Chapter IV

Compliance Audit Paragraphs of State Public Sector Undertakings

Industries and Commerce Cluster

4.1 Implementation of Projects for Rejuvenation and Revival of Public Sector Undertakings under Department of Industries and Commerce

Despite investing ₹200.17 crore, none of the completed projects performed as envisaged in their respective project reports. Deficiencies in project evaluation, delay in release of funds by Government, diversion of funds by PSUs, deficient project implementation by PSUs *etc.*, led to the non-achievement of intended benefits from the rejuvenation and revival projects.

Introduction

4.1.1 The Industrial Policy 2011 and 2015 of Government of Kerala (GoK) aimed at strengthening Public Sector Undertakings (PSUs) through comprehensive enterprise-specific modernisation/ diversification/ expansion packages and restructuring. In line with this policy, GoK provides financial support through budgetary provision every year for rejuvenation and revival of viable PSUs. During 2014-15 to 2018-19, GoK provided ₹867.35 crore as budget allocation for this purpose. As per the Budget Documents, the Department of Industries and Commerce (Department) through Public Sector Restructuring and Internal Audit Board (RIAB)[32] identifies PSUs for revival. As of March 2021, there were 45 working Government Companies under the administrative control of the Department.

Audit objective, scope and sample

4.1.2 The audit objective was to examine whether:

i. applicable rules and regulations were complied with while implementing projects,

ii. propriety was observed in implementation of projects; and

iii. implemented projects performed as envisaged.

Twenty-nine capital projects (each costing ₹2.00 crore or above) with a total outlay of ₹617.30 crore were implemented or being implemented during 2014-15 to 2018-19 by 18 PSUs under the administrative control of the Department.

[32] RIAB, functioning under the Department of Industries and Commerce, GoK, constituted in 1994, executes State-owned enterprise reform initiatives.

These 18 PSUs had a total accumulated loss of ₹1,501.74 crore as of March 2014. Out of the 29 projects, Audit selected [33] 16 projects of 15 PSUs with a total outlay of ₹484.04 crore. The sample included six completed, eight ongoing and two abandoned projects. Details of the selected projects are given in ***Appendix 20***. The PSUs incurred a total expenditure of ₹279.95 crore up to March 2021 for these projects. Audit covered the activities related to implementation of these projects during the period from 2014-15 to 2018-19. Facts and figures were updated up to March 2021.

Audit criteria

4.1.3 Following criteria were adopted in audit:

i. Administrative Sanction and fund allocation orders issued by GoK,
ii. Detailed Project Reports/ Project Proposals,
iii. Contracts entered into by the PSUs for implementing the projects; and
iv. Stores Purchase Manual issued by GoK.

Audit findings

Post-implementation of rejuvenation and revival projects incurring ₹200.17 crore, the actual capacity utilisation of the plant and facilities ranged between 1.25 *per cent* and 48.75 *per cent* up to 2020-21. Consequently, implementation of projects did not lead to rejuvenation and revival of PSUs as intended. Audit analysed the implementation of projects and findings thereon are summarised under four broad heads *viz*., Project evaluation and approval, Implementation of projects, Release and utilisation of funds, and Operational performance.

4.1.4 Project evaluation and approval

Projects for modernisation/ revival are identified by the PSUs and submitted[34] to RIAB. GoK mandated (1990/ 1993/ 2014) RIAB to analyse the performance of PSUs and recommend on future strategy to be adopted in respect of PSUs and report to GoK. The technical and commercial viability of the projects were evaluated by RIAB and forwarded to the Department. Administrative Sanction to the projects was accorded by a Working Group of the Department based on the recommendation of RIAB.

Audit observed that RIAB/ GoK made changes to the funding pattern of two projects without assessing the impact of such changes on its viability. RIAB/ GoK evaluated project reports without exercising due diligence which led to approval of two projects which had defects such as absence of details of equipment to be

[33] Selected using Stratified Random Sampling Without Replacement method.

[34] Except in the case of Kerala State Cashew Development Corporation Limited and Kerala State Coir Corporation Limited, where the project proposals were not required to be routed through RIAB.

procured and mismatch in project report. Approval of projects by RIAB without ensuring their technical/ commercial feasibility led to either abandonment or under performance of projects, instances of which are detailed below:

4.1.4.1 GoK approved a proposal of The Travancore Cochin Chemicals Limited (TCCL) to increase production capacity of caustic soda plant from 175 Ton per day (TPD) to 225 TPD and achieve energy savings of ₹11.88 crore per year. As per the project report, project cost of ₹65.00 crore was proposed to be funded by GoK grant (₹50.00 crore) and own funds (₹15.00 crore).

Based on the recommendation (August 2014) of RIAB, GoK approved (March 2015) the project with a modified funding pattern *viz*., loan from GoK (₹20.00 crore), loan from financial institution (₹25.00 crore) and own funds (₹20.00 crore). Audit noticed that as of March 2013, TCCL had an accumulated loss of ₹15.17 crore which could materially affect its ability to raise funds. Thus, the change in funding pattern by RIAB was done without assessing the capacity of TCCL to raise funds through loans/ internal accruals. Consequently, though TCCL received (August 2015) ₹10.00 crore from GoK, it could not proceed with the project as funds could not be mobilised internally or from financial institutions. The project was abandoned by TCCL and the envisaged benefits of increased production of 225 TPD and resultant energy savings of ₹11.88 crore per year could not be achieved.

Government replied (April 2022) that the entire net worth of TCCL had eroded as of March 2015 due to which it could not raise internal funds or avail loan from banks.

The reply affirms the fact that RIAB did not assess the ability of TCCL to mobilise funds either through internal resources or borrowing before recommending the project to GoK.

4.1.4.2 The GoK sanctioned (March 2014) a proposal of Kerala State Coir Corporation Limited (KSCCL) for setting up of PVC[35] tufting unit at an estimated cost of ₹39.42 crore. As per the project report, viability of the project was based on funding pattern of promoter's contribution of ₹3.70 crore, GoK grant of ₹34.22 crore and loan funds of ₹1.50 crore.

While sanctioning, GoK, however, modified the funding pattern limiting its contribution to ₹17.00 crore, of which ₹8.00 crore was investment loan. As per the sanction order issued by Government, the remaining funds (₹17.22 crore) were to be raised through internal accruals and bank loan. Audit noticed that as per the latest finalised accounts[36] of the KSCCL available at the time of sanction, they had an accumulated loss of ₹12.92 crore which could materially affect its ability to raise funds. Thus, Government approval was without analysing the ability of KSCCL to raise funds.

[35] Polyvinyl Chloride.

[36] For the year ended 31 March 2010.

