CHAPTER IV

4 MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

GOVERNMENT COMPANIES

Kerala State Drugs and Pharmaceuticals Limited

4.1 Wasteful expenditure

Payment of incentive to employees without ensuring the stipulated increase in productivity resulted in wasteful expenditure of Rs.68.82 lakh.

The Company which was engaged in the manufacture and trading of drugs and pharmaceuticals had been incurring losses since 1995-96. With a view to improving the productivity and achieving the break even sales of Rs.18 crore, the Government conducted (February 2000) tripartite discussions with the representatives of the management and the trade unions. A Memorandum of Settlement was signed (April 2000) between the Company and the workers. As per the settlement, the productivity was to increase by 70 *per cent* for which an incentive of 25, 10 and 7 *per cent* of basic pay plus DA was to be paid to the employees of category A, B and C respectively. However, as per the concurrence given (April 2000) by the Government, forming part of the settlement, tying up of sale orders and achievement of performance was not to be made pre-conditions for payment of incentive.

It was noticed in Audit that the Company recorded a sales performance of Rs.18.62 crore in 1997-98 with the then existing work norms. However, after introducing (April 2000) the incentive scheme with revised work norms involving 70 *per cent* increase in productivity, the sales recorded during the two years, ie., 2000-01 and 2001-02 was only Rs.8.52 crore and Rs.4.74 crore respectively. The actual production also came down from Rs.14.50 crore in 1997-98 to Rs.3.69 crore in 2002-03 indicating that incentive scheme did not yield any result. Without ensuring performance, the Company paid to its employees incentive of Rs.21.30 lakh, Rs.23.16 lakh and Rs.24.36 lakh respectively during the three years ended 31 March 2003.

Thus, the payment of incentive to employees without ensuring the production performance stipulated in the settlement resulted in wasteful expenditure of Rs.68.82 lakh.

Government stated (September 2003) that the scope of discontinuing the incentive for higher production was being examined and a final decision

would be intimated. However, the reply is silent about the recovery of incentive already paid to the employees.

Kerala Electrical and Allied Engineering Company Limited

4.2 Wasteful expenditure

Company's decision to start the project without ensuring marketability of the product and availability of funds resulted in wasteful expenditure of Rs.4.48 crore.

Mention was made in paragraph 2B.8 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996, No.2 (Commercial), Government of Kerala, about the delay on the part of the Company in implementation of the project for production of brushless alternators for automobiles (BAA).

The Company decided (1984) to implement the BAA project at a cost of Rs.3 crore. The implementation of the project proposed (1987) at a revised cost of Rs.5.10 crore was deferred (March 1988) at the instance of Government. However, four years after the deferment of the project, the Company decided (1992) to restart the project, without conducting any fresh marketability study. The Company projected a cost of Rs.12.75 crore with a financing pattern of Government equity (Rs 5.10 crore) and loans (Rs. 7.65 crore) and started the project with the equity contribution of Rs.4.85 crore received (March 1987 to March 1993) from the Government. Eventually the project work had to be stopped (1996) for want of funds from financial institutions due to default (during 1991 to 1996) in repayment of loans. The expenditure incurred on the project up to 31 March 1996 was Rs.3.18 crore. At the time of stoppage of work in 1996 the Company had deployed 11 workers on the project and retained them without any work till 31 March 2003 resulting in payment of idle wages of Rs. 1.08 crore.

A study conducted (July 2001) by Kerala Industrial Technical Consultancy Organisation confirmed that the project was not viable since the automobile manufacturers had in-house/external sourcing arrangements to meet their entire requirements and a new multi products project involving a cost of Rs. 13.90 crore had been proposed in place of BAA project. This new project also could not be implemented (May 2003) for want of funds. The total expenditure incurred on the project up to 31 March 2003 was Rs.4.48 crore.

Thus, the decision of the Company to go ahead with the project despite doubtful marketability of the product and non-availability of finance from financial institutions resulted in wasteful expenditure of Rs. 4.48 crore.

Government stated (June 2003) that due to default in repayment of loans to IFCI and IDBI during 1991 to 1996 the financial institutions withdrew the sanctioned loan as a result of which the execution of the project came to a standstill. The reply is not tenable since the Company was aware (1991) of the withdrawal of sanctioned loans for the projects by financial institutions before restarting the project in 1992 and could have avoided investment in the project without tying up fresh finance.

The Plantation Corporation of Kerala Limited

4.3 Avoidable loss

Failure of the Company to adhere to the provisions of Forest Conservation Act, 1980 while implementing Farm Tourism Project resulted in interest loss of Rs.32.24 lakh.

