A Case Study
On
Commercial Undertaking Of
Govt. of West Bengal

The West Bengal Essential Commodities Supply Corporation Limited (WBECSC) suffered loss of ₹ 193.60 crore in export of iron ore fines

Regional Training Institute

Indian Audit and Accounts Department

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Preface

Regional Training Institute, Kolkata was declared as Knowledge Centre on Compliance Audit in August 2012. In pursuit of excellence in our assigned areas of Knowledge Centre, we attempt to bring out series of interesting cases of frauds / deviation from rules and regulation etc. reported and reflected in the Comptroller and Auditor General of India's Audit Report (Commercial) of different State Governments, as case studies. In preparing the instant case study, the models adopted by INTOSAI and some other business schools have been followed.

The case study "The West Bengal Essential Commodities Supply Corporation Limited (WBECSC) suffered loss of ₹ 193.60 crore in export of iron ore fines" has been prepared based on the Audit Para appeared in Audit Report No.4 of 2005-06 of Comptroller and Auditor General of India (Commercial) –Government of West Bengal.

I hope that the readers would benefit from this .The suggestion, if any, are welcome and would help us in future.

RTI, Kolkata
October 2013

Arabinda Das
Principal Director

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The West Bengal Essential Commodities Supply Corporation Limited (WBECSC) suffered loss of ₹193.60 crores in export of iron ore fines due to violation of basic principles of financial propriety and regularity which benefited the Associates, shipping agents and foreign buyers at the cost of the Company's financial health.

1. Background :

West Bengal Essential Commodities Supply Corporation Limited (WBECSC) is a company owned wholly by Government of West Bengal. The principal activities of the company are trading in food grains, edible oil, sugar, pulses, oilseeds and other essential commodities. However, the prospects of business of different essential commodities related to Public Distribution System did not seem to be bright to the management. Hence, in March 2002, the Company proposed to diversify into business relating to exports to improve its financial position.

Before embarking upon the new area of business, the company had not undertaken the due-diligence in a transparent manner by observing all basic principles of financial propriety and regularity. There was no feasibility study of the proposed new venture and major decisions like choosing the business partner was not taken with the approval of Board of Directors. Moreover, as the company did not have prior experience in the field, the assistance of other PSUs engaged in similar business should have been asked for and, above all, one Export-Import Committee should have been constituted to oversee the export – import business.

Based on a *suo-moto* proposal (December 2003) from Mr. X, the principal prime mover (PPM), the Managing Director (MD) of the Company, without the approval of the Board of Directors (BOD), decided (March 2004) to export 1.80 lakh tonnes (sale value being ₹28.60 crore) of Iron Ore Fine (IOF) to China through the business Associates to earn the projected profit of ₹1.73 crore *i.e.* margin of 6.05 *per cent* on the sale value. Between July/August 2004 and May/June 2005, the

Company exported 13.96 lakh dry metric tons (DMT) IOF valued ₹ 376.36 crores to China in 34 vessels through 18 Associates.

2. Environment :

A huge losses of ₹ 193.60 crore were inflicted on the Company by taking up the business of export of iron ore fines without conducting proper feasibility study, assigning the contracts without verifying the credentials of Associates and Shipping Agents. The Export Packing Credit (EPC) was drawn against letter of credit (LC) which was not executed; advances were released indiscriminately and payments to Associates and Shipping Agents were made without securing the Company's financial interest. Further, there were instances of double encashment of LC, violation of RBI directives and violation of contractual obligations. In other words, the basic principles of financial propriety, regularity and accountability were flouted on various occasions.

3. Opportunity to Prevent Irregularity:

The audit opines that WBESC could avoid the loss if**:-**

i) Feasibility study was carried out and the assistance of any other PSU engaged in export was undertaken before embarking upon the business of export of iron ore fines.

ii) Associates and Shipping Agents were appointed after verifying their credentials in a transparent manner.

iii) Standardized and legally valid agreements were executed with the Associates/Shipping Agents by safeguarding the interest of the Company.

iv) Advances were released to the Associates after scrutiny of records scrupulously and against the security deposit.

v) Foreign buyers were properly identified before exporting the IOF.

4. Act of Irregularity:

i) The Company released excess amount of advance (₹45.09) to Associates. These excess/unadjusted advance resulted in excess payment of interest of ₹4.58 crore on EPC. Further, ₹15.74 crore was advanced to two shipping agents against seven vessels but the vessels were never placed and the advances could not be recovered.

ii) In absence of an enabling provision in the agreements with the Associates for recovery of avoidable demurrage (₹ 7.07 crore) and excess freight (₹ 23 lakh) paid by the Associates, the Company suffered a loss of ₹ 7.30 crore on account of delayed loading/ failure to arrange cargo by two Associates.

iii) Freight had been remitted in advance through the banks on the instructions of shipping agents without ascertaining subsequently whether the remittance actually reached the vessel owners or not. As a result, the vessel owners/ foreign buyers deducted ₹ 17.46 crore from WBECSC's dues as they had not received the freight charges.

In another case, on the instruction of a shipping agent, WBECSC remitted the freight advance of ₹18.03 crore to different foreign bank accounts to which WBECSC was entitled to receive ₹19.88 crore as freight reimbursement, interest on advance etc. In this regard, WBECSC was unable to realise the ₹10.22 crore as there was no clause for recovery in the agreements.

iv) The Company without identifying the foreign buyers, shipped three consignments leading to a loss of ₹11, 22 crore.

v) Due to callous attitude and inefficiency on the part of WBECSC, invoices for ₹9.06 crore against 21 consignments shipped between September 2004 and May 2005 was not raised at all and they became time – barred.

vi) Due to breach of contract with the foreign buyers, the company, in one case, failed to realize its dues and sustained loss of ₹4.97 crore and, in another two cases, the company had to pay compensation of ₹6.98 crore to two foreign buyers.

vii) WBECSC did not export single tone of IOF to seven buyers where there were eight valid LCs for supply of 3.71 lakh DMT. Instead, it exported 5.33 lakh DMT without having LC and that too at lower rate in 13 consignments to Chinese buyers and sustained a loss of ₹24.18 crore. In addition, against 12 out of these13 consignments, WBECSC admitted claims of ₹11.62 crore from the foreign buyers/ agents towards custom penalty, discharge expenses, port fees/ penalty, agency commission etc. at the destination port, without calling for documents in support of these claims. Moreover, due to violation of contractual obligations and diversion of cargo by WBECSC, the recovery of ₹14.81 crore against two consignments became doubtful.

viii) The Company contravened the banking regulations and discounted three LCs with two banks to draw EPC of ₹ 24.37 crore in excess of their face value by presenting original as well as photocopies of these LCs at two different banks. The matter was not investigated to fix responsibility.

