REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

on

PUBLIC SECTOR UNDERTAKINGS

for the year ended 31 March 2016

Government of Kerala

Report No. 4 of the year 2017

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Preface

This Report deals with the results of audit of Government companies, Departmental Undertakings and Statutory Corporations for the year ended 31 March 2016 and has been prepared for submission to the Government of Kerala under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time.

2. The accounts of 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.

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

4. The instances mentioned in this report are those, which came to notice in the course of audit during the year 2015-16 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 2015-16 have also been included, wherever felt necessary.

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

Overview

OVERVIEW

1. Overview 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, while keeping in view the welfare of the people. 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 2016, the State of Kerala had 113 working PSUs (109 companies and 4 Statutory corporations) and 15 non-working PSUs (including four under liquidation), which employed 1.27 lakh employees. The working PSUs registered a turnover of ₹19,878.35 crore as per their latest finalised accounts. This turnover was equal to 3.40 *per cent* of Gross State Domestic Product indicating the important role played by State PSUs in the economy. The working PSUs had accumulated loss of ₹3,136.82 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2016, the total investment (capital and long term loans) in 128 PSUs was ₹19,786.89 crore.

Arrears in accounts

96 working PSUs had arrears of 252 accounts as of 30 September 2016. The extent of arrears was 1 to 20 years.

Performance of PSUs

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 50 PSUs earned profit of ₹395.55 crore, 56 PSUs incurred loss of ₹1,019.33 crore and three working PSUs had no profit or loss. Four working PSUs have not yet (September 2016) finalised 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 (₹70.72 crore in 2014-15) and Kerala State Industrial Development Corporation Limited (₹21.32 crore in 2014-15).The major PSUs which incurred loss are Kerala State Road Transport Corporation (₹583.90 crore in 2013-14), The Kerala State Civil Supplies Corporation Limited (₹89.11 crore in 2013-14) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13).

Quality of accounts

During the year, out of 99 accounts of companies finalised, the Statutory Auditors had given unqualified certificates for 21 accounts, qualified certificates for 71 accounts, disclaimer certificate for one account and adverse certificates (which mean that accounts do not reflect a true and fair *view*) for six accounts. Additionally, CAG gave comments on 44 accounts during the supplementary audit and one account was revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor as there were 130 instances of non-compliance of AS in 53 accounts of 41 companies during the year.

2 Performance Audits relating to Government companies

The report includes observations emanating from the Performance Audits on:

2.1 Promotion and Development of Micro, Small and Medium Enterprises in Kerala

Introduction

In Kerala, there were 2.57 lakh registered Micro, Small and Medium Enterprises (MSMEs) as of September 2015, with total investment of ₹17,986.46 crore and during 2014-15, MSMEs produced goods and services worth ₹7,119.75 crore, which accounted for 1.37 *per cent* of the Gross State Domestic Product. The total employment generated up to September 2015 was 13.19 lakh.

Implementation of policies and plans by Government of Kerala (GoK)

Measures outlined in the Industrial Policy, 2007 though not implemented were not included in the amended Policy (2015). Average utilisation of amounts allocated in the budgets of Directorate of Industries and Commerce (DI&C) for MSME development programmes was 70.43 *per cent*. Rehabilitation package as recommended by Government of India (GoI) was not implemented.

Promotion and Development programmes

Financial support

Kerala Financial Corporation and Kerala State Industrial Development Corporation Limited (KSIDC) could provide finance to a very low number of MSMEs only. Rate of interest charged by Kerala Financial Corporation on loans to MSME sector was high when compared to other State Financial Corporations and commercial banks. Schemes for providing financial support to MSMEs such as Interest Subvention Scheme, Receivable Finance Scheme and Kerala State Entrepreneur Development Mission could not be implemented successfully. Only 6.48 *per cent* of new MSMEs availed of the Entrepreneur Support Scheme (ESS) of the DI&C due to exclusion of service sector and complex documentation required. There were irregularities in the implementation of the ESS as well.

Infrastructure Development

Delay in completion of multi-storeyed industrial estates deprived MSMEs of much needed infrastructure. Progress achieved in establishing Common Facility Centres under Micro and Small Enterprises-Cluster Development Programme was negligible. Parks established by Kerala Industrial Infrastructure Development Corporation (KINFRA) remained unutilised. Actual utilisation of developed land in the Industrial Growth Centres established by KSIDC was only 41.25 *per cent*. Scheme for modernisation of infrastructure in Development Areas/ Development Plots under DI&C with assistance of GoI remained unimplemented. The quality of infrastructure provided in the industrial estates/ parks under Kerala Small Industries Development Corporation Limited was not satisfactory.

Facilitation Services

The Single Window Clearance scheme instituted for ensuring speedy issue of clearances required for establishing industrial units was not effective.

Marketing Support

Statutory provision regarding purchase of 20 *per cent* of requirement of goods/ services from MSMEs was not being complied with by the State PSUs/ Departments/ Government agencies, etc. Effectiveness of the expenditure incurred out of Government funds for conducting/participating in fairs/exhibitions for marketing MSME products was not assessed.

Findings of beneficiary survey

Majority of MSMEs who participated in a beneficiary survey conducted by Audit reported that they were not aided by the Single Window mechanism for obtaining necessary clearances. They also responded that they were not provided technical assistance such as assistance in preparing project reports, training in skill development/entrepreneurship, help in tiding over financial crisis, quality raw material or marketing assistance. The quality of infrastructure, especially roads and security in Industrial Parks/Estates, etc., was also reported to be inadequate.

2.2 Procurement and marketing of vegetables and fruits in the State by Kerala State Horticultural Products Development Corporation Limited

Introduction

Kerala State Horticultural Products Development Corporation Limited (Company) was incorporated in March 1989 as a fully owned State Government company with the main objective to organise vegetable, fruit and flower growers and to provide them with all supplies and services to augment their income base by increased productivity and value addition through an integrated system of production, procurement, grading, storage, processing, marketing and exporting of horticultural products.

Procurement activities

During 2011-12 to 2015-16, the Company procured vegetables and fruits ranging between 4,000 metric tonne (MT) and 18,000 MT from within the State. This accounted for around two *per cent* of the total vegetables produced in Kerala during 2011-12 to 2015-16.

Instead of procuring directly from farmers, world markets under the control of Department of Agriculture, etc., as envisaged, the Company made 75.47 *per cent* purchases valuing ₹53.74 crore from traders/ middlemen during 2014-15 to 2015-16. Selection of traders was not through transparent process. Though the Company had empanelled nine suppliers, purchases amounting to ₹30.86 crore and ₹22.88 crore in 2014-15 and 2015-16 respectively were made from the non-empanelled suppliers in the five District Procurement Centres selected by Audit.

Non-procurement of vegetables from three districts

The Company did not have centres for procurement of vegetables in Malappuram, Wayanad and Kasargod districts. As a result, vegetables produced by farmers in these three districts were not procured by the Company. During the period from 2012-13 to 2014-15, these districts had produced 3.11 lakh MT of vegetables which accounted for 18.23 *per cent* of the total vegetable production in the State.

Remunerative prices to farmers

Farmers did not receive remunerative prices for their produce. There was undue delay in settlement of farmers' bills.

Quality of vegetables and fruits

Even though a major chunk of the procurement of vegetables and fruits was from the neighbouring States, the Company failed to ensure quality of vegetables purchased.

The lab test conducted by the Food Safety Commissioner of GoK on the samples selected from the Company revealed that some of the vegetables supplied by the Company were unsafe to eat. Quality checking conducted at the instance of Audit also revealed presence of pesticide residues in vegetables beyond permissible limits.

Absence of consistent marketing policy

The Company did not have a consistent procurement/ marketing policy. The purchase and selling prices were fixed arbitrarily.

Subsidy sale during festive seasons

The Company did not comply with the directions of the Government of Kerala (GoK) with regard to the fixation of selling price during subsidy period and made incorrect subsidy claim with the GoK.

Regional imbalances in sales outlets

Sales outlets of the Company were established without considering the regional balances and 79 *per cent* of the sales outlets were in seven districts in southern part of the State, thereby majority of the people were deprived of the benefits of low or subsidised price offered by the Company.

2.3 Information System Audit of HT and EHT Billing and Accounting software used by Kerala State Electricity Board Limited

Introduction

Kerala State Electricity Board Limited (Company), incorporated in January 2011, is engaged in generation, transmission and distribution of electricity in Kerala. The electricity consumers of the Company are divided into Low Tension (LT), High Tension (HT) and Extra High Tension (EHT) categories.

HT/EHT Billing Process

The electricity consumption of HT/EHT consumers was assessed for billing by the Assistant Engineers at Electrical Section offices through meter reading. Meter reading data along with other details were thereafter sent to Special Officer-Revenue (SOR) at the Corporate Office. The authorised staff at SOR uploaded the data into the billing software and bills were generated.

Software development and implementation

Tata Consultancy Services Limited (TCS) was awarded the work of providing and implementing HT/EHT billing system and web enabled services (Phase 1) and providing and implementing Automated Meter Reading System for HT/EHT consumers (Phase 2).

We observed delay in framing of System Requirement Specification, incomplete development of software, lack of planning in implementation and non-implementation of Automated Meter Reading System.

Mapping of business rules

All business processes relating to billing, collection and accounting of HT/EHT consumption had to be mapped correctly in the application software. Further, the business processes mapped in the software had to be compliant with the applicable laws, rules and regulations with all the necessary controls to ensure that the amount billed and collected conformed to the prescribed rules and regulations.

We observed that relevant business rules had not been fully and correctly mapped into the application, which had an impact on the revenue realisation.

General IT controls

General controls are concerned with the organisation's IT infrastructure, IT related policies and working practices. We observed issues in Data migration, password policy, etc.

Application controls

Application controls include input control and validation control. Application controls are used in a computer system to provide assurance that all transactions are valid, authorised and complete. We noticed lack of proper input controls and validation controls.

Generation of reports

The application software must be capable of generation of quality reports on various data coming under its purview. Further, the application should be designed to generate reports on regular basis as and when required by the stakeholders.

We noticed that incorrect and incomplete data were stored and processed in the billing software and consequently inaccurate and unreliable reports were generated.

3. 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 ₹31.08 crore due to non-compliance with rules, directives, procedures, terms and conditions of Acts/ contracts.

(Paragraphs 3.2, 3.3, 3.4, 3.5, and 3.6)

- Loss/ extra expenditure of ₹438.21 crore due to non-safeguarding the financial interests of the organisation.

(Paragraphs 3.1, 3.7 and 3.11)

- Idling/ Blocking up of fund of ₹11.15 crore.

(Paragraphs 3.8, 3.9 and 3.10)

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

➢ For the Implementation of Vizhinjam International Deepwater Multipurpose Seaport Project, the technical and financial estimates prepared by external consultants were not scrutinised with due diligence resulting in inflation of cost estimates. The interests of the GoK were not protected adequately while drawing up the Concession Agreement because there were many conditions which were not favourable to the State.

(Paragraph 3.1)

➢ Kerala Electronics Development Corporation Limited (KELTRON) and Kerala Small Industries Development Corporation Limited (SIDCO) awarded work orders to their business partners on nomination basis and through tendering tailor-made to suit their business partners. Thus, a few firms viz., Mediatronix, RP Tech, Net–X Technologies and SIPL managed to obtain major orders of GoK through KELTRON and SIDCO without complying with provisions of Kerala Financial Code (KFC), Stores Purchase Manual (SPM) and Central Vigilance Commission (CVC) guidelines. Besides, due to involvement of PSUs in the execution of works of GoK through private parties, GoK had to incur extra expenditure. In execution of civil works also, there was non-compliance with provisions of KFC, SPM and CVC guidelines.

(Paragraph 3.2)

- System of realisation of cheques against monthly subscription of chitty in Kerala State Financial Enterprises Limited was marred by undue delays and possible collusion between officials and subscribers leading to payment of ineligible auction discount besides ineligible subscribers being allowed to participate in auction for prize money. Cheques issued against chitty instalments were dishonoured, but no action was initiated against such dishonour of cheques.

(*Paragraph 3.6)*

Chapter I

Functioning of State Public Sector Undertakings

CHAPTER I

1 Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and statutory corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2016, there were 128 PSUs in Kerala. No company was listed on the stock exchanges as on 31 March 2016. One PSU[1] commenced business in the year 2015-16 and one company[2] became a Government Company in the year 2013-14. The details of the State PSUs in Kerala as on 31 March 2016 are given in *Table 1.1*:

Table 1.1: Total number of PSUs as on 31 March 2016

Type of PSUs	Working	Non-working	Total
Government company	109	15	124
Statutory corporation	4	0	4
Total	**113**	**15**	**128**

The working PSUs registered a turnover of ₹19,878.35 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 3.40 *per cent* of Gross State Domestic Product (GSDP) for 2015-16. The working PSUs incurred aggregate loss of ₹623.78 crore as per their latest finalised accounts. They had employed 1.27 lakh employees as at the end of March 2016.

As of 31 March 2016, there were 15 non-working PSUs having investment of ₹111.65 crore. They were non-functioning for the last 10 to 32 years. This is 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 (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 (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

[1] Trivandrum Engineering Science and Technology Research Park.
[2] Kerala Aqua Ventures International Limited.

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 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 commence 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 {as defined in Section 2 (45) of the Act} 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 2016, the investment (capital and long-term loans) in 128 PSUs was ₹19786.89 crore as per details given in *Table 1.2*:

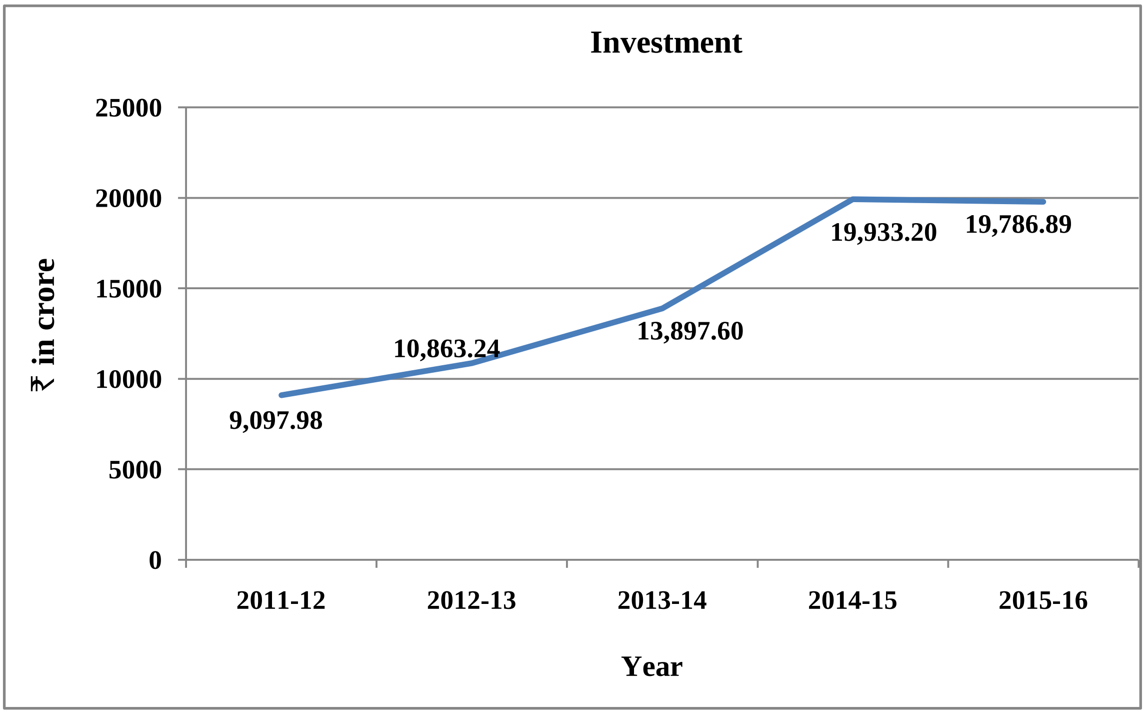
Table 1.2: Total investment in PSUs

(₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	7,644.86	5,886.89	13,531.75	989.64	5,153.85	6,143.49	19,675.24
Non-working PSUs	44.87	66.78	111.65	0.00	0.00	0.00	111.65
Total	**7,689.73**	**5,953.67**	**13,643.40**	**989.64**	**5,153.85**	**6,143.49**	**19,786.89**

As on 31 March 2016, of the total investment in State PSUs, 99.44 *per cent* was in working PSUs and the remaining 0.56 *per cent* in non-working PSUs. This total investment consisted of 43.86 *per cent* towards capital and 56.14 *per cent* in long term loans. The investment has grown by 117.49 *per cent* from ₹9,097.98 crore in 2011-12 to ₹19,786.89 crore in 2015-16 as shown in *Chart 1.1*.

Chart 1.1: Total investment in PSUs



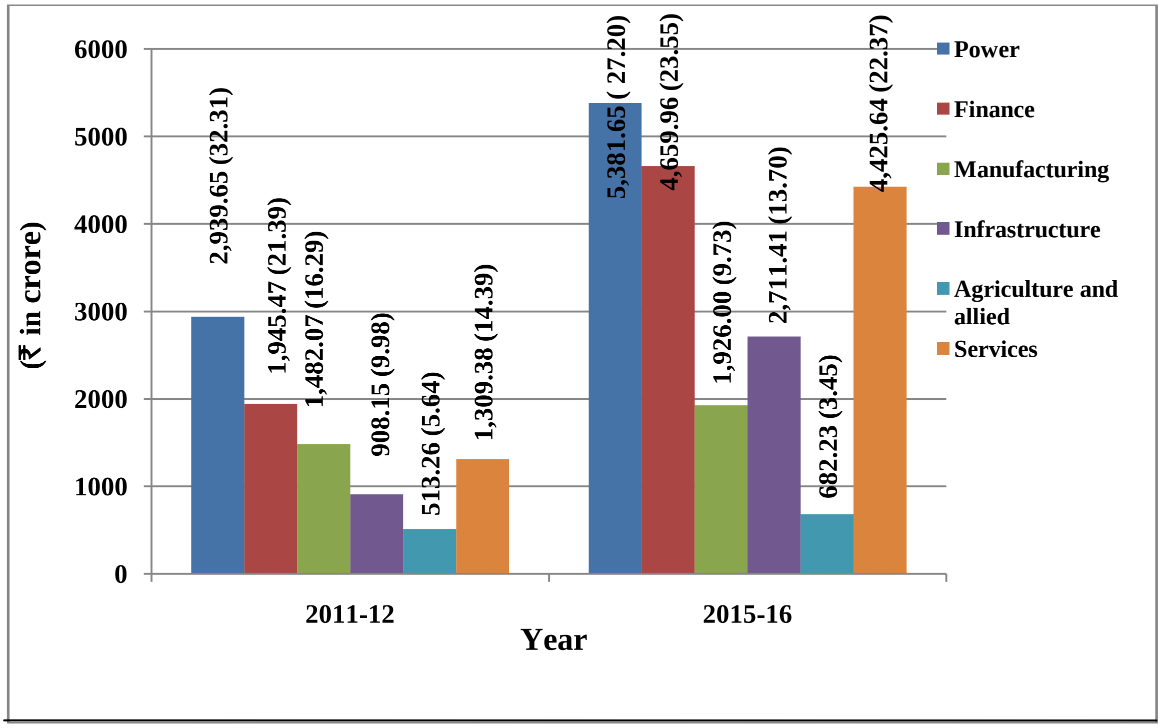
1.7 The sector wise summary of investments in the State PSUs as on 31 March 2016 is given in *Table 1.3*:

Table 1.3: Sector-wise investment in PSUs

Name of sector	Government companies	Statutory corporations	Total	Investment (₹ in crore)
	(Number)			
Power	3	…	3	5,381.65
Finance	18	1	19	4,659.96
Manufacturing:				
Working	35	…	35	1,814.35
Non-working	15	…	15	111.65
Infrastructure	16	1	17	2,711.41
Agriculture and allied	17	1	18	682.23
Services	20	1	21	4,425.64
Total	**124**	**4**	**128**	**19,786.89**

The investment in various sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 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 ₹2,939.65 crore in 2011-12 to ₹5,381.65 crore in 2015-16, thus, registering an increase of 83.07 *per cent*. Investment in service sector also increased substantially from ₹1,309.38 crore in 2011-12 to ₹4,425.64 crore in 2015-16 with an increase of 238 *per cent*.

Financial support and returns during the year

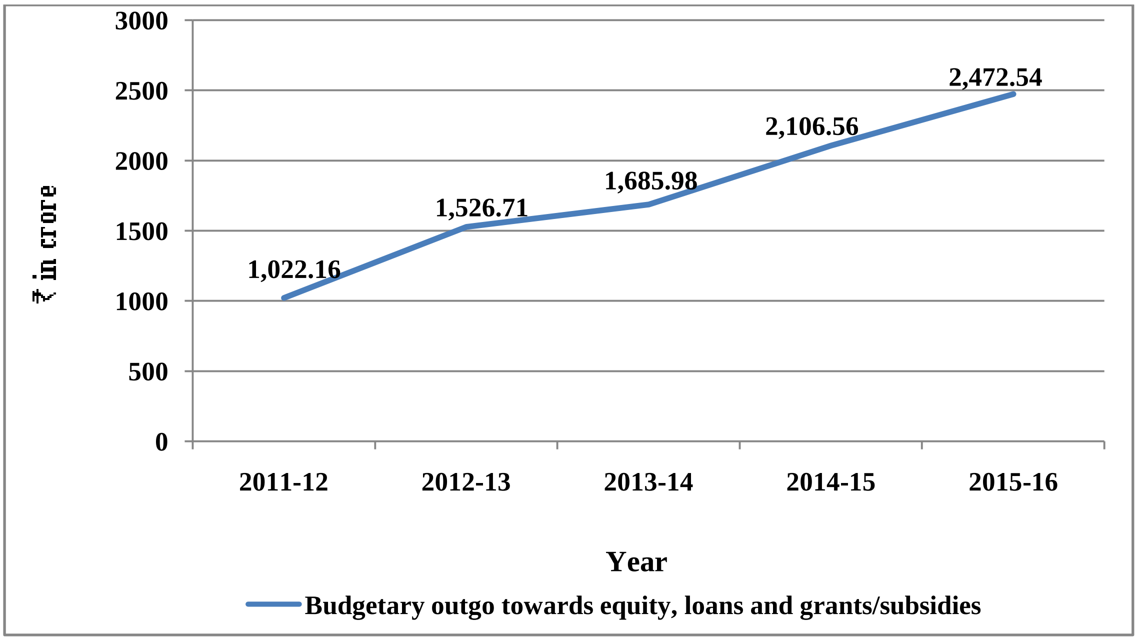
1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs for three years ended 2015-16 are given in *Table 1.4*:

Table 1.4: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1	Equity Capital outgo from budget	24	456.36	23	357.84	19	305.93
2	Loans given from budget	18	658.86	18	354.92	19	358.19
3	Grants/Subsidy given	28	570.76	32	1,393.80	25	1,808.42
4	**Total outgo (1+2+3)**		**1,685.98**		**2,106.56**		**2,472.54**
5	Waiver of loans and interest	2	2.24	1	23.98	1	5.07
6	Guarantees issued	10	3,466.64	7	4,696.34	9	4,989.66
7	Guarantee commitment	13	4,669.98	14	5,579.21	17	6,484.74

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 ₹1,022.16 crore in 2011-12 to ₹2,472.54 crore in 2015-16. During 2015-16, GoK waived loans and interest/penal interest of ₹5.07 crore due from one PSU[3] as against ₹23.98 crore waived during the previous year.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under the Kerala Ceiling on

[3] **Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited.**

Government Guarantee Act, 2003 subject to the limits prescribed by the Constitution of India, for which the 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 ₹6,484.74 crore during 2015-16 from ₹5,579.21 crore in 2014-15. Further, 16 PSUs paid guarantee commission to the tune of ₹63.28 crore during 2015-16. There were 13 PSUs which did not pay guarantee commission during 2015-16. The accumulated/ outstanding guarantee commission was ₹36.85 crore as on 31 March 2016. The PSUs which had major arrears were Kerala State Electricity Board Limited (₹13.60 crore), Kerala Transport Development Finance Corporation Limited (₹11.52 crore), Kerala State Electronics Development Corporation Limited (₹5.36 crore) and Kerala State Road Transport Corporation (₹3.20 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 differences. The position in this regard as at 31 March 2016 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)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	4,379.98	7,866.08	3,486.10
Loans	6,346.74	2,251.41	4,095.33
Guarantees	6,630.80	6,484.74	146.06

Audit observed that the differences occurred in respect of 99 out of 128 PSUs. The Principal Accountant General, Economic & Revenue Sector Audit-Kerala (PAG) had taken 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 in a time-bound manner. The progress in reconciliation was, however, not impressive. 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) of 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 of 30 September 2016:

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

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Number of working PSUs	99	101	109	111	113
2	Number of accounts finalised during the year	97	118	101	95	103
3	Number of accounts in arrears	207	194	198	239	252[4]
4	Number of working PSUs with arrears in accounts	77	75	83	94	96
5	Extent of arrears (in years)	1 to 14	1 to 12	1 to 11	1 to 19	1 to 20

It can be observed that the number of accounts in arrears has increased from 207 in 2011-12 to 252 in 2015-16. The number of arrears of accounts includes 246 accounts of 93 Government companies and six accounts of three[5] 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 stipulated period. Though the Administrative Departments concerned were informed regularly (twice a year), the number of accounts in arrears is still on higher side. In addition, this issue was also discussed in the Apex Committee meeting convened by the Chief Secretary and in the Audit Monitoring Committee meetings conducted by the Heads of Administrative Departments. However, no improvement has been noticed.

1.11 The State Government had invested ₹4,626.33 crore in 54 PSUs {Equity: ₹547.09 crore (23 PSUs), loans: ₹724.40 crore (20 PSUs) and grants ₹3,354.84 crore (31 PSUs)} during the years for which accounts have not been 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 have been 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 2016, there were arrears in finalisation of accounts by non-working PSUs. Out of 15 non-working PSUs, four PSUs[6] were in the process of liquidation whose 20 accounts[7] were

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[4] Including the accounts in arrears of new PSUs.

[5] Kerala State Warehousing Corporation Limited (2013-14 to 2015-16), Kerala State Road Transport Corporation (2014-15 to 2015-16) and Kerala Industrial Infrastructure Development Corporation (2015-16).

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

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 2015-16	149

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 3[8] out of 15 non-working PSUs finalised their accounts during 2015-16.

Placement of Separate Audit Reports

1.13 The position depicted in *Table 1.8* shows the status of placement of Separate Audit Reports (SARs) issued by CAG (up to 30 September 2016) on the accounts of Statutory corporations in the Legislature.

Table 1.8: Status of placement of SARs in Legislature

Sl. No.	Name of Statutory corporation	Years up to which SARs placed in Legislature
1	Kerala State Road Transport Corporation	2011-12
2	Kerala Financial Corporation	2014-15
3	Kerala State Warehousing Corporation	2011-12
4	Kerala Industrial Infrastructure Development Corporation	2013-14

Impact of non-finalisation of accounts

1.14 As pointed out above (*Paragraphs 1.10 to 1.12*), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statues. In view of the above state of arrears of accounts, the actual contribution of PSUs to the GSDP for the year 2015-16 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 cell to oversee the clearance of arrears and set the targets for individual companies, which would be monitored by the cell.

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[7] **Excluding accounts of Kunnathara Textiles Limited and Vanjinad Leathers Limited (data regarding their finalisation of accounts were not available).**

[8] **Kerala State Detergents and Chemicals Limited (2014-15), Kerala Special Refractories Limited (2014-15) and Kerala State Wood Industries Limited (2002-03 to 2011-12).**

- 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 2015-16:

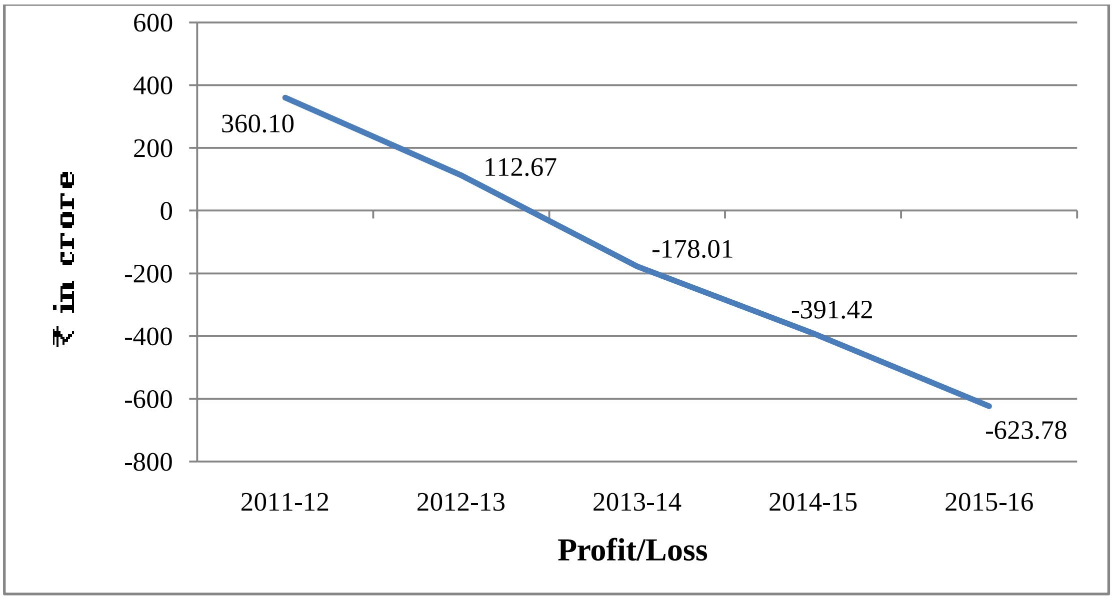
Table 1.9: Details of working PSUs' turnover *vis-a-vis* GSDP

(₹in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover[9]	16,171.3	18,486.2	17,586.9	19,194.06	19,878.35
GSDP[10]	3,64,048	4,12,313	4,62,916	5,19,896	5,85,467
Percentage of Turnover to GSDP	4.44	4.48	3.80	3.69	3.40

1.16 Overall profit earned or loss incurred by State working PSUs as per the latest accounts forwarded during 2011-12 to 2015-16 are given in *Chart 1.4*.

Chart 1.4: Profit/ Loss of working PSUs



[9] Turnover as per the latest finalised accounts as of 30 September of every year.
[10] Change in figures with respect to previous Reports is due to adoption of revised GSDP with 2011-12 as base year. In the previous Reports, GSDP with 2004-05 as base year was adopted.

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 50 PSUs earned profit of ₹395.55 crore, 56 PSUs incurred loss of ₹1,019.33 crore and three working PSUs had no profit or loss. Four working PSUs have not yet (September 2016) finalised 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 (₹70.72 crore in 2014-15) and Kerala State Industrial Development Corporation Limited (₹21.32 crore in 2014-15).The major PSUs which incurred loss are Kerala State Road Transport Corporation (₹583.90 crore in 2013-14), The Kerala State Civil Supplies Corporation Limited (₹89.11 crore in 2013-14) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13).

1.17 Some other key parameters of PSUs are given below:

Table 1.10: Key Parameters of State working PSUs

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (*per cent*)	6.75	5.87	4.10	5.28	5.65
Debt (₹ in crore)	4,306.05	5,620.44	8,391.62	8,912.96	10,344.42
Turnover (₹ in crore)	16,171.31	18,486.21	17,586.85	19,194.06	19,878.35
Debt/Turnover Ratio	0.27:1	0.30:1	0.48:1	0.46:1	0.52:1
Interest Payments (₹ in crore)	985.89	1,185.61	1,039.87	1,508.11	1,558.16
Accumulated profit/loss(-) (₹in crore)	214.30	289.81	(-) 284.62	(-) 198.94	(-) 3,136.82[11]

1.18 GoK had formulated (December 1998) a Dividend Policy under which all PSUs are required to pay a minimum return of twenty *per cent* on the paid up share capital contributed by it. As per the latest finalised accounts, 50 working PSUs earned an aggregate profit of ₹395.55 crore. Out of these, 16 PSUs declared an aggregate dividend of ₹23.89 crore. Only four[12] PSUs, however, complied with the State Government Policy on dividend payment.

Winding up of non-working PSUs

1.19 There were 15 non-working PSUs as on 31 March 2016. Of these, four PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given in *Table 1.11.*

[11] Increase in accumulated loss in the year 2015-16 as compared to that of 2014-15 was mainly due to reversal of accumulated profit (₹2,348.74 crore) of Kerala State Electricity Board (its all assets, rights and liabilities were revested in Kerala State Electricity Board Limited) in the accounts of Kerala State Electricity Board Limited for the year 2013-14 (as on 31/10/2013).

[12] Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, The Kerala State Financial Enterprises Limited, Kerala Agro Machinery Corporation Limited and Kerala State Power and Infrastructure Finance Corporation Limited.

Table 1.11: Non-working PSUs

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Number of non-working companies	17	16	16	15	15

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered either to be closed down or revived.

1.20 The stages of closure in respect of non-working PSUs are given below:

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

Orders for closure of the above PSUs were issued between 1998-99 and 2009-10. Out of these, liquidation process in respect of the four PSUs was ordered by court and liquidators were appointed between May and December 2006. Liquidation process in respect of these PSUs was continuing. No PSU has opted for voluntary winding up. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted and pursued vigorously. The Government may make an early decision regarding winding up of 11 non-working PSUs where closing orders/instructions have been issued but liquidation process has not yet started. The Government may consider expediting closing down of its non-working companies.

Accounts Comments

1.21 Eighty one working companies forwarded their audited 99 accounts to PAG during the year 2015-16. Of these, 64 accounts of 53 companies were selected for supplementary audit while in respect of 35 accounts of 28 companies non-review certificates were issued. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given *Table 1.13*:

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

Table 1.13: Impact of audit comments on the working companies

(Amount ₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	15	143.40	16	916.96	20	716.33
2	Increase in loss	16	61.62	22	95.61	32	224.29
3	Increase in profit	…	…	3	0.35	…	…
4	Decrease in loss	…	…	2	1.15	3	20.27
5	Non-disclosure of material facts	7	7.67	4	13.92	8	10.05
6	Errors of classification	8	28.82	10	14.21	25	546.25

1.22 During the year, the Statutory Auditors had given unqualified certificates for 21 accounts, qualified certificates for 71 accounts, disclaimer certificate for one account [14] and adverse certificates (which mean that accounts do not reflect a true and fair view) for six accounts[15]. Additionally, CAG gave comments on 44 accounts during the supplementary audit and one account [16] was revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor. There were 130 instances of non-compliance of AS in 53 accounts of 41 companies during the year.

Similarly, four working statutory corporations forwarded their four accounts to PAG during the year 2015-16. In respect of two accounts [17], which were selected for sole audit, the audit completed in one case[18] and SAR issued. 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 indicate that the quality of maintenance of accounts needs 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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[14] **Aralam Farming Corporation (Kerala) Limited (2013-14).**

[15] **Kerala Shipping And Inland Navigation Corporation Limited (2014-15), Handicrafts Development Corporation of Kerala Limited (2013-14 and 2014-15), United Electrical Industries Limited (2013-14), Kerala Rapid Transit Corporation Limited (Formerly Kerala Monorail Corporation Limited) (2014-15) and Kerala State Mineral Development Corporation Limited (2014-15).**

[16] **Kerala Artisans' Development Corporation Limited (2012-13).**

[17] **Kerala State Road Transport Corporation (2013-14) and Kerala Industrial Infrastructure Development Corporation (2014-15).**

[18] **Kerala Industrial Infrastructure Development Corporation (2014-15).**

[19] **Kerala State Warehousing Corporation (2012-13) and Kerala Financial Corporation (2015-16).**

[20] **Kerala Financial Corporation (2015-16).**

Table 1.14: Impact of audit comments on statutory corporations

(Amount ₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	1	0.09	1	0.07	2	5.42
2	Increase in loss	1	0.05	...	...	1	0.06
3	Increase in profit	...	...	1	0.29	…	…
4	Non-disclosure of material facts	...	...	...	...	…	…
5	Errors of classification	1	4	1	27.26	2	51.30

Response of the Government to Audit

Performance Audit and Compliance Audit Paragraphs

1.23 For the Report of CAG for the year ended 31 March 2016, three Performance Audits and 11 Compliance Audit Paragraphs involving ₹3,410.84 crore were issued to the Additional Chief Secretaries/ Principal Secretaries of the respective Departments to furnish replies within six weeks. Reply in respect of one Compliance Audit Paragraph was awaited from the State Government (February 2017).

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 (April 2005) instructions to all Administrative Departments to submit replies/ Explanatory Notes to Paragraphs/Performance Audits included in the Audit Reports of CAG within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (CoPU) as detailed in *Table 1.15*.

Table 1.15: Explanatory Notes not received (as of February 2017)

Years of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2013-14	23/03/2015	2	9	1	1
2014-15	28/06/2016	3	12	2	9
Total		**5**	**21**	**3**	**10**

From the above, it could be seen that out of five Performance Audits and 21 Paragraphs, Explanatory Notes to 3 Performance Audits and 10 Paragraphs in respect of seven departments, which were commented upon, were awaited (February 2017).

Discussion of Audit Reports by CoPU

1.25 The status of discussion of Performance Audits and Paragraphs that appeared in Audit Report (PSUs) by CoPU as of February 2017 was as under:

Table 1.16: Performance Audits/Paragraphs appeared in Audit Reports *vis-a-vis* discussed (as on 28 February 2017)

Period of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2002-03	3	17	2	16
2003-04	2	18	2	18
2004-05	4	19	3	18
2005-06	5	26	2	21
2006-07	5	20	5	19
2007-08	4	19	2	12
2008-09	3	23	1	14
2009-10	2	11	1	11
2010-11	2	18	2	17
2011-12	2	12	2	12
2012-13	3	10	0	6
2013-14	2	9	0	4
2014-15	3	12	1	0
Total	**40**	**214**	**23**	**168**

Compliance to Reports of Committee on Public Undertakings (CoPU)

1.26 Action Taken Notes (ATNs) to 86 Paragraphs in 21 Reports of the CoPU presented to the State Legislature between October 2006 and March 2016 have not been received (February 2017) as indicated in *Table 1.17*:

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	No. of recommendations where ATNs not received
2006-08	3	40	5
2008-11	1	14	1
2011-14	3	25	14
2014-16	14	78	66
Total	**21**	**157**	**86**

These Reports of CoPU contained recommendations in respect of Paragraphs pertaining to seven Departments, which appeared in the Report of CAG of India for the years 1993-94 to 2012-13.

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 responding to audit observations.

Chapter II

Performance Audit

2.1. Promotion and Development of Micro, Small and Medium Enterprises in Kerala

2.2 Procurement and marketing of vegetables and fruits in the State by Kerala State Horticultural Products Development Corporation Limited

2.3 Information System Audit of HT and EHT Billing and Accounting software used by Kerala State Electricity Board Limited

CHAPTER II

Performance Audits

2.1 Promotion and Development of Micro, Small and Medium Enterprises in Kerala

Executive Summary

Introduction

In Kerala, there were 2.57 lakh registered Micro, Small and Medium Enterprises (MSMEs) as of September 2015, with total investment of ₹17,986.46 crore and during 2014-15, MSMEs produced goods and services worth ₹7,119.75 crore, which accounted for 1.37 per cent of the Gross State Domestic Product. The total employment generated up to September 2015 was 13.19 lakh.

Implementation of policies and plans by Government of Kerala (GoK)

Measures outlined in the Industrial Policy, 2007 though not implemented were not included in the amended Policy (2015). Compared to neighbouring States, the industrial policy of Kerala fared poorly in terms of inclusion of specific provisions. Average utilisation of amounts allocated in the budgets of Directorate of Industries and Commerce (DI&C) for MSME development programmes was 70.43 per cent. Rehabilitation package as recommended by Government of India (GoI) was not implemented.

Promotion and Development programmes

Financial support

Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) could provide finance to a very low number of MSMEs only. Rate of interest charged by KFC on loans to MSME sector was high when compared to other State Financial Corporations and commercial banks. Schemes for providing financial support to MSMEs such as Interest Subvention Scheme, Receivable Finance Scheme and Kerala State Entrepreneur Development Mission could not be implemented successfully. Only 6.48 per cent of new MSMEs availed of the Entrepreneur Support Scheme (ESS) of the DI&C due to exclusion of service sector and complex documentation required. There were irregularities in the implementation of the ESS as well.

Infrastructure Development

Delay in completion of multi-storeyed industrial estates deprived MSMEs of much needed infrastructure. Progress achieved in establishing Common Facility Centres under Micro and Small Enterprises-Cluster Development Programme was negligible. Parks established by Kerala Industrial Infrastructure Development Corporation (KINFRA) remained unutilised. Actual utilisation of developed land in the Industrial Growth Centres established by KSIDC was only 41.25 per cent. Scheme for modernisation of infrastructure in Development Areas/ Development Plots under DI&C with assistance of GoI remained unimplemented. The quality of infrastructure *provided in the industrial estates/ parks under Kerala Small Industries Development Corporation Limited was not satisfactory.*

Facilitation Services

The Single Window Clearance scheme instituted for ensuring speedy issue of clearances required for establishing industrial units was not effective.

Marketing Support

Statutory provision regarding purchase of 20 per cent of requirements of goods/ services from MSMEs was not being complied with by the State PSUs/ Departments/ Government agencies, etc. Effectiveness of the expenditure incurred out of Government funds for conducting/participating in fairs/exhibitions for marketing MSME products was not assessed.

Findings of beneficiary survey

Majority of MSMEs who participated in a beneficiary survey conducted by Audit reported that they were not aided by the Single Window mechanism for obtaining necessary clearances. They also responded that they were not provided technical assistance such as assistance in preparing project reports, training in skill development/ entrepreneurship, help in tiding over financial crisis, quality raw material or marketing assistance. The quality of infrastructure, especially roads and security in Industrial Parks/ Estates, etc., was also reported to be inadequate.

Introduction

2.1.1 According to the Micro, Small and Medium Enterprises, Development Act, 2006 (MSME Act), Micro, Small and Medium Enterprises (MSMEs) are classified as under:

Table 2.1: Criteria for classification of MSMEs.

Enterprise (Type)	Investment in Plant and Machinery/ Investment in Equipment	
	Manufacturing	Service
Micro	Up to ₹25 lakh	Up to ₹10 lakh
Small	Above ₹25 lakh up to ₹5 crore	Above ₹10 lakh up to ₹2 crore
Medium	Above ₹5 crore up to ₹10 crore	Above ₹2 crore up to ₹5 crore

In Kerala, there were 2.57 lakh registered MSMEs as of September 2015[1], all promoted by individual investors/ firms in the private sector. Out of the total Small Scale Industries/MSMEs, 3.84 *per cent* were promoted by entrepreneurs belonging to Scheduled Castes, 0.72 *per cent* by Scheduled Tribes and 24.97 *per cent* by women entrepreneurs. The total investment in these 2.57 lakh MSMEs was ₹17,986.46 crore. During 2014-15, these MSMEs produced goods and services worth ₹7,119.75 crore which accounted for 1.37 *per cent* of the Gross State Domestic Product. The total employment generated up to September 2015 was 13.19 lakh (*Source: Economic Review, 2016 published by State Planning Board, GoK*).

[1] Figures as at 17 September 2015 have been taken since after September 2015, the filing of Entrepreneur's Memorandum II (EMII) by newly registered MSMEs has been abolished and Udyog Aadhar Memorandum (UAM) made mandatory for all (new and existing) MSMEs.

Agencies involved in promotion of MSMEs in Kerala

2.1.2 Department of Industries, GoK formulates the industrial policy for promotion and development of MSMEs. Schemes and projects for promotion and development of MSMEs in the State are implemented by the Directorate of Industries & Commerce (DI&C) and Public Sector Undertakings (PSUs) set up with this objective.

One of the main objectives of the Kerala Industrial and Commercial Policy, 2015 was mobilising MSMEs, particularly in rural areas, to achieve employment generation and utilisation of local resources. Kerala State Industrial Development Corporation Limited (KSIDC), Kerala Small Industries Development Corporation Limited (SIDCO), Kerala Financial Corporation (KFC) and Kerala Industrial Infrastructure Development Corporation (KINFRA) played major roles in the promotion and development of medium and small scale industries in Kerala. While KFC and KSIDC were primarily concerned with providing financial support in the form of equity participation, term loans, working capital loans, etc., KINFRA and SIDCO provided infrastructure and marketing support.

Other Government agencies involved in the promotion and development of MSMEs were Kerala Bureau of Industrial Promotion (KBIP), Kerala Academy for Skills Excellence, Kerala Institute for Entrepreneurship Development, etc., as detailed in ***Appendix 3.***

Audit Objectives

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

- policy for promotion and development of MSME sector in the State was implemented effectively;
- the activities of Government Departments/agencies and PSUs in financing, protecting and promoting the interest of MSMEs in the State were adequate, efficient and effective; and
- the MSMEs promoted/ assisted by the Government Departments/ agencies and PSUs were functioning efficiently and contributing significantly to the economic and industrial development of the State.

Audit Criteria

2.1.4 The following criteria were adopted for the Performance Audit:

- State Industrial and Commercial Policy, 2007, amended in 2015;
- Micro, Small and Medium Enterprises Development Act, 2006 of Government of India (GoI);
- 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 PSUs;
- Best practices/ policies on MSMEs followed by other States;

- Norms of Reserve Bank of India on raising public finance by State Financial Corporations;
- Stores Purchase Manual of GoK; and
- Guidelines of Central Vigilance Commission.

Scope and Methodology

2.1.5 The Performance Audit was conducted to assess effectiveness of various activities, schemes and measures undertaken by GoK through its functional arms, the DI&C and four PSUs (KSIDC, KFC, KINFRA and SIDCO), for promotion and development of MSMEs in the State during the five year period from 2011-12 to 2015-16.

Four[2] out of fourteen District Industries Centres[3] (DICs) under the DI&C were selected through random sampling for detailed scrutiny. With respect to KFC, out of 5,268 units to whom loans were disbursed during 2011-12 to 2015-16, 1,054 (20 *per cent*) were selected on random basis for detailed review. In the case of SIDCO, 8 (out of 14) Industrial Estates (IE) and 6 (out of 36) Mini Industrial Estates were selected for joint inspection. Three out of ten Industrial Parks developed by KINFRA and all three Industrial Growth Centres promoted by KSIDC were inspected jointly.

A beneficiary survey amongst MSMEs located in IEs/ Industrial Parks of GoK/ PSUs was conducted using the questionnaire method for evaluating the effectiveness of the Government's initiatives in promotion and development of MSMEs.

The Performance Audit commenced with an Entry Meeting held on 9 May 2016 which was attended by Additional Secretary, Industries Department, GoK and the Managing Director, SIDCO. KFC was represented by Deputy General Manager, KSIDC by Deputy Manager and KINFRA by Manager (Technical).

The findings of the Performance Audit were issued to GoK and the PSUs in October 2016. Audit findings were also discussed with Special Secretary, Industries Department, GoK and Senior Management of the PSUs in an Exit Conference held on 8 November 2016.

Reply of GoK to the audit findings was received in March 2017. Views expressed by them have been duly considered while finalising the Report.

Audit Findings

2.1.6 The number of MSMEs registered annually in the country increased from 2.82 lakh in 2011-12 to 4.25 lakh in 2014-15, rate of growth in registration being 50.71 *per cent*. In Kerala, number of MSMEs registered had increased from 0.11 lakh in 2011-12 to 0.15 lakh in 2014-15 with a rate of

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[2] Kottayam, Pathanamthitta, Palakkad and Kozhikode.
[3] DICs are the functional units of the DI&C and operate at district level to promote and develop industrial units.

growth of 36.36 *per cent*. As per the fourth All India Census (2006-07[4]) on MSMEs, 26 *per cent* of registered MSMEs in Kerala had either closed down or were non-traceable. This was mainly due to ineffective implementation of policy on the part of GoK and absence of financial, infrastructural and marketing assistance as discussed in succeeding paragraphs.

Implementation of policies and plans by Government of Kerala

2.1.7 The primary responsibility for promotion and development of MSMEs rests with the State Governments. GoI, through various initiatives, supplements efforts of the State Governments in encouraging entrepreneurship and employment generation. GoK is responsible for formulating appropriate policies and plans for the promotion and development of MSMEs in the State.

We noticed lapses in implementation of policies and plans on the part of GoK in this regard as discussed below.

Non-implementation of initiatives outlined in GoK's Industrial Policy

2.1.7.1 With a view to achieving rapid strides in industrialisation and to make Kerala a favoured destination for manufacturing, GoK suggested a slew of measures in its Industrial and Commercial Policy, 2007. The Industrial policy also contained many initiatives for the development of MSME sector. The status of implementation of these initiatives is tabulated in *Table 2.2*.

Table 2.2: Status of implementation of State Industrial Policy

Sl.No.	Objectives	Status of implementation
1	Strengthening the DICs for enterprise development in MSMEs.	Partially implemented by providing infrastructure to DICs.
2	Promoting MSMEs by using the funds from the decentralised plan devolved to the Local Self Government Institutions.	Not implemented
3	Utilising unused land of Local Self Government Institutions.	Not implemented
4	Supporting SSI Units giving price preference, exemption from EMD/ Security Deposit with specific conditions.	Implemented
5	Providing all help and support to entrepreneurs who seek financial assistance from banks and other financial agencies.	Partially implemented by introducing Kerala State Entrepreneur Development Mission through KFC.
6	Mobilising MSMEs particularly in rural areas to achieve employment generation and utilisation of local resources.	No specific scheme drawn up or implemented.

As can be seen from *Table 2.2* above, the State Government only partially implemented the steps outlined in its Industrial Policy for promotion and development of MSMEs. The Industrial Policy was amended and re-notified in 2015, the significant new measures included for promoting MSMEs being the following:

[4] **Published in May 2011 by the Ministry of MSME, GoI.**

- Promoting “Made in Kerala” as an umbrella brand for all sectors.
- Upgradation of infrastructure in industrial areas and facilitating “exit” for industrial units located in such areas.
- Setting up an MSME Equity Participation Fund for encouraging start-ups in KSIDC and KFC.
- Facilitation of skilled workers through Employability Centres.

We observed that the measures outlined in the Industrial and Commercial Policy, 2007 though not implemented were not included in the amended Policy. No alternate measures were proposed.

GoK replied (March 2017) that the model scheme drafted by the DI&C for utilising the land available with LSGIs was under consideration.

Non-implementation of Central Schemes for MSMEs

2.1.7.2 Industrial and Commercial Policy, 2007 of GoK envisaged development of a system to monitor proper and timely implementation of Central Schemes and to tap maximum Central assistance for the development of industries and commerce in the State.

Recognising the importance of MSMEs to the overall economic development of the country, GoI introduced many schemes for development of MSME sector to be implemented by the State Governments/State Government Organisations. These schemes included International Co-operation, Assistance to Training Institutions, Marketing Assistance, Micro & Small Enterprises Cluster Development Programme (MSE-CDP), Building Awareness on Intellectual Property Rights, Technology and Quality Upgradation Support to MSMEs, Capital Goods Scheme, etc., as detailed in ***Appendix 4***. Development Commissioner (DC), MSME, GoI informed GoK of all Central Schemes. Awareness campaigns/workshops for Central Schemes were also organised by the DC, MSME.

We observed that other than MSE-CDP, the DI&C, which was primarily responsible for promotion and development of MSMEs, had not implemented any of the above schemes as GoK had not put in place a system for monitoring the implementation of Central Schemes for MSMSEs in the State. Further, no proposals were put up by the DI&C to GoK in respect of the schemes. Thus, MSMEs in the State were deprived of the opportunity provided by GoI for their development.

GoK while accepting (March 2017) the audit findings, assured that a nodal agency for tapping assistance under Central Schemes and monitoring their implementation was being designated.

Industrial policy for promotion and development of MSMEs of GoK *vis-a-vis* other States

2.1.7.3 We compared the provisions in the industrial policy of the State for promotion and development of MSMEs with those of neighbouring States of Tamil Nadu and Karnataka. The findings are tabulated in ***Appendix 5.***

It can be seen from ***Appendix 5*** that the industrial policies of Tamil Nadu and Karnataka contained provisions on reservation of land and financial and marketing assistance for the development of MSME sector. Compared to this, the industrial policy of Kerala fared poorly in terms of inclusion of specific provisions. The impact of this was borne out by the comparatively low rate of increase in the number of new MSMEs registered as depicted in *Table* 2.*3*.

Table2.3: Details of average annual increase in MSMEs

State	Average annual increase in number of new MSMEs registered from 2010-11 to 2014-15 (*per cent*)
Kerala	8.08
Tamil Nadu	25.42
Karnataka	11.80
All India	15.60

GoK replied (March 2017) that the overall growth in number of MSMEs registered from 2011-12 to 2014-15 was quite significant. The fact, however, remains that the growth rate of MSMEs in the State was low when compared to neighbouring States and the national average.

Non-utilisation of budget allocation for schemes for promotion and development of MSMEs

2.1.7.4 The details of budget allocation and actual utilisation of funds by DI&C in case of plan schemes is indicated in *Table 2.4.*

Table2.4: Details of budget allocation and utilisation of funds

(₹in crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Budget allocation	43.96	59.30	63.94	80.17	112.87	360.24
Actual utilisation of funds	31.74	50.71	51.51	45.97	73.79	253.72
Surrender	12.22	8.59	12.43	34.20	39.08	106.52
Percentage of utilisation	72.20	85.51	80.56	57.34	65.38	70.43

Source: Annual Budget and Finance Accounts

It can be observed that out of ₹360.24 crore allocated in the budgets from 2011-12 to 2015-16, utilisation was only ₹253.72 crore (70.43 *per cent*). Surrender of funds ranged from ₹8.59 crore (2012-13) to ₹39.08 crore (2015-16). Maximum underutilisation was in respect of schemes/ programmes shown in *Table 2.5*.

