CHAPTER V

COMPLIANCE AUDIT PARAGRAPHS

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Misappropriation/Fraud

5.1 Embezzlement of funds allotted by Thiruvananthapuram Municipal Corporation for micro business activities

Lack of exercise of due care in ascertaining the genuineness of beneficiaries and in overseeing the mode of implementation of a loan-linked project by Thiruvananthapuram Municipal Corporation resulted in misappropriation of ₹5.79 crore through release of subsidy amount to persons who had not availed any loans.

The Subsidy Guidelines issued (February 2018) by Local Self Government Department (LSGD) laid down that Joint Liability Groups (JLGs)[86] comprising five women members, could start micro business ventures by availing loan from banks. The JLGs had to open loan-linked accounts in banks, to which the subsidy amount would be provided as a back-ended[87] subsidy which shall be adjusted for loan closure considering loan repayment by JLG in instalments. In line with the above instructions, Thiruvananthapuram Municipal Corporation (TMC) included two projects each in 2020-21 and 2021-22, for providing self-employment to women by releasing back-ended subsidy (85 *per cent* of the loan amount) to JLGs. The maximum amount that could be released to each JLG from the Development Fund of the Corporation was ₹three lakh. The Industrial Extension Officer (IEO) was the implementing officer of the project. Two IEOs held charge as implementing officers during the period 2020-2022.

The project amount was released to 119 General groups and 33 Scheduled Caste (SC) groups in 2020-21 and 38 General groups and 25 SC groups in 2021-22. Thus, an amount of ₹4.56 crore and ₹1.89 crore was shown as back-ended subsidy released by TMC in 2020-21 and 2021-22 respectively. The list of JLGs, prepared by the ward committees and approved by the Corporation Council was also furnished by TMC to the IEOs.

Kerala State Audit Department (KSAD), in its Corporation Audit report for the year 2020-21[88] issued to TMC in July 2022, had raised red flags with respect to genuineness in selection of SC beneficiaries, actual receipt of loan by JLGs, qualification of age criteria, etc., in 2020-21 and sought for

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86 Joint Liability Group is a group of 4-10 people of the same village or locality of homogenous nature and of the same socio-economic background who mutually come together to form a group for the purpose of availing loan from a bank without any collateral.

87 Back-ended subsidy is the assistance released by Government to the bank, on successful utilisation of loan availed by the beneficiary from bank and used for closure of loan account after repayment of due share of the beneficiary.

88 The inquiry based on an FIR lodged by the Mayor, TMC on the basis of KSAD report, on availing of subsidy by providing forged document to prove SC status, is in progress.

additional documents for investigation. The Secretary, TMC had conveyed (April/July 2022) these objections to IEO/Director of Industries, Thiruvananthapuram. In reply, IEO stated that only limited number of days could be availed for undertaking verification of documents, correspondence with banks, documentation, field level inspection of functional units, etc. It was also stated that being the sole official in charge of multiple tasks, he could not effectively discharge scrutiny at various levels, which led to shortfalls going undetected.

Audit[89], on suspecting forgery[90] of caste certificates presented in support of eligibility of SC beneficiaries in 2021-22 also, subjected the entire trail of transfer of funds from TMC to JLGs through IEOs from 2020 to 2022 to detailed scrutiny. The infringement of stipulated procedures as revealed in audit analysis of records of TMC, IEO and various banks (Appendix 5.1) to which funds were credited, is detailed in the ensuing paragraphs:

The guidelines for annual plan preparation under the five-year plans - subsidy and allied topics - issued by LSGD in April 2017 stipulated that when activities are undertaken by individuals and beneficiary groups, the implementing officer should conduct inspections and ascertain the quality and suitability of the project before releasing subsidy amount to the banks. The implementing officer should also ensure that self-employment ventures and group initiatives of beneficiaries have complied with the guidelines as well as terms and conditions of the scheme, before releasing the subsidy. The working group convened by the implementing officer was to take lead role in the plan formulation in the sector concerned and facilitate discussions on project execution in ward sabhas and other meetings.

Endorsing the essence of the above guidelines, Secretary TMC instructed (April 2022) that the IEOs, being the implementing officers, had to obtain quarterly performance report and receipt/expenditure details of groups receiving subsidy, verify them and ascertain the functioning of these units. They were also required to submit detailed report on functioning of JLGs to Development Standing Committee of the Corporation, once in three months. Before transferring subsidy amount to the banks, IEO was to ensure that the JLGs had opened loan-linked accounts in the banks and have availed loans from these banks for starting micro business ventures.

Audit observed that the IEOs failed in complying with the above stipulations by disregarding the fact that the JLGs had opened Savings Bank (SB) accounts in place of loan accounts in the Service Co-operative Banks (SCB), and that they had not availed any loans from these banks

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89 As the paragraph also mentions the State audit agency, 'KSAD' stands for State audit and 'Audit' denotes AG Audit

90 The SC certificates produced before Audit in different case files were *prima facie* forged, as they were not original documents but photocopies bearing image of the seal and signature of Tahsildar copied from an old certificate issued by Taluk office. Audit also came across discrepancies like overwriting and scoring off of names/caste name, signatures of three different Tahsildars appearing in certificates issued on the same date, etc.

(except in 10 out of 215 cases). The above lapse on the part of IEOs can only be regarded as deliberate, from the specific request made (March/April 2022) by IEO to the Secretary, Kovalam SCB to disburse the subsidy amount transferred to banks, to the SB accounts of JLGs in nine cases. On JLGs opening the SB accounts, the bank intimated this fact to IEO. Audit compared the original letter sent by the Manager of the bank and copy of this letter filed in IEO's records. It was observed that the letter in IEO's file was a forged form of the original one, misrepresenting that the JLGs have opened loan-linked accounts. This seems to be deliberately done to facilitate transfer of subsidy to the bank accounts of JLGs.