5. *Opportunity to Detect and Proving Irregularity:*

Red Flag Indicators:

During test check of the records of the Company it was revealed that:-

i) The Company did not compile the accounts for 2004-05 despite repeated requests from the Statutory Auditors.

ii) The Managing Director (MD) of the Company decided (March 2004), without the approval of the Board of Directors (BOD), to export Iron Ore Fine (IOF) to China through the business Associates based on their suo-moto proposal without undertaking any feasibility study.

iii) The Company had neither laid down any criteria for appointment of the Associates nor invited any expressions of interest for their appointment as Associates. Based on suo-moto proposals received, the Managing Director approved the engagement of 18 Associates without verifying their credentials.

iv) The Company had neither standardised its agreements with the Associates/Shipping Agents nor had these agreements vetted by the Legal wing of the Company to safeguard the Company's interest.

v) The MD constituted a committee in June 2005 to oversee export and import activities, when the export of IOF to China had already been completed.

Follow up of Red flag:

Audit Examination and evidence collection.

Acting on these red flag indicators, the Audit party conducted the scrutiny of the information and records available with the audited entity, interviewed the staff and Officers of the audited entity and obtained collateral records/ information from other sources to ensure reliability of entity's records. The records at different banks were also examined which revealed the action of criminal offence like production of one Letter of Credit, once in original and another time by production of photo copy, at two banks and fraudulent drawal of cash against the same.

6. Lessons Learnt:

i) The Annual Financial Statement need to be compiled within due time.

ii) Keeping in mind the basic principle of financial propriety and regularity, all major decisions should be taken in transparent manner with the approval of Board of Director.

iii) The feasibility study to be conducted for every new venture, assistance of other PSUs engaged in similar business should have been sought and, above all, there was a need for constitution of Export-Import Committee to oversee the export – import business.

iv) Associates/Shipping Agent should have been appointed on a competitive basis against the approved criteria on verification of their credential.

v) Standardized and legally vetted Agreement should have been executed with the Business Associates/Shipping Agents keeping in mind the interest of the Company.

7. Enclosure for reference:

Audit Para appeared in Audit Report No. 4 (Chapter-IV Transaction Audit Observation) for the year ended 31 March 2006 of Comptroller and Auditor General of India (Commercial) – Government of West Bengal.

CHAPTER IV

4 Transaction Audit Observations

Important audit findings arising out of test check of transactions made by the State Government companies/ corporations are included in this chapter.

Government companies

WEST BENGAL ESSENTIAL COMMODITIES SUPPLY CORPORATION LIMITED

4.1 The Company suffered loss of Rs 193.60 crore in export of iron ore fines in which there was violation of basic principles of financial propriety and regularity which benefited the Associates, shipping agents and foreign buyers at the cost of the Company's financial health.

Audit scrutiny revealed the following irregularities in export of iron ore fines (IOF) to China :

- No viability study was carried out nor the assistance of any other PSU engaged in export taken before embarking on the export of iron ore fines;
- Associates and shipping agents were appointed in a non-transparent manner without verifying their credentials;
- Advances were released to the Associates indiscriminately (against no security in 7 cases and grossly inadequate security in 11 cases) and were not recovered/ adjusted against final dues;
- Letters of Credit were encashed fraudulently;
- Exports were made without identifying buyers; and
- RBI directions were violated and contractual obligations dishonoured.

These are discussed in succeeding paragraphs.

4.1.1 Based on a *suo-moto* proposal (December 2003) from one V Rajagopal, the principal prime mover (PPM), the Managing Director (MD) of the Company, without the approval of the Board of Directors (BOD), decided (March 2004) to export 1.80 lakh tonnes (sale value : Rs 28.60 crore) of IOF to China through the business Associates[1], to earn profit of Rs 1.73 crore *i.e.* margin of 6.05 *per cent* on the sale value as projected by

[1] A person, acting on behalf of the Company, to undertake the logistics relating to export business of IOF

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PPM. The Board of Directors had 'noted the above position' in September 2004.

It was noticed during audit that all major decisions regarding iron ore export were taken in non-transparent manner and in violation of the basic principles of financial propriety, regularity. An *ad-hoc* EXIM Committee was stated to have been constituted. However, no records or details about the constitution or functioning of the Committee were produced to Audit. The MD constituted a Committee[2] in June 2005 to oversee export and import activities, **when the export of IOF to China had already been completed**.

4.1.2 The Company would undertake export by entering into firm contracts with foreign buyers identified by its Associates. The contracts would, *inter alia*, specify the rate, quantity, quality, delivery schedule, payment terms, method of quality checks, arbitration/ legal recourse *etc.* Accordingly, the Associates would obtain irrevocable letter of credit (LC) from the buyers in favour of the Company to ensure prompt realisation of its dues. Further, the Company would obtain status reports on the buyers from the Export Credit Guarantee Corporation of India (ECGC). Based on the buyers' requirements, the Company would arrange back-to-back contracts with its Associates for supply of the specified quantity and quality of IOF from mines, its transport to the nearest port, storage at port and loading on to the vessels chartered either by the Company (C&F[3] basis) or by buyers (FOB[4] basis), within the validity period of the LC.

The procurement of IOF, its transport to the port, storage at the port, loading on the vessels and other pre-shipment expenses would be funded from export packing credit advance (EPC), obtained from banks, for a period of 180 days. EPC would be liquidated from the export proceeds only. The onus would be on the Associates to file the requisite returns with the appropriate authorities.

4.1.3 Between July/ August 2004 and May/ June 2005, the Company exported to China on 34 vessels, 13.96 lakh dry metric tonnes (DMT) IOF (C&F value of 13.64 lakh DMT : Rs 370.49 crore, F.O.B. value of 32,267 DMT : Rs 5.87 crore) sourced through 18 Associates. Thirty three vessels were chartered through eight[5] shipping agents on C&F basis, while one vessel was shipped on FOB basis. The Company shipped IOF out of the six[6] Indian ports to 10[7] Chinese ports.

