REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

on

PUBLIC SECTOR UNDERTAKINGS

for the year ended 31 March 2015

Government of Kerala

Report No. 3 of the year 2016

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

on PUBLIC SECTOR UNDERTAKINGS

for the year ended 31 March 2015

Government of Kerala

Report No. 3 of the year 2016

TABLE OF CONTENTS

APPENDICES

Preface

This Report deals with the results of audit of Government companies and Statutory corporations for the year ended 31 March 2015 and has been prepared for submission to the Government of Kerala under the Comptroller and Auditor Generalǿs (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time.

2. The accounts of Government companies (including companies deemed to be Government companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to supplementary audit by the officers of the CAG and the CAG gives his comments or supplements the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by the CAG.

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

4. The instances mentioned in this Report are those, which came to notice in the course of audit during the year 2014-15 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. The matters relating to the period subsequent to 2014-15 have also been included, wherever felt necessary.

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

OVERVIEW

1. Overview of State Public Sector Undertakings

The State Public Sector Undertakings (PSUs), consisting of State Government companies and Statutory corporations, are established to carry out activities of a commercial nature, while keeping in view the welfare of the people. Audit of Government companies is governed by Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013. The accounts of the State Government companies are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Companies Act, 2013. These accounts are also subject to supplementary audit conducted by CAG, as per the provisions of Section 143(6) of the Companies Act, 2013. Audit of Statutory corporations is governed by their respective legislations.

As on 31 March 2015, the State of Kerala had 111 working PSUs (107 companies and 4 Statutory corporations) and 15 non-working PSUs (including five under liquidation), which employed 1.28 lakh employees. The working PSUs registered a turnover of ₹19194.06 crore as per their latest finalised accounts. This turnover was equal to 4.25 per cent of State GDP indicating the important role played by State PSUs in the economy. The working PSUs had accumulated loss of ₹198.94 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2015, the total investment (capital and long term loans) in 126 PSUs was ₹19933.20 crore.

Arrears in accounts

94 working PSUs had arrears of 239 accounts as of 30 September 2015. The extent of arrears was 1 to 19 years.

Performance of PSUs

An analysis of the latest finalised accounts of all working PSUs in the State revealed that 50 PSUs earned profit of ₹498.47 crore, 53 PSUs incurred loss of ₹889.89 crore and four working PSUs had no profit or loss. Five working PSUs have not yet (September 2015) finalised any of their accounts. The major contributors to profit were Kerala State Electricity Board (₹140.42 crore), Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹123.54 crore), The Kerala State Financial Enterprises Limited (₹69.90 crore) and Kerala State Industrial Development Corporation Limited (₹30.49 crore). The major PSUs which incurred loss are Kerala State Road Transport Corporation (₹508.22 crore), The Kerala State Cashew Development Corporation Limited (₹127.95 crore) and The Kerala State Civil Supplies Corporation Limited (₹89.11 crore).

Quality of accounts

During the year, out of 92 accounts of companies finalised, the Statutory Auditors had given unqualified certificates for 20 accounts, qualified certificates for 70 accounts and adverse certificate for two accounts. Additionally, CAG gave comments on 38 accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 134 instances of non-compliance in 45 accounts of 39 companies during the year.

2 Performance Audits relating to Government companies

The report includes observations emanating from the Performance Audits on:

2.1 Raising forest plantations and implementation of ecotourism projects by Kerala Forest Development Corporation Limited

Introduction

Kerala Forest Development Corporation Limited (Company) is a joint undertaking of Government of India (GoI) and Government of Kerala (GoK) engaged in raising of forest plantations, cultivation of cash crops and ecotourism activities.

Replantation activities

The Company could not achieve the target fixed for replantation in any year. Replanting was not carried out in the immediate replanting seasons in eight plantations with delay up to six years. The resultant potential loss of yield of pulpwood was 2318.05 MT valuing ₹0.80 crore.

Harvesting activities

Due to dependence on two user companies, deficient marketing strategy, failure to dispose of plantations with poor growth and exclusion of matured plantations in the schedule of harvesting, wood billets worth ₹9.65 crore (28219 MT) were not harvested from an area of 1073 hectares.

Failure of plantations

Due to improper weeding and selection of wrong species, six plantations had failed resulting in wasteful expenditure of ₹2.96 crore.

Thinning activities

The Company failed to carry out thinning in 69 per cent of the area which were due.

Cultivation of cash crops

Due to failure of the Company to carry out intensive management in the entire area available, timely replanting and standard agronomic practices, there was significant shortfall in the productivity of the cash crops leading to loss of revenue amounting to ₹45.70 crore.

Ecotourism activities

Absence of safari vehicles, drinking water facilities, publicity, flexi- tariff and online booking facilities contributed to low occupancy in the ecotourism centres. Failure to get prior approval from Government of India (GoI) resulted in stoppage of two projects midway, resulting in wasteful expenditure of ₹0.59 crore. Third project was stopped as the land required was not available. Due to delay in implementing eight projects, there was potential loss of revenue of ₹10.72 crore.

2.2 Material Management by Kerala State Electricity Board Limited

Introduction

Kerala State Electricity Board Limited (KSEBL) is engaged in generation, transmission and distribution of electricity in the State. During 2010-15, KSEBL issued 610 Purchase Orders (PO) valuing ₹1741.33 crore. Audit examined 152 POs (₹664.99 crore) to check whether procurement and utilisation of material was effective and economic.

Planning for procurement of material

The process of material procurement begins with preparation of Annual Plan by Corporate Planning Wing and thereafter Purchase Plan (PP) by Chief Engineer, Supply Chain Management (CE, SCM). There was delay in issue of guidelines for preparation of Annual Plan. No prescribed time frame was fixed for preparation and approval of PP which resulted in delay in their preparations.

Lack of co-ordination in material procurement

Co-ordination between Corporate Planning Wing and CE, SCM was important to ensure procurement of adequate material. Lack of co-ordination resulted in short procurement of energy meters and delay in procurement of material.

Tendering process

There was no prescribed time frame for each stage of tendering process. Out of 113 tenders, 48 were invited after delays ranging from 31 to 269 days. Similarly, 36 out of 113 tenders were not finalised within the validity period of bids.

Delay in execution of work due to non-availability of material

Failure to assess the requirement with reference to available stock and average consumption led to shortage of material for up to nine months which affected the execution of various works.

Extra expenditure due to delay in finalisation of tender

Delay in finalisation of tender and subsequent cancellation and retendering resulted in extra cost of ₹16.32 crore in procurement of single phase meters at higher rate.

Procurement of additional quantity from existing suppliers

Due to delay in invitation and finalisation of fresh tender, KSEBL could not invoke price re-fixation clause which led to extra cost of ₹2.87 crore.

Absence of monitoring

There was no system to monitor the consolidated payment against a PO. Due to absence of Management Information System, utilisation of material procured by SCM Wing could not be monitored by KSEBL. Material transferred to end user sections was not linked on the basis of PO.

2.3 Implementation of Restructured Accelerated Power Development and Reforms Programme by Kerala State Electricity Board Limited

Introduction

Government of India (GoI), Ministry of Power (MoP) approved (September 2008) 'Restructured Accelerated Power Development and Reforms Programme' (RAPDRP) with the aim of restoring commercial viability of power distribution sector by putting in place appropriate mechanism so as to substantially reduce Aggregate Technical and Commercial (AT&C) loss.

Physical progress of projects

MoP sanctioned 43 projects each under Part A and Part B and three Supervisory Control and Data Acquisition (SCADA) projects for implementation in the State. As per the original guidelines, Part A and Part B projects were to be completed within three years. GoI extended the completion period to five years. However, the projects could not be completed within five years and was further extended by one more year.

Project formulation and planning

Implementation of RAPDRP was to be preceded by policy initiatives like undertaking measures for prevention of theft of power, constitution of special courts to deal with cases of power theft, etc. Action taken by KSEBL was, however, inadequate to supplement efforts under RAPDRP to bring down AT&C loss to 15 per cent.

Fund Management

The non-opening of project-wise bank account and non-maintenance of project-wise separate accounts led to diversion of funds and ineffective monitoring of the projects. KSEBL made irregular interest free advance payment of ₹14.50 crore to the turnkey contractor.

Implementation of the projects

Delay in appointment of IT Implementing Agency, problems in implementation of Meter Data Acquisition System, slow progress of Geographic Information System and partial accomplishment of Customer Care Service Centre led to time overrun for more than three *years. Erroneous price loading resulted in extra expenditure in implementation of Part A project to the extent of ₹27 crore.*

Delay in submission of DPRs and financial tie-up, delay in completion of work due to non-procurement of material like ABC, UG cables, deviation from DPR, delay and extra expenditure incurred in awarding and implementation of turnkey contract, constituted time overrun for more than three years and cost overrun to the extent of ₹129 crore. None of the SCADA projects could be completed due to delay in completion of Part B projects.

Undue delay in completion of RAPDRP projects led to non-realisation of envisaged benefit of ₹202.70 crore by way of reduction in AT&C loss.

3. Compliance Audit observations

Compliance Audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹106.34 crore due to non-compliance with rules, directives, procedures, terms and conditions of Acts/ contracts.

(Paragraphs 3.1, 3.2, 3.3, 3.6 and 3.12)

Loss/ extra expenditure of ₹28.03 crore due to non-safeguarding the financial interests of the organisation.

(Paragraphs 3.4, 3.5, 3.7, 3.8, 3.9, 3.10 and 3.11)

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

- *Implementation of Greenfield Projects by five PSUs was beset with poor planning and execution of projects. The DPRs were prepared without actual feasibility study. Despite poor track record of TRACO, SIDCO and KELTRON, the decision of GoK to divert funds from MCL resulted in high probability of the loans advanced by MCL remaining irrecoverable. There were failures to avail of Central Government assistance and CENVAT credit. Envisaged funding was also not ensured leading to curtailment of investment in machinery and equipment. All these factors led to the Greenfield Projects clocking losses of ₹11.59 crore in their operations.*

  (Paragraph 3.1)

- *Failure of **Kerala Agro Machinery Corporation Limited** to ensure procurement of material at competitive rate by following mandatory provisions of Stores Purchase Manual on competitive bidding resulted in extra expenditure of ₹61.28 crore.*

  (Paragraph 3.2)

- *Non-compliance to the provisions of the Income Tax Act, 1961 by PSUs revealed instances of delay in submission of tax returns, non-payment of required amount of advance tax and consequent payment of interest, etc., to the tune of ₹24.57 crore.*

(Paragraph 3.3)

- *Failure of* ***Kerala State Mineral Development Corporation Limited*** *to provide adequate security and storage for excavated sand resulted in loss of sand worth ₹6.42 crore and consequent loss of revenue to Government.*

(Paragraph 3.7)

- *Failure of* ***Kerala State Electricity Board Limited*** *to execute agreement with Asianet and other cable TV operators resulted in loss of ₹14.70 crore and short collection of service tax of ₹ 1.75 crore.*

(Paragraph 3.8)

- *Failure of* ***Kerala State Beverages (Manufacturing & Marketing) Corporation Limited*** *in timely passing on the incidence of additional tax (i.e. medical cess) to consumers resulted in payment of tax ₹2.10 crore. Besides, delay in payment of medical cess resulted in avoidable payment of interest of ₹0.42 crore.*

(Paragraph 3.11)

- ***Kerala State Road Transport Corporation*** *made irregular payment of performance allowance of ₹3.24 crore in violation of Government Order.*

(Paragraph 3.12)

CHAPTER I

1 Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people andalso occupy an important place in the State economy. As on 31 March 2015, there were 126PSUsin Kerala. Of these, three companies[1] were listed on the stock exchanges. During the year 2014-15, two PSUs[2] wereeitherincorporated or commenced business. The details of the State PSUs in Kerala as on 31 March 2015 are given below:

Table 1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government company	**107**	**15**	**122**
Statutory corporation	**4**	**0**	**4**
Total	**111**	**15**	**126**

The working PSUs registered a turnover of ₹19194.06crore as per their latest finalised accounts as of September 2015. This turnover was equal to 4.25*per cent* of State Gross Domestic Product (GDP) for 2014-15. The working PSUs incurredaggregate loss of ₹391.42 crore. They had employed 1.28 lakh employees as at the end of March 2015.

As of 31 March 2015, there were 15 non-working PSUshaving investment of₹110.31 crore. They were non-functioning forlast 9 to 31 years.This is a critical area as the investments in non-working PSUs do not contribute to the economic growth of the State.

