0.454 kg.) per bag (80 kg.) and count in numbers per kg. Thereafter negotiations are made with all valid tenderers (agent/representative of supplier). In the case of local raw nuts, no workability statement is prepared. After negotiations with all the tenderers, the lowest negotiated rate is selected. If the rates are considered high, the Company resorts to re-tendering.

Absence of procurement policy

2.1.11 The COPU, while discussing the review in its 42nd meeting held in July 2003 had insisted that:

- The system of procurement of raw cashew nuts required to be streamlined so that the required quantity of quality nuts are procured during the season; and
- The cost of procurement/import of the raw nuts should be regulated in such a way that the same does not exceed the All India procurement cost.

In spite of the COPU recommendations the Company had neither streamlined the system of procurement of raw cashew nuts nor regulated its cost of procurement as per All India procurement cost which resulted in a loss of ₹ 19.45 crore (₹ 7.51 crore in the case of import and ₹ 11.94 crore in the case of local purchase as discussed in paragraph 2.1.14 *infra*. The Company, however, had not formulated any procurement policy so far.

Audit noticed the following deficiencies in the procurement procedure:

- The purchases were made by the Board of directors on the basis of ad hoc decisions.
- There was no system for assessment of requirement of raw nuts with reference to sale of kernels at the time of taking purchase decisions.
- In the absence of any data base on prevailing market rates, the Company could not ascertain the economy in rates accepted.
- The purchases were made irrespective of cost so as to provide maximum days' of employment to the cashew workers.
- The workability statements were not evaluated properly to arrive at economic procurement decision.
- The Company could not take advantage of competitive rates at National/Global level, since advertisements were issued mainly in local dailies only for import of raw nuts. This is evident from the fact that out of 12 local agents who represented 16 international suppliers in the tenders during the period 2003-04 to 2007-08, the purchases were made only through five agents of eight suppliers. During the five years ended 2007-08 the Company placed orders valued ₹ 54.80 crore through one agent on nine out of 21 cases, which constituted 29 per cent of total quantity procured. Out of the total imports of 50247 MT, the Company placed orders for 36622 MT (73 per cent) through two agents* during the period from 2003-04 to 2007-08 indicating the inadequate competition in the procurement of raw nuts.

* Laiju; 14428 MT and Satheeswaran; 22194 MT.

- The practice of holding negotiations with various tenders is not considered as the best practice to be followed for any commercial contracts. Negotiation may lead to indirect entry of ineligible tenderers and provide scope for corruption.

Details of procurement

2.1.12 The details of purchases made by the company, processing capacity and shortfall in procurement during the five years up to 2007-08 were as given below:

Year	Raw nuts purchased MT		Total	Processing capacity* available MT	Shortfall in Procurement MT	Percentage of shortfall
	Import	Local				
2003-04	2426	410	2836	57750	54914	95.09
2004-05	9279	3791	13070	57750	44680	77.38
2005-06	11374	4295	15669	57750	42081	72.87
2006-07	15613	1040	16653	57750	41097	71.16
2007-08	11555	3989	15544	57750	42206	73.08
Total	50247	13525	63772	288750	224978	77.91

It would be seen from the above that the shortfall in procurement during the five years up to 2007-08 ranged between 41097 MT and 54914 MT mainly due to non-availability/paucity of working capital funds arising from continuous losses during previous years.

Irregularities in import

2.1.13 The Company procured 50247 MT of raw cashew nuts valuing ₹ 198.10 crore during the five years ending 31st March 2008. Audit observed that the average purchase price of raw nuts per MT incurred by the Company in respect of 11 out of 24[†] consignments imported during the last five year up to March 2008 was higher than the price of import of raw nuts to Kerala for the corresponding month as per data maintained by Cashew Export Promotion Council. The additional price paid per MT varied between ₹ 763 and ₹ 7,064. The impact of excess price paid by the Company for the five years worked out to ₹ 7.51 crore on 50247 MT of raw nuts imported.

* at the rate of 210 MT per day for 275 days in a year.

† includes three consignments of already imported raw nuts purchased locally.

Audit further noticed that out of 21 consignments of import of raw nuts during the period 2003-04 to 2007-08, the Company resorted to procurement even after knowing the fact that the variable cost could not be recovered in 16 consignments as the purchase price per MT of raw nuts was higher than the workable rate indicating that the decisions taken ignoring workability statement were detrimental to the interests of the Company. Due to this, sales realisation could cover only material cost, direct expenses and insignificant portion of direct wages and there was negative contribution.

Irregularities in the local purchase of raw nuts

2.1.14 Audit observed irregularities in local purchase of raw nuts as detailed below:

- The company purchased 13525 MT during the last five years up to 2007-08. Audit observed that the annual average purchase price of the Company for the five years up to 2007-08 was higher than the average wholesale price published by the Cashew and Cocoa Directorate (DCC) for the corresponding period. The excess price paid ranged between ₹ 1,600 and ₹ 13,790 per MT and the additional expenditure worked out to ₹ 11.94 crore.

The Government stated (July 2008) that the price for local raw nuts was fixed by adding 15 per cent to the maximum price published by DCC. The reply is not acceptable as the percentage of yield obtained by the Company for local nuts processed was in the range of 25.46 per cent to 26.16 per cent as against the standard kernel weight of 26.57 to 31.58 per cent for local raw nuts as published by DCC.

