5.1 Sanction and recovery of defaulted loans

Introduction

5.1.1 The Kerala State Financial Enterprises Limited (Company), a Miscellaneous Non-Banking Company (MNBC) was incorporated (1969) as a private limited company with the main objective to conduct chit business. Apart from this, the Company accepts deposits and advances loans to the general public through its 577 branches under 11 Regional Offices.

The details of loans outstanding and default position under different loan schemes during the last three years ended 31 March 2018 were as given in Appendix 10. In order to examine the sanction, disbursement and recovery of defaulted loans given by the Company during the last three years ended 2017-18, audit selected 442 defaulted loans involving an amount of ₹13.21 crore (out of 1,728 defaulted loans amounting to ₹41.38 crore) from the 20 branches under four regional offices for detailed scrutiny.

Audit also selected four out of 10 Special Deputy Tahsildar (SDT) Offices for reviewing the progress of revenue recovery actions on cases referred for revenue recovery.

Audit findings

5.1.2 The audit findings emerging from the Compliance Audit are discussed below:

Legal mandate for conduct of non-banking business

5.1.3 Acceptance of money in excess of guarantee limit

5.1.3.1 The Company accepts different types of deposits from the public and...
these deposits are mainly used for advancing loans to its customers. The Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 2016 prohibit companies from accepting deposits from the public unless guaranteed by the Government.

Audit observed that:

- The Company accepted public deposits during 2014-15 to 2017-18 in excess of the Government guarantee. The excess public deposit ranged between ₹208.50 crore (2017-18) and ₹2,991.82 crore (2015-16). Despite this, the Company issued Fixed Deposits Receipts and Sugama Deposits Pass Books with the undertaking that the deposits were guaranteed by the Government, which was misleading.

- The Company falsely declared its status as ‘Public Limited” in the Annual Return to the RBI.

- Acceptance of deposits in excess of the Government guarantee was also not shown as public deposits in the Annual Return on Deposits submitted to the Reserve Bank of India.

The Company, while accepting (December 2018) that overall deposits had exceeded the guaranteed limits on some occasions, stated that the delay in obtaining extension of guarantee coverage limit did not affect the guarantee coverage as all the extensions were given by the Government with retrospective effect.

The reply was not acceptable as the guarantee coverage can be extended with prospective effect only.

Non-registration with National Housing Bank

5.1.3.2 As per Section 29A of the National Housing Bank Act, 1987, any company having the business of providing finance for housing as one of its principal objectives shall be registered with the National Housing Bank.

Audit observed that the Company did not obtain a certificate of registration from the National Housing Bank, but disbursed 15,968 New Housing Finance Scheme Loans (NHFS) amounting to ₹927.38 crore during 2015-16 to 2017-18 without legal mandate.

The Company replied (December 2018) that urgent steps would be taken for obtaining the Certificate of Registration from the National Housing Bank.

Sanction of loans

5.1.4 The Company offers New Chitty Loans70 to the subscribers of chitty. Reliable Customer Loans are offered to persons who are customers of the

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70 Renamed now as Chitty Loan.
Company for the last 12 months. Gold Loans, Consumer/ Vehicle Loans, Housing Loans and Education Loans are offered to the general public. Terms and conditions of various loans are given in Appendix 11. The position of 77 gold loans is discussed separately in Paragraph 5.1.6. Audit noticed irregularities in the sanction of 110 loans out of 365 default loans except gold loans as shown in Table 5.1 below:

**Table 5.1: Details of irregularities in sanctioning loans**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Norms of the Company</th>
<th>Audit Observations</th>
<th>Reply of the Company and further remarks (December 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non-prized chitty subscribers(^71) having remitted 10 per cent of chitty instalments (at the time of the sanction of the loan) are eligible.</td>
<td>Three branches of the Company sanctioned eight NCLs(^72) of ₹0.29 crore to non-prized subscribers before remittance of 10 per cent of the chitty instalments. All NCLs were in default for periods ranging from 25 to 52 months with default amount of ₹0.28 crore.</td>
<td>With the permission of the Assistant General Manager (Region) concerned, the branch could sanction NCL before remittance of 10 per cent of the instalments. As the permission from the Assistant General Managers (Region) concerned was not obtained at the time of sanctioning the loans, the reply was not acceptable.</td>
</tr>
<tr>
<td>2</td>
<td>If the liability on a property exceeds ₹0.10 crore, the entire property documents should be forwarded to the Regional Office.</td>
<td>Four NCLs(^73) for ₹0.05 crore each were sanctioned to two individuals against the security of the same property by the Branch Manager. The documents were not forwarded to the Regional Office though the liability against the property was ₹0.20 crore.</td>
<td>The property in question was revalued subsequently and accepted by the Regional Office. The reply confirms that the initial valuation of property was not approved by the Assistant General Manager (Region).</td>
</tr>
<tr>
<td>3</td>
<td>In case of NCL having monthly instalment with interest of ₹5,000 and above, the repaying capacity of the loanee was to be assessed before the sanction of the loan.</td>
<td>The repaying capacity of four persons, who were sanctioned five loans(^74) amounting to ₹0.20 crore, was insufficient to pay the monthly instalments. This was because these four persons had already availed other loans/chitties from the Company and their declared income was just sufficient to pay monthly instalments of these loans/chits. Despite this, the Company further released chitty prize money of ₹0.19 crore to three persons out of the above four persons. The instalments of all the eight loans/chitties were in default for more than 12 months.</td>
<td>The Unit Heads used their discretionary powers to assess the repaying capacity of the loanees. The reply was silent about the loans/chitties sanctioned to persons with insufficient income to repay.</td>
</tr>
</tbody>
</table>

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\(^71\) Prized subscriber means a subscriber who has either received or is entitled to receive the prize amount (prize amount means the difference between the chit amount and discount). Subscribers other than prized subscribers are called non-prized subscribers.  
\(^72\) NCLs 314, 315, 316 and 317 of Pattikkad, NCLs 252, 148 and 149 of Koduvalli and NCL 2362 of Malayinkeezhu.  
\(^73\) NCLs 314, 315, 316 and 317 of Pattikkad.  
\(^74\) NCL 232 (Chittar), NCL 2938 (Alappuzha II), NCL 706 (Alappuzha Evening), NCL 1997 and RCL 1097 (Kayamkulam).
### Audit Report No.1 (PSUs), Kerala for the year ended 31 March 2018