The Company, engaged in the business of raising plantations in forest areas taken on lease from Government, decided (December 1997) to diversify its activities by undertaking 'Farm Tourism' in six hectares of forest land in 'D' division of the Vettilappara estate near Athirappili water falls. As per section 2 of the Forest Conservation Act, 1980, the Company required prior permission of the Government of India for using any portion of the forest land for non-forest purposes. Without complying with the provision, the Company got (November 1998) a project report prepared by Nirmithi Kendra,Trichur. The report specified an investment of Rs.78 lakh involving conversion of the then existing labour lines into cottages and cafeteria-cum-office. The work was entrusted to Nirmithi Kendra and during execution of the project additional construction, such as ponds, huts, mini restaurant, etc., were undertaken and the cost of the project was revised (October 1999) to Rs.2.53 crore. The project, on implementation, was expected to provide an annual return of 19.75 *per cent*. The Company ultimately constructed three cottages, cafeteria, generator room, swimming pool, etc., at a cost of Rs.2.08 crore. The project was formally inaugurated on 7 January 2001. However, in the absence of final approval from Government of India under section 2 of Forest Conservation Act, 1980, the Company could not commence (July 2003) commercial operation.

Thus, the failure of the Company to obtain prior permission of Government of India, which was a pre-requisite for commencement of commercial operations of the project, resulted in loss of interest of Rs.32.24 lakh on an investment of Rs.2.08 crore @ 6 *per cent* per annum applicable on short term treasury deposits for the period from February 2001 to August 2003.

Management stated (July 2003) that the change in compensatory afforestation area by Government of India from two hectare to six hectare in December 2000 delayed the commencement of operation of the project since they had to identify suitable area. The reply is not tenable since the actual fenced area was about five hectare even as per Company's documents and the defect in communication of actual area ultimately resulted in delay in identification of

non-forest land for compensatory afforestation. Moreover, the Company did not take any measure for obtaining prior approval of Government of India as per the Forest Conservation Act. The Company started the project work in July 1998 itself without obtaining the approval and approached Government of India only in April 2000.

The matter was reported to the Government in May 2003; their reply is awaited (September 2003).

4.4 Avoidable payment

Failure to take prompt action to reduce the connected load of power resulted in avoidable payment of demand charges of Rs.19.57 lakh.

The latex factory of the Company at Kodumon Group of Estates in Chandanapally which was engaged in centrifuging latex, crepe milling of scrap and milling of lump, had been categorised as a high tension consumer of Kerala State Electricity Board (Board) with a connected load of 500 KVA. As per tariff applicable, HT consumers had to pay demand charges @ 75 *per cent* of the contract demand or actual recorded maximum demand whichever was higher.

The activity of crepe milling of scrap in the factory was discontinued (April 1997) leading to non-utilisation of one drier and ten rollers and consequent reduction in the requirement of connected load from 500 to 300 KVA. Since the power cut imposed by the Board was in vogue during the period up to December 1997, the Company had to pay demand charges for 75 *per cent* of the connected load from January 1998 onwards. However, the Company did not take any action to reduce the connected load till July 2001, when a formal request was made to the Board. Although the Company claimed that request for reduction of connected load was made six months prior to July 2001, no documentary evidence was available. Further follow-up action was delayed and the connected load was finally reduced to 300 KVA in January 2003 only. Thereafter, demand charges were paid for 225 KVA (75 *per cent* of 300 KVA), as the recorded demand was less than 225 KVA.

Thus, the failure of the Company to take prompt action to reduce the contracted connected load resulted in avoidable payment of demand charges of Rs.19.57 lakh for 150 KVA (375KVA-225KVA) for the period from January 1998 to January 2003.

Government stated (September 2003) that the Company decided to reduce the contract demand initially on trial basis on the ground that the crepe mill will restart and application was given to KSEB in July 2001 when it was finally decided not to restart the mill. It was also stated that a legal notice was issued to Board for refund of excess amount of Rs.7.69 lakh for the period from July

2001 to February 2003. The reply is not tenable since there is no practice with the Board for reduction of connected load on trial basis and the Company failed to follow up the matter regarding reduction of connected load after submitting the application in July 2001, which necessitated the avoidable payment.

The Kerala State Civil Supplies Corporation Limited

4.5 Avoidable expenditure

Failure of the Company to protect its financial interest in procurement of cumin seed resulted in avoidable expenditure of Rs.19.16 lakh.

The Company, engaged in public distribution of essential commodities, had been procuring cumin seed from the market based on open tender system. The landed cost of the commodity procured by the Company used to have only marginal variations from the open market rates and the maximum sale was during the Onam festival season of August and September of each year.

During April - September maximum market rate of cumin seed ranged between Rs.10,000 and Rs.11,000 per quintal against which the actual procurement rate ranged between Rs.9,799 and Rs.11,921 per quintal. The average sale of cumin seed during lean season of January to July 2000 was only 228 quintals per month and there was a stock of 580 quintals available as at the beginning of October 2000 which was sufficient to meet more than two months' requirement. However, the Company invited (October and November 2000) open tenders for the procurement of cumin seed against which the lowest quoted rate of Sree Lakshmi Enterprises (SLE) was Rs.17,350 and Rs.17,000 per quintal respectively. Ignoring the lead time of seven to fifteen days required for replenishment of stock and the then prevailing market rate of Rs.10,200 per quintal the Company placed orders on SLE for the supply of a total quantity of 485 quintals of cumin seed and procured 486.07 quintals at a total cost of Rs.83.15 lakh. It was noticed in Audit that out of the total quantity of 486.07 quintals actually supplied against the above orders, 195.37 quintals were received in December 2000 only. There was a balance of 493 quintals in stock at the end of November 2000 indicating that the placing of orders in October and November 2000 was not justified. The procurement rate in December 2000 was only Rs.13,200 per quintal. Taking into account the safe position of stock of cumin seed in October 2000 and the exorbitant rate of Rs.17,350 per quintal quoted by SLE, the Company could have judiciously deferred the procurement decision and avoided the extra expenditure of Rs.19.16 lakh on purchase of 486.07 quintal of cumin seed during October/November 2000, with reference to the rate of Rs.13,200 per quintal for December 2000.