- The Company invited (April 2007) tenders for purchase of imported/local raw nuts. Orders were placed (April 2007) on JMJ and ATC for supply of dried raw nuts at the lowest negotiated price ₹ 35 per kg. and undried nuts at ₹ 32.52 per kg. respectively. JMJ and ATC supplied (May 2007) 3338 MT and 314 MT of undried raw nuts respectively. The Company also received (April 2007) bids for imported raw nuts and the lowest tenders Sayeed Muhammed and Olam International offered 2000 MT and 5000 MT of IC origin raw nuts at the negotiated price of USD 665 per MT and USD 675 per MT respectively. These offers were not accepted since the Company considered that it was above the workable rate of USD 648 per MT.

Audit observed that the Company did not follow the practice of evaluating the comparative economy in rates between local raw nuts and imported raw nuts based on price and out turn. Even after providing the maximum allowance for difference in out turn, the purchase of imported raw nuts instead of local raw nuts would have entailed a savings of USD 150 per MT (₹ 6,250 to ₹ 6,667).

The aggregate savings in expenditure forgone due to failure in analysing and availing of the economy in rates worked out to ₹ 2.28 crore (₹ 6,250 X 3652 MT).

Production

Production process

2.1.15 Imported and local raw nuts procured are allotted to 30 factories for providing equal number of working days to workers in these factories. The allocated nuts are drum-roasted/steam-roasted to produce roasted cashew nuts which are subjected to shelling for removing the shells. The shelled nuts are peeled to remove testa (the outer skin of kernels) and graded into different varieties.

Production planning

2.1.16 In the absence of a procurement plan and continued availability of raw nuts the Company had not been preparing any production plan during the five years up to 2007-08. The raw nuts are procured depending on availability of working capital funds and allocated to factories and processed.

Production performance

2.1.17 The Company had 10 owned factories and 20 leased factories and had a license to employ 9750 and 22000 employees respectively to process an aggregate quantity of 57750 MT of raw cashew nuts per annum. The details of capacity available, actual capacity utilised and percentage of utilisation for the five years up to 2007-08 were as given below :

<i>year</i>	<i>Aggregate capacity available (MT)</i>	<i>Actual quantity processed (MT)</i>	<i>Utilisation of capacity (per cent)</i>
2003-04	57750	2835	4.91
2004-05	57750	9707	16.80
2005-06	57750	18729	32.43
2006-07	57750	14451	25.02
2007-08	57750	16462	28.51

It would be seen from the above that the percentage of capacity utilisation was between 4.91 and 32.43 only. This was due to failure of the Company to procure sufficient quantity of raw cashew nuts to utilise the capacity to the maximum. Audit observed that the Company had not prepared any viability statement for each unit and in the absence of which the overall performance of each unit in terms of profitability, production efficiency, etc., could not be ascertained. While Company's own factories (10) itself had an available production capacity* of 19360 MT per annum and had the facility to process additional 12116.70 MT, there was no need for retaining the 20 leased factories involving a fixed expenditure of ₹ 1.05 crore per annum (provisional). Audit further noticed shortages due to driage as detailed below:

- The Company purchased 46121 MT of raw nuts (African) during the period 2003-04 to 2007-08 (up to December 2007) and processed 45979 MT of raw nuts, involving a shortage of 142 MT (0.31 per cent) valuing ₹ 28.76 lakh due to driage.
- In the case of local raw nuts, the purchased and processed quantity during 2002-07 was 13674 MT and 13337 MT respectively. There was shortage of 337 MT which included 122 MT (1.22 per cent) of dried nuts valued at ₹ 42.70 lakh.

The shortage due to driage was not justifiable since the purchase price had been fixed taking into account the maximum admissible driage. No responsibility had been fixed for such shortages.

Yield

2.1.18 The COPU in its 42nd report had observed that reason for the low yield was not connected with quality of raw nuts alone. Audit noticed that the Company had not fixed any norm for recovery of quality cashew kernels which would fetch higher prices.

Low yield of export grade kernels

2.1.19 The Company had not fixed any norm for recovery of exportable quality of cashew kernels to earn the optimum revenue. The quantity of export whole nuts in the kernels obtained would fetch higher price in the export market and hence the profitability depended on the recovery of export wholes. Considering the yearly average of 15.24 kg. export whole nuts per bag achieved

* fixed by the Company.

in earlier years as norm, the actual yield obtained during the five year period up to 2007-08 is as detailed below:

<i>Particulars</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
Raw nuts processed					
Quantity in MT (A)	2835.02	9706.84	18728.38	1451.84	16462.09
Quantity in Bags (80 kgs. per Bag)	35438	121336	234105	180648	205776
Kernels obtained in MT					
Export Wholes	499.76	1706.02	3328.17	2395.08	2658.40
Export Brokens	172.92	533.80	1095.18	904.93	999.84
Indian Grade	52.10	105.26	330.32	248.96	308.43
Rejection	33.82	87.36	252.04	198.01	197.39
Total (B)	758.60	2432.44	5005.71	3746.98	4164.06
Percentage of B to A	26.76	25.06	26.73	25.93	25.29
Kernels in Kg. per bag (80 Kg.)					
Export Wholes	14.10	14.06	14.22	13.26	12.92
Export Brokens	4.88	4.40	4.68	5.01	4.86
Indian Grade	1.47	0.87	1.41	1.38	1.50
Rejection	0.95	0.72	1.08	1.10	0.96
Total	21.40	20.05	21.39	20.75	20.24

Audit scrutiny of records revealed that during the period October 2003 to March 2008 the monthly average yield varied between 15.39 kg. of 'whole nuts' per bag (April 2005) to 9.44 kg. per bag (January 2006) indicating that with better labour productivity and workmanship, the earlier year's optimum level (15.24 kg) could have been achieved as the quality of raw nuts imported during the review period was of the same quality as in previous years. The loss on account of low recovery of 'export wholes' during the five years up to 2007-08

worked out to ₹ 24.27 crore. while the total quantity of raw nuts processed showed an increase of 93 per cent from 9706.84 MT in 2004-05 to 18728.38 MT in 2005-06, the yield of Indian/ Rejection grade kernels fetching lower sales realisation, showed an increase of 202 per cent from 192.62 MT to 582.36 MT.