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<td></td>
<td>applying for the loan.</td>
<td>to three persons(^5) when NCLs availed by them were in default for ₹0.08 crore. The three RCLs and NCLs were in default and the amount recoverable stood at ₹1.11 crore.</td>
<td>from the restriction for the best interest of the business promotion.</td>
</tr>
<tr>
<td>5</td>
<td>Applicants should be customers of the Company for more than 12 months.</td>
<td>RCLs of ₹1.74 crore were given to 70 customers even though they were customers of the Company for less than 12 months. All the 70 loans were in default for periods ranging from 15 to 41 months and the amount recoverable stood at ₹1.21 crore.</td>
<td>The reply was not acceptable, as the norms of the Company did not empower the unit heads to deviate from the laid down procedure arbitrarily.</td>
</tr>
<tr>
<td>6</td>
<td>In case of settlement deed(^6) being offered for creating mortgage, persons having life interest should also join the mortgage.</td>
<td>In respect of two loans(^7) for ₹0.08 crore, while creating mortgage on settlement deed, persons with life interest did not join the mortgage.</td>
<td>The Company agreed with the audit observation that persons with life interest should invariably join the mortgage.</td>
</tr>
</tbody>
</table>

**Sanction of loan against inadequate security of property**

| 7       | In case of acceptance of property (land and buildings) as mortgage, the estimated market value of the property should be sufficient to cover twice the future liability in case of RCL and NCL and 1.73 times the future liability in case of NHFS. | Five branches extended nine loans for ₹32.90 lakh even though the estimated market value of the property given as security was inadequate to the extent of ₹27.92 lakh as shown in Appendix 12. | In the case of loans mentioned in Appendix 12, the Company stated (January 2019) that the present valuation of the property was sufficient to cover the existing dues of the loan. |
|         | | | The reply was not acceptable as the market value of properties pledged was insufficient at the time of sanctioning loans. |
| 8       | ‘Non-kudikidappu Certificate’ was to be obtained from the village office if the land offered as security was below five cents. Moreover, personal sureties should be obtained in such cases. | Two branches\(^8\) extended one RCL and two NCLs for ₹0.09 crore to three individuals without obtaining ‘Non-kudikidappu Certificate’. Personal sureties were also not obtained in these cases. | The Company usually collected the ‘Non-Kudikidappu Certificate’ and additional personal sureties were obtained later on, in cases where there was more number of property pledged with a high realisable value. |
|         | | | The reply was not acceptable as the fact remained that as no such certificate and additional personal securities were obtained in these cases. |
| 9       | Paddy fields (wet land) and rubber/coffee/tea/coconut plantation having road access should be assigned maximum market value of ₹1 lakh and ₹2.25 lakh per acre respectively. | Five loans for ₹18 lakh with a future liability of ₹35.12 lakh was sanctioned by four branches of the Company, accepting paddy field/ rubber plantation as collateral. The Company assigned a higher market value to the property deviating from norms which led to inadequate collateralisation of loans by ₹49.16 lakh as shown in Appendix 13. | With respect to RCL 924 specified in Appendix 13, the Company confirmed (January 2019) that the security was indeed rubber estate, but valuation was done based on the market value. In respect of NCL 2373 and RCL 1555, it was replied that the security offered was not plantation property. |
|         | | | The reply was not acceptable as |

\(^5\) Kayamkulam RCL 1097 (NCL 1997), Alappuzha Evening RCL 1212 (NCL 500), Pattikkad RCL626 (NCL 347).  
\(^6\) A deed in writing of movable or immovable property for some dependable persons.  
\(^7\) RCL 649 and RCL 657 in Pattikkad branch.  
\(^8\) Pattikkad (RCL 565) and Chelakkara (NCL 727 and 827).
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<td>10</td>
<td>The maximum multiple liability that can be charged on a property was limited to six mortgages.</td>
<td>Perambra branch(^{79}) of the Company sanctioned one loan for ₹0.10 crore against a property which already had six charges. The loan was in default for more than 29 months and the amount recoverable stood at ₹0.10 crore.</td>
<td>Company underlined the arbitrariness in valuation in violation of Company’s guidelines. In the Valuation Report of NCL 2373 and RCL 1555, both the properties were classified as agricultural land with rubber trees. No specific reply was furnished.</td>
</tr>
<tr>
<td>11</td>
<td>A property already under mortgage to the Company can be accepted for a second and subsequent time only if there is no default in the Chitties/Loan accounts for which the property is already under mortgage.</td>
<td>The Kattanam branch sanctioned (March 2015) one NCL(^{80}) of ₹0.05 crore against security of a property which was already under mortgage to the Company (Kannanallur branch) in respect of two defaulted (since September 2014) NCLs(^{81}).</td>
<td>The Company accepted the audit observation and stated that explanation would be called for from the Branch Managers.</td>
</tr>
<tr>
<td>12</td>
<td>If the property offered is not in the name of the loanee, and the property offered is devolved on the mortgagor on the death of his predecessor, heirship certificate is to be obtained.</td>
<td>The Vizhinjam branch of the Company sanctioned a loan(^{82}) for ₹0.10 crore by accepting land as security after revaluation which was already under mortgage to the Company against a prized chitty. The land was owned and possessed by the deceased father of the loanee and was accepted as mortgage without obtaining legal heirship certificate.</td>
<td>The Company accepted the audit observation and stated that action was being taken against the Branch Manager for the lapses.</td>
</tr>
</tbody>
</table>

**Sanction of loan against improper personal surety**

| 13     | For securing loans by salary certificate, the maximum liability that could be covered by self or single surety was ₹4 lakh and ₹3 lakh respectively, limited to 10 times his/her pay. | Four branches of the Company extended 19 loans for an amount of ₹1.04 crore against the personal sureties of 19 persons. As these persons had given sureties against loans of some other persons, the balance eligible surety was ₹55.06 lakh. Thus, the Company accepted sureties in excess of the eligible limit by ₹49.24 lakh as shown in Appendix 14. | The Unit heads were empowered to relax 10 per cent of the total liability’s security and was allowed only for better business promotion. The reply was not acceptable as the Branch Managers relaxed security in excess of 10 per cent to the five loanees, by overlooking the norms of the Company. |
| 14     | The sureties should have at least six months service left for retirement after the loan closure date. | In respect of four loans\(^{83}\) sanctioned by four branches of the Company, the loans were secured by personal/ self-sureties of nine persons. Out of this, four sureties did not have balance service of six months after the loan closure date. Further, in respect of two | If a person with service less than the tenure of loan was accepted as personal surety by the Company, a consent letter would be obtained from remaining co-sureties/loanees. |