[2] consisting of General Manager, Personnel Manager, Financial Advisor and Chief Accounts Officer and Manager (Exports)
[3] Cost & freight
[4] Free on board
[5] M/S Sea Quest Shipping Pte Limited, Singapore (24); M/S Trans Globe Shipping, China(3); M/S Eastern Bulk & Shipping Co., Kolkata (1), ; M/S Prosperous Shipping HK Limited, Hong Kong (1); M/S Realm Shipping, China (1); M/S Wajilam Exports, Singapore (1); M/S ECL (Singapore) Pte. Limited, Singapore (1); M/S Emirates Trading Agency, Dubai (1).
[6] Murmugao, Panaji, Mangalore, Vishakapatnam, Paradip and Haldia
[7] Lianyugang, Tianfin, Rezhou, Antai, Qingdao, Lanshan, Xingang, Jingtang, Longkou and Qindang

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4.1.4 The Company sustained loss of Rs 193.60 crore (based on conversion of US$ one as Rs 43.50) on export of IOF as tabled below –

The Company suffered loss of Rs 193.60 crore on export of IOF.

Reasons for losses as identified in audit	Amount (Rupees in crore)	Paragraph reference
Doubtful recovery of advances related to the Associates, Shipping agents	77.30	4.1.12, 4.1.14 & 4.1.19
Doubtful recovery of dues from foreign buyers	15.95	4.1.22, 4.1.29 & 4.1.30
Payment of excess/ additional freight	18.22	4.1.16 & 4.1.18
Payment of additional interest on Export Packing credit	16.74	4.1.9, 4.1.12 & 4.1.14
Non-payment of freight by Shipping Agents to Ship Owners leading to failure to recover dues against invoices	14.70	4.1.25
Deductions by foreign buyers against invoices towards freight, storage & other charges at destination ports	14.23	4.1.28
Loss on vessel chartering business	10.22	4.1.32
Short invoicing/ short claims on foreign buyers	9.47	4.1.21 & 4.1.27
Avoidable payment of demurrage	7.07	4.1.15 & 4.1.16
Compensation for breach of contracts by the Company	6.98	4.1.26 & 4.1.30
Loss due to quality deterioration & price reduction	2.25	4.1.14
Encashment of bank guarantees by foreign buyers	0.47	4.1.14 & 4.1.17
Total	193.60	

The Company had failed to compile the accounts for 2004-05 despite repeated requests from the Statutory Auditors. In absence of annual accounts, the audit analysis has been conducted and the loss on export worked out on the basis of information furnished and records made available by the Company. The following points were noticed from the information/ records made available.

Failure to undertake viability study

The Company neither conducted viability study nor did seek guidance from any PSU before dealing in export.

4.1.5 Before taking up export of iron ore fines (a venture being undertaken for the first time) it was imperative to conduct (or have conducted) an assessment of the financial viability of such activity and provide for adequate safeguards against risk involved. Despite the Company's lack of expertise, neither was any independent viability study conducted nor was assistance sought from any other public sector undertaking engaged in export.

Funding

4.1.6 The Company financed the export of iron ore fines (IOF) through Export Packing Credit of Rs 263.94 crore against 24 LC and three contracts as well as cash credit of Rs 41.74 crore[8].

[8] Balancing figure

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Illegal use of letters of credit received from foreign buyers

4.1.7 The Company received (July 2004 – February 2005) 49 LC aggregating Rs 649.02 crore (US$ 14.92 crore) from Chinese buyers for export of 21.47 lakh DMT[9] (**Annexure - 26**). It availed (August 2004 – May 2005) export packing credit (EPC) of Rs 227.28 crore carrying interest at the rate of 6.75 *per cent per annum* from seven[10] nationalised banks against security of 24 LC. In addition, the Company also drew EPC of Rs 36.66 crore against three contracts (**Annexure- 26**).

Even after encashing these 24 LC, the Company supplied only 3.03 lakh DMT against 9.77 lakh DMT committed under these LC leading to short/ non-supply of 6.74 lakh DMT to 15 buyers who had opened LC.

The Company fraudulently withdrew Rs 24.37 crore from two banks.

Moreover, the Company **contravened the banking regulations and discounted three LC[11] with two banks to draw EPC of Rs 24.37 crore (US$ 56.03 lakh) in excess of their value, by presenting original as well as photocopies of these LC to two different banks**. The matter was not investigated to fix responsibility.

Failure to repay export packing credit - additional interest burden

4.1.8 The EPC availed was for tenure of 180 days/ one year, on expiry of which the rate of interest[12] on the outstanding balance thereon would increase from 6.75 to 10.75 *per cent*. Although the Company had realised Rs 294.41 crore (US$ 6.77 crore) against IOF exports, it repaid (March-May 2005) only Rs 77.75 crore to the banks and diverted Rs 216.66 crore to other purposes which could not be identified in audit in the absence of records. Consequently, against EPC of Rs 263.94 crore drawn, Rs 186.19 crore (70 *per cent*) remained outstanding for at least, 330 to 365 days, attracting additional interest of Rs 12.03 crore for the period from March 2005 to March 2006.

Lacunae in selection of Associates and agreements with them

The Company appointed 18 Associates without verifying their credentials and experience.

4.1.9 The Company had neither laid down any criteria for appointment of the Associates nor invited expressions of interest for their appointment as the Associates. Based on *suo-moto* proposals received, the Managing Director had approved the engagement of 18 Associates without verifying their credentials.

No agreement was signed with six Associates.

4.1.10 While the Company entered into 20 agreements with 12 Associates, it did not draw any agreement with six Associates for no reasons on record. Audit scrutiny of the agreements with the Associates revealed the following deficiencies-

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[9] Dry metric tonnes
[10] State Bank of Indore, Canara Bank, Bank of Maharashtra, Syndicate Bank, Allahabad Bank, Union Bank of India and Oriental Bank of Commerce
[11] Serial Nos.22, 36 & 44 of Annexure -26
[12] 6.75 *per cent* for first 180 days, 8.75 *per cent* for 181 - 270 days & thereafter 10.75 *per cent*

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- The Company had neither standardised its agreements with the Associates nor had these agreements vetted by the Legal wing of the Company/ legal experts to safeguard the Company's interest.
- The Company had also not entered into back-to-back agreements with the Associates.
- The Company entered into three agreements without specifying either the rate and/ or the quantity of IOF to be supplied.
- The agreements did not provide for obtaining any security against advances to be paid to the Associates except with Laxmi Global Company.
- No penalty clause for non-performance of the contracts by the Associates was provided for in twelve agreements.

Indiscriminate release of advances to Associates without obtaining any security (7 cases) and grossly inadequate security (11 cases)

4.1.11 The Company paid (March 2004 – May 2005) advances of Rs 328.02 crore to 18 Associates (**Annexure - 27**) for procurement of IOF from mines and arranging supply at the nearest port for shipment to China. Audit noticed the following deficiencies-

Advances of Rs 328.02 crore were released against nominal security of rupees two crore only in 11 cases and no security in seven cases.