Accountability framework

1.2 The accounts of Government companies(including companies deemed to be Government companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act,

---

[1] **Keltron Component Complex Limited, The Travancore Cements Limited and The Travancore Sugars and Chemicals Limited.**

[2] **Kerala State Coir Machinery Manufacturing Company Limited and Bhavanam Foundation Kerala.**

Government company means any company in which not less than fifty one *per cent* of the paidup share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Further, as per sub-Section 7 of Section 143 of the Act, CAG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of Section 19 A of CAGôs (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by CAG. An audit of the financial statement of a company in respect of the financial years that commence on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

1.3 The financial statements of the Government companies (as defined in Section 2 (45) of the Act) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act. They shall submit a copy of the Audit Report to CAG including financial statements of the company under Section 143(5) of the Act. These financial statements are subject to supplementary audit to be conducted by CAG within sixty days from the date of receipt of the audit report as per the provisions of Section 143(6) of the Act.

Audit of Statutory corporations is governed by their respective legislations. Out of fourStatutory corporations, CAG is the sole auditor for Kerala State Road Transport Corporationand Kerala Industrial Infrastructure Development Corporation.In respect of Kerala State Warehousing Corporation and Kerala Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. Government appoints the Chief Executive and the Directors to the Board.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditorsô Report and comments of CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAGôs (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Kerala

1.5 The State Governmentôs stake in the PSUs is of mainly three types:

- **Share Capital and Loans-** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-**State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

Investment in State PSUs

1.6 As on 31 March 2015,the investment (capital and long-term loans) in 126 PSUs was ₹19933.20crore as per details given below:

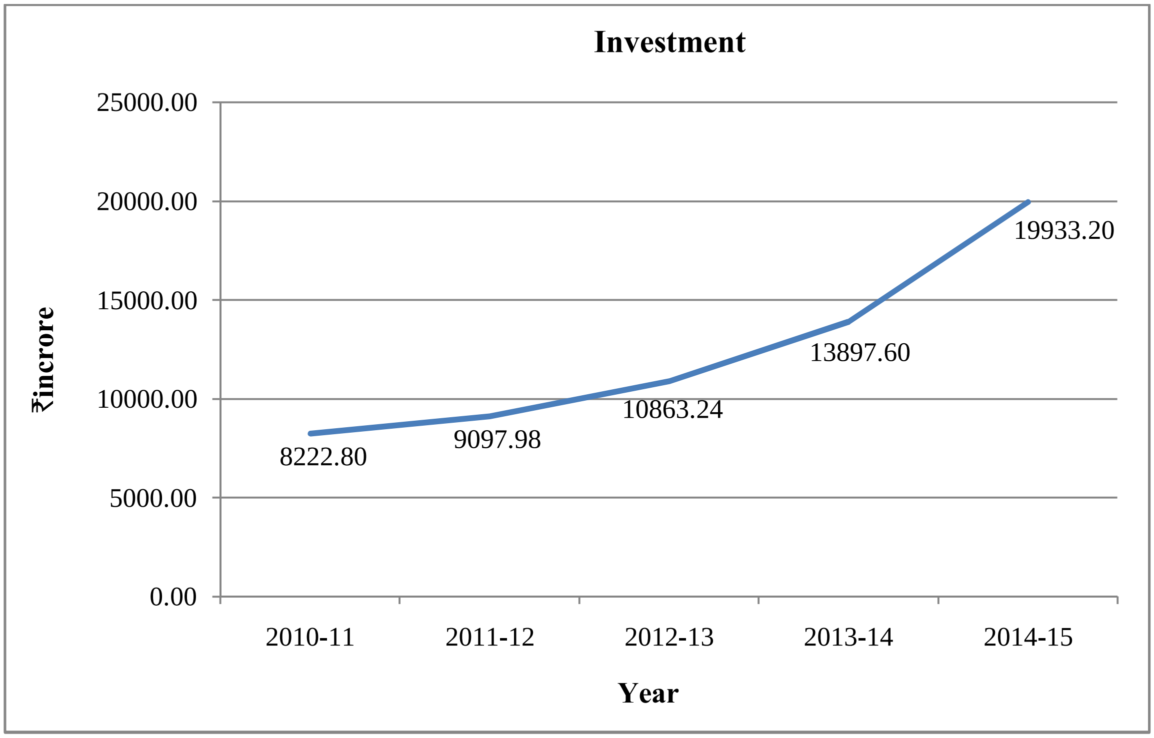
Table 1.2: Total investment in PSUs

(₹ in crore)

Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	6893.21	7035.50	13928.71	942.88	4951.30	5894.18	19822.89
Non-working PSUs	44.87	65.44	110.31	0.00	0.00	0.00	110.31
Total	**6938.08**	**7100.94**	**14039.02**	**942.88**	**4951.30**	**5894.18**	**19933.20**

As on 31 March 2015, of the total investment in State PSUs, 99.45*per cent* was in working PSUs and the remaining 0.55*per cent* in non-working PSUs. This total investment consisted of 39.54*per cent* towards capital and 60.46*per cent* in long-term loans. The investment has grown by 142.41*per cent* from ₹8222.80 crore in 2010-11 to ₹19933.20crore in 2014-15 as shown in Chart 1.1.

Chart 1.1: Total investment in PSUs



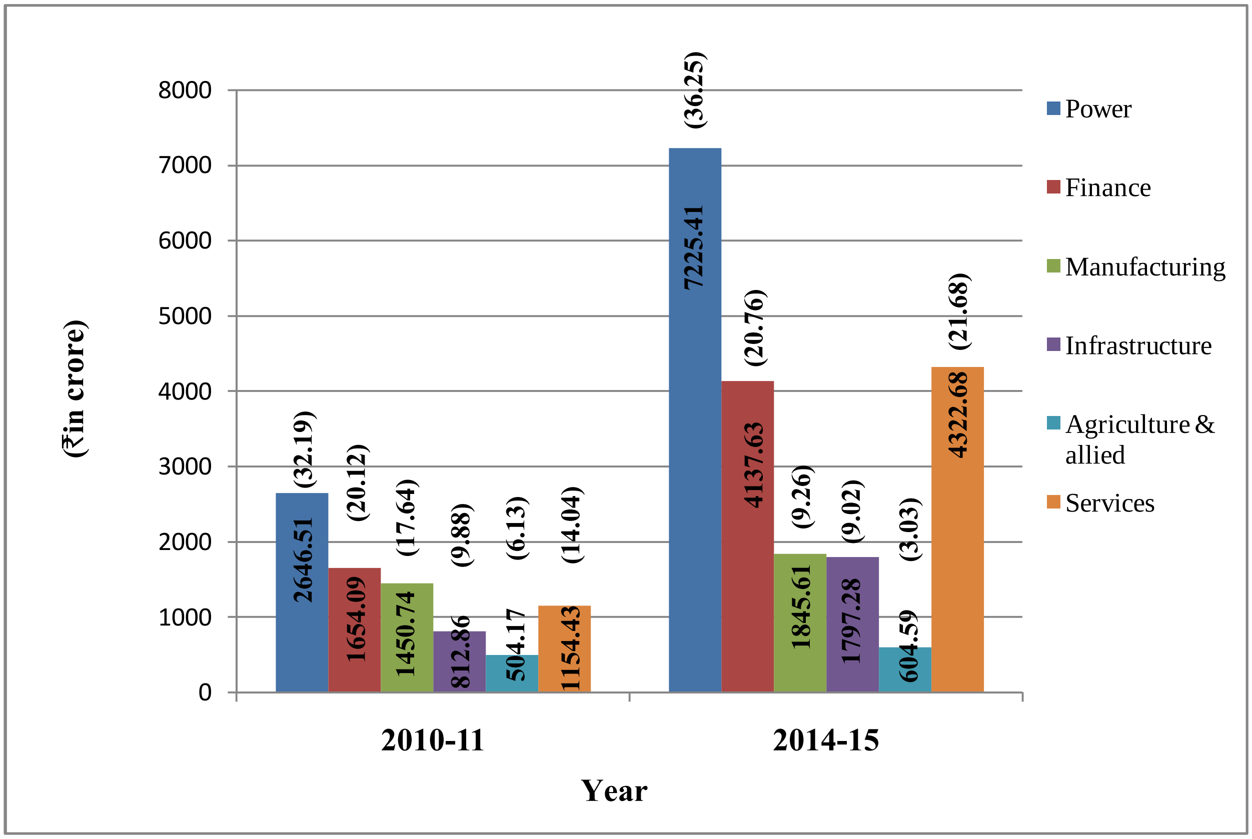
1.7 The sector wise summary of investments in the State PSUs as on 31 March 2015 is given below:

Table 1.3: Sector-wise investmentin PSUs

Name of sector	Government companies	Statutory corporations	Total	Investment (₹ in crore)
	(Number)			
Power	3	é	3	7225.41
Finance	18	1	19	4137.63
Manufacturing:				
Working	35	é	35	1735.30
Non-working	15	é	15	110.31
Infrastructure	16	1	17	1797.28
Agriculture & allied	16	1	17	604.59
Services	19	1	20	4322.68
Total	**122**	**4**	**126**	**19933.20**

The investment in various sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the bar chart.

Chart 1.2: Sector-wise investment in PSUs



(Figures in brackets show the sector percentage to total investment)

The thrust of PSU investment was mainly in power sector which increased from₹2646.51 crore in 2010-11to ₹7225.41 crorein 2014-15, thus, registering an increase of 173.02 *per cent*.Investment in service sector also increased substantially from ₹1154.43 crore in 2010-11 to ₹4322.68 crore in 2014-15, thus, registering an increase of 274.44*per cent*.

Financial support and returns during the year

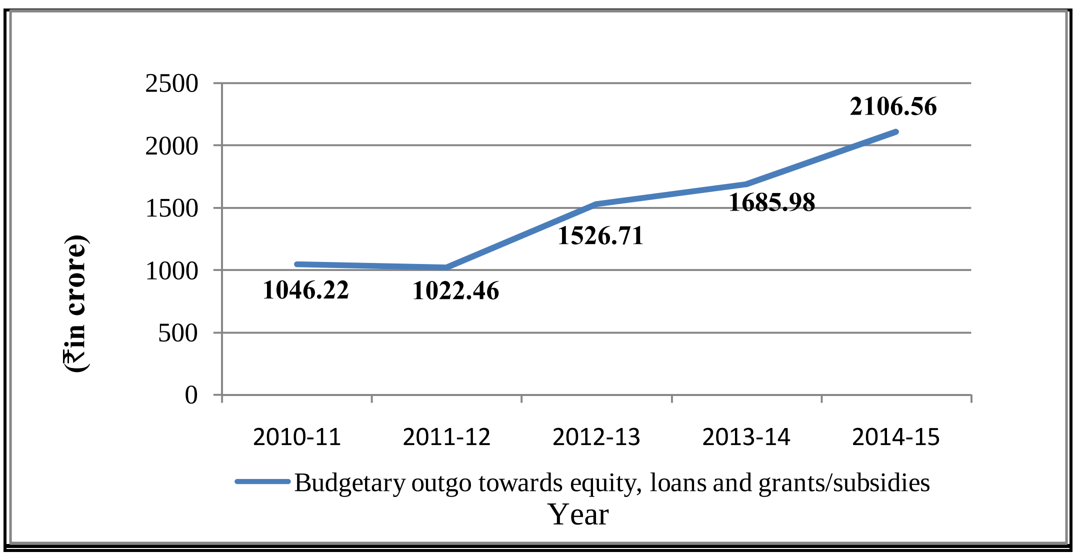
1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs for three years ended 2014-15are given in *Table 1.4*:

Table 1.4: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1.	Equity Capital outgo from budget	22	388.24	24	456.36	23	357.84
2.	Loans given from budget	17	333.00	18	658.86	18	354.92
3.	Grants/Subsidy given	29	805.47	28	570.76	32	1393.80
4.	**Total outgo (1+2+3)**		**1526.71**		**1685.98**		**2106.56**
5.	Waiver of loans and interest	2	4.54	2	2.24	1	23.98
6	Guarantees issued	11	3767.26	10	3466.64	7	4696.34
7	Guarantee commitment	15	3699.40	13	4669.98	14	5579.21

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in a graph below.

Chart 1.3: Budgetary outgo towards equity, loans and grants/subsidies



The above chart indicates that the budgetary assistance in the form of equity, loans and grants/subsidies by the Government of Kerala(GoK) to PSUs increased from ₹1046.22 crore in 2010-11 to ₹2106.56 crore in 2014-15. During 2014-15, GoK waived loans and interest/penal interest of ₹23.98 crore due from one PSU[3] as against ₹2.24 crore waived during the previous year.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under The Kerala Ceiling on Government Guarantee Act, 2003 subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.25 *per cent* as decided by GoK depending upon the loanees. The guarantee commitment increased to ₹5579.21 crore during 2014-15 from ₹4669.98crore in 2013-14. Further, 20 PSUs paid guarantee fee to the tune of ₹54.33crore during 2014-15. There were 16 PSUs which did not pay guarantee fee/commission during the year and accumulated/ outstanding guarantee fee/commission thereagainst was ₹28.33 croreas on 31 March 2015.The PSUs which had major arrears were Kerala State Electricity Board Limited (₹13.32crore), Kerala State Electronics Development Corporation Limited (₹5.36 crore), The Kerala State Cashew Development Corporation Limited (₹3.92 crore) and United Electrical Industries Limited (₹1.56 crore).