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\(^{79}\) NCL 3449.  
\(^{80}\) NCL 1821.  
\(^{81}\) NCL 678 and NCL 689 in Kannanallur branch.  
\(^{82}\) NCL 2825.  
\(^{83}\) RCL 1212 (Alappuzha Evening branch), NCL 440 (Balaramapuram branch), NCL 234 (Meppayur branch) and RCL 730 (Chalakkudi branch).
Thus, out of 365 loans amounting to ₹13.01 crore examined in audit (out of 1,728 defaulted loans amounting to ₹41.38 crore), the Company sanctioned 110 loans for ₹3.50 crore without adhering to the codal provisions. This indicated that 30 per cent of the defaulted loans were sanctioned disregarding the norms prescribed by the Company for sanction of loans. Hence, Government/Company may check the level of compliance of norms in sanctioning loans in the cases which were not test checked by Audit.

**Non-promotion of Vidyadhanam Loan Scheme**

5.1.5 The Minister for Finance, in his Budget speech 2011-12, announced (08 July 2011) “Vidyadhanam Loan Scheme” with the help of the Company for the students belonging to weaker sections having annual income less than ₹0.01 crore for professional courses. GoK would provide interest subsidy of four per cent. The Company was to set apart ₹30 crore every year for the scheme so as to benefit around 1,500 students annually. The scheme also covered students belonging to general category (at 13.50 per cent rate of interest) in addition to weaker section. Audit observed that:

- The Company disbursed loans of only ₹1.32 crore to 36 students since the launching of the scheme till March 2018. This included ₹0.31 crore to 12 students belonging to weaker sections. The Company did not fix targets for Regions/branches for the disbursement of loans nor popularised the scheme through any advertisement, underlining the indifference of the Company to the scheme proposed by the Government.

- The rate of interest of Vidyadhanam Loan Scheme was kept unchanged at 12 per cent, though the Company reduced interest rates for other loan schemes.

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84 RCL 1212 (Alappuzha Evening branch) and NCL 440 (Balaramapuram Evening branch).
85 NHFS 3 Alappuzha Evening branch.
• In respect of ₹0.31 crore sanctioned to 12 students belonging to economically weaker sections, the interest subsidy of ₹0.05 crore was yet (July 2018) to be given by the GoK.

Taking note of the audit observation, the Company assured (December 2018) that a strategic plan would be formulated for popularising the scheme and targets would be fixed and assigned to Regions and branches. Action would also be taken to get reimbursement of the subsidy amount from the GoK.

**Gold loan scheme of the Company**

5.1.6 During 2015-16 to 2017-18, the Company disbursed 18.22 lakh loans amounting to ₹13,926 crore. Out of this, 14.95 lakh loans (82 per cent) amounting to ₹4,723.84 crore (34 per cent) were gold loans. Considering the significance of gold loans in the total loan portfolio of the Company, apart from the sample of 77 gold loans, Audit examined, the gold loan portfolio in general. The audit observations are discussed in the following paragraphs.

**Improper sanction of gold loan to private money lenders**

5.1.6.1 Through the gold loan scheme, the Company aimed at (March 2012) achieving its social objective of saving the common man from the unscrupulous activities of private players. According to the circular issued (June 2009) by the Company, a person can be given a maximum number of three gold loans in a working day from a branch, otherwise specific approval of the Branch Manager concerned was to be obtained. Audit observed that:

• In three out of twenty branches examined by Audit, the Company extended 570 gold loans amounting to ₹0.96 crore to 16 individuals in excess of three loans on occasions ranging from 1 to 136 days. The sanction of excess loans was without the specific approval of the Branch Managers. Out of the 16 individuals, five individuals in Vizhinjam branch were private gold financiers and these private gold financiers were given excess loans of ₹0.36 crore.

• During the period 2015-16 to 2017-18, seven branches disbursed gold loans amounting to ₹156.78 crore to 11,430 loanees. Out of this, ₹66.44 crore were issued to 56 individuals through 30,370 gold loans. These 56 borrowers, who accounted for one per cent of the total loanees were disbursed 42 per cent of the total gold loans during 2015-16 to 2017-18. As the high number of loans availed and used by the individuals in a short span of three years seemed unlikely, the possibility of private money lenders having taken gold loan from the Company for further lending could not be ruled out. Managers of Alappuzha II and Vizhinjam branches accepted that eight individuals

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86 Gold loan is a secured loan in which a customer pledges his/her gold ornaments as collateral for taking a loan.
88 Malayinkeezhu, Maranallur and Vizhinjam branches.
who took large number of loans from each of the branches were private money lenders.

The Company, while acknowledging (December 2018) that the very objective of the Gold Loan Scheme would not be achieved if it was extended to private money lenders, stated that strict directions were given to Regions and branches not to entertain private money lenders.

**Charging lower rate of interest**

5.1.6.2 The total loans taken by a person in a particular day was to be aggregated for the fixation of applicable rate of interest. The applicable rate of interest for gold loan with effect from March 2017 was 9.50 *per cent per annum* for loans up to ₹20,000 and 10.50 *per cent per annum* for loans above ₹20,000.

Audit examined the sanction of 1,651 gold loans in which more than one loan was given to the same person on a day in 20 branches of the Company and observed that the rate of interest was fixed without aggregating the loans taken in a day. This was because the CASBA software calculated interest at the rate of 9.50 *per cent* for the first loan below ₹20,000 and interest rate of 10.50 *per cent* only for the second/third loan/s. The Company thus recovered one *per cent* less interest from 1,651 gold loan accounts and suffered a loss to the extent of ₹0.01 crore in 20 branches examined by Audit.

While accepting the audit observation, the Company thanked (December 2018) the Audit for pointing out the flaw as this would arrest further monetary losses.