2.1.20 Audit further noticed that the Company had not only failed to achieve the optimum level of yield as stated above but also did not even attain the assured yield as per the cutting test norms after processing of the raw nuts. At least 88 per cent of cutting test out turn of export quality kernels had to be obtained after allowing 12 per cent for shortages fixed by the Company. During the period 2003-08 the Company attained a yield ranging between 35.39 lbs and 45.59 lbs per bag (80 kg.) of raw nuts roasted as against the cutting test out turn of 47 to 51 lbs per bag assured at the time of procurement of raw nuts. The Company failed to attain the assured yield in all except two instances. The loss due to this worked out to ₹ 6.34 crore.

The Government stated (July 2008) that 88 per cent after allowing for shortages cannot be export quality kernels since it would include rejections and Indian grades. The reply is not acceptable since the assured yield as per the cutting test norms was after considering these rejections.

The output percentage varied for different lots of raw nuts of same quality and for different factories. The realisation of export grade kernels varied from factory to factory ranging between 69 and 88 per cent.

Marketing

2.1.21 The cashew kernels of 39 grades produced by the Company were exported (18 grades) as well as sold within India. The Company exported kernels directly as well as through Indian firms to 15 countries during the five years up to 2007-08 and sold them in the international/domestic market at prices fixed by the Managing Director on ad hoc basis (except in the case of retail sales to Co-operative agencies and franchisees).

Audit observed that:

- The Company had not formulated any marketing policy;
- The Company did not prepare sales budgets periodically;
- The Company did not have a market intelligence system or any data base on prices to facilitate formulation of appropriate pricing strategy;
- The basis of price fixation was not on record; and

- The price data on kernels as per National Commodity and Derivatives Exchange Limited (NCDEX) were not used as a reckoner. Hence the Company failed to avail of the advantage of the best prices in the market leading to substantial loss of revenue as discussed in paragraph 2.1.23 *infra*

Sales performance

2.1.22 The year-wise details of total sales, export and domestic sales of kernels for the five years up to 2007-08 were as indicated in Annexure 12. It would be seen from the annexure that total sales of kernels increased from 763.75 MT (₹ 11.69 crore) in 2003-04 to 5611.36 MT (₹ 92.23 crore) in 2005-06 but declined to 3907.82 MT (₹ 59.15 crore) in 2007-08 due to inadequate procurement, procurement of poor quality raw nuts coupled with ineffective sales strategy.

Export sales

2.1.23 The Company's direct export realisation increased from ₹ 6.77 crore in 2003-04 to ₹ 44.95 crore in 2005-06 and declined to ₹ 13.38 crore in 2007-08. The exports through other agencies recorded substantial increase from ₹ 1.37 crore in 2003-04 to ₹ 41.57 crore in 2006-07. Audit noticed that:

- The prices obtained for exports were lesser when compared to prices data published by NCDEX. Out of 166 instances of export of kernels made by the Company during the period April 2005 to March 2008 in 153 instances the prices fetched by the Company were lesser than the NCDEX rates. On 8816.33 MT of kernels exported the loss of revenue due to reduced rates worked out to ₹ 3.27 crore (net of packing and filling cost for export).
- The Company's overall average export realisation per MT increased from ₹ 1.70 lakh in 2003-04 to ₹ 2.30 lakh in 2004-05 and declined to ₹ 1.80 lakh in 2007-08. Audit noticed that the Company could not achieve the average realisation rate for overall Kerala export since 2005-06 indicating absence of proper strategy in attaining better export prices for kernels. Considering the fact that the company's export included higher grades of kernels as against the general exports from the State (which included Lower grades also) the decline in export realisation as compared to State exports lacked justification. The Company had not analysed the reasons for decline or worked out strategy to improve its sales realisation.

The failure to obtain the State average export price for kernels during three years up to 2007-08 resulted in a potential revenue loss of ₹ 14.71 crore on 8816.33 MT exported during the period.

Retail Sales

2.1.24 Audit noticed a wide difference ranging from ₹ 0.67 lakh to ₹ 1.46 lakh per MT between retail prices and export rates of the Company. Though the BoDs decided (June 2000) to enhance the retail sales by appointing distributors all over the state, no effective steps were taken till 2007-08.

Employment to cashew workers and Employees' Welfare

2.1.25 As stated in Paragraph 2.1.1 *supra* the Company had to provide fair number of employment days (275 days in a year) to cashew workers in the State. Audit, however, noticed that:

- As against 275 days of work that could be provided in each year, the actual number of days' work provided during the five years up to 2007-08 ranged between 17 and 138 only. The annual average days of employment was 91 indicating that the Company had not achieved its social objective of providing maximum days of employment to cashew workers.
- The operational performance of the Company for the five years was as detailed below:

(Rs. in crore)

<i>Particulars</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>Total</i>
Operating income	12.23	33.47	93.20	63.59	61.18	263.67
Operating expenditure*	24.39	49.24	136.90	77.49	70.70	358.72
Operating loss	12.16	15.77	43.70	13.90	9.52	95.05
Wages and other work related benefits	4.43	12.58	20.79	19.21 [†]	16.81 [†]	73.82

* excluding interest on long term loan 2003-04 ₹ 22.50 crore, 2004-05 ₹ 25.65 crore, 2005-06 ₹ 28.37 crore, 2006-07 ₹ 27.29 crore and 2007-08 ₹ 27.28 crore.