Reconciliation with Finance Accounts

1.9 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is stated below:

Table 1.5: Equity, loans and guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs

(₹in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	5013.83	7328.19	2314.36
Loans	5990.12	2872.40	3117.72
Guarantees	6439.25	5579.21	860.04

Audit observed that the differences occurred in respect of 97PSUs. The Principal Accountant General, Economic & Revenue Sector Audit-Kerala(PAG) had taken up this matter from time to time with the Chief Secretary, Principal Secretary (Finance), Secretaries of departments of GoK concerned and individual PSUs so as to reconcile the differences in a time-bound manner. The progress in

[3] **Kerala Electrical and Allied Engineering Company Limited.**

reconciliation was, however,not impressive. Thus, GoK and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory corporations, their accounts are required to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The Table below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2015:

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

SI. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of working PSUs	96	99	101	109	111
2.	Number of accounts finalisedduring the year	86	97	118	101	95
3.	Number of accounts in arrears	209	207	194	198	239
4.	Number of working PSUs with arrears in accounts	76	77	75	83	94
5.	Extent of arrears (in years)	1 to 13	1 to 14	1 to 12	1 to 11	1 to 19

It can be observed that the number of accounts in arrears has increased from 209 (2010-11) to 239 (2014-15). The number of arrears of accounts includes 233 accounts of 91 Government companies and six accounts of three[4] Statutory Corporations.

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within stipulated period. Though the Administrative Departments concerned were informed regularly (twice a year), the number of accounts in arrears is still on higher side. In addition, this issue was also discussed in the Apex Committee meeting convened by the Chief Secretary and in the Audit Monitoring Committee meetings conducted by the Heads of Administrative Departments. However, no improvement has been noticed.

---

[4] **Kerala State Warehousing Corporation Limited (2012-13 to 2014-15), Kerala State Road Transport Corporation (2013-14 to 2014-15) and Kerala Industrial Infrastructure Development Corporation (2014-15).**

1.11 The State Government had invested₹3160.47 crore in 55PSUs {equity:₹546.07 crore (25 PSUs), loans: ₹890.35 crore (21 PSUs) and grants ₹1724.05 crore (34PSUs)}during the years for which accounts have not been finalised as detailed in ***Appendix 1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus, Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In additionto the above, as on 30 September 2015, there were arrears in finalisation of accounts by non-working PSUs. Out of 15 non-working PSUs, five PSUs[5] were in the process of liquidation whose 29 accounts were in arrears. Of the remaining ten non-working PSUs, 119 accounts[6]were in arrears.

Table 1.7: Position relating to arrears of accounts in respect of non-working PSUs

Number of non-working companies	Period for which accounts were in arrears	Number of accounts in arrears
15	1985-86 to 2014-15	148

In respect of non-working companies where accounts were in arrears starting from 1985-86 onwards, the progress in finalisation of the accounts was poor. For example, only three[7]non-working PSUs finalisedtheir accounts during 2014-15.

Placement of Separate Audit Reports

1.13 The position depicted below shows the status of placement of Separate Audit Reports (SARs) issued by CAG (up to 30 September 2015) on the accounts of Statutory corporations in the Legislature.

Table 1.8: Status of placement of SARs in Legislature

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

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

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

[7] Keltron Rectifiers Limited (2000-01 to 2005-06), Keltron Power Devices Limited(2003-04 to 2005-06), and Kerala Special Refractors Limited (2013-14).

Impact of non-finalisation of accounts

1.14 As pointed out above (Paragraph 1.10 to 1.12), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statues. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies, which would be monitored by the cell.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalised accounts

1.15 The financial position and working results of working Government companies and Statutory corporations are detailed in ***Appendix2***. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUsô turnover and State GDP for a period of five years ending 2014-15:

Table 1.9: Details of working PSUs' turnover vis-a-vis State GDP

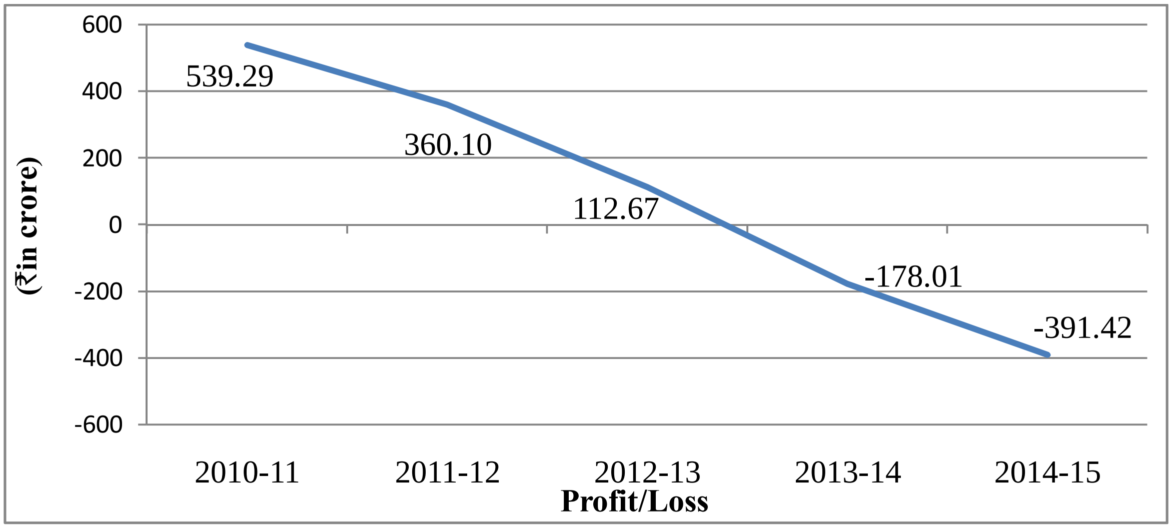
(₹in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[8]	14579.38	16171.31	18486.21	17586.85	19194.06
State GDP[9]	263773	312677	347841	396282	451483
Percentage of Turnover to State GDP	5.53	5.17	5.31	4.44	4.25

1.16 Overall profit earned or loss incurred by State working PSUs as per the latest accounts forwarded during 2010-11 to 2014-15 are given in Chart 1.4.

[8] Turnover as per the latest finalised accounts as of 30 September of every year.
[9] Figures furnished by Directorate of Economics & Statistics, Kerala. Change in figures with respect to previous Reports is due to adoption of revised GDP figures.

Chart 1.4: Profit/Loss of working PSUs



An analysis of the latest finalised accounts of allworking PSUs[10] in the State revealed that50 PSUs earned profit of₹498.47 crore, 53 PSUs incurred loss of ₹889.89 crore and four working PSUs had no profit or loss. Five working PSUs have not yet (September 2015) finalised any of their accounts. The major contributors to profit wereKerala State Electricity Board(₹140.42 crore),Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹123.54 crore), The Kerala State Financial Enterprises Limited (₹69.90 crore) and Kerala State Industrial Development Corporation Limited (₹30.49 crore).The major PSUs which incurred loss are Kerala State Road Transport Corporation(₹508.22crore), The Kerala State Cashew Development Corporation Limited (₹127.95 crore) and The Kerala State Civil Supplies Corporation Limited (₹89.11 crore).

1.17 Some other key parameters of PSUs are given below:

Table 1.10: Key Parameters of State working PSUs

Particulars	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Return on Capital Employed (*per cent*)	8.32	6.75	5.87	4.10	5.28
Debt (₹ in crore)	3533.36	4306.05	5620.44	8391.62	8912.96
Turnover (₹ in crore)	14579.38	16171.31	18486.21	17586.85	19194.06
Debt/Turnover Ratio	0.24:1	0.27:1	0.30:1	0.48:1	0.46:1
Interest Payments (₹ in crore)	737.47	985.89	1185.61	1039.87	1508.11
Accumulated profit/loss(-)(₹in crore)	-77.28	214.30	289.81	-284.62	-198.94

[10]Including Kerala State Electricity Board. Government of Kerala revested (31 October 2013) all assets, rights and liabilities of KSEB in the newly formed (January 2011) Kerala State Electricity Board Limited. Though it was not in existence as on 31 March 2015 as Statutory Corporation, its performance as per the latest accounts was considered for this Report for better presentation of performance of PSUs.

1.18 GoK had formulated (December 1998) a Dividend Policy under which all PSUs are required to pay a minimum return of twenty *per cent* on the paid up share capital contributed by it. As per the latest finalisedaccounts,50working PSUs earned an aggregate profit of ₹498.47 crore and out of which 20 PSUs declared an aggregate dividend of ₹28.57 crore. Only three[11] PSUs, however, complied with the State Government Policy on dividend payment.

Winding up of non-working PSUs

1.19 There were 15 non-working PSUs as on 31 March 2015. Of these, five PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below:

Table 1.11: Non working PSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Number of non-working companies	24	17	16	16	15

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

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

Table 1.12: Closure of non-working PSUs

Sl. No.	Particulars	Government companies
1	Total number of non-working PSUs	15
2	Of (1) above, number under	
(a)	liquidation by court (liquidator appointed)	...
(b)	Voluntary winding up (liquidator appointed)	5[12]
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	9
(d)	Others	1

The process of voluntary winding up under the Companies Act is much faster and needs to be adopted and pursued vigorously. The Government may make an early decision regarding winding up of nine non-working PSUs where closing orders/instructions have been issued but liquidation process has not yet started. The Government may consider expediting closing down of its non-working companies.

[11] **Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, The Kerala State Financial Enterprises Limited and Kerala Agro Machinery Corporation Limited.**

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

Accounts Comments

1.21 Seventysix working companies forwarded their audited 92 accounts to PAG during the year 2014-15. Of these, 64accounts of 54companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors andCAG are given below:

Table 1.13: Impact of audit comments on the working companies

(Amount₹in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	17	141.98	15	143.40	16	916.96
2	Increase in loss	10	39.79	16	61.62	22	95.61
3	Increase in profit	é	é	é	é	3	0.35
4	Decrease in loss	é	é	é	é	2	1.15
5	Non-disclosure of material facts	8	26.38	7	7.67	4	13.92
6	Errors of classification	9	27.60	8	28.82	10	14.21

1.22 During the year, the Statutory Auditors had given unqualified certificates for 20 accounts, qualified certificates for 70 accounts and adverse certificates (which mean that accounts do not reflect a true and fair position) for two accounts[13]. Additionally,CAG gave comments on 38 accounts during the supplementary audit and two accounts were revised based on supplementary audit observations. The compliance of companies with the Accounting Standards (AS) remained poor. There were 134 instances of non-compliance of AS in 45 accounts of 39 companies during the year.

Similarly, three working Statutory corporations forwarded their threeaccounts to PAG during the year 2014-15. Of these, accounts of Kerala State Road Transport Corporation for the year 2012-13 was revised based on the audit by CAG. In respect of remaining twoaccounts, whichwere selected for sole/supplementary audit, the auditwas completed and SAR issued.

[13] **Kerala Rapid Transit Corporation Limited (Erstwhile Kerala Monorail Corporation Limited) (2013-14) and Kerala Electrical and Allied Engineering Company Limited (2013-14).**

The Audit Reports of Statutory Auditors and the sole/supplementary audit ofCAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and the CAG are given below:

Table 1.14: Impact of audit comments on Statutory corporations

(Amount ₹in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Decrease in profit	...	...	1	0.09	1	0.07
2	Increase in loss	...	...	1	0.05	...	...
3	Increase in profit	...	...	...	...	1	0.29
4	Non-disclosure of material facts	3	111.97	...	...	...	...
5	Errors of classification	1	32.04	1	4	1	27.26

Response of the Government to Audit

Performance Audit and Paragraphs

1.23 For the Report of CAG for the year ended 31 March 2015, three Performance Audits and twelve Compliance Audit Paragraphs involving₹576.35 crore were issued to the Additional Chief Secretaries/Principal Secretaries of the respective Departments to furnish replies within six weeks. Replies in respect ofseven Compliance Audit Paragraphs were awaited from the State Government (December 2015).

Follow up action on Audit Reports

Replies outstanding

1.24 The Report of CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Kerala issued (April 2005)instructions to all Administrative Departments to submit replies/ Explanatory Notes to Paragraphs/Performance Audits included in the Audit Reports of CAGwithin a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (CoPU).