**Delay in disposal of gold held as security**

5.1.6.3 According to the circular issued (November 2012) by the Company, gold loans were repayable within six months from the date of sanction. In case of failure to repay the gold loan within one year or when the outstanding dues including interest and penal interest exceeded 85 *per cent* of the value of gold, the Company is at liberty to sell the gold pledged against the defaulted gold loans. Audit observed that:

- There were delays ranging from 23 to 37 months in conducting auctions of gold held as security for realisation of outstanding dues of ₹1.21 crore in 135 cases in 6 out of the 20 branches examined in audit. Due to the delay in conducting auction, the Company recovered only ₹0.96 crore through auction sales resulting in a loss of ₹0.25 crore. Apart from this, Audit observed that in other 78 branches, there were delays ranging from 16 to 52 months in conducting auction of gold resulting in loss of ₹2.27 crore.

Concurring with the audit observation, the Company replied (December 2018) that immediate actions would be arranged to conduct auction. Loss already sustained would be recovered from the persons concerned.
5.1.7 The loans advanced by the Company, except gold loans\(^{90}\), were repayable with interest in monthly instalments over periods ranging from 6 months to 30 years as detailed in Appendix 11. In case of default in payment of monthly instalments, penal interest was to be charged on the default amount and in case of default beyond 18 months, such cases were to be referred for revenue recovery proceedings.

Audit observations on the recovery procedure are described below:

### Recovery of default amount from sureties

5.1.7.1 The GoK introduced an online system, Service and Payroll Administrative Repository for Kerala (SPARK), for effecting recoveries from the salary of the employees from August 2016. As per the system, the Drawing and Disbursing Officer shall recover the dues from the salary of the employees and credit the amount directly to the Company. Out of 442 loans examined in audit, default amount of ₹1.12 crore in respect of 52 borrowers was to be recovered from the salary of the sureties.

Audit observed that out of the 20 branches examined by Audit, 12 branches did not register under SPARK. As a result, recovery of ₹0.68 crore in respect of 33 loans could not be effected. In respect of the balance 19 loans amounting to ₹0.44 crore in eight branches registered under SPARK, no amount could be recovered as the Branch Managers did not place the request on SPARK.

The Company replied (December 2018) that instructions were given to all branches to ensure registration and recovery under SPARK.

### Recovery of default amount from prize money

5.1.7.2 According to the Manual of Procedure of the Company, default, if any, in respect of any chitty/loan of the subscriber/borrower or any surety can be deducted from the prize money of the chitties of the subscriber/borrower or surety.

Audit observed that:

- The Company did not recover the default amount of ₹0.02 crore in respect of three New Chitty Loans\(^{91}\) from the prized chitties of the borrowers.

- An amount of ₹0.54 crore was overdue from three defaulters\(^{92}\) for more than 18 months which was due for revenue recovery action. These three principal defaulters won prize money of ₹0.30 crore against chitties. The Company adjusted only ₹0.23 crore against the overdue amount of ₹0.54 crore of these defaulters. The balance prize money of ₹0.07 crore was adjusted against the default amount of five other persons. The loan

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\(^{90}\) Gold loans are not repayable through EMIs but have a maximum repayment period of six months.

\(^{91}\) NCL 2255 (Malayinkeezhu), NCL 589 (Alappuzha Evening) and NCL 1784 (Kattanam).

\(^{92}\) Smt. Saleena Shahjahan, Shri Javahar CL and Shri Jayan of Chittar, Malayinkeezhu and Vizhinjam branches respectively.
accounts of two persons\textsuperscript{93} were settled this way. The adjustment of prize money against the default amount of other persons was irregular. Thus, settlement of prize money against the dues of other parties without adjusting against the principal defaulter, allowed the principal defaulter the possibility of collecting the amount subsequently from the other persons. Audit also observed that although three defaulters were in default for more than 18 months, these loans were yet to be referred to SDT for revenue recovery proceedings.

The Company replied (December 2018) that if the branches had violated the existing norms, stringent action would be taken against them.

Recovery of dues through revenue recovery action

5.1.7.3 As per the provisions of the Manual of Procedure issued by the Company, loans in default for more than 18 months were to be referred for revenue recovery action under the provisions of the Kerala Revenue Recovery Act, 1968. Audit observed that out of 442 defaulted loans worth ₹13.21 crore examined in audit, 402 loans involving an amount of ₹12.14 crore were in default for periods ranging from 19 to 72 months. Although these 402 loans were to be referred for revenue recovery action, the Company did not initiate revenue recovery action as of July 2018.

As no case out of the 402 test checked cases was referred for revenue recovery action, in order to assess the efficacy of recovery through revenue recovery action, Audit examined the functioning of four out of 10 SDT offices and the Head Office-Revenue Recovery (HO-RR) wing.

Audit observed that:

- As of March 2018, 16,107 loans/ chitty files involving recovery of ₹474.55 crore were pending at the 10 SDT offices and 4,294 files were not traceable.

- In the four SDT offices examined in audit, 606 loans/ chitty files were not traceable. In respect of 57 such default cases in SDT office, Alappuzha amount recoverable was ₹3.02 crore\textsuperscript{94}. Only the office of SDT, Alappuzha had done reconciliation with the HO-RR wing regarding these missing files. The other three offices did not reconcile the differences.

The Company replied (December 2018) that action would be taken against the branches which had not initiated RR action even after the loans were in default for more than 18 months. The Company further assured that the issue of missing files in SDT offices would be looked into seriously.

\textsuperscript{93} Smt. Arifa Beevi RCL 355-₹2.15 lakh and Shri Sisupalan prize money 16/2012-18 ₹0.53 lakh.

\textsuperscript{94} The remaining three SDT offices did not carry out reconciliation of files generated and sent from HO-RR wing and files entered in the RR Demand Register at the SDT offices.
Attachment of movable and immovable properties

5.1.7.4 As per Section 5 of the Kerala Revenue Recovery Act, 1968, the Company can attach movable and immovable properties of the defaulter for recovery of dues to the Company. Audit observed that:

- Out of ten SDT offices, only SDT office, Thrissur attached movable property and recovered ₹2 crore during 2017-18 in part settlement of the dues in 23 out of 617 cases. None of the other offices attached movable properties.

  The Company replied that all the SDTs were given directions to explore this method as part of revenue recovery proceedings.

- Out of 171 RR files examined in audit, in respect of 13 loan/ chitty files in three SDT offices, repeated time extensions and facilities for payment in instalments were offered on the recommendation of the Ministers, Chairman and Vice Chairman of the Company. These repeated extensions were offered despite non-adherence to the conditions of the previous extensions. Further, in 19 cases involving an amount of ₹0.93 crore, revenue recovery action was not resumed even though the defaulters failed to adhere to the conditions of time extension/ stay orders.