Table 2.5: Scheme wise underutilisation of funds during 2011-12 to 2015-16

(₹in crore)

Scheme	Budget allocation	Utilisation	Percentage of utilisation
Improving infrastructure in existing Development Area/ Development Plots	6.65	3.44	51.73
Construction of multi-storeyed Industrial Estate	79.30	32.50	40.98
Seed Fund to youth	11.00	0	0
Start-up subsidy for creation of employment opportunities	4.00	0	0
Employment generation in traditional sector	10.00	2.00	20.00

Source: Annual Budget and Finance Accounts of GoK

We also observed that out of ₹79.30 crore provided against the scheme 'Construction of multi-storeyed Industrial Estates', released amount of ₹32.50 crore was shown as expenditure in the statements furnished by the DI&C to GoK. However, ₹10 crore released (February 2013) for Multi-storeyed IE at Kochuveli and ₹7.50 crore released (February 2014) for Multi-storeyed IE at Puthussery to SIDCO remained unutilised. Thus, incorrect statement was given to GoK in respect of ₹17.50 crore.

GoK accepted (March 2017) the audit findings and stated that the Department/ Organisations had been advised to be careful while reporting the expenditure. The reply was not acceptable as corrective action had not been taken**.**

Non-commencement of rehabilitation package

2.1.7.5 A Task Force constituted under the chairmanship of the Principal Secretary to the then Prime Minister to address the issues of the MSME sector had recommended (January 2010) that State Governments should establish a rehabilitation cell at the district level, in the DICs, to examine the viability of sick units in coordination with banks and implement rehabilitation packages in a time bound manner. The rehabilitation package should comprise, besides additional lending by banks, of relief and concessions in statutory dues by the State Governments/autonomous bodies, Power Supply Company, etc.

We observed that implementation of a rehabilitation package was especially necessary in the State since as per the latest (2006-07) MSME Census, Kerala, with 21.02 *per cent* sick MSMEs topped the Indian States. Yet, GoK had not implemented the above recommendations so far (August 2016). Findings of the beneficiary survey conducted as part of the Performance Audit revealed that even though 48 *per cent* of the units surveyed faced financial crisis at one time or the other, GoK did not provide any financial help to them to tide over the crisis.

GoK assured (March 2017) that the matter would be considered while formulating industrial policy for the MSME sector.

Recommendation No. 1: ***Industrial policy of the State should be revamped with specific schemes and provisions for development of MSME sector,***

taking cue from the neighbouring States. Central assistance for MSME Sector schemes should be tapped to the maximum.

Promotion and Development programmes

2.1.8 Growth of MSMEs is dependent on availability of cheap finance, better Technology and Infrastructure, Marketing & Procurement support and Skill Development & Training. Role played by GoK and its agencies in making these available is discussed below.

Financial support

2.1.9 Cheap finance is a crucial input for promoting growth of MSME sector, in view of its limited access to alternative sources of finance. According to the Economic Census 2005[5], about 66.16 *per cent* of MSMEs in Kerala were set up with their own finance, about 8.22 *per cent* by availing loans from public and private institutions and a meagre 0.60 *per cent* with the subsidy received from GoK. The Industrial and Commercial Policy 2007 of GoK did not, however, include any specific scheme for providing financial support to MSMEs.

In Kerala, KFC, KSIDC and DI&C were the major agencies financing MSME sector. We noticed negligible share of GoK and its agencies in financing MSMEs, improper implementation of financing schemes, etc., as discussed below.

Share of agencies of GoK in financing MSMEs

2.1.9.1 As per Kerala Enterprise Development Report 2016 prepared by the Institute of Small Enterprises and Development[6] on behalf of DI&C, 92.03 *per cent* of the MSMEs in Kerala had not availed any loans from any institution as of March 2016. Among those that have availed loans, 73.89 *per cent* depended on banks for loans while the balance was accounted for by Co-operatives (10.67 *per cent*), private money lenders (5.75 *per cent*) and others[7] (9.69 *per cent).*

Of all MSMEs that availed loans, percentage of MSMEs that availed loans from KFC and KSIDC was 0.80 and 0.40 respectively. Details of MSMEs registered in Kerala from 2011-12 to 2015-16 and the financial assistance provided by KFC to MSMEs for the period from 2011-12 to 2015-16 is indicated in *Table 2.6*.

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[5] Published by the Ministry of Statistics and Programme Implementation, GoI in June 2006.

[6] A Non-Governmental Organisation based in Ernakulam, Kerala.

[7] Government departments (2.32 *per cent*), Kudumbasree (2.13 *per cent*), Local Self Government Institutions (1.23 *per cent*), NGOs (1.18 *per cent*), KFC (0.8 *per cent*), KSIDC (0.40 *per cent*), Kerala State Development Corporation for Scheduled Caste and Scheduled Tribes Limited (0.24 *per cent*), NBFC (0.24 *per cent*) and others (1.15 *per cent*).

Table 2.6: Details of funding of MSME by KFC

Year	Annual Registration of MSMEs (Number)	Assistance by KFC[8] (Number)	Percentage of assistance by KFC
2011-12	11,071	462	4.17
2012-13	13,551	309	2.28
2013-14	14,997	864	5.76
2014-15	15,455	1,241	8.03
2015-16 up to September 2015	7,705	1,414	18.35

Source: Annual Reports of KFC and Economic Review, GoK.

Percentage of MSME units set up with the financial assistance of KFC during the period 2011-12 to 2015-16 ranged from 2.28 *per cent* to 18.35 *per cent*.

We noticed deficiencies in the implementation of financing schemes for MSMEs as discussed below:

- According to the Statement of Objects of the State Financial Corporations Act, 1951, KFC will confine their activities to financing medium and small scale industrial units. The scanty number of MSMEs financed by KFC during the five years ended 31 March 2015 indicates that KFC had failed to fulfil its mandate and MSMEs had been deprived of any substantial capital or financial support from KFC.

  We observed that KFC had not carried out any study on the source of financing for MSME units in the State or to assess the requirements of the MSME sector for financing at reasonable cost. Such an analysis would have enabled the Corporation to evolve suitable financial products to fulfil the mandate for which it was established.

- One of the reasons for the reluctance of MSMEs to avail finance from KFC was the high rate of interest (14.50 *per cent*) charged by KFC on loans. This rate was in fact, the highest among 11 State Financial Corporations (SFCs)[9] in the country. The rate charged by KFC (14.50 *per cent*) for loans to MSMEs was also significantly higher when compared to that charged by commercial banks[10].

  The need for finance at affordable rates was highlighted by the stakeholders whose feedback was collected before formulating the Industrial policy. The suggestion was, however, not incorporated in the Industrial Policy, 2007/2015 or subsequent schemes except in Kerala State Entrepreneur Development Mission (KSEDM).

[8] Includes assistance to existing and newly registered MSMEs.

[9] Andhra Pradesh State Financial Corporation (13 *per cent*), Rajasthan State Financial Corporation (12 *per cent*), West Bengal State Financial Corporation (12.75 *per cent*), Karnataka State Financial Corporation (8 *per cent*), Tamil Nadu Industrial Investment Corporation (13.50 *per cent*), Maharashtra State Financial Corporation (13 *per cent*), Madhya Pradesh State Financial Corporation (12.75 *per cent*), Delhi State Financial Corporation (12.75 *per cent*), Orissa State Financial Corporation (13.50 *per cent*) and Assam State Financial Corporation (13 *per cent*).

[10] Interest rate in *per cent* as on 31/3/2016 is given in brackets - State Bank of Travancore (12.35 to 13.85), Union Bank of India (12.15 to 14.15), Federal Bank (12.12 to 13.62), Canara Bank (12.35 to 15.35).

- As per MSME Act, 2006, the maximum investment limit by a manufacturing organisation in the MSME sector is ₹10 crore. As per the provisions of SFC Act, 1951, KFC is authorised to provide financial assistance to units with individual investment up to ₹10 crore only.

  During 2011-12 to 2015-16, the total amount of loan disbursed by KFC was ₹4,163.46 crore (5,268 loanees). We observed that out of the above, around 30 *per cent* (₹1,248.01 crore) was given to non-MSMEs. Further, ₹833.91 crore were distributed to 119 loanees with individual investment above ₹10 crore against the provisions of the SFC Act, 1951. The assisted industrial units were not MSMEs.

- Reserve Bank of India (RBI) granted (December 2012) in-principle approval for accepting public deposits by KFC. In order to comply with the guidelines of RBI for raising public deposits, KFC should not have more than 4 *per cent* gross non-performing assets (NPA) on the gross loans and advances as per its latest audited balance sheet. Since the gross NPA of KFC was 19.72 *per cent* as on 29 February 2016, KFC did not satisfy the above criterion and could not, therefore, accept public deposits.

  KFC had distributed ₹1,796.31 crore to the "Restaurant and Shopping Complex" (1,972 loanees) sector during 2011-12 to 2015-16 without adequate collateralisation. We observed that 32.75 *per cent* of the NPA amount related to units belonging to the Hotel sector which was affected adversely by closure of bar hotels by GoK in 2015. Since the collateral security furnished by these units was later found to be of negligible realisable value, the BoD of KFC decided (December 2015) to extend special package for clearance of their loan dues. Pre-dominance of a particular sector in the sanction of loans and non-ensuring adequate security at the time of loan disbursement led to the huge NPA percentage and subsequent ineligibility to accept public deposits. Compared to KFC's weighted average cost of borrowing of 10.31 *per cent* and 9.72 *per cent* respectively during 2014-15 and 2015-16, the standard rate of interest for term deposits (3 to 5 years' maturity) was 7.63 *per cent* only for the above period. Thus, the MSME sector lost the opportunity of obtaining finance at lower cost from KFC.

  GoK stated (March 2017) that the interest rates charged by KFC depended on its borrowing costs. It was also stated that KFC is adhering to the provisions of the SFC Act. The reply was not tenable as it did not address the specific issues pointed out by Audit.

Implementation of State schemes for financing MSMEs

2.1.9.2 The schemes implemented by the State Government/ PSUs for providing financial support by way of loans/subsidy to MSMEs are given in *Table 2.7*.

Table 2.7: Schemes for providing financial support to MSMEs

Scheme	Agency	Budget outlay for the scheme	Sanctioned amount (₹ in crore)	Number of MSMEs benefitted
KSEDM	KFC	Not Available	190.46	1,714
Interest Subvention Scheme	KFC	The financial commitment of the scheme was ₹300 crore for the two years 2013-14 and 2014-15.	6.64	8
Receivable Finance Scheme	KFC	Nil	Nil	Nil
Entrepreneur Support Scheme	DI&C	₹121.04 crore	114.56	3,352

Issues noticed in implementation of these financing schemes are discussed below:

Interest subvention scheme

2.1.9.3 Interest subvention scheme was introduced in 2013-14 to provide technological and financial support to youths from project report to production. Assistance was available in areas such as food processing, information technology, apparels, handicrafts, presentation articles, agro processing, fish processing and packaging based on innovative technologies developed by research institutions functioning under the auspices of Central and State Government in Kerala. Under the scheme, MSMEs were eligible for rebate on interest at the rate of 3 *per cent* for loans up to ₹1 crore and 2 *per cent* for loans above ₹1 crore. KFC was selected as the implementing agency. KFC proposed (January 2014) to disburse ₹300 crore during 2013-14 under the scheme. GoK provided ₹10.14 crore to KFC for implementing the scheme. As at 31 March 2016, KFC had disbursed a sum of ₹3.60 crore to eight MSMEs against the sanctioned amount of ₹6.64 crore.

We observed that no targets were fixed in respect of the number of units to be covered under the scheme. As a result, eight MSMEs engaged in one particular activity, viz., *neera*[11] extraction from coconut trees, only were extended the benefit of the scheme.

GoK replied (March 2017) that KFC could sanction loans under the scheme to only those units that had utilised technology developed by approved research institutions.

Implementation of Kerala State Entrepreneur Development Mission (KSEDM)

2.1.9.4 GoK introduced (December 2011) KSEDM with an outlay of ₹25 crore for the financial year 2011-12. KFC was the nodal agency for implementing KSEDM as well. KSEDM aimed at generating one lakh job opportunities and building entrepreneurship culture among the youth of the State by setting up 10,000 enterprises over five years. After selection of groups/ industries,

[11] **A non-alcoholic, nutritious drink manufactured from the immature inflorescence of coconut tree.**

entrepreneurship training was to be organised in collaboration with various training institutes like Entrepreneurship Development Institute, KITCO Limited[12], Rural Self Employment Training Institutes (set up by NABARD) and Centre for Management Development. Upon successful completion of training, groups/ individuals would be eligible for interest free loans up to 90 *per cent* of the total project cost subject to the ceiling of ₹20 lakh. Interest on the loans would be borne by the Government.

We noticed that:

- As of March 2016, achievement against the scheme was poor as only 1,714 units were financed out of the targeted 10,000 units. Direct employment generated was 8,500[13] against the target of 1 lakh employment opportunities.

  We also noticed that out of 1,714 financed units, 363 units (sanctioned ₹48.87 crore and disbursed ₹11.93 crore) were yet to commence commercial operation (March 2016).

- Interest burden incurred by KFC on loan disbursed to MSMEs under KSEDM up to 31 March 2016 was ₹24.70 crore. An amount of ₹15 crore only was received from GoK.

- A review of the arrear statement prepared by KFC revealed that as on 31 March 2016, 143 units had defaulted in repayment of loan amounting to ₹1.94 crore.

- According to Annexure III of the project report of KSEDM, stone crusher units were ineligible for loan assistance under the scheme. Further, as per the guidelines issued by the GoK for sanction of subsidy under the Entrepreneur Support Scheme, Metal Crushers including Granite Manufacturing units were ineligible for any financial assistance/ loan/ exemption/ subsidy from the State Government. Review of the KSEDM database revealed that ₹1.94 crore was disbursed to 19 units under the category 'stone crushing, non-metallic mineral products', which was irregular.

GoK stated (March 2017) that the response to the scheme was encouraging as demonstrated by the fact that 1,714 units availed of its benefits after it was introduced. The reply is not acceptable since the actual achievement was only 17 *per cent* of the target. Further, the assisted units included ineligible units as well.

Implementation of Receivable Finance Scheme

2.1.9.5 Board of Directors (BoD) of KFC approved (March 2014) introduction of a Receivable Finance Scheme intended to discount the bills of MSMEs supplying material to Public Sector Undertakings/ Government bodies. The

[12] Foremerly Kerala Industrial and Technical Consultancy Organisation Limited.
[13] 2012-13: 681, 2013-14: 1735, 2014-15: 2706, 2015-16: 3378.

scheme envisaged a maximum repayment period of 180 days and margin of 15 *per cent*. The scheme was intended to finance only sale of finished goods of MSMEs.

We observed that even though KFC had approached PSUs in the State for enrolling them in the scheme, the PSUs failed to respond due to which the scheme could not be implemented. We further observed that except Kerala Minerals and Metals Limited (KMML), none of the major PSUs in the State had complied with the statutory provision that the dues/ overdues to MSMEs for goods/ services supplied should be separately disclosed in the Annual Financial Statements.

GoK replied (March 2017) that the scheme did not take off because of lack of interest by the PSUs. It was also assured by the Government that PSUs were being advised to disclose the details regarding dues to MSMEs as required. The reply is not acceptable since GoK could have ensured the participation of PSUs under its administrative control in the scheme which was intended to benefit MSMEs in the State.

Implementation of Entrepreneur Support Scheme by DI&C

2.1.9.6 Besides KFC, DI&C was also financing nine[14] schemes of GoK since 1980 for the promotion and development of Small Scale Industries/ MSMEs. Replacing all the above schemes, a new scheme called Entrepreneur Support Scheme (ESS) was implemented from 1 April 2012 to provide one time investment subsidy up to ₹0.30 crore to MSMEs. Though DI&C was the implementing agency of ESS through its fourteen DICs, KFC and KSIDC could also recommend MSMEs financed by them for grant of ESS.

During the period 2012-13 to 2015-16, DI&C and the DICs disbursed assistance of ₹114.56 crore under ESS to 3,352 MSMEs. We reviewed the implementation of ESS in three[15] DICs and noticed that:

- Out of 51,708 MSMEs units registered in the State from 2012-13 to 2014-15, only 6.48 *per cent* availed financial assistance under ESS. The low percentage of utilisation of the scheme was primarily due to the fact that the scheme excluded from its purview MSMEs belonging to the service sector which constituted around 36 *per cent* of all MSMEs registered in the State during the period 2011-12 to 2015-16. During the Exit Conference, GoK stated that the complex documentation required for availing the scheme was one of the factors that led to low percentage of utilisation and that the same would be rectified as part of the 'Ease of doing business' initiative.

[14] Scheme for payment of grant under Women's Industries Programme (1980), Scheme for providing Margin Money Loan to SSI Units (1993), Scheme for providing Margin Money Loan to SSI Units promoted by Non-resident Keralites (1995), Scheme for providing State Investment Subsidy (2000), Scheme for subsidy under Technology Development Fund (2003), Scheme for reimbursement of One Time Guarantee Fee and Annual Service Fee remitted under CGTMSE (2011), Self Employment Scheme for Educated (2011), Women Industries Scheme (2011), Scheme for providing Turnover Subsidy to Micro, Small and Medium Enterprises engaged in the manufacture of Fruit and Vegetable based products (2011).

[15] Palakkad, Pathanamthitta and Kozhikode.

In its reply, GoK stated (March 2017) that a separate scheme for providing assistance to MSME units in the service sector was being formulated. It was also stated that the application filing was since made online to simplify the process.

- According to the Guidelines of ESS, entitlement under ESS shall be limited to ₹30 lakh per applicant, to be availed once. The upper limit of ₹30 lakh shall be enhanced by 5 *per cent* per annum during the period of operation of the scheme to address the escalation of costs. As such, the subsidy payable during 2012-13 to 2015-16 ranged between ₹30 lakh and ₹34.73 lakh[16].

  We, however, observed that while sanctioning the subsidy under ESS in the three test checked districts, the district centres had limited the maximum subsidy to ₹30 lakh even during 2013-14 to 2015-16. As a result of non-revision of maximum limit, there was short payment of ₹0.71 crore to 17 eligible MSMEs.

  DI&C replied (September 2016) that maximum limit was not enhanced due to budgetary constraints and limited number of applicants for assistance. The reply was not tenable as the enhancement of the maximum limit was mandatory as per the Guidelines of ESS and non-enhancement had the effect of depriving MSMEs of full quantum of eligible assistance. Further, the actual utilisation of budget allotment to DI&C was only 72.20 *per cent* during the period 2012-13 to 2015-16.

- M/s Agritex, Kanjikode, a partnership firm promoted by Sri. Kuriakose Philip and others, submitted an application for grant of investment support under ESS on 9 July 2013 claiming a total investment of ₹1.33 crore. The General Manager, DIC Palakkad recommended (October 2013) not to process the application due to the following reasons:

  i. the Partnership Deed produced by the firm mentioned that the firm was operating from SIDCO Industrial Park, Angamaly, but there was no mention of the factory at Kanjikode in the deed, and

  ii. the investment said to have been made in plant and machinery was made well before the firm had obtained the land and building.

  The District Level Committee (DLC), however, delegated (November 2013) a sub-committee to re-verify the matter. Based on the report of the sub-committee, the DLC decided to sanction investment support amounting to ₹30 lakh. The amount was disbursed on 20 March 2014.

  We observed that since the responsible officers of the DIC had already submitted their report pointing out that the machinery had no markings to prove the date of manufacture, decision of the DLC to send another

[16] ₹30 lakh increased by 5 *per cent* during 2013-14 (₹31.50 lakh), 2014-15 (₹33.08 lakh) and 2015-16 (₹34.73 lakh).

team of officers to conduct physical verification of the plant and machinery was irregular and amounted to extending undue favour to the firm. It was also not clear how on a subsequent visit by the sub-committee, the markings had inexplicably appeared. The defects pointed out by the DIC such as the bank loan having been drawn much before the land allotment, the fact of bills having been issued prior to 19 January 2012, the age of the machinery, etc., were not explained by the sub-committee.

Thus, sanction and disbursement of subsidy to M/s Agritex was irregular and inadmissible and the members of the DLC did not exercise due diligence in carrying out the duty entrusted to them.

GoK in its reply (March 2017) stated that the matter was being inquired into and assured that suitable remedial action would be taken on the basis of the inquiry.

- The ESS Guidelines issued by GoK specified that MSMEs engaged in manufacturing activities shall alone be eligible for ESS assistance. We conducted a joint inspection (24 August 2016) along with Industrial Extension Officer (DIC, Kozhikode) in the premises of industrial units and noticed that subsidy of ₹0.40 crore was paid to four non-manufacturing units which were functioning on job-work basis.

Recommendation No. 2: ***Financing schemes need to be implemented more effectively and efficiently to reach out to more MSMEs. The ESS and the KSEDM need to be strengthened to provide assistance to all eligible MSMEs.***

Infrastructure Development

2.1.10 As per the Industrial and Commercial Policy 2007, availability of infrastructure facilities, such as roads, built up space, power, water, security, etc., has been identified as one of the factors affecting growth of MSME sector. Creation of new infrastructure and strengthening of existing infrastructure was, therefore, necessary for the growth of the MSME sector in Kerala. DI&C, SIDCO, KINFRA and KSIDC were tasked with the creation of infrastructure in Kerala. These agencies implemented plan schemes of GoK and schemes sanctioned by GoI under Additional/ Special Central Assistance and Cluster Development Programme. We examined the implementation of these schemes and noticed delays and improper execution as discussed in the succeeding paragraphs.

Construction of multi-storeyed industrial estates

2.1.10.1 In order to overcome the shortage of land required for industrial units, a scheme for constructing multi-storeyed industrial estates which would provide built up space to industrial units is being implemented by the DI&C. Details of sanctioned projects and status of their implementation are summarised in *Table* 2.8.

Table 2.8: Status of implementation of multi-storeyed industrial estates as on 31 March 2016

Sl. No.	Location	Area/ Units	Estimated cost (₹ crore)	Date of sanction	Target date of completion	Actual expenditure (₹ in crore)	Current status	Delay as of March 2016
1	Edayar, Ernakulam.	85 Cents/ 15 Units	4.50	17/02/2010	October 2011	6.50	Completed (January 2016)	4 years 4 months
2	Puzhakkalpa dam, Thrissur	75,000 sq.ft/ 50 Units	15.00	19/07/2010	July 2015	10.00	Work in progress	8 months
3	Kochuveli, Thiruvanan-thapuram	40,000 sq.ft	10.00	18/10/2012	February 2015	Nil	Not Commenced	1 year and 1 month
4	Puthussery, Palakkad.	33,000 sq.ft/ 22 Units	7.50	25/07/2012	January 2015	Nil	Not Commenced	1 year and 3 months
5	Manjeri, Malappuram	60 Cents/45 Units	3.00	23/07/2012	August 2014	1.95	Work in progress	1 year and 7 months

As evident from the above *Table*, only one out of the five projects was completed and that too with a delay of four years and four months. The delay in completion in respect of the four incomplete projects ranged from one year and two months to four years. The DI&C had neither ascertained the reasons for the delay in completion of the projects nor taken action to speed up the execution. We observed the following:

- There was extra expenditure of ₹2 crore due to extra works directly attributable to the delay in execution of Edayar, Ernakulam project. Even though the scheme was proposed to be implemented utilising Additional Central Assistance from Government of India, the entire expenditure was met by GoK. The reason for non-availing of Additional Central Assistance was not on record.

- Project initiation for Kochuveli project was done on the basis of the order of the Hon'ble High Court to resume possession of 141.545 cents of land out of 270.325 cents allotted to a defunct company on hire purchase basis and to issue title for remaining 128.78 cents in favour of the official liquidator. Though the project was initiated and ₹10 crore released (February 2013) to SIDCO, the implementing agency, the DI&C did not take up the possession of the land as permitted by the Court but filed an appeal demanding release of the entire land which was pending. This resulted in blocking up of funds.

  In reply, the GoK stated (March 2017) that the litigation had since been cleared and the entire land was in the possession of the DI&C. It was also stated that the work had been re-allotted to another agency. The fact remains that releasing of funds without ensuring the availability of land had resulted in blocking up of funds.

- We further observed that 636 MSMEs were waiting for allotment of land/ sheds in 14 Districts as of 31 March 2016. Thus, delay in completion of multi-storeyed industrial estates affected the functioning of these MSMEs.

GoK (March 2017) admitted that the operational problems in SIDCO, to whom all the above works were assigned, had affected the execution of the works. It was also stated that in all cases where SIDCO had not started the work, other agencies had been assigned the work.

Implementation of Cluster Development Programme

2.1.10.2 Ministry of MSME, GoI has adopted cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their clusters[17] in the country. In October 2007, the erstwhile 'Small Industries Cluster Development Programme' was renamed as 'Micro and Small Enterprises – Cluster Development Programme (MSE-CDP)'. Integrated Infrastructural Development Scheme was also subsumed in MSE-CDP for providing developed sites to new enterprises and upgradation of existing industrial infrastructure.

GoI sanctioned (July 2010-October 2015) seven MSE-CDPs to Kerala. Kerala Bureau of Industrial Promotion (KBIP), an autonomous body under the Industries Department, GoK was the implementing agency of the Programme. As per the guidelines of the scheme, the projects were to be completed within two years of sanction. 70 *per cent* of the project cost would be financed through grant of GoI, minimum 10 *per cent* of the project cost by the beneficiary MSMEs and balance by GoK. Details of implementation of the Programme in the State are tabulated in *Table 2.9.*

Table 2.9: Status of implementation of MSE-CDP

(Amount in ₹ crore)

Sl. No.	Name of project under MSE-CDP	Month of sanction	Sanct-ioned cost	Contribution			Expenditure till date (March 2016)	Status as on 31 March 2016
				GoI	GoK	Cons-ortium		
1	Wood Processing Cluster Kollam	January 2011	2.60	1.82	0.52	0.26	1.67	Not completed
2	Furniture Cluster, Kannur	August 2012	11.65	8.12	2.35	1.18	3.86	
3	North Malabar Offset Printers Cluster, Kannur	May 2013	12.22	8.55	2.44	1.22	Nil	
4	Zamorins Furniture Cluster, Kozhikode	March 2014[18]	14.35	9.00	2.87	2.47	Nil	
5	Pala Ethnic Food Cluster, Kottayam	July 2010	3.98	2.78	0.80	0.40	Nil	
6	Furniture Cluster, Chevoor, Thrissur	October 2015	14.45	10.02	2.89	1.54	Nil	
7	Agriculture Implements Cluster, Shornur, Palakkad	September 2013	5.37	3.67	1.07	0.63	Nil	
	Total		**64.62**	**43.96**	**12.94**	**7.70**	**5.53**	

[17] **Collectives of MSMEs with similar nature of activities and sharing common infrastructure facilities and technology.**

[18] **Revised approval. Original approval was in September 2013.**

We noticed that:

- Against the total sanctioned project cost of ₹64.62 crore for seven Common Facility Centres (CFC), MSE-CDP the total financial progress achieved was 8.56 *per cent* (₹5.53 crore) only up to March 2016.
- In case of Agriculture Implements Cluster, Shornur, the contribution of ₹1.07 crore released to KBIP by GoK was refunded (March 2016) since the project did not take off due to interim stay on its implementation granted by the Hon'ble High Court of Kerala in December 2014. Stay Order was granted in a Writ Petition filed by Kerala Forging Products Manufacturers Association alleging that the DIC Palakkad had changed the original proposal i.e., to revive a defunct CFC owned by the Palakkad Municipality was ignored, and a new diagnostic study commissioned by KBIP was used as the basis for setting up a new CFC without utilising the existing one. We observed that KBIP or GoK did not get the stay vacated or furnish replies to the allegations raised in the petition so far (June 2016).

  GoK stated (March 2017) that the projects at serial numbers 5 and 7 had since been cancelled by GoI. It was also stated that the delay in completion of the projects was because they were dependent on contribution by the beneficiaries. GoK also assured that the projects were being regularly monitored by the DI&C. The reply is not acceptable since two projects were cancelled by GoI due to delays, resulting in loss of Central Assistance to the tune of ₹6.45 crore. Further, the contention of GoK that completion of the project was dependent on contribution by the beneficiaries was not acceptable because the beneficiary share was only 10 *per cent* of the sanctioned cost.

Establishment of infrastructure by PSUs for MSMEs

2.1.10.3 KINFRA, KSIDC and SIDCO are engaged in creation of infrastructure for the promotion of industries in Kerala. These PSUs have, accordingly, been developing Industrial Parks/ Townships/ Zones, Industrial Growth Centres and Industrial Estates respectively. The details of the Industrial Estates/ Parks, etc., maintained by the above PSUs as at 31 March 2016 are given in *Table 2.10*.

Table 2.10: Details of Industrial Estates/ Parks, *etc.*, maintained by PSUs

Sl. No.	Agency	Industrial Parks/ Estates, etc. (Number)	Area acquired	Allottable area	Area Allotted	Units established (Number)
			(Acre)			
1	SIDCO	60	324.28	262.63	253.33	1,367
2	KSIDC	7	1,305.81	973.78	575.64	83
3	KINFRA	21	1,804.17	1,489.36	884.24	638
Total		**88**	**3,434.26**	**2,725.77**	**1,713.21**	**2,088**

Allotment of area in Industrial Estates/ Parks, etc., maintained by the PSUs was only 62.85 *per cent* of the total allottable area. We reviewed the activities of these PSUs on promotion of MSMEs and findings are reported below.

- According to the Project Implementation Manual of GoI, implementation of projects should be preceded by feasibility studies to ensure that the project was conceptually sound in terms of economic benefits as well as financial returns.

  KINFRA decided (July 2010) to establish rural apparel parks in different panchayaths of the State to promote small/ micro/ medium garment industries, thereby creating employment in rural areas. For this purpose, GoK allotted (November 2010) 2.02 acres of land on 30 year-lease to KINFRA to set up a rural apparel park at Rajakumari, Idukki. The rural apparel park with an estimated cost of ₹4.99 crore aimed to provide employment to 1,200 rural women. The work was completed in January 2012 at a total cost of ₹7.35 crore including additional work. The space in the park was, however, not hired by entrepreneurs till date (January 2017).

  We observed that the management had failed to identify takers for the Park due to the remoteness of the location and logistic costs. Thus, the primary purpose for which the land was allotted i.e., employment generation was not fulfilled as the feasibility of the park was not adequately ascertained.

  GoK stated (March 2017) that the facility was set up in Idukki as the locality was a catchment area where apparel units sourced labour. However, units could not be established so far and KINFRA was continuing their efforts for utilisation of the building. The fact, however, remains that the entire facility is lying unutilised and KINFRA/ GoK should have identified prospective entrepreneurs for the project before committing resources to it.

- KINFRA set up (June 2006) an Agro Food Business Incubation Centre at KINFRA Food Processing Park, Kakkancherry with technical consultancy from Defence Food Research Laboratory (DFRL) at a cost of ₹0.79 crore. The facilities at the centre included production line for retort packing[19] for ready-to-eat foods and convenience foods. As the Food Business Incubation Centre was set up with the help of DFRL, DFRL engaged FICCI[20] for technology transfer to the operating agency. FICCI demanded ₹0.03 crore as onetime fee and annual royalty of two *per cent* on net domestic sales or five *per cent* on the net export sales.

  The operating agency, Inkal Ventures Private Limited (Inkal) informed (August 2015) KINFRA its inability to operate the Business Incubation

[19] **Retort packing is a type of food packaging made from a laminate of flexible plastic and metal foils.**
[20] **The Federation of Indian Chambers of Commerce and Industry.**

Centre as they failed to identify entrepreneurs willing to utilise the Business Incubation Centre.

We observed that the project report submitted in September 2002 did not contain any record relating to feasibility studies to determine the viability of the project. The Food Business Incubation Centre constructed during June 2006 at a cost of ₹0.79 crore has remained idle for the past 10 years.

KINFRA in their reply (November 2016) admitted that it had not conducted any feasibility study since the concept of food incubation parks was an emerging technology. KINFRA further stated that the prospective investors had backed out due to the global economic recession and the project had not taken off due to the poor marketing efforts by the selected operating agency. KINFRA also assured that all efforts were being made to ensure the viability of the project.

GoK endorsed (March 2017) KINFRA's views and further stated that since the Business Incubation Centre dealt with emerging technology, developing sufficient business to sustain its operations would require time.

- KINFRA Food Processing Park, Adoor envisaged allotment of developed land to 16 units. Effluent Treatment Plant (ETP) of 225 m^3/day capacity was necessary to neutralise effluents emitted by these units. Individual units were to perform preliminary treatment and KINFRA was to conduct secondary treatment of the effluents in the park. KINFRA awarded (May 2012) the work of 'Design, Supply, Construction, Erection and Commissioning of ETP including operation and maintenance of the plant for three years to Aqua Designs India Private Limited, Chennai at a lump sum contract value of ₹1.99 crore. The scheduled completion time was six months (December 2012).

  Due to delay in cutting and removing trees, the site could be handed over to the contractor only on 10 September 2012. Further, clearance from Kerala State Pollution Control Board (KSPCB) was not obtained to establish the plant. Hence, time extension was granted up to November 2013. The work is yet to be completed (November 2016) due to labour problems and defaults on the part of the contractor.

  GoK in its reply (March 2017) stated that the work was still progressing and the delays after the extension period were due to labour issues and defaults on the part of contractor. Further, none of the MSME units was affected on account of the non-commissioning of the ETP facility. The reply is not acceptable since one unit is still to get the clearance from KSPCB and two units had installed ETP at their own cost to get the clearance.

- KSIDC developed three Industrial Growth Centres (IGCs) at Kinalur (Kozhikode District), Baliyavelichom (Kannur District) and Cherthala (Alappuzha District) at a total cost of ₹138.25 crore, using the funds provided under the erstwhile Industrial Growth Centre Scheme of the GoI (₹28.27 crore) and grants from GoK (₹109.98 crore). The details of land acquired and allotment of land to units were as given in *Table 2.11*.

Table 2.11: Details of allotment of land in IGCs

IGC	Land acquired	Land allottable (a)	Land allotted (b)	Balance unallotted land (a-b)	No. of Units
	(Acre)				
Kozhikode	310.72	256.17	101.64	154.53	65
Cherthala	278.79	224.72	161.12	63.60	43
Kannur	250.00	218.00	59.76	158.24	42
Total	**839.51**	**698.89**	**322.52**	**376.37**	**150**

It can be seen from the above *Table* that out of 698.89 acres of land available in the IGCs, the extent of land actually utilised was only 322.52 acres, i.e., 46.15 *per cent*. Considering the fact that non-availability of land is the primary constraint hindering industrial development in Kerala, the inability of KSIDC to attract industrial units to the IGCs was inexplicable.

- As per the provisions of the Licence Agreement executed between KSIDC and the allottees, allottees should complete the construction of building and commence commercial operation within two years or extension thereof. Otherwise, KSIDC would revoke the Licence Agreement and resume the allotted land.

  We noticed that out of the 150 units that have been allotted land in the three IGCs, 37 units which were allotted 34.22 acres of land failed to commence commercial production within two years. The delay ranged from 10 months to 7 years. KSIDC, however, had not evicted these allottees so far (December 2016). Thus, the actual utilisation of developed land in the IGCs was only 41.25 *per cent* (288.30 out of 698.89 acres).

Transfer of allotted land

2.1.10.4 Outright Purchase Rules (1996) of SIDCO provided (Rule 16 (b)) for transfer of shed/ land after remitting the difference between the current fair value and value already remitted to SIDCO. SIDCO relaxed (November 2009) the rule by allowing transfer without remitting the differential amount. This relaxation paved way for large scale transfer of land/ shed as mentioned in the Audit Report of the Comptroller & Auditor General of India (PSUs-Kerala-2011-12)[21]. Despite the above having been brought to the notice of SIDCO/GoK/ Legislative Assembly, we observed that during the period

[21] **Paragraph 4.4.**

2011-12 to 2015-16, 12.50 acres of land (83 cases) in nine Industrial Estates of SIDCO were allowed to be transferred to third parties. The assessable value of the land so transferred was ₹15.30 crore as worked out by us based on the latest value reported by the Revenue Department.

We also observed that:

- in two cases (land value: ₹0.10 crore) irregular transfer effected by the original allottee was regularised by SIDCO and in two other cases (land value: ₹0.20 crore), transfer was allowed by the original allottees after being served eviction notice for keeping the units inactive, which was in violation of SIDCO's own rules.
- During joint inspection of nine Industrial Estates, six Mini Industrial Estates (MIE) and two Industrial parks of SIDCO, we further noticed that 37 units which were allotted land/sheds in the IEs/ MIEs/ IPs were not functioning/ had not started functioning. SIDCO had not taken effective steps to evict the non-functional units and allot the land/ sheds to new applicants.

  GoK stated (March 2017) that action was underway for evicting idling units.

Modernisation of existing infrastructure

2.1.10.5 Modernisation of existing infrastructure was necessary for the enhancement of overall competitiveness of the industries in the industrial estates by bridging critical physical infrastructure gaps. Details of Development Areas (DAs)/ Industrial Development Plots (DPs), Industrial Growth centres and industrial estates under the control of various agencies of GoK were as given in *Table 2.12*.

Table 2.12: Details of DA/ DP/ Mini Industrial Estates

Agency of GoK	No. of DA/ DP/ MIEs	Land Area (acres)		No. of Industrial units
		Acquired	Allotted	
DI&C	126	2,515.45	1,995.00	2,881
KSIDC	7	1,305.81	575.64	83
SIDCO	60	324.28	253.33	1,367
KINFRA	21	1,804.172	884.243	638
Total	**214**	**5,949.712**	**3,708.213**	**4,969**

We noticed following deficiencies in the modernisation process:

- The DI&C directed (May-November 2012) KBIP to prepare and submit Detailed Project Reports (DPR) for the modernisation of the DAs and DPs including construction of compound walls, maintenance/ repairing/ re-tarring of all internal roads, construction of drainage, providing water supply and street lights, etc. Accordingly, KBIP prepared DPR for modernisation of DAs at Veli (Thiruvananthapuram) Kanjikode (Palakkad) and DP at Poovanthuruthu (Kottayam). DPR was submitted to GoK for matching contribution and thereafter, to GoI for consideration and approval under MSE-CDP scheme. KBIP submitted (November 2013) another proposal for preparing DPRs for the remaining 35 DA/ DPs at a total cost of ₹1.05 crore (₹3 lakh per DA/ DP).

GoK sanctioned (February 2014) ₹18 lakh for the DPR preparation of six DA/ DPs (₹3 lakh per DA/DP). So far, DPRs for 9 DA/ DPs have been prepared as per which the total project cost would be ₹88.35 crore and in principle approval for three DPRs (total project cost- ₹30 crore) received from Ministry of MSME. Remaining DPRs were under consideration of Ministry of MSME.

GoK had earmarked an amount of ₹5 crore as token provision for up-gradation and modernisation of existing DA/ DPs under DI&C for the year 2014-15. No amount, however, was utilised so far (June 2016).

Promotion of start-ups

2.1.11 Kerala Technology Start-up Policy, 2014 envisaged to make Kerala the number one destination in India for start-ups, attract ₹5,000 crore into the incubation and start-up eco systems in Kerala and establish at least 10 technology business incubators/ accelerators in each of the different sectors in the State. As per the policy, the State Government was to set up technology incubation facilities in all the industrial parks and SME clusters. All the incentives available to MSMEs would be made available to start-ups also.

We, however, observed that technology incubation facilities had not been provided in any of the Industrial Parks/ Areas under DI&C, SIDCO, KINFRA and KSIDC. None of the start-ups that had come up in the two Start-up Villages established by Kerala Start-up Mission, availed of financial assistance under schemes for MSMEs such as ESS or KSEDM.

Recommendation No. 3: *Development of infrastructure schemes should be completed in time to bridge gaps in the available developed land/ space. Modernisation of existing parks/ industrial estates should be undertaken immediately as many of them are in dilapidated condition. Infrastructure scheme should be taken up only after conducting feasibility studies.*

Marketing Support

2.1.12 MSMEs face several constraints in marketing and Government agencies are expected to play the role of a facilitator to help the MSME sector in this area. Issues noticed in marketing assistance provided by GoK are discussed in the following paragraphs.

Public Procurement Policy for MSMEs

2.1.12.1 GoK adopted (September 2013) Public Procurement Policy for MSMEs notified by GoI and made it mandatory on the part of State PSUs/

Departments/ Government agencies, etc., to set an annual goal of procuring minimum 20 *per cent* of their annual value of goods or services from MSMEs working within the State, in a period of two years with effect from 2013-14. From April 2015, overall procurement goal of 20 *per cent* was made mandatory. The Stores Purchase Manual (SPM) of the State Government was also amended to incorporate the above condition.

We observed that compliance with the Public Procurement Policy was not being monitored by the DI&C, which was the Nodal Agency for implementation of the Policy. Quantum of purchase made by State PSUs/ Departments/ Government agencies, etc., from MSMEs was not available with the DI&C. Therefore, we collected information from 15 PSUs/ Autonomous Bodies/ Departments of GoK and noticed that statutory provision regarding purchase of 20 *per cent* of requirement from MSMEs was not being complied with by any State PSUs/ Departments/ Government agencies, etc.

We also noticed that GoK, while adopting the Public Procurement Policy 2012 did not include provision on publication of annual requirement of material in advance which would have been of immense use to the MSMEs in the State for planning their production/ marketing strategy.

GoK replied (March 2017) that State PSUs/Departments/Government agencies had since been directed to follow the guidelines for procurement from MSMEs as laid down in the SPM. It was also assured that the DI&C had since been instructed to effectively monitor the implementation of public procurement policy.

Organisation of exhibitions and fairs for the promotion of MSMEs

2.1.12.2 KBIP entrusted with the task of conceiving and implementing promotional activities for the MSMEs in the State, was to organise promotional events of the DI&C. This included Business to Business Meets, Workshops, Seminars, Training Programmes, holding proactive discussions with entrepreneurs and organising facilitation meetings for them with the policy makers of the State.

A review of the exhibitions and fairs organised by KBIP for the promotion of MSMEs during the period 2011-12 to 2015-16 revealed the following:

During the period 2011-12 to 2015-16, KBIP organised/ participated in 43 exhibitions/ fairs incurring expenditure of ₹5.59 crore. The events ranged from Dubai Shopping Festival to Kerala Bamboo Fest. The primary objective behind organising/ participating in industrial exhibitions/ fairs was to benefit MSME units by enabling them to improve their market, acquiring new technology, etc.

We observed that KBIP had not put in place a system for verifying the benefits accruing from such participation. In the absence of quantitative details, the effectiveness of the expenditure incurred out of Government funds for the above activities could not be assessed.

Since GoK, through KBIP, was bearing substantial portion of the expenditure incurred for participating in/ organising the fairs/ exhibitions, a transparent procedure was needed for selecting the MSMEs for participating in the events. We, however, observed that the selection of participants was being done in an arbitrary manner without any criteria.

We also observed that the contracts for event management in respect of the events organised directly by KBIP and for setting up stalls/ display, etc., in respect of events organised by other agencies were being awarded without observing the provisions of the Stores Purchase Manual of the State Government. The contracts for works costing ₹3.63 crore were awarded on the basis of limited quotations instead of competitive tenders.

GoK in its reply (March 2017) assured that the effectiveness of facilitating the participation of MSMEs in exhibitions/fairs would be assessed through obtaining feedback.

Marketing Support to MSMEs by SIDCO

2.1.12.3 One of the primary objectives of SIDCO was to provide assistance to SSI/ MSME units to market their products. In order to achieve this objective, GoK permitted the Government Departments/ PSUs/ other Government agencies to procure their requirements directly from SIDCO without observing the procedure prescribed in the Stores Purchase Manual/ Rules of GoK. The Marketing Division of SIDCO, in turn, empanelled 846 MSMEs for procuring products on behalf of Government Departments/ PSUs/ other Government agencies.

We observed that:

- Stores Purchase Manual/ Rules of GoK, applicable to SIDCO, required procurement of products from the MSMEs in a transparent manner, according equal opportunity to all sellers.

  A review of the purchases effected by SIDCO during 2011-12 to 2015-16 revealed that out of the 64,145 Purchase Orders (PO) issued, 26,090 POs i.e., 40.67 *per cent* were placed on 50 firms representing 5.91 *per cent* of the total empanelled MSMEs. Similarly, out of the total order value of ₹477.94 crore, these 50 firms bagged orders worth ₹200.39 crore (41.93 *per cent* of the total purchase). Purchase orders were issued to these 50 firms without inviting tenders from among empanelled MSMEs.

- As per the conditions prescribed by SIDCO, only manufacturing units were eligible for registration under marketing support scheme.

  We, however, observed that 23 out of the above 50 firms were not manufacturers of the products supplied by them as evidenced by cross verification of the records at the Commercial Taxes Department, GoK. Details of the top five firms are given in *Table 2.13*.

Table 2.13: Details of procurement of SIDCO from five firms

Sl. No.	Name of firm	Location (Products)	No. of Orders	Amount (₹crore)
1	M S Communications	Karunagappally (Electrical Goods, Recharge Coupons for mobile phones)	313	11.55
2	Vishnu Steel & Wood Industries	Kollam (Mattress, Furniture, Pillows)	1,619	10.40
3	Sonet Enterprises	Kalpetta (Hearing Aids, Furniture)	332	8.77
4	Pranavam Agencies	Kollam (Furniture, Computer Systems)	1,864	8.76
5	Steel Vin Industries	Thrissur (Furniture, Weighing Machines)	2,010	7.16
Total			**6,138**	**46.64**

- SIDCO issued all POs on the basis of quotations irrespective of the purchase value and tendering process was not followed. As such, the benefit of the Government Order conferring special status on SIDCO for supply of goods and services to Government Departments/ PSUs, etc., was passed on only to a few MSMEs.

  GoK accepted (March 2017) the audit observations and stated that the procedures were by-passed due to the challenges faced by SIDCO in terms of management capabilities and availability of staff. It was also assured that corrective measures had since been initiated.

Recommendation No. 4: ***GoK may put in place an efficient mechanism for providing marketing support to eligible MSMEs through strict enforcement of Public Procurement Policy.***

Facilitation Services

Clearances under Single Window Scheme

2.1.13 For speedy issue of various licences, clearances and certificates required for setting up of industrial undertakings in the State, Kerala Industrial Single Window Clearance Boards and Industrial Township Area Development Act, 1999 (SWCB Act) was enacted. As per the provisions of the Act, for setting up small scale industrial undertakings with capital investment of more than ₹2 lakh in each district of the State, GoK constituted District Single Window Clearance Boards (DSWCB) in each district. The Collector of the district was the Chairman of the DSWCB while the General Manager, DIC was the Convener. The DSWCB also included representatives from all departments/ agencies involved in issuing clearances/ permits for establishment/ operation of industrial units.

We examined applications received under the Single Window Clearance (SWC) Scheme in Palakkad, Pathanamthitta and Kozhikode districts and observed that out of 252 applications processed during the period 2011-12 to 2015-16 by the three DSWCBs, only 16 were cleared within the stipulated period of 60 days. In respect of processing the remaining 236 applications, there was delay up to 1 year in 178 cases, 1 to 3 years in 47 cases and above 3 years in 11 cases. We noticed that the inordinate delays were mainly due to:

i. Local Self Government Institutions (LSGIs) not issuing the requisite consents (consent to establish, building permit, etc.) in time, even for units located in industrial areas.

ii. DSWCBs meeting infrequently, resulting in piling up of applications. The number of meetings held by the three DSWCBs during the period from 2011-12 to 2015-16 was as given in *Table 2.14.*

Table 2.14: Details of meetings held by three DSWCBs

District	No. of meetings held					
	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Palakkad	3	3	5	3	5	19
Pathanamthitta	2	3	2	2	0	9
Kozhikode	1	3	3	4	3	14

iii. The DSWCBs not exercising the authority conferred on them by the SWCB Act, 1999 to issue deemed clearances if the agencies concerned were unduly delaying their consent.

The DI&C stated in its reply (September 2016) that the delays in issue of clearances under Single Window Scheme were mainly due to the delay on the part of KSPCB[22] which insisted that the application should be uploaded directly in their Website. Similarly, the officials of DIC who conducted preliminary appraisal of applications lacked knowledge of rules of other Departments. Obtaining clearance from the Fire & Rescue Services Department was a complicated process and consumed a lot of time, even for Units which posed no fire hazard. The Town Planning Department accepted applications attested by the LSGIs only. LSGIs took a lot of time to process applications as the Secretaries were not exercising the powers delegated to them and all applications were referred to the LSGI Boards which meet infrequently.

GoK in its reply (March 2017) assured that the Single Window Scheme was being reviewed and rules were being amended to ensure that statutory clearances are given in a time bound and transparent manner.

Performance of MSMEs in the State

2.1.14 Monitoring the functioning of MSMEs by collecting and compiling data on actual quantity of goods/ services produced, profit/ loss, financial health, etc., was essential for assessing the performance of the sector and providing assistance/ initiating remedial measures. GoK and its agencies such as DI&C, KSIDC, KINFRA, SIDCO, etc., did not, however, put in place a system for collecting, compiling and analysing data on the functioning of MSMEs in the State except in case of units availing assistance under specific schemes. In the absence of this, GoK was making policy decisions on the basis of MSME Census conducted by GoI in 2006-07.

[22] **Kerala State Pollution Control Board.**

We, however, examined performance of MSMEs in parks developed by KINFRA and noticed the following issues:

- The KINFRA Integrated Industrial Textile Park (KIITP), Kanjikode, Palakkad was established by KINFRA on 100 acres of land at a cost of ₹30 crore. 89 industrial units were allotted plots in the Park from 2011 onwards. As per the schedule of the projects, the units coming up in the Park were to be allotted power by January 2012. Power was, however, made available to the units only by September 2013. The delay in providing power was due to refusal of Kerala State Electricity Board Limited (KSEBL) to supply power to Kinesco Power and Utilities Limited (Kinesco), a joint venture set up by KINFRA and National Thermal Power Corporation Limited.

  We observed that out of the 89 units that had been allotted plots in the Park, 28 Units with a total projected investment of ₹66.32 crore and employment potential for 1,047 persons, could not commence activities and had, therefore, abandoned the projects. Even the units that had commenced production did so using DG sets till KSEBL agreed to supply power and had to incur heavy losses on that account.

  The failure of the above units to commence business was directly due to KSEBL's refusal to supply power to Kinesco at the same rate at which it was supplying power to other licensees in the State. This was violative of GoK's policy that MSME units should be promoted.

  GoK stated (March 2017) that the issues had since been resolved and power is now being supplied to the units located in the Park by KSEBL/Kinesco. The fact, however, remains that 28 units could not commence activities as envisaged due to the failure of GoK in coordinating the activities of various Departments/agencies under it.

Findings of beneficiary survey

2.1.15 We conducted a survey of 194 MSMEs[23] in the State to assess how they rated the various facilities provided by Government/Government agencies to promote and develop MSMEs in the State. The responses obtained were analysed and the major findings are given below:

- 64 *per cent* of the respondents were not aided by the Single Window mechanism set up by the State Government for commencement/ registration of new units.
- Technical assistance such as assistance in preparing project report, etc., was not provided by the State Government to 54 *per cent* of the units.
- Training in skill development/entrepreneurship was not provided by the State Government in the case of 65 *per cent* of the MSMEs.
- While 48 *per cent* of the units surveyed faced financial crisis at one time or the other, the State Government did not provide any financial

[23] Chosen at random from the units located at IEs/MIEs of SIDCO, DAs/DPs of DI&C and IGCs of KSIDC.

help to them to tide over the crisis.

- Government did not provide quality raw material to 51 *per cent* of the units.
- Marketing assistance was not provided to 80 *per cent* of the MSMEs.
- Financial assistance was not provided to 53 *per cent* of the units.
- The rating of infrastructure provided in the industrial areas developed and maintained by Government/Government agencies was as shown in *Table 2.15*.

Table 2.15: Rating of infrastructure provided in the industrial areas

Facility	Rating (Percentage of MSMEs)			
	Inadequate	Satisfactory	Good	Did not respond
Built up space	31	38	5	26
Power	35	50	4	11
Water	40	40	6	14
Roads	56	21	11	12
Security	55	27	6	12

As can be observed from the above, majority of the respondents were not satisfied with the infrastructure provided in case of roads and security arrangements.

SIDCO stated (December 2016) that it was not in a position to undertake maintenance of infrastructure in its IEs, etc., due to lack of funding by GoK.

GoK, in its reply (March 2017) assured that SIDCO would initiate action to improve the infrastructure in the IEs/IPs/MIEs.

Conclusion

- **The industrial policy of the State Government with regard to promotion and development of MSMEs contained only general objectives and specific schemes were not included in the policy to achieve the major objectives.**

- **The growth in number of new MSMEs was lower than the neighbouring States and the all India average.**

- **Government schemes for development of industrial infrastructure were not implemented optimally resulting in poor quality of infrastructure in industrial areas.**

- **The Kerala Financial Corporation, which is the only agency under the Government of Kerala providing finance to MSMEs failed in substantially fulfilling its mandate.**

- **The MSMEs were not provided adequate marketing support.**

2.2 Procurement and marketing of vegetables and fruits in the State by Kerala State Horticultural Products Development Corporation Limited

Executive Summary

Introduction

Kerala State Horticultural Products Development Corporation Limited (Company) was incorporated in March 1989 as a fully owned State Government company with the main objective to organise vegetable, fruit and flower growers and to provide them with all supplies and services to augment their income base by increased productivity and value addition through an integrated system of production, procurement, grading, storage, processing, marketing and exporting of horticultural products.

Procurement activities

During 2011-12 to 2015-16, the Company procured vegetables and fruits ranging between 4,000 metric tonne (MT) and 18,000 MT from within the State. This accounted for around two per cent of the total vegetables produced in Kerala during 2011-12 to 2015-16.

Instead of procuring directly from farmers, world markets under the control of Department of Agriculture, etc., as envisaged, the Company made 75.47 per cent purchases valuing ₹53.74 crore from traders/ middlemen during 2014-15 to 2015-16. Selection of traders was not through transparent process. Though the Company had empanelled nine suppliers, purchases amounting to ₹30.86 crore and ₹22.88 crore in 2014-15 and 2015-16 respectively were made from the non-empanelled suppliers in the five District Procurement Centres selected by Audit.

Non-procurement of vegetables from three districts

The Company did not have centres for procurement of vegetables in Malappuram, Wayanad and Kasargod districts. As a result, vegetables produced by farmers in these three districts were not procured by the Company. During the period from 2012-13 to 2014-15, these districts had produced 3.11 lakh MT of vegetables which accounted for 18.23 per cent of the total vegetable production in the State.

Remunerative prices to farmers

Farmers did not receive remunerative prices for their produce. There was undue delay in settlement of farmers' bills.

Quality of vegetables and fruits

Even though a major chunk of the procurement of vegetables and fruits was from the neighbouring States, the Company failed to ensure quality of vegetables purchased.