[†] Provisional.

It would be seen from table that the Company suffered a total operating loss of ₹ 95.05 crore and incurred an aggregate amount of ₹ 73.82 crore on wages and other benefits to the workers for the five years up to 2007-08.

- As of March 2008 the contribution of the Company towards providing employment to the cashew workers in the State was only *six per cent*.
- Audit further noticed that the Company had reduced the operating loss during 2006-07 and 2007-08. However, the operating loss would have been higher had the Company discharged the worker related liabilities* amounting to ₹ 38.89 crore.
- The State Government, in the Tenth Plan period (2002-07), had formulated a Social Safety Net Programme for restructuring the State Level Public Enterprises and manpower rationalisation. The Company, however, did not implement the programme on the ground that there was no under utilisation of manpower.
- The Company subscribed to an Employees' Group Gratuity cum Life Assurance Scheme with Life Insurance Corporation of India (LIC) with effect from 1st January 1975. Under this scheme LIC undertook payment to the employee in the event of normal retirement, resignation or death. The Company had to pay on the commencement of the scheme in lump sum or in five annual equal installments annual premium to LIC on each renewable date.

The Company, however, could not make payment of the premiums regularly and the scheme had not materialised. The Company had deposited an amount of ₹ 11.06 crore for disbursement of gratuity liability up to 1998 to the employees of the Company against which LIC had appropriated ₹ 65.50 lakh as life assurance premium. As the payment of premium was in arrears no life insurance benefit accrued to the employees of the Company and gratuity valuing ₹ 33 crore could not be disbursed to the retired employees so far (March 2008).

Corporate Governance

2.1.26 Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders to ensure greater transparency, better and timely financial reporting. The Board of Directors is responsible for governance in State Government Companies. As on 31st March 2008 there were ten members in the board including the Chairman and the Managing Director. During the 60 months from

* including gratuity liability towards staff and workers of hired factories returned.

April 2003 to March 2008 the Company held 78 Board meetings and the matters considered comprised of purchase of raw nuts, arranging of finance from outside agencies, employee related matters and post facto ratification of selling prices finalised by the Managing Director. No policy matters were discussed.

There were no technical directors like Director (Marketing), Director (Finance), Director (HR) in the Board.

- The Company had not yet constituted the Audit Committee to ensure better transparency in working and to protect the interests of Government.
- The Board had not formed any sub committee such as the Finance committee, HR committee, etc. Periodical progress report on the operations of the Company were not being presented and discussed at the Board meetings.

Internal Control and Internal Audit

Internal Control

2.1.27 Internal control are the procedures and safe guards that are put in place by the management of an organisation to ensure that the activities are conducted as planned and objectives are achieved in an economic and efficient manner. The internal control system in the Company had the following deficiencies:

- Monthly/quarterly targets and working results were not prepared and considered by the Board.
- periodical Production targets and actual performance were also not reported to the Board.
- During the period 2003-2008 the Company had not prepared the periodical financial budgets.
- Standards were not fixed for different stages of production, yield from different origin of raw nuts.
- No Management Information System (MIS) was in existence in respect of material movement and weighment of kernels.

Internal audit

2.1.28 The Internal Audit wing of the Company was headed by an Internal Audit Officer. COPU in its meeting held on July 30, 2003 had recommended that the Internal Audit Wing should be strengthened and should inspect all the major

transactions like import, export, sale of cashew nuts, etc. Audit noticed the following deficiencies in the system of Internal audit obtaining with the Company:

- The scope and functions of internal audit had not been defined.
- No internal audit manual had been prepared and adopted.
- The Pre-audit conducted by the internal audit was confined only to checking the arithmetical accuracy of payment.
- Internal audit report was not prepared and presented to Managing Director/Board during 2003-08 indicating its ineffectiveness.

Government stated (July 2008) that they would take necessary action to improve, strengthen and widen the scope of internal audit system as well as the total financial control mechanism in the organisation.

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

1. The Committee observed that the recommendations made by COPU in 2003 relating to the working of the Kerala State Cashew Development Corporation, on the basis of the Report of the C&AG of India for the year ended 31st march 1977, had not been seriously considered by the Company. The Committee enquired as to why it has not acted upon the recommendations to adopt well defined sales and marketing policy in consultation with an expert agency, to strengthen its internal audit wing and to inspect major transactions like import, export, sale of cashew nuts etc. The Committee was informed that the performance of the company was often very erratic and that the Company started functioning properly in the year 1999-2000 only. Consequent to this, in 2007, Government constituted a Committee under the chairmanship of Dr. Mridul Eapen, the recommendations of which are being implemented. The Committee expressed displeasure on this reply since the answer was to the recommendations of the Mridul Eapen Committee and not to the queries about the recommendations of the COPU.

2. The Committee enquired about the overall position of the company during the period. It was then informed that the management of the company had been strengthened as per the recommendations in the report of Dr. Mridul Eapen Committee, by appointing a Chartered Accountant as the Finance Manager, internal audit system of the Company had been made more effective and the Company Secretary appointed as its head. It was further stated that the present

Commercial Manager, Materials Manager and Finance Manager are well qualified and experienced. These factors have contributed considerably to strengthen the second level management of the company. Further the Cashew Development Corporation have attained the position to give continuous employment to employees. The company has started making profit and it was expected that the company would be able to give full employment to its employees and make profit in the current year.