- Against advances of Rs 307.72 crore paid to 11 Associates, the Company obtained (December 2004 – March 2005) security deposits aggregating rupees two crore only, while Rs 20.31 crore were released (March 2004- March 2005) to seven Associates without obtaining any security.
- The Company obtained security deposits from nine Associates after 10 to 240 days from the release of advances of Rs 85.61 crore, indicating that the Company itself financed these security deposits from the Associates.
- The Managing Director had indiscriminately released advances at 90 to 95 *per cent* of the cost of IOF to be supplied with iron content of 63.5 *per cent* for high grade IOF and 58 to 59 *per cent* for low-grade IOF. The quantity as well as actual iron content of IOF actually shipped was not reconciled with the contract/ ordered quantity and quality respectively.

Advances of Rs 15.42 crore were released to five Associates who did not deliver IOF while Rs 45.09 crore were released to 13 Associates in excess of supplies made.

4.1.12 Against advances of Rs 328.02 crore to the Associates, the Company received (August 2004 – May 2005) 13.97 lakh DMT IOF valuing Rs 267.51 crore resulting in excess advances of Rs 60.51 crore, including Rs 15.42 crore released to five Associates who did not deliver any IOF. Audit scrutiny revealed that in respect of 13 Associates, the Export Division of the Company failed even to communicate to the Accounts Division, the quantity and quality of IOF supplied by the Associates, prior to release of subsequent advances. Due to this lax co-ordination, the Company had released

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Rs 45.09 crore in excess to these Associates. These excess/ unadjusted advances resulted in excess payment of interest of Rs 4.58 crore on EPC.

Loss on first shipment due to utter mismanagement

4.1.13 The Company received (July 2004) from Zheijiang Arts and Crafts Import- Export Co. Ltd., China (ZAC) a LC of US$ 20.80 lakh for supply of 40,000 wet metric tonnes (WMT) IOF at Beilun Port, Ningbo (China) with minimum iron content of 63.5 *per cent* at US$ 52 per DMT by 25 July 2004. The Company issued a bank guarantee of US$ 67,680 (Rs 12.69 lakh) in favour of ZAC as security for performance of the contract. Accordingly, the Company arranged (July 2004) the consignment from New Mangalore port through an Associate, Balaji Export & Shipping, Mumbai (BES) and drew (August – September 2004) EPC of Rs 10.22 crore from Union Bank of India against the LC. Although BES was to supply the IOF at Rs 1,250 per DMT by 31 July 2004, *i.e.* beyond the last date of export, it failed to supply IOF even by that date.

Later, BES supplied (August 2004) only 2,391 WMT at the rate of Rs 2,325 per WMT with lower iron content of 60 *per cent*. The Company had to purchase (August 2004) 38,361 WMT from eight suppliers at New Mangalore port at Rs 1,050 to Rs 2,325 per DMT. The total quantity of 40,752 WMT (37,178 DMT), purchased at FOB cost of Rs 6.61 crore, was loaded onto M.V. Grand View for export to ZAC.

4.1.14 Meanwhile, the Company, having received (26 August 2004) another LC for US$ 25.20 lakh from another Chinese buyer *viz.* Shandong Ocean Chemical Imp. & Exp. Co. Ltd (SOC) at a higher rate of US$ 63 per DMT, diverted the IOF to SOC at Longkou port. Ultimately, the Company could invoice them for 34,421.256 DMT at the rate of US$ 53 aggregating US$ 18.24 lakh only instead of US$23.42[13] lakh due to poor quality. Thus, against an expenditure of Rs 11.67 crore including freight, the Company realised Rs 7.93 crore.

The following points were noticed in this connection :

The Company suffered loss of Rs 5.53 crore in its maiden venture.

- Since the Company had defaulted in supply to ZAC, they encashed (September/ October 2004) the bank guarantee of Rs 12.69 lakh.
- In the absence of risk purchase clause in the agreement with BES, the Company could not recover the additional expenditure of Rs 1.96 crore on purchase from other sources.
- The Company had advanced (11-18 August 2004) Rs 1.26 crore to a supplier, United Telelinks (Bangalore) Private Limited, for supply of 13,000 DMT at New Mangalore, but received only 9,057 DMT valuing Rs 91.97 lakh. The Company neither obtained balance supply nor did it recover excess advance of Rs 34.28 lakh from the supplier.

[13] 37,177.87 DMT @ US$63

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- The Company did not recover Rs 74.04 lakh from BES towards advance(Rs 60.94 lakh) and additional interest (Rs 13.10 lakh) on EPC.
- The Company failed to load 650 DMT valuing Rs 11.42 lakh and its whereabouts were not known.
- The variations in moisture and iron content between load and destination port resulted in reduced billed quantity and rate by 7.41 and 15.87 *per cent* respectively, leading to loss of Rs 2.25 crore (US$5.18 lakh).

Thus, the Company incurred loss of Rs 5.53 crore in its venture of IOF export.

Loss due to deficient performance of Associates for subsequent exports

4.1.15 The Company executed (December 2004) a contract with Swiss Singapore Overseas Enterprises Pte. Ltd. (SSOE) for shipment of 25,000 DMT by 25 December 2004 on FOB ex-Haldia. On the other hand, the Company entered (December 2004) into an agreement with an Associate, *viz.* Dolfin Exports, Bhubaneswar (Dolfin) for supply of unspecified quantity of IOF by 4 February 2005. The Company released (December 2004 – February 2005) advances of Rs 3.30 crore to Dolfin.

The Company paid demurrage and excess freight of Rs 7.30 crore due to non-performance of two Associates.

A vessel (MV Kallisto) was placed by the Company at Haldia on 19 February 2005, but the Associate supplied only 13,251 WMT. The Company arranged 6,292 WMT of IOF from three other Associates. Dolfin offered to supply further IOF from Paradip. Hence, the Company diverted the vessel to Paradip (27 February 2005), but Dolfin failed to fulfil its commitment. Ultimately, A.B.Minerals & Exports (ABM) supplied (March 2005) 19,815 WMT to aggregate 39,358 WMT. Due to delay of four days at Haldia, the Company had to pay (May 2005) demurrage of Rs 2.18 crore (US$ five lakh). Moreover, SSOE was dissatisfied with the performance of the Company and cancelled (April 2005) two subsequent orders for 80,000 DMT valuing Rs 19.84 crore (US$ 45.60 lakh).

