REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

on

PUBLIC SECTOR UNDERTAKINGS

for the year ended 31 March 2017

Government of Kerala

Report No. 5 of the year 2018

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APPENDICES

Preface

This Report deals with the results of audit of Government Companies, Statutory Corporations and Departmental Commercial Undertakings for the year ended 31 March 2017.

The accounts of the Government Companies (including companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to supplementary audit by the officers of the CAG and the CAG gives his comments or supplements the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by the CAG.

The Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by the CAG for laying before the State Legislature of Kerala under the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

CAG also conducts the audit of accounts of the Kerala State Road Transport Corporation, Kerala Industrial Infrastructure Development Corporation, Kerala State Warehousing Corporation and Kerala Financial Corporation as per their respective Legislations.

The instances mentioned in this report are those, which came to notice in the course of test audit for the period 2016-17 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports. The matters relating to the period subsequent to 2016-17 have also been included, wherever felt necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the CAG.

Overview

OVERVIEW

Chapter I Functioning of State Public Sector Undertakings

The State Public Sector Undertakings (PSUs), consisting of State Government companies and Statutory corporations, are established to carry out activities of a commercial nature. Audit of Government companies is governed by Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013. The accounts of the State Government companies are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139 (5) or (7) of the Companies Act, 2013. These accounts are also subject to supplementary audit conducted by CAG, as per the provisions of Section 143(6) of the Companies Act, 2013. Audit of Statutory corporations is governed by their respective legislations.

As on 31 March 2017, State of Kerala had 115 working PSUs (111 companies and 4 Statutory corporations) and 15 non-working PSUs (including four under liquidation), which employed 1.19 lakh employees. The working PSUs registered a turnover of ₹26,463.28 crore as per their latest finalised accounts. This turnover was equal to 4.04 *per cent* of Gross State Domestic Product indicating the important role played by State PSUs in the State's economy. The working PSUs accumulated loss of ₹6,348.10 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2017, the total investment (capital and long term loans) in 130 PSUs was ₹27,106.88 crore.

Arrears in accounts

There were 265 accounts in arrears in respect of 101 working PSUs as of 30 September 2017. The extent of arrears ranged from 1 to 14 years.

Performance of PSUs

The Return on Capital Employed of working PSUs as per their latest finalised accounts as of September 2017 worked out to 6.05 *per cent* and the Return on Equity, however, was (-) 49.94 *per cent*.

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 45 PSUs earned profit of ₹382.84 crore, 64 PSUs incurred loss of ₹2,216.01 crore and two PSUs had no profit or loss. Four working PSUs did not (September 2017) finalise any of their accounts. The major contributors to profit were Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹151.06 crore in 2014-15), The Kerala State Financial Enterprises Limited (₹35.87 crore in 2015-16) and Kerala State Industrial Development Corporation Limited (₹25.66 crore in 2016-17). The major PSUs, which incurred loss are Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), Kerala State Electricity Board Limited (₹313.29

crore in 2015-16) and The Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15).

Quality of accounts

During the year, out of 97 accounts of companies finalised, the Statutory Auditors gave unqualified certificates for 25 accounts, qualified certificates for 49 accounts, disclaimer certificate for 21 accounts and adverse certificates (which mean that accounts do not reflect a true and fair view) for two accounts. Additionally, CAG gave comments on 40 accounts during the supplementary audit. The compliance of companies with the Accounting Standards (AS) remained poor. There were 119 instances of non-compliance of AS in 41 accounts of 35 companies during the year.

Chapter II Performance Audits relating to Government companies

The report includes observations emanating from the Performance Audits on the following subjects/ issues:

2.1 Promotion and Development of coir and handloom sectors in Kerala

Introduction

In Kerala, as of March 2017, there were 1.89 lakh workers and 0.19 lakh weavers in coir and handloom sectors respectively under the co-operative fold. There were 564 working societies in coir sector and 409 working societies in handloom sector. Similarly, there were six PSUs/ organisations, engaged in the promotion and development of the respective sectors.

Implementation of schemes and monitoring by Government of Kerala (GoK)

Measures outlined and suggested in the report of Coir Commission (2008) were not implemented. The mechanisations and modernisation of working units, liquidation /revival/reorganization of dormant societies and welfare measures contemplated were not progressing at the expected pace in both sectors. Absence of reliable data prevented formulation of strategic approach for the coir and handloom sectors.

Promotion and Development programmes

Raw material support

Husk collection scheme and revival of defibering units initiated by Directorate of Coir Development could not resolve the issue of non-availability of raw material in coir sector, which in turn made them dependent on other States and their products less competitive.

Financial Support

Financial support extended by GoK in the form of Working capital assistance scheme for coir sector and Revival, Reform and Restructuring package for handloom sector was deficient in respect of absence of monitoring and deviation from scheme guidelines.

Marketing Support

Societies could not avail the full benefit of market assistance schemes and programmes due to the delays in processing of claims and release of assistance by Directorates. Failure to register under handloom mark scheme, and non-conduct of expos resulted in loss of opportunity to showcase the handloom products.

Infrastructure Development and modernisation

The infrastructure development and modernisation schemes and programmes implemented for the development of both coir and handloom sectors were partially effective because of inadequate coverage, delay in implementation, absence of/deviation from guidelines, *etc*.

Welfare of workers and weavers

Welfare measures initiated by GoK though ensured standard of living through minimum wages, pension and insurance, did not cover the entire sector. The implementation was also marred by delays in payments and deviation from guidelines.

Chapter III Performance Audits relating to statutory corporations

3.1 Development and Maintenance of Industrial Infrastructure in the State of Kerala by Kerala Industrial Infrastructure Development Corporation

Introduction

Kerala Industrial Infrastructure Development Corporation (Corporation) was set up under the Kerala Industrial Infrastructure Development Act, 1993 for establishing industrial estates equipped with infrastructure facilities. The Corporation acquired 3,151.44 acres of land and developed 22 industrial parks in the land so acquired including 12 Standard Design Factories till December 2017.

Identification of land for Industrial Development Zone

During the five-year period ending 31 March 2017, the Corporation obtained Administrative Sanctions from Government of Kerala (GoK) for acquisition of 4,087 acres of land. Acquisition, however, did not commence as the land identified was either not in conformity with the Corporation’s selection criteria or with the Kerala Conservation of Paddy Land and Wetland Act, 2008 in respect of 1,320 acres of land.

Development of land and infrastructure

Comprehensive Rehabilitation and Resettlement Policy of GoK for land acquisition stipulates utilisation of land within three years. Development activities in 233.62 acres of land acquired during 2010-11 to 2013-14 were not completed.

GoK placed (2009 to 2017) 173.57 acres of land belonging to seven Companies/Societies at the disposal of the Corporation for industrial development. The Corporation was yet to utilise the industrial land on account of encroachment, delay in applying for exemption under various Acts, Rules, Notifications, *etc*.

Infrastructure development works

The Corporation undertakes infrastructure development works on the land acquired for allotment to entrepreneurs. Audit of 23 contracts out of 104 contracts under execution during 2012-13 to 2016-17 in respect of development works revealed that work was awarded on single bid basis without valid justification in three cases (₹2.08 crore).

Engagement of Project Management Consultants

The Corporation engaged Project Management Consultants (PMC) for infrastructure development works from a panel constituted in June 2012. Audit observed that the Corporation appointed three PMCs from the panel after its expiry in June 2016. The Corporation did not invite competitive offers from other members in the panel to ensure competition in violation of GoK guidelines.

The Corporation also engaged three PMCs from the GoK accredited panel for five projects. In one project, the Corporation awarded PMC work to INKEL, a member in the GoK accredited panel, disregarding the technical and financial advantage from the offer of a member from its own panel leading to commitment of extra expenditure of ₹3.46 crore.

Allotment and post allotment monitoring

Details of availability of plot/space along with site location and applicable rate within a particular park were not available in public domain. This deprived prospective entrepreneurs of the required information to apply for allotment.

As per conditions of allotment, the allottee will have to commence the commercial production within two years after allotment. Out of 1,779.18 acres of land allotted, an area of 215.66 acres remained unutilised without commencement of production.

Fixation of price for allotment of land

The Corporation approved pricing policy stipulating basis and guidelines for fixing lease premium. Audit noticed instances of imbalance in pricing.

Sharing of accumulated expenditure of the Industrial Park as a whole to future allotments alone led to increase in lease premium per acre ranging from ₹0.11 lakh to ₹32.26 lakh in eight parks.

Implementation of Infrastructure projects with assistance of GoI

The Corporation was the nodal agency for implementation of scheme under 'Assistance to States for Developing Export Infrastructure and Other Allied Activities (ASIDE)'. The Corporation met administrative expenses of ₹96 lakh from ASIDE fund in violation of the scheme guidelines. Even after release/sanction of funds of ₹46.18 crore under ASIDE scheme for four projects, necessary infrastructure was not created resulting in non-achievement of scheme objectives.

Chapter IV Compliance Audit observations

Compliance Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- Loss/irregular expenditure of ₹70.58 crore due to non-compliance with rules, directives, procedures, terms and conditions of Acts/contracts/agreements.

  (Paragraphs 4.1, 4.2, 4.3 and 4.8)

- Loss/extra expenditure/avoidable liability of ₹5.70 crore due to non-safeguarding the financial interests of the organisation.

  (Paragraphs 4.4, 4.6, 4.7 and 4.10)

- Idling/Blocking up of fund of ₹0.82 crore.

  (Paragraphs 4.5 and 4.9)

Gist of some of the important audit observations is given below:

- ➢ Malabar Cements Limited (Company) did not update its purchase policy and procedures in tune with revised Stores Purchase Manual (SPM)/Government Orders and did not fix any time frame for procurement process. The Company did not comply with SPM provisions relating to e-tender, fixation of validity of tender, splitting of purchase orders and collection of Earnest Money Deposit. The Company failed to collect security deposit, levy liquidated damages as per SPM. Procurement of coal without exercising quality checks resulted in extra expenditure and non-compliance to BIS Standards in production resulted in production loss.

  (Paragraph 4.1)

- E-tendering was envisaged as a mechanism to ensure complete transparency in the procurement process in The Kerala State Civil Supplies Corporation Limited (Company), avoiding human intervention. But, the system of negotiation followed by the Company exposed it to the risk of manipulation by bidders by holding back their best rates, capturing major share of purchase orders after knowing the competitors' rates. Non-diversification of supply sources resulted in excessive dependence on intermediaries and consequent purchases at higher costs. The Company was not able to maintain optimum stock levels in depots due to restriction of purchase quantities, which even resulted in stock-out situations during times of price rise. Quality assurance mechanism of the Company also called for stronger monitoring and control.

(Paragraph 4.2)

- The e-Governance initiatives implemented in the State enabled it to be ranked among the leading States in the Country in terms of volume of transactions. However, inadequacies in co-ordination of e-Governance initiatives of various departments/agencies by Electronics and Information Technology Department resulted in duplication of expensive infrastructure. There were deficiencies in ensuring security of data hosted by State Data Centre due to non-formulation of disaster recovery and business continuity plans and absence of independent security audit of State Data Centre 1. Aim of electronic service delivery through a single gateway remained unachieved as only 34 services were available through the State Portal.

(Paragraph 4.3)

- The Kerala Minerals and Metals Limited incurred extra expenditure of ₹41.20 lakh in procurement of paper packing bags due to limiting the order quantity of the lowest bidder while simultaneously procuring at higher rates from other bidders.

(Paragraph 4.6)

- Kerala Feeds Limited incurred avoidable loss due to non-adherence to instructions of Reserve Bank of India on e-payments.

(Paragraph 4.7)

Chapter I

Functioning of State
Public Sector Undertakings

CHAPTER I

Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) in Kerala consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature. As on 31 March 2017, there were 130 PSUs in Kerala. No company was listed on the stock exchanges as on 31 March 2017. One PSU[1] was incorporated in the year 2015-16 and one PSU[2] was incorporated in the year 2016-17. The details of the State PSUs in Kerala as on 31 March 2017 are given in **Table 1.1**:

Table 1.1: Total number of PSUs as on 31 March 2017

Sl. No.	Type of PSUs	Working	Non-working	Total
1	Government company	111	15	126
2	Statutory corporation	4	0	4
	Total	**115**	**15**	**130**

The working PSUs registered a turnover of ₹26,463.28 crore as per their latest finalised accounts as of September 2017. This turnover was equal to 4.04 *per cent* of Gross State Domestic Product (GSDP) for 2016-17. The working PSUs incurred aggregate loss of ₹1,833.17 crore as per their latest finalised accounts. They employed 1.19 lakh employees at the end of March 2017.

As on 31 March 2017, there were 15 non-working PSUs having investment of ₹111.65 crore. They were non-functioning for the last 11 to 33 years. This was a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

Accountability framework

1.2 The accounts of Government companies are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government company means any company in which not less than fifty one *per cent* of the paid up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company, which is a subsidiary company of such a Government company.

Further, as per Section 143(7) of the Act, CAG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of Section 19 A of CAG's (Duties, Powers and

[1] **Cochin Smart Mission Limited (incorporated in March 2016).**
[2] **Kerala Rail Development Corporation Limited (incorporated in January 2017).**

Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments, is subject to audit by CAG. An audit of the financial statement of a company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

1.3 The financial statements of the Government companies are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act. They shall submit a copy of the Audit Report to CAG including financial statements of the company under Section 143(5) of the Act. These financial statements are subject to supplementary audit to be conducted by CAG within sixty days from the date of receipt of the audit report as per the provisions of Section 143(6) of the Act.

Audit of Statutory corporations is governed by their respective legislations. Out of four Statutory corporations, CAG is the sole auditor for Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation. In respect of Kerala State Warehousing Corporation and Kerala Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit done by CAG.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. Government appoints the Chief Executive and the Directors to the Board.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Report and comments of CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Kerala

1.5 The State Government's stake in the PSUs is of mainly three types:

- **Share Capital and Loans -** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support -** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.

- **Guarantees -** State Government also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

Investment in State PSUs

1.6 As on 31 March 2017, the investment (capital and long-term loans) in 130 PSUs was ₹27,106.88 crore as per details given in **Table 1.2**:

Table 1.2: Total investment in PSUs

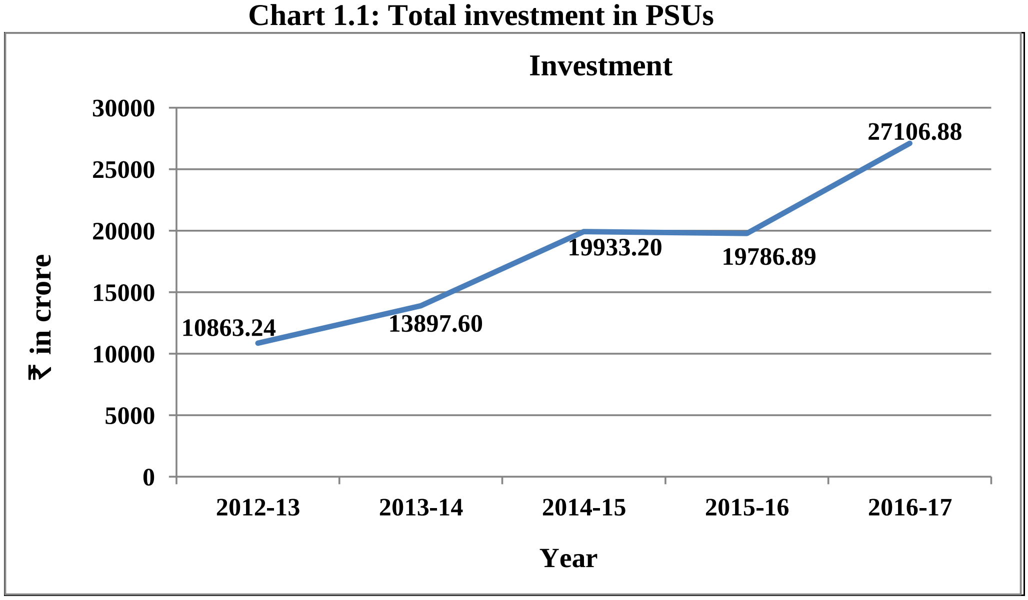
(₹ in crore)

Sl. No.	Type of PSUs	Government companies			Statutory corporations			Grand Total
		Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
1	Working PSUs	8,123.67	10,671.61	18,795.28	1,030.25	7,169.70	8,199.95	26,995.23
2	Non-working PSUs	44.87	66.78	111.65	0.00	0.00	0.00	111.65
	Total	**8,168.54**	**10,738.39**	**18,906.93**	**1,030.25**	**7,169.70**	**8,199.95**	**27,106.88**

(Source: Data furnished by PSUs)

As on 31 March 2017, of the total investment in State PSUs, 99.59 *per cent* was in working PSUs and the remaining 0.41 *per cent* in non-working PSUs. This total investment consisted of 33.94 *per cent* towards capital and 66.06 *per cent* in long term loans. The investment increased by 149.53 *per cent* from ₹10,863.24 crore in 2012-13 to ₹27,106.88 crore in 2016-17 as shown in **Chart 1.1**:

Chart 1.1: Total investment in PSUs



1.7 The sector wise summary of investments in the State PSUs as on 31 March 2017 is given in **Table 1.3**:

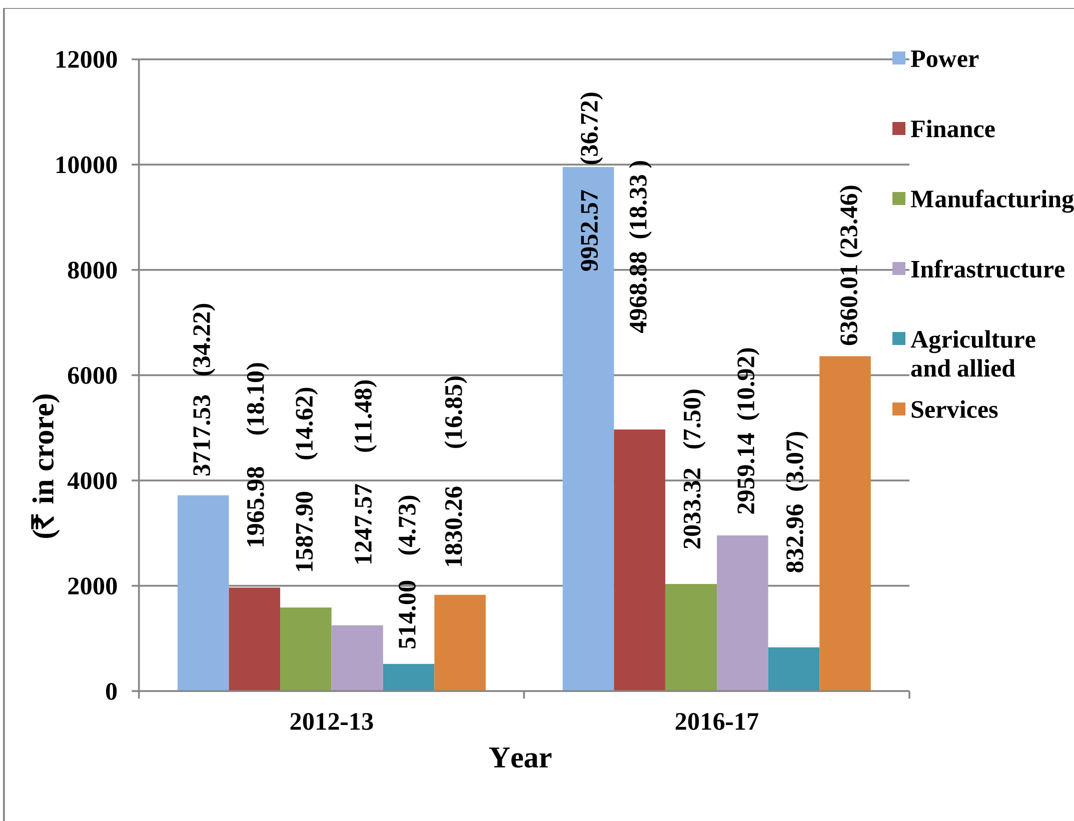
Table 1.3: Sector-wise investment in PSUs

Sl. No.	Name of sector	Government companies	Statutory corporations	Total	Investment (₹ in crore)
		(Number)			
1	Power	3	…	3	9,952.57
2	Finance	18	1	19	4,968.88
3	Manufacturing:				
	Working	35	…	35	1,921.67
	Non-working	15	…	15	111.65
4	Infrastructure	16	1	17	2,959.14
5	Agriculture and allied	17	1	18	832.96
6	Services	22	1	23	6,360.01
	Total	**126**	**4**	**130**	**27,106.88**

(Source: Data furnished by PSUs)

The investment in various sectors and *percentage* thereof at the end of 31 March 2013 and 31 March 2017 are indicated in **Chart 1.2**:

Chart 1.2: Sector-wise investment in PSUs



(Figures in brackets show the sector percentage to total investment)

The thrust of PSU investment was mainly in power sector, which increased from ₹3,717.53 crore in 2012-13 to ₹9,952.57 crore in 2016-17, thus, registering an increase of 167.72 *per cent*. Investment in service sector also increased substantially from ₹1,830.26 crore in 2012-13 to ₹6,360.01 crore in 2016-17 with an increase of 247.49 *per cent*.

Financial support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off, interest waived, guarantees issued and guarantee commitement in respect of State PSUs for three years ended 2016-17 are given in **Table 1.4**:

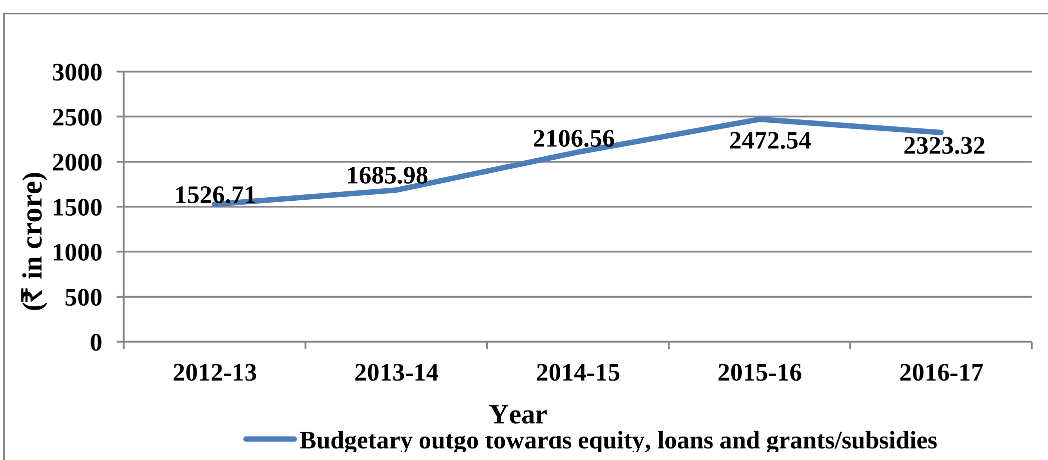
Table 1.4: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1	Equity Capital outgo from budget	23	357.84	19	305.93	17	362.94
2	Loans given from budget	18	354.92	19	358.19	18	154.92
3	Grants/Subsidy given	32	1,393.80	25	1,808.42	28	1,805.46
4	**Total outgo (1+2+3)**		**2,106.56**		**2,472.54**		**2,323.32**
5	Loans written off and interest waived	1	23.98	1	5.07	3	6.20
6	Guarantees issued	7	4,696.34	9	4,989.66	8	6,150.72
7	Guarantee commitment	14	5,579.21	17	6,484.74	11	7,549.92

(Source: Data furnished by PSUs)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in **Chart 1.3**:

Chart 1.3: Budgetary outgo towards equity, loans and grants/subsidies



The above chart indicates that the budgetary assistance in the form of equity, loans and grants/subsidies by the Government of Kerala (GoK) to PSUs increased from ₹1,526.71 crore in 2012-13 to ₹2,323.32 crore in 2016-17. During 2016-17, GoK worte off loans and waived interest aggregating ₹6.20 crore due from three[3] PSUs as against ₹5.07 crore waived during the previous year 2015-16.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under the Kerala Ceiling on Government Guarantee Act, 2003, subject to the limits prescribed by the Constitution of India, for which guarantee commission is being charged. The Government would charge a minimum of 0.75 *per cent* as guarantee commission, which shall not be waived under any circumstances. The guarantee commitment increased to ₹7,549.92 crore during 2016-17 from ₹6,484.74 crore in 2015-16. Further, out of ₹103.96 crore guarantee commission payable by 28 PSUs, 17 PSUs[4] paid ₹70.40 crore during 2016-17. The accumulated/outstanding guarantee commission payable by 17 PSUs was ₹33.56 crore as on 31 March 2017. The PSUs, which had major arrears were Kerala State Electricity Board Limited (₹13.78 crore), Kerala State Electronics Development Corporation Limited (₹5.36 crore), Kerala State Road Transport Corporation (₹5.06 crore) and Kerala State Cashew Development Corporation Limited (₹3.92 crore).

Reconciliation with Finance Accounts

1.9 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case, the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of such variations. The position in this regard as on 31 March 2017 is stated in **Table 1.5**.

Table 1.5: Equity, loans and guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	Equity	4,597.86	8,167.13	3,569.27
2	Loans	6,883.41	3,769.49	3,113.92
3	Guarantees	9,828.26	7,549.92	2,278.34

(Source: Data furnished by PSUs and Finance Accounts)

Audit observed that the differences occurred in respect of 105 out of 130 PSUs. The Principal Accountant General, (Economic & Revenue Sector Audit), Kerala (PAG) took up this matter from time to time with the Chief Secretary, Principal Secretary (Finance), Secretaries of departments of GoK concerned and individual PSUs so as to reconcile the differences. GoK did not initiate any action for reconciliation of differences. A team from office of the PAG was deputed to reconcile the differences. The team reconciled the

[3] Meat Products of India Limited (₹0.53 crore), The Kerala State Backward Classes Development Corporation Limited (₹0.59 crore) and SAIL- SCL Kerala Limited (₹5.08 crore).

[4] Six PSUs made payments partially during the year 2016-17.

differences in respect of 36 PSUs. In the absence of reconciliation of differences, proper accounting of investment made by State Government in PSUs could not be ensured. Thus, GoK and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 136 (1) read with Sections 129 (2) and 96 (1) of the Act. Failure to do so may attract penal provisions under Section 129 (7) of the Act. Similarly, in case of Statutory corporations, their accounts are required to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table 1.6 provides the details of progress made by working PSUs in finalisation of accounts as on 30 September 2017:

Table 1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Number of working PSUs	101	109	111	113	115
2	Number of accounts finalised during the year	118	101	95	103	101
3	Number of accounts in arrears	194	198	239	252	265
4	Number of working PSUs with arrears in accounts	75	83	94	96	101
5	Extent of arrears (in years)	1 to 12	1 to 11	1 to 19	1 to 20	1 to 14

(Source: Data collected from PSUs)

It can be observed that the number of accounts in arrears increased from 194 in 2012-13 to 265 in 2016-17. The number of accounts in arrears includes 259 accounts of 98 Government companies[5] and six accounts of three[6] Statutory corporations.

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. Though the Administrative Departments concerned were informed regularly (twice a year) by the Principal Accountant General (Economic & Revenue Sector Audit), Kerala, the number of accounts in arrears was still on higher side. In addition, this issue was also discussed in the Apex Committee meetings convened (December 2016 and June 2017) by the Chief Secretary. However, no improvement was noticed. It was further observed that though many PSUs had

[5] **Excluding Kerala Rail Development Corporation Limited (incorporated in January 2017).**

[6] **Kerala State Warehousing Corporation Limited (2014-15 to 2016-17), Kerala State Road Transport Corporation (2015-16 to 2016-17) and Kerala Industrial Infrastructure Development Corporation (2016-17).**

not finalised their accounts for long, yet the Registrar of Companies did not take any penal action under Section 129 (7) of the Act.

1.11 The State Government invested ₹4,856.71 crore in 57 working PSUs {Equity: ₹664.47 crore (25 PSUs), loans: ₹558.46 crore (24 PSUs) and grants ₹3,633.78 crore (35 PSUs)} during the years in respect of which accounts were not finalised as detailed in ***Appendix 1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment and expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not and thus, Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In addition to the above, as on 30 September 2017, there were arrears in finalisation of accounts by non-working PSUs. Their details are given in **Table 1.7**. Out of 15 non-working PSUs, four PSUs[7] were in the process of liquidation whose 22 accounts[8] were in arrears. Of the remaining 11 non-working PSUs, 129 accounts were in arrears.

Table 1.7: Position relating to arrears of accounts in respect of non-working PSUs

Number of non-working companies	Period for which accounts were in arrears	Number of accounts in arrears
15	1985-86 to 2016-17	151

(Source: Data furnished by PSUs)

In respect of non-working companies where accounts were in arrears starting from 1985-86 onwards, the progress in finalisation of the accounts was poor. For example, only two[9] out of 15 non-working PSUs finalised their accounts during 2016-17.

Placement of Separate Audit Reports

1.13 Separate Audit Reports (SARs) are audit reports of CAG on the audit of accounts of Statutory Corporations. Theses SARs are to be laid before the Legislature as per provisions of the respective Acts. The position depicted in **Table 1.8** shows the status of placement of Separate Audit Reports (SARs) issued by CAG (upto 30 September 2017) on the accounts of Statutory corporations in the Legislature.

[7] Keltron Rectifiers Limited, Keltron Power Devices Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.
[8] Excluding accounts of Kunnathara Textiles Limited and Vanjinad Leathers Limited (data regarding finalisation of their accounts were not available).
[9] Keltron Counters Limited (2004-05 to 2012-13) and Kerala State Wood Industries Limited (2012-13 to 2013-14).

Table 1.8: Status of placement of SARs in Legislature

Sl. No.	Name of Statutory corporation	Years up to which SARs placed in Legislature	Years for which SARs issued but not placed in the Legislature
1	Kerala State Road Transport Corporation	2011-12	2012-13 and 2013-14
2	Kerala Financial Corporation	2015-16	
3	Kerala State Warehousing Corporation	2011-12	2012-13
4	Kerala Industrial Infrastructure Development Corporation	2014-15	

(Source: Data furnished by PSUs/ GoK)

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Impact of non-finalisation of accounts

1.14 The delay in finalisation of accounts as pointed out above (***Paragraphs 1.10 to 1.12***), may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the Gross State Domestic Product for the year 2016-17 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.
It is, therefore, recommended that:

- The Government may set up a special cell to oversee the clearance of arrears and set the targets for individual companies, which may be monitored by the special cell.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalised accounts

1.15 The financial position and working results of working Government companies and Statutory corporations are detailed in ***Appendix 2***. A ratio of PSU turnover to GSDP shows the extent of PSU activities in the State economy. **Table 1.9** provides the details of working PSUs' turnover and GSDP for a period of five years ending 2016-17:

Table 1.9: Details of working PSUs' turnover *vis-a-vis* GSDP

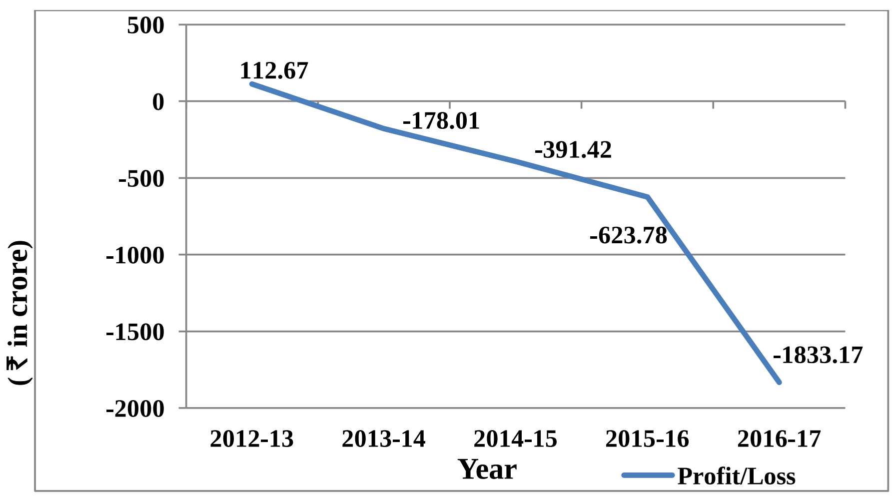
(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Turnover[10]	18,486.21	17,586.85	19,194.06	19,878.35	26,463.28
2	GSDP	4,12,313	4,65,041	5,26,002	5,88,337	6,55,205
3	*Percentage* of Turnover to GSDP	4.48	3.78	3.65	3.38	4.04

(Source: Data furnished by PSUs)

1.16 Overall profit earned or loss incurred by State working PSUs as per their latest finalised accounts during the period 2012-13 to 2016-17 are given in **Chart 1.4**:

Chart 1.4: Profit (+)/Loss (-) of working PSUs



An analysis of the latest finalised accounts of all working PSUs in the State revealed that 45 PSUs earned profit of ₹382.84 crore, 64 PSUs incurred loss of ₹2,216.01 crore and two PSUs had no profit or loss. Four working PSUs did not (September 2017) finalise their first accounts. The major contributors to profit were Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹151.06 crore in 2014-15), The Kerala State Financial Enterprises Limited (₹35.87 crore in 2015-16) and Kerala State Industrial Development Corporation Limited (₹25.66 crore in 2016-17). The major PSUs, which incurred loss are Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), Kerala State Electricity Board Limited (₹313.29 crore in 2015-16) and the Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15).

1.17 Some other key parameters of working PSUs as per their latest finalised accounts as on 30 September 2017 are given in **Table 1.10**:

[10] **Turnover as per the latest finalised accounts as of 30 September of every year.**

Table 1.10: Key Parameters of State working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Return on Capital Employed (*per cent*)	9.21	5.48	6.06	7.28	6.05
2	Return on Equity (*per cent*)	0.98	(-) 1.49	(-) 3.14	(-) 10.06	(-) 49.94
3	Debt (₹ in crore)	5,620.44	8,391.62	8,912.96	10,344.42	12194.78
4	Turnover (₹ in crore)	18,486.21	17,586.85	19,194.06	19,878.35	26463.28
5	Debt/Turnover Ratio	0.30:1	0.48:1	0.46:1	0.52:1	0.46:1
6	Interest Payments (₹ in crore)	1,185.61	1,039.87	1,508.11	1,558.16	2545.45
7	Accumulated profit/loss (-) (₹ in crore)	289.81	(-) 284.62	(-) 198.94	(-) 3,136.82	(-) 6348.10

(Source: Data furnished by PSUs)

1.18 GoK formulated (December 1998) a Dividend Policy under which all PSUs are required to pay a minimum return of 20 *per cent* on the paid up share capital contributed by it. As per the latest finalised accounts, 45 working PSUs earned an aggregate profit of ₹382.84 crore. Out of these, 9 PSUs declared an aggregate dividend of ₹32.04 crore. Only two[11] PSUs, however, complied with the State Government Policy on dividend payment. As a result, there was short payment of dividend to the extent of ₹76.30 crore by 42 PSUs[12].

Winding up of non-working PSUs

1.19 There were 15 non-working PSUs as on 31 March 2017. Of these, four PSUs commenced their liquidation process. The number of non-working companies at the end of each year during past five years are given in **Table 1.11**:

Table 1.11: Non-working PSUs

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Number of non-working companies	16	16	15	15	15

(Source: Data furnished by PSUs)

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered for their closure or revival.

[11] **Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (2014-15) and the Kerala State Financial Enterprises Limited (2015-16).**

[12] **One PSU was a Statutory Corporation which did not have any paid up share capital.**

1.20 The stages of closure in respect of non-working PSUs are given in **Table 1.12**:

Table 1.12: Closure of non-working PSUs

Sl. No.	Particulars	Government companies
1	Total number of non-working PSUs	15
2	Of (1) above, number under:	
(a)	Liquidation by court (liquidator appointed)	4[13]
(b)	Voluntary winding up (liquidator appointed)	…
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	11

(Source: Data furnished by PSUs)

Orders/ instructions for closure of the above PSUs were issued between 1990-91 and 2016-17. Out of these, liquidation process in respect of the four PSUs was ordered by court and liquidators were appointed between August 1990 and May 2006. Liquidation process in respect of these PSUs was continuing. Two PSUs opted for Fast Track Exit Mode Scheme. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted and pursued vigorously. Non-winding up/non-closure of non-working PSUs for a long time is a matter of concern in view of the cost being incurred on their existence without any tangible benefit. The Government may, therefore, make an early decision regarding winding up of nine non-working PSUs where closing orders/instructions were issued but liquidation process was not started.

Accounts Comments

1.21 Seventy working companies forwarded their 97 audited accounts to PAG during the year 2016-17. Of these, 64 accounts of 40 companies were selected for supplementary audit while non-review certificates were issued in respect of 33 accounts of 32 companies[14]. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts required to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given in **Table 1.13**:

[13] Keltron Power Devices Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

[14] In respect of two PSUs (SAIL-SCL Kerala Limited and The Kerala Land Development Corporation Limited) which forwarded two accounts each during the year 2016-17, one account each was selected for supplementary audit.

Table 1.13: Impact of audit comments on the accounts of working companies

(Amount ₹ in crore)

Sl. No.	Impact of audit comments	2014-15		2015-16		2016-17	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	16	916.96	20	716.33	10	19.90
2	Increase in loss	22	95.61	32	224.29	19	479.88
3	Increase in profit	3	0.35	…	…	5	1.34
4	Decrease in loss	2	1.15	3	20.27	5	3.29
5	Non-disclosure of material facts	4	13.92	8	10.05	27	378.11
6	Errors of classification	10	14.21	25	546.25	37	924.76

(Source: Data furnished by PSUs)

1.22 During the period from October 2016 to September 2017, the Statutory Auditors gave unqualified certificates for 25 accounts, qualified certificates for 49 accounts, disclaimer certificate for 21 accounts and adverse certificates (which means that accounts do not reflect a true and fair view) for two accounts[15]. Additionally, CAG gave comments on 40 accounts during the supplementary audit. CAG gave nil comments in respect of 24 accounts during the supplementary audit. The compliance of companies with the Accounting Standards (AS) remained poor. There were 119 instances of non-compliance of AS in 41 accounts of 35 companies during the year.

Similarly, four working Statutory corporations forwarded their four accounts to PAG during the year 2016-17. In respect of two accounts[16], which were selected for sole audit, SAR was issued in one case[17] and SAR was pending (February 2018) in another case[18]. In respect of the remaining two accounts[19], which were selected for supplementary audit, CAG gave comment in one case[20].

The Audit Reports of Statutory Auditors and the sole/supplementary audit of CAG indicated that the quality of maintenance of accounts was required to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and the CAG are given in **Table 1.14**:

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[15] **Kerala Shipping and Inland Navigation Corporation Limited (2015-16) and Kerala State Mineral Development Corporation Limited (2015-16).**
[16] **Kerala State Road Transport Corporation (2014-15) and Kerala Industrial Infrastructure Development Corporation (2015-16).**
[17] **Kerala Industrial Infrastructure Development Corporation (2015-16).**
[18] **Kerala State Road Transport Corporation (2014-15).**
[19] **Kerala State Warehousing Corporation (2013-14) and Kerala Financial Corporation (2016-17).**
[20] **Kerala Financial Corporation (2016-17).**

Table 1.14: Impact of audit comments on the SAR of Statutory corporations

(Amount ₹ in crore)

Sl. No.	Impact of audit comments	2014-15		2015-16		2016-17	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	1	0.07	2	5.42	1	0.03
2	Increase in loss	...	...	1	0.06	1	0.06
3	Increase in profit	1	0.29	…	…	…	…
4	Errors of classification	1	27.26	2	51.3	1	4.64

(Source: Data furnished by PSUs)

Response of the Government to Audit

Performance Audit and Compliance Audit Paragraphs

1.23 In respect of the Report of CAG for the year ended 31 March 2017, two Performance Audits and ten Compliance Audit Reports/Paragraphs involving ₹461.24 crore were issued to the Additional Chief Secretaries/Principal Secretaries of the respective Administrative Departments to furnish replies within six weeks. The respective Administrative Departments furnished replies to all the above Performance Audit Reports/Compliance Audit Reports/Paragraphs.

Follow up action on Audit Reports

Replies outstanding

1.24 The Reports of CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Kerala issued directions to all Administrative Departments in 2017 to furnish Explanatory Notes to Performance Audits/Compliance Audits/Paragraphs included in the Audit Reports of the CAG of India within a period of two months of their presentation to the Legislature for speedy settlement of audit observations. The status of Explanatory Notes not received as of February 2018 is given in **Table 1.15**:

Table 1.15: Status of Explanatory Notes not received (as of February 2018)

Years of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Compliance Audits(CAs)/Paragraphs in the Audit Report		Number of PAs/CAs/Paragraphs for which Explanatory Notes were not received	
		PAs	CAs/Paragraphs	PAs	CAs/Paragraphs
2014-15	28/06/2016	3	12	1	3
2015-16	23/05/2017	3	11	2	10
Total		**6**	**23**	**3**	**13**

(Source: Data furnished by PSUs/ GoK)

From the above, it may be seen that out of six Performance Audits and 23 CAs/Paragraphs, explanatory notes to three Performance Audits and 13 CAs/Paragraphs in respect of 17 Administrative Departments, which were commented upon, were awaited (February 2018).

Discussion of Audit Reports by CoPU

1.25 The status of discussion of Performance Audits and CAs/Paragraphs that appeared in Audit Report (PSUs) by CoPU as of February 2018 is shown in **Table 1.16**:

Table 1.16: Performance Audits/CAs/Paragraphs appeared in Audit Reports *vis-a-vis* discussed as of February 2018

Period of Audit Report	Number of PAs/CAs/Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	CAs/Paragraphs	PAs	CAs/Paragraphs
2002-03	3	17	3	16
2006-07	5	20	5	19
2007-08	4	19	3	19
2008-09	3	23	3	21
2010-11	2	18	2	17
2013-14	2	9	2	7
2014-15	3	12	1	2
2015-16	3	11	0	0
Total	**25**	**129**	**19**	**101**

(Source: Data furnished by PSUs/ GoK)

Compliance to Reports of Committee on Public Undertakings (CoPU)

1.26 Action Taken Notes (ATN) to 95 paragraphs in 20 Reports of the CoPU presented to the State Legislature between October 2006 and May 2017 was not received (February 2018) as indicated in **Table1.17**:

Table 1.17: Compliance to CoPU Report

Year of the CoPU Report	Total number of CoPU Reports	Total number of recommendations in the CoPU Reports	Number of recommendations where ATNs not received
2006-08	3	40	5
2008-11	1	14	1
2011-14	1	13	11
2014-16	3	18	6
2016-19	12	74	72
Total	**20**	**159**	**95**

(Source: Data furnished by GoK)

These Reports of CoPU contained recommendations in respect of paragraphs pertaining to nine departments, which appeared in the Report of the CAG of India for the year 1993-1994 to 2013-2014. The pace of receipt of ATNs from

GoK to the CoPU was not encouraging.

It is recommended that the Government may ensure:

a) **sending of replies to Inspection Reports/Draft paragraphs/Compliance Audit Reports/Performance Audit Reports and ATNs on the recommendations of CoPU as per the prescribed time schedule;**

b) **recovery of loss/outstanding advances/overpayments within the prescribed period; and**

c) **revamping of the system of response by GoK to audit observations.**

Chapter II

Performance Audit relating to Government companies

2.1 Promotion and Development of coir and handloom sectors in Kerala

Chapter II

Performance Audit relating to Government Companies

2.1 Promotion and Development of coir and handloom sectors in Kerala

Executive Summary

Introduction

In Kerala, as of March 2017, there were 1.89 lakh workers and 0.19 lakh weavers in coir and handloom sectors respectively under the co-operative fold. There were 564 working societies in coir sector and 409 working societies in handloom sector. Similarly, there were six PSUs/organisations, engaged in the promotion and development of the respective sectors.

