



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

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

**EIGHTH REPORT**

(Presented on 21st June, 2012)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2012

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PUBLIC UNDERTAKINGS  
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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 31st March, 2006 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2014)

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Smt. Lima Francis, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings 2011-2014 having been authorised by the Committee to present the Report on their behalf, present this Eighth 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, 2006 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial), was laid on the Table of the House on 28-3-2007. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2008-2011.

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 Kerala State 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 Department and Finance Department and the officials of Kerala State Cashew Development Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

K. N. A. KHADER,

*Chairman,*

*Committee on Public Undertakings.*

Thiruvananthapuram,  
21st June, 2012.

## REPORT

### AUDIT PARA

Based on the report of the Managing Director that the pending supplies of raw cashew nuts would be sufficient to meet the processing requirement only up to May 2005, the Company invited (April 2005) tenders for import of 5000 MT of raw nuts of new crops from various origins except Nigeria. Agreement for supply of 6000 MT ( ± 10 per cent) of raw cashew nuts of Guinea Bissau origin was entered into (29 April 2005) with the authorised representative of Nomanbhoy & Sons Pvt. Limited, Singapore at the rate of US \$ 1220 per MT (₹ 53,314 at the exchange rate of ₹ 43.70 per US dollar). The ordered quantity was to be supplied at port by 15 July, 2005.

It was noticed by Audit that the estimated break-even cost\* for the raw cashew nuts as worked out (April 2005) by the Company prior to acceptance of tender was US \$ 1042.65 per MT (equivalent to ₹ 45,563). Thus, the Company resorted to import even after knowing that there would be a projected cash loss of ₹ 4.65 crore (₹ 53,314 – ₹ 45,563 = ₹ 7,751 x 6000 MT) in the transaction. Even the above loss was wrongly computed by reckoning commission payable on sales as revenue leading to further under estimation of loss by ₹ 33.48 lakh (US \$ 1042.65–1029.88 x ₹ 43.70 x 6000 MT).

The cargo intended for processing in July 2005 as per import decision, arrived (July 2005) at the port and was cleared on 9th August 2005. A quantity of 6349.855 MT was received and payment of ₹ 33.66 crore was made (August to October 2005). The landed cost of raw cashew nuts was ₹ 34.25 crore including C&F charges, interest levied, etc. The raw nuts hastily imported at exorbitant cost on the ground of projected non-availability of raw nuts for processing after May 2005, could actually be processed during the period from August to October 2005. For processing the raw nuts and production of kernels, the Company incurred further expenditure of ₹ 7.94 crore raising the total cost of the final product to ₹ 42.19 crore against which the value realised on sale was ₹ 32.43 crore. Thus, the total loss including processing cost amounted to ₹ 9.76 crore as against ₹ 4.65 crore initially estimated. The sales realisation was less than even the raw material cost.

*Thus, the hasty decision to import raw cashew nuts at exorbitant cost resulted in loss of ₹ 9.76 crore.*

The Management stated (April 2006) that the deal was made with the bona fide intention to restart the closed factories and to give employment to the

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\* Worked out on the basis of estimated sales realisation.

workers, and if the management had not entered into the contract, closure of factories would have continued and the Government would not allow such a situation. The reply is not tenable since this aspect was not considered, as seen from the records, at the time of taking decision for procurement and the purchase was made even after estimating huge processing loss and the import of raw nuts prior to and after the contract in April 2005 were also made at much lower prices\*. The processing of raw nuts hastily imported by indicating the requirement for May 2005 which were only processed in August 2005 defeated the purpose of the import.

The Government stated (July 2006) that the Company would not get raw nuts at the 'workability' rates and it could only purchase raw nuts at minimum rates offered by the parties in tender/negotiation. The sale of kernels at reduced rate subsequently was attributed to fall in price of kernel from 2.55/lb to 1.89/lb in the international market. The reply is not acceptable since the Company resorted to procurement even after projecting a loss of ₹ 4.65 crore in the workability statement and incurred a heavy loss of ₹ 9.76 crore due to sale of kernels at reduced rates. The fall in selling price and resultant reduction in export realization was due to delay in processing of raw nuts.

[Audit paragraph 4.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2006 (Commercial)].

Notes furnished by the Govt. on Audit Paragraph are given in Appendix II.

1. The Committee sought clarification on the audit objections regarding the purchase of 6000 MT raw cashew nuts, which resulted in a loss of ₹. 9.76 crore. The witness replied that the raw cashew nuts were purchased only after inviting tender for the second time as nobody had responded to the first tender notice. After remaining closed for 3 years the Kerala State Cashew Development Corporation Ltd. restarted operation in December 2004. It was also informed that raw cashew nuts were purchased to make available for working in the ensuing Onam season. The Board had decided to purchase raw cashew nuts from Guinea Bissau as it could not be made available from other international markets at that time. Also added that there was no 'hasty decision' with regard to the purchase. Unless purchase was made at that time the corporation would not have been able to continue work during the Onam season.

2. The witness further explained that soon after the purchase of raw cashew nuts the price of kernels slashed from 2 Dollars 55 cents to 1 Dollar 90 cents in the market and hence the loss to the corporation. Had the raw cashew nuts not

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\* Prevalent rate for import in July 2005 was US \$ 970 per MT.

been purchased at that time there would have been an acute shortage of raw nuts. Moreover, an additional amount would have been spent by the Corporation for giving bonus. The witness added that out of the total loss of ₹ 9.76 crore cited, ₹ 7.65 crore was spent as wages in the Onam season.

3. When the witness informed that out of the two tenders invited, the initial one was on 15-4-2005 and the latter was on 28-4-2005, the committee pointed out that the Corporation invited 2 tenders in hardly 13 days' gap. The committee opined that the Corporation should have started with the tender procedure 3-4 months before. The witness clarified that the tender was invited to import raw cashew nuts for working in July, August and September. The raw cashew nut stock from local season was available in the Corporation for working in the previous months. Since the lead-time to get raw cashew nuts from Guinea Bissau was up to 45 days, the tender was invited in April. When the Committee expressed concern over the short time gap between the two tenders, the witness submitted that it was nowhere stipulated that a second tender should not be invited within 15 days of first tender.

4. The witness further informed that though nobody participated in the initial tender 2 parties participated in the latter one. When the committee pointed out the reply furnished to the Accountant General by the Government did not mention about invitation of tender notice, the witness replied that it was specifically stated in the reply furnished to Accountant General. The Board decided to invite another tender and this was informed by the Government on 31-7-2006.

5. When the Committee enquired about the vigilance enquiry related to this issue it was informed that when the Report of the Comptroller and Auditor General was placed on the Table of the House, the Minister called for the file and ordered a Vigilance Enquiry. The committee suggested that the present stage of the vigilance enquiry should be informed to the committee.

#### **Conclusions/Recommendations**

**6. The submission of the Govt. that there was no hasty decision on the part of the Kerala State Cashew Development Corporation for importing raw cashew nut, as against Audit observation is not acceptable to the Committee. The Committee observes that the Company had resorted to import raw cashew nuts, even after knowing that there would be a projected**



**cash loss in the transaction. The action of the company to invite two tenders consecutively during a month within 13 days interval for the same cause is not justifiable so far in a case of Public sector undertaking is concerned. The Committee therefore suggests that care should be taken to see that such incidence would not happen in future transaction of the Corporation.**

**7. The Committee also demands that the report of the vigilance enquiry initiated in the case and the details of the present position of the case should be intimated to the Committee at the earliest.**

Thiruvananthapuram,  
21st June, 2012.

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

## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl. No.</i>	<i>Report Para No.</i>	<i>Department concerned</i>	<i>Conclusions/ Recommendations</i>
1	6	Industries	The submission of the Govt. that there was no hasty decision on the part of the Kerala State Cashew Development Corporation for importing raw cashew nut, as against Audit observation is not acceptable to the Committee. The Committee observes that the Company had resorted to import raw cashew nuts, even after knowing that there would be a projected cash loss in the transaction. The action of the company to invite two tenders consecutively during a month within 13 days interval for the same cause is not justifiable so far in a case of public sector undertaking is concerned. The Committee therefore suggests that care should be taken to see that such incidence would not happen in future transaction of the Corporation.
2	7	Industries	The Committee also demands that the report of the vigilance enquiry initiated in the case and the details of the present position of the case should be intimated to the Committee at the earliest.

## APPENDIX II

## NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

ക്രമനമ്പർ	ചൺഡിക നമ്പർ	സ്വീകരിച്ച നടപടി
1	4.1	വിജിലൻസ് ആന്റ് ആന്റി കറപ്ഷൻ ബ്യൂറോയോട് അന്വേഷണം നടത്താൻ ആവശ്യപ്പെട്ടിട്ടുണ്ട്. അന്വേഷണ റിപ്പോർട്ടിലെ കണ്ടെത്തലിന്റെ വെളിച്ചത്തിൽ വിശദമായ മറുപടി നൽകുന്നതാണ് എന്ന് അറിയിക്കുന്നു.