4.1.16 Another Associate *viz.* Bharat Minmet Corporation (BMC) hired (October 2004) two[14] fully mechanised jetties at Panaji to ensure uninterrupted loading by transshipment without waiting. Despite this, there were delays of four to eleven days in loading 1,66,223 WMT on three[15] vessels at Panaji by BMC. As a result the Company paid (April/ May 2005) demurrage of Rs 4.89 crore (US$ 11.23 lakh).

Further, against 68,600 WMT to be loaded on another vessel (Maritime Light) by the same Associate, its' inability to arrange adequate IOF led to short-loading (April 2005) by 1,928 WMT. The Company, however, had to pay freight for the contracted quantity, thereby incurring excess freight of Rs 23 lakh.

[14] Vagus on the northern end and Digashi on the southern end from Salgaocar Mining Industries Private Limited
[15] Pearl of Sharjah (Four days), Navision Bulkar (Nine days) & Xinmao (11 days)

In absence of an enabling provision in the agreements for recovery of avoidable demurrage (Rs 7.07 crore) and excess freight (Rs 23 lakh) paid to the shipper, the Company sustained loss of Rs 7.30 crore on account of delayed loading/ failure to arrange cargo ready for loading.

Loss due to invocation of bank guarantees for failure to supply IOF

4.1.17 Against two LC aggregating Rs 16.29 crore (US$ 37.45 lakh) for supply of 62,500 DMT IOF obtained (July 2004/ February 2005) from two customers i.e. Xiamen International Trade Group (XITG) and Daewoo International Corporation of South Korea (Daewoo), the Company issued two bank guarantees equivalent to Rs 33.92 lakh as performance security. The Company had discounted (August- September 2004) the LC from XITG to draw an aggregate Rs 6.01 crore under Export Packing Credit. The Company, however, failed to supply IOF and the importers invoked (September 2004/ April 2005) these bank guarantees leading to loss of Rs 33.92 lakh.

Deficiencies in selecting shipping agents

The shipping agents were appointed in non-transparent manner.

4.1.18 The Company had chartered vessels for shipment of 33 consignments on C&F basis, from Indian ports to Chinese ports. Accordingly, the Company was required to enter into agreements, termed as 'voyage charter party' or 'contract of affreightment' with the vessel owners. The Company preferred to charter 33 vessels through eight shipping agents (**Annexure - 28**), on whose instructions, the Company remitted (August 2004 – May 2005) freight and demurrage of Rs 147.34 crore (US$ 3.59 crore) to Indian and foreign bank accounts. It was noticed in audit that –

No agreement was entered into directly with the vessel owners.

- The Company failed to enter into agreements with the vessel owners. Instead, it opted to work through shipping agents. These shipping agents were not selected through competitive bidding. Instead, based on previous transactions, the Company engaged Sea Quest Shipping Pte Limited, Singapore (Sea Quest) for charter of 24 vessels, while one agent (Trans Global Shipping Co. Limited) placed three vessels and the remaining six agents placed one vessel each.

Additional freight of Rs 53.36 lakh was paid for sailing between the same ports.

- The freight rates of Sea Quest fluctuated between US$ 17.50 and US$ 27 per DMT. Even though the Company noticed wide variations of 14 to 17 *per cent* in freight rates from the same loading and destination ports, it failed to invite competitive rates from various shipping agents and accepted the rates offered by Sea Quest. It was noticed in audit that two[16] vessels sailed in January 2005 from Paradip to Xingang with different freight rates of US$ 21.75 and US$ 24 per WMT respectively leading to additional payment of freight of Rs 38.10 lakh. Similarly, the Company incurred (April 2005) additional freight of Rs 15.36 lakh on two[17] other vessels from Panaji to Xingang.

[16] Sea Elegance (42,250 WMT @ US$ 21.75 per WMT) & Gulsar Ana (38,931 WMT@ US$ 24 per WMT)
[17] Selendang Tiara (70,605 WMT @ US$ 27 per WMT) & Maritime Light (66,672 WMT @ US$ 26.50 per WMT)

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The Company abetted in laundering foreign currency of Rs 17.46 crore by remitting funds abroad to unknown entities .

- The Company remitted the freight in advance through its banks on the instructions of shipping agents without any security and ensuring the genuineness of the foreign beneficiaries or ascertaining that the remittances actually reached the vessel owners or their agents. **For 12[18] vessels, the Company, on the instructions of Sea Quest, remitted more than half (US$ 65.22 lakh) of their total remittance (US$ 127.82 lakh) to the bank accounts of Connect-Well (S) Pte. Ltd. (ConWell) at New York & Singapore. In addition, for five[19] vessels, the entire freight of US$ 44.80 lakh was remitted to ConWell. The Company did not ascertain the sanctity of these payments nor did identify the services received from ConWell.**

  Against seven shipments (**Annexure - 29**) the Company had remitted Rs 37.32 crore (US$ 85.80 lakh) to foreign bank accounts all over the world through banks. Subsequently, the vessel owners claimed/ foreign buyers deducted Rs 17.46 crore (US$ 46.89 lakh) towards freight charges since they had not received their remittances towards freight charges.

Advances remitted but vessels not placed

Rupees 15.73 crore were advanced but vessels were not placed.

4.1.19 The Company had advanced (December 2004 – March 2005/ July 2004) Rs 15.50 crore (US$ 35.63 lakh[20]) and Rs 24 lakh to Sea Quest (six vessels) and Uno (one vessel) respectively although these seven vessels were never placed. Moreover, no alternate vessel was nominated. While the Company recovered (June 2005) Rs 1.50 lakh from Uno after a year, Rs 15.73 crore remained unrecovered.

Recovery of dues

4.1.20 The Company exported 13.96 lakh DMT valuing Rs 376.36 crore (US$ 8.65 crore) in 34 consignments (LC : 21, contracts : 13), against which it raised (August 2004 - August 2005) bills aggregating Rs 342.93 crore (US$ 7.88 crore) i.e. 91 *per cent* only (**Annexure - 30**). The Reserve Bank of India (RBI) regulations provide for realisation of the full export value of goods within six months from the date of shipment. Till March 2006, the Company had realised (September 2004 – November 2005) Rs 294.41 crore (US$ 6.77 crore) only against 31 consignments. The Company neither obtained credit ratings of the buyers from ECGC nor monitored timely realisation from the foreign buyers. It was noticed in audit that receipts from foreign buyers declined due to quality failure, despatch of cargo without LC *etc.*

Some instances of short-billing, under and non-realisation are discussed below.