3. The Committee's next enquiry was as to whether the Company had formulated any policy to promote sales and marketing. The Company reported that sales and marketing comes under the commercial department. The sale of cashew nuts could not be predicted because of its highly fluctuating price. The Company's prospects to make profit depended on its consistency in operation and the attitude of buyers. The commercial department collected data from market and based on it, the marketing/sales by the company was carried out. The percentage of local purchase of raw cashew nuts depended upon the availability of raw nuts in the market. The company made local purchase of raw cashew nuts produced in Kerala as well as imported raw nuts. Purchase of raw nuts was made through tender, considering the lowest quoted rate as well as the quality of raw nuts. Dr. Mridul Eapen Committee had recommended to shortlist a few suppliers every year from whom alone tenders were to be invited. The Government and the Company have discussed this in detail, and Government had given direction to the Company to adopt this procedure.

4. The annual accounts of the company for the year 2005-06 were finalised and accounts for 2006-07 are expected to be finalised shortly.

5. The Committee was surprised that the company had incurred loss despite the budgetary support from Government and financial support from banks. The witness reported that KSCDC, being a government company, is bound to pay to its workers all statutory benefits. The processing charge paid by the Company is much higher than that paid by private companies. Hence very often the private companies made profit while KSCDC incurred loss. KSCDC has to compete with the private companies in the market. The Committee pointed out that though private companies are said to make saving in cost of processing, they do not get any financial support from Government as KSCDC gets. The Committee expressed concern that while cashew factories in the private sector were making profit, KSCDC which got ample financial assistances from Government and banks was finding it difficult to run on profit. The Committee asked about the difficulty faced by the company in competing with private sector. It was then informed that though SSCDC is a commercial organisation, as far as Government is concerned, it is welfare oriented. During

the years of loss, private factories were locked down and it was in such a situation that KSCDC came in to existence and took over on lease/rent such closed down factories. However KSCDC being a Government undertaking, due to its social commitment, has to pull on in times of loss as well as profit. When the cost of production is only ₹ 600 to ₹ 1000 per sack in private sector, it is as high as ₹ 1,400 in KSCDC. Hence private sector companies can withstand competition even when price of processed cashews fall below ₹ 1,400 But KSCDC can't. It was also conveyed that KSCDC would not be able to run profitably by strictly following all rules in Factories and Boilers Act. The welfare activities and commercial activities in the Company have to be separated. When the Committee expressed surprise over the accumulated loss of ₹ 579.98 crore of the Company as on 31st March 2008 the witness informed that the position of KSCDC has improved recently and that C&AG has commented in the Report that during the period 2007-2008, the company could bring down the loss. Due to heavy competition with the private sector the company had started selling branded cashew nuts and cashew products in internal as well as international markets. The attempt was reported to be successful. Thus a new brand "C.D.C. cashews" had been developed by the company.

6. Regarding the value added products made from cashew nuts it was informed that by using small pieces of cashew nuts, which were sold at normal price earlier, four value added products namely, cashew soup, cashew powder, cashew vitas and cashew bits are made and they are marketed well. Ministry of Commerce has granted an amount ₹ 50 lakh for market research, and the Indian Institute of Foreign Trade has been engaged to conduct a market study. Due to consistent work and the introduction of new value added products the company has steared considerable momentum. Since 2006 the Company worked with out getting financial support from banks. Government now releases an average of Rs.10 crore as working capital every year. Funds released by Government for infrastructure development has been utilised for modernisation of its factories conform to international standards and the company is processing to get ISO 2000 certification. The company also got ₹ 50 lakh from Central Government for international publicity and promotion.

7. The company could not claim the fund amounting to 25% of capital investment from the Ministry of Food Processing for the 20 leased factories. The company assured submission of a revised application for the fund after the installation of a fully automatic machines for making the branded products.

8. Repayment of bank loan has not been made promptly by the Company. The Committee found that the reason for the default was its loss. The Committee also realised that gratuity payment to employees was pending.

9. Secretary to Government pointed out that professional management, strong internal control system and professional marketing are essential for the improvement of the company. This could be ensured by consistent and continuous work through out the year. When work is irregular, huge amounts of money need to be set aside for repair work and for clearing arrears and the money obtained from Government will be used mainly for these purposes. Plantation of cashew is being carried out using ₹ 56 crore granted by Central Government. He also stated that the chance of making the company a profitable commercial concern was not possible in near future. The Principal Secretary put forth a suggestion that a professional study should be conducted to ascertain the maximum amount of loss that Government could bear and budget support should be given up to that amount only. The company ought to be given more autonomy and further strengthen its middle level management. The company utilised raw cashews supplied by STC due to an assurance given by that they wouldn't trouble the company for another year for amounts due to them. However, this moratorium period had already expired and banks could initiate legal action at any time. Once bank accounts of the company get freezed, the activities of the company would come to a stand still. These problems were crucial and deserve immediate solution.

10. The Principal Secretary informed that Dr. Mridul Eapen Committee had made recommendations on the system of procurement, productivity improvement, sales realisation, strengthening of internal controls, modality of funding, management of working capital and plan fund allocation. The Board of directors of the company pointed out that the recommendation to negotiate with only lowest tenderers was impractical. Hence leaving apart this recommendation, the Managing Director has been authorised to implement all other recommendations. Principal Secretary also stressed the need for the financial support to fully implement these recommendations. It was also informed to the Committee that in Indian market cashew fetches double the price than their export price. Likewise cashew pieces, which otherwise would fetch only throw away prices, get almost the same price as whole cashews when converted into value added products. Full fledged sale of value added products could, to a great extent solve the problems of the company.

11. At present there existed scope to sell 100% of cashew products in Indian market itself. Being a lifestyle product, cashews produced here could be sold as branded products through retail outlets. The Managing Director added that the company started concentrating more on internal market rather than export.