The lab test conducted by the Food Safety Commissioner of GoK on the samples selected from the Company revealed that some of the vegetables supplied by the Company were unsafe to eat. Quality checking conducted at the instance of Audit also revealed presence of pesticide residues in vegetables beyond permissible limits.

Absence of consistent marketing policy

The Company did not have a consistent procurement/ marketing policy. The purchase and selling prices were fixed arbitrarily.

Subsidy sale during festive seasons

The Company did not comply with the directions of the Government of Kerala (GoK) with regard to the fixation of selling price during subsidy period and made incorrect subsidy claim with the GoK.

Regional imbalances in sales outlets

Sales outlets of the Company were established without considering the regional balances and 79 per cent of the sales outlets were in seven districts in southern part of the State, thereby majority of the people were deprived of the benefits of low or subsidised price offered by the Company.

Introduction

2.2.1 Department of Agriculture, Government of Kerala (GoK) analysed the problems associated with the development of fruits and vegetables and ascertained that these were caused by the non-availability of good quality seeds and planting materials, lack of processing facilities to absorb seasonal surplus of fruits and vegetables and lack of efficient marketing system to ensure a larger share of the consumer's rupee to the producer. In order to address this, Kerala State Horticultural Products Development Corporation Limited (Company) was incorporated in March 1989 as a fully owned State Government company with the aim to organise vegetable, fruit and flower growers and to provide them with all supplies and services to augment their income base by increased productivity and value addition through an integrated system of production, procurement, grading, storage, processing, marketing and exporting of horticultural products. The activities of the Company include procurement of vegetables and fruits from farmers and distributing them to the public at discounted rates below the market price through retail outlets located in different parts of the State.

Organisational set-up

2.2.2 The registered office of the Company is located in Thiruvananthapuram. The Company has eleven District Procurement Centres (DPCs) in Thiruvananthapuram, Kollam, Kottayam, Ernakulam, Kannur, Kozhikode, Alappuzha, Pathanamthitta, Thrissur, Palakkad and Idukki districts; three Sub Regional Procurement Centres at Haripad, Chadayamangalam and Poojapura; one Beekeeping Consortium and Training Centre at Mavelikkara and one Strawberry Processing Centre at Munnar. The Company operates 77 own and 293 licensed stalls.

Audit Objectives

2.2.3 The main objectives of the Performance Audit were to ascertain whether**:**

- The Company was able to procure horticultural products from farmers to the extent envisaged and ensure remunerative prices to them; and

- Marketing of horticultural products of the farmers in the State was carried out economically and efficiently.

Audit Criteria

2.2.4 The following criteria were adopted:

- Guidelines, norms/ policies prescribed by GoK/Company;
- Cold Chain Scheme of the Company;
- Government Orders;
- Agreements/contracts with franchisees/ farmers' associations;
- Minutes of the Board meetings; and
- Agricultural Development Policy-2015 of Government of Kerala.
- Weekly price trend reports of AGMARKNET[24].

Scope of Audit and Audit methodology

2.2.5 The Performance Audit covered the activities of the Company during the period 2011-12 to 2015-16 in respect of procurement and distribution of vegetables and fruits. The methodology adopted for attaining the Audit Objectives with reference to the Audit Criteria was review of files/records maintained by the Company/ Department of Agriculture in six selected districts viz., Thiruvananthapuram, Kollam, Kottayam, Idukki, Malappuram and Palakkad. We also conducted joint surveys with 46 farmers/ farmers' associations, Secretaries of five world markets[25] and 30 licensed stalls.

The Audit Objectives, Audit Criteria and scope of the Performance Audit were discussed with the Management and Government in an Entry Conference held on 06 May 2016. The audit was conducted during June 2016 to September 2016.

Audit findings were issued to Management/ Government on 04 November 2016. Audit findings were also discussed with Department of Agriculture, GoK and Management of the Company in an Exit Conference held on 23 November 2016. Their replies and views have been given due consideration while finalising the report.

Audit Findings

2.2.6 Audit findings on procurement and marketing of vegetables and fruits by the Company are discussed below:

Procurement of vegetables and fruits

2.2.7 One of the main objectives of the Company is to provide a marketing avenue to the farmers of the State. Details of production of vegetables in the State and procurement by the Company during the last five years ended 2015-16 were as given in *Table 2.16.*

[24]An e-governance portal by National Informatics Centre which facilitates web-based information flow of daily arrivals and prices of commodities in the agricultural produce markets.

[25] Urban/ Rural Agriculture World Markets.

Table 2.16: Details of production of vegetables in the State *vis-a-vis* procurement by the Company

Year	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Production of vegetables in the State (Lakh MTs)	5.55	5.51	5.57	5.98	6.28	28.89
Procurement by the Company from within the State (Lakh MTs)	0.04	0.06	0.18	0.12	0.09	0.49
Percentage of procurement to total production	0.72	1.09	3.23	2.01	1.43	1.70

Source: Data furnished by Directorate of Agriculture and the Company.

As evident from the above table, procurement of vegetables by the Company from the farmers of the State hovered around a meagre two *per cent* of the total production. This was mainly due to lack of coordination among different Government agencies, inconsistent procurement policy, etc., as discussed in the succeeding paragraphs.

Lack of planning

2.2.7.1 Effective procurement demands preparation of realistic targets considering the quantity of vegetables and fruits anticipated to be produced in the State. Targets for procurement should be backed by financial budgets/ working capital assessment.

We observed that the Company did not set any targets for procurement of vegetables and fruits by the DPCs during 2011-12 to 2015-16. Financial budgets/ working capital requirement were also not prepared/ assessed during the above period. In the absence of targets and budgets, the Company procured vegetables and fruits on routine and *ad hoc* basis. The value of procurement declined sharply by 32.64 *per cent* in 2015-16 as compared to 2014-15 as given in *Table 2.17* due to working capital constraints.

Table 2.17: Value of procurement of vegetables and fruits by the Company

Year	2011-12	2012-13	2013-14	2014-15	2015-16
Value of procurement (₹ in crore)	13.85	37.62	76.17	77.12	51.95
Increase / (decrease) over previous year (₹ in crore)	...	23.77	38.55	0.95	(25.17)
Percentage of increase/ (decrease) over previous year	…	171.62	102.47	1.25	(32.64)

Accepting the audit observation, GoK replied (January 2017) that the Company had decided to fix targets for all DPCs with respect to procurement of vegetables and fruits from 2017-18 onwards.

Recommendation No. 1: *The Company may prepare a realistic financial budget to ascertain the working capital requirements for procurement, based on the harvest schedule.*

Lack of coordination among various agencies

2.2.7.2 The Company is the sole Public Sector Undertaking (PSU) for marketing of vegetables and fruits in the State. It is dependent on Government agencies like Department of Agriculture, Vegetables and Fruits Promotion Council Keralam[26] (VFPCK) and State Horticulture Mission (SHM) for procurement because these agencies oversee the cultivation of vegetables and fruits in the State. Therefore, coordination among these agencies was essential for maximum procurement by the Company.

We, however, noticed lack of coordination in the following cases leading to non-procurement of fruits and vegetables by the Company:

- GoK directed (November 2001)[27] the Company to establish procurement centres at block level to procure vegetables directly from farmers/ farmers' self help groups at reasonable rates. Department of Agriculture of GoK was to coordinate the activities in order to bring the vegetables to the procurement centres. In order to review and monitor the activities of the Company and the Department of Agriculture and to make these activities more efficient, GoK decided to constitute a review committee in each district consisting of the Deputy Director and Assistant Director (Marketing) of Department of Agriculture and the Regional Manager of the Company.

  We observed that the review committee was not constituted in any of the districts selected for audit even though the review committee was to be constituted in each district.

- GoK sanctioned (June 2008) 1,000 Organic Vegetable Village Programme by coordinating the activities of Department of Agriculture, SHM, VFPCK, Kerala Agricultural University, voluntary organisations, Grama Panchayats, Kudumbashree[28], educational institutions, Self Help Groups, etc. The Company was identified as the most significant agency which was supposed to participate in the programme by procuring and marketing the vegetables produced under the programme.

  During 2010-11, GoK sanctioned (Mach 2010) ₹5 crore under Haritha Vipananam Project (HVP) to the Company for procurement of vegetables produced under the 1,000 Organic Vegetable Village Programme. As per HVP, Grama Panchayaths should formulate the production programme with the technical assistance of the Department of Agriculture. The Agricultural Officer of Department of Agriculture should prepare the harvest schedule for each Grama Panchayat and intimate the same to the Company and Regional Manager of the DPCs concerned. The Regional Manager, in turn, should prepare a procurement schedule for each Grama Panchayat and vegetables should be procured from the pooling centres. The quantity available

[26] A company registered under Section 25 of the Companies Act, 1956.
[27] G.O. (M.S) No.227/2001/Agriculture dated 05/11/2001.
[28]Kudumbashree is a poverty eradication and women empowerment programme implemented by State Poverty Eradiction Mission of GoK..

and required at each DPC should be intimated to the head office three days in advance and the surplus quantity should be transported to the place of demand.

We observed that the Company diverted the amount sanctioned under HVP for working capital due to financial crisis. Further, Agriculture Officers of Department of Agriculture did not intimate the harvest schedule to the Company. Ultimately, the Company did not utilise these funds for the intended purpose.

GoK accepted the audit observation about lack of coordination among various agencies involved in the production and marketing of vegetables in the State. GoK also stated that the Company would take steps for preparing crop calendar for vegetables with the support of Agriculture Department. This would help to fulfil the objectives of the Company in a better manner.

Recommendation No. 2: ***There should be close coordination among the Company, Department of Agriculture, VFPCK, SHM, etc., for more efficient procurement of vegetables and fruits from the farmers.***

Non-assignment of specific role to the Company

2.2.7.3 The Vegetable Development Programme (VDP) implemented (2012-13 onwards) by the Directorate of Agriculture aimed at increasing production of vegetables in the State. The VDP did not envisage any marketing assistance and hence, overlooked the role of procurement by the Company.

The Agriculture Development Policy of Kerala, 2015, also did not assign any role to the Company in the development or marketing of agricultural products, even though it was the only PSU in the State involved in these activities. The annual plans formulated by the Department of Agriculture for promoting agricultural production during the audit period also ignored the aspect of procurement and marketing of vegetables and fruits by the Company.

Thus, GoK did not give due importance to the procurement and marketing of vegetables by the Company. As a result, vegetable growers of the State did not get desired marketing assistance from the Company. No specific reply was received from GoK in this regard.

Absence of DPCs in three districts

2.2.7.4 The Company did not have DPCs in three districts, viz., Malappuram, Wayanad and Kasargod. Malappuram was the third highest producer of vegetables in the State. Details of production of vegetables in these three districts during the period from 2012-13 to 2014-15 were as given in *Table 2.18.*

Table-2.18:Production of vegetables in Malappuram, Wayanad and Kasaragod

Sl. No.	District	Production (MT)	Procurement (MT)
1	Malappuram	1,98,478	Nil
2	Wayanad	66,555	Nil
3	Kasargod	46,299	Nil
	Total	**3,11,332**	Nil

Source: Data furnished by Directorate of Agriculture and the Company.

In the absence of DPCs, the Company did not procure vegetables from these districts. In order to assess how the farmers marketed the vegetables produced by them in the absence of marketing assistance from the Company, we conducted a joint survey in 5 out of 21 clusters[29] and 4 out of 18 Swasraya Karshaka Samithis[30] (SKS) in Malappuram along with the officials of the Department of Agriculture. The representatives of all five clusters and four SKS responded that their products were sold to traders at low rates in the absence of procurement by the Company.

Since the Company did not have procurement centres in these districts, the Company could not make any impact on marketing of 3.11 lakh MT vegetables produced by farmers in these three districts, which accounted for 18.23 *per cent* of the total vegetable production in the State during the period from 2012-13 to 2014-15.

Accepting the audit observation, GoK replied (January 2017) that the Company had opened a new DPC at Wayanad in November 2016 and was planning to open new DPCs in Malappuram and Kasargod districts.

Procurement of bulk quantity of vegetables from traders

2.2.7.5 Agricultural Department, GoK operates District Procurement Centres/ wholesale markets/ Urban/ Rural Agriculture World Markets (UAWMs and RAWMs). These markets were developed by GoK with the support of European Economic Committee to provide better marketing opportunities to farmers by promoting direct marketing through auction. The Government ordered (March 2012) that the Company should participate in wholesale markets of Agriculture Department for ensuring remunerative price to the farmers who bring their produce to these markets. The details of procurement of vegetables and fruits by the Company from DPCs of GoK/ UAWMs and RAWMs, traders/ middlemen and farmers in the five districts selected for audit are shown in *Table 2.19.*

Table 2.19: Details of procurement of vegetables by five DPCs of the Company

Year	Total	Traders/ Middlemen	Farmers (including procurement from world markets and VFPCK)
	(Figures ₹ in crore)		
2014-15	42.64	30.86	11.78
2015-16	28.57	22.88	5.69
Total	**71.21**	**53.74**	**17.47**

As could be seen from the *Table*, bulk of the procurement during 2014-15 and 2015-16 was from the traders/ middlemen (75.47 *per cent*) while procurement from farmers was only 24.53 *per cent* during this period. Though the GoK directed the Company to participate in the auctions held in the world markets, participation of the Company was not satisfactory as reported (October 2013) by the Director of Agriculture to GoK. Further, it was also stated that non-participation, irregular and delayed participation by the Company in the

[29] **Association of farmers.**
[30] **A self-help group of farmers.**

auctions had resulted in collusion of traders to lower the price causing loss to the farmers.

We noticed that the procurement from traders/ middlemen was due to absence of a consistent procurement policy as discussed below:

- The Company had formulated (March 1993) a Haritha Marketing Strategy which was never implemented. Subsequently, a new Cold Chain Scheme was proposed. According to this scheme approved (July 1997) by GoK, procurement of fruits and vegetables was to be made from the collection centres of VFPCK[31] and distribution was to be done through sale outlets of the Company. As it was impossible to meet the entire requirements of vegetables from within the State in the first phase, procurement on a daily basis was proposed from outside the State through agents as well. A new procurement policy was again adopted (July 2006) under the Central Scheme of Operation revamping the Cold Chain Scheme. Further in January 2008, a new Centralised purchase policy for procurement from primary source viz. directly from farmers, farmers' groups, Government agencies like VFPCK and farmers' markets was envisaged. Agents/ suppliers were not to be engaged on any account. However, Board of Directors (BoD) of the Company (December 2010) decided to purchase vegetables from wholesale agents at Thirunelveli[32] or Chalai, Thiruvananthapuram. It was also suggested by the BoD to constitute a purchase committee to oversee the purchase of vegetables from the panel of suppliers. Finally, in a meeting of suppliers with the Managing Director (May 2013), it was decided that purchases would be made only from the panel consisting of nine suppliers which was formed after giving wide publicity through newspaper advertisements.

  We observed that the decision of the Company to procure from traders was against the main objective of the Company, viz., augmentation of income base of the farmers by increased productivity and value addition through an integrated system of production, procurement, grading, storage, processing and marketing of horticultural products.

  Thus, absence of a consistent policy to procure vegetables and fruits from farmers/ farmers' groups resulted in non-procurement of vegetables at source from farmers and consequent bulk purchase of vegetables from traders, etc.

  Accepting the audit observation that the Company had no procurement policy, GoK replied (January 2017) that a procurement policy would be formulated soon.

- Though the Company decided to procure vegetables and fruits from a panel of nine suppliers, purchases amounting to ₹30.86 crore and ₹22.88 crore respectively for two years 2014-15 and 2015-16 were

[31]Erstwhile Kerala Horticultural Development Programme.
[32] A district in Tamil Nadu.

made from non-empanelled suppliers in five selected DPCs *(**Appendix 6**)*. For instance, DPC Thiruvananthapuram had purchased items worth ₹4.34 crore (21.34 *per cent*) in 2014-15 and ₹4.93 crore (37.32 *per cent*) in 2015-16 from a single non-empanelled supplier. Similarly, in DPC Kottayam, 77.90 *per cent* of the total purchases for the year 2014-15 and 74.71 *per cent* for the year 2015-16 were made from a single non-empanelled supplier. No records were maintained at the DPCs to verify that the suppliers were selected through a transparent process and had quoted the lowest rates.

GoK replied (January 2017) that it would issue directions to the Company regarding purchase, price fixation, etc. in respect of purchases from traders.

Recommendation No. 3: *Direct procurement from farmers should be encouraged. Clear-cut procurement policy emphasising procurement of vegetables and fruits from farmers/ farmers' markets like UAWM/ RAWM should be formulated at the earliest.*

Recommendation No. 4: *When procurement from traders is inevitable, the same should be done through a transparent process.*

Delay in payment to farmers

2.2.7.6 GoK directed (September 2010)[33] that payments to the farmers should be made immediately on procurement of vegetables. In order to make payments to the farmers on the very same day of auction in UAWMs and RAWMs, GoK sanctioned (September 2010) ₹0.50 crore to the Company to set up a revolving fund. Further, the Company received ₹0.50 crore in March 2012 from GoK to settle all the pending payments to farmers in UAWMs and RAWMs.

We noticed that:

- no revolving fund was created by the Company to make payments to the farmers on time.
- there were delays ranging from four months to three years in effecting payments to the farmers as shown in *Table 2.20*.

[33] **GO (Rt) No.1643/19/AD dated 14/09/2010.**

Table 2.20: Details of pending payment to the farmers

Name of the Unit	Location	Amount due (₹ in lakh)	Due as at the end of:	Range of delay up to:
World market	Anayara	24.97	April 2016	5 months
	Nedumangad	25.98	April 2016	5 months
DPC under the Department of Agriculture	Thodupuzha	12.74	July 2016	3 years
VFPCK	Thiruvananthapuram	6.71	July 2016	4 months
	Kozhikode	0.69	July 2016	4 months
Sheethakala Pachakari Vipanana Sangham (SPVS)	Kanthalloor	1.05	July 2016	4 months
	Vattavada	7.56	July 2016	1 year
Total		**79.70**		

The Director of Agriculture reported (October 2013) to GoK that undue delay by the Company in making payment for the produce procured during auction in the UAWMs and RAWMs had caused great resentment among farmers forcing them to sell their produce elsewhere at a loss. Delay in payment was confirmed by the Secretaries of the world markets as well as the farmers who were interviewed by Audit. Due to delay in payments coupled with lack of active participation by the Company in world markets as discussed in *Paragraph 2.2.7.5*, the quantity of vegetables brought for auction by the farmers to the world markets and vegetables offered to the Company by SPVS had reduced drastically as shown in *Table 2.21*.

Table 2.21: Quantity of vegetables brought by farmers to world markets and offered by SPVS to the Company

Year	Quantity of vegetables brought by farmers to world markets (MT)	Quantity of vegetables offered by SPVS and procured by the Company (MT)
2013-14	2,833	1,077.11
2014-15	2,717	724.23
2015-16	1,886	547.24

Accepting the audit observation, GoK replied (January 2017) that the Company had since cleared 99 *per cent* of the dues and it had also been decided to open a revolving fund for procurement from farmers.

Absence of ancillary facilities for processing

2.2.8 In order to provide ancillary facilities for the processing and marketing of horticultural produces and their derivatives as envisaged in the objectives of the Company, a Strawberry Processing Unit was set up (February 2014) at Munnar with the financial assistance of State Horticulture Mission (SHM). The Strawberry Processing Unit costing ₹75 lakh was set up specifically for safeguarding the interest of farmers of Idukki district involved in the cultivation of strawberry.

The project proposal envisaged a yield of 1,250 MT of strawberry fruits per year in Idukki district. SHM supplied 8,33,001 strawberry runners[34] to the

[34] **Strawberry runner is a shoot, branch, or twig springing from the root. Most of the commonly cultivated varieties of strawberry plants will produce "runners" as a means of propagating themselves.**

farmers during 2014-15 to achieve the targeted yield.

We, however, noticed that the Company could procure only 1,035 kg of strawberry during 2014-15. The unit was not operated further due to non-availability of strawberry for processing in 2015-16 as the Company did not coordinate with SHM to ensure that strawberry runners were provided to the farmers for cultivation in time. Thus, the investment of ₹75 lakh became infructuous due to idling of the unit.

GoK replied (January 2017) that the Company would take efforts to make the Strawberry Processing Unit a viable one from 2017-18 onwards.

Non-utilisation of storage facilities

2.2.9 In order to achieve an annual procurement/ sales target of one lakh MT of vegetables, the Company proposed and GoK approved (July 1997) implementation of a Cold Chain Scheme comprising establishment of nine cold storages, 140 vegetable super markets, 500 mini vegetable stores, nine refrigerated trucks and six air conditioned sales units. Out of various schemes envisaged under Cold Chain Scheme, the Company constructed (January 2001) two cold storages at Munnar (Idukki) and Eruthiampathy (Palakkad) at a cost of ₹61.22 lakh.

We observed that both cold storages remained idle due to defects in construction like variation in temperature of cold storage from one portion to another, high electricity charges/ cost of operation, exorbitant cost of transportation, etc. The construction was carried out without proper feasibility study. These issues were highlighted in the C&AG's Audit Report (Commercial), 2004, Government of Kerala. Based on the findings in the Audit Report, Committee on Public Undertakings had directed (February 2009) the Company to take action against the erring officials of the Company. Action was, however, yet to be taken (March 2017).

Non-implementation of Cold Chain Scheme led to non-procurement of one lakh MT vegetables as envisaged in the project proposal and wasteful expenditure of ₹61.22 lakh.

Marketing of vegetables and fruits

2.2.10 One of the main activities of the Company is to provide vegetables and fruits to the public at reasonable prices. The Company sells vegetables and fruits procured from farmers and traders through its 408 sales outlets[35] (77 own stalls, 293 licensed stalls and 38 own mobile vans) under the DPCs. Details of procurement and marketing of vegetables and fruits by the Company during the five year period ending 2015-16 were as given in *Table 2.22.*

[35] **Position as on 31 March 2016.**

Table 2.22: Year-wise value of procurement and sales by the Company

Year	Procurement	Sales
	(Value ₹ in crore[36])	
2011-12	13.85	16.75
2012-13	37.62	35.09
2013-14	76.16	83.63
2014-15	77.12	81.39
2015-16	51.95	64.93

We examined the marketing activities of the Company and noticed that the Company failed to provide vegetables and fruits at reasonable price to the public due to absence of balanced marketing outlets, improper pricing, failure to pass on the subsidy to consumers, poor performance of sales outlets, loss due to excessive damage of vegetables, etc. Vegetables and fruits were not subjected to laboratory analysis periodically to ensure quality. These are discussed in succeeding paragraphs.

Regional imbalances in marketing outlets

2.2.10.1 For ensuring supply of vegetables to all the people of the State, sales outlets should be located uniformly throughout the State. It was, however, observed that 79.17 *per cent* (323) of the sales outlets were located in seven districts in the southern part of the State whereas only 20.83 *per cent* (85) sales outlets were located in four districts in the north (Kannur, Kozhikode, Thrissur and Palakkad). The remaining three northern districts viz., Malappuram, Wayanad and Kasargod did not have any outlets as on 31 March 2016. Further, 30.64 *per cent* of the outlets (125) were under DPC Thiruvananthapuram as depicted in *Table 2.23.*

Table 2.23: Details of district wise sales outlets *vis-a-vis* population.

Sl. No.	Name of the district	Sales Outlets		Population	
		Numbers	Percentage	Population (in lakh)	Percentage
1	Thiruvananthapuram	125	30.64	33.07	9.90
2	Kollam	47	11.52	26.30	7.88
3	Pathanamthitta	14	3.43	11.96	3.58
4	Alappuzha	53	12.99	21.22	6.36
5	Kottayam	57	13.97	19.79	5.93
6	Idukki	6	1.47	11.07	3.32
7	Ernakulam	21	5.15	32.80	9.82
8	Thrissur	7	1.72	31.10	9.31
9	Palakkad	6	1.47	28.11	8.42
10	Malappuram	0	0	41.11	12.31
11	Kozhikode	49	12.01	30.90	9.25
12	Wayanad	0	0	8.17	2.45
13	Kannur	23	5.63	25.26	7.57
14	Kasargod	0	0	13.03	3.90
Total		**408**	**100**	**333.89**	**100**

It can be seen from the above *Table* that the number of outlets in the districts were not commensurate with the population of the respective districts. Though

[36]Figures from 2012-13 onwards based on the provisional accounts.

Malappuram is the most populated district in the State, there was no sales outlet of the Company in the district. Thiruvananthapuram accounted for only 9.90 *per cent* of total population, but 30.64 *per cent* of the total sales outlets were functioning there.

Accepting the audit observation, GoK replied that (January 2017) the Company had decided to start new outlets throughout the State to reduce the regional imbalance in the marketing outlets.

Absence of uniform pricing policy

2.2.10.2 An efficient marketing system is vital for ensuring the twin objectives of remunerative prices to farmers and reasonable prices to consumers. As per the Cold Chain Scheme, the selling price of vegetables and fruits are to be fixed at 30 *per cent* above the procurement price. The Managing Director (March 2016) confirmed that 30 *per cent* was added to cover handling charges like loading, unloading, damage, manpower cost, transportation, small margin, etc.

We noticed that the Company did not follow a consistent policy for fixing of selling price of vegetables and fruits. There was lack of uniformity in fixation of selling price and each DPC earned different percentage of margin. Vegetables were supplied at the godown of each DPC at a rate which was inclusive of transportation cost. As such, the percentage of margin adopted by all DPCs should be the same. Some of the instances where the same items were sold at different rates adding varied margin on the same date are given in *Table 2.24.*

Table 2.24: Details of sale of same item at different margins

Date	22/08/2015			26/08/2015		
Item	Ladies finger			Onion		
District	Procure-ment price/ kg (₹)	Selling price/ kg (₹)	Percentage of margin	Procure-ment price/ kg (₹)	Selling price/ kg (₹)	Percentage of margin
Thiruvananthapuram	6.60	16.00	142.42	67.00	65.00	(-) 2.99
Kollam	7.50	16.00	113.33	59.40	64.00	7.74
Kottayam	13.00	15.00	15.38	63.00	62.00	(-) 1.59
Palakkad	10.00	12.00	20.00	68.00	60.00	(-) 11.76
Idukki	12.00	20.00	66.67	32.00	65.00	103.13

Accepting the audit observation, GoK agreed (January 2017) that a market intelligence system would be set up for fixing fair price of vegetables and fruits.

Fixation of higher prices for inter district sale

2.2.10.3 According to the Cold Chain Scheme, retail selling price of the Company would be fixed at 10 *per cent* less than the average retail selling price prevailing in the market. The procurement price will be 30 *per cent* less than the retail price fixed as above.

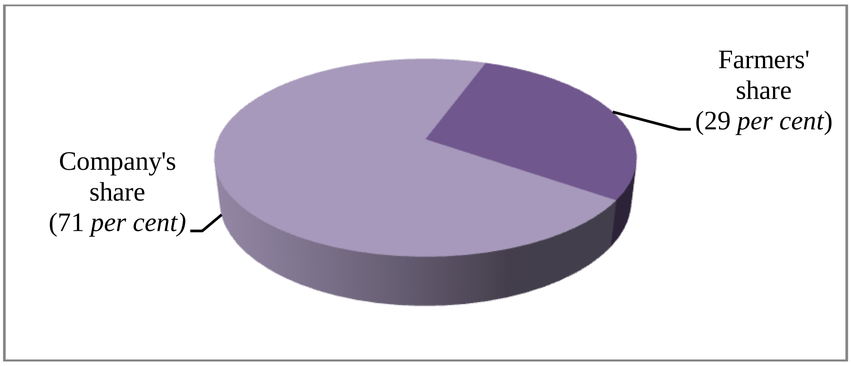
The Company opened DPC at Palakkad in April 2013 and at Idukki (Munnar) in February 2014. Procurement of vegetables from farmers by these two DPCs, distribution of the same to DPC Thiruvananthapuram and corresponding sales by this DPC through its sales outlets for a period of one month (July 2016) was reviewed by Audit.

We noticed that these DPCs accounted for transfer of the procured items to DPC Thiruvananthapuram as sales by adding a margin to the procurement price. DPC Thiruvananthapuram in turn accounted for the same as purchases and ultimately sold them to the public by adding its own margin. The Company was permitted to add a margin of 30 *per cent* only to cover handling charges like loading, unloading, damage, manpower cost, transportation, small margin, etc. As against this, it earned an overall margin varying from 50.77 *per cent* to 241.11 *per cent* ***(Appendix 7)***.

We also noticed that the farmers were not paid remunerative price as illustrated below:

- On 25 July 2016, the AGMARKNET price at Palakkad for padavalam[37] was ₹18/kg. According to the Cold Chain Scheme, the Company was to procure padavalam at ₹11.34/kg[38]. The Company, however, procured 2,240 kg of padavalam from Palakkad district (on 25 July 2016) at ₹9/kg. Thus, the farmers were denied remunerative price. Palakkad DPC distributed padavalam to DPC Thiruvananthapuram at ₹12.50/kg, taking a margin of ₹3.5/kg and this was finally sold by DPC Thiruvananthapuram for ₹30.70/kg adding a further profit of ₹18.20/kg. Ultimately, the Company earned a profit of 241.11 *per cent* in this transaction whereas the farmer received only 29 paise of each rupee paid by the consumer as shown in *Chart 2.1*:

Chart 2.1: Share received by the farmers from each rupee paid by the consumer in the illustrative case.



GoK accepted (January 2017) the audit observations and agreed to give suitable directions to the Company to treat inter DPC transfers as stock transfer and not as sales. GoK also stated that the system of adding abnormal margin as pointed out by Audit would be avoided in future.

[37]**Snake gourd.**

[38]**AGMARKNET price -₹18/kg less 10 *per cent* (₹1.80/kg) = ₹16.20/kg less 30 *per cent* (₹4.86/kg) = ₹11.34/kg.**

Failure to pass on the subsidy to consumers and irregular claim of subsidy from GoK

2.2.10.4 During festive seasons, GoK intervenes in the market through the Company with the objective of stabilising the prices of vegetables and fruits. According to the directions of GoK, the Company was to sell vegetables at 30 *per cent* subsidy during the festive season (subsidy period). The GoK gives necessary subsidy to the Company every year for making good the loss incurred on account of subsidised sales to the public. During the period 2011-12 to 2015-16, GoK allotted ₹44.61 crore to the Company towards market intervention activities.

On a review of the market intervention activities in five DPCs during the Onam season, 2015-16 (17/08/2015 to 27/08/2015), we noticed that:

- While fixing the selling price in four DPCs during the above festive season, the Company did not adhere to the directions of the GoK on fixation of selling price. In 167 out of 176 cases verified, the Company fixed selling price without reducing 30 *per cent* from the prevailing market price.

  The Regional Managers of the DPCs concerned replied that the selling prices were fixed below the local market rates during the subsidy period. The reply was factually incorrect as the local market rates in the website of (AGMARKNET) Government of India were less than the rates adopted by the Company. We also noticed that the Company did not have a system or defined guidelines to assess the market rate.

- The Company was eligible to receive subsidy on sale of vegetables at prices lower than the market price. Even though the Company did not sell vegetables at subsidised rate during the above festive season, the Company claimed subsidy from Government by reckoning wrong market price for the vegetables sold.

  We compared the market rate reckoned by the Company for claiming subsidy for six vegetables during this period with their maximum retail price (MRP) in the website of (AGMARKNET) Government of India. On comparison of the prices of these items for 11 days individually, we observed that the market rates reckoned by the Company for claiming subsidy were higher than the MRP published in AGMARKNET in 138 out of 176 cases as shown in *Table 2.25.*

Table 2.25: Instances where non-compliance of directions of GoK in fixing selling price and reckoning of market rates in excess of AGMARKNET price.

Sl. No.	Name of the DPC	Total number of cases reviewed	Number of cases where selling price exceeded the price to be fixed as per directions of GoK	Number of cases where the market price reckoned for claiming subsidy was higher than AGMARKNET rate
1	Thiruvananthapuram	54	52	49
2	Kollam	48	46	42
3	Kottayam	24	23	24
4	Palakkad	50	46	23
	Total	**176**	**167**	**138**

The Government in its reply (January 2017) confirmed that, for controlling price hike in open market during festive seasons, it gives directions to the Company to sell the items below the market price. Further, as no hard and fast rule regarding subsidy was in existence, GoK directed the Company to furnish necessary proposals for taking further action.

The reply was not acceptable as the intention of providing subsidy was to compensate any loss incurred by the Company due to price stabilisation activities during festive seasons. Further, we noticed that the Company was making abnormal profit during subsidy period and preferring incorrect claim for subsidy with the Government.

Recommendation No. 5: ***A marketing policy which prescribes the method of fixation of selling price should be adopted and it should be ensured that this policy is strictly followed by the Regional Managers while fixing selling price. The Company should pass on the benefit of subsidy received from the Government to the public.***

Inefficient operation of sales outlets

2.2.10.5 The Company markets its products through its own stalls and licensed stalls. As on 31 March 2016, the Company had 293 licensed and 77 own stalls in the State. The position of stalls during the last five years (2011-12 to 2015-16) is given in *Table 2.26.*

Table 2.26: Position of licensed and own stalls

Year	Licensed stalls	Own stalls
	(Number)	
2011-12	73	42
2012-13	115	72
2013-14	309	85
2014-15	365	79
2015-16	293	77

Performance of the licensed stalls and own stalls is discussed below:

- The licensed stalls are working on the basis of a written agreement entered into with the Company. The agreement stipulated that (a) In case the licensee takes supply of vegetables for less than 20 days or for less than ₹3,000 per day, ₹50 per supply will be recovered from the licensee as service charge and the total of the above amount will be debited from the licensee's account at the end of each month, (b) The licensee shall not display, advertise or sell any items other than those supplied by the Company for sale through the retail stall except with the written permission of the Company, (c) All sales shall be made at the price fixed by the Company and intimated to the licensee from time to time and licensee will maintain proper accounts. Price list should be exhibited compulsorily; and (d) The stalls shall be compulsorily kept open from 7 am to 7 pm every day.

We observed that only 46 out of 144 licensed stalls (March 2016) in three DPCs (Thiruvananthapuram, Kollam, Kottayam) had lifted vegetables for 20 days or more per month. We examined the reasons for poor lifting of vegetables by conducting a joint physical verification with the officials of the Company in 30 out of 144 stalls functioning under these DPCs. Result of joint physical verification was as discussed in *Table 2.27.*

Table 2.27: Details of result of joint physical verification

Sl. No.	Observation	Conclusion
1	73.33 *per cent* (22 stalls) licensees replied that the Company was not able to supply items in time. Supply was normally provided only after 11 am.	Failure to supply in time adversely affects fresh supply of vegetables to the public. During the survey, it was revealed that 19 stalls (63.33 *per cent*) procured items from open market. Sale of items procured from open market under the brand name of the Company would adversely affect the goodwill of the Company, as the quality of these items cannot be ensured. Selling with the Company caption ("Safe to eat vegetables procured from farmers of Kerala is available here") is also tantamount to deceiving the general public.
2	25 stalls (83.33 *per cent*) did not exhibit the selling price on the price board.	Collection of excess price from consumers cannot be ruled out as the consumers are unaware of the daily price.

- For own stalls, the Company fixed (July 2015) sales target of minimum ₹5,000 per day per employee. It was also decided to close its own stalls, which failed to meet the target.

  On a review of sales made by Company's own stalls in the selected DPCs for the month of March 2016, we observed that the daily target was ₹6 lakh per day (120 staff in 42 own stalls), while the average actual achievement was only ₹3.22 lakh i.e., a shortfall of 46.33 *per cent*. Further, 33 out of 42 stalls did not achieve the target of minimum ₹5,000 per day per employee. While 80 *per cent* of stalls in DPC Kottayam and 10 *per cent* of stalls in DPC Kollam achieved the target, none of the stalls in other three DPCs achieved the target.

We noticed that 17 own stalls of DPC Thiruvananthapuram were concentrated in 4 Panchayaths and in Corporation area while there was no own stall in the remaining 79 Panchayaths in the district which may also have contributed to the poor performance of its own stalls.

Regarding poor performance of licensed stalls, GoK replied (January 2017) that it was planning to convene a meeting with the licensees to formulate a policy for upgrading the performance of the licensed outlets and to cut down non-profitable ones. However, GoK did not give any reasons for the poor performance of Company's own stalls.

Availability of quality vegetables at reasonable price to the general public in the State could not be ensured by the Company due to inefficient monitoring of licensed stalls and own stalls.

Recommendation No.6: ***Specific targets should be fixed for both own and licensed stalls and their performance should be closely monitored.***

Loss due to excessive damage of vegetables

2.2.11 Vegetables and fruits are prone to damage during transportation and storage at DPCs and sale in licensed stalls and own stalls. As per Cold Chain Scheme, eight *per cent* average weight loss was permissible during transportation and storage. The Company, however, had not fixed any limit of permissible damage for vegetables and fruits during various stages of procurement and sales.

We noticed that:

- The Company did not have a uniform policy for controlling and minimising damage in the sales outlets. The licensed stalls were allowed damage up to two *per cent* of the gross value of vegetables supplied to them. However, no such limits were prescribed for its own stalls. Only DPC Thiruvananthapuram had fixed five *per cent* ceiling as permissible damage for its own stalls.
- Scrutiny of the procurement and sales of 21 vegetables/ fruits at DPCs in Thiruvananthapuram, Kollam and Kottayam for 2014-15 and 2015-16 revealed that the damage in excess of eight *per cent* allowable weight loss on transportation and storage was ₹3.49 crore. Major reason for excess damage was purchase (13,980 MT[39]) in excess of the indented quantity (11,138 MT). Further, the Company did not have adequate marketing outlets for selling and storage facilities for storing the vegetables procured in excess of indented quantity.

  Excess damage was also noticed in respect of items which are not quickly perishable like banana, ginger, drumstick and onion for the same period as shown in *Table 2.28.*

[39]Indented quantity in respect of DPC Kottayam was not available. Hence, figures of DPCs Thiruvananthapuram and Kollam were taken.

Table 2.28: Details of percentage of damage on selected items

Sl. No.	Item	Total procurement during 2014-16	Total damage during 2014-16	Percentage of damage
		(in MT)		
1	Banana	2059	360	17.48
2	Ginger	341	65	19.06
3	Drumstick	374	63	16.84
4	Onion (small)	847	136	16.06

- The DPCs failed to monitor the damage at its own stalls and no recovery was made from the stall-in-charges concerned. As a result, in four DPCs, value of excess damage after providing for five *per cent* allowable damage worked out to ₹87.10 lakh as given in *Table 2.29.*

Table 2.29: Details of excess damage in own stalls

Name of DPC	Sales	Damage	Allowable damage	Excess damage	Period[40]
	(₹ in lakh)				
Thiruvananthapuram	412.94	25.65	20.65	5.00	October 2015 to March 2016
Kollam	1,295.74	126.29	64.79	61.50	2011-12 to2015-16
Kottayam	880.16	63.92	44.01	19.91	2013-14 to 2015-16
Palakkad	15.28	1.45	0.76	0.69	December 2015 to March 2016
Total	**2,604.12**	**217.31**	**130.21**	**87.10**	

Thus, inefficient management led to excess damage and non-recovery of consequent loss from the delinquent officials.

Accepting the audit observation, the Company agreed to fix the maximum allowable limit of damage and to fix responsibility on the staff concerned for excess damage in future. This was also endorsed (January 2017) by GoK.

Recommendation No. 7: *The Company may fix norms for maximum permissible percentage of damage for each category of vegetables and fruits. The staff concerned should be held responsible if damage happens above the permissible limit.*

Quality of vegetables sold as 'Safe to eat'

2.2.12 GoK implemented Annual Plan scheme (2012-13), 'Production and marketing Safe to Eat vegetables' through Government outlets with the objective of monitoring pesticide residues in vegetables and fruits. The Company was selling vegetables and fruits under the banner 'Safe to eat'.

We observed that the Company did not monitor pesticide residue in vegetables and fruits for selling the same under the banner 'Safe to eat'. Examination of pesticide residues in vegetables and fruits in Company's outlets by independent agencies disclosed the following facts.

[40] Period for which records were made available to Audit.

- The lab test done on vegetable samples collected from two outlets of the Company in Thiruvananthapuram during the period from January to December 2013 by Kerala Agricultural University revealed that 26 out of 48 samples were unsafe to eat due to high pesticide content. Similarly, nine out of 20 samples collected during the period from January to December 2014 were found unsafe to eat.
- At the instance of Audit, the Assistant Commissioner of Food Safety collected eight samples from DPC Thiruvananthapuram and two samples from Company's own stall at Kowdiar and found that two items viz., salad cucumber and chilli contained pesticides above the permissible limit as shown in *Table 2.30.*

Table 2.30: Details of pesticides found in vegetables

Name of the item	Name of pesticide found	Permissible limit of the pesticide	Result
Salad cucumber	Acephate	0.050 mg/kg^{-1}	0.769 mg/kg^{-1}
Chilli	Profen Acephate Thiamethoxam	0.050 mg/kg^{-1} 0.050 mg/kg^{-1} 0.050 mg/kg^{-1}	2.170 mg/kg^{-1} 0.520 mg/kg^{-1} 0.053 mg/kg^{-1}

We observed two instances of food poisoning after consumption of vegetables purchased from the Company as discussed below:

- During June 2014, students and teachers of Government Higher Secondary School for Girls, Cotton Hill, Thiruvananthapuram were hospitalised due to food poisoning after consuming vegetables (yam) supplied by the Company. The Kerala State Commission for Protection of Child Rights had directed (February 2015) the Company to ensure the quality of vegetables supplied. Further, in July 2016, the Director General of Prisons and Correctional Services informed that tapioca supplied by the Company to Special Sub-Jail, Thiruvananthapuram had caused stomach ailments to the jail inmates. The Superintendent of the Jail also appraised (July 2016) the Company regarding the poor quality of tapioca supplied to them.

While accepting the audit observation, GoK informed that directions had already been given to the Company to furnish necessary proposals for starting chemical test laboratories in all the districts.

Lapses in Internal Control system

Lapses in accounting of procurement and damage

2.2.13 The following Internal Control lapses were noticed:

- The Company collected indents on a daily basis from the stalls and institutions to ascertain their requirement of vegetables and fruits on the next day. However, these indents were not properly tabulated and purchases regulated in accordance with indented quantity. We observed excess procurement of vegetables and fruits in two DPCs as shown in *Table 2.31*:

Table 2.31: Excess procurement of vegetables and fruits

Name of the DPC	Year	Indented quantity	Procured quantity	Excess quantity
		(MT)		
Thiruvananthapuram	2014-15	6,423	7,059	636
	2015-16	2,803	4,067	1,264
Kollam	2014-15	893	1,618	725
	2015-16	1,019	1,236	217
Total		**11,138**	**13,980**	**2,842**

Excess procurement led to abnormal damage of vegetables and fruits as stated in *Paragraph 2.2.11*.

- At Sub-Centre Poojapura, DPC Kottayam and DPC Kollam, we noticed that purchases were made from one person, but payments were made to a different person. Illustrative cases of such irregularities for the settlement of purchase bills are given in ***Appendix 8***.

- Payment vouchers were prepared and passed by a temporary Accounts Assistant instead of a permanent staff authorised by the MD of the Company. As the payments were made in cash and details of purchases, sales, closing stock and damage were not recorded in the stock register, the possibility of payment based on bogus bills could not be ruled out. The situation was more alarming at the Sub Centre Poojappura as it recorded purchases showing only the amount and name of suppliers in Tally Software while more specific details like, name of item, quantity procured, rate/kg, etc., were not recorded.

- Stock register was not maintained at DPC Kollam while it was not properly maintained at DPC Thiruvananthapuram and Sub-Centre Poojappura;

- Cash Book was not updated at DPC Thiruvananthapuram and Sub-Centre Poojappura;

In the absence of such primary records, fraudulent practices could not be ruled out. It is also pertinent to mention that the Finance Inspection Wing of GoK found blank bill books of two suppliers from the Company's head office and Sub-DPC Chadayamangalam.

The Company/GoK accepted the audit observations and agreed to issue proper directions to all DPCs for proper maintenance of records. It also agreed to give directions to the managers to procure vegetables from the farmers' cluster with proper bills duly countersigned by the agriculture officer concerned.

Excess employment of staff at DPCs

2.2.14 In the Government Order (November 2001) for the revival of the Company, it was directed that one worker should handle at least 500 kg of items per day.

A test check of the staff position at the five selected DPCs revealed that the average weight handled per person at DPC Thiruvananthapuram was far less as shown in *Table 2.32.*

Table 2.32: Details of excess staff in DPCs

Year	DPC Thiruvananthapuram					
	Total staff at DPC	Total weight handled (kg)	Average weight handled per day* (kg)	Average weight handled/ day/ staff (kg)	Number of Staff required[41]	Number of Excess Staff
2012-13	112	50,82,433	16,941.44	151.26	34	78
2013-14	141	74,21,804	24,739.35	175.46	49	92
2014-15	157	90,07,570	30,025.23	191.24	60	97
2015-16	132	48,20,918	16,069.73	121.74	32	100

***** *An average of 300 working days per year.*

Accepting the audit observation, GoK agreed (January 2017) to reduce excess staff at DPC Thiruvananthapuram.

Conclusion

The Company could not achieve the intended objectives as it procured only around two *per cent* of the total vegetable production in the State during 2011-12 to 2015-16. Lower share in procurement of vegetables were due to lack of co-ordination among various agencies of GoK, inconsistent procurement policy, absence of procurement centres in all districts and non-implementation of planned schemes. Instead of procuring directly from farmers, world markets, etc., as envisaged, the Company made 75.47 *per cent* purchases valuing ₹53.74 crore from traders/ middlemen during 2014-15 to 2015-16. Selection of traders was not through transparent process. DPC Thiruvananthapuram purchased items worth ₹4.34 crore (21.34 *per cent*) in 2014-15 and ₹4.93 crore (37.32 *per cent*) in 2015-16 from a single supplier. Similarly, 77.90 *per cent* of the purchase from traders for the year 2014-15 and 74.71 *per cent* for the year 2015-16 were made from a single non-empanelled supplier at DPC Kottayam. There were delays in payment to farmers and failure to pay remunerative prices to farmers. Vegetables supplied by the Company as 'Safe to eat' contained chemical residues above permissible limits in certain cases. The Company also failed to supply vegetables and fruits to the public at reasonable price due to improper pricing policy, non-passing of benefit of subsidy to the public and inefficient operation of sales outlets.

[41] **To handle weight at the rate of 500 kg per person per day.**

2.3 Information System Audit of HT and EHT Billing and Accounting software used by Kerala State Electricity Board Limited

Executive Summary

Introduction

Kerala State Electricity Board Limited (Company), incorporated in January 2011, is engaged in generation, transmission and distribution of electricity in Kerala. The electricity consumers of the Company are divided into Low Tension (LT), High Tension (HT) and Extra High Tension (EHT) categories.

HT/EHT Billing Process

The electricity consumption of HT/EHT consumers was assessed for billing by the Assistant Engineers at Electrical Section offices through meter reading. Meter reading data along with other details were thereafter sent to Special Officer-Revenue (SOR) at the Corporate Office. The authorised staff at SOR uploaded the data into the billing software and bills were generated.

Software development and implementation

Tata Consultancy Services Limited (TCS) was awarded the work of providing and implementing HT/EHT billing system and web enabled services (Phase 1) and providing and implementing Automated Meter Reading System for HT/EHT consumers (Phase 2).

We observed delay in framing of System Requirement Specification, incomplete development of software, lack of planning in implementation and non-implementation of Automated Meter Reading System.

Mapping of business rules

All business processes relating to billing, collection and accounting of HT/EHT consumption had to be mapped correctly in the application software. Further, the business processes mapped in the software had to be compliant with the applicable laws, rules and regulations with all the necessary controls to ensure that the amount billed and collected conformed to the prescribed rules and regulations.

We observed that relevant business rules had not been fully and correctly mapped into the application, which had an impact on the revenue realisation.

General IT controls

General controls are concerned with the organisation's IT infrastructure, IT related policies and working practices. We observed issues in Data migration, password policy, etc.

Application controls

Application controls include input control and validation control. Application controls are used in a computer system to provide assurance that all transactions are valid, authorised and complete. We noticed lack of proper input controls and validation controls.

Generation of reports

The application software must be capable of generation of quality reports on various data coming under its purview. Further, the application should be designed to generate reports on regular basis as and when required by the stakeholders.

We noticed that incorrect and incomplete data were stored and processed in the billing software and consequently inaccurate and unreliable reports were generated.

Introduction

2.3.1 Kerala State Electricity Board Limited (Company), incorporated in January 2011[42], is engaged in generation, transmission and distribution of electricity in Kerala. The electricity consumers of the Company are divided into Low Tension[43] (LT), High Tension[44] (HT) and Extra High Tension[45] (EHT) categories.

As of March 2016, the Company had 1.17 crore LT consumers, 5020 HT consumers[46] and 53 EHT consumers[47]**.** These consumers had been billed for consumption of electricity at rates approved as per the Tariff Orders of the Kerala State Electricity Regulatory Commission (KSERC). The billing of consumers was also subject to the provisions of Kerala State Electricity Supply Codes (Supply Code) 2005 and 2014.

With a view to automate key revenue billing and collection activities in respect of HT/EHT consumers and to improve customer satisfaction, the Board of Directors (BoD) of the Company decided (July 2008) to implement a comprehensive and fully automated computerised system consisting of HT/EHT billing application software, Automated Meter Reading (AMR)[48] system and web enabled services for the HT/EHT consumers. The Company introduced the billing and accounting software, Enterprise Related Generalised Information System (ENRGISE) developed by Tata Consultancy Services Limited (TCS) in September 2010. ENRGISE was based on Linux operating system and used Postgres Plus Advanced Server for database management.

Details of revenue from HT/EHT consumers and the total revenue from sale of power during the last five years ending 2015-16 are given in *Table 2.33.*

[42]The Company was formed after unbundling the erstwhile Kerala State Electricity Board in accordance with the provisions of Electricity Act, 2003.
[43]Low Tension consumers are those consumers who avail supply of electricity at a voltage not exceeding 1,000 volts under normal conditions subject to the percentage variation as may be specified by the Central Electricity Authority (CEA) from time to time.
[44]High Tension consumers are those consumers who avail supply of electricity at voltage higher than 1000 volts but do not exceed 33,000 volts under normal conditions subject to the percentage variation as may be specified by the CEA from time to time.
[45]Extra High Tension consumers are those consumers who avail supply of electricity at voltage higher than 33,000 volts under normal conditions subject to the percentage variation as may be specified by the CEA from time to time.
[46] Excluding dismantled service connections.
[47] Excluding dismantled service connections.
[48]The main objective of AMR system is to acquire meter data from HT/EHT consumer meters automatically from remote avoiding any human intervention.

Table 2.33: Details of revenue from HT/EHT consumers

(Figures: ₹ in crore)

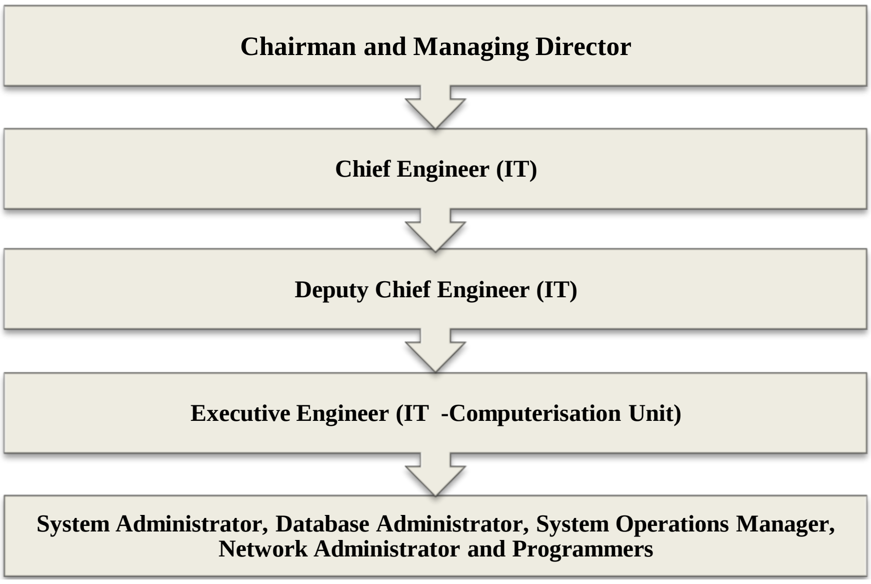
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue from sale of power to HT/EHT consumers[49]	1,845.70	2,484.20	2,977.78	3,007.70	3,284.80
Total revenue from sale of power including LT consumers	5,593.02	7,223.39	9,978.88	9,879.35	10,487.71
Percentage of revenue from sale of power to HT/EHT consumers to total revenue from sale of power	33.00	34.39	29.84	30.44	31.32

Source: Annual accounts of the Company.

Organisational structure

2.3.2 The Information Technology (IT) wing of the Company was responsible for overall development, implementation and maintenance relating to automation of various functional areas of the Company. The Chief Engineer (IT) reports directly to the Chairman and Managing Director of the Company and is assisted by a Deputy Chief Engineer and Executive Engineers (EEs). IT–Computerisation Unit (IT-CU) at Corporate Office is headed by an Executive Engineer responsible for the monitoring and maintenance of HT and EHT billing system. Organisational set-up of IT Computerisation Unit is given in *Chart 2.2* below:

Chart 2.2: Organisational set-up of IT Computerisation Unit



HT/EHT Billing Process

2.3.3 The Company had 747 Electrical Section offices[50] as at the end of July 2016, out of which 746 Section offices were connected to Wide Area Network (WAN)[51]. The electricity consumption of HT/EHT consumers was assessed

[49] Including deemed HT Consumers.
[50] Electrical Section offices are the base level offices in the distribution wing of the Company.
[51] WAN stands for Wide Area Network. It is a computer network over a large geographical area used to relay data among various computer terminals.

for billing by the Assistant Engineers (AEs) at Electrical Section offices through meter reading[52] taken manually. Meter reading data along with other details were thereafter sent[53] to Special Officer-Revenue (SOR) at the Corporate Office. The authorised staff at SOR uploaded the data into the billing software and bills were generated. The bills were then issued to the consumers for making payments.