Implementation of schemes and monitoring by Government of Kerala (GoK)

Measures outlined and suggested in the report of Coir Commission (2008) were not implemented. The mechanisations and modernisation of working units, liquidation/revival/reorganisation of dormant societies and welfare measures contemplated were not progressing at the expected pace in both sectors. Absence of reliable data prevented formulation of strategic approach for the coir and handloom sectors.

Promotion and development programmes

Raw material support

Coconut Husk collection scheme and revival of defibering units initiated by Directorate of Coir Development could not resolve the issue of non-availability of raw material in coir sector, which in turn made them dependent on other States and their products less market competitive.

Financial support

Financial support extended by GoK/GoI in the form of working capital assistance scheme for coir sector and Revival, Reform and Restructuring package for handloom sector was not effective due to absence of monitoring and deviation from scheme guidelines.

Marketing support

Societies could not avail full benefit of market assistance schemes and programmes due to the delays in processing of claims and release of assistance by Directorates. Failure to register under handloom mark scheme and non-conduct of expos resulted in loss of opportunity to showcase the handloom products.

Infrastructure development and modernisation

The infrastructure development and modernisation schemes and programmes implemented for the development of both coir and handloom sectors were not satisfactory because of inadequate coverage, delay in implementation, absence of/deviation from guidelines, etc.

Welfare of workers and weavers

Welfare measures initiated by GoK though ensured standard of living through minimum wages, pension and insurance, did not cover the entire sector. The implementation was also marred by delays in payments and deviation from guidelines.

Introduction

2.1.1 Coir industry is the largest agro based traditional and cottage industry in Kerala and is concentrated mainly in the rural areas. The coir industry provides livelihood to nearly 3.75 lakh people, of which women constitute 80 *per cent*[1]. Co-operative societies in the coir sector are organised under yarn sector (comprising of husk collection societies, defibering societies and yarn societies) and product sector (comprising of mats and matting societies and small scale producers' co-operative societies). The coir co-operatives in yarn sector and product sector are affiliated to Kerala State Co-operative Coir Marketing Federation Limited (Coirfed).

Among the traditional industries in Kerala, handloom sector stands second to coir sector in terms of employment generation. Handloom sector employed 19,321 weavers as of March 2017. Weavers outside the co-operative societies in the handloom sector are organised under the aegis of Kerala State Handloom Development Corporation Limited (Hanveev), a Public Sector Undertaking (PSU). Similarly, co-operative societies in the handloom sector are affiliated to Kerala State Handloom Weavers' Co-operative Society Ltd. (Hantex).

Agencies involved in promotion of coir and handloom sectors under the Government of Kerala

2.1.2 The Directorate of Coir Development formulates and implements schemes for promotion and development of coir sector in the State. It has 10 Project Offices under it to implement various schemes for coir sector. Similarly, Directorate Handlooms and Textiles formulates and implements schemes for the development of handloom sector. Policies and schemes of Government of India (GoI)/Government of Kerala (GoK) are administered through 14 District Industries Centres. Besides the co-operative societies,

[1] As per Economic Review 2017, published by State Planning Board, Kerala.

there are three[2] PSUs and two organisations[3] in the coir sector and one[4] PSU in the handloom sector engaged in the promotion and development of the respective sectors.

Audit Objectives

2.1.3 The objectives of the Performance Audit were to assess whether:

- policy initiatives and planning were adequate for promotion and development of coir and handloom sectors in the State;
- the activities of Government Departments/Directorates/Agencies and PSUs in financing, protecting and promoting the coir and handloom sectors in the State were adequate, efficient and effective; and
- functioning of Departments/Directorates/PSUs was efficient to support welfare and standard of living of workers.

Audit Criteria

2.1.4 Audit criteria were drawn from the following sources:

- Industrial and Commercial Policy, 2007 of GoK;
- Guidelines issued by Central/State Governments for various schemes;
- Government Orders and Circulars;
- Memorandum and Articles of Association of the PSUs;
- Policies/Plans/Schemes formulated by the PSUs;
- Standard Industry Practice;
- State Plans for 2012-17; and
- Coir Commission Report, 2008.

Scope of Audit

2.1.5 The Performance Audit covered the period from 2012-13 to 2016-17. The records at the following Government Departments/Agencies and PSUs were examined:

- Directorate of Coir Development and selected four Project Offices[5];
- Foam Mattings (India) Limited (FOMIL);
- The Kerala State Coir Corporation Limited (KSCC);
- Kerala State Coir Machinery Manufacturing Company Limited (KSCMMC);
- Kerala Coir Workers Welfare Fund Board (KCWWFB);
- National Coir Research and Management Institute (NCRMI);
- Directorate of Handlooms and Textiles and five District Industries Centres[6] selected through sampling;

[2] Foam Mattings (India) Limited, The Kerala State Coir Corporation Limited and Kerala State Coir Machinery Manufacturing Company Limited.
[3] Kerala Coir Workers Welfare Fund Board and National Coir Research and Management Institute.
[4] Kerala State Handloom Development Corporation Limited.
[5] Alappuzha, Kayamkulam, Chirayinkeezhu and Kozhikode were selected from 10 Project Offices.
[6] Thiruvananthapuram, Ernakulam, Kozhikode, Kannur and Kottayam.

- Kerala State Handloom Development Corporation Limited (Hanveev); and
- The Kerala State Handloom Weavers Co-operative Society Ltd. (Hantex).

Audit Methodology

2.1.6 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining the audit objectives to top management of the PSUs, Directorates and GoK, scrutiny of records of the audited entities, analysis of data with reference to criteria, issue of audit requisitions and queries, joint physical verification and survey of workers in societies.

An Entry Conference was held with the audited entities and GoK in June 2017, wherein the scope and objectives of the Performance Audit were discussed. Field audit involving scrutiny of records was conducted during April 2017 to August 2017. The audit observations were reported (December 2017) to GoK, besides discussing in the Exit Conference held in January 2018. The views expressed by GoK were duly considered while finalising the Report.

Acknowledgement

2.1.7 Audit acknowledges the co-operation and assistance extended by the management and staff of the PSUs, Directorates and Department of Industries in the conduct of this Performance Audit.

Audit Findings

2.1.8 The number of working societies and workers in coir sector increased from 441 and 1,61,950 respectively in 2012-13 to 564 working societies[7] and 1,88,748 workers[8] in 2016-17. Number of working societies and weavers in respect of handloom sector decreased from 431 societies and 52,171 weavers in 2012-13 to 409 societies and 19,321 weavers[9] in 2016-17.

The audit findings are discussed in the succeeding paragraphs:

Policy Initiatives

2.1.9 GoK appointed (July 2007) a Coir Commission in order to identify the problems and crisis faced by the coir sector in Kerala and to recommend measures for revival of the coir sector. The Coir Commission identified (2008) lack of coconut husk, absence of mechanisation, inadequate welfare measures, marketing constraints, *etc*., as the problems plaguing coir sector. Similarly,

[7] As per Economic Review 2017, published by State Planning Board, Kerala.
[8] As per Appendix 3.1.46 of Economic Review 2017 relating to 529 societies.
[9] Up to 2012-13, number of weavers was taken from the data provided by handloom societies. From 2013-14 onwards, details of weavers were uploaded in the website of Directorate of Handlooms and Textiles after physical verification of assets and weavers. Hence, the decrease in number of weavers.

Report of the Working Group on Handlooms for the Twelfth Five year Plan (2012-17) of Planning Commission of India identified non-availability of raw material, cheap credit and marketing avenues, *etc*., as problems affecting growth of handloom sector in the country. In order to address these issues, policy initiatives and specific schemes were necessary on the part of GoK. Audit observations on these are discussed below:

Non-implementation of recommendations of Coir Commission

2.1.10 The Coir Commission suggested certain measures to overcome problems in the coir sector. GoK stated (September 2016) in the Legislative Assembly that there were no practical problems in implementing the recommendations of the Coir Commission. Besides, GoK also proposed certain measures to address raw material and marketing constraints.

Audit, however, observed that some of the important measures for developing market and ensuring availability of raw material were not implemented by GoK and Directorate of Coir Development as shown in **Table 2.1** below:

Table 2.1 – Major projects recommended for developing market and ensuring raw material not implemented

Project	**Purpose**
Model Coir Village	Integrating coir producers and agencies for marketing of coir products in tandem with booming tourism activities in a place.
Marketing Consortium	For strengthening marketing with participation of private players.
Exhibition centre	A permanent exhibition centre of international standard.
Innovation fund and Incubation cell	For development of new technologies and assist the units for production of innovative products. The same was entrusted to National Coir Research and Management Institute.
Coir processing park for export	For production of fibre/coir and export.
Factories for production of fibre in Public Private Participation mode	
An Information Processing Committee and Kiosks	For collection and processing of data to form a strategic policy and for dissemination of information in areas where coir industry is concentrated.

(Source: Coir Commission Report, 2008)

GoK replied (February 2018) that Directorate of Coir Development, as part of implementation of 2nd reorganisation of coir industry during 2017-22, prepared a detailed five year plan envisaging an outlay of ₹1,000 crore and the issues such as modernisation and mechanisation, product diversification, research & development, marketing, *etc*., would be taken care of.

Coverage of coir sector units for assistance

2.1.11 The GoK was implementing its schemes for the coir sector through Directorate of Coir Development. Vision of Directorate of Coir Development aimed at progressive economic development and sustainable employment generation in the coir sector of Kerala through planned development of coir industry. Mission of Directorate of Coir Development was to act as a facilitator for the promotion and sustainability of coir sector in the State.

However, the coverage of schemes implemented by Directorate of Coir Development except Income Support Scheme and Investment Subsidy scheme for defibering mills and machineries was restricted to co-operative societies only. As of March 2017, the number of coir units registered with the Coir Board[10] in the State was 9,125[11] whereas the number of registered co-operative societies in the sector was only 1,001[12]. Hence, the schemes implemented by Directorate of Coir Development did not cover major part of the sector.

Similarly, around 2,000 coir units were registered (September 2015) with District Industries Centres as micro, small and medium enterprises (MSMEs). These MSME units were also not covered under any scheme of Directorate of Coir Development.

While agreeing with the audit observation, the GoK stated that thrust of the Directorate of Coir Development's initiative on societies was due to the fact that large number of the workforce with 90 *per cent* women was concentrated in such societies. There were also specific schemes under Directorate of Industries and Commerce for providing assistance to MSMEs. Further, financial assistance up to 50 *per cent* of cost of machinery was extended to defibering mills in the private sector.

The fact, however, remains that focussing on co-operative sector alone was not in line with mission and vision of Directorate of Coir Development in the State. This resulted in exclusion of large number of private coir units from the coverage of schemes implemented by GoK.

Registration of new societies and reorganisation of non-working societies

2.1.12 As per Section 7 of the Kerala Co-operative Societies Act, 1969, a new society shall be registered only if its proposed area of operation does not overlap with the area of operation of another society of similar type. Section 71 of the Kerala Co-operative Societies Act, 1969 further provided that the Registrar may direct the winding up of a society if it has not commenced working within six months of registration unless extension of time is granted by the Registrar or has ceased to work. The Coir Commission also recommended (2008) Project Offices to examine feasibility of revival of non-

[10] An autonomous body of Government of India (GoI).
[11] As against 8,744 units on 01 April 2012.
[12] As per Appendix 3.1.45 of Economic Review 2017. Against 564 registered working societies.

working societies and to liquidate societies which were not feasible for revival.

- In four test-checked Project Offices, 131 new co-operative societies were formed during 2012-13 to 2016-17. Two societies each in two locations[13] were registered with the same area of operation in violation of the Act.

- As of March 2017, there were 437 non-working co-operative societies (43.66 *per cent*) out of 1,001 registered societies in the coir sector. Out of this, liquidation process was initiated in respect of 219 co-operative societies. In respect of balance 218 co-operative societies, the respective Project Offices did not examine feasibility for their revival or reorganisation itself to make use of the fixed assets like land, building, *etc*. In eight cases, where liquidation process was undertaken, the process was pending completion for 50 years or more.

Similarly, in the handloom sector, there were 216 non-working primary handloom weavers' co-operative societies (PHWCSs), which were either to be revived or liquidated as of March 2017.

The delay on the part of Directorates of Coir Development and Handlooms and Textiles in reviving non-working societies made the assets of these societies idle and vulnerable to encroachments.

GoK stated (February 2018) that the four societies with overlapping areas of operation went into liquidation. GoK also assured that procedure would be streamlined to prevent registration of societies with overlapping areas of operation. The audit observation on non-liquidation of non-working societies in the coir sector was noted by GoK for compliance. In respect of handloom sector, GoK stated (March 2018) that the status of non-working co-operative societies in the handloom sector was reviewed in the Plan Review Conference meetings and strict directions issued from time to time for their liquidation or revival as the case may be.

Absence of reliable data

2.1.13 Adequate and reliable data about any sector is inevitable to formulate suitable and appropriate policies and programmes for the promotion and development of the sector. Audit observed the following deficiencies in data collection in coir and handloom sectors:

- Coir Commission Report, 2008 identified absence of reliable information as one of the reasons preventing formulation of strategic approach for the development and marketing of the coir sector. Therefore, the Coir Commission recommended a detailed survey for fine-tuning of the coir sector. With this objective, Directorate of Coir

[13] **Ward number 10 (Chandiroor Elayapadam SCVCS Ltd No. A.1171 and Vattakuttithara SCVCS Ltd. No.A.1175) and ward No.13 (Indira Gandhi SCVCS Ltd No. 1178 and Chanthiroor Chalithara SCVCS Ltd. No. 1227) of Aroor Grama Panchayat in Alappuzha district.**

Development initiated a survey belatedly in 2016 to identify targeted beneficiaries for implementation of schemes and welfare measures. However, the report was not finalised and published so far (February 2018).

GoK stated (February 2018) that as part of the next Five Year Plan, an internet based Management Information System and Review Framework would be created to track cultivation and production of coconut and marketing of coir.

- GoK announced a detailed survey on handloom industry in Kerala and sanctioned (September 2013) ₹50 lakh for conducting the same. The survey was intended to study the present status of handloom sector in Kerala such as number of weavers, number of co-operative societies, number of looms and to study financial assistance received by each society under various schemes. Directorate of Handlooms and Textiles awarded (March 2014) the survey work to the Centre for Management Development (CMD), Thiruvananthapuram at a cost of ₹28.65 lakh. The CMD was to complete the study and submit the report within four months from the date of signing of MoU (July 2014). CMD submitted the report on handloom survey only in March 2017 after a delay of two years and seven months. The report was incomplete.

  GoK stated (March 2018) that CMD was directed to revise the report with more clarity on issues such as the facilities available in the sector, availability of raw material and the constructive comparisons of sector wise growth (private *versus* co-operative) in handloom industry. Accordingly, CMD submitted (February 2018) their revised report, which would be placed in the next State Level Monitoring Committee and appropriate decision would be taken.

  The fact remains that the absence of reliable information prevented formulation of strategic approach for the development of the handloom sector.

Promotion and development measures for coir and handloom sectors

2.1.14 Traditional industrial sectors of coir and handloom are dependent on availability of raw material at minimum cost, cheaper credit facility, sufficient marketing and infrastructure support and proper welfare measures for their survival. State Government and Government of India implemented several schemes to make available raw material, credit, marketing facility, *etc*., to the coir and handloom sectors as detailed in ***Appendix 3***.

Audit observations on the implementation of these schemes are discussed below:

Schemes for raw material support

2.1.15 Coconut fibre is the main raw material used in the production of coir products. Fibre is extracted from coconut husk through a process called defibering. The fibre is then spun into yarn, which is a product in itself and can also be used for manufacturing value added products like mats and mattings. The Coir Commission Report, 2008 identified non-availability of sufficient coconut husk at economical prices as one of the factors affecting the growth of coir sector in Kerala. Therefore, the Coir Commission recommended promotion of defibering societies and introduction of a husk collection scheme.

Inadequate husk collection and non-revival of defibering societies

2.1.16 For attaining self-sufficiency and profitability in operations of defibering societies, the Coir Commission recommended (2008) to make available 15,000 to 20,000 husks daily for minimum 200 days to 72[14] registered defibering societies through establishment of consortium of units with support of Local Self Government Institutions (LSGIs). In order to mobilise husk collection, GoK introduced a Coconut Husk Collection Scheme in 2010, which was modified in 2015. The scheme envisaged husk collection through consortium and self help groups on payment of incentives[15].

Audit observed that:

- In Kerala, total coconut husk available ranged from 579.90 crore to 594.70 crore during 2012-13 to 2015-16. Against this, husks collected during 2012-13 to 2016-2017 ranged between 78 lakh and 113 lakh. This collection was insufficient to meet even the requirement (5.10 crore[16]) of 17 working societies, out of 69 (as of March 2017) registered defibering societies.

- The total annual fibre production from the husk collected by working defibering societies ranged between 780 MT and 1,130 MT during 2012-13 to 2016-17. This was not adequate to meet the fibre requirement of yarn societies in Kerala, which ranged between 11,745 MT and 20,635 MT. Consequently, the yarn societies procured balance fibre ranging from 10,965 MT to 19,505 MT from other sources including neighbouring States.

- Low collection of coconut husks was a major reason for not reviving the 52 defunct defibering societies.

Thus, due to low collection of coconut husk and non-revival of defibering societies, the yarn societies depended on neighbouring States for meeting their requirement. In view of the insufficient husk collection, GoK may holistically

[14] Of which, 54 were non-working societies as on March 2007.
[15] 15 paisa to 25 paisa per husk in 2015.
[16] 17 working defibering societies X 200 days X 15,000 husks daily.

examine the availability of husk, the wages and incentive for husk collection and its demand.

While accepting the audit observation, GoK stated (February 2018) that considerable scope existed for participation of LSGIs in husk collection and defibering. As the expected results of the husk collection scheme were not achieved, GoK decided to review the scheme by exploring various methods.

Financial support

2.1.17 In order to provide finance to the coir sector, GoK introduced scheme for working capital assistance (2006). In the handloom sector, GoK implemented a debt revival package introduced by GoI during 2012-13 to 2016-17.

Audit reviewed the implementation of these schemes and audit observations are discussed in succeeding paragraphs.

Working Capital Assistance for the coir sector

2.1.18 GoK provided working capital assistance to coir societies since December 2006 with the objectives of increasing working days to generate employment, increasing production and strengthening marketing network. The assistance to the tune of ₹5.00 lakh to ₹7.50 lakh each was granted to societies based on the viability assessment and project report. Further, Project Offices were to review the working of these societies on a quarterly basis. Under the scheme, assistance of ₹10.58 crore was extended to 544 societies across the State during 2012-13 to 2016-17.

Audit observed that:

- Out of the above 544 societies, 21 societies **(*Appendix 4*)** in four Project Offices, which were granted (2012-13 to 2013-14) working capital assistance of ₹81.94 lakh subsequently became defunct.

- In Project Office, Kayamkulam, out of 128 societies, 66 societies received assistance of ₹1.59 crore during 2012-13 to 2013-14. Aggregate working days of these 66 societies increased during 2015-16 and 2016-17 by 3,545 days and 2,725 days respectively. However, there was no increase in aggregate production as 17 societies registered negative growth in both the years.

- In Project Office, Alappuzha, total working days of 21 out of 25 yarn **s**ocieties, which received assistance decreased from 2,546 days in 2012-13 to 2,115 days in 2015-16. Similarly, the production of yarn in these societies also decreased from 643.50 MT to 519.50 MT during the same period.

- No system was put in place for quarterly reviews to analyse the working of the societies and as such, the reasons for dormancy and negative growth of these societies were not on record.

GoK, while agreeing to audit observation, stated (February 2018) that the scheme was revamped and corrective measures were incorporated to ensure that future assistance would be based on productivity. Further, the Directorate of Coir Development proposed to constitute a review mechanism in the form of a Project Management Unit during the thirteenth five year plan (2017-2022) to monitor the activities on a monthly basis.

However, the fact remains that the achievement of objectives envisaged in the scheme for employment generation and enhanced production was not satisfactory.

Implementation of Revival, Reform and Restructuring Package for the handloom sector

2.1.19 Acknowledging the financial distress faced by handloom weavers and co-operatives due to their inability to repay debts, Government of India (GoI) introduced (November 2011) Revival, Reform and Restructuring (RRR) package with a total outlay of ₹3,884 crore. National Bank for Agriculture and Rural Development (NABARD) was the designated implementing agency of RRR package. Under the Scheme, funds equivalent to principal and 25 *per cent* of interest as on the date of loan becoming Non-Performing Asset (NPA) and which was overdue as of March 2010 would be provided by NABARD to lending institutions towards repayment of loan availed by viable Primary Handloom Weavers' Co-operative Societies (PHWCSs) and Apex societies and individuals. The balance 75 *per cent* of overdue interest and the entire penal interest, if any, would have to be written off by the lending banks as a pre-condition. The funds required for the scheme were to be shared by GoI and GoK[17].

The scheme also envisaged lending institutions to provide fresh loans to the PHWCSs and individual handloom weavers at 6 *per cent* rate of interest. NABARD sanctions maximum interest subsidy of 7 *per cent* on fresh loans given by lending institutions on submission of claims for subsidy.

GoI sanctioned (March 2013 to September 2014) ₹165.34 crore for implementation of the Scheme and GoK contributed ₹45.31 crore as State share in respect of 357 PHWCSs, Hantex and 1,204 individuals in two phases under the Scheme.

Audit reviewed the implementation of RRR package in five selected districts and observed that:

- District Co-operative Bank (DCB), Thiruvananthapuram received (March 2013 to March 2015) ₹84.87 crore from NABARD towards

[17] In respect of Apex societies, the sharing pattern would be 3:1 by GoI and GoK and in other cases, the sharing pattern would be 4:1.

repayment of loan and interest availed by 292 PHWCSs. NABARD repaid the loan after the DCBs committed to issue fresh loans and to waive interest. Despite this, in respect of 152 PHWCSs, DCB, Thiruvananthapuram neither issued fresh loan nor did it waive interest amounting to ₹41.31 crore on the loan after it became NPA. Instead, the interest of ₹41.31 crore was treated as fresh loan, which was against the guidelines of the Scheme. As a result, loan liability remained with the PHWCSs without any additional cash inflow. Non-waiver of interest was on the ground that the waiver would affect the financial position of DCB.

GoK in their reply (March 2018) admitted the audit observation and stated that the matter was under their consideration. Directorate of Handlooms and Textiles assured that further follow up action would be taken.

- DCB, Kannur collected interest at the rate of 11.50 *per cent*, instead of 6 *per cent*, on fresh loan of ₹3.70 crore sanctioned to 27 PHWCSs without claiming interest subsidy from NABARD.

  General Manager, District Industries Centre, Kannur replied (July 2017) that though direction was given to the DCB in this regard, it was not considered favourably. Further, there was lapse on the part of bank authorities in not claiming interest subsidy of 5.50 *per cent* from NABARD.

GoK replied (March 2018) that the matter was under their consideration and action to rectify the defects pointed out by Audit would be taken shortly.

Thus, breach of commitment by District Co-operative Banks resulted in denial of fresh loans/loans at cheaper rate to PHWCSs and thereby defeating the objective of the Scheme.

Marketing Support

2.1.20 In order to address the marketing constraints faced by the coir sector and handloom sector, GoK and GoI implemented several schemes during 2012-13 to 2016-17 as shown in **Table 2.2** below:

Table 2.2: Schemes implemented by GoK and GoI for marketing support in coir and handloom sectors

Sl. No.	Coir sector	Sl. No.	Handloom sector
1	Purchase Price Stabilisation scheme	1	Marketing Incentive Scheme
2	Market Development Assistance for coir sector	2	Handloom mark scheme
3	Production and Marketing Incentive for coir sector	3	Registration under India Handloom brand
	...	4	Rebate scheme

(Source: Data collected from Directorates)

Audit examined the implementation of these schemes and audit observations are discussed in ***paragraphs 2.1.21 to 2.1.27***.

Purchase Price Stabilisation Scheme for the coir sector

2.1.21 Under Purchase Price Stabilisation Scheme (PPSS), the semi-finished/ finished coir products and allied products manufactured by small scale producers and mats and matting societies will be procured by Kerala State Coir Corporation Limited (KSCC). The exporters purchasing coir products from KSCC were eligible for an incentive of 7.50 *per cent* of Freight on Board (FOB) value of hand woven products procured through this mechanism. KSCC was entitled for service charge from Directorate of Coir Development at the rate of three *per cent* of the value of products procured.

Audit observed that during the period 2013-14 to 2016-17, KSCC sold mats and mattings under Purchase Price Stabilisation Scheme (PPSS) to 146 parties for the purpose of export. As per the Scheme, KSCC was to ensure that the export obligations were met by the exporters. KSCC did not devise a mechanism to ensure that the export obligation was met by the exporters though ₹33.21 crore was paid as export incentive during 2013-17.

Marketing Incentive Scheme for handloom sector

2.1.22 In the handloom sector, Marketing Incentive is given at the rate of 10 *per cent* of the average sales turnover of the last three years to support marketing of handloom products by marketing agencies. Incentive would be shared equally by GoI and GoK. Kerala State Handloom Development Corporation Limited (Hanveev), The Kerala State Handloom Weavers Co-operative Society Ltd. (Hantex) and PHWCS are eligible for incentive in the State. The share of GoK would be released in advance.

According to the revised (June 2015) guidelines, GoK should identify a nodal agency for implementation of the scheme. GoK appointed (January 2016) Hanveev as the nodal agency of the Scheme.

Audit examined implementation of Marketing Incentive scheme in five selected districts and observed that out of 35 PHWCSs in Kannur district, 30 PHWCSs submitted (November 2015 to March 2017) Marketing Incentive claim (₹1.89 crore) for the period 2013-17 to Hanveev. Hanveev did not forward the claims to the Development Commissioner (Handlooms) so far (December 2017) on the plea that Hanveev did not have adequate staff to verify the claims submitted by PHWCSs. Due to non-submission of claims by Hanveev, Marketing Incentive was not extended to PHWCSs.

GoK stated (March 2018) that Marketing Incentive was sanctioned earlier by a State Level Committee chaired by the Secretary (Industries), GoK. Claims approved and sanctioned by the State Level Committee were only forwarded to Government of India for assistance. On appointment of Hanveev, the role of Hanveev, was not made clear. The matter was now with Government and a clear direction in this regard would be issued shortly and all pending claims would be processed and submitted to GoI.

The reply was not acceptable as GoK did not clarify the role of nodal agency even after two years from the date of appointment of Hanveev and as a result, assistance envisaged under Marketing Incentive Scheme was denied to PHWCSs in the State.

Handloom Mark Scheme

2.1.23 Handloom Mark provides a guarantee to the buyer that the product is genuinely hand woven. PHWCSs manufacturing genuine handloom products could register under the Handloom Mark Scheme after payment of registration fee of ₹2,000 to the Textiles Committee constituted by GoI for implementation of the Scheme. After registration, PHWCSs can purchase labels[18] from the Textile Committee for affixing the same on the handloom products sold. Handloom mark is compulsory for claiming Marketing Incentive and participation in national Expos. GoK reimburses 75 *per cent* of registration fee and cost of labels.

Audit observed that out of the 409 working PHWCSs as of June 2017, 37 societies were not registered under Handloom Mark Scheme. Out of the registered 372 PHWCSs, 104 PHWCSs did not purchase any labels so far.

Thus, popularisation and marketing of genuine handloom products through Handloom Mark Scheme was not done by 37 PHWCSs, which were not registered under the Scheme and 104 PHWCSs, which did not purchase labels.

GoK replied (March 2018) that instructions were given to all PHWCSs to register them under Handloom Mark scheme.

The fact, however, remains that despite the efforts of GoK, many PHWCSs were yet to register themselves under the Scheme.

Delay in releasing Rebate

2.1.24 With a view to providing marketing support to PHWCSs, Hantex, Hanveev, *etc*., GoK offers rebate[19] on the sale of handloom cloth during festival seasons of Onam, Christmas, Vishu and Ramadan. The period of rebate sale would extend between 5 days and 21 days. According to the conditions of sanctioning rebate, PHWCSs/Hantex/Hanveev would submit rebate claims within 30 days after the rebate period to the Co-operative Inspectors of the Circles concerned who, in turn, would submit the applications to General Managers of the District Industries Centers concerned within 30 days. General Managers would consolidate and submit the claims of each financial year by 30th of June to the Directorate of Handlooms and Textiles for releasing the fund.

[18] **Price ranged from 20 paise to ₹1.25 per label.**

[19] **For the school uniform sale season - 30 *per cent.* Other season - 20 *per cent.***

Audit scrutiny revealed that:

- Directorate of Handlooms and Textiles did not release rebate claim of ₹20.48 crore received from all 14 District Industries Centres for the period 2011-12 to 2017-18. Out of the five districts (District Industries Centres) examined in audit, General Manager, District Industries Centre, Kozhikode submitted the rebate claims for the year 2013 (₹11.59 lakh) after a delay of more than two years.

  Audit observed that GoK was not serious in reimbursing the rebate claims to the PHWCSs on time. There was also no mechanism for effective monitoring of receipt and release of rebate claims. The delay in release of rebate claims would become a source of discouragement to the PHWCSs, which sell their products at reduced prices and wait indefinitely in the hope of getting funds.

  Directorate of Handlooms and Textiles replied that funds were released based on available budget and there was delay in releasing rebate claim each year. Directorate of Handlooms and Textiles requested GoK to release more funds to ensure availability and distribution of fund. Directorate of Handlooms and Textiles admitted (October 2017) that there were lapses on the part of District Industries Centre, Kozhikode to submit application relating to rebate claims.

  GoK stated (March 2018) that claim towards rebate of ₹20.48 crore was under its consideration.

  The replies are not acceptable as the inaction on the part of GoK to release rebate claims is a matter of concern to a sector, which is dependent on Government support for its survival.

Revitalisation and strengthening of Hanveev and Hantex

2.1.25 Hantex and Hanveev offer marketing facilities for the weavers in the co-operative sector and outside the co-operative fold respectively. GoK sanctioned (2012-2016) ₹7.12 crore and ₹9.75 crore for revitalisation and strengthening of Hanveev and Hantex respectively. The fund was to be utilised within the respective financial year itself for modernisation and computerisation of showrooms for customer attraction, producing innovative high value and value added products, *etc*., to exploit the existing market potential.

Audit observed that:

- Out of ₹7.12 crore sanctioned to Hanveev, ₹2.70 crore was not utilised for modernisation and computerisation of showrooms and for strengthening of pre loom and post loom facilities. Hanveev diverted ₹1.05 crore out of ₹2.70 crore for clearing Provident Fund arrears, dues on account of yarn purchase, dues on account of printing and dyeing, *etc*.

- As per the conditions of sanction of fund to Hantex, unspent amount should be refunded to GoK with interest at 12 *per cent*. Out of 30 showrooms, for which fund was sanctioned, modernisation and computerisation of only five showrooms were completed while two were ongoing. Work in respect of remaining 23 showrooms did not commence so far (August 2017). There were delays ranging between 18 and 42 months to utilise the fund sanctioned (2013-16) for renovation of these 23 showrooms.

Thus, the scheme intended for revitalisation of Hanveev and Hantex by attracting customers through renovated showrooms, easy business through computerisation, *etc*., was not implemented effectively.

GoK replied (March 2018) that a newly formed Monitoring Committee of the Directorate was instructed to verify the utilisation of funds by Hantex and Hanveev. Appropriate action would be taken on receipt of report of the Committee.

Handloom Export Promotion Scheme

2.1.26 GoI introduced (2013) Handloom Export Promotion Scheme to enable apex societies /PHWCSs/handloom corporations (implementing agency) in developing export-worthy products. Apex society and Primary Handloom Weavers Co-operative Societies (PHWCSs) with minimum average domestic sales turnover of ₹50 lakh during last three years and minimum of 100 looms were eligible to submit proposals. Directorate of Handlooms and Textiles was to recommend export project. Financial assistance of ₹28 lakh, to be shared by GoI (₹21 lakh) and implementing agency (₹7 lakh) was available under the Scheme.

Audit observed that even though Directorate of Handlooms and Textiles had the overall responsibility to support the handloom sector in areas of infrastructure, marketing, export, *etc*., to compete in a globalised environment, the Directorate did not disseminate information about the Handloom Export Promotion scheme among PHWCSs. As a result, no PHWCSs submitted any proposals under the Scheme. Audit also noticed that three PHWCSs in Kannur district met the eligible criteria for assistance under the Handloom Export Promotion Scheme but, did not submit proposals due to lack of information about the Scheme.

GoK admitted (March 2018) that there were lapses in the timely dissemination of important information and publicity of schemes. GoK also agreed that new means of print and electronic media would be used to address it and matters would be uploaded on the new web portal of the Directorate of Handlooms and Textiles. Further, the field level officers would be instructed and equipped to carry out the propaganda activity in a better way.

National Handloom Expos (NHE) and Special Marketing Expos

2.1.27 With a view to promoting and developing market for the handloom sector, GoI implemented National Handloom Expos (NHE) and special marketing expos. These expos would be organised for a period not less than 14 days in metropolitan and big cities to assist sale of handloom products. PHWCSs/Hantex/Hanveev/Self Help Groups registered under the Handloom Mark Scheme would be eligible for participation in the expo. Financial assistance up to ₹38.00 lakh for organising NHE in cities with population of 25 lakh[20] would be provided to Directorate of Handlooms and Textiles towards infrastructural support (stall rent, electricity charges, publicity, organising buyer-seller meet, backup services, administrative expenses *etc*.).

Besides the above, financial assistance at the rate of ₹20 lakh and ₹8 lakh would be provided for organising Special Expos (SE) at national level and State level respectively. According to conditions of scheme, GoI would release first instalment of 50 *per cen*t as advance to meet preparatory expenses. Balance 50 *per cent* would be released on submission of performance cum achievement report within 10 days after completion of the event and claims in three months.

Audit observed that:

- During 2012-13 to 2014-15, GoK conducted three National Handloom Expos and for 2015-16, Hanveev was the implementing agency. For these NHEs, GoI released ₹66 lakh towards first instalment. Directorate of Handlooms and Textiles did not submit performance cum achievement report to the GoK within 10 days and claim for the balance 50 *per cent* within the stipulated period of three months. Claim and utilisation certificates were also not submitted by Hanveev for the year 2015-16. Due to delay in submission of claims, GoI did not release balance share amounting to ₹66 lakh. Further, proposal (February 2017) against sanction for conducting NHE during 2016-17 was also not approved by Development Commissioner (Handlooms), GoI due to non-submission of utilisation certificate (UC) for the year 2015-16 leading to failure to obtain further GoI assistance of ₹38 lakh for marketing the products.

- In three NHEs conducted during 2012-15, 307 participants sold handloom cloth valuing ₹12.08 crore. Due to non-conduct of NHEs during 2016-17, handloom weavers were deprived of one of the avenues to sell their handloom products.

- Directorate of Handlooms and Textiles did not submit any proposal for conducting three Special Expos for the period 2016-17 against three special expos sanctioned by Development Commissioner (Handlooms) for Kerala.

[20] **₹18.00 lakh for organising NHE in cities with population below ₹25 lakh.**

Thus, due to non-conducting of NHEs and special expos during 2016-17, the handloom weavers were deprived of the opportunity to showcase their exquisite handloom products.

Directorate of Handlooms and Textiles admitted (January 2018) that due to non-submission of UC on time, 50 *per cent* of grant was not released by GoI. GoK replied (March 2018) that Hanveev, implementing agency of NHE for the period 2015-16, did not submit UC on time. Therefore, application for conduct of National Handloom Expos for 2016-17 was rejected by GoI.

Assistance for Infrastructure Development and modernisation

2.1.28 For infrastructure development and modernisation of coir and handloom sectors, GoK implemented many schemes during 2012-13 to 2016-17. Audit observations on implementation of these schemes are discussed in ***paragraphs 2.1.29 to 2.1.32***.

Scheme for Infrastructure Development in the coir sector

2.1.29 GoK introduced Infrastructure Development Scheme (IDS) to increase production in coir societies, improve the overall quality of production and to fulfil the basic requirements of workers. The scheme assistance was extended for procurement of machinery, construction of work shed, *etc*., based on the feasibility of the proposed project and necessity of the societies. Under the scheme, assistance of ₹31.61 crore was disbursed to 548 societies during 2012-13 to 2016-17. Out of these, 40 societies received assistance worth ₹0.10 crore or more each till 2015-16.

Audit observed that guidelines specifying eligibility criteria, quantum of assistance per beneficiary, *etc*., were not devised for effective, transparent and fruitful implementation of the scheme.

GoK stated (February 2018) that majority of assistance extended fell in the category of construction/ renovation of work sheds, godowns, toilets, *etc*. Further, since almost 90 *per cent* of the workforce comprised of women, providing better gender sensitive infrastructure gets precedence. From 2016-17 onwards, projects were sanctioned based on the activities and requirements stipulated in the "micro plan" of each society. GoK further stated that specific guidelines would be framed for selecting the beneficiaries stipulating the quantum of assistance.

The fact, however, remains that in the absence of guidelines, the assistance was also extended for the purchase of machinery by societies, despite having another dedicated scheme for such purchase.

Skill Development in coir sector

2.1.30 National Coir Research & Management Institute (NCRMI) was established by GoK in 1994 with the mission of conducting research and imparting training to workers in the coir sector. Similarly, Kerala State Coir

Machinery Manufacturing Company Limited (KSCMMC) was to impart training to workers of co-operative societies which procure machineries from KSCMMC. The Coir Commission observed that low productivity of workers in the coir sector was on account of outdated technologies and machineries. The Coir Commission recommended modernisation of technology along with training to workers for production of different varieties of coir at improved productivity.

Audit observed that:

- Total number of workers trained through NCRMI during 2012-13 to 2016-17 was only 613. But, Coir Board had given training to 5,492 workers under its Mahila Coir Yojana Scheme and to 7,336 workers under training for manufacturing valued added products. The workers trained by Coir Board were from both co-operative and private sector.

- KSCMMC distributed (March 2015 to June 2017) 71 mini defibering machines, 65 willowing machines, 61 screeners, 20 conveyors, 10 screeners for pith, 6 bailing press and 6,490 electronic ratts. Despite supplying these machines to co-operative societies, KSCMMC did not train the workers of these societies due to staff shortage.

- From the data collected from 355 societies by Project Offices at the instance of Audit, it was noticed that no workers from 221 societies were selected for any training during the last five years.

These instances indicated scope for improvement of skills of coir workers by assessing training needs of workers, thus, improving viability of societies.

GoK stated (February 2018) that training programme of NCRMI was for longer duration than that of Coir Board. As part of speedy mechanisation of coir sector, KSCMMC was entrusted to manufacture various machines. As most of coir workers are unaware of operating new machines, ₹1.42 crore was sanctioned for training. A list of 1,877 workers from various societies was sent to KSCMMC to impart training and adequate training will be given to coir workers to become familiar with these machines to enhance productivity.

The fact, however, remains that a large section of the workers were untrained even after commencement of mechanisation and the number of workers imparted training during the audit period was less than one *per cent* of work force in co-operative sector.

Procurement of modern equipment for the coir sector

2.1.31 As of June 2017, out of 355 co-operative societies, details of which were available, 153 societies were working in manual mode. As part of modernisation of coir sector, GoK approved the proposal of the Kerala State Coir Machinery Manufacturing Company Limited (KSCMMC) to manufacture and supply 30 Integrated Coir Processing Units[21] (ICPU) to 20 co-operative societies/PSUs, free of cost and to 10 private units at 50 *per cent* subsidy. GoK sanctioned (October 2016) ₹4.31 crore to KSCMMC for supply of the equipment. The scheduled date of completion of supply was 31 March 2017. The Project Offices were to identify the co-operative societies/ PSUs and private parties requiring ICPUs.

Four[22] Project Offices submitted proposals for 15 societies and after assessing scope and infrastructure facilities, the Directorate of Coir Development recommended 14 societies and one private party for supplying the ICPU. Directorate of Coir Development later decided (April 2017) to reassess the infrastructure facilities of the beneficiaries and postpone the issuance of ICPU till then.

Audit observed that:

- The machines were ready for supply by December 2016. However, due to delay in reassessment of infrastructural facilities, the machines were not delivered to the societies and were idling.

- Though the project envisaged free distribution of ICPUs to societies, the Project Office, Thrissur reported that societies were reluctant to purchase the machine due to financial constraints. This indicated that Project Offices themselves, who were to spread information among beneficiaries, were unaware that the machines were given free of cost.

GoK stated that delay occurred as physical inspection had to be carried out to ascertain the infrastructural facilities in societies before selecting suitable beneficiaries. A list of 17 coir societies was forwarded to KSCMMC for distribution of machines and the process of installing the machineries commenced in December 2017.

The reply was not acceptable as due to delay in assessment of infrastructural facilities, ICPUs manufactured by KSCMMC for mechanisation of societies remained unutilised. Moreover, there was lack of awareness about the scheme among project offices and beneficiaries to make use of the benefits.

Promotion of Master Weavers Scheme for handloom sector

2.1.32 Industrial and Commercial Policy, 2007 of GoK envisaged establishment of handloom units by master weavers. Directorate of Handlooms and Textiles implemented (2011-2016) 'Promotion of Master Weavers Scheme', intended to promote Master weavers[23] to set up new production units or to revamp their existing production units so as to boost the handloom sector and maintain employment potential. According to the Scheme, the production unit should provide employment directly to 10 or

[21] **The units with an installed capacity of processing 8,000 husks per shift per day with proposed output of 2,40,000 Kg of fibre and 4,80,000 kg of coir pith annually.**
[22] **Alappuzha, Ponnani, Kozhikode and Vaikom.**
[23] **Weavers having sufficient experience in the field of handloom weaving/ dyeing/ post loom or pre-loom activities.**

more workers at a time. Maximum assistance available under the scheme for one individual would be ₹1,28,125 for purchase of looms, technology upgradation, design and training. Balance fund was to be arranged by the beneficiaries through banks. The applicant having own land and building to establish such units would be preferred. If the unit is intended to be set up in a rented building, copy of rent deed executed for a minimum period of five years should be furnished.

The progress of the implementation as well as the functioning of the unit would be periodically watched by the Directorate of Handlooms and Textiles and General Managers, District Industries Centres of the district concerned.

Directorate of Handlooms and Textiles sanctioned ₹85.64 lakh to 84 beneficiaries under the scheme during the period 2011-12 to 2015-16. Out of these 84 beneficiaries, 59 beneficiaries did not submit utilisation certificate so far.
Audit examined five projects sanctioned in Thiruvananthapuram district under Master Weaver Scheme and observed that:

- Even though the grant was to be released to the financing bank concerned, in four out of five test checked cases, fund was released to the allottees directly.

- In one case, Directorate of Handlooms and Textiles released (2014) ₹1,28,125 to a beneficiary[24] for strengthening of existing units. Before sanction of the assistance, Senior Co-operative Inspector of the Circle[25] reported (September 2012) that the beneficiary owned five looms in her own property. Junior Co-operative Inspector of the Circle also reported (December 2012) that four looms were existing and five more looms could be installed in the work shed. The assistance was to be used for purchase of five looms, technological upgradation, margin money assistance, *etc*. During joint physical verification (August 2017) along with the officials of District Industries Centre, Audit could not identify any looms and work shed in the premises of the allottee.

GoK replied (March 2018) that a new Monitoring Committee of the Directorate would be instructed to verify the utilisation of funds and that appropriate action would be taken on receipt of report of the Committee.

The fact, however, remains that sanction of assistance under the scheme and release of assistance was not in accordance with the guidelines of the scheme.

Welfare measures

2.1.33 With a view to ensuring the welfare of workers in the coir sector, GoK introduced Pension Scheme and Income Support Scheme. Similarly, for the handloom sector, GoK implemented Income Support Scheme and

[24] Smt. S. Sulochana.
[25] Nemom circle.

Productivity Improvement Scheme. Audit observations on implementation of these schemes are discussed in succeeding paragraphs.

Pension Scheme

2.1.34 The Kerala Coir Workers Welfare Fund Act, 1987 was enacted with the main objective of constituting a fund to grant relief to coir workers and self-employed persons in coir industry. Subsequently, GoK introduced the Kerala Coir Workers Welfare Fund Scheme, 1989 and promulgated the Kerala Coir Workers Welfare Fund Rules, 1989 under Sections (3) (1) and 29 (1) of the Act respectively. The scheme was to be administered by Kerala Coir Workers Welfare Fund Board (KCWWFB). Contributions to the Scheme were to be made by coir worker and co-operative society at the rate of ₹5 each[26] per month. GoK was also to contribute twice the amount contributed by coir workers. The fund so created shall be utilised for payment of pension (maximum ₹1,000 per month[27]), family pension (maximum ₹1,000 per month), loans to members, maternity benefits (maximum ₹1,000), *etc*. Under the scheme, 1.65 lakh workers were enrolled.

Audit observed that:

- There were delays in release of GoK share to the fund. The grant of ₹1.64 crore for the year 2013-14 was belatedly released in July 2017, while grant for the year 2014-15 amounting to ₹1.66 crore was not released as of June 2017. KCWWFB did not request for matching share of GoK for 2015-16 and 2016-17 so far. The delay in release of grant resulted in consequent delay in disbursing various financial assistances to the coir workers and pensioners.

- As per orders (February 2017) of GoK, eligible pensioners of welfare fund board shall get one social security pension *viz*., widow pension, unmarried women pension, disability pension, *etc*., at the rate of ₹600 per month, in addition to welfare fund boards' pension at the enhanced rate of ₹1,000 per month. However, this benefit was not extended to pensioners of KCWWFB as Paragraph 19(4) under Chapter VI of the Welfare Fund Scheme prohibited receipt of pension under any other scheme or from any other source. Such pensioners shall not be eligible for pension/ family pension under this scheme.

  Audit observed that KCWWFB proposed (January 2017) an amendment to the guidelines of Welfare Fund Scheme to extend social security pension to eligible pensioners. But, the amendment was pending approval of GoK (December 2017). Therefore, the benefit of social security pensions was not extended to eligible pensioners of KCWWFB as they were in receipt of pension from KCWWFB.

[26] Revised from ₹1.00 each with effect from September, 1997.
[27] Revised to ₹1,100 per month with effect from 01 April 2017.

Audit also observed that 1,270 pensioners covered under KCWWFB were in receipt of social security pension. Since the amendment was not approved so far, 1,270 pensioners receiving social security pension were denied monthly pension at the rate of ₹1,000 per month from KCWWFB despite payment of their contribution to the scheme.

GoK stated (February 2018) that non-submission of audited accounts and reports for the period resulted in non-payment of matching grant. GoK's order for release of matching grant for the year 2014-15 was being processed. GoK, also stated that an amendment to the scheme to extend pension from KCWWFB to eligible recipients of GoI pension was under its consideration.

The reply was not acceptable because if the delay in release of matching grant was due to non-finalisation of accounts by KCWWFB, the GoK should have persuaded KCWWFB to finalise its accounts in time. Further, the proposed amendment to the scheme so as to extend social security pension to coir workers was pending with GoK for more than one year.

Income Support Scheme

2.1.35 GoK implemented income support scheme for both coir and handloom sectors. Audit observations on these schemes are discussed below:

Income support scheme for coir sector

2.1.36 The Income Support Scheme (January 2011) for the coir sector aimed at disbursing minimum wages of ₹210[28] to the workers in the coir spinning and related sector and the coir product sector after fixing productivity. Under the Scheme, each worker was to open a bank account and the co-operative society/private entrepreneur shall deposit the existing wage of the worker as on 31 January 2011 into the bank account followed by the Project Office concerned depositing the enhanced portion of the wage of each worker after ensuring the productivity. GoK increased (March 2014) the minimum wage to ₹300 for yarn societies. GoK incurred an expenditure of ₹69.21 crore during 2012-13 to 2016-17 under this scheme.

Audit observed that:

- The Project Offices did not have a system to check and prevent routing of wages of different workers to single account of an individual and registration of same worker in multiple societies. A test- check of 890 accounts in Project Offices, Kayamkulam and Kozhikode revealed nine individual accounts of workers (One in Project Office, Kozhikode and eight in Project Office, Kayamkulam) into which wages of multiple workers were credited, which is a matter of further investigation by GoK. Thus, transparency envisaged under direct transfer of benefits was not ensured.

[28] To be shared by society and Directorate of Coir Development in an agreed ratio, which differed from Project Office to Project Office.

GoK stated (February 2018) that all the accounts were since linked with *Aadhaar* and based on the audit observations necessary directions would be issued to the Project Offices to strengthen the mechanism.

- In three Project Offices, 1,604 workers registered under 29 societies **(*Appendix 5*)** were paid share of societies in cash. Thus, cash payment by societies and non-insisting of upfront crediting by societies in bank accounts defeated the purpose of direct benefit transfer to beneficiaries.

  GoK stated (February 2018) that due to insistence of minimum balance requirements by bankers, labour organisations were demanding direct payment through society. As such, societies are permitted to disburse wages in cash through the office of the society. GoK contribution was, however, paid only through bank accounts.

  The reply was not acceptable as these workers had bank accounts as GoK share was being credited to their account. Moreover, direct payment of share of societies in cash was against the guidelines of the scheme and release of share of societies could not be ensured in such cases.

- In respect of Project Office, Kayamkulam, share of GoK of ₹1.93 crore for the period February 2017 to August 2017 relating to 91 societies was pending for disbursement with delays ranging upto five months with consequent delay in disbursement of GoK share to workers.

  GoK stated (February 2018) that funds were allotted to Project Office, Kayamkulam for the payment of arrears. The reply was not acceptable as delayed release of funds defeated the very purpose of the scheme to ensure minimum wages to the workers.

- Despite having a total outlay of ₹69.21 crore till March 2017 under the Income Support Scheme, a database of societies and registered workers was not maintained in Directorate of Coir Development for effective monitoring and transparency. As per details collected from Project Offices, 644 societies were included under the scheme against 564 working societies even after exclusion of many of mats and matting societies and small scale societies from the scheme. This indicated lack of reliable and organised data about operation of the scheme.

- GoK envisaged (February 2012) a web based monitoring system at Directorate of Coir Development for the smooth and fair implementation of Income Support Scheme, wherein Project Office concerned was to enter data regarding workers and societies. Similarly, Directorate of Coir Development was to form an internal inspection wing for periodic monitoring of collection and distribution of fibre and yarn and for the payment to workers. These were not implemented so far (February 2018).

Thus, deficiencies in the implementation of scheme coupled with delay in disbursement of share of GoK revealed that the implementation of the scheme was not satisfactory.

Income Support Scheme for the handloom sector

2.1.37 GoK implemented Income Support Scheme to assist the weavers/ allied workers to get better wages, which in turn would assist to retain them in the handloom sector. The weavers who were earning ₹50 or above per day and allied workers earning ₹35 or above per day but not above ₹150 would come under the purview of this Scheme. The preliminary target fixed under this Scheme was to get the workers ₹150 per day as wages for a maximum of 100 days in a year. The weavers to be eligible for this scheme should have an average attendance of minimum 10 days in a calendar month. Under the Scheme, GoK provided assistance of ₹75 per weaver.

Audit observed that:

- Share of GoK assistance was limited to ₹75 per weaver earning ₹50 or more. As such, a weaver earning ₹75 or above would get ₹150 while a weaver earning between ₹50 and ₹75 per day would not get ₹150. In two PHWCSs in Kannur district, Audit noticed instances of 23 weavers out of 103 weavers[29] not getting targeted wage of ₹150 per day during October 2016 to May 2017 due to the above ceiling on share of GoK. This indicated that the Scheme was not conceived properly. Thus, the Scheme, which guaranteed minimum wage of ₹150 per day can achieve its objective only if the ceiling on GoK support is enhanced proportionately.

- In Thiruvananthapuram district and Kannur district, share of GoK under Income Support Scheme amounting to ₹4.13 crore[30] was pending for payment to the weavers from 2012-13 to 2016-17 due to shortage of funds, as shown in **Table 2.3**:

[29] **Kannapuram PHWCS - 44 weavers and Vengad PHWCS - 59 weavers.**
[30] **₹403.72 lakh at Thiruvananthapuram and ₹9.61 lakh at Kannur.**

Table 2.3: Details of share of GoK under Income Support Scheme pending for payment to weavers

(Amount ₹ in lakh)

Year	Thiruvananthapuram		Kannur	
	Amount outstanding	No. of weavers	Amount outstanding	No. of weavers
2012-13	0.99	55	2.44	557
2013-14	224.80	4,286	1.81	328
2014-15	135.79	2,136	3.00	787
2015-16	41.09	1,388	2.00	838
2016-17	1.05	34	0.36	238
Total	**403.72**	**7,899**	**9.61**	**2,748**

(Source: Data furnished by Directorate of Handlooms and Textiles)

Directorate of Handloom and Textiles replied (January 2018) that funds towards Income Support Scheme are allotted by the Labour Department, GoK and requirement of fund is placed before the Labour Commissioner who makes the fund allotments based on the availability of funds. Out of ₹4.13 crore pending in Thiruvananthapuram and Kannur districts, an amount ₹2 crore was released to the districts. A claim for the balance amount of ₹2.13 crore was submitted before the Labour Commissioner and the same would be released on receipt of the same from the Labour Commissioner. GoK endorsed (March 2018) the views of the Directorate of Handloom and Textiles.

Reply was not acceptable as delay in disbursement of dues defeated the purpose of ensuring better wages to the weavers due to delay in release of funds by the GoK. The GoK needs to streamline release of funds in a timely manner to avoid delay in disbursement of dues to the weavers under Income Support Scheme.

Insurance Coverage

2.1.38 Provision of social security through health insurance, life insurance and insurance against disabilities is the minimum requirement that is essential to enable coir workers and handloom weavers to work with dignity.

Audit observed that:

- GoI implemented Mahatma Gandhi Bunkar Bima Yojana (MGBBY) during the Twelfth Five Year Plan period (2012-2017) with the basic objective to provide enhanced insurance coverage to the handloom weavers in case of natural as well as accidental death and in cases of total or partial disability. All weavers of Hantex/PHWCSs/Hanveev between the age group of 18 and 59 years were eligible to be covered under the Scheme. Directorate of Handlooms and Textiles was the nodal agency for the implementation of the Scheme. The Scheme was administered by Life Insurance Corporation of India (LIC). The annual premium of ₹470 was shared[31] among GoI, LIC and weaver. The weaver was insured with the coverage of ₹60,000 for natural death, ₹1,50,000 for accidental death, ₹1,50,000 for total disability and ₹75,000 for partial disability.

Audit observed that out of 19,321 weavers as of March 2017, 5,198 weavers were falling within the eligible age group of 18-59 years. Out of these, only 4,055 weavers were, however, enrolled in the scheme, leaving out 1,143 weavers (Hanveev - 687 weavers and PHWCSs[32] - 456). Thus, Directorate of Handlooms and Textiles, the nodal agency of the Scheme, did not provide the benefit of the Scheme framed by Government of India to 1,143 weavers.

GoK replied (March 2018) that necessary action would be taken to enrol maximum weavers including those from Hanveev and PHWCS, not enrolled in MGBBY scheme, in the upcoming years.

- The Coir Commission recommended that all workers in coir sector should be extended insurance coverage. However, Directorate of Coir Development/KSCWWFB was yet to devise a scheme for this. Data collected by Project Offices from societies indicated that 10,070 workers in 110 societies had no personal insurance coverage.

  GoK stated (February 2018) that KCWWFB already initiated an insurance scheme in association with Life Insurance Corporation of India and Comprehensive Health Insurance Agency of Kerala, a State Government Agency, during 2015 and earnest efforts were made to enroll all 1.65 lakh workers registered. But, so far 68,000 workers only were covered under the insurance scheme. Though special drives were made, the rate of growth was tardy due to the possible coverage of workers under some other similar schemes.

Thus, social security by way of insurance cover remained unavailable to a large number of workers in the handloom sector and coir sector.

Productivity Improvement Scheme for handloom sector

2.1.39 GoK implemented productivity improvement scheme for providing incentive to weavers and allied workers for encouraging them to improve their productivity. According to the Scheme, if a weaver weaves over and above the standard meterage fixed by the expert committee, the weaver would be given additional wages equivalent to twice the wages for that additional meterage weaved. The incentive would be disbursed on quarterly basis.

Audit observed that out of five selected districts, payment of productivity incentive of ₹3.56 crore was pending for disbursement since 2015-16 in respect of four districts while in respect of one district, the payment was pending since 2012-13 as shown in **Table 2.4**:

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[31] Government of India - ₹290, Life Insurance Corporation of India- ₹100, Weaver - ₹80.
[32] 64 PHWCSs in 9 districts.

Table 2.4: Details of productivity incentive pending for payment

Sl. No.	District	Period of productivity incentive	Amount (₹ in lakh)	Range of beneficiary weavers
1	Thiruvananthapuram	2015-16 to 2016-17	242.00	528-666
2	Kottayam		1.99	20-31
3	Ernakulam		8.56	101-140
4	Kozhikode		55.01	369-665
5	Kannur	2012-13 to 2016-17	48.05	263-797
	Total		**355.61**	

Directorate of Handloom and Textiles replied (January 2018) that Government was requested to allot additional fund via re-appropriation from other heads and efforts were being made to release this incentive timely.

The reply was not acceptable as delay in release of welfare assistance defeated the scheme objective of providing productivity incentive on quarterly basis.

Conclusion

Absence of Management Information System affected the policy formulation process and effective implementation of various schemes for the development of coir and handloom sectors. Revival of defibering mills and increased husk collection was not achieved along with reorganisation of societies, which were recommended by Coir Commission. Schemes for financial support to the co-operative societies in coir and handloom sectors were not effective due to non-adherence to guidelines on monitoring and utilisation of fund. Assistance under Market Assistance Schemes could not be extended to all co-operatives in the coir and handloom sectors and there were delays in release of assistance. Due to delay in reassessment of infrastructural facilities in societies, machinery manufactured for mechanisation of 15 coir societies remained unutilised. Master Weaver Scheme introduced for infrastructure creation in handloom sector did not result in infrastructure creation as funds were released in violation of guidelines of the Scheme. Welfare measures like insurance coverage and social security pensions did not reach all eligible weavers and workers.

Recommendations

1. ***As accurate and updated information is vital for policy formulation and conceptualisation of schemes, GoK should implement a system to update information periodically about coir and handloom sectors.***

2. ***Monitoring mechanism for utilisation of financial assistance should be strengthened to ensure effective fund utilisation to achieve the objectives envisaged in the scheme.***

3. ***GoK should ensure adequate budget provision for timely payment of incentives under various marketing assistance schemes to coir and handloom sectors.***

4. ***GoK may devise an action plan for gradual mechanisation of the coir and handloom sectors.***

5. ***GoK may put in place a mechanism to extend benefit of welfare schemes to all eligible workers and weavers.***

Chapter III

Performance Audit relating to Statutory Corporations

3.1 Development and Maintenance of Industrial Infrastructure in the State of Kerala by Kerala Industrial Infrastructure Development Corporation

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3.1 Development and Maintenance of Industrial Infrastructure in the State of Kerala by Kerala Industrial Infrastructure Development Corporation

Executive Summary

Introduction

Kerala Industrial Infrastructure Development Corporation (Corporation) was set up under the Kerala Industrial Infrastructure Development Act, 1993 for establishing industrial estates equipped with infrastructure facilities. The Corporation acquired 3,151.44 acres of land and developed 22 industrial parks in the land so acquired including 12 Standard Design Factories till December 2017.

Identification of land for Industrial Development Zone

During the five-year period ending 31 March 2017, the Corporation obtained Administrative Sanctions from Government of Kerala (GoK) for acquisition of 4,087 acres of land for development of Industrial Development Zone. GoK dropped acquisition of 1320 acres of land as the land identified was either not in conformity with the Corporation's selection criteria or with the Kerala Conservation of Paddy Land and Wetland Act, 2008.

Development of land and infrastructure

Comprehensive Rehabilitation and Resettlement Policy of GoK for land acquisition stipulated utilisation of land within three years. Development activities in 233.62 acres of land acquired during 2010-11 to 2013-14 was not yet completed.

GoK placed (2009 to 2017) 173.57 acres of land belonging to seven Companies/Societies at the disposal of the Corporation for industrial development. The Corporation was yet to utilise the industrial land on account of encroachment, delay in applying for exemption from various Acts, rules, notifications, etc.

Infrastructure development works

The Corporation undertakes infrastructure development works on the land acquired for allotment to entrepreneurs. Audit of 23 contracts out of 104 contracts under execution during 2012-13 to 2016-17 in respect of development works revealed that three works were awarded on single bid basis without valid justification (₹2.08 crore).

Engagement of Project Management Consultants

The Corporation engaged Project Management Consultants (PMC) for infrastructure development works from a panel constituted in June 2012. Audit observed that the Corporation appointed three PMCs from the panel after its expiry in June 2016. The Corporation did not invite competitive offers from other members in the panel to ensure competition in violation of GoK guidelines.

The Corporation also engaged three PMCs from the GoK accredited panel for five projects. In one project, the Corporation awarded PMC work to INKEL, a member in the GoK accredited panel, disregarding the technical and financial advantage from the offer of a member from its own panel leading to commitment of extra expenditure of ₹3.46 crore.

Allotment and post allotment monitoring

Details of availability of plot/space along with site location and applicable rate within a particular park were not available in public domain. This has deprived prospective entrepreneurs the required information to apply for allotment.

As per conditions of allotment, the allottee will have to commence commercial production within two years. Out of 1,779.18 acres of land allotted, an area of 215.66 acres remained unutilised without commencement of production.

Fixation of price for allotment of land

The Corporation approved pricing policy stipulating basis and guidelines for fixing lease premium. Audit noticed instances of imbalance in pricing.

Sharing of accumulated expenditure of the Industrial Park as a whole to future allotments alone led to increase in lease premium per acre ranging from ₹0.11 lakh to ₹32.26 lakh in eight parks.

Implementation of Infrastructure projects with assistance of GoI

The Corporation was the nodal agency for implementation of scheme under 'Assistance to States for Developing Export Infrastructure and Other Allied Activities (ASIDE)'. The Corporation met administrative expenses of ₹96 lakh from ASIDE fund in violation of the scheme guidelines. Even after release of funds of ₹46.18 crore under ASIDE scheme for four projects, necessary infrastructure was not created resulting in non-achievement of scheme objectives.

Introduction

3.1.1 Kerala Industrial Infrastructure Development Corporation (Corporation) was set up (February 1993) under the Kerala Industrial Infrastructure Development Act, 1993. The Corporation was set up for rapid and orderly establishment and organisation of industries in Kerala by establishing industrial estates equipped with infrastructure facilities such as developed land, built-up space, continuous power and water supply, effluent treatment plant, common facility, *etc*. These facilities would provide ready manufacturing environment for easy start-up of industrial units with minimum time and cost. For this purpose, the Corporation acquires land, develops land and infrastructure, constructs Standard Design Factory (SDF) buildings, *etc*., for allotment to entrepreneurs on lease, sale, exchange or transfer basis.

As of December 2017, the Corporation acquired 3,151.44 acres[1] of land at a cost of ₹492.31 crore[2]. Besides, Government of Kerala (GoK) placed at the disposal of Corporation 173.57 acres of land belonging to non-working Public Sector Undertakings (PSUs) and co-operative societies. The Corporation developed the land so acquired by spending ₹195.61 crore and created 22 industrial parks till December 2017. Besides developing land, the Corporation constructed 12 SDF buildings in 12 of the above industrial parks. The Corporation had five subsidiaries and nine joint venture companies as on 31 March 2017 to carry out its business. The Corporation was also functioning as nodal/implementing agency for schemes of Government of India (GoI) and GoK in infrastructure development.

As on 31 March 2017, 685 industrial units with total investment of ₹1,458.85 crore were functioning in the industrial parks and SDF buildings of the Corporation. These industrial units provided direct employment to 35,311 persons.

Audit Objectives

3.1.2 The Performance Audit was conducted to ascertain whether:

- proper planning was in place for taking up industrial infrastructure development projects;
- development and management of industrial infrastructure facilities and other assets were efficient and economic; and
- the objectives of rapid and orderly establishment and organisation of industries in the State by providing adequate infrastructure facilities were achieved.

Audit Criteria

3.1.3 The audit criteria considered for assessing the achievement of audit objectives were derived from the following sources:

- The Kerala Industrial Infrastructure Development Act, 1993;
- The Kerala Industrial Infrastructure Development Corporation, Disposal of Land Regulations, 1995;
- The Land Acquisition Act, 1894 and 2013;
- The Kerala Industrial Infrastructure Development Rules, 2008;
- Industrial Policies/plans of GoK, guidelines of GoI on implementation of schemes/projects;

[1] The Corporation acquired 3,020.16 acres of land prior to 2012-13 and 131.28 acres thereafter till December 2017.

[2] ₹286.73 crore during 2012-13 to 2017-18 till December 2017.

- Lease deeds/agreements between the Corporation and allottees;
- Resolutions of Board of Directors/sub-committees, pricing policy;
- Tender conditions, work contracts, terms and conditions for hiring of consultants;
- Kerala Conservation of Paddy Land and Wetland Act, 2008; and
- Guidelines of Central Vigilance Commission, Kerala Financial Code and Stores Purchase Manual of GoK.

Scope of Audit

3.1.4 Working of the Corporation was last reviewed and audit results included in the Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 2006, GoK. The Committee on Public Undertakings discussed (November 2017) the Report and its recommendations were awaited (December 2017).

The present Performance Audit covered overall performance of the Corporation during 2012-13 to 2016-17 in identification and acquisition of land, planning and development of land and infrastructure, allotment of land and built-up space, post allotment monitoring and performance of industrial parks, implementation of schemes and other developmental activities entrusted by GoI, *etc.*

Audit Methodology

3.1.5 Methodology adopted for attaining the audit objectives, with reference to audit criteria, consisted of review of files and records relating to land identification and acquisition, land allocation, pricing, project implementation, *etc*., maintained by the Corporation, Government decisions on industrial development and various schemes, *etc*.

A sample of 94 land allotment cases (34.69 *per cent*) out of 271 cases and 23 contracts (22.12 *per cent*) for infrastructure development including construction of Standard Design Factory buildings out of 104 contracts were examined in audit.

Audit objectives, audit criteria and scope of Performance Audit were discussed with the Management and Government in an Entry Conference held on 7 June 2017. Audit was conducted during April to September 2017. Draft Performance Audit Report was issued to GoK/Corporation in December 2017. The reply furnished by the Corporation was discussed in an Exit Conference (9 January 2018) attended by Additional Chief Secretary, Department of Industries and Commerce, GoK and Managing Director of the Corporation. Replies of GoK were received in February 2018. The views expressed by the GoK and the Corporation were duly considered while finalising the Report.

Acknowledgement

3.1.6 Audit acknowledges the co-operation and assistance extended by the management and staff of the Corporation, Department of Industries in the conduct of this Performance Audit.

Audit findings

3.1.7 Audit findings are discussed in succeeding paragraphs.

Identification and acquisition of land for industrial development

3.1.8 Land for public purpose in the State was acquired under the provisions of the Land Acquisition Act, 1894/2013[3]. In pursuance of provision 25 (1) of the Kerala Industrial Infrastructure Development Act, 1993, the Corporation identifies land for industrial development and submits land acquisition proposals to GoK for obtaining Administrative Sanction (AS) for acquisition. The activities involved in the land identification and acquisition process are given in the **Chart 3.1**:

Chart 3.1: Activities involved in the land identification and acquisition process

The Corporation framed (March 1993) norms for selection of sites, which include availability of transportation facility, labour, power, water, nature and likely cost of land, *etc.,* to streamline the process of identification of land. The Corporation modified (October 2011) the norms and issued guidelines incorporating requirements as per provisions of Coastal Regulation Zone Notifications, 1991, Biological Diversity Act, 2002, Kerala Conservation of

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[3] **Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.**

Paddy Land and Wetland Act, 2008, *etc*. GoK also brought out (November 2011) a comprehensive Rehabilitation and Resettlement Policy for land acquisition, which *inter alia* stipulated utilisation of land acquired within three years. Audit examined the process of identification and acquisition of land against these norms.

Acquisition of land for Industrial Development Zone

3.1.9 In the Industrial and Commercial Policy, 2007, GoK strategised to develop world class industrial infrastructure in the State through various PSUs, including the Corporation. GoK in their budget (2012-13) announced establishment of large scale industrial and commercial zone through the Corporation by setting up Industrial Development Zones (IDZs). IDZs envisaged acquisition and development of land, providing basic infrastructure facilities like road, power, water, sanitation and drainage for onward leasing to interested parties in the targeted industries[4] with development potential on a long-term basis.

During the five-year period ending 31 March 2017, the Corporation identified 6,459 acres of land for implementing IDZs and submitted proposals for Administrative Sanction (AS) for acquisition of land, the status of which is given in ***Appendix 6***. Out of this, the Corporation received AS for 4,087 acres of land as shown in **Table 3.1***:*

Table 3.1: Details of proposals submitted to GoK for land acquisition

Period	Identified and proposals submitted to GoK		AS obtained from GoK		Acquisition in progress	
	Number	Acre	Number	Acre	Number	Acre
2012-13	3	393	3	393	1	63
2013-14	5	1,270	5	1,270	4	970
2014-15	3	838	2	238	2	238
2015-16	6	2,686	5	2,186	4	1,496
2016-17[5]	3	1,272	0	0	0	0
Total	**20**	**6,459**	**15**	**4,087**	**11**	**2,767**

(Source: Data furnished by the Corporation)

Out of 4,087 acres of land for which AS was obtained, the Corporation did not acquire any land so far (December 2017). Acquisition proceedings were progressing in respect of 2,767 acres of land. GoK dropped acquisition proceedings in respect of 1,320 acres of land due to unsuitability of land for industrial development as discussed below:

- As per the Kerala Conservation of Paddy Land and Wetland Act, 2008; the owner, occupier or person in custody of any paddy land shall not undertake any activity for the conversion or reclamation of such paddy land except in accordance with provisions of this Act. It was also

[4] **Food–Agro based, Engineering, Gems and Jewellery, Information Technology and Information Technology Enabling Services, Electronic Hardware Segment, *etc.***

[5] **The Corporation identified all three cases during 2016-17 and submitted acquisition proposals to GoK in May 2017. GoK is yet (November 2017) to give AS.**

provided that wet land of the State shall be maintained as such and there shall be total prohibition on reclamation of such wet land. Therefore, the modified guidelines (2011) for selection of sites stipulated that the land should not contain areas covered under Kerala Conservation of Paddy Land and Wetland Act, 2008.

Land at Karumaloor, Ernakulam (300 acres) and Ayyampuzha, Ernakulam (250 acres) identified by the Corporation were paddy land. For its acquisition and development, obtaining exemption from GoK was necessary under the provisions of the Kerala Conservation of Paddy Land and Wetland Act, 2008 which was not granted.

Similarly, the land identified (February 2013) at Edathirinji, Thrissur (80 acres) was falling under wet land, conversion of which was prohibited under the provisions of the Kerala Conservation of Paddy Land and Wetland Act, 2008.

In the Exit Conference (January 2018), Additional Chief Secretary, Department of Industries and Commerce, GoK stated that violation of provisions of Kerala Conservation of Paddy Land and Wetland Act, 2008 in land identification should have been avoided.

- As per the norms of the Corporation for site selection (1993), the Corporation was to assess nature of land such as terrain conditions and the likely cost of land and development while identifying a particular location to assess its viability.

  The Corporation identified (February 2016) land at Mankada, Malappuram (690 acres) with steep terrain conditions. As development of land would increase the cost of land, GoK considered its acquisition uneconomical and dropped (May 2017) the land acquisition proceedings.

Thus, identification of land by the Corporation without adherence to its own norms and provisions of the Kerala Conservation of Paddy Land and Wetland Act, 2008 led to non-acquisition of land so identified, entailing wastage of limited human and financial resources.

Development of land and infrastructure

3.1.10 The Kerala Industrial Infrastructure Development Act, 1993, empowers the Corporation to develop the land acquired by providing amenities and common facilities. Project Implementation Committee was responsible to conceive, plan, execute and monitor infrastructure development works and also to ensure their timely implementation. Out of 3,325.01 acres of land acquired/ possessed by the Corporation, the Corporation transferred 285.75 acres of land to three Government agencies[6]. Out of the balance 3,039.26 acres of land, the Corporation developed 2,496.79 acres of land for

[6] Rubber Park (109.12 acres) a Joint Venture with Rubber Board, Coast Guard Academy (164.22 acres) and National Institute of Fashion Technology (12.41 acres).

creating 22 industrial parks. Balance land to be developed as of December 2017 was 542.47 acres. Audit observations on development of 407.19 acres[7] of land are discussed below:

Non-development/delay in development of land acquired

3.1.11 As per the Comprehensive Rehabilitation and Resettlement Policy of GoK (November 2011) for land acquisition, the land acquired should be utilised within three years.

Audit observed that the Corporation did not complete/carry out developmental activities in respect of 233.62 acres of acquired land as shown in **Table 3.2**:

Table 3.2: Details of land acquired and under development

Sl. No.	Location	Total area (in acre)	Purpose of acquisition	Year of acquisition	Amount incurred up to December 2017 (₹ in crore)	Status of development
1	Beypore	22.40	Marine Park	2010-11	36.19	Pending for CRZ clearance
2	Ranni	1.41	Apparel Park	2010-11	0.02	No activities
3	Ottappalam	82.00	Satellite City	2011-12 to 2012-13	35.40	Development not completed within the stipulated three years.
4	Mattannur	127.81	Industrial Park	2012-13 to 2013-14	81.04	
	Total	**233.62**			**152.65**	

(Source: Information furnished by the Corporation)

Audit observed that:

- Coastal Regulation Zone (CRZ) Notification, 1991 prohibits new construction in the CRZ –III category area. As per the notification, development works such as construction of building on the landward side of the existing and proposed roads or existing structures subject to existing local town and country planning regulations are permissible under category II area, *i.e.*, within the municipal/urban limit that were developed up to or close to the shoreline.

  The Corporation submitted (December 2007) a proposal to GoK for setting up a marine park at Beypore, Kozhikode. The project envisaged development of 25 acres of land close to Beypore fishing harbour. Estimated cost of the project was ₹10 crore, 90 *per cent* of which was available under Assistance to States for Developing Export Infrastructure and Other Allied Activities (ASIDE) scheme[8]. GoK

[7]Audit observations on land development activities at three locations (80.61 acres) have been included in the earlier Reports of CAG. In respect of 40 acres of land at Puzhakkalpadam, development work is in progress. In respect of 14.67 acres of land at Thodupuzha, there were no audit observations.

[8] A scheme of Government of India (GoI) that envisages financial assistance to State Governments for creating appropriate infrastructure for the development and growth of export.

accorded (July 2008) sanction to set up Marine Park at Beypore under ASIDE scheme.

The Corporation acquired (April 2010) a site measuring 22.40 acres owned by private individuals lying at a distance of 50 metres from seashore. As the land was falling under CRZ-III category, the Corporation did not commence any activities. GoK notified (June 2010) this area as urban by including this area under the Kozhikkode Corporation. Categorisation of land under CRZ-II, however, was possible only if Ministry of Environment and Forest (MoEF), GoI approved amended Coastal Zone Management Plan and revised CRZ Map of the area, which was pending (December 2017).

Audit observed that acquisition was done without ascertaining the environmental status of land leading to non-achievement of intended objective of setting up Marine Park. In the absence of clearance from MoEF, GoI, the Corporation did not commence any developmental activities so far. The Corporation also could not propose the case for assistance under ASIDE scheme and thus, lost the opportunity of availing assistance amounting to ₹9 crore.

While noting the audit findings, the GoK stated (February 2018) that efforts were being made to categorise the land under CRZ-II category so that permissible industrial activities connected with Marine Park could be initiated.

The reply was not acceptable because the land acquired in 2010-11 could not be utilised for the intended purpose even after seven years.

- As per the norms of the Corporation for selection of sites (1993), the Corporation was required to assess availability of skilled and unskilled manpower/cost of labour, *etc.*, with reference to the specific projects. Based on a proposal from the Corporation, GoK accorded (March 2011) sanction to acquire 1.41 acres of Government land in Ranni, Pathanamthitta for an apparel park on lease basis subject to the condition that construction activities should commence within one year. The Corporation acquired the land in 2011 on lease[9] for 30 years.

  The Corporation subsequently reassessed (July 2014) the project and observed that the land was unsuitable for apparel park since low cost labour was not available and there were no potential takers for apparel industry. The land was, therefore, kept idle for six years.

  The Corporation stated (January 2018) that a decision was taken in May 2017 to develop the land for general industrial purposes and accordingly, decided to construct Standard Design Factory for small industrial units.

  The reply was not acceptable as acquisition of land, without conducting feasibility for the apparel industry beforehand and without adherence to

[9] **Annual lease at the rate of two *per cent* of market value of ₹12.42 lakh.**

the Corporation's own norms resulted in stalemate in development of the land for six years and it was still lying undeveloped (March 2018).

- Norms of the Corporation for selection of sites (1993) for development of industrial area stipulated assessing likely cost of developed land before identifying a particular location. The Corporation identified land at Ottappalam (Palakkad) at the instance of GoK on the basis of representation from Member of Legislative Assembly (Ottappalam constituency). The Corporation, on inspection of land assessed that it would be difficult to market the land since prevailing land cost was ₹20 lakh to ₹25 lakh per acre. GoK, thereafter directed (April 2008) the Corporation to ascertain marketability of land through investors' meet and submit the proposal for acquisition.

  The Corporation went ahead with acquisition of 82 acres of land without conducting marketability analysis. Further, development of land and infrastructure was not completed within three years as required in the Comprehensive Rehabilitation and Resettlement Policy of GoK (November 2011) for land acquisition.

  GoK, while noting the audit findings stated (February 2018) that the Corporation usually conducted stakeholders' meet locally to assess the marketability of the land. The reply was not acceptable as the Corporation did not ascertain marketability of land before acquisition of this land.

Thus, land identification and acquisition without adherence to the Corporation's own norms for selection of sites coupled with absence of marketability analysis through investors' meet as suggested by GoK led to acquisition of unsuitable land and delay in development of land acquired.

Non-development of land placed at the disposal of the Corporation

3.1.12 Industrial and Commercial Policy, 2007 (Policy) of GoK envisaged transfer of assets including land pertaining to closed down or unviable State Level Public Enterprises for infrastructure development for industrial purposes. In line with the Policy, GoK placed 173.57 acres of land belonging to seven companies/societies at the disposal of the Corporation between 2009 and 2017 for industrial development. The Corporation incurred ₹49.26 crore for acquisition and development of the land as shown in the **Table 3.3**:

Table 3.3: Details of land placed at the disposal of the Corporation by GoK

Sl. No.	Name of Company/ Society	Year of Government Order for transfer of land	Area (acre)	Cost incurred up to December 2017 (₹ in crore)
1	Kerala Soaps and Oils Limited	2009	3.37	0.12
2	Kerala State Detergents and Chemicals Limited	2009	18.88	3.70
3	Travancore Plywood Industries Limited	2010	57.00	19.97
4	Kazhakkoottam Co-operative Spinning Mills Limited	2012	7.58	2.60
5	Kunnathara Textiles Limited	2014	12.65	0.11
6	Travancore Rayons Limited	2014	68.00	1.08
7	The Kerala Ceramics Limited	2017	6.09	21.68
	Total		**173.57**	**49.26**

(Source: Information furnished by the Corporation)

The Corporation was yet to utilise the industrial land as discussed below:

- Kerala Soaps and Oils Limited (KSOL) transferred (November 2009) possession of 3.37 acres of land at Kozhikode to the Corporation as per GoK order (July 2009). After taking possession, the Corporation conducted (May 2010) survey of the land and found that actual extent of land was 2.41 acres. The balance 0.96 acre of land was encroached by a religious institution and value of land encroached worked out to ₹2.40 crore.

  The Corporation stated (August 2017) that they requested District Collector, Kozhikode to evict the encroachment and take back the balance land of 0.96 acre from the encroacher.

  The fact, however, remains that encroachment was not removed and the Corporation did not prepare a definite plan to utilise the entire land of 3.37 acres.

- Out of the land taken over from Travancore Plywood Industries Limited at Piravanthur, Kollam, the Corporation utilised 14 acres of land for construction of Standard Design Factory building with 64,398 sq. ft. built-up area at a cost of ₹14.53 crore for housing a general industrial park.

  Meanwhile, MoEF notified (November 2013) the area as Ecologically Sensitive Area (ESA) and prohibited new/expansion project activities in the area. Since the area was declared ecologically sensitive, Grama Panchayat did not allot building number to the SDF building and hence, the Corporation could not commence any activity. GoK requested (April 2017) MoEF for exemption of the area after a delay of more than three years and approval from MoEF was awaited. The SDF building and the balance land, therefore, was not used for its intended purpose.

- The Corporation took possession (August 2013) of 7.58 acres of land at Thonnakkal, Thiruvanathapuram belonging to Kazhakkoottam Co-operative Spinning Mills Limited (KCSM). At the time of taking possession, the title of the land was not with the KCSM. The KCSM obtained title of land in July 2017. Transfer of title in the name of the Corporation was completed in December 2017.

  Owing to delay in completing the formalities for obtaining the title, the Corporation could not develop the land taken over at ₹2.13 crore for allotment to entrepreneurs.

- The Corporation could not complete acquisition and hence, could not carry out development activities in respect of four parcels of land (serial numbers 2,5,6 and 7 of **Table 3.3**) due to delay in winding up/ settlement of dues/ transfer of title, *etc*., as detailed in ***Appendix 7***.

  The Corporation stated (January 2018) that after the completion of transfer of title and mutation process, the developmental activities at the land of Kerala State Detergents and Chemicals Limited, Kunnathara Textiles Limited, Travancore Rayons Limited and the Kerala Ceramics Limited would be initiated.

Infrastructure Development Works

3.1.13 The Corporation undertakes infrastructure development works on the land acquired for allotment to entrepreneurs. The Corporation recovers cost of land and expenditure incurred for its development from entrepreneurs at the time of allotment. Therefore, in order to keep the developed land attractive to prospective entrepreneurs, it is important that utmost economy is maintained in development work. Audit noticed instances of non-compliance to codal provisions leading to extra expenditure as discussed below.

Non-compliance with Stores Purchase Manual/Kerala Financial Code/ guidelines of Central Vigilance Commission in award of work

3.1.14 Conditions of release of grants/loans from GoK *inter alia* require the Corporation to observe tender and other required formalities as per Stores Purchase Manual (SPM) while executing its projects. The Kerala Financial Code and Central Vigilance Commission (CVC) guidelines reiterate the requirement of adopting tender procedure. GoK also directed (October 2013) that single bid shall be accepted only after re-tendering and subject to a detailed justification in support of acceptance.

Audit of 23 contracts out of 104 under execution during 2012-13 to 2016-17 revealed that in three cases, work was awarded on single bid basis without valid justification as discussed below:

- As discussed in ***Paragraph 3.1.12***, the development of KINFRA Small Industries Park at Piravanthur was stalled as MoEF had declared (November 2013) the area ecologically sensitive. Despite this, work order for supply, installation and commissioning of elevators in the building at KINFRA Small Industries Park, Piravanthur was issued (September 2014) to the single bidder, Omega Elevators Limited[10], citing urgency. The work was completed in November 2016 at a cost of ₹56 lakh.

  GoK stated (February 2018) that the work was taken up (September 2014) on urgency as providing lift to the four storied building was a statutory requirement.

  The reply was not acceptable since award of work citing urgency was not correct as development of the area was stalled as per orders (November 2013) of MoEF declaring the area ecologically sensitive. The Corporation was not able to get clearance from Grama Panchayat and power connectivity to the building was not available. Thus, the award of work to single bidder was not in order.

- Project Implementation Committee approved (August 2009) estimated cost of ₹9.74 crore for construction of SDF building at Nellad including certain essential peripheral works[11]. The Corporation, however, excluded peripheral works from the estimate and awarded (April 2010) the work at ₹10.43 crore. The work was completed in March 2013. The Corporation subsequently tendered peripheral work and awarded (May 2014) the work to the lone bidder[12] at negotiated rate of ₹70 lakh without retendering. Exclusion of peripheral work and subsequent award to single bidder was not prudent and lacked justification. The work was completed in November 2014 at a cost of ₹93.52 lakh.

  GoK stated (February 2018) that peripheral work was awarded on urgency as the work was to be completed before monsoon season.

  The reply was not acceptable as the work was awarded (May 2014) with scheduled completion time of six months (November 2014), which was beyond the monsoon (June/July to September) season. Hence, reason of urgency of completion before monsoon season was not correct and lacked justification which calls for fixing of responsibility.

- GoK issued AS for setting up Industrial Park at Mattannur in June 2014. The Corporation, however, tendered the work for barbed wire fencing at the estimated cost of ₹58.03 lakh in April 2015. The Corporation awarded (June 2015) the work to the single bidder at the estimated cost without re-tendering. The work was completed in February 2016 at a cost of ₹58.22 lakh.

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[10]For supply, installation and commissioning of elevators at a cost of ₹56 lakh.

[11]Retaining wall, *pucca* drains, mandatory firefighting underground tank, effluent collection tanks, pump rooms for the firefighting activities and effluent pumping, dedicated water line from overhead tank, *etc.*

[12]Rightedge Infrastructure Private Limited.

GoK stated (February 2018) that the work was awarded (June 2015) to single bidder as there was urgency to protect the land. GoK also stated that the above works were awarded through e-tender and under which all registered bidders would receive notification whenever a tender was uploaded. Therefore, reasonable participation was assured.

The reply was not acceptable on the ground that as per direction of GoK (2013), single bid/single tender shall be accepted only after re-tendering and subject to a detailed justification in support of acceptance. The directions of GoK were applicable to e-tendering also. Thus, the award of work to a single bidder was not in order.

Engagement of Project Management Consultants from Corporation's own panel

3.1.15 As per CVC guidelines, selection of Project Management Consultants (PMCs) should be made in a transparent manner through competitive bidding. The scope of work and role of consultants should be clearly defined. GoK issued (July 2014) guidelines aimed at ensuring equity, transparency and prudence in selection of consultants for execution of public works. According to these guidelines, departments/organisations may entrust consultancy works to agencies empanelled by GoK. Selection would be made on the basis of their technical expertise and capability to execute the proposed work and suitability of the agency to the specific project. Competitive offers for centage charges[13] may be obtained from the agencies before selection.

The Corporation empaneled (June 2012) 12 firms for PMC for a period of four years to execute development works. Consultancy fee/centage charge for PMC was 0.98 *per cent* of estimate or actual cost, whichever was lower plus monthly salary of ₹71,250 for three personnel. All the panel members agreed to execute the work at this rate.

The Corporation engaged PMCs for 23 works since constitution of panel till 31 March 2017. Audit observed that:

- validity of panel for PMC expired in June 2016 and no extension was given. The Corporation, however, appointed three PMCs[14] for three projects from the expired panel.
- the Corporation did not invite competitive offers from other members in the panel though GoK guidelines suggested to obtain competitive offers from members in the panel to ensure competition.
- there were no specific criteria for selection of firm from the panel to ensure transparency in selection.

The Corporation stated (October 2017) that a PMC was selected from the panel at the agreed rate and hence, ensured competitiveness.

[13] **Consultation charges.**
[14] **Promax Management Consultants, Rigtedge Project Management Consultants and Ansons Group.**

The Corporation's reply was not acceptable on the ground that the idea behind selection of a panel of consultants was to avoid delay in selecting a consultant through tendering process. It, however, did not prohibit the Corporation to obtain competitive offers from the enlisted members. Thus, award of work to expired panelists without assessing comparable rates resulted in non-adherence to the transparent system of selection as envisaged in the CVC guidelines.

Engagement of Project Management Consultants from the panel of GoK

3.1.16 The Corporation engaged three PMCs[15] from the accredited panel of GoK for five projects till March 2017. In respect of one project, Audit observed that:

The Corporation invited (February 2016) Request For Proposal (RFP) for selection of PMC for setting up Defence Park Project[16]. Board sub-committee observed (April 2016) that Srikhande Consultants Private Limited (SCPL), one of the Corporation's empaneled PMCs was suitable to undertake PMC work for the project as they were familiar to the topography and terrain of the work site. The rate of 0.98 *per cent* of estimate or actual cost whichever was lower plus monthly salary of ₹71,250 for three personnel was economical too.

The Corporation, however, cancelled the RFP and invited (April 2016) technical and financial quotes from GoK empanelled consultants. Seven parties from the panel submitted documents and the Corporation awarded (July 2016) PMC work to INKEL Limited (INKEL) at the rate of 3.75 *per cent* of the estimated cost or actual cost, whichever was lower. The project commenced in March 2017 with the scheduled date of completion by 31 October 2018. The Corporation incurred ₹13.16 crore so far (September 2017) on the project including ₹11 crore deposited with INKEL towards 20 *per cent* of work order value.

Audit observed that award of work to INKEL disregarding the technical and financial advantage of SCPL for the work resulted in commitment to extra expenditure ₹3.46 crore[17] on PMC charges.

GoK replied (February 2018) that Corporation's decision was to utilise the service of GoK empanelled PMC selected through transparent process. Reply was not correct as there were lapses in the process of selection of INKEL from the GoK panel as indicated below:

- The terms of reference in RFP *inter alia* specified that PMC shall be entrusted with rendering services with respect to technical, financial and management aspects of the project. Technical services covered 'preparation of detailed estimates based on the broad concept design and cost details provided by the Corporation'. As the Corporation already

[15] KITCO (₹2.97 crore), BSNL (₹3.37 crore), INKEL (₹4.91 crore).

[16] A GoI assisted project under Department of Industrial Policy and Promotion (DIPP) with a grant of ₹50 crore.

[17] ₹4.91 crore (being work order value at 3.75 *per cent* of estimated cost) *less* ₹1.45 crore (agreed PMC charges).

prepared Detailed Project Report (DPR) in-house, this condition was changed subsequently to 'preparation of detailed drawings and detailed estimates in conformity with approved DPR'. The fact about preparation of DPR, was not brought out in the terms of reference in RFP to avoid ambiguity.

- Intent of the Corporation to execute the project as deposit work was incorporated in the agreement with INKEL. This was not in order as post RFP/tender changes with financial implications was not permissible. As the original participants were not aware of these subsequent changes, the tender lost impartiality and competitiveness.

Non-compliance to statutory requirement

3.1.17 The National Building Code, 2005 (Part 4-Fire and Safety), stipulates that automatic water sprinklers shall be installed on all floors of buildings other than residential and educational building, if the height of the building exceeded 15 metres (High rise buildings).

The Corporation, as a provider of infrastructure facilities in the industrial area was responsible for providing safe environment for industries. The Corporation initially obtained (November 2006) No Objection Certificate (NOC) from Fire and Rescue Department (F&RD) for the Standard Design Factory buildings under construction at KINFRA Park, Kakkanchery subject to providing all firefighting arrangements as per the existing relevant rules. Fresh NOC was also to be obtained from F&RD after completion of construction and before occupying the building.

Audit observed that the Corporation allotted entire space in the SDF building to industrial units. The F&RD, however, was yet to issue final NOC to SDF building as the firefighting system installed was not as per the specification of National Building Code, 2005.

The Corporation stated (October 2017/January 2018) that at the time of applying for initial NOC, and as per the Building code of India, 1983 including amendments, the then proposed building did not fall under the relevant category where sprinkler system was mandatory. Hence, the same was not provided in the building.

The view of the Corporation was not acceptable as issue of initial NOC (2006) was subject to the condition that the construction should adhere to all existing rules. Functioning of industrial units in the building without compliance to the statutory requirement on fire and safety was not correct, which calls for urgent rectification to avoid any risk associated with it.

Allotment and post allotment monitoring

3.1.18 A land allotment committee constituted (May 1999) by GoK allots developed land/built-up spaces to entrepreneurs/providers of common amenities as per conditions set out in The Kerala Industrial Infrastructure

Development Corporation, Disposal of Land Regulations, 1995 (Regulation). Land allotment was done on leasehold basis for a period of 30 years, renewable for further terms at the end of the lease period. Lease premium was fixed for each park on a case-to-case basis by a Pricing Committee[18]. The allottee was to execute a License Agreement to take possession of land. On production of Building Completion Certificate, the allottee was entitled to execute Lease Deed.

As on 31 December 2017, out of the 2,067.14 acres[19] of allotable land, the Corporation allotted 1,779.18 acres of land. Similarly, out of 11.05 lakh sq. ft. allotable built-up space, the Corporation allotted 7.61 lakh sq.ft. as of December 2017. Audit observations on allotment and utilisation of land are discussed below:

Absence of information about availability of land and built-up space

3.1.19 Development of infrastructure for industries would attain the desired objective only when industrial plots/built-up space were allotted to entrepreneurs. A system to provide information regarding availability of plots/space, rate with location, *etc.*, in public domain was necessary for the information of potential entrepreneurs.

Major industrial infrastructure providers like, Andhra Pradesh Industrial Infrastructure Corporation and Maharashtra Industrial Development Corporation provide online application system with Geographical Information System enabled plot locator facility and online information system for land rates respectively to the potential entrepreneurs.

Review of prevailing system and detailed examination of a sample size of 113 cases of allotment by the Corporation revealed that:

- Although 287.96 acres (***Appendix 8***) of developed land and 3.44 lakh sq.ft. of built-up space was available for allotment as of December 2017, details of availability of plot/space along with site location and applicable rate within a particular park were not available in public domain.

- The Corporation was yet to introduce online application system for allotments to ensure transparency in allotments.

Thus, absence of information about availability of land and built-up space deprived prospective entrepreneurs of the required information to apply for allotment.

[18] Comprising Managing Director, General Manager (Planning and Business Development), Managing Director of the respective subsidiary company, Manager –Finance and other members nominated by the Corporation.

[19] During the five-year period ending 31 March 2017, the Corporation allotted 313.99 acres of land and 4.16 lakh sq. ft. built-up area to 276 and 44 entrepreneurs respectively.

GoK stated (February 2018) that as a part of introducing transparency in the allotment matters, GoK was proposing to introduce web based portal for allotment and the Corporation had initiated steps in this direction.

Underutilisation of land by allottees

3.1.20 As per conditions of allotment, the allottee will have to commence commercial production within two years. As per Section 10 (k) of the Kerala Industrial Infrastructure Development Act, 1993, the Corporation shall have power to evict any entrepreneur or person and resume the land, shed or building allotted in the event of allottee not adhering to the terms and conditions of allotment. The Corporation was to ensure adherence to the conditions of allotment by allottees to achieve desired industrial development. Resumption of unutilised land from the allottees and re-allotment was necessary as the effort of the Corporation to acquire fresh land for allotment was not successful.

Audit observed that the system of periodical review of the status of allotted land at Park was not effective as an area of 215.66 acres of land in 13 industrial parks remained unutilised for more than two years (December 2017) by 122 allottees **(A*ppendix 9*)**. In all these cases, the Corporation was yet to resume the land by invoking provisions of Kerala Industrial Infrastructure Development Act, 1993.

Availability of built-up space in Standard Design Factory buildings

3.1.21 The Corporation constructed 12 Standard Design Factory buildings with built-up area of 13.49 lakh sq.ft. for leasing to industrial units. Out of the total built-up area, the total allotable area was 11.05 lakh sq.ft. (81.91 *per cent*). In respect of four buildings at Koratti, Piravanthur, Nellad and Thalassery, the *percentage* of allotable area to built-up area was in the range of 52 to 62 *per cent* as given in ***Appendix 10***.

Audit observed that maximisation of allotable area was essential to provide most economical rate per sq.ft. to allottees. GoK in its guidelines for land acquisition directed (May 2017) all land developing agencies that land with at least 75 *per cent* allotable area could be acquired. No such guidelines, however, were in place in case of allotable space in Standard Design Factory buildings. In the absence of a benchmark regarding *percentage* of allotable space in a building, there was wide variation in allotable built-up space to total built-up space in such buildings.

GoK stated (February 2018) that the extent of allotable area was more in buildings where sector specific industries were housed whereas allotable area was less where general sector industries were housed. The extent of availability of allotable area varied from location to location. GoK also stated that the Corporation recovered the entire amount spent for construction from allottees through pricing.

The reply may be viewed against the fact that providing maximum allotable space in a building will reduce rate per sq. ft. for allottees. Therefore, it was essential to frame guidelines for maximising allotable area in a building similar to the GoK guidelines for land acquisition to provide built-up space at economical rate to entrepreneurs.

Fixation of price for allotment of land

3.1.22 One of the objectives of the Corporation was to provide manufacturing environment for easy start-up of industrial units with minimum cost. Therefore, the pricing policy was to ensure balanced pricing.

The Kerala Industrial Infrastructure Development Corporation, Disposal of Land Regulation, 1995 (the Regulation) *inter alia* stipulated that lease premium for allotment of land will be fixed for each park on a case-to-case basis by a Pricing Committee. GoK constituted (May 1999) Pricing Committee to fix lease premium of land/building. The Corporation's approved (September 1999) Pricing Policy stipulated basis and guidelines for fixing lease premium.

As per Pricing Policy, cost relating to land[20], development cost[21], cost of other facility/infrastructure, which will be commonly shared were added for pricing of land. For built-up space, elements of cost include cost of land, land development, construction, electrical installations, operating and maintenance for internal water supply, *etc*. Administrative overhead at the rate of 15 *per cent* on land cost and five *per cent* on development cost were also included for pricing. As per the pricing policy, any grant received from GoI for a project will be deducted from the total cost of the project. The cost so arrived at would be divided by the total allotable area.

Audit observations on pricing of developed land were discussed below:

- According to the provisions of the Regulations/lease deed/license agreement, lease premium shall be revised in the event of the Corporation having paid enhanced land compensation or for any other reason.

  Audit observed that accumulated common development expenditure such as additional development expenditure on land, online monitoring system for effluent treatment plant, *etc*., amounting to ₹34.81 crore in eight parks were allocated only for future allotments. This resulted in passing on entire liability of common expenditure to future land allottees with resultant increase in lease premium per acre ranging from ₹0.11 lakh[22] to ₹32.26 lakh[23].

[20] Land acquisition cost/purchase cost/transfer cost/establishment charges/stamp duty and registration, other direct charges, *etc.*

[21] Cost of internal roads, compound wall, landscaping, administrative building area which are not taken as profit centers, drainage, electrification of buildings not taken as profit centers, street lighting.

[22] KINFRA Textile Centre, Nadukani.

[23] KINFRA Hi-tech Park, Kalamassery.

The GoK stated (February 2018) that common expenditure is incurred for the total allotable area within the park and sharing of the same only with entrepreneurs operating in the park lead to high amount of monthly billing of Common Facility Charges. To avoid this, portion of common expenditure is also taken while pricing the cost of balance land area.

Reply was not correct because in the above cases, common development expenditure was apportioned only for future allotments.

- The Regulations stipulated that in case of plots with frontage to National/State Highways or having any other advantage over other plots, additional lease premium will be charged, as decided by the Managing Director.

  In KINFRA Techno Industrial Park at Kakkancheri, Malappuram, out of 72 acres of land, the Corporation earmarked 2.25 acres of land as prime commercial area as it was adjacent to National Highway for development through private participation. The Corporation invited (April 2008) Expression of Interest (EoI) with criteria for selection as minimum tangible net worth of ₹3 crore. As response to EoI was poor, matter was kept in abeyance. In May 2012, the Corporation invited Request for Information (RFI) for development of the same parcel of land. The criteria regarding net worth, however, was enhanced to ₹100 crore.

  Only one party, Malabar Gold (P) Limited (MGL), submitted (August 2012) proposal and the Corporation allotted (July 2013) the plot on lease for 30 years at the prevailing lease premium of ₹1.38 crore per acre.

  Audit observed that even though the land was kept for allotment as prime land, no additional lease premium was collected. There was also no justification for enhancement of eligible criteria of net worth from ₹3 crore in 2008 to ₹100 crore in 2012. Allotment to MGL was also not in order as net worth of MGL as on 31 March 2011 and 31 March 2012 were ₹19.05 crore and ₹10.74 crore, respectively.

  GoK stated (February 2018) that as per the general policy, all industrial parks would have only one entrance and all allottees would have equal access to the frontage. Hence, pricing committee never opted for special pricing for plots with frontage advantage. GoK further stated that the Corporation floated EoI and Request for Proposal from developers/firms, for which only one firm showed interest. Further, the criteria regarding net worth was erroneously mentioned as ₹100 crore instead of ₹10 crore.

  The reply was not acceptable on the ground that no additional lease premium was charged for the land earmarked as prime plot. Further, reply of the GoK that criterion regarding net worth was erroneously mentioned as ₹100 crore instead of ₹10 crore was not justifiable as the Corporation did not issue any corrigendum to rectify the error.

Thus, non-issue of corrigendum and not going in for re-tender deprived potential bidders of an opportunity to participate in the tender, which calls for fixing responsibility.

- The Regulation permitted the Corporation to include interest cost as an element for computation of lease premium. The Corporation availed investment loans (₹365.87 crore under 54 loans) from GoK since October 2007 to March 2017 for meeting expenses towards land acquisition, creating infrastructure facilities in parks, construction of SDF buildings, *etc.* As per conditions of sanction, investment loan along with interest (11.50 *per cent*) was repayable in equal quarterly instalments commencing from first anniversary of drawal.

  Audit observed that as of March 2017, the Corporation had accumulated interest bearing loan of ₹365.87 crore with annual average interest burden of ₹42.07 crore. Against this, the average annual income of the Corporation was only ₹25.75 crore which was not adequate to service the interest liability. The Corporation did not repay the principal according to the schedule and consequently, there was interest burden of ₹170.10 crore[24] on overdue principal as on 31 March 2017**.**

  Audit observed that in respect of 13 loans (₹47.60 crore), the Corporation included interest (₹20.31 crore) in lease premium in five parks, out of which, ₹5.03 crore was for the period beyond the repayment schedule of loan. This led to passing on additional interest burden of ₹5.03 crore to entrepreneurs in five[25] parks. Thus, the objective of providing manufacturing environment for easy start-up of industrial units with minimum cost remained unachieved to this extent.

  GoK stated (February 2018) that the Corporation charged a proportionate interest component in the balance land as they could not recover the entire lease premium within the loan repayment period. GoK also stated that the request of the Corporation to convert all investment loans as interest free corpus fund was under the consideration of GoK**.**

  Fact, however, remains that charging of interest on loan beyond its repayment schedule was not correct as it led to undue burden on entrepreneurs.

- Lease premium of land was payable in lump sum or in instalments. In case of payment of lease premium in instalments, the allottee would remit 10 *per cent* along with application for allotment and balance[26] with annual interest. The Corporation revised (October 2011) interest rate on all outstanding payment on lease premium from 11.75 *per cent* to 14.75

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[24] **Excluding penal interest of ₹5.43 crore.**

[25] **KINFRA Food Processing Park and KINFRA Small Industries Park (Adoor), KINFRA Small Industries Park (Kunnamthanam), KINFRA Hi-Tech Park (Kalamassery), KINFRA Integrated Industrial Park (Ottappalam) and KINFRA Small Industries Park (Thalassery).**

[26] **Minimum 50 *per cent* as down payment within 30 days of receipt of allotment letter and balance in two equal instalments with annual interest.**

per cent based on benchmark Prime Lending Rate (PLR) of State Bank of India.

Audit observed that levy of interest at 14.75 *per cent* on instalment facility was on the higher end as the maximum rate of interest on the loan availed by the Corporation was 11.50 *per cent*[27]. Thus, levy of interest in excess of borrowing cost resulted in charging excess interest of ₹2.22 crore[28] from October 2011 to March 2017.

GoK stated (February 2018) that the Corporation had since decided (November 2017) to reduce interest rate on lease premium from 14.75 *per cent* to 12.50 *per cent*.

Thus, action of the Corporation to charge interest at higher rate led to additional burden on entrepreneurs.

- The Regulations stipulated that if additional compensation becomes payable in respect of land in a particular park by way of Court order pursuant to the provisions of the Land Acquisition Act, the premium payable will be enhanced proportionately and the lessee across the park (existing as well as future) shall be liable to pay differential premium.

  Based on the decree of Court, additional land acquisition cost will be first paid by the Corporation to Special Tahsildar (Land Acquisition). This amount together with 15 *per cent* administrative overhead was recoverable from the existing and future allottees in proportion to the extent of their land holding. The Corporation based on the Court directives paid ₹26.75 crore as additional land compensation.

  Audit observed that as against ₹26.75 crore of additional compensation paid, an amount of ₹3.61 crore was recovered from allottess leaving a balance of ₹23.14 crore to be recovered from 215 allottees (March 2017).

  GoK stated (February 2018) that the Corporation started adding up to 150 *per cent* of land cost in pricing in order to recover possible additional land acquisition cost. GoK also stated that the Corporation was now focussing on negotiable purchase to the extent possible to avoid additional land compensation claims.

  Reply was not acceptable as the Corporation did not recover the dues from the existing allottees.

Disparity in assessing lease premium

3.1.23 As per pricing policy, the total cost of land in respect of Government land transferred to the Corporation was arrived at by including actual transfer cost, stamp duty and registration charges, other miscellaneous expenditure and

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[27] **Investment loan from GoK for various projects.**

[28] **(₹10.09 crore (total lease premium interest)/14.75 *per cent*) X 3.25 *per cent*.**

15 *per cent* of all these components along with five *per cent* on development cost as administrative overheads.

GoK transferred (1999) 240 acres of land at Kalamassery (KINFRA Hi-tech Park) to the Corporation free of cost. Pricing Committee considered ₹32.37 lakh per acre as certified (June 2005) by the District Collector as cost of land for arriving at lease premium. The land cost was enhanced every year by 12 *per cent* for allotment of balance land. This way, the land value for the balance allotable land was worked out to ₹1.31 crore per acre[29] for the period from September 2012 to March 2013. The Corporation allotted 17.83 acres[30] of developed land between April 2013 and March 2017 by adding 12 *per cent per annum.*

Audit observed that charging 12 *per cent* annual increase on land cost was not justified as this rate of interest specified in the Land Acquisition Act was for arriving at the compensation payable in case of land acquisition. Moreover, this is the only case where the land was transferred by GoK free of cost to the Corporation for industrial development. The Corporation did not charge the incremental rate in any other case. This resulted in increase in land cost by ₹75 lakh[31] per acre over a period of four years till 2016-17 with resultant additional burden of ₹4.20 crore on entrepreneurs during the period.

GoK stated (February 2018) that the land at KINFRA Hi-tech park is situated in an area where market value was very high and existing market price was three to four times higher than the value arrived at by the Corporation. Twelve *per cent* increment per annum on the District Collector's valuation was only to ensure a reasonable value on the land and thereby to ensure a transparent procedure in pricing.

Fact, however, remains that charging of 12 *per cent* on price of land acquired free of cost from GoK was not investor friendly and was against the basic objective of providing manufacturing environment for easy start-up of industrial unit with minimum cost. Thus, charging of 12 *per cent* increment on land value per annum was not justified.

Anomaly in recovery of development cost

3.1.24 GoK accorded (April 2013) sanction to establish a Technology Innovation Zone in the KINFRA Hi–Tech Park, Kalamassery and designate the Technopark Technology Business Incubator society (T-TBI) as the agency to set up and operate it.

As per the order, the Corporation was to lease land along with existing structure to T-TBI without lease premium. The Cost of structures and cost of land development, however, was payable by T-TBI. The Corporation leased out (August 2014) 13.20 acres of land and T-TBI reimbursed (March 2016)

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[29] Upon apportioning the cost of additional land (10.30 acres) for road.
[30] Out of 199.88 acres of allotable area, the Corporation allotted 157.98 acres till March 2013 and 17.83 acres between April 2013 and March 2017. The balance allotable area is 24.07 acres.
[31] ₹2.06 crore (land cost per acre in 2016-17) – ₹1.31 crore (land cost per acre in 2012-13).

₹20.32 crore to the Corporation towards actual cost of structures and proportionate cost of development.

Audit observed that while computing proportionate cost of land development, the land leased was taken as 10 acres instead of the actual lease of 13.20 acres. The omission led to short recovery of ₹1.26 crore[32] from T-TBI.

GoK stated (February 2018) that the additional area of 3.20 acres was part of the unallotted area, the proportionate cost of which, was recovered from other allottees at the time of pricing of developed land.

The reply of GoK was not acceptable as recovery of proportionate expenditure of ₹1.26 crore on 3.20 acres of land from other allottees instead of recovering from T-TBI was not correct as this led to increase in lease premium to other allottees.

As such, the amount of ₹1.26 crore short recovered from T-TBI may be recovered and benefit passed on to other allottees proportionately.

Implementation of infrastructure projects with assistance of GoI

3.1.25 Besides creation of infrastructure for industrial development on its own, the Corporation was to create industrial infrastructure using funds of GoI. Audit observation on this are discussed below:

Implementation of Assistance to States for Developing Export Infrastructure and Other Allied Activities as Nodal Agency

3.1.26 Assistance to States for Developing Export Infrastructure and Other Allied Activities (ASIDE), a scheme of GoI envisages sanction of grants to State Governments for creating appropriate infrastructure through entrepreneurs for development and growth of export. State Level Export Promotion Committee (SLEPC) headed by Chief Secretary was responsible for scrutiny, selection and approval of projects. GoK nominated (April 2002) the Corporation as nodal agency for implementation of scheme.

Guidelines for the Scheme *inter alia* stipulated that:

- annual appraisal and midterm evaluation of implementation of the project/scheme at the end of three years should be conducted; and
- all administrative expenses connected with the implementation of the scheme would be met by the State Governments concerned from their own budget and no part of the scheme funds would be used to meet such expenditure, *etc*., as criteria for this scheme.

Since GoI delinked assistance under ASIDE in 2014-15, GoK provided funds from State Budget from 2015-16 onwards. SLEPC sanctioned 44 projects and

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[32] **Land development cost ₹74.19 lakh plus cost of infrastructure for Hi-tech park ₹51.88 lakh**.

released ₹177.84 crore so far (March 2017) out of which, 35 projects were completed.

Audit reviewed system of evaluation of project proposals and release of funds to the beneficiaries, utilisation of funds, monitoring mechanism, *etc*., in respect of 12[33] projects and observed as follows:

- The Corporation met administrative expenses of ₹96 lakh from ASIDE fund in violation of guidelines. This reduced ASIDE fund to eligible entrepreneurs to this extent. The Corporation stated (October 2017) that the matter would be taken up with GoK.

- Even after release of funds (₹46.18 crore) under ASIDE, necessary infrastructure for promotion of export was not created/not utilised so far in four projects resulting in non-achievement of objective as indicated in ***Appendix 11***.

Thus, due to delay in completion of projects sanctioned under ASIDE Scheme, the objective of creation of infrastructure for export oriented industries remained unachieved.

Conclusion

Land identification without adherence to its own norms and provisions of relevant Acts led to non-acquisition of land for industrial development or acquisition of unsuitable land. Absence of information in public domain about availability of land and built-up space deprived prospective entrepreneurs of the required information to apply for allotment. Deficiency in award of Project Management Consultancy led to commitment of extra expenditure. Audit noticed lapses in post allotment monitoring and consequent idling of allotted land. Deficiencies in pricing methodology led to instances of over pricing of plots. Delay in implementation of projects under Assistance to States for Developing Export Infrastructure and Other Allied Activities scheme resulted in non-creation of envisaged infrastructure for export oriented industries.

Recommendations

1. ***The Corporation should identify the land and carry out land development work on acquired land without delay by ensuring that the land is acquired after complying with provision of relevant Acts and Rules.***

2. ***The Corporation should provide Geographical Information System enabled online information system regarding location-wise availability of plots/space, rate, etc., for the benefit of potential entrepreneurs.***

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[33] Including nine projects for which SLEPC clearance obtained and assistance were released during 2012-13 to 2016-17, one project for which fund was released in 2012-13, but SLEPC clearance obtained prior to 2012-13 and two ongoing projects for which SLEPC clearance obtained prior to 2012-13.

3. ***The Corporation should streamline the pricing policy by ensuring balanced pricing among all allottees in a particular park.***

4. ***The Corporation may ensure timely creation and utilisation of the infrastructure created with assistance of GoI.***

Chapter IV

Compliance Audit

Chapter IV

Compliance Audit Observations

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

Government companies

Malabar Cements Limited

4.1 Procurement management

Introduction

4.1.1 Malabar Cements Limited (Company) was incorporated in April 1978 with the main objective of manufacturing cement using limestone available at the mining area leased to the Company by the Government of Kerala (GoK). The Company manufactures three types of cement, *viz*., Pozzalana Portland Cement, Ordinary Portland Cement and Portland Slag Cement and markets them in the brand names 'Malabar Classic', 'Malabar Super' and 'Malabar Aiswarya' respectively. Besides limestone, laterite, gypsum, clinker and fly ash are the major raw material used for production of cement. During 2014-15 to 2016-17, the Company issued 104 purchase orders for procurement of material at an aggregate value of ₹371.85 crore. The value of raw material purchased ranged from 41.15 *per cent* (2014-15) to 50.98 *per cent* (2015-16) of the total expenditure.

Audit reviewed the procurement of material by the Company, with the following audit objectives:

- Whether procurement of material was properly planned taking into account the overall requirements; and
- Whether the prescribed guidelines/regulations for tendering and procurement were duly adhered to and the material procured was as per the quality standards.

Audit examined 21 out of 40 tenders and 49[1] purchase orders (POs) valuing ₹190.88 crore out of 104 purchase orders issued during 2014-15 to 2016-17.

Audit Findings

4.1.2 The procurement process of the Company is governed by Purchase Policies and Procedures 2010 of the Company, provisions of Stores Purchase

[1] **All 17 POs with value above ₹5 crore, 19 POs out of 37 POs with value between ₹1 crore and ₹5 crore and 13 POs out of 50 POs with value below ₹1 crore. Out of the 49 POs, 27 POs were direct procurement from Central/State PSUs.**

Manual 2013 (SPM) issued by GoK, the Central Vigilance Commission (CVC) guidelines and Government orders. According to the Purchase Policies and Procedures of the Company, procurement process in the Company shall start with user departments raising purchase indents to meet targeted production of cement during the ensuing year. The purchase indents shall be approved by the Chief Engineer (Instrumentation). Thereafter, tenders shall be invited and POs issued for procurement.

Audit observations on the above are discussed below.

Purchase Policy and Procedure

Time frame for procurement process

4.1.3 Procurement process included different stages like budgeting, raising of purchase indents, inviting and finalisation of tenders and issue of Purchase Orders. Clause 1.3(i) of the SPM stipulated that to reduce delays, each department should prescribe appropriate time frame for each stage of procurement; delineate the responsibility of different officials and agencies involved in the purchase process and delegate, wherever necessary, appropriate purchase power to the lower functionaries with due approval of the competent authority. Clause 6.1 of SPM also stated that purchasing authority should estimate material requirements for a year as far as can be foreseen. At the end of each financial year, each department should realistically assess its requirements of stores and equipment during the next financial year based on the consumption during the previous three to five years and with reference to factors, if any, which justify an increase or decrease compared with the average.

Audit observed that:

- Against the stipulation that material requirement for the next financial year should be assessed at the end of current financial year *i.e.*, 31 March, the Company assessed requirement for 2014-15 on 28 June 2014 (delay of 89 days), for 2015-16 on 20 May 2015 (delay of 50 days) and for 2016-17 on 04 October 2016 (delay of 187 days).

- The non-compliance of provisions of SPM also resulted in fixation of different time periods for bids' validity and avoidable delays in the procurement of material as detailed in ***Paragraph 4.1.5***.

GoK replied (November 2017) that majority of suppliers/prospective bidders dealt with private sector only and that they were not inclined to the procedural practice of PSUs. The reply of GoK was not acceptable as procedures to be followed by the Company was internal to the Company and did not have any relation with the prospective suppliers.

Updation of Purchase Policies and Procedures

4.1.4 GoK directed (October 2012) all Public Sector Undertakings (PSUs) to make e-procurement mandatory for all purchases having value above ₹25 lakh with effect from 31 March 2013 to enhance transparency in public procurement. In June 2013, GoK amended the Stores Purchase Manual (SPM), making e-procurement mandatory for all purchases with value above ₹25 lakh[2]. Further, as per the directions (October 2013) of GoK, re-tender was to be resorted to in case of single bid.

Audit observed that the Company did not make any changes in its Purchase Policies and Procedures in order to incorporate the changes on mandatory e-procurement. Audit also observed that after the amendment (June 2013) of SPM, the Company invited three[3] e-tenders for transportation of fly ash. In violation of the directions of GoK, the Company, however, resorted to conventional tendering (September 2015) in one work for collection and transportation of dry fly ash from Hindustan Newsprint Limited, Velloor, Kottayam (HNL) to Cement Grinding Unit, Cherthala/ factory at Walayar even though the estimated value of the work was ₹1.15 crore. In the conventional tendering, the Company received only one offer from Jayalakshmi Enterprises and the work order was placed on the lone bidder without going for re-tender. Thus, the Company's decision to award the work to Jayalakshmi Enterprises was irregular. Approval was also not obtained from GoK for the deviation.

GoK replied (November 2017) that conventional tendering was resorted to as directed by the Board of Directors in order to get competitive rates and there was price reduction ranging from ₹141/MT to ₹40/MT for transportation of dry fly ash in the conventional tender floated. Further, this was a one-time deviation in order to elicit more response and to reduce cost. The reply was not acceptable as even the Board of directors was not empowered to permit violation of Government order. Further, as conventional tender floated by the Company also received only a single bid, the claim of the Company that the Company was benefited with reduction in price was not verifiable. Moreover, the transparency as envisaged in the Government order was not ensured.

Invitation of tenders and issue of purchase orders

Fixation of validity of tenders

4.1.5 Clause 7.33 (x) of the Stores Purchase Manual issued by GoK stipulated that the tender for procurement of material should specify a period of firmness during which bidders should keep their rate firm. The time fixed for firmness of offers should be enough to cover the normal delay expected in placing supply orders after going through all the formalities. Further, as per Clause 9.58 of the SPM, the entire process of scrutiny and evaluation of tenders, preparation of ranking statement and notification of award must be done within the original tender validity period. The validity period should not be

[2] GoK (May 2015) lowered e-procurement slab from ₹25 lakh to ₹5 lakh.
[3] Tender Nos.684/2013 dated 13 August 2013, 695/2014 dated 24 April 2014 and 696/2014 dated 24 April 2014.

unreasonably long as keeping the tender unconditionally valid for acceptance for longer period entails the risk of the tenderers demanding higher prices. As per Clause 9.58 of SPM, generally, the validity period should not be more than three months from the date of tender opening.
Audit observed that:

- The Company did not follow the provisions of SPM regarding validity period for tenders. Out of 21 tenders selected for scrutiny, the Company insisted for longer tender validity period of four months in respect of seven tenders[4]. As such, the Company did not ensure the period of firmness envisaged by the SPM.

- Out of 21 tenders test checked, in one[5] tender (March 2016) for procurement of 40,000 MT of imported coal, the Company did not issue PO within the offer validity period of 60 days from the date of opening of the tender. The rate of ₹6,344 per MT quoted by Mohit Minerals Private Limited, the lowest bidder, was firm and valid upto 2 July 2016. The Company issued Letter of Intent (LoI) only on 20 July 2016, after expiry of validity of offer. Accepting the LoI, the supplier demanded modifications like change of port of unloading, splitting of bill of lading instead of single bill of lading insisted by the Company, *etc*. Accepting these conditions, Managing Director of the Company directed (05 September 2016) to issue POs to Mohit Minerals Private Limited. But, the direction was not complied with by Company officials.

  The Company cancelled (October 2016) the above tender and procured 7,459 MT of imported coal (3,773 MT in November 2016 and 3,686 MT in January 2017) from the State Trading Corporation of India Limited (STC) without inviting tenders, at the rate of ₹8,689 per MT, in order to meet the emergency requirements. Thus, the Company incurred an extra expenditure of ₹1.75 crore on procurement of 7,459 MT imported coal due to non-issue of PO within the validity period of the offer, which subsequently resulted in cancellation of tender.

  Apart from the extra expenditure, there was non-availability of imported coal for production of cement until its emergency procurement from STC. As a result, the Company stopped production of cement at Walayar plant from 23 September 2016 to 19 November 2016. The production loss of cement was 1.33 lakh MT, with resultant loss of contribution[6] of ₹2.16 crore. Thus, by failing to finalise the bids within the validity period as envisaged in SPM, the Company incurred a net loss of ₹3.91 crore.

  The Company admitted (August 2017) the delay in issue of PO and stated that extra expenditure was due to unpredicted hike in the price of

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[4] Tender Nos. 692 dated 07 February 2014, 707 dated 30 July 2014, 718 dated 13 October 2014, 725 dated 13 December 2014, 737 dated 12 September 2015, 740 dated 26 November 2015 and 744 dated 11 January 2016.
[5] Tender No.750 dated 04 March 2016.
[6] Contribution is the difference between selling price and variable cost of cement. Contribution per MT for 2016-17 was ₹1,621.32.

imported coal as price in the global market was in the upward trend. The reply of the Company was not acceptable as despite knowing the upward trend in price of the product, the Company did not issue PO within the validity period.

GoK replied (November 2017) that the delay was due to request for changes in terms and conditions of contract by the supplier. After acceptance of the conditions of the supplier, PO was not issued because the Managing Director of the Company was removed and consequently, there was vacuum in decision making. Further, the sudden spurt in coal prices could not be predicted. The reply of GoK was not correct as the Company already accepted the conditions of supplier and decision was also taken to issue purchase orders. Non-issue of PO within the validity period of offer also resulted in extra expenditure on alternate procurement and production loss.

Splitting of Purchase Orders

4.1.6 According to the directions of CVC[7] and provisions of SPM (Clause 9.50), tendered quantity should be split among bidders other than the lowest bidder only if the lowest bidder is incapable of supplying the full quantity. Items of critical or vital nature can be sourced from more than one source if the ratio of splitting is pre-disclosed in the tender itself. CVC has also emphasised that conditions in the tender did not authorise tender accepting authority to take decisions in an arbitrary manner.

Audit observed that:

- In 4 out of 21 tenders selected for detailed scrutiny, the Company divided the tendered quantity to multiple bidders at L1 rate even though L1 bidder was ready to supply the entire quantity as shown in **Table 4.1**:

Table 4.1: Details of splitting up of tenders

Sl. No.	Tender No	Name of item	Tendered quantity	Quantity to L1 bidder	Quantity to other bidders
1	736/2015	Imported Clinker	1.20 lakh MT	0.60 lakh MT	0.60 lakh MT
2	694/2014	Imported Coal	0.40 lakh MT	0.20 lakh MT	0.15 lakh MT
3	707/2014	Unlaminated Bags	60 lakh bags	54 lakh bags	6 lakh bags
4	720/2014	Laminated Bags	60 lakh bags	45 lakh bags	15 lakh bags

(Source: Purchase orders issued by the Company)

- In the tender for supply of 0.40 lakh MT of imported coal (serial number 2 of **Table 4.1**), Quantum Coal Energy Private Limited, the L1 bidder did not agree (June 2014) to supply part quantity of 0.20 lakh MT citing that the price quoted by them was based on the tendered quantity of 0.40 lakh MT. The Company, subsequently purchased (August 2014) the item from other suppliers at L1 rate.

[7] Circular No.4/3/2007 dated 03 March 2007.

- There was no recorded reason for splitting the tendered quantity.

This resulted in non-compliance to provisions of SPM and deviation from CVC guidelines and thus, transparency in the procurement process was not ensured.

GoK replied (November 2017) that the provision regarding the splitting of quantity was mentioned in the tender. The reply of GoK was not acceptable since such clause for splitting of orders can be incorporated in tenders only for critical or vital item, that too after specifying the ratio of splitting. The Company incorporated clause for splitting of tender in all the 21 tenders examined by Audit instead of limiting this to critical items. Moreover, the Company did not specify the formula to be adopted in case of splitting of tendered quantity as required under Clause 9.50 of SPM.

Collection of Earnest Money Deposit (EMD)

4.1.7 Clause 8.2 of SPM stipulated the bidders to furnish EMD at the rate of one *per cent* of the total cost of the articles tendered when the Probable Amount of Contract (PAC) is ₹1 lakh or more. However, in the Purchase Policies and Procedures of the Company, EMD was limited to three lakh rupees when the value of PAC exceeded ₹1 crore. Limiting the amount of EMD was in violation of provisions of SPM. The Company restricted collection of EMD to ₹3 lakh in all 13 tenders[8] having PAC above ₹3 crore test checked, resulting in short collection of EMD to the extent of ₹1.67 crore.

GoK accepted the observation and replied (November 2017) that it was decided to follow the EMD conditions as per SPM without any deviation with immediate effect.

Safeguards for ensuring performance of the contract

4.1.8 SPM envisages collection of security deposit for ensuring due performance of the contract. The SPM also provides for levy of liquidated damages and invocation of risk and cost for delay and failure to supply. Non-compliance of the Company to these requirements is discussed below.

Collection of security deposit

4.1.9 In order to ensure due performance of the contracts, Clause 8.19 of SPM, specified collection of the security deposit equivalent to five *per cent* of the total value of the contract. Further, as per Clause 8.30 of SPM, the security deposit shall be forfeited in the event of breach of contract.

Audit observed that:

[8] **Tender No. 694 dated 21/03/2014, 696 dated 24/04/2014 707 dated 30/07/2014, 709 dated 02/08/2014, 720 dated 07/11/2014, 722 dated 19/11/2014, 723 dated 01/12/2014, 725 dated 13/12/2014, 736 dated 24/08/2015, 737 dated 12/09/2015, 750 dated 04/03/2016, 753 dated 07/11/2016 and 766 dated 30/01/2017.**

- In violation of SPM, Clause 16(d) of the Purchase Policies and Procedures of the Company stipulated collection of security deposit at five *per cent* of three months' order value for annual contracts. As a result, in 11 out of 21 tenders selected for scrutiny, there was short collection of security deposit to the extent of ₹2.03 crore[9] as detailed in **Table 4.2**:

Table 4.2: Details of short collection of security deposit

(₹ in lakh)

Sl. No.	Tender No.	Name of contractor	Security deposit to be collected as per SPM (a)	Security deposit collected (b)	Short collection (a-b)
1	698 dated 29/05/2014	SK Transports	23.88	5.97	17.91
2	718 dated 13/10/2014	Velmurugan Transport	25.01	6.25	18.76
3	725 dated 13/12/2014	Uzhavan Lorry Transport	12.11	3.03	9.08
4	737 dated 12/09/2015	Uzhavan Lorry Transport	15.31	4.05	11.26
5	740 dated 26/11/2015	NSS Logistics (India) Pvt. Ltd.	1.55	0.39	1.16
6	744 dated 11/01/2016	Muthaiya Transport	12.34	5.00	7.34
7	691 dated 22/02/2014	Vijayalakshmi Transports	18.00	7.15	10.85
8	686 dated 18/01/2014	Raja Transports	18.66	0.00	18.66
9	759 dated 10/10/2016	Sri. Balaji Mines & Minerals	22.50	0.00	22.50
10	707 dated 30/07/2014	Sri Shanmuga Polimers (P) Ltd.	53.73	8.96	44.77
11	720 dated 07/11/2014	Brocade India Polytex Limited	48.95	8.16	40.79
	Total		**252.04**	**48.96**	**203.08**

(Source: Details furnished by the Company)

In 3 out of the 11 above tenders, the contractors did not supply the ordered quantity of material and consequently, in two cases (serial numbers 7 and 8 of **Table 4.2**), the Company had to procure the same from alternate sources at extra expenditure of ₹1.10 crore. In the remaining one case (serial number 9 of **Table 4.2**) there was production loss of ₹7.27 crore. The Company did not collect any security deposit against two tenders (serial numbers 8 and 9 of **Table 4.2**). Due to short-collection of security deposit against the provisions of SPM, the Company did not make good the loss to the extent of ₹52.01 lakh by forfeiting the same.

The Company replied that security deposit at the rate of five *per cent* of three months' order value was fixed to obtain more offers. However, the Company realised that this was not enough to recover the penalty in case of breach of

[9] **Security deposit to be collected as per SPM was ₹2.52 crore. Actual collection of security deposit was ₹0.49 crore. Hence, the short collection of ₹2.03 crore.**

contract. Therefore, the Company started following the provisions of SPM since April 2017. The reply that the security deposit at the rate of five *per cent* of three months' order value was fixed to get more offers was not acceptable as it was a violation of SPM.

GoK replied (November 2017) that the Company modified the security deposit clauses in line with provisions of SPM.

Levy of liquidated damages and invoking of risk and cost purchase clause

4.1.10 In case of delay in delivery of goods, Clause 10.31 of the SPM provided for levy of liquidated damages (LD) at the rate of 0.50 *per cent* to 1.00 *per cent* of the value of the delayed stores for each week of delay up to a maximum of 10 *per cent* of the contract price of the delayed stores. Once the maximum is reached, the purchaser may consider for termination of the contract at the risk and cost of the contractor.

Audit observed that the Company included different LD clauses in different tenders/POs. In case of six tenders[10] for transportation, the Company fixed rate of liquidated damages at the rate of ₹10 per MT, which was too meagre compared to transportation cost which ranged from ₹622 to ₹1,940 per MT. In case of 13[11] tenders for supply of raw material, levy of LD for delayed delivery was specified at the rate of 0.50 *per cent* per week subject to a maximum of 5.00 *per cent* on the value of unexecuted portion of supply.

Audit also observed that the POs contained provisions to terminate the orders in case of default. But, the Company did not terminate the contract to recover extra cost of procurement from the delinquent supplier in four tenders as discussed in ***Paragraph 4.1.11***.

Non-termination of contract

4.1.11 Against four tenders for procurement of laterite II and III and transportation of limestone, the Company issued purchase orders to the respective L1 bidders. These parties supplied only meagre quantity within the scheduled time as shown in **Table 4.3**:

[10] Tender Nos. 698 dated 29/05/2014, 718 dated 13/10/2014, 725 dated 13/12/2014, 737 dated 12/09/2015, 740 dated 26/11/2015 and 744 dated 11/01/2016.

[11] Tender Nos. 692 dated 07/02/2014, 694 dated 21/03/2014, 705 dated 25/07/2014, 709 dated 02/08/2014, 722 dated 19/11/2014, 733 dated 27/07/2015, 736 dated 24/08/2015, 745 dated 14/01/2016, 749 dated 01/03/2016, 750 dated 04/03/2016, 753 dated 07/11/2016, 759 dated 10/10/2016 and 766 dated 30/01/2017.

Table 4.3: Details of short supply of material

Sl. No.	Particulars	Ordered Quantity (MT)	Name of L1 bidder	Short Supplied Quantity (MT)	Impact
1	Supply of Laterite II (Tender No. MCL/ 02/PRT/733/2015 dated 27/07/2015)	5,000	Vikraam Enterprises	4,896.76	The Company incurred extra expenditure of ₹92.52 lakh for alternate purchase.
2	Supply of Laterite III (Tender No. MCL/ BM/759/2016 dated 10/10/2016)	12,000	Sri. Balaji Mines & Minerals	11,745.92	Due to non-supply of material, the Company purchased lower grade laterite from other sources and there was production loss of cement to the extent of 54,283 MT and contribution loss to the extent of ₹7.27 crore.
3	Transportation of limestone (Tender No. MT/02/PRT/686/2013 dated 01/10/2013)	60,000	Raja Transports	59,609.00	Incurred extra expenditure of ₹41.41 lakh due to alternate procurement.
4	Transportation of limestone (Tender No. MT/02/PRT/691/2014 dated 30/01/2014)	50,000	Vijayalak-shmi Transports	24,846.61	Incurred extra expenditure of ₹68.33 lakh due to alternate procurement.

(Source: Details furnished by the Company)

Audit observed that due to non-supply of material, the above contracts were required to be terminated by the Company as per provisions of SPM when maximum Liquidated Damages (10 *per cent*) leviable was reached. The Company did not terminate the contract to recover risk and cost amount of ₹2.02 crore[12] incurred in procurement from alternate sources in three cases as the necessary clause for invoking risk and cost was not included in the PO.

GoK replied (November 2017) that supply of laterite by Vikraam Enterprises and Sri. Balaji Mines & Minerals was interrupted due to closure of their mine on technical issues. Further, in the absence of suitable bidders/suppliers for laterite and anticipating reopening of their mines at the earliest, so that the Company could be benefited by the low cost of material in comparison to the present procurement rate, the contracts were not terminated. The Company did not make any payment to these parties for the material supplied. Further, in case of transportation contract, legal proceedings were on to collect all dues from these parties. The reply of GoK was not acceptable as the payment withheld by the Company was too meagre (₹11.26 lakh) compared to the extra expenditure and contribution loss incurred by the Company. Further, the suppliers did not have any contractual liability to supply to the Company in future. The only option available with the Company to mitigate loss on account of alternate purchase due to non-supply of material was termination of contract at the risk and cost, which the Company did not do.

[12] **₹92.52 lakh + ₹41.41 lakh + ₹68.33 lakh.**

Receipt and utilisation of material

Procurement of coal without exercising quality checks

4.1.12 As per Clause 11.1 of the SPM, before accepting the ordered stores, it must be ensured that the stores were manufactured as per the required specification and are capable of performing the functions as specified in the contract. The Company was procuring linkage coal through Fuel Supply Agreement (FSA) with the Singareni Collieries Company Limited (SCCL). As per FSA, SCCL will supply coal Grade 7- Crushed Run of Mine coal (G7 CRR) grade and below[13], which has Gross Calorific Value (GCV) of 5,500 KCal per Kg or less. The price varied with the grade. As per Clause 6.2 of the FSA, coal shall be supplied on 'declared grade basis' from the respective despatch points. It was the responsibility of the Company to check and ensure the quality of coal at the despatch/loading point itself.

Audit observed that the Company did not have any mechanism to check quality of linkage coal at the despatch point. Scrutiny of chemical analysis reports of the Company revealed that during the period April 2014 to March 2017, the Company received 93,240.34 MT of coal from SCCL, out of which, only 11,712 MT was of declared grade. The Company did not check and ensure quality of linkage coal at the despatch point itself, which resulted in extra expenditure of ₹3.89 crore due to payment of higher price for lower grade coal.

GoK replied (November 2017) that the new Fuel Supply Agreement executed (April 2017) with SCCL contained provisions for third party inspection to ascertain the quality of coal loaded. The third party inspection was to be arranged by SCCL and SCCL was in the process of finalising the procedure for third party inspection.

The reply was not acceptable since, as per the existing Fuel Supply Agreement, it was the responsibility of the Company to ensure quality of coal at the despatch/ loading point itself. Failure to do so resulted in avoidable extra expenditure of ₹3.89 crore.

The third party inspection envisaged in the new Fuel Supply Agreement was not yet operational. Thus, GoK needs to expedite the placement of the mechanism of third party inspections for procurement of linkage coal.

Non-compliance to BIS standards

4.1.13 As per Clause 3 of the Cement (Quality Control) Order, 2003 issued (February 2003) by Government of India, cement products cannot be sold in market without the standard mark of the Bureau of Indian Standards (BIS). As BIS marking is mandatory for cement, the Company obtained BIS certification mark for its Cement Grinding Unit (CGU) at Cherthala. The approved

[13] **In the order of G- 7, G- 8, G- 9, *etc*.**

manufacturing process for production of cement at CGU was inter-grinding of clinker, gypsum and fly ash.

The Company placed (March 2015) a PO to Cement Corporation of India Limited (CCIL) for procurement of 2,577 MT Ordinary Portland Cement (OPC). The OPC procured from CCIL was intended to be sold by the Company in its brand name. CCIL delivered the entire quantity of 2,577 MT in March 2015 and the Company stored the same at Kerala State Warehousing Corporation (KSWC) godown by incurring an expenditure of ₹46.22 lakh. Out of 2,577 MT, the Company sold 399.50 MT of OPC between June 2015 and August 2015.

As there was lack of demand and the storage period exceeded more than three months, the Company utilised 2,138 MT of OPC for re-processing into Pozzalana Portland Cement (PPC) during October 2015 to June 2016 along with imported clinker for inter grinding with other raw material. Audit observed that this process was not an approved manufacturing process. Based on the inspections carried out by BIS authorities from 23 to 25 May 2016, it was ordered to stop marking of BIS standard from 10 June 2016 citing that the production process at CGU was not as per the manufacturing process approved by BIS and sealed one silo[14] containing 527.15 MT of PPC and 49.40 MT of OPC. The Company later utilised these PPC and OPC cement for internal construction work.

The Company stopped production from 11 June 2016 as per directions of BIS authorities and restarted production on 28 July 2016. The failure on the part of the Company to get approval from the BIS authorities for the use of OPC, which was a deviation from the approved manufacturing process, was not justifiable. Stoppage of factory operations for 45 days resulted in production loss of 27,000 MT of cement at the rate of 600 MT per day. The contribution loss due to stoppage of production worked out to ₹0.64 crore[15].

The Company replied that it did not intend to change the approved manufacturing process as per BIS standard. The use of OPC instead of clinker was less than five *per cent* and cement conformed to all requirements of BIS standards.

GoK replied (November 2017) that inter-grinding of OPC purchased from CCIL was resorted to as a one-time measure to mitigate likely losses to Company. Stoppage of production occurred due to minor procedural variation arising out of contingency. The reply of Company/GoK was not acceptable as there was a deviation from approved production process, which resulted in stoppage of production. Prior approval should have been obtained from BIS for the deviation from approved production process. Failure of the Company to do the same led to forced stoppage of production and the resultant contribution loss.

[14] A silo is a structure for storing bulk materials like clinker, cement, *etc*.
[15] Considering the contribution of ₹235.74 per MT achieved during 2016-17.

Conclusion

The Company did not align its purchase policies and procedures in tune with revised Stores Purchase Manual (SPM)/Government Orders and fix any time frame for procurement process. The Company did not comply with SPM provisions relating to e-tender, fixation of validity of tender, splitting of purchase orders, collection of EMD and liquidated damages and inclusion of risk and cost clause in the POs issued. Procurement of coal without exercising quality checks resulted in extra expenditure and non-compliance to BIS Standards in production resulted in production loss.

It is recommended that GoK may also review the provisions of SPM, given the instances of non-compliance to the provisions of SPM, as brought out in *paragraphs 4.1.5, 4.1.6, 4.1.7, 4.1.9* and *4.1.10*, if required.

The Kerala State Civil Supplies Corporation Limited

4.2 Centralised purchase of essential commodities

Introduction

4.2.1 The Kerala State Civil Supplies Corporation Limited (Company) was incorporated (June 1974) with the objective of procurement and retailing of essential commodities. The Company procures commodities centrally and sells 13 commodities[16] at subsidised rates fixed by Government of Kerala (GoK) with quantity restriction and 13 commodities[17] at non-subsidised prices, through its 56 depots and more than 1,500 outlets falling under five regional offices[18].

The Company floats monthly e-tenders through *www.tenderwizard.com*[19], an e-tendering website, for procurement of above commodities[20] centrally for all 56 depots. The Company uses a Least Cost Solution (LCS) software into which price as well as quantities offered by bidders in the e-tender are fed. LCS generates a purchase plan which gives the list of lowest bidders (L1) for each depot to meet their quantity requirement while keeping the overall purchase cost to the minimum. Head Office Management Committee consisting of functional heads of major departments of the Company finalises the purchase plan. Based on the purchase plan, Purchase Orders (POs) are issued separately for each commodity for supply at various depots. Purchase Manual 2005 and Purchase Policy 2010 approved by GoK govern the procurement process of the Company.

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[16] Bengal gram bold, black gram washed whole, chillies, coconut oil, coriander, green gram, jaya rice, kuruva rice, lobia, matta rice, raw rice, sugar and toor dhal.
[17] Bodhana rice, cumin seed, green peas, methi, mustard, peas dhal, ragi, red piriyan chilly, split green gram, toor dhal fatka quality, black gram split, white gram and black gram dal (washed).
[18] Regional offices at Thiruvananthapuram, Kottayam, Ernakulam, Palakkad and Kozhikode.
[19] E-tendering solution provided by Karnataka State Electronics Development Corporation Limited.
[20] Except coconut oil as the Company procures and sells coconut oil under its own brand name 'Sabari'.

During 2014-15 to 2016-17, the Company floated 48 e-tenders. Since the aggregate demand of the depots could not normally be met by a single supplier, more than one PO had to be issued for a single commodity. The Company issued 4,842 POs valued at ₹3,836.80 crore for procurement of various commodities. In order to assess economy in centralised procurement of essential commodities and compliance with applicable manuals, rules and procedures, Audit selected 2,624 POs valuing ₹3,091.98 crore (80.59 *per cent* of total purchase order value) covering eight subsidised commodities[21] as shown in **Table 4.4** :

Table 4.4: Details of sample selection

Year	No. of Tenders (Nos.)	Total			Sample selection			*Percentage* of selection
		Items (Nos.)	POs (Nos.)	Value (₹ crore)	Items (Nos.)	POs (Nos.)	Value (₹ crore)	
2014-15	15	25	1,669	1,133.72	8	881	930.47	82.07
2015-16	16	25	1,526	1,127.41	8	815	910.66	80.77
2016-17	17	26	1,647	1,575.67	8	928	1,250.85	79.39
Total	**48**		**4,842**	**3,836.80**		**2,624**	**3,091.98**	**80.59**

Audit findings

4.2.2 Audit findings are discussed in succeeding paragraphs.

Finalisation of tenders

Evaluation of bids which were ineligible due to non-furnishing of Earnest Money Deposit

4.2.3 As per the Purchase Manual of the Company and the tender conditions, each bidder must remit Earnest Money Deposit (EMD) at specified rate[22] for each of the commodity bidded for. Collection of EMD was aimed at preventing non-serious or frivolous bids and was to be forfeited if the bidders withdrew offer, modified the terms and conditions in any manner or did not furnish the security deposit after awarding the tender. EMD can be remitted either by way of Demand Draft issued by a Scheduled Bank or through Electronic Transfer to the accounts of the Company. Bids not supported by EMD would be invalid unless exempted. The Company followed a system of retaining the EMD after e-tender on permanent basis unless the vendor requested for refund.

Though it was mandatory for the suppliers to enter the details of EMD in the tender documents, many bidders failed to comply with the tender condition. The e-tender solution of the Company also did not enable automatic detection of status of remittance of EMD by bidders before opening bids. Due to this limitation of e-tender solution, the status of EMD was being watched through manual registers. Audit, however, observed that due to lack of system/control,

[21] **Black gram washed whole, chillies, green gram, jaya rice, kuruva rice, matta rice, sugar and toor dhal.**
[22] **Amount of EMD of various commodities ranged from ₹5,000 to ₹1,00,000.**

bids unaccompanied by EMD were reaching the stages of bid evaluation and getting purchase orders as is evident from the following instances.

- EMD remitted by Anitha Modern Rice Mill on 09 June 2015 for supply of matta rice was forfeited by the Company in April 2016 for violation of tender condition in one of the e-tenders. Despite this, the bids of Anitha Modern Rice Mill were opened and purchase orders issued against three[23] other tenders even though the bids were submitted without required EMD of ₹1 lakh each.

- Though Global Trade Corporation, another supplier, did not submit required EMD of ₹1 lakh each against two tenders[24] for green gram, the Company evaluated the bids submitted by the supplier and placed purchase order for the supply of green gram.

- The EMD remitted (May 2016) by Khadeeja Agencies in one e-tender[25] for supply of black gram washed (whole) was forfeited by the Company for violation of tender conditions. However, the supplier participated in another e-tender[26] floated in July 2016 without submitting EMD of ₹1 lakh and the bid was evaluated along with other bidders.

GoK replied (February 2018) that the instances pointed out by Audit were exceptions which happened due to clerical errors. GoK also stated that attempts to modify the software for automatic verification of EMD through the software providers was unsuccessful.

The reply was not acceptable as the cases pointed out by Audit highlighted the deficiencies of the existing manual system of EMD verification of the Company and reinforced the need for a software enabled system to guard against the recurrence of such lapses.

Procurement through negotiation with bidders other than L1

4.2.4 According to the provisions of Stores Purchase Manual (SPM) of GoK and guidelines[27] issued by Central Vigilance Commission (CVC), negotiations for public procurement can be conducted only in exceptional circumstances and that too with L1 bidders. Purchase Manual of the Company also provided that negotiations should be conducted only with L1 bidders.

Audit, however, observed that:

- The purchase plan prepared through Least Cost Solution gave the list of L1 bidders for each depot. Despite this, the Company conducted post tender negotiations in 215 instances out of a total 308 purchase

[23] Tender Nos. P10-19147-16 (August 2016), P10-31446-16 (January 2017) and P10-31446-16-Retender (January 2017).
[24] Tender Nos. P10-6801-16 (April 2016) and P10-26230-16 (November 2016).
[25] e-tender number P10-9309-16 floated in May 2016.
[26] e-tender number P10-15265-16.
[27] Circulars dated 03 March 2007 and 20 January 2010.

decisions[28] (70 *per cent*) indicating that post tender negotiations were routine and not an exception. Moreover, during negotiations, the Company allowed L1 bidder in a depot to quote for other depots including those for which the supplier did not quote originally. This led to exclusion of original L1 bidders. Analysis of 215 negotiations revealed that the number of L1 suppliers in the purchase plan came down from 12 to 8 on an average after each negotiation, indicating ouster of four L1 suppliers after negotiations. Instances of replacement of L1 bidders by other bidders in Thiruvananthapuram depot[29] along with the L1 rate and corresponding post negotiation rate is given in ***Appendix 12***. Audit also observed that two bidders were not L1 in any of the depots while others were L1 in other depots.

- Due to expulsion of original L1 bidders after negotiations, other bidders were able to increase the quantity and number of depots up to 59 times and 44 depots respectively. The total value of additional purchase orders received by 50 suppliers who bagged maximum quantity in a tender amounted to ₹297.37 crore.

- Similarly, based on the decision (March 2010) of the Board of Directors, the Company conducted negotiations with all the participants in 24 tenders[30]. Based on these negotiations, 18 suppliers bagged purchase orders worth ₹21.70 crore even though they were not L1 in any of the 56 depots. Details of purchase orders bagged by these suppliers were as given in ***Appendix 13***. Audit observed that the above decision of the Board was against the Purchase Manual of the Company and directions of CVC and resulted in undue benefit to these suppliers. Deviation from the Purchase Manual did not have the approval of GoK.

Above methods of negotiation followed by the Company resulted in expulsion of 897 original L1 bidders in 184 cases.

Thus, the existing mode of negotiation adopted by the Company undermined the cornerstone of e-tender mechanism namely, secrecy of bids since negotiations were conducted with the bidders after open publication of initial bids. Thus, there was the risk of bidders holding back their best rates, waiting for negotiations, assessing the competitor's rates and capturing major share of purchase orders through marginal reduction in offer rates.

GoK replied (February 2018) that e-tender was conducted for meeting the requirements of the Company as a whole and hence, negotiation with all the suppliers and consequent change in L1 supplier in depots was not a violation of the approved procedures. GoK further stated that negotiations were carried

[28] Purchase decision is a decision to purchase one of the many commodities in an e-tender.
[29] One e-tender of the Company involves procuring for 56 depots. Hence, for the benefit of readability instances are limited to one depot.
[30] P10-31511-14, P10-35267-14, P10-5375-15, P10-10124-15, P10-17269-15, P10-19559-15, P10-23168-15, P10-25784-15, P10-27566-15, P10-33310-15, P10-1594-16, P10-6801-16, P10-9309-16, P10-12060-16, P10-15265-16, P10-17463-16, P10-19147-16, P10-26230-16, P10-26230-16-Retender, P10-31446-16, P10-31446-16-Retender, P10-1982-17, P10-1982-17-Retender and P10-5810-17.

out only in exceptional circumstances and the method of negotiation was as per approved purchase policy.

The reply was not acceptable because the system of negotiation compromised secrecy of bids and resulted in elimination of L1 bidders. The contention that the method of negotiation was as per approved Purchase Policy was factually incorrect because the Purchase Policy, 2010 was silent on post tender negotiations. Further, the Purchase Manual 2005 and the guidelines of Central Vigilance Commission authorised negotiations only with L1 bidder that too in exceptional cases. Negotiations were also pervasive rather than an exception since it was resorted to in finalising 70 *per cent* of the selected tenders. Thus, the action of the Company in negotiating with bidders other than L1 needs to be investigated, followed by appropriate remedial measures to guard against repetition of such practices.

Non-formation of Vendor Development Cell

4.2.5 Paragraph 3.1.1 of the Purchase Manual of the Company stipulated maintenance of a pre-qualified vendor list by the Purchase Department. Paragraph 3.1.2 and Annexure III B of the Manual called for formation of a Vendor Development Cell, headed by the Managing Director. This Cell was to be set up for continuous updation of the pre-qualified vendor list and also for regular monitoring of vendor performance. This Cell was also to disseminate information about requirements of the Company among major suppliers and liaise with Civil Supplies Corporations of other states in order to encourage them and their vendors to participate in the tenders floated by the Company. Audit, however, observed that such a dedicated cell was not in existence during the audit period.

In the absence of a Vendor Development Cell, there was no systematic effort to widen the vendor base as envisaged in the purchase policy. GoK replied that action for formation of a vendor development cell was initiated.

Economy in procurement

Non-diversification of supply sources

4.2.6 According to the guiding principles of Purchase Manual, the Company should avoid commission agents, middlemen, monopolies, cartel of suppliers, *benami* tenderers, *etc*., while procuring commodities. Further, as per Purchase Policy, 2010, the Company was to consider rates from all possible sources of supply, like, commodity exchanges, regional markets and producing centres (*mandies*) in order to ensure that the purchases were made at the least possible cost. To ensure fairness, such rates had to be evaluated through Least Cost Solution so as to ensure objectivity in selection. In accordance with the Purchase Policy, the Company had been deputing its officials to *mandi* markets to collect offers and terms from suppliers up to the year 2012. After obtaining rates from *mandies, etc*., the Company compared these offers with the e-tender rates and placed orders on the suppliers at *mandies* whenever their rates were lowest.

In June 2012, GoK directed that all purchases having value above ₹25 lakh by Government agencies should be finalised only through e-tender. Citing the above order, the Company stopped collecting competitive rates from suppliers at *mandies*.

Audit observed that:

- Four suppliers supplied 24.21 *per cent* value of purchases made by the Company during 2015-16. Audit test checked purchases and sales transactions[31] of these vendors[32]. The audit analysis revealed that two vendors[33] who had supplied green gram and chillies against six purchase orders[34] sourced the items from outside the State and charged trade margins ranging from 3.20 *per cent* to 5.77 *per cent* while supplying to the Company. Involvement of these intermediaries in the above transactions resulted in extra expenditure of ₹49.94 lakh to the Company (worked out based on the trade margins mentioned).

  GoK stated (October 2016) that five *per cent* margin charged by suppliers was not on the higher side considering the terms of supply like security deposit, guarantee of three months on supplies and payment terms.

  The fact, however, remains that the Company could have saved this margin (₹49.94 lakh) by avoiding intermediaries to the extent possible.

- Three subsidised commodities namely, chillies, black gram bold and *toor dhal* suffered maximum price escalation during 2014-15 to 2016-17. Analysis of average purchase price of these commodities with rates[35] in *mandi* markets like Guntur (Andhra Pradesh) and Gulbarga (Karnataka) after considering transportation and other costs revealed that procurement cost of the Company was higher than the *mandi* rates by ₹25.67 crore.

Thus, failure of the Company to follow the guiding principles of Purchase Manual regarding avoidance of commission agents, middlemen, *etc*., and non-consideration of rates from all possible sources including *mandi* rates was resulting in uneconomical procurement of centralised commodities.

GoK replied (February 2018) that a detailed proposal for direct procurement from production centres was under its consideration.

Deficiency in evaluation of offer rates through Least Cost Solution

4.2.7 As per Purchase Policy, 2010, local market wholesale rates collected through Regional Managers were to be evaluated through Least Cost Solution (LCS) before purchase orders were placed on the local wholesale dealers.

[31] Using data sourced from Sales Tax Department.
[32] Hafsar Trading Company, Karthika Trading Company, Sampoorna Traders and Sri Vigneswara Traders.
[33] Hafsar Trading Company and Sampoorna Traders.
[34] Purchase orders No.16990, 17790, 17937, 17976, 18192 and 18149.
[35] Sourced from www.agmarknet.gov.in.

Evaluation through LCS ensured that the GoK directive (June 2012) to procure all items with value above ₹25 lakh only through e-tender was complied with.

Review of e-tenders during the period 2014-15 to 2016-17 revealed that the Company gave permission to various Regional Managers to purchase subsidised commodities locally[36] based on offers sourced from the respective regions without evaluating them through LCS, as detailed in **Table 4.5**:

Table 4.5: Details of local purchases

Sl. No.	Tender No.	Item purchased	Region/depot which were allowed to purchase locally
1	P10-2795-15	Toor dhal	Thiruvananthapuram and Kozhikode
2	P10-11395-15	Chillies	Thiruvananthapuram
3	P10-14148-15	Toor dhal	Palakkad
4	P10-19559-15	Black gram Washed (Whole)	Kottayam
5	P10-28650-15	Chillies	Kozhikode
6	P10-7367-15	Raw Rice	Thiruvananthapuram

(Source: Minutes of Head Office Management Committee)

Audit also observed that in three (serial numbers 4, 5 and 6 of **Table 4.5**) out of above six tenders, the quotes from Regional Offices were received after opening of e-tender.

GoK replied (February 2018) that the rates offered by Regional Managers were considered along with the e-tender evaluation and the Regional Managers were given necessary sanction to purchase when the offered rate was lower than the e-tender rate. The reply was not acceptable because in the above cases, the rates offered were not evaluated along with the e-tender rates. Acceptance of offers after opening of e-tenders led to bypassing of the system and all the controls it was meant to introduce.

Short-procurement of commodities

4.2.8 Purchase Policy, 2010 required the stock level at depots to be always maintained between a minimum of 15 days and a maximum of 55 days so that there was neither shortage nor excess of stock. Accordingly, the indenting system of the Company was so designed that the above stock levels could consistently be maintained at depots if procurement was made as per indents raised by them.

Audit, however, observed that during the period 2014-15 to 2016-17, the total quantity purchased was only 70 *per cent* to 94 *per cent* of the total indented quantity as shown in **Table 4.6**:

[36]Purchase Policy recommended this mode of local purchase as a means of breaking any formation of cartel.

Table 4.6: Total quantity purchased against the total indented quantity

Quantity in quintals

Sl. No.	Commodity	Indented quantity	Purchased Quantity	*Percentage* of indented quantity purchased
1	Black gram	6,03,286	4,41,162	73
2	Chillies	2,46,382	2,06,359	84
3	Green gram	4,38,365	3,71,203	85
4	Jaya rice	20,28,140	15,00,665	74
5	Kuruva rice	10,61,621	9,37,028	88
6	Matta rice	13,47,580	10,90,113	81
7	Sugar	30,99,236	29,11,517	94
8	Toor dhal	3,51,171	2,46,722	70

(Source: Minutes of Head Office Management Committee and purchase orders)

Analysis of stock registers maintained in eight depots[37] also revealed that the stock level in these depots fell below the prescribed 15 days stock level in 45 *per cent* to 67 *per cent* of the days during the period 2014-15 to 2016-17. Due to non-maintenance of prescribed stock levels, eight selected commodities other than sugar were out of stock[38] on an average of 5 *per cent* to 16.82 *per cent* of the days in selected eight depots. The stock out days ranged up to 55 days at a stretch, as given in the **Table 4.7**:

Table 4.7: Details of stock level position in eight selected depots during the period 2014-15 to 2016-17

Sl. No.	Commodity	Stock level position		Stock-out position	
		Average number of days below prescribed stock level	*Percentage* of days below prescribed stock level	Average number of stock out days	*Percentage* of average number of stock out days
1	Black gram	623	57	130	11.82
2	Chillies	569	52	129	11.74
3	Green gram	491	45	72	6.57
4	Jaya rice	734	67	55	5.00
5	Kuruva rice	708	65	76	6.91
6	Matta rice	654	60	162	14.80
7	Sugar	712	65	37	3.40
8	Toor dhal	554	51	184	16.82

(Source: Stock registers of the Company)

It was observed that many of these stock out periods overlapped times of highest price rise of essential commodities[39], which was exactly when the Company was expected to intervene in the market to stabilise the market prices.

The Company did not maintain sustained levels of stock at prescribed levels due to financial constraints brought about by non-revision of subsidy prices as detailed below:

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[37] Cherthala, Ernakulam, Kochi, Kozhikode, Perinthalmanna, Punalur, Vadakara and Wadakkancheri.
[38] Quantity less than one bag is considered as stock out in depots.
[39] Pulses and chillies.

- As per orders issued by GoK (August 2013) regarding Market Intervention Operations (MIO), price of subsidised commodities were to be fixed at 20 *per cent* below market price or procurement cost, whichever was lower. The reimbursement of MIO loss was also to be limited to lower of net loss of the Company as per the audited financial statements and actual MIO loss.

- GoK refixed price of six subsidised commodities (except sugar and matta rice) in November 2014 and the price of sugar and matta rice in July 2015 at rates, which were lower than the ones at which these should have been fixed as per MIO norms prescribed in August 2013. This price mismatch continued in the subsequent years 2015-16 and 2016-17 as well and in case of commodities like pulses, the difference was substantial as shown in **Table 4.8**:

Table 4.8: Details showing gap between procurement cost and subsidy prices

(₹per Kg)

Sl. No	Commodity	2014-15		2015-16		2016-17	
		Weighted average procurement cost	Subsidy price as of March 2015	Weighted average procurement cost	Subsidy price as of March 2016	Weighted average procurement cost	Subsidy price as of March 2017
1	Blackgram washed whole	69.72	66.00	116.66	66.00	108.73	66.00
2	Chillies	75.74	75.00	109.41	75.00	109.90	75.00
3	Greengram	80.92	74.00	84.11	74.00	64.36	66.00
4	Jaya rice	30.89	25.00	24.87	25.00	30.39	25.00
5	Kuruva rice	28.72	25.00	23.99	25.00	27.11	25.00
6	Matta rice	28.38	24.00	23.38	24.00	28.94	24.00
7	Sugar	30.87	22.00	27.22	22.00	38.83	22.00
8	Toor dhal	67.76	65.00	114.31	65.00	97.56	65.00

(Source: Minutes of Head Office Management Committee and Government Orders)

Despite the wide gap in procurement and selling prices, GoK did not release the MIO loss suffered by the Company in full during any of the years under audit. The amount pending reimbursement from GoK for the previous three-year period towards MIO loss stood at ₹569.59 crore (as of March 2017). GoK also did not accede to requests of the Company to periodically re-fix the selling rate of subsidy items as stipulated in the Government Order of August 2013.

Thus, gap between purchase and selling price of essential commodities coupled with partial reimbursement of loss by GoK was the major reason for procurement of lesser quantity of commodities against the indented requirements submitted by depots leading to low/nil stock levels.

GoK agreed (October 2016) with the audit observation that the entire claim of the Company was not reimbursed and stated that the financial position and profit/ loss implication with regard to sales of subsidy commodities were also considered by the Company while taking purchase decision. The fact, however, remains that the financial position of the Company did not allow it to maintain required minimum level of stock. Consequent stock out situations, thus, undermined the purpose of market intervention.

Deficiencies in quality control mechanism

Non-adherence to prescribed procedures

4.2.9 Quality Manual of the Company envisaged a seven-tier system of quality checks. In this mechanism, the second tier consisting of Depot Manager (DM) and the Stock Custodian had the primary responsibility to accept or reject commodities based on quality, packing and labelling. The Quality Assurance Committee (QAC) comprising of DM, Junior Manager (Marketing) and Junior Manager (Quality Assurance) formed the third tier and was to be convened whenever the DM had any doubt in quality of supplied goods. These depot level checks consisted of evaluation of physical properties of the commodity through visual judgement and use of physical tools like sieves to test parameters like damaged/immature grains, inorganic foreign matter, size, *etc*. All the goods supplied were to compulsorily pass the quality control check by either or both of second and third tier quality control mechanism. The other five tiers of quality control mechanism essentially acted as a counter checking mechanism to ensure strict implementation of the prescribed quality checks in second and third tiers.

Six samples of five varieties[40] of commodities from one depot and four outlets[41] were collected by the officials of the Company at the instance of Audit. These samples were thereafter analysed through an independent external agency[42] with respect to specifications approved by the Company and also those prescribed by Food Safety and Standards Authority of India. Test results of three out of six samples revealed that varietal admixture, total sound grains and size of grains deviated negatively from the permissible limits set by the Company. Since these commodities passed quality checks and were ready to be sold to consumers, the test results pointed to the fact that the seven tier mechanism was ineffective.

Audit observed the following deficiencies in implementation of the quality control procedures, including the seven tier quality assurance system:

- Employees of the Company formed the first tier of quality assurance. They were entitled to purchase unlimited quantities of subsidised commodities from Company's outlets on the expectation that they would give unbiased and timely feedback on quality. However, there was no system or norm for collecting feedback from the employees who purchased subsidised commodities.

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[40] Black Gram (washed whole), Bengal gram Bold, Matta Rice, Toor Dal and Lobia.
[41] Kochi depot and four outlets at Chullickal, Cheruvannur, Panambukadu and Paruthippara.
[42] Council for Food Research and Development, Konni.

- Retailers' Quality Watch Committee, the fourth tier Quality Control Mechanism, was non-functional.

- The requirements regarding inspection by senior officers of the Company with special emphasis on quality[43] was not being watched and followed up by the Quality Assurance Wing at the Head Office.

GoK stated that action was being taken to rectify the existing lacunae in various tiers of the quality control mechanism.

Traceability

4.2.10 A key tenet in assuring quality is the traceability of commodities sold. Traceability refers to identification of the channel of procurement including details like the source, date of receipt and related Purchase Order. Traceability of goods is important to identify the source of procurement in case quality issues were noticed at the customer level. To achieve this objective, Chapter 14 of the Quality Manual prescribed that when the food items were repacked at the outlet, the packing slip should include the name of the supplier also to ensure traceability of origin.

Test check conducted by Audit at Kochi and Kozhikode depots and the outlets under them, however, revealed that the traceability of items was lost immediately on their issue to the outlets from the depots. This was happening because of the fact that as per present procedures followed by depots, goods accepted under different Goods Receipt Sheets (GRS)/ different suppliers were being forwarded to the outlets under a single common Goods Issue Sheet[44] and thus, the supplier details included in GRS were getting lost. Thus, the requirement in the Quality Manual as to inclusion of name of supplier in the packing slip when the commodities are repacked at the outlets could not be complied with.

The above-mentioned deficiency can be addressed by making it compulsory (through suitable amendment in the Quality Manual) to mark the respective GRS number on the gunny bags before they are issued to the outlets and noting the same in the packing slip when they are repacked in the outlets.

GoK replied (February 2018) that the suggestion of Audit was being considered for inclusion in the Quality Manual.

Internal control

4.2.11 Following observations are made in respect of internal control over e-tendering process:

- Tender Wizard, the online software used by the Company for e-tendering purposes delivered only the rates and quantity offered for various depots of the Company and Least Cost Solution, developed in-

[43] As per Circular No.28/2008 dated 19 November 2008.
[44] Used for issue to the outlets.

house was used to carry out the complex analysis of this data and prepare the best possible purchase plan.

As per best practices prescribed by CVC (September 2009) in respect of e-tendering solutions, sensitive data should be encrypted prior to transmission to other components to ensure security in data storage and communication. Audit observed that Tender Wizard and Least Cost Solution (LCS) were standalone systems and e-tender data was being manually extracted from Tender Wizard and fed into LCS without any such encryption.

- The Purchase Manual of the Company envisaged preparation of an e-tender manual specifying the procedures to be followed during the e-tendering process. However, the manual was yet to be prepared (November 2017).

- BoD decided (4 July 2014) to conduct third party certification of the e-tender procedure to ensure that there were no inherent vulnerabilities in the process. The decision was yet to be implemented (November 2017).

GoK stated (February 2018) that the existing system of e-tendering was in practice for the past twelve years and no error was reported yet. GoK also replied that detailed instructions regarding the e-tender procedure were published in the e-tender website. GoK/Company also stated that steps would be taken to implement the decision of the BoD regarding third party certification.

Audit observed that security guidelines are required to be followed even in the absence of prior history of security violations. Also, the e-tender procedures uploaded in the website were merely a set of instructions to the suppliers and did not satisfy the requirement of an e-tender manual which was meant to be an internal document guiding the e-tender process of the Company. Third party certification, along with preparation of a manual will address any vulnerability in the existing e-tendering mechanism.

Conclusion

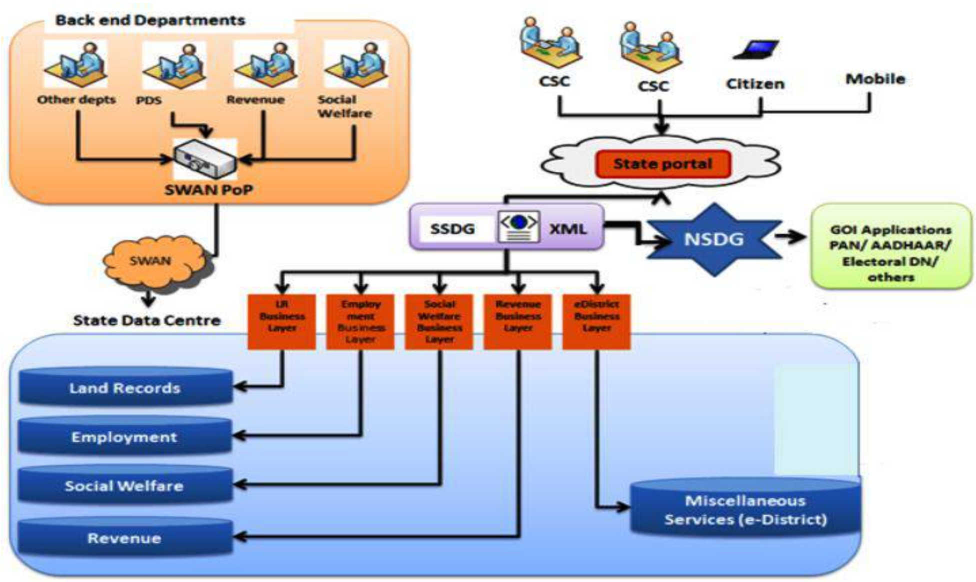
E-tendering was envisaged as a mechanism to ensure complete transparency in the procurement process, avoiding human intervention. But, the system of negotiation followed by the Company exposed it to the risk of manipulation by bidders by holding back their best rates, capturing major share of purchase orders after knowing the competitors' rates. Non-diversification of supply sources resulted in excessive dependence on intermediaries and consequent purchases at higher costs. The Company was not able to maintain optimum stock levels in depots due to restriction of purchase quantities, which even resulted in stock-out situations during times of price rise. Quality assurance mechanism of the Company also called for stronger monitoring and control.

4.3 e-Governance initiatives of Electronics and Information Technology Department, Government of Kerala

Introduction

4.3.1 Electronic governance (e-Governance) is the application of Information and Communications Technology (ICT) to the process of government functioning. The National e-Governance Plan (NeGP), introduced (May 2006) by Government of India (GoI), aimed at making all Government Services[45] accessible to the common man in his locality through common service delivery outlets. The NeGP was intended to ensure efficiency, transparency and reliability of such services at affordable costs to provide basic services to the common man. NeGP envisaged a three-tier architecture - Common Service Centres (CSC) as the first tier acting as front-end delivery points for citizen services; common and support infrastructure *viz.*, State Wide Area Networks and State Data Centre as the second tier with Mission Mode Projects[46] acting as the final tier of the architecture. e-Governance architecture can be represented graphically as given in **Chart 4.1**:

Chart 4.1: e-Governance architecture



The first Information Technology Policy of Government of Kerala (GoK), 1998 envisioned to use ICT to deliver Government services in a manner that was affordable, reliable, accessible and delivered to the citizens in a short span of time. Services were envisaged to be provided in an integrated manner to the citizens from single point of access (State portal). As part of the IT policy, GoK implemented e-Governance projects like State Information Infrastructure (SII) (which included State Data Centre), Citizen Call Centres and

[45] Example: Issue of certificates, utility payment services, services under Right to Information Act, public grievances, *etc*.

[46] A mission mode project is a project within the NeGP that focuses on one aspect of e-governance, such as banking, land records or commercial taxes *etc*. Within NeGP, "mission mode" implies that projects have clearly defined objectives, scopes, timelines and measurable outcomes.

FRIENDS[47] even before the introduction of NeGP by GoI. Thus, the State of Kerala was one of the forerunners in the implementation of e-Governance initiatives.

NeGP projects introduced by Ministry of Electronics and Information Technology, Government of India (GoI) supplemented the existing SII projects in the State. e-Governance initiative in the State has either been funded from State Plan or as Mission Mode Projects under NeGP. The revised Information Technology Policy, 2012 (IT Policy 2012)[48] also reiterated GoK's mission of using ICT for the effective, transparent and efficient delivery of services to the citizens seamlessly through an integrated e-Governance framework.

GoK designated (1999) Electronics and Information Technology Department as the authority for coordinating the e-Governance initiatives in the State. Kerala State IT Mission[49] acts as an autonomous nodal implementation Agency for the IT initiatives of the Department.

4.3.2 Audit examined three[50] infrastructure and six[51] service delivery projects[52] in the backdrop of IT Policy, 2012 in order to assess whether:

- IT projects related to e-Governance initiatives were conceptualised and implemented as per IT Policy and GoK guidelines;
- The strategies outlined in the IT Policy were implemented with economy and efficiency; and
- The envisaged levels of service delivery were achieved through e-Governance projects effectively.

4.3.3 Audit criteria derived from the following sources were adopted for the Compliance Audit:

- Information Technology Policy, 2012 of Government of Kerala;
- Relevant Acts and rules of GoK including Right to Services Act, 2012;
- Guidelines and related Government Orders issued by GoK for implementation of e-Governance projects;
- Implementation and operational guidelines issued by Government of India for NeGP projects;
- Guidelines issued by Central Vigilance Commission; and
- Stores Purchase Manual issued by GoK

Audit findings

4.3.4 The e-Governance initiatives implemented in the State resulted in enhanced service delivery and the State ranked[53] among the top five in the

[47] Fast Reliable Instant Efficient Network for Disbursement of Services, a single window "no Queue" integrated remittance centre.
[48] Previous IT Policies were issued in the years 1998, 2001 and 2007.
[49] A registered society.
[50] State Data Centre, State Wide Area Network and Video conferencing.
[51] e-District, State Service Delivery Gateway, Citizen Call centres, e-Office, m-governance and Service Plus.
[52] Out of a total of 32 projects.
[53] Source: www.etaal.gov.in

country in terms of volume of e-transactions. Audit, however, noticed the following issues in areas of planning, infrastructure creation and project implementation relating to e-Governance initiatives.

Planning and Co-ordination of e-Governance initiatives

4.3.5 The Electronics and Information Technology Department (ITD) was the designated authority for coordinating the e-Governance initiatives in the State. As a part of its role, ITD issued guidelines for implementation of e-Governance initiatives in the State in September 2009. The guidelines envisaged avoiding duplication of development of applications by different Government Departments/Agencies, non-compatibility of platforms deployed across organisations and to ensure optimum use of resources used for e-governance initiatives. With this intention, the Guidelines stipulated that the User Requirement Specification (URS), the Functional Requirement Specification (FRS) and implementation plan of all e-Governance initiatives valued at over ₹10 lakh should be approved by ITD.

Audit, however, observed that ITD did not have any comprehensive information about concurrence given on URS and FRS for all the e-Governance initiatives undertaken by various Departments/Agencies in the State. Two State Government agencies[54] (out of a total of 26 Departments approached) responded to audit enquiries that they did not take concurrence of ITD for implementation (January 2017 and March 2010) of their IT projects under 'Ease of doing Business initiatives[55]'and 'Assurance Implementation Desk[56]'even though their implementation cost exceeded the prescribed limit of ₹10 lakh. This indicated that e-Governance initiatives were being undertaken independently by various Departments/Agencies and ITD did not have an overall control of such implementation as envisaged in the Guidelines.

Audit also observed that though the e-Governance guidelines prohibited planning of common IT infrastructure like call centres and video conferencing facility, 10 government departments/agencies set up separate call centres/ helpline as shown in **Table 4.9**:

[54] Kerala State Industries Development Corporation Limited and Department of Parliamentary Affairs.
[55] A project intended to improve ease of doing business in the State.
[56] A Web-enabled System for the monitoring of assurances made in the State Legislative Assembly.

Table 4.9: List of call centres/help lines other than Citizen Call Centre

Sl. No.	Name of the call centre/ Help line	Department/Agency	Phone number
1	Crime stopper	Kerala Police	1090
2	Comprehensive Health Insurance Agency of Kerala	Labour Department	18002002530
3	Food adulteration helpline	Kerala Commissionerate of Food Safety	18004251125
4	Toll free number for complaints	Kerala Water Authority	18004255313
5	MGNREGS Helpline	Rural Development Department	18004251004
6	Norka Roots Call Centre	NORKA Department	18004253939
7	Women helpline	Kerala Police	1091
8	Direct Intervention System for Health Awareness	National Health Mission	1056
9	Farmers call centre and Information Hub	Agriculture Department	18004251661
10	Customer care centre	Kerala State Electricity Board Limited	1912

(Source: Data furnished by IT Department)

The call centres were being operated despite specific GoK directions (June 2015) to refrain from setting up of individual call centres under any circumstances. Also, a separate video conferencing facility at an estimated cost of ₹22.25 lakh was proposed (2017) to be set up in Animal Husbandry Department. These instances pointed to the fact that expensive infrastructure was being duplicated, which was against the guidelines issued by the IT Department.

Independent e-governance initiatives without the knowledge of ITD and duplication of expensive infrastructure in deviation from the stipulated guidelines pointed to lack of co-ordination of e-Governance initiatives.

Preparedness for Disaster recovery

4.3.6 State Data Centre (SDC) is one of the core infrastructure components of e-Governance initiative and host critical data and applications of user departments. Hence, a proper Disaster Recovery and Business Continuity Plan should be put in place against any possible adverse events. Audit, however, observed the following:

a. Non- formulation of Disaster Recovery and Business Continuity Plan

As per the Guidelines for Technical and Financial Support for Establishment of SDC published by Ministry of Electronics and Information Technology, proper planning on Business Continuity[57] including Disaster Recovery should be formulated and implemented by the State. However, it was noticed that a

[57] **The business continuity planning (BCP) is the creation of a strategy through the recognition of threats and risks facing an entity, with an eye to ensure that personnel and assets are protected and able to function in the event of a disaster.**

Disaster Recovery and Business Continuity Plan were not formulated in accordance with the Guidelines.

b. Underutilisation of Disaster Recovery facility

The State of Kerala is provided with a reserved space of 25 Tera Byte at National Data Centre of National Informatics Centre, New Delhi as part of technical assistance provided to State for setting up SDCs under NeGP. SDC is utilising this space for disaster recovery purposes. Audit, however, observed that out of this reserved space, only 11.70 Tera Byte (less than 50 *per cent*) was allotted (August 2017) based on request by SDC.

Non-formulation of Disaster Recovery and Business Continuity Plan and underutilisation of the available facility indicated under preparedness against any disastrous events.

Information Technology infrastructure in the State for e-Governance Projects

4.3.7 In order to make government services available to the public, NeGP envisaged creation of various Information and Communication Technology (ICT) infrastructures like State Data Centre and State Wide Area Network as tier-II of e-Governance architecture. Audit examined the creation of such ICT infrastructures and the audit findings are discussed below:

State Data Centre

4.3.8 NeGP identified State Data Centre (SDC) as one of the core infrastructure components to consolidate services, applications and data to provide proficient electronic delivery of services. In Kerala, there are two SDCs - Old Data Centre (SDC 1), operational since the year 2005 and New State Data Centre (SDC 2), operational since the year 2011. As of July 2017, the two State Data Centres co-hosted[58] 541 websites and co-located[59] 220 servers of 44 Government Departments/Bodies/projects.

Audit reviewed various aspects of functioning of SDC 1 and 2 and observed the following issues:

Implementation of Cloud Hosting in State Data Centre

4.3.9 Cloud hosting refers to hosting of application and websites on cloud computing[60] infrastructure provided by a cloud service provider. These services provided in remotely located servers can be accessed by users on demand basis over internet. Adoption of cloud computing would enable the

[58] In co-hosting, user departments are permitted to host their websites/applications on the servers owned by SDC, by allocating a virtual space to the users in an existing server.

[59] In the case of co-location facility, SDC provides only physical space and other amenities such as power, diesel generator backup, security, *etc.* to the user departments for co-locating their servers, *i.e.*, providing the physical environment for functioning of servers.

[60] Cloud computing refers to delivery of shared ICT resources over the internet which can be accessed on demand and elastically provisioned with minimal effort.

departments to increase the number of services to be offered due to on-demand availability of server space, thus, resulting in rapid elasticity.

As per the IT Policy, 2012, GoK affirmed to promote the use of cloud computing to enhance public service delivery for optimal use of resources and maximising public value. Subsequently, GoK approved (September 2013) the proposal (July 2013) of Kerala State IT Mission for enablement of cloud in SDC 2. It was envisaged that with the implementation of cloud infrastructure, additional server purchase from various departments can be reduced. Servers for cloud implementation were procured and commissioned in SDC 2 in April 2015.

Audit observed that:

- Line Departments/Agencies[61] continued to procure servers for co-location even after implementation of cloud hosting in SDC 2 due to which, benefits like better utilisation of available resources, intended to be achieved through a cloud based infrastructure in SDC remained unachieved.

  GoK replied (December 2017) that departments were intimated not to purchase additional servers and co-locate in SDC. GoK admitted that there were cases in which certain departments like Treasury, Taxes, Police, *etc*., continued to co-locate servers to ensure confidentiality and to comply with regulatory requirements. Other than these special cases having concurrence of GoK, all other departments complied with the directions.

  Reply of the GoK was not acceptable as Audit observed that other departments/bodies like Registration Department, Kerala Water Authority, Kerala Public Service Commission, National Rural Health Mission, Service and Payroll Administrative Repository for Kerala, *etc*., also purchased and co-located their servers (July 2015 to June 2017) in SDC after the implementation of cloud in April 2015.

- As per provisions of Request for Proposals (RFP) for implementation of cloud in SDC 2, it was the responsibility of System Integrator who was managing SDC (Sify Technologies Limited) to ensure the backup and restore services (Warm Standby[62]) of cloud Virtual Machines (VMs). It was also decided (December 2015) that one server from the KSITM server pool would be placed as a Backup Management server (Cold Standby) for Cloud Infrastructure, which would be added to the system only in case of any disaster.

  Cloud VMs store critical data of major projects like e-Office (113 VMs), e-Health (31), Kerala Police (12), Finance Department (8), KSITM (23), *etc*. Hence, it was critical that their backups were taken periodically.

[61] Revenue Department (e-District project), e-Office, Kerala Water Authority, Kerala Public Service Commission, Registration Department, Service and Payroll Administrative Repository for Kerala and Health Department.

[62] Warm standby is a method in which data is backed up at regular intervals from the primary system.

Based on examination of monthly performance reports submitted by Sify Technologies Limited to KSITM (August 2016 to June 2017), Audit, however, observed that such a backup was not being taken. KSITM also failed to initiate any action on these reports to ensure that RFP provisions were complied with. Absence of backup increased the chances of data loss.

GoK replied that new servers and their licenses for Warm Standby were since purchased and backup was being taken. However, the detailed backup plan and latest performance reports of the Operator were not furnished to Audit for verification. GoK admitted that the Cold Standby server, which existed initially for taking backup was diverted to the production environment to accommodate more departments in cloud hosting and for meeting the increased demand for cloud storage. The reply was silent as to whether a Cold Standby was maintained at present and hence, Audit could not make any conclusion as to whether Cloud environment in SDC was adequately prepared against any disasters.

Security Audit of State Data Centres

4.3.10 As per Guidelines for Technical and Financial Support for Establishment of State Data Centre issued by MeitY, the State shall get the security of Data centres audited by third party agency once in six months and also whenever there was significant upgradation of systems which include hardware, software and network resources. Such audit shall bring out confidentiality, security and privacy of data, any apparent risks and extent to which data centre operator complied with laid down policies, standards, *etc*.

SDC 1 provided co-hosting and co-location facilities for citizen-centric and revenue generating departments like Treasury Department, Commercial Taxes Department, Kerala State Public Service Commission, several universities, *etc*. The security audit of SDC 1, conducted by CERT-K[63], an internal wing of KSITM reported serious vulnerabilities in December 2013. Audit, however, observed that no security audit was conducted by any third party agency in SDC 1 even though the official website of GoK (hosted in SDC 1) was defaced in January 2014.

GoK replied (December 2017) that a new tender was floated for selection of Third Party Auditor wherein audit of both SDC 1 and SDC 2 was included under the scope of work.

State Wide Area Network

4.3.11 State Wide Area Network (SWAN), a part of tier-II of e-Governance architecture, was identified as an element of the core infrastructure for supporting e-Governance initiatives under NeGP. SWAN was envisaged as the converged backbone network for data, voice and video communications

[63] **Computer Emergency Response Team-Kerala (a security initiative of KSITM).**

throughout the State with Point of Presence[64] (PoP) at State/District/Block Headquarters. Government offices in the vicinity of PoP also could be given accessibility to SWAN through Local Area Network and leased lines.

SWAN was implemented in Kerala under a Build, Own, Operate and Transfer (BOOT) contract through KSITM[65]. United Telecoms Limited, Bangalore (UTL), the BOOT contractor, was selected (2006) through a tendering process and an agreement was entered into with UTL and KSITM in March 2007 for the implementation of Kerala SWAN (KSWAN). As per the agreement, UTL set up (June 2008-October 2009) PoPs at 14 District Headquarters (DHQ) and 152 Block Headquarters (BHQ). UTL was entitled for Quarterly Guaranteed Revenue (QGR)[66] during the BOOT period. As of May 2017, 3,904 offices were connected to the network using wireless radios, leased lines and Local Area Network[67].

Failure to assess reasonableness of rates

4.3.12 As per the provisions of SPM, every purchase department shall evaluate the reasonableness of the price to be paid before placing the contract. GoK awarded (January-May 2014) contract for the operation and maintenance of KSWAN project during the post BOOT period (up to June 2014) to UTL, for ₹3.44 crore. The rate was arrived at by charging 10 *per cent* interest at compound rate for 7.5 years on the rate quoted by UTL for operation and maintenance portion of the BOOT contract in 2006. Subsequently, based on the decisions taken in the KSWAN State Implementation Committee meetings from time to time, the contract period was extended every year with an increase of 10 *per cent* on the previous year's contract amount. Total contract amount for the period from June 2013 to July 2017 worked out to ₹18.87 crore. Audit, however, noticed that no effort was made by the committee to ensure reasonableness of the initial contract amount (₹3.44 crore) or the subsequent annual increases thereafter in violation of provisions in the SPM in this regard.

GoK replied (December 2017) that initially, the network envisaged only 1,660 wireless towers for horizontal connectivity to Government offices and now the connected offices were around 3,700 which were more than double the numbers. Rates were increased after taking factors like cost for annual maintenance, which was not included in the initial bid price (2006). Hence, considering the above facts, 10 *per cent* increase was found to be reasonable.

The reply of the Government was not acceptable because only 1,464 offices were connected to KSWAN using wireless towers so far. Other offices were connected using leased lines, LAN, *etc*., for which provisions were envisaged in the district and block level PoPs as per the RFP. As such, this did not

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[64] Point of Presence mainly refers to an access point that connects to and helps other devices establish a connection with the SWAN.

[65] In Kerala, SWAN was implemented as an extension of already available State Information Infrastructure from Thiruvananthapuram to Kozhikode.

[66] QGR is the guaranteed revenue that the operator shall be paid at the end of each quarter as the compensation for implementation and management of SWAN project.

[67] UTL established connectivity to 1,464 offices using wireless radios which was part of the BOOT contract. Other offices were connected to network using leased lines and LAN.

amount to additional work. Further, KSITM did not make any effort to work out the actual cost of annual maintenance to assess its impact.

Service delivery projects

Online service delivery projects

4.3.13 Online service delivery projects proposed automation of Government process work flow[68] and back-end digitisation of Government Departments for seamless online delivery of services through a dedicated portal. Citizens could access these services by submitting electronically filled up forms (web forms) either using own computers or through Citizen Service Centres. e-District and State Portal cum State Service Delivery Gateway (SSDG) Project were two major online service delivery projects implemented in the State. State-wide roll out of e-District project was completed in March 2013. Subsequently, State portal and SSDG project went live in June 2014. At present, these two projects were having separate web portals for service delivery. While e-District project was (initially) restricted to Revenue Department, State Portal cum SSDG Project intended to cover thirteen other Government Departments in the State whose services were to be delivered through a State Portal.

Audit reviewed the current state of implementation of the e-District and SSDG projects and observed the following:

Non-alignment with the Integrated Framework and single window delivery goal

4.3.14 As per the integrated framework guidelines issued (August 2012) by MeitY, all e-services were to be ultimately delivered through the single window of the State Portal. For this purpose, MeitY stipulated that services under e-District project, which were not taken up under SSDG should be integrated with SSDG so as to make them available through the State Portal. The IT Policy 2012 of GoK also declared the objective of providing a single unified portal for providing citizen services.

In line with the above, 24 certificate services under e-District project of Revenue Department were integrated and made available through the State Portal on completion of the project. Audit, however, observed that though 23 other services (***Appendix 14***) were subsequently made available through e-District portal (August 2017), they were not integrated with SSDG and made available through State Portal. This included services like Right to Information, posting of public grievances, police department payments, *etc*. There was also no roadmap to make these services available through State Portal and SSDG leaving the citizens to depend on multiple channels for accessing services.

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[68] Various steps involved in delivery of Government service.

Alternate channels of service delivery also resulted in poor transaction count in State Portal. Since going live in 2014, the platform processed only 1,165 transactions over a period of three years (up to July 2017).

Thus, the ultimate aim of electronic service delivery through a single gateway remained unachieved and the amount of ₹6.52 crore spent on the State portal cum SSDG project remained unfruitful, considering the negligible number of transactions.

GoK stated that efforts were being made for integration of all existing services of e-District with State Portal and SSDG Project and once it became completely operational, public interface of e-District will be closed.

e-District project

4.3.15 On completion of State-wide rollout in March 2013, e-District project offered 24 certificate services of Revenue Department through the e-District portal. At present, the project was offering 47 services (***Appendix 14***). Following audit observations on the project are made:

Enhancing ease of service delivery

4.3.16 As per the guidelines for Integrated Framework for delivery of services issued (August 2012) by MeitY, States should prioritise citizen services by focusing on those services, which can be provided immediately across the counter. This was expected to enhance ease of service delivery and avoid multiple visits to the service delivery outlet. For this purpose, MeitY classified e- services into the following types:

- Type 1 services, which can be provided "instantaneously" across the counter. For delivering these services, an accurate digital database was necessary, *e.g.*, providing copy of land records.
- Type 2 services, which require minimum two visits, but can migrate to Type 1 with due data digitisation, one-time physical verification and digital certification.
- Type 3 services, which require physical presence of citizen/verification/inspection and cannot be delivered across the counter *e.g.*, issue of driving license, *etc*.

The guidelines stipulated (August 2012) identification of at least 3- 4 services, within a period of 6- 9 months, out of the e-District services, which can be provided as Type 1 services.

WIPRO Limited, the State Programme Management Unit of e-District project, conducted (2015) an Impact Assessment and Outcomes Study of e-District project. In its report, WIPRO noted that:

- Presently, the Revenue certificates cannot be issued 'Over the Counter' as Type 1 certificates as most of them require at least one-time field verification for its issue. So, the migration strategy recommended was to convert the certificate services from Type 3 to Type 2 in cases of citizens applying for a certificate for the first time. With effect from the second time onwards, since the digitised database was available, the certificate may be issued 'Over the Counter'- Type 1 Certificate.

- Fifteen out of twenty three types[69] of certificates issued by the Revenue Department through e-District was valid only for the purpose stated in the certificate. Hence, they were not reusable. In order to avoid the same, WIPRO Limited recommended that validity of the certificate may be fixed for a certain tenure (minimum 6 months) or lifetime rather than for a specific purpose, wherever possible, for migration to Type 2 or Type 1 certificates.

Even though a specific migration strategy for conversion of Type 2/Type 3 to Type 1 services was recommended by the State Programme Management Unit, no service (excluding payment services) was enabled to be provided instantaneously as Type 1.

GoK replied that administrative orders were issued (March and August 2017) designating four certificates (Nativity, Domicile, Caste and Community) as general purpose and also increasing their validity period. The software was since modified for incorporating changes with respect to Caste and Community certificates. Audit, however, observed that none of the certificate was still made available as Type 1.

Low volume of services

4.3.17 The Guidelines for Integrated Framework for delivery of services issued in August 2012 stated that the measure of success of e-District project was the number of e-service transactions, which happen through the project. Accordingly, provisions of the agreement entered into (30 May 2014) with National Informatics Centre (NIC) for State-wide rollout of e-District project in Kerala stipulated that at least 10 services listed under e-District project should attain 'high volume' status of 150 transactions per month per service for the entire district.

NIC rolled out State-wide e-District project in Kerala by March 2013. As detailed in ***Appendix 14***, the project offered 47 services. The number of transactions that were recorded under each category during the three-year period covered by Audit is given in **Table 4.10**:

[69] **As referred to in the report of WIPRO Limited.**

Table 4.10: Number of transactions in e-District project

Sl. No.	Type and No. of Service	Minimum number of transactions as per the agreement with NIC	Actual number of transactions
1	Certificates (23)	17,38,800	1,80,00,000
2	RTI Normal	50,400	126
3	RTI Appeal	50,400	18
4	Grievance	50,400	24,195
5	Revenue Court Cases (4)	2,01,600	88
6	Forest Department (6) Services	3,02,400	6,191

(Source: Data furnished by Kerala State IT Mission)

Above Table shows that except certificate services, the transactions under other categories were negligible. In this connection, Audit observed that:

- The Guidelines for National Rollout stipulated implementation of ten categories of services, of which, five categories were mandatory and the remaining were optional. Out of the mandatory services identified in the Guidelines (Certificate issue services, Social welfare schemes (like pensions, scholarships, *etc*.), Revenue Court services[70], Ration card, Grievance redressal and RTI services), Ration card and social welfare schemes were not included in the e-District project because the departments concerned had their own IT initiatives to offer such services with separate websites for service delivery. But, these excluded services were not substituted by optional services like police service, collection of taxes, *etc*., after assessing their volume of transactions.

  Further, even though RTI and Public Grievances were included in the e-District project, there was no Government Order stipulating State Government Departments to compulsorily adopt RTI services through e-District. Hence, only 5 Departments[71] (out of a total of 42) voluntarily subscribed to online RTI service, leaving one of the most important public services with very low volume of adoption among the public.

Thus, due to non-adoption of high volume services and inadequate steps in popularising other existing ones, e-District portal was at present heavily dependent on certificate services to generate high transaction levels.

GoK replied (December 2017) that once a policy decision to implement an online system for RTI across all departments was taken, the same could be extended through the e-District platform without incurring additional costs except for training and awareness activities.

The reply was not acceptable as delay of GoK in taking decision hampered delivery of one of the mandatory services through the e-district platform.

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[70] **Services related to revenue recovery and related cases.**
[71] **Technical Education, Health and Family Welfare, Higher Education, Information Technology, Non-Resident Keralites Affairs.**

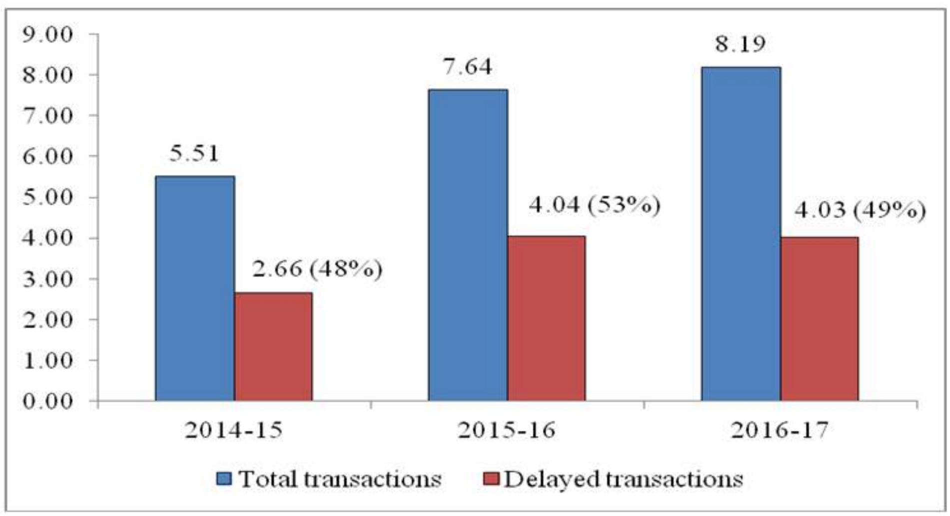
Non-achievement of service levels

4.3.18 Under Section 5 of the Kerala State Right to Service Act, 2012 (RSA, 2012), Government Departments are required to redress grievances of citizens and deliver services to the public in a time-bound manner. In order to comply with the RSA, 2012, departments of GoK have prescribed time-limits for delivery of various services.

Audit analysed the delivery of services in respect of 23 certificate services[72] available in e-District. During 2014-15 to 2016-17, 1.80 crore certificates were issued through e-District. Out of this, 1.49 crore certificates were issued within the prescribed time limit, while the remaining 0.31 crore (17 *per cent*) certificates were delayed. In case of six certificate services[73], the proportion of delayed certificates was much higher as shown in **Chart 4.2**:

Chart 4.2: Number of delayed transactions in respect of six certificate services

Transaction numbers in lakh



Delays in delivery of certificate services pointed to the inadequacies in monitoring and follow up of service levels, which resulted in non-achievement of full objectives of RSA, 2012.

GoK replied (December 2017) that a comprehensive system was since introduced for monitoring e-District project performance at micro level. Accordingly, overall Service Quality (comprising of three factors, namely, reach, quantity and timeliness) for revenue certificate services (2016-17) was measured as 86.56 *per cent*, which showed improvement in service levels.

Reply was not tenable because timeliness did not improve in case of important certificate services.

[72] **In respect of which data was furnished to Audit.**

[73] **Community, Conversion, Domicile, Inter caste marriage, Location and Residence.**

State Service Delivery Gateway Project

4.3.19 The State Portal and State Service Delivery Gateway (SSDG) project was envisaged for creating a single gateway for delivery of government services. The State Portal was meant to act as front-end interface for all State level e-Governance initiatives and to ultimately replace e-District portal. e-forms available for various Government services were envisaged to be made available to citizens through the State Portal. The filled up applications were to be routed through SSDG, a dedicated software, to the respective field offices of the Department for providing the particular service.

Audit observed following lapses in implementation of the project:

Identification and inclusion of services to be delivered through State Service Delivery Gateway

4.3.20 Ernst & Young (EY) was appointed (October 2009) as consultant for SSDG in the State for assisting in selection of an implementing agency through a Request for Proposal (RFP) tendering process. EY identified 57 services across 13 departments to be provided through the State Portal. These services included commonly availed citizen services like issue of birth certificate, encumbrance certificate, building plan approval by Local Self Governments, *etc*.

In IT Policy, 2012, GoK strategised to provide all services coming under Kerala State Right to Service Act, 2012 (RSA, 2012) electronically, subject to technical feasibility. GoK also notified the Kerala State Right to Services Act 2012 in August 2012. As stipulated in RSA, 2012, 47 Government Departments identified and notified about 900 services coming under their jurisdiction.

It was observed in audit that IT Department did not take any action to explore technical feasibility of adding more services to the SSDG, as of 2017. Thus, only 57 services in 13 departments, representing 6.33 *per cent* of the notified services were proposed for coverage under the SSDG project. Hence, the policy initiative of the Government to bring maximum number of services under a single portal remained unachieved.

GoK replied (December 2017) that even though SSDG covered 57 notified services under RSA, 2012, other services also can be added in a phased manner.

Audit, however, observed that no definite timeline was fixed by Government for adding the notified services under RSA, 2012 to SSDG even after expiry of five years from August 2012.

Execution of selected services

4.3.21 Tata Consultancy Services Limited (TCS) was selected (May 2012) as the lowest bidder for implementing 57 services of 13 departments under the

SSDG project at a cost of ₹13.96 crore. As per the agreement (May 2012) between TCS and KSITM, the project was to be implemented within 8 months (January 2013) followed by three years of maintenance support upto January 2016. According to provisions of RFP forming part of agreement, besides rolling out 57 services under SSDG **(*Appendix 15*)**, TCS was to integrate 24 services delivered through e-District portal with SSDG.

However, TCS was able to integrate only 24 e-District services of Revenue Department and ten other services from five Departments. Thus, out of 81 services proposed to be covered under SSDG project, only 34 services were currently available in SSDG even though GoK spent ₹6.52 crore on the project as of February 2017.

Short completion of the project was due to the following reasons:

- MeitY, GoI while sanctioning (March 2009) SSDG and State Portal project for the State stressed on commitment of departments in execution of the project. This was to be ensured through formal agreements laying down the duties and responsibilities of each department in respect of services to be made available electronically. Co-operation of departments was required because the integration process of SSDG with departmental applications/e-District called for parting of Application Programming Interfaces[74] (APIs) by application developers of the departments concerned (major Departments had NIC as their software developer). KSITM was able to smoothly integrate e-District services with SSDG because e-District project was implemented by it through NIC. However, it could not complete such integration with other departmental applications including high volume services of Motor Vehicles Department and Local Self Government Department (LSGD) because the departments failed in ensuring that their software developers provided the required APIs.

- MeitY also suggested formation of an Apex committee headed by Chief Secretary to ensure departmental co-operation. Scrutiny of minutes of the meetings of the Apex Committee revealed that it failed in its role as a coordinating agency. For instance, in case of LSGD, even though the necessity to integrate high volume citizen-centric services[75] was taken up by the Committee in its meeting held on 16 July 2015, specific decision to direct the NIC to share the APIs of all applications developed by them was taken only in April 2017.

Thus, non-cooperation of departments and failure in effective monitoring resulted in short-completion of the project.

GoK replied (December 2017) that there was delay in implementation of the project because during the course of implementation, there was change of leadership and priorities and some of the departmental applications underwent

[74] **A software that acts as an interlink between two different applications.**
[75] **Issue of birth and death certificates, Assessment of property tax, Application and renewal of driving license *etc*.**

upgradation and modifications. It was also stated that some of the departments did not co-operate with the project.

Audit, however, observed that the above issues were not taken up for discussion in the Apex Committee even though it was a mechanism to ensure departmental co-operation.

Irregular payments

4.3.22 As per terms of Request for Proposal, implementation cost was payable to TCS in stages, on completion and acceptance of System Requirement Specifications (20 *per cent*), User Acceptance Testing (20 *per cent*), STQC[76] Certification (15 *per cent*), Go live (15 *per cent*) and for post commissioning maintenance for 3 years (30 *per cent*). Further, operational cost amounting to ₹27.56 lakh per annum was payable for three years. However, KSITM made payments (February 2014 to September 2015) to TCS on *pro rata* basis for completed number of services for the stages of User Acceptance Testing, STQC Certification and Go Live.

Audit observed that:

- As per terms of RFP, 57 services deliverable under SSDG was over and above the 24 e-District services, which were to be integrated with SSDG. Thus, total number of deliverable services was 81. However, KSITM considered the 24 e-District services as part of 57 deliverable services and made irregular pro rata stage payments to TCS.

  KSITM also accepted the claim of TCS that the stage payments may be bifurcated into fixed (60 *per cent*) and variable portions (40 *per cent*) and the *pro rata* may be applied only on the variable portion and that the entire fixed portion may be paid in full. As there was no bifurcation of fixed and variable portions in the RFP, the payment on pro rata basis as per the claim of TCS was irregular.

- Despite the fact that only 34 services out of a total of 81 services[77] were made available through SSDG (including 24 e-District services), KSITM paid the entire amount of ₹27.56 lakh as maintenance charges for first year without limiting the payment on *pro rata* basis for live services.

Above considerations given to TCS were against the provisions of RFP and the agreement and resulted in extra stage payments which worked out to ₹40.17 lakh.

GoK replied (December 2017) that due to non-availability of APIs pertaining to some of the 57 services, certain services were swapped with 24 e-District services and TCS was directed to develop APIs for 24 e-District services. This was based on directions from MeitY, in a meeting held on 09 January 2014.

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[76] Standardisation, Testing and Quality Certification.
[77] 24 e-District and 57 other services.

Reply was not acceptable as swapping of services was a major deviation from approved RFP and amounted to change in scope after award of work. Such a major change was done without any formal approval by Apex Committee and revised agreement. Hence, the payment effected based on such deviation was irregular. The reply regarding direction from MeitY for altering scope of work was also not supported by any documentary evidence.

Citizen Call Centre

4.3.23 Citizen Call Centre (CCC) is a single window IT enabled facility of GoK that acts as an interface between citizens and Government to interact effectively through telephone/mobile phone. Commissioned in May 2005, CCC acts as an information desk regarding Government services. Knowledge data bank of 64 Government departments/agencies are accessible by CCC. However, the existing CCC was facing the following limitations. There was:

- no toll-free number and calls were charged at local tariff;
- low awareness among the public about CCC and the services provided;
- absence of a feedback mechanism from users;
- absence of a Customer Relationship Management software;
- no automatic maintenance and tracking of complaint number and
- no intelligent handling of call details using technology.

Therefore, IT Policy, 2012 envisaged to transform the existing voice based CCC setup into a state-of-the-art Call Centre with multi modal access like phones, interactive voice response, internet, e-mail, *etc*.

GoK accorded (June 2015) administrative sanction amounting to ₹1.00 crore to revamp CCC. However, no bidders responded to the Request for Proposal (RFP) floated in September 2015. The project was retendered in December 2015 with modifications in the pre-qualification criteria. Three bidders participated in this tender. Tender evaluation committee, however, observed that all three bidders did not meet the pre-qualification criteria. The pre-qualification criteria were again modified before inviting another RFP in April 2017. However, no response was received for this tender also, which resulted in cancellation of RFP for the third time in a row.

Audit observed that even after two years of approval, work for revamping of CCC could not be awarded.

e –Office

4.3.24 e-Office is a mission mode project aimed at improving efficiency in Government processes and service delivery mechanism. GoK decided (August 2013) to implement e-Office in all departments in the Secretariat by entrusting the entire task of implementation with NIC and gave (October 2014) the overall project management to KSITM. Later, GoK also decided (July 2015) to implement e-Office in all the collectorates and sub-collectorates.

As per the guidelines for implementation of e-Governance initiatives issued (September 2009) by GoK, a Service Level Agreement (SLA) should be entered into with the Total Service Provider (TSP) before taking up a project. SLAs are agreements entered into with a TSP, which allows users to specify the levels of service, in terms of quantity and quality, they should receive. Audit noticed that no SLA was executed with NIC, the TSP, though the implementation started in August 2013. Due to absence of SLA with NIC, KSITM could not enforce customisation of e-Office so as to meet 10 requirements/issues raised by the customer Departments (***Appendix 16***).

GoK replied that NIC supports the Government as a partner rather than a profit oriented organisation and hence, NIC did not enter into SLAs. The Government order, which entrusted the task of implementing e-Office to NIC was considered as the initial work order. It was also stated that some of the requirements were rejected by NIC, primarily because incorporating the change would affect the generic nature of the software. NIC maintains only a single version of the software and therefore, does not undertake to address customisations that are very specific to the State.

The reply that NIC did not enter into SLAs with Government agencies was incorrect since NIC entered into agreement with GoK in May 2014 for State-wide rollout of e-District project. Further, absence of SLA was in violation of the GoK's e-Governance guidelines and best practices.

Government process re-engineering and sharing of data base

4.3.25 The e-Governance guidelines issued by the Government in 2009 specifically stipulated that the aim of e-Governance initiatives was not automation of existing processes, but included process reforms, which were technically feasible. However, audit could not find evidence of any specific effort by departments in initiating process reforms as part of e-Governance initiatives undertaken under IT Department except in case of e-District.

The Apex Committee on e-Governance in its meeting held on 24 February 2015 decided to implement Government Process Reengineering as part of e-Governance initiatives and that a Committee of Secretaries to be formed to give 25 e-Governance Process recommendations to be implemented in the year 2016-17. Except for formation of the Committee, there was no further action in this regard. The Committee also approved the decision to enable databases[78] of six departments to be shared across platforms for use by any other departments. However, no definite road map or action plan was prepared to carry forward this initiative.

During Exit Meeting, officials of KSITM pointed out that process reforms happened in Police Department and stated that sharing of database was being planned and would be implemented soon. However, the fact remains that the decision of Apex Committee in this regard was not followed up.

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[78] ***Aadhar*****, Elector Photo Identity Card, SSLC certificate, Ration Card, License & Vehicle Registration and Birth & Death certificates.**

Conclusion

The e-Governance initiatives implemented in the State enabled it to be ranked among the leading States in the Country in terms of volume of transactions. However, inadequacies in coordination of e-Governance initiatives of various departments/agencies by IT Department resulted in duplication of expensive infrastructure. There were deficiencies in ensuring security of data hosted by State Data Centre due to non-formulation of Disaster Recovery and Business Continuity Plans and absence of independent security audit of SDC 1. Aim of electronic service delivery through a single gateway remained unachieved as only 34 services were available through the State Portal.

Kerala State Industrial Development Corporation Limited

4.4 Failure in implementation of Enterprise Resource Planning system

Failure to provide required inputs for implementation of ERP system and to protect financial interest of the Company while entering into agreement resulted in idling of investment amounting to ₹1.39 crore.

Kerala State Industrial Development Corporation Limited (Company) decided (2009-10) to implement Enterprise Resource Planning[79] (ERP) system with the aim of automation of business processes. The Company awarded (April 2010) the consultancy work for implementation of ERP system to Network Systems & Technologies (P) Ltd. (NEST) for ₹16.05 lakh. As per the Work Order, responsibility for preparation of User Requirement Specification, preparation of contract agreement with the selected ERP implementer, overseeing the implementation of ERP system right from inception till the final delivery of ERP system, *etc*., was vested with NEST.

The Company invited (December 2010) Expression of Interest for selection of ERP implementer[80] and selected (September 2011) CMC Limited (lowest bidder) at a cost of ₹1.40 crore with scheduled period of completion of nine months. The agreement for implementation of ERP system was executed (October 2011) between the Company and CMC Limited.

As per the agreement between the Company and CMC Limited, 13 Modules[81] were to be installed by CMC Limited. CMC Limited was also to incorporate all functionalities of Finance Accounting and Loan Accounting Software in the existing IT system into the Finance and Accounts Module of the new ERP system. CMC Limited was to make the ERP system 'go live' by end of July 2013[82]. The Company was to provide all relevant information and necessary

[79] Enterprise Resource Planning (ERP) is a process by which a company manages and integrates the important parts of its business.
[80] Study, design, development, integration, testing, commissioning and maintenance of ERP system.
[81] Each module is focussed on one area of business process.
[82] Extended from the original scheduled completion time of July 2012.

administrative support for the execution of the contract. CMC Limited was to implement ERP system in accordance with the approved design documents and User Requirement Specification.

Audit observed that:

- CMC Limited prepared design documents and the same was approved by the Company by February 2013. But, the Company did not provide data in the required format for data migration from the existing IT based system to the new ERP system. Therefore, CMC Limited did not incorporate all functionalities of Finance Accounting and Loan Accounting Software in the existing IT system into the new ERP system. The Company rejected (May 2015) the modules presented by CMC Limited and consequently, the Company terminated (October 2015) the contract with CMC Limited.

  Audit also observed that as per the agreement, the Company constituted a steering committee for periodic review of the progress of implementation of the ERP system. But, the steering committee did not meet even once to review the progress of implementation. Besides, NEST, the consultant, which was to review and recommend changes, if any, for the successful implementation of the ERP system, did not perform its assigned task properly.

- As per provisions of Stores Purchase Manual[83], the agreement was to contain risk and cost clause to ensure due performance of the contract. Agreement with CMC Limited did not, however, contain any such provision.

  NEST, who was responsible for preparing contract agreement, and the Company, which was to protect its financial interest in case of failure on the part of CMC Limited failed to incorporate protective performance clauses in the agreement.

- Meanwhile, the Company procured (August 2012) computer hardware required for implementation of ERP system from CMC Limited (lowest bidder) for ₹88.48 lakh through another tender. Due to non-implementation of the ERP system, the hardware procured at ₹88.48 lakh remained idle at State Data Centre, Thiruvananthapuram.

Thus, failure to provide required input data by the Company and monitor the implementation of the ERP system by the Company and NEST coupled with absence of protective clauses in the agreement resulted in non-implementation, which led to idling of investment amounting to ₹1.39 crore[84] for five years till date (September 2017). Further, envisaged objective of automation of business processes could not be achieved.

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[83] As per Clauses 8.17 and 8.19 of the Stores Purchase Manual (SPM) of Kerala – Revised edition 2013.

[84] Total of ₹15.39 lakh paid to NEST, ₹88.48 lakh paid to CMC for supply of computer hardware and ₹34.99 lakh paid to CMC Limited for ERP implementation.

While admitting the audit observations, GoK replied (February 2018) that they directed (December 2017) the Company to ascertain the usability of hardware acquired in connection with ERP implementation.

4.5 Loss due to undue favour to loanee

Decision of the Company to release collateral security of land resulted in non-recovery of ₹30.09 lakh.

Kerala State Industrial Development Corporation Limited (Company) acts as a facilitator and financier for promotion and development of medium and large scale units in the State. The Company offers one-time settlement facility of loan to sick units.

As per the One Time Settlement (OTS)[85] Policy, 2008 of the Company, the OTS amount shall be calculated by first determining distress value[86] of all the available securities through an approved valuer. Thereafter, interest shall be re-computed at simple interest rate from the beginning and would be added to the principal amount. From the amount so arrived at, all money received so far would be deducted to determine recomputed loan repayable (RLP). If distress value of securities is less than the RLP, the OTS amount will be the best negotiated figure between the distress value and the RLP.

The Company sanctioned (May 1999) a term loan of ₹57.50 lakh to Intech Aromatic Private Limited (IAPL). The loan was secured by first charge on primary security[87] of building and plant and machinery, created on 1.24 acres of leased land at Industrial Growth Centre (IGC), Kannur and four collateral securities[88] (four pieces of land having area of 104.11 cent[89]) of the promoters of IAPL. Total value of the securities assessed at the time (1999) of sanction of loan was ₹1.10 crore[90]. The loan was repayable in five years from February 2002 to November 2006[91].

IAPL defaulted in repayment of principal amounting to ₹34.50 lakh[92] and hence, the Company initiated (December 2004) revenue recovery action against IAPL. During 2008-09, IAPL became a sick unit and approached (November 2009) the Company for OTS for an amount of ₹50 lakh with down payment of 10 *per cent*. The Company approved (April 2010) the OTS proposal as distress value of available securities (₹46.70 lakh[93]) was lower than the RLP of ₹1.08 crore. As per the OTS scheme sanctioned, IAPL made down payment of ₹5 lakh within one month (May 2010). Thereafter, the Company released three collateral securities (3 plots of land admeasuring 62.61 cents) having distress value of ₹5.59 lakh. Although the balance OTS

[85] OTS is an agreement wherein defaulting borrower agrees to pay part of the dues in order to stop lender from taking legal action against them.
[86] Distress value is the assessed value of securities held.
[87] Primary security is the asset created out of the credit facility extended to the borrower.
[88] Collateral security is any security, other than primary security.
[89] A cent *is a* basic unit of measurement of land and is equivalent to 40.46 square metres.
[90] Primary security was valued at its project cost of ₹1 crore and collateral securities at ₹10.16 lakh.
[91] 20 quarterly instalments of ₹2,87,500.
[92] First 12 instalments.
[93] Primary security - ₹38 lakh and collateral security - ₹8.70 lakh.

amount of ₹45 lakh was payable in instalments with interest within a year, IAPL failed to remit the balance amount and hence, the OTS expired in April 2011.

The Company again accepted (October 2015) the request (August 2015) of IAPL to set off outstanding dues of ₹69.38 lakh[94] against the primary security, the distress value of which was reassessed (June 2015) at ₹42 lakh. The Company also released (June 2016) the final collateral security of land having distress value of ₹24.50 lakh. Subsequent auction (December 2016) of the primary security (Plant and machinery[95]) fetched only ₹7.81 lakh against the outstanding dues of ₹69.38 lakh.

Audit observed that:

- OTS policy of the Company did not provide for release of collateral security before full payment of OTS amount and setting off outstanding dues against primary security. Despite this, the Company accepted the request of IAPL and released (October 2010) three collateral securities having distress value of ₹5.59 lakh. Although IAPL did not remit the balance amount of OTS (₹69.38 lakh), the Company released (June 2016) the fourth collateral security having distress value of ₹24.50 lakh also, based on request (August 2015) of IAPL to adjust outstanding dues of ₹69.38 lakh against the primary security.

- In terms of OTS policy of the Company, IAPL was liable to remit ₹12.50 lakh (25 *per cent* of the OTS amount) as down payment within May 2010. Deviating from its OTS policy, the Company favoured IAPL by allowing it to make down payment of ₹5 lakh only (10 *per cent* of the OTS amount). Thus, there was short collection of down payment of ₹7.50 lakh.

Thus, decision of the Company to release four collateral securities of land having distress value of ₹30.09 lakh[96] resulted in non-recovery of loan to the extent of ₹30.09 lakh.

The Company replied (October 2017) that the unit was one of the first units to be set up in IGC Kannur and lack of infrastructure facilities affected the implementation of the project. The Company also replied that promoters' (IAPL) contribution amounting to ₹34.50 lakh was taken over by the Company and was hopeful of realising the dues through auction of building on the leased land.

GoK replied (November 2017) that IAPL requested the Company to release the available collateral security and to set off their entire liabilities on

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[94] Unpaid OTS amount of ₹45 lakh together with interest at the rate of 10 *per cent* from June 2010 to October 2015.

[95] Building was not auctioned as no offer was received in three attempts.

[96] ₹5.59 lakh (distress value of three collateral securities released in October 2010) plus ₹24.50 lakh (Distress value of one collateral security released in June 2016).

surrender of the primary security to the Company and the request was accepted by the Company as a special case as no amount could be recovered from IAPL for a long time.

The replies were not acceptable as recovery of OTS amount was not dependent on provision of infrastructure in the IGC. Moreover, there was no clause in the OTS Policy for releasing the collateral securities before realising the OTS amount or to set off outstanding dues against primary security alone. Promoters' contribution of ₹34.50 lakh was taken over by the Company in the form of primary security (plant and machinery and building). The Company realised only ₹7.81 lakh on sale of plant and machinery through auction while there were no takers for the building even though three auctions were conducted for allotment of building.

The Kerala Minerals and Metals Limited

4.6 Extra expenditure in procurement of paper packing bags

Extra expenditure of ₹41.20 lakh in procurement of paper packing bags due to limiting the order quantity of the lowest bidder while simultaneously procuring at higher rates from other bidders.

According to the directions[97] of Central Vigilance Commission (CVC), the tendered quantity can be split among bidders other than the lowest bidder, only if the lowest bidder is incapable of supplying the full quantity. Items of critical or vital nature can be sourced from more than one source if the ratio of splitting is pre-disclosed in the tender itself. CVC also emphasised that conditions in the tender did not authorise tender accepting authority to take decisions in an arbitrary manner.

The Kerala Minerals and Metals Limited (Company), engaged in manufacture and sale of titanium dioxide pigment, invited (June 2014) two-part (technical and commercial parts) global e-tenders for procurement of six lakh multiwall box type[98] paper packing bags (paper bags). Three bidders submitted bids and all were technically qualified. Price bids were opened on 03 November 2014 and the standing of the three bidders were as given in **Table 4.12**:

Table 4.12: Standing of bidders on opening of the price bids

Sl. No.	Name of bidder	Landed cost per bag (₹)
1	B&A Packaging India Limited, Odisha (B&A Packaging)	36.76 (L1)
2	Dy-Pack Verpackungen Guztav Dyckerhoff GmbH, Germany (Dy-Pack)	47.19 (L2)
3	Mondi Bags Austria GmbH, Austria (Mondi Bags)	48.04 (L3)

(Source: Data collected from the Company)

[97] Circular No.4/3/2007 dated 3 March 2007.

[98] Paper bag (Valve/ Box) of size 550 mm (Length) X 470 mm (Breadth) X 135 mm (Height) suitable for use on Haver Integra Bagging Machine.

The Company placed (5 December 2014) purchase orders on B&A Packaging for one lakh paper bags at the rate of ₹36.76 per bag. Balance five lakh paper bags were procured from Dy-Pack (3.36 lakh paper bags) and Mondi Bags (1.64 lakh paper bags) at the negotiated rate of ₹45 per bag (landed cost). Decision to restrict the quantity to be purchased from B&A Packaging was taken (October 2014) by Managing Director of the Company on the ground that the firm was a new entrant and hence, was in trial stage.

Audit observed that B&A Packaging was technically qualified in the tender and hence, supply orders were not deniable on quality issues. Denial of full ordered quantity on the ground that B&A Packaging was in the trial stage was also unjustifiable because the Company procured 500 bags in December 2013 as trial and another 25,400 bags (August 2014) for bulk trial from them. Both the trials were found satisfactory (01 December 2014). Three officials of the Company also visited (14 October 2014) the factory of B&A Packaging to assess their capability and production facility and reported (18 October 2014) that it had sufficient production capacity[99]. Ignoring all this, the Company restricted the quantity of order for B&A Packaging to one lakh paper bags and procured balance five lakh paper bags from Dy-Pack and Mondi Bags at higher rates, which resulted in extra expenditure of ₹41.20 lakh (5 lakh bags x ₹8.24).

Audit also observed that at the time of placing purchase orders (December 2014), the stock of paper bags was 2.43 lakh and the number of bags used per month during June 2014 to December 2014 ranged between 0.22 lakh (August 2014) and 0.74 lakh (October 2014). Thus, there was no urgency for procurement of paper bags from L2 and L3 bidders.

Government of Kerala (GoK) replied (March 2017) that the officials of the Company who visited the factory of B&A Packaging reported (18 October 2014) that looking at the technical capabilities, order of one lakh bags may be placed on the firm. Moreover, feedback from end users of the trial order of 25,400 procured from B&A Packaging was still awaited and thus, the Company was not sure about the quality of these bags. Considering the uncertainty in quality, the Company gave orders to L2 and L3 who were established manufacturers. It was further replied that the tender conditions provided for placement of orders on one or more bidders and accordingly, order for balance supply was split between L2 and L3.

Reply of GoK was not acceptable due to the following reasons:

- The officials of the Company who visited the factory of B&A Packaging reported (18 October 2014) that it had sufficient production capacity. They only suggested to give a part order to this firm and increase the quantity of order based on feedback from customers during the part supply period, which was permissible as per conditions of tender. This, in no way justified splitting of the tendered quantity among other bidders. Further, B&A Packaging quoted for supplying the entire

[99] Total production capacity of 3.50 crore bags per year and utilised capacity up to 1.8 crore bags per year as against the Company's requirement of 6 lakh bags.

tendered quantity of six lakh bags and had at no stage expressed their inability to supply the entire tendered quantity. The Company carried out the trial starting with 500 paper bags as early as December 2013 and the same was found satisfactory (29 January 2014). Further, the bulk trial of 25,400 paper bags purchased from B&A Packaging was completed in November 2014 and the Company found (1 December 2014) that the paper bags were of good quality even before placement of Purchase Order for one lakh paper bags. The Company also did not receive any complaints from the customers during the trial stage of paper bags purchased from B&A Packaging.

- Tender conditions providing for placing orders with more than one supplier simultaneously was in violation of CVC directions, as ratio of splitting quantity was not pre-disclosed in the tender documents and the item procured was not stated as critical or vital.

Thus, decision of the Company to limit the order quantity to B&A Packaging and purchase of paper bags from L2 and L3 bidders at higher rates in violation to the guidelines of CVC resulted in loss of ₹41.20 lakh to the Company.

Kerala Feeds Limited

4.7 Avoidable loss

Loss due to non-adherence to instructions of Reserve Bank of India on e-payments.

In order to facilitate quick money transfer and to avoid risk of handling huge amount of currency notes, Finance (Streamlining) Department, Government of Kerala (GoK) allowed (January 2013) Public Sector Undertakings (PSUs) to carry out individual transactions exceeding ₹2 lakh through Real Time Gross Settlement (RTGS[100]) system. GoK also instructed all PSUs to adhere to the detailed safety instructions issued by Reserve Bank of India (RBI) on RTGS transactions. According to the guidelines issued (October 2010) by RBI on electronic fund transfer, PSUs were responsible to provide correct inputs in the payment instructions, particularly the beneficiary account number. Further, for making electronic fund transfer, PSUs should obtain mandate from customers containing sufficient information for verification of account particulars including Account Number, Name of Account Holder, Name of Bank, Name of branch, IFS Code[101], *etc*. PSUs should also communicate with the parties about the details of credit that is being afforded to their account, indicating the proposed date of credit, amount and related particulars of the payment. The parties can match the entries in the passbook/account statement with the advice received by them from the PSUs.

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[100] Real Time Gross Settlement is the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting).

[101] The Indian Financial System Code is an alphanumeric code that facilitates electronic funds transfer in India.

Kerala Feeds Limited (Company) purchases raw material from suppliers across the country. Kaleesuwari Refinery Private Limited (KRPL), Chennai was one such supplier. Correspondence with KRPL was usually made through email and payments for raw material were made through RTGS to their bank account maintained with Axis Bank.

The Company received (23 January 2015) an email requesting to make all further payments to KRPL in a new Bank Account maintained with State Bank of India (SBI), West Marredpally Branch, Hyderabad. Based on the email, the Company transferred ₹1.38 crore between 24 January 2015 and 18 February 2015 in seven tranches to the new Bank Account from its Bank Account maintained with State Bank of Travancore, Chalakkudy Branch. On non-receipt of credits into its bank account, KRPL contacted Finance Manager of the Company on 18 February 2015. The Company informed (18 February 2015) KRPL about transfer of funds to the new Bank Account maintained with SBI. KRPL clarified (18 February 2015) the Company that the new account number was not related to them and the email address through which the change of account number was informed, was not their email address. On subsequent verification, the Company found that the email address through which the change of account number was informed was fake. Hence, the Company directed (18 February 2015) SBI, West Marredpally Branch to block the account number and freeze all transactions done in the said account number. The Company, thereafter, lodged (19 February 2015) complaints with Police including Superintendent of Police (cyber cell), Crime Detachment Bureau, Thrissur and requested (21 February 2015) SBI Administrative Office, Secunderabad for giving necessary directions to SBI, West Marredpally Branch to transfer the amount back to Company's account. After continuous follow up by the Company, the SBI, West Marredpally Branch returned (03 March 2015) ₹1.14 crore to the Company and the balance ₹24 lakh[102] was not yet returned (December 2017) as this amount was withdrawn by some hacker.

Audit observed (November 2015) that the Company did not obtain mandates containing sufficient information for verification of account particulars including Bank Account Number, Name of Account Holder, Name of Bank, IFS Code of Bank, *etc.*, from KRPL before payments were made through RTGS. The Company did not communicate to KRPL the proposed date of credit of funds either. Further, the Company never requested for confirmation of receipt of funds from KRPL even though e-payments were made seven times. Thus, non-adherence of the Company to the safety instructions issued by RBI resulted in loss of ₹24 lakh.

The Company replied (June 2016) that they introduced (April 2015) a control mechanism in which the parties to whom electronic payments are made, are required to submit duly filled up electronic payment mandate form along with a cancelled cheque. The Company also replied that the above case was under investigation of Police (Crime Branch) and hence, they did not release the

[102] **Exact amount to be recovered was ₹23,89,609.**

amount of ₹24 lakh to KRPL although KRPL demanded (March 2016) the said amount.

Government of Kerala replied (December 2017) that they directed all PSUs to introduce a strong internal control mechanism by ensuring the safeguards prescribed by Reserve Bank of India to avoid financial loss under electronic fund transfers.

The fact remains that due to non-adherence to instructions of RBI relating to e-payments, the Company suffered a loss of ₹24 lakh and the chances of recovery were remote.

Forest Industries (Travancore) Limited

4.8 Avoidable expenditure

Delay in filing of income tax return and non-remittance of advance tax resulted in avoidable interest liability of ₹3.26 crore.

As per Section 28 of Income Tax Act, 1961 (Act), profits or gains arising out of any business or profession carried out by companies shall be chargeable to income tax. Section 208 of the Act stipulates that such companies shall pay advance tax during the financial year when amount of tax payable exceeds ₹10,000. Failure to pay at least 90 *per cent* of the tax in advance by March attracts interest at the rate of one *per cent* per month or part of a month (Section 234 B of the Act). Companies are to pay advance tax in a staggered manner in four quarterly instalments between June and March of the corresponding financial year (Section 211 of the Act). If any instalment is not paid or less paid, interest is chargeable on the shortfall amount, under Section 234 C of the Act.

Besides payment of advance tax, companies are required to file income tax return in the prescribed form on or before the due date *i.e.*, 30^{th} day of September of the assessment year. In case of failure to file tax return on or before due date, interest is chargeable on the amount of tax at the rate of one *per cent* per month or part of the month for delay (Section 234 A of the Act).

Forest Industries (Travancore) Limited, (Company), engaged in the business of manufacturing wooden furniture/joineries and civil construction, had taxable income ranging from ₹35.76 lakh to ₹398.51 lakh during assessment years 2007-08 to 2013-14. Even though the Company had tax liability in excess of ₹10,000 during these years, the Company, did not remit advance tax in any of the years nor did it file tax returns on time. Consequently, the Income Tax (IT) department imposed penal interest of ₹3.26 crore on the Company as shown in **Table 4.13**:

Table 4.13: Statement showing details of penal interest levied

(₹ in lakh)

Assessment year	Taxable Income	Total Tax Payable	Advance Tax Payable[103]	Advance Tax Paid	Date of Filing of Return	Penal interest levied
2007-08	88.48	29.78	26.80	0	04/12/2014	58.60
2008-09	62.39	19.27	16.84	0	05/12/2014	31.98
2009-10	53.10	16.40	14.36	0	05/12/2014	22.74
2010-11	35.76	11.05	6.23	0	29/01/2015	7.75
2011-12	39.86	12.31	10.75	0	29/01/2015	10.82
2012-13	265.64	86.18	76.63	0	27/09/2016	93.79
2013-14	398.51	129.30	107.27	0	05/10/2016	100.29
Total	**943.74**	**304.29**	**258.88**	**0**		**325.97**

(Source: Data collected from the Company)

Out of the total tax and interest liability of ₹630.26 lakh (tax payable–₹304.29 lakh and interest liability – ₹325.97 lakh) for the assessment years 2007-08 to 2013-14, the Company paid ₹356.12 lakh as of February 2018.

Audit observed (May 2017) that there was delay in finalisation of accounts by the Company. The annual accounts of the Company were finalised (December 2015) only upto 2012-13. There were delays ranging from 11 to 34 months for finalisation of accounts for the period 2006-07 to 2012-13. Audit also noticed that the Company did not have an effective internal control system to monitor the compliance to provisions of Income Tax Act, 1961. The Company did not prepare cash budget for assessing whether the Company was having sufficient cash resources for making statutory payments. The delay in filing return and non-payment of advance tax resulted in avoidable interest liability of ₹3.26 crore.

GoK replied (February 2018) that advance tax was not paid since the cash position of the Company was not favourable and the Company was dependent on overdraft facility during the aforementioned periods. Regarding non-finalisation of accounts, it was replied that as the Company was dealing with Government department works, there was delay in getting the final work orders/bills. The final bills to Government and invoices raised by sub-contractors were finalised at a later stage after finalising measurement books and their approval by officials concerned. Thus, the Company was not able to finalise the accounts in a timely manner. It was also replied that tax audit and statutory audit were done by different firms and tax auditors could conduct tax audit only after finalisation of statutory audit.

The reply was not acceptable as payment of advance tax was a statutory requirement. As advance tax is payable only to the extent of 90 *per cent* by March, there is a leverage of 10 *per cent* to meet uncertainty associated with delay in finalisation of bills by Government. Moreover, non-finalisation of accounts led to delay in completion of statutory audit and consequent delay in tax audit. The Company also did not finalise the annual accounts for the period 2013-14 (February 2018).

[103] **90 *per cent* X (Tax Payable - Tax Deducted at Source).**

Thus, delay in filing income tax returns and non-payment of advance tax in accordance with the provisions of the Income Tax Act, 1961 resulted in avoidable interest liability of ₹3.26 crore. Moreover, the tax liability of ₹2.74 crore for the assessment years 2007-08 to 2013-14 was yet to be paid by the Company.

Kerala Automobiles Limited

4.9 Absence of agreement leading to idling of rear engines

Absence of agreement with the support partner while transferring rear engines for conversion into three-wheelers resulted in 176 rear engines worth ₹52 lakh lying idle with the support partner.

As per Article 51 of Kerala Financial Code, contracts for the execution of works should be made as far as possible only after inviting open tenders. Further, as per Article 181 of Kerala Financial Code, no work, which is to be executed under a contract, should be started until the contractor has signed a formal written agreement.

Kerala Automobiles Limited (Company) engaged in the manufacture of three-wheelers with diesel engines, procured (March - April 2013) 335 Electric Start BS III Rear Engines for ₹98.99 lakh (unit price[104] of ₹29,550) from Greaves Cotton Limited, Ranipet, for manufacture of rear engine vehicles. Out of the 335 engines procured, 86 engines were utilised for manufacture of rear engine vehicles, which were sold in 2013-14. As the vehicles sold developed service complaints, the Company stopped manufacture of rear engine vehicles. As a result, the remaining 249 engines were not utilised.

Considering the financial and technical constraints faced by the Company in developing and establishing rear engine three-wheelers in the market, the Company invited (September 2014) Expression of Interest (EoI) for manufacture and supply of rear engine three-wheelers to the Company as a support partner and selected Continental Engines Limited (CEL) out of the two qualified bidders. Agreement was executed (August 2015) between CEL and the Company.

Meanwhile, the Company informed (December 2014) CEL that it had 249 Greaves-make rear engines and was willing to transfer those engines to CEL and CEL in turn should supply fully built three-wheelers fitted with those engines to the Company. As CEL agreed with the proposal, the Company decided (January 2015) to transfer the 249 engines to CEL at cost price of ₹73.58 lakh[105] for subsequent fitting into the vehicles supplied to the Company. The Company despatched (January/February 2015) 249 engines to CEL against a purchase order issued by CEL. Out of these, 73 engines were fitted by CEL in vehicles supplied (2016-17) by them. The remaining 176 engines valuing ₹52 lakh[106] were lying with CEL till date (August 2017).

[104] **Excluding taxes and freight.**
[105] **Excluding applicable taxes and duties.**
[106] **176 X ₹29,550.**

Audit observed that the Company while inviting EoI for selection of support partner did not include the aspect of transferring 249 greaves-make rear engines, which were lying idle for fitting in the three wheelers to be supplied by them. Further, no formal written agreement specifying rate of conversion and date of completion was executed between the Company and CEL for the conversion work. Due to these lapses, 176 rear engines valuing ₹52 lakh were yet to be converted into rear engines vehicles and returned to the Company.

Audit further observed that the Hon'ble Supreme Court of India (March 2017) ordered that no manufacturer or dealer shall sell any vehicle whether two wheeler, three wheeler, four wheeler or commercial vehicles, which were not BS IV compliant[107] in India with effect from April 2017. Since the engines transferred to CEL were non-BS IV compliant, it would not be possible to sell vehicles fitted with these engines in India.

GoK replied (February 2018) that the transaction helped the Company for partial liquidation of engine stock and mobilisation of dead funds. GoK further stated that purchase order received from CEL may be treated as agreement between CEL and the Company for conversion of rear-engines.

The reply was not acceptable as the Company did not include the aspect of transfer of the 249 idle engines to the support partner for fitting in the three wheelers to be supplied by them while inviting EoI. Further, though the Company was aware (January 2015) about the withdrawal of BS III engines within one to two years, the Company did not include clauses for timely conversion of these engines to three wheelers in the purchase order. Moreover, the purchase order cannot be a substitute for an agreement as it did not contain conversion time, time of return of vehicles, and other such terms and conditions. Moreover, the fact remains that 176 engines worth ₹52 lakh were yet to be returned by CEL to the Company after fitting them in auto rickshaws.

Thus, due to absence of agreement with the support partner while transferring rear engines for conversion into three-wheelers, 176 rear engines worth ₹52 lakh remained idle with the support partner.

Statutory corporations

Kerala State Road Transport Corporation

4.10 Avoidable liability due to delay in collection of service tax

Delay in decision on collection of service tax from passengers of air-conditioned buses resulted in avoidable liability of ₹3.05 crore, besides penal interest of ₹61.14 lakh.

Government of India (GoI) issued (01 March 2016) a notification mandating levy of Service Tax on the service of transportation of passengers by air conditioned buses with effect from 01 June 2016. Accordingly, the service tax, being an indirect tax, shall have to be paid by passengers availing such

[107] Bharat Stage (BS) norms are emission control standards. The BS IV norms were introduced with effect from 01 April 2017.

services at the rate of 6 *per cent*[108]. Service tax so collected by the service provider was to be paid to the Central Government on or before 5th (Offline payment)/6th (Online payment) of the succeeding month. Failure to pay service tax on or before due date would attract penal interest. Penal interest would be 24 *per cent* per annum if amount of service tax is collected but not credited to the Central Government on or before the due date and 15 *per cent* per annum in other cases.

Kerala State Road Transport Corporation (Corporation) was established (March 1965) under the Road Transport Corporation Act, 1950 to provide road transport services and other ancillary services in the State. The Corporation operated 221 air conditioned buses as of June 2016. Since service tax on transportation of passengers by air conditioned buses would become part of the ticket fare, approval of State Government was required for its implementation as per Section 19 of the Road Transport Corporation Act, 1950.

As service tax became leviable from 01 June 2016 and in order to obviate payment of interest on delayed payment of service tax, the Corporation ought to have obtained approval of Government of Kerala (GoK) sufficiently in advance for its levy through fare hike with effect from 01 June 2016. Despite this, the Corporation requested GoK only on 13 May 2016 to take a decision as to whether the service tax was to be collected from the passengers or to remit service tax from the existing revenue of the Corporation. As the Corporation did not receive directions in this regard from GoK, the Corporation did not collect service tax from passengers of air conditioned buses and did not remit the dues on account of service tax to GoI. Approval of GoK for collecting service tax from passengers was received only on 22 November 2016. The Corporation started collection and remittance of service tax with effect from 16 December 2016 only.

Audit observed that the Corporation and GoK took about nine months[109] for taking final decision on the subject. As a result, the Corporation did not collect service tax amounting to ₹3.05 crore from passengers who availed service of transportation on air conditioned buses during 01 June 2016 to 15 December 2016. GoI advised (April 2017) the Corporation to make payment of the service tax on the value of service provided during 01 June 2016 to 15 December 2016 along with interest. Hence, the Corporation became liable to pay service tax from its revenue along with penal interest of ₹61.14 lakh[110]. The Corporation was yet to remit the same (January 2018).

Thus, the delay in decision making at the Government/Corporation level for collection of service tax coupled with non-compliance of provisions of Finance Act resulted in avoidable liability of ₹3.05 crore and penal interest of ₹61.14 lakh.

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[108] After abatement of 60 *per cent* on service tax of 15 *per cent*.
[109] About three months on the part of KSRTC and about six months on the part of GoK.
[110] At the rate of 15 *per cent per annum* upto 31 January 2018.

GoK stated (April 2017) that as soon as the said notification was issued, GoI was requested for granting exemption from levying the same and since the request for exemption was not accepted by GoI, permission was given (22 November 2016) to the Corporation for collecting the service tax along with ticket fare. Accordingly, the Corporation started levying the same with effect from 16 December 2016. It was further stated that the liability accrued not because of any administrative delay on the part of the Corporation.

The reply was not acceptable as GoI issued notification on 01 March 2016 with date of effect from 01 June 2016. The Corporation should have approached GoK in time for levy of service tax from passengers of air conditioned buses. But, the Corporation requested GoK only on 13 May 2016 and GoK accorded its approval on 22 November 2016 to charge service tax.

Thus, the inordinate delay on the part of the Corporation and GoK resulted in the Corporation's liability to pay service tax of ₹3.05 crore along with penal interest of ₹61.14 lakh[111] out of its own resources. The amount of penal interest would increase if the payment is further delayed by the Corporation.

Thiruvananthapuram, **(K.P. ANAND)**
The **Accountant General**
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Kerala

Countersigned

New Delhi, **(RAJIV MEHRISHI)**
The **Comptroller and Auditor General of India**

[111] **Up to 31 January 2018.**

Appendices

Appendix 1

Statement showing investments made by State Government to working PSUs whose accounts are in arrear

(Referred to in Paragraph 1.11)

(Figures in column 4 and 6 to 8 are ₹ in crore)

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. Working Government companies							
1	Kerala State Horticultural Products Development Corporation Limited	2011-12	6.23	2012-13	0.25	…	8.83
				2013-14	…	…	15.00
				2014-15	0.25	…	5.44
				2015-16	0.25	…	12.00
				2016-17	…	…	5.00
2	Kerala State Poultry Development Corporation Limited	2011-12	1.97	2012-13	…	…	15.16
				2013-14	…	...	9.00
				2014-15	…	...	10.50
				2015-16	…	…	7.00
				2016-17	…	…	6.00
3	Meat Products of India Limited	2013-14	2.31	2014-15	..	1.77	1.00
				2015-16	…	1.00	4.50
4	Oil Palm India Limited	2015-16	11.79	2016-17	…	…	0.01
5	The Kerala Agro Industries Corporation Limited	2012-13	4.74	2013-14	…	…	15.79
				2014-15	…	…	0.82
				2015-16	…	…	2.55
				2016-17	…	…	1.93
6	The Kerala State Cashew Development Corporation Limited	2012-13	200.64	2013-14	40.70	20.00	…
				2014-15	15.00	30.00	…
				2015-16	41.00	…	…
				2016-17	110.00	…	…
7	The Kerala State Coir Corporation Limited	2014-15	8.05	2015-16	…	…	3.08
				2016-17	…	…	7.09
8	Vazhakulam Agro and Fruit Processing Company Limited	2015-16	0.05	2016-17	…	…	1.00
9	Handicrafts Development Corporation of Kerala Limited	2014-15	2.77	2015-16	…	…	0.44
				2016-17	…	…	0.65
10	Kerala Artisans' Development Corporation Limited	2012-13	3.35	2013-14	1.25	0.20	0.60
				2014-15	0.50	0.10	0.16
				2015-16	0.50	…	…
				2016-17	…	…	0.50

Appendix 1 continued

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
11	Kerala State Development Corporation for Christian Converts from Scheduled Castes & the Recommended Communities Limited	2003-04	13.50	2004-05	0.30	…	…
				2005-06	3.00	…	…
				2006-07	3.50	…	…
				2007-08	3.40	…	…
				2008-09	3.50	…	…
				2009-10	3.00	…	…
				2010-11	3.50	…	…
				2011-12	3.50	…	…
				2012-13	0.00	…	4.50
				2013-14	0.00	4.90	0.10
				2014-15	0.00	…	2.00
				2015-16	6.00	…	…
				2016-17	…	…	6.00
12	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	2014-15	144.53	2015-16	10.64	5.80	3.25
				2016-17	24.51	4.79	1.60
13	Kerala State Film Development Corporation Limited	2011-12	24.86	2012-13	2.75	…	1.28
				2013-14	5.00	…	1.41
				2014-15	4.00	…	1.41
				2015-16	4.00	…	1.41
				2016-17	4.00	…	1.41
14	Kerala State Handicapped Persons' Welfare Corporation Limited	2010-11	3.60	2011-12	…	…	1.50
				2012-13	…	…	3.30
				2013-14	…	…	5.85
				2014-15	…	…	2.25
				2015-16	…	…	7.45
				2016-17	…	…	2.25
15	Kerala State Handloom Development Corporation Limited	2015-16	39.56	2016-17	2.40	…	0.14

Appendix 1 continued

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
16	Kerala State Women's Development Corporation Limited	2012-13	7.07	2013-14	…	…	7.20
				2014-15	…	…	8.25
				2015-16	…	…	6.69
				2016-17	…	…	8.50
17	Kerala Urban and Rural Development Finance Corporation Limited	2014-15	6.12	2015-16	0.30	…	…
				2016-17	0.31	…	…
18	The Kerala State Backward Classes Development Corporation Limited	2015-16	111.85	2016-17	13.00	…	…
19	Kerala State Minorities Development Finance Corporation	2013-14	9.20	2014-15	10.00	…	…
				2015-16	10.00	...	…
				2016-17	20.00	…	…
20	Kerala State Housing Development Finance Corporation Limited	First Accounts not finalised		2013-14	1.27	…	…
				2014-15	9.00	…	…
21	Kerala State Welfare Corporation for Forward Communities Limited	2012-13	0.51	2013-14	5.00	…	5.60
				2014-15	4.00	…	14.49
				2015-16	10.00	…	17.01
				2016-17	…	…	28.59
22	Kerala Police Housing and Construction Corporation Limited	2011-12	0.27	2012-13	…	11.35	…
				2013-14	…	12.96	1.63
				2014-15	...	9.50	…
				2015-16	…	9.50	…
				2016-17	…	9.50	…
23	Kerala State Information Technology Infrastructure Limited	2015-16	193.90	2016-17	11.06	…	…
24	Vision Varkala Infrastructure Development Corporation Limited	2015-16	3.50	2016-17	…	…	3.33
25	Kanjikode Electronics and Electricals Limited	2009-10	0.10	2010-11	0.15	…	…
				2011-12	0.14	…	…
				2014-15	…	0.07	…
26	Keltron Component Complex Limited	2015-16	34.23	2016-17	...	2.75	...

Appendix 1 continued

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
27	Kerala Automobiles Limited	2012-13	10.98	2013-14	…	6.72	…
				2014-15	…	4.00	…
				2015-16	…	2.50	…
				2016-17	…	4.50	…
28	Kerala Electrical and Allied Engineering Company Limited	2015-16	111.13	2016-17	...	3.85	...
29	Kerala Feeds Limited	2011-12	38.66	2012-13	…	…	0.50
				2013-14	8.00	…	11.10
				2014-15	21.47	7.00	8.08
				2015-16	5.00	12.00	3.00
				2016-17	9.49	…	7.00
30	Kerala State Bamboo Corporation Limited	2012-13	9.35	2013-14	0.45	7.51	0.20
				2014-15	0.50	…	0.20
				2015-16	…	7.30	…
				2016-17	…	3.26	1.45
31	Kerala State Drugs and Pharmaceuticals Limited	2015-16	9.08	2016-17	…	4.74	…
32	Kerala State Textiles Corporation Limited	2013-14	96.52	2015-16	…	17.46	…
				2016-17	…	16.56	…
33	Sitaram Textiles Limited	2015-16	42.46	2016-17	…	3.13	…
34	The Kerala Ceramics Limited	2014-15	11.21	2015-16	...	2.00	...
				2016-17	…	1.64	…
35	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2015-16	37.67	2016-17	1.00	…	…
36	The Travancore Cements Limited	2014-15	2.71	2015-16	…	4.00	…
37	Traco Cable Company Limited	2015-16	57.22	2016-17	…	6.00	…
38	Travancore Titanium Products Limited	2011-12	13.77	2013-14	…	5.00	…
				2014-15	…	3.00	…
				2015-16	…	3.00	…
				2016-17	…	9.99	…

Appendix 1 continued

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
39	United Electrical Industries Limited	2013-14	4.99	2014-15	…	3.00	…
				2015-16	…	7.75	…
				2016-17	…	5.00	…
40	Kerala State Coir Machinery Manufacturing Company Limited	2014-15	23.23	2015-16	…	…	4.56
				2016-17	…	…	8.61
41	Trivandrum Spinning Mills Limited	2002-03	7.73	2009-10	2.11	…	…
				2013-14	…	1.00	…
				2014-15	…	1.50	…
				2016-17	…	1.90	…
42	Kerala State Electricity Board Limited	2015-16	3499.05	2016-17	…	17.98	456.26
43	Bekal Resorts Development Corporation Limited	2014-15	51.68	2015-16	0.30	…	…
44	Indian Institute of Information Technology and Management - Kerala	2015-16	48.78	2016-17	16.50	…	16.50
45	Kerala Medical Services Corporation Limited	2010-11	5.00	2011-12	…	…	174.00
				2012-13	…	…	200.00
				2013-14	…	…	220.00
				2014-15	…	…	165.00
				2015-16	…	…	225.00
				2016-17	…	…	339.87
46	Kerala Shipping and Inland Navigation Corporation Limited	2015-16	57.24	2016-17	1.56	…	36.25
47	Kerala Tourism Development Corporation Limited	2011-12	77.70	2012-13	6.00	…	…
				2013-14	6.50	…	…
				2014-15	…	…	2.70
				2015-16	5.00	…	…
				2016-17	6.50	…	…
48	The Kerala State Civil Supplies Corporation Limited	2014-15	142.02	2015-16	…	…	457.00
				2016-17	…	…	686.49
49	Vizhinjam International Seaport Limited	2015-16	12.00	2016-17	...	...	52.44

Appendix 1 continued

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
50	Kerala State Coastal Area Development Corporation Limited	2012-13	2.81	2013-14	3.00	…	39.20
				2014-15	…	…	0.59
				2015-16	…	…	34.13
51	Norka Roots	2013-14	1.52	2014-15	…	…	13.37
				2015-16	…	…	19.32
52	Kerala Academy for Skills Excellence	2015-16	26.94	2016-17	…	…	30.54
53	Bhavanam Foundation Kerala	2015-16	40.00	2016-17	…	…	6.00
54	Kerala Aqua Ventures International Limited	2012-13	3.99	2015-16	…	…	2.57
55	Cochin Smart Mission Limited	First Accounts not finalised		2016-17	100.00	…	100.00
Total A (Working Government Companies)					**584.31**	**297.48**	**3603.78**
B. Working Statutory corporations							
1	Kerala Industrial Infrastructure Development Corporation	2015-16	…	2016-17	...	46.98	30.00
2	Kerala State Road Transport Corporation	2014-15	711.09	2015-16	39.55	214.00	…
				2016-17	40.61	…	…
Total B (Working Statutory corporations)					**80.16**	**260.98**	**30.00**
Grand Total (A)+(B)					**664.47**	**558.46**	**3633.78**
Aggregate of Equity, Loans and Grants							**4856.71**

Appendix 2

Statement showing financial position and working results of Government companies and Statutory corporations as per their latest finalised financial statements/accounts

(Referred to in Paragraph 1.15)

(Figures in column 5 to 12 and 14 are ₹ in crore)

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
A. WORKING GOVERNMENT COMPANIES															
AGRICULTURE & ALLIED SECTOR															
1	Kerala Agro Machinery Corporation Limited	2015-16	2017-18	1.61	…	109.85	152.27	1.29	…	118.35	2.32	1.96	118.35	1.09	587
2	Kerala Forest Development Corporation Limited	2015-16	2016-17	9.20	5.62	12.13	10.42	1.56	-5.83	59.16	1.83	3.09	53.54	2.91	958
3	Kerala Livestock Development Board Limited	2013-14	2016-17	7.33	…	11.19	10.60	0.38	0.03	67.20	0.78	1.16	67.20	0.57	273
4	Kerala State Horticultural Products Development Corporation Limited	2011-12	2015-16	6.23	3.55	-5.26	16.75	-0.02	-1.77	5.01	-0.02	-0.40	1.46	-1.37	593
5	Kerala State Poultry Development Corporation Limited	2011-12	2016-17	1.97	0.14	0.53	18.20	1.04	-0.63	6.98	1.06	15.19	6.84	15.20	214
6	Meat Products of India Limited	2013-14	2016-17	2.31	2.14	-15.23	8.67	-0.14	-0.07	5.70	0.02	0.35	3.56	-3.93	63
7	Oil Palm India Limited	2015-16	2016-17	11.79	…	32.62	46.47	-4.98	-3.53	80.06	-3.83	-4.78	80.06	-6.22	943

Appendix 2 continued

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
8	The Kerala Agro Industries Corporation Limited	2012-13	2016-17	4.74	21.21	-13.61	48.92	0.35	...	57.08	2.00	3.50	35.87	0.98	80
9	The Kerala State Cashew Development Corporation Limited	2012-13	2016-17	200.64	221.40	-1181.88	161.73	-88.77	-5.90	-719.59	-20.94	…	-940.99	…	10872
10	The Kerala State Coir Corporation Limited	2014-15	2016-17	8.05	1.43	-5.71	114.03	0.78	-1.00	45.52	1.43	3.14	44.09	1.77	66
11	The Plantation Corporation of Kerala Limited	2016-17	2017-18	5.57	0.48	133.11	73.88	-7.68	…	167.32	-10.04	-6.00	166.84	-4.60	3322
12	The Rehabilitation Plantations Limited	2016-17	2017-18	3.39	…	148.92	27.03	-2.58	…	158.77	-2.38	-1.50	158.77	-1.62	1391
13	The State Farming Corporation of Kerala Limited	2016-17	2017-18	9.04	0.22	58.69	16.91	-0.46	…	76.47	2.38	3.11	76.25	-0.60	771
14	Aralam Farming Corporation (Kerala) Limited	2014-15	2016-17	0.01	…	-0.31	…	-0.02	…	-0.30	-0.02	…	-0.30	…	481
15	Vazhakulam Agro and Fruit Processing Company Limited	2015-16	2016-17	0.05	6.19	-2.63	8.01	-2.24	…	7.73	-2.07	-26.78	1.54	-145.45	112
16	Kerala Aqua Ventures International Limited	2012-13	2015-16	3.99	1.63	-3.54	0.18	-1.19	…	10.89	-1.03	-9.46	9.26	-12.85	21
17	Kerala State Coconut Development Corporation Limited	2013-14	2017-18	2.85	15.71	-20.68	…	0.25	…	-1.86	0.25	…	-17.57	…	16
	Sector -wise total			**278.77**	**279.72**	**-741.81**	**714.07**	**-102.43**	**-18.70**	**144.49**	**-28.86**	**-19.56**	**-135.23**	**…**	**20763**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	FINANCE SECTOR														
18	Handicrafts Development Corporation of Kerala Limited	2014-15	2015-16	2.77	4.44	-25.66	8.02	-3.29	-0.23	-10.51	-1.78	…	-14.95	…	95
19	Kerala Artisans' Development Corporation Limited	2012-13	2015-16	3.35	3.58	-1.81	12.96	0.002	-0.63	5.12	0.214	4.18	1.54	0.13	18
20	Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited	2007-08	2012-13	0.50	…	-0.61	0.13	0.06	-0.16	-0.11	0.06	…	-0.11	…	2
21	Kerala Small Industries Development Corporation Limited	2011-12	2013-14	29.67	56.03	-38.98	199.08	1.95	-0.35	46.23	3.19	6.90	-9.80	…	497
22	Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited	2003-04	2016-17	13.50	4.54	-5.02	0.53	-0.29	…	13.02	-0.16	-1.23	8.48	-3.42	17
23	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	2014-15	2017-18	144.53	11.87	-64.00	12.53	21.28	-0.27	95.40	21.74	22.79	83.53	25.48	167

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
24	Kerala State Film Development Corporation Limited	2011-12	2016-17	24.86	0.19	-31.98	6.56	-1.37	…	-6.93	-0.66	…	-7.12	…	173
25	Kerala State Handicapped Persons' Welfare Corporation Limited	2010-11	2016-17	3.60	10.25	-1.98	1.09	-1.32	-0.33	13.86	-1.16	-8.37	3.61	-36.57	40
26	Kerala State Handloom Development Corporation Limited	2015-16	2016-17	39.56	16.74	-76.79	22.11	-8.83	-7.91	-20.30	-7.02	…	-37.04	…	264
27	Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited	2013-14	2016-17	0.87	2.36	-1.53	0.19	-0.96	-0.08	2.05	-0.31	-15.12	-0.31	…	3
28	Kerala State Women's Development Corporation Limited	2012-13	2015-16	7.07	0.05	0.44	2.95	0.21	…	7.56	1.50	19.84	7.51	2.80	135
29	Kerala Transport Development Finance Corporation Limited	2014-15	2017-18	43.83	866.61	51.86	187.78	11.70	…	962.30	169.66	17.63	95.69	12.23	41
30	Kerala Urban and Rural Development Finance Corporation Limited	2014-15	2016-17	6.12	39.33	13.56	7.49	3.41	….	62.99	3.43	5.45	23.66	14.41	14

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**
31	Kerala State Backward Classes Development Corporation Limited	2015-16	2017-18	111.85	462.81	170.38	48.92	23.74	…	747.61	36.55	4.89	284.80	8.34	194
32	The Kerala State Financial Enterprises Limited	2015-16	2016-17	50.00	…	424.97	1582.07	35.87	-0.24	490.37	848.62	173.06	490.37	7.31	6819
33	Kerala State Minorities Development Finance Corporation Limited	2013-14	2015-16	9.20	….	-0.35	….	-0.35	-0.11	8.85	-0.35	-3.95	8.85	-3.95	32
34	Kerala State Housing Development Finance Corporation Limited	First Accounts not finalised													1
35	Kerala State Welfare Corporation for Forward Communities Limited	2012-13	2014-15	0.51	…	-0.10	….	-0.10	….	0.41	-0.10	-24.39	0.41	-24.39	12
	Sector -wise total			**491.79**	**1478.80**	**412.40**	**2092.41**	**81.71**	**-10.31**	**2417.92**	**1073.42**	**44.39**	**939.12**	**8.70**	**8524**
	INFRASTRUCTURE SECTOR														
36	Kerala Police Housing and Construction Corporation Limited	2011-12	2017-18	0.27	28.59	-3.08	10.55	-0.57	0.75	25.78	0.20	0.78	-2.81	…	83
37	Kerala State Construction Corporation Limited	2014-15	2016-17	0.88	…	15.04	364.41	7.16	-3.52	15.92	11.71	73.56	15.92	44.97	133

Appendix 2 continued

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
38	Kerala State Industrial Development Corporation Limited	2016-17	2017-18	301.24	26.00	216.80	38.09	25.66	…	637.26	34.51	5.42	611.26	4.20	124
39	Roads and Bridges Development Corporation of Kerala Limited	2014-15	2016-17	62.43	56.00	-50.70	9.45	-4.72	…	67.73	-0.91	-1.34	11.73	-40.24	44
40	The Kerala Land Development Corporation Limited	2012-13	2017-18	7.13	1.88	-25.62	1.18	-2.64	-0.12	-16.61	-2.64	…	-18.49	…	105
41	Kerala State Information Technology Infrastructure Limited	2015-16	2016-17	193.90	…	-3.54	0.25	-0.37	0.11	190.36	-0.30	-0.16	190.36	-0.19	6
42	Kinfra Export Promotion Industrial Parks Limited	2015-16	2016-17	0.25	16.80	20.28	2.30	1.20	…	57.55	2.30	4.00	40.75	2.94	3
43	Kinfra Film and Video Park Limited	2015-16	2016-17	1.50	23.27	2.39	6.00	1.65	…	42.94	2.66	6.19	19.67	8.39	2
44	Kinfra International Apparel Parks Limited	2015-16	2017-18	0.25	36.70	-7.03	2.77	-0.97	…	43.12	-0.79	-1.83	6.42	-15.11	2
45	Marine Products Infrastructure Development Corporation Limited	2015-16	2016-17	5.00	…	4.55	0.24	0.37	-2.16	9.55	0.54	5.65	9.55	3.87	0
46	Kannur International Airport Limited	2015-16	2016-17	869.77	302.82	11.38	….	-0.52	-0.03	1184.28	-0.52	-0.04	881.46	-0.06	83

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
47	Road Infrastructure Company Kerala Limited	2012-13	2015-16	0.05	...	…	0.06	…	…	0.17	…	…	0.17	…	11
48	Vision Varkala Infrastructure Development Corporation Limited	2015-16	2016-17	3.50	…	-2.67	…	-2.67	…	0.83	-2.67	-321.69	0.83	-321.69	6
49	Kerala Irrigation Infrastructure Development Corporation Limited	2013-14	2015-16	10.00	…	-0.09	0.29	0.14	…	9.91	0.14	1.41	9.91	1.41	47
50	Pratheeksha Bus Shelters Kerala Limited	2015-16	2016-17	0.05	…	0.06	0.15	0.06	…	0.11	0.09	81.82	0.11	54.55	3
51	Ashwas Public Amenities Kerala Limited	2015-16	2016-17	0.05	…	-0.09	…	-0.04	…	-0.04	-0.04	…	-0.04	…	1
	Sector -wise total			**1456.27**	**492.06**	**177.68**	**435.74**	**23.74**	**-4.97**	**2268.86**	**44.28**	**1.95**	**1776.80**	**1.34**	**653**
	MANUFACTURING SECTOR														
52	Autokast Limited	2016-17	2017-18	19.97	9.29	-146.80	14.71	-11.49	-2.50	-117.39	-9.24	…	-126.68	…	313
53	Foam Mattings (India) Limited	2014-15	2016-17	5.15	…	-4.30	7.58	-0.78	-0.10	20.63	-0.88	-4.27	20.63	-3.78	96
54	Forest Industries (Travancore) Limited	2013-14	2017-18	0.38	5.94	1.44	31.81	0.04	…	7.76	0.92	11.86	1.82	2.20	82
55	Kanjikode Electronics and Electricals Limited	2009-10	2010-11	0.10	..	0.03	0.31	-0.04	…	0.57	-0.04	-7.02	0.57	-7.02	8
56	Keltron Component Complex Limited	2015-16	2016-17	34.23	20.30	-44.20	61.77	-0.52	…	11.68	3.44	29.45	-8.62	…	535
57	Keltron Electro Ceramics Limited	2015-16	2016-17	3.18	1.82	-2.55	12.87	0.02	…	2.61	0.97	37.16	0.79	2.53	63

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
58	Kerala Automobiles Limited	2012-13	2015-16	10.98	15.82	-37.13	8.08	-9.71	-8.03	-10.33	-8.76	…	-26.15	…	156
59	Kerala Clays and Ceramic Products Limited	2016-17	2017-18	1.32	2.87	1.45	1.15	-3.84	…	5.66	-3.19	-56.36	2.79	-137.63	255
60	Kerala Electrical and Allied Engineering Company Limited	2015-16	2016-17	111.13	24.61	-147.42	105.17	-17.26	-0.03	-11.52	-12.27	…	-36.13	…	510
61	Kerala Feeds Limited	2011-12	2013-14	38.66	13.07	12.87	267.23	8.35	…	57.67	8.35	14.48	44.60	18.72	205
62	Kerala State Bamboo Corporation Limited	2012-13	2016-17	9.35	31.16	-32.39	11.87	-5.69	…	8.54	-4.59	-53.75	-22.62	…	212
63	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2014-15	2016-17	1.03	…	976.16	3050.11	151.06	-685.61	983.15	230.11	23.41	983.15	15.36	2790
64	Kerala State Drugs and Pharmaceuticals Limited	2015-16	2016-17	9.08	25.53	-100.63	26.77	9.64	-0.55	-66.02	15.25	...	-91.55	…	235
65	Kerala State Electronics Development Corporation Limited	2014-15	2016-17	200.00	92.16	-214.51	295.23	-12.95	-128.65	83.94	-7.60	-9.05	-8.22	…	1529
66	Kerala State Mineral Development Corporation Limited	2015-16	2017-18	1.76	…	-1.99	0.86	-0.10	-7.94	-0.23	-0.10	…	-0.23	…	11

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**
67	Kerala State Textile Corporation Limited	2013-14	2016-17	96.52	82.88	-108.52	59.43	-20.03	-17.21	73.75	-13.35	-18.10	-9.13	…	647
68	Malabar Cements Limited	2015-16	2017-18	26.01	…	223.90	338.89	25.08	-4.54	257.40	39.24	15.24	257.40	9.74	779
69	Sitaram Textiles Limited	2015-16	2017-18	42.46	8.03	-60.60	10.20	-5.58	-0.05	-10.10	-3.34	…	-18.13	…	196
70	Steel and Industrial Forgings Limited	2016-17	2017-18	30.07	6.19	23.11	58.99	0.27	-0.64	59.49	1.68	2.82	53.30	0.51	263
71	SAIL- SCL Kerala Limited	2016-17	2017-18	26.43	38.85	-62.50	4.14	-13.62	…	2.81	-6.61	-235.23	-36.04	…	68
72	Steel Industrials Kerala Limited	2016-17	2017-18	36.56	7.10	-28.01	30.43	0.02	-1.29	16.18	0.76	4.70	9.08	0.22	110
73	The Kerala Ceramics Limited	2014-15	2015-16	11.21	47.25	-68.04	3.19	-7.32	…	-9.55	-4.13	…	-56.80	…	98
74	The Kerala Minerals and Metals Limited	2015-16	2016-17	30.93	…	557.27	515.07	-1.77	…	588.22	-2.61	-0.44	588.22	-0.30	1269
75	The Metal Industries Limited	2015-16	2017-18	1.98	12.76	-11.93	3.48	-2.05	-0.01	5.06	-0.94	-18.58	-7.70	…	49
76	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2015-16	2016-17	37.67	…	62.03	93.86	13.48	0.04	99.77	20.90	20.95	99.77	13.51	701
77	The Travancore Cements Limited	2014-15	2016-17	2.71	16.93	-39.10	29.01	-15.06	…	-16.29	-12.94	…	-33.22	…	319
78	The Travancore Sugars and Chemicals Limited	2015-16	2016-17	1.32	0.10	7.67	54.37	3.18	-4.54	10.58	4.27	40.36	10.48	30.34	33
79	The Travancore-Cochin Chemicals Limited	2016-17	2017-18	21.31	14.58	-19.79	200.27	5.57	…	16.10	10.63	66.02	1.52	366.45	536

Appendix 2 continued

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
80	Traco Cable Company Limited	2015-16	2016-17	57.22	10.83	-66.47	122.63	-9.70	-0.51	1.73	-2.12	-122.54	-9.10	…	491
81	Transformers and Electricals Kerala Limited	2015-16	2016-17	42.97	….	27.12	151.97	-10.00	-12.92	86.29	-9.06	-10.50	86.29	-11.59	523
82	Travancore Titanium Products Limited	2011-12	2017-18	13.77	30.06	-12.86	184.59	9.84	…	30.98	19.27	62.20	0.92	1069.57	677
83	United Electrical Industries Limited	2013-14	2016-17	4.99	10.68	-34.64	8.14	-14.09	-9.19	-18.93	-11.53	…	-29.61	…	85
84	Malabar Distilleries Limited	2015-16	2016-17	2.46	…	-1.37	0.01	-0.18	…	1.09	-0.18	-16.51	1.09	-16.51	61
85	Kerala State Coir Machinery Manufacturing Company Limited	2014-15	2017-18	23.23	…	-1.10	1.22	-1.10	…	23.55	-1.08	-4.59	23.55	-4.67	32
86	Trivandrum Spinning Mills Limited	2002-03	2003-04	7.73	7.27	-17.28	…	-0.44	…	0.06	-0.44	-733.33	-7.21	…	46
	Sector-wise total			**963.87**	**536.08**	**628.92**	**5765.41**	**63.23**	**-884.27**	**2194.91**	**240.79**	**10.97**	**1658.83**	**3.81**	**13983**
	POWER SECTOR														
87	Kerala State Power and Infrastructure Finance Corporation Limited	2016-17	2017-18	26.65	…	31.81	9.55	3.04	...	70.78	8.49	11.99	70.78	4.29	8
88	KINESCO Power and Utilities Private Limited	2015-16	2016-17	0.10	2.35	1.51	51.79	0.67	…	3.96	1.10	27.78	1.61	41.61	2
89	Kerala State Electricity Board Limited	2015-16	2016-17	3499.05	3753.51	-1613.72	10914.44	-313.29	-430.31	5638.84	536.04	9.51	1885.33	-16.62	33618
	Sector-wise total			**3525.80**	**3755.86**	**-1580.40**	**10975.78**	**-309.58**	**-430.31**	**5713.58**	**545.63**	**9.55**	**1957.72**	**-15.81**	**33628**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
SERVICE SECTOR															
90	Bekal Resorts Development Corporation Limited	2014-15	2017-18	51.68	…	0.52	3.75	0.44	0.21	52.22	0.68	1.30	52.22	0.84	18
91	Indian Institute of Information Technology and Management - Kerala	2015-16	2016-17	48.78	…	-7.82	2.70	-0.69	…	50.48	-0.69	-1.37	50.48	-1.37	17
92	Kerala Medical Services Corporation Limited	2010-11	2016-17	5.00	0.06	5.40	154.43	0.22	0.53	20.46	0.26	1.27	20.40	1.08	858
93	Kerala Shipping and Inland Navigation Corporation Limited	2015-16	2017-18	57.24	…	-16.25	11.08	-2.81	-3.98	41.42	-2.69	-6.49	41.42	-6.78	149
94	Kerala State Ex-Servicemen Development and Rehabilitation Corporation Limited	2015-16	2017-18	0.50	…	7.28	41.52	1.69	…	7.78	1.69	21.72	7.78	21.72	19
95	Kerala State Industrial Enterprises Limited	2014-15	2017-18	1.20	3.80	28.09	36.31	-5.03	...	39.86	-3.28	-8.23	36.06	-13.95	102
96	Kerala State Maritime Development Corporation Limited	2013-14	2014-15	10.00	…	-6.19	7.40	0.97	0.25	3.81	1.33	34.91	3.81	25.46	14
97	Kerala Tourism Development Corporation Limited	2011-12	2012-13	77.70	12.74	-22.24	86.62	-0.70	-0.25	70.78	-0.53	-0.75	58.04	-1.21	675

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
98	Overseas Development and Employment Promotion Consultants Limited	2015-16	2016-17	0.86	…	2.18	0.48	0.68	…	3.25	0.96	29.54	3.25	20.92	17
99	The Kerala State Civil Supplies Corporation Limited	2014-15	2017-18	142.02	…	-330.33	3927.11	-107.43	0.27	-188.31	-56.90	…	-188.31	…	3123
100	Kerala Tourism Infrastructure Limited	2014-15	2016-17	32.22	…	5.07	0.83	-1.80	…	37.69	-2.76	-7.32	37.69	-4.78	9
101	Vizhinjam International Seaport Limited	2015-16	2017-18	12.00	…	-60.11	…	-45.14	-5.71	838.83	-45.34	-5.41	838.83	-5.38	14
102	Kerala State Coastal Area Development Corporation Limited	2012-13	2015-16	2.81	…	1.72	0.93	0.78	…	4.47	1.24	27.74	4.47	17.45	115
103	Norka Roots	2013-14	2017-18	1.52	…	3.30	2.70	-0.03	0.06	8.86	-0.03	-0.34	8.86	-0.34	94
104	Kerala High Speed Rail Corporation Limited	2016-17	2017-18	59.00	…	-14.67	…	-1.02	-1.10	45.33	-1.02	-2.25	45.33	-2.25	4
105	Kerala Rapid Transit Corporation Limited	2014-15	2015-16	28.05	…	-0.11	…	-0.05	…	27.94	-0.05	-0.18	27.94	-0.18	17
106	Clean Kerala Company Limited	2013-14	2014-15	0.25	…	-0.12	…	-0.12	…*	0.13	-0.16	-123.08	0.13	-92.31	9
107	Kerala Academy for Skills Excellence	2015-16	2016-17	26.94	…	-2.48	1.42	-4.02	…	57.39	-4.02	-7.00	57.39	-7.00	35
108	Bhavanam Foundation Kerala	2015-16	2016-17	40	….	…	…	…	0.07	40	…	…	40.00	…	4

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
109	Trivandrum Engineering Science and Technology Research Park	First Accounts not finalised													3
110	Kerala Rail Development Corporation Limited	First Accounts not finalised													3
111	Cochin Smart Mission Limited	First Accounts not finalised													2
	Sector-wise total			**597.77**	**16.60**	**-406.76**	**4277.28**	**-164.06**	**-9.65**	**1162.39**	**-111.31**	**-9.58**	**1145.79**	**-14.32**	**5301**
	Total A (All working Government companies)			**7314.27**	**6559.12**	**-1509.27**	**24260.69**	**-407.39**	**-1358.21**	**13902.15**	**1764.55**	**12.69**	**7343.03**	**-5.55**	**82852**
	B. Working Statutory corporations														
	AGRICULTURE & ALLIED SECTOR														
1	Kerala State Warehousing Corporation	2013-14	2017-18	12.50	17.00	-26.12	17.10	-2.18	-0.06	6.80	-1.13	-19.56	-10.20	…	423
	Sector-wise total			**12.50**	**17.00**	**-26.12**	**17.10**	**-2.18**	**-0.06**	**6.80**	**-1.13**	**-19.56**	**-10.20**	**…**	**423**
	FINANCE SECTOR														
2	Kerala Financial Corporation	2016-17	2017-18	226.50	1611.46	93.43	356.07	5.69	…	2046.90	203.66	9.95	435.44	1.31	220
	Sector-wise total			**226.50**	**1611.46**	**93.43**	**356.07**	**5.69**	**…**	**2046.90**	**203.66**	**9.95**	**435.44**	**1.31**	**220**
	INFRASTRUCTURE SECTOR														
3	Kerala Industrial Infrastructure Development Corporation	2015-16	2016-17	…	909.25	135.64	11.56	2.00	-0.03	1102.69	9.23	0.84	193.44	1.03	37
	Sector-wise total			**…**	**909.25**	**135.64**	**11.56**	**2.00**	**-0.03**	**1102.69**	**9.23**	**0.84**	**193.44**	**1.03**	**37**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	SERVICES SECTOR														
4	Kerala State Road Transport Corporation	2014-15	2017-18	711.09	3097.95	-5041.08	1817.86	-1431.29	…*	-1192.68	-1016.51	…	-4290.63	…	35083
	Sector-wise total			**711.09**	**3097.95**	**-5041.08**	**1817.86**	**-1431.29**	**…***	**-1192.68**	**-1016.51**	**…**	**-4290.63**	**…**	**35083**
	Total B (All working Statutory corporations)			**950.09**	**5635.66**	**-4838.13**	**2202.59**	**-1425.78**	**-0.09**	**1963.71**	**-804.95**	**-40.99**	**-3671.95**	**…**	**35763**
	Grand Total (A+B)			**8264.36**	**12194.78**	**-6348.10**	**26463.28**	**-1833.17**	**-1358.30**	**15865.86**	**959.60**	**6.05**	**3671.08**	**-49.94**	**118615**
	C. Non-working Government companies														
	MANUFACTURING SECTOR														
1	The Kerala Premo Pipe Factory Limited	1985-86	1999-2000	0.35	1.41	-0.19	…	-0.27	…	1.58	-0.13	-8.23	0.17	-158.82	…
2	Kerala Garments Limited	2008-09	2009-10	0.48	6.07	-10.23	0.03	-0.25	-0.30	-3.68	0.35	…	-9.75	…	…
3	Kerala Special Refractories Limited	2014-15	2016-17	2.91	1.07	-2.75	…	-0.12	…	1.23	-0.12	-9.76	0.16	-75.00	3
4	The Kerala Asbestos Cement Pipe Factory Limited	1984-85	1986-87	0.06	…	…	…	…	…	…	…	…	…	…	...
5	SIDCO Mohan Kerala Limited	2007-08	2012-13	0.17	6.61	-6.13	…	-1.16	…	-0.66	…	…	-5.95	…	…
6	Keltron Counters Limited	2012-13	2016-17	4.97	25.47	-38.93	…	0.08	…	-3.41	0.08	…	-28.88	…	...
7	Keltron Power Devices Limited	2005-06	2014-15	15.37	7.67	-29.65	…	-0.53	-0.19	-6.42	…	…	-14.09	…	…
8	SIDKEL Televisions Limited	1999-2000	2004-05	0.44	2.56	-4.14	…	-0.48	…	-1.14	-0.48	…	-3.70	…	...

Sl. No.	Sector/ Name of the Company/ Corporation	Period of Accounts	Year in which Accounts finalised	Paid-up Capital	Loan	Accumulated Profit (+) / loss (-)	Turnover	Net profit (+)/ Loss (-)	Net impact of Audit Comment	Capital Employed	Return on Capital Employed	Percentage of Return on Capital Employed	Equity	Percentage of Return on Equity	Man power
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**
9	Astral Watches Limited	2010-11	2011-12	0.95	4.25	-5.92	…	-0.32	…	-0.62	-0.03	…	-4.87	…	...
10	Keltron Rectifiers Limited	2005-06	2014-15	8.50	5.41	-23.57	….	-0.07	…	0.55	-0.07	-12.73	-4.86	…	...
11	Trivandrum Rubber Works Limited	2001-02	2010-11	2.35	12.98	-25.99	1.52	-1.02	…	-10.66	-1.01	…	-23.64	…	...
12	Kerala State Wood Industries Limited	2013-14	2016-17	1.70	8.52	-11.81	0.84	0.61	…	-1.44	0.61	…	-9.96	…	1
13	Kerala State Detergents and Chemicals Limited	2014-15	2015-16	1.55	27.15	-32.88	…	-0.09	-0.49	-4.02	-0.09	…	-31.17	…	...
14	Kunnathara Textiles Limited	Data not available													
15	Vanjinad Leathers Limited	Data not available													
	Sector-wise total			**39.80**	**109.17**	**-192.19**	**2.39**	**-3.62**	**-0.98**	**-27.37**	**-0.89**	…	**-136.54**	**…**	**4**
	Total C (All non- working Government companies)			**39.80**	**109.17**	**-192.19**	**2.39**	**-3.62**	**-0.98**	**-27.37**	**-0.89**	…	**-136.54**	**…**	**4**
	Grand Total (All PSUs)(A+B+C)			**8304.16**	**12303.95**	**-6540.29**	**26465.67**	**-1836.79**	**-1359.28**	**15838.49**	**958.71**	**6.05**	**3534.54**	**-51.57**	**118619**

Notes:

1. Paid up capital includes advance to share capital also.
2. Loan represent long term loans only.
3. Net impact of audit comments includes the net impact of comments of Statutory Auditors and CAG. '(+)' indicates increase in profit/ decrease in loss and '(-)' indicates decrease in profit/ increase in loss.
4. Capital employed represents share holders' fund plus long term borrowings.
5. Return on capital employed represents profit before interest, income tax and dividend.
6. Equity or Shareholders' fund represents paid up capital plus free reserves.
7. Return on equity represents profit after interest, income tax and preference dividend.
8. Comments of CAG on the Accounts of Forest Industries (Travancore) Limited (2013-14), Clean Kerala Company Limited (2013-14) and Kerala State Road Transport Corporation (2014-15) are under process (February 2018).
9. Man power represents number of employees as on 31/03/2017.
10. The Accounts of Forest Industries (Travancore) Limited for the year 2013-14 is being revised based on the supplementary audit conducted by CAG.

Appendix 3

Statement showing name of various schemes for development of coir and handloom sectors

(Referred to in Paragraph 2.1.14)

Nature of scheme	Coir Sector	Handloom Sector
1. Raw material support	• Husk Collection Scheme • Investment Subsidy scheme	• Scheme for ensuring quality raw material to weavers
2. Financial Support	• Working capital assistance to societies • Scheme for Government share participation	• Revival, Reform and Restructuring Package for the handloom sector • Scheme of Government Share participation in Hantex and Hanveev. • Scheme of Government Share participation in primary cooperative societies • Margin Money Assistance for primary cooperative societies. • Self Employment Scheme • Thrift Fund Scheme.
3. Marketing Support	• Purchase Price Stabilisation scheme • Market Development Assistance for coir sector • Production and Marketing Incentive for coir sector	• Export Promotion Scheme • Marketing Incentive (MI) Scheme • Handloom Mark Scheme • Registration under India Handloom brand • Rebate Scheme • Revitalisation and strengthening of Hanveev and Hantex • Revival of Cooperative societies and Apex cooperative societies. • Publicity for encouraging use of handloom products. • Handloom Survey
4. Infrastructure Development and modernisation	• Infrastructure Development scheme • Skill development programme	• Renovation of Factory type Societies. • Scheme for establishment of Indian Institute of Handloom • Establishment of Mini Pre-Loom Processing Cell. • Master Weavers Scheme • scheme for repair and maintenance of work shed • Integrated Handloom Village Scheme • Technology upgradation and transfer. • Scheme for modernisation of societies and promotion of value added products.
5. Social security/ Welfare	• Pension scheme • Income Support Scheme	• Income Support Scheme • Mahatma Gandhi Bunkar Bhima Yojana – Insurace Scheme (Government of India) • Productivity Improvement Scheme • Scheme for motivating weavers

Appendix 4

Statement showing details of coir societies which were granted (2012-14) working capital assistance of ₹56 lakh and subsequently became defunct

(Referred to in Paragraph 2.1.18)

Sl. No.	Society	Amount (₹)	Project Offices
1	Vadakkukochumuri CVCS Ltd. No.691	7,50,000	Kayamkulam
2	Indira Priyadarsini CVCS Ltd. No. 801	2,24,250	Kayamkulam
3	ChelikkulangaraCVCS Ltd. No. 805	5,50,000	Kayamkulam
4	Kottakkadavu CVCS Ltd. No. 688	3,50,000	Kayamkulam
5	Palakkadavu CVCS Ltd. No. 800	1,00,000	Kayamkulam
6	Pullukulangara CVCS Ltd. No. 656	2,00,000	Kayamkulam
7	Azhikode CVCS Ltd No.261	1,00,000	Kannur
8	Iritti YV CVSS Ltd. No. C 902	5,00,000	Kannur
9	Kera Gramam YCVSS - C 1080	7,50,000	Kannur
10	Mangattidam YV CVSS Ltd. No. C 901	4,64,000	Kannur
11	Peravoor YV CVSS Ltd. No. C 966	4,60,000	Kannur
12	Rajeev Gandhi YV CVSS Ltd.No.C 923	4,22,056	Kannur
13	Rajeevji YCVCS No.918	7,50,000	Kannur
14	Asan CVCS T 533	2,84,250	Chirayinkeezhu
15	Kadakam CVCS 534	3,84,250	Chirayinkeezhu
16	Karunilakkode CVCS 492	3,41,781	Chirayinkeezhu
17	Kedakulam CVCS 165	4,29,139	Chirayinkeezhu
18	Poovathumoolla CVCS T.896	2,50,000	Chirayinkeezhu
19	Vakkom Kizhakku CVCS 87	3,84,250	Chirayinkeezhu
20	Thazhup CVCS A 735	2,50,000	Alappuzha
21	Priyadarsini Vanitha CVCS 935	2,50,000	Alappuzha
	Total	**8,19,3976**	

Appendix 5

Statement showing details of payment of wages to workers in cash by societies

(Referred to in Paragraph 2.1.36)

Sl. No.	Name of Society	No. of Workers	Product	Project Offices
1	Jayabharath CVCS 1217	71	Coir	Vaikkom
2	Akkarapadam CVCS 57	220	Coir	Vaikkom
3	Chemmanakari CVCS 573	400	Coir, Fibre	Vaikkom
4	Enathy CVCS 467	135	Coir	Vaikkom
5	Kattikunnu CVCS 384	50	Coir, Fibre	Vaikkom
6	Kulashekaramangalam CVCS 432	74	Coir	Vaikkom
7	Maravanthuruthu CVCS 569	35	Coir	Vaikkom
8	Padinjaremuri CVCS 459	150	Coir	Vaikkom
9	Vettoor 535	25	Yarn	Chirayinkeezhu
10	Kedakulam 165	30	Yarn	Chirayinkeezhu
11	Kappil 532	28	Coir	Chirayinkeezhu
12	Kavalayoor 126	15	Coir	Chirayinkeezhu
13	North Vennicode 450	24	Coir	Chirayinkeezhu
14	Akathumuri 339	26	Coir	Chirayinkeezhu
15	Vettukad 621	56	Coir	Chirayinkeezhu
16	Nedunganda East 397	15	Coir	Chirayinkeezhu
17	Vakkom Kizhakku 87	23	Coir	Chirayinkeezhu
18	Vakkom North West 529	30	Coir	Chirayinkeezhu
19	Anchuthengu 286	22	Coir	Chirayinkeezhu
20	Akathumury Thekku 303	27	Coir	Chirayinkeezhu
21	Vakkom South 537	18	Coir	Chirayinkeezhu
22	Panathura 415	27	Coir	Chirayinkeezhu
23	Perukadavila 1078	20	Coir	Chirayinkeezhu
24	Eranjoli CVCS 617	2	Yarn	Kannur
25	Edoor CVCS 1174	16	Yarn	Kannur
26	Kannapuram CVCS 685	33	Fibre, Yarn	Kannur
27	Thavam CVCS 364	8	Coir	Kannur
28	Pappinisseri-Irinaavu CVCS 332	9	Fibre, Yarn	Kannur
29	Kairali SC/ST 972	15	Coir	Kannur
	Total	**1,604**		

Appendix 6

Statement showing details of land identified for Industrial Development Zone project

(Referred to in Paragraph 3.1.9)

Sl. No.	Date of Proposal	Area (acre)	Location/ (District)	Date of issue of AS by GoK	Date of filing of Requisition	Present status
A	**Details of land identified for which Administrative Sanction from GoK was obtained**					
1	06/10/2012	250	Ayyampuzha, Ernakulam	22/06/2015	25/07/2015	GoK dropped land acquisition proceedings
2	11/02/2013	63	Ayiroor, Thiruvanathapuram	24/04/2015	08/06/2015	Consensus regarding land value is pending
3	18/02/2013	80	Edathirinji, Thrissur	31/05/2016	15/07/2016	GoK dropped land acquisition proceedings
4	19/04/2013	250	Ozhalappathy, Palakkad	05/06/2015	20/07/2015	Land acquisition is in progress
5	19/04/2013	110	Mavoor, Kozhikkode	29/06/2015	06/07/2015	
6	21/05/2013	470	Kannambra, Palakkad	01/04/2017	24/04/2017	
7	27/09/2013	140	Perumanna, Kozhikkode	18/06/2015	03/07/2015	
8	08/11/2013	300	Karumaloor, Ernakulam	31/03/2015	-	GoK dropped land acquisition proceedings
9	23/07/2014	38	Asamannur, Ernakulam	20/05/2016	26/08/2016	Land acquisition is pending with District Collector
10	11/11/2014	200	Desamangalam, Thrissur	06/01/2016	11/02/2016	
11	02/05/2015	500	Panayathamparambu, Kannur	06/06/2016	24/08/2016	
12	15/06/2015	920	Karikkode, Idukki	02/03/2016	23/06/2016	
13	06/02/2016	690	Mankada, Malappuram	02/03/2016	12/07/2016	GoK dropped land acquisition proceedings
14	17/02/2016	39	Kalanjoor, Pathanamthitta	02/03/2016	17/06/2016	Land acquisition is pending with District Collector
15	17/02/2016	37	Ezhamkulam, Pathanamthitta	02/03/2016	17/06/2016	
	Sub-Total	**4,087**				
B	**Details of land identified for which Administrative Sanction from GoK was not obtained**					
1	25/02/2015	600	Pudussery, Palakkad	-	-	GoK directed (March 2017) the Corporation to submit report for acquisition under Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
2	02/06/2015	500	Pattannur, Kannur	-	-	Clearance for the proposal is pending from State Level Monitoring Committee
3	15/05/2017	228	Chavasseri, Kannur	-	-	
4	15/05/2017	876	Kolari, Kannur	-	-	
5	15/05/2017	168	Kolari, Kannur	-	-	
	Sub-Total	**2,372**				
	Total	**6,459**				

Appendix 7

Statement showing status of land placed at the disposal of the Corporation by GoK

(Referred to in paragraph 3.1.12)

Sl. No.	Date of GoK Order /Sanction	Land pertaining to – Name of Company/ Society	Status as of December 2017/ Reasons for non-development
1	09/02/2009	Kerala State Detergents and Chemicals Limited (KSDCL)	KSDCL was under winding up stage and GoK placed the land at the disposal of the Corporation with the condition that the Corporation would settle all liabilities of KSDCL. Accordingly, KSDCL handed over (February 2010) possession of land and the Corporation settled their liabilities. Winding up proceeding was closed in March 2016, however, striking off the name of KSDCL from the Register of Companies was pending (December 2017).
2	22/02/2014	Kunnathara Textiles Limited (KTL)	Transfer of asset and liabilities pending as the matter is *sub judice*.
3	24/03/2014	Travancore Rayons Limited (TRL)	TRL was under liquidation and GoK accorded (March 2014) in principle approval to hand over the land and other assets of TRL to the Corporation for setting up an industrial park subject to approval of Honorable High Court of Kerala. GoK accorded (July 2017) sanction for disbursement of ₹70.34 crore for settlement of dues of TRL.
4	20/03/2017	Kerala Ceramics Limited (KCL)	GoK, accorded (March 2017) sanction for transfer of 6.09 acres of land of KCL to the Corporation. Transfer of title, however, was pending (December 2017).

Appendix 8

Statement showing status of KINFRA Parks as on 31 December 2017
(Referred to in Paragraph 3.1.19)

Sl. No.	Name of Park	Allotttable area (acre)	Allotted area (acre)	Balance Allottable area (acre)
1	KINFRA Export Promotion Industrial Park, Ernakulam	53.77	50.33	3.44
2	KINFRA Hi-Tech Park, Kalamassery	199.88	177.51	22.37
3	Special Economic Zone for Electronics, Kalamassery			
4	KINFRA Bio- Technology Park, Kalamassery			
5	KINFRA Integrated Industrial Park, Ottappalam	43.42	1.54	41.88
6	KINFRA Textile Centre , Kannur	94.80	31.01	63.79
7	KINFRA Small Industries Park, Nellad, Mazhuvanoor	50.11	46.75	3.36
8	KINFRA Food Processing Park, Malappuram[1]	58.04	40.36	17.68
9	Special Economic Zone for Food Processing , Malappuram			
10	KINFRA Small Industries Park, Thalassery	38.74	34.83	3.91
11	KINFRA Small Industries Park, Wayanad	38.50	28.88	9.62
12	KINFRA Film and Video Park, Thiruvananthapuram	24.93	21.79	3.14
13	Special Economic Zone for IT, Thiruvannathapuram	14.12	3.25	10.87
14	KINFRA Food Processing Park, Adoor	40.00	25.78	14.22
15	KINFRA Small Industries Park, Adoor			
16	KINFRA Small Industries Park, Kunnamthanam	26.80	14.23	12.57
17	KINFRA Small Industries Park, Kasargod	252.95	249.53	3.42
18	KINFRA International Apparel Park, Thiruvananthapuram	74.60	71.90	2.70
19	KINFRA Small Industries Park, Thiruvananthapuram			
20	KINFRA Small Industries , Koratty	21.94	21.94	0.00
21	KINFRA Integrated Industrial and Textile Park, Palakkad	1034.54	959.55	74.99
22	KINFRA Industrial Park, Piravanthoor	0.00[2]	0.00	0.00
Total		**2,067.14**	**1,779.18**	**287.96**

[1] **Erstwhile KINFRA Techno-Industrial Park, Kakkancheri, Malappuram.**
[2] **Development work in respect of this park on 57 acres of land was in progress.**

Appendix 9

Park-wise position of land remaining idle for more than two years of allotment as on 31 December 2017

(Referred to in paragraph 3.1.20)

Sl. No.	Name of Park	Number of allotees	Land remaining idle (acre)
1	KINFRA Small Industries Park, Thumba	3	0.97
2	KINFRA International Apparel Park, Thumba	4	3.35
3	KINFRA Film and Video Park, Kazhakuttom	7	9.02
4	KINFRA Small Industries Park , Kunnamthanam	4	3.17
5	KINFRA Food Processing Park & KINFRA Small Industries Park, Adoor	2	3.80
6	KINFRA Hi-Tech park, Kalamassery	7	101.77
7	KINFRA Small Industries Park, Nellad	9	12.27
8	KINFRA Integrated Industrial and Textile park, Palakkad	39	31.68
9	KINFRA Techno industrial Park, Kakkanchery	4	4.84
10	KINFRA Small Industries Park, Wayanad	11	19.49
11	KINFRA Small Industries Park, Thalassery	7	1.75
12	KINFRA Textile Centre, Nadukani, Kannur	5	3.66
13	KINFRA Small Industries Park, Kasargod	20	19.89
	Total	**122**	**215.66**

Appendix 10

Statement showing status of utilisation of built-up space in Standard Design Factory as on 31 December 2017

(Referred to in paragraph 3.1.21)

Sl. No.	Name of Park	SDF building/ Built-up space completed in	Area constructed (sq.ft)	Allotable area (sq.ft.)	Percentage of allotable area to constructed area
	(1)	(2)	(3)	(4)	(5) i.e. [(4)/(3)x100]
1	KINFRA International Apparel Park, Thumba	1996-97	330000	320406	97.09
2	KINFRA Techno-Industrial Park, Kakkancheri	2003-04	85000	59883	70.45
3	KINFRA Film and Video Park, Kazhakuttom	2005-06/ 2015-16	180000	135119	75.07
4	KINFRA Small Industries Park, Kunnamthanam	2008-09	13226	10630	80.37
5	KINFRA Small Industries Park, Koratti	2010-11	37853	21673	57.26
6	KINFRA Textile Centre, Nadukani	2010-11	143891	133891	93.05
7	KINFRA Rural Apparel Park, Rajakumari	2011-12	60261	48229	80.03
8	KINFRA Integrated Industrial and Textile park, Palakkad	2012-13	146653	126891	86.52
9	Piravanthur	2012-13	64398	33245	51.62
10	KINFRA Small Industries Park, Nellad	2015-16	125000	78000	62.40
11	KINFRA Integrated Industrial Park, Ottappalam	2015-16	106636	106636	100.00
12	KINFRA Small Industries Park, Thalassery	2016-17	55916	30096	53.82
Total			**13,48,834**	**11,04,699**	**81.90**

Appendix 11
Statement showing status of projects under ASIDE as on 31 December 2017
(Referred to in paragraph 3.1.26)

Sl. No.	Project	Objective	Year of SLEPC Sanction	Amount released (₹ crore)	Audit observation
1	Inland Container Depot at Kottayam.	Setting up of Inland Container Depot (ICD) for providing infrastructure facilities for movement of customs cleared stuffed export cargo containers by Kottayam Port and Container Terminal Services Private Limited (KPACT)	2005-06 and 2011-12	8.20	KPACT availed capital assistance of ₹1.88 crore as 49 *per cent* equity and ₹5.52 crore as loan during 2005-06 under ASIDE. SLEPC sanctioned (March 2012) ₹80 lakh for installation of weigh-bridge and extension of existing berth at ICD. Audit observed that even after a total assistance of ₹8.20 crore under ASIDE, the infrastructure created to promote exports remained underutilised. KPACT, though agreed (January 2006) to mobilise additional funds for the project, did not to do so. Additional funds, however, were released (2012-13) under ASIDE without verifying the performance of KPACT. GoK stated (February 2018) that the reluctance of KPACT to induct more funds was due to non-achievement of the targeted benefits. As a Joint Venture (JV) partner, the Corporation would take efforts to make KPACT viable by involving in marketing operations. The fact remains that the intended objective of export promotion by providing necessary infrastructure was not achieved.
2	Rubber Park, Piravanthur	To provide infrastructure for rubber based industries by the Corporation through JV with Rubber Board.	2012-13	5.50	The Corporation released ₹5.50 crore to JV in December 2012 as against the sanction of ₹16.70 crore. Clearance of MoEF was awaited for the project.
3	Trade and Convention Centre, Kochi	To provide common ground for industrial exhibitions, conferences, conventions *etc.* The Corporation was to implement the project through JV with India Trade Promotion Organisation (ITPO), Ministry of Commerce, GoI.	2013-14 and 2014-15	28.48	Finalisation of project cost and formation of JV with ITPO are pending. Clearance for the proposal submitted by ITPO to Ministry of Commerce, GoI was also awaited.
4	Upgradation of export cargo handling infrastructure by Kerala State Industrial Enterprises Limited (KSIE)	Augment export facilitation infrastructure at the air cargo complexes at Thiruvananthapuram and Kozhikode	2012-13	4.00	KSIE utilised ₹2.64 crore out of ₹4.00 crore released against the sanctioned amount ₹6.17 crore. Balance amount was lying with KSIE unutilised. GoK replied (February 2018) that the Corporation would take steps to get utilisation certificate from KSIE.
	Total			**46.18**	

Appendix 12

Statement showing instances of L1 bidders replaced by other bidders in Thiruvananthapuram depot after conducting negotiations
(Referred to in Paragraph 4.2.4)

Quantity in quintals

Sl. No.	Tender No	Item	Quantity	Name of L1 bidder before negotiation	Rate (₹)	Name of the supplier after negotiation	Rate (₹)
1	P10-4723-16	Jaya rice	2000	Khadeeja agencies	2518	Hafsar trading co.	2517
2	P10-6801-16	Matta rice	300	Marimatha modern rice mill	2195	S and S Agro Product	2190
3	P10-1594-16	Jaya rice	4000	Khadeeja agencies	2489	Hafsar trading co.	2483
4	P10-4723-16	Matta rice	700	Thekkekara rice mill	2179	Hafsar trading co.	2169
5	P10-18104-14	Sugar	3000	Bannari amman sugars limited	3298	Dharani sugars and chemicals limited	3287
6	P10-1982-17	Chillies	200	Karthika trading co	6650	Samyumayaltraders	6636
7	P10-31511-14	Sugar	2000	Dharani sugars and chemicals limited	3169	Bannari amman sugars limited	3150
8	P10-31483-15	Jaya rice	910	Navin trading co.	2466	Hafsar trading co.	2446
9	P10-14148-15	Jaya rice	6000	Kripa traders	2575	Hafsar trading co.	2540
10	P10-13501-14	Jaya rice	1465	Al ameen traders	3080	Hafsar trading co.	3040
11	P10-15265-16	Matta rice	950	Hafsar trading co.	2650	Bharath traders	2610
12	P10-9309-16	Matta rice	300	Khadeeja agencies and S and S agro product	2430	Marimatha Modern Rice Mill	2380
13	P10-5810-17	Matta rice	1200	Hafsar trading co. and Arunnachala impex Pvt.Ltd	3497.85	Keerthi agro mills	3442
14	P10-19952-14	Toor dhal	200	Ashik traders	6471	Samyumayal traders	6411
15	P10-26230-16	Jaya rice	1000	Hafsar trading co.	3150	Bharath traders	3085
16	P10-1982-17	Green gram	400	Shree vardhaman industries	5825	Samyumayaltraders	5726
17	P10-4723-16	Sugar	1500	Madras Sugars Ltd.	3530	Bharath traders	3429
18	P10-1594-16	Green gram	500	Bharath traders	7990	MP traders	7866
19	P10-26476-14	Chillies	100	Sampoorna traders	7832	Samyumayal traders	7686
20	P10-1982-17	Toor dhal	300	V traders	6270	Samyumayaltraders	6116
21	P10-35267-14	Toor dhal	200	Sampoorna traders	7249	Global trade corporation	7050
22	P10-31446-16	Chillies	400	Sampoorna traders	8749	Samyumayal traders	8539
23	P10-29081-16	Toor dhal	300	C Nagarathinam and sons and Ashik traders	8332.9	Sri Vigneswara Traders	7999
24	P10-31446-16	Toor dhal	400	C Nagarathinam and sons	6595	Samyumayal traders	6233

Appendix 13
Statement showing details of Purchase Orders bagged by suppliers who were not L1 in any of the depots through negotiations
(Referred to in Paragraph 4.2.4)

Sl. No.	PO No.	Tender No.	Commodity	Name of the supplier	PO value (₹ *in lakh*)
1	15960	P10-31511-14	Sugar	Bannari amman sugars Ltd.	1,020.31
2	15965			Ponni sugars Erode limited	56.65
3	15972	P10-31511-14	Kuruva rice	Abdul latheef co	95.83
4	17267	P10-19559-15	Chillies	Navin trading company	89.64
5	17488	P10-25784-15		Velu traders	158.79
6	18141	P10-1594-16		M P traders	50.93
7	19789	P10-1982-17	Green gram	Paresh trading co	40.13
8	19782			Risvan traders	11.61
9	19791			Sreeji enterprises	2.86
10	19786			Sreenivasan trading company	28.33
11	19788			Velu traders	7.01
12	19806	P10-1982-17	Toor dhal	BTC industries	21.10
13	19815			Jeet corporation	9.53
14	19808			Minnu enterprises	8.14
15	19809			RS associates	12.27
16	19811			Samyumayal traders	107.05
17	19817	P10-1982-17	Chillies	BTC industries	54.12
18	19818			Falcon agro foods	71.58
19	19822			Sreenivasan trading company	18.60
20	18651	P10-12060-16	Blackgram whole washed	Kripa traders	132.20
21	19094	P10-19147-16	Toor dhal	C Nagarathinam and sons	173.35
Total					**2,170.03**

Appendix 14

Statement showing list of 47 services available through e-District portal as of August 2017

(Referred to in Paragraph 4.3.14, 4.3.15 and 4.3.17)

Certificate Services

Revenue Department	
1	Possession Certificate
2	Income Certificate
3	Caste Certificate
4	Nativity Certificate
5	One and the Same Certificate
6	Location Certificate
7	Community certificate
8	Residence Certificate
9	Relationship Certificate
10	Family Membership Certificate
11	Non-Remarriage Certificate
12	Possession and Non-Attachment Certificate
13	Domicile Certificate
14	Life Certificate
15	Identification Certificate
16	Valuation Certificate
17	Legal Heir Certificate
18	Widow-Widower Certificate
19	Dependency Certificate
20	Destitute Certificate
21	Solvency Certificate
22	Inter-Caste Marriage Certificate
23	Conversion Certificate
24	Minority Certificate

Other services

Right to Information Services	
1	Normal Applications
2	Appeal Applications
Public Grievance Services	
3	Grievance applications
Payment Services	
Utility Payment Services	
4	Water bills
5	Electricity bills
6	Land phone bills
7	Mobile phone bills
8	Wireless connection bills
Calicut University Services	
9	Exam Remittances
10	General Remittances
Welfare Board Fee Payments	
11	Labor welfare board fees
12	Cultural welfare board fees
Police Department Payments	
13	e-Challans
Revenue Court Cases	
14	Criminal Miscellaneous Petitions (CrPC 133)
15	Petitions under Maintenance and Welfare of Senior Citizens Act
16	Petitions under Wetland Conservation Act
17	Appeal under Land Conservancy Act
Forest Department Services	
18	Compensation for death due to wild life attack
19	Compensation for injury due to wild life attack
20	Compensation for crop damage due to wild life attack
21	Compensation for cattle loss due to wild life attack
22	Compensation for property damage due to wild life attack
23	Compensation for house damage due to wild life attack

Appendix 15

Statement showing list of service proposed to be made available through SSDG

(Referred to in Paragraph 4.3.21)

Sl. No.	Department/ Agency	Name of the services
1	General Education	Change of Name on SSLC Certificate
2		Change of DOB on SSLC Certificate
3		Issue of Duplicate SSLC Certificate
4		Other Changes on SSLC Certificate
5	Registration	Issue of Marriage Certificate
6		Issue of Encumbrance Certificate
7		Certified copy of Registered Documents
8	Municipal Administration (Local Self-Government Urban)	Pension for Destitute
9		Pension for Farmers
10		Pension for Physically handicapped
11		Pension for old aged
12		Issue of Birth Certificate
13		Issue of Death Certificate
14		Application for Building Plan
15		Assessment of property tax
16		Application for Marriage Certificate
17		Pension for Unmarried women above 50 years of age
18		Pension for widow
19	Gram Panchayat	Issue of Birth Certificate
20		Issue of Death Certificate
21		Issue of Marriage Certificate
22		Pension for Agriculture Labour
23		Pension for old aged
24		Pension for widow
25		Pension for Physically handicapped
26		Application for Building Plan
27		Assessment of property tax
28		Pension for Unmarried women above 50 years of age
29	Employment	Registration with Employment Exchange (New & Renewal)
30		Employer Market Information (Returns- I)
31		Employer Market Information (Returns- II)
32	Kerala Lokayukta	Online submission of statements of property of public servants
33	Transport Department (Motor Vehicles)	Application for Learner‘s License
34		Application for Driving License
35		Renewal of Driving License
36		Application for Duplicate License
37		Change of Address in License
38		Upgrading the License
39		Issue of Form 'G' for Non usage vehicle to claim Tax Exemption

Sl. No.	Department/ Agency	Name of the services
40	Transport Department (Motor Vehicles)	Issue of NOC
41		Registration of Vehicles
42		Permit Renewal
43		Issue of Fitness Certificate
44	Kerala Water Authority	New water Connection for Domestic
45	Kerala State Electricity Board	New Electricity Connection for LT
46	Vocational Higher Secondary Education	Issue of Migration Certificate
47		Issue of duplicate Certificate
48		Issue of equivalency certificate
49	Rural Development	NREGA-Application for Registration
50		Application for Job Card
51		IAY Application
52		Application form SGSY
53	Fisheries	Vessel Registration
54		Vessel Licenses
55	Department of Ports	Issue of Competency Certificate
56	Other common services	Public grievance re-dressal
57		Information under RTI

Appendix 16

Statement showing the requirements/issues raised by Department unattended by the service provider
(Referred to in Paragraph 4.3.24)

Sl. No.	Requirement/issue raised by departments	Remarks
1	Note file numbering pattern should be made as per Secretariat Office Manual (Tapal number should be made as file number)	Rejected
2	Provision to create file from the receipt	Pending
3	Hyper linking and paragraph numbering	Rejected
4	Show number of new receipts and Tapals	Pending
5	Merging of original and part file	Rejected
6	Facility to transfer ownership of files	Pending
7	Alert to users on unread files and receipts	Pending
8	Automated generation of the following reports a) Digital Personal Register b) RTI Register c) Court Cases d) LA Interpellations e) Monthly Business Statement	Pending
9	When downloading a file completely as PDF, files under local reference or note attachment are not coming	Pending
10	Approved draft is sent from a default email id ‘eoffice@nic.in’ making it impossible for the receiver to identify the sender	Pending