Thus, the failure of the Company to protect its financial interest in procurement of cumin seed resulted in avoidable expenditure of Rs.19.16 lakh.

Government stated (September 2003) that guidelines prescribed by Government in August 1994 allowed keeping a stock of three months' sales and changes in market price cannot be shown as a good reason to deviate from guidelines. It was also stated that the Company's tender rates and market rates are not directly comparable and purchase price and market price will not have a direct co-relation on a month to month basis. The reply is not tenable since the Company's actual procurement rate has always been comparable with the market rates but in the instant case the Company procured cumin seed at exorbitant rates from private traders, after the Onam festival season, disregarding the safe stock position of the commodity. Moreover, the Company as a public distribution agency had to intervene in market and supply commodity below market rates. Hence the Company should have procured cumin seed at rates comparable to market rates so as to avoid undue benefit to private traders at the cost of Government.

Foam Mattings (India) Limited

4.6 Loss of export earnings

Failure of the Company to comply with the requirements of insurance policy and absence of prompt action to collect the dues resulted in loss of Rs. 28.92 lakh.

Commercial risks involved in the export of the Company's products for the two years up to 31 May 2002 had been covered under insurance with Export Credit Guarantee Corporation of India (ECGC). As per clause 3(i) of the policy, whenever shipments were made on terms of acceptance of documents, the Company had to get suitable credit limit approved from ECGC on each of the buyers, in the absence of which the claims arising from commercial risks will not be admitted even if premium was paid for covering comprehensive risk on such shipments.

In March 2000 the ECGC informed the Company that the credit limit approval issued on Far Pavilion (FP), the agent and distributor of the Company in USA, under the previous policy, stood cancelled and no further shipments should be made to them till the outstandings were cleared and without the prior approval of the Corporation.

However, the Company shipped (August and October 2000) two consignments of its products worth Rs. 28.92 lakh to FP without obtaining the approval for fresh credit limit from ECGC in respect of this buyer. FP defaulted the payment against the export and the claim filed by the Company for the settlement of debt with ECGC was rejected. Subsequently, the Company's collecting agent in United States, American Bureau of Collections-West also intimated (September 2002) their inability to collect dues from FP due to delay on the part of the Company to respond promptly to the agent's earlier warning (April 2002) about the buyer's possible insolvency.

Thus, the negligence on the part of the Company in ensuring valid credit limit as per the provisions of the insurance policy, before extending credit facility to the importer and the failure to act promptly for collection of dues through the foreign agent resulted in loss of Rs. 28.92 lakh due to non-realisation of export sale proceeds.

The Government endorsed (July 2003) the reply of the management that the Board of Directors of the Company had decided to file a civil suit against the former Managing Director and General Manager (under suspension) to recover the amount. However, no action had been initiated so far (August 2003).

Kerala State Cashew Development Corporation Limited

4.7 Wasteful expenditure

The injudicious decision of the Company to carry out modernisation and renovation work on three factories under orders of transfer to private individuals resulted in wasteful expenditure of Rs.29.99 lakh.

The Company, engaged in the business of processing raw cashew nuts, had 34 factories under its possession, which included 16 factories requisitioned by Government from private owners under the Kerala Cashew Factories (Requisitioning) Act 1979. This Act was amended (1985) enabling the Government to extend the validity of requisition of private factories for a period of five years at a time. The owners of three requisitioned factories (Neduvathur, Ezhukone and Kallambalam) challenged the amended provisions in the respective cases (16424/1994, 553/1996 and 2631/1998) filed before the High Court of Kerala, at the same time praying for restoration of ownership of the factories to them. The High Court (Single Bench) ordered (September 1997) restoration of two factories to the owners and the Company's appeal against the judgement before the Division Bench was also dismissed (September 2001). While pronouncing the above judgement the Division Bench directed the Company to hand over the third factory also along with the other two factories. The decision (November 2001) of the Supreme Court in the special leave petition (SLP) filed against the orders of the Division Bench was also in favour of the private factory owners. The three factories were ultimately handed over (April 2002) to the owners.

It was noticed in Audit that during the intervening period between the judgment of the High Court of Kerala in September 1997 restoring ownership to the private factory owners and confirmation of the decision (September 2001) by the Division Bench, the Company undertook modernisation and renovation work in these three factories at a total cost of Rs.29.99 lakh. The decision of the company to undertake modernisation and renovation work in the three factories, which were under orders of transfer, was not judicious and resulted in wasteful expenditure of Rs.29.99 lakh.