12. The Committee noticed the problem of lack of financial discipline in fund management. The Committee was informed that though the amount has been earmarked as interest it has not been paid to banks and was expected to be settled through negotiation with banks. A major price slash in 2005 have contributed to default in payment. The company expected concessions like waiver of interest and penal interest in OTS based on Government level discussions with bank as in earlier occasions.

13. The Committee enquired why reply to audit objection was not furnished to Accountant General in the initial stage itself. The Principal Accountant General refuted the claim of witness that reply to the point was given in time. The Principal Accountant General added that records showed that the interest amount due to banks had already been paid by the company. The Principal Secretary assured the Committee that after verifying the records, details and reason for not furnishing reply will be made available to Committee, as early as possible.

14. The Committee then sought the reason for delay in clearing the raw nuts from Cochin port, in spite of sufficient fund. It was then replied that the event occurred in 2003 when, as per Government Order, ₹ 12 crore was remitted in the bank in the joint account with RIAB. Though there was money in the bank, the Managing Director did not have the power to draw any amount without specific order from Government and hence the delay occurred. The Principal Secretary clarified that in the case of some companies in which financial position was found to be weak, the Government followed the practice of routing funds through joint account instead of crediting the amounts directly so that dual control could be exercised to ensure that such funds are not utilised for adjustment against court attachments or for payment of salary and arrears. This has very often caused delay. The Committee noticed that due to delay in excess of 5 days in the clearance of bills, the company had incurred a loss of ₹ 16.57 lakh as interest in 271 cases out of 276 cases of exports during 2003-2008.

15. When asked why the company overlooked the recommendations made by COPU in 2003, on cashew procurement that the raw cashew needed in each season should be procured in the respective season and procurement cost should not exceed the all India procurement cost, the Managing Director pointed out that lack of sufficient fund was the reason for company's inability to procure raw cashew during respective seasons. Thus lack of sufficient fund deprived the company its chance to compete with private entrepreneurs in procurement of raw nuts. With the limited fund obtained from Government based on Dr. Mridul Eapen Committee report, the company tries to procure

maximum quantity of raw cashew in each season. With regard to financial assistance from bank, the witness added that banks had an indifferent attitude to the company and that they would provide funds only after analysing the performance of the company in the previous year. Regarding the repayment of loans obtained from bank the witness informed that an amount of ₹ 100 crore was outstanding. Bank fund is normally released on the basis of stock and hence due to inadequate stock they stopped releasing fund. When asked why the procurement rate is more than the all India average procurement cost of cashew, the Managing Director replied that no such average rate could be fixed for cashew as its price is highly fluctuating. The low quality cashews from an area might be cheaper while cashew of superior quality from another area might be costlier. Hence arriving at an average price for comparison is not reasonable. The method of computing an average price by taking the price of cashews imported from East Africa, West Africa and Indonesia was illogical.

16. When a query was raised as to why advertisements were released only in local dailies for import of raw nuts the witness answered that cashew industry being mostly concentrated in Kollam, large scale procurement is done there. No need was felt to publish tender in other States. International tenders are published in website and local tenders in major local dailies. As KSCDC is already running in loss, releasing advertisements on large scale would plunge the company into more loss.

17. The Committee wanted to know the rationale behind the system of negotiation with all participants of tenders. Difference in quality and origin of nuts quoted doesn't hold a justifiable reason for such negotiation. The Committee expressed dissatisfaction over the procedure followed by the Company in negotiating with all participants of each tender and pointed out that by doing so even the basic procedure of inviting tender and considering the lowest quotation is not satisfied. The matter was already discussed in detail by the Mridul Eapen Committee and the Company Board. Since each participant of tender should hold a minimum specified stock of cashew, very few tenderers participate in KSCDC tenders. If suppliers join together and form a cartel, the company will lose the chance of purchasing raw nuts at low prices. This fear was pointed out as another reason for insisting all tenderers for discussion and negotiation.

18. In global tender all companies with procurement capacity can participate without the formality of prequalification. The Committee wanted to know the reason for not obeying the rules of tenders by the company. The witness informed the Committee that in cashew industry, there is severe uncertainty, and therefore, it is very difficult to observe the rules of tenders. It was added that Government sanction had been obtained in this regard.

19. The committee observed that the company placed order for 73 % of raw cashew nuts through two agents only during the period from 2003-2004 to 2007-2008 and sought the reason for the same. The reply was that the tenderers were aware about Kerala State Cashew Development Corporation and its tender notice could be had globally from the website. Any Supplier who had procurement capacity could participate in the tender and no restriction was made by KSCDC on participation. At the same time, KSCDC had very stringent terms and conditions and suppliers were aware of the relation between banks and the company. When the Committee pointed out that though the company had invited global tender the real purpose of the same was not served, the witness explained that the company runs on strict conditions in a procedural manner. The company can't be blamed for limited number of suppliers participated in the tenders as it was not due to any fault on the part of it. The company have come to a situation in which it can give maximum days of employment. However, procurement had been made by utilising the advance even from prospective customers.

20. The Committee further opined that in spite of the recommendation of Mridul Eapen Committee and the direction from Central Vigilance Commission that only the lowest tenderer should be negotiated with, the Company negotiates with all tenderers before finalising any deal.

21. The Committee directed that, as per the rules of tender, the lowest tenderer alone should be considered. Otherwise it would be better to call for quotations so that competition based on tender conditions could be avoided. The Committee expressed displeasure on the attitude of the company, in following neither of these methods. This trend was pointed out by the Committee to be unhealthy though the witness again tried to defend their stand with the reasons of origin and quality of raw nuts. Additional Secretary from Finance Department also opined that the present tender procedure should be changed. The Committee stressed the point that the procedure and processing of tenders should be as per rules.