Though GoK released (January 2011 to March 2014) its share amounting to ₹17 crore, KSCCL could not raise own/ borrowed funds. KSCCL completed the project by diverting ₹8.15 crore allotted to it by Government for implementing four other projects. Thus, the four projects namely, Defibering unit costing ₹0.94 crore, spinning unit costing ₹1.46 crore, Curling unit costing ₹3.53 crore and Coco Pith Briquetting Unit costing ₹2.21 crore which were beneficial for the traditional coir industry could not be implemented.

KSCCL replied (October 2021) that sanction was accorded (March 2015) by GoK to utilise the unspent amount in treasury account for the projects which received Administrative Sanction, but financial sanction was pending. As the project was in full swing and KSCCL was not getting funds, the amount sanctioned for other projects were diverted as per the above directions of GoK. Reply of Government is awaited.

The reply of KSCCL is not tenable. The Government Order mentioned in the reply was applicable only for those projects for which financial sanction was pending. Hence, the diversion for funds earmarked for other projects was irregular since GoK had released its share for the project for setting up PVC tufting unit.

4.1.4.3 GoK released an amount of ₹22.97 crore between February 2011 and September 2017 to Autokast Limited (AKL) for creation of facilities for steel casting line for manufacturing railway bogies.

Audit noticed that the project report for 'Setting up steel casting line' envisaged supply of bogie to the Indian Railways (Railways) and stated that they insisted on steel melting in an arc furnace. But the project report proposed purchase of induction furnace at an estimated cost of ₹1.75 crore instead of arc furnace. RIAB did not notice this mismatch and recommended the project and Government approved (September 2010) the same. Accordingly, AKL purchased (November 2010) induction furnace under that project. Later, AKL submitted another project report (2017) which included purchase of arc furnace at an estimated cost of ₹2.55 crore and RIAB recommended (May 2017) the same. AKL became (March 2019) eligible for orders from the Railways only after it procured arc furnace under the new project.

Government stated (October 2021) that the project report was prepared based on a joint venture with Railways during February 2009. This did not materialise as Government could not firm up the extent of business association between AKL and the Railways during 2012-13. Hence, the focus was shifted to induction furnace. Later, considering AKL becoming a regular supplier for railway frame casting during 2017, arc furnace was purchased.

The reply is not tenable as the project report submitted by AKL in 2010 proposed purchase of induction furnace while arc furnace was mandatory for meeting requirements of the Railways. The events that led to shifting focus to induction furnace occurred during 2012-13 while GoK approved the project in 2010 itself.

4.1.4.4 The project report for modernisation submitted by Forest Industries (Travancore) Limited (FITL) did not contain the details of machinery and equipment to be procured and the nature of capital works to be undertaken in the factory building. The machinery procured (August 2013 to January 2014) by FITL included machines worth ₹1.14 crore which required technically skilled labour for its operation. Since the project did not envisage requirement of skilled labour for operating the machinery, FITL procured the machinery without ensuring the same. This led to idling of the machinery and resultant blocking up of funds amounting to ₹1.14 crore.

Government replied (April 2022) that there was delay in imparting training to the employees and that corrective action is being undertaken. The reply confirms that project was proposed without assessing the need for skilled labour. Hence, the machinery worth ₹1.14 crore was idling since 2013-14.

4.1.5 **Implementation of projects**

Audit observed deficiencies in the implementation of projects like extension of undue benefit of ₹4.16 crore to the contractor, delay of up to 82 months in completion of projects, non-utilisation of machinery/ equipment, and non-implementation of approved project as discussed below.

4.1.5.1 **Undue favour to contractor**

SAIL-SCL Kerala Limited (SSKL) implemented a TMT bar plant with an annual installed capacity of 65,000 MT. Audit noticed that SSKL issued commissioning certificate (June 2015) and performance guarantee test certificate (June 2016) diluting the contractual terms and without ensuring attainment of performance guarantee parameters as detailed below.

i. As against 95 *per cent* guaranteed conversion efficiency during commissioning, the plant achieved 80.25 *per cent* only. Similarly, the plant did not achieve guaranteed production capacity of 532.55 MT for continuous operation of 72 hours during the commissioning test.

ii. The contractor conducted performance guarantee test from 23/05/2016 to 28/05/2016. The test results indicated that performance tests were conducted for two types of TMT bars against six types as envisaged. Though the agreement stipulated performance guarantee test for a minimum of 700 MT of TMT bars, the contractor conducted tests for 332.284 MT only. Further, the plant did not achieve parameters such as production rate, production yield and furnace oil consumption as guaranteed by the contractor.

As per the contract, SSKL was to levy liquidated damages equivalent to 7.50 *per cent* (₹4.26 crore) of the contract price as the plant did not meet the required parameters. SSKL, however, levied liquidated damages of ₹0.10 crore only. Thus, SSKL accepted the plant though it did not meet the guaranteed technical parameters, without invoking contractual remedies against the contractor.

Government, while accepting (October 2021) the audit observations, stated that SSKL made deductions lesser than required from the contractor due to deviation of data entered in the invoice of the contractor from the records of SSKL. It was further stated that SSKL justified the lower conversion efficiency with unsupported reasons.

The reply is not acceptable because it is silent on the steps taken by SSKL to recover the balance amount of liquidated damages and the steps taken to avoid such instances in future.

4.1.5.2 Delay in implementation of projects

As of March 2021, 12 projects were completed fully or partially and commenced commercial production. There were delays ranging from three to 82 months (***Appendix 20***). Audit noticed that there was delay in completion of projects due to poor project implementation practices such as defective prioritisation of works, non-finalisation of technical specification, deficient assessment of infrastructural requirements *etc*., all of which were controllable factors as discussed in succeeding paragraphs. Audit further observed that for the remaining two projects, the PSUs concerned or GoK did not mention any specific time schedule for completion. Project-wise delay in completion is given in **Table 4.1:**

Table 4.1: Statement showing delay in completion of projects

Sl. No.	Name of PSU	Name of project	Scheduled completion	Actual completion
1	KSDP	Betalactam Injection Plant	March 2013	August 2017
2	KEL	Cast Resin Transformers Unit	February 2014	August 2015
3	SSKL	TMT Bar Rolling Mill	March 2015	June 2015
4	KCCL[37]	High CV Value Capacitors and High Voltage Radial Capacitors	March 2014	January 2015
5	KSCCL	PVC Tufting Unit	December 2014	July 2015
6	AKL	New Steel Casting Line for Manufacturing Railway Bogies	December 2018	February 2021
7	KEL	Power Transformer Unit	April 2014	February 2021
8	KELTRON[38]	Creation of SMT Reflow Facility	August 2018	January 2020
9	UEIL	Facility for Manufacturing LED streetlights and Smart Energy Meters	October 2018	March 2019
10	TKCL[39]	Modernisation of Facilities	September 2018	December 2019
11	SIFL	16 Ton Pneumatic Hammer and Mobile Forging Manipulator	Not fixed	June 2016
12	FITL	Modernisation of Facilities	Not fixed	January 2019

[37] Keltron Component Complex Limited.