Table 1.15: Explanatory Notes received (as on 30 September 2015)

Years of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2008-09	25/03/2010	3	23	0	2
2011-12	18/02/2013	2	12	0	1
2012-13	10/06/2014	3	10	2	1
2013-14	23/03/2015	2	9	2	7
Total		10	54	4	11

From the above, it could be seen that out of 10Performance Audits and 54Paragraphs, Explanatory Notes to fourPerformance Audits and 11Paragraphs in respect of three departments, which were commented upon, were awaited (September 2015).

Discussion of Audit Reports by CoPU

1.25 The status as on 30 September 2015 of Performance Audits and Paragraphs that appeared in Audit Report (PSUs) and discussed by CoPU was as under:

Table 1.16: Performance Audits/Paragraphs appeared in Audit Reports *vis-a-vis* discussed (as on 30 September 2015)

Period of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2002-03	3	17	2	16
2003-04	2	18	1	18
2004-05	4	19	2	18
2005-06	5	26	0	21
2006-07	5	20	3	19
2007-08	4	19	1	9
2008-09	3	23	0	13
2009-10	2	11	0	9
2010-11	2	18	2	17
2011-12	2	12	0	8
2012-13	3	10	0	4
2013-14	2	9	0	2
Total	**37**	**202**	**11**	**154**

Compliance to Reports of Committee on Public Undertakings (CoPU)

1.26 Action Taken Notes (ATNs) to 140 Paragraphs in35 Reports of the CoPU presented to the State Legislature between July 2004 and March 2015 havenot been received (December 2015) as indicated in *Table*below:

Table 1.17: Compliance to CoPU Report

Year of the CoPU Report	Total number of CoPU Reports[14]	Total number of recommendations in the CoPU Reports	No. of recommendations where ATNs not received
2004-06	2	6	6
2006-08	5	57	9
2008-11	2	15	2
2011-14	7	53	25
2014-16	19	100	98
Total	**35**	**231**	**140**

These Reports of CoPU contained recommendations in respect of Paragraphs pertaining to sevenDepartments, which appeared in the Report of CAG of India for the year 1994 to 2011.

It is recommended that the Government may ensure:

(a) sending of replies/ Explanatory Notes to Inspection Reports/ Paragraphs/ Performance Audits and ATNs on the recommendations of CoPU as per the prescribed time schedule;

(b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and

(c) revamping of the system of responding to audit observations.

[14] **Total number of theReports ofCoPU presented to the State Legislature between July 2004 and March 2015 is 205.**

CHAPTER II

Performance Audits

2.1 Raising forest plantations and implementation of ecotourism projects by Kerala Forest Development Corporation Limited

Executive Summary

Introduction

Kerala Forest Development Corporation Limited (Company) is a joint undertaking of Government of India (GoI) and Government of Kerala (GoK) engaged in raising of forest plantations, cultivation of cash crops and ecotourism activities.

Replantation activities

The Company could not achieve the target fixed for replantation in any year. Replanting was not carried out in the immediate replanting seasons in eight plantations with delay up to six years. The resultant potential loss of yield of pulpwood was 2318.05 MT valuing ₹0.80 crore.

Harvesting activities

Due to dependence on two user companies, deficient marketing strategy, failure to dispose of plantations with poor growth and exclusion of matured plantations in the schedule of harvesting, wood billets worth ₹9.65 crore (28219 MT) was not harvested from an area of 1073 hectares.

Failure of plantations

Due to improper weeding and selection of wrong species, six plantations had failed resulting in wasteful expenditure of ₹2.96 crore.

Thinning activities

The Company failed to carry out thinning in 69 per cent of the area which were due for thinning.

Cultivation of cash crops

Due to failure of the Company to carry out intensive management in the entire area available, timely replanting and standard agronomic practices, there was significant shortfall in the productivity of the cash crops leading to loss of revenue amounting to ₹45.70 crore.

Ecotourism activities

Absence of safari vehicles, drinking water facilities, publicity, flexi-tariff and online booking facilities contributed to low occupancy in the ecotourism centres. Failure to get prior approval from GoI resulted in stoppage of two projects midway, resulting in wasteful expenditure of ₹0.59 crore. Third project was stopped as the land required was not available. Due to delay in implementing eight projects, there was loss of potential revenue of ₹10.72 crore.

Introduction

2.1.1 Kerala Forest Development Corporation Limited (Company) was incorporated in January 1975 as a joint undertaking of Government of India (GoI) and Government of Kerala (GoK) with the main objectives of acquiring and purchasing reserved/ unreserved forests and other land to raise plantations of industrial use and cultivating cash crops. The Company is also engaged in ecotourism activities.

Forest plantations of the Company comprised of eucalyptus, acacia auriculiformis and acacia mangium (pulpwood for newsprint and paper industries), albizia and casuarina (softwood for matchbox/ plywood industries), medicinal plants and teak. Cash crops of the Company comprised of cardamom, cashew, coffee, green tea leaves, pepper and rubber.

Organisational set up

2.1.2 The registered office of the Company is located at Kottayam with six Divisions at Thiruvananthapuram[1], Punalur[2], Gavi[3], Munnar[4], Thrissur[5] and Mananthavady[6]. A Board of Directors comprising of five official and five non-official directors manages the Company. Managing Director is the Chief Executive of the Company, who is assisted by Assistant General Manager and seven Divisional Managers[7].

Audit Objectives

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

- the forest plantations raised through efforts of the Company were effective and economic to meet the domestic and industrial needs for forest produce; and
- implementation of ecotourism projects led to bringing projected revenues to the Company.

Scope of Audit

2.1.4 The working of the Company was last reviewed and the audit results were included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial)-GoK. Committee on Public Undertakings (CoPU) discussed the Report in January 2005 and included recommendations in its 76th Report (2004-06).

The present Performance Audit covered the activities of the Company during the period from 2010-11 to 2014-15 with reference to the above audit objectives.

---

[1] Anakulam, Arippa, Kottoor and Palode are the subunits under Thiruvananthapuram.
[2] The four subunits under Punalur are Achenkovil, Karavoor, Pathanapuram and Punnala.
[3] There are four subunits under Gavi Division *viz.* Gavi, Meenar, Pampa and Kochupampa.
[4] Subunits under Munnar Division are Silent Valley, Mankulam, Kadalar and Koottakuzhy.
[5] Chembamkandam, Mayannur, Pakuthipalam and Pothumala are the subunits in Thrissur.
[6] There are two subunits viz, Kambamala I and Kambamala II under Mananthavady.
[7] One Divisional Manager is posted at registered office and six at respective divisions.

Audit Methodology

2.1.5 The methodology adopted for attaining the audit objectives, with reference to audit criteria, consisted of review of files and various records maintained by the Company pertaining to planting, extraction and ecotourism activities.

The audit objectives, audit criteria and scope of the Performance Audit were explained to the Management and Government in the Entry Conference held on 11 May 2015. The audit of records of the Company was conducted during February 2015 to September 2015.

Audit findings were issued to Management/ Government in October 2015. Audit findings were also discussed with Forest and Wild Life Department, GoK and Management of the Company in an Exit Conference held on 16 November 2015. The views and replies expressed by them have been given due consideration while finalising the Report.

Audit Criteria

2.1.6 The source of audit criteria was derived from the following:

- Forest (Conservation) Act, 1980;
- Management Plans of the Company;
- Plantation Journals[8] maintained in the Divisions of the Company;
- Guidelines/ standards prescribed by various Boards/ Agencies;
- Best practices prevailing in the plantation sector;
- Orders and circulars issued by Governments; and
- Detailed project reports of ecotourism projects.

Audit Findings

2.1.7 The Company was incorporated with the main objective of raising man-made forests to meet the domestic and industrial needs for forest produce. Audit analysed the economy and effectiveness of the plantation activities of the Company in meeting the demand for forest produce. Similarly, the efforts of the Company to augment revenue through ecotourism activities were also examined. Audit findings are discussed in the succeeding paragraphs.

Share of the Company in meeting demand for pulpwood and teakwood in the State

2.1.8 Total demand for pulpwood and teakwood in the State during the period from 2010-11 to 2014-15 was as given in *Table 2.1*:

[8]Plantation journals are maintained for each plantation, wherein all the details such as history of earlier plantation, raising of nursery, planting, maintenance, inspections conducted, measurements of trees, harvesting, etc., are recorded.

Table 2.1: Statement showing demand and supply of pulpwood and teakwood

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Demand for Pulpwood[9] (stacked ton)	1,75,532	1,75,532	1,75,532	1,75,532	1,75,532
Company's production (stacked ton)	22,979	26,927	17,155	18,764	18,004
Percentage of Company's share	13.09	15.34	9.77	10.69	10.26
Demand for teakwood[10] (M^3)	63,000	63,000	63,000	63,000	63,000
Company's production (M^3)	835.43	36.43	0.00	162.98	32.11
Percentage of Company's share	1.33	0.06	0.00	0.26	0.05

It could be seen from the above *Table* that the Company could meet only 9.77 to 15.34 *per cent* of total pulpwood demand in the State, while in respect of teak, the Company could meet less than two *per cent* of total demand in the State. The State Government had not fixed any target for the Company for supply of pulpwood and timber in the State.

Government replied (November 2015) that share of the Company against total pulpwood demand was not negligible, considering the area under pulpwood plantation in the Company. Similarly, the extent of teak plantation with the Company was only 1.57 *per cent* as compared to teak plantations under Forest Department, GoK.

The reply was not acceptable as there were deficiencies in land management and plantation activities which also contributed to negligible share in meeting the demand for timber and cash crops, as discussed below.

Land Management

2.1.9 To meet the raw material requirements of wood based industries, it was proposed to raise and maintain large scale man-made forests of economically useful species. Land for the envisaged plantation activities was expected to be transferred by the Forest Department, GoK. The issues noticed in land management are discussed below.

Transfer of land and its utilisation

2.1.10 As per the project report prepared by the Company, a programme of raising plantations in a vast area of 74650 hectares (Ha) was envisaged which was to be transferred by GoK. GoK, however, leased[11] out only 9583.22 Ha (13 *per cent*) of land to the Company up to 1980 which consisted of trees of natural

---

[9] **Worked out based on the annual pulpwood requirement of Hindustan Newsprint Limited.**
[10] **In the absence of demand figures, total production during the year 2010-11 in the State has been adopted.**
[11] **The Government fixed (GO (MS) No.2/2002/F&WLD dated 05.01.2002) the lease rent as ₹50 and ₹200 per Ha *per annum* for tree plantations and cash crops respectively with effect from 01April 2001.**

growth in reserved forest. The Company clear-felled the natural grown trees and afterwards, wood plantations and cash crops were raised in the area. However, with the enactment of Forest (Conservation) Act, 1980, GoK took a policy decision not to clear-fell natural forests even for afforestation activity. Therefore, GoK did not transfer forest land to the Company after 1980 and the activities of the Company were truncated to 9583.22 Ha.

Thus, non-availability of sufficient land was a major impediment in furtherance of plantation activities of the Company.

Underutilisation of land

2.1.11 In addition to the land of 9583.22 Ha leased out by GoK, the Company also possessed an area of 454.32 Ha consisting of four estates[12] (rubber and coffee plantations) in Thrissur Division entrusted by the GoK for management. Besides, GoK had transferred an area of 16.47 Ha for operating orchidarium, floriculture centre and sandal oil factory at Wagamon, Munnar and Marayoor respectively. Utilisaton of land by the Company was as detailed in *Table* below:

Table 2.2: Statement showing utilisation of land by the Company

Particulars	Area (Ha)
Timber Plantations	6886.35[13]
Cash crops	1695.47[14]
Orchidarium, offices and other infrastructures	32.49
Grassland in high elevation area utilised for ecotourism activities.	668.07
Unproductive area (rocky patches, marshy land, etc.) inside their plantations.	358.58
Unutilised old cardamom plantations and reed patches	413.11
Total	**10054.07**

The details of 413.11 Ha of unutilised land are given in *Table* below:

Table 2.3: Statement showing unutilised land with the Company

Particulars	Area (Ha)
Old cardamom plantations (Gavi division)	330.80
Old cardamom plantations (Munnar division)	49.34
Sub total	**380.14**
Reed patches	32.97
Total	**413.11**

The area of 380.14 Ha comprised of erstwhile cardamom plantations planted before 1980 in Gavi and Munnar Divisions. The Company did not utilise the

[12] Vettiyil, Meiraflores, Beatrice and Rosary estates.
[13] Pulpwood 4622.64 Ha, Bamboo 694.58 Ha, teak 1257.46 Ha, Softwood 86.65 Ha, Medicinal Plants 147.61 Ha and Residual miscellaneous growth 77.41 Ha.
[14] Cardamom 623.38 Ha, coffee 597.42 Ha, rubber 57.94 Ha, cashew 312.26 Ha, tea 100.67 Ha, and pepper 3.80 Ha.

area (330.80 Ha) in Gavi Division due to high wildlife grazing and hence, the area turned out to be dense forest. Similarly, cardamom plants in the old cardamom plantations measuring an area of 49.34 Ha in Munnar Division were also prone to wild life attack. Hence, these areas required power fencing before replanting which was not done.