Audit Objectives

2.3.4 The audit objectives were to assess whether:

- there existed a proper plan and procedure to develop and implement the system to achieve the Company's objectives and requirements;
- the system efficiently supported the business process and ensured compliance of applicable rules and regulations and the bills were generated accordingly;
- adequate security controls were in place in the system; and
- the system provided complete, reliable and authorised information for management use.

Audit Criteria

2.3.5 Audit adopted the following criteria:

- Business rules, regulations and procedures of the Company;
- Information security policy and password policy of the Company;
- Orders/ circulars/ notifications issued by Government of India, Government of Kerala and Board of Directors of the Company from time to time;
- Tender documents and request for proposal and System Requirement Specification; and
- Best practices for IT development and implementation.

Audit scope and methodology

2.3.6 The scope of IT Audit included the evaluation of the software used for computerised HT/EHT billing and the effectiveness of the software in generating correct billing for the Company. The scope also included review of records at IT-CU and office of the SOR at Corporate office. The data of bills maintained in the central server, located at Corporate Office of the Company at Thiruvananthapuram, in respect of all HT/EHT consumers pertaining to the period April 2011 to July 2016 was selected for checking and evaluation with a view to ascertain completeness, regularity, integrity and consistency of data. The entire data of the above period was obtained in the form of a database dump and was analysed using Computer Assisted Audit Techniques. The adequacy of IT controls was evaluated to identify loss/omission/excess collection of revenue and to ensure comprehensiveness of the billing software.

[52]The meter readings were taken at every billing cycle normally at the end of a month.

[53] From July 2016 onwards, AEs of all Electrical Section offices were allowed to upload the meter reading data directly to the billing system.

Audit Findings

2.3.7 Audit findings on the computerisation of HT/EHT billing system are discussed in succeeding paragraphs.

2.3.8 Software development and implementation

Delay in framing of System Requirement Specifications

2.3.8.1 As per the work order, system study and design and coding had to be completed by Tata Consultancy Services Limited (TCS) by November 2009. System Requirement Specifications[54] (SRS) which is vital for development of the software should have been submitted before November 2009. We observed that the SRS was submitted by the TCS in April 2010 after a delay of four months and the BoD of the Company approved the SRS only in November 2010 after parallel running and system testing. The system development and implementation was, thus, done by TCS without a formally approved and mutually agreed SRS.

GoK replied (January 2017) that a functional committee having domain experts had approved the SRS in June 2010.

The reply was not acceptable since the SRS had to be approved before the completion of software development and system integration. The SRS was, however, approved (November 2010) only after the completion of software development and system integration in June 2010.

Incomplete development

2.3.8.2 A tender was invited (September 2008) for the computerisation of the HT/EHT billing system and the work was awarded (June 2009) to TCS who quoted the lowest price of ₹3.99 crore. The scope of the work included providing and implementing HT/EHT billing system and web enabled services (Phase 1) and providing and implementing AMR system for HT/EHT consumers (Phase 2).

TCS completed the software development and the system integration[55] of HT/EHT Billing Application (Phase 1) in June 2010 and the software was tested on pilot basis (parallel run) for two months (July and August 2010) by generating bills of five months, April to August 2010. The billing software was rolled out in September 2010 and monthly bills for all HT/EHT consumers for the month of September 2010 were generated and sent to the consumers. Thereafter, the new software was being used for bill generation of all HT/ EHT consumers. The web enabled services were commissioned in July 2011.

The functionalities like Reports on revenue loss due to theft of power, Security Deposit (SD) assessment, Consumer Personal Ledger (CPL) and Unauthorised

[54] A System Requirements Specification is a description of a software system to be developed. It lays out various requirements of a system.
[55] System integration is the process of bringing together the sub-systems into one system.

Additional Load (UAL) billing and Audit are indispensable for correct and timely billing of consumers, timely revenue collection, proper and correct review of SD, proper accounting of collections, billing/ levying of penalty for UAL, etc. Though these were included in the System Requirement Specification (SRS), functionalities like SD assessment and CPL were incorporated or implemented after rolling out of the software. We also noticed that the implementation of these functionalities were defective as discussed in *Paragraphs 2.3.9 and 2.3.12*. The functionalities like Reports on revenue loss due to theft of power, UAL billing and Audit were yet to be incorporated (January 2017).

Government of Kerala (GoK) replied (January 2017) that SD assessment, detection of theft and UAL were done at field offices (Electrical Section offices) and provision was given in the application for capturing these details as per the SRS. The reply was not acceptable as the functionalities like Reports on revenue loss due to theft of power, UAL billing and Audit were yet to be incorporated (January 2017) and implemented. Functionalities like SD assessment and CPL were defective.

Non-implementation of Automated Meter Reading system

2.3.8.3 Even though the computerised billing (Phase 1: cost ₹1.93 crore) was rolled out in September 2010, the Company had not awarded the work order for implementing the AMR system (Phase 2) as of September 2016 as the Company claimed that none of the bidders had proven experience in implementation of AMR system in India. In the absence of bidders with experience in AMR system, the Company had decided to implement AMR in a phased manner. Subsequently, the Company decided (January 2010) to implement AMR system under RAPDRP[56] scheme announced by Government of India (GoI) in which financial assistance was available for implementation of AMR. However, AMR system under RAPDRP had not been implemented so far (January 2017).

Due to non-implementation of AMR system, SOR/IT-CU wings at Corporate Office were deprived of direct access to the meter data of the consumers and therefore, meter readings were being done manually. Data transfer from Electrical Section offices to the central server was, therefore, subjected to human interventions.

GoK stated (January 2017) that the implementation of AMR system was excluded as the Company decided to implement it under RAPDRP scheme announced by GoI during the same period in which financial assistance for the same was available. The fact, however, remained that the Company could not implement the AMR even under RAPDRP so far (January 2017).

Mapping of business rules

2.3.9 HT/EHT billing process was a mission critical system, which directly impacts the revenue collection of the Company. Therefore, all business

[56] Restructured Accelerated Power Development and Reforms Programme was a power reforms scheme introduced by GoI.

processes relating to billing, collection and accounting of HT/EHT consumption had to be mapped correctly in the application software. Further, the business processes mapped in the software had to be compliant with the applicable laws, rules and regulations with all the necessary controls to ensure that the amount billed and collected conformed to the prescribed rules and regulations.

We observed that relevant business rules had not been fully and correctly mapped into the application, which had an impact on the revenue realisation as discussed in succeeding paragraphs.

Short collection of energy charges from deemed HT consumers

2.3.9.1 As per the Supply Codes, 2005/ 2014, electricity connections with contract demand (CD) 100 kVA or below were allowed to draw electricity from LT distribution lines. KSERC, however, allowed a few consumers who were drawing electricity at LT voltage with CD above 100 kVA before the introduction of Supply Code, 2005 to continue this facility. These consumers were classified by the Company as Deemed HT consumers with effect from March 2005. As per the schedule of tariff issued by KSERC with effect from May 2013, the deemed HT consumers were to be charged[57] under HT and LT tariff for demand and energy charges, respectively. The Company had 64 deemed HT consumers as of August 2016.

We, however, noticed that billing procedure mapped in the system for deemed HT consumers was not as per the above schedule of tariff issued by KSERC but same as applied for HT consumers with an additional three *per cent* energy charges. The additional three *per cent* was charged since the billing of both demand and energy charges of deemed HT consumers under the HT Tariff would result in revenue loss to the Company. However, this three *per cent* was not sufficient to make good the revenue loss in the case of deemed HT consumers except industrial and agricultural consumers. This resulted in short collection of energy charges amounting to ₹1.44 crore from 22 deemed HT consumers for the period from May 2013 to July 2016.

GoK replied (January 2017) that there was no clear classification of deemed HT consumers in Supply Code 2014. GoK also stated that the matter had been taken up with KSERC and was being implemented in the system.

The reply was not acceptable since the Company had classified these consumers as deemed HT consumers since March 2005 and could be separately identified from the database. Further, the failure to charge deemed HT consumers as per the Schedules of Tariff resulted in revenue loss to the Company.

Non-collection of increased demand charge from seasonal consumers

2.3.9.2 As per the tariff order, seasonal consumers[58] are billed for the period of actual use of power under appropriate tariff category. The monthly minimum

[57] Charges for electricity mainly include two components (1) Demand charge on the connected load/ contract demand and (2) Energy charges based on the units consumed.

[58] Seasonal consumers are those consumers who are registered as seasonal consumers with the Company and intend to avail electricity only during a season in a year under HT Tariff. They will not be billed for the idling period.

charges for the billing period shall be 75 *per cent* of the Contract Demand[59] as increased by a formula i.e., 5(12-N) % where 'N' is the number of months during which the consumer registers himself to utilise the power in a year. There were three seasonal customers as noticed from the database.

We observed that this business rule of charging increased minimum charges was not mapped into the system. As a result, the system failed to collect increased demand charges amounting to ₹5.08 lakh from these three consumers[60] during April 2011 to March 2016.

GoK replied (January 2017) that action had been taken for realising the short collection.

Non-mapping of business rule with regard to annual review of contract demand

2.3.9.3 As per Regulation 101 of the Electricity Supply Code 2014, if the recorded Maximum Demand (MD) of HT/EHT consumer exceeded the contract demand[61] (CD) in any three billing periods during the previous financial year, the Company shall issue a notice of 30 days to the consumer to submit an application for enhancement of contract demand within the notice period. If there was no response from the consumer within the notice period, the Company shall enhance the contract demand of the consumer to the extent of average three top readings of MD during the previous financial year. If the distribution system is not adequate to meet the enhanced demand, the consumer shall be directed to restrict the demand to the permissible limit, till necessary augmentation/upgradation/uprating works are done in the distribution system.

We observed that the above business rule was not incorporated effectively in the system as detailed below:

- During 2014-15, recorded MD in respect of 803 consumers exceeded the CD in three or more billing periods. 640 of these consumers did not, however, enhance the CD during the year 2015-16 as required by the Supply Code 2014.

- Distribution system of the Company was sufficient to meet the enhanced demand of 616 consumers out of the above 640 consumers. Had the Company enhanced the CD as per the requirements of Supply Code 2014, the demand charges could have been charged on these 616 consumers on the enhanced CD from May 2015 onwards (taking into account the notice period of 30 days). The enhanced demand charges foregone, for the period from May 2015 to March 2016 worked out to ₹2.43 crore.

- Supply Code 2014[62] provided for review of security deposit of consumers on enhancement of contract demand by adopting a

[59]Contract demand means the maximum demand of energy agreed to be supplied by the licensee (Company).
[60] Consumers Numbers: 1365040000096 (₹0.76 lakh), 1365040002974 (₹0.97 lakh) and 1366750003726 (₹3.35 lakh).
[61] Contract demand means the maximum demand of energy agreed to be supplied by the licensee (Company).
[62]Regulation 68.

methodology[63] for determining the security deposit. We, however, observed that this provision to review the adequacy of security deposit on enhancement of contract demand was not mapped in the system.

GoK replied (January 2017) that appropriate action would be taken to regularise contract demand and further stated that there was no financial loss as the Company had been charging 50 *per cent* extra over the normal demand charges whenever MD exceeded CD.

The reply was not correct as the enhanced demand charge foregone had been worked out after considering the excess demand charges levied by the Company during the month in which the actual consumption exceeded the CD.

Mapping of wrong tariff

2.3.9.4 Tariffs were determined on the basis of the purpose for which electricity was used by consumers. Prior to August 2014, banking and financial institutions, Government guest houses, insurance and telecommunication companies drawing electricity at high tension voltage were billed under 'HT IV Commercial tariff'. As per the schedule of tariff which came into effect from August 2014, banking and financial institutions and Government guest houses were classified under 'HT II A (General)' tariff and insurance and telecommunication companies were classified under 'HT II B (General)' tariff. Under the revised tariff order, the tariff rates applicable to HT II A and HT II B consumers were lower than that of HT IV consumers.

We observed that the revised categorisation of consumers and their tariffs were not updated/ mapped into ENRGISE. Consequently, 11 banking companies, three guest houses, three insurance companies and three telecommunication companies continued to be billed under the pre-revised tariffs. This resulted in excess collection of energy charges amounting to ₹87.23 lakh from the above consumers during August 2014 to March 2016.

GoK replied (Janaury 2017) that report from the agreement authority[64] concerned was required for assigning new purposes based on the new tariff order and the change of tariff would be effected based on such reports. The reply, however, was silent on the above mentioned consumers.

Excess collection of meter rent

2.3.9.5 Until September 2014, the applicable meter rent per month for energy meters with Availability Based Tariff (ABT)/ Time of the Day (TOD) facilities supplied by the Company was ₹5,000 for the first month of electricity connection and ₹6,000 thereafter. The KSERC had revised (September 2014) the meter rent for ABT/ TOD meters as ₹1,000 with effect from October 2014. BoD of the Company had also adopted the revised meter rent in November 2014.

[63] In the case of enhancement of load, cash deposit shall be collected by adopting the formula- Load * Load Factor of the category in which consumer falls * Period taken for determination of security deposit * Current tariff in which load factor is the percentage value varying from 40 to 100 *per cent* depending upon the tariff of the consumer as given in the Annexure 3 to Supply Code 2014.

[64] Agreement authorities are Deputy Chief Engineers/ Chief Engineers who enter into agreement with consumers for electricity connection.

We observed that the change in the meter rent was not properly incorporated in the system and as a result, the Company continued to collect meter rent at higher rates from 22 consumers during the period from October 2014 to August 2016 resulting in excess collection of meter rent amounting to ₹9.86 lakh.

While accepting the observation, GoK stated (January 2017) that modification in the application was being done for implementing the same.

Penal interest on belated payment

2.3.9.6 As per the Regulation 131 of Supply Code 2014, if a consumer failed to remit the bill amount on or before the due date, the Company shall recover interest on the amount of the bill at the rate of 12 *per cent per annum* for delay up to 30 days and thereafter, at the rate of 18 *per cent per annum* for the entire period of delay.

We noticed that the above provision in the Supply Code 2014 was not mapped in the system. Due to this, there was shortfall in collection of interest of ₹14.72 lakh from 349 consumers who had paid the electricity bill belatedly during the period from April 2014 to March 2016.

GoK replied (January 2017) that the errors were due to wrong calculation of arrear and a separate team had been formed for correcting the errors identified.

Collection of electricity duty

2.3.9.7 As per the Kerala Electricity Duty Act, 1963, consumers were liable to pay electricity duty at specified rate to the State Government for consumption of energy. Section 12 of the Act, however, exempted institutions of Government of India from payment of electricity duty.

We observed that the Company had not effectively mapped this rule into the system which resulted in:

- Collection of electricity duty amounting to ₹17.16 lakh from five institutions of Government of India. Though consumers were being tagged as 'Central Government' in the system, Electricity Duty was collected from them. This indicated that the charging of the Electricity Duty was not automated in the system and was subjected to human intervention.
- Non-collection of electricity duty amounting to ₹4.81 lakh from three consumers during the period from April 2011 to July 2016.

GoK intimated that exemption field for five 'Central Government' consumers identified by Audit was updated and electricity duty field of other three consumers was made applicable and bills were revised accordingly. It was also assured that the software would be modified to charge electricity duty from all consumers except the specified categories.

Deficiencies in determination and collection of Security Deposit (SD)

2.3.9.8 As per the Supply Code 2014, consumers were required to provide SD at the rates approved by the KSERC for availing electricity connection. The amount of SD was determined by adopting a formula[65]. This formula was also adopted for calculating the amount of SD at the time of addition of connected load. Further, all HT consumers were required to maintain SD equivalent to two times the average monthly bill amount throughout the period of service connection. If it was found that the SD available with the Company was more than required, the excess amount shall be refunded to the consumer by way of adjustment in the ensuing two electricity bills.

We reviewed the tables pertaining to SD in the system and observed the following deficiencies:

- The processes to determine the SD was not mapped in the system. Therefore, the adequacy of SD at the time of connection and on further enhancement of load could not be ensured and checked in the system.

  GoK stated (January 2017) that the methodology to determine the SD would be automated while implementing the workflow based new connection.

- As per the SRS, the interest payable on SD was to be calculated on periodic basis as defined by the Company from time to time. We observed that the interest rate applied for the financial year 2012-13 was 8 *per cent* though the bank rate effective as on 01/04/2012 was 9.5 *per cent*. This resulted in short payment of interest of ₹2.50 crore to consumers.

  GoK replied (January 2017) that a mechanism would be established to get the bank rate for each year promptly so as to update the same in the system.

- Initial SDs were collected from the consumers before effecting service connections. The amount of deposits collected from all the consumers were entered into an account of dummy consumer (1355460009367) created for this purpose. After effecting service connections, the SDs were transferred to respective consumer's account. We noticed that an amount of ₹14.80 crore was pending (August 2016) allocation from the account of dummy consumer to the respective consumer's account.

  GoK stated (January 2017) that steps had been taken to reduce the collections in the dummy consumer account. It was further stated that the amount transferred to actual consumer had not been deducted from the dummy consumer in some cases and hence, the figures were not actual.

  The fact, however, remained that these consumers were deprived of interest on SD due to delay in allocation of SD to their account. Further, data integrity in respect of SD could not be ensured.

[65] **Load * Load Factor of the category in which consumer falls * Period taken for determination of security deposit *Current tariff.**

- During 2015-16, an excess interest of ₹0.19 crore on SD for the period 2014-15 was credited to 56 consumers which had to be revised and adjusted later (March 2016) manually. GoK stated that the excess interest credited has been recovered and adjusted.

Collection of income tax at source

2.3.9.9 As per the Income Tax Act, 1961 the Company was required to deduct income tax at source (TDS) on the interest (where interest exceeded ₹5000 in a year) on the security amount deposited by the consumers. The Permanent Account Number (PAN) of consumers containing 10 digit alpha-numeric codes had to be correctly mapped in the system for correct deduction and deposit of amount of tax.

A review of the database revealed that:

- Control for ensuring correct combination of alpha numeric code was absent which resulted in wrong entry of PAN in respect of eight consumers. Status of the consumer such as corporate, non-corporate, etc., was also not linked to the PAN.

  GoK replied (January 2017) that these errors happened during initial migration and PAN validation had been rectified. It was also stated that appropriate PAN validation based on the above classification would be implemented.

- TDS was deducted in respect of 121 consumers (Central Government, State Government, local bodies, *etc*.) who were exempted from income tax.

  GoK stated (January 2017) that 'not applicable field' of exempted consumers had been updated and 'TDS applicable field' was made mandatory.

General IT controls

2.3.10 IT controls in a computer system are all the manual and programmed methods, policies and procedures that ensure the protection of the entity's assets, the accuracy and reliability of its records and the operational adherence to the management standards. It includes General controls and Application controls. General controls are concerned with the organisation's IT infrastructure, IT related policies and working practices.

Issues in data migration

2.3.10.1 Prior to implementation of ENRGISE, the Company was using an application software for billing of HT/ EHT consumers since December 1999. This software was based on Linux Operating System and Oracle database. The data migration to new software was carried out by the SOR. Data which was not available in the old software was captured manually. The data in the new system was verified to determine whether data was accurate, complete and was supported in the new system.

We observed that critical data fields in the new database were incorrectly migrated due to lack of input controls in the new software and data was not properly checked during data migration as brought out below.

- In respect of nine consumers whose details were migrated from the old application software, date of connection was mentioned as '0001-09-22, 0007-08-31, 0096-12-13' instead of meaningful date format.

- One of the functionalities envisaged in the billing system was to inform consumers regarding new bill over the email/ mobile phone. For this purpose, correct email ids and mobile phone numbers (having 10 digits) of the consumers were to be entered in the system.

  We noticed that email id of 119 consumers were incorrect. Email id of another 308 consumers were entered as "htbill@kseb.in" which was the default email id assigned by the Company during the migration. Similarly, in the case of 329 consumers, mobile numbers with more than 10 digits were entered in the system indicating absence of control for checking the format of phone numbers.

  GoK stated (January 2017) that efforts were being made for correcting data and providing validation for checking length of mobile number.

- Out of the 15,918 meters (as at March 2016) in the master table for meters, meter ownership id in respect of 3,385 meters were null, indicating ambiguity in ownership of the meters. Further, the connection status of 1,533 meters out of these 3,385 was recorded in the database as 'working'. The above facts indicated active usage of these meters even though the ownership details were incomplete.

  GoK stated (January 2017) that steps had been taken for rectifying errors. The fact, however, remained that the ownership of the meters pointed out could not be verified from the system. As such collection of meter rent for all the meters owned by the Company could not be ensured by the system.

Password policy

2.3.10.2 An organisation should have a good password policy to ensure security of data.

We observed that:

- The Company had a documented password policy which was implemented in February 2015 after a period of more than five years from the date of implementation of computerised billing software. Even though, the IT-CU Department could chalk out the Password policy, it was not approved by any competent authority including the BoD of the Company even as of October 2016.

- As per the Password policy of the Company, all the user level passwords shall be changed periodically at least once every three months. We analysed the compliance of this provision in the Password policy and noticed that out of 1,055 users given access to ENRGISE up to 10 August 2016, 730 employees had not adhered to the policy of the Company. These employees logged into the system using passwords, which were more than three months old. The age of the passwords ranged up to six years.

- As on 10 August 2016, there were 906 active users. Out of these, 99 users never logged into the system while 76 users had not logged into the system during the last six months. In some of the cases, the users had last logged into the system four years ago.

  The GoK replied (January 2017) that individual logins had been removed as part of implementation of Single Sign On and employees could log into Company portal using their employee id and password. Login and password management of all users to the portal are now handled by a user management application, which is in compliance with the password policy of the Company.

Application controls

2.3.11 Application controls are used in a computer system to provide assurance that all transactions are valid, authorised and complete. Application controls include input controls and validation controls. We reviewed the adequacy of general and application controls in the Company and noticed lack of proper input controls and validation controls as discussed below.

Lack of input control

2.3.11.1 The objectives of the input controls are to validate source data, authorisation and entry so that accurate, reliable and complete data is accepted by the application in a timely manner. While data input can be manual or system interface driven, errors and omissions can be minimised through good input design, adequate segregation of duties, etc. Review of the ENRGISE database revealed lack of input controls as detailed below:

- As per Regulation 70 of the Supply Code 2014, consumers were required to provide security deposit (SD) for availing electricity connection and 50 *per cent* of the SD may be in the form of bank guarantee (BG). BGs have unique numbers and name of issuing bank.

  We observed that in respect of 11 consumers[66], the same BG number was used and in respect of four consumers[67], name of the bank was not mentioned.

  GoK stated (January 2017) that proper validation for preventing entry of same BG number and drop down list for selecting bank would be incorporated.

[66]**Consumer Numbers - 1355040002327, 1355150003426, 1365620001002, 1366070002202, 1356780003111, 1356780000856, 1355040002327, 1346340003239, 1345160001680, 1355460003571 and 1346460001901.**
[67]**Four consumers- Consumer Numbers 1355200003256, 1366630003269, 1346300000606 and 1365020001905.**

- As per Regulations 99 and 100 of the Supply Code 2014, an HT/EHT consumer could change the contract demand within a specified period after the date of connection. We observed that the date of connection in respect of six consumers was later than the date of contract demand change.

  GoK replied (January 2017) that errors were rectified and control mechanism implemented.

- The purpose for which electricity was proposed to be used and the product proposed to be manufactured by the consumer were the basic criteria for assigning tariff to industrial and commercial consumers. The product and purpose had to be entered in the system for correct billing.

  We observed that in respect of 2,119 consumers, neither purpose nor product was entered in the system and as such, the correctness of tariff assigned to these consumers could not be ensured.

- Correct and useful data is essential for any computer application. We noticed that date of application was recorded as later than the date of connection or date of receipt of security deposit in respect of 2,331 consumers.

  GoK stated (January 2017) that application date was created by the system and other dates were entered based on the documents received from the agreement authority.

  The fact, however, remained that there was a mismatch of dates in the system.

Lack of validation controls

2.3.11.2 Adequate validation controls should be incorporated in the billing software for correct and prompt billing of consumers. As per Regulation 125 of the Supply Code 2014, in case of defective/ damaged meters, the Company shall collect energy charges from consumers based on average consumption only for a maximum period of two billing cycles during which time the Company shall replace the defective/ damaged meter with a correct meter.

We noticed that the system allowed billing based on the average consumption for connections with defective meters for longer periods which ranged up to 37 months.

GoK stated (January 2017) that cases cited were not those of faulty meters but were cases of multiplication factor or PT voltage missing which was shown as meter faulty. However, GoK assured that the application would be modified for identifying such errors in multiplication factor and capturing voltage details during meter reading entry.

The reply was not acceptable since the SRS contained provision for mapping of status of meters in the system which was not done.

Generation of reports

2.3.12 The application software must be capable of generation of quality reports on various data coming under its purview as and when required by the stakeholders.

We noticed that the software was capable of generating reports relating to all modules in user defined formats. Apart from reports on regular information such as revenue, collection and arrears, the system generated customised reports as per the requirement of the management and operational staff.

We noticed cases, where incorrect and incomplete data were stored and processed in the billing software and consequent generation of inaccurate and unreliable reports as explained below.

Consumer Personal Ledger (CPL)

2.3.12.1 As per the SRS, a Consumer Personal Ledger (CPL) report was to be designed to display all relevant billing and payment details and outstanding details, if any, for a particular consumer. The SRS envisaged CPL as a statement of a consumer's consumption, billing and payment history. Audit analysed the database and noticed the following deficiencies relating to CPL:

- The Company incorporated the CPL module in the system only in December 2014. The tables in the database relating to CPL did not contain any details of transaction that occurred prior to March 2014.

- Though relevant fields were available in the CPL table for opening balance of outstanding energy charges, demand for the month, cumulative balances, etc., we noticed differences in respect of total demand as per the actual demand table and CPL table. We also noticed that there were substantial differences between the total realised amount in collection table and total amount in the CPL table during the period from April 2015 to March 2016. Due to above deficiencies, the Company could not put to use the CPL module for MIS and reporting purposes.

  GoK stated (January 2017) that deficiencies identified were since rectified and demand, collection and consumption details in CPL of consumers showed correct figures**.** The fact, however, remained that though CPL was one of the vital functionalities as given in the SRS and Work Order, it was not properly built into the system.

Inadequate information on the bills

2.3.12.2 As per the provisions of the Supply Code 2005/ 2014, the bill issued for sale of power to HT/EHT consumers shall mandatorily include information pertaining to the consumer, tariff, payment modes available, meters used, etc.

We, however, noticed that the bills generated through ENRGISE did not include mandatory details such as meter number and identification details of meter, status of meter (OK/ defective/ not available), billing status (regular/ assessed/ provisional bill/ special bill with reason), etc. The absence of vital details/ status of meters not only made the bills less transparent but also inconsistent with Supply Code 2005/ 2014.

GoK stated (January 2017) that all the details of meter would be provided to consumer if there was any meter replacement. Further, all the information were also available in HT/EHT Web Enabled Customers Portal.

The reply was not acceptable since as per the provisions in the Supply Code 2005/ 2014, the bill issued for sale of power to HT/EHT consumers shall mandatorily include information pertaining to the consumer, tariff, payment modes available, meters used, etc.

Conclusion

Absence of a mutually agreed system requirement specification in development of the system resulted in deficient billing application software. Though the system was envisaged as a comprehensive billing system, many of the features originally envisaged were not built into the system software. Absence of adequate input controls resulted in processing of incomplete, inaccurate and unreliable data and consequent generation of incorrect bills. The business rules in many cases were found to be improperly incorporated into the system along with insufficient application controls and validation checks. In many cases, the system failed to generate accurate and reliable reports for Management Information System due to storing and processing incorrect and incomplete data in the database.

Recommendation

The Company should:

1. **incorporate all functionalities and modules which were originally envisaged in the system without delay;**

2. **ensure that all business rules are suitably incorporated in ENRGISE. Efforts should be made to build adequate input control mechanism in the system to ensure that genuine, accurate and reliable data are processed; and**

3. **incorporate validation controls in the software to prevent loss of revenue.**

Chapter III

Compliance Audit

CHAPTER III

3. Compliance audit observations

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

Government companies

3.1 Implementation of Vizhinjam International Deepwater Multipurpose Seaport Project

Introduction

3.1.1 The project for developing an International Deepwater Seaport at Vizhinjam located on the south western coast of Kerala near the State capital Thiruvananthapuram is two decades old. The project was initially proposed to be implemented directly by Government of Kerala (GoK). The first global tender in 2003-04 issued by GoK did not succeed. Vizhinjam International Seaport Limited (VISL), a company fully owned by GoK, was constituted in 2004 as implementing Agency for the project. The subsequent tenders in 2007 and 2011 issued by VISL to execute the project through Public-Private Partnership (PPP) mode were also not successful. GoK approved (November 2013) a new model as suggested by the Technical Consultants, AECOM India Private Limited (AECOM) for development of the project. As per the new model, development and operation/ maintenance of Vizhinjam International Deepwater Multipurpose Seaport Project through PPP were proposed on Design, Build, Finance, Operate and Transfer (DBFOT) basis. The Project was to be implemented as a landlord port model, wherein the land procurement, external infrastructure and construction of breakwater[1] would be undertaken by GoK through VISL, the implementing agency for the project. The chosen private Concessionaire shall be responsible for funding and development of dredging and reclamation (53 hectares) of land from the sea, construction of berths, roads, substations, superstructure and equipment and for operation of the Port.

Accordingly, VISL invited (December 2013) two International Competitive Bids (ICB)/ Global Tenders; one for selection of PPP Concessionaire and one for selection of Engineering, Procurement and Construction (EPC) contractor for the construction of breakwater and external infrastructure. The tender for EPC was not pursued by GoK since it was included in the PPP part. Against Request for Qualification (RFQ) for selection of PPP Concessionaire, five[2]

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[1] **Breakwaters are structures constructed on coasts as part of coastal defense or to protect an anchorage from the effects of both weather and long shore drift. Breakwaters reduce the intensity of wave action in inshore waters and thereby reduce coastal erosion or provide safe harbourage.**

[2] **Adani Ports and SEZ Limited, Comcast - Hyundai Consortium, ESSAR Ports Limited, Gammon Infrastructure Projects Limited and SREI- OHL Consortium.**

applicants submitted RFQ and all were shortlisted based on the financial and technical qualification criteria. Three out of the five qualified bidders purchased the Request for Proposal (RFP). RFP document approved[3] by GoK was issued along with the Draft Concession Agreement (DCA) and Manual of Specifications and Standards to the three bidders. The estimated total project cost (TPC) of the project was pegged at ₹4,089 crore, excluding the cost of funded works. According to the terms of RFP, selection of bidder was to be based on the highest premium offered to GoK or lowest grant demanded from GoK. Maximum grant that can be demanded by way of Viability Gap Funding (VGF)[4] was capped at ₹1,635 crore, being 40 *per cent* of the TPC.

Adani Ports and SEZ Private Limited (APSPL) was the lone bidder with a quoted grant amount of ₹1,635 crore. The Letter of Award was issued (July 2015) to APSPL and the Concession Agreement was signed between Adani Vizhinjam Port Private Limited[5] (Concessionaire) and the GoK on 17 August 2015. The GoK also signed (16 January 2016) an agreement with VISL conferring VISL full powers and authority of the GoK under the Concession Agreement.

Features of the Project

3.1.2 Salient features of the project are highlighted in *Table 3.1*.

Table 3.1: Total cost of the Project and its funding

Sl. No.	Nature of work	Total cost (₹ in crore)	Funding pattern
1	Dredging and reclamation, development of berths, roads, substations, superstructure and equipment and operation	4,089	₹2,454 crore by the Concessionaire and ₹1,635 crore through VGF equally by Government of India and GoK. The project was to be implemented in four phases[6] with a rated capacity of 6 lakh (0.6 million) TEUs[7] on commercial operation date (COD), to be enhanced to one million TEUs within 10 years of COD. The port shall be capable of accommodating vessels with capacity up to 18,500 TEUs. The Concession period would be 40 years commencing from the Appointed Date[8] which shall be extendable for further 20 years at the option of the Concessionaire subject to capacity augmentation to three million TEUs by 30th year of the concession period.
2	Funding and Development of breakwater and fishing harbour	1,463	The construction of 3.1 kilometre (km) long breakwater and a new fishing harbour would also be done by the Concessionaire as "funded works" for which the GoK would finance the entire amount of ₹1,463 crore.
3	Cost of external infrastructure	1,973	Entire funding by GoK.
	Total	**7,525**	

[3] Vide Order No. G.O (MS) No.36/2014/F&PD dated 12 May 2014.

[4] Viability Gap Funding is designed to provide capital support to PPP projects which would not otherwise be financially viable. VGF has the effect of reducing the revenue required to recover costs and provide a financially attractive return for the private partner.

[5] Company incorporated as a subsidiary of APSPL.

[6] Phase I-1 MTEU, Phase II-1.5 MTEU, Phase III-2.2 MTEU and Phase IV-3 MTEU.

[7] Twenty Foot Equivalent Units.

[8] As defined in the Concession Agreement, the date on which Financial Close is achieved and every Condition Precedent is either satisfied or waived.

As per the terms of the Concession Agreement, the project shall commence commercial operation within four years of signing (August 2015) the agreement i.e., by 2019.

Government of India (GoI) granted in-principle sanction for VGF of ₹817.50 crore which shall be released within five years of the Appointed Date (5 December 2015).

- The GoK will receive one *per cent* of the total Realisable Fee annually starting from the 15th anniversary of Commercial Operation Date (COD) (i.e.,16 August 2019). Revenue share of the GoK will be increased by one *per cent* of the total Realisable Fee every subsequent year, subject to a maximum of 40 *per cent*.

  Twenty *per cent* of the annual revenue received by the GoK would be repaid to the GoI till full settlement of the VGF share of ₹817.50 crore.

- The Concessionaire can utilise 30 *per cent* of the land acquired for the project by GoK for "Port Estate Development" which may include residential and commercial buildings/ space. The Concessionaire would pay 10 *per cent* of the annual revenue earned from such ventures to the GoK starting from the seventh year after COD.

- The GoK would ensure availability of land for the project and also provide rail and road connectivity.

Against the above background, we analysed the conceptualisation, award of work and Concession Agreement. The audit objectives were to assess whether:

i. tendering process was competitive, equitable, fair and transparent; and

ii. the key clauses of the concession agreement were drawn up in such a way as to allocate risks and benefits between the Concessionaire and GoK in a balanced manner.

Revenue/ cash flows of the Vizhinjam project for 40 years of the concession period were estimated as part of the feasibility study conducted (April 2015) by Ernst & Young (E&Y), the financial consultants appointed by VISL. All calculations in respect of cash flows from the project included in succeeding paragraphs were based on the revenue projections appearing in the E&Y Report.

Audit Findings

3.1.3 Audit findings are discussed below.

Preparation of cost estimates and viability of the project

3.1.4 We examined the reasonableness of cost and viability of the project and the findings are discussed below:

- The TPC worked out (September 2015) for the development of Colachel Port in Tamil Nadu, which is proposed to be located at an approximate distance of 50 km from the Vizhinjam project site was ₹3,693.48 crore[9] for a capacity of 1.6 million twenty-foot equivalent units (MTEU), which translates to ₹2,308.43 crore per MTEU. Compared to this, TPC per MTEU for Vizhinjam Port was higher (₹3,271[10] crore), mainly due to unreasonable and unjustified rates adopted for estimating the cost of equipment as detailed below.

  ✓ Final TPC of ₹4,089 crore was worked out based on Basic Engineering Report (BER)[11] prepared by AECOM. While preparing the BER in December 2014, AECOM hiked the rates of equipment included in the Detailed Project Report (2013) from ₹631.87 crore to ₹934.61 crore. However, there was nothing on record to justify the increase. We worked out the reasonable cost of eight equipment by taking the rates in the DPR (2013) as base, allowing 5 *per cent* year on year escalation from 2013 to 2014 and adopting the exchange rate as 1 USD = 64 INR (Rate as on 31 December 2014) at ₹825.65 crore as detailed in ***Appendix 9*****.** We observed that the equipment cost was unreasonably hiked by AECOM while preparing the BER. The net increase over reasonable cost was ₹130.85 crore[12]. This has also resulted in excess grant of ₹52.34 crore to the Concessionaire (40 *per cent* of ₹130.85 crore).

  GoK replied (August 2016) that the equipment meant for a Container Transhipment Port were generally imported and not indigenously developed by Indian manufacturers. Even if manufactured indigenously, it would involve significant foreign exchange component. As such, AECOM had also taken into account the fluctuation in foreign exchange for revision of cost.

  The reply was not acceptable since we accounted for the variation in exchange rates while working out the reasonable cost. Further, the actual basis of revision of cost of equipment was not made available by AECOM. VISL/ GoK accepted the estimates in the DPR/ BER prepared by the external consultants *in toto.*

  ✓ As per data collected by Audit, per unit cost of Rail Mounted Quay Crane (RMQC)[13], a major equipment for Container Transhipment, procured (2013) by Jawaharlal Nehru Port Trust (JNPT), Mumbai for their project was ₹32.26 crore. Even after allowing for year on year escalation, the rate would be ₹37.34 crore per unit in 2014, whereas base cost of the same equipment as included in the cost estimates of Vizhinjam project was ₹75.44

[9] Excluding cost of breakwater and external infrastructure and interest during construction.
[10] Total Project Cost- ₹4,089 crore less Interest during construction - ₹818 crore.
[11] BER prepared (December 2014) by AECOM describes the basic engineering carried out for the various components of the port facility.
[12] ₹108.96 crore *plus* proportionate escalation and Interest During Construction.
[13] RMQC Specification: Super Post Panamax with outreach of 65 metres.

crore. Thus, for eight RMQCs required for the Vizhinjam project, there was excess cost estimation to the extent of ₹304.80 crore.

GoK replied (August 2016) that the RMQCs compared in the audit finding (that of JNPT) do not cater to design vessels of size 18,000 TEU and were, therefore, cheaper. GoK also asserted that the Consultants, AECOM, had arrived at the base cost of RMQC after taking into account budgetary proposals and experience of similar projects in the past.

The reply was not acceptable because the RMQCs installed at JNPT were of specification "Super Post Panamax" having an outreach of 65 metres. The RMQCs proposed to be procured for Vizhinjam Port are of the same specifications.

- ✓ Similarly, the cost of Reach Stacker per unit included in the TPC of Vizhinjam project was ₹3.31 crore (base price) whereas the Directorate of Ports, GoK had purchased the same item in March 2014 (delivered in March 2015) at a landed cost of ₹2.35 crore only.

  GoK stated (August 2016) that the Reach Stackers to be procured for Vizhinjam project were for heavy duty transhipment use. The reply was not acceptable because the reach stackers procured by the Directorate of Ports were capable of such use as evident from the specifications attached to the e-tender notice.

Development of funded works

3.1.5 Development of breakwater and fishing harbour was initially planned to be executed through Engineering Procurement and Construction (EPC) contract as a separate work. As per the terms of the tender, the Concessionaire had the right of first refusal (ROFR) for the EPC contract if its bid was within 15 *per cent* of the lowest bid. Subsequently, following adoption of Model Concession Agreement (MCA[14]) for PPP projects in the Ports Sector, tender for EPC contract was cancelled (August 2015). The construction of breakwater and fishing harbour was included as funded work as part of the PPP project to be executed by the Concessionaire at a cost of ₹1,463 crore. The entire cost of funded work was to be borne by GoK.

Due to cancellation of EPC tender, GoK could not assess the market rate for executing the work. The work was, thus, awarded to the Concessionaire at the estimated cost. We noticed that:

- the cost (₹767 crore) of breakwater and fishing harbour estimated (May 2013) by AECOM for EPC contract was revised (March 2014) to

[14] MCA is a regulatory framework for sustaining private investment in PPP projects. MCA addresses issues such as mitigation and unbundling of risks, allocation of risks and rewards; symmetry of obligations between the principal partners; precision and predictability of costs and obligations; reduction of transaction costs; *force majeure* and termination (Source: www.planningcommission.gov.in/reports/genrep/overviewMCA.pdf).

₹1,210 crore to account for exchange rate fluctuations. The cost was again revised (April 2015) to ₹1,463 crore after acceptance of the concept of funded works. There was no justification for applying exchange rate variation on indigenously sourced material such as rocks and concrete armour units.

GoK replied (August 2016) that the cost of funded work was earlier set as ₹1,210 crore at 2014 level. Considering the risks and cost involved, prospective bidders requested for an upward revision to the tune of ₹1,500 crore at 2015 level. Based on the recommendation of the Financial Consultant and the Technical Consultant, Empowered Committee (EC)[15] of Secretaries to GoK decided to revise the cost of Funded works to ₹1,463 crore at 2015 level. GoK also stated that cost of funded works was increased to minimise the VGF quoted in the PPP tender.

The reply was not acceptable because in spite of increasing the cost of funded works, only one bid was received and that too quoting the highest possible grant. Thus, increase in the cost of funded work did not result in lower grant. The reply is also silent about the justification for applying exchange rate variation to rocks, etc., to be procured indigenously.

- The cost estimates (₹312.85 crore) prepared by AECOM for the rocks to be used for the construction of breakwaters was on the higher side. The cost (₹250.48 crore) based on market rates prevailing in Kerala as per Harbour Engineering Department (HED) database was significantly low. The difference between rates worked out to ₹62.37 crore.

  GoK stated (August 2016) that considering the large volume, larger lead and difference in the method of placement of rock, method adopted for blasting, extraction, sorting, transportation, loading, unloading, inclement weather, etc., higher rates for rock in the case of Vizhinjam Project was not comparable with rates in HED database.

  The reply is not acceptable as we had compared only the cost of rocks of similar weight and other specifications included in HED database and AECOM's estimates.

Financial and Economic Viability of the Project

3.1.6 Net Present Value (NPV) shows the difference between a project's financial benefits and costs in current money terms. Only projects with positive NPV should be developed because negative NPV would mean that the costs are greater than the benefits. Internal Rate of Return (IRR) is the rate at which financial benefits accrue from an investment.

[15] Constituted by GoK for evaluation of bids received.

Economic IRR (EIRR) and Economic NPV (ENPV) also take into account the perceived economic costs and benefits of a project such as employment generation, infrastructure development, etc., in addition to financial costs and benefits. According to the guidelines issued by the Ministry of Finance, GoI for PPP projects, NPV and EIRR provide a decision criterion on whether the project should proceed at all. In general, a project with a negative NPV should not be pursued.

A comparison of investment and NPV/ IRR[16]/ EIRR[17] of GoK *vis-a-vis* the Concessionaire is given in *Table 3.2*:

Table 3.2: Comparison of investment and returns to GoK *vis-a-vis* the Concessionaire

Particulars	Value of investment (₹ in crore)	Undiscounted Cash inflow (₹ in crore)	NPV (₹ in crore)	IRR (*per cent*)
GoK	5,071 (67 *per cent*)	13,947	(-) 3,866.33	3.72
Concessionaire	2,454 (33 *per cent*)	1,30,706	607.19	15.00
Total	**7,525**	**1,44,653**		

Source: Feasibility report prepared by Ernst & Young (excluding NPV and IRR of GoK).

Thus, it could be observed that in spite of 67 *per cent* investment by the GoK, the NPV of its investment in the project is (-)₹3,866.33 crore and at the same time the NPV of the investment accrued to the Concessionaire for the 40 year period with 33 *per cent* investment is ₹607.19 crore. Further, ENPV[18] and EIRR from the project is (-)₹834.60 crore and 8.9 *per cent* respectively. Therefore, the financial benefit accruing to the State is not commensurate with its investment.

GoK replied (August 2016) that the cost of land acquisition should not be taken into account while computing the Return on Investment. GoK also stated that the economic benefits were also to be considered while considering the benefits to the State.

The reply is not acceptable. ENPV, worked out considering all probable benefits was negative and the EIRR, far below the IRR of 15 *per cent* fixed for the Concessionaire. Cost of land was factored in while computing the NPV/EIRR of GoK because the land was not Government land but acquired specifically for the project at high cost. Further, cost of land acquisition has been included in the calculation of NPV/IRR for Colachel project. GoK/VISL at no time had analysed the NPV/IRR/EIRR on the State's investment in the project. Even the EIRR included under Cost-benefit analysis in the Environment Impact Assessment (EIA) Report was worked out for the investment by the private partner only.

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16 IRR is the rate that equates the present value of cash inflows to the present value of cash outflows of the project.

17 EIRR indicates the rate of return at which the present value of the economic costs and benefits of the project are equal. In other words, it is the discount rate at which the net present value is zero.

18 The cash flows for economic benefits are taken from EIRR report prepared by M/s Deloitte Tohmatsu for VISL.

Termination Payment

3.1.7 As per Clause 38.3.5 of the Concession Agreement, termination payment equal to the product of 30 (thirty) and the Realisable Fee recovered for and in respect of the last month of the Concession Period shall be due and payable to the Concessionaire.

As per the Feasibility Report of the Vizhinjam project prepared by E&Y in April 2015 which was approved by GoK, the Realisable Fee during the 40th year of the concession would be ₹7,822 crore. Assuming that the Concession is terminated at the end of the prescribed concession period (without considering the 20 year extension), the termination payment payable to the Concessionaire in accordance with the above clause would be ₹19,555 crore[19]. The NPV of the payment worked out to ₹567.10 crore.

We observed the following:

- Based on the E&Y estimates, the total revenue that would accrue to GoK during 40 years of the concession period would be ₹13,947 crore. The termination payment of ₹19,555 crore would mean that the net receipts of GoK from the project after 40 years would be (–)₹5,608 crore.

- The project parameters, including the concession period, the amount of grant (VGF) and the revenue share payable to GoK were structured in such a way that the Concessionaire would get equity IRR of 15 *per cent* from their investment in the project. We, however, observed that the termination payment was not considered while working out the IRR/NPV. If the same is factored in, the IRR obtained by the Concessionaire for his investment of ₹2,454 crore in the project would be 16.08 *per cent* and the NPV of his investment would be ₹842.57 crore. At the same time, the financial IRR of the State Government would be negative and the NPV of the ₹5,071 crore invested by GoK in the project would be (-)₹4,441.40 crore.

- Further, the EIRR of the project as far as GoK is concerned worked out to 7.59 *per cent* only and the ENPV (-)₹1,409.70 crore.

- We also observed that clauses empowering similar termination payment as envisaged in the Concession Agreement for Vizhinjam project were not included in the Concession Agreements executed for other infrastructure PPP projects such as the Hyderabad Metro project, JNPT fourth terminal, etc.

VISL replied (March 2017) that the clause was incorporated as per the MCA. The reply is not tenable as the cash inflow to the Concessionaire on account of the termination payment had neither been estimated nor factored into the NPV/IRR calculation.

[19] **₹7,822/12*30.**

Award of project

3.1.8 According to the guidelines issued by the Central Vigilance Commission (CVC), prequalification criteria (PQ) should be framed with a view to attracting participation of reputed and capable firms with proper track record. Therefore, the PQ criteria should be exhaustive, yet specific and unambiguous.

We noticed deviations from these guidelines as discussed below:

Modification in Project Structure

3.1.8.1 VISL changed the entire structure of the project after pre-qualifying five bidders. The changes were made on the adoption of Model Concession Agreement (MCA) for State Ports issued by the Planning Commission of India and were intended to make the project more attractive to private investors. The significant changes in the project parameters consequent to adoption of the MCA, when compared to the same as per the RFQ, were as given in *Table 3.3.*

Table 3.3: Details of changes made to the structure of the project

Sl. No.	Particulars	RFQ	RFP/Draft Concession Agreement (DCA)
1	Model for project development	Land lord model	Combination of land lord and private services models.
2	Concession Period	Not specified	Specified as 40 years extendable by 20 years.
3	Total Project Cost	₹3,900 crore	₹4,089 crore
4	Construction of breakwater and fishing harbour	To be awarded as per EPC tender	To be done by Concessionaire as funded work at a total cost of ₹1,463 crore.
5	Port Estate Development	Not mentioned	30 *per cent* of project land to be given on licence to Concessionaire for commercial development including real estate development.
6	Mortgage of project assets	Not mentioned	Concessionaire allowed to mortgage project assets including land to finance the project.
7	Capacity of the Port	1 MTEU by COD	0.6 MTEU by COD and 1 MTEU within 10 years after COD.

As the changes were not incorporated in the RFQ/DPR/Master Plan made available to prospective investors at the RFQ stage, unfair advantage was given to the qualified bidders. We observed that by incorporating major changes in the project parameters after shortlisting the bidders, GoK/VISL had violated the spirit of the MCA in which it was stated that "All project parameters such as concession period, tariff, price indexation and technical parameters should be clearly stated upfront"[20].

GoK stated (August 2016) that none of the project elements or structure was changed after issue of the RFQ which significantly changed the attractiveness

[20] **MCA, Overview of the Framework (Page xxiv).**

of the project. The reply was not convincing because inclusion of provision for Port Estate development, enhancement of concession period from the standard 30 years to 40 years, inclusion of funded works, etc., were major changes altering the nature of the project. Since there were major changes in the project parameters, the tender process should have been cancelled and fresh global tenders invited. This would have increased the attractiveness of the project and ensured transparency in the award of work.

Concession Agreement

3.1.9 Concession in a PPP project is the exclusive right, license and authority to construct, operate and maintain the Project during the concession period. Concession period is ideally the minimum period required for collecting the required user fee such that the investment made by the private partner is fully recovered with interest thereon. Terms and conditions of the concession are governed by the Concession Agreement.

GoK adopted (12 May 2014) the Model Concession Agreement (MCA) for Ports issued by the Planning Commission of India for preparation of the Draft Concessionaire Agreement (DCA) of Vizhinjam project. MCA was only recommendatory in nature and it was not mandatory for GoK to adopt it since Vizhinjam Port is a minor port[21] falling within the exclusive jurisdiction of the State Government. Based on feedback from bidders, suggestion by PPP cell of Department of Economic Affairs (DEA), GoI and drafting changes suggested by the Planning Commission of India and Legal Consultants, certain changes were made to the DCA by VISL, with the approval of the EC, duly authorised by GoK. These changes were intimated to the bidders who had purchased the RFP by issuing Addenda 1 to 9.

Conditions not favourable to the interests of the State

3.1.9.1 Scrutiny of Concession Agreement executed with the Concessionaire revealed inclusion of conditions not favourable to GoK as discussed below:

- The standard concession period for PPP projects is 30 years. This was also fixed as the base concession period for projects with private participation in the policy on Ports and Shipping Development approved in 2005 by GoK. Further, in the study report on Vizhinjam project by the International Finance Corporation (IFC), the Concession period was recommended as 30 years[22] and the concession period was specified as 30 years in all the three tenders issued for Vizhinjam project prior to the 2013 tender. In the current agreement, however, the concession period was fixed as 40 years. By allowing 10 years' extra concession period, the Concessionaire would be collecting additional revenue of ₹29,217 crore[23].

[21] Major ports are ports notified as such by the Central Government as per the Indian Ports Act, 1908 while other ports are classified as minor ports and are administered by the respective State Government. Vizhinjam Project being a minor port is under the administrative control of State Government.
[22] Para 5.2 (iii) of the Strategic Options Report prepared by IFC in September 2010.
[23] Based on revenue estimates in Feasibility Report (April 2015) by Ernst & Young.

GoK replied (August 2016) that the concession period envisaged in the Concession Agreement was 40 years as per the MCA adopted for the project. GoK also stated that the standard Concession Period of 30 years was applicable for brownfield[24] terminal development projects where investment and risk were limited. For any major greenfield[25] development, the risk and cost involved would be significantly high. Further, a longer concession period would reduce the grant requirement of the project.

The reply was not acceptable as in the case of the proposed port at Colachel, a greenfield project similar to Vizhinjam project, the concession period has been fixed at 30 years. Further, there was no reduction in the grant demanded by the bidder even after the elongation of the concession period to 40 years.

- As per the Concession Agreement, the VGF (₹1,635 crore) was payable to the Concessionaire in two parts-equity support payable during the construction of the project and operation and maintenance (O&M) support payable after COD. Equity support was to be 150 *per cent* of the equity brought in by the Concessionaire subject to a limit of 30 *per cent* of the TPC.

  We observed that as per the MCA, for calculation of equity support, TPC was not to include amount payable as equity support. Accordingly, equity support payable to the Concessionaire was ₹943.62 crore[26] and the balance VGF i.e., ₹691.38 crore would be payable (as per Article 25.3.1 of the Concession Agreement) only as O&M support in quarterly instalments[27] after COD. But, in the Concession Agreement, TPC for calculation of equity support was, however, made inclusive of equity support and consequently, the amount payable as equity support by GoK to the Concessionaire increased to ₹1,226.70 crore (30 *per cent* of ₹4,089 crore). This modification was made (31 December 2014) by the Empowered Committee (EC) to improve "clarity" without any specific demand from the prospective bidders. Due to this modification, GoK had to pay excess equity support of ₹283.08 crore in advance resulting in interest loss of ₹123.71 crore[28].

  GoK stated (August 2016) that the modification was completely based on the opinion of the legal consultant for removing ambiguity. GoK also stated that the modification did not entail any additional financial outflow to GoK and non-modification may have decreased the viability, attractiveness and competitiveness of the project.

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[24] Brownfield projects are those projects where existing assets are developed further.
[25] Greenfield projects refer to projects on the unused lands where there is no need to re-model or demolish an existing structure.
[26] 30 *per cent* of the TPC of ₹4,089 crore less the equity support calculated as follows.
Let Equity Support = X and TPC=4,089.
Then X=(4,089-X)*0.30, i.e. X =4,089*0.3-0.3*X.
∴ 1.3X=1,226.70. Hence X =1,226.70/1.3 = 943.62
[27] Each quarterly instalment being 7.50 *per cent* of the Equity Support.
[28] Worked out at the rate of 10 *per cent* per annum for four years from December 2015 to November 2019.

The reply was not acceptable since there was no ambiguity in the Article in the Concession Agreement regarding computation of equity support. Further, there would be an indirect financial gain to the Concessionaire to the tune of ₹123.71 crore due to the modification.

- As per Article 41 of the MCA, Project Assets (which included right of way over the site) were excluded from the assets and rights which could be mortgaged or pledged to lenders as security for debt incurred by the Concessionaire. However, in the Concession Agreement (Article 41.5) executed, the Concessionaire was given the right to mortgage all assets (except funded works) on the ground that *"it would provide an additional layer of security to Lenders*", and that the Legal Consultants had opined that "*the change did not have any adverse impact on the financial obligations of the Authority*".