[38] Kerala State Electronics Development Corporation Limited.

[39] The Kerala Ceramics Limited.

i. Kerala State Drugs and Pharmaceuticals Limited (KSDP) placed orders for purchase of equipment for injection filling line and air conditioning in December 2012 while orders for civil and electrical works were placed in April 2013 and May 2013 respectively. Though the equipment for air conditioning and injection filling line valuing ₹5.94 crore arrived in March/ April 2013, the injection plant could be commissioned only in August 2017 due to delayed completion of civil works (August 2016) and electrical works (September 2016). Audit noticed that in addition to ₹4.26 crore released (March 2012) by Government, KSDP utilised (as of August 2014) own funds amounting to ₹5.05 crore[40] for the project. As sufficient funds were available, the delay which led to increase in project cost by ₹2.24 crore[41] was not justifiable.

Government replied (April 2022) that civil works had to be retendered due to poor response which resulted in a delay of four months in the initial stage. The project got delayed as Government released ₹4.20 crore against the project cost of ₹9.89 crore. KSDP would ensure that proper prioritisation will be done in future.

The reply is not tenable. KSDP was aware that the civil works, having completion time of five months, would not be completed before receipt of equipment as tenders for civil works could not be finalised at the time of issuing orders for equipment. The reply regarding shortage of funds was not correct as GoK released ₹5.00 crore in November 2014 in addition to ₹4.26 crore released in March 2012.

ii. FITL placed (June 2013) orders for purchase of machineries at a cost of ₹2.88 crore which were supplied between August 2013 and January 2014 as against scheduled supply by 15 September 2013. There was delay in utilising the machineries due to delay in completing civil and electrical works. Further, tools required for commissioning the machineries were procured only in August/ September 2018.

Government stated (April 2022) that defective prioritisation occurred due to lack of expertise and corrective measures were under progress.

iii. GoK released funds in March 2013 (₹4.50 crore) and April 2014 (₹4.00 crore) to Kerala Electrical and Allied Engineering Company Limited (KEL) for implementing Cast Resin Transformer project. The project was to be completed by February 2014. KEL, however, spent only ₹0.22 crore for the project up to March 2014. Audit noticed that changes had to be made in the original design of the factory building. Consequently, the project could be completed only in August 2015. Thus, there was

[40] GoK subsequently sanctioned (November 2014) ₹5.00 crore against this.

[41] Actual cost: ₹12.13 crore *less* Sanctioned cost: ₹9.89 crore.

deficiency in assessing the requirements of building and associated facilities for the project.

Government replied (March 2022) that, in addition to the changes in design of factory building area, additional construction was required to comply with fire and safety requirements which delayed the completion.

The reply confirmed the audit finding. Further, statutory requirement should have been considered while designing the project.

iv. As per work order issued (March 2011) by AKL for Heat Treatment Furnace, the works were to be completed within six weeks. The Heat Treatment Furnace was, however, commissioned only in May 2018, after a delay of seven years due to contractor's failure to complete the works and technical defects in trial runs. AKL had to engage another firm to commission the project after rectifying the technical defects. Audit noticed that the purchase order issued by AKL did not contain the provision for liquidated damages in case of delay in erection and commissioning. The purchase order also did not contain provision for terminating the contract and completing the works at the risk and cost of the contractor in case of their failure to complete the work as required by Stores Purchase Manual.

Government, while accepting the audit observation stated (October 2021) that, in future, specific clause for termination and work completion at the risk and cost of the contractor would be included in works contracts. Further, AKL initiated legal remedies against the contractor and an execution petition was pending before the City Civil Court, Bangalore.

4.1.5.3 Infructuous expenditure

Audit noticed that the machinery procured by two PSUs were not utilised as discussed below:

i. KSDP purchased (March 2013) a bung washer[42] for ₹16.60 lakh which required pure steam for its operation. As KSDP did not ensure the availability of pure steam required for the bung washer, the same could not be put to use and remained idle. KSDP met its requirement for sterile bungs by purchasing ready-to-use bungs. Thus, the entire expenditure incurred for purchasing the bung washer became infructuous.

Government replied (April 2022) that bung washer was not used as presence of endotoxin, which could be fatal, was detected in bungs washed in the bung washer. Bung washer needed pure steam generator, which was not installed in KSDP and ready-to-use bungs were easily available.

[42] As part of Betalactum Injection Plant project.

It was further replied that KSDP was exploring the possibility of pure steam generators installed for another plant to be utilised in bung washer.

Reply of GoK is not tenable. KSDP should have ensured the availability of pure steam required for operating the bung washer before purchasing it.

ii. Kerala State Coir Corporation Limited (KSCCL) procured (April 2014) packing machine for ₹34.22 lakh which was not utilised even though commercial operation of PVC tufting unit commenced in October 2015. Further, KSCCL was aware that the packing unit would remain idle as it did not purchase a finishing unit which was a pre-requisite for operating the packing unit.

KSCCL stated (October 2021) that packing unit was not used, as the finishing unit initially proposed could not be installed due to lack of funds. It was further replied that KSCCL has received sanction from GoK for setting up finishing unit. Reply of Government is awaited.

The reply of KSCCL is not acceptable. The project envisaged a fully automatic tufting unit which included finishing and packing units also. Further, purchase of packing machine without having a finishing unit lacked prudence.

4.1.5.4 Non-implementation of approved project

The proposal of Malabar Cements Limited (MCL) for setting up facilities for bulk cement terminal and logistic hub with capacity of 0.60 Million Tonnes Per Annum (MTPA) at an estimated cost of ₹160 crore was approved (October 2014) by GoK. For implementing the project, MCL took land on lease from Cochin Port Trust. Government released ₹48.67 crore between March 2016 and January 2017 to MCL for the project.

Subsequently, MCL submitted (October 2017) a revised proposal increasing capacity of the proposed facilities to 1.00 MTPA with an estimated cost of ₹275.88 crore. Justification for increasing the capacity was, however, not on record. While examining the revised proposal, Government directed (December 2019) MCL to prepare an alternate proposal in view of declining performance of MCL since 2016-17. Accordingly, MCL prepared (March 2021) a project report, reducing the capacity to 0.30 MTPA with an estimated cost of ₹166.55 crore. The project is yet to be commenced. Thus, due to revision of the project after GoK's approval, MCL could not derive any benefit from the expenditure of ₹66.33 crore[43] up to March 2021.