Government stated (August 2003) that the modernisation works were done in all the factories without differentiating whether the factories were own or on lease and urgent repairs/construction was essential without which cashew processing was not practicable. The reply is not acceptable since the High Court had already decided in favour of the factory owners and undertaking extensive repairs and construction works of capital nature on factories under orders of transfer, was against the financial interest of the Company.

The Travancore Cements Limited

4.8 Avoidable extra expenditure

Irregular accounting treatment of transfer of raw materials on job work as sales resulted in avoidable payment of sales tax of Rs.18.96 lakh.

The Company, engaged in the production of white cement and cement paint, had entered into (November 1995) agreements with two co-operative societies for the manufacture of 'Super Shelcem Cement Paint' on behalf of the Company on 'job work' basis. White cement, the raw material required for the purpose, was provided by the Company. The cement paint manufactured by the societies using the raw material was delivered to the Company for sale. In its books of accounts for the years 1993-94 to 1996-97, the Company showed the transfer of white cement as sale to the societies and paid concessional rate of tax under section 5(3) of the Kerala General Sales Tax Act @ 2.5 to 3 *per cent* plus 10 *per cent* surcharge on the ground that white cement was a raw material for the manufacture of cement paint. At the same time, the finished product received back and sold was also treated as sale necessitating payment of sales tax @ 18 to 24 *per cent* plus 10 *per cent* surcharge. In view of the fact that the issue of materials to the societies for job work did not involve any transfer of property in the goods for a consideration, such transfer actually did not attract payment of sales tax.

On completion (November 1999) of sales tax assessment for the said years, the assessing officer disallowed the claim for concessional rate of tax and assessed the transfer of white cement to the societies @ 20 *per cent* plus 10 *per cent* surcharge. The Company had remitted (June 2000 to February 2002) the tax assessed by the sales tax authorities for the purpose of filing appeal. The appeal filed by the Company against the demand for additional tax is pending (August 2003) with Sales Tax Appellate Tribunal.

Thus, failure on the part of the Company in ensuring proper accounting of the transfer of materials issued for job works resulted in avoidable payment of sales tax of Rs. 18.96 lakh.

Government stated (September 2003) that the Company had shown white cement issued to the societies for manufacture of cement paint on job work

basis as sales in the accounts and due to the method of accounting, the sale of cement paint also was shown in the sales tax returns as sales. The Company also could not produce Form-18 declaration to claim concessional rate of sales tax since the societies expressed inability to issue the forms. The reply is not tenable since the avoidable payment of sales tax was necessitated due to defective method of accounting of transfer of materials for job works as ultimate sale.

The State Farming Corporation of Kerala Limited

4.9 Cash loss

The decision of the Company to diversify into umbrella manufacturing without conducting proper market study or ensuring sales tie up with other public sector undertakings resulted in cash loss of Rs.21 lakh.

Based on a Project Report prepared (December 1993) by the Tribal Welfare Department, for promoting employment potential of tribal women by starting an umbrella manufacturing unit, the Company agreed (March 1994) to provide a contribution of Rs.1.50 lakh out of Rs.8.14 lakh required for the proposed unit, at the same time undertaking to purchase for its employees the entire production of 21,500 umbrellas per annum. However, on the ground that the participation of the Tribal Welfare Department was being delayed, the Company, in violation of its objectives decided (July 1994) to undertake the project on its own, without conducting a market study or tying up the sales with other public sector units in the plantation sector as envisaged under the project proposals.

The Company started (April 1995) the umbrella manufacturing unit with a production capacity of 24,000 umbrellas per annum. Due to poor demand in the absence of proper market tie up and high cost of production, the unit had to be closed down in June 1999. As against the total expenditure of Rs.56.88 lakh (net of subsidy of Rs.1.31 lakh received from Tribal Welfare Department) incurred during July 1994 to May 1999, the Company earned a revenue of Rs.35.88 lakh, thereby incurring a cash loss of Rs. 21 lakh.

Thus, the decision of the Company, engaged in plantation activities, to diversify into umbrella manufacturing without conducting proper market study or ensuring sales tie up with other public sector units, resulted in cash loss of Rs.21 lakh.

The management stated (February 2003) that the reason for poor sales for the product was its inability to compete with private sector umbrella manufacturers. The reply is not tenable since the Company did not tie up sales with other public sector units, which was a pre-requisite for the viability of the project, which resulted in poor market demand.

The matter was reported to Government in August 2003; their reply is awaited (September 2003).

Kerala State Financial Enterprises Limited

4.10 Avoidable payment of interest

Failure to estimate the income correctly for purpose of advance tax as well as delay in filing of return led to avoidable payment of interest of Rs. 32.44 lakh.

As per Section 208 of the Income Tax Act, 1961, companies having taxable income had to pay advance tax every quarter (15 of June, September, December and March) on the estimated income, failing which penal interest was payable under section 234 C on the amount short paid. The Company had a taxable income of Rs.37.48 crore for the previous year 2000-01 and the tax payable thereon was Rs.14.82 crore. However, the Company failed to estimate the income correctly due to wrong estimation of interest income from new chitty loans for the purpose of payment of advance tax and the tax paid for all the quarters fell short of the requirement by a total amount of Rs.62 lakh. Consequently, the Company had to pay Rs.28.55 lakh as interest under section 234 C. It was noticed in Audit that the Company had sufficient surplus funds to meet the payment of short paid advance tax.