Audit cross-verified randomly, the original beneficiary lists of 19 JLGs (2020-21) and all 63 JLGs (2021-22) filed in People's Plan wing of TMC with details of beneficiaries in the records of IEO/bank documents and found that the names of beneficiaries who opened accounts in banks were different from the beneficiaries included in the original list approved by TMC in 19 and 31 cases respectively.

Based on these forged documents, IEO facilitated (January 2021 to March 2021 during 2020-21 and December 2021 to March 2022 during 2021-22) transfer of subsidy amount from District Treasury, Thiruvananthapuram, through the accounts of SCBs[91], to the SB accounts of 205 JLGs[92]. Thus, the subsidy amount was routed to the bank accounts of JLGs, despite the JLGs not availing any loan from the banks. Audit also came upon instances wherein IEOs irregularly transferred[93] the subsidy amount directly to the accounts of JLGs, instead of transferring it to banks as back-ended subsidy.

Audit further analysed the trail of funds released as subsidy to banks and noted that funds to the tune of ₹5.34 crore credited to the bank accounts of JLGs were transferred to three different bank accounts in the name of the sole proprietor of M/s Aswathy Suppliers, supplying sewing machines and accessories. Subsequent joint meetings/telephonic interviews conducted (November 2022) by Audit in the presence of TMC officials with the members of JLGs who opened accounts in the banks disclosed that the members of JLGs were not even known to each other and had not become part of any joint micro business ventures.

Thus, the failure of TMC in ensuring accrual of scheme benefits to eligible beneficiaries, and effectively monitoring scheme implementation through the implementing officer in the manner envisaged in Plan formulation and subsidy guidelines resulted in blatant violation of the above instructions and possible siphoning of public money through suspected fraud and forgery. Consequently, the subsidy amount of a loan-linked scheme was wrongfully claimed by persons who did not avail any loans/start micro

[91] Maintained in Kerala Bank and ICICI Bank

[92] 151 (2020-21) + 54 (2021-22). 10 cases in 2020-22 were found to be genuine.

[93] Using his DDO code (implementing officer) through the web Saankhya software

business ventures. Funds to the tune of ₹5.79 crore[94] were misappropriated during 2020-2022, in addition to ₹33 lakh remaining blocked up[95] in two bank accounts. Responsibility should be fixed on the incumbent IEOs for wilful negligence of duties entrusted and recovery of misappropriated funds effected from them.

On Audit intimating details of embezzlement, Secretary TMC apprised (January 2023) that TMC has sought explanation from both IEOs and that the issue has been reported to the Director of Industries for initiating departmental action against them.

The matter was reported to Government (February 2023). No response has been received (December 2023).

Audit recommends that: Local Self-Government Institutions (LSGIs) should exercise utmost care and caution to ensure that the funds released to implementing officers for pursuing projects, reach eligible beneficiaries as envisaged. Due diligence in effective monitoring is crucial in guarding against embezzlement of public money. Arrangements may be made to investigate the matter by appropriate agencies to ascertain the actual extent of monetary loss to TMC and enable stringent action against the defrauders who siphoned off public money.

Unfruitful expenditure

5.2 Unfruitful expenditure on purchase of looms

Defective planning and lack of feasibility study by District Panchayat, Kasaragod and the Project Officer, District Khadi and Village Industries Office, rendered expenditure of ₹44.01 lakh incurred on the purchase of 45 new looms for installation in Khadi weaving centres in the district infructuous.

District Panchayat (DP), Kasaragod formulated a project in the annual plan for the year 2017-18 for the purchase and installation of 100 looms and allied equipment in the existing/new units of Payyannur Khadi Kendra under the Kerala Khadi Rural Industries Board (Khadi Board). The project also aimed at providing employment to 100 women beneficiaries selected by the DP and for promoting the use of Khadi. The Project Officer, District Khadi and Village Industries Office, Kasaragod was the implementing officer of the project.

The Grama Panchayats (GP) in the DP were to forward the names of locations where weaving units were to be formed and looms received were to be installed. The Director, Payyanur Khadi Kendra was to select beneficiaries from the lists forwarded by GPs as well as from applications received directly. The selected

[94] ₹5.34 crore (Aswathy Suppliers)+₹0.18 crore (wrong transfer)+₹0.27 crore (direct withdrawal as cash)

[95] Due to Managers of some banks raising concerns regarding transparency in mode of disbursement/withdrawal which made them reluctant to disburse amounts and wrong account numbers mentioned in contingent bills.

beneficiaries were to be trained for six months in operating the looms and paid stipend during the period by Khadi Board.

Scrutiny of records revealed that the DP sanctioned ₹1.09 crore from its Development Fund for purchasing the looms and allied equipment. The work was allotted to RAIDCO[96] being the lowest bidder at ₹97.48 lakh and supply order issued (February 2018) by the implementing officer with date of completion of supply as 20 March 2018. An agreement was executed between RAIDCO and the implementing officer on behalf of the DP on 17 March 2018 and ₹29.24 lakh was given as advance to RAIDCO on 20 March 2018. As the supply order was given at the fag end of the financial year and there was delay in finalisation of subsidy rate, RAIDCO requested extension of time of over three months[97] for the supply of all looms. Consequently, the work was carried over to 2018-19 as spillover project for a total sum of ₹97.81 lakh.[98]

Joint verifications conducted (April/October/December 2022) by Audit in 14 selected units along with the implementing officer revealed that, of the 100 looms purchased and installed[99], 45 were not functional and idling in nine units for want of trainees in eight units and dearth of operational space in one unit. The amount of ₹44.01 lakh[100] spent on these machines was thus wasteful. In six units, 31 old looms were replaced by new looms, of which five looms were idling, due to non-availability of trainees/space.