22. The average purchase price per MT of raw nuts in respect of 11 out of 24 consignments of import during the five years up to March 2008 was found to be higher than the average price of import of raw nuts to Kerala for the corresponding month as per data maintained by Cashew Export Promotion Council. The Committee desired to know the reason for the same. The witness informed that in cashew industry there is no system of average price for 5 years and for different origin of cashew nuts prices vary each year and for each season. Hence the objection that cashew was purchased at a higher price than

the average price was not correct. Further a specified import rate for cashews has not been declared. CEPC was publishing the import rates of raw cashew nuts coming to Kerala every month in a very specific manner. However the data was unauthentic. The Managing Director also informed that the observation of the Accountant General was based on the data published by analysing details regarding the export for the previous five years. It was also clarified that the said data had not been published at the time of inviting tender. Further data published by Cashew Export Promotion Council contained the invoice rates only and does not include transporting charges, C& F charges, etc., which are to be included with the invoice price for comparison. The Committee enquired as to whether the company had given explanation in this regard when audit examination was conducted by the Accountant General. The witness informed that explanation was given to the Accountant General and that the said Audit was done with the help of experts who had little exposure to cashew industry. The Committee expressed displeasure on the statement made by the Managing Director pointing out that the examination was made by the Accountant General considering available facts and figures.

23. The Committee at this point desired to be informed of the details about local purchase. It was then clarified that stock is taken from Aralam farm and purchases are made by the company by participating in tender. It was also added that the practice of taking average price in one year or five years and conducting analysis on that basis could not be accepted as the right method as prices often fluctuate. Climatic factors also affect prices.

24. The Committee was informed that the company had 10 own factories and 20 leased factories. The leased ones were taken over to give work to labourers as part of Government policy. The Government has initiated to purchase these 20 leased factories.

25. The witness informed that the company had made changes in its marketing policy. In cashew industry price fluctuation is likely to occur everyday. The company first collects information from market and then goes in for negotiation. Commenting on the observation of the Accountant General that the company had no sales policy, it was informed that the company had a sales policy which need a review.

26. When enquired as to whether the Company was selling cashew nuts at price higher than private sector companies, the Managing Director replied in the affirmative and informed that the quality of KSCDC products was well accepted in the market.

27. The turnover of the company was increasing every year. To the question as to whether the profitability was increasing with the increase in turnover, the witness replied that the company would soon come to a profitable stage. The company had been able to bring down its loss. The positive trend was related to global marketing.

28. The witness informed that there has not been much increase in investment. The witness also added that the previous low turnover was because of lack of work due to non availability of fund and submitted that the company still faces insufficiency of fund to improve turnover.

29. The Committee wanted to know the reason for the decline in export to ₹ 13.38 crore in 2007-2008. The witness informed that the observation by Accountant General was on the basis of state average price. He added that in cashew industry there is no such price as state average price and that the then prevailing market rate should be considered to evaluate the business of the company.

30. The witness agreed to the audit objection on retail sales and informed that in retail sale of cashew nuts would fetch more price in internal market. Price in internal market is normally twice the export price. The retail sales had improved considerably. There had been improvement in brand awareness and a distribution network had been set up on all India basis. Value added products like cashew powder and cashew soup had good response from the market.

31. The Committee observed that as against 275 days of work that should be provided by the company every year, the average number of days work was provided during the five years up to 2007-2008 ranged between 17 and 138. The witness clarified that employment could be given for more number of days if more working capital is obtained. In the previous year, the company gave employment for 240 days. The Board had also approved a new proposal which would give employment for 286 days a year.

32. The company found it difficult to proceed in the absence of budgetary support from Government and stressed the need for financial support for market intervention.

33. The Committee observed that though the Company had joined Group Gratuity Scheme with LIC, it could not remit the premium regularly. The witness informed that as per this scheme the amount deposited with LIC has been refunded and that the scheme has been discontinued. He added that Government has provided fund for payment of gratuity and that the same is being given to employees on seniority basis.

34. Second level management had been strengthened in the company. Effective corporate governance had come into being. Vacancies at lower level are being filled through P.S.C. The Personnel Manager who had retired, being well experienced, has been given extension of service.

35. The Internal Control system headed by the Company Secretary was informed to be satisfactory. When Accountant General pointed out that the internal audit wing had not examined important transactions like fixation of export price, the witness conveyed that a new post would be created to look into such transactions. The Additional Secretary, Finance Department stated that instruction had already been issued to the Company to strengthen its internal audit wing.

Conclusions/Recommendations

36. The Committee points out that though Government was bound to furnish the note showing the remedial action on the audit para to the Committee with in 2 months of laying of the Audit Report, the Industries Department had furnished the notes neither within the stipulated time nor before the examination of the Audit paragraph. The Committee felt that this is a serious lapse which could not be condoned by the Committee. The Committee also directs that such irresponsible attitude should not be repeated in future.

37. Though Accountant General pointed out that records showed excess payment of interest on defaulted LC payment, as per the statement made by the witness during oral evidence the company had not paid the excess interest of ₹ 1.01 crore on defaulted LC payment of ₹ 18.46 crore during 2005-06 and the amount was expected to be settled through negotiation with banks. The Committee reprimanded the company for not furnishing the reply in time to Accountant General. The Committee also recommends that detailed report regarding the reason for not furnishing timely reply to Accountant General should be made available to the Committee, after verification of all records.