  The Company stated (December 2018) that repetitive administrative stays hampered the functioning of SDTs and it was not practical to completely avoid such administrative stays. The Company also stated that a system was being brought in for disclosing details of stays obtained previously.

Thus, due to the delay in referring cases for revenue recovery action coupled with the delay in recovery of dues even in cases referred, the percentage of non-performing assets (NPA) of the Company ranged between 18.53 and 22.25 during 2015-16 to 2017-18, while the percentage of NPA of NBFCs as per RBI report was only 5.86 per cent as of March 2018.

The Company clarified that as the Company was compelled to take a lenient approach in many instances owing to its social commitment and its functioning cannot be compared with the banks.

The Company’s reply was not acceptable as the Company classified a loan as NPA on non-payment of loan instalments for six months whereas the banks adopted three months for NPA classification. Further, higher percentage of NPA highlights the failure of the recovery mechanism of the Company.

Computerisation of revenue recovery process

5.1.8 For the management of the revenue recovery processes at the 10 Special Deputy Tahsildar (SDT) Offices and at the HO-RR wing, the Company used

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95 RR File No.7047, 7050, 5051, 7701, 8233, 8206, 8208 and 8207 (Alappuzha SDT), RR File No. 1495 (Thiruvananthapuram SDT), RR File No, 7975, 7976, 7978 and 7979 (Kozhikode SDT).
three software packages, viz., Revenue Recovery System (RRS), RRS1314,\textsuperscript{96} which are vintage DOS based packages and Centralised Application Software (CAS) RR. The Company introduced CAS RR in April 2016 as an integrated system for linking SDT offices and HO-RR wing. However, CAS RR generated only the RR demand and collection entries remained to be entered in RRS and RRS 1314 as all the functional modules of CAS RR were not operational. Further, all the three software were not connected with CASBA used in branches. Thus, there was no integrated software package in SDT offices and at the Head Office RR Section.

The Company replied (December 2018) that it has initiated steps for developing RR module in CASBA which would be ready by 2019-20.

The GoK endorsed (May 2019) the replies of the Company.

## Conclusion

The Company accepted deposits from the public in excess of government guarantee and issued fixed deposit receipts and Sugama Deposits Pass Books with the undertaking that the deposits were guaranteed by the Government. Loans were sanctioned without following norms applicable to the different categories of loan. Gold loans were sanctioned to private money lenders in violation of the objectives of the Company. There were delays in auction of gold to recover dues in default cases. Default loans were not referred for recovery of dues through revenue recovery action. Percentage of NPA on loans outstanding of the Company stood at 22.25, whereas the NPA of NBFCs as per report of RBI was only 5.86 per cent.

The Audit observation is based on our analysis on sample cases only. Since there is a possibility of more such cases occurring in other loans, the Company may examine the loans not covered in audit and take suitable corrective action.

## Kerala Feeds Limited

### 5.2 Failure in implementation of project

**Failure of the Company to identify 7,204 women beneficiaries for free distribution of goats resulted in loss of GoI assistance amounting to ₹3.03 crore, besides non-achievement of the objective of the scheme, namely, equipping women to become self-employed/entrepreneurs.**

Government of India (GoI) approved (March 2012) a goat-rearing project submitted by Kerala Feeds Limited (Company) under Support to Training and Employment Programme for Women (STEP) Scheme. The project envisaged giving one goat each, free of cost, to 10,000 women beneficiaries belonging to economically and socially backward sections of the society, drawn from urban areas.

\textsuperscript{96} RRS was used for cases in respect of which RR action was initiated prior to 31/03/2013, while the RRS1314 was used for RR action initiated after 01/04/2013.
and rural areas. As per the approved project, the goat-rearing project was to be implemented over a period of two years, by April 2014. Total cost of the project was pegged at ₹6.25 crore, to be shared by GoI (₹5.63 crore\(^{97}\)) and Government of Kerala (GoK) (₹0.62 crore\(^{98}\) by way of grants. GoI released (April 2012) ₹2.60 crore\(^{99}\) towards the first instalment of its share.

The Company did not implement the project within the stipulated period and based on the request (July 2014) of the Company, GoI extended (December 2014) the completion time for a further period of two years up to March 2016. The Company did not complete the project even within the extended time. As of June 2018, goats were given to only 749 beneficiaries instead of 10,000 beneficiaries as envisaged.

Audit noticed that:

- For the overall monitoring and implementation of the project, a project monitoring and implementation committee was to be immediately constituted. After the approval of the project, the Company constituted (May 2012) a sub-committee to examine whether the implementation of the project was permissible as per the object clause of its Memorandum of Association and to suggest a viable modus operandi for the project. Accepting (April 2013) the recommendations of the sub-committee (October 2012), the Company constituted the project monitoring and implementation committee in April 2013. The delay of one year in constitution of the committee was avoidable as issues like modus operandi, mandate for implementation of the scheme etc. were to be addressed at the time of submission of project report to the GoI.

- As per the approved project, beneficiaries were to be selected based on their income criteria and social status by convening meetings at public places after giving wide publicity. The Company, however, decided (April 2013) to select mothers of girl students studying in high schools as beneficiaries from 14 blocks, which was subsequently reduced to nine blocks. Thereafter, the Company invited applications from nine blocks for enlistment of beneficiaries and 22,261 girl students of 64 schools responded (October 2013) to this. As criteria such as income and social status of students were not specified by the Company, beneficiaries were not selected out of these 22,261 students. Subsequent action was taken by the Company only in July 2015 when it asked 30 out of 64 schools to filter information of students as belonging to Scheduled Caste/Scheduled Tribe categories and below poverty line. The basis of selection of 30 out of 64 schools was not on record. Based on the information furnished by 18 schools between July 2015 and December 2015, the Company selected 2,796 eligible students.

\(^{97}\) ₹2.90 crore in first year and ₹2.73 crore in second year.
\(^{98}\) ₹0.32 crore in first year and ₹0.30 crore in second year.
\(^{99}\) Balance amount of ₹0.30 crore as second instalment of the first year was to be released on submission of audited statement of accounts, utilisation certificate, physical report of the project etc.
Thus, the Company identified only 2,796 eligible beneficiaries instead of the required 10,000 beneficiaries, due to deviations from the approved project and frequent changes in the area for coverage.

- For distribution of goats to eligible beneficiaries, the Company issued (August 2015) purchase order to a contractor to supply 5,000 goats. The Company was to provide supply schedule (at least 100 numbers in one lot) to the contractor seven days in advance.

Audit noticed that after the supply and distribution of the first lot of 84 goats in September 2015, the Company provided next supply schedule for 1,156 goats only in January 2016. Against this, the contractor supplied only 665 goats during January and February 2016. Thereafter, no supply schedule was given to the contractor.

Thus, though the Company identified 2,796 eligible beneficiaries and had a valid purchase order for supply of 5,000 goats; it distributed goats to 749 beneficiaries only from September 2015 to March 2016, utilising ₹0.34 crore out of ₹2.60 crore released by the GoI.

- As per the terms and conditions of STEP Scheme, release of the balance share of GoI assistance amounting to ₹3.03 crore was dependent on timely completion of the project. Further, if a part of the grant was left unspent after expiry of the period, the Company was required to refund the balance amount along with interest at 10 per cent per annum.

As the Company distributed goats free of cost to 749 beneficiaries only as of June 2018, GoI did not release the balance share of ₹3.03 crore. Further, the Company is bound to refund the unspent balance of ₹2.26 crore along with interest of ₹0.51 crore100.

Thus, failure of the Company to identify 7,204 women beneficiaries for free distribution of goats resulted in loss of GoI assistance amounting to ₹3.03 crore, besides non-achievement of the objective of the scheme, namely, equipping women to become self-employed/entrepreneurs.

GoK replied (September 2018) that a committee was constituted (September 2018) for studying the changes to be made to the existing project and submit a realistic and practical report to the Government at the earliest. After studying the said report, GoI would be requested to extend the completion time of the project up to 2020.

The reply was not acceptable as there was undue delay in constituting the committee considering that the project was to be completed by March 2016.

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100 ₹2.26 crore x 10 per cent per annum x 27 months (From April 2016 to June 2018).
Government of Kerala (GoK) approved (May 2007) the construction of four shopping complexes on Build, Operate and Transfer (BOT) basis by Kerala Transport Development Finance Corporation Limited (BOT Operator). The shopping complexes were to be constructed on the land owned by Kerala State Road Transport Corporation (Corporation) at Angamaly, Thampanoor, Kozhikode and Thiruvalla bus stations. In consideration of the use of land, the BOT operator was to pay the Corporation an annuity at the rate of 50 per cent of the net monthly income\(^1\) generated from the BOT project after the construction period. The annuity was payable on quarterly basis.

The BOT operator completed the construction of all the four shopping complexes\(^2\) between June 2012 and March 2016. Shops in Thiruvalla complex were not let out as the Municipality did not allot building number to the shopping complex due to violation of Fire and Safety Rules. In Kozhikode shopping complex, shops were not allotted due to court case arising from allotment of the entire space as a single block to MAK Associates, the highest bidder.

The BOT operator started allotting shops in Angamaly and Thampanoor shopping complexes with effect from August 2012\(^3\) on the basis of highest monthly rent offered. As of February 2019, the percentage of allotment in these complexes was between 84 and 91 respectively.

Audit observations on sharing of revenue in these two shopping complexes are discussed below:

- According to the directions of the Government, the Corporation and the BOT operator were to execute an agreement for working out the net income. Such an agreement was not executed so far (February 2019) in respect of any of the shopping complexes.

- From the Angamaly shopping complex, the Corporation was to get ₹3.80 crore (based on the net income worked out by the BOT operator) towards the annuity from the BOT operator during July 2012 to March 2018\(^4\). The BOT operator did not, however, pay the share of net revenue to the

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\(^1\) Income after deducting all expenses related to operation and maintenance of the shopping complex.


\(^3\) Income from pay and park derived from May 2012 onwards.

\(^4\) This includes share of income derived from parking fees during May 2012 to July 2012.
Corporation until November 2014 on the ground that the entire commercial space was not let out and hence, the monthly expenses for operation and maintenance of the building was not assessable. When the Corporation took up the issue with the BOT operator in November 2014, the BOT operator paid ₹3.01 crore as annuity on provisional basis in seven tranches between November 2014 and October 2017. The delay in payment of the annuity ranged between 18 and 773 days. After October 2017, no payment was received till date (July 2018) despite ₹0.79 crore remaining recoverable towards the share of the Corporation for the period from July 2017 to March 2018.

- Similarly, in respect of Thampanoor shopping complex, the Corporation was to get ₹0.39 crore towards the annuity from the BOT operator during January 2015 to March 2018. But no payment was received till date (July 2018).

- As the Corporation carried out its day to day operations with borrowed funds carrying rate of interest between 13 per cent and 14 per cent during 2012-13 to 2017-18, the delay in receipt of annuity from the BOT operator, resulted in loss of interest of ₹0.40 crore105 to the Corporation.

- As per conditions of allotment of space, the successful bidders were to remit Interest Free Security Deposit (IFSD) equivalent to 18 times the amount offered as monthly rent. This amount would be retained by the BOT operator until the expiry/termination of the lease period. As per the directions of the GoK, all the revenue derived by the BOT operator from the BOT project after the construction period was to be included in income.

Audit observed that the BOT Operator collected ₹23.83 crore106 from the tenants of the four shopping complexes during 2014-2018. Income sharing formula between the BOT operator and the Corporation did not consider the benefit derived by the BOT operator from IFSD. Considering the cost of debt incurred by the BOT Operator, benefit derived by the BOT operator from the use of IFSD worked out to ₹9.07107 crore during 2014-15 to 2017-18.

Although the benefit of ₹9.07 crore derived out of IFSD was to be shared with the Corporation, the same was not done by the BOT operator. Thus, the Corporation did not get 50 per cent (i.e., ₹4.54 crore) of this revenue.

Thus, due to non-adherence to the directions of the GoK in payment of annuity by the BOT operator, the Corporation incurred an avoidable loss of interest of ₹0.40 crore. Further, the share of revenue amounting to ₹4.54 crore from the use of IFSD remained to be claimed from the BOT operator.

105 Calculated at the average cost of borrowing of 13.42 per cent. ₹0.37 crore in case of Angamaly and ₹0.03 crore in Thampanoor shopping complexes respectively.
106 Angamaly ₹13.50 crore, Thampanoor ₹7.09 crore, Thiruvalla ₹3.20 crore and Kozhikode ₹0.04 crore.
107 Interest has been worked out taking average balance (i.e. opening balance + closing balance / 2) of IFSD for each financial year.
GoK, while confirming (July 2019) that the Corporation and the BOT operator were yet to enter into an agreement, stated that only rental income was directly attributable to the operation and maintenance of the building and, hence, considered for calculation of annuity. GoK also replied that as per the accounts of the BOT operator, ₹502 crore was due from the Corporation towards outstanding loans and interest thereon. Government directed the Corporation to reconcile the loans accounts. Income sharing would be considered only after arriving at a final decision in these matters.

The reply of the GoK was not acceptable because as per the orders (October 2007) of the GoK, the BOT operator was to maintain full accounts of all fees including realisable fees and other revenues derived/collected on account of the use of bus terminal complex. Fifty per cent of the net monthly income was to be shared between the Corporation and the BOT operator. Hence, the benefit derived out of IFSD was also sharable. Clearance of loan liability was not to be linked with the payment of annuity as the BOT operator paid ₹3.01 crore as annuity in respect of Angamaly project to the Corporation on provisional basis even when loan of ₹502 crore was due (March 2016) from the Corporation.

### 5.4 Investment of surplus funds by Public Sector Undertakings

Seven Public Sector Undertakings deposited their surplus funds in fixed deposits with scheduled/co-operative banks in violation of directions of the Government. Moreover, these PSUs incurred loss of interest of ₹5.68 crore due to such deposit in banks.

According to the directions (January 2012) issued by the Government of Kerala (GoK), PSUs should deposit their own funds/profits with banks only if it fetched more interest than that on Treasury Fixed Deposits. Treasury Fixed Deposits carried interest at the rate of 7.50 per cent per annum for periods ranging from 180 days to less than one year and 9 per cent for a period of one year and above with effect from 1 May 2015.108

During the three years from 2015-16 to 2017-18, out of 136 PSUs in the State, 64 PSUs registered profits as per their latest finalised accounts. In order to examine compliance of PSUs with the directions of the GoK on investment of surplus fund, Audit selected 14 out of the 64 profit making PSUs.

Audit noticed that:

- Out of the 14 PSUs, seven PSUs109 deposited their surplus funds of ₹554.37 crore in 570 fixed deposits (FDs) with scheduled/co-operative banks when the rate of interest was lower than the rate offered by

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108Revised to 7.00 per cent and 8.50 per cent respectively with effect from 01/03/2017.
109The Kerala State Financial Enterprises Limited (KSFE) – 186 FDs (₹181.74 crore), Kerala State Industrial Development Corporation Limited (KSIDC) – 275 FDs (₹272.55 crore), Malabar Cements Limited- 54 FDs (₹40 crore), Kerala Financial Corporation – 2 FDs (₹0.46 crore), Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited – 2 FDs (₹0.04 crore), The Plantation Corporation of Kerala Limited –37 FDs (₹46.50 crore) and The Kerala State Backward Classes Development Corporation Limited - 14 FDs (₹13.08 crore).
Treasury Fixed Deposits. This resulted in foregoing additional interest income of ₹5.68 crore.

Four PSUs namely, Malabar Cements Limited (MCL), Kerala State Industrial Development Corporation Limited (KSIDC), The Kerala State Financial Enterprises Limited (KSFE) and The Plantation Corporation of Kerala Limited (PCKL) replied (February/September 2018, May 2019) that there were difficulties in getting funds released from the Government Treasury due to temporary restriction on withdrawal limits etc. KSFE also replied that funds were parked in banks for period less than 180 days only while MCL stated that FDs had to be prematurely closed on several occasions to meet working capital requirements. Kerala Financial Corporation (KFC) replied (May 2019) that the amount was deposited as security for an Execution Petition as directed by Hon’ble High Court of Kerala. The replies of KSIDC, KSFE and MCL were endorsed (January/July/August 2019) by GoK.

The replies were not acceptable as treasury restrictions were not applicable for deposit of amount below ₹10 crore. The deposits made by KSFE, MCL and KSIDC were below ₹10 crore. All the FDs maintained by MCL in banks were for a period of one year or more and hence, cannot be considered as kept to meet working capital requirements. Further, premature closure facility was available for Treasury Fixed Deposits as well. The reply of KFC was not acceptable as the High Court did not specify that the deposit was to be made in bank.

The Finance Department, GoK replied (July 2019) that the PSUs were directed (August 2018) to deposit their own funds either in treasury or any scheduled bank according to their choice. The reply was not acceptable as the direction of GoK in August 2018 was not effective retrospectively and the deposits pointed out by Audit were made prior to it.

Thus, seven PSUs deposited their surplus funds in fixed deposits with scheduled/ co-operative banks in violation of the directions of the GoK and incurred loss of interest of ₹5.68 crore.

The Kerala State Cashew Development Corporation Limited

5.5 Infructuous expenditure

Decision to meet expenditure on an advertisement, which was not beneficial to the Company or Government, from the Company’s fund resulted in infructuous expenditure of ₹0.39 crore.

As per Rule 60 of Kerala Government Servants’ Conduct Rules, 1960 applicable to Public Sector Undertakings, employees/directors of PSUs shall not criticise any policy pursued or action taken by the Government. Clause no. III.B (15) of the Memorandum of Association of Kerala State Cashew Development Corporation Limited (the Company), a PSU, states that the Company can meet expenses on account of advertisements, only if incurred for
the promotion of the Company or considered necessary for the attainment of the objectives of the Company.

The Company publishes advertisement for tender enquiries, recruitment of personnel and sales promotion. These advertisements are published in two to three local newspapers.

During 2012-13, the Company incurred an amount of ₹0.30 crore towards advertisement (sales promotion ₹0.16 crore, tender enquiries ₹0.09 crore and recruitment of personnel ₹0.05 crore). Apart from this, the Company also published an advertisement on 1 July 2012 in 13 newspapers incurring expenditure of ₹0.39 crore as directed by Board of Directors of the Company. The advertisement was in the nature of accusations against various departments of Government of Kerala alleging non-cooperation in the working of the Company.

Since the advertisement was not in the interest of the Company or the Government, the Industries Department, GoK, based on the opinion of Finance Department, directed (September 2012) the Managing Director of the Company to recoup the expenditure incurred on this advertisement from the Chairman and Board of Directors of the Company.