[43] Payment to Cochin Port Trust towards upfront lease premium and annual lease rent up to March 2021 (₹61.81 crore), preliminary expenses (₹1.09 crore) and interest expenses (₹3.43 crore).

Government replied (April 2022) that MCL incurred losses during 2017-18 to 2019-20 and did not have investible surplus. Therefore, it was proposed to implement the project in a phased manner. Accordingly, MCL submitted DPR for setting up 0.3 MTPA Cement Blending Terminal and Logistics Hub for approval. However, the financial position of MCL is not stable at present to undertake the project.

The reply is not acceptable as it did not state the reason for revising the project after its approval by GoK and for which funding arrangement was already agreed upon by GoK. The reply confirms the audit finding that MCL proposed the revised project without assessing its feasibility.

4.1.6 Release and utilisation of funds

There was delay in release of funds by Government in respect of one project which led to additional expenditure of ₹3.43 crore. It was also noticed that five PSUs diverted funds amounting to ₹21.52 crore for working capital needs, purchase of equipment which were not covered in the project, payment of voluntary retirement compensation *etc*., which was against the conditions of sanction as discussed below.

4.1.6.1 As per Administrative Sanction (October 2014), MCL was to complete bulk cement terminal and logistic hub project in two years without any cost escalation. The estimated cost of ₹160 crore was to be financed by Government by way of interest free loan from Kerala Value Added Tax (KVAT) remittances made by MCL. As per the procedure, the disbursement of interest free loan will be on quarterly basis, starting from April 2015, through a specific budget head for MCL.

Audit noticed that MCL remitted KVAT of ₹64.94 crore between October 2014 and December 2015. But Government did not release funds as envisaged till March 2016. Consequently, MCL availed bank loan of ₹50.00 crore in January 2016 and remitted (January 2016) ₹57.89 crore to Cochin Port Trust towards upfront premium for lease land for the project. MCL received ₹48.67 crore from Government from April 2016 to March 2017 which was used to close the bank loan. In the process, MCL incurred avoidable interest expense of ₹3.43 crore.

The reply furnished (April 2022) by GoK confirmed the facts mentioned above but did not state the reason for delay in release of funds.

4.1.6.2 Audit noticed that the five PSUs diverted funds released by Government for implementing rejuvenation and revival projects for other purposes. The Metal Industries Limited (MIL) and United Electrical Industries Limited (UEIL) diverted project funds amounting to ₹3.78 crore and ₹1.40 crore respectively for working capital needs. TCCL and AKL diverted ₹10.00 crore and ₹5.24 crore respectively for other capital expenditure which were not envisaged in the approved project. These diversions were made without the approval of Government. KEL diverted ₹1.10 crore with the approval of Government for payment of voluntary retirement compensation. These diversions totalled to ₹21.52 crore out of ₹49.25 crore released by Government for implementation of projects. In the case of MIL and TCCL, proposed projects were not taken up.

Government stated (October 2021) that a request of MIL to regularise the diversion was rejected. Regarding AKL, it was stated that the funds sanctioned vide Government Order dated 1/7/2017 was meant for revamping the existing facilities and completing steel casting. Since funds amounting to ₹5.24 crore was used for revamping the existing facilities, there was no diversion. In the case of TCCL, GoK replied (April 2022) that all equipment procured were required as a prelude to modernisation and upgradation. As the funds were used for upstream equipment upgradations, there was no diversion. The reply (April 2022) of GoK in respect of UEIL did not address the finding.

The replies were not tenable as the Administrative Sanction authorised the PSUs to spend Government funds for the proposed project only. In the case of TCCL, the utilisation certificate (October 2017) included equipment worth ₹6.04 crore purchased prior to submission (August 2014) of the project proposal to GoK. As per the details furnished by AKL, ₹5.24 crore was used for urgent repairs of existing line of operation to avoid bottlenecks, due to non-generation of surplus funds from its operation.

4.1.7 Operational performance

Implementation of 12 projects with sanctioned cost of ₹215.05 crore were fully or partially completed as of March 2021 incurring ₹200.17 crore. Performance of completed projects was not reviewed either by the Government or by the PSUs concerned, and the reasons for poor performance remained unaddressed. Audit analysed the performance of eight completed projects and findings thereon are discussed in succeeding paragraphs. Performance of the remaining four projects which were completed between December 2019 and February 2021 was not reviewed since the duration of operation was insufficient to arrive at conclusions.

4.1.7.1 Unfruitful investment

SSKL implemented 65,000 TPA TMT Rolling Mill Project for ₹59.81 crore and the project report envisaged annual net sales realisation of ₹212.97 crore and guaranteed conversion rate (from billet to TMT bar) of 95.00 *per cent*.

Audit noticed that since commissioning (June 2015), the rolling mill was operated for 97 days up to December 2016 and thereafter remained idle due to scarcity of funds to procure billets. The capacity utilisation during this period was 8.95 *per cent* with conversion efficiency of 90.58 *per cent*. Hence, SSKL could achieve net sales realisation of ₹3.92 crore in 2015-16, ₹4.14 crore in 2016-17, ₹0.07

crore in 2017-18 and no revenue thereafter. This increased the accumulated loss of SSKL from ₹34.62 crore in 2014-15 to ₹119.93 crore in 2019-20.

In the absence of skilled employees, SSKL engaged (September 2015) the contractor who supplied the rolling mill to operate the plant. As per the agreement, the contractor was eligible for conversion charges for a guaranteed minimum rolling quantity[44] of billets to be converted as TMT and was liable to ensure production yield of 95.50 *per cent*. As a back-to-back arrangement, SSKL entered (October 2015) into an agreement with Steel Authority of India Limited (SAIL) for conversion of billets into TMT bars at a conversion charge of ₹2,700 per MT with guaranteed yield of 95 *per cent*.

However, the agreement with SAIL did not provide for guaranteed minimum rolling quantity of billets. Hence, adequate input billets could not be made available to the contractor for conversion. As a result, SSKL had to pay conversion charges to the contractor for 37,305 MT though the actual production was 8,690.77 MT only during the currency of agreement, resulting in avoidable payment of ₹2.16 crore. Further, SAIL deducted ₹1.49 crore from the conversion charges paid to SSKL for non-achievement of guaranteed yield. SSKL, however, did not recover this from the contractor though agreement between SSKL and the contractor had a provision for it.

Due to low levels of production, SSKL could not avail input tax credit of ₹3.09 crore on capital goods under Kerala Value Added Tax Rules, 2005 within the stipulated time, *i.e.*, by November 2016. A request (March 2017) of SSKL for refund of unutilised input tax credit was turned down (March 2018) by the authorities concerned citing elapse of time.