Further, the Company had not included the reed patches measuring an area of 32.97 Ha in the schedule of harvesting and consequently, did not harvest the reeds.

During the Exit Conference (November 2015), the Government stated that it would not be desirable to construct power fencing around the area of 380.14 Ha as some of the area fell under elephant corridors. Similarly, power fencing would not be effective against small animals like bonnet macaques, etc., which were common in the area and caused damage to cardamom plantations.

The contention of the Government was not acceptable as the entire area was cardamom plantations earlier. Besides, the Company did not make any effort to identify the areas suitable for cardamom cultivation within the 380.14 Ha. Moreover, as the Company carried out cardamom cultivation in areas adjacent to 380.14 Ha of land, damage by small animals, as pointed out by the Government, for not constructing power fencing could not be justified.

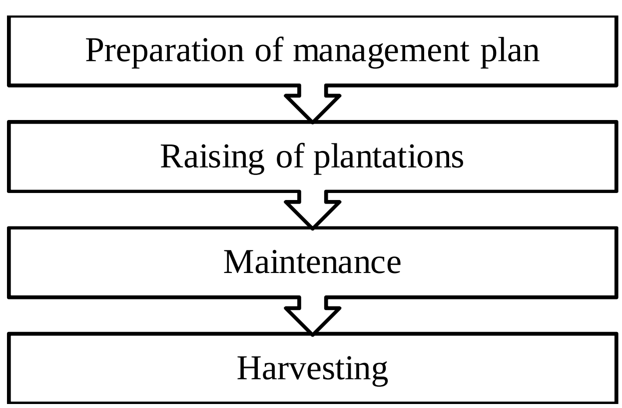
Recommendation No.1: ***Effective steps may be taken to construct power fence to utilise the unutilised area.***

Plantation activities

Planting operation

2.1.12 The timber plantations of the Company comprised of pulpwood, bamboo, teak, softwood and medicinal plants. The activities involved in planting operations are given in *Chart* 2.1.

Chart No.2.1: Chart showing plantation activities



Since the land under possession of the Company for plantation activities was limited, choice of espacement[15], timely replanting, selection of species to plant, selection of site, protection and early maintenance, etc., assume greater importance. There were, however, lapses on the part of the Company in respect of the above as discussed in the succeeding paragraphs.

Preparation of Management Plan

2.1.13 As per the Forest (Conservation) Act, 1980, prior approval of Central Government is mandatory before undertaking works in forest area including clearing of trees for reforestation, for which, Management Plans are required to be submitted to the Ministry of Environment and Forest (MoEF), Government of India for approval. No plantation activity can be carried out in any forest area without an approved Management Plan.

Plantations activities during 2010-11 to 2014-15 were covered by three Management Plans. The Management Plan for the five year period ended 2011-12 covered 2010-11 and 2011-12. The modified Management Plan for the five year period commencing from 2012-13 was submitted to Government of Kerala in June 2012, which was forwarded to MoEF in July 2012. Final approval was received in June 2013 for two years i.e. 2012-13 and 2013-14. For the year 2014-15, proposal was sent by the Company in August 2014, which was approved by MoEF in September 2014.

It was noticed that even before getting formal approval from MoEF, the Company continued plantation activities in 2012-13 in violation of Forest (Conservation) Act, 1980.

Government replied (November 2015) that though there was delay in obtaining approval for Management Plan in all the five years, separate approvals were not required for carrying out replanting activities in the areas harvested as per approved Management Plan.

The reply was not acceptable because the Government had not addressed the issue on unapproved harvesting which is a violation of Forest (Conservation) Act, 1980.

Replanting activities

Shortfall in replanting

2.1.14 The basic objective of replanting scheme is to undertake timely replanting so that clear-felled areas are replanted in the next planting season. The replanting carried out by the Company was at variance with those specified in the Management Plan approved by MoEF. Plantations targeted for replanting in each year and actual replanting done in these plantations was as given in *Table 2.4:*

[15] **Denotes the distance from one plant to another in all directions in a plantation.**

Table 2.4: Replanting – Target Vs Achievement

(*Area in Ha*)

Species	2010-11		2011-12		2012-13		2013-14		2014-15	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Pulpwood	626.16	133.94	695.37	41.77	432.49	81.91	1125.78	42.83	211.68	48.01
Teak and albizia	86.74	21.54	47.26	36.60	61.99	46.24	167.40	5.00	8.00	Nil
Total	**712.90**	**155.48**	**742.63**	**78.37**	**494.48**	**128.15**	**1293.18**	**47.83**	**219.68**	**48.01**
Percentage of shortfall	**78**		**89**		**74**		**96**		**78**	

Audit observed (April to July 2015) that the shortfall in replanting was due to delay in harvesting. The delay on the part of contractors/ user companies in completing the harvesting and failure to ensure availability of workers for replanting also affected the replanting schedule. These issues are discussed in detail in succeeding paragraphs.

Loss of replanting season

2.1.15 In the forestry sector, climate largely dictates the timing of replanting operations since plant seedlings are to be planted as early as possible during the monsoon season so that the plant can establish deep roots system before the onset of next dry season. As per the policy of the Company, replanting has to be done in the month of June, i.e. in the beginning of monsoon.

Audit noticed that the Company could not carry out replanting in the immediate replanting seasons in eight plantations measuring an area of 143.78 Ha as detailed below.

- The user companies HNL[16] and TNPL[17] and contractors did not hand over the plantation area on due dates. In five pulpwood plantations measuring an area of 92.14 Ha, there were delays ranging from 1 to 5 years. Though the Company levied penalty of ₹2000 *per* Ha of unfelled area for failure to complete the harvesting in a timely manner, it did not prevent the user companies/ contractors from delaying the extraction activities beyond the due date.

- An area of 11.50 Ha (Punalur Division) comprising teak plantation was returned by the contractor in July 2009 against the stipulated month of April 2009, resulting in loss of one replanting season. Replanting was done only in 2011 due to failure to ensure availability of workers for replanting, resulting in loss of one more replanting season.

- Teak plantation measuring an area of 33.14 Ha in Pathanapuram subunit of Punalur Division was awarded (December 2009) for extraction to two individuals. Though the extraction was completed in April 2010, replanting in this area with teak seedlings was carried out only during May-July 2011. As the raising of seedlings require one year, the nursery works should have been commenced in 2009. Audit, however, noticed that the Division started nursery works only in May

[16] **Hindustan Newsprint Limited.**
[17] **Tamilnadu Newsprint & Papers Limited.**

2010. As a result, the planting was delayed by one year.

- For the optimum utilisation of available land, it was very important to replant failed plantations without further lapse of time. Audit, however, noticed that there was inordinate delay of six years in replanting one failed albizia plantation in Palode subunit of Thiruvananthapuram Division as detailed in *Table* below:

Table 2.5: Statement showing delay in replantation

Species	Area (Ha)	Year in which plantation failed	Reason for failure	Year of replanting	Delay (in years)
Albizia	7.00	2006	Fire in plantation in 2006	2013	6

Audit noticed that due to loss of replanting seasons, the yield from the plantation raised subsequently was also extended correspondingly. The potential loss of yield has been worked out as 2318.05 MT of pulpwood valuing ₹0.80 crore[18].

Government stated (November 2015) that it was difficult to stick to the schedule of operations due to various reasons and that the Company had completed replanting and regeneration in all the harvested area as of July 2015. It was also assured that felling activities would be stopped by April end in the currency of new Management Plan so that the area could be replanted in the same replanting season.

Short planting of seedlings due to wrong espacement

2.1.16 Espacement is the initial spacing between plant seedlings which is adopted to avoid intense competition leading to mortality in densely stocked planatations. The standard espacement of eucalyptus (2m x 2m) allows to plant 2500 seedlings in a hectare.

Audit observed (April to July 2015) that the DM, instead of following the standard espacement given in the Management Plan, followed increased espacement of 2.5m x 2.5m in the effective area[19] in one plantation measuring 8.55 Ha in Thrissur Division. This resulted in short planting of 7775 seedlings. Considering the average yield of 80 MT per Ha in the eucalyptus plantations, the short planting of 7775 seedlings would result in shortfall in yield of 248.80[20] MT valuing ₹9.70 lakh at the rate of ₹3900[21] per MT.

While admitting audit observations, the Government stated (November 2015) that action would be taken to ensure adoption of prescribed espacement for all the species.

---

[18] **Worked out by multiplying number of replanting seasons lost with proportionate average yield. Proportionate average yield is the yield per Ha divided by rotation period. Teak plantations are excluded as the rotation period fixed is 50 years.**

[19] **Effective area is actual area available for replanting excluding rocky patches, streams, marshy lands, roads, etc.**

[20] **80MT x (7775/2500).**

[21] **Notified price as on 31 March 2015.**

Failure of plantation due to selection of wrong species

2.1.17 Albizia and acacia species are susceptible to wildlife attack. Planting of these species in areas where browsing of wild animals is high ought to be avoided. Despite this, during June 2011 and July 2012, the Divisional Manager, Thiruvananthapuram, planted these species in areas where browsing of wild animals was high. This resulted in failure of two plantations as shown in Table below:

Table 2.6: Details of expenditure incurred on failed plantations

Sl. No.	Subunit	Species	Year of planting	Area (Ha)	Expenditure incurred (₹ in lakh)
1	Kottoor	Acacia auriculiformis	2012	4.64	3.47
2	Arippa	Albizia	2011	2.50	2.31
Total				**7.14**	**5.78**

Thus, wrong selection of species resulted in wasteful expenditure of ₹5.78 lakh and loss of potential yield. Further, Divisional Manager had not taken any efforts to utilise 4.64 Ha in Kottoor subunit by replanting suitable species.

Government stated (November 2015) that acacia auriculiformis was planted because it was generally less affected by wildlife damages compared to albizia and a successful acacia auriculiformis plantation of 2006 was present on the boundary of this area. It was further stated that albizia plantation in 2.50 Ha was taken up as the earlier albizia plantation in the area was successful and the area was having private revenue land and office cum quarters in its surrounding area.

The reply was not acceptable since the Management Plan had proposed to replant such areas with other species. This proposal was mooted after considering high rate of damages to albizia and acacia plants in the area due to grazing by wild animals. Despite this, the Company went ahead with planting albizia and acacia auriculiformis species which were susceptible to wildlife attack.

Harvesting activities

2.1.18 The rotation period for each species is fixed after considering the growth, qualitative requirements of users and economy in marketing. Since replanting activities depend on harvesting, it is very important to adhere to the rotation period fixed in the Management Plans for harvesting.

In this connection, it was also observed that CoPU, in its 76th Report, on an earlier audit observation, had recommended for taking serious, practical and vigilant management steps to avoid delay in felling trees after attaining crop rotation. Scrutiny of records, however, revealed shortfall in harvesting and consequent postponement of replanting as discussed below.

Shortfall in harvesting

2.1.19 The rotation period fixed for harvesting of different species was as given in *Table* below:

Table 2.7: Details of rotation period fixed for different species

Species	Rotation age
Eucalyptus	Seven years
Acacia auriculiformis	Clear-felled after 14th year for timber production. Plantations not worth retaining for timber are clear-felled in 7th year for pulpwood.
Acacia mangium	Seven years
Bamboo	Bamboo matures after 10 years of planting. Thereafter, four yearsô cycle for harvesting was followed.
Albizia falcataria	Seven years

Pulpwood from plantations is harvested mainly through allotment to user companies (HNL and TNPL) as standing crop. Extraction of wood plantations for timber is done through tender cum auction method either as outright sale or departmental extraction.