Audit observed that the execution of the project was marked by deficiencies as listed below:

- Despite the date of completion being extended by the DP upto 30 August 2018, the supply of looms could be completed by the vendor in March 2019 only. However, no deduction was effected from the vendor for delayed supply, as stipulated in the agreement[101] executed between RAIDCO and the implementing officer.
- The Director, Payyanur Khadi Kendra had informed (July 2018) the implementing officer that only after erection of the looms it would be possible to ensure that the looms were functional. The agreement as well as supply order also spelt that the payment to the vendor was to be effected only after installation and successful operationalisation of looms. Even though the spare parts needed for assembling the machines

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96 Regional Agro-Industrial Development Co-operative of Kerala Limited

97 The looms were to be supplied before 20 May 2018. RAIDCO requested extension of time till 31 July 2018 and further till 30 August 2018

98 Including advertisement charges of ₹32,805

99 Audit noticed during joint verification in October 2022 that though the looms were claimed as installed, in many units they were only assembled without fitting frame sets. In some units, the iron looms in use were seen replaced by the newly purchased wooden looms

100 ₹97,810 (unit cost) x 45

101 Para 5(b) of the agreement states that, if the contractor fails to deliver the stores or perform the service within the time/period specified in the contract, the purchaser shall deduct from the contract price as liquidated damages, a sum equivalent of 0.5 *per cent* or one *per cent* of the delivered price of the delayed stores/services for every week upto a maximum deduction of 10 *per cent* of the contract price

were supplied only in March 2019, the entire payment was authorised to RAIDCO on three occasions[102] without ensuring that the machines were fully installed and made functional.

- The security deposit of ₹4.87 lakh collected to ensure the completion of project by the supplier was released (January 2022) to RAIDCO by the implementing officer without ensuring successful installation of all the looms purchased.
- Of the 57 women who were trained (2018) to operate the looms[103], only 28 continued on the job. The remaining women did not prefer to pursue the work, as they were offered lesser wages in comparison to wages under schemes like MGNREGS[104]. Though Payyannur Khadi Kendra had requested the GPs to provide trainees, no favourable response could be elicited.
- The DP/implementing officer had not assessed the adequacy of space and facilities available in the units suggested by GPs. This resulted in newly purchased looms left in dismantled condition for months, and looms being shifted to new premises/buildings for installation. Buildings proposed for other activities[105] were seen selected for the purpose, which was objected to by the GPs.

Thus, defective planning and improper execution of the project by the DP/implementing officer resulted in unfruitful expenditure of ₹44.01 lakh from the Development Fund of the DP. Out of the 55 functional looms, 24 had been made functional only after Audit pointed out the status (April 2022). Further, the DP had not conducted any feasibility study to assess the actual requirement of looms, possibility of attracting trained workers and availability of space for installing the looms, before finalising the project.

Government stated (November 2022) in reply that while taking stock of the situation, 44 looms seems to be under the verge of shutdown which is mainly owing to the lack of sufficient trainees, on account of negligible wages/stipend. It was also informed that low remuneration discouraged workers from undertaking the work and that women employees did not have the basic facilities in the work site.

The justification of Government is not acceptable, as the DP had failed to carry out a feasibility analysis which would have highlighted these problems and enabled to take suitable action before going ahead with the project. The DP had purchased 100 looms with the aim of providing employment to 100 newly trained women, besides promoting the use of khadi. However, the project has failed to meet its objectives due to poor planning and faulty implementation.

[102] August 2018, December 2018 and March 2019
[103] The women were trained in using old looms as the new looms were not purchased and supplied at the time of training.
[104] Mahatma Gandhi National Rural Employment Guarantee Scheme
[105] Madikai GP requested (May 2022) to dismantle 12 looms idling for want of trainees in their Shishumandir building, so as to start functioning of Shishumandir.

Audit recommends that LSGIs may conduct feasibility studies before venturing on projects and assess the scope of fruitful implementation with respect to availability of space and skilled workers, financial viability, etc.

Non/short realisation

5.3 Short realisation of Permit fee for additional floor area

Failure in adopting maximum permissible Floor Area Ratio of the most restrictive occupancy while calculating permit fee of a multiple occupancy building led to short realisation of ₹39.57 lakh by Thrissur Municipal Corporation.

According to Rule 31(1) of the Kerala Municipality Building Rules, 1999 (KMBR), the Floor Area Ratio[106](FAR) value shall limit the maximum buildable floor area. As per Rule 11(3) of KMBR, building permit shall be issued on remittance of permit fee as prescribed in Schedule II and if the FAR exceeds the maximum permissible limit, additional fee shall be levied as specified in Table 2 under Rule 31(2) of KMBR. The additional fee was to be charged at the rate of ₹5,000 per square metre[107](sq.m) of additional floor area.

Scrutiny of records by Audit at Thrissur Municipal Corporation (TMC) during February-March 2021 revealed that TMC, while issuing the building permit, had underassessed the additional fee for the floor area which was in excess of the maximum permissible FAR as detailed below:

The Corporation issued a revised permit (April 2018) to construct a Commercial (F) cum Special Residential (A2) building having a plinth area of 7,921.86 sq.m in a plot of 1,583 sq.m (0.1583 hectares[108]). The proposed building had ten floors[109] with a total floor area of 6,142.94 sq.m. The FAR of the building worked up to 3.88[110]. As per the revised permit, the building accommodated shops (Commercial (F) occupancy) and a dormitory (Special Residential (A2) occupancy). As per KMBR, maximum permissible FAR without additional fees for Mercantile/Commercial (F) buildings was 3.0 and that for Special Residential (A2) buildings was 2.5.