Against the appeal of the Managing Director of the Company for review of the decision, the Finance Department, GoK reiterated that the expenditure should be treated as a personal liability of the Chairman and the Directors of the Company. Overruling the objection of the Finance Department, the Council of Ministers, GoK allowed (October 2014) the Company to meet the advertisement expenditure from the resources of the Company. The Company paid the advertisement expenditure in October 2014.

Audit observed that the action of the Chairman and Board of Directors of the Company to publish an advertisement criticising the policies and initiative of the Government in itself was violative of codal provisions. Since the advertisements were not in the nature of tender enquiries or for recruitment of personnel and sales promotion, these advertisements did not serve the cause of the Company.

Thus, the decision to meet the expenditure on an advertisement, which was not beneficial to the Company or Government, from the Company’s fund resulted in infructuous expenditure of ₹0.39 crore.

GoK replied (August 2018) that the said advertisement was not beneficial to the Government or the Company and undoubtedly squandered public money. An amount of ₹0.37 crore was due to various newspapers on account of the advertisement and the managements of the newspapers were pressing for an early settlement of their dues. The Council of Ministers considered the matter and decided to accord sanction to meet the expenditure incurred for the advertisement from the funds of the Company.

The reply was not acceptable as the decision to meet an expenditure which was not beneficial to the Government or Company was improper.
5.6 Delay in finalisation of Annual Accounts in State PSUs

Failure of the Administrative Departments in initiating punitive measures resulted in non-finalisation of the annual financial statements of PSUs within the stipulated period. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment of ₹5,922.25 crore by the Government of Kerala and expenditure incurred were properly accounted for. Moreover, the Government’s investment in such PSUs remained outside the control of State Legislature.

According to the provisions of Section 136 (1) read with Sections 129 (2) and 96 (1) of the Companies Act, 2013, companies are required to finalise their annual financial statements and place the audited financial statements for every financial year along with annual reports in the Annual General Meeting within six months from the end of the relevant financial year (by September). The same shall also be placed in the State Legislature within three months thereafter (by December).

In compliance with the provisions of the Companies Act, 2013, State Public Sector Undertakings were to place their audited accounts up to the financial year 2017-18 along with the annual reports in the Annual General Meeting by September 2018. The same was also to be placed in the Legislature by December 2018.

Audit observed that:

- Out of 121 working PSUs in the State, 13 PSUs finalised their financial statements for the year 2017-18 as of September 2018. Only six PSUs did, however, place their audited financial statements in the State Legislature within December 2018 as shown in the Table 5.2:

Table 5.2: Details of placement of audited financial statements in the State Legislature as of July 2019

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total</th>
<th>Annual General Meeting</th>
<th></th>
<th>State Legislature</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Within 30/09/2018</td>
<td>After 30/09/2018</td>
<td>Not placed so far</td>
<td>Within 31/12/2018</td>
</tr>
<tr>
<td>Number of Working PSUs which finalised accounts up to the financial year 2017-18</td>
<td>13</td>
<td>6</td>
<td>7</td>
<td>0</td>
<td>6</td>
</tr>
</tbody>
</table>

The remaining 108 PSUs had arrears in finalisation of accounts for periods ranging between 1 112 and 11 113 years. Audit also observed that

111 Kerala State Electricity Board Limited.
112 22 PSUs had arrear in accounts of one year.
during the accounts arrear period (2008-09 to 2017-18), the Government of Kerala infused budgetary assistance of ₹5,922.25 crore by way of equity, loans and grants to these PSUs.

- In order to ensure that State Public Sector Undertakings adhered to the provisions of the Companies Act on the finalisation of the annual financial statements, the Finance Department, Government of Kerala issued (September 2015) directions to Administrative Departments of the PSUs to withhold 10 to 15 per cent of budget allocation of defaulting PSUs. Further, no fresh Government guarantee was to be provided to defaulting PSUs to obtain loan.

During 2015-16 to 2017-18, the Administrative Departments, however, released budget allocation of ₹218.63 crore (2015-16), ₹415.27 crore (2016-17) and ₹317.10 crore (2017-18) in full respectively to 23, 24 and 30 PSUs whose accounts were in arrears. Furthermore, six PSUs were given Government guarantee of ₹567.86 crore during 2016-17 for availing loans. During 2017-18 also, nine PSUs with accounts in arrears were given Government guarantee to the tune of ₹1,055.37 crore.

Thus, though the Administrative Departments had the responsibility to oversee the activities of the PSUs and to ensure that the accounts were finalised and adopted by these PSUs within the stipulated period, the Administrative Departments did not withhold 10 to 15 per cent of budgetary assistance to PSUs with arrears in finalisation of accounts.

- As per Section 139 of the Companies Act, 2013, the Statutory Auditors of PSUs are appointed by the Comptroller and Auditor General of India (CAG).

Audit observed that the CAG appointed Statutory Auditors for the years in which financial statements were in arrears as far back as September 2008. But these PSUs did not finalise the arrear accounts so far due to non-availability of qualified accounting staff. The Government of Kerala permitted (December 2016) PSUs to employ outside professionals at Government expense to overcome the shortage of accounting staff. But, this possibility was also not explored by 108 PSUs whose annual financial statements were in arrears for 1 to 11 years.

Thus, failure of the Administrative Departments in initiating punitive measures resulted in non-finalisation of annual financial statements within the stipulated period. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment of ₹5,922.25 crore by Government of Kerala and expenditure incurred were properly accounted for. Moreover, Government’s investment in such PSUs remained outside the control of State Legislature.
GoK replied that the PSUs were directed (17 July 2018) to submit a schedule for finalisation of accounts and complete their audit before 31 July 2018, but most of the PSUs did not comply with the same. The PSUs were directed (August 2018) to furnish a schedule of approval of accounts for each pending year to the Finance Department by 31 August 2018, failing which further fund release and pay revision of employees of PSUs would be stopped. The Chief Executives/Managing Directors of all PSUs were also informed (31 December 2018) that pay revision of employees in PSUs would be subject to finalisation of accounts up to previous year and also on maintenance of up-to-date accounts.

The reply was not acceptable as the Government did not implement its own earlier directions of withholding grants and denial of fresh government guarantee to PSUs with arrears in finalisation of accounts.

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