During the period from 2011-12 to 2014-15, plantation in an area of 2462.34 Ha had matured for harvesting. Audit scrutiny revealed that an area of 1072.89 Ha, constituting 43.57 *per cent* of the matured plantation, had not been extracted so far (September 2015). The details are given in *Table* below:

Table 2.8: Details of delay in extraction of matured plantations

(Area in Ha)

Sl. No.	Name of species	No. of Planta-tions	Total matured area	Area extracted	Area pending extraction			Total area not extracted	Percentage of total area not extracted
					1 to 5 years	6 to 10 years	More than 10 years		
1	Eucalyptus	84	1638.95	734.43	628.70	255.82	20.00	904.52	55.19
2	Acacia auriculiformis	13	151.99	140.89	0.00	11.10	0.00	11.10	7.30
3	Acacia mangium	23	442.21	404.09	23.04	15.08	0.00	38.12	8.62
4	Bamboo	2	134.70	20.00	114.70	0.00	0.00	114.70	85.15
5	Albizia	9	94.49	90.04	4.45	0.00	0.00	4.45	4.71
Total		**131**	**2462.34**	**1389.45**	**770.89**	**282.00**	**20.00**	**1072.89**	**43.57**

Government replied (November 2015) that:

i. Audit included plantations maturing in 2015 also in the *Table*;
ii. Plantations with dealy of more than 10 years was the only one plantation of 1978 which was of poor growth;

iii. Oldest acacia auriculiformis plantation was planted in 1999 and therefore, observation on delay of 10 years was incorrect;

iv. Out of the total area shown as the ‘area not extracted’ (acacia manjium plantations), only an area of 15.28 Ha was prior to the year 2008;

v. 4.45 Ha of albizia plantation figured in the list of ‘*not extracted’* plantations was a failed plantation.

The replies were not acceptable because:

i. Audit considered plantations which were included in the schedule of harvesting for the period up to 2014-15 and plantations which reached rotation age for harvesting up to 2014-15 as per Management Plans;

ii. As per the schedule of harvesting in the Management Plan for the period from 2015-16, moderate yield of 1000 MT was expected from the 1978 plantation (20 Ha) which was stated to be of poor growth by the Company;

iii. Maximum delay of 10 years was noticed in 4.30 Ha of plantation (planted in 1998) in Punalur division which remained to be harvested even though included in the schedule of harvesting of Management Plan for the period commencing from 2012-13;

iv. Government did not take into account 22.84 Ha of plantation area left out by user companies after partial extraction; and

v. Company planned to harvest 223 MT of albizia billets from the plantation as per schedule of harvesting in the Management Plan for the period 2015-20.

After analysing the extraction/ harvesting activities, Audit observed that following were the reasons for not extracting the matured plantations in time.

Dependence on two user companies for sale of pulpwood

2.1.20 There were at least 18 industrial units manufacturing paper in South India, in public and private sectors[22]. The Company, however, depended fully on HNL and TNPL for the sale of pulpwood plantations. During the audit period, the entire pulpwood was sold to these two public sector undertakings on allotment basis.

Aggravating the situation further, HNL, which on an average, had bought 10662 MT of pulpwood annually, stopped purchasing pulpwood from the Company from 2013-14 onwards due to subsidised sale of pulpwood by GoK to HNL. This made the Company solely dependent on TNPL. In the event of TNPL stopping purchase, the Company would not be able to find buyers for the pulpwood. The Company did not take any steps to find other buyers for pulpwood.

Government replied (November 2015) that it could sell entire available pulpwood quantity from all reasonably stocked pulpwood plantations to HNL and TNPL. It was also stated that they had contacted other three industrial units to sell pulpwood to them which did not materialise. Concurring with

---

[22] **List of indigenous mills recognised by Government of India for the purpose of claiming exemption from excise duty (Source: Registrar of Newspapers for India, Government of India).**

Audit observation, the Company also stated that steps would be taken to get alternate buyers.

The reply was not acceptable as there was failure on the part of the Company to harvest the matured plantations. Further, from the year 2013-14 onwards, for the sale of pulpwood, the Company solely depended on TNPL**.**

Deficient marketing strategy

2.1.21 As per Kerala Forest Code (Volume-I), sale of the right of felling, collection and removal of timber shall be effected only through widely advertised public auctions.

Audit noticed that though the Company was not able to find buyers for the matured pulpwood plantations, it did not resort to open tendering of these plantations. The Company followed the marketing method of Kerala Forest and Wildlife Department which allotted raw material to industries like HNL on mutually agreed terms and conditions which was also in violation of codal provisions.

Government stated (November 2015) that the MoEF, Government of India, had imposed (June 2013) ban on felling established growth of miscellaneous species in the plantation area and understocked[23] portions of softwood plantations which prevented it from going ahead with the tender floated in February 2013 to dispose of eucalyptus clonal plantations.

The reply was not acceptable since ban was applicable only for understocked plantations and the Company could have opted for tendering in other plantations with normal stock. It was also noteworthy that though the eucalyptus clones plantations were of poor growth in terms of girth, they performed well in the matter of stocking. As such, these plantations were not understocked.

Further, cancellation of the tender had nothing to do with growth of trees but was due to uneconomical rates as discussed in *Paragraph 2.1.22*.

Failure of the Company to dispose of plantations with poor growth

2.1.22 The Company did not extract an area of 452.45 Ha of eucalyptus clones[24] plantations, raised during the period 2001-2005, which were included in the schedule of harvesting of Management Plans for the period from 2010-11 to 2014-15. The growth of these plantations was very poor due to non-suitability of the clones in the climatic conditions of Kerala. The user companies did not come forward to extract the plantations at the notified price due to low girth of wood.

In March 2011, Kerala Forest Research Institute, Peechi reported that the eucalyptus clones plantations were beyond the scope of recovery and retaining

[23] **Understocking denotes low density of trees in plantations.**
[24] **Eucalyptus clones were raised as part of World Bank aided Kerala Forestry Project.**

or coppicing[25] might not yield any increment. Hence, it was recommended to clear-fell and replant the area with suitable species to make the area more productive. However, the Company did not take any action on it till February 2013, when a tender was floated to dispose of the plantations. The tender did not yield results as the rates quoted were below notified price and the Government did not give permission to sell eucalyptus wood below notified price. The Expert Committee appointed by the Government[26] recommended (July 2014) for conducting a fresh tender cum auction sale to dispose of the eucalyptus clones plantations. The Company, however, did not invite fresh tender so far (September 2015).

Audit observed (April to July 2015) that the failure to dispose of the above plantations resulted in postponement of replanting in the area. This also resulted in potential loss of yield of 16852.03 MT[27] of eucalyptus wood valuing ₹6.25 crore[28].

Government stated (November 2015) that the ban on felling the miscellaneous trees and understocked portions in the eucalyptus clones plantations was the reason for non-disposal of these plantations. It was also stated that there may not be any potential loss of yield as the established miscellaneous growth was growing in the area during the period.

The reply was not acceptable since the plantations were included in the Management Plans for clear felling and replanting. The delay had caused potential loss of yield. Further, the Company had not carried out any enumeration and valuation of miscellaneous trees in the plantation area.

Recommendation No.2: ***The Company should evolve a system for carrying out harvesting and replanting activities as per the schedules fixed in the Management Plan. The Company should also resort to open tendering for sale of the matured plantations as per the provisions of Kerala Forest Code.***

Failure to include matured plantations in schedule of harvesting

2.1.23 To get approval from Central Government, matured plantations have to be included in the schedule of harvesting in the Management Plans. Exclusion of a matured plantation from the schedule would make extraction activities in the plantation area impossible. It was, however, noticed that the Company did not include all the matured plantations in the schedule of harvesting for getting approval from the Central Government. Out of the total area of 1072.89 Ha not extracted, an area of 274.66 Ha was not included in the schedule of harvesting due to which the Company could not carry out extraction activities in these matured plantations (***Appendix 3***). Further, as these plantations were not included in the schedule of harvesting in the Management Plans, they were also excluded from the replanting schedule resulting in non-utilisation of land.

[25] **Coppicing denotes the method of felling trees to ground level after retaining the main stumps for allowing the shoots to regrow from that main stump.**

[26] **Committee was formed under Kerala Forest Produce (Fixation of Selling Price) Act, 1978.**

[27] **Potential loss is worked out based on the average expected yield of 60 MT/ Ha from a eucalyptus plantation with the rotation age of seven years.**

[28] **Worked out on the basis of notified price of eucalyptus billets as on 31 March 2015.**

Government replied (November 2015) that out of 16 plantations pointed out by Audit, 10 plantations achieved maturity in the year 2014 and were expected to get yield of 10 to 30 MT *per* Ha only. Due to the then prevailing ban on felling understocked softwood plantations, these plantations were excluded. Other plantations were left out due to omission/ low growth/ failure of plantations.

The reply was not acceptable as all the plantations had attained the rotation age as per the approved Management Plan. The Company also expected to get a yield of 30 to 60 MT per Ha from the above mentioned 10 plantations as per the harvesting schedule.

It was also noticed that the user companies had failed to harvest 149.69 Ha of matured plantation area allotted to them and returned the area.

Audit further observed (April to July 2015) that delay in harvesting of matured plantations adversely affected the replanting schedule of the Company. The Company expected to get 26041 MT of pulpwood, 2000 MT of bamboo and 178 MT of albizia timber from the plantations. The failure to carry out extraction in these plantation areas resulted in non-realisation of expected revenue of ₹9.65 crore.

Maintenance activities

2.1.24 Audit noticed deficiencies on the part of the Company in initial maintenance of plantations leading to failure of plantations as discussed below:

Failure due to improper maintenance

2.1.25 Weeds growth is one of the challenges to the plants in the initial stages of growth. Weeds are undesired plants in the cropping system as they flourish at the cost of the desired species. The weed species may overtop the natural forest tree species and reduce the forest productivity. Hence, carrying out proper weeding according to necessity is vital for the success of plantations.

It was noticed that four plantations had failed due to improper weeding which rendered the expenditure of ₹2.90 crore wasteful as detailed in *Table 2.9*:

Table 2.9: Details of wasteful expenditure due to improper weeding

Sl. No.	Species	Year of planting	Division	Subunit	Area (Ha)	Expenses incurred (₹ in lakh)	Period from which plantation remaining unutilised
1	Teak	2009 to 2012	Punalur	Pathanapuram	197.03	261.57	March 2015
2	Teak	2011	Thrissur	Mayannur	8.28	7.78	May 2013
3	Red sanders	2010	Thrissur	Mayannur	13.00	15.55	February 2013
4	Red sanders	2011	Thrissur	Mayannur	5.80	5.01	May 2013
Total					**224.11**	**289.91**	

Reasons for failure of these plantations are discussed below.

- During the period from 2009 to 2012, teak plantations were raised in an area of 197.03 Ha[29] in Punalur Division. The teak plantations were declared (March 2015) as failed plantations by the DM due to heavy weed growth. For the survival of the plantation raised during 2013 (27.50 Ha[30]) also, intensive cultivation activities were required to be carried out. Similarly, the growth rate of plants in the teak plantation of 8.28 Ha planted in 2011 in Thrissur Division was also not satisfactory due to heavy weed growth. As the stock was about 20 *per cent* it was decided that the plantation would not be maintained further.

  Audit observed that though spade weeding had to be carried out as the first weeding in the year of planting, the Divisions carried out knife weeding[31] only. Further, it was also noticed that 2 to 4 weedings were carried out in each year which were ineffective. Due to failure to carry out spade weeding and ineffective weedings carried out subsequently, the above mentioned plantations had failed.

  The Management stated (November 2015) during the discussion in Exit Conference that not doing spade weeding during the first year was not the only reason for failure of the teak plantations as there were multiple reasons for failure which were not specified. It was, further, stated that in teak stump sprouting, spade weeding could not be considered due to chances of soil erosion.

  The reply was not acceptable since the working plans of the Forest Department provided for spade weeding (during May-June) in the teak plantations rasied with teak stump sprouting. Further, as per Kerala Forest Department Package of Forest Practices (2009), first weeding in teak plantation after replanting should be spade weeding. It was also noticed that teak plantations raised in the same areas[32] in both the Divisions subsequently were healthy and promising which indicated that suitability of the land for teak plantation. Thus, ineffective weeding carried out during the period from 2009 to 2013 was the reason for failure of the plantations.

- Similarly, though three weedings were carried out in the first two years of planting in the two red sanders plantations given in *Table 2.9,* the plantations were infested with heavy weed growth which eventually resulted in abandonment of plantation without further maintenance.

  The Government stated (November 2015) that weed suppression and fire during 2012 were the reasons for failure of the red sanders plantations.

[29] Block I, II and III of Kudappanakulam coupe under Pathanapuram subunit.
[30] Block III and IV of Kudappanakulam coupe under Pathanapuram subunit.
[31] In spade weeding grass and weeds are uprooted but in knife weeding, only the stumps are cut and root remains.
[32] Teak plantations of 42 Ha raised in 2014 and 2015 in Pathanapuram subunit of Punalur Division and 6.25 Ha raised in 2010 in Mayannur subunit of Thrissur Division.

The reply was not acceptable because stock of the plantation was less than 10 *per cent* even before the fire had broken out in February 2012. Weed growth was the main reason for the failure of these plantations. It was also noteworthy that the presence of excessive weeds in the plantation was catalytic in spreading fire.