Note (ii) under KMBR Rule 31(2) stipulates that, in the case of a building which accommodates more than one occupancy, if the plot area is upto 0.5 hectares, the maximum permissible FAR to be adopted shall be that of the most restrictive occupancy[111]. In this case, the Special Residential (A2) occupancy, with the maximum permissible FAR without additional fees being 2.5, was the most

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[106] Floor Area Ratio (Floor Space Index with effect from 24 September 2020) is the quotient obtained by dividing the total floor area on all floors of the building by the area of the plot.

[107] With effect from 31 October 2017

[108] One square meter is equal to 0.0001 hectares.

[109] Two basement floors, ground floor and seven floors, of which ground floor and six floors accommodated shops and the seventh, a dormitory.

[110] 3.88 = 6142.94/1583

[111] If the different occupancy uses in the multi-occupancy building happens to have the same Floor Space Index, then the occupancy use with minimum coverage will be taken as the most restrictive occupancy.

restrictive occupancy. The maximum permissible floor area without payment of additional fee works out to 3,957.5 sq.m[112]. Therefore, additional fee to be realised for the floor area in excess (2,185.44 sq.m) was to be ₹109.27 lakh[113]. However, the Corporation chose the maximum permissible FAR corresponding to Commercial (F) occupancy for calculating the permit fee. Accordingly, permit fee of ₹70.76 lakh[114] only was collected from the applicant. The money value of short-assessment due to failure in adopting FAR corresponding to the most restrictive occupancy while issuing revised permit amounted to ₹39.57 lakh[115].

When the above issue was brought to notice, TMC replied (February 2022) that on Audit pointing out the irregularity, notice has been issued to the party concerned. Government replied (December 2022) that as per instructions of audit, the amount of ₹39.57 lakh was reported to have been remitted to the own fund of the corporation.

Audit recommends that Government/Director of Urban Affairs may issue instructions to all Local Self-Government Institutions to review the cases of reckoning of maximum permissible Floor Area Ratio of multiple occupancy buildings in their jurisdiction, and to adhere to the prescribed methodology in fresh cases.

Regularity issues

5.4 Irregularities in release of Technology Fund

Non-compliance of eligibility conditions stipulated in the Guidelines for release of Technology Fund by Kudumbashree Mission resulted in selection of ineligible micro enterprises to whom Technology Fund amounting to ₹1.07[116] crore was released. Failure of District Mission Coordinators in Malappuram and Thiruvananthapuram in adhering to prescribed financial limit for sanctioning of projects resulted in ineligible release of ₹11.50 lakh to three Self Help Groups.

Micro Enterprise (ME) promotion and development was one of the significant strategies of Kudumbashree Mission to facilitate economic empowerment. Specific strategies in this regard include imparting trainings, providing partial financial support, arranging facilities for market support, etc. Technology fund is the assistance given to the Kudumbashree ME units/consortium of ME units for installing advanced technologies and machineries, thereby increasing their production capacity and improving income from business. An amount not

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[112] Plot area 1583 sq.m multiplied by FAR 2.5 i.e. 3957.5 sq.m is the maximum permissible floor area without payment of additional fee for Special Residential (A2) buildings category.

[113] (6142.94 sq.m - (1583 sq.m x2.5)) x ₹5,000 = 2185.44 sq.m x ₹5,000 = ₹1,09,27,200.

[114] Inclusive of additional FAR fee of ₹69,70,000, i.e., (6142.94 sq.m - (1583 sq.m x3.0)) x ₹5,000 = 1393.94 sq.m x ₹5,000

[115] Short demand = ₹1,09,27,200 - ₹69,70,000 = ₹39,57,200

[116] ₹81.47 lakh (amount released to MEs without registration) + ₹25.76 lakh (amount released to MEs without minimum period of existence)

exceeding 40 *per cent* of the total project cost[117] would be released by District Mission Coordinators (DMC) based on the application submitted before the Community Development Society (CDS) of Kudumabshree. Any amount exceeding ₹five lakh shall be submitted to the State Mission for approval. The balance project cost shall be met by the units through bank loan, beneficiary contribution or through any other financial sources.

During the five year period from 2017-18 to 2021-22, technology fund amounting to ₹3.76 crore was released to 385 units through the District mission offices in 14 districts. As part of audit, field verification was conducted in 32 units which received technology fund (₹40.29 lakh) in four selected districts[118] and observed that nine units were non-functional even after receiving technology fund amounting ₹15.02 lakh. Audit observations on selection of MEs and release of technology fund are given in succeeding paragraphs.

Selection of MEs without registration

As per the Guidelines[119] of the scheme, ME groups applying for technology fund shall be registered under Yuvashree/Rural ME scheme with CDS of Kudumbashree. To verify the registration status, Audit randomly selected 120 ME units (31 *per cent*) from all the 14 districts and verified their registration status in software application maintained by Kudumbashree Mission. It was observed that 43 out of 120 ME units (36 *per cent*) were not registered with CDS, but an amount of ₹81.47 lakh was released to these ME units, violating guidelines. Of this, ₹5.66 lakh was released to Kudumbashree Accounts and Audit Service Society (KAASS), an audit team of Kudumbashree and ME consultants. As KAASS could not be considered as registered ME unit, release of funds to the Society was irregular. Release of technology fund to unregistered units is indicative of bias and arbitrariness of DMCs in selection of units.

Selection of MEs without minimum period of existence

Guidelines stipulate that technology fund can be released to existing ME units functioning successfully for the last one year. Verification of the data furnished to audit by DMCs revealed that in respect of 70 out of 385 units (18.18 *per cent*), year of establishment and year of release of technology fund was the same. This is indicative of the fact that stipulated minimum period of successful running of ME unit was not insisted upon, while releasing ₹25.76 lakh to these units. Audit conducted field verification of 32 units and noticed that two[120] units had discontinued their operation after a few months. Such instances point towards the possibility of release of technology fund for unsuccessful and unviable initiatives.

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[117] Limited to ₹50,000 per member of the Group, subject to a maximum of ₹five lakh

[118] Thiruvananthapuram, Thrissur, Palakkad, Malappuram

[119] Executive Director of the State Mission (vide orders dated 27 April 2017 and revised orders dated 13 August 2019) issued guidelines specifying the eligibilities of MEs/consortium of ME units and maximum amount that can be released as Technology Fund to each unit/group.

[120] Ruchikkoottu (Thiruvananthapuram) and Smecth Solutions (Malappuram)

Release of assistance in excess of eligibility

Financial eligibility to ME unit in respect of technology fund was based on two aspects, *viz*. total project cost and number of members in the group. Technology fund is calculated based on the number of members in the group and each member is eligible for ₹50,000, subject to aggregate amount (whichever is lower), limited to 40 *per cent* of the total project cost. Audit scrutiny revealed release of technology fund amounting ₹12.70 lakh by DMCs to nine ME units (**Appendix 5.2**) in excess of their eligibility in Thiruvananthapuram, Wayanad, Kollam, Kottayam and Idukki, which needs to be recovered. In two instances, assistance released by the DMCs (Idukki, Wayanad) even exceeded the total project cost.

Lack of field visits to ensure purchase of machinery

As per the guidelines issued in this regard, it is the mandatory responsibility of DMCs to ensure proper utilisation of funds disbursed. Assistant DMCs/District Project Managers (DPM) were to conduct inspections and ensure that machineries as proposed in the project proposal have been installed and were functional. However, audit observed that in the test-checked districts, ADMC/DPM did not conduct field visits to ensure that machinery as proposed in the project report was installed in the premises of ME units and that utilisation certificates from the ME units were obtained.

Irregular release of technology fund without ensuring utilisation of project cost and purchase/installation of machinery

- The DMC Malappuram sanctioned (June 2020) ₹10 lakh to a women Self-Help Group (SHG) called 'Café Kudumbashree' as technology fund, for running a canteen in Civil Station, Malappuram. Audit observed that the DMC had overlooked the financial limit prescribed by the guidelines and misapplied his financial powers. Even though the DMC could sanction projects costing up to ₹five lakh only, the DMC Malappuram sanctioned ₹10 lakh to a single group, by admitting three different proposals[121] from three members of the same catering group.

  Further, DMC Malappuram released the financial assistance despite the groups not having the stipulated minimum successful working experience of one year. The DMC should have released the funds only after verifying and ensuring that machineries/materials worth ₹33.50 lakh as mentioned in the project proposal were purchased and installed. Audit however observed that the SHG purchased materials amounting to ₹10 lakh only, as per the bills submitted. Also, the veracity of entire bills submitted could not be ascertained, as GST registration was missing in bills amounting ₹5.79 lakh.

- The DMC, Thiruvananthapuram sanctioned (July 2020) ₹4.5 lakh[122] to the SHG 'Ruchikoottu' comprising five members, for running a canteen in

[121] The DMC sanctioned funds amounting to ₹2.5 lakh each to two women and ₹five lakh to one woman of the same group

[122] The project proposal was submitted for ₹11.78 lakh

MLA Hostel, Thiruvananthapuram. As the SHG had five members, they were eligible for financial assistance of ₹2.5 lakh only. Thus, DMC made an excess release of ₹two lakh. The DMC also failed to ensure a minimum period of successful existence of the SHG. Audit noticed that the SHG did not purchase items[123] as mentioned in the project proposals. It was informed that machineries were procured on rental basis. This clearly indicates that DMC released the funds without doing mandatory field verifications to ensure compliance to scheme guidelines. Further, the project was abandoned after eight months.

The DMC, Thiruvananthapuram further sanctioned (February 2022) ₹4.5 lakh to VIJAY ABC[124] group against a project proposal of ₹11.5 lakh. Audit observed that the release was irregular, as the implementation of the proposed activity of animal birth control by Kudumbashree had been banned (December 2021) by the Honourable High Court. A joint physical verification conducted by Audit on 14 September 2022 revealed that the SHG had only four members. The release of funds for a banned activity also points to possible collusion between SHG and DMC.

Government replied (February 2023) that Covid-19 pandemic necessitated violation of guidelines while sanctioning projects of Café Kudumbashree and Ruchikoottu, as the canteens were functioning at Civil Station Malappuram and MLA hostel, Thiruvananthapuram. It was also informed that VIJAY ABC was sanctioned technology fund based on the recommendation of Thiruvananthapuram Municipal Corporation. The reply is not acceptable as circumventing scheme guidelines and sanctioning of projects for activities banned by Honourable High Court, even in pandemic scenarios, is unlawful. Further, the reply is silent on reasons for not ascertaining that mandatory purchases as mentioned in submitted project proposals were made by SHGs.

Audit recommends that the violations of guidelines and excess release of funds by DMCs may be investigated and responsibility should be fixed.

5.5 Irregularities in purchase and installation of RO water purifiers resulted in siphoning of funds and unfruitful expenditure

Irregular inclusion of components in the unit price of RO water purifiers purchased by a micro enterprise unit of Kudumbashree resulted in siphoning of ₹41.85 lakh. Further, idling/non-installation of water purifiers supplied to schools led to unfruitful expenditure of ₹4.28 lakh in 14 test-checked schools.