[18] MV Pacific Scorpio, MV Chang An, MV Frontier Angel, MV Yasa Aysen, MV Sea Elegance, MV Agate, MV Sea Boss –I, MV Gold Friday – II, MV Attar, MV Pearl of Sharjah, MV Kallisto & MV Seledang Tiara
[19] MV Yick Shun, MV Jhong Hai, MV Gulsar Ana, MV Gokan & MV Eagle
[20] Including US$ 7.41 lakh to the bank accounts of ConWell at Singapore

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Short-billing of export proceeds

Despite contractual provision the Company failed to raise bills of Rs 9.06 crore on the buyers.

4.1.21 In respect of 13[21] consignments shipped (September 2004 - April 2005) against LC, the Company failed to obtain the Chinese Import- Export Inspection and Quarantine (CIQ) reports from the destination ports and consequently, it could not raise invoices on the buyers for Rs 2.70 crore (US$6.20 lakh), and had to forgo Rs 2.70 crore to the benefit of the buyers. Similarly, Rs 6.36 crore (US$ 14.63 lakh) had not been raised against eight[22] consignments shipped (March-May 2005) against contracts without LC towards 10 *per cent* of their export value of Rs 64.98 crore (US$ 1.49 crore). The contracts with foreign buyers provided that in case CIQ reports were received even after 40/ 60 days from the arrival of the vessels at destination ports, the Company could raise bills for the balance amount. The Company, however, had not raised the claim so far and in view of the limitation, the claim of Rs 9.06 crore has become time barred, resulting in loss to the Company.

Shipment without identifying buyers

4.1.22 Two Associates[23], without approval of the Company, shipped (March-April 2005) three[24] consignments (1.37 lakh DMT) without identifying their buyers. The Company subsequently appointed (April 2005) General Nice Resources (Hong Kong) Limited as its agent for sale of these consignments on payment of 60 *per cent* of the sale value to the Company as advance. The Agent would pay the balance after selling the cargo and deducting expenses and agency commission. The Company did not obtain any security from the Agent.

The Company lost Rs 4.64 crore due to post shipment sales at destination port through an agent.

The Company raised three advance invoices of Rs 27.42 crore (US$ 63.03 lakh) on the Agent and received (May 2005) the entire amount from the Agent. The Agent sold (May - July 2005) the IOF for Rs 38.64 crore (US$ 88.83 lakh) and communicated to the Company, deduction of Rs 6.58 crore (US$ 15.14 lakh) towards expenses, commission *etc.* Even after lapse of a year, the Agent had not paid the balance of Rs 4.64 crore to the Company (September 2006). In absence of any security, the possibility of recovery of Rs 4.64 crore was bleak.

Non-recovery of dues from foreign buyers

4.1.23 It was noticed during audit that the recovery of Rs 26.19 crore (US$ 60.21 lakh) towards consignments against LC was doubtful due to non-payment of vessel freight to the ship owners by Sea Quest, breach of contract by the Company and short raising of claims, as discussed in the subsequent paragraphs.

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[21] Gold Friday – I, Pacific Scorpio, Chang An, Yasa Aysen, Sea Elegance, Gulsar Ana, Zong Hai, Sea Boss – I, Gokan, Equinox Seas, Attar, Ontario & Urmila

[22] Mandarin Moon, Navison Bulker, Selendang Tiara, Saloos, Kalisto, Sagaing, Tanate & K. Silver

[23] Bharat Minmet Corporation Limited, Sayan International

[24] Navison Bulker, Selendang Tiara & Saloos

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The Company sustained loss of Rs 4.97 crore against export to a party.

4.1.24 Vessel MV Chang An was carrying a consignment for EFE (India) Limited, against LC. A foreign buyer, Rijahao Meji Trading Co. (RMT), filed an injunction for the Company's failure to supply IOF to them as agreed. The shipping documents relating to the vessel had to be delivered (December 2004) to the Court. Subsequent to the Company's settlement (July 2005) with RMT as discussed at Paragraph 4.1.30 below, the Company obtained the documents from the court. Meanwhile, Sea Quest had sold (August 2005) the IOF to Shanghai Commercial & Industrial Co., Shanghai **against forged** documents. Consequently, the Company failed to realise its dues and sustained loss of Rs 4.97 crore (US$ 11.43 lakh).

Although the Company's legal advisors had observed (September 2005) that this fraud was perpetrated with the connivance of the Company's officials, the Company did not investigate the matter to fix responsibility.

4.1.25 The freight remitted in respect of MV Eagle and MV Attar by the Company had not been received by the vessel owners (**Annexure - 29**) as discussed at Paragraph 4.1.18. Consequently, the vessel owner (MV Eagle) exercised their lien to auction and sell the cargo valued at Rs 11.76 crore (US$ 27.05 lakh). In case of the second vessel the foreign buyer, on payment of freight to the ship owner took the delivery of the consignment. But it deducted Rs 2.94 crore (US$ 6.75 lakh) from the dues payable to the Company towards freight paid to the ship owner. Thus, the Company sustained loss of Rs 14.70 crore (US$ 33.80 lakh).

The Company lost Rs 3.48 crore due to breach of contract.

4.1.26 The Company agreed (January 2005) to supply 80,000 WMT to China Sinosteel (Singapore) Pte. Ltd. (CSS) in two consignments. In terms of the agreement, CSS opened (January 2005) two LC for US$ 53.37 lakh. One LC was reduced (February 2005) to 30,000 WMT at the Company's request. Immediately thereafter, the Company communicated to CSS that a vessel (MV Sea Boss – I) was carrying the consignment for CSS, although the consignment was actually meant for a different foreign buyer, World Resources Group (Hong Kong) Ltd (WRG). Consequently, when CSS realised that the cargo was for WRG, it filed an injunction (April 2005) for breach of contract. The Company had to pay (April 2005) compensation of Rs 3.48 crore to CSS.

4.1.27 In respect of MV Agate, the Company raised (January 2005) short claim on the foreign buyer *i.e.* WRG of Rs 40.89 lakh (US$ 0.94 lakh) towards vessel freight @ US$ 23 per WMT for 61,921.20 DMT instead of 66,000 WMT, resulting in loss of Rs 40.89 lakh.

Exports without obtaining letters of credit

Loss of Rs 24.19 crore was incurred due to export at lower rates without LC.