Further, when the return of income for any assessment year was furnished after the due date, the assessee was liable to pay interest under section 234 A of the Income Tax Act, 1961 at the rate of 2 *per cent* for every month or part of a month. However, the Company filed the return of income for the assessment year 2001-02 due to be filed on or before 31 December 2001 only in March 2002, for which interest of Rs.3.89 lakh had to be paid.

Thus, the failure of the Company to estimate the income correctly for the purpose of payment of advance tax and delay in filing the return resulted in avoidable payment of interest of Rs.32.44 lakh.

The management stated (July 2003) that the short estimation of income resulted since almost all the branches could not estimate the income correctly due to heavy arrears in accounts and absence of trained staff. The reply is not tenable since estimation of income was a routine matter and failure to reckon interest income correctly on all new chitty loans resulted in avoidable payment of interest on tax.

The matter was reported to Government in July 2003; their reply is awaited (September 2003).

Kerala State Construction Corporation Limited

4.11 Cash loss

Failure of the Company to estimate the toll collection in a realistic manner for purpose of preparation of bid resulted in cash loss of Rs.11.20 lakh.

In order to improve its turnover by utilising the surplus manpower, the Company which was undertaking the business of civil construction work, decided (February 2001) to diversify to the activity of collection of toll on behalf of the Public Works (NH) Department (PWD). Accordingly, the Company conducted (January 2001) a preliminary traffic census to estimate the expected income from toll collection in the case of Aroor-Panangad bridge so as to quote a reasonable value in the proposed tender. The Company conducted only a 12 hour census of vehicles as a representative data for the whole year. The reduction on account of return ticket and concession ticket holders was also not reckoned for purpose of estimation of income.

The annual earnings estimated on the above basis was Rs.3.10 crore. Without giving due consideration to the previous year's contract rate of Rs.1.87 crore, the Company quoted (January 2001) a licence fee of Rs.2.34 crore which was accepted by the PWD and contract executed (September 2001) for a period of one year from April 2001. The work was actually started from September 2001 only due to litigation by one of the tenderers and on expiry (March 2002) of the contract period, extension was also granted up to July 2002.

As against the proportionate amount of Rs.1.90 crore payable to PWD during the contract period of 9 months and 22 days, the actual collection was only Rs.1.85 crore against the anticipated proportionate collection of Rs.2.62 crore, involving a reduction of Rs.77 lakh. In connection with the toll collection, the Company had to incur expenditure of Rs.6.47 lakh by way of construction of temporary structure, telephone charges, rent, water charges, security expenses, shortages in return of coins, bank guarantee commission, etc. As against the revenue of Rs.1.85 crore, the Company had a total cash outgo of Rs.1.96 crore leading to a cash loss of Rs.11.20 lakh.

Thus, failure of the Company to estimate the toll collection in a realistic manner for the purpose of preparation of bid resulted in a cash loss of Rs.11.20 lakh.

Government endorsed (September 2003) the reply of the management that restriction in sand mining by Government, general economic recession, resistance from earlier contractor, etc., affected the traffic and toll collection. The revenue from toll collection was stated to have helped the Company to partially tide over resource crunch and the cash flow generated more earnings than cash loss. The reply is not tenable since the Company should have provided for contingencies while quoting the amount of toll collection. Since the amount collected by way of toll had to be remitted to PWD immediately

and any appropriation of the collection by the Company attracted interest and penal interest, the Company stands to lose by diverting the funds in violation of contractual provision.

STATUTORY CORPORATIONS

Kerala State Electricity Board

4.12 Undue benefit

The decision to incorporate a provision in the agreement deviating from the prescribed guidelines resulted in undue benefit of Rs.8.79 crore to a private entrepreneur.

Government allowed (December 1989) private agencies to undertake small/mini/micro hydel schemes for generation of power and prescribed (December 1990) terms and conditions for granting permission by the Board. As per the guidelines enunciated (Paragraph 7), the transmission line required for evacuating power from the captive plant of the implementing agency to the nearest grid sub-station had to be built by the Board at the cost of the agency, as a deposit work, which should be transferred to the Board without any compensation.

Based on the above guidelines, the Board entered into (December 1994) an agreement with Indsil Electrosmelts (Indsil), a private entrepreneur, for setting up a small hydro electric project at Kuthungal, with a total capacity of 21 MW, to be implemented in two phases. The project involved construction of transmission line of 15 km length from Kuthungal to Neriyamangalam, by the Board at the cost of Indsil, in line with the guidelines issued by the Government. However, during a meeting held (April 1994) at Government level, the Board accepted the request of Indsil for construction of transmission line beyond 4 km, at the cost of the Board, in deviation from the original guidelines and incorporated a provision (clause 9) to that effect in the agreement. The work involving actual transmission line length of 16.477 km was completed (May 2001) at a cost of Rs.11.35 crore out of which Rs.8.79 crore relating to 12.477 km length, was borne by the Board. It was noticed in Audit that in respect of another agreement (Maniyar), for execution of small hydro project, entered into by the Board, the entire cost of evacuation line was borne by the private agency.