  We noticed that the request (March 2015) of one of the bidders for such a modification, prior to opening of bids, was rejected (March 2015) by the Empowered Committee (EC) of Secretaries to GoK on the basis of advice rendered by the Technical Consultant. Hence, the modification post award of concession was contrary to the advice of the Technical Consultant and conferred upon the Concessionaire the right to mortgage assets which includes land taken over by the GoK at a total cost of ₹548 crore.

  GoK stated (August 2016) that permission to mortgage Project Assets including land was only an enabling clause exercisable only on a request made by the lenders. GoK also stated that similar provisions were there in other MCAs such as Power Purchase Agreements (PPAs) in Power Sector.

  The reply is not convincing as the GoK/ VISL had adopted the MCA for Ports *in toto* and no such provision was envisaged in the MCA. GoK is treating the MCA as justification for providing additional benefits to the Concessionaire such as a longer concession period, but at the same time deviating from the MCA as pointed out above to provide undue benefit to the Concessionaire. Thus GoK was mixing and matching clauses as per convenience, all of which resulted in providing additional benefits to the Concessionaire. Further, the Legal Consultants had earlier opined that no such modification was necessary.

- As per Clause 3.1.1 of the Concession Agreement, the Concession Period of 40 years was extendable by 20 years on augmentation of capacity of the project to three MTEUs by the 30^{th} year of the concession period and issuance of a notice by Concessionaire for extension during 36-37 year of the concession period.

  Draft Concession Agreement had initially limited Concession Period to 40 years, extendable by 10 years. The extension was allowed by the DEA, GoI on the request (24 November 2014) of the Chief Secretary to GoK on the ground of concerns raised by bidders in pre-bid meeting, Greenfield nature of the project, longer gestation period, mandatory capacity augmentation etc. Later, the DEA extended extendable period of Concession to 20 years.

We observed that if the GoK had retained the originally envisaged extension period of 10 years, additional revenue of ₹61,095 crore (Present Value - ₹353 crore) would have accrued to the State[29]. Further, as per the Master Plan approved for the project, the cost estimated for capacity expansion to three MTEUs was ₹3,390 crore. Since this expenditure is to be incurred by the 30th year, the cost may escalate to ₹14,651 crore[30] at the time of execution. As such, by incurring an expenditure of ₹14,651 crore, the Concessionaire would be benefited by ₹61,095 crore.

GoK stated (August 2016) that the financial analysis by Audit did not take into account the revenue sharing starting with 21 *per cent* at the beginning of extended period and ending with 40 *per cent* towards the end of the extended concession period. Considering such huge revenue share averaging to almost 30 *per cent*, the condition was actually not detrimental to the State. In fact, the condition facilitates continuity in the operation of the Port and better revenue share for the State.

The reply is factually incorrect since we had, in fact, factored in the revenue share of the State. GoK has not contradicted the fact that the Concessionaire, by spending ₹14,651 crore, would get 400 *per cent* returns.

- Article 26 of the Concession Agreement provides that the Concessionaire shall pay GoK by way of Concession Fee a sum of ₹1 *per annum* and an additional concession fee (premium) equal to one *per cent* of the total Realisable Fee from the 15th anniversary of COD. Thereafter, premium for the subsequent years shall be increased by one *per cent* of the total Realisable Fee, subject to a ceiling of 40 *per cent* of the total Realisable Fee in the respective year.

  We observed that as per the projected cash flow statements prepared by the consultants[31] engaged by VISL, the Concessionaire would recoup their investment of ₹2,454 crore by the eleventh year from COD, i.e., by 2030. Since GoK bears 67 *per cent* of the total investment required for the project, the revenue sharing with the Concessionaire should have commenced from the date on which the private partner recoups his investment i.e. from 2031. By postponing the commencement of sharing revenue to the fifteenth year after COD, GoK/ VISL has foregone revenue of ₹2,153 crore[32] and allowed undue benefit to the private

[29] Net cash flow of ₹78,222 crore as per the feasibility report prepared (April 2015) by Ernst & Young as reduced by revenue share of ₹17,127 crore payable by the Concessionaire to GoK during the 50th year to the 60th year.
[30] Providing year on year escalation of five *per cent* per annum as assumed by VISL while working out the Total Project Cost of Phase I, ₹4,089 crore.
[31] Ernst & Young.
[32] Difference between total revenue from traffic to GoK if revenue share commenced from 11th year- ₹8,981 crore and revenue receivable by GoK from 15th year as per Concession Agreement - ₹6,828 crore.

partner. There was also no basis for fixing revenue share at one *per cent* on the 15th anniversary of COD.

GoK replied (August 2016) that the period of commencement of revenue share to GoK was market determined and the 15 year period also related to the period provided by bank for project debt financing. GoK also stated that the development of port and its allied facilities would significantly contribute to the large scale growth of industry and economy in Kerala, besides generating direct and indirect employment opportunities.

The reply was not acceptable since it was clarified in the RFP that the payment of premium of one *per cent* shall commence either from COD or from any other date falling between COD and the 15th anniversary whereas the date of commencement of revenue sharing was given as "from the fifteenth anniversary of COD" in the DCA submitted along with RFP. Further, the contention of the GoK in respect of the perceived economic benefits to the State from the project was doubtful, since as described in *Paragraph 3.1.6,* the ENPV of GoK's investment was negative.

- Clause 12.6.6 of the Concession Agreement empowered the Concessionaire to levy, collect and appropriate the User Fee payable in respect of funded works in lieu of its obligations relating to operation, maintenance, defect liability and other functions. But, in Article 12.6.10, it was stated that the operation and maintenance of the fishing harbour shall at all times be undertaken by GoK.

  We observed that the above two Articles were mutually contradictory and had the effect of enabling the Concessionaire to charge user fee on the fishermen for using the facilities in the fishing harbour constructed as funded work. Since the cost of the funded works (₹1,463 crore) was entirely borne by GoK this would be tantamount to conferring undue benefit to the Concessionaire at the cost of GoK.

  GoK replied (August 2016) that operation and maintenance of fishing harbour component did not form part of the obligation of the Concessionaire and as such the Concessionaire would not levy User Fee in respect of Fishing Harbour component of the Funded Work.

  The fact remains that the ambiguity in respect of User Fee on funded works exists and needs to be clarified by amending the Concession Agreement.

- According to the Concession Agreement, annual traffic estimated was six lakh[33] TEUs. Article 29 of the Concession Agreement provided for modification in the concession period if the actual Average Traffic during 20 years after COD increased or decreased by more than five *per cent* of target traffic. For every two *per cent* shortfall, the concession

[33] **Traffic equivalent to 60 *per cent* of the capacity of the port i.e. six lakh TEUs per annum.**

period shall be increased by one year subject to a maximum of ten years. Similarly, for every two *per cent* excess, the reduction in concession period shall be by six months; subject to a maximum of three years. Reduction in Concession period shall, however, be waived if the Concessionaire pays a further premium equal to ten *per cent* of the Realisable Fee in the respective years.

We observed that the above conditions in the Concession Agreement were skewed in favour of the Concessionaire as illustrated in *Table 3.4* (*The figures are for illustrative purpose only*).

Table 3.4: Impact of increase or decrease in volume of traffic

	Event	Impact
Scenario A	Actual Average traffic decreases by 20 *per cent* from target traffic.	Concession period extended by ten years i.e. up to 2066. Benefit to the Concessionaire would be ₹24,620 crore[34].
Scenario B	Actual Average traffic increases by 20 *per cent.*	Concession period reduced by three years. Benefit to GoK would be ₹7,386 crore[35].
Scenario C	Actual Average traffic exceeds target traffic by 20 *per cent* and Concessionaire opts to pay 10 *per cent* additional Realisable Fee for six years	Concession period not reduced and the Concessionaire is benefitted by ₹6,381 crore[36].

We also observed that the Department of Economic Affairs (DEA) had, while considering the VGF application submitted by GoK/ VISL, stated that the proposal of a two *per cent* trigger for traffic for adjustment of concession period was too small and that normally, a band of 10 *per cent* was factored in bids.

The DEA had, therefore, requested GoK to set the trigger at a reasonable level of 10 *per cent* which was not acted upon by GoK.

GoK replied (August 2016) that the unequal adjustment for decrease and increase in traffic was done to incentivise the Concessionaire.

The reply is not tenable since the Concessionaire stood to gain disproportionately both when the traffic increased and decreased.

- According to Clause 30.1.1 of the Concession Agreement, if a Government Instrumentality opens any competing port within 100 kilometres (km) of the Vizhinjam Port before the fifteenth anniversary of the Appointed Date, the Concessionaire shall be entitled to an additional concession period equal to three times the duration between the commissioning of the competing port and the fifteenth anniversary

[34] ₹2,462 crore (net cash inflow of the Concessionaire in 2056 from Traffic and Port estate) * 10 years.
[35] ₹2,462 crore (net cash inflow of the Concessionaire in 2056 from Traffic and Port estate) * 3 years.
[36] ₹7,386 crore being the net cash inflow for three years of reduction in concession period as reduced by ₹1,005 crore being the additional Realisable Fee payable by the Concessionaire for six years at the rate of 10 *per cent* per year of 2040 Realisable Fee of ₹1,675 crore.

of the Appointed Date (5 December 2015). Further, the Concessionaire shall be relieved of his obligation to undertake mandatory capacity augmentation. This condition would not apply if the average traffic exceeds 90 *per cent* of the existing capacity of the Port in any year.

We observed that the term "Government Instrumentality" as defined in the Concession Agreement included GoI which was significant as GoI decided (July 2016) to establish a Container Transhipment Terminal at Colachel in Tamil Nadu, 51 km away from Vizhinjam Port, at a total cost of ₹24,969 crore. As such, the Concessionaire would be legally within their rights to invoke the Articles relating to the establishment of a competing port.

GoK replied (August 2016) that the relevant clauses are as adopted from the MCA and the definition of "Government Instrumentality" is as provided by the MCA. The definition is clear and the applicability of the same shall be evaluated on a case to case basis.

Thus, there is a risk that the clause will be invoked if the proposed port in Colachel comes up and would cause additional elongation of the concession period.

- Clause 27.1.1 empowers the Concessionaire to collect fee at lower rates by giving public notice to the users, specifically in respect of all or any category of users. This clause would enable the Concessionaire to collect reduced or nil user fee from users of their choice which would adversely affect the revenue share of GoK. As such, the Concessionaire has been given the option to provide vessels of his choice to use the Port facilities free of cost.

- Clause 3.1.3 of the Concession Agreement conferred on the Concessionaire the right to undertake the development, operation and maintenance of the real estate and to exploit such development for commercial purposes (Port Estate Development) with the right to sub-license any or all parts thereof by means of Project Agreements. It was also stipulated in the Agreement that the land used for Port Estate Development shall not exceed 30 *per cent* of the total area of the Site and the maximum area used for residential purposes shall not exceed one-third thereof**.**

  We observed that:

  - ✓ DEA had granted in-principle approval to the VGF application submitted by GoK on the basis of the assurance furnished by GoK that all activities proposed in Port Estate Development are port related and envisaged as part of the requirements of the project. However, this condition was not incorporated in the Concession Agreement.

  - ✓ The permissible area for Port Estate Development as specified in Annex-IV of Schedule A of the Concession Agreement was 30 *per cent* of the total area of the "Site" and the maximum area used for residential purposes shall not exceed one-third thereof. The total area of the "Site" has not been quantified anywhere in the Concession Agreement. As such, the Concessionaire is entitled to claim for Port Estate Development, 30 *per cent* of the total area of the project which may include the reclaimed area (53 hectares) and even the area acquired/ to be acquired for road/ rail connectivity, etc.

✓ As per the Master Plan, total area to be acquired for the project is 296.40 acres. Computed at the average cost of acquisition of ₹2.62 crore per acre, the value of land (88.92 acres) to be handed over to the Concessionaire for Port Estate Development was ₹232.97 crore.

- DEA had opined that the commercial development rights should be made *pari passu*[37] and *coterminus*[38] with the concession period for the port and enable return of this development created to GoK.

  We, however, observed that as per Article 31.5 of the Concession Agreement, the Concessionaire is permitted to sub-license the Port Estate Development including residential buildings for a period co-existent with the concession period, and the sub-license would endure even if the Concession is terminated. This essentially means that the Port Estate Development including residential building was not made *coterminus* with the concession period as directed by DEA. Thus, VISL/ GoK failed to address the specific concerns raised by the DEA especially concerning return of land to GoK on completion of the concession period.

Non-compliance with provisions of Concession Agreement

3.1.10 Clause 3 of Schedule L of the Concession Agreement mandated GoK to appoint Safety Consultant within 90 days of agreement for carrying out safety audit of the Port at the design stage. We, however, observed that VISL had not appointed Safety Consultant in spite of the fact that the Concessionaire had commenced the construction activities from 05 December 2015 and as per information furnished to Audit, has completed works estimated at ₹16 crore as on date (April 2016).

GoK assured (August 2016) that Safety Consultant would be appointed at the earliest.

Conclusion

The technical and financial estimates prepared by external consultants were not scrutinised with due diligence resulting in inflation of cost estimates. The interests of the GoK were not protected adequately while drawing up the Concession Agreement.

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[37] On equal footing.
[38] Ending at the same time.

Recommendations

The GoK may:

1. **Subject cost estimates prepared by External Consultants for PPP projects to scrutiny by qualified and responsible Government officers/departments before approving the same.**
2. **Exercise due diligence to protect the interests of the Government while drawing up agreements in respect of PPP projects**.

3.2 Sub-contract Management by Public Sector Undertakings

Introduction

3.2.1 Public Sector Undertakings (PSUs) in Kerala carry out supply and installation of equipment and execution of civil works on behalf of Departments/ agencies of Government of Kerala (GoK). These PSUs in turn engage sub-contractors for procurement of equipment and execution of work awarded by Departments of GoK/ agencies.

In order to examine compliance with rules and regulations and transparency in sub-contract management by PSUs, we examined 50 works[39] relating to supply and installation of equipment and 107 works relating to civil construction in seven[40] PSUs during the period 2010-11 to 2015-16. Out of these, 29 work orders valuing ₹178.79 crore for supply and installation of equipment were issued to the PSUs by GoK on nomination basis of which 20 work orders costing ₹51.47 crore were issued to the PSUs without preparing cost estimate. The cost estimates for these works were prepared by the PSUs based on which, work orders were issued by GoK to them on back to back basis[41]. The cost estimate in respect of 10 work orders for ₹27.77 crore was prepared with the help of business partners of the PSUs to whom these works were later sub-contracted.

Audit findings are discussed below.

Audit Findings

Supply and installation of equipment

3.2.2 Kerala State Electronics Development Corporation Limited (KELTRON) and Kerala Small Industries Development Corporation Limited

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[39] **41 works executed by Kerala State Electronics Development Corporation Limited (KELTRON) on behalf of 18 Departments/ agencies of GoK and nine works executed by Kerala Small Industries Development Corporation Limited (SIDCO) for one Department/ three agencies of GoK.**

[40] **Kerala State Electronics Development Corporation Limited, Kerala Small Industries Development Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, Kerala State Construction Corporation Limited, Kerala State Coastal Area Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited and Forest Industries Travancore Limited.**

[41] **'Back to back basis' is a term used by PSUs. It refers to purchases done by PSUs for GoK/ agencies whereby PSUs get orders from GoK / agencies who then pass it on to private parties with payment terms that PSU would make payment to private parties only after receipt of payment from GoK/ agencies.**

(SIDCO) supply and install equipment for departments of Government of Kerala (GoK) and other PSUs.

Issues noticed in the works relating to supply and installation of equipment are discussed in succeeding paragraphs.

Agreement with business partners

3.2.2.1 According to Section 3 of the Competition Act, 2002, no enterprise shall enter into any agreement for production, supply, etc., of goods or provision of services, affecting competition within India. As per guidelines (July 2004) of Central Vigilance Commission (CVC), while making procurement or executing work through a system of approved/ registered vendors and contractors, there should be wide publicity through website as well as through other traditional channels at regular intervals for registration of contractors/ suppliers.

We observed that for executing major works, KELTRON and SIDCO had entered into business agreements with eleven agencies, with the intention of obtaining work orders from GoK and getting them executed through these sub-contractors, as detailed in *Table 3.5.*

Table 3.5: Entities with whom business agreements were entered into

Name of the entity	Agreement since	Terms of agreement/Particulars
KELTRON		
Mediatronix Private Limited (Mediatronix)	March/ April 2011	KELTRON was to solicit orders for city surveillance solutions and road traffic enforcement systems developed by Mediatronix. KELTRON would sell these items in the brand name 'KELTRON' to its customer base. As per clause 4 of the agreement, Mediatronix and KELTRON would arrive at suitable pricing of the products on case to case basis.
Net X Technologies Limited (Net X Technologies)	June 2011	The parties to the Memorandum of Understanding (MoU) became strategic partners for selling products and services including digital library, learning management system, digital content creation and supply of servers and storage, etc., to various customers of KELTRON.
Stellar Green Tech Private Limited (SGPL), Gurgaon.	July 2011	Business partner for installation of solar projects.
Eram Scientific Solutions Private Limited (Eram Scientific)	March 2011	KELTRON obtained works from Local Self Government Department (LSGD) of GoK (based on a Government Order issued in March 2012) and had them executed by Eram Scientific.
Expedien E-Solutions Limited (Expedien)	April 2011	KELTRON obtained work of implementation of 'e-Vet Connect' in Kerala Veterinary and Animal Sciences University and executed it through Expedien.
Ospyn Technologies Private Limited (Ospyn)	February 2009	KELTRON obtained work of File Management System for Kerala Prisons and Correctional Services Department (Prisons Department) executed through Ospyn.
Webex Systems and Networks Private Limited (Webex)	January 2012	Preferred outsourcing partner for marketing and selling IT products for Government Departments, Corporate consultancy and other related services in IT.
SIDCO		
Stohos Infotech Private Limited (SIPL)	September 2013	As per Teaming Agreement, SIDCO would act as the team leader for participating in tenders floated by GoK and SIPL would supply the technology and equipment.

Name of the entity	Agreement since	Terms of agreement/Particulars
Kerala SIDCO Hitech Security Printing Solutions Private Limited[42]	May 2014	As per the Strategic Business Agreement, SIDCO would canvas with Government agencies and submit quotations/tender based on the predetermined pricing policy agreed upon. On obtaining the order from Government and Government agencies, SIDCO would issue the work order to the JV which would execute the work.
Sinelab Technologies Private Limited (Sinelab)	March 2015	SIDCO obtained orders from Government/PSUs which were passed on to Sinelab/ Nautical Lines, empanelled vendors, on nomination basis.
Nautical Lines	June 2013	

We observed that KELTRON and SIDCO selected business partners (strategic partners) without following any transparent procedure, such as identifying and empanelling firms through open tender process. Instead, the selection was based on unsolicited offers from the business partners who were private entities.

KELTRON stated (August 2016) that it took initiative and signed agreement with Mediatronix for projects related to purchase and installation of SVDS and RLVDS[43] on exclusive basis and that the system and solutions were proven for Indian conditions and were cost effective. The reply was not tenable as selection of business partners was not done transparently and cost effectiveness can be gauged only through a transparent tender system.

GoK stated (February 2017) that the PSUs had been instructed that criteria for selection of units whose products were marketed, terms of marketing arrangements, etc., should be brought to their Board of Directors (BoD) and got approved by them in advance. The reply is not acceptable as equal opportunity was not given to all interested parties.

Award of work to business partners without tenders

3.2.2.2 Rule 7.11 of Stores Purchase Manual (SPM) of GoK required that purchase orders/ work orders be issued only after inviting open tenders when the value of works exceeded ₹10 lakh.

We noticed that KELTRON and SIDCO had issued 12 work orders valuing ₹51.90 crore and 4 work orders valuing ₹8 crore respectively to their business partners without invitation of tenders as shown in ***Appendix 10***. Out of these, eight work orders received by KELTRON and all the work orders received by SIDCO from GoK/ its agencies were on nomination basis. We also noticed that:

- For the work of printing text books (Serial number-8 of ***Appendix 10)*** of Sarva Siksha Abhiyan (SSA), SIDCO requested (February 2014) GoK to allot the job to it on nomination basis. GoK, however, directed SIDCO to take part in tenders and operate on commercial basis. Yet, SIDCO approached SSA and obtained the printing job of activity books for

[42] **A joint venture (JV) of SIDCO and Solar Offset Printers Private Limited.**
[43] **Speed/ Red Light Violation Detection System used for traffic enforcement.**

schools. Thereafter, SIDCO assigned the work to a Joint Venture (JV), thus, bypassing the prescribed procedure for awarding contracts.

GoK in its reply stated (February 2017) that the work was awarded to SIDCO on the basis of quotations invited by SSA, and that there was no harm in SIDCO sub-contracting the work to the JV. The reply is not acceptable as SIDCO invited quotations from only one firm and awarded the work to the same firm.

- Three work orders for supply of 15-seater, 12-seater and 6-seater speed boats for Forest Department, GoK (Serial number 9 of ***Appendix 10***) was issued (March 2015) to Nautical Lines, business partner of SIDCO. Work order for supply of 15 seater boat was issued based on a price comparison of three quotations, including quotations of two other firms collected and submitted by Nautical Lines themselves to SIDCO. The delivery schedule was not mentioned in the work order for the 15 seater boat and Nautical Lines was yet (December 2016) to deliver the boat. Wildlife warden, Shenduruny had, however, given (17 June 2015) a false acceptance certificate for receipt of the boat and payment of ₹0.66 crore released (March 2015).

  The six-seater and 12-seater boats were delivered by Nautical Lines between May and June 2015, but the 12-seater boat could not be put to use as Nautical Lines had not furnished Fitness Certificate and Registration Certificate[44] in line with the terms of the work order.

  GoK, in its reply (February 2017), accepted that the award of work by SIDCO was irregular and assured that action would be taken against those concerned. Government also confirmed that the 15-seater boat is yet to be delivered. The reply did not explain how acceptance was issued by the Wildlife Department and payment released to the supplier for an item that is yet to be supplied. Responsibility was also not fixed for issuing false acceptance certificate.

Loss due to award of work without tenders

3.2.2.3 Issue of work orders to business partners on nomination basis resulted not only in violation of codal provisions but failure to obtain competitive rates as well. We worked out extra expenditure of ₹0.66 crore in award of works on nomination basis in two cases where comparable rates were available, as discussed below:

- According to the guidelines issued by Ministry of New and Renewable Energy (MNRE), Government of India (GoI), 30 *per cent* of cost or benchmark price of solar high mast lights was receivable as subsidy from GoI, if equipment were procured from MNRE-approved channel partners.

[44] From Coastal Shipping and Inland Navigation Department.

The work of supply and installation of solar high mast lights (Serial number-6 of ***Appendix 10***) was awarded to Sinelab, business partner of SIDCO. But Sinelab was not an approved channel partner of MNRE for supply of solar high mast light. Due to procurement from a non-approved channel partner, Kerala State Coastal Area Development Corporation Limited (KSCADC) became ineligible for subsidy of ₹0.11 crore[45].

GoK replied (February 2017) that there was no condition in the work order issued by SIDCO to execute the work through MNRE approved channel partners. The reply is not acceptable as by awarding the work to a firm not approved by MNRE, subsidy to the extent of ₹0.11 crore was foregone.

- Prisons Department, GoK awarded (March 2012) work relating to implementation of solar energy system in Central Prison, Thiruvananthapuram to KELTRON (Serial number 2 of ***Appendix 10)*** at ₹7.27 crore on nomination basis based on the project proposal submitted by KELTRON. As KELTRON had no previous experience in implementing solar projects, the project proposal was prepared with the assistance of KELTRON's business partner, SGPL. KELTRON subcontracted (April 2012) this work to Rajasthan Electronics and Instrumentation Limited (REIL)[46] and SGPL without any tendering process.

  We noticed that SGPL expressed (May 2012) its inability to execute the order. Consequently, the order was issued (May 2012) to Megatech Power Equipments Private Limited (MPEPL), business partner of SGPL on their recommendation at the same rate. On a comparison of rates of solar panels procured (September 2012) for Thevancode Prison, we noticed that KELTRON had incurred extra expenditure of ₹0.55 crore.

  GoK replied (February 2017) that award of work to MPEPL without tender was not justifiable. GoK also stated that the cost may vary from one jail to another depending on the layouts. The reply was not acceptable as we worked out the extra expenditure reckoning the cost of identical solar panels per unit (watt peak) supplied by REIL in both the jails. Cost per unit was also not dependent on the layouts.

Award of work after defective tendering

3.2.2.4 As per Rule 7.33 of Stores Purchase Manual (SPM), minimum time of 15 days (one month before revision of SPM in June 2013) was to be given for submission of bids. Short tender notice is also to be published in Gazette of GoK as mandated by the provisions of Rule 7.19 of SPM. Further, according to the directions (May 2004) of Central Vigilance Commission (CVC), pre-

[45] 30 *per cent* on the cost of solar plants procured through SIDCO.

[46] Design, manufacture, supply and testing of 229 KWp SPV power pack at ₹2.56 crore, excluding subsidy of ₹1.65 crore and installation charge of ₹1.28 crore to be done by KELTRON.

qualification criteria should be specified in tender documents and qualification of bidders should be carried out against these criteria.

In 1,212 e-tenders invited by KELTRON during September 2012[47] to March 2016, provisions of SPM were violated in 1,147 cases as time given for submission of bids was less than the minimum period prescribed. In respect of 41 sample-selected works which were sub-contracted by KELTRON, we observed that:

- In respect of 13 works received (2011-12 to 2015-16) from agencies of GoK on nomination basis[48], time given for submission of bids by KELTRON ranged between 2 to 18 days (18 days given when 30 days were to be given). KELTRON also did not publish short tender notices in Gazette of GoK. Insufficient time for submission of bids and lack of adequate publicity create a risk that adequate number of bids will not be received and competition will be reduced. Due to their proximity to KELTRON, business partners/ regular suppliers of KELTRON and their agents, however, participated in the tender and 13 work orders valuing ₹71.29 crore were awarded to them as shown in ***Appendix 11.***

- In 2 out of the above 13 works, where comparable rates were available, GoK incurred extra expenditure of ₹4.17 crore as given in *Table 3.6.*

Table 3.6: Extra expenditure incurred by IT@School[49] for purchase of computers.

Name of work	Supply of laptops to IT @ School	Supply of desktops to IT @ School
Days given for bid submission	7	4
Quantity (Number)	4,400	2,200
Rate/ piece at which supplied to IT @ School (₹)	35,857	32,642
Rate for comparable item (₹)	27,610	30,200
Extra cost per piece (₹)	8,247	2,442
Extra cost on supplied quantity (₹ in crore)	3.63	0.54
Remarks	Toshiba-make laptop with better specifications was purchased (January 2015) by Kerala Motor Transport Workers Welfare Fund Board, Kollam at the rate of ₹27,610.	15 Acer-make computers with same specifications were purchased (February 2015) by Chemical Examiners Laboratory, Thiruvananthapuram at the rate of ₹30,200.

Accepting the audit observation, GoK stated (February 2017) that floating tenders with lesser number of days than that prescribed in SPM was not

47 KELTRON started e-tendering from September 2012 only.

48 Except one work included as Serial number 13 in *Appendix 11* which was awarded to KELTRON after tendering.

49 A project to integrate computer technology into school curriculum with the primary objective of improving the quality of education and imparting computer education to school students.

justified. GoK further stated that BoD of PSUs needed to be involved in case of deviations, either on a case to case basis or through getting a policy laid down.

We also noticed manoeuvring of tenders to suit business partners/ regular suppliers as described below:

- ✓ State Police Chief, Kerala awarded (October 2012) the work of installation of 100 SVDS to KELTRON. It invited tenders after splitting the work into three parts. Of these, KELTRON invited (November 2012) e-tenders for setting up of Control Room for SVDS in Thiruvananthapuram. Five parties participated in the pre-bid meeting held on 30 November 2012. On the date of opening of the tender (13 December 2012), KELTRON decided to collect physical bid documents instead of e-documents and to finalise the bids on 14 December 2012. This fact was not informed to all bidders who participated in the tender. The reason attributed by KELTRON for the change in the method of tendering was technical glitch in the e-tender website which prevented uploading or downloading the e-tender details.

  According to the Kerala State IT Mission, which maintains the e-tendering website of GoK, there was no technical glitch in the website. This indicates that the officials of KELTRON wanted to finalise the tender outside the e-tender website when there was possibility of competition as five bidders had participated in pre-bid meeting. KELTRON opened (14 December 2012) the only bid received from RP Tech International Private Limited (RP Tech), who was authorised by Mediatronix to submit bids and awarded (20 December 2012) the work for ₹5.99 crore to RP Tech.

- ✓ In respect of works at serial number 1 and 2 of ***Appendix 11*** which were parts of the same work, tender conditions were arbitrarily fixed suiting the ultimate awardees of the works. In the work awarded to Mediatronix, Thiruvananthapuram for supply of SVDS, the criteria fixed was having an existing service centre in Thiruvananthapuram, whereas for the work awarded to ITMG, Malappuram (who did not have a service centre in Thiruvananthapuram) for installation of SVDS, the criteria fixed was that it should have an existing service centre anywhere in Kerala. In both the tenders, there was only one bidder each viz. Mediatronix and ITMG.

  Accepting the audit observation, GoK stated (February 2017) that they had instructed PSUs to have standard tender template, with deviations there from duly approved by the BoD.

  Regarding tender condition of having service centre in Thiruvananthapuram for the work of supply of SVDS, GoK stated that as the control room was installed at Police Training College, Thiruvananthapuram, KELTRON's stipulation of having a service centre at Thiruvananthapuram was justifiable. The reply is not acceptable as the work pertains to supply of SVDS to different locations throughout Kerala and not for installing control room.

- ✓ In respect of works at serial numbers 6 and 7 of ***Appendix 11,*** one of the conditions for bidding was that the bidders should be strategic partners/ MoU partners of KELTRON. In the case of these works valuing ₹1.99 crore, there was only one strategic partner viz., Net-X Technologies to submit bids.

- In the following tender, minimum previous experience was fixed in violation of CVC guidelines as detailed in *Table 3.7*.

Table 3.7: Requirement of experience as per CVC guidelines and that fixed by KELTRON

Name of work	Requirement of experience during last seven years		Audit Observation
	CVC guidelines	Fixed by KELTRON	
Networking and OFC backbone networking for Directorate of Collegiate Education (February 2016)	One similar work valuing not less than ₹5 crore.	One similar work valuing not less than ₹2 crore.	Work was awarded to Net-X Technologies. Eligibility was fixed to suit the requirement of Net-X Technologies, business partner of KELTRON as it had previous experience of only one similar work valuing ₹3.08 crore. On comparison of rates of nine comparable items of a similar work[50], excess expenditure of ₹0.19 crore (17.12 *per cent*) was noticed.

- For the works of supply of computer equipments for IT@School[51], notice inviting tenders issued by KELTRON stipulated that bidders should have experience, preferably of supplying to GoK/ its undertakings. RP Infosystems Limited was awarded the work of supplying Chirag brand computers. Out of 14,061 systems supplied, 135 had to be replaced and 5,301 had to be serviced by KELTRON at a cost of ₹1.27 crore as RP Infosystems Limited failed in after-sale service against which KELTRON recovered ₹3.38 crore through invocation of Bank Guarantee and retention money. Even though ₹0.32 crore[52] remained to be recovered from RP Infosystems, KELTRON did not encash three BGs worth ₹0.58 crore which expired in June/ July 2013.

  GoK replied (February 2017) that the figure of ₹1.27 crore was overstated and KELTRON's actual expenses were ₹0.74 crore. This reply is not acceptable because the figure of ₹1.27 crore was based on the figures provided by KELTRON itself and included the cost of manpower for service and overheads, whereas ₹0.74 crore was excluding these.

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[50] Nine items in order valuing ₹7.83 lakh given (March 2016) by Government College of Engineering, Kannur.
[51] Order Acceptance (OA) nos. 946 and 947 of 2010-11 and 1409 and 1410 of 2011-12.
[52] (Liquidated Damages deducted by IT@School: ₹2.43 crore *plus* service charges incurred: ₹1.27 crore) *less* ₹3.38 crore = ₹0.32 crore.

Award of work to single bidders

3.2.2.5 According to the directions (October 2013) of GoK, in cases where there was only single bidder, retendering should be resorted to. If after retendering also there was only single bidder, the work can be awarded to the single bidder with justification for the same. Further, as per Rule 8.15 of SPM, Earnest Money Deposit (EMD) of a tenderer will be forfeited, if the tenderer withdraws from the tender.

- We noticed that KELTRON had awarded eight works, obtained from GoK/ agencies on nomination basis, to single bidders for ₹24.60 crore without retendering **(*Appendix 12*)**. The time given for bid submission in these cases was also lesser than that mandated by SPM. In respect of tenders for the works of Motor Vehicle Department, GoK and Transport Commissioner (Serial numbers 4 and 6 of ***Appendix 12***) request of one contractor for extension of bid submission time for each work was not considered by KELTRON.

  In respect of tenders invited for three works, there were two bidders each. Though the bidders were related entities which made their bids equivalent to single bids, KELTRON/ SIDCO did not retender the works as warranted by the Order (October 2013) of GoK as detailed in *Table 3.8.*

Table 3.8: Bidding by related entities

Sl. No.	Items of supply	Name of bidders	Name of PSU	Work awarded to	Purchase Order Value (₹ in crore)	Remarks
1	Compactors[53] for KLIM	SIPL and Net-X Technologies	SIDCO	SIPL	4.21	SIPL and Net-X Technologies were the business partners of SIDCO and KELTRON respectively. In the tender invited by KELTRON, the bid submitted by Smartsoft (another vendor) was rejected during technical evaluation though it complied with all the tender conditions. The seal of SIPL was found on the bid documents submitted by Net-X Technologies to KELTRON. The contact e-mail given by SIPL in the e-tender website was biju@netx.co.in i.e. an email address registered in the domain of Net-X Technologies.
2	Two Database servers for IT @ School	SIPL and Net-X Technologies	KELTRON	Net-X Technolo-gies	1.00	
3	Supply of solar equipment in various coastal areas on behalf of KSCADC	Sinelab and SARK Cables Private Limited	SIDCO	Sinelab	2.31	Both the bidders were related entities because both had common directors.

[53] **Compactors are storage systems which can store large number of files/documents etc., utilising comparatively less floor space.**

GoK admitted (February 2017) that SIDCO should not have awarded the work related to KLIM to SIPL and assured that the officials concerned would be taken to task. In case of the award of work to Sinelab, GoK stated that SIDCO was not aware of the fact that the two bidders were related.

We further noticed that:

- In respect of the work of installation of speed cameras and surveillance system for Transport Department, GoK (serial number 6 of ***Appendix 12)***, Proxs Infocomm Limited (Proxs) was Mediatronix's partner and an authorised agency to quote, supply, install and maintain traffic enforcement systems developed by Mediatronix. In the tender documents submitted by Proxs, employees of Mediatronix were mentioned as the contact persons for financial and technical enquiries.

  Work was awarded to Proxs on 1 November 2013 and on the same day KELTRON, Mediatronix and Proxs entered into a teaming agreement for joint development, implementation and maintenance of the required system and software for the project.

  As Proxs did not start the work even after three months of the issue of the Purchase Order, KELTRON cancelled (3 February 2014) the Purchase Order and the supply order was directly issued (6 February 2014) to Mediatronix without re-tendering for a total value of ₹9.34 crore. KELTRON, Mediatronix and Proxs, thereafter, entered (25 February 2014) into a compromise deal and KELTRON refunded (26 February 2014) the earnest money deposit (₹20 lakh) submitted by Proxs. Such instances highlight the non-transparent dealings of KELTRON.

- For the work of setting up of vehicle testing stations (VTS) in Thiruvananthapuram and Ernakulam (serial number 4 of ***Appendix 12***), KELTRON published (16 January 2014) e-tenders, giving only five days for submission of bids. A private company[54] had complained to KELTRON that the dates given in the tender were in violation of the provision of General Financial Rules 2005. KELTRON did not consider this complaint even though there was violation of SPM provisions, thereby limiting competition. Only one bid was submitted which was accepted though the bidder (Webex Systems and Networks Private Limited – Webex) did not submit documents such as declaration about non-blacklisting by Government Departments, registration certificate, service centre details, PAN details, etc. KELTRON had earlier obtained works of VTS at Kozhikode and Kannur by submitting proposals obtained from Webex and thereafter passed on (October 2011- March 2012) these work to Webex on nomination basis.

  Webex, incorporated in 2007, obtained VAT registration in February 2012. After obtaining the works of VTS through KELTRON, the VAT

[54] **Environmental Systems Products India Private Limited.**

registration was cancelled in August 2014. Webex collected (March 2012 - March 2014) VAT amounting to ₹0.68 crore from KELTRON in the deal, which was not duly remitted to the Commercial Taxes Department, GoK. Due to this, KELTRON would be disallowed the input VAT credit of ₹0.68 crore availed of by it.

Commercial Taxes Department, GoK, replied (November 2016) that notice had been issued to Webex for recovery of VAT. Recovery was, however, pending as of February 2017.

Award of work to regular suppliers after defective evaluation of bids

3.2.2.6 GoK/ its agencies issued (January 2011- January 2016) nine work orders to KELTRON through tender process. In respect of one tender for supply and installation of 3,720 all-in-one desktop computers for Additional Skill Acquisition Programme (ASAP) of Higher Education Department, the eligibility criteria for technical qualification required that the bidder should be a manufacturer or authorised dealer or authorised distributor and the equipment should have EPEAT[55] gold certificate.

ASAP rejected one of the bidders who had quoted with Dell make stating that it did not furnish list of service centres, whereas Dell followed onsite service support. ASAP rejected another bid as it did not meet the annual turnover criteria of ₹20 crore, which was more than the probable amount of contract (PAC) of ₹15 crore. ASAP qualified KELTRON and Steel Industrials Kerala Limited[56] (both with Acer brand) technically, even though neither of them were manufacturers or authorised dealers/ distributors. They neither submitted EPEAT gold certificate nor did have any service network. Despite these defects, ASAP placed (6 March 2015) work order on KELTRON, the lower of two bidders at the rate of ₹37,000 per piece.

We observed that KELTRON had invited (4 March 2015) tenders in which two bidders, ACS Technologies and LR Infotech System had participated. Both the bidders were regular suppliers of KELTRON during 2010-11 to 2015-16 with nearly 30 to 82 *per cent* of their annual turnover coming from KELTRON. Work order was issued (11 March 2015) to ACS Technologies, the lowest bidder who quoted ₹35,233 per piece even though it did not produce EPEAT gold certificate.

KELTRON replied (August 2016) that the equipment supplied by ACS Technologies had EPEAT gold certification. The reply was incorrect as EPEAT gold certification was obtained (24 March 2015) after placing supply order by KELTRON.

[55] Electronic Product Environmental Assessment Tool (EPEAT) is a free and trusted source of environmental product ratings that makes it easy to select high-performance electronics that meet an organisation's IT and sustainability goals. Manufacturers register products based on the devices' ability to meet various criteria developed and agreed upon by diverse stakeholders to address the full lifecycle of an electronic product.

[56] A Public Sector Undertaking.

Lapses in installation of integrated security system for Sree Padmanabha Swamy Temple

3.2.3 GoK approved (27 October 2012) KELTRON's proposal for integrated security system for Sree Padmanabha Swamy Temple and State Police Chief, Kerala made advance payment (March 2013) of ₹9.54 crore to KELTRON for it.

We observed that KELTRON could not complete the installation of seven speed folding doors costing ₹1.61 crore as the Executive Committee of the Temple did not permit it. Permission of the Thanthri (priest) was required for any changes to be made inside the temple, which was not obtained by KELTRON. We also observed (April 2016) in a joint physical verification that KELTRON purchased excess material valuing ₹0.25 crore. Similarly, bollards installed in the North, East and West Nadas were not working and road blockers installed in East, West and South Nadas were also not working.

GoK replied (February 2017) that road blockers and bollards were being rectified. The fact, however, remains that these equipment were not fully rectified and warranty for road blockers and bollards would expire in December 2017 while that of speed folding doors would expire in August 2017.

Payment for supplies not conforming to specifications

3.2.4 KELTRON ordered (06 March 2014) four day-night vision binoculars from Trident Infosol Private Limited (Trident) after inviting limited tenders, for Integrated Security System (ISS) in Sree Padmanabha Swamy Temple. According to the terms of purchase order, payment was to be made against delivery and acceptance of material.

We noticed that KELTRON staff had taken the binoculars into stock and paid ₹6.53 lakh (80 *per cent* of value of supply, including tax) on the day of receipt (15 May 2014). Deputy Commissioner of Police, Sree Padmanabha Swamy Temple Security rejected (March 2015) the binoculars due to non-conformity to order specifications. Thus, ₹6.53 lakh were spent wastefully due to KELTRON's undue haste in making payment to Trident. Trident did not replace the items (April 2016).

Execution of civil works on behalf of agencies of GoK

3.2.5 GoK and its agencies executed various civil construction works through PSUs such as SIDCO, Kerala State Construction Corporation Limited (KSCC), Kerala Irrigation Infrastructure Development Corporation Limited (KIIDC), Forest Industries Travancore Limited (FIT), Kerala State Coastal Area Development Corporation Limited (KSCADC) and Roads and Bridges Development Corporation of Kerala Limited (RBDCK). These PSUs received (2013-14 to 2015-16) 166 work orders valuing ₹2,111.67 crore from various departments of GoK for execution of civil works. Out of these, we examined 107 work orders valuing ₹1,718.81 crore in order to ascertain transparency in award of work and efficient execution.

All 107 work orders examined by us were issued to PSUs on nomination basis in violation of the provisions of Kerala Financial Code (KFC). These works were subsequently sub-contracted by the PSUs. Deficiencies noticed in the award of work by PSUs and their execution is discussed below.

Award of work to sub-contractors

3.2.5.1 We noticed violation of codal provisions in award of 69 works to sub-contractors by four PSUs as detailed in *Table 3.9*.

Table 3.9: Irregularities in award of work to sub-contractors

Sl. No.	Criteria/ Norm	Audit Observation
1	One of the conditions prescribed for empanelment of a firm with SIDCO for execution was that they should possess at least one year's experience in their field of activity.	One firm, DNA Creatives (DNAC) was empanelled (July 2014) by SIDCO just after registration (5 July 2014) of the firm. We also noticed that two[57] work orders received from Department of Museums and Zoos were awarded (September 2014) to DNAC for ₹2.17 crore against estimate of ₹2.66 crore.
2	As per Rule 7.7 of SPM, tenders should be invited for purchase of stores if the estimated value of stores is above ₹1 lakh.	KIIDC issued (May 2014 to February 2015) five work orders for installation of biogas plants at a cost of ₹1.67 crore under project of Implementation of Urban Environment Improvement Project to six suppliers without invitation of tenders.
3	According to Paragraph 217 of Kerala PWD manual, work cannot be started before preparation of estimate and sanction by the competent authority. Administrative Sanction (AS) and Technical Sanction from competent authority shall precede a tender.	KSCC executed (February 2016) extra work in connection with construction of new bridge across river Payaswini (Athanadi Bridge) in Kasargod district before obtaining AS for the extra work.
4	As per CVC direction, limited tenders should be invited from the panel of approved contractors.	All the 55 sub-contracts valuing ₹930.16 crore entered into (during the three years from 2013-14 to 2015-16) by KSCC, which were selected for scrutiny, were awarded to contractors on nomination basis. As against the directions of BoD of KSCC, in the initial empanelment (2011-12), 10 out of 67 contractors did not meet 5 out of the 6 criteria fixed by the BoD for empanelment.
5	According to the guidelines issued (November 2002) by CVC for award of works, it was stated (paragraph 18) that security deposit (Bank Guarantee) of a reasonable amount and valid up to the defect liability period should be obtained from the contractor.	KSCC executed six[58] works without obtaining Security Deposit from the sub-contractors.

[57] Work order for modification of the interior of the enclosure in reptile house at ₹0.39 crore and work order for construction of enclosure for Anaconda and King Cobra at ₹1.78 crore.

[58] Heavy Maintenance to Ottappalam- Mannarkkad Road, Construction of Academic Block in Medical College campus, Thrissur, Construction of new bridge across river Payaswini (Athanadi Bridge) in Kasargod District, Nettoor-Kundannur Bridge (Parallel) across Nettoor-Kundannurpuzha, Construction of Regulator cum Bridge at Purapallikkavu across Periyar river, Construction of Nanichery Kadavu Bridge across Baliapattanam river in Kannur District.

Execution of civil works by sub-contractors

3.2.5.2 Issues noticed in execution of civil works by sub-contractors are discussed below:

- There was delay in execution of five civil works sub-contracted by SIDCO and five works by KSCC as detailed in *Table 3.10.*

Table 3.10: Delay in execution of civil works

Sl. No.	Name of work	Name of contractor (Date of award of work)	Awarded cost (₹ in crore)	Scheduled date of completion	Progress as of February 2017 *(per cent)*	Remarks
Kerala Small Industries Development Corporation Limited						
1	Construction of roads, retaining wall, community hall in Karakulam Panchayath (Maruthur/Manjamcode SC Colony) for Scheduled Castes and Scheduled Tribes Development Department.	Angle Plus Private Limited (September 2014)	0.69	May 2015	33.70	Work was delayed as the revised estimate was not approved by Scheduled Castes and Scheduled Tribes Development Department. GoK replied (February 2017) that the works were delayed due to lack of supervisory personnel in SIDCO. Reply was not acceptable as GoK had issued work to SIDCO on nomination basis without ensuring its capability.
2	Construction of water tank, community hall in Andoorkonam Panchayath (Apollo Colony) for Scheduled Castes and Scheduled Tribes Development Department.	Shri D. Sasidharan (January 2015)	0.60	October 2015	0.09	Work was delayed as the revised estimate was not approved by Scheduled Castes and Scheduled Tribes Development Department. GoK replied (February 2017) that the delay was due to dispute with the contractor which had since been resolved and the contractor given instructions to restart the work. The fact, however, remains that work is yet to be completed.
3	Construction of well, water tank, Mini community hall in Andoorkonam Panchayath (Sreepadam Colony) for Scheduled Castes and Scheduled Tribes Development Department.	Angle Plus Private Limited (September 2014)	0.81	July 2015	48.15	Work was delayed as the revised estimate for digging a bore well in addition to well already constructed was not approved by Scheduled Castes and Scheduled Tribes Development Department. GoK replied (February 2017)

						that the construction of the well was completed as per original estimate. Reply is not acceptable since the actual requirements of the residents were not properly assessed.
4	Work for setting up a museum at Kanakakkunnu Palace for Department of Tourism (DoT).	Not yet (as of March 2016) awarded by SIDCO.	0.60	NA	NA	The work was entrusted to SIDCO in May 2010. DoT released (September 2010) ₹29.96 lakh to SIDCO but the work was not completed even after five years as the details of the project was not forwarded to SIDCO by DoT. GoK in its reply (February 2017) admitted the audit finding and stated that DoT did not forward the details of project to SIDCO.
5	Construction of multi storeyed industrial estate at Puthussery, Palakkad for Director of Industries and Commerce.	Entec Engineers (June 2013)	5.97	June 2015	Nil	Work is yet to be commenced as the site is not cleared yet (December 2016). GoK replied (February 2017) that the work was re-allotted to another implementing agency.
Kerala State Construction Corporation Limited						
6	Construction of new block for nephrology unit and dialysis centre at General Hospital Pala for Public Works Department.	Theruvath Builders (March 2014)	8.04	April 2015	Nil	Due to intervention of the Hon'ble High Court of Kerala, the work was stalled as a writ petition was filed by an individual residing near the construction site alleging that the construction was carried out without providing the required minimum set back of 5 metres-as provided in the site plan-from the petitioner's property. It was also alleged that there was no approved Building Plan for the project. Considering the allegations, the Honourable High Court ordered (April 2016) KSCC to restrain from undertaking the construction.
7	Construction of Nettoor – Kundannur Bridge for Public Works Department.	Greenworth Infra Structures Private Limited (October 2013)	26.57	June 2016	53	As per PWD Manual 2012, (Paragraph 2102.1 and 2101.1) after executing the agreement, the site has to be taken over from the Assistant Engineer (PWD) to commence the work immediately and where any

8	Construction of bridge near Mankombu Civil Station across Manimala river for Public Works Department.	Contour Constructions Private Limited (March 2014)	24.47	March 2016	42	delay is anticipated, the matter shall be brought to the notice of the authority who executed the agreement.
9	Construction of Nilambur bypass road for Public Works Department.	Thrimathy Contracting Company (February 2014)	18.34	July 2015	Not commenced	KSCC did not analyse the site condition before awarding (June 2013 to July 2015) the works which resulted in unnecessary delay due to hindrances at site.
10	Construction of regulator cum bridge at Purapallikkavu across Periyar River for Irrigation Department.	Seguro Foundations and Structures Private Limited (March 2015)	99.86	September 2017	12	

- According to CVC directions (April 2007), payment of mobilisation advance (MA) should be made only if it is clearly stipulated in the tender document. Amount of MA, interest to be charged, recovery schedule, etc., should be stipulated in the tender document upfront. CVC further clarified (February 2011) that in order to enable recovery, MA should be granted only after obtaining Bank Guarantee equivalent to 110 *per cent* of MA.

  SIDCO had granted MA of ₹1.51 crore in respect of two work orders[59], despite there being no such stipulation in the tender document. In both the above cases, MA was granted interest-free, resulting in loss of interest of ₹0.16 crore[60]. Similarly, KSCC released (October 2013 to December 2015) MA of ₹11.43 crore without obtaining required Security Deposit of ₹12.56 crore in respect of five[61] work orders of Public Works Department (PWD).

  GoK accepted (February 2017) the audit observation and stated that the amount paid as MA in SIDCO had since been recovered with interest.

- According to the directions (September 2007) of GoK, PSUs executing civil works on behalf of GoK were eligible for centage/ consultancy charge ranging between five and eight *per cent*[62] on the estimated cost or the actual cost of construction, whichever was lower.

[59](Amount of MA in brackets) Construction of District Youth Bhavan at Panamaram, Wayanad at ₹2.21 crore (₹0.50 crore during July-August 2014) and Construction of multi-storeyed industrial estate building at Puzhakkalpadam, Thrissur at ₹10.09 crore (₹1.01 crore in January 2013).

[60] Up to March 2016- Panamaram: ₹0.04 crore, Puzhakkalpadam: ₹0.12 crore.

[61]Amount of SD required given in brackets. Heavy Maintenance to Ottappalam Mannarkkad Road (₹1.13 crore), Construction of Academic Block in Medical College campus, Thrissur (₹4.12 crore), Construction of new bridge across river Payaswini (Athanadi Bridge) in Kasargod District (₹3.85 crore), Nettoor-Kundannur Bridge (Parallel) across Nettoor-Kundannurpuzha (₹1.48 crore) and Construction of Bridge near Mankombu Civil Station across Manimala river in Alappuzha District (₹1.98 crore).

[62] ₹5 crore and above- 5 *per cent*, between ₹3 crore and ₹5 crore – 6 *per cent*, between ₹50 lakh and ₹3 crore - 7 *per cent* , less than ₹50 lakh - 8 *per cent*.

In respect of eight[63] work orders issued (August 2014 to May 2015) by Department of Museums and Zoos, GoK, SIDCO received an amount of ₹8.83 crore in advance being the estimated cost of the works plus 7 *per cent* centage charges. Actual cost of execution of the eight works was ₹7.83 crore. As such SIDCO was eligible for an amount of ₹8.38 crore (actual cost ₹7.83 crore + ₹0.55 crore as centage charges being 7 *per cent* of the actual cost). However, SIDCO retained ₹1 crore as centage charges and not refunded the difference amount of ₹0.45 crore (₹8.83 crore - ₹8.38 crore). Thus, SIDCO obtained undue benefit of ₹0.45 crore by charging excess centage.

GoK accepted (February 2017) the audit observation and stated that charging excess centage was against the Government direction.

- The work of development of Manappattuchira Environs at Malayattoor was awarded (September 2010) to SIDCO by Tourism Department and subcontracted by (October 2010) SIDCO to Shri P.A George. Though the work was completed on 31 December 2012, the building was handed over by SIDCO to Tourism Department only in October 2016. Due to this, local people had occupied the building using its rooms and toilet facilities. The expenditure of ₹77.20 lakh incurred for the project, remained blocked up for nearly four years and the loss caused due to unregulated use and lack of maintenance was not ascertainable.

  GoK replied (February 2017) that the said problem had already been solved and the building was handed over to the Tourism Department on 6 October 2016. The fact, however, remains that there was avoidable delay of nearly four years in utilising completed asset.

Quality of construction work

3.2.5.3 We noticed poor quality of construction and violation of codal provisions in respect of six civil works executed by three PSUs as given in *Table 3.11*.

Table 3.11: Details of poor quality of construction of civil works

Sl. No.	Name of work sub-contracted	Audit Finding
	Kerala Small Industries Development Corporation Limited (SIDCO)	
1	Construction of industrial complex at Kakkanad for Directorate of Industries and Commerce awarded (June 2010) to Shri. Kunju Makkar for ₹1.69 crore.	Since the work was completed within the scheduled period, the contractor was given a bonus of ₹0.94 lakh in accordance with extant directions (August 1997) of GoK. The Vigilance Officer, SIDCO noticed that the material used for plastering and for the toilets were inferior in quality and the correct percentage of material mixing was not adhered to. As a result,

[63] Construction of enclosures for Blue Bull at the Zoological Gardens, Construction of enclosures for Hyena at the Zoological Gardens, Construction of enclosures for Barking Deer at the Zoological Gardens, Construction of enclosures for Jackal at the Zoological Gardens, Construction of enclosures for Malabar Giant Squirrel at the Zoological Gardens, Construction of enclosures for Anaconda and King Cobra at the Zoological Gardens, Modification of interior of the enclosure in Reptile House of Museum and Zoo at Thiruvananthapuram and Construction of Kids' park at Museum and Zoo at Thrissur.

Sl. No.	Name of work sub-contracted	Audit Finding
		the building was in shabby condition. Though as per the terms of work order the contractor was to rectify all these defects, maintenance of the building was entrusted (June 2015) to another contractor at an agreed amount of ₹0.93 lakh. SIDCO neither initiated any action to recover the extra expenditure caused by the negligence of the original contractor nor fixed responsibility on SIDCO officials who had not ensured quality of the work executed. GoK replied (February 2017) that SIDCO completed the work to the satisfaction of DI&C and the cost of maintenance was met within the bonus amount received by SIDCO for the early completion of the work. The reply is not acceptable as the quality of the work executed was not ensured by SIDCO.
2	Project of execution of "Storm water stream management at Edakkal area Kovalam" for Department of Tourism (DoT) awarded (May 2013) to Shri. P.A. George for ₹0.86 crore.	Due to unscientific construction, the floor level of the *thodu*[64] was raised from the previous level causing water logging in the area which turned into a reason for agitation including filing of cases before the Hon'ble Court by the residents. District Collector requested (19 July 2014) SIDCO to look into the matter and take urgent steps to make changes in the construction to ensure free flow of water through the *thodu* by avoiding accumulation of water around the new construction. GoK replied (February 2017) that SIDCO completed the work as per the plan approved by DoT. Even though SIDCO suggested (30 October 2014) corrective measures in the drawings of the said plan, no response was received from DoT.
3	Implementation of 'Development of gateway of Nilambur at Unarvu, Malappuram' for DoT awarded (April 2012) to Shri. N.S. Luka for ₹0.97 crore.	The project executed so far did not satisfy the requirements of the DoT. SIDCO had carried out the work without consulting either the DoT or the Architect. Though ₹0.93 crore was paid to the contractor, the scope of the work was not as envisaged in the administrative sanction for the project, thereby the whole expenditure became unfruitful. DoT reported that the deviations was done by the contractor without approval and fixed responsibility for the same on SIDCO. GoK replied (February 2017) that the bills of the contractor had since been accepted. The reply is not acceptable as the issue pointed out by us has not been addressed.
Kerala State Coastal Area Development Corporation Limited (KSCADC)		
4	Revamping of Government Regional Fisheries Technical HS & VHS Thanur, Malappuram for Fisheries Department, awarded (January 2015) to Shri. K. Manikantan for ₹2.28 crore.	As per soil investigation report for the work the ideal foundation of the building was large bored piles with diameter of 1.5m to 1.8m. KSCADC, however, tendered and awarded the work without making provision for piling by ignoring the recommendation in the soil investigation report. The work was completed in July 2016.
5	Construction of New Academic Block for Government LPS, Thrikkunnappuzha for Fisheries Department	Estimate presented before NABARD was prepared without considering required pile foundation. Due to this, essential structures (compound wall as well as toilet block) had to be deleted by settling for a smaller pile than recommended one thus, compromising the structural stability of the building.

[64] **A small stream.**

Sl. No.	Name of work sub-contracted	Audit Finding
	awarded (June 2015) to Shri. P.I. Noushad for ₹0.44 crore.	
Roads and Bridges Development Corporation of Kerala Limited		
6	Construction of River Bridge at Station Kadavu for PWD awarded (May 2012) to Hope Constructions for ₹16.84 crore.	Failure of the sub-contractor to mobilise resources at site resulted in foreclosure of contract without any risk and cost to the sub-contractor. Retendering of balance work, despite objection from Finance Department resulted in cost increase of ₹6.44 crore.

Conclusion

KELTRON and SIDCO awarded work orders to their business partners on nomination basis and through tendering that was tailor-made to suit their business partners. Thus, a few firms viz., Mediatronix, RP Tech Net–X Technologies and SIPL managed to obtain major orders of GoK through KELTRON and SIDCO without complying with provisions of KFC, SPM and CVC guidelines. Besides, due to involvement of PSUs in the execution of works of GoK through private parties, GoK had to incur extra expenditure. In execution of civil works also, there was non-compliance with provisions of KFC, SPM and CVC directives.

Recommendation

1. **GoK should dispense with the system of awarding works to PSUs on nomination basis.**

2. **GoK should comply with the provisions of SPM and invite competitive tenders.**

3. **PSUs which get work orders after participating in tenders should ensure that all the provisions of SPM and CVC guidelines are complied with.**

3.3 Corporate Social Responsibility of PSUs

Introduction

3.3.1 Corporate Social Responsibility (CSR) refers to operating business in a manner that accounts for the social and environmental impact created by the business. Through CSR, companies give something back to society. CSR means and includes projects or programmes on eradication of hunger, poverty and malnutrition, promoting gender equality, promoting education, empowerment of women, ensuring environmental sustainability, protection of national heritage, etc. CSR is governed by provisions of the Companies Act, 2013 (Act) and Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules).

According to Section 135 of the Act, companies with annual turnover of ₹1,000 crore or more or net worth of ₹500 crore or more or profit (before tax) of ₹5 crore or more in any of the three preceding financial years[65] have to spend at least two *per cent* of average profit[66] of such preceding financial years on CSR activities from 2014-15 onwards, giving preference to areas around their operation.

As of June 2016, 23 Public Sector Undertakings (PSUs) in Kerala came under the purview of CSR during 2014-15 to 2015-16. We assessed compliance of these PSUs with the provisions of the Act/ CSR Rules/ orders and notifications issued by Ministry of Corporate Affairs (MCA), Government of India (GoI), on CSR. Audit findings are discussed in the succeeding paragraphs.

Audit Findings

Formulation of CSR Policy and CSR spending

Non-constitution of CSR Committee and non-spending on CSR

3.3.2 As per Section 135(1) of the Act, each of the 23 PSUs was to constitute a CSR Committee consisting of three or more directors, out of which at least one director shall be an independent director. The CSR Committee was to formulate and recommend a CSR Policy and the amount of CSR expenditure to Board of Directors (BoD) and monitor the CSR Policy of the Company.

We noticed that out of the 23 PSUs, 13 PSUs (***Appendix 13***) did not constitute the CSR Committee or formulate the CSR Policy (as of June 2016). Among these 13 PSUs, three PSUs had negative average net profit during the three preceding financial years and hence, were not required to spend on CSR while balance 10 PSUs were required to spend on CSR.

Oil Palm India Limited and Kerala Agro Machinery Corporation Limited, though coming under the purview of CSR law, spent ₹0.33 crore (against the minimum requirement of ₹0.50 crore) for CSR activities without constituting a CSR Committee or formulating a CSR Policy. As the amount was spent without constituting CSR Committee or formulating a CSR Policy, the CSR spending of these two PSUs was irregular.

Similarly, eight PSUs were required to spend at least ₹7.93 crore on CSR during 2014-15 and 2015-16 as detailed in ***Appendix 14***. But, they did not spend any amount on CSR during the above period.

GoK replied (October 2016) that Kerala State Power and Infrastructure Finance Corporation Limited (KSPIFC) had spent ₹0.25 crore in 2014-15 on a project for development of woman and child ward at Government Taluk Head Quarter Hospital, Nilambur and was eligible for including the same as CSR. The reply was not tenable as ₹0.25 crore spent during 2014-15 was part

[65]Vide Circular No: 21/2014 dated 18/06/2014 of Ministry of Corporate Affairs, Government of India.
[66]Average of profit made by them during the three immediately preceding financial years.

of ₹0.50 crore donation given to Government Taluk Head Quarter Hospital, Nilambur as per Government Order dated 27 July 2013 and not the amount earmarked for CSR during 2014-15.

State Farming Corporation of Kerala Limited replied (June 2016) that their profit before tax during 2014-15 was less than ₹5 crore and hence, they were not liable to spend on CSR. The reply was not acceptable as its annual profit before tax exceeded ₹5 crore during the preceding three years. Transformers and Electricals Kerala Limited replied (February 2017) that BoD decided not to spend for CSR activities since the Company was continuing in huge losses. Other five PSUs accepted the audit finding and assured compliance with CSR laws.

Non/ incorrect reporting on CSR activities

3.3.3 According to Section 135 (5) of the Act, in case of failure of a company to spend minimum 2 *per cent* of average profit on CSR, the BoD shall in its report[67] include the reasons for non-spending.

Out of the ten PSUs which did not spend the required minimum amount on CSR, three PSUs[68] did not report the reason for non-spending and three PSUs[69] wrongly reported that CSR Rules were not applicable to them. The remaining four PSUs were yet to publish their Annual Report as of June 2016.

KSPIFC replied (June 2016) that non-spending was not reported in the Directors' Report due to oversight and necessary disclosures would be made in the next year's report. Two PSUs[70] accepted the audit finding while Kerala Forest Development Corporation Limited replied (July 2016) that they were not aware of the circular dated 18 June 2014 of MCA and assured that the audit finding will be brought to the notice of BoD.

State Farming Corporation of Kerala Limited replied (June 2016) that the matter was reported correctly in the Annual Report 2014-15. The reply was not tenable as profit for the period 2011-12 and 2013-14 exceeded ₹5 crore and thus, the Company came under the purview of CSR law.

Deficiencies in spending on CSR

3.3.4 Ten out of the 23 PSUs covered in audit had constituted CSR committee as well as formulated a CSR policy and spent ₹10.74 crore (***Appendix 15***) on CSR activities during 2014-15 and 2015-16. The following deficiencies were noticed in the CSR expenditure incurred by these 10 PSUs.

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[67] Report attached to the financial statements laid before a company in general meeting as per Section 134 (O) (3) of the Act.

[68] Kerala State Power and Infrastructure Finance Corporation Limited, Transformers and Electricals Kerala Limited and Oil Palm India Limited.

[69] The State Farming Corporation of Kerala Limited, Kerala Forest Development Corporation Limited and Kerala Agro Machinery Corporation Limited.

[70] Kerala Agro Machinery Corporation Limited and Transformers and Electricals Kerala Limited.

Non-spending on CSR

3.3.4.1 Two PSUs[71]did not spend any amount on CSR during 2015-16 though they had to spend ₹0.67 crore as per the Act.

Rehabilitation Plantation Limited replied (July 2016) that they would spend the amount earmarked for CSR during 2016-17.

Non-display of CSR policy in website

3.3.4.2 Section 135 (4) (a) of the Act and Rule 9 of CSR Rules specify that the approved CSR Policy shall be displayed on the company's website. Four PSUs[72] did not display the CSR Policy on their website.

At our instance, three PSUs[73] agreed to display their CSR policy on their websites, while Malabar Cements Limited replied (August 2016) that they had displayed the schemes of assistance on their website. The reply is not tenable as this amounts to violation of Section 135 (4) (a) of the Act and Rule 9 of CSR Rules.

Inclusion of activities in the CSR Policy undertaken in pursuance of normal course of business

3.3.4.3 According to CSR Rules, a company shall undertake CSR activities as per its stated CSR Policy. Activities undertaken in pursuance of normal course of business of a company shall not be treated as part of CSR.

We observed that the CSR Policy (Item number-1) of Kerala State Backward Classes Development Corporation Limited (KSBCDC) (engaged in the upliftment of backward classes and minority communities by rendering financial assistance) states that where loanees are unable to repay loan due to fatal disease, accident, death, *etc.*, after ascertaining the position of the family, the principal, interest and compound interest would be partially or completely waived by including them under the Loanees Distress Relief Fund (LDRF) scheme. The LDRF is a fund set up to meet any future contingencies that may arise out of death or accidental disablement of the loanees. This is directly related to the business activity of KSBCDC and hence, item number-1 does not come under the purview of CSR.

GoK replied (January 2017) that if the LDRF scheme of the Company could not be counted under the ambit of CSR activity, necessary corrective action would be taken in future.

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[71] Rehabilitation Plantations Limited and Kerala Transport Development Finance Corporation Limited.

[72] Kerala State Backward Classes Development Corporation Limited (KSBCDC), Kerala Transport Development Finance Corporation Limited (KTDFC), The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (TPCKL) and Malabar Cements Limited (MCL).

[73] Kerala State Backward Classes Development Corporation Limited (June 2016), Kerala Transport Development Finance Corporation Limited (May 2016) and The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (July 2016).

CSR spending on inadmissible activities

3.3.4.4 Ministry of Corporate Affairs (MCA), GoI stipulated[74] that expenses incurred by companies for the fulfilment of any Act/ Statute or Regulations would not count as CSR expenditure under the Act. The Kerala Minerals and Metals Limited had spent an amount of ₹1.09 crore as part of CSR activity during 2014-15 and 2015-16, out of which ₹0.45 crore was spent as part of a legal obligation and financial assistance to Panmana panchayath for budget presentation, etc., which do not fall within the purview of the Act. Hence, the same could not be counted as CSR expenditure.

The Company replied (July 2016) that amount shown as CSR for the year 2014-15 and 2015-16 would be reviewed.

Contribution in kind for CSR activities

3.3.4.5 Section 135 (5) of the Act specifies that the BoD of every company shall ensure that the company spends, in every financial year, the required amount in pursuance of its CSR Policy. MCA reiterated (January 2016) that contribution in kind cannot be monetised to be shown as CSR expenditure.

During 2014-15 and 2015-16, Malabar Cements Limited (MCL) distributed cement in kind valuing ₹0.08 crore while the Pharmaceutical Corporation (Indian Medicines) Kerala Limited (TPCKL) distributed medicines valuing ₹0.19 crore and accounted for them as CSR activities.

TPCKL replied (August 2016) that they would take into consideration the audit findings when formulating a new CSR policy after the reconstitution of the BoD. MCL replied (August 2016) that cement was distributed after booking the expenses for CSR expenditure.

Contribution to State Government fund

3.3.4.6 According to Notification issued (27 February 2014) by MCA, contribution under CSR is permissible only to Prime Minister's National Relief fund or any other fund set up by Central Government. We, however, noticed that Kerala State Financial Enterprises Limited contributed (September 2015) an amount of ₹0.50 crore to Karunya Benevolent fund, a fund constituted by GoK.

GoK replied (December 2016) that the amount was contributed by the PSU on receiving letter from administrator of Karunya Benevolent fund with specific reference to make contribution under CSR. The reply was not tenable as contribution to funds set up by the State Governments was not permitted by MCA.

Absence of monitoring

3.3.4.7 Rule 5 (2) specifies that CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or

[74]Vide Circular No. 21/2014 dated 18/06/2014.

programmes or activities undertaken by the company. We noticed instances of absence of monitoring of CSR as shown in ***Appendix 16.***

Conclusion

Adherence of companies to the provisions of CSR was not satisfactory as 13 out of 23 companies did not constitute CSR Committee/ Policy. There were instances of non-spending and spending on inadmissible activities. GoK may, therefore, formulate appropriate monitoring mechanism for strict adherence to CSR laws.

Department of Tourism

3.4 Lapses in empanelment of agencies and awarding of works

Empanelment of agencies for promotion and marketing of tourism was marred by non-compliance to codal provisions leading to arbitrary selection of agencies and extra expenditure.

3.4.1 Department of Tourism (DoT), Government of Kerala (GoK) empanels agencies for promotion and marketing of tourism in Kerala. Director of Tourism requested (February 2013) Secretary, DoT, GoK for empanelment of new advertising/ marketing agencies for the period 2013-14 to 2015-16, as the tenure of the existing agencies was expiring in June 2013. The GoK accorded (March 2013) sanction for constitution of a Screening Committee[75] for the evaluation and selection of the agencies. Notification for empanelment of marketing agencies was issued (March 2013) for two categories namely, Marketing and Local Advertising.

There were 25 applicants under the first category and 27 applicants under the second category. Pre-bid meetings were held (June 2013) and 18 agencies were shortlisted in Marketing category and 23 agencies in Local Advertising category. Based on the evaluation[76] by the Screening Committee, seven agencies were empanelled under Marketing category and seven agencies under Local Advertising category for a period of three years.

We observed the following irregularities in the empanelment of agencies and award of works:

Amendments of terms and conditions, post tender

3.4.2 Stores Purchase Manual of GoK and CVC guidelines prohibit amendments of terms and conditions, post tender.

We observed that after invitation of tender, the Marketing category was split into four broad categories namely, Branding and Advertising, International

[75]Comprising of Secretary, DoT; Secretary, Finance (Expenditure); Secretary, Planning and Economic Affairs Department; Managing Director of Kerala Tourism Development Corporation Limited and Director of Tourism.
[76] Ranking based on presentation, briefing and discussion.

Trade Fairs and Business to Business (B2B) activities, Domestic Trade Fairs and B2B activities and New media and Public Relations (PR) campaigns. As the sub-categorisation was not specified in the tender documents, prospective tenderers for the sub-categories were not able to participate in the tender process and already shortlisted agencies could not modify their bids. Though such sub-categorisation had been done during the previous empanelment process also, DoT failed to notify the sub-categories in the notice inviting tender.

We further observed that although three agencies were selected under the sub-category of Branding and Advertising, DoT further split the sub-category into two − Branding and Advertising within Kerala and Branding and Advertising outside Kerala. The act of sub-categorisation after calling the pre-bid meeting amounted to post-tender amendments.

Evaluation of agencies

3.4.3 According to the directions issued (September 2003) by CVC, pre-qualification criteria, performance criteria and evaluation criteria should be incorporated in the bid documents in clear and unambiguous terms. The detailed marking scheme for individual aspects/ parameters, i.e. financial capability, technical capability and experience, etc., on which the bid was to be evaluated was to be made available to the participating firms.

We observed that DoT had not prescribed any evaluation criteria for selection of agencies in the Tender Notification. Based on the decision of pre-bid meeting, company competence (20 marks), marketing strategy (30 marks), creativity and innovativeness (30 marks) and overall performance (20 marks) were made the criteria in the respective sub-categories. No yardstick was, however, prescribed for awarding marks nor was any qualification mark pre-fixed for selection of agencies. Further, number of agencies to be selected under each sub-category was also not specified in the Tender Notification/ pre-bid meeting. As a result, transparency in selection of agencies by the Screening Committee could not be ascertained.

Post tender amendments, as discussed in *Paragraph 3.4.2* coupled with absence of proper evaluation criteria led to the selection of Stark Communications Private Limited (Stark) as single agency for Branding and Advertising outside Kerala and for International Branding and B2B activities, which constituted the major chunk of marketing activities of DoT. Two agencies were selected for Branding and Advertising activities within Kerala, two for Domestic Trade fairs and B2B activities and three agencies for New media and PR campaigns as shown in *Table 3.12.*

Table 3.12: Details of sub-categorisation

Categories	Sub-categories	Number	Panel of Agencies
Marketing	Branding and Advertising outside Kerala	1	Stark Communications Private Limited
	Branding and Advertising within Kerala	1	MediaMate Advertising India Private Limited
		2	Maitri Advertising Works Private Limited
	International Trade Fairs and Business 2 Business (B2B) activities	1	Stark Communications Private Limited
	Domestic Trade Fairs and B2B activities	1	Crayons Advertising Limited
		2	AD- India Advertisers
	New media and PR campaigns	1	Draft FCB+ULKA Advertising Private Limited
		2	Stark Communications Private Limited
		3	Span Communications, Kochi
Local Advertising	For printing works	1	Breakthrough, Thiruvananthapuram
		2	Modern Graphics, Kochi
		3	Valappila Communications Private Limited
		4	H2O Spell
	For providing logistics support	1	Impresario Event Management India Limited
		2	AD-India Advertisers
		3	Chrysalis Communications Private Limited

Thus, selection of single agency/ fewer agencies was made despite there being two or more firms shortlisted for all categories.

GoK replied (August 2016) that the shortlisted agencies were informed about the evaluation criteria at the pre-bid meeting and the criteria were also mailed to each shortlisted agency. The reply was not acceptable since according to the directives of CVC, evaluation criteria for selection of agencies were to be specified in the Tender Notification itself and not in pre-bid meeting.

Non-invitation of financial bids

3.4.4 According to CVC guidelines (September 2003) and Stores Purchase Manual (SPM) of Government of Kerala (GoK), organisations should follow two-bid system, i.e. technical bid and financial bid for award of work. Article 173 of Kerala Financial Code further states that no work may be started before a proper estimate for it has been prepared and sanctioned by the competent authority.

We noticed that the empanelment of the agencies was done by way of evaluation of the technical bid only and the DoT failed to invite financial bids from among the empanelled agencies while awarding works. Rather, the work orders were issued on nomination basis to the empanelled agencies based on the estimate submitted by them. During 2013-14 to 2015-16, 81 work orders worth ₹56.82 crore were issued on nomination basis without inviting financial bids.

We also noticed that DoT awarded 18 work orders valuing ₹13.93 crore for conducting international fairs to Stark, the single empanelled agency, on nomination basis. Similarly, 40 work orders valuing ₹31.74 crore for conducting Branding and Advertising works outside Kerala were also awarded to Stark on nomination basis. As DoT empanelled only one agency for these sub-categories, the reasonableness of the financial quote submitted by the agency could not be ensured by DoT.

In respect of Domestic Trade Fairs also, where there were two empanelled agencies[77] DoT did not obtain financial bids, despite having knowledge about tentative dates of domestic trade fairs. Work orders for 16 Domestic Trade Fairs, valuing ₹1.53 crore were issued on nomination basis to one agency (AD-India Advertisers). DoT, Karnataka had also participated in these Domestic Trade Fairs. On a comparison of the expenditure incurred by DoT, Kerala with DoT, Karnataka, we noticed that the cost per square metre (sq.m.) incurred by DoT, Kerala and DoT, Karnataka was ₹20,158[78] and ₹7,201[79] respectively.

GoK replied (August 2016) that single bid system helped in preventing unhealthy practice of cartelisation between the agencies in a category, which can lead to cost escalation and severe quality compromises. The GoK further replied that though the Directorate did not prepare estimates, the estimates submitted by the agencies were closely scrutinised before approval. The competitiveness of the estimates was also checked by comparing it with events of such nature in the past.

The reply was not acceptable since the practice followed by DoT was in violation of CVC guidelines and SPM. Invitation of competitive financial bids was the only method to break the nexus of cartelisation among bidders. In the absence of estimates, the past rates adopted for comparison were not obtained through competitive tenders but was the rate submitted by the empanelled agency selected on nomination basis.

Non-execution of agreement

3.4.5 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. If no formal agreement is executed, there should at least be a written understanding specifying terms and conditions of the contract including prices and rates, etc.

We noticed that in violation of the above Article, GoK stipulated (August 2012) that the payment of all the items would be on the basis of actual costs based on bills and vouchers presented. We also noticed that the DoT did not enter into any agreement with the executing agency in respect of any of the works and made the payments to them based only on the bills submitted by the agencies without supporting vouchers.

GoK replied (August 2016) that due to procedural delays, budgetary constraints and treasury restrictions, DoT might not be able to fulfil obligations and an agreement might leave it vulnerable to the claims from agencies for additional payments and interest. The reply was not acceptable

[77] Crayons Advertising Limited and AD- India Advertisers.
[78] DoT, Kerala spent ₹1.53 crore for conceptualisation works in 759 sq.m area occupied.
[79] DoT, Karnataka spent ₹0.79 crore for conceptualisation works in 1,097 sq. m area occupied.

since it was bound to comply with the provisions of Kerala Financial Code. Further, in the absence of formal written agreement, the DoT could not claim any loss due to non-execution of works by agencies.

Conclusion

The empanelment of agencies for marketing activities was beset with non-compliance to CVC guidelines and Stores Purchase Manual of Government of Kerala. Further, Department of Tourism failed to ensure competitiveness of rates for works executed due to award of works without obtaining financial bids.

Recommendation

1. **The Department of Tourism should avoid post tender amendments by incorporating pre-qualification criteria and evaluation criteria specifically for each sub-category of marketing activity.**

2. **Empanelment of single agency should also be dispensed with and financial bids should be obtained from among empanelled agencies.**

3.5 Irregular appointment of employees in PSUs, Forest and Public Works Departments

Appointment of employees in violation of existing Government directions and irregular regularisation of temporary employees resulted in failure to ensure transparency and fairness in recruitment.

3.5.1 Public Sector Undertakings (PSUs) appoint employees on permanent and temporary basis. As per circular issued (5 September 1986) by Planning and Economic Affairs (Bureau of Public Enterprises) Department, Government of Kerala, all employees of PSUs, excluding workers (covered under the Factories Act) and supervisory or managerial personnel (whose basic starting salary exceeds ₹700[80]), are to be recruited through the Kerala Public Service Commission (KPSC). For this, the PSUs were to frame Staff Regulation/ Recruitment Rules and include the name of the PSU in the list of PSUs specified under sub rule (d) of rule 2, Kerala Public Service Commission (Consultation by Corporation and Companies) Rules, 1971.

We examined recruitment process in eight[81] PSUs, Forest and Public Works Departments. Audit findings are as follows:

Irregular appointment of permanent employees

3.5.2 We noticed irregular appointment of 161 permanent employees in Kerala Small Industries Development Corporation Limited (SIDCO) and

[80] Salary as of September 1986 excluding Dearness Allowance, incentive bonus, annual bonus, etc.

[81] Kerala Small Industries Development Corporation Limited, Kerala Industrial Infrastructure Development Corporation, Kerala State Construction Corporation Limited, Indian Institute of Information Technology and Management, Kerala, The Kerala State Financial Enterprises Limited, Kerala State Industrial Enterprises Limited, Oil Palm India Limited and Kerala State Poultry Development Corporation Limited.

Indian Institute of Information Technology and Management, Kerala (IIITM-K) as discussed below.

- As per Staff Regulation of SIDCO, its Board of Directors (BoD) was empowered to recruit workers directly. Government of Kerala (GoK) had, while approving revision of pay for the employees of SIDCO, directed (February 2009) SIDCO not to appoint any employees, regular or temporary, without prior concurrence of Finance Department, GoK. Further, in view of the lack of transparency in direct appointment by PSUs, Industries Department, GoK ordered (August 2012) that Public Sector Reconstruction and Internal Audit Board (RIAB) shall scrutinise vacancies in PSUs, issue common advertisement and ensure transparent recruitment process.

  SIDCO recruited (August 2015) 157 unskilled workers in 11 production units through KITCO[82]. Originally notified number of vacancies was 40. During the recruitment process, this was increased to 160 by converting peon posts (120) into worker category.

  We observed that the recruitment to the post of peons was entrusted to KPSC as per the Staff Regulation of SIDCO. The Company, however, converted 120 peon posts into worker category without the concurrence of KPSC and made the recruitment directly. This was irregular. Further, the production units for which the recruitment was made, included three[83] defunct units with 43 converted posts of workers. These production units had not been functioning for a long time and there were no proposals to revive them. After recruitment, the recruited persons were posted in non-production units like, Marketing (49), Raw Material (25), Sales (19), Head Office (13), Estates (8), Construction (7) and others (20) though they were recruited against specific production posts with defined pay scale. These employees were paid average monthly emoluments amounting to ₹16,396 each. Thus, the additional annual financial commitment of ₹2.30 crore[84] due to recruiting excess staff without actual requirements and without following approved procedure was tantamount to irregular expenditure. The recruitment was also done without the concurrence of the Finance Department, GoK.

  We also noticed that recruitment of 157 employees was not referred to RIAB in violation of the orders (August 2012) of Industries Department.

  GoK stated (February 2017) that since the production units, for which the workers were recruited had been incurring loss, these employees were deployed to other divisions of SIDCO on working arrangement basis.

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[82] Formerly Kerala Industrial and Technical Consultancy Organisation Limited.
[83] SEC, Monvila, SIDCO Tiles, SIDCO Auto Engineering Unit.
[84] (Basic Pay of ₹2,560 + Variable Dearness Allowance ₹13,836) * 117 employees (157-40) * 12 months.

The reply was not acceptable as the reason for not obtaining concurrence of KPSC and prior approval of Finance Department, GoK for the appointments was not furnished.

- KPSC stipulated that if selection to a post is finalised by written test and interview, the maximum marks for interview shall be 20 *per cent* of the maximum marks for the written test. As per the directions of Industries Department, GoK, the interview board should comprise of nominees from Industries Department and RIAB.

  We observed that not only there was gross irregularity of recruiting 157 unskilled workers against 40 vacancies by SIDCO, but also the maximum marks for Group Discussion (GD)/ Interview was fixed at 50 *per cent* of total marks. As a result, 16 candidates, who scored 80 *per cent* and above in the written test could not find a place in the selection list due to low marks awarded to them in the GD/ Interview whereas 14 candidates who scored 40 *per cent* and below in the written test were selected for appointment as they scored high marks in the GD/ Interview. Further, three out of four members of the Interview Board comprised officials from SIDCO without any nominees from RIAB.

  GoK accepted (February 2017) the audit observations and stated that there was violation of directions of Government that the marks for interview shall not exceed 20 *per cent* of total marks. GoK also stated that a vigilance inquiry had been ordered to look into the entire recruitment process in SIDCO.

- IIITM-K, a PSU, did not frame Staff Regulation required to bring it under the Kerala Public Service Commission (Consultation by Corporation and Companies) Rules, 1971 for recruitment by KPSC. Therefore, recruitment in IIITM-K was made by the PSU itself. As per its interim Staff Guidelines, for appointment as Assistant Professors, candidates should possess doctorate degree with first class in the appropriate branch.

  We observed that the Board of Directors of IIITM-K appointed (March 2013) four non-faculty staff as Assistant Professors with direction to acquire the required qualification within seven years of appointment. The appointment was made without advertising the vacancies for giving other eligible candidates an opportunity to apply for the post. The Staff Guidelines of IIITM-K were also not approved by GoK.

  Government replied (January 2017) that appointments were made based on the recommendations of the Selection Committee constituted for the purpose and with the approval of Board of Directors. It was also stated that the appointments were done as per Staff Guidelines.

  The reply is not tenable as appointment of staff with a condition to acquire qualifications within seven years was in violation of Staff Guidelines. Opportunity was also not given to public and hence, the appointments were irregular.

Irregular engagement of temporary staff

3.5.3 As per the provisions of the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959, vacancies[85] for contract employment exceeding three months were to be notified to the Employment Exchanges. Further, for such employment, Rules for Reservation in Government Service shall be applicable. According to Rule 14 of Rules for Reservation in Government Service, unit of appointment for the purpose of reservation shall be 20, out of which two shall be reserved for persons belonging to Scheduled Castes and Scheduled Tribes, eight for other backward classes and remaining 10 shall be from the open category. We observed that six[86] PSUs and one department engaged 1686 contract employees, without notifying the vacancies to Employment Exchanges as detailed in *Table 3.13.*

Table-3.13: Engagement of temporary staff

Sl. No.	Audit findings	Management/ Government Reply
1	**SIDCO** Managing Director, SIDCO appointed (2010-2016) 403 persons on temporary/ contract basis to various posts[87] on nomination basis with an annual financial commitment of ₹2.40 crore on the basis of unsolicited applications submitted by the prospective employees. The remuneration paid to the employees engaged on contract basis ranged from ₹5,000 (Sales Assistant, Peon, Accountant, etc.) to ₹37,500 (Executive Secretary to MD) per month. The appointments were irregular as reservation rules were not followed. There was no concurrence of GoK and was not as per approved staff pattern of SIDCO.	GoK stated (February 2017) that all the temporary employees had been relieved from service and a vigilance inquiry in the matter is underway.
2	**KSCC[88]** Government had directed (March 2013) the Company to make appointments on contract/daily wages/temporary basis only against sanctioned posts. However, the Company appointed 60 employees on temporary basis in various cadres from March 2013 to June 2016, of which 32 were not against any sanctioned post.	Government replied (December 2016) that although sanctioned strength had been fixed, actual requirement would vary depending on the work on hand because the Company was a contracting company. Reply of GoK was contrary to its own standing orders that contract appointments should be only against sanctioned posts.

[85] Does not apply to vacancies in relation to any employment to do unskilled office work.

[86] SIDCO, Kerala State Construction Corporation Limited, Kerala State Financial Enterprises Limited, Oil Palm India Limited, Kerala State Poultry Development Corporation Limited and Kerala State Industrial Enterprises Limited.

[87] Such as Accounts Executive, Co-ordinator, Assistant Public Relations Officer, HR Executive, Liaison Assistant, Audit Officer, Liaison Officer, etc.

[88] Kerala State Construction Corporation Limited.

Sl. No.	Audit findings	Management/ Government Reply
3	**PWD**[89] The Department appointed 248 daily wage employees against 73 sanctioned posts, out of which only one person was engaged through Employment Exchange. The continuous engagement of employees other than through Employment Exchange is irregular.	Government replied (December 2016) that the daily wage employees were mainly engaged in Rest Houses when the regular staff availed leave and the posting was not permanent. Reply was, however, silent on appointment of workers in excess of sanctioned strength.
4	**KSFE**[90] KSFE recruited 632 Assistants/ Attendants for a period of one year which was not against the sanctioned posts of the Company.	Government replied (January 2017) that all the 632 assistants/office attendants recruited were terminated from service.
5	**KEPCO**[91] KEPCO appointed 230 employees in excess of the sanctioned strength for a period up to one year.	Government replied (November 2016) that as a growing organisation engagement of daily wages and contract employees as per requirement is essential.
6	**OPIL**[92] Seven employees against four posts were appointed on contract/daily wage basis for which there were no sanctioned post.	OPIL replied (November 2016) that the temporary employees were engaged with the *bonafide* intention of running the rice mills at a low cost.
7	**KSIE**[93] Managing Director (MD), KSIE appointed (October 2015 to June 2016) 106 employees on temporary basis either directly or through Labour Outsourcing Agency. In case of appointment through Labour Outsourcing Agency, the prospective employees would forward their applications to MD who would direct the Labour Outsourcing Agency to appoint the employees. Based on its inspection (March 2016), Industries Department, GoK ordered (April 2016) to terminate all the appointments made by the MD. Instead of complying with Government directions, the MD appointed 25 more employees. Government replaced (June 2016) the MD. The new MD terminated (June 2016) all the irregularly appointed employees. An amount of ₹39.92 lakh had been disbursed as remuneration to the irregularly appointed employees.	Government replied (March 2017) that all employees who had been irregularly appointed had been terminated.

The replies were only partially acceptable as temporary appointment had to be made from Employment Exchange against sanctioned posts only thereby ensuring transparency, equal opportunity and reservation rules in appointments. Further, no recovery was effected from Managing Director,

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[89] Public Works Department.
[90] The Kerala State Financial Enterprises Limited.
[91] Kerala State Poultry Development Corporation Limited.
[92] Oil Palm India Limited.
[93] Kerala State Industrial Enterprises Limited.

KSIE who illegally appointed the employees. GoK should initiate action to fix responsibility for such stark disregard to rules and causing undue huge financial burden on public exchequer.

Irregular regularisation of contract employees

3.5.4 The Hon'ble Supreme Court held (April 2006) in Umadevi Vs. State of Karnataka that 'regularisation' is not and cannot be a mode of recruitment by any State. It was also held that regularisation cannot give permanence to an employee whose services are *ad hoc* in nature.

As mandated under Article 14 and 16 of the Constitution, fair chances for all eligible candidates should be given in public appointment which can be achieved through public notice/ advertisement, a transparent selection procedure and adoption of reservation policy for weaker sections. When a person enters a temporary employment or gets engagement as a contractual or casual worker and the engagement is not based on a proper selection as recognised by the relevant rules or procedure, he is aware of the consequences of the appointment being temporary, casual or contractual in nature. Such a person cannot invoke the theory of legitimate expectation for being confirmed in the post when an appointment to the post could be made only by following a proper procedure for selection and in concerned cases, in consultation with the Public Service Commission. The passing of orders for continuance tends to defeat the very Constitutional scheme of public employment.

We observed that two PSUs and two departments regularised 476 employees as detailed in *Table 3.14.*

Table-3.14: Details of temporary staff irregularly regularised

Sl. No.	Name of PSU/Department	Temporary staff regularised	Month/Year in which regularised	Audit findings
1	Kerala Industrial Infrastructure Development Corporation	25	February 2016	Regularised with the approval of Industries Department, GoK. The past services of the employees were counted for pay fixation in violation of direction of GoK.
2	KSCC	62	March 2013	The employees were regularised considering long years of service and bleak opportunity for alternative appointment.
3	Forest Department	244	May 2015 to June 2016	Forest Department regularised 244 daily wage workers as Watchers/Part Time Sweeper/Lower Division Clerk as detailed in ***Appendix 17***.

Sl. No.	Name of PSU/Department	Temporary staff regularised	Month/Year in which regularised	Audit findings
4	PWD	145	December 2011	PWD regularised 137 SLR workers[94] in worker category subject to conditional concurrence[95] of Finance Department. The conditional concurrence of Finance Department is a violation of Article 14 and 16 of the Constitution as fair chance to candidates through public advertisement and adoption of reservation rules was not followed. PWD further regularised eight SLR workers on humanitarian grounds violating the conditional concurrence of Finance Department.
	Total	**476**		

Government replied (November 2016) that the regularisations of employees of Forest Department were made as Government was convinced that the appointees deserved humanitarian and sympathetic consideration. It was also stated that the appointments were made with the approval of Cabinet and after consulting Finance Department.

Government also stated (December 2016) that in respect of KSCC, the appointments were made as there were bleak opportunities for further employment to the regularised employees. It was also replied that in respect of regularisation of 137 SLR workers out of 145 workers in PWD, the appointments were made with the concurrence of KPSC and Finance Department.

The replies are not acceptable as the regularisation of temporary employees is against decision of Hon'ble Supreme Court.

Kerala State Financial Enterprises Limited

3.6 Payment of ineligible auction discount and prize money

Introduction

3.6.1 Kerala State Financial Enterprises Limited (Company) was incorporated in 1969 as a Miscellaneous Non-Banking Financial Company (MNBFC), fully owned by the Government of Kerala (GoK), with the object of operating chitty business and to protect the public from unscrupulous private chit fund operators. The activities of the Company are regulated by the Chit Funds Act, 1982.

A "chitty" is a contract between an organisation/ a person and subscribers in which each subscriber agrees to remit monthly a fixed amount of money

[94] SLR Workers – Seasonal Labour Roll Workers, working in all the seasons in a particular scale of pay and not in the regular service.
[95] SLR workers should commence their service after 4 July 1983, should have completed 500 days of service, should be in service as on 1 January 2011 and should not have crossed the age of 55 as on 1 January 2011.

during the duration of the chitty. Total of the monthly subscriptions, called the chitty amount, will be given out each month as prize money to the subscriber who bids for the maximum reduction in the prize money[96], subject to a maximum of 25 *per cent*. Amount foregone by the successful bidder in the monthly auction is equally shared among all the subscribers as "auction discount". Eligibility of subscribers to participate in the auction for prize money and share of auction discount[97] was contingent upon payment of monthly subscription within due date.

In order to assess the transparency and fairness in distribution of prize money and auction discount, we examined transactions during 2011-12 to 2015-16 in nine branches[98] of the Company and noticed instances of irregular payment of auction discount and prize money as discussed in succeeding paragraphs.

Audit Findings

Irregular payment of auction discount

3.6.2 According to Paragraph 13.1 of the Manual of Procedure (MoP)[99] of the Company, subscribers of chitty can pay monthly subscriptions in cash, demand draft, money order or cheque. As per Circular No.33/2009 dated 3 April 2009 issued by the Managing Director of Company, cheques received from subscribers are to be deposited into the bank on the very next day of receipt and if the cheques are not cleared within three days (seven days in case of outstation cheques), the Company should get back the cheques from the bank and pass cancellation entries against the accounts of these subscribers. According to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed.

We noticed that 4,050 prized subscribers in nine branches of the Company had remitted monthly subscriptions in respect of 43,352 instalments by cheque within due date and availed the benefit of auction discount amounting to ₹10.68 crore. But, there was delay in realisation of cheques ranging up to 1105 days[100] with average abnormal delay[101] of 27 days. In spite of the delay, these prized subscribers were allowed auction discount of ₹10.68 crore (***Appendix 18***) due to the failure of the Company to link auction discount to prized subscribers with the realisation of cheques.

The reasons for undue delay in realisation of cheques submitted by the prized subscribers were not on record. We selected 59 cases and requested banks to

[96]If more than one subscriber bids for the maximum reduction, prize money would be given to one subscriber through draw of lots.
[97] In the case of prized subscribers (prized subscribers are those subscribers who have won the prize money) only. Non-prized subscribers are eligible for auction discount irrespective of payment of subscription within due date.
[98] Alappuzha II, Cherthala I, Cherthala II, Karunagappally I, Parasala, Perumbavoor I, Palakkad, Thalayolaparambu and Thamarassery.
[99] Manual of Procedure of the Company prescribes the procedures to be followed for conduct of chitty business.
[100]We noticed that cheques were shown as cleared in the records even after validity period. This was done by remitting the dues in cash directly to the Bank Account of the Company.
[101] Delay of more than seven days is considered as abnormal delay.

furnish the details of such cases. Scrutiny of the details revealed that delay in realisation was due to delay in presentation of cheques to banks (26 cases), insufficient funds in the accounts of the subscribers (18 cases) and delay on the part of the banks (15 cases). Collusion between the employees of the Company and chitty subscribers in such cases could not be ruled out. We noticed some such instances as discussed below:

Issue of cheques by officials of the Company in favour of subscribers

3.6.3 According to Paragraph 3.22 of MoP of the Company, officials of the Company are not to issue cheques in favour of subscribers towards payment of monthly subscriptions. We noticed that 20 cheques for a total amount of ₹6.92 lakh were issued by two staff of Alappuzha II Branch and their relatives against 115 instalments of 76 subscribers.

Thus, misappropriation of cash received towards chitty subscriptions by the Company staff and issuing of cheques in favour of subscribers in lieu of cash received could not be ruled out. Some instances of suspicious transactions are given in ***Appendix 19*****.**

Non-initiation of action on dishonoured cheques

3.6.4 According to Section 138 of the Negotiable Instruments Act, 1881, in case of dishonour of cheques due to insufficiency of funds, drawer of cheque shall be punished with imprisonment for a term which may extend to two years, or with fine which may extend to twice the amount of the cheque, or with both. Further, according to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed. We noticed that:

- 59 cheques for an amount of ₹29.57 lakh received in respect of 92 instalments of 62 subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured due to insufficient funds. Dishonour of these cheques was not, however, recorded in the books of accounts. Instead of passing reversal entry in respect of these dishonoured cheques or taking action under Section 138 of the Negotiable Instruments Act, 1881, the branch allowed the subscribers to deposit cash directly into the bank account of the Company after delays ranging up to 91 days. Through this fraudulent process, the subscribers were granted ineligible auction discount of ₹98,426.

  We also noticed that some of the dishonoured cheques were issued by employees of the Company in Alappuzha II Branch as given in ***Appendix 20.***

- Similarly, 58 cheques for ₹8.59 lakh issued by subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured. Dishonour of these cheques was also not accounted for in the books of accounts of the Company by reversing the entry at the time of receipt of cheques. The accounts of these subscribers were closed without realising dues of ₹8.59 lakh.

Irregular payment of prize money

3.6.5 In accordance with Rule 14 of the Kerala Chit Funds Rules, 2012, a subscriber who has defaulted in payment of monthly subscriptions shall not be entitled to participate in the auction for prize money.

We noticed that:

- In respect of 14 high value chitties in five branches, 12 defaulting subscribers had remitted monthly subscriptions amounting to ₹39 lakh through cheques and were allowed to participate in auction before realisation of dues as shown in ***Appendix 21***.

  It can be seen from the ***Appendix 21*** that two subscribers obtained prize money of ₹62.40 lakh before the Company had realised the dues.

  We also noticed that Shri. Ayoobkhan, a chitty subscriber against Chitty No. 44/2012[102] was allowed to participate in the auction (November 2012) and won the prize money before the realisation of the cheque submitted by him for second and third instalments. The cheque submitted was dishonoured and the next four instalments were also defaulted upon. The Company released the prize money of ₹23 lakh to him on 19 March 2013 and allowed him to remit the defaulted (2nd to 7th) instalments of ₹6 lakh on the same day out of the prize money.

  We further noticed that the subscriber again defaulted on the subsequent 23 instalments. The Company referred this case to the Revenue Authority in July 2014 for collection of ₹23 lakh. The amount was not collected till July 2016.

  Favouring of a few defaulters resulted in genuine subscribers losing their legitimate chance of getting the prize money.

  The Company replied that appropriate action would be taken to ensure that defaulting subscribers were not allowed to participate in chitty auction in future.

Non-collection of interest on delayed realisation of cheque

3.6.6 According to clause 18 of the Chitty agreement with subscribers, in case of delay in payment of monthly subscriptions, interest at the rate of 14 *per cent per annum* shall be payable by prized subscribers[103] and at the rate of 12 *per cent per annum* by non-prized subscribers[104]. Payment of interest was in addition to disallowance of auction discount (prized subscribers) and ineligibility to participate in the auction for prize money (non-prized subscribers).

[102] Commenced in September 2012, instalment amount-₹1 lakh and duration- 30 months.
[103] Members who have won prize money.
[104] Members who have not won prize money.

We noticed that during 2011-12 to 2015-16, nine branches of the Company had allowed auction discount (prized subscribers) and right to participate in auction (non-prized subscribers) on receipt of 63,659 cheques towards monthly subscriptions of ₹259.15 crore. Though these cheques were not realised within the prescribed seven days, interest of ₹1.23 crore was not charged.

Failure of internal control mechanism

3.6.7 All cheques received were entered into the system software and cheque deposit slips generated. In respect of cheques dishonoured and which could not be revalidated due to expiry, cash was remitted by subscribers directly into banks and the receipt earlier accounted for against the cheque was set off against the cash remittance by entering the cash payment date into the system software at the time of preparation of Bank Reconciliation Statement.

Since the Company accounts for monthly chitty subscriptions on receipt of cheques without waiting for realisation of cheques, delay in realisation can be watched only through preparation of monthly Bank Reconciliation Statement.

We noticed that the Company did not prepare monthly Bank Reconciliation Statements regularly. Internal Auditors and Statutory Auditors failed to notice and report the practice of irregular withholding of cheques of subscribers and consequent delay in realisation. Thus, through this fraudulent way of receipt of cheques within due dates and their delayed realisation with the possible connivance of officials of the Company, chitty subscribers were allowed ineligible auction discount and right to participate in the auction for prize money, besides extending undue benefit by way of non-levy of interest for delayed realisation of monthly subscriptions.

Accepting all the audit observations, the GoK replied (December 2016) that the Company had since implemented a control system in order to plug any loopholes and revenue leakage. They also stated that in all the cases where officials were involved, appropriate action would be taken to recover loss from the officials concerned.

Conclusion

System of realisation of cheques against monthly subscription of chitty is marred by undue delays and possible collusion between officials and subscribers leading to payment of ineligible auction discount besides, ineligible subscribers being allowed to participate in auction for prize money. Cheques issued against chitty instalments were dishonoured but no action was initiated against such dishonour of cheques.

It is recommended that the Company should streamline the process by linking eligibility for auction discount and prize money to realisation of cheques.

Kerala Tourism Development Corporation Limited

3.7 Non-obtaining of environmental clearance

Decision of the Company to procure boats before obtaining clearances from Ministry of Environment and Forest, Government of India resulted in non-realisation of potential revenue of ₹1.45 crore *per annum*.

According to Section 2 of the Forest (Conservation) Act, 1980, prior approval of the Ministry of Environment and Forest (MoEF), Government of India (GoI) is necessary for use of reserve forest for non-forest purpose. Further, according to the guidelines issued (October 2012) by the National Tiger Conservation Authority under clause (c) of sub-section (1) of Section 38-O of the Wild Life (Protection) Act, 1972, all tourist facilities in tiger reserves must adhere to all environmental clearances.

Kerala Tourism Development Corporation Limited (Company) is engaged in tourism activities in Kerala. In June 2012, the Company decided to purchase one 120-seater catamaran[105] boat to meet increasing demand from tourists for boating on the Periyar Lake (a reserve forest area) and obtained (August 2012) the sanction of GoK for the same. While according sanction for the amount of ₹1.50 crore for the procurement of the catamaran, GoK directed the Company to comply with all procedural formalities. Thereafter, based on the recommendation of Chief Engineer, the Company decided to buy one more catamaran boat using the Company's own fund. The anticipated revenue from introduction of the two catamaran boats was ₹1.45 crore per annum.

The Company invited (December 2012) tender for supply of two 120-seater catamaran boats at an estimated cost of ₹2.40 crore. The Company awarded (March 2013) the work to Praga Marine Private Limited (PMPL), the only qualified bidder at ₹2.30 crore[106]. GoK released (May 2014) a grant of ₹1.50 crore for the same. The boats to be delivered within three months (June 2013) were ready for despatch in November 2014, but the Company could not take possession yet (December 2016) as mandatory forest clearance for the operation of boats was not obtained.

We noticed the following:

- The Company invited (December 2012) tenders before obtaining clearances/ permissions from MoEF, GoI and Department of Forest, GoK. Application for forest clearance from MoEF was submitted only in September 2016. Consequently, although PMPL intimated (November 2014) readiness for delivery of boats, the Company had not taken possession of the boats so far (December 2016). Further, the online application submitted by the Company (September 2016) was returned (September 2016) by Forest Department, GoK for correcting shortcomings, it was still pending (December 2016). As a result, the Company could not tap the anticipated revenue through provision of

[105] A catamaran is a multi-hulled watercraft featuring two parallel hulls of equal size.
[106] ₹1.15 crore each.

increased boating facilities to tourists.

- Though the agreement between the Company and the contractor did not stipulate any advance payment for supply of boats, the Company paid (June 2013) interest free advance of ₹0.46 crore to the contractor, which is still pending for settlement.

The GoK replied (November 2016) that approval had been sought (September 2016) from the MoEF, GoI for launching the boats. The reply was not acceptable since clearance from MoEF was to be obtained beforehand. Hence, due to delay and inaction on the part of the Company in getting clearance from MoEF, delivery of the boats to the Company had not yet taken place (December 2016) which resulted in non-realisation of potential revenue of ₹1.45 crore per annum and blocking up of ₹0.46 crore since June 2013.

Kerala Small Industries Development Corporation Limited

3.8 Avoidable financial commitment

The Company entered into a business activity without assessing its feasibility resulting in financial liability of ₹3.01 crore.

Kerala Small Industries Development Corporation Limited (SIDCO) appointed (March 2015) Shri. Suresh Babu as Consultant/Economic Advisor based on his voluntary offer to develop SIDCO's business activities. The consultant brought (8 May 2015) to the notice of SIDCO a tender floated (22 April 2015) by Uttar Pradesh Co-operative Federation Limited (UPCF) for the supply of three lakh MT of Di-Ammonium Phosphate (DAP). SIDCO participated in the tender and was selected as L1 with the rate of USD 478 (₹30,382[107]) per metric tonne (MT). Accordingly, an agreement was executed (28 May 2015) between UPCF and SIDCO. Since SIDCO was not a producer of DAP, it floated a global tender (27 May 2015) with Probable Amount of Contract of ₹950 crore to identify suppliers for the same. The approval of Board of Directors (BoD) was obtained (3 June 2015) wherein BoD authorised MD, SIDCO to carry out all necessary actions to implement the decisions of the BoD.

M/s Ram Online Services (P) Ltd. which was selected as L1 in the global tender (out of five technically qualified bids) reduced their rate to USD 474 (₹29,862[108]) per MT after negotiation and thus, the margin of SIDCO was USD 4 per MT (₹252). Considering the huge quantity of three lakh MT and seasonal requirement of the fertilizer, SIDCO requested (30 June 2015) the other four bidders[109] to supply at the L1 rate with the intention of supplying the entire quantity to UPCF in time. Accordingly, agreements were executed (July 2015) with all the five bidders. As per the agreement, the suppliers were

[107] Calculated on the basis of Exchange Rate on 16 May 2015 (last date of tender) (478 * ₹63.56)
[108] Calculated on the basis of Exchange Rate ₹63.
[109] El Joun United Company for General Trading and Contracting, Kuwait, M/s Obar Middle East Oil Field Services WLL, Kuwait, Nasser Al-Hussainan Electric & Electronic Appliances Est, Kuwait and M/s Quartet Industries Solution (P) Limited, Kochi, Kerala.

required to furnish Performance Bank Guarantee (BG) of 2 *per cent* for the value of Letter of Credit to be established by SIDCO. However, BG was released by only two suppliers[110] to SIDCO.

As per the terms and conditions of agreement between SIDCO and UPCF, SIDCO had to furnish a performance guarantee of 1 *per cent* (₹9.11 crore) of the contract value (₹911.45 crore[111]). Due to lack of funds, the BG furnished (14 July 2015) for USD 4,78,000 (₹3.01 crore) by M/s El Joun United Company for General Trading and Contracting, Kuwait (M/s El Joun) was reassigned (28 July 2015) in favour of UPCF for executing the trial order of 30,000 MT by AGM, Information Technology & Telecommunications (IT &TC) without authorisation. UPCF issued (22 August 2015) Letter of Credit for ₹92 crore towards the cost for the initial shipment of 30,000 MT, out of the total quantity of 3 lakh MT of DAP in favour of SIDCO with the last date of shipment being 30 September 2015. However, SIDCO could not open letter of credit in favour of any of its suppliers due to lack of funds and hence, it failed to fulfil the obligation of supply of DAP to UPCF within the time limit.

Due to non-supply of DAP by SIDCO within the stipulated period, UPCF terminated (10 December 2015) the agreement and encashed the BG. The arbitrator appointed by M/s El Joun issued notice to SIDCO for realising the loss sustained by them due to SIDCO's failure to open Letter of Credit violating the terms and conditions of the contract entered into between them.

In this connection, we observed the following:

- The Company was established with the objective of promotion of small scale industries (SSI) in Kerala. Hence, the decision of the Company to enter into a transaction which had no connection to its stated objective was irregular.

- As per Central Vigilance Commission (CVC) guidelines, the selection of consultants should be made in a transparent manner through competitive bidding. The scope of work and role of consultants should be clearly defined and the contract should incorporate clauses having adequate provisions for penalising the consultants in case of defaults by them at any stage of the project including delays attributable to the consultants. The MD appointed the consultant/Economic Advisor without following a transparent selection procedure.

- The BG of USD 4,78,000 (₹3.01 crore) provided by M/s El Joun was unauthorisedly endorsed by the AGM (IT&TC) of SIDCO in favour of UPCF. However, no action was initiated against the employee who endorsed the BG.

Thus, the decision of the MD, SIDCO to enter into a new venture amounting to ₹950 crore outside its core activity based on the advice of a consultant

[110] M/s Obar Middle East Oil Field Services WLL, Kuwait (USD 2,50,000, not reassigned by SIDCO to UPCF), El Joun United Company for General Trading and Contracting, Kuwait (USD 4,78,000).
[111] 3,00,000 MT * USD 478 = USD 14,34,00,000 *Exchange Rate for USD ₹63.56 (last date of tender).

without analysing its financial position had resulted in financial commitment of USD 4,78,000 (₹3.01 crore).

Government stated (November 2016) that the matter has been referred to Vigilance Department and further action would be proceeded based on the findings of Vigilance Department.

3.9 Undue benefit to suppliers

Payment of advances in violation of tender/agreement conditions resulted in undue benefit to suppliers and potential loss of ₹6.01 crore to the Company.

As per Rule 12.16 of Stores Purchase Manual (SPM), ordinarily, payments for supplies made or services rendered should be released to the supplier only after the supplies have been made or services have been rendered. Rule 12.17 states that the Departments may, in consultation with Finance Department, relax the ceilings mentioned in Rule 12.16. However, while making any such advance payment, adequate safeguards in the form of bank guarantee, etc., should be obtained from the supplier.

Kerala Small Industries Development Corporation Limited (SIDCO) constituted (May 2012) a trading division which focuses mainly on supporting MSME manufacturers by helping them to market their products under the brand name of SIDCO. The total purchases by the trading division amounted to ₹18.31 crore during the period 2012-13 to 2015-16. We noticed irregularities in granting of advances to suppliers in violation of tender conditions and provisions of SPM which resulted in undue favour to suppliers and potential loss of ₹6.01 crore as detailed in *Table 3.15*.

Table 3.15: Details of deviation from tender/ agreement condition and SPM.

Item	Name of Supplier/ Agreement date	Tender/Agreement Condition	Violation
Cement Blocks	PRR Bricks, Mavelikkara/ April 2015	As per Clause 7 of terms and conditions of Notice Inviting Tender "No advance payment shall be made for the above work". Further, as per Clause 6 of agreement conditions the supplier shall supply the products on credit for 15 days from the date of invoice, the payment to which shall be released only on submission of the concerned purchase bills along with the acceptance certificates.	Managing Director (MD) released (May 2015) an advance of ₹50 lakh without interest violating tender/agreement condition. The supplier had supplied cement blocks amounting to ₹0.91 lakh and the balance ₹49.09 lakh and supply is still pending (December 2016).

Item	Name of Supplier/ Agreement date	Tender/Agreement Condition	Violation
Sand	SSTPL[112]/ January 2015	As per Clause 13 of the agreement, advance payment amounting to value of sand dredged in five days, up to a maximum quantity of 5,000 cu.m (₹1.14 crore) for first two consignments would be made by SIDCO to SSTPL subject to the condition that advance would have to be settled against subsequent trade of sand.	As per the agreement conditions, SSTPL dredges sand from Kayamkulam lake which was to be supplied to SIDCO. SSTPL informed (24 January 2015) that 10,000 cu.m sand was ready for delivery and requested for advance payment. MD, SIDCO released an advance of ₹70 lakh (January/June/July 2015). Out of this, SIDCO had first advanced ₹50 lakh in January 2015 upon the condition that advance shall be settled towards supply of dredged sand within a period of two months from the date of execution of agreement. In spite of non-supply of any material against this advance by SSTPL, SIDCO paid further advances of ₹10 lakh each in June and July 2015. We cross verified the data available with Kerala Irrigation Infrastructure Development Corporation Limited who had awarded the work to SSTPL. We found that SSTPL had dredged only 3,111 cu.m sand (September 2015). SSTPL had not supplied any sand so far and the amount of ₹70 lakh is still pending as advance with the supplier (December 2016).
Revolv-ing Chairs	Indigo Life Style, Thrissur/ Agreement not signed	There was no provision in the tender conditions for payment of advances.	Audit observed that an amount of ₹45 lakh was disbursed (April to May 2013) before inviting (September 2013) tender. This was irregular and needs investigation. The supplies valuing ₹1.10 crore made were neither of specified quality nor manufactured by SSI units. The sales outlets of SIDCO have reported that the revolving chairs supplied were unsaleable.
Sand from other States	Link Land Traders, Ernakulam/ October 2014	As per Clause 5 of the agreement SIDCO shall establish an irrevocable, transferable, Inland Letter of Credit (LC). 95 *per cent* of payment shall be made against shipping documents.	SIDCO had not complied with Clause 5 and 6 of the agreement conditions. The amount of ₹2 crore was credited to Dhanlaxmi Bank Limited to open an LC. LC was issued against purchase order and the amount was credited (April 2015) to the supplier against the purchase order. This amounted to providing advance to the supplier which was not envisaged in the agreement. The supplier had neither refunded the advance nor supplied material.

[112] **M/s Sukrithakiran Software Technologies Private Limited, Thiruvananthapuram.**

Item	Name of Supplier/ Agreement date	Tender/Agreement Condition	Violation
Packag-ed drinking water, coconut oil and soda & drinks	M/s Hebron Aqua and Foods (India) Pvt. Ltd, Ernakulam/ January 2013	There was no provision in the agreement regarding payment of advances. As per Clause 5 of the agreement, at the time of taking delivery of the consignments, the buyer shall make payment to the manufacturer the full value of products supplied to them.	An amount of ₹3.40 crore was released (November 2013 to January 2015) as advances. The supplier had stopped (December 2015) supplying the products. An amount of ₹1.67 crore is still pending as advance with the supplier (December 2016).
Washing Soap	Chetak India Soaps and Detergents, Cherthala/ January 2013	There was no provision in the agreement regarding payment of advances. As per Clause 5 of the agreement, at the time of taking delivery of the consignments, the buyer shall make full payment to the manufacturer.	An amount of ₹50 lakh was released (February to July 2013) as advances. The amount was adjusted against supplies and ₹5.10 lakh is pending (December 2016) with the supplier.

Thus, the granting of irregular interest free advances without safeguarding the financial interest of SIDCO (such as by obtaining bank guarantees for the advances) had resulted in undue advantage to the suppliers to the extent of ₹6.01 crore (including interest loss[113] of ₹0.55 crore).

Government stated (January 2017) that a vigilance inquiry had been initiated considering the gravity of the matter.

Steel and Industrial Forgings Limited

3.10 Idling of rejected products

Bulk production and supply of Cam Shaft gear without rectifying the defects pointed out by DMW on the samples supplied resulted in loss of ₹8.48 lakh and idling of rejected products worth ₹2.13 crore.

Steel and Industrial Forgings Limited (Company), a PSU, engaged in manufacturing and marketing of forgings, received (October 2013) an order for supply of 1,198 'SIFL 263 M Cam Shaft gear ready to hob'(Cam Shaft gear) from Diesel Loco Modernisation Works, Patiala, (DMW), Ministry of Railways, at an all inclusive rate of ₹43,438.30[114] each for a total value of ₹5,20,39,078. As per the conditions of the bid, the Company was to submit three samples to DMW within 45 days (November 2013) from the date of order and commence bulk supply after receipt of approval from DMW. The Company supplied three samples on 04 November 2013. Samples were cleared (December 2013) by DMW subject to the condition that future supply should be conforming to the specified dimensions and also as per the drawings No.10142691 Alt "NIL".

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[113] Calculated on amount blocked up on cement block, sand and river sand from other States at 10 *per cent.*
[114] Basic price ₹36,818.98 plus Excise Duty (ED) 12 *per cent* plus Cess 3 *per cent* on ED and Central Sales Tax at the rate of 5 *per cent*.

Subsequently, 350 gears were to be delivered by February 2014 and the remaining 845 by 31 August 2014 at the rate of 150 items per month. Accordingly, Company supplied 943 gears up to January 2016, of which only 262 gears (28 *per cent)* were accepted by DMW and 681 gears (72 *per cent)* were rejected due to deviation from the ordered specifications for the product. The scheduled delivery date and quantity, actual delivery date and quantity, date of rejection and quantity and reason for rejection are given in ***Appendix 22***.

The Company requested (April 2016) for extension of delivery period up to December 2016 which was agreed to by DMW subject to reduction in price as per DMW's latest buying rate from the originally accepted basic price of ₹36,819 to ₹26,159 (April 2016). The reasons for rejection were deviation from the required specifications such as bore over size, run out, parallelism, etc. The Company took up (June 2014) the huge rejection of the gears with DMW stating that the method of inspection was not mentioned in the drawings. But their argument was rejected by DMW explaining that the method of checking was shown to the Company many times earlier, bore checking had already been mentioned in the drawings and inspection chart was available in the drawings. Hence, the Company had to take back the rejected gears by incurring an expenditure of ₹7.87 lakh. The Company also made arrangements with M/s Parthasarathy CNC Technology Pvt. Ltd., Coimbatore (M/s Parthasarathy) for rectifying the defects pointed out by DMW.

We observed that:

- The product was not an entirely new item. The Company had been regularly supplying Cam Shaft gears to DMW. But, this tender was considered as a fresh entry in the market because the Cam Shaft gears required further machining to get them into 'ready to hob condition' compared to the previously supplied gears. However, the Company had not procured the equipment needed for the finishing operations such as gear shaping, heat treatment and inspection before quoting for the tender, due to non-availability of sufficient funds.

- In the absence of finishing equipment, the components were forged in the factory of the Company at Athani, heat treatment was carried out by the Company's outsourced vendors and machining to ready to hob condition was carried out at their own Machining Unit at Shornur and at MS Engineering Unit, a vendor of the Company, at Coimbatore. The products machined both at its own Unit and at vendors' Unit did not meet the specifications stipulated by DMW.

- The Company could not rectify the defects of the 681 rejected gears even after a lapse 36 months (January 2017) of its rejection in May 2014.

- The actual variable cost for production of Cam Shaft gear worked out to ₹31,287.56 per unit. But the Company had to accept reduced rates for 938 gears even below the variable cost due to its failure to supply the items as per the specifications within the scheduled delivery period.

The decision to quote in the bid without ensuring its competence and capacity to supply the product as per the specifications stipulated by DMW and production in bulk quantity without rectifying the defects pointed out by DMW, resulted in loss of ₹8.48 lakh[115] and idling of rejected products valuing ₹2.13 crore[116].

Management replied (August 2016) that the Company supplied the gears as DMW was insisting for immediate supply even though they had not received any feedback for the already supplied gears. It was also stated that since DMW was making payment against "R" Note (Goods Received Note), the Company was under the impression that supplies were accepted.

The reply of the Company is not acceptable as DMW had already clarified (June 2014) that the method of checking was shown to the Company many times earlier. Further, even though the Company identified M/s Parthasarathy in December 2015 for re-working the rejected gears, the Company could not supply any of the rejected gears after rectification till date (January 2017).

The matter was referred (July 2016) to Government and their reply was awaited (February 2017).

Statutory Corporations

Kerala State Road Transport Corporation

3.11 Infusion of buses into fleet

Introduction

3.11.1 Kerala State Road Transport Corporation (KSRTC) provides public transport to 32 lakh commuters daily through its 94 Depots, Sub Depots and Operating Centres. KSRTC had a fleet strength of 5,686 buses as on 31 March 2016. In order to augment/ replace its fleet, KSRTC procures chassis[117] from manufacturers through open tenders and thereafter, carries out bus body building at its central and four regional workshops[118].

We examined the procurement of chassis, bus body building and infusion of buses into the fleet during 2011-12 to 2015-16 to see whether KSRTC had planned and procured chassis in an efficient and timely manner, was able to build and infuse buses into fleet timely and could generate adequate revenue by infusing new buses.

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[115] (Transportation cost ₹7.87 lakh + contribution loss (selling price- variable cost) on 262 items sold ₹0.61 lakh).
[116] 681 gears * ₹31,287.56.
[117] The base frame of a bus.
[118] Central workshop at Pappanamcode and regional workshops at Mavelikkara, Aluva, Edappal and Kozhikode.

Audit Findings

3.11.2 Audit findings are discussed below:

Procurement

Shortfall in procurement of new chassis

3.11.3 As per its own norms, KSRTC is required to replace buses after 10 years of commissioning or after operation of 10 lakh kilometres (km) distance, whichever is earlier. Further, according to Rule 260A of the Kerala Motor Vehicle Rules, 1989 (KMVR), KSRTC is required to replace stage carriages[119] older than five years in Super Class[120] services with new ones.

We noticed that though KSRTC had to infuse 3,578 buses during 2011-12 to 2015-16 as per the above norms, it had infused only 1,845 buses as shown in *Table 3.16.*

Table 3.16: Details of requirement of chassis as per norms during 2011-12 to 2015-16

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	Number of new chassis required[121]	1,919	269	489	601	300	3,578
2	Purchase order quantity	625	325	60	1,215	285	2,510[122]
3	New buses infused	215	486	332	203	609	1,845[123]
4	Shortfall in infusion (1- 3)	1,704	(-) 217	157	398	(-) 309	1,733
5	Cumulative shortfall in infusion[124]	1,704	1,487	1,644	2,042	1,733	1,733

Source: Data compiled from vehicle data provided by EDP Centre of KSRTC.

The main reasons for the shortfall were:

- As against the norm of 10 years, KSRTC replaced buses which were 13 to 15 years old. As a result, 1,068 buses[125] were not considered for replacement.
- Though KSRTC placed 16 Purchase Orders for procuring 2,500 chassis during the period 2011-12 to 2015-16, it received 2,241 chassis and built 1,835 buses. The shortfall of 665 buses[126] was due to delay in procurement of chassis, body building and final releasing of buses to

[119] Stage carriage means a motor vehicle constructed or adapted to carry more than six passengers, excluding the driver, for hire or reward at separate fares paid by or for individual passengers, either for the whole journey or for stages of the journey.
[120] Fast, Super Fast, Super Express, Super Deluxe, etc.
[121] This includes buses required for replacement of old buses and buses required for introducing new schedules after adjusting the number of buses replaced from Super Class services.
[122] Including 10 fully built AC buses.
[123] Including 10 fully built AC buses.
[124] Shortfall of current year plus shortfall of previous years.
[125] 3,578 buses -2,510 (No. of chassis plus 10 buses actually received).
[126] 2,510 buses – 1,845 buses = 665 buses.

Depots as discussed in *Paragraphs 3.11.4 and 3.11.5*. During the period 2011-12 to 2013-14, KSRTC availed loan of ₹120 crore from HUDCO[127] for procurement of 825 buses and received fund of ₹87 crore from Government of Kerala (GoK) for procurement of 466 buses. KSRTC, however, procured only 1,000 buses[128] against the required number of 1,291 leaving a shortage of 291 buses. We observed that the balance fund was not utilised for the procurement of chassis and instead diverted for working capital purposes.

Accepting the audit observation, GoK stated (March 2017) that the balance available fund had been utilised for meeting working capital requirements due to paucity of sufficient fund.

Delay in procurement of chassis

3.11.4 KSRTC did not prepare annual plans to assess the requirements for addition of new buses in place of scrapped/ withdrawn buses, for commencing new schedules, etc. Instead, KSRTC assessed its requirement of buses to be procured over a period including backlog at irregular intervals.

During the five year period, KSRTC had processed Purchase Orders (PO) for two bulk[129] procurements consisting of 1,000 chassis (March 2011) and 1,500 chassis (December 2013).

We noticed in this connection that:

- According to Stores Purchase Manual (SPM) of GoK, the time allowed to bidders for submission of bids is one month from date of the invitation of tender and maximum validity period of bid is three months. Thus, a normal time of four months is required for invitation and finalisation of tender. Since the chassis procured are to be used for body building from the beginning of the financial year, KSRTC should initiate the procurement process during the last quarter of the previous year.

  In the case of procurement of 1,000 chassis, we observed that the Board of Directors (BoD) accorded its approval for procurement in March 2011, tenders were invited in July 2011 and POs placed by September 2011. The delay in inviting tender was due to delay in arranging finance for the procurement. Delivery of chassis against the POs was started only at the end of October 2011. Thus, there was no stock of bare chassis at body building units during the period April 2011 to October 2011. KSRTC could infuse only 215 buses during the year 2011-12 against 338 buses required for replacement of scrapped buses[130] and operation of new services[131]. Had KSRTC carried out the procurement in time, it could have built more buses and avoided the position of shortage of 123 buses in the year 2011-12.

[127] Housing and Urban Development Corporation Limited.
[128] Included in 1,845 buses.
[129] In which 16 POs were placed.
[130] 215 buses.
[131] 123 new services.

Further, the PO price in the above tender was valid up to 24 August 2012. However, after procuring 625 chassis, the BoD invited fresh tender (February 2012) to procure the remaining 375 chassis[132]. Since the lowest unit rate (L1) for conventional chassis obtained in the new tender was ₹1.20 lakh higher than the existing price, KSRTC placed (August 2012) POs for 325 conventional chassis[133] at the existing price of ₹10.20 lakh per unit with applicable variation in statutory duties and taxes. The suppliers did not accept the POs at the existing rates initially but, accepted (December 2012) after a lapse of four months. Due to delay in acceptance, the delivery schedule of September 2012 to November 2012 in the POs was amended as January 2013 to April 2013.

We observed that the invitation of a new tender during the validity of the existing PO price was unwarranted as KSRTC did not foresee lower market price. Thus, due to its injudicious decision to invite a new tender, KSRTC lost 11 months (February 2012 to December 2012). We further observed that during the period from November 2012 to January 2013, there was no body building of buses owing to the stock out position of chassis. KSRTC could infuse only 486 buses against 759 buses[134] required for replacement of scrapped buses and operation of new services for the year 2012-13. Had KSRTC placed POs at the existing rate without inviting fresh tender, it could have avoided the stock out position of chassis and consequent loss of body building of 125 buses[135].

GoK admitted (March 2017) that there was no specific yearly purchase plans for chassis/ buses. With regard to invitation of tender in February 2012 for 375 chassis, GoK stated that the tender was invited in order to obtain more competitive rates but, seeing the fresh rates on the higher side, Purchase Orders were placed at the old rates. The reply is not acceptable because invitation of fresh tender in February 2012 was not to obtain more competitive rates and the delay had resulted in stock-out position of chassis and consequent production loss of buses.

- In the second case, KSRTC invited (February 2014) tender for procurement of 1,500 chassis[136]. It, however, had to retender twice owing to technical problems faced by participants in e-tendering procedures. Meanwhile, the Model Code of Conduct for the General Election 2014 came into force in March 2014 due to which tender proceedings were stalled. KSRTC placed (October 2014) POs for 1,350 conventional chassis at the L1 rate of ₹10.42 lakh per chassis obtained in the re-tender (August 2014).

  We observed that there was a requirement of 656 new buses[137] to replace scrapped buses and to operate new services for the year 2013-14. As a normal time of four months was required for invitation and finalisation of tender, KSRTC should have initiated the procurement process in the last

[132] 325 conventional chassis and 50 air suspension chassis.
[133] Since there was no valid rate available for Rear Air Front Weveller Suspension chassis, the BoD decided to go for retender in respect of 50 air suspension chassis.
[134] Replacement for 468 buses scrapped plus 168 new services plus back log of 123 buses.
[135] (3 months(October 2012 to December 2012) * Average production of 46 buses per month) – Actual production of 13 buses = 125 buses.
[136] 1,350 conventional and 150 air suspension chassis.
[137] Replacement for 283 buses scrapped plus 100 new services plus back log of 273 buses.

quarter of 2012 or procured more quantity in the previous procurement to meet the requirement of buses in the beginning of the year 2013-14. KSRTC, however, initiated the process in December 2013. Due to the delay, supply of chassis got delayed leading to stock out position of chassis during the period October 2013 to October 2014[138] and consequent production loss of 480[139] buses. Against the requirement of 656 buses, KSRTC commissioned 332 buses leading to a shortfall of 324 buses.

We further noticed that there was a four *per cent* concession[140] in rate of excise duty on bus chassis during February 2014 to December 2014. However, due to the delayed purchase, KSRTC lost the opportunity of availing concessional excise duty. The savings on account of concessional rate of excise duty and VAT foregone due to the delay in purchase of 414 chassis[141] during the period from February 2014 to October 2014 worked out to ₹1.61 crore[142].

GoK stated (March 2017) that the delay in initiation of the procurement of 1,500 chassis was unavoidable due to declaration of General Election and litigation due to disqualification of bidders. The reply was not acceptable in view of the fact that procurement process to be initiated by December 2013 was unduly delayed up to February 2014. Declaration of General Election in March 2014 impacted the procurement process because the initiation of process was delayed up to February 2014.

Bus Body Building

3.11.5 After procurement, the chassis are issued to five workshops of KSRTC for bus body building. As per the production plan, time required for body building of a bus is 30 days and thereafter, five[143] days are required for registration before issuing them to Depots for operation.

We noticed delays in bus body building and putting the completed buses into operation as shown in *Table 3.17*.

Table 3.17: Details of delay in production and operation of buses

Particulars	Normal time	Number of buses which were infused into operation with delay			
		Delay 1 to 10 days	Delay 11 to 25 days	Above 25 days	Total
Delay in body building	30	315	139	160	614
Delay in releasing of buses	5	814	279	40	1133
Delay in operation of schedules.	2	14	0	1	15

Source: Compiled from data provided by KSRTC

138 In Central workshop from December 2013 to October 2014.
139 (11 months * Average monthly production of 46 buses) – Actual production 26 buses = 480 buses.
140 From 14 *per cent* to 10 *per cent*.
141 Based on average monthly production @ 46 buses for 9 months period from February 2014 to October 2014
142 414 buses * [₹10,80,879 (price at 14 *per cent* excise duty) - ₹10,42,000 (price at 10 *per cent* excise duty)] = ₹1.61crore.
143 A norm of five days was adopted since KSRTC could complete the formalities in five days as observed in 712 cases.

The issues noticed in bus production are brought out in the subsequent paragraphs.

Underutilisation of production capacity

3.11.5.1 The sanctioned strength of employees, monthly production capacity, average number of workers employed, production target set and actual production during October 2014 to April 2016 at the five body building units of KSRTC are shown in *Table 3.18.*

Table-3.18: Unit-wise sanctioned strength, production capacity, target, etc.

Name of body building unit	Sanctioned strength	Monthly production capacity (buses)	Average workers employed	Production	
				Target[144]	Achieved
Pappanamcode	754	70	400	825	340
Mavelikkara	126	10	60	136	106
Aluva	126	10	100	136	123
Edappal	252	20	85	254	121
Kozhikode	126	10	78	135	125
Total	**1,384**	**120**	**723**	**1,486**	**815**

Source: Compiled from data provided by KSRTC

We noticed that KSRTC took 41 days to 272 days for building and releasing buses as against a normal time of 35 days[145]. The major reasons for the inordinate time taken for building buses and putting them into operation are discussed below.

- Total production capacity at body building units of KSRTC based on the sanctioned strength was 120 buses per month. We noticed that delivery schedules of chassis were not drawn in line with the above production capacity. Stock in yard ranged up to 397 chassis due to receipts in successive lots over and above the monthly production capacity of workshops. Out of 2,241 chassis received during 2011-12 to 2015-16, around 51 *per cent* (1,146 chassis) were held in the open yard for more than 50 days before being taken for body building. Since the workshops also failed to meet their production targets, successive receipts of chassis before exhausting the available stock resulted in accumulation and long holding of chassis in the open yard for periods ranging up to 246 days. As the chassis were procured out of the loan provided by HUDCO, idling of the same entailed avoidable interest burden of ₹2.99 crore[146] on the capital locked up for such period. The situation could have been avoided had the POs been placed in advance of requirement and delivery of chassis were made in a phased manner in line with the production capacity of the workshops. At the close of the year 2015-16, a total of 397 bare chassis costing around ₹43.70 crore[147] were lying in the open yards of the five workshops.

[144] **Production target set (September 2014) for body building of 1,500 chassis for the period from October 2014 to April 2016.**
[145] **30 days for production plus 5 days for registration related formalities.**
[146] **Interest was worked out for the period over and above the 30 days from the date of receipt of chassis till the date of commencement of production.**
[147] **₹11,00,685 * 397 chassis = ₹43.70 crore.**

KSRTC stated (November 2016) that accumulation of stock was due to bulk purchase for availing concessional excise duty.

The reply was not acceptable since while going in for bulk procurement of chassis, KSRTC did not reckon the aspect of concessional excise duty. The bulk procurement of chassis was, in fact, to meet the backlog of chassis requirement.

- As per the work norms in vogue, mandays prescribed for body building of Ordinary and Fast Passenger (FP) buses were 325 and that for Super Fast (SF) buses were 340. We observed that the work norms were fixed not on the basis of any scientific work study but on the basis of bi-lateral settlement with labour unions. KSRTC introduced pneumatic doors[148] in new buses to be built from November 2014 which required additional mandays. We, however, observed that KSRTC did not update the work norms to incorporate the above change.

- The Chief Office of KSRTC set (September 2014) the production targets, directing the body building units to make necessary arrangement for employing required number of workers up to the maximum of the sanctioned strength to achieve the target. The units, however, could not engage the required number of workers as there was Court's Stay Order on engaging temporary workers and therefore, failed to achieve the target. Total number of buses produced in all the units during the period October 2014 to March 2016 was 815 buses against the production target of 1,486 buses (up to March 2016). We observed that in the last five years, KSRTC did not recruit workers[149] on permanent basis to fill the vacancies in permanent posts in body building units but employed temporary hands as and when required. Thus, non-recruitment of sufficient number of permanent workers against the vacancies existing in the body building units and dependence on temporary workers led to under achievement of the production target.

  Accepting the audit observation, GoK stated (March 2017) that the body building was delayed due to shortage of staff in workshops.

- As per the production plan, time required for production of buses was a maximum of 30 days. We, however, noticed that time taken for completion of body building of buses ranged between 31 days and 121 days in 614 out of 1,835 cases. The delay in completion of body building was due to non-availability of material in time and shortage of workers. We observed stock out position of essential material at various points of time and the workshops had to keep waiting for the material to complete the production process. The heads of the body building units also stated the same reasons for the delay as observed by Audit.

[148] Driver operated automatic door system.
[149] Through Kerala Public Service Commission.

Considering 30 days required for body building of a bus, 11,271 bus days were lost due to excess production time leading to probable revenue loss of ₹11.47 crore[150].

GoK admitted (March 2017) that there was delay in production during certain periods due to shortage of material.

The reply was not acceptable as availability of material can be ensured through better planning at the time of placement of purchase order for chassis.

Operation of buses

3.11.6 We noticed inordinate delay in infusion of vehicles into the fleet after these were ready for operation due to delay in arranging insurance, delay in registration, etc., as discussed below:

Loss of vehicle days due to delay in arranging insurance

3.11.6.1 The process of registration of vehicles and obtaining certificate of fitness, insurance, etc. of buses produced in the workshops was being done at the Chief Office of KSRTC. After completion of body building, the buses were measured and inspected by the Regional Transport Authorities (RTA) and reports thereon forwarded to the Transport Authority at Thiruvananthapuram, who issued Registration Certificate and Certificate of Fitness (CF) based on such field inspection reports. After obtaining CF, the Chief Office of KSRTC obtained temporary permits valid for four months and insurance for the new buses before allotting them to Depots.

We noticed that out of 1,845 buses commissioned during the period 2011-12 to 2015-16, 1,133 buses were released to Depots after delay ranging up to 65 days[151]. Total vehicle days lost on account of the delay worked out to 9,943 days. The delay was mainly attributable to the delay in insuring the vehicles. The delay in releasing the vehicles to Depots resulted in loss of revenue of ₹10.12 crore worked out at average Earning Per Bus per day (EPB) of ₹10,179.

Further, according to the circular[152] issued by GoK, all general insurance transactions of Public Sector Undertakings should be carried out only through Kerala State Insurance Department. KSRTC, however, insured its buses with New India Insurance Company Limited in violation of the circular issued by the GoK.

GoK replied (March 2017) that the delays in arranging the insurance happened due to poor financial position of KSRTC. The reply is not acceptable because the amount of loan provided by HUDCO for the procurement of buses included the cost of insurance also.

[150] Worked out at average Earnings Per Bus (EPB) of ₹10,179 per day of the five year period.
[151] A norm of five days was adopted since KSRTC could complete the formalities in five days as observed in 712 cases.
[152] No.16/14/Fin. dated 21/02/2014.

Loss of vehicle days due to delay in putting the new buses into operation

3.11.6.2 The Chief Office of KSRTC, after completing the formalities related to registration, certificate of fitness, permit and insurance allotted the newly commissioned buses to Depots. Depots, on receipt of new buses were to press them immediately into scheduled operations.

We noticed that out of the 658 buses released to 11 Depots[153], operation of service in respect of 15 buses[154] commenced after delay (after considering minimum two days for allotting the buses for operation) ranging between 1 and 32 days, mainly due to shortage of crew. Total vehicle days and revenue lost due to the delay was 74 days and ₹7.53 lakh[155] respectively.

Loss of vehicle days due to delay in replacement of scrapped buses

3.11.6.3 During 2011-12 to 2015-16, KSRTC had scrapped 1,951 buses. Against this, KSRTC had infused 1,845 buses into the fleet during the same period. Thus, 106 buses were short replaced. Shortage of buses for want of replacement ranged between 33 (July 2014) and 194 (December 2014) which stood at 106 as on 31 March 2016 as given in *Table 3.19*.

Table 3.19: Details of buses scrapped and shortage in replacement

Period	Buses scrapped	Buses commissioned	Shortage in replacement
	(Number)		
April 2011 to October 2011	82	33	49
July 2014 to March 2016	917	811	106

The delay in replacement of scrapped buses which was in turn due to delay in procurement of chassis, bus body building and final release of buses to Depots, affected scheduled operations causing loss of 1,01,771 vehicle days during the period from April 2011 to October 2011 and July 2014 to March 2016 with a revenue loss of ₹103.59 crore[156].

Further, due to non-availability of new buses for replacing 303 five year old buses in Super Class services, KSRTC had to seek exemption[157] from the State Government for plying the same 5 years old vehicles for another 3 to 6 months. Thus, KSRTC had to retain old buses resulting in the denial of high quality vehicles to passengers of Super Class services.

GoK replied (March 2017) that during the audit period KSRTC held 5,984 buses against 5,040 schedules and the delay in replacing buses in Super Class services were due to the delay in procurement of buses caused due to

[153] Thiruvananthapuram Central, Vizhinjam, Chathannoor, Kollam, Kottayam, Pala, Thiruvalla, Ernakulam, Thrissur, Palakkad and Kasargod.
[154] Mentioned in *Table 3.17*.
[155] Calculated at average EPB for the five year period of ₹10,179 * 74 vehicle days = ₹7.53 lakh.
[156] Calculated at average EPB for the five year period of ₹10,179 * 1,01,771 vehicle days = ₹103.59 crore.
[157] The Government had granted (June 2014) exemption for six months to 119 buses whose 5 years' life had expired between April and July 2014 and to another 184 buses for three months whose 5 years' life had expired between August and December 2014.

imposition of Code of Conduct for Parliament Election and litigation by bidders.

The reply is not correct in view of the fact that during the five year period, in place of 1,951 buses scrapped, KSRTC infused only 1,845 buses. Further, 5,040 schedules as stated in the reply was calculated without considering new schedules added (560) during the audit period and schedules cancelled due to non-availability of buses.

Non-operation of schedules taken over from private operators

3.11.6.4 GoK had approved a scheme as per which Super Class services all over the State shall be run and operated by the State Transport Undertaking i.e., KSRTC. Accordingly, as of March 2016, KSRTC had taken over 214 Super Class services operated in the State by private stage carriages.

We observed that out of the 49 Super Class services taken over in 11 Depots, nine services commenced belatedly due to shortage of buses. In Palakkad and Kottayam Depots, three[158] and one taken-over services respectively were stopped for want of new buses. Similarly, in Kasargod Depot, due to non-allotment of buses, two schedules have not yet (July 2016) started. Thus, KSRTC had taken over Super Class services, but was unable to operate them for want of buses.

We also observed that operation of 15 taken-over schedules was not feasible as the revenue collections from these schedules were below the revenue generation criteria set for the respective service. The Depot authorities stated that the poor collection from these schedules was due to the continued operation of private stage carriages on these routes. Though Kasargod Depot had lodged complaints with RTA/ Police, no effective action was taken by RTA/Police to curb illegal/unauthorised operation by private stage carriages.

GoK admitted (March 2017) that the delay in operation and non-operation of taken-over services were due to shortage of buses**.**

Low collection from operation of new buses

3.11.7 The Executive Director (Operations) developed (November 2012) criteria for ascertaining the profitability of different services. Accordingly, Earnings Per Bus per day (EPB) for Ordinary, Fast Past Passenger, Super Fast and Super Deluxe were set as ₹12,700, ₹14,700, ₹17,000 and ₹20,000 respectively. If the EPB falls below ₹7,500, ₹9,500, ₹12,000 and ₹14,500 in the cases of Ordinary, Fast Past Passenger, Super Fast and Super Deluxe respectively, the schedule should be stopped. We carried out bus wise revenue analysis by checking the revenue collections of schedules in which the new buses were operated. We noticed that of the 658 buses allotted to the 11 Depots selected in audit, EPB were less than the criteria set in 59 cases. Reasons for non-achievement of criteria were wrong selection of schedules, wrong timing of schedules, etc. KSRTC had not taken any action either to

[158] One from August 2015, one from November 2015 and one from February 2016.

cancel these schedules or to improve the collection from the schedules.

GoK replied (March 2017) that steps had been taken to rearrange the low earning schedules to improve revenue collection.

Conclusion

Kerala State Road Transport Corporation (KSRTC) failed to comply with the norms of replacement of buses and as a result, it could not infuse required number of buses into the fleet during the five year period which led to shortage of buses for operations. Initiation of purchases was delayed and consequently body building and fleet addition were also delayed. Due to delayed procurement process, KSRTC failed to avail the benefits of concessional rate of excise duty. Though KSRTC had sufficient body building capacity to meet the demand for new buses during the period, it could not utilise body building capacity optimally due to non-engagement of sufficient manpower, lapses in material management, etc. Release of newly commissioned vehicles to Depots was delayed due to delay in completing registration formalities and arranging insurance. Further, after receipt of new buses in Depots, there was delay in pressing the buses into operation.

Thiruvananthapuram,
The 28 April 2017

(AMAR PATNAIK)
Principal Accountant General
(Economic & Revenue Sector Audit)
Kerala

Countersigned

New Delhi,
The 05 May 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Appendices

Appendix 1
Statement showing investments made by State Government to 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	0.25	…	15.00
				2014-15	0.25	…	5.48
				2015-16	0.25	…	7.00
2	Kerala State Poultry Development Corporation Limited	2010-11	1.97	2011-12	…	…	13.55
				2012-13	…	…	15.16
				2013-14	…	...	9.00
				2014-15	…	...	10.50
				2015-16	…	…	7.00
3	Meat Products of India Limited	2013-14	2.31	2014-15	..	1.77	1.00
				2015-16	…	1.00	4.50
4	The Kerala Agro Industries Corporation Limited	2011-12	4.74	2012-13	…	…	21.40
				2013-14	…	…	15.79
				2014-15	…	…	0.82
				2015-16	…	…	2.55
5	The Kerala State Cashew Development Corporation Limited	2012-13	200.64	2013-14	40.70	20.00	1.00
				2014-15	28.00	…	..
				2015-16	28.00	30.00	2.00
6	The Kerala State Coir Corporation Limited	2013-14	8.05	2014-15	…	…	6.95
				2015-16	…	…	21.93
7	Handicrafts Development Corporation of Kerala Limited	2014-15	2.77	2015-16	…	…	0.44
8	Kerala Artisans' Development Corporation Limited	2012-13	3.35	2013-14	…	…	2.40
				2015-16	0.50		2.20
9	Kerala Small Industries Development Corporation Limited	2011-12	29.67	2012-13	0.20	…	…

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)
10	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	…	…
11	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	2012-13	122.75	2013-14	5.80	…	…
				2014-15	5.42	…	2.56
				2015-16	5.42	…	…
12	Kerala State Film Development Corporation Limited	2010-11	22.87	2011-12	2.46	…	1.17
				2012-13	2.75	…	1.28
				2013-14	5.00	…	1.41
				2014-15	4.00	…	1.41
				2015-16	4.00	…	1.41
13	Kerala State Handicapped Persons' Welfare Corporation Limited	2008-09	2.20	2009-10	…	…	1.40
				2010-11	1.40	…	…
				2011-12	…	…	1.50
				2012-13	…	…	3.30
				2013-14	…	…	5.85
				2014-15	…	…	2.25
				2015-16	…	…	7.45
14	Kerala State Women's Development Corporation Limited	2012-13	7.07	2013-14	…	…	7.08
				2014-15	…	…	6.80
				2015-16	…	…	6.69
15	Kerala Urban and Rural Development Finance Corporation Limited	2014-15	6.12	2015-16	0.30	…	…

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	The Kerala State Backward Classes Development Corporation Limited	2014-15	100.96	2015-16	10.89	…	…
17	Kerala State Minorities Development Finance Corporation	2013-14	9.20	2014-15	10.00	…	…
				2015-16	10.00	...	…
18	Kerala State Housing Development Finance Corporation Limited	First Accounts not finalised		2013-14	1.27	…	…
				2014-15	9.00	…	…
19	Kerala State Welfare Corporation for Forward Communities Limited	2012-13	0.51	2013-14	5.00	…	5.60
				2014-15	4.00	…	10.44
				2015-16	10.00	…	0.74
20	Kerala Police Housing and Construction Corporation Limited	2009-10	0.27	2010-11	…	…	7.94
				2011-12	…	9.63	…
				2012-13	…	11.35	…
				2013-14	…	12.96	1.63
				2014-15	...	9.50	…
				2015-16	…	9.50	…
21	Kerala State Industrial Development Corporation Limited	2014-15	400.00	2015-16	137.42	26.00	…
22	Kanjikode Electronics and Electricals Limited	2009-10	0.10	2010-11	…	…	0.15
				2012-13	…	…	0.14
				2013-14	…	…	0.14
23	Keltron Component Complex Limited	2014-15	34.23	2015-16	...	7.00	...
24	Keltron Electro Ceramics Limited	2014-15	3.18	2015-16	…	1.45	…
25	Kerala Automobiles Limited	2012-13	10.98	2013-14	…	6.72	…
				2014-15	…	4.00	…
				2015-16	…	2.50	…
26	Kerala Electrical and Allied Engineering Company Limited	2014-15	111.13	2015-16	...	12.00	...

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 Feeds Limited	2011-12	38.66	2012-13	…	…	0.50
				2013-14	8.00	…	…
				2014-15	21.47	2.00	…
				2015-16	5.00	…	…
28	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	…
29	Kerala State Textiles Corporation Limited	2013-14	96.52	2015-16	…	17.46	…
30	Sitaram Textiles Limited	2014-15	42.46	2015-16	…	2.89	…
31	The Kerala Ceramics Limited	2014-15	11.20	2015-16	...	2.00	...
32	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2014-15	34.66	2015-16	3.00	…	…
33	The Travancore Cements Limited	2013-14	2.71	2014-15	…	4.00	…
				2015-16	…	4.00	…
34	Traco Cable Company Limited	2014-15	57.22	2015-16	…	3.30	…
35	Travancore Titanium Products Limited	2010-11	13.77	2013-14	…	5.00	…
				2014-15	…	3.00	…
				2015-16	…	3.00	…
36	United Electrical Industries Limited	2013-14	4.99	2014-15	…	3.00	…
				2015-16	…	7.75	…
37	Kerala State Coir Machinery Manufacturing Company Limited	First Accounts not finalised		2014-15	4.97	…	2.66
				2015-16	…	…	4.56
38	Trivandrum Spinning Mills Limited	2002-03	7.73	2014-15	…	1.50	…
39	Kerala State Electricity Board Limited	2013-14	3499.05	2014-15	…	…	93.62
				2015-16	…	…	42.30

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)
40	Bekal Resorts Development Corporation Limited	2013-14	50.58	2014-15	1.10	…	…
41	Indian Institute of Information Technology and Management - Kerala	2014-15	33.88	2015-16	14.90	…	…
42	Kerala Medical Services Corporation Limited	2009-10	5.00	2010-11	…	…	145.00
				2011-12	…	…	174.00
				2012-13	…	…	200.00
				2013-14	…	…	220.00
				2014-15	…	…	165.00
				2015-16	…	…	225.00
43	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	…	…
44	Overseas Development and Employment Promotion Consultants Limited	2014-15	0.86	2015-16	…	…	3.50
45	The Kerala State Civil Supplies Corporation Limited	2013-14	142.02	2014-15	…	…	285.00
				2015-16	…	…	457.00
46	Vizhinjam International Seaport Limited	2014-15	12.00	2015-16	...	...	879.13
47	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
48	Norka Roots	2012-13	1.52	2013-14	…	...	8.50
				2014-15	…	…	13.37
				2015-16	…	…	19.32
49	Kerala Academy for Skills Excellence	2014-15	26.94	2015-16	…	…	23.00
50	Bhavanam Foundation Kerala	2014-15	40.00	2015-16	…	…	9.00
51	Kerala Aqua Ventures International Limited	2012-13	3.99	2015-16	…	…	2.57
Total A (Government Companies)					**442.12**	**243.99**	**3309.49**

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)
B. Working Statutory corporations							
1	Kerala State Warehousing Corporation	2012-13	12.00	2013-14	…	…	0.50
2	Kerala Industrial Infrastructure Development Corporation	2014-15	…	2015-16	...	…	44.85
3	Kerala State Road Transport Corporation	2013-14	645.67	2014-15	65.42	266.41	…
				2015-16	39.55	214.00	…
Total B (Statutory corporations)					**104.97**	**480.41**	**45.35**
Grand Total (A)+(B)					**547.09**	**724.40**	**3354.84**
Aggregate of Equity, Loans and Grants							**4626.33**

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 are ₹in crore)

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A. WORKING GOVERNMENT COMPANIES													
AGRICULTURE & ALLIED SECTOR													
1	Kerala Agro Machinery Corporation Limited	2014-15	2015-16	1.61	…	108.75	168.72	2.43	…	117.40	2.44	2.08	351
2	Kerala Forest Development Corporation Limited	2014-15	2015-16	9.20	5.48	10.36	12.06	1.02	-1.94	57.54	1.16	2.02	531
3	Kerala Livestock Development Board Limited	2012-13	2015-16	7.33	…	10.17	11.37	0.42	0.00	63.50	0.42	0.66	271
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	…	602
5	Kerala State Poultry Development Corporation Limited	2010-11	2015-16	1.97	0.14	-0.51	24.28	3.13	-3.78	6.00	3.15	52.50	21
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	78
7	Oil Palm India Limited	2014-15	2015-16	11.79	…	34.48	44.68	0.95	-0.78	85.01	0.95	1.12	965

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
8	The Kerala Agro Industries Corporation Limited	2011-12	2015-16	4.74	19.64	-13.96	74.24	1.13	...	40.18	2.70	6.72	69
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	…	11338
10	The Kerala State Coir Corporation Limited	2013-14	2015-16	8.05	1.43	-6.49	103.27	0.56	-0.81	31.55	0.88	2.79	180
11	The Plantation Corporation of Kerala Limited	2015-16	2016-17	5.57	0.48	140.80	68.94	-16.75	-0.05	175.00	-16.75	…	3445
12	The Rehabilitation Plantations Limited	2015-16	2016-17	3.39	…	151.80	20.48	-0.06	…	161.35	-0.06	…	1337
13	The State Farming Corporation of Kerala Limited	2015-16	2016-17	9.04	0.22	58.93	17.24	-1.96	…	77.03	-1.93	…	846
14	Aralam Farming Corporation (Kerala) Limited	2013-14	2015-16	0.01	…	-0.29	…	-0.14	…	-0.28	-0.14	…	547
15	Vazhakulam Agro and Fruit Processing Company Limited	2014-15	2015-16	0.05	7.64	-0.40	1.47	-0.37	…	12.11	-0.35	…	120
16	Kerala Aqua Ventures International Limited	2012-13	2015-16	3.99	1.63	-3.54	0.18	-1.19	0.00	10.89	-1.03	…	22
17	Kerala State Coconut Development Corporation Limited	1995-96	2009-10	2.85	8.13	-12.36	…	-0.61	…	-2.27	-0.61	…	28
	Sector -wise total			**278.77**	**271.88**	**-724.63**	**734.08**	**-100.37**	**-15.10**	**126.13**	**-30.11**	**…**	**20751**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
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	…	96
19	Kerala Artisans' Development Corporation Limited	2012-13	2015-16	3.35	3.58	-1.81	12.96	0.002	-0.63	5.12	0.21	4.10	20
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	…	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	493
22	Kerala State Development Corporation for Christian Converts from Scheduled Castes & the Recommended Communities Limited	2003-04	2016-17	13.50	4.54	-5.02	0.53	-0.29	…	13.02	-0.16	…	20
23	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	2012-13	2016-17	122.75	17.60	-10.75	6.66	2.76	…	132.85	3.03	2.28	181
24	Kerala State Film Development Corporation Limited	2010-11	2015-16	22.87	12.61	-30.61	5.91	-2.31	-0.02	4.87	-1.60	…	181
25	Kerala State Handicapped Persons' Welfare Corporation Limited	2008-09	2016-17	2.20	8.85	-0.37	1.32	0.16	….	10.69	0.29	2.71	39

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
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	…	274
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	…	14
28	Kerala State Women's Development Corporation Limited	2012-13	2015-16	7.07	0.05	0.44	2.95	0.21	…	7.56	1.35	17.86	36
29	Kerala Transport Development Finance Corporation Limited	2012-13	2015-16	43.83	702.05	37.20	159.79	13.48	-0.33	783.08	135.00	17.24	41
30	Kerala Urban & Rural Development Finance Corporation Limited	2014-15	2016-17	6.12	39.33	13.56	7.49	3.41	….	62.99	3.63	5.76	18
31	The Kerala State Backward Classes Development Corporation Limited	2014-15	2016-17	100.96	435.47	146.63	42.87	20.70	….	684.64	30.05	4.39	207
32	The Kerala State Financial Enterprises Limited	2014-15	2016-17	20.00	0.00	424.95	1436.50	70.72	-0.81	444.95	668.83	150.32	6426
33	Kerala State Minorities Development Finance Corporation	2013-14	2015-16	9.20	….	-0.35	….	-0.35	-0.11	8.85	-0.35	…	21
34	Kerala State Housing Development Finance Corporation Limited	First Accounts not finalised											1
35	Kerala State Welfare Corporation for Forward Communities	2012-13	2014-15	0.51	…	-0.10	….	-0.10	….	0.41	-0.10	…	5
	Sector -wise total			**425.73**	**1303.65**	**430.20**	**1906.51**	**97.32**	**-10.63**	**2176.39**	**834.32**	**38.34**	**8075**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
INFRASTRUCTURE SECTOR													
36	Kerala Police Housing and Construction Corporation Limited	2009-10	2013-14	0.27	2.07	-1.86	33.63	-0.59	-4.26	36.24	-0.49	…	98
37	Kerala State Construction Corporation Limited	2013-14	2015-16	0.88	…	7.88	286.60	10.68	-2.14	8.76	10.85	123.86	165
38	Kerala State Industrial Development Corporation Limited	2014-15	2015-16	400.00	26.00	162.46	41.72	21.32	…	674.10	21.32	3.16	81
39	Roads and Bridges Development Corporation of Kerala Limited	2013-14	2015-16	62.43	56.50	-45.97	9.51	-5.85	-1.35	72.96	-1.93	…	44
40	The Kerala Land Development Corporation Limited	2009-10	2015-16	7.05	1.88	-20.35	1.47	-1.36	-3.91	-11.42	-1.36	…	89
41	Kerala State Information Technology Infrastructure Limited	2015-16	2016-17	193.90	…	-3.54	0.25	-0.37	0.11	190.36	-0.37	…	7
42	Kinfra Export Promotion Industrial Parks Limited	2014-15	2015-16	0.25	11.29	19.08	1.85	1.47	…	50.98	1.70	3.33	5
43	Kinfra Film and Video Park Limited	2014-15	2015-16	1.50	23.33	0.74	5.00	1.05	…	41.91	1.74	4.15	2
44	Kinfra International Apparel Parks Limited	2014-15	2015-16	0.25	36.69	-6.06	2.44	0.05	…	51.97	0.05	0.10	2
45	Marine Products Infrastructure Development Corporation Limited	2015-16	2016-17	5.00	…	4.55	0.24	0.37	-2.16	9.55	0.37	3.87	2

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
46	Kannur International Airport Limited	2014-15	2015-16	431.15	...	11.91	….	11.91	…	443.08	11.91	2.69	41
47	Road Infrastructure Company Kerala Limited	2012-13	2015-16	0.05	...	…	0.06	0.00	…	0.17	0.00	0.00	10
48	Vision Varkala Infrastructure Development Corporation Limited	2014-15	2015-16	0.10	0.00	0.00	…	0.003	…	0.00	0.00	….	12
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	48
50	Pratheeksha Bus Shelters Kerala Limited	2014-15	2015-16	0.05	…	…	…	0.00	0.00	0.05	…	…	1
51	Ashwas Public Amenities Kerala Limited	2014-15	2015-16	0.05	…	-0.04	…	-0.02	…	0.01	-0.02	…	1
	Sector -wise total			**1112.93**	**157.76**	**128.71**	**383.06**	**38.80**	**-13.71**	**1578.63**	**43.91**	**2.78**	**608**
MANUFACTURING SECTOR													
52	Autokast Limited	2015-16	2016-17	19.97	8.80	-135.31	17.32	-10.97	-2.52	-106.39	-9.27	…	259
53	Foam Mattings (India) Limited	2013-14	2016-17	5.15		-3.52	6.77	-0.58	-0.08	14.10	-0.58	…	128
54	Forest Industries (Travancore) Limited	2012-13	2015-16	0.38	5.94	1.40	15.63	0.29	...	7.73	1.03	13.32	81
55	Kanjikode Electronics and Electricals Limited	2009-10	2010-11	0.10	..	0.03	0.31	-0.04	…	0.57	-0.04	…	7
56	Keltron Component Complex Limited	2014-15	2015-16	34.23	11.00	-43.68	59.31	-1.52	…	2.90	0.32	11.03	548

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
57	Keltron Electro Ceramics Limited	2014-15	2015-16	3.18	4.22	-2.56	13.92	0.21	-1.10	5.02	0.92	18.33	68
58	Kerala Automobiles Limited	2012-13	2015-16	10.98	15.82	-37.13	8.08	-9.71	-8.03	-10.33	-8.76	…	182
59	Kerala Clays and Ceramic Products Limited	2015-16	2016-17	1.32	1.13	5.28	2.57	-5.11	…	7.75	-4.64	…	266
60	Kerala Electrical and Allied Engineering Company Limited	2014-15	2015-16	111.13	16.45	-130.16	94.67	-16.56	-2.01	-2.43	-11.82	…	535
61	Kerala Feeds Limited	2011-12	2013-14	38.66	13.07	12.87	267.23	8.35	…	57.67	8.35	14.48	212
62	Kerala State Bamboo Corporation Limited	2012-13	2016-17	9.35	31.16	-32.39	11.87	-5.69	…	8.54	-4.59	…	161
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	151.06	15.36	3150
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	15.27	...	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	…	1661
66	Kerala State Mineral Development Corporation Limited	2014-15	2016-17	1.76	…	-0.35	0.60	-0.20	-6.32	1.41	-0.20	…	14
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	…	669
68	Malabar Cements Limited	2014-15	2016-17	26.01	…	203.51	261.78	10.09	-3.38	237.02	10.34	4.36	813
69	Sitaram Textiles Limited	2014-15	2015-16	42.46	8.07	-55.03	13.33	-4.73	-0.24	-4.49	-2.77	…	215

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
70	Steel and Industrial Forgings Limited	2015-16	2016-17	30.07	7.57	22.83	55.65	-0.16	-0.64	60.59	1.44	2.38	275
71	SAIL- SCL Kerala Limited	2014-15	2015-16	26.43	54.28	-34.62	17.78	-6.82	…	46.09	-5.08	…	72
72	Steel Industrials Kerala Limited	2015-16	2016-17	36.56	7.10	-28.03	31.73	0.27	-1.04	16.16	0.97	6.00	137
73	The Kerala Ceramics Limited	2014-15	2015-16	11.20	47.25	-68.04	3.19	-7.32	0.00	-9.55	-4.13	…	105
74	The Kerala Minerals and Metals Limited	2014-15	2015-16	30.93		559.04	538.01	-24.90	…	589.99	-21.71	…	1330
75	The Metal Industries Limited	2014-15	2016-17	1.98	11.72	-9.88	4.11	-2.00	-0.04	6.07	-0.94		56
76	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2014-15	2015-16	34.66	…	48.86	81.41	8.72	-0.13	83.59	8.72	10.43	440
77	The Travancore Cements Limited	2013-14	2015-16	2.71	15.78	-24.05	27.98	-6.18	…	-2.39	-4.61	…	347
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	3.27	30.91	40
79	The Travancore-Cochin Chemicals Limited	2015-16	2016-17	21.31	28.36	-25.36	166.46	-7.26	…	24.31	-0.05	…	567
80	Traco Cable Company Limited	2014-15	2015-16	57.22	12.76	-56.77	121.85	-9.61	-1.92	13.36	-3.14	…	498
81	Transformers and Electricals Kerala Limited	2015-16	2016-17	42.97	….	27.12	151.97	-10.00	-12.92	86.29	-9.06	…	557
82	Travancore Titanium Products Limited	2010-11	2014-15	13.77	60.04	-22.70	161.83	8.32	-5.14	51.12	10.80	21.13	735
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	…	82

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**
84	Malabar Distilleries Limited	2014-15	2015-16	2.46	…	-1.20	..	-0.33	…	1.26	-0.33	…	67
85	Kerala State Coir Machinery Manufacturing Company Ltd	First Accounts not finalised											32
86	Trivandrum Spinning Mills Limited	2002-03	2003-04	7.73	7.27	-17.28	…	-0.44	…	0.06	-0.44	…	66
	Sector-wise total			**937.62**	**579.14**	**678.41**	**5629.41**	**22.93**	**-891.26**	**2252.49**	**87.85**	**3.90**	**14610**
POWER SECTOR													
87	Kerala State Power and Infrastructure Finance Corporation Limited	2015-16	2016-17	26.65	…	28.77	5.15	3.87	...	67.75	4.47	6.60	7
88	KINESCO Power and Utilities Private Limited	2015-16	2016-17	0.10	2.35	1.51	51.79	0.67	…	3.96	0.67	16.92	1
89	Kerala State Electricity Board Limited	2013-14	2015-16	3499.05	2957.48	-27.53	5259.00	-24.25	19.14	6429.00	239.58	3.73	32440
	Sector-wise total			**3525.80**	**2959.83**	**2.75**	**5315.94**	**-19.71**	**19.14**	**6500.71**	**244.72**	**3.76**	**32448**
SERVICE SECTOR													
90	Bekal Resorts Development Corporation Limited	2013-14	2016-17	50.58	…	0.12	3.14	0.72	-0.23	50.72	0.72	1.42	18
91	Indian Institute of Information Technology and Management - Kerala	2014-15	2016-17	33.88	…	-7.13	2.63	-0.94	…	35.39	-0.94	…	17
92	Kerala Medical Services Corporation Limited	2009-10	2015-16	5.00	0.06	5.18	182.26	4.94	0.09	20.24	4.94	24.41	789

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
93	Kerala Shipping and Inland Navigation Corporation Limited	2014-15	2015-16	35.00	…	-13.43	7.50	-4.43	…..	21.99	-4.31	…	126
94	Kerala State Ex-Servicemen Development and Rehabilitation Corporation Limited	2014-15	2015-16	0.50	…	5.60	32.64	1.16	…	6.10	1.16	19.02	23
95	Kerala State Industrial Enterprises Limited	2013-14	2014-15	1.20	3.80	33.47	35.22	0.35	..	40.93	1.57	3.84	111
96	Kerala State Maritime Development Corporation Limited	2013-14	2014-15	10.00	…	-6.19	7.40	0.97	0.25	3.81	0.97	25.46	18
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	…	499
98	Overseas Development and Employment Promotion Consultants Limited	2014-15	2015-16	0.86	…	1.50	6.10	0.05	…	2.57	0.05	1.95	20
99	The Kerala State Civil Supplies Corporation Limited	2013-14	2015-16	142.02	…	-222.90	3565.74	-89.11	-0.35	-80.76	-42.19	…	3843
100	Kerala Tourism Infrastructure Limited	2013-14	2015-16	32.22	…	6.93	0.83	1.60	…	39.55	1.60	4.05	9
101	Vizhinjam International Seaport Limited	2014-15	2015-16	12.00	…	-14.97	…	-3.33	-9.06	733.94	-3.33	…	16
102	Kerala State Coastal Area Development Corporation Limited	2012-13	2015-16	2.81	…	1.72	0.93	0.78	…	4.47	0.78	17.45	145
103	Norka Roots	2012-13	2014-15	1.52	…	3.71	2.69	0.16	…	9.22	0.16	1.74	94

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
104	Kerala High Speed Rail Corporation Limited	2014-15	2015-16	59.00	…	-12.76	…	-0.90	…	47.24	-0.90	…	5
105	Kerala Rapid Transit Corporation Limited (Erstwhile Kerala Monorail Corporation Limited)	2014-15	2015-16	28.05	…	-0.11	…	-0.05	…	27.94	-0.05	…	15
106	Clean Kerala Company Limited	First Accounts not finalised											10
107	Kerala Academy for Skills Excellence	2014-15	2015-16	26.94	…	1.54	0.29	0.02	…	103.00	0.02	0.02	17
108	Bhavanam Foundation Kerala	2014-15	2015-16	40	….	…	…	0.00	…	40	…	…	4
109	Trivandrum Engineering Science & Technology Research Park	First Accounts not finalised											3
	Sector-wise total			**559.28**	**16.60**	**-239.96**	**3933.99**	**-88.71**	**-9.55**	**1177.13**	**-40.28**	**…**	**5782**
	Total A (All sector-wise working Government Companies)			**6840.13**	**5288.86**	**275.48**	**17902.99**	**-49.74**	**-921.11**	**13811.48**	**1140.41**	**8.26**	**82274**
B. Working Statutory corporations													
AGRICULTURE & ALLIED SECTOR													
1	Kerala State Warehousing Corporation	2012-13	2015-16	12.00	11.95	-23.94	13.92	-0.19	-0.06	0.01	-0.10	…	428
	Sector-wise total			**12.00**	**11.95**	**-23.94**	**13.92**	**-0.19**	**-0.06**	**0.01**	**-0.10**	**…**	**428**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
FINANCE SECTOR													
2	Kerala Financial Corporation	2015-16	2016-17	226.50	1663.43	87.79	305.26	5.33	-4.00	2092.59	174.34	8.33	224
	Sector-wise total			**226.50**	**1663.43**	**87.79**	**305.26**	**5.33**	**-4.00**	**2092.59**	**174.34**	**8.33**	**224**
INFRASTRUCTURE SECTOR													
3	Kerala Industrial Infrastructure Development Corporation	2014-15	2015-16	…	833.29	133.64	8.58	4.72	-1.42	1024.98	13.43	1.31	37
	Sector-wise total			**…**	**833.29**	**133.64**	**8.58**	**4.72**	**-1.42**	**1024.98**	**13.43**	**1.31**	**37**
SERVICES SECTOR													
4	Kerala State Road Transport Corporation	2013-14	2016-17	645.67	2546.89	-3609.79	1647.60	-583.90	…	-383.90	-393.70	…	44520
	Sector-wise total			**645.67**	**2546.89**	**-3609.79**	**1647.60**	**-583.90**	**0.00**	**-383.90**	**-393.70**	**…**	**44520**
	Total B (All sector-wise working Statutory Corporations)			**884.17**	**5055.56**	**-3412.30**	**1975.36**	**-574.04**	**-5.48**	**2733.68**	**-206.03**	**…**	**45209**
	Grand Total (A+B)			**7724.30**	**10344.42**	**-3136.82**	**19878.35**	**-623.78**	**-926.59**	**16545.16**	**934.38**	**5.65**	**127483**
C. Non-working Government Companies													
MANUFACTURING SECTOR													
1	The Kerala Premo Pipe Factory Limited	1985-86	1999-2000	0.35	0.00	-0.19	…	-0.35	…	1.00	-0.35	…	…
2	Kerala Garments Limited	2008-09	2009-10	0.48	6.07	-10.23	0.03	-0.25	-0.30	-7.87	0.35	…	…
3	Kerala Special Refractories Limited	2014-15	2016-17	2.91	1.07	-2.75	…	-0.12	…	1.23	-0.12	…	3

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
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	…	-5.52	…	…	…
6	Keltron Counters Limited	2003-04	2006-07	4.97	22.02	-31.74	1.52	-3.67	…	-10.62	-3.67	…	...
7	Keltron Power Devices Limited	2005-06	2014-15	15.37	7.67	-29.65	…	-0.53	-0.19	-6.42	0.00	…	…
8	SIDKEL Televisions Limited	1999-2000	2004-05	0.44	2.56	-4.14	…	-0.48	…	-2.03	-0.48	…	...
9	Astral Watches Limited	2010-11	2011-12	0.95	4.25	-5.92	…	-0.32	…	-0.62	-0.03	…	...
10	Keltron Rectifiers Limited	2005-06	2014-15	8.50	…	-23.57	….	-0.07	…	-4.86	-0.07	…	...
11	Trivandrum Rubber Works Limited	2001-02	2010-11	2.35	…	-25.99	1.52	-1.02	…	14.00	-1.01	…	...
12	Kerala State Wood Industries Limited	2011-12	2016-17	1.70	8.52	-9.56	…	-0.08	…	0.81	-0.08	…	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	…	...

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year*	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2016)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
14	Kunnathara Textiles Limited	Data not available											
15	Vanjinad Leathers Limited	Data not available											
	Sector-wise total			**39.80**	**85.92**	**-182.75**	**3.07**	**-8.14**	**-0.98**	**-24.92**	**-5.55**	…	**4**
	Total C (All sector wise non- working Government Companies)			**39.80**	**85.92**	**-182.75**	**3.07**	**-8.14**	**-0.98**	**-24.92**	**-5.55**	**…**	**4**
	Grand Total (A+B+C)			**7764.10**	**10430.34**	**-3319.57**	**19881.42**	**-631.92**	**-927.57**	**16520.24**	**928.83**	**5.62**	**127487**

Notes:

 # Net impact of accounts comments include 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.

@ Capital employed is worked out as 'share holders' fund plus long term borrowings'.

$ Return on capital employed represents profit before interest.

*** Represents long term loans only.**

1. Audit of Accounts of Kerala State Road Transport Corporation for the year 2013-14 is under process.

Appendix 3

Statement showing details of entities involved in promotion and development of MSMEs in Kerala

(Referred to in Paragraph 2.1.2)

Sl. No.	Name of agency	Objectives and functions relating to MSMEs	Schemes/ Major activities
1	Directorate of Industries and Commerce (DI&C)	Implementing agency of Micro, Small and Medium Enterprise related policy decisions of the Industries Department of Government of Kerala.	• State/ Central Plan Schemes for promotion and development of MSMEs. • Administers 126 Development Areas/Plots set up in 2515.45 acres through 14 District Industries Centres. • ESS for providing financial support to MSMEs. • Single Window Clearance Schemes for industrial Units
2	Kerala Financial Corporation (KFC)	Lending to industries and supporting sustained industrial growth of the State with special attention to MSMEs.	• Kerala State Entrepreneur Development Mission (KSEDM) for providing financial support to MSMEs. • Receivable Finance Scheme.
3	Kerala Small Industries Development Corporation Limited (SIDCO)	Providing infrastructure facilities such as land, work shed, water, distribution of scarce raw material etc. to the Small Scale Sector of the State through industrial estates and industrial parks	• Administration of 60 Industrial Estates/ Mini Industrial Estates/ Industrial Parks. • Marketing support to MSMEs • Supply of raw material to MSMEs
4	Kerala State Industrial Development Corporation Limited (KSIDC)	Promoting, stimulating, financing and facilitating the development of large and medium scale industries in Kerala.	• Promotion of industrial projects, financing of projects, establishment of growth centers
5	Kerala Industrial Infrastructure Development Corporation (KINFRA)	Accelerating the industrial development of the State by providing infrastructure facilities to industries especially in backward regions of the State.	• 638 MSME units are functioning in 21 Industrial Parks (including three food processing parks) developed by KINFRA.
6	Kerala Bureau of Industrial Promotion (KBIP)	Promoting the potential business opportunities of the State to the entrepreneurs and to highlight the business climate prevailing in Kerala.	• Conducting/ participating in business meets, trade fairs, etc. • Industrial Cluster Development

Appendix 4

Statement showing list of Central schemes for promotion and development of MSMEs
(Referred to in Paragraph 2.1.7.2)

Sl. No.	Scheme	Sanctioning Department/Agency	Objective	Designated Implementing Agency	Nature of Central Assistance
1	International Cooperation	Ministry of MSME	Deputation of MSME business delegations to other countries for exploring new areas of technology infusion/ up-gradation, facilitating joint ventures, improving markets for MSME products, foreign collaborations, etc., Participation by Indian MSMEs in international exhibitions, trade fairs and buyer-seller meets in foreign countries, etc.	State/Central Government Organisations	95 *per cent* of airfare and space rent for entrepreneurs.
2	Assistance to Training Institutions	Ministry of MSME	Provision of capital grant to training institutions for creation/strengthening of infrastructure and support for conducting entrepreneurship development and skill development training programmes.	State/Union territory Government training institutions	Maximum ₹150 lakh for strengthening infrastructure on matching basis. ₹50 per hour per trainee for entrepreneurship development and skill development programmes.
3	Marketing Assistance	Ministry of MSME	Providing assistance for organising exhibitions abroad and participation in international exhibitions/trade fairs, co-sponsoring of exhibitions organised by other organisations/industry associations/agencies, organising buyer-seller meets, intensive campaigns and marketing promotion events.	MSMEs, Industry Associations and other organisations related to MSME sector.	95 *per cent* of airfare and space rent for entrepreneurs.
4	Micro & Small Enterprises Cluster Development Programme (MSE-CDP)	Ministry of MSME	1.To support sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access and access to capital, to build the capacity of MSEs for common supportive action through the formation of self help groups, consortia, up-gradation of associations, *etc*. 2. To create/upgrade infrastructural facilities in	Industrial Associations, Consortia, Clusters	Diagnostic Study- ₹2.50 lakh Soft Interventions - ₹25 lakh Setting up of CFCs - ₹15 crore Infrastructure development in new/existing industrial estates - ₹10 crore

Sl. No.	Scheme	Sanctioning Department/Agency	Objective	Designated Implementing Agency	Nature of Central Assistance
			the new/existing industrial areas/clusters of MSMEs. 3.To set up Common Facility Centres for testing, training, raw material depot, effluent treatment, complementing production processes, *etc*.		
5	Building Awareness on Intellectual Property Rights	Ministry of MSME	To enhance awareness among the MSMEs about the Intellectual Property Rights, to make measures for protecting their ideas and business strategies.	Quasi-Government or Government aided bodies	₹1 lakh per awareness programme, ₹2.5 lakh per pilot study, ₹6 lakh per short term training programme and ₹45 lakh per long term training programme, ₹65 lakh each for establishing IPFCs etc.
6	Technology and Quality Upgradation Support to MSMEs	Ministry of MSME	To advocate the use of energy efficient technologies (EETs) in manufacturing units so as to reduce the cost of production and adopt clean development mechanism.	State Government Agencies, Expert Organisations etc.	₹75,000 to ₹1.5 lakh as funding support for awareness programmes, 75 *per cent* of actual expenditure for cluster level energy audit and preparation of model DPR, 25 *per cent* of cost as subsidy and balance as loan from SIDBI etc. for implementing EETs.
7	Capital Goods Scheme	Ministry of Heavy Industries and Public Enterprises	Setting up common engineering facility centre, integrated industrial infrastructure facilities for machine tool industry, etc.	MSMEs, State Government, etc.	Grant-in-aid of maximum ₹48.96 crore for two Common Engineering Facility Centres.

Appendix 5
Statement showing comparison of Industrial Policy of GoK *vis-a-vis* Tamil Nadu and Karnataka on MSME sector

(Referred to in Paragraph 2.1.7.3)

Particulars	Tamil Nadu[1]	Karnataka	Kerala
Land	There are clear cut guidelines regarding procedure for allotment of sheds/ plots to women entrepreneurs (30 *per cent*) Ex-service men (10 *per cent*) and for SC/ST(10 *per cent*)	Karnataka Industrial Area Development Board to earmark minimum 20 *per cent* of allottable land in their industrial area for MSMEs. Out of the 20 *per cent* land/shed reserved, 75 *per cent* was reserved to land/shed for micro and small and 25 *per cent* to medium enterprises. Karnataka State Small Industries Development Corporation Ltd. also has to procure land on its own for developing industrial estates exclusively for MSME	No reservation for MSMEs in respect of industrial land.
Financial Support	• Subsidy schemes for MSMEs established in industrially backward blocks and agro based enterprises set up in all the blocks in the State • Special capital subsidy for thrust sector enterprises set up in the State. • Provides a special capital subsidy of 15 *per cent* on the eligible plant and machinery subject to a maximum of ₹30 lakh to the thrust sector enterprises set up anywhere in the state 1. Generation subsidy - the Government extends generation subsidy at 25 *per cent* of the cost of the generation of power subject to a maximum of ₹5 lakh. - Back ended interest subsidy provided	• Venture Capital Fund will be created to support start-up in MSME • Credit Linked Subsidy and special targets to FIS • Connecting with PMEGP • Commercial and RRBs to lend loan to rural artisans • Angel funding schemes to encourage first generation entrepreneurs • Targeted approach in PMEGP	1)The Department of Industries would provide all help and support to entrepreneurs who seek financial assistance from banks and other financial agencies. 2) One time subsidy of 15 to 25 *per cent* on capital investment limited to maximum of ₹30 lakh for new MSMEs. 3) Interest subsidy under KSEDM.

[1] **Source: Industrial Policy documents of the respective States.**

Particulars	Tamil Nadu[1]	Karnataka	Kerala
	@3 *per cent*, subject to a maximum of ₹10 lakh for a period of 5 years to MSME- manufacturing enterprises for the loan up to ₹100 lakh for Technology upgradation/ modernisation 2. Credit Guarantee Fund Trust Scheme (CGFTS) 3. Value Added Tax Reimbursement subsidy - all MSMEs entitled to a 100 *per cent* subsidy on the VAT paid by them for the first 6 years from date of commencement of production 4. Low Tension power Tariff subsidy- all MSMEs are eligible for sanction of 20 *per cent* of the total electricity charges for the first 3 years 5. Rehabilitation of sick MSMEs. 6. Credit flow to MSMEs 7. New entrepreneurs – cum – enterprise development Scheme - ₹100 crore allocated to this scheme to invite youth to become new generation entrepreneurs. - Selected beneficiaries will be assisted to avail term loan from banks/ The Tamil Nadu Industrial Investment Corporation Limited (TIIC) with a capital subsidy @25 *per cent* of project cost.		
Marketing Support	• Allowing waiver of Earnest Money Deposit for participation in tenders, • Grant of 50 *per cent* of hall rent for	- An online system will be developed for matchmaking of collaboration/vendor opportunities for MSMEs	Waiver of EMD and 15 *per cent* price preference to MSEs in Government/PSU purchases.

Particulars	Tamil Nadu[1]	Karnataka	Kerala
	participation in exhibitions within the State and also in other States by MSME Associations • Extending support for marketing under a common banner or brand name. Marketing assistance scheme- marketing through Tamil Nadu Small Industries Corporation Limited (TANSI) on 3 *per cent* commission	- Assistance to participate in international trade fair - Goods manufactured by MSME will be allowed 15 *per cent* preference over other products - Common branding and promotion shall be encouraged - Online service to track and resolve grievances regarding delayed payment to MSME	
Procedural reforms	District enterprise development consultative committee- single window Clearance - Pollution control board has also been brought under DI&C	- State evolved a mechanism to reduce inspection of MSME by various line departments and give thrust on self certification - All the regulatory approvals/ clearance required - for the MSME projects approved by DLSWC will be provided within a prescribed time limit - Value chain cluster development - 100 clusters in different sectors will be set up during the policy period at the rate of 20 cluster per year - The programme manager shall be an agency with diversified expertise in infrastructure development - The responsibility of programme manager would be to act as a catalyst between government and industrial stake holders ▪ Project structuring for optimisation of benefits ▪ Project appraisal for financing and other social requirement - Institute co-ordination with various agencies involved	Single Window Scheme for clearances

Appendix 6

Statement showing details of purchase from single supplier in DPCs

(Referred to in Paragraph 2.2.7.5)

Sl. No.	Name of DPC	2014-15				2015-16			
		Purchase from traders (₹in crore)	Name of the supplier	Amount of purchase from the supplier. (₹in crore)	Percentage of purchase from the supplier to total purchase from traders	Purchase from traders (₹in crore)	Name of the supplier	Amount of purchase from the supplier (₹in crore)	percentage of purchase from the supplier to total purchase from traders
1	Thiruvananthapuram	20.34	Shajikumar (KR)	4.34	21.34	13.21	Shajikumar (KR)	4.93	37.32
2	Kollam	4.25	SPD Alangulam	2.04	48.00	3.63	Shajikumar (KR)	0.86	23.69
3	Kottayam	5.25	STR Vegetable	4.09	77.90	5.14	STR Vegetable	3.84	74.71
4	Palakkad	0.86	COT	0.19	22.09	0.58	ASR	0.33	56.90
5	Idukki	0.16	JMS	0.16	100	0.32	JMS	0.28	87.50
	Total	**30.86**		**10.82**		**22.88**		**10.24**	

Appendix 7

Statement showing details of procurement and distribution of vegetables from Munnar and Palakkad

(Referred to in Paragraph 2.2.10.3)

Item	Procurement by DPC Munnar			Distribution to DPC Thiruvananthapuram			Margin obtained by DPCs per kg (₹)	Percentage of margin obtained by DPCs	Sales from DPC Thiruvananthapuram		Total margin obtained by the Company per kg (₹)	Percentage of margin
	Date	Quantity (kg)	Rate (₹)	Date	Quantity (kg)	Rate (₹)			Date	Rate (₹)		
Cabbage	07/07/2016	1350	15.50	08/07/2016	1350	17.00	1.50	9.68	09/07/2016	34.70	19.20	123.87
	12/07/2016	2925	14.50	13/07/2016	1575	17.00	2.50	17.24	14/07/2016	36.60	22.10	152.41
	14/07/2016	2610	15.00	15/07/2016	1350	17.00	2.00	13.33	16/07/2016	38.70	23.70	158.00
	30/07/2016	990	16.00	31/07/2016	900	17.50	1.50	9.38	01/08/2016	35.30	19.30	120.63
	Total				**5175**							
Carrot	14/07/2016	549	32.00	15/07/2016	207	36.00	4.00	12.50	16/07/2016	53.50	21.50	67.19
	30/07/2016	868	25.00	31/07/2016	810	29.00	4.00	16.00	01/08/2016	51.00	26.00	104.00
	Total				**1017**							
Beans	07/07/2016	935	39.00	08/07/2016	965	42.00	3.00	7.69	09/07/2016	58.80	19.80	50.77
	12/07/2016	1355	25.00	13/07/2016	823	35.00	10.00	40.00	14/07/2016	42.30	17.30	69.20
	Total				**1788**							
Item	**Procurement by Palakkad DPC**			**Distribution to Thiruvananthapuram DPC**					**Sales from Thiruvananthapuram DPC**			
Padavalam	11/07/2016	2026	11.00	11/07/2016	1350	13.00	2.00	18.18	12/07/2016	29.70	18.70	170.00
	13/07/2016	869	11.00	14/07/2016	300	15.00	4.00	36.36	15/07/2016	30.50	19.50	177.27
	22/07/2016	1385	12.00	22/07/2016	1015	16.00	4.00	33.33	23/07/2016	30.80	18.80	156.67
	25/07/2016	2240	9.00	25/07/2016	1000	12.50	3.50	38.89	26/07/2016	30.70	21.70	241.11
	28/07/2016	1033	11.00	28/07/2016	680	13.00	2.00	18.18	28/07/2016	28.80	17.80	161.82
	Total				**4345**							
Pavakka	11/07/2016	900	23.00	11/07/2016	400	28.00	5.00	21.74	12/07/2016	44.40	21.40	93.04
	13/07/2016	924	25.00	14/07/2016	500	28.00	3.00	12.00	15/07/2016	50.10	25.10	100.40
	22/07/2016	608	29.00	22/07/2016	505	32.00	3.00	10.34	23/07/2016	50.20	21.20	73.10
	25/07/2016	1225	27.00	25/07/2016	500	30.50	3.50	12.96	26/07/2016	60.50	33.50	124.07
	28/07/2016	453	27.00	28/07/2016	680	29.00	2.00	7.41	28/07/2016	58.20	31.20	115.56
	31/07/2016	519	27.00	31/07/2016	350	29.00	2.00	7.41	31/07/2016	57.50	30.50	112.96
	Total				**2935**							

Appendix 8
Statement showing procedural lapses in settlement of purchase bills

(Referred to in Paragraph 2.2.13)

Name of the DPC/ Sub-Centre	Period of purchase	Name of the supplier as per Purchase Register	Name of the person to whom payment was made	Amount paid (₹in lakh)	Remarks
Kollam	August 2015	Fathima Vegetables	Payment vouchers were passed to Kalarikal Traders and amount paid to Shri.Shafeek	18.26	No documentary proof was produced to explain the relationship between Fathima Vegetables, Kalarikal Traders and Shri.Shafeek. It was replied that this mistake was due to lack of proper directions regarding payment procedure from Head Office of the Company.
Kollam	October 2015	Local	Shri. Kabir Binyamin	0.51	No bills for the purchase of vegetables were obtained from Shri. Kabir Binyamin to whom payment was made. It was replied that this mistake was due to lack of proper directions regarding payment procedure from Head Office of the Company.
Kottayam	2015-16	Priyadarshini Karshaka Sangham, Wayanad	Shri.Baiju	49.21	It was replied that vegetables were supplied by Shri.Baiju in his own name up to 2014-15 and thereafter produced the bills of Priyadarshini Karshaka Sangham. The Company, however, did not ensure that the Karshaka Sangham was actually formed for the welfare of the farmers and the vegetables supplied by Shri. Baiju were produced by the members of the Karshaka Sangham.
Sub-Centre, Poojapura	2015-16	Swasraya Karshaka Sangham (Mohanan, Sukumaran, Geetha)	Mariyapuram (name of a place)	6.16	It was stated in the bill that Swasraya Karshaka Sangham was a Co-operative Sangham under GoK. However, no such Society was in existence and the cash payment vouchers were passed to 'Mariyapuram' (name of a place). The identity of the supplier was not disclosed in the bills or vouchers.
Sub-Centre, Poojapura	2015-16	Swasraya Karshaka Sangham (Mohanan, Thankappan Mullassery, Sukumaran, Johny Karakulam)	KarshakaVipani	19.40	It was stated in the bill that Swasraya Karshaka Sangham was a Co-operative Sangham under Kerala Government. However, no such Society was in existence and the cash payment vouchers were passed to 'Karshaka Vipani'. The identity of the supplier was not disclosed in the bills or vouchers.

Appendix 9

Statement showing excess cost of eight equipment included in Basic Engineering Report of Vizhinjam Port

(*Referred to in Paragraph 3.1.4*)

Sl. No.	Name of equipment	Quantity (No.)	Cost as per BER (December 2014) (₹ in crore)	Cost as per DPR escalated @5 *per cent per annum* and increasing exchange rate to ₹64/USD (₹ in crore)	Excess cost in BER (₹ in crore)
1	Rail Mounted Quay Crane (RMQC)	8	603.52	522.67	80.85
2	Reach Stackers	2	6.62	13.07	(-) 6.45
3	RTG (Yard)	24	223.20	188.16	35.04
4	Empty Container Handler	6	13.80	23.52	(-) 9.72
5	ITV	55	37.95	31.62	6.33
6	Workshop Equipment		5.00	6.53	(-) 1.53
7	Dumpers	2	0.00	0.78	(-) 0.78
8	Spares	2	44.52	39.30	5.22
	Total		**934.61**	**825.65**	**108.96**

Appendix 10
Statement showing details of works awarded by KELTRON and SIDCO to business partners without tenders
(*Referred to in Paragraphs 3.2.2.2 and 3.2.2.3*)

Sl. No.	Name of business partner	Name of PSU	Name of work	Cost of work (₹in crore)
1	Mediatronix	KELTRON	Eight[1] works for Security and surveillance for traffic enforcement system.	24.61
2	SGPL[2]	KELTRON	One work for Implementation of solar energy system (except supply of 229 kip solar panels).	2.00
3	Eram Scientific	KELTRON	Eram Scientific obtained various works during April 2011 to March 2016 from various LSGD institutions through KELTRON.	7.49
4	Expedien	KELTRON	Expedien obtained various works during April 2011 to March 2016.	5.90
5	Ospyn	KELTRON	Ospyn obtained various works during 2012-13 to 2015-16.	11.90
6	Sinelab Technologies	SIDCO	One work for Supply and installation of solar high mast lights in fisheries schools for KSCADC.	0.37
7	Stohos Infotech Private Limited	SIDCO	One work for e-Rekha Project[3] for Kerala Land Information Mission (KLIM)	5.00
8	Kerala SIDCO Hitech Security Printing Solutions Private Limited	SIDCO	One work for Printing of text books for Sarva Siksha Abhiyan (SSA)	1.92
9	Nautical Lines	SIDCO	Three works for Supply of 12-seater, 6-seater and 15-seater speed boats for Forest Department, GoK.	0.71
			Total	**59.90**

[1] Including four works valuing ₹31.89 awarded to KELTRON by Kerala Road Safety Authority on nomination basis.
[2] Later the work was awarded to Megatech Power Equipments Private Limited, associate company of SGPL.
[3] A project for restoration and digitisation of old paper documents for long preservation.

Appendix 11

Statement showing details of time given for submission of bids and number of bids received

(*Referred to in Paragraph 3.2.2.4)*

Sl. No.	Details of Work	Value of Work Order issued by KELTRON (₹in crore)	Time given for submission of bids (Days)	No. of Bids received	Month of tender	Successful Bidder(s)
1	Supply of SVDS for State Police Chief, Kerala.	11.15	10	1	November/ December 2012	Mediatronix
2	Field installation of SVDS for State Police Chief, Kerala.	3.01	8	1	November/ December 2012	IT Marketing Group (Agent of Mediatronix)
3	Control room for State Police Chief, Kerala.	5.99	18	1	November/ December 2012	RP Tech International Private Limited (Agent of Mediatronix)
4	Installation of surveillance cameras for Directorate of Museum and Zoos	1.10	5	1	February 2013	RP Tech International Private Limited (Agent of Mediatronix)
5	Installation of SVDS for Motor Vehicle Department	4.57	11	2	December 2014	RP Tech International Private Limited (Agent of Mediatronix)
6	Campus Networking of Kerala University	0.89	4	1	October 2013	Net-X Technologies
7	Campus Networking of MG University	1.10	10	1	September 2015	Net-X Technologies
8	Supply of Database servers for IT @ School	1.00	7	2	December 2014	Net-X Technologies
9	Supply of 4400 Laptops[4] for IT @ School Project[5]	15.03	7	3	December 2014	LR Infotech System, ACS Technologies and Ideal System
10	Supply of 2200 Desktops[6] for IT @ School Project	6.84	4	5	November 2014	LR Infotech System, ACS Technologies and Misuvi Sales Corporation
11	Installation of speed cameras and surveillance system	10.33	13	2	October 2013	Proxs Infocomm Limited and on its backing out, to Mediatronix (without tender)
12	Implementation of multimedia classrooms	5.28	10	3	April 2015	MRS Corporation
13	Supply and installation of computers and peripherals for DHSE.	5.00	2	2	January 2015	Ideal Systems
	Total	**71.29**				

[4] **Order Acceptance No. 2538/2014-15.**

[5] **A project to integrate computer technology into school curriculum with the primary objective of improving the quality of education and imparting computer education to school students.**

[6] **Order Acceptance No. 2539/2014-15.**

Appendix 12

Statement showing works awarded to single bidder without re-tendering

(*Referred to in Paragraph 3.2.2.5)*

Sl. No.	Name of work	Cost of work (₹ in crore)	Days given	Name of single bidder
1	Supply and testing of Solar Thermal water heater for prisons	0.64	07	Racold Thermo Limited
2	Design, supply and integration of communication infrastructure for KUHS[7]	4.65	04	Sify Technologies
3	Supply, testing and commissioning of six 500 KW central power conditioning units	1.25	05	ABB India, Bangalore.
4	Setting up of vehicle testing stations in Thiruvananthapuram and Ernakulam	4.59	05	Webex Systems and Networks Private Limited
5	Driving testing track in Thiruvananthapuram and Ernakulam for Transport Commissioner	1.15	04	Nipun Net Solutions Private Limited
6	Installation of speed cameras and surveillance system for Transport Commissioner	10.33	13	Proxs Infocomm Limited
7	Campus Networking of Kerala University	0.89	6	Net-X Technologies
8	Campus Networking of MG University	1.10	10	Net-X Technologies
	Total	**24.60**		

[7] **Construction of industrial complex at Kakkanad and construction of tool room at Olavanna, Kozhikode.**

Appendix 13

Statement showing non-constitution of CSR Committee and non-formulation of CSR Policy

(Referred to in Paragraph 3.3.2)

Sl. No.	Name of Company	Basis for applicability of CSR law.	Type of non compliance	Reply of company	Further remarks
1	Kerala Feeds Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company accepted the audit observation and constituted (August 2016) CSR committee and formulated CSR policy.	
2	Kerala State Industrial Enterprises Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company accepted (June 2016) the audit observation and stated that steps would be taken to comply with the requirement of CSR under Section 135 of the Act.	The Company stated (February 2017) that they could not constitute CSR Committee as full BoD is yet to be constituted by GoK. They further clarified that agenda for constitution of CSR Committee would be placed in the next BoD meeting.
3	Kerala Urban and Rural Development Finance Corporation Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company accepted (June 2016) the audit observation.	The Company stated (February 2017) that BoD decided (06/09/2016) to constitute a CSR Committee as part of the Act. They further clarified that after framing the policy and approval by BoD, the amount earmarked would be spent by the Company.
4	Kerala State Civil Supplies Corporation Limited	Turnover	Non-formulation of CSR policy	The Company stated (July 2016) that they were in the process of taking approval for draft CSR policy from the CSR Committee and further from BoD.	The Company stated (February 2017) that the BoD had approved (January 2017) CSR policy.
5	Kerala State Power and Infrastructure Finance Corporation Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	At the instance of Audit (24/05/2016), the Company constituted (30/05/2016) CSR committee and CSR policy	

Sl. No.	Name of Company	Basis for applicability of CSR law.	Type of non compliance	Reply of company	Further remarks
6	State Farming Corporation of Kerala Limited	Net profit	Non-formulation of CSR policy	The Company stated (June 2016) that since the BoD decided not to spend on CSR activities for the year 2014-15, the CSR policy of the Corporation was not framed.	The reply is not tenable since this is in violation of Section 135(1) of the Act as the Company comes under the purview of CSR Laws.
7	Oil palm India Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company stated(May 2016) that profit before tax for the year 2014-15 was only ₹1.56 crore and therefore, it would not come under the purview of Section 135 of the Act	The reply is not tenable as the profit before tax of the Company for the period 2011-12 and 2012-13 was ₹14.56 crore and ₹11.08 crore respectively. Since the profit before tax in at least one out of the three preceding financial years was above ₹5 crore, the Company came under the purview of CSR Laws.
8	Kerala Forest Development Corporation Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company replied (July 2016) that they were not aware of the circular dated 18/06/2014 and hence was of view that any financial year means prospective financial year applicable with regard to the enactment of provisions of the Act. They further clarified that audit observation would be brought to the notice of the BoD.	The Company replied (February 2017) that since BoD was not reconstituted, the Company could not bring the audit observation to the notice of the BoD yet (February 2017).
9	Kerala State Construction Corporation Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company accepted (August 2016) the audit observation and replied that steps will be taken to constitute CSR committee	The Company stated (February 2017) that the position remained the same as replied in August 2016.
10	Kerala Agro Machinery Corporation Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company accepted (August 2016) audit observation and stated that action was being taken to form the CSR Committee/ formulate CSR policy immediately on reconstitution of the BoD.	The Company replied (February 2017) that decision regarding constitution of BoD was pending with GoK and hence, CSR Committee could not be constituted.

Sl. No.	Name of Company	Basis for applicability of CSR law.	Type of non compliance	Reply of company	Further remarks
11	Kerala State Electricity Board Limited	Turnover	Non-formulation of CSR policy	The Company formulated (September 2016) CSR policy.	
12	Kerala State Beverages (M&M) Corporation Limited	Turnover/Net profit	Non-formulation of CSR policy.	The Company replied (May 2016) that all the funds earmarked for CSR activities were utilised after obtaining Government sanction.	The reply is not tenable as CSR Laws require the Company to formulate CSR policy. CSR policy was, however, approved by the BoD in July 2016 after being pointed out by Audit.
13	Transformers and Electricals Kerala Limited	Net profit	Non-constitution of CSR committee and non-formulation of CSR policy	The Company accepted (July 2016) the audit observation and stated that the BoD decided to constitute CSR committee and formulate CSR policy.	The Company further replied (February 2017) that CSR Committee was constituted (July 2016). Draft CSR policy was approved (October 2016) by CSR Committee and was pending adoption by the BoD.

Appendix 14
Statement showing non-spending on CSR activities

(Referred to in paragraph 3.3.2)

Sl. No.	Name of company	Average profit (₹ in crore)		Amount unspent (₹ in crore)	
		2014-15	**2015-16**	**2014-15**	**2015-16**
1	Kerala State Beverages (M&M) Corporation Limited	153.72	158.86	3.07	3.18
2	Kerala State Industrial Enterprises Limited	4.66	4.04	0.09	0.08
3	Kerala State Power Infrastructure and Finance Corporation Limited	6.20	6.45	0.12	0.13
4	The State Farming Corporation of Kerala Limited	10.42	3.46	0.21	0.07
5	Kerala Urban and Rural Development Finance Corporation Limited	4.06	4.25	0.08	0.09
6	Kerala Forest Development Corporation Limited	2.46	0.00	0.05	0.00
7	Kerala State Construction Corporation Limited	14.21	16.36	0.28	0.33
8	Transformers and Electricals Kerala Limited	7.25	0.00	0.15	0.00
	Total			**4.05**	**3.88**

Appendix 15

Statement showing amount spent for CSR activities during 2014-15 and 2015-16

(Referred to in paragraph 3.3.4)

Sl. No.	Name of company	Amount spent during 2014-15 and 2015-16 (₹ in crore)
1	Kerala State Electronics Development Corporation Limited	0.11
2	Kerala Transport Development Finance Corporation Limited	1.00
3	The Kerala Minerals and Metals Limited	1.09
4	The Kerala State Financial Enterprises Limited	3.50
5	Kerala State Backward Classes Development Corporation Limited	1.90
6	The Pharmaceutical Corporation (IM) Kerala Limited	0.38
7	Malabar Cements Limited	1.33
8	The Plantation Corporation of Kerala Limited	0.24
9	The Kerala State Industrial Development Corporation Limited	0.86
10	Rehabilitation Plantations Limited	0.33
Total		**10.74**

Appendix 16

Statement showing absence of monitoring of CSR activities

(Referred to in paragraph 3.3.4.7)

Sl. No.	Name of PSU	Audit Finding
1	Kerala State Financial Enterprises Limited	a) An amount of ₹0.09 crore was given (November 2015) to Swami Vivekananda Medical Mission Hospital, Attapady for purchase of equipment for Intensive Care Unit which were lying idle since November 2015. GoK replied (December 2016) that at the instance of Audit, the Company was continuously following up the matter with the hospital and now the Intensive Care Unit was fully functional. b) An amount of ₹0.28 crore was spent (February 2016) for purchase of five dialysis machines at Taluk Hospital, Neendakara. The machines had been kept idle so far (June 2016). GoK replied (December 2016) that the Company was taking up the matter with the Taluk Hospital authorities and panchayath to ensure effective working of the centre. The reply is not tenable as idling of equipment in the both the cases were due to the absence of staff for running the equipment and absence of monitoring.
2	Malabar Cements Limited	Tri-scooter was granted (January 2016) to a person without considering the fact of his being paralysed and bedridden for last 23 years. Another person to whom a tri-scooter was granted was in possession of two tri-scooters at present. Both cases were indicative of the fact that the persons who availed the scooters were not eligible beneficiaries. The Company replied (August 2016) that the scheme was implemented after various rounds of checking and action was being taken to rectify the mistake.
3	Kerala State Backward Classes Development Corporation Limited	Physical verification revealed that 60 *per cent* of beneficiaries to whom Tri-scooters were given (June 2015) did not have licence for riding tri- scooter. GoK replied (January 2017) that the issues raised would be used for future guidance.
4	Kerala Transport Development Finance Corporation Limited	The Company provided (December 2014) ₹1 crore to Forest Industries (Travancore) Limited[8] towards development of Kodimatha water tourism spot at Kottayam (a project of Government of Kerala). Contribution was made without ensuring monitoring as required under CSR Rule 5 (2), as physical verification revealed that work commenced only on May 2016 after a period of one year and four month from the date of transfer of amount. The Company replied (November 2016) that it spent ₹1 crore under the CSR head for the development of Water Tourism Spot, a project under the Tourism Department of Government of Kerala. The fact remains that there was absence of monitoring.

[8] **A State Public Sector Undertaking.**

Appendix 17

Statement showing details of daily wage workers regularised in Forest Department
(Referred to in paragraph 3.5.4)

Sl. No.	Category where appointed on daily wages/casual workers	Post	No. of employees regularised	Date of regularisation
1	Driver, Watcher, Pump Operator, Gardener, Computer Operator and Wireless Operator	Supernumerary post created in the pay scale of watcher	135	14 May 2015
2	Peon, Driver, Watcher, Draftsmen, Watcher cum Cook, Boat driver	Supernumerary post created in the pay scale of watcher	99	28 December 2015
3	Watcher	Watcher	1	17 July 2015
4	Mazdoor	Part Time Sweeper	1	14 December 2015
5	Worked in the capacity of Office clerk, Clerk cum Wireless operator, Office Assistant and Data Entry Operator.	LD Clerk	1	17 April 2015
6	Sweeper, Sanitary worker	Part Time Sweeper	7	17 July 2015 to 28 June 2016
Total			**244**	

Appendix 18

Statement showing details of auction discount distributed to prized subscribers in respect of cheques cleared after abnormal delay

(Referred to in paragraph 3.6.2)

Name of Branch	Number of Subscribers	Total number of instalments	Delay in realisation(more than seven days)	Average abnormal delay in realisation of cheque	Auction discount distributed (₹ in crore)
Alappuzha II	375	2023	Up to 463 days	11	0.35
Cherthala I	555	7869	Up to 317 days	18	1.15
Cherthala II	422	5467	Up to 1105 days	18	1.14
Karunagappally 1	386	3463	Up to 253 days	21	1.15
Parassala	313	1599	Up to 130 days	13	0.24
Perumbavoor I	790	11784	Up to 427 days	29	5.37
Palakkad	699	6337	Up to 375 days	62	0.58
Thalayolaparambu	273	2925	Up to 271 days	17	0.36
Thamarassery	237	1885	Up to 96 days	12	0.34
Total	**4050**	**43352**	**Weighted Average delay**	**27**	**10.68**

Appendix 19
Statement showing instances of suspicious transactions

(Referred to in paragraph 3.6.3)

Chitty No	Subscriber (Shri/ Ms)	Amount (₹)	Audit Observation
88/2013-98;4	Soumi S	2250	Shri. Sajeeb A of Alappuzha II Branch issued (16/11/2013) a cheque (numbered 10088) for ₹27031 to the Company. The cheque was realised on 24/01/2014
84/2012-98;15	Soumi S	2250	
107/2012-75;13&14	Sari S	8477	
119/2012-71;12&13	Rasiya A	7554	
81/2013-10;4	Jayasree K	6500	
160/2013-98;1	Ans A	5000	Shri. Sajeeb A of Alappuzha II Branch issued (03/12/2013) a cheque (numbered 10090) for ₹20000 to the Company. The cheque was realised on 08/02/2014.
160/2013-83;1	Navas A	5000	
160/2013-46;1	Vinodh S	5000	
160/2013-45;1	Ans A	5000	
160/2013-89;1	Sanjeev Bhat	5000	Shri. Sajeeb A of Alappuzha II Branch issued (4/12/13) a cheque (numbered 10091) for ₹21100 to the Company. The cheque was realised on 15/02/2014.
81/2013-10;5	Jayasree K	8000	
17/2012-25;23	Beema	8100	
175/2013-46;1	Raji K	1000	Shri. Sajeeb A of Alappuzha II Branch issued (21/12/13) a cheque (numbered 10098) for ₹29297 to the Company. The cheque was realised on 15/02/2014.
175/2013-47;1	Raji K	1000	
129/2013-37;3	Sanu AP	1500	
129/2013-38;3	Sanu AP	1500	
13/2014-10;1	Satheesan P	5000	
107/2012-75;15	Sari S	4297	
124/2012-50;13	Sajitha Ameer	7500	
81/2013-25	Sanu AP	7500	
8/2013-13;13	Jayasree M V	15250	Shri Shanavas S of Alappuzha II Branch issued (24/02/2014) a cheque (numbered 1895) for ₹15250 to the Company. The cheque was dishonoured and cash remitted on 04/03/2014

Appendix 20

Statement showing dishonour of cheques issued by employees of the Company

(*Referred to in paragraph 3.6.4*)

Name of subscribers (Shri/ Ms)	Name of the employee who issued cheques (Shri/ Ms)	Details of chitty	Amount of cheque dishonoured (₹)	Auction discount (₹)
1)Yehiya Muhammed Sherif 2) Jaseena M	Shanavas S, Special Grade Assistant	26th instalment of two chitties - 21/2012-46 and 50	71,200	8,844
Jaseena M	Shanavas S, Special Grade Assistant	13th instalment of chitty-34/2013-24	7,500	2,500
1)Jaseena M 2)Yehiya Muhammed Sherif 3)Joseph VC	Shanavas S, Special Grade Assistant	23rd instalment of chitty - 21/2012-50, 39th instalment of chitty - 78/2010-40, 11th instalment of chitty 34/2013-24, 16th instalment of chitty 92/2012-39 of Jaseena M,23th instalment of chitty 21/2012-46 of Yehiya Muhammed Sherif and 15th instalment of chitty 107/2012-40 of Joseph V.C	1,68,365	17,395

Appendix 21

Statement showing details of involvement of branch officials in favouring subscribers in getting the auction bid
(Referred to in paragraph 3.6.5)

Sl. No.	Branch	Name of subscribers (Shri/ Ms)	Chitty Number	No. of pending instalments	Total dues (₹in lakh)	Auction date	Cheque date	Date of cheque realisation	Prize money (₹in lakh)	Date of distribution of prize money
1	Palakkad Main	Ananthakrishnan R	78/2014	11	2.18	09/11/15	09/11/15	17/11/15	7.44	19/01/16
2			78/2014	13	2.6	08/01/16	0801/16	13/01/16	8	02/03/16
3	Alappuzha II	Aleyamma Francis	21/2012	15	4.6	14/05/13	14/05/13	16/05/13	16	29/05/13
4			21/2012	15	4.6	14/06/13	14/06/13	18/06/13	15.99	08/07/13
5		Francis V.J	73/2013	20	6.13	23/02/15	23/02/15	25/02/15	15.04	27/04/15
6	Perumbavoor Main	Siyad Mohammed	40/2013	3	2.81	11/08/14	11/08/14	29/08/14	35	03/12/14
7		M.A Pareed*	40/2013	2	1.94	10/11/14	10/11/14	17/12/14	35.9	05/12/14
8		Ambily T Chacko	24/2014	3	6.36	10/03/16	10/03/16	23/03/16	79.74	23/03/16
9		Nova Plywoods	13/2012	2	1.78	20/01/15	20/01/15	28/01/15	41.4	20/02/15
10	Parassala	V. Kumar	06/2012	2	0.75	26/03/12	26/03/12	28/05/12	10.5	28/05/12
11		K. Santhosh	29/2013	2	0.37	26/12/13	26/12/13	30/12/13	11.24	13/01/14
12		Rajaian Kristudas	14/2014	2	1.72	10/11/14	10/11/14	26/11/14	23.9	10/12/14
13		M.S Anith*	14/2014	3	2.61	10/02/15	10/02/15	16/03/15	26.5	06/03/15
14	Chembukkavu	Jassplast	180/2014	2	0.82	20/07/15	20/07/15	23/07/15	14.09	06/08/15
		Total			**39.27**				**340.74**	

* Obtained prize money before the Company realised the dues.

Appendix 22

Statement showing scheduled date of delivery, actual date of delivery and reasons for rejection

(Referred to in paragraph 3.10)

Scheduled date and quantity (No) of delivery		Actual date and quantity (No) of delivery		Date of rejection and quantity (No)		Reasons of rejection
Before November 2013	3	November 2013	3	Conditional acceptance	Nil	A: 518 items were rejected due to: (1) Inner Dia. Bore Taper not as per gauge (Bore oversize) (2) Outer Dia. Run out improper (3) parallelism not proper and B: 100 items were rejected due to low/over hardness. and C: Remaining were rejected due to Machining defect and heat treatment defect.
February 2014	350	December 2013	10			
March 2014	150	January 2014	228			
April 2014	150	February 2014	112			
May 2014	150	March 2014	100	March 2014	8	
June 2014	150	May 2014	8	April/May 2014	440	
July 2014	150	June 2014	05			
August 2014	95	July 2014	05			
		August 2014	50	August 2014	10	
		September 2014	0			
		October 2014	207	October 2014	2	
		November 2014	100			
		December 2014	100			
		November 2015	10			
		January 2016	5			
				February 2015 March 2015 October 2015 December 2015	100 60 51 10	
Total	**1198**		**943**		**681**	

Glossary

(Referred to in paragraph 3.1)

Appointed Date	Appointed Date means the date on which Financial Close is achieved and every Condition Precedent is either satisfied or waived, as the case may be, in accordance with the provisions of the Concession Agreement, and such date shall be the date of commencement of the Concession Period. The Appointed Date in respect of the Concession Agreement of Vizhinjam Port has been fixed as 5th December 2015.
Commercial Operation Date (COD)	Commercial operation date of the Vizhinjam port shall be the date on which Completion Certificate is issued by the Independent Engineer. The Port shall enter into commercial service on COD whereupon the Concessionaire shall be entitled to demand and collect Fee from users of the Port.
Concession	The right including the exclusive right, licence and authority granted to the private partner or a consortium or joint Venture Corporation (JVC) formed by the parties to the Concession Agreement, by the Government or a public sector partner under the relevant Agreement to construct, operate and maintain the project for a mutually agreed period (Concession Period) commencing from an Appointed Date and to receive grant, annuity at pre-determined levels and/or to collect user charges, tariff or toll as may be for providing services from the project.
Concession Fee	In consideration of the grant of Concession, the Concessionaire shall pay to the Government by way of concession fee a predetermined sum per annum.
Concession Period	Concession Period means the period starting on and from the Appointed Date and ending on the Transfer Date
Economic Internal Rate of Return (EIRR)	The EIRR indicates the rate of return at which the present value of the economic costs and benefits of the project are equal. In other words, it is the discount rate for which the net present value is zero.
EPC Contract	EPC Contract means the engineering, procurement and construction contract or contracts entered into by the Concessionaire with one or more contractors for, inter alia, engineering and construction of the Port in accordance with the provisions of the Concession Agreement;
Equity	Equity means the sum expressed in Indian Rupees representing the paid up equity share capital of the Concessionaire for meeting the equity component of the Total Project Cost.
Equity Support	Equity support means the Grant that shall be credited to the Escrow Account and shall be applied by the Concessionaire for meeting the Total Project Cost.
Escrow Account	“Escrow Account” means an Account which the Concessionaire shall open and maintain with a bank in which all inflows and outflows of cash on account of capital and revenue receipts and expenditures shall be credited and debited, as the case may be, in accordance with the provisions of the Concession Agreement, and includes the sub-accounts of such Escrow Account;
Fee	“Fee” or “User Fee” means the tariff or charge levied on cargo and Containers

Financial Close	“Financial Close” means the fulfilment of all conditions precedent to the initial availability of funds under the Financing Agreements;
Financing Agreements	“Financing Agreements” means the agreements executed by the Concessionaire in respect of financial assistance to be provided by the Senior Lenders by way of loans, guarantees, subscription to non-convertible debentures and other debt instruments including loan agreements, guarantees, notes, debentures, bonds and other debt instruments, security agreements, and other documents relating to the financing (including refinancing) of the Total Project Cost.
Funded Works	Funded works means (1)the construction of Breakwaters with minimum length of 3,100 (three thousand one hundred) metres, including crown wall, to protect the harbour basin from waves and swells; and (2) Fishing Harbour
Internal Rate of Return (IRR)	The internal rate of return on an investment or project is the "annualized effective compounded return rate" or rate of return that makes the net present value of all cash flows (both positive and negative) from a particular investment equal to zero. It can also be defined as the discount rate at which the present value of all future cash flows is equal to the initial investment or, in other words, the rate at which an investment breaks even.
Landlord Port	Landlord ports represent the most common management model where infrastructure, particularly terminals, is leased to private operating companies with the port authority retaining ownership of the land. The most common form of lease is a concession agreement where a private company is granted a long term lease in exchange of a rent that is commonly a function of the size of the facility as well as the investment required to build, renovate or expand the terminal. The private operator is also responsible to provide terminal equipment so that operating standards are maintained.
Master Plan	“Master Plan” means the master plan set forth in Schedule-A of the Concession Agreement for construction, development and operation of the Port in accordance with the provisions of the Agreement, and includes the vacant land earmarked for expansion of the Port;
Net Present Value (NPV)	Net Present Value (NPV) is the sum of all expected cash flows over the total economic life of the project; taken one year at a time, and discounted by a factor which represents the opportunity cost of capital.
O&M	“O&M” means the operation and maintenance of the Port and includes all matters connected with or incidental to such operation and maintenance, provision of services and facilities, and collection of Fee in accordance with the provisions of the Concession Agreement;
Private service ports.	The outcome of a complete privatization of the port facility with a mandate that the facilities retain their maritime role. The port authority is entirely privatised with almost all the port functions under private control with the public sector retaining a standard regulatory oversight. Still, public entities can be shareholders and thus gear the port towards strategies that are deemed to be of public interest.
Premium	The Concessionaire may agree to pay to the Government a premium in the form of an additional Concession Fee .equal to one *per cent* of the total Realisable Fee during that year, and for each subsequent year thereafter, the Premium shall be determined by increasing the proportion

	of Premium to the total Realisable Fee in the respective year by an additional one *per cent* as compared to the immediately preceding year
Project Assets	"Project Assets" means all physical and other assets relating to and forming part of the Site including (a) rights over the Site in the form of licence, Right of Way or otherwise; (b) tangible assets such as civil works and equipment including quay wall, Wharf, foundations, embankments, pavements, road surface, bridges, drainage works, sign boards, electrical systems, communication systems, and administrative offices; (c) Project Equipment situated on the Site; (d) buildings and immovable fixtures or structures forming part of the Port, including Port Estate Development; (e) all rights of the Concessionaire under the Project Agreements; (f) financial assets, such as receivables, security deposits etc.; (g) insurance proceeds; and (h) Applicable Permits and authorisations relating to or in respect of the Port, including Port Estate Development;
Realisable Fee	"Realisable Fee" means all the Fee due and realisable under the Concession Agreement, with or without any discounts or reduction in Fee, but does not include fees that the Concessionaire has not been able to realise after due diligence and best efforts.
Right of Way	"Right of Way" means the constructive possession of the Site, together with all way leaves, easements, unrestricted access and other rights of way, howsoever described, necessary for construction, operation and maintenance of the Port and Port Estate Development in accordance with this Agreement;
Senior Lenders	"Senior Lenders" means the financial institutions, banks, multilateral lending agencies, trusts, funds and agents or trustees of debenture holders, including their successors and assignees, who have agreed to guarantee or provide finance to the Concessionaire under any of the Financing Agreements for meeting all or any part of the Total Project Cost and who hold *pari passu* charge on the assets, rights, title and interests of the Concessionaire;
TEU	"TEU" means the standard unit of a Container comprising a twenty-foot equivalent Container measuring 20x8x8.5 feet each;
Total Project Cost	"Total Project Cost" means the capital cost incurred on construction and financing of the Project, excluding Port Estate Development, and shall be limited to the lowest of: (a) the capital cost of the Project, less Equity Support as set forth in the Financial Package; and (b) a sum of ₹4,089 crore (Rupees four thousand and eighty nine crore), less Equity Support.
Transfer Date	"Transfer Date" means the date on which the Concession Agreement and the Concession expires pursuant to the provisions of the Concession Agreement or is terminated by a Termination Notice
User	"User" means a person who uses or intends to use the Port or any part thereof on payment of Fee or in accordance with the provisions of the Concession Agreement and Applicable Laws; and includes vessels and vehicles using the Port.