4.1.28 The Company had eight valid LC of US$ 2.64 crore from seven potential customers for supply of 3.71 lakh DMT[25], between March and June 2005, at the rate of US$ 60 to 87 per DMT. But the Company did not export against these LC. Instead, it exported (March- May 2005) 5.33 lakh DMT[26] at

[25] Iron content of 58 to 63.5 *per cent* at the rate of US$ 60 to 87 per DMT
[26] Iron content of 57.34 to 63.78 *per cent* at the rate of US$ 43 to 85 per DMT as per invoice

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the rate of US$ 43 to 75 per DMT valuing Rs 124.85 crore (US$ 2.87 crore) in 13 consignments without irrevocable LC and confirmed buyers and sustained loss of Rs 24.19 crore (US$ 55.60 lakh).

The summarised position of export without LC is given below :-

Sl. No.	Name of Vessel (M.V.)/ Sailing Date	Quantity (in DMT)	Gross invoice value	Invoice net of penalty & deduction	Actual realisation	Shipment made without firm buyers	Consignee as per GR/ shipping bill/ date	Actual consignee/ Contract date
			(in lakh US$)					
1	**MANDARIN MOON/** 21.03.2005	33,852	16.82	12.13	1.29	To order/ 21.03.2005	Shandong Foreign Trade/ 04.03.2005	Shanghai Allison Import & Export Co. Ltd./ 08.07.2005
2	**NAVISON BULKER/** 23.03.2005	32,859	19.39	13.94	13.93	To order/ 23.03.2005	Shandong Foreign Trade/ 07.03.2005	General Nice Resources/ 22.04.2005
3	**SELENDANG TIARA/** 06.04.2005	64,025	47.80	33.16	33.16	To order/ 06.04.2005	Varomet Ltd./ 28.03.2005	-do-
4	**SALOOS/** 10.04.2005	40,307	21.64	15.95	15.95	To order/ 10.04.2005	General Nice Resources/ 07.04.2005	-do-
5	**KALISTO/** 10.04.2005	37,448	23.03	22.57	8.44	Not available	Not available	New Fortune Group/ 23.05.2005
6	**SAGAING/** 18.04.2005	10,428	6.26	5.57	5.57	To order/ 18.04.2005	Gains Trading Limited/ 12.04.2005	Shanghai Allison Import & Export Co. Ltd./ 29.07.2005
7	**TANATE/** 18.04.2005	14,559	7.43	6.94	6.59	To order/ 18.04.2005	Gains Trading Limited/ 12.04.2005	Shanghai Allison Import & Export Co. Ltd./ 08.07.2005
8	**XIN MAO/** 20.04.2005	61,935	34.81	34.48	34.38	Not available	Varomet Ltd./ 01.04.2005	Qingdao Dongping Minmetals/ 18.04.2005
9	**MARITIME LIGHT/** 24.04.2005	61,938	26.63	19.91	Nil	To order/ 25.04.2005	Varomet Ltd./ 11.04.2005	Zhejiang Material Industry/ 04.08.2005
10	**ARIEL/** 25.04.2005	30,229	14.81	12.14	12.14	To order/ 25.04.2005	Varomet Ltd./ 26.04.2005	Rizhao Meiji Trading Co./ 02.08.2005
11	**MARITIME KING/** 05.05.2005	64,492	27.73	14.84	14.85	Not available	Varomet Ltd./ 16.04.2005	Rizhao Zhongrli Native Produce Co./ 27.07.2005
12	**K. SILVER/** 07.05.2005	40,309	22.17	9.34	9.34	To order/ 07.05.2005	Not available	Antioch Singapore Trading Pte. Ltd./ 21.07.2005
13	**ARHIMIDIS/** 13.05.2005	40,529	18.24	15.14	9.14	To order/ 03.05.2005	Not available	Rizhao Zhongrli Native Produce Co./ 02.08.2005
	Total	**5,32,910**	**286.76**	**216.11**	**164.78**			
	Rupees in crore		**124.74**	**94.01**	**71.68**			

It would be seen from the above table that :-

- The Company shipped 13 consignments without firm buyers and without irrevocable LC. After shipment of consignments, the Company identified the buyers and established contracts 12 to 114 days subsequent to despatch.

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- Against twelve consignments (Nos. 1 to 4 & 6 to 13), the Company admitted claims of Rs 11.62 crore (US$ 26.72 lakh) by the foreign buyers/ agents at destination ports towards customs penalty for delayed transmission of documents by the Company (Rs 4.43 crore), discharge expenses (Rs 64.82 lakh), storage fees beyond 30 days (Rs 1.27 crore), port fees/ penalty (Rs 1.17 crore), inland transport (Rs 2.04 crore), agency commission (Rs 1.79 crore) and other miscellaneous expenses (Rs 26.95 lakh). The Company, however, had not called for the requisite documents from the foreign buyers in support of these claims.

- On five consignments (Nos. 1, 3, 9, 11 & 12), despite the Company having remitted Rs 28.51 crore (US$ 65.53 lakh) including Rs 24.67 crore (US$ 56.72 lakh) to three vessel owners, the vessel owners claimed that they had not received freight charges and threatened to withhold/ auction the cargo. The foreign buyers made these payments and deducted from the dues (Rs 17.46 crore) to the Company as discussed at Paragraph 4.1.18.

- In respect of MV Arhimidis (No. 13), the vessel owner had exercised lien on the cargo for non-receipt of freight charges in respect of another vessel i.e. MV Aline that had never shipped IOF for the Company. The Company had guaranteed payment of freight on account of MV Aline for no reason on record. Under legal advice, the Company paid the owners Rs 2.61 crore.

- Due to violation of contracts and diversion of cargo by the Company, the recovery of Rs 14.81 crore (US$34.04 lakh) against two consignments *viz.* MV Maritime Light and MV Kallisto, was doubtful as discussed in Paragraphs 4.1.29 and 4.1.30. Moreover, three foreign buyers (i.e. World Resources Group (Hong Kong) Limited, Varomet Limited and Swiss Singapore Overseas Enterprises Pvt. Ltd.) had initiated legal proceedings against the Company.

Inept handing of export without LC led to loss of Rs 46.50 crore.

Thus, due to inept handling of exports, the Company sustained loss of Rs 46.50 crore (US$ 1.07 crore).

The Company lost Rs 9.95 crore due to payment of additional custom duty and non-realisation of dues.