Thiruvananthapuram Municipal Corporation (TMC) included a project in its annual plan for 2020-21, for installation of Reverse Osmosis (RO) water purifiers in Government schools under its jurisdiction, where piped water supply

[123] Chapathi maker, idiyappam maker, frost free fridge etc.
[124] Animal Birth Control

from Kerala Water Authority was available. An amount of ₹one crore was allocated for the project from the Development fund of TMC. Based on the decision[125]of the Mayor, the project was entrusted to Kudumbashree District Mission, Thiruvananthapuram (District Mission) at a cost of ₹21,400/unit[126]. Agreement was executed (October 2020) between the Executive Engineer, TMC and District Mission Co-ordinator (DMC), based on which the District Mission was to install 467 water purifiers in 135 schools at an estimated cost of ₹99.94 lakh, within three months. The work order issued (September 2020) by the Superintending Engineer, TMC specified that payment was to be made only on the basis of certificate obtained from the head of the institution, on the number of units installed and in working condition.

The District Mission entrusted (November 2020) the project to Nanma Yuvashree Group, Perayam, Thiruvananthapuram, a micro enterprise (ME) unit affiliated to Kudumbashree. The Corporation released (March 2022) ₹99.51 lakh[127] to the District Mission, with which 465 units of Purella Clever RO water purifiers were purchased[128] and installed in 148[129] schools. Audit scrutiny of records at TMC and District Mission revealed flouting of rules and procedures and suspected fraud in execution of agreement, as detailed below:

- Contrary to the provisions of the Stores Purchase Manual 2013[130] and orders issued by Government of Kerala in May 2015[131], the award of work to the ME lacked transparency, as proposals were neither invited even from other Kudumbashree Groups[132] nor justification for selecting the particular ME recorded.
- The District Mission entered into agreement with Nanma Yuvashree group in November 2020. However, Audit observed that, the ME unit placed purchase orders for 467 RO water purifiers with M/s Med Corp Equipments, Kottayam in August 2020 and purchased the first 100 units in September 2020, prior to the date of execution of agreement, indicating a collusion between authorities involved and the vendor.
- The agreement executed by TMC with the District Mission did not include any mention of the value of equipment, cost of installation, etc. However, as per GST invoices available in files, Audit noticed that Nanma Yuvashree

[125] Ratified by the Corporation Council on 23 October 2020
[126] Kudumbashree Mission informed the cost per unit to Superintending Engineer TMC (implementing officer) in July 2020.
[127] ₹49.97 lakh on 11 November 2020 and ₹49.54 lakh on 28 November 2021
[128] In four lots of 100 each on 22 September 2020, 3 February 2021, 29 March 2021, 17 October 2021 and one lot of 65 on 5 August 2021
[129] List of 148 schools was furnished by District Mission to the Superintending Engineer, TMC on 31 August 2021
[130] Paragraph 7.5 stipulates that tenders should be invited, if the estimated value of the store to be purchased is above ₹one lakh. Para 7.11 states that open tender system should be used as a general rule and must be adopted whenever the estimated value of the contract is ₹ten lakh or more.
[131] Government of Kerala ordered (12 May 2015) that e-procurement shall be followed in all Government Departments/Boards/Public Sector Undertakings for all tenders above ₹five lakh.
[132] There were 7,945 MEs in Thiruvananthapuram district and 97,143 MEs in the State

Group had purchased the water purifiers from M/s Med Corp Equipments, Kottayam at ₹12,400 per unit, which was inclusive of 18 *per cent* GST. It was observed that during the year of purchase, the same make of water purifier had been available in the GeM[133] portal for ₹7,999. Thus, it was evident that the TMC/District Mission had not carried out due diligent verification with respect to price, while agreeing to ₹21,400 per RO water purifier. Consequent on Audit red flagging (March 2021) the abnormally high procurement and installation charges paid per unit of water purifier, TMC/District Mission produced a false component-wise list (**Appendix 5.3**) for the remaining ₹9,000[134], which was a deliberate attempt to circumvent audit objection by misrepresenting facts. Further, no such split up was available in the files made available to Audit. The component-wise details for the remaining ₹9,000 furnished to Audit included 12 *per cent* GST (₹2,568 per unit) charged on ₹21,400. The inclusion of GST element twice, that too at an erroneous rate, was objectionable. Price of electrical and plumbing material purportedly purchased from the market at ₹1,012 and ₹1,982 was also not supported by vouchers. Further, the heads of test-checked schools affirmed that no additional expense was incurred for installation. Audit observed that loss to TMC and siphoning of funds on account of inclusion of such dubious components in the list would work out to ₹41.85 lakh[135].

- To ascertain the genuineness of the invoices of M/s Med Corp Equipments produced by Nanma Yuvashree group, Audit cross-verified the details in these vouchers with the amount of GST shown as paid (₹8,79,560) by M/s Med Corp Equipments to GST Department. Audit observed that the GST returns of the Med Corp for 2020-21 showed remittance of ₹1,83,196 only[136]. The returns filed did not include any mention of two invoices[137] produced to Audit in support of the sale of water purifiers to Nanma Yuvashree Group. Two other invoices[138] out of the five produced to Audit pertained to sale of medicines, pharmaceutical goods, etc. to two hospitals and were in no way related to the project discussed. The above inconsistencies strongly suggest that the invoices produced by Nanma Yuvashree Group could not be relied upon, and that the amount on account of GST payments was fraudulently represented.

- Audit conducted field verification (September 2022) at 14 (10 *per cent)* schools selected for installing water purifiers. It was noticed that out of 45 units supplied to these schools, six units were not installed and 20 units were not working. Despite the clause of free service warranty of two years being part of the agreement, the suppliers did not visit these schools for periodical

[133] Government e-Marketplace
[134] ₹21,400 - ₹12,400; spilt up details of ₹9,000 were communicated to Audit vide letter dated 1/9/2021 of the Secretary, TMC.
[135] ₹9,000 x 465
[136] Relating to all recipients of goods/services
[137] E27/20-21 and E40/20-21
[138] E35/20-21 and E30/20-21

servicing and replacement of filters. As such, expenditure to the tune of ₹4.28 lakh[139] on units supplied to these schools remained unfruitful.

On Audit pointing out the violation of rules and suspected fraud, Executive Director of Kudumbashree Mission formed (July 2022) a three-member committee of senior level officers to conduct preliminary inquiry into the facts reported. The committee detected flaws in the manner of execution of the project by District Mission and absence of agreement or allied records in support of purchase from M/s Med Corp Equipments. The committee opined that remittance of GST amount of ₹8,79,560 by M/s Med Corp Equipments as well as veracity of installation charges claimed needs to be ascertained. The observations of the Committee on irregularities in purchase procedure were reported (July 2022) to the Additional Chief Secretary to Government (LSGD) and comprehensive inquiry at Government level requested.

Thus, failure to exercise mandated checks and lack of timely monitoring by TMC on the methodology of execution of its project entrusted to the District Mission led to siphoning of funds through suspected fraudulent means and unfruitful expenditure resulting in deprival of intended benefits. The DMC, being entrusted with the supply of RO purifiers to selected schools, had to ensure transparency in selection of agency for supplying and fixing water purifiers and realising the charges of procurement/installation of units supplied.

The matter was referred to Government (December 2022). Reply from Government awaited (December 2023).

Audit recommends that departmental inquiry/investigation by law enforcement agencies should be initiated against the officers concerned in TMC as well as DMC to fix responsibility for siphoning of public money and recovery effected from the erring officials.

5.6 Undue favour extended by Kudumbashree to a Public Limited Company

The Executive Director, Kudumbashree released ₹95 lakh to Marari Marketing Limited from ₹one crore of Corporate Social Responsibility (CSR) Fund received from Kerala State Financial Enterprises. The entire amount was utilized for purchase of raw materials, as against ₹10 lakh permissible as per Kudumbashree's proposal for CSR fund. Further, an interest free loan of ₹40 lakh released subsequently by Kudumbashree, to help the company overcome its adverse financial situation remains to be repaid.

Kudumbashree State Mission submitted (February 2020) a proposal to Kerala State Financial Enterprises (KSFE) seeking ₹one crore of Corporate Social Responsibility (CSR) Fund for women empowerment activities. Based on the above proposal, KSFE released (March 2020) ₹one crore as CSR fund to

[139] ₹21,400 x 20

Kudumbashree for carrying out the following activities included in the proposal submitted by the Kudumbashree State Mission, as shown in **Table 5.1**.

Table 5.1: Components included in the proposal submitted by Kudumbashree

Activity	Component	Amount proposed (In ₹)
Conduct of women empowerment campaign	Phase I – Awareness Programme	2300000
	Phase II – Entrepreneurship Development Programme (EDP)	1420000
Capacity Building: Skill Training for new entrepreneurs	Skill training for 200 entrepreneurs	3000000
Performance improvement programme (PIP) for new entrepreneurs	Performance improvement programme for 120 entrepreneurs	1080000
Incubation support for product development	Administrative Expense	600000
	Raw material purchase	1000000
	Handholding support	600000
Total		**10000000**

(Source: Records of Kudumbashree)

M/s Marari Marketing Limited[140] (Marari Ltd.), a Public Limited Company engaged in procuring raw materials and distributing them among Kudumbashree self-help groups for making umbrellas, requested[141] to the Executive Director (ED), Kudumbashree to provide funds of ₹one crore to place an order of raw materials for one lakh umbrellas. Out of ₹one crore received (March 2020) from KSFE, the ED, Kudumbashree released (February[142]and April 2020) ₹55.00 lakh to Marari Ltd. The members of the group were paid wages for assembling the umbrellas, which were sold in the brand name of 'Maari'. Audit observed the following deviations from accepted procedures in release of funds by Kudumbashree State Mission and its utilisation by Marari Ltd.

- As per the proposals submitted by Kudumbashree Mission for obtaining CSR funding of ₹one crore, only 10 *per cent* of the total release was to be used for purchase of raw materials and the balance 90 *per cent* was to be consumed for women empowerment campaign, capacity building, skill training, handholding, etc. However, the entire amount of ₹55 lakh was seen utilized by Marari Ltd. for purchase of raw materials, without incurring any expenditure on the rest of the components. Though Kudumbashree Mission applied (December 2020) for ratification from KSFE for spending the entire amount received on raw materials, no response has been received till date.

[140] A Public Limited company owned by Kudumbashree Neighbourhood Groups formed under the Swarnajayathi Gram Swarozgar Yojana Special Project for Micro Enterprises Development with Innovative Community and Market Linkages

[141] Vide letters dated 20 January 2020 and 15 February 2020

[142] ₹50 lakh was initially released from another source in anticipation of the CSR fund, which was subsequently recouped on receipt of CSR fund on 31 March 2020. ₹Five lakh was released in April 2020

- The ED, Kudumbashree further released (July 2020) ₹40 lakh from the CSR fund as a temporary assistance, citing difficulties faced in earning income through sale of umbrellas during covid season. This amount was recouped (July 2021) after one year by Kudumbashree, with funds received through sale of 19,287 umbrellas.
- In December 2020, ED, Kudumbashree wrote to Government that the Marari Ltd. was under deep financial crisis due to loss of seasonal umbrella sales in the wake of Covid-19 pandemic and consequent piling of unsold stock. It was also stated that 2,000 members (around 100 Micro enterprises) had lost their livelihood measures due to reduced sale of umbrellas during the season. As on 31 December 2020, the total sale of umbrellas stood at 32,753 as against the one lakh projected in the original proposal. Consequently, Government sanctioned (January 2021) ₹40 lakh to Marari Ltd., as interest free loan to be repaid in 24 instalments starting from February 2021. Repayment of this loan amount has not been made by Marari Ltd. to Kudumbashree even in April 2023.

In reply, Government stated (February 2023) that Kudumbashree entered into an agreement with Supplyco in December 2019 for procuring one lakh umbrellas through Kudumbashree for the upcoming season of school reopening and the monsoon. Keeping in view of this bulk order and having decided to go in for standardization and branding of the umbrellas produced, Kudumbashree entrusted the order to Marari Ltd. considering its expertise in umbrella production. Marari Ltd. was to provide skill training, EDP and PIP for women entrepreneurs of umbrella units under Kudumbashree. Since KSFE had approved a CSR fund for enhancing livelihood sector of Kudumbashree, the Mission decided to utilise this fund to improve umbrella clusters/units functioning under Kudumbashree.

Government further stated that since the advent of the pandemic, Kudumbashree and the company could not organize training programmes to utilise the funds as per the proposal approved by KSFE. The company supported its umbrella cluster units by providing work to units by utilizing the amount to procure raw materials. The company paid off these micro enterprises for finished products, thereby supporting 360 women with work and wages during lockdown times. Kudumbashree has not approved this action, however since it directly benefitted the women groups and was done with pure intentions, ratification for the above was sought for from KSFE.

Regarding the release of interest free loan, Government stated that as major season of sale was completely washed off due to Covid, the company was left with large stocks of raw materials, finished goods and debts to suppliers. Hence Kudumbashree requested for interest free loan on the basis of request from company. The Mission had requested for loan rather than grant, on the true spirit of supporting a company to come back and stay in business, rather than for undue pecuniary benefits to the company as observed in audit.

The reply is not acceptable for the following reasons:

Firstly, CSR funds were obtained by Kudumbashree with the intention of transferring the funds to Marari Ltd.[143] (which was already under financial stress as per records) but without informing KSFE about the same. This is clear from the correspondences between Kudumbashree Mission and Marari Ltd. and the fact that ₹40 lakh recouped in July 2021 into the CSR Fund account of the Mission has not been utilised by the Mission even as on date for any kind of women empowerment activities anywhere in the State[144]. Though ED, Kudumbashree subsequently sought ratification (December 2020) from KSFE for the action taken, ratification is yet to be received.

Audit also notes that ED, Kudumbashree in his reply to Audit attempts to present the facts as though the action of Marari Ltd. in utilising the funds for purchase of raw materials (as against for skill training, PIP, EDP, etc.) was without the Mission's knowledge or approval. However, the letters of correspondence exchanged between ED Kudumbashree and Marari Ltd. clearly indicate that the Mission was well aware of the purpose for which the company had sought the funds. Further, once request for ratification (December 2020)[145] was not responded to by KSFE, Government sanctioned ₹40 lakh as interest free loan to the company, which also remains to be repaid (April 2023). Audit also observed the following:

- Funds amounting ₹55 lakh released in favour of Marari Ltd. only benefitted its own umbrella cluster units and no Neighbourhood Group (NHG) outside the company. No other NHG was given any kind of training on umbrella making using these funds.
- While generally, grants or loans from the Mission did not exceed ₹10 lakh, Marari Ltd. benefitted from substantial Government/CSR funding on at least three occasions. No records were there to indicate that awareness had been created among other potential beneficiary groups (companies, CDS or NHGs) about the possibility of such huge funding as support from the Government.
- Audit also observed that Kudumbashree had, on a previous occasion, granted (March 2018) ₹one crore to Marari Ltd., for which Kudumbashree is yet to make available for audit any utilisation certificate from the company.
- No ratification from KSFE was sought for temporary diversion (July 2020) of ₹40 lakh from CSR funds to further support Marari Ltd.'s activities.

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[143] Kudumbashree Mission had clearly obtained the money from KSFE with the intent of passing it on to Marari Ltd. as evidenced by correspondences dated 20 January 2020 and 15 February 2020 between them, read along with the proposal dated 10 February 2020 of Kudumbashree to KSFE and the ED's prompt release of funds to Marari Ltd. vide order dated 19 February 2020, based on letter dated 15 February 2020 of Marari Ltd.

[144] Despite this being the purported justification of getting the money from KSFE

[145] For spending the released share of CSR funds in deviation from the original proposal

Thus, the actions taken by Kudumbashree in favour of the company were undue, unwarranted and injudiciously extended, besides not being supported by the CSR framework. The justification offered by Kudumbashree that the procedure adopted was in order to achieve empowerment of women through providing means of livelihood in the backdrop of Covid scenario would not stand, because the Mission had not exercised due diligence in sanctioning and releasing funds to the Public Limited Company on multiple occasions, without even ensuring a clear and implementable plan of action to utilise CSR/Government funds to achieve the ultimate objective of empowering women.

Audit recommends that Government/Kudumbashree may ascertain that the financial assistance released to agencies are spent component-wise, for purposes for which funds were sought, and that no undue favour is extended to any person/agency/institution while releasing funds from various sources.

(S. SUNIL RAJ)

Thiruvananthapuram,
The 01 July 2024

Principal Accountant General
(Audit I), Kerala

Countersigned

New Delhi,
The 02 July 2024

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India