Recommendation No.3: ***The Company should monitor and hold officers accountable for carrying out appropriate and timely maintenance activities.***

Failure to carry out thinning

2.1.26 Thinning is the process by which the number of trees is reduced gradually in various stages depending upon the growth of the crop in order to provide optimum conditions required for the better growth of the remaining plants. It provides sufficient growing space and reduces root competition. The process of thinning not only facilitates optimum productivity but also gives short term revenue to the Company through disposal of thinned trees. Thus, failure to carry out thinning in a timely manner would adversely affect the growth of existing trees. The schedule fixed for carrying out thinning for various species is given in *Table 2.10:*

Table 2.10: Statement showing period fixed for thinning

Species	Particulars
Acacia auriculiformis	Thinned during 6th year for pulpwood for facilitating growth of retained trees for timber production which are clear felled after 14th year.
Acacia crassicarpa	Thinned at 6th year and has a rotational age of 15 years.
Gmelina arborea	To reduce the density and to facilitate growing space for the trees, thinning is carried out in the 4th year.
Teak	The Company follows a schedule of 1st, 2nd and 3rd thinning at the end of the 5th, 10th and 18th year respectively for teak plantation.

International Training Programme on Innovations in the Management of Planted Teak Forests held at Kerala Forest Research Institute, Peechi, Thrissur District (August/ September 2011) counted failure to apply thinning as one of the factors causing low financial benefits from teak plantations. It advocated for encouraging farmers to carry out thinning in teak plantations for better economic benefits. Larger the deviation from the thinning schedule, lesser will be the Net Present Value of future returns. This clearly indicated the adverse effects of not applying thinning. After analysing the thinning activities of the Company during the period from 2010-11 to 2014-15, Audit noticed that thinning was not done in respect of 69.40 *per cent* of matured area as the expected sale proceeds from thinned material was not sufficient to meet the cost of thinning due to poor growth/ stock. Besides, the Company had failed to include acacia crassicarpa and gmelina arborea plantations in the schedule of thinning in Management Plans. The details are given in *Table 2.11*:

Table 2.11: Statement showing failure to carry out thinning operations

Sl. No.	Name of species	No. of Plantations	Area due for thinning	Area thinned	Area not thinned	Percentage of total area not thinned	Range of delay in thinning (in years)
			Area in Ha				
1	Acacia auriculiformis	30	604.89	422.48	182.41	30.16	1 to 7
2	Teak	18	749.79	0	749.79	100.00	1 to 5
3	Acacia crassicarpa	1	5.00	0	5.00	100.00	3
4	Gmelina arborea	1	20.89	0	20.89	100.00	2
Total		**50**	**1380.57**	**422.48**	**958.09**	**69.40**	

In the absence of measurements of trees in the plantations, the impact on growth of existing trees due to not carrying out thinning could not be quantified by Audit.

Government stated (November 2015) that the Company would take earnest efforts to carry out thinning operations in the plantations as per the prescriptions. It also stated that there was no delay for thinning in gmelina arborea plantation as it was due only in the 6th year.

The reply was incorrect because Audit calculated delay in thinning with reference to approved Management Plan which prescribed thinning in the 4th year of planting, which was actually not done.

Failure to raise medicinal plants utilising Government grant

2.1.27 National Medicinal Plant Board (NMPB) sanctioned (January 2009) a grant amounting to ₹1.69 crore to the Company for a project of raising medicinal plantations in an area of 150 Ha. The main species envisaged in the project were *petrocarpus santalinus, gmelina arborea, garcina guttifera, myristica fragrans, steropermum chelonoides and embelia ribes* with inter planting of other varieties of medicinal plants.

NMPB released (March 2009 and March 2012) ₹1.35 crore in two instalments. The project had to be completed by March 2014. However, the Company carried out planting only in an area of 97.76 Ha[33] and utilised the grant amounting to ₹1.23 crore. This resulted in refund of ₹0.11 crore (February 2015) and lapse of another ₹0.35 crore.

It was observed that MD had failed to identify suitable area and direct the Divisions for planting medicinal plants as part of the project. As a result, in addition to lapse of grant amounting to ₹0.46 crore, the Company could not raise plantations of medicinal plants in an area of 52.24 Ha.

[33] **Petrocarpus santalinus 75.87 Ha, gmelina arborea 20.89 Ha and sterospermum chelonoides 1.00 Ha.**

Cash crops

2.1.28 The cash crops of the Company comprised of cardamom, coffee, tea, pepper, rubber and cashew. Details of production of cash crops in the State *vis-a-vis* by the Company were as given in *Table* below:

Table 2.12: Details of production of cash crops in the State *vis-a-vis* by the Company

(Figures in MT)

Crop	2011-12		2012-13		2013-14	
	State	Company	State	Company	State	Company
Cardamom	10,222	21.99	10,222	15.13	14,000	5.05
Cashew	36,740	26.88	37,919	43.79	33,375	25.85
Coffee	68,175	115.93	68,175	105.03	66,645	108.93
Tea	57,903	997.06	62,963	902.18	62,937	899.55

The activities carried out in cash crops plantations were not in Management Plans up to 2014-15 and hence, specific approval from Central Government under the Forest (Conservation) Act, 1980 was not obtained. It was noticed that the productivity of cash crop plantations of the Company was lower than the standard as discussed in succeeding paragraphs.

Low productivity of cardamom plantations

2.1.29 The Company had cardamom plantations spreading over an area of 623.38 Ha in Gavi, Munnar and Thrissur Divisions. Based on the intensity of agricultural operations carried out, the Company had classified its cardamom plantations as detailed in *Table* below:

Table 2.13: Statement showing classification of cardamom plantations

Particulars	Area (Ha)
Specially Treated Area (STA)	55.50
Treated Area (TA)	91.20
General Management Area (GMA)	476.68
Total	**623.38**

Intensive agricultural operations such as application of fertilisers, fungicides, insecticides and irrigation were carried out in STA and TA[34]. These areas were also covered with power fencing. However, weeding and base cleaning before harvesting were the only operations carried out in GMA. Excluding an area of 65 Ha in Gavi, remaining area of 411.61 Ha in GMA was not covered with power fencing, leaving the area vulnerable to wildlife grazing.

Audit analysed the productivity of cardamom plantations where intensive agricultural operations were carried out (STA and TA) and noticed significant shortfall in yield of 243.81 MT valuing ₹17.55 crore, compared to State

[34] **Major difference between STA and TA is that the Company has provided mist irrigation facilities in STA while manual irrigation is carried out in TA as per requirement.**

average productivity of dry cardamom (***Appendix 4***).

Government stated (November 2015) that the Company did not use insecticides in the cardamom plantations which were situated inside reserve forest. Hence, the productivity of plantations of the Company was not comparable with State average productivity.

The reply was not acceptable as scrutiny of work distribution registers maintained at subunits revealed that the Company had used insecticides like, ekalux, acephate, hilban, etc., in its cardamom plantations. Further, there were significant variations in productivity of plantations of the Company on a year to year basis. Compared to highest production of 21.99 MT achieved in 2011-12, there was shortfall in production during 2010-11 and 2012-15, which ranged between 26 *per cent* and 78 *per cent.* Thus, the significant shortfall in productivity compared to State average indicated further room for improvement.

Factors adversely affecting the productivity of the plantations were as discussed below.

- The Company limited intensive cultivation to STA and TA. The average productivity of green cardamom[35] of STA and TA per Ha during the period from 2010-11 to 2014-15 was 2735.95 kg and 1414.81 kg respectively whereas productivity in GMA was as low as 121.72 kg only.

- According to Spices Board, economic yield of cardamom plants starts from third year of planting and it continues up to 8 to12 years. Audit, however, noticed that out of the total area of 623.31 Ha of cardamom plantations, only 106.05 Ha (17.01 *per cent*) would fall within the economic life span of cardamom plants.

  There was budgetary provision for carrying out replanting in an area of 57 Ha during the period from 2010-11 to 2014-15. However, the Divisional Manager did not take any steps to replant the entire area but limited to 30.20 Ha only due to shortage of workers to carry out cultivation activities after replanting. It was noticed that 10 *per cent* of the workers were deployed for miscellaneous work like driving, supply of drinking water, office work, guides for ecotourism, etc.

  Government stated (November 2015) that the cardamom plant varieties in GMA such as Mysore, Malabar and Vazhuka are having economic age above 12 years. Further, there was deployment of workers for other activities as per Plantation Labour Act.

  The reply was not acceptable because according to Spices Board, the economic age of above three varieties was also 8 to 12 years.

[35] Green cardamom capsules collected from plantations are cured in the curing house to get dry cardamom which is the final product. The Company did not keep separate accounts of dry cardamom from STA, TA and GMA.

Similarly, engagement of workers for office work, driving, guides for ecotourism, etc., was not covered under the Plantations Labour Act, 1951. The significant shortfall in productivity of cardamom in GMA necessitates immediate replanting.

- Though it was supposed to carry out various agricultural operations in STA and TA, Audit noticed that the Divisions did not carry out the standard cultivation practices[36] for cardamom as detailed below.

  - Scrutiny of work distribution registers maintained at subunits revealed that mulching[37], one of the important activities was carried out in Munnar Division only in one month i.e. February 2013. Likewise, plant bases of cardamom plantations in Gavi Division were not mulched during 2011-12 and 2013-14. During 2014-15, mulching was restricted to STA and no mulching was done in TA.

  - It was also noticed that forking[38] was not carried out in Munnar Division during 2010-11 to 2014-15. Similarly, it was also not carried out in all STA and TA in Gavi Division to the extent of six *per cent* to 73 *per cent* of the area during the period from 2010-11 to 2014-15.

  - Pruning[39], another important agricultural activity, was not carried out in the STA and TA cardamom plantations of the Company during the period 2010-11 to 2014-15.

Audit observed (April to July 2015) that the Managers of the respective subunits and DMs had failed to carry out the agricultural practices recommended by Spices Board in the cardamom plantations.

Government stated (November 2015) that workers engaged for weeding work and soil application would carry out the mulching and forking works respectively. It was also stated that pruning is not a cultural operation carried out in cardamom plantations.

The reply was not acceptable as mulching and forking works carried out in the plantations were recorded in the labour distribution registers separately. Similarly, as per the accepted cultivation practices of Spices Board for cardamom plantations, pruning was one of the important cultural operations.

Low productivity of cashew plantations

2.1.30 As of March 2015, the Company had cashew plantations in an area of 312.26 Ha in Punalur and Thiruvananthapuram Divisions. Audit analysed the

---

[36] **Source: Spices Board.**
[37] **Mulching is covering the plant base with dry leaves for reducing evaporation loss, suppress weed growth and to maintain optimum soil temperature.**
[38] **Forking is carried out at the plant base to enhance root proliferation, better infiltration of summer showers and for improving soil aeration.**
[39] **Pruning is undertaken with sharp sickles for removing the dead and hanging leaves.**

productivity of the cashew plantations of the Company and noticed that the productivity was far below the State average. The shortfall in yield during the period was 1278.21 MT valuing ₹7.21 crore ***(Appendix 4).***

The shortfall in yield was due to inadequate maintenance and failure to replant old cashew trees as detailed below.

- A cashew tree starts bearing fruit after the third year of planting while the economic life span of a cashew tree is about 20 years. Audit noticed that out of 312.26 Ha of cashew plantations, trees in 163.39 Ha had exhausted this life span. However, no action was initiated by the Company to replant the aged trees.

- In this connection, Audit also noticed that the Company did not take any effort to avail of 50 *per cent* financial assistance from Directorate of Cashew and Cocoa Development to replace senile plantations and replant with high yielding varieties.

- As per the standard agricultural practices[40] in cashew plantations application of manures and fertilisers, weeding, mulching, pruning, irrigation and application of insecticides are very important activities that ensure higher productivity.

  Audit, however, noticed (May 2015) that no maintenance activity was undertaken in the cashew plantations after 2011-12. During 2010-11 and 2011-12, activities like weeding, pruning, application of fungicides were carried out in an area of 162.18 Ha (out of 312.26 Ha).

Government replied (November 2015) that the Company did not use insecticides in their cashew plantations and hence, its productivity cannot be compared with State average. As weeding was carried out by the contractors who got the right to collect the cashew nuts from the plantations, no budgetary provision was made.

The reply was not acceptable since very low productivity (8.04 *per cent* to 15.62 *per cent* of State average) indicates need for proper maintenance of cashew plantation. Further, there were shortfalls ranging from 38.63 *per cent* to 49.31 *per cent* in other years in comparison with maximum production achieved in 2012-13 (437.95 MT). Similarly, weeding before commencement of harvesting by contractors was not a contractual obligation on the part of the contractors and even if it was done by contractors it could not be a substitute for proper maintenance by the Company.

Low productivity of coffee plantations

2.1.31 Coffee plantations of the Company are spread over an area of 597.42 Ha, situated in Thrissur, Munnar and Gavi Divisions. The area is inclusive of three estates handed over by the Forest Department for management and collection of crops in December 2011.