Thus, the decision to incorporate a provision in the agreement deviating from the prescribed guidelines resulted in undue benefit of Rs.8.79 crore to the private entrepreneur.

The matter was reported to the Board and Government in August 2003. Their reply is awaited (September 2003).

4.13 Extra expenditure

Procurement of single phase static meters and pin insulators at exorbitant rates without considering the stock in hand and waiting for the outcome of the tenders floated, resulted in avoidable extra expenditure of Rs.1.41 crore.

4.13.1 Single phase static meters

In order to meet the requirement of energy meters in providing new service connections and for replacement of faulty meters, the Board invited (23 July 2002) tenders for the purchase of 50,000 single phase static meters of 5-20 Amps rating with a delivery period of 45 days. At the time of invitation of tenders, 40,134 meters were available with the Board, which were sufficient to meet the urgent requirements till fresh supplies were received. However, without considering the stock of meters in hand and waiting for the outcome of the tender floated on 23 July 2002, the Board placed orders (24 July 2002) on Electron Energy Equipments (Pvt) Limited, Noida (EEE) for purchase of additional 25,000 meters against the earlier orders placed with the firm in November 2001 at the earlier rate of Rs. 900.76 per meter (all inclusive). EEE supplied (August 2002) the entire quantity and payment was effected during September 2002 to February 2003.

It was noticed in Audit that the lowest price quoted against the tender invited in July 2002 and opened on 14 August 2002 was only Rs.506.80 per meter against the rate of Rs.900.76 per meter at which orders were placed on EEE for additional 25,000 meters. The stock position of 40,134 meters in hand in July 2002 and the pending (July 2002) supply of 30,000 meters from the same firm did not justify the procurement of additional quantity at higher rate.

The hasty decision of the Board to purchase 25000 meters at an exorbitant rate from EEE without considering the stock in hand and waiting for the outcome of the tender already invited, resulted in avoidable extra expenditure of Rs.98.49 lakh[**].

Government stated (July 2003) that the static meters were urgently required for effecting new service connections and for replacement of faulty meters. Hence purchase order for 25,000 nos. was placed with EEE in July 2002 at Rs.900.76 per meter. It was also admitted that at the time of placement of this order, two tenders, one invited in December 2001 and another in July 2002 were pending and these were opened only in August 2002. The Board was also stated to be conscious of the impending tender and possible scope for reducing price. However, the fact remained that the Company’s average monthly requirement of meters was only 16,700 and it had 40,134 meters in stock besides 30,000 meters pending supply against earlier order with the same supplier making the total availability at 70,134, which was sufficient for 4.2 months’ requirement. Hence placing orders for additional quantity at

[**] 25000 x (Rs.900.76 - Rs. 506.80)

exorbitant price was not prudent when supply against earlier order with the same firm was pending and sufficient stock was available in hand.

4.13.2 Pin insulators

In order to meet the requirement of pin insulators to be used in transmission construction works for the year 2000-01, the Board decided (March 2000) to invite tenders for the purchase of 1,80,000 sets of the material. Accordingly, tenders were invited (June 2000) for 1,80,000 sets. While the Board had (May 2000) a stock of 1,18,340 sets of pin insulators and the consumption rate was only 12,850 sets per month, orders were placed (May 2000) on BHEL as continuation of an earlier purchase contract (May 1999) for a total quantity of 1,80,000 sets (90,000 sets each in May and September 2000) @ Rs. 95.48 per set without even waiting for the outcome of fresh tenders invited in June 2000. BHEL supplied (July 2000 to January 2001) 1,79,018 sets at the rate of Rs.95.48.

It was noticed in Audit that the tender invited in June 2000 was opened by the Board on 20 December 2000 as against the notified date of July 2000 and the lowest rate quoted was Rs. 71.84 per set by Bihar Industrial Corporation. This tender was also cancelled by the Board (August 2002) on the ground that the stock of 98,268 sets available was more than sufficient to meet the requirement (79,500 sets) for the year 2002-03.

Thus, the failure of the Board to process and avail of the advantage of the lowest rate of Rs. 71.84 per set and alternative procurement of 1,79,018 sets of pin insulators from BHEL as additional quantity against earlier contract at exorbitant rate of Rs.95.48 per set, when there was stock available to meet more than nine months' requirement, resulted in avoidable extra expenditure of Rs. 42.32 lakh[*].

Management stated (May 2003) that considering the time taken for processing and finalisation of the tenders invited in June 2000 and lead time required for delivery of materials, decision was taken to procure pin insulators from BHEL against the earlier contract. The reply is not tenable since the Board had a stock of more than nine months' requirement when the decision was taken to purchase additional quantity from BHEL and the lead time required for commencement of supply was only two months. The Board also did not open the tender received in July 2000, as stipulated, so as to avail of advantage in price but delayed it up to December 2000 and then cancelled the tender on the ground of availability of sufficient stock.

The matter was reported to Government in June 2003; their reply is awaited (September 2003).

[*] 1,79,018 sets x (Rs. 95.48 - Rs. 71.84)

4.14 Ineligible payment

Irregular payment of Rs.3.44 crore was made towards incentive and ex-gratia to employees in violation of Government's order.

The payment of bonus/special festival allowance to the employees of the Board was being governed by the guidelines issued by Government each year. Payment in any other form or name, in violation of the guidelines had been expressly proscribed by such orders and the chief executives of Public Sector Undertakings were personally liable for any such over payments.

However, it was noticed (July 1999) in Audit that, in addition to bonus/special festival allowance the Board had been making payment by way of incentive and ex-gratia @ Rs.200 and Rs.100 each per financial year respectively to all the regular/contract/part time contingent employees and casual labour rate workers. Apprentices who do not qualify for payment of bonus and pensioners who were paid festival allowance were also granted ex-gratia of Rs.100 each. Even after the irregular payment was pointed out by Audit in July 1999, Board continued the payment of incentive and ex-gratia in addition to bonus/festival allowance. The ineligible payment made towards incentive and ex-gratia during the five years from 1996-97 to 2000-01 was Rs.2.24 crore and Rs. 1.20 crore respectively.

Thus, the payment of incentive and ex-gratia in violation of Government order resulted in avoidable expenditure of Rs.3.44 crore. No action had been taken by the Board to fix responsibility on the Chief Executive for the above irregular payment.

When the irregularity was again pointed out (October 2001) the management stated (May 2002) that the Board was empowered to make its own rules and regulations which may not be in line with Government rules. The payments were stated to have been made to employees as a gesture of goodwill to maintain industrial peace and harmony. However, as per section 78 A(1) of Electricity (Supply) Act 1948, in the discharge of its function the Board shall be guided by such direction on questions of policy as may be given to it by the State Government. Therefore, the reply is not tenable since the payments made were irregular in so far as it circumvented the provisions of Bonus Act and violated the specific directions issued by Government with a view to ensure compliance of such provisions. However, the Board has stated that such payments were dispensed with during the year 2001-02 and 2002-03.

The matter was reported to Government in July 2003; their reply is awaited (September 2003).

Kerala State Road Transport Corporation

4.15 Unproductive expenditure

The unauthorised participation as well as diversion of essential staff for People's Campaign Programme resulted in unproductive expenditure of Rs. 60 lakh.

As a part of implementation of People's Campaign Programme for formulation of Ninth Five Year Plan, Government issued (July 1996) guidelines, under which key resource persons were to be selected from various departments/institutions and trained to work at the State/District/Panchayat level on voluntary basis. The officers, thus, drafted on working arrangement were to draw their pay and allowances from their parent department/office and the period of deputation was to be treated as duty leave.

In accordance with the Government's guidelines, Corporation issued an internal order (September 1996), allowing its staff to participate in the Campaign Programme, only after obtaining prior permission of the respective unit officers. However out of a total number of 67 employees comprising mainly operating crew who attended the People's Campaign in various spells, 51 employees did not obtain prior permission. Whereupon the Corporation informed (October 1999) the State Planning Board (SPB) about the difficulty in sparing essential staff whose services were required for operation of schedules and for incurring the expenditure on the salary and allowances of such staff without any benefit to the Corporation. It was noticed in Audit that the Corporation failed to take any disciplinary action against these employees. The employees were diverted for periods ranging between one day and 56 ½ months. The total expenditure incurred on the salary and allowances of the personnel deputed for People's Campaign during September 1996 to May 2001 was Rs. 60 lakh, besides causing cancellation of schedules.

Thus, the unauthorised participation as well as diversion of essential operating staff for People's Campaign Programme resulted in unproductive expenditure of Rs. 60 lakh.

Government stated (August 2003) that there was no diversion of essential staff paving way for cancellation of services and the diversion of 16 persons from various units of the Corporation for four years and granting of duty leave to others occasionally was on compelling grounds and as per directions from Government. The reply is not correct since majority of the Corporation's staff diverted for People's Campaign were operating crew like conductors, drivers, etc., and the Corporation did not take any disciplinary action against the persons who participated without obtaining prior permission.

Kerala Financial Corporation

4.16 Loss of revenue

Failure on the part of the Corporation to insist on adequate collateral security and to ensure protection to the mortgaged property taken over from loanee resulted in non-realisation of Rs. 9.18 crore.

The Corporation sanctioned (March 1993) a loan of Rs.59 lakh to Star Refineries Pvt. Limited (SRP) for the expansion and diversification of their existing unit for refining rice bran oil, at a total cost of rupees one crore with a debt-equity ratio of 1.43:1. The loan was secured by way of an equitable mortgage in the form of first charge on two acres of land (original value Rs. 1.70 lakh) in the industrial development area in Parur taluk together with the entire plant and machinery items to be installed and the personal guarantee of the company's directors.

As per the loan agreement, SRP was to fund from its own resources the balance amount in excess of the loan of Rs.59 lakh sanctioned by the Corporation. However, disregarding this, the Corporation sanctioned three additional loans of Rs.20 lakh, Rs.90.50 lakh and Rs.90 lakh each in September 1994, March 1995 and November 1995 respectively, thereby taking the loan amount to Rs.2.60 crore against the revised project cost of Rs.4.04 crore. These additional loans were sanctioned without any additional/collateral security. SRP defaulted (October 1996) repayment of principal and payment of interest and the Corporation (February 1997) took over the unit under section 29 of the State Financial Corporations Act, 1951.