4.1.29 In respect of MV Maritime Light (No. 9), the entire amount (Rs 8.66 crore - US$ 19.91 lakh) remained outstanding since one of the overseas buyers World Resources Group (Hong Kong) Limited had filed a suit for Rs 10.22 crore (US$23.50 lakh) for the Company's failure to supply IOF against a contract with them and put the cargo under lien. In view of the lien, the buyer Varomet Limited, Cyprus was unable to lift the IOF. Thereafter, the Company entered (August 2005) into an agreement with Antioch Singapore Trading Pte Ltd. for sale of the cargo to Zheijiang Material Industry International Co. Limited, China. The new buyer was also unable to take delivery as the Company failed to release necessary surety to the Court and the entire amount (Rs 8.66 crore) remained unrealised. Further, the Company was liable to pay additional customs penalty of Rs 1.29 crore (US$ 2.97 lakh[27]) since the IOF was still lying (January 2006) in the Chinese port (Tianjin).

[27] From 31 August 2005 to 15 February 2006

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Inept handling of an export consignment led to loss of Rs 6.15 crore.

4.1.30 A consignment was sent (April 2005) for Swiss Singapore Overseas Enterprises Pvt. Limited (SSOE) by MV Kallisto (No. 5), against their LC that had already expired in January 2005. The Company sold the IOF to RMT at Rs 7.17 crore (US$ 16.48 lakh), at a rate that was 27 *per cent* lower than the rate offered by SSOE, leading to loss of Rs 2.65 crore (US$ 6.09 lakh). Moreover, the Company allowed RMT to deduct Rs 3.50 crore (US$ 8.04 lakh) towards compensation for consignment on MV Chang An, another vessel. This led to total loss of Rs 6.15 crore (US$ 14.13 lakh).

Profitability analysis of each consignment

4.1.31 The Company had not determined the profitability of each consignment of IOF exported. An attempt in audit was made to determine the profitability of each consignment as detailed in **Annexure - 31**. It would be seen from the Annexure that the Company incurred aggregate loss of Rs 94.57 crore on 23 consignments while earning profit of Rs 11.33 crore on 11 consignments.

The Company incurred loss of Rs 83.24 crore on export of IOF.

Thus, the Company sustained trading loss of Rs 83.24 crore on 34 export consignments with outstanding liabilities of Rs 233.23 crore to suppliers (Rs 5.30 crore) and to banks (Rs 227.93 crore) as well as receivables of Rs 147.38 crore from the Associates (Rs 65.51 crore), shipping agents (Rs 33.35 crore) and foreign buyers (Rs 48.52 crore) which were doubtful of recovery.

Financing of Vessel Chartering

Financing of vessel chartering without approval of the Board ended up with unrealised dues of Rs 10.22 crore.

4.1.32 The MD had entered (December 2004) into a single page memorandum with Sea Quest valid for two years, under which the Company would release advance to Sea Quest, towards vessel freight for carrying IOF from India to China, on behalf of two[28] firms. According to the memorandum, Sea Quest would release the Bills of Lading to the firms only after the Company confirmed receipt of freight reimbursement, interest[29] on advance and margin of one US dollar per WMT from them. The BOD of the Company had not approved this activity. The Company did not enter into agreements with the two firms nor did it spell out the terms and conditions with Sea Quest through a formal agreement.

On the instructions of Sea Quest, the Company remitted (December 2004 - March 2005) freight advance of Rs 18.03 crore for four[30] vessels, to different foreign bank accounts. Under the memorandum, the Company was entitled to Rs 19.88 crore (US$ 45.70 lakh) till March 2006.

It was noticed during audit that against dues of Rs 10.54 crore (US$ 24.24 lakh), these two firms paid (January-February 2005) Rs 9.65 crore (US$ 22.18 lakh) only to the Company towards first two vessels (MV Equinox Dawn & MV Aventurero DOS). Sea Quest released the Bills of Lading to

[28] Prosperity Steel (Asia) Company Limited, HongKong (PSAC) and Steven, Stephan & Tonny International Trading, Shanghai (SSTIT)
[29] From the date of release of fund till reimbursement
[30] MV Equinox Dawn, MV Aventurero DOS, MV Darya Bhakti & MV Arnes

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them without the Company's confirmation. Instead of taking action against Sea Quest, the Company financed two more vessels against which the entire amount of Rs 9.33 crore (US$ 21.45 lakh) was outstanding. As a result, the Company was unable to realise Rs 10.22 crore, due to failure to enter into agreements.

IOF stock lying at Indian ports

4.1.33 Since the Company had procured IOF without identifying the foreign buyers, 84,551 MT (value not ascertained) was lying at Haldia (74,051 MT) and Paradip (10,500 MT) ports for more than three months (as of April 2005). The Company, however, neither verified the physical existence of the stock nor succeeded in selling this stock. Consequently, lending banks undertook (August- September 2005) verification of stock at different locations at these two ports and found that in July 2005, the physical stock stood at 58,168 MT showing shortage of 26,383 MT at Haldia (15,883 MT) and Paradip (10,500 MT). No investigation into the matter had been carried out.

Non - submission of prescribed returns and raising export benefit claims

The Company did not file returns with regulatory authorities.

4.1.34 The Company and its Associates were required to submit the prescribed returns to different regulatory authorities like the Reserve Bank of India and Director General of Foreign Trade. The Company was, however, unable to furnish duly acknowledged copies of the prescribed returns. Moreover, the Company neither ascertained the export benefits it was eligible to avail nor submitted any claims.

Thus huge losses were inflicted on the Company by taking up export of iron ore fines without viability study, selection of Associates and shipping agents in a non-transparent manner, without verifying their credentials. Export Packing Credit was drawn against LC which were not executed, advances were released indiscriminately and payments to Associates and shipping agents were made without securing the Company's financial interest. There was double encashment of LC, violation of RBI directives and violation of contractual obligations. Basic principles of financial propriety, regularity and accountability were flouted. In view of the above, there is a need for a through investigation of all the transactions relating to the export of iron-ore fines, to fix responsibility for appropriate action.

The preliminary findings were communicated to the Management on 12 July 2005 and discussed with the Managing Director of the Company on 13 July 2005. These matters were again communicated to the Government/ Management (April 2006).

The Government stated (July 2006) that *prima facie* there were various irregularities of functioning which could be pinpointed as extreme risk-taking and/ or motivated manipulation, only after examination. In the meantime, the Government had ordered a detailed investigation into the whole affair. The Company had also taken suitable administrative measures and the new MD had been inducted in February 2006. It was, however, noticed in audit that no reshuffle of the Company's officials involved in these transactions had occurred (September 2006). Further, copy of the Government's order for initiating investigation was not furnished to Audit, though called for (July 2006). Further report is awaited.