Government while accepting (October 2021) the audit observations stated that its appeal with the Taxes Department to refund the unutilised credit was turned down.

4.1.7.2 Technical issues due to prolonged storage of high-end equipment

The equipment for Betalactam Injection Plant received by KSDP in March/April 2013 could be installed only in August 2017 due to delay in completion of civil works. Though trial run of the plant was completed in August 2017, production could be commenced only in December 2018. Capacity utilisation of the plant ranged from 34 to 38 *per cent* of the annual operative capacity up to March 2021. Audit noticed that the delay in commencing production and low-capacity utilisation was due to technical problems[45] of the plant caused by prolonged storage of sensitive and high-end equipment.

[44] Minimum rolling quantity of 3,000 MT per month at ₹850 per MT from September to December 2015; 2,500 MT per month at ₹850 per MT from January to March 2016 and 2,500 MT per month at ₹925 from April 2016 onwards.

[45] Complaints in autoclave, conveyor belt, humidifier, heater power bank, boiler and sealing machine, high temperature in tunnel *etc*.

KSDP received orders worth ₹14.75 crore during 2019-20 and 2020-21. Audit noticed that these supplies were made with delays ranging from four to 18 months due to frequent interruptions in operation caused by technical problems. As a result, payments against supplies made were not received in time leading to blocking up of working capital.

Government stated (April 2022) that any plant would have teething problems while starting up. The supplies were delayed only because of the teething problems which has since been sorted out.

The fact, however, remains that the teething problems were caused by long period of idling of machinery due to inefficient project execution.

4.1.7.3 **Lack of marketing initiative and absence of finishing unit**

The PVC tufting unit of KSCCL achieved average capacity utilisation of 19.04 *per cent* during 2015-16 to 2020-21 as against 85 *per cent* envisaged in project report. Similarly, as against projected sales realisation of ₹430 per square metre of tufted coir mats, the actual sales realisation ranged between ₹258 and ₹345 per square metre during 2015-16 to 2020-21. The price for export sales during this period averaged from ₹515 to ₹532 per square metre.

In spite of having a committed buyback agreement for 60 *per cent* of quantity produced in a year, KSCCL was not able to achieve capacity utilisation of more than 25 *per cent* even after five years. Audit noticed that about 10 to 13 *per cent* of total production was defective and unsaleable. KSCCL, however, did not consider the cost of production of defective mats while fixing the selling price of good quality mats. This resulted in shortage of working capital, which, in turn, affected the capacity utilisation. Further, the PVC tufting unit was selling semi-finished tufted coir mats as it did not have a finishing unit. This limited the scope of selling products other than under buyback agreement.

KSCCL stated (September 2021) that shortage of working capital and high cost of coir yarn affected capacity utilisation. Further, maximum capacity could not be achieved as increasing the machine speed beyond a certain limit[46] would result in higher wastage of material. From February 2021 onwards, as suggested by Audit, total cost of production including wastage was considered for cost estimation. Finishing unit could not be established due to paucity of funds. Reply of the Government is awaited.

The reply is not tenable. As per the sanction order of GoK, KSCCL was responsible for arranging working capital. The technical issue cited in the reply was not reported either at the time of acceptance of the machines or before release of performance guarantee to the contractor, implying that the plant was accepted

[46] The maximum projected capacity was 1,200 m^2 per shift. The maximum capacity achieved was 960 m^2 per shift (*i.e.*, 79 *per cent* of installed capacity).

without ensuring guaranteed technical parameters. Even with the technical limitation, the plant could have achieved up to 79 *per cent* capacity utilisation.

4.1.7.4 Idling of created facilities

UEIL implemented projects for manufacturing smart meters and LED streetlights under rejuvenation and revival scheme.

In the case of smart meter project, UEIL could not commence production as it did not get any orders. Audit noticed that projects for installation of 1.12 crore smart meters were being implemented in 22 States/ Union Territories of which 34.25 lakh meters were installed as on 24/12/2021. UEIL, however, did not participate in any tender for supply of smart meters except a tender invited (September 2018) by Kerala State Electricity Board Limited (KSEBL) in which it did not qualify. In the case of LED streetlights, as against envisaged average production of 1.27 lakh lights *per annum*, UEIL produced only 4,667 lights during 2018-19 to 2020-21, of which 160 units were sold up to March 2021. This resulted in blocking up of funds of ₹1.24 crore. Audit also noticed that during 2018-19 to 2020-21, UEIL executed orders for LED streetlights valuing ₹41.72 crore received from Local Self Government Institutions. As the orders were for specific brands, they were executed through sub-contractors. Further, UEIL did not take up with the GoK or the Department concerned against issuing orders for specific brand which was disallowed by Stores Purchase Manual (Rule 4.1).

Government replied (April 2022) that smart meter production was not commenced as KSEBL did not invite further tenders and all efforts were being taken by UEIL for obtaining orders for smart meters. Further, UEIL was actively marketing their own LED streetlights to achieve planned target and 180 units were sold subsequently.

The reply is not tenable as UEIL did not participate in tenders for smart meters invited by entities other than KSEBL. As the number of LED streetlights sold as of April 2022 was only 7.28 *per cent* of the total production, the efforts taken by UEIL to sell own brand were not adequate.

4.1.7.5 Failure to meet export obligation

Steel and Industrial Forgings Limited (SIFL) implemented a project for replacing 10 Ton hammer which outlived its life with a 16 Ton hammer and a mobile forging manipulator incurring ₹20.99 crore. The hammer was imported under Export Promotion Capital Goods (EPCG) Scheme, 2013 and availed customs duty exemption of ₹4.36 crore. The exemption of customs duty was given under the condition that the Company would export products valuing ₹26.18 crore by September 2019. SIFL, however, achieved export sales of only ₹9.00 crore up to September 2021. A request (January 2020) of SIFL for extension of two years for meeting the remaining obligation was rejected in 2020-21. Hence, SIFL was liable to pay ₹4.36 crore towards customs duty with interest amounting to ₹4.71 crore (up to March 2021).

Audit noticed that SIFL opted for EPCG Scheme to avoid payment of customs duty due to financial constraints without a business plan to obtain more export orders. Further, the Honourable High Court of Kerala suspended continuous operation of the plant for three and a half years (March 2015 to October 2018) as SIFL replaced the existing hammer with a higher capacity hammer which caused high vibration and noise pollution.

Government stated (October 2021) that SIFL was in the process of obtaining extension for another five years for meeting the export obligation and was hopeful of achieving it within the extended period.

The reply is not tenable as the competent authority has already rejected a request of SIFL for extension of two years. Hence, chances of getting extension for five years are remote. Further, the reply was silent regarding the rationale for replacing the existing hammer with a higher capacity hammer.

Conclusion

4.1.8 The project reports submitted by PSUs in respect of four out of 16 projects were cleared by RIAB/ Government without a diligent vetting process. RIAB/ Government also made changes to the funding pattern of the projects without assessing the impact of such changes on its viability. These led to abandonment/ underperformance of projects.

SSKL accepted TMT rolling mill costing ₹59.81 crore though it did not meet the guaranteed technical parameters. SSKL also did not invoke the contractual remedies against the contractor for non-achievement of guaranteed yield. MCL expended ₹66.33 crore for the approved project. Implementation of project did not move forward as MCL revised the project, for which Government approval is awaited. Poor project implementation practices led to non-utilisation of equipment and delay up to 82 months in completion of projects.

The delay in release of funds by Government in respect of a project led to additional expenditure of ₹3.43 crore. Five PSUs diverted funds amounting to ₹21.52 crore for other purposes.

Despite investing ₹200.17 crore, none of the completed projects performed as envisaged in their respective project reports and the intended benefits from the rejuvenation and revival projects did not accrue to the PSUs. Further, performance of completed projects were not reviewed by the Government and the reasons for poor performance remain unaddressed.

Recommendations: Audit recommends that Government may:

- ***Ensure that vetting of the project is based on scientific project appraisal techniques to establish viability of the project.***
- ***Initiate disciplinary action against officials wherever undue favour to contractors/ irregularities were noticed in the implementation of the project.***
- ***Ensure that a mechanism is devised for release of funds based on schedules stipulated for implementation of the project and steps may be taken to avoid diversion of funds earmarked for the project.***
- ***Ensure that ongoing projects are reviewed on priority to resolve the pending issues, if any, and to fast track their implementation.***
- ***Review performance of completed projects to assess the achievement of objectives and to address the reasons for poor performance.***

Transformers and Electricals Kerala Limited

4.2 Avoidable loss

Failure of the Company to incorporate the provisions of performance security in the contract and invoke 'risk and cost' clause against the supplier who did not supply raw material led to avoidable loss of ₹65.42 lakh.

Transformers and Electricals Kerala Limited (Company) is engaged in the manufacturing of heavy electrical equipment such as power transformers, turbines *etc*. The Company placed (December 2016/ January 2017) two purchase orders on Nexus Electro Steel Limited (NESL) for supply of 3,45,632 kg and 6,13,672 kg of Cold Rolled Grain Oriented (CRGO) steel[47] at the rate of ₹143 per kg and ₹129 per kg respectively. As per the terms and conditions of the contract in the event of failure to supply within the stipulated time, the Company was authorised to purchase CRGO steel from elsewhere at the risk and cost of the supplier.

Audit observed that NESL supplied 1,74,300 kg and 1,54,928 kg against the first and second purchase orders respectively with delay ranging from two to 70 days. Since NESL failed to supply the remaining quantity (6,30,076 kg)[48] of CRGO steel, the Company purchased the same from other parties at higher prices and incurred extra expenditure of ₹92.42 lakh (May/ July/ August 2017). The Company deducted liquidated damages of ₹21.72 lakh from NESL for delayed supplies. However, the Company failed to invoke 'risk and cost' clause against NESL when it purchased CRGO steel from other parties though it was an essential requirement for recovering the extra expenditure from NESL. Further, it was noticed that the Company failed to include the provisions of

[47] CRGO steel is one of the major items of raw material used in the manufacture of power transformers.

[48] 1,71,332 kg against first purchase order and 4,58,744 kg against second purchase order.

performance security[49] in the terms and conditions of contract as envisaged by Stores Purchase Manual (SPM) of Government of Kerala. The Company did not obtain performance security of ₹64.30 lakh[50] as required, but retained an earnest money deposit of ₹27 lakh only. Non-recovery of the extra expenditure led to avoidable loss of ₹65.42 lakh[51].

The GoK replied (December 2021) that the Company was at present insisting on furnishing performance guarantee. Due to this, major suppliers were either not quoting or selectively quoting with higher price and were insisting for letter of credit for payment. The smaller suppliers who quote were not giving performance bank guarantee and, in such cases, the only way out was to withhold equivalent amount payable to them. Hence, the Company was finding it difficult to fully enforce the conditions of SPM. It was further replied that NESL went bankrupt unexpectedly and no amount was due to them from which recovery could be made.

The reply is not acceptable as obtaining of performance guarantee is mandated by SPM and is essential to protect the financial interest of the Company in the event of suppliers failing to perform. The unexpected bankruptcy of NESL underscored this requirement. Further, since 'risk and cost' clause was not invoked before purchasing material from other parties, the Company lost the opportunity to recover the extra expenditure through legal recourse.

Recommendation: It is recommended that the Company may strictly comply with the provisions of SPM for procurement.

4.3 Avoidable loss due to quoting price lower than the estimated cost

Quoting a price lower than the estimated material cost resulted in avoidable loss of ₹2.12 crore and avoidable liquidated damages amounting to ₹1.26 crore. Further, an additional expenditure of ₹0.46 crore was incurred due to defective estimation of transportation cost.

Transformers and Electricals Kerala Limited (Company) participated (June 2013) in a tender floated by Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL) for supply of 29 transformers, including 29 Nitrogen Injection Fire Prevention and Extinguishing Systems (NIFPES). The tender conditions specified certain mandatory technical requirements for the transformers. Also, as per clause 3.27.4 of the tender conditions, the prototype had to be subjected to type tests *viz*., Lightning impulse test, Temperature rise test and short circuit test to determine copper loss, at Central Power Research Institute.

As per the procedure prevailing in the Company for participating in a tender, the Design Department estimates the material cost and prepares the technical details. A commercial review of the above is conducted by Marketing Department and a

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[49] Performance security equivalent to five *per cent* of the value of contract.

[50] Five *per cent* of the value of purchase orders, *i.e*., (₹7.92 crore + ₹4.94 crore) x 5 *per cent.*

[51] Extra expenditure: ₹92.42 lakh – Earnest money deposit retained: ₹27.00 lakh.

committee headed by the Managing Director approves the price to be quoted. In the instant case, Design Department estimated (19 July 2013) the manufacturing cost per transformer to be ₹2.58 crore[52]. Material cost of ₹1.68 crore included cost of raw material, components, consumables, packing and NIFPES. The committee headed by the Managing Director reduced the estimated material cost to ₹1.58 crore and excluded labour and overhead costs. The ex-works price per transformer was fixed as ₹1.63 crore. This was done on the ground that Design Department would reduce the cost of material by one *per cent* and Materials Department would reduce the raw material cost by two *per cent* and components cost by six *per cent*. The price quoted by the Company turned out to be the lowest and it was awarded (December 2013) the supply order for manufacture and delivery of 18 numbers of transformers.

Audit observed (August 2016) that the assumption of reduction in material cost by Design Department and Material Department was accepted by the Company without ensuring its feasibility. The cost reduction claim of Design Department was contingent on successful testing of transformers manufactured with reduced quantity of raw material. As the prototype failed to meet the required technical specifications, Design Department had to redesign the transformer which resulted in increased material cost. Similarly, the cost reduction claim of Material Department was based on the assumption that material could be procured at discounted price owing to high volume. The Company, however, could not resort to bulk purchase due to financial constraints. An analysis of sales realisation from the above purchase order revealed that the total sales price failed to recover even the material cost, resulting in a loss of ₹2.12 crore[53].

The purchase order (31 December 2013) from RRVPNL required to supply the first unit within six months from the date of purchase order and two units per month thereafter. Accordingly, the supply had to commence from 30 June 2014. Though a prototype was developed in June 2014, it did not meet the required specifications. Hence, the first unit could be delivered only in December 2014. This delayed the supply of remaining units and the last unit was supplied in May 2016. Due to the delay, RRVPNL deducted liquidated damages amounting to ₹1.26 crore in March 2017.

While quoting in the bid, the Company estimated the transportation cost based on cost of mechanical trailer though mechanical trailer could not be used as per notification[54] issued by Ministry of Road Transport and Highways. Eventually, the Company had to use hydraulic trailer to supply the transformers which resulted in extra expenditure of ₹0.46 crore. Thus, the Company incurred a loss of ₹3.84 crore (*i.e.*, ₹2.12 crore + ₹1.26 crore + ₹0.46 crore) while executing the above supply order.

The Government replied (February 2022) that due to market conditions at the time of tendering, the Company was not having sufficient orders and was not able

[52] Material - ₹1.68 crore, labour - ₹0.40 crore and overheads - ₹0.50 crore.

[53] Total sales realisation *less* material cost.

[54] Notification No. 728 (E) S.O. 517 (E), dated 26/05/2000.

to feed the shop. There were no major orders in the medium capacity category. The Company needs a combination of product mix: small, medium and large transformers to cross break-even. Due to this, RRVPNL contract was undertaken by the Company in a thin margin with the expectation of achieving benefits of design improvement and bulk procurement. However, the project had to face multiple hurdles before its completion.

The reply is not acceptable as executing orders at a price lower than the estimated material cost for achieving desired product mix leads to cash loss. Further, a Committee of the Board of Directors, after enquiring into the matter, reported (June 2019) that the price (₹1.63 crore) quoted by the Company was not based on any cost considerations and the claims of reduction of cost per transformer from ₹2.58 crore to ₹1.63 crore by way of reduction in material content and savings through bulk purchase was not based on factual data.

Recommendation: Since the management decision was not based on any factual data, responsibility may be fixed. It may also be ensured that price to be quoted in tenders are finalised based on realistic cost estimates and factual data.

Kerala State Drugs and Pharmaceuticals Limited

4.4 Undue benefit to contractor

Non-inclusion of appropriate clause in the tender document for regulating the recovery of interest free mobilisation advance as per CVC guidelines and allowance of excess payment of interest free advance resulted in extension of undue benefit of ₹32.65 lakh to the contractor.

Kerala State Drugs and Pharmaceuticals Limited (Company), engaged in the manufacturing and supply of essential and lifesaving medicines, issued (30 December 2017/ 10 January 2018) two work orders[55] for ₹8.81 crore to Ashrae Clean Room Presentation Private Limited (contractor). The Company released (February 2018) an advance payment of ₹2.64 crore, *i.e.*, 30 *per cent* of value of work orders, to the contractor against bank guarantee for an equivalent amount as per the terms and conditions of the tender. The works were to be completed within 90 days from the date of work orders, *i.e.*, by 30 March 2018 and 10 April 2018 respectively.

To regulate recoveries of advances, the Central Vigilance Commission (CVC) issued guidelines (10 April 2007), which *inter alia*, provides that interest free mobilisation advance should not be encouraged. Any mobilisation advance extended to contractors should be recovered in a time bound manner without linking the same with the progress of work. Further, each of the proposed recovery instalments should be covered by bank guarantee so that at any point of time,

[55] (i) Supply, installation, commissioning and validation of heating, ventilation and air conditioning works (₹3.92 crore) and (ii) Supply, installation and commissioning of clean room panel works using pre-coated galvanised iron panels (₹4.89 crore) for the Non-Betalactam Plant.

recovery of advance could be ensured. The CVC guidelines (17 February 2011) further provided that bank guarantee taken towards security of mobilisation advance should be at least 110 *per cent* of the advance so as to enable recovery of not only principal amount but also the interest portion, if so required. A clause in tender enquiry and the contract of cases providing for interest free mobilisation advance may be stipulated that if the contract is terminated due to default of the contractor, the mobilisation advance would be deemed as interest bearing advance at an interest rate[56] to be compounded quarterly.

The tender conditions specified that no mobilisation advance shall be paid, but the terms of payment in the tender provided for payment of advance. The Company, however, neither stipulated the mode and period of recovery of mobilisation advance nor the rate of interest in case of delayed recovery of mobilisation advance. Recovery of advance was, hence, linked with the actual progress of the work. The Company also did not comply with the CVC guidelines (17 February 2011) on inclusion of a clause in the tender enquiry for treating the interest free advance as interest bearing in the event of termination of the contract due to default of the contractor.

The contractor failed to complete the work in stipulated time and the contract was terminated (September 2021). Out of the advance amount of ₹2.64 crore, the Company could recover ₹2.09 crore through running account bills till September 2020 after 815 days in respect of the first work order and 860 days in respect of the second work order[57]. The balance amount was recovered by encashing (August 2021) bank guarantees maintained against the advance and the full recovery was completed after 1,188 days. Non-recovery of advance even after the stipulated period of completion of works led to extension of undue benefit of ₹32.65 lakh[58] to the contractor up to August 2021.

As per the tender conditions, an advance of 30 *per cent* of the basic value of the equipment to be supplied was to be paid along with the work orders, while no advance was to be paid for erection.

It was noticed that as per the work orders issued to the contractor, the basic value of equipment to be supplied in respect of the work orders dated 30 December 2017 and 10 January 2018 was 90.25 *per cent*[59] and 89.46 *per cent* respectively of the total value of work. Accordingly, the contractor was eligible for advance amounting to ₹2.37 crore. The Company, however, paid advance equivalent to 30 *per cent* (₹2.64 crore) of the total value of work orders. This led to excess payment of advance amounting to ₹0.27 crore to the contractor.

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56 To be stipulated depending on the prevailing rate at the time of issue of tender enquiry.

57 Calculated from 07 May 2018 for the first work and from 12 May 2018 for the second work, *i.e*, after 90 days from the date of payment of advance as the work was to be completed in 90 days as per work order.

58 Calculated based on the rate of interest (9.50 *per cent*) at which the Company availed loans from the GoK. The undue benefit was calculated on the amount of advance outstanding after 90 days of payment of advance, *i.e.*, from 07 May 2018 for the first work and from 12 May 2018 for the second work.

59 Based on revised work order dated 12/05/2018.

Government replied (March 2022) that since advance was clearly stated in the tender document which was available to all prospective bidders and tender document was silent on interest on advance, no undue benefit was extended to any particular contractor. The Company informed Government that based on the audit observation, all advance payments to suppliers were made interest bearing.

The reply is not acceptable as Audit has not objected to extending interest free advance to contractors. The audit finding is about linking the recovery of interest free advance with the actual progress of work, which was not consistent with the CVC guidelines. Further, the risk of misuse of such advances by contractors proved beneficial to the contractor due to the non-completion of the project. The reply was silent on the excess payment of advance to the contractor.

Thus, non-inclusion of appropriate clause for recovery of interest free advance in a time bound manner as per CVC guidelines resulted in extension of undue benefit of ₹32.65 lakh to the contractor.

Recommendation: Government may direct PSUs to strictly adhere to guidelines of Central Vigilance Commission regarding granting and recovery of interest free advance to contractors.

Power Cluster

Kerala State Electricity Board Limited

4.5 Loss of Central Government assistance

Non-maintenance of records relating to payment of SGST under Saubhagya scheme led to loss of grant of ₹7.30 crore. Failure to provide LED lamps to BPL households under DDUGJY scheme resulted in deprival of benefit.

Government of India (GoI) launched (December 2014) 'Deen Dayal Upadhyaya Gram Jyoti Yojana' (DDUGJY) scheme for rural electrification. Another scheme *viz*., 'Pradhan Mantri Sahaj Bijli Har Ghar Yojana' (Saubhagya) was launched (September 2017) by GoI for universal household electrification. REC Limited (REC) was the Nodal Agency for operationalisation and implementation of the schemes.

The approved project cost of DDUGJY in the State of Kerala was ₹485.37 crore and that of Saubhagya was ₹90.00 crore. The funding pattern for the schemes was envisaged as 60 *per cent* GoI grant, Utility share of 10 *per cent* and remaining 30 *per cent* by way of borrowing from financial institutions. Kerala State Electricity Board Limited (KSEBL) completed (September 2018) Saubhagya works and submitted (February 2020) Closure Report to REC for ₹95.75 crore. Similarly, KSEBL completed (September 2019) DDUGJY works and submitted (September 2020) Closure Report for ₹507.03 crore. REC approved the closure reports for ₹88.45 crore and ₹493.03 crore for Saubhagya and DDUGJY schemes respectively.

4.5.1 Loss of grant in Saubhagya scheme

REC informed (February 2019) KSEBL that wherever State taxes/ State Goods and Services Tax (SGST) included in the project cost has not been informed by Project Implementing Agency, a provisional amount of State GST at the rate of nine *per cent* would be withheld from project cost for calculating the eligible claim amount. On receipt of actual State taxes/ SGST amount in the final execution cost during closure of projects, the same would be adjusted suitably while releasing final instalment. In cases where the Project Implementing Agency provided the segregation of State taxes/ SGST from project cost, the same would be deducted from project cost for calculation of eligible subsidy amount.

Audit noticed that the Closure Report for ₹95.75 crore submitted by KSEBL to REC showed the amount of State tax/ SGST as 'Nil'. Based on the Closure Report, REC approved (August 2020) the final project completion cost for ₹88.45 crore after disallowing ₹7.30 crore towards State tax/ SGST. KSEBL was not maintaining separate details of GST (CGST and SGST) incurred by it for purchasing materials. Hence, it was not in a position to furnish relevant details to REC along with the Closure Report which resulted in disallowance of ₹7.30 crore.

Government replied (February 2022) that reconnection of households de-electrified during flood was carried out under mission mode within a short period by using the material already available in different stores and locations. Hence, it would be difficult to extract the State tax amount in respect of purchased material and get it audited for submitting documentary evidence for claiming State tax.

The reply was not tenable as inability of KSEBL to account for the payment made against State tax/ SGST resulted in losing substantial amount of subsidy. Besides, KSEBL had sufficient time to compile State tax/ SGST as Closure Report was submitted in February 2020, after 17 months from the completion of works.

4.5.2 Loss of grant in DDUGJY scheme

As per the Tripartite Agreement with REC for implementing DDUGJY, GoK and KSEBL agreed to provide free electricity connections with LED lamp or other better innovative energy saving lamp to Below Poverty Line (BPL) households under DDUGJY. For this, 100 *per cent* subsidy was available at the rate of ₹3,000 per connection.

Audit noticed that claim of KSEBL in the Closure Reports ranged from ₹2,700 to ₹1,700 for providing free service connection to each BPL household. Considering that the maximum allowable amount under the scheme was ₹3,000 per connection, KSEBL could have provided LED lamps costing minimum ₹300 per connection. But KSEBL did not provide LED lamps to the 1.27 lakh BPL households to whom service connections were provided under the scheme which resulted in loss of GoI subsidy of minimum ₹3.81 crore[60]. Consequently, the BPL households were deprived of the benefit of receiving LED lamps free of cost under the scheme.

Government replied (February 2022) that even though LED lamps were not made available at the time of giving service connection, the same were provided subsequently to BPL households.

The fact, however, remains that omission on the part of KSEBL resulted in loss of opportunity to avail GoI subsidy under DDUGJY scheme. Further, the reply was not specific as to whether subsequent supply of LED lamps covered all the beneficiaries identified under DDUGJY scheme.

Recommendations: Government may:

- ***Ensure that all the required data are compiled and documents prepared while implementing Centrally assisted schemes so as to claim eligible grant.***
- ***Ensure that all components of a scheme are implemented to ensure that the envisaged benefits reach the target group and to avail maximum eligible grant from Government of India.***

Thiruvananthapuram,
The 02 February 2023

(Dr. BIJU JACOB)
Principal Accountant General (Audit II), Kerala

Countersigned

New Delhi,
The 08 February 2023

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

[60] 1,27,196 connections @ minimum ₹300 per connection.