On the ground that the sale of the unit will not fetch enough funds to settle the dues from SRP, the Corporation decided (July 1997) to initiate revenue recovery proceedings against the unit. But no follow-up was made thereafter. However, the Corporation did not take any measures for ensuring the safety and security of the mortgaged assets of the unit taken over by it. Taking advantage of the inaction on the part of the Corporation, some of the directors of the loanee unit unauthorisedly dismantled and sold (January 2002) the plant and machinery worth Rs.1.89 crore. The Corporation could collect only Rs.4.72 lakh through the sale of the residual items of machinery/equipment left in the premises. As at the end of May 2003, a sum of Rs. 9.20 crore (principal : Rs.2.32 crore plus interest : Rs.6.88 crore) was pending realisation from the loanee against which the Corporation had the security of only two acres of land worth Rs. 1.70 lakh and the directors' personal guarantee.

Thus, the failure on the part of the Corporation to insist on adequate collateral/additional security and to safeguard the mortgaged assets taken over by it resulted in the non-recovery of dues amounting to Rs. 9.18 crore.

Management stated (August 2003) that the Corporation in those days was not insisting on collateral security and the loan was sanctioned based on industrial assets and personal guarantee. It was also stated that intensive recovery action against directors of the Company was in progress and all possible measures were not exhausted. The reply is not acceptable since the Corporation sanctioned additional loan of Rs.2.01 crore without insisting on any security and recovery action initiated in 1997 had not yielded any result so far (September 2003).

The matter was reported to Government in July 2003; their reply is awaited (September 2003).

4.17 Non - recovery of dues

The decision to sanction short term loan without adequate collateral security and gross overvaluation of security offered resulted in non-recovery of Rs.8.11 crore.

The Corporation sanctioned (March 1996) a short term loan of Rs.75 lakh to Sri.M.J.Jose, Ernakulam for expansion of the business of supply of treated teak wood poles. The loan was disbursed (March and June 1996) in two instalments of Rs.50 lakh and Rs.25 lakh, and was repayable in six monthly instalments at interest rate of 22 *per cent* per annum and penal interest of 2 *per cent* per month for default. As collateral security for the loan, the party deposited title deeds of 205 cents of land, comprising two properties measuring 72 and 133 cents respectively, which were valued at Rs.1.06 crore. The cost of purchase of the properties as per registration deed was Rs.2.49 lakh only.

The loanee repaid (May to July 1996) Rs.32.27 lakh and defaulted since August 1996. The post-dated cheques given by the loanee were also dishonoured on presentation. However, the Corporation did not take any legal action.

Thereupon, the landed properties of the loanee were taken over (January 1997) under section 29 of the State Financial Corporations Act, 1951 for default in payment of dues. As against valuation of land at Rs.1.06 crore at the time of sanction of loan, the upset value fixed for sale in July 1998 was only Rs.62.05 lakh which indicated gross overvaluation. It was noticed in audit that for valuation of land, Corporation did not have a system of ascertaining the transaction value of land from the sub-registrar and the valuation was being done arbitrarily on the basis of local enquiry, which did not have any authenticity.

On sale of 72 cents of the land originally valued at Rs.39.60 lakh offered as collateral security, the Corporation could realise (2002) Rs.28.80 lakh only and the amount was adjusted against the loan account leaving a balance of Rs.8.11 crore (principal : Rs.0.46 crore, interest : Rs.3.69 crore and penal

interest: Rs.3.96 crore) as on 30 June 2003. The Corporation could not sell (July 2003) the remaining portion of collateral security of 133 cents of land having an upset value of Rs.33.26 lakh.

Management stated (September 2003) that as per security norms at the time of sanction the collateral security offered was worth Rs.1.06 crore against Rs.75 lakh required and the value of land decreased subsequently due to market recession. It was also stated that the Corporation took a policy decision in March 2003 to allow the loanee reduction in penal interest from 24 to 2 *per cent* per annum and on that basis balance as on 1 September 2003 was Rs.2 crore (principal : Rs.0.46 crore and interest : Rs.1.54 crore). However, the fact remained that the Corporation valued the land offered as collateral security at Rs.1.06 crore as against the original cost of purchase of Rs.2.49 lakh and the balance land available as collateral security was marshy land with no access and hence could not be sold indicating that the dues from the loanee were irrecoverable.

Thus, sanction of the short term loan without adequate collateral security and gross overvaluation of security offered, resulted in non-recovery of Rs.8.11 crore. Revenue recovery action initiated (September 1997) for attaching the personal properties of the loanee had not shown any progress (July 2003).

The matter was reported to Government in August 2003; their reply is awaited (September 2003).

Thiruvananthapuram **(ARVIND K. AWASTHI)**
The **Principal Accountant General (Audit) , Kerala**

Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**
The **Comptroller and Auditor General of India**