38. The Committee observes that the company had incurred a loss of ₹ 16.57 lakh as interest due to delay in collection of bills discounted. The Committee finds this as the best example of lack of financial discipline in fund management of the company. If the company had monitored clearance of bills, it could have taken up the matter with banks and thus avoided loss of interest on delayed collection. Therefore the Committee urges the company to prepare periodical financial budgets and fund flow statements and avoid losses in future

39. The Committee finds that the practice followed by the company of inviting all participants of tenders for negotiations is against the basic rule of tenders. The Committee takes serious note of the fact that the company miserably fails to follow the right tender procedure. It is therefore recommended that the company should discontinue the prevailing system. As quality and origin of nuts can be known on opening of tender, only the least quoted bidder should be called for negotiation.

40. The Committee observes that the purchase price in 16 out of 21 consignments of import of raw nuts from 2003-04 to 2007-2008 was higher than the workable rate. The Committee also points out that the company was already knowing that the transactions would lead to negative contribution. Such decisions, which are against the financial interest of the company, should not be repeated in future.

41. The loss of ₹ 2.28 crore due to failure in comparative study of rates between local raw nuts and imported raw nuts based on price and out turn is viewed seriously by the Committee. It is felt that the company should have considered both price and outturn when comparing rates of local raw nuts and imported raw nuts rather than considering only price of raw nuts. Therefore the Committee recommends that the company should hereafter follow the practice of evaluating the rates obtained, based on price as well as outturn.

42. The Committee needs an explanation from the company for not carrying out the recommendations of COPU made in 2003.

43. A well defined procurement policy has to be formulated by the company in accordance with the accepted procedures in the industry so as to reduce the cost of procurement.

44. Suitable standards should be evolved at various stages of processing to ensure adequate control over output and to improve labour productivity.

45. A proper market intelligence system and data base on prices to ensure formulation of an appropriate pricing strategy to obtain best prices for sale of kernels is also recommended by the Committee.

46. Effective steps should be taken to appoint distributors all over the state so that retail sales can be enhanced.

47. The company should take efforts to revitalize the Employees Group Gratuity cum Life Assurance Scheme with LIC, make up to date the premium dues to LIC and ensure disbursement of retirement/life assurance benefits to its employees in time by making regular premium payments.

48. Immediate steps should be taken to strengthen and widen the scope of internal audit system and the financial control mechanism in the company.

Thiruvananthapuram,
21st June, 2012.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

APPENDIX

Summary of Main Conclusion/Recommendation

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusion/Recommendation</i>
(1)	(2)	(3)	(4)
1	36	Industries	The Committee points out that though Government was bound to furnish the note showing the remedial action on the audit para to the Committee with in 2 months of laying of the Audit Report, the Industries Department had furnished the notes neither within the stipulated time nor before the examination of the Audit paragraph. The Committee felt that this is a serious lapse which could not be condoned by the Committee. The Committee also directs that such irresponsible attitude should not be repeated in future.
	37	„	Though Accountant General pointed out that records showed excess payment of interest on defaulted LC payment, as per the statement made by the witness during oral evidence the company had not paid the excess interest of ₹ 1.01 crore on defaulted LC payment of ₹ 18.46 crore during 2005-06 and the amount was expected to be settled through negotiation with banks. The Committee reprimanded the company for not furnishing the reply in time to Accountant General. The Committee also recommends that detailed report regarding the reason for not furnishing timely reply to Accountant General should be made available to the Committee, after verification of all records.
	38	„	The Committee observes that the company had incurred a loss of ₹ 16.57 lakh as interest due to delay in collection of bills discounted. The Committee finds this as the best example of lack of financial discipline in fund management of the company. If the company had monitored clearance of bills, it could have taken up the matter with banks and thus avoided loss of

(1)	(2)	(3)	(4)
			interest on delayed collection. Therefore the Committee urges the company to prepare periodical financial budgets and fund flow statements and avoid losses in future.
39	Industries		The Committee finds that the practice followed by the company of inviting all participants of tenders for negotiations is against the basic rule of tenders. The Committee takes serious note of the fact that the company miserably fails to follow the right tender procedure. It is therefore recommended that the company should discontinue the prevailing system. As quality and origin of nuts can be known on opening of tender, only the least quoted bidder should be called for negotiation.
40	„		The Committee observes that the purchase price in 16 out of 21 consignments of import of raw nuts from 2003-04 to 2007-2008 was higher than the workable rate. The Committee also points out that the company was already knowing that the transactions would lead to negative contribution. Such decisions, which are against the financial interest of the company, should not be repeated in future.
41	„		The loss of ₹ 2.28 crore due to failure in comparative study of rates between local raw nuts and imported raw nuts based on price and outturn is viewed seriously by the Committee. It is felt that the company should have considered both price and outturn when comparing rates of local raw nuts and imported raw nuts rather than considering only price of raw nuts. Therefore the Committee recommends that the company should hereafter follow the practice of evaluating the rates obtained, based on price as well as outturn.
42	„		The Committee needs an explanation from the company for not carrying out the recommendations of COPU made in 2003.

(1)	(2)	(3)	(4)
43	Industries		A well defined procurement policy has to be formulated by the company in accordance with the accepted procedures in the industry so as to reduce the cost of procurement.
44	„		Suitable standards should be evolved at various stages of processing to ensure adequate control over output and to improve labour productivity.
45	„		A proper market intelligence system and data base on prices to ensure formulation of an appropriate pricing strategy to obtain best prices for sale of kernels is also recommended by the Committee.
46	„		Effective steps should be taken to appoint distributors all over the state so that retail sales can be enhanced.
47	„		The company should take efforts to revitalize the Employees Group Gratuity cum Life Assurance Scheme with LIC, make up to date the premium dues to LIC and ensure disbursement of retirement/life assurance benefits to its employees in time by making regular premium payments.
48	„		Immediate steps should be taken to strengthen and widen the scope of internal audit system and the financial control mechanism in the company.