---

[40]Source: Directorate of Cashew and Cocoa Development (DCCD).

The yield obtained from the coffee plantations of the Company was lower than the State average. Against the State average productivity of 761 kg to 809 kg per Ha, the average productivity per Ha of coffee plantations of the Company ranged between 93.91 kg and 194.05 kg during the period 2010-11 to 2014-15. Total shortfall in yield, compared to State average, during the period worked out to 1628.89 MT of raw coffee valuing ₹18.27 crore (***Appendix 4***).

Audit observed (April to July 2015) that inadequate maintenance of plantations was the reason for low productivity. As per the standard agronomic practices[41], various activities such as growing of green manure crops such as cowpea, horse gram, etc., as intercrop, weeding, bush management, application of fertilisers, shade management, application of pesticides, etc., have to be carried out in the coffee plantations for better productivity. Weeding and desuckering[42] were, however, the only activities, other than harvesting carried out in the coffee plantations of the Company.

Government replied (November 2015) that since the Company did not use pesticides in the plantations, its productivity cannot be compared with the State average. It also stated that as major area of the coffee plantations are handed over by Forest department for collection of usufructs only, the Company could not carry out much maintenance activities.

The reply was not acceptable as the percentage of yield per Ha in the coffee plantations of the Company was only 12.04 to 23.99 of the State average. Further, it was also noticed that there were shortfalls ranging from 6.03 *per cent* to 51.61 *per cent* in other years compared to maximum average productivity per Ha (194.05 kg) achieved in 2011-12. Similarly, the Company had not taken up the matter with the Government for getting necessary permission for carrying out maintenance activities in plantations where it was required. Prescribed maintenance activities were also not carried out in the balance coffee plantations measuring 219.90 Ha which came under the direct control of the Company.

Low productivity of green tea leaves

2.1.32 The Company had an area of 100.67 Ha of tea plantation in Mananthawady Division. As per the standards of United Planters Association of South India (UPASI), if proper agronomic practices are followed, yield of 15000 kg per Ha can be attained. Audit analysed the productivity of tea plantations in the effective area (90.50 Ha) and noticed that the yield obtained was lower than the standard in all the five years. As per the report of UPASI Tea Research Foundation, lack of maintenance foliage, shear tipping, excess shade, irregular pattern and lack of supervision were the factors that resulted in low productivity in green tea plantation. The shortfall in yield was worked out by Audit as 1919.936 MT of green tea leaves valuing ₹2.67 crore[43] (***Appendix 4***).

---

[41] **Source: Coffee Board.**
[42] **Desuckering is a maintenance activity done to maintain a single stem system and avoid competition from suckers.**
[43] **Computed at the weighted average price per kg received by the Company during 2010-15.**

While admitting Audit observations, Government stated (November 2015) that adequate provisions had been included in the approved Management Plan for the period 2015-16 to 2019-20.

Recommendation No.4: ***The Company may carry out replanting in a phased manner to replace the aged plantations. The maintenance activities prescribed by various agencies like Spices Board, DCCD, Coffee Board, UPASI, etc. may also be carried out.***

Ecotourism activities

2.1.33 Ecotourism is broadly defined as tourism which is ecologically sustainable. Ecotourism is promoted through people's participation without damaging the ecological status of the forests, for the benefits of the local communities.

Due to frequent market fluctuations in the price of cash crops, many a time, the plantation activities of the Company suffered heavy loss. It was in this background that the Company forayed into ecotourism on an experimental basis in two locations i.e. Gavi and Munnar in 2000-2001. Thereafter, four more locations[44] were developed between 2007-08 and 2012-13.

The Company identified (June 2012 to June 2013) 12 locations (including renovation of existing six projects) for developing ecotourism facilities. The present status of implementation of these projects is as given in *Table* below:

Table 2.14: Status of implementation of ecotourism projects

Particulars	No. of Projects	Name of Projects/ ecotourism centres	
		New projects	Renovation of existing projects
Projects completed	5	Kottoor (Kappukad) and Kallar (Ponmudi)	Arippa, Munnar and Kochupampa[45]
Projects in progress	3	Wagamon[46]	Gavi and Nelliyampathy
Projects dropped as per specific direction from MoEF	2	Sabarijalam (Punnala, Pathanapuram)	Kambamala (Wayanad)
Projects stopped due to failure to acquire land	1	Gandhi Smrithivanam (Purakkad, Alappuzha)	..
Project dropped due to non-suitability of the area[47]	1	Kuruva (Wayanad)	..
Total	**12**		

Performance of existing ecotourism centres

2.1.34 The Company operated seven[48] ecotourism centres (Gavi, Kochupampa,

[44] Arippa (2007-08), Kambamala (2009-10), Nelliyampathy (2012-13) and Kochupampa (2012-13).
[45] Commenced operations, but all works not completed.
[46] Project completed on 24/8/2015 i.e. after audit period.
[47] In the meeting held (July 2014) by Additional Chief Secretary to GoK, Forest and Wildlife Department
[48] In the case of Kottoor (Kappukad) project, though works were completed, operations did not commence. Hence, not included.

Munnar, Nelliyampathy, Kambamala, Arippa and Kallar) across the State during the audit period. The tourism activities included night stay facility, trekking, boating, vehicle safari, etc. All the centres were working profitably[49] except Kambamala, Nelliyampathy and Kallar. The trend of touristsô visit in the State recorded steady increase during the audit period. The number of tourists who visited the State increased from 0.92 crore (in 2010) to 1.26 crore (in 2014), registering an increase of 36.35 *per cent*. Flow of tourists to the existing ecotourism centres of the Company was as given in *Table 2.15*:

Table 2.15: Details of flow of tourists to the existing ecotourism centres[50]

Ecotourism centre	2010-11	2011-12	2012-13	2013-14	2014-15
	(Number of tourists)				
Gavi	18936	21589	27325	25063	24478
Munnar	706	731	593	960	1036
Arippa	210	119	108	209	224
Kambamala	24	140	62	31	39
Nelliyampathy	-	-	10	89	188
Kochupampa	-	-	106	387	2880
Total	**19876**	**22579**	**28204**	**26739**	**28845**

As compared to 2012-13, the flow of tourists to Gavi ecotourism centre showed declining trend during 2013-14 and 2014-15. Similarly, in Kambamala ecotourism centre, there was declining trend from 2012-13 onwards as compared to that of 2011-12.

Further, scrutiny of occupancy in the staying facilities of the Company revealed that except Gavi, percentage of occupancy ranged between nil and 13.01. Even in Gavi, the occupancy was between 5.54 *per cent* and 42.51 *per cent.*

Government replied (November 2015) that drop in tourist foot-fall was due to opening of more ecotourism projects and destinations in the State by the Kerala Forest Department. It was further stated that the declining trend in Gavi during 2014-15 was due to stoppage (January 2015) of day package, following death of two visitors in wild elephant attack and closure of old kitchen cum restaurant block for major renovations.

The reply was not acceptable since there would be increase in ecotourism centres only if more potential was perceived by Government, not for redistributing the existing flow in more places.

Reasons for low occupancy as analysed by Audit were as discussed below:

- Though the Companyôs website had provision for online reservation, it could be done only for Gavi and Munnar ecotourism centres. Day package in Gavi and Munnar also could not be booked online**.** Online

[49] **Profitability is worked out by excluding expenditure like interest, depreciation, *etc.***
[50] **Ecotourism operations in Kallar was commenced in January 2015 only and hence, not included.**

reservation for ecotourism centres in Nelliyampathy, Arippa, Kambamala and Kallar were not provided in the website of the Company.

Accepting the audit observations, Government replied (November 2015) that measures were being taken for extending online reservation facility to Nelliyampathy, Arippa and Kallar and online booking of day package in Gavi were also under consideration.

- Main attraction of ecotourism centres of the Company is the vicinity of reserved forest and the opportunity to watch flora and fauna in its natural habitat. For this purpose, safari vehicle with trained drivers are very essential. However, this vital facility was absent in ecotourism centres of Arippa, Kallar and Kambamala.

  Government replied (November 2015) that the safari vehicles with trained drivers were provided in Gavi, Munnar and Nelliyampathy. But it was not provided in Arippa and Kambamala as the number of visitors in these centers were very less, wherein it was not economic to maintain.

  The reply was not acceptable as it was based on opinion and not coming from experience since profitability of the centres depends on tourist arrival and therefore, provision of additional facilities like safari vehicle would attract more tourists to these destinations.

- The ecotourism centre in Kallar was depending on water from a bore well for all purposes. Audit, however, noticed that there was high percentage of impurities in the water taken from this bore well making the water unusable. Accepting the audit observation Government replied (November 2015) that measures were being taken for providing safe water in Kallar ecotourism centre.

- It is a common practice in the tourism sector to have a flexible tariff which attracts tourists during off season by reducing rates. In Gavi ecotourism project, tourist visit during tourist season (October-March) of 2010-11 to 2013-14 was higher than the off-season period (Aprilï September). The percentage of increase during tourist season ranged between 7.92 and 83.64[51]. The Company, however, did not introduce a flexible tariff by extending nominal tariff reduction during off-season to attract more tourists.

  Government replied (November 2015) that as per the suggestion of the Audit, the Company had agreed to explore the prospects of rate reduction in the next off-season period.

- Tourism sector is very competitive due to presence of large number of players. As a result, wide publicity regarding the facilities, attractive

[51] **During 2014-15, there was no increase in arrival of tourists during season owing to cancellation of trips (February and March 2015) following death of two tourists in elephant attack.**

features, etc., is very important for attracting tourist to the centres. Audit, however, noticed that the publicity of the Company was limited through its website. Even in this website, details regarding ecotourism centres in Kambamala, Kallar and Kochupampa were not available.

Government replied (November 2015) that the details of Kochupampa ecotourism centre had already been uploaded in the website and action would be taken to upload the details of Kallar also in the website.

The reply was not acceptable because the website of the Company still (21 January 2016) does not contain any mention about Kochupampa ecotourism centre.

Recommendation No.5: ***The Company may update its website to include the details of all the ecotourism projects of the Company and facility for online reservation. Flexible tariff by extending nominal tariff reduction during off season may be implemented to attract tourists during off season. Adequate publicity may also be resorted to. Similarly, basic facilities such as availability of pure water, safari vehicles, etc., may be ensured in its ecotourism centres.***

Deficiencies in the implementation of ecotourism projects

2.1.35 The Company expended total capital outlay of ₹6.15 crore[52] for implementation of 12 ecotourism projects (including renovation of six existing locations) during the period from 2010-11 to 2014-15. Audit analysed the implementation of these projects and noticed the following deficiencies:

- As per the Forest (Conservation) Act, 1980, prior approval was necessary for all non-forestry activity in the reserved forest area. The Company, however, did not approach MoEF for approval for implementing ecotourism projects. As a result, MoEF specifically directed to stop two projects (Sabarijalam and renovation project in Kambamala) and thus, ₹59.42 lakh[53] already spent on these projects became wasteful.
- The Company ventured into implementation of Gandhi Smrithivanam project without ensuring availability of land. As the land required could not be acquired in time, the project was stopped (May 2014) midway and an amount of ₹6.48 lakh invested in the project was also blocked up.
- Implementation of eight[54] projects was delayed beyond the scheduled date for completion due to delay in awarding works and completing the works by contractors. The delay ranged up to 24 months. Audit worked out the loss of potential revenue[55] from five[56] of these projects at ₹10.72 crore.

[52] **Gavi – ₹0.22 crore, Nelliyampathy – ₹0.09 crore, Kallar – ₹0.35 crore, Kochupampa –₹0.24 crore, Munnar – ₹0.87 crore, Wagamon – ₹1.71 crore, Gandhi Smrithivanam – ₹0.06 crore, Sabarijalam – ₹0.58 crore, Arippa -₹0.59 crore, Kottoor - ₹1.42 crore, Kambamala- ₹0.02 crore and Kuruva – Nil.**
[53] **Sabarijalam - ₹ 57.52 lakh and Kambamala - ₹1.90 lakh.**
[54] **Munnar, Kallar, Gavi, Kochupampa, Nelliyampathy, Arippa, Kottoor and Wagamon.**
[55] **Based on the potential revenue envisaged in the DPR.**
[56] **Kallar, Gavi, Kochupampa, Kottoor and Wagamon.**

Government replied (November 2015) that all the existing ecotourism projects of the Company were detailed in the approved Management Plan for the period from 2015-16 to 2019-20. Further, Sabarijalam Project was not yet abandoned by the Company.

The reply was not acceptable as the Company failed to get prior approval from MoEF for any of the projects till 2015-16 as per the provisions of the Act. Further, MoEF had directed to stop Sabarijalