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AUDIT OF THE NATIONAL DAIRY
DEVELOPMENT BOARD'S OILSEED GROWER'S
COOPERATIVE PROJECT UNDER THE
USAID/INDIA PL 480 TITLE II PROGRAM

AUDIT REPORT NO. 5-386-89-02-N
JANUARY 20, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

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MEMORANDUM FOR Mr. Robert N. Bakley
Director, USAID/India
B. R. Howard
January 20, 1989

FROM: Mr. B. R. Howard, RIG/A/Singapore

SUBJECT: Audit of the National Dairy Development Board's Oilseed Grower's Cooperative Project under the USAID/India PL 480 Title II program, Audit Report No. 5-386-89-02-N

This report presents the results of a Non-Federal financial and compliance audit of PL 480 Title II local currencies provided to India's National Dairy Development Board (NDDB) to implement the Oilseed Grower's Cooperative Project. The chartered accounting firm of C.C. Chokshi & Co. prepared the report which is dated January 12, 1989.

The purpose of the audit was to evaluate: (1) the fairness of the project's fund accountability statement for PL 480 Title II local currencies and reflow funds for the period April 1, 1985 to March 31, 1987; (2) the system of internal accounting controls; and (3) compliance by NDDB with applicable laws, regulations and agreement terms.

In the opinion of C.C. Chokshi & Co., the fund accountability statements for the sales proceeds of PL 480 Title II commodities and the reflow funds presents fairly the project funds received and disbursed for the two year period ending March 31, 1987, except for unauthorized interest expenditures amounting to \$587,000 (Rupees 8,810,000) and the non-recognition of income amounting to \$339,000 (Rupees 5,088,000). The auditors concluded that the internal accounting controls were generally adequate with no significant weaknesses. However, the audit disclosed several minor weaknesses in the internal controls. The weaknesses observed were not (1) depositing reflows to the reflow bank account in a timely manner, (2) budgeting for reflow funds, and (3) charging interest on temporary loans.

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In the opinion of C.C. Chokshi & Co., NDDDB complied with applicable laws, regulations and agreement terms tested, except that (1) interest expenditures on overdraft loans were not properly recognized, (2) reflow earnings were not deposited to a separate bank account in a timely manner, and (3) loans amounting to \$1.43 million (Rupees 21,296,000) were made to an unauthorized recipient. Nothing came to their attention to indicate non-compliance with items not tested.

The C.C. Chokshi & Co. report contains seven recommendations. We have combined these into three recommendations to facilitate resolution, implementation, and tracking. Accordingly, the following recommendations will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/India ensure that the National Dairy Development Board (a) reduces the management and project implementation expense category by Rupees 8,810,000 (\$587,000) and offsets this same amount against interest income, (b) instruct its accounting personnel on the proper accountability for interest expenses on overdraft loans, (c) establishes an accounting entry in NDDDB accounting records which recognizes interest receivable from the Bhavnagar Vegetable Products Unit as it accrues, and (d) establishes procedures to ensure that interest receivable from Bhavnagar is recorded as income when Bhavnagar generates a profit.

Recommendation No.2

We recommend that USAID/India strengthen project internal controls by requiring the National Dairy Development Board to establish procedures to (a) transfer reflow earnings into the reflow bank account in a timely manner (b) specify when reflow earnings transferred to the reflow bank account are to be deposited into an interest bearing account, (c) prepare annual budgets for the source and expenditure of reflow funds for authorized project purposes, and (d) charge interest on short term loans.

Recommendation No.3

We recommend that USAID/India ensure the National Dairy Development Board complies with the project's multi-year operational plan by requiring NDDB to (a) obtain formal approval from the NDDB Board of Directors, USAID/India, and the Cooperative League of the United States to provide loans to the Idar Union and other entities which are not State Oilseed Federations, and (b) recover the loans to the Idar Union amounting to Rupees 21,296,000 (\$1.43 million) if the NDDB Board of Directors, USAID/India, and the Cooperative League of the United States does not approve the loans.

After the auditors brought the matter to their attention, the National Dairy Development Board took corrective action to recognize project income amounting to Rupees 5,088,000 (\$339,000).

The National Dairy Development Board agreed with and initiated corrective actions on the report recommendations as indicated in their comments to the draft report (Appendix 1). Accordingly, the three recommendations are considered resolved and will be closed when the corrective actions have been completed. Also, based on NDDB'S comments, the finding on penalty interest on long term loan agreements has been dropped.

Please advise this office within 30 days of actions planned or taken to implement the recommendations.

C. C. CHOKSHI & CO.
CHARTERED ACCOUNTANTS

MAFATLAL HOUSE
BACKBAY RECLAMATION
BOMBAY. 400 020.

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AUDIT OF THE
NATIONAL DAIRY DEVELOPMENT BOARD'S
OIL SEEDS GROWERS' CO-OPERATIVE PROJECT
"RESTRUCTURING EDIBLE OIL AND OIL SEED
PRODUCTION AND MARKETING."

PUBLIC LAW (PL) 480 TITLE II PROGRAM IN INDIA

AUDIT REPORT FOR THE PERIOD APRIL 1, 1985 TO MARCH 31, 1987

Audit of The
National Dairy Development Board/The Co-operative League of
the United States/Oilseed Growers' Co-operative Project.

Public Law (PL) 480 Title II Program in India

TABLE OF CONTENTS

	Page -----
Transmittal Letter, Audit objectives and scope and results of audit	1 - 8
<u>Report on Fund Accountability statement</u>	
Auditor's Opinion	9 - 10
Statement of Sources and Application of funds April 1, 1985 to March 31, 1986.	11
Schedule 1A	12 - 16
Schedule 1B	17
Notes to Statement of Sources and Application of funds for the period from April 1, 1985 to March 31, 1986.	18 - 22
Statement of Sources and Application of funds for the period April 1, 1986 to March 31, 1987	23
Schedule 2A	24 - 28
Schedule 2B	29
Notes to Statement of Sources and Application of funds for the period from April 1, 1986 to March 31, 1987.	30 - 36
Audit findings 1 to 3	37 - 41
<u>Report on Fund Accountability - Reflows Account for the period from April 1, 1985 to March 31, 1987</u> -----	
Auditor's Opinion	42
Statement of Sources and Application of funds of NDDB/CLUSA Reflows Account as of March 31, 1986	43
Notes to the Sources and Application of funds for the Reflows Account for the period ending March 31, 1986.	44

Statement of Sources and Application of Funds of NDDDB/CLUSA Reflows Account as of March 31, 1987.	45
Notes to the Sources and Application of funds for the Reflows Account for the period ending March 31, 1987	46 - 47
Report on Internal accounting controls -----	48 - 51
Audit findings 4 to 6	52 - 55
Report on the compliance with Applicable Laws, Regulations and Agreements -----	
Auditor's opinion	56
Audit finding 7	57
Bhavnagar Vegetable Products Unit -----	
Bhavnagar Vegetable Products Unit Balance Sheet as of March 31, 1986	58
Bhavnagar Vegetable Products Unit - Revenue account for the year ended on March 31, 1986	59 - 60
Report on generation and use of oil seed growers' Co-operative Project funds for the year 1985-86 (April - March)	61 - 63
Bhavnagar Vegetable Products Unit - Balance Sheet as of March 31, 1987	64
Bhavnagar Vegetable Products Unit Income and Expenditure account for the year ended March 31, 1987.	65
Report on generation and use of oil seeds growers' Co-operative Project funds for the year 1986-87	66 - 67
List of Recommendations.	68 - 69

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REF:A/1684/11502

January 12, 1988

Mr. B. R. Howard,
Office of Regional Inspector General for Audit Singapore,
United States Agency for International Development,
C/o American Embassy
30 Hill Street,
SINGAPORE 0617

Dear Sir,

Re: N. D. D. B. / CLUSA Audit.

This report presents the results of our audit of the National Dairy Development Board/Co-operative League of the United States/Oilseeds Growers' Co-operative Project for two years from April 1, 1985 to March 31, 1987.

Background

At the request of the Government of India, the National Dairy Development Board (NDDDB) proposed a project "Restructuring edible oil and oil seed Production and Marketing" which was approved by the Government of India, in September 1978 and the proposal became the basis for the oilseeds growers' Co-operative Project (OGCP).

For this purpose, two Organizations, the Co-Operative League of the United States of America (CLUSA) and the National Dairy Development Board (NDDDB) have entered into a Memorandum of Agreement with the approval of the U.S. Government and the Government of India. The project is financed by rupee currency generated from sales in India of U.S. donated refined soybean oil provided under the U.S. PL 480 Title II Food for Peace Program. The donated soybean oil is provided under a Transfer Authorization negotiated between the U.S. Agency for International Development (USAID) and CLUSA based on the CLUSA - NDDDB agreement and a Multi-Year Operational Plan (MYOP) approved by CLUSA and USAID.

The Oilseed growers' co-operative project had a scheduled duration of eight years from September 28, 1978 which is now extended upto September 27, 1990 by an amendment to the Memorandum of Agreement between National Dairy Development Board and the Co-operative League of USA.

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The National Dairy Development Board was registered under the Societies Registration Act and the Bombay Public Trust Act. The National Dairy Development Board was constituted under the aegis of the Ministry of Agriculture, Government of India, in September 1965 to replicate the Anand pattern dairy co-operatives in other parts of India in an effort to improve the incomes of the rural milk producers. Later in the year 1978, the application of the basic principles as applicable to Operation Flood in the milk sector was extended to the oilseeds and vegetable oil sector and this helped to evolve NDDB's project, "Restructuring Edible Oil & Oilseed Production and Marketing". The project as a whole is financed by funds generated from the sale of vegetable oil donated by the U.S. Government through the Co-operative League of USA and by Canada through Co-operative Union of Canada (CUC). The implementing agency of the oilseeds and Vegetable oil project was the Oilseeds and Vegetable Oil Wing (OVOW) of NDDB. The OVOW consisting of the major groups namely The Project Appraisal and Finance (PAF) group and The Commodity Handling and Marketing (CHM) Group, was headed by an Executive Director and subsequently by an Additional Secretary. A Management Committee consisting of the NDDB Chairman as Chairman and other members specified policy directives and major controls. The Management Committee reported to the Executive Committee of NDDB.

With the passage of the 1987 NDDB Act, The Indian Parliament declared NDDB, effective October 12, 1987, to be an institution of National importance and provided for its incorporation and for the vesting in that body corporate, the undertakings of the Indian Dairy Corporation. As specified in the 1987 NDDB Act, the general superintendence, direction, control, and management of the affairs and business of the National Dairy Development Board is vested in a Board of Directors, which shall exercise all powers and do all acts and things, which may be exercised or done by the National Dairy Development Board. The Board of Directors replaced the Management Committee and the Executive Committee.

As a result of the 1987 NDDB Act, NDDB reorganised the oil wing into the Project Finance and Management Services group and the Commodity Handling group.

The project covered five States, namely Gujarat, Madhya Pradesh, Andhra Pradesh, Tamil Nadu, and Karnataka under U.S. assistance and two States namely Maharashtra and Orissa and part of Gujarat under Canadian assistance.

The funds under the project are mainly provided to the above mentioned State oil federations for implementation in their respective areas. These funds are used to establish an integrated production, processing and marketing system owned and controlled by the farmers.

For the purpose of expenditure identification, the entire project has been divided into twelve Action items as mentioned below:

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Action Item	1	Processing facilities
"	2	Operation Research & CIS Studies
"	3	Market Research and Testing
"	4	Production Enhancement Program
"	5	Product & Process Development
"	6	Man Power Development
"	7	Management & Project Implementation
"	8	Federation Share Capital (Subscription to Federation Share Capital)
"	9	Procurement Support
"	10	Operation Losses
"	11	Management Training
"	12	Co-operative Development

The project is implemented through State Co-operative Oilseeds Growers' Federations which are an apex body of village level oilseeds growers' co-operative societies. Up to November 1987, the above two tier system was in existence in all the state oil federations. From November 1987 however, in Gujarat State, a three tier system consisting of village level oilseeds growers' co-operative societies and Regional oilseeds growers' co-operative union and the State Co-operative oilseeds growers' federation has been implemented. The other state oil federations may also adopt the three tier system in due course as and when more than one project are implemented in those States.

Implementation of the project commenced in the State of Gujarat in the year 1979-80, followed by Madhya Pradesh in 1980-81, Tamil Nadu in 1981-82, Andhra Pradesh in 1983-84 and Karnataka in 1984-85.

The CLUSA portion of the project covered 12602 villages as of March 31, 1988. The total number of Co-operative Societies formed as of March 31, 1988 was 2593 with a total membership of 309,792.

NDDB (OVOW) initially holds not less than 51% of the share capital of State Co-operative Oilseeds growers federations with further stipulation that certain number of directors on the State Oil Federation Board of directors would be nominated by NDDB (OVOW) thereby ensuring reasonable amount of control over the affairs of each of the state oil federations.

In addition to the use of the sale proceeds of donated soybean oil for expenditure on project items, the interest earned on the loans made to state co-operative oilseeds growers federation and oilseeds growers co-operative societies etc. is separately accounted as Reflows and the Reflow funds are again used for the various Action items under the project in addition to the use in other specific areas mutually agreed upon by NDDB, CLUSA and USAID. These eligible areas have been defined in the Financial policies and procedures Appendix to the Multi-Year Operational Plan. The oilseeds growers co-operative project of NDDB has so far received 159,535 MT of U.S. donated refined soybean oil out of a total approved quantity of 160,000 MT.

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AUDIT OBEJECTIVES AND SCOPE

The overall objective of the examination was to conduct a financial and compliance audit of The National Dairy Development Board /CLUSA/Oil Seeds Growers' Co-operative Project's Statement of the sources and application of funds from sale proceeds of U.S. donated soybean oil and statement of sources and application of Reflow funds for the period from April 1, 1985 to March 31, 1987. The audit included sufficient tests to determine whether the funds were properly accounted for and used as directed by the project agreement and other applicable program documents.

The audit objectives also included a report on the evaluation of existing internal controls in respect of the following:

1. Shipment receipts of U.S. donated soybean Oil;
2. Transportation and Storage;
3. Recoveries of claims for inland losses;
4. Marketing and realisation of sales proceeds and the accounting thereof;
5. Inventories and fixed assets;
6. Internal audit and follow up of the findings and recommendations;
7. Utilisation of funds for implementation of the project;
8. Internal reports and information system; and
9. Accounting system and procedures.

The audit objectives and scope also covered a report on the compliance with the statutes and regulations governing the operation of NDDDB including determination of compliance with relevant AID regulations, The Transfer Authorization Agreement between the Government of the United States of America and the Co-operative League of USA, determination of compliance with the Multi-Year Operational Plan approved by the U.S. Agency for International Development including financial policies and procedures attached therewith and determination of compliance with NDDDB/CLUSA Memorandum of Agreement.

The Audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Government Organizations, Programs, Activities and Functions" (1981 Revision).

The scope of the work performed by us is described below:

- We reviewed the shipping receipts of U.S. donated soybean oil, its transportation and storage, issues for sales,

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quantity reconciliation, verification of year-end physical stock, inland loss, and the recoveries of claims thereof, by examination of the relevant supporting documents.

- We reviewed the receipts, issues, and stock of empty barrels and the year-end physical stock and reconciliation thereof with the relevant supporting documents, such as godown issue vouchers, physical verification certificates etc.
- We reviewed the accounting of proceeds from the sale of U.S. donated soybean Oil in the O.G.C.P. Special Account with the supporting sales invoices, receipt of money and depositing the same in the concerned bank account.
- We reviewed the investments by way of fixed deposits etc. and the accounting of interest thereof.
- We reviewed the disbursement and utilization of funds for various Action items comprising the OGC Project by examining the support documentation such as:
 - Project approvals;
 - Authorization by competent authority;
 - Norms and parameters prescribed;
 - Services rendered;
 - Supplies, materials, furniture, vehicles and equipments;
 - Agreements and guarantees executed for re-payment of loans and advances; and
 - Audited utilization of funds statements.
- We also checked the receipts in respect of re-payments of loans and the accounting thereof.
- We reviewed the receipts and the accounting thereof relating to Reflows account with the supporting documents such as interest calculation statements etc.
- We reviewed and verified the use of project Reflows.
- We verified the compliance by NDDB/OVOW with the applicable laws, regulations and agreements especially relevant AID Regulations, Hand book 9, which governs the donation of commodities under USA Public Law 480 Title II, Transfer Authorization Agreement between the Government of the United States of America and the Co-operative League of USA, Multi-Year Operational Plan and NDDB/CLUSA Memorandum of Agreement.
- During the course of our review, we were alert to situations for transactions that could be indicative of fraud, abuse and illegal expenditure and acts.

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- We reviewed and verified selective transactions involving the generation and use of project funds by Bhavnagar Vegetable Products unit.
- We reviewed the sanctions, agreements, audited statements about utilisation of funds and other relevant documents and papers for advances to Junagadh Unit of Gujarat State Co-operative Oilseeds Growers' Federation. A detailed report on the Junagadh Unit will be submitted separately.

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Results of Audit

For the period April 1, 1985 to March 31, 1987

1. Statement of Sources and Application of funds

The statements of sources and application of funds of NDDB/CLUSA/OGCP for the period April 1, 1985 to March 31, 1986 and for the period April 1, 1986 to March 31, 1987 present fairly the results of operation carried out by the project with the funds generated from the sale of US donated soybean oil except for the matters fully discussed in findings 1 and 2.

2. Internal Control

Our study and evaluation of the internal control system revealed that NDDB's internal auditors (a firm of Chartered Accountants) carried out reviews of all records and procedures. OGCP has established satisfactory internal controls on all aspects. However we found minor weaknesses as fully discussed in findings 4 to 6.

3. Compliance with applicable laws, regulations and agreements

Our study of the applicable agreements that could have an effect on the sources and application of funds of NDDB/CLUSA/OGCP disclosed that OGCP complied with the tested terms of such agreements except as described below:

- i) Treatment of interest on over draft - see finding 1
- ii) Non-transfer of Reflows earnings to Reflows bank account on a timely basis - see finding 4
- iii) Working capital loans to the Idar Union - see finding 7

For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with the applicable laws, regulations and agreements.

4. Reflows Account

i) Statement of Sources and application of funds

The statement of Sources and Application of funds on Reflows account of NDDB/CLUSA/OGCP for the period April 1, 1985 to March 31, 1986 and for the period April 1, 1986 to March 31, 1987, presents fairly the results of operation, except for the matters fully discussed in finding 4.

ii) Internal Control

Our study and evaluation of internal control system revealed that NDDB's internal auditors (a firm of Chartered Accountants) carried out reviews of all records and procedures. OGCP established satisfactory controls on all aspects.

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iii) Compliance with applicable laws, regulations and agreements.

Our study of the applicable agreements that could have an effect on the sources and application of funds of Reflows of NDDDB/CLUSA/OGCP disclosed that OGCP complied with the tested terms of such agreements.

For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with the applicable laws, regulations and agreements.

5. Bhavnagar Vegetable Products Unit

NDDDB is managing Bhavnagar Vegetable Products (BVP) and providing working capital financing to the unit. We visited processing facilities of BVP at Bhavnagar and carried out a limited review of accounting and quantitative records and a limited review of internal controls regarding sales, purchases, receipts and payments etc. for the years 1985-86 and 1986-87.

Our review made for the limited purpose described in the above paragraph would not necessarily disclose all weaknesses in the system of BVP. Accordingly, we do not express an opinion on the system of internal control of BVP taken as a whole or any of the categories of the controls identified in the above paragraph.

6. Management comments

Finding 1: Management and Project Implementation expenses will be reduced by adjusting against interest income.

Finding 2: The Management would take due care in future to record interest receivable from BVP.

Finding 3: Necessary entries will be made for the transfer to the correct Action item.

Finding 4: N.D.D.B has now established a procedure and has started transferring Reflow earnings to Reflows bank account in a timely manner.

Finding 5: N.D.D.B. has now started preparing the annual budget for use of Reflows funds.

Finding 6: Generally, temporary advances are very rare. However, the auditor's recommendation is noted and interest will be charged wherever feasible.

Finding 7: A formal approval of CLUSA will be obtained to include oil Unions also in MYOP to be eligible for direct assistance under the project.



National Dairy Development Board/co-operative League of
the United States/Oilseeds Growers' Co-operative Project

Public Law (PL) 480 Title II Program in India

REPORT ON FUND ACCOUNTABILITY STATEMENTS

Auditor's Opinion

We have examined the sources and application of funds of the National Dairy Development Board (NDDDB)/Co-operative League of USA (CLUSA)/Oilseeds Growers' Co-operative Project (OGCP) enclosed as Exhibit 1 for the period from April 1, 1985 to March 31, 1986 and Exhibit 2 for the period April 1, 1986 to March 31, 1987. The CLUSA portion of NDDDB's oilseeds growers' co-operative project is financed by funds generated from the sale of U.S. donated refined soybean oil under the PL 480 Title II program in India. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Government Organizations, Programs, Activities, and Functions" (1981 Revision). Accordingly, our examination included various tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Separate accounts and records were maintained for the generation and utilisation of funds in respect of the CLUSA portion of the OGCP in accordance with requirements of Multi-Year Operational Plan and the financial policies and procedures attached thereto. The subsidiary records of the project's operations were adequate and the information as per subsidiary records had been reconciled with the records. We reviewed all the necessary documentation for the generation, accounting of the funds and the expenditure thereof on the various Action items comprising the oil seeds growers' co-operative project.

As discussed in finding 1, an amount of Rs.65.03 lakhs representing interest on overdraft loans was treated as an item of expenditure under the Management and Project Implementation Action item in the year 1985-86. Similarly an amount of Rs.23.07 lakhs representing interest on overdraft for the year 1986-87 was included in the Management and Project Implementation Action item. The United States Agency for International Development had approved the payment of interest on overdraft provided the same was debited to interest income for the project rather than expensed as project Action item. (Rs.1 lakh = Rs. 100,000)

As per the Oilseeds and Vegetable Oil Wing Management committee resolution No.1 of 1984-85 dated May 1, 1984, interest on working capital provided to Bhavnagar Vegetable Products unit should be accounted as income to the extent of the surplus (profit) available. As against the total interest due of Rs.130.02 lakhs as of March 31, 1987 the surplus available for the year 1986-87

was Rs.87.28 lakhs. NDDB/OVOW accounted only Rs.36.40 lakhs out of Rs.87.28 lakhs. As discussed in finding 2, NDDB did not recognise the remaining Rs.50.88 lakhs as income for the period ending March 31, 1987.

In our opinion except for the effect of treating the interest on overdraft as an item of expenditure instead of debiting the same to interest income and the failure to recognise interest income from the Bhavnagar Vegetable Products unit as discussed in the immediately preceding two paragraphs, the Sources and Application of funds shown as Exhibits 1 and 2 and their related schedules present fairly the financial position of NDDB/CLUSA Oil Seeds Growers' Co-operative Project and the results of its operations for the period April 1, 1985 to March 31, 1987 in conformity with generally accepted accounting principles. In addition, there are some minor deviations discussed in the Notes to the Financial Statements and discussed in findings 3 and 4 which do not have a material effect on the financial statements.

This report is intended solely for the use of NDDB, CLUSA, and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Inspector General, is a matter of public record.



NDD-LOVOW/CLUSA/OGGP
**SOURCES AND APPLICATION OF FUNDS FROM 1ST APRIL 1985
 TO 31ST MARCH, 1986**

Exhibit No. 2

RUPEES IN LAKHS
 (Conversion rate Rs. 1 lakh equal to Rs. 100,000)

SOURCES	Current period	Cumulative	APPLICATION	Schedule	Current period	Cumulative	
	1st April, 1985 to 31st March, 1986	period 1st July, 1979 to March, 1986			1st April, 1985 to 31st March, 1986	period 1st July, 1979 to 31st March, 1986	
	Rs.	Rs.	Action item				
Sales of donated commodities							
Barham Oil							
Good	1,317.50	12,003.39	Processing Facilities	1	I	1,410.96	4,805.51
Damaged	(145.42)	3.07	Operation Research & CIS Studies	2	II	26.45	50.71
Empty Containers	0.77	16.92	Market Research & Testing	3	III	7.32	14.61
Interest							
a. On Fixed Deposits with Banks							
Received	719.70		Production Enhancement Programme	4	IV	192.31	848.95
Paid on (Overdraft)	(27.24)		Product & Process Development	5	V	1.27	25.49
	692.46	1,099.41	Manpower Development	6	VI	10.82	37.23
b. On Loan to Federation & Others							
	508.96	-	Management & Project Implementation	7	VII	245.34	877.67
	(508.96)**	-	Federation Share Capital	8	VIII	100.00	540.00
c. On Credit Sales of Oil							
	6.78	-	Procurement Support	9	IX	4,857.71	20,961.70
	(19.34)**	-	Operation Losses	10	-	-	-
d. On Bulk Procurement Advances							
	-	7.36	Management Training	11	X	(0.22)	8.17
e. On Delayed lifting of Oil							
	0.24	0.24	Co-operative Development	12	XI	163.52	270.43
Dividend on Investment on Shares of Federations							
	-	3.67	Balances with Bank & Others				
	-	(3.67)**	In Fixed Deposits			(60.00)	2,210.02
Miscellaneous Receipts							
	-	0.91	In Current Account			762.18	127.60
Claims received for losses of Title II Commodities							
	(1.53)	29.28	In Current Account with NDDB			-	-
Fund inflow from repayment of :							
a. Short Term Loan							
	6,121.63	17,274.52	Debit Balances in various Accounts			(38.81)	74.83
b. Long Term Loan							
	43.38	36.98					
Overdraft from Bank (against Fixed Deposit Receipts)							
	(517.50)	-					
Due on current Account with NDDB							
	(51.98)	9.43					
Credit Balances in various accounts							
	231.86	290.81					
TOTAL :	7,678.85	30,792.32	TOTAL :			7,678.85	30,792.32

NOTE : Figures in brackets indicate deductions.

* indicate amounts transferred to Reflows Account during the year.

** indicate amounts transferred to Reflows Account upto 31st March, 1986.

As per our attached report of even date

(Signature)

Schedule 1A

SCHEDULES
FORMING PART OF SOURCES AND APPLICATION OF FUNDS =
PERIOD 1.4.1985 TO 31.3.1986

(RUPEES IN LAKHS)
(Conversion rate Rs. 1 lakh equal to Rs. 100,000)

	Rs.	Rs.
	-----	-----
<u>SCHEDULE = I</u>		
<u>Processing Facilities</u> (Action item - 1)		
<u>Amount disbursed for processing Plant at:</u>		
A.P. Central Oil Mill	100.00	
Jamnagar Oil Project	3.00	
Junagadh Project	98.53	
Idar Cottonseed Complex	40.38	
Dhasa Project	- (19.53)	
Ujjain Soybean Processing Plant	661.64	
Tamil Nadu Tiruvanamali	179.85	
Tamil Nadu Virudhachalam	138.36	
For Renovation at Bhavnagar Vegetable Products Unit	77.47	
Bhavnagar (Various payments as per scheme for take over of BVP Ltd.)	7.49	
Less: Recovery from employee	0.03	

	7.46	1287.16
<u>Amount disbursed for Oil Packaging Station at:</u>		
Tamil Nadu	6.00	
Karnataka	9.13	15.13
Advance given to NDDB for Purchase of Cement, Steel etc.		44.25
Soybean Oil Packaging Unit		0.63
Advance given to NDDB for Tetrapak Project		62.00
Advances to suppliers		1.79

T O T A L		<u>1410.96</u>

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		Schedule 1A
		<u>Rs. in lakhs</u>
<hr/>		
<u>SCHEDULE - II</u>		
<u>Operation Research & CIS Studies</u> (Action item - 2)		
Amount disbursed for system study		4.21
Purchase of equipment		0.79
Cost of Computer for Federation		17.88
Cost of photocopier		0.88
Organisation Study		(0.13)
General		2.68
Computer Recurring expenditure		0.08
	T O T A L	----- 26.45 =====
<hr/>		
<u>SCHEDULE - III</u>		
<u>Market Research & Testing</u> (Action item - 3)		
Other expenses		5.32
Advances to Federation		2.00
	T O T A L	----- 7.32 =====
<hr/>		
<u>SCHEDULE - IV</u>		
<u>PRODUCTION ENHANCEMENT PROGRAMME</u> (Action item - 4)		
Cost of vehicles & Equipment purchased (allotted)		(53.11)
Cost of Films purchased (unallotted)		0.02
Cost of vehicle and equipment purchased and allotted as grant to Oil Federations		24.55
Advances to Oil Federations & Others		199.63
Supply of Seeds to Oil Federation		3.14
Other recurring expenses		18.08
	T O T A L	----- 192.31 =====

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Schedule 1A

Rs. in lakhs

SCHEDULE = V

PRODUCT & PROCESS DEVELOPMENT (Action Item -5)

Other recurring expenses (Salary, travelling exp., Misc. exp. etc.)	0.24
Laboratory OVOW	7.43
Construction of Silos	(6.40)
TOTAL	1.27 =====

SCHEDULE = VI

Manpower Development (Action item -6)

Advance to Oil Federation	1.50
Recurring Expenses	6.17
Vehicle	3.15
T O T A L	10.82 =====

SCHEDULE = VII

Management & Project Implementation (Action Item - 7)

Amount spent for monitoring the project	11.87
Management cost of OVOW establishment	144.22
Expenses incurred by NDDB-OVOW for commodity handling	41.65
Empty Barrel expenses	0.16
Office Building - OVOW	47.13
Films	9.24
Furniture and equipment	0.06
Project Implementation	0.60
Advances to Parties	(9.59)
T O T A L	245.34 =====

Schedule 1A

Rs. in lakhs

SCHEDULE - VIII

Federation Share Capital
(Action item - 8)

Andhra Pradesh State co-operative oilseeds Growers' Federation Ltd.	50.00
Karnataka State Co.Op.Oilseeds Growers' Federation	50.00
T O T A L	100.00

SCHEDULE -IX

Procurement Support
(Action item - 9)

Amount paid to :

Bhavnagar Vegetable Products Unit for working capital	590.00
Gujarat Co-operative Oilseed Growers' Federation Ltd.	1080.00
Madhya Pradesh Co-operative Oilseeds Growers' Federation Ltd.	1850.00
Andhra Pradesh Co-operative Oilseeds Growers' Federation Ltd.	856.00
Sardar Vallabhai Patel Kapsasia Udyog Sahakari Mandal Ltd. - Idar	146.96
Karnataka Oilseeds Growers' Federation Ltd.	48.00
Tamil Nadu Co.op.Oilseeds Growers' Federation Ltd.	286.75
T O T A L	4857.71

SCHEDULE - X
Management Training
(Action item - 11)

Training Expenses	(0.22)
T O T A L	(0.22)

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Schedule 1A

Rs. in lakhs

SCHEDULE - XI

Co-operative Development
(Action item - 12)

Fruits & Vegetable Project (Pilot Project)	7.36
Mother Dairy, Delhi (Fruits & Vegetable project)	162.00
Other Recurring Expenses	0.05
Advances to Regional offices	(5.89)
TOTAL	163.52

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Statement showing Budget and Actuals for the year 1985-86

Rupees in Lakhs
(Conversion rate Rs. 1 lakh to Rs. 100,000)

Items	Budget	Actuals	Variance	Expenditure	Budget	Actual	Variance
	1985-86	1985-86			1985-86	1985-86	
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Estimated surplus as on 1.4.85	1098.00	-	-	A Processing Facilities	1373.00	1410.96	(37.96)
Generation of Funds	1350.00	1864.78	(+) 514.78	B OR & CIS Studies	53.00	26.45	26.55
				C Market Research, of Testing	7.70	7.32	0.38
				D Growers Organisation Technical Input and Production enhancement	247.00	192.31	54.69
				E Product & Process Development	49.80	1.27	48.53
				F Manpower Development	9.00	10.82	(1.82)
				G Project Management	351.40	245.34	106.06
				H Share capital	100.00	100.00	-
				I Management Training	1.50	(0.22)	1.72
				J Co-operative Development	258.80	163.52	95.28
					2451.20	2157.77	293.43
				K Procurement Support and Operation Deficit	(-) 677.00	(-) 1263.92	(+) 586.92
					1774.20		
				Balance	673.80		
					2448.00	893.85	1554.15
	<u>2448.00</u>	<u>1864.78</u>	<u>(+) 514.78</u>		<u>2448.00</u>	<u>893.85</u>	<u>1554.15</u>

NOTE: Figure in bracket indicates deduction.

**National Dairy Development Board/The Co-operative League of USA/Oilseeds Growers' Co-operative Project -
Financial and compliance audit**

**Notes to the statement of sources and application of funds
For the period from April 1, 1985 to March 31, 1986.**

1 Generation of funds:

The statement of sources and application of funds for the period from April 1, 1985 to March 31, 1986 as per Exhibit No.1 gives the generation of funds from the various sources.

The net receipts during the year 1985-86 amounted to Rs.7678.85 lakhs. This is inclusive of Rs.231.86 lakhs representing credit balances in various accounts. The two major credit balances represented amounts due to Reflows account and CUC account. The amount not transferred to Reflows bank account as at the end of the year amounted to Rs.181.64 lakhs. In respect of CUC, the credit balance amounted to Rs.102.30 lakhs.

The sources and application of funds statement also indicated the cumulative generation of funds from the inception of the project, namely from July 1, 1979 to March 31, 1986.

2. Damaged oil:

The receipts from the sale of damaged oil represented up to March 31, 1985, the sale of reconstituted oil (i.e. oil re-filled from leaky drums into good drums) as well as sales of oil unfit for human consumption. It was decided in the year 1985-86 by CLUSA that entire sales of damaged oil should be treated as sales of good oil except for the sale of oil not fit for human consumption. Accordingly, in the year 1985-86, Rs.145.42 lakhs were transferred from damaged oil receipts to good oil receipts. In respect of damaged oil representing sale of soybean oil not fit for human consumption, it was noticed that the sale proceeds were wrongly taken credit in previous years instead of remitting it to the U.S. disbursing officer. This mistake, however, was rectified in the year 1987-88, by depositing the amount of Rs.3.07 lakhs to the U.S. disbursing officer representing the receipts up to March 31, 1987.

3 Application of funds:

The application of funds on the various Action items from 1 to 12 had been presented in the statement of sources and application of funds for the period from April 1, 1985 to March 31, 1986 and cumulative from July 1, 1979 to March 31, 1986. The major areas of expenditures pertained to the following Action items:

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a Action item 1 : Processing facilities:

The expenditure under this item represented loans and advances made to federations and others either for purchasing, renovating existing facilities or for construction of new facilities. All expenditure incurred should be within the sanctioned limits and all expenditure by the federations should be supported by duly audited utilization statements which would be duly scrutinised and admitted before releasing further instalment of advance.

Though the advances given to the federations and others were to be bifurcated into loan and grant portion in the proportion of 70% loan and 30% grant, by issuing separate sanction letter by the Management Committee, this was not formally allocated in most of the cases.

We have examined the effect on the generation of funds by way of loss of interest, by the delay in classifying the advances into loan and grant portion and came to the conclusion that there would not be any adverse effect on the generation of funds for the following reasons:

- i) There would be a moratorium period of five years from the date of advance during which interest at 8.5% per annum compounded half yearly would be capitalised.
- ii) The repayments of loan and interest would be in thirty equal half yearly instalments after the moratorium period.

b Action item 4 : Production Enhancement

- i) The expenditure under Action item 4 represented mainly expenditure by the federation both for capital and recurring costs incurred for area agronomic centres, district farms, grants to village co-operatives for management subsidies, production incentives, demonstration subsidies, testing and weighing equipment, storage and related facilities, contracts for research and training, community plant protection program and office and transport facilities for mobile teams etc.
- ii) The total expenditure under Action item 4 during the year amounted to Rs.192.31 lakhs. This figure was arrived at after adjusting Rs.53.11 lakhs representing cost of vehicles and equipments purchased earlier allotted to federations in 1985-86. The cumulative expenditure under Action item 4 to March 31, 1986 amounted to Rs.848.95 lakhs. This consisted of loans, grants, advances and general expenditure. So far Rs.22.24 lakhs had been treated as loan, Rs.193.65

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lakhs had been treated as grant and Rs.533.87 lakhs had been treated as advance to be classified later.

c Action item 5 : Product and Process Development

- i) The net expenditure under Action item 5 amounted to Rs.1.27 lakhs. This was arrived at after the transfer of Rs.6.40 lakhs to the Co-operative Union of Canada. The amount of Rs.6.40 lakhs represented the CUC portion of the expenditure incurred on the construction of silos in the year 1984-85.
- ii) Further in the year 1985-86, OVOW reimbursed to NDDB Rs.7.00 lakhs representing expenditure on OVOW laboratory. This expenditure should have been apportioned between CLUSA and CUC in the ratio of 6:1. This was not done. Instead the entire amount of Rs.7.00 lakhs was charged under Action item 5. Even though the mistake was rectified in the year 1986-87, as far as the expenditure for the year 1985-86 was concerned, there was excess booking to the extent of Rs.1.00 lakh attributable to the CUC portion.

d Action item 7 : Management and Project Implementation

- i) The net expenditure under Action item 7 for the year 1985-86 amounted to Rs.245.34 lakhs. The cumulative expenditure from inception to March 31, 1986, was Rs.877.67 lakhs. The amount of Rs,245.34 lakhs included Rs,144.22 lakhs representing the management cost of OVOW establishment. Two major items considered in arriving at the net figure of Rs.144.22 lakhs were -
 - a) Interest on overdraft - Rs.65.03 lakhs
 - b) NDDB Service Fee - Rs.87.53 lakhs

There were other items such as (i) salaries of staff, (ii) recurring expenses, etc. In these two specific cases at (i) and (ii) the net figure was negative (credit) because of transfers and adjustments. After adjusting various credits, the net expenditure amounted to Rs.144.22 lakhs.

- ii) The service fee of Rs.87.53 lakhs represented 3% fee on certain expenditure under Action items 1 & 4 for the period April 1984 to December 1985 paid to NDDB.
- iii) The Management and Project Implementation for the year 1985-86 included expenditure on a new office building for OVOW amounting to Rs.47.13 lakhs. The cumulative expenditure on office building as of March 31, 1986 amounted to Rs.89.88 lakhs.

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iv) Expenditure under Management and Project Implementation also included Rs.9.24 lakhs representing the cost of two films (1) "Sangatha" (groundnut) and (2) "Vardha"(Soybean). This was first charged to Action item 4 but later transferred to Action Item 7 in the same year. In the year 1986-87 the above expenditure was again transferred to Action item 4. The expenditure should have been booked in Action item 4 only in the year 1985-86, which was the correct Action item.

e Action item 8 : Federation Share Capital:

The current period investments under this Action item amounted to Rs.100.00 lakhs (the cumulative to March 1986 Rs.540.00 lakhs), Rs.50.00 lakhs to Andhra Pradesh State Cooperative Oil Seeds Growers Federation and Rs.50.00 lakhs to Karnataka State Cooperative Oil Seeds Growers' Federation.

f Action item 9 : Procurement Support:

i) The amount disbursed as working capital during the year to the five State Oil Federations, Idar Regional Union and Bhavnagar Vegetable Products Unit amounted to Rs.4857.71 lakhs. During the same period the amount received as re-payment of loans worked out to Rs6121.63 lakhs.

ii) The cumulative disbursement under Procurement Support till March 31, 1986 was Rs.20961.10 lakhs and the cumulative re-payment for the same period amounted to Rs.17274.52 lakhs. Thus the net amount that remained outstanding as of March 31, 1986 amounted to Rs.3686.58 lakhs. The working capital disbursed to federations under procurement support was in the form of short term loans repayable within a period of 10 months. The normal rate of interest was 10.5% with provision for payment of penal interest at 2% in case of default and late payments.

9 Action item 12 : Cooperative Development

The net expenditure under Cooperative Development during the year was Rs.163.52 lakhs while the cumulative expenditure till March 31, 1986 was Rs,210.43 lakhs. The major expenditure(Rs.162.00 lakhs) pertained to the fruits and vegetable project of Mother Dairy, Delhi.

The expenditure during the year under Cooperative Development also included Rs.7.36 lakhs on Fruits and Vegetables Pilot Project, DARjeeling, cumulative expenditure under the project was Rs.18.23 lakhs as of March 31, 1986. As the project was not found feasible, it had been discontinued after March 31, 1986.

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h General: Out of a total generation/receipt of Rs.30792.32 lakhs as of March 31, 1986, Rs.28379.87 lakhs were expended on various Action items and the balance Rs.2412.45 lakhs was represented by

1) Fixed deposits	Rs.2210.02 lakhs
2) Balance in Current Account	Rs. 127.60 lakhs
3) Debit balance in various accounts	Rs. 74.83 lakhs

	Rs.2412.45 lakhs
	=====

4 Annual Budget - Schedule 1B

- i) The Management Committee at its meeting held on January 16, 1985 approved the budget estimates for 1985-86. Later, the Management Committee at its meeting held on May 16, 1986 confirmed the Resolution No.27 circulated among members on March 26. Resolution No.27 pertained to the revised estimates for 1985-86 and the budget estimates for 1986-87. In the revised budget the surplus as of April 1, 1985 was estimated at Rs.1098.00 lakhs and the receipts from generation of funds were estimated at Rs.1350.00 lakhs. The actual receipts from generation of funds amounted to Rs.1864.78 lakhs. As the refiow receipts were accounted separately, these had not been considered in the annual budget. The variance in respect of receipts between the budget and actuals amounted to Rs. (+)514.78 lakhs. This gave a percentage variance of 38.13%.
- ii) As regards the variances between the budget and the actuals, the most marked difference was in respect of procurement support. Whereas an excess of inflow over outflow was estimated at Rs.677.00 lakhs, the actual excess inflow was to the extent of Rs.1263.93 lakhs giving a variance of Rs.586.92 lakhs (86.69%). Overall against the budgeted expenditure of Rs.1774.20 lakhs, the actual expenditure was Rs.893.85 lakhs giving a variance of Rs.880.35 lakhs (49.69%).
- iii) Thus in the overall budget the variances were of the order of Rs.1395.00 lakhs. In this, both inflow and outflow contributed. The additional inflow was mainly on account of larger re-payments than estimated and comparatively higher interest income on fixed deposits. Regarding outflow, the major shortfall in the application of funds was in payment for procurement support.

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SOURCES AND APPLICATION OF FUNDS FROM 1.4.86 TO 31.3.87

RUPEES IN LAKHS
(Conversion rate Rs. 1 lakh equal to Rs. 100,000)

C.C. CHOKSHI & CO.
CHARTERED ACCOUNTANTS

SOURCES	Current period	Cumulative period	A P P L I C A T I O N	Sche- dule	Current period	Cumulative period	
	1.4.86 to 31.3.87	1.7.79 to 31.3.87			1.4.86 to 31.3.87	1.7.79 to 31.3.87	
	Rs.	Rs.	Action item		Rs.	Rs.	
Sales of donated commodities							
<u>Sourhan Oil</u>							
Good	941.03	12,944.42	Processing Facilities	1	I	920.82	5,726.33
Damaged	-	3.07	Operation Research & CIS Studies	2	II	32.29	83.00
Empty Containers	0.29	17.21	Market Research & Testing	3	III	13.88	28.49
<u>Interest</u>							
a. On Fixed Deposits with Banks Received	257.61	1,357.02	Production Enhancement Programme	4	IV	298.09	1,137.04
b. On advance for Commercial Import of Oil	8.25	8.25	Product & Process Development	5	V	20.70	46.19
c. On loan to Federation & Others	369.85 (369.85)*	-	Manpower Development	6	VI	5.69	42.92
d. On Credit Sales of Oil	3.04 (3.04)*	-	Management & Project Implementation	7	VII	170.58	1,048.25
e. On Bulk Procurement Advances	-	7.36	Federation Share Capital	8	VIII	75.00	615.00
f. On Delayed lifting of Oil	0.44	0.68	Procurement Support	9	IX	3,025.80	23,986.90
g. On Long Term Loan	3.95	3.95	Operation Losses	10	-	-	-
Dividend on Investment on Shares of Federations	-	3.67 (3.67)*	Management Training	11	X	0.48	6.63
Miscellaneous Receipts	0.02	0.93	Co-operative Development	12	XI	33.44	243.87
Claims received for losses of commodities	0.20	29.48	<u>Balance with Bank & Others</u>				
Fund inflow from repayment of :			Fixed Deposits			1,480.00	3,690.02
a. Short Term Loan	5,419.34	22,693.86	Current Account			(181.30)	(53.70)
b. Long Term Loan	6.83	63.81	Debit balance			599.15	673.98
Due on Current Account with NHBB	3.71	13.14					
Credit balances	(157.05)	133.76					
TOTAL	6,484.62	37,276.94	TOTAL			6,484.62	37,276.94

NOTE : Figures in brackets indicate deduction.

* indicate amounts transferred to Reflow Account during the year

As per our attached Report of even date.

Schedule, 2A

SCHEDULES
FORMING PART OF SOURCES AND APPLICATION OF FUNDS -
PERIOD 1.4.1986 TO 31.3.1987

(RUPEES IN LAKHS)
(Conversion rate Rs. 1 lakh equal to Rs. 100,000)

	Rs.	Rs.
	-----	-----
SCHEDULE - I		
<u>Processing Facilities</u> (Action item - 1)		
<u>Amount disbursed for processing Plant at:</u>		
A.P. Central Oil Mill	226.00	
Idar Cottonseed Complex	5.00	
Karnataka - CP Plant Hospet	189.00	
Ujjain Soybean Processing Plant	430.08	
Tamil Nadu Tiruvanamali	94.85	
Tamil Nadu Virudhachalam	25.00	
Bhavnagar (Various payments as per scheme for take over of BVP Ltd.)	3.43	
	-----	973.36
<u>Amount disbursed for Oil Packaging Station at:</u>		
Tamil Nadu	1.50	
Andra Pradesh	4.00	5.50
Advance given to NDDB for Purchase of Steel		5.58
Advance given to NDDB for Tetrapak Project		(62.00)
Advances to suppliers		(2.96)
Transport facility (KOF)		1.34

T O T A L		920.82
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Schedule 2A

Rs. in lakhs

SCHEDULE - II

<u>Operation Research & CIS Studies</u> (Action item - 2)	
Amount disbursed for system study	1.98
Purchase of equipment	(0.81)
Cost of Computer for Federation	17.71
General	6.60
Computer Recurring expenditure	3.29
Books	0.03
MIS exp.reimbursed to Federation on Grant	4.70
Advance to suppliers to Federation	(1.21)
T O T A L	<u>32.29</u> =====

SCHEDULE - III

<u>Market Research & Testing</u> (Action item - 3)	
Other expenses	3.80
Advances to Federat on	10.08
T O T A L	<u>13.88</u> =====

SCHEDULE - IV

<u>PRODUCTION ENHANCEMENT PROGRAMME</u> (Action item - 4)	
Cost of vehicles & Equipment purchased (unallotted)	37.47
Cost of vehicles and equipment purchased and storage allotted as loan and grant to Oil Federations	18.41
Advances to Oil Federations & Others	118.29
Supply of Seeds to Oil Federation	(2.68)
Other recurring expenses	22.04
Revenue Grant allotted to Federation	94.56
T O T A L	<u>268.09</u>

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Schedule 2A

Rs. in lakhs

SCHEDULE - V
PRODUCT & PROCESS DEVELOPMENT
(Action Item -5)

Other recurring expenses (Salary, travelling exp., Misc. exp. etc.)	2.26
Laboratory OVOW	15.28
Advance to supplier	3.16
T O T A L	20.70 =====

SCHEDULE - VI

Manpower Development
(Action item -6)

Advance to Oil Federation/suppliers	2.92
Recurring Expenses	2.77
T O T A L	5.69 =====

SCHEDULE - VII

Management & Project Implementation
(Action Item - 7)

Amount spent for monitoring the project	15.98
Management cost of OVOW establishment	71.88
Expenses incurred by NDDDB-OVOW for commodity handling	84.42
Empty Barrel expenses	0.25
Films	(9.24)
Furniture & equipment	1.28
Project Implementation	1.40
Advances to Parties	4.61
T O T A L .	170.58 =====

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Schedule 2A

Rs. in lakhs

SCHEDULE - VIII

Federation - Share Capital
(Action item - 8)

Andhra Pradesh State co-operative oilseeds Growers' Federation Ltd.	50.00
Karnataka State Co.Op.Oilseeds Growers' Federation	25.00
T O T A L	75.00

SCHEDULE -IX

Procurement Support
(Action item - 9)

Amount paid to :

Bhavnagar Vegetable Products Unit for working capital	911.55
Gujarat Co-operative Oilseed Growers' Federation Ltd.	820.00
Madhya Pradesh Co-operative Oilseeds Growers' Federation Ltd.	100.00
Andhra Pradesh Co-operative Oilseeds Growers' Federation Ltd.	220.00
Sardar Vallabhai Patel Kapasia Udyog Sahakari Mandal Ltd. - Idar	66.00
Karnataka Oilseeds Growers' Federation Ltd.	370.00
Tamil Nadu Co.op.Oilseeds Growers' Federation Ltd.	538.25
T O T A L	3025.80

SCHEDULE - X
Management Training
(Action item - 11)

Advance to IRMA	0.48
T O T A L	0.48

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Schedule 2A

Rs. in lakhs

SCHEDULE - XI

Co-operative Development
(Action item - 12)

Mirik Society Pilot Project (F & V Project)	3.50
Mother Dairy, Delhi (F & V Project)	24.00
Other Recurring Expenses	0.05
Payment released to Regional offices	5.89
T O T A L	33.44

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Schedule 2B

Statement showing the Budget and Actuals for the year 1986-87

Rupees in Lakhs
(Conversion rate Rs. 1 lakh to Rs. 100,000)

Income	Budget	Actuals	Variance	Expenditure	Budget	Actual	Variance
	1986-87	1986-87			1986-87	1986-87	
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Estimated surplus as on 1.4.86	2049.28	-	-	A Processing Facilities	945.13	920.02	(24.51)
Generation of Funds	947.51	1207.84	(+) 260.33	B OR & CIS Studies	55.16	32.29	(22.87)
				C Market Research, Testing	69.61	13.08	(55.73)
				D Growers Organisation Technical input and Production enhancement	520.67	288.09	(232.58)
				E Product & Process Development	33.27	20.70	(12.57)
				F Manpower Development	40.90	5.69	(35.21)
				G Project Management	274.69	170.58	(104.11)
				H Share capital	75.00	75.00	-
				I Management Training	0.58	0.48	(0.10)
				J Co-operative Development	56.47	27.50	(28.97)
				K Others	5.00	5.34	0.94
					2076.48	1560.97	(-) 515.51
				L Procurement Support and Operation Deficit	(-) 956.57	(-) 2393.54	1436.97
					1119.91		
				Balance	1876.88		
	<u>2996.79</u>	<u>1207.84</u>	<u>(+) 260.33</u>		<u>2996.79</u>	<u>832.57</u>	<u>1952.48</u>

NOTE : Figure in bracket indicates deduction.

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National Dairy Development Board/The Co-operative League of USA/Oilseeds Growers' Co-operative Project - Financial and compliance audit. Notes to the statement of sources and application of funds for the period from April 1, 1986 to March 31, 1987.

1 Generation of funds:

- i) The statement of sources and application of funds for the period from April 1, 1986 to March 31, 1987 as per exhibit 2 presented the generation of funds from the various sources including rotation of funds through repayments etc.
- ii) The interest on long term loan amounting to Rs.3.95 lakhs was of the nature of Reflow and should have been transferred to Reflows account. This was not done in the year 1986-87. This amount was however transferred to Reflow account on 11.10.87 (1987-88).
- iii) The interest earned on advance from commercial import of oil was Rs.8.25 lakhs in respect of money advanced from OGCP Special fund. The interest was charged at the rate of 18% per annum. The principal amount advanced from OGCP Special fund was Rs.607.00 lakhs.
- iv) In addition to the above, an advance of Rs.618.00 lakhs was made from Reflows account for commercial imports. The interest earned on this at 18% per annum was Rs.8.32 lakhs. This was transferred to Reflows account as required.

2 Use of CLUSA funds for commercial import of oil:

- i) It was decided with the approval of the Government of India, that NDDB/OVOW would make commercial imports of oil from United States and Canada for issue to the State Oil Federations. In this connection, it was further decided to utilise the funds of CLUSA and CUC. For use of CLUSA funds, approval was obtained from CLUSA(India) through a Telex message of Mr.Carter dated December 8, 1986 in which it was stated that in the approved Multi-Year Operational Plan, Revolving account section, explicit reference was made to commercial imports of oil and therefore use of Revolving fund sources would have defacto USAID approval. Further, it was stated that the funds in Reflows account might be drawn first and the balance if any required from the greater Revolving Fund.

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ii) The Chairman, Management Committee, approved the use of project funds as well as Reflow funds for the purpose of commercial imports of oil (department memo October 21, 1986). The approval of the Chairman was subject to the following terms.

" a) to account for the interest, the funds drawn from Project account and Reflows account will be repaid with interest @ 18% per annum to the concerned account.

b) the service charges @ 3% will be accounted to Reflows account.

c) surplus i.e. difference between the issue price and the cost price will be accounted in the Reflows account. However, the usage of such surplus would be determined by the OVOW management only."

iii) As mentioned earlier, the interest on the funds drawn from Project account and Reflows account had been accounted in the year 1986-87. However, the 3% service charges were calculated and accounted only in the year 1987-88.

3 Application of funds:

The application of funds on the various Action items 1 to 12 had been presented in the statement of sources and application of funds for the year April 1, 1986 to March 31, 1987 and also for the cumulative period from July 1, 1979 to March 31, 1987. The major areas of expenditure had been analysed as below.

a) Action item 1

Processing facilities:

i) Processing facilities represented expenditure by way of advance, loan and grant to federations and others for the purpose of either purchasing, renovating existing facilities, or for establishing new facilities. Any expenditure incurred under this Action item should be within the sanctioned limits. Further all expenditures by federations in this regard should be supported by duly audited utilization statements. The audited expenditure statements would be scrutinised by OVOW and admitted to the extent covered by the approved project in this regard. The expenditure under each

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project should be in accordance with the project estimates or revised estimates as the case may be. Occasionally, the original sanctioned limits were revised to allow for the escalation in cost etc.

- ii) The advance given to federations would bear interest from the date, it was released. After the receipt of the audited expenditure statement by OVOW and after necessary scrutiny, the OVOW would issue a letter admitting the expenditure to the extent allowed and also detail out the items not admitted and the reasons thereof. After the project is completed a sanction letter indicating the loan and grant portion would be issued to the federation.
- iii) In the year 1986-87 no new sanction letters for loans and grants had been issued.
- iv) In 1986-87, an amount of Rs.63.20 lakhs paid to NDDDB in 1985-86 for setting up the Tetra Packaging Plant at Bombay, was refunded to OVOW. The machinery imported for the Tetra Packaging Plant was transferred at cost to the Indian Dairy Corporation.

b) Action item 4 (Production enhancement):

- i) The expenditure under Action item 4 during the year amounted to Rs.288.09 lakhs, while the cumulative expenditure as of March 31, 1987 amounted to Rs.1137.04 lakhs. The advances to oil federations and others during the year were to the extent of Rs.118.29 lakhs and revenue grant allotted to the federations was Rs.94.56 lakhs. As in the case of processing facilities, audited utilization statements were received from the federations in respect of advances given to them. These utilization statements after necessary scrutiny by OVOW with the project proposals were admitted to the extent allowable.
- ii) As of March 31, 1987, the sanction letters were issued to the federations in respect of loans and grants under Action item 4 to the extent given below:

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Position of Loans, grants and advances
under Action item 4 as of March 31, 1987

(Rupees in lakhs)

Sr. No.	Name of the Federation	Advances	Loans	Grants	Total
1.	Gujarat State Oilseeds Growers' Co-operative Project	271.85	8.12	121.23	401.20
2.	Madhya Pradesh Oilseeds Growers' Co-operative Project	216.28	2.83	23.38	242.49
3.	Tamil Nadu Co-operative Oilseeds Growers' Project	118.50	3.14	9.26	130.90
4.	Andhra Pradesh Co-operative Oilseeds Growers' Project	36.54	12.35	98.21	147.10
5.	Karnataka State Co-operative Oilseeds Growers' Project	50.26	3.82	35.45	89.53
		693.43	30.26	287.53	1011.22

The advances of Rs.693.43 lakhs remained to be bifurcated between loans and grants.

c) Action item 7 (Management and Project Implementation)

- i) The two major items of expenditure incurred under this Action item pertained to the management cost of OVOW establishment (Rs.71.88 lakhs) and expenses incurred by NDDB/OVOW for commodity handling (Rs.84.42 lakhs).
- ii) The management cost of OVOW establishment for the year 1986-87 also included Rs.20.25 lakhs as 3% service fee paid to NDDB for the period January, 1986 to June, 1986. (generally related to the disbursement to the federation/union under Action items 1 and 4).

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d) Action item 8 (Federation Share Capital):

The contribution to the share capital of State Oil Federations made during year 1986-87 was Rs.75.00 lakhs. Out of this Rs.50.00 lakhs were given to Andhra Pradesh State Co-operative Oilseeds Growers' Federation and Rs.25.00 lakhs to Karnataka State Co-operative Oilseeds Growers' Federation. The cumulative share capital contribution as of March 31, 1987 was Rs.615.00 lakhs.

e) Action item 9 (Procurement support)

During the year the total funds advanced for procurement support were Rs.3025.80 lakhs. This was disbursed to the five State Oil Federations and also to Bhavnagar Vegetable Products Unit and Sardar Vallabhai Patel Kapasia Udyog Sahakari Mandal Ltd., Idar. During the same period the amount received as repayment was Rs.5419.34 lakhs. The total procurement support provided up to March 31, 1987 was Rs.23986.90 lakhs and the total repayment received up to March 31, 1987 was Rs.22693.86 lakhs. The net amount that remained outstanding as of March 31, 1987 was Rs.1293.04 lakhs.

f) Action item 12 (Co-operative Development)

The expenditure incurred under Action item 12, during the year 1986-87 was Rs. 23.44 lakhs. The cumulative expenditure under this Action item as of March 31, 1987 was Rs. 243.87 lakhs. The major expenditure incurred under co-operative development during the year was in respect of the Fruits and Vegetables Project of Mother Dairy, Delhi (Rs. 24.00 lakhs). The expenditure under this Action item also included Rs. 3.50 lakhs for Fruits and Vegetables Project of Mirik Society Dargeling. The pilot project was discontinued in the year 1985-86. The total expenditure incurred as of March 31, 1987 was Rs. 21.73 lakhs.

g) General:

The total availability from different sources and plough back of repayments as of March 31, 1987 was Rs.37276.94 lakhs. Out of this, Rs.32,986.74 lakhs (Gross) were expended on various Action items and the balance of Rs. 4310.30 lakhs was represented by

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i) Fixed deposits	Rs.3,690.02	lakhs
ii) Debit balances	Rs. 673.98	"

	Rs.4,364.00	"
Less: Bank overdraft	Rs. 53.70	"

	Rs.4,310.30	"
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The total disbursement included generated funds and funds available from repayment.

4 Annual Budget : Schedule 2B.

- i) At the 23rd Meeting of the Management Committee held on May 16, 1986 the Management Committee confirmed the resolution No.27 circulated among members in March, 1986. Resolution No.27 pertained to the revised estimates for 1985-86 and the budget estimates (original) for 1986-87. However, at the 24th meeting of the Management Committee held on March 23, 1987, the revised estimates for 1986-87 were approved and this has been taken as a base document for consideration. In the revised estimates the surplus as of April 1, 1986 was estimated at Rs,2049.28 lakhs. Further, the generation of funds was determined at Rs.947.51 lakhs. since the Reflows receipts were accounted separately, these had not been considered in the annual budget. The actual receipts from generation of funds amounted to Rs.1207.84 lakhs. The variance between budget and the actual was Rs.(+) 260.33 lakhs. The variance in terms of percentage was 27.47%.
- ii) In respect of expenditure, the variance between the budget and the actuals was substantial in respect of Action items 4, 7, 9 and 12. In the case of Action item 4, as against the budgeted figure of Rs.520.67 lakhs, the actuals amounted to Rs.288.09 lakhs (difference of Rs.232.58 lakhs). This gives a percentage difference of 44.67%. In respect of project Management and Implementation, as against the budgeted figure of Rs,274,69 lakhs, the actual amounted to Rs,170.58 lakhs (difference of Rs,104.11 lakhs). The percentage difference worked out to 37.90%.
- iii) In the case of procurement support, as against the budgeted figure of Rs,(-) 956.57 lakhs net (excess of inflow over Outflow) the actuals amounted to Rs.(-)2393.54 lakhs net. The difference in this case was as much as Rs.1436.97 lakhs. In terms of percentage, the variance amounted to 150.22%. In respect of Co-operative development, as against the budgeted figure of Rs.56.47 lakhs the actual expenditure was Rs.27.50 lakhs.

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iv) Overall against the budgeted expenditure of Rs.1119.91 lakhs, the actual expenditure was (-) Rs.832.57 lakhs giving a variance of Rs.1952.48 lakhs. This unusual situation arose on account of heavy inflow of funds from the procurement support as against the Outflow anticipated.

5 U.S donated soybean Oil Stock verification

On September 1, 1988 we carried out a physical verification of stock of imported soybean Oil (CLUSA) lying at Maharashtra State Warehousing Corporation, Thane, Bombay as of August 31, 1988. The total number of barrels with oil was 13665. There were two empty barrels. The number of barrels physically verified tallied with the number of barrels as per godown register and also as per stock ledger maintained by NDDB.

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1. Finding Title: Interest expenses charged incorrectly
as a project Action item

Condition:

NDDB incurred interest expenses for overdraft loans amounting to Rs.65.03 lakhs in 1985-86 and Rs.23.07 lakhs in 1986-87. NDDB charged these interest expenses to the Management and Project Implementation expense category (Action item 7) instead of charging the interest as a debit against the interest income for the project.

Criteria:

The United States Agency for International Development in their letter dated February 20, 1985 addressed to Mr. John M. Wingard of CLUSA, India, had approved the payment of interest on overdraft as a debit against the interest income for the project, subject to the further conditions specified in USAID's, April 30, 1984 letter. These conditions were:

- a) Sufficient funds were not otherwise available.
- b) The funds so borrowed were expended for project budget line items to meet the project objectives, and
- c) Such interest cost did not exceed the interest income from bank deposits during the project year.

Thus as per USAID's approval, overdraft interest was to be debited to interest income. Payment of interest on overdraft is not a separate item of project expenditure envisioned in the Multi-Year Operational Plan. No such expenditure had been budgeted.

Cause:

Accounting personnel did not understand that overdraft interest expense should be charged as an offset against interest income rather than as an approved expenditure against a project Action item.

Effect:

Sales proceeds of U.S. donated soybean oil were used for an unauthorised payment of interest expenses, amounting to RS.88.10 lakhs. Therefore, Rs.88.10 lakhs should be made available for authorized project action item expenditures.

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Recommendation:

We recommend that NDDB should:

- a) reduce the Management and Project Implementation expense category by Rs.88.10 lakhs and offset this same amount against interest income; and
- b) instruct its Accounting personnel on the proper accountability for interest expense on overdraft loans.

Management Comments:

Management and Project Implementation expenses will be reduced by adjusting against interest income.



2. **Finding Title:** NDDB did not account for interest income generated from working capital loans to The Bhavnagar Vegetable Products Unit

Condition:

As of March 31, 1987, the Bhavnagar Vegetable Products Unit (BVP) owed NDDB interest on working capital loans amounting to Rs.130.02 lakhs which consisted of Rs.36.40 lakhs for 1986-87 and Rs.93.62 lakhs for prior years. NDDB decided that it would recognize this interest receivable from Bhavnagar to the extent that Bhavnagar showed a profit for the year. Although Bhavnagar showed a profit for 1986-87 amounting to Rs.87.28 lakhs, NDDB only recorded a receivable of Rs.36.40 lakhs instead of the Rs.87.28 lakhs profit for the year. In effect, NDDB did not account for the Rs.50.88 lakhs as a receivable owed to NDDB by BVP.

Criteria:

As per OVOW Management Committee resolution No.1 of 1984-85 dated May 1, 1984 interest on working capital provided to BVP should be recovered to the extent of the profit available in the year. This interest on working capital was to be recovered from January 20, 1981.

Cause:

NDDB's Internal controls were not adequate for ensuring that NDDB established a receivable entry on NDDB's accounting records for interest due from BVP based on BVP's surplus generated during the year. NDDB accounting personnel were not aware that interest from prior years owed to NDDB by BVP should be accounted for because NDDB had not established an accounting entry for the Rs.93.62 lakhs for prior years interest.

Effect:

NDDB's financial statements for 1986-87 did not recognize interest income of Rs.50.88 lakhs owed by BVP. After the Auditors brought this matter to their attention in August 1988, NDDB recorded in their 1988 statements Rs.50.88 lakhs as interest income owed by BVP.

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Recommendation

We recommend that NDDB

- a) establish an accounting entry on NDDB accounting records which recognizes interest receivable from BVP when it accrues, and
- b) establish procedures to ensure that interest receivable from BVP is recorded as income when BVP generates a profit.

Management Comments:

The management would take due care in future to record interest receivable from BVP.

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3. Finding Title : Need to recategorise expenditure

Condition:

The Bangalore office of NDDB incurred on behalf of OVOW an expenditure of Rs.1271.75 in the month of December, 1985 representing tour expenses of Mr. Singarao AE to Hyderabad, Kolhapur, Khamman to assess fund requirements for Kharif '85 procurements. The expenditure was included under production enhancement program Action item rather than the Management and Project Implementation Action item.

Criteria:

The MYOP specifies that salaries and allowances of staff for monitoring and appraisal should be charged to the Management and Project Implementation Action item.

Effect:

The expenditures for the production enhancement Action item was overstated and the expenditures for the Management and Project Implementation Action item was understated by Rs,1271.75.

Cause:

The mistake was caused by a wrong categorisation of the nature of expenditure by Project and Accounting personnel.

Recommendation:

We recommend that NDDB transfer the Rs,1271.75 expenditure for the tour expenses from the Production enhancement Action item to the Management and Project Implementation Action item.

Management Comments:

Necessary entries will be made for the transfer to the correct Action item.

Note: Rs. 1 lakh = Rs. 100,000

NDDDB/CLUSA/OGCP REFLAWS ACCOUNT

Report on fund accountability for the period
from April 1, 1985 to March 31, 1987

Auditor's Opinion

We have examined the sources and application of funds of Reflows account of the National Dairy Development Board/Co-operative League of USA/Oilseeds Growers' Co-operative Project enclosed as Exhibit 3 for the period April 1, 1985 to March 31, 1986 and Exhibit 4 for the period April 1, 1986 to March 31, 1987. Reflows are not a direct generation from the sale of donated oil but constitute additional resources which result from efficient management of project resources. Our examination was made in accordance with the generally accepted auditing standards and the US Comptroller General's "Standards for Audit of Government Organizations, Programs, Activities and Functions" (1981 Revision). Accordingly, our examination included various tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Separate accounts and records were maintained for the generation and utilization of funds in respect of Reflows of the CLUSA portion of the OGCP in accordance with the Multi-Year Operational Plan and the financial policies and procedures attached thereto. The subsidiary records of the project's operations were adequate and the information as per subsidiary records had been reconciled with the records. We reviewed all the necessary documentation for the generation, accounting of funds and the expenditure thereof on the various items.

In our opinion, the sources and application of funds shown as Exhibits 3 and 4 present fairly the financial position of Reflows of NDDDB/CLUSA/Oilseeds Growers' Co-operative Project and the results of its operations for the period April 1, 1985 to March 31, 1987 in conformity with the generally accepted accounting principles.

This report is intended solely for the use of NDDDB, CLUSA, and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Inspector General, is a matter of public record.



Exhibit No.3

NATIONAL DAIRY DEVELOPMENT BOARD, ANAND

OILSEEDS & VEGETABLE OIL WING

SOURCES AND APPLICATION OF FUND OF NDDDB-CLUSA REFLAWS
ACCOUNT AS OF MARCH 31, 1986.

(RUPEES IN LAKHS)

(Conversion rate Rs. 1 lakh equal to Rs. 100,000)

	Rs.	Rs.
<u>SOURCES OF FUND</u>		
Transferred from CLUSA OGCP :		
a) Interest on Revolving Fund	1093.73	
b) Interest on Credit Sales	19.34	
c) Dividend on shares	3.67	
d) Interest on Fixed Deposit with Banks	22.85	
	-----	1139.59
Less: Due from (CLUSA) OGCP	181.64	
FDRs with Bank	820.00	
	-----	1001.64

Balance as per Bank statement		137.95
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Notes to the Statement of Sources and Applications of funds for
the Reflows Account for the period ending March 31, 1986.

1. The accounting procedures prescribed in the financial policies and procedures attached to the Multi-Year Operational Plan laid down that all receipts identifiable as Reflows, should be accounted for separately and should be deposited in a separate Reflows bank account. However, this requirement of separate accounting and a separate bank account did not start until the year 1984-85.
2. As regards application of Reflow funds, it is to be stated that during the year 1985-86 there was no utilization of Reflow funds.

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Exhibit No.4

NDDB/CLUSA/OGCP

SOURCES AND APPLICATION OF FUND OF NDDB-CLUSA REFLAWS
ACCOUNT AS OF MARCH 31, 1987.

(RUPEES IN LAKHS)
(Conversion rate Rs. 1 lakh equal to Rs. 100,000)

	Rs.	Rs.
<u>SOURCES OF FUND</u>		
Transferred from CLUSA OGCP :		
a) Interest on Revolving Fund	1463.58	
b) Interest on Credit Sales	22.38	
c) Dividend	3.67	
d) Interest on FDR	91.23	
Less: Interest paid on over draft	0.13 -----	91.10
e) Interest on advance for CIO	8.32 -----	
		1589.05
<u>Application of fund</u>		
Tree grovers project	15.00	
Mother Dairy Delhi (Fruits & Vegetable Project)	182.86 -----	
		197.86
Fixed Deposits	650.00	
Due from Clusa	108.16	
Advance for Commercial Import	618.10 -----	
		1574.12 -----
	Bank Balance	14.93 =====

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**Notes to the Statement of Sources and Applications of funds
 for the Reflows account for the period ending March 31, 1987**

1. Non-transfer of funds to Reflows:

From an analysis of the Reflows account, it was seen that Rs.3.95 lakhs representing interest on long term loans were not transferred to Reflows account in the year 1986-87 but was retained in the OGCP special account. This amount of Rs.3.95 lakhs was transferred to Reflows account in 1987-88 (on 11.10.1987).

2. a) The Reflows earnings were not transferred to the Reflows account as and when such earning accrued. The Reflows earnings of Rs.369.85 lakhs in the year 1986-87 were transferred to Reflows account by four journal entries as below:

On 01.08.86	-	Rs.118.90 lakhs
On 19.11.86	-	Rs. 73.59 "
On 06.03.87	-	Rs. 69.26 "
On 31.03.87	-	Rs.108.10 "

		Rs.369.85 "
		=====

- b) Similarly interest on credit sales beyond the stipulated period amounting to Rs.3.04 lakhs was transferred to Reflows on the dates below:

On 01.08.86	-	Rs. 0.34 lakhs
On 06.03.87	-	Rs. 2.64 "
On 31.03.87	-	Rs. 0.06 "

		Rs. 3.04 "
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3. Advance for commercial import of oil:

Interest earned on advances from Reflows account for commercial import of oil amounted to Rs.8.32 lakhs. This worked out to interest @ 18% per annum.

4. Application of funds:

- i) The funds disbursed from Reflows account on non-oil project items were Rs.197.86 lakhs during the year.
- ii) During the year 1986-87, the main application of funds pertained to
- a) Tree Growers' Project (Rs.15.00 lakhs) and

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b) Fruits and Vegetable Project of Mother Dairy
(Rs.182.86 lakhs).

iii) The advance for commercial imports of oil was Rs.618.10 lakhs. At the end of the year, the balance of Reflows account in the bank was Rs.14.93 lakhs. This balance was reconciled with the balance as per bank book.

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**National Dairy Development Board/CLUSA/
Oilseeds Growers' Co-operative Project.**

Report on Internal accounting controls

We have examined (i) the sources and application of funds statement and (ii) NDDB/CLUSA Reflows account of the Oilseeds Growers' Co-operative Project relating to the portion funded by the sale proceeds of U.S. donated soybean oil for the period from April 1, 1985 to March 31, 1987. As part of the above examination, we carried out a study and evaluation of the system of accounting controls as required by generally accepted U.S. Government auditing standards. For the purpose of this study we have classified the significant internal accounting controls in the following areas:=-

- Receipts, transportation, and storage of U.S. donated soybean oil;
- Issues for sale of U.S. donated soybean oil;
- Accounting of Sales proceeds;
- Accounting of Reflows;
- Recoveries of claims for inland losses;
- Budget;
- Disbursement of funds for various Action items;
- Inventories and protection of fixed assets;
- Internal Audit;
- Internal information system; and
- Accounting system.

The Management of NDDB/OVOW is responsible for establishing and maintaining a system of internal controls which will ensure that obligations and costs are in accordance with applicable laws, that there are no questionable costs, that funds and assets are safeguarded against unauthorised use, misappropriation, waste or loss, that assets and liabilities, revenue and expenses of the OGCP are properly recorded and accounted.

Our examination of the internal controls revealed that the management has prepared a manual for commodity handling (that is for the receipt, storage and issue of U.S. donated soybean oil) and a manual containing guidelines and procedures for Project implementation. Apart from the above two manuals, an approved project proposal for the State Oil Federations is prepared setting out various types of expenditures under each of the

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action items that could be incurred, requirements for those expenditures, delineation of the loan and grant portion of the expenditure, and the requirements for various reports that shall be submitted periodically by the federations to NDDB/OVOW. However, in respect of Gujarat State Co-operative Oilseeds Growers' Federation, such proposal is yet to be prepared and approved by the NDDB/OVOW.

All sales proceeds of U.S. donated soybean oil are deposited in the Special Account and funds are drawn and utilised on various project Action items according to the Draw down approved by Co-operative League of USA.

The internal audit is being done by an independent firm of Chartered Accountants who pre-audits and approves all payments before disbursements are made. Similarly, all receipts from sales etc. are checked by the internal auditors before accounting the same in the records.

A separate register of fixed assets is being maintained to record the assets acquired, installed, etc. All property and fixed assets are fully insured with an insurance company. We were informed that the fixed assets were physically verified by the management at the end of the year and were found to be in agreement with the records. However, no report of such verification is submitted by the staff members concerned.

The internal controls established for ensuring proper accounting of receipts of U.S. donated soybean oil, its transportation and storage were checked by us by examining bill of lading, surveyor's report, shipment receipts, godown receipts, godown issue vouchers, discrepancy vouchers and by reconciliation of the quantities received, issued and balance. Shipments of donated soybean oil were recorded in the stores ledger, shipmentwise. Issues for sale or reconstitution were also recorded in the stores ledger and these (issues) were checked with the relevant godown issue vouchers, sales invoices and reconciled with the total issues. Quarterly commodity status reports were prepared indicating receipts during the period and total receipts to date in addition to losses in respect of ocean loss, short landing, port losses and inland losses. Semi-annual inventories of soybean oil as well as empty drums were reconciled to the stores ledger. We checked the stock reconciliation statement with the physical stock verification certificates. The total receipts and issues of soybean oil were reconciled with the quantity statements sent to CLUSA. Only in a few cases, the stock of empty drums was not verified physically at the year end. It was explained that at the particular godowns where only few empty drums were stored without any stock of oil, it was considered uneconomical and not absolutely necessary to send special staff to verify the stock of empty drums.

No issues of U.S. donated soybean oil had been made without delivery order issued by the NDDB Port Officer. Godown issue vouchers were serially numbered to ensure recording of all



issues. Delivery orders, godown issue vouchers and invoices were referred to each other to ensure that sales invoices were raised for all issues made for sale. The total quantity of U.S. donated soybean oil sold as per invoices was reconciled annually with the total issues made for sale as per commodity section records thereby ensuring that no issues of soybean oil for sale had been made without raising corresponding invoices.

All sales proceeds were deposited in the OGCP special account and the total receipts during the year were reconciled with the total amount of the invoices processed and outstanding.

Each invoice was checked by the management with the date of receipt of money and interest was charged for delayed payments beyond the credit period except for cases where interest was specifically waived.

Recoveries of claims for inland losses were watched through status of claim report prepared quarterly indicating the amount of claim received during the period and amount outstanding from the transport contractors etc. We scrutinised various quarterly reports to ascertain whether any dues were allowed to remain outstanding without proper follow up.

The internal controls exercised over disbursements were reviewed by ascertaining that the pre-requisites had been complied with before incurring the expenditure. There was general compliance in this regard.

In respect of inventories and protection of fixed assets, the internal controls exercised such as entry of purchase of fixed assets in the fixed assets register before passing purchase bill for payment, periodical stocks/assets verification etc. and the insurance cover for the properties and assets were reviewed by us and the same was found to be satisfactory and adequate for the intended purpose.

In respect of investments in fixed deposits with banks a subsidiary register of fixed deposits was maintained for control purposes and periodically tallied with the ledger figure. We checked the register. All the deposits pertaining to the years 1985-86 and 1986-87 had since matured.

The investments in share capital of federations were tallied with the share certificates issued by the federations.

As mentioned already in this report, the internal audit was being done by an independent firm of Chartered Accountants. The internal audit was basically a pre-audit of all expenditure/payments to be incurred. As such it was an effective tool to prevent generally unauthorised or inadmissible expenditure/payments. In respect of receipts, the internal audit verified all receipts either by way of sale proceeds or by way of interest on delayed payments etc. before recording the entries. All calculations of interest dues and penalties were checked by



- 51 -

the internal audit and appropriate action taken for correction/recovery. We also reviewed the internal audit reports and verified the action taken on the findings and recommendations.

We reviewed the internal information system. Every month a report to the Chairman was submitted in which during the month receipts and cumulative figures for sales and other generation of funds less Reflows were given. This was done with a view to keep the management informed of the upto date status of the project. We found the internal information system and reporting to the management adequate.

We reviewed the accounting system. All the sales proceeds and other related receipts were paid into the OGCP Special account. Similarly all the interest receipts, loan repayments by federation were initially credited to the OGCP special account and later interest portion was transferred to Reflows account. All miscellaneous receipts, would also be credited to the OGCP special account.

In respect of internal control in the area of personnel management, it was found that the control over the recruitment and terms and conditions of service was exercised by NDDB as OVOW was a part of NDDB. The staff was borne on the rolls of NDDB. However services of certain staff members were fully utilised for OVOW work. In such cases NDDB recovered full salary + 30% on account of Provident fund etc. as staff cost. NDDB also recovered 44.8% of such staff cost towards general overhead.

The review of the internal controls for the period April 1, 1985 to March 31, 1987 made by us revealed that the internal accounting controls as a whole were generally adequate and there were no significant weaknesses in the internal control systems. Our examination disclosed the conditions described in findings 4 - 6 regarding the deposit of Reflows, Reflows budgetary process, and interest on loans which in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements, may occur and not be detected in a timely manner.

This report is intended solely for the use of NDDB, CLUSA, and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Regional Inspector General, is a matter of Public record.

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- 52 -

- 4 **Finding Title:** Reflows are not deposited to the Reflow Bank Account in a timely manner.
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Condition:

Reflow earnings for the period April 1, 1985 to March 31, 1987 were not deposited to the separate Reflow Bank account when accrued and/or earned. For example, between January and March, 1986, NDDB received Reflows amounting to Rs.181.64 lakhs which was deposited in three instalments on April 17, 1986 (Rs.32 lakhs), July 15, 1986 (Rs.110 lakhs) and August 1, 1986 (Rs.39.64 lakhs). In effect, Reflows were held in some cases for as long as six months before being deposited into the Reflow account. In July 1987 NDDB deposited Reflows amounting to Rs.108.10 lakhs which were held for four months before being deposited into the Reflow account. In all these instances NDDB transferred the Reflow funds to an interest bearing account under the OGCP project but did not transfer the interest earned on these funds when the Reflow funds were deposited with the separate Reflow Bank account.

Criteria:

The financial policies and procedures of the Multi-Year Operational Plan defines the sources of Reflows as (1) interest on the revolving fund, (2) interest on credit sales beyond the credit period (3) Dividends on shares, and (4) interest on fixed deposits with banks. Also, the financial policies and procedures require that Reflow earnings should be accounted for separately and should be deposited in a separate bank account. Although the Multi-Year year Operational Plan does not specify when Reflow should be deposited to the Reflow Bank account and when Reflows should start earning interest, good financial management practices and generally accepted accounting practices dictate that Reflows should be deposited into the Reflow Bank account in a timely manner and Reflows should earn interest as soon as possible.

Cause:

The Multi-Year Operational Plan did not specify and NDDB did not establish procedures as to when Reflows should be deposited to the Reflow Bank account. In addition, NDDB did not establish procedures to apportion the interest earned on Reflow fund deposits while these funds were on deposit in the OGCP Account.

Effect:

NDDB does not have adequate accounting controls to ensure that Reflow funds are accounted for and that interest earned on the Reflow fund balance is deposited to the Reflows Bank account. As a result, NDDB is not assured that the Reflow

account reflects all the sources of Reflows.

Recommendation:

We recommend that NDDB should establish procedures:

- a) for transferring Reflow earnings into the Reflow bank account in a timely manner, at least once a month; and
- b) which specifies when Reflow earnings transferred to Reflow bank account are to be deposited in an interest bearing account.

Management Comments:

N.D.D.B has now established a procedure and has started transferring Reflow earnings to Reflows bank account in a timely manner.

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- 5 Finding Title: NDDB did not prepare a budget for the use of Reflow funds.

Condition:

NDDB used Reflows for project purposes starting in the year ending March 31, 1987. However, NDDB has not established a budgetary process for Reflows.

Criteria:

Good accounting internal controls specify that the receipt and expenditure of funds should be monitored and controlled through an approved budgetary process.

Effect:

In the absence of a budget, NDDB did not have adequate controls to ensure that Reflow funds were expended for approved project purposes.

Cause:

NDDB did not require a budget system for Reflows.

Recommendation:

We recommend that NDDB prepare annual budgets for the source and expenditure of Reflow Funds for authorised project purposes.

Management Comments:

N.D.D.B has now started preparing the annual budget for use of Reflow funds.

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6 Finding Title: NDDB did not charge interest on temporary loans.

Condition:

NDDB/OVOW advanced Rs.3.14 lakhs to the National Seeds Corporation for procurement of breeder seeds on behalf of the Andhra Pradesh Oilseeds Growers' Federation, the Orissa State Oil Federation, and the Maharashtra State Oil Federation. These were advanced as temporary loans and no interest was charged. The expenditure was charged to the production enhancement Action item. This loan, however, was paid back in the years 1986-87 and 1987-88.

Criteria:

Generally accepted financial practices would call for the charging of interest on loans. NDDB normally charges 10.5% on short term loans not exceeding ten months.

Cause

NDDB failed to recognise that a temporary loan is just another term for a "Short-Term Loan" which requires the charging of interest.

Effect:

NDDB lost a source of funds by not charging interest on its temporary loans.

Recommendation:

We recommend that NDDB/OVOW should charge interest on all loans including short term loans which may be for a temporary period.

Management Comments:

Generally, temporary advances are very rare. However, the auditor's recommendation is noted and interest will be charged wherever feasible.

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- 56 -

National Dairy Development Board/
Co-operative League of The United States/
Oilseed Growers' Co-operative Project

Public Law (PL) 480, Title II Program in India.

Report on the compliance with Applicable Laws,
Regulations and Agreement Terms

Auditor's Opinion

We have examined the statements of the Sources and Application of funds of the Oilseeds Growers' Cooperative Project for the period April 1, 1985 to March 31, 1987, implemented by the National Dairy Development Board (NDDDB)/Cooperative League of the United States (CLUSA), financed by the Public Law 480 Title II program in India and have issued our opinion thereon dated January 12, 1989. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Government Organisations, Programs, Activities, and Functions" (1981 Revision), which includes additional standards and requirements for the review of compliance with applicable laws, regulations and agreements.

We tested transactions and records to determine NDDDB's compliance with the terms of (1) The Transfer Authorization Agreement between the United States Government and the Cooperative League of the United States, (2) The Memorandum of Agreement between NDDDB and CLUSA dated November 13, 1978, (3) The project's Multi-Year Operational Plan and (4) AID Handbook 9.

In our opinion, for the items tested, NDDDB complied with the applicable agreements, regulations, and laws mentioned in the second paragraph that may have a material effect upon the financial statements. Instances of non-compliance of a minor nature are discussed in finding 1 of our report on Fund accountability, finding 4 of our report on internal controls, and finding 7 of this report. With respect to items not tested, nothing came to our attention to cause us to believe that untested items were not in compliance with applicable laws, regulations, and agreements.

This report is intended solely for the use of NDDDB, CLUSA, and the US Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Regional Inspector General, is a matter of public record.



- 57 -

- 7 Finding Title: Working capital loans to Idar Union were contrary to the provisions of the Multi-Year Operational Plan.

Condition:

In January 1988, NDDB made a working capital loan of Rs.146.96 lakhs to Shri Sardar Vallabhai Patel Kapasia Udyog Sahakari Mandal Ltd., Idar (Idar Union). In May and July 1987, NDDB made additional loans to the Idar Union amounting to Rs.66.00 lakhs. Both loans were approved by the Chairman of the Management Committee but not approved by the Management Committee (in October, 1987 redesignated as the Board of Directors) as a whole. By providing loans directly to the Idar Union, NDDB did not comply with the Multi-Year Operational Plan which stipulates that loans should be provided to State Oilseed Federations.

Criteria:

The Multi-Year Operational Plan defines the procurement support Action item as direct loans to State Oilseed Federations for procurement support.

Cause:

NDDB believed that the Idar Union should be treated the same as a Federation.

Effect:

By providing loans directly to Idar Union, NDDB is expanding the number of its eligible loan recipients and therefore weakening its control on loan funds. NDDB should obtain formal NDDB Board of Directors, USAID, and CLUSA approval before expanding the number of its eligible loan recipients.

Recommendation:

We recommend that NDDB

- a) obtain formal approval from the NDDB Board of Directors, USAID and CLUSA to provide loans to Idar Union and other entities which are not State Oilseeds federations; and
- b) should recover the loans from the Idar Union if the NDDB board of Directors, USAID, and CLUSA does not approve the loans.

Management Comments:

A formal approval of CLUSA will be obtained to include oil Unions also in MYOP to be eligible for direct assistance under the Project.

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Exhibit No.6

BHAVNAGAR VEGETABLE PRODUCTS UNIT
(MANAGED BY: NATIONAL DAIRY DEVELOPMENT BOARD, ANAND)
BALANCE SHEET AS OF MARCH 31, 1986

31.3.1985 Rs.		Rs.	Rs.
<u>SOURCES OF FUNDS</u>			
72,000,000	Amount received from NDDB/OVOW		61,000,000
7,138,754	<u>SURPLUS</u> (Balance in revenue account)		-
11,140,478	Amount received from NDDB for renovation of fixed assets		16,968,358
46,808,918	Current liabilities and Provisions		36,780,141
----- 137,088,150 =====	T O T A L	----- 114,748,499 =====	
<u>APPLICATION OF FUNDS</u>			
<u>Fixed Assets</u>			
289,119	Gross Block	1,605,290	
67,263	Less: Depreciation	404,575	
----- 221,856		----- 1,200,715	
<u>INVESTMENTS</u>			
15,500	National Savings Certificates) (Deposited with Government Department)		15,500
136,850,794	Current Assets, Loans & Advances		113,532,284
----- 137,088,150 =====	T O T A L	----- 114,748,499 =====	

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EXHIBIT NO.6

BHAYNAGAR VEGETABLE PRODUCTS UNIT
(MANAGED BY: NATIONAL DAIRY DEVELOPMENT BOARD, ANAND)

REVENUE ACCOUNT FOR THE YEAR ENDED MARCH 31, 1986

1984-85 Rs.		Rs.	Rs.
INCOME			
176,576,741	Sales (including Excise Duty)	232,609,269	
19,101,999	Other Income	8,728,330	
----- 195,678,740		-----	241,337,599
46,803,920	Decrease/Increase in Stock of Finished and semi finished goods (-)		40,489,232
----- 242,482,660			----- 200,848,367
EXPENDITURE			
12,733,348	Finished goods purchased	20,978,357	
209,836,356	Manufacturing expenses	150,890,500	
3,433,676	Administrative and other Expenses	4,041,187	
1,549,906	Selling Expenses	3,864,703	
10,529,079	Excise Duty	14,212,227	
224,667	Provision for Doubtful Debts & Advances	-	
42,109	Depreciation	337,312	
----- 238,349,141		-----	194,324,286
----- 4,133,519	Surplus	c/f.	----- 6,524,081

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- 60 -

4,133,519	Surplus	b/f.	6,524,081
7,138,754	Balance brought forward		7,138,754
<u>11,272,273</u>			<u>13,662,835</u>
585,280	Prior period adjustment		7,138,754
<u>10,686,993</u>			<u>6,524,081</u>
3,548,239	Interest payable to NDDB-OVOW		6,524,081
<u>7,138,754</u>	Balance carried to Balance sheet		<u>-</u>
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- 61 -

Bhavnagar Vegetable Products Unit (BVP)

**Report on generation and use of oil seeds growers'
co-operative project funds for the year 1985-86**

1 Bhavnagar Vegetable Products Unit was managed by NDDB during the year 1985-86. NDDB/OVOW provided all the working capital requirements of the Bhavnagar Vegetable Products Unit. Apart from the provision of working capital, NDDB/OVOW also provided funds for the renovation of the Unit's assets and for the payment of creditors of Bhavnagar Vegetable Products Ltd.

2 Working Capital:

- i) The amount advanced as working capital and remained outstanding as of April 1, 1985 was Rs.720.00 lakhs. During the year 1985-86, NDDB/OVOW further advanced Rs.590.00 lakhs as working capital. During the same period BVP made repayments of Rs.700.00 lakhs. Thus the working capital outstanding as of March 31, 1986 amounted to Rs.610.00 lakhs. This was verified with the records of the BVP.
- ii) Interest at the rate of 10.5% per annum compounded every six months was being charged on the working capital advanced. However, as per NDDB/OVOW Management Committee resolution, the interest for a particular year would be recovered to the extent of the profit made by the Unit and the balance if any would be carried forward for recovery in subsequent years. During the year 1985-86 the Unit made a profit of Rs.65.24 lakhs. This was appropriated towards interest on working capital. The interest payable by BVP to NDDB/OVOW from January 21, 1981 to March 31, 1986 came to Rs.271.40 lakhs. As against this the BVP paid/provided Rs.177.78 lakhs as of March 31, 1986. This left a balance of Rs.93.62 lakhs to be appropriated from future profits.

3 Funds given for renovation of the BVP Unit:

i) The total funds given for renovation of the BVP Unit as of March 31, 1986 as per books of NDDB/OVOW amounted to Rs.391.00 lakhs. However, BVP accounted only 309.92 lakhs in their books as of March 31, 1986. The balance of Rs.81.08 lakhs was accounted in the books of BVP in 1986-87 since the amount given by OVOW was received by BVP subsequently on April 4, 1986.

all ii) A sum of Rs.309.92 lakhs had been advanced to BVP Unit for renovation. Out of this sum, Rs.140.24 lakhs had

- 62 -

been spent for renovation. The balance of Rs.169.68 lakhs is being carried forward on March 31, 1986. Vide Exhibit No.5.

4. Payments on various accounts made to Bhavnagar Vegetable Products Ltd. as per scheme for the take over of BVP Ltd.

- i) The total payments made as of March 31, 1986 on the above account amounted to Rs.203.20 lakhs. This is inclusive of Rs.7.46 lakhs made during the year.
- ii) The recovery of the amounts by NDDB advanced for renovation of Rs.140.24 lakhs and for payments to creditors of Rs.203.20 lakhs as per scheme of take over of BVP Ltd. is pending the transfer of production facilities of BVP Ltd. to NDDB and subsequent transfer to GCOGF.

5 Internal Controls:

- i) All the payments/expenditures were pre-audited by a firm of Chartered Accountants as internal auditors. Similarly, all receipts were verified by the internal auditors before they were finally recorded. We had examined the internal audit reports, the recommendations made by them and the action taken by the management.
- ii) The internal auditors observed the physical inventory of fixed assets through their periodic visits. The internal auditors' reports were discussed by BVP management for suitable action.
- iii) The year-end stocks of raw materials and finished goods were verified by the internal auditors. We reviewed the stock certificates. Stock verification is done on a continuous basis by internal auditors. Every fifteen days the stocks of all the godowns would be covered. Stock in process would be verified on the first of every month.
- iv) The balance of cash was verified by C.C. Chokshi & Co. Ahmedabad as statutory auditors of NDDB. We reviewed the certificate recorded.
- v) We reviewed the internal controls in respect of receipts, issue of raw materials by discussing the procedure followed with the accounts manager of the unit. We test checked receipts and issues (November 11, 1985 and February 2, 1986).
- vi) We reviewed the procedures for the purchase of materials etc. by discussing the same with the purchase

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- 63 -

department in-charge and the General Manager. We verified the following purchase bill for supply of a cooling tower model for Rs.107,703.00 per Invoice No.8 852101/A/384A dated November 4, 1985.

- vii) The procedure followed in respect of marketing of the products including price fixation was discussed with the sales in-charge and the General Manager. We checked several invoices. The market quotations were compared with the prices fixed.
- viii) We also examined the minutes of the Bhavnagar Vegetable Products Unit Management Committee.
- ix) We examined the audited utilization statement in respect of renovation expenditure for the year 1985-86.
- x) An analysis of income and expenditure account for the year 1985-86 revealed the following features.
 - a) Sales had increased from Rs.1765.77 lakhs to Rs.2,326.09 lakhs.
 - b) The stock in trade had declined from Rs.914.83 lakhs to Rs.548.02 lakhs. The deduction in inventory was due to quick disposal of finished goods. The finished goods stock amounted to Rs.287.76 lakhs as of March 31, 1986 compared to Rs.766.47 lakhs as of March 31, 1985. This was a healthy sign.
 - c) The manufacturing expenses amounted to Rs.1508.90 lakhs as against Rs.2098.76 lakhs for the year 1984-85. This is indicative of reduction in cost.

Copy of Balance Sheet as of March 31, 1986 and income and expenditure account for the year ended March 31, 1986 are enclosed as Exhibits No.5 and 6.

- 64 -

Exhibit No.7

NATIONAL DAIRY DEVELOPMENT BOARD, ANAND.

UNIT ; BHAVNAGAR VEGETABLE PRODUCTS
BALANCE SHEET AS OF MARCH 31, 1987

1985-86 Rs.		Rs.	1986-87 Rs.

LIABILITIES			

CURRENT LIABILITIES FOR			

61,000,000	WORKING CAPITAL RECEIVED BY BVP UNIT	50,254,864	
30,909,806	EXPENSES	25,500,939	
18,487,706	ADVANCES	19,948,102	
366,746	OTHER DEPOSITS	421,200	
3,984,241	SUNDRY CREDIT BALANCE	12,531,274	
-----		-----	
114,748,499			108,656,379
-----		-----	
114,748,499	TOTAL		108,656,379
=====			=====
ASSETS			

1,200,715	FIXED ASSETS INVESTMENTS	1,325,398	
15,500	NATIONAL SAVINGS CERTIFICATES (DEPOSITED WITH GOVERNMENT DEPARTMENTS)	14,500	
63,731,633	STOKS	73,708,821	
14,184,917	BOOK DEBTS	2,256,187	
33,122,331	ADVANCES	24,833,843	
CASH AND BANK BALANCES			
79,859	CASH ON HAND	86,038	
BANK BALANCES (INCLUDING CHEQUES ON HAND)			
2,413,544	(Rs.2892098)	6,431,592	
	(Previous year Rs.215,032)		
-----		-----	
2,493,403		6,517,630	
-----		-----	
114,748,499			108,656,379
-----		-----	
114,748,499	TOTAL		108,656,379

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Exhibit No.8

NATIONAL DAIRY DEVELOPMENT BOARD, ANAND.

UNIT BHAVNAGAR VEGETEGABLE PRODUCTS

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED MARCH 31, 1987
1985-86

Rs.		Rs.	Rs.

<u>INCOME</u>			
232,609,269	SALES (INCLUDING EXCISE DUTY)	303,052,132	
8,623,252	OTHER INCOME	12,321,253	
-----		-----	
241,232,521			315,373,385
-40,489,232	INCREASE (DECREASE) IN STOCK OF FINISHED AND SEMIFINISHED GOODS		+ 21,057,848
-----			-----
200,743,289			336,431,233
<u>EXPENDITURE</u>			
20,978,357	PURCHASE OF GOODS TRADED-IN	96,400,209	
114,293,701	RAW MATERIALS CONSUMED	153,723,444	
18,488,166	STORES, CHEMICALS & PACKING MATERIALS	25,154,055	
17,019,831	MANUFACTURING EXPENSES	28,700,194	
5,024,911	ADMINISTRATIVE & OTHER EXPENSES	3,692,492	
3,864,703	SELLING EXPENSES	2,693,548	
14,212,227	EXCISE DUTY	16,814,210	
	PROVISION FOR DOUBTFUL DEBTS AND ADVANCES	197,043	
337,312	DEPRECIATION	328,311	
-----		-----	
194,219,208			327,703,506
-----			-----
6,524,081	SURPLUS		8,727,727
7,138,754	BALANCE BROUGHT FORWARD		-
-----			-----
13,662,835			8,727,727
13,662,835	INTEREST PAYABLE TO NDDDB-OVOW (INCLUDING Rs.5088054 FOR PRIOR PERIOD)(PREVIOUS YEAR Rs.7138754)		8,727,727
=====			=====

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Bhavnagar Vegetable Products Unit

**Report on generation and use of Oilseeds Growers'
Co-operative Project Funds for the year 1986-87.**

1 In the year 1986-87, Bhavnagar Vegetable Products Unit (BVP) was managed by NDDB. A separate Management Committee consisting of five members was constituted by the Executive Committee of NDDB for the day to day management of BVP. As in the past NDDB/OVOW provided all the working capital requirements of BVP. NDDB/OVOW also provided funds for the renovation and reconditioning of the assets of the BVP. All the plant, machinery and other assets belonged to Bhavnagar Vegetable Products Ltd. Service charges are paid to BVP Ltd. by NDDB for the use of assets. Funds were also provided by NDDB for payment of creditors of BVP Ltd.

2 **Working capital:**

i) During the year 1986-87, NDDB/OVOW paid towards working capital Rs.911.55 lakhs and received as repayment of working capital Rs.1019.00 lakhs. After taking into account the opening balance of Rs.610.00 lakhs, the net working capital outstanding as of March 31, 1987 amounted to Rs.502.55 lakhs as below.

Opening balance	Rs. 610.00 lakhs
Add: further advance	Rs. 911.55 "

	Rs.1521.55 "
Less: repayment	Rs.1019.00 "

	Rs. 502.55 "
	=====

ii) The interest on working capital advance for the year 1986-87 amounted to Rs.36.40 lakhs. The unadjusted interest on working capital as of March 31, 1986 was Rs.93.62 lakhs. Including the current year's interest, the total interest payment to be made for working capital amounted to Rs.130.02 lakhs. As against this, the surplus (profit) for the year 1986-87 of Rs.07.28 lakhs was adjusted. (Rs.36.40 lakhs towards current year's interest and Rs.50.88 lakhs towards arrears of interest). This left an unadjusted balance of Rs.42.74 lakhs as of March 31, 1987.

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3 Advance for renovation of assets:

- i) As per NDDDB/OVOW books no new advance for renovation of assets of BVP Unit was made in the year 1986-87. However, some advances for renovation made on March 31, 1986 and accounted in NDDDB/OVOW books in the year 1985-86 was accounted in BVP books in 1986-87.
- ii) The total receipts in NDDDB Project account (in BVP books) including opening balance of Rs.169.68 lakhs amounted to Rs.250.83 lakhs. Out of this, Rs.226.36 lakhs were spent on renovation work and the same was transferred to the account of BVP Ltd. (capitalised). The balance of Rs.24.47 lakhs has been shown in the BVP Unit Balance Sheet under advances (current liabilities). The work in progress on account of renovation amounted to Rs.10.60 lakhs and this is shown under B. Loans and advances (unsecured) under "Advances" (current assets).

4 Interest controls:

We checked the internal controls in the areas of purchase, receipts and issues in the same manner as we have described for the year 1985-86.

5 Balance Sheet and Income and Expenditure Account:

- i) For the year 1986-87, the format of Balance Sheet and income and expenditure account was modified compared to the year 1985-86. A copy of Balance Sheet of BVP as of March, 1987 and income and expenditure account for the year ended March 31, 1987 are enclosed as Exhibit Nos.7 and 8.
- ii) Sales for the year amounted to Rs.3030.52 lakhs as against Rs.2326.09 lakhs for the previous year. This showed substantial improvement in marketing. The net profits (surplus) for the year also increased compared to the year 1985-86. The surplus for the year was Rs.87.27 lakhs as against Rs. 65.24 lakhs for the previous year.

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List of recommendations

1 Fund Accountability Statement

- i) We recommend that NDDB should
 - a) reduce the Management and Project Implementation expense category by Rs.88.10 lakhs and offset this same amount against interest income; and
 - b) instruct its Accounting personnel on the proper accountability for interest expense on overdraft loans. For details refer finding 1.
- ii) We recommend that NDDB
 - a) establish an accounting entry on NDDB accounting records which recognizes interest receivable from Bhavnagar Vegetable Products when it accrues, and
 - b) establish procedures to ensure that interest receivable from BVP is recorded as income when BVP generates a profit. For details refer finding 2.
- iii) We recommend that NDDB transfer the Rs.1271.75 expenditure for the tour expenses from the Production Enhancement Action item to the Management and Project Implementation Action item. For details refer finding 3.

2 Internal Controls

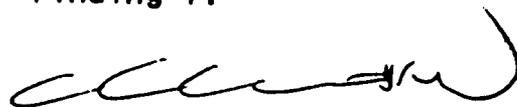
- i) We recommend that NDDB should establish procedures:
 - a) for transferring Reflow earnings into the Reflow bank account in a timely manner at least once a month; and
 - b) which specified when Reflow earnings transferred to Reflow bank account are to be deposited in an interest bearing account. For details refer finding 4.
- ii) We recommend that NDDB prepare annual budgets for the source and expenditure of Reflow funds for authorised Project purposes. For details refer finding 5.
- iii) We recommend that NDDB/OVOW should charge interest on all loans including short term loans which may be for a temporary period. For details refer finding 6.

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3 Compliance with applicable laws, regulations, agreements etc.

We recommend that NDDB

- a) obtain formal approval from the NDDB Board of Directors, USAID and CLUSA to provide loans to the Idar Union and other entities which are not State Oilseed federations; and
- b) should recover the loans from the Idar Unit if the NDDB Board of Directors, USAID and CLUSA, does not approve the loans. For details refer finding 7.



Ref:A/1684/11503

January 12, 1989.

Mr. B.R. Howard,
Office of Regional Inspector
General for Audit Singapore,
United States Agency for
International Development,
C/o American Embassy
30 Hill Street,
SINGAPORE 0617

Dear Sir,

Re: NDDB/CLUSA Audit
JUNAGADH PROJECT

We refer to last para on page No.6 where we have stated that a detailed report on the Junagadh Unit will be submitted separately. Accordingly we report that:

1. Junagadh Project (400 TPD groundnut processing plant) is one of the projects sponsored by Gujarat State Cooperative Oil Seeds Growers' Federation. This project is included in Action Item 1 "Processing Facilities". Originally the total sanction accorded for the project by NDDB/OVOW was Rs.785.63 lakhs consisting of Rs.716.63lakhs for the main project and Rs.69.00 lakhs for the oil tank farm. The total sanctioned amount for the project was later increased to Rs.1081.00 lakhs by NDDB/OVOW.

2. The total funds released to the federation directly and to NDDB on account of the federation from June 1982 to February 19, 1986 amounted to Rs.989.05 lakhs. Out of the total release of Rs.989.05 lakhs for the project an amount of Rs.365.24 lakhs was released to NDDB on behalf of the federation and the remaining Rs.623.81 lakhs were released to the federation directly. There was no further release of funds for the project in the year 1986-87.

3. The details of actual expenditure incurred on the project by Gujarat State Cooperative Oil Seeds Growers' Federation were submitted by the Federation to NDDB periodically. These statements of utilization of funds were audited by the federation's internal auditors M/s Singhavi & Co. Ahmedabad. NDDB/OVOW scrutinised these audited utilisation statements submitted by the federation to ensure that the various items of expenditure incurred by the federation were in accordance with the estimates provided in the project and also were allowable as

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per sanction. The items of expenditure not supported by proper details as well as non-allowable expenditures such as on purchase of land etc. were disallowed by NDDB and an admittance letter was issued to the federation for the amount allowed by NDDB/OVOW in respect of each of the utilization statements submitted by the federation.

4. As of June 30, 1986, the federation had claimed through audited utilization statements an expenditure of Rs.644.71 lakhs. As against this, NDDB had allowed after due scrutiny, an expenditure of Rs.570.11 lakhs.

5. In respect of funds released to NDDB, the cumulative expenditure incurred by NDDB as of March 31, 1987 amounted to Rs.363.67 lakhs.

6. Thus as against the total release of funds amounting to Rs.989.05 lakhs, the actual expenditure incurred and approved by NDDB/OVOW was Rs.933.78 lakhs (Rs.363.67 lakhs by NDDB and Rs.570.11 lakhs by the federation).

7. We had examined the various utilisation statements submitted by the federation and the admitted expenditure by NDDB/OVOW and found the same in order except for the fact that the various items of expenditure were not categorised under the proper sub heads. This was pointed out to the federation by NDDB/OVOW. The compliance in this regard is yet to be made by the federation.

8. We have examined the matter regarding non-issue of admittance letter bifurcating the amount advanced into loan and grant portion and whether any loss of interest would be caused by the delay. As the loan would bear interest from the original date of advance there would be no loss of interest because of the delay in the issue of admittance letter for the loan and grant portion.

9. As regards the funds released to NDDB on behalf of the federation, interest from the date of advance would be recovered from the federation. Therefore, in this case also, there would be no loss of interest for OVOW even if some funds remained idle with NDDB.

10. As the project is financed under Action Item 1 "Processing Facilities", the entire advance would be bifurcated into 70% loan and 30% grant with a moratorium period of five years for loan portion during which interest @ 8.5% would be capitalised. The entire loan would have to be repaid within a period of 20 years including the moratorium period.

11. In the scope of our audit, we examined the application of funds made available to the federation/unit and accordingly assistance to Junagadh unit and its obligations were studied. The assistance to Junagadh unit is limited to Action Item 1 (Processing facilities) and the expenditure incurred by the unit

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was recognised on the strength of audited utilization statements which had been an accepted procedure for admittance of expenditure. The examination had revealed no abnormalities except non submission of expenditure in the proper format. The other aspect of interest, could be time gap between the receipt of funds by the federation/Unit and its utilization. Such a time gap can be unavoidable and there is scope for use of unutilized funds by the federation/unit though interest was being charged.

12. The project envisaged completion of the facility within 3 years and 4 months from the date of disbursement. However, the plant was commissioned after 3 years and 9 months. There was delay of 5 months. The plant was commissioned in March 1986 instead of in October 1985 as envisaged.

13. While reviewing generation and use of NDDB/OVOW funds for Junagadh project, we observed from the records of the occurrence of fire in the silos for storage of raw materials in November, 1987 and the loss as a result of fire was estimated at about Rs.235.00 lakhs by the project authority. It was reported that necessary insurance cover was held and against insurance claim lodged with the underwriters, an adhoc payment had been received for amount of Rs.100.00 lakhs. The project authority is pursuing the claim with the underwriters.

Yours faithfully,



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राष्ट्रीय डेरी विकास बोर्ड

Appendix 1
Page 1 of 2

National Dairy Development Board

पि:0:070W:0LUSA: 32741

December 26, 1988

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M/s. G.C. Chakshi & Co.,
Chartered Accountants,
Nafatal House,
Backbay Reclamation
Bombay - 400 020.

REGISTERED-AD

Sub: Audit of NDDB/ULUSA/Oil Seeds Growers' Co-op. Project -
period from 1-4-85 to 31-3-87

Ref: Your letter No. A/1604/9771 dtd. 28-11-88

Dear Sirs,

Kindly refer to draft report of audit of NDDB/ULUSA for the years 1985-86 and 1986-87. Our comments on the points mentioned in the draft report are as under:-

1. Fund Accountability statement

i) Interest on overdraft charged as Project Expenses: (Finding-1)

As recommended, we are reducing the Management & Project Implementation Expense by Rs. 88.10 lacs and the same will be adjusted against interest income.

ii) Accounting of interest on Working Capital NVP Unit (Finding-2)

In future, care will be taken to record the interest receivable from NVP as per recommendations.

iii) Re-categorization of Expenses :- Rs. 1271.75 (Finding-3)

We are transferring the tour expense of Rs. 1271.75 to Management & Project Implementation. Action Item No. 7 which was earlier charged to Production Enhancement - Action Item No. 4.

2. Internal Control

Transfer of Reflows to Reflows Bank A/c. (Finding-4)

i) We have established a procedure and have started transferring Reflows earnings to Reflows bank account in a timely manner.

ii) Annual Budget for Reflows funds (Finding - 5)

We have started preparing the Annual Budget for use of Reflows funds.

iii) Long Term Loan Agreement - Provision for penal interest (Finding-6)

The provisions for half yearly compounding of interest and levy of penal interest in the event of instalment payments not forthcoming as scheduled are included in the main agreements for Long Term Loans. This point has also been clarified vide our letter No. P:070W:0LUSA: 28794 dtd. 25-11-88 - copy enclosed for ready reference.

iv) Interest on Temporary Loans (Finding-7)

Generally, such advances are very rare. However, the observation is that interest on such advances will be charged where feasible.

contd...2

13

3. Compliance with applicable laws, regulations, agreements, etc.

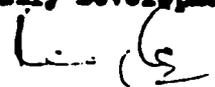
1) Loan to Idar Union (Finding-9)

As discussed during the exit conference and recommended in the report, a formal approval of GLUDA will be obtained to include oil unions also in NYOP to be eligible for direct assistance under the project.

We hope, the above mentioned comments would clarify the matter concerned.

Thanking you,

Yours faithfully,
for National Dairy Development Board


Manager (Accounts)

cc to: Mr. B.R. Howard
Regional Inspector General
for Audit - Singapore
16 Raffles Quay
31-01 Hong Leong Building
SINGAPORE

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74

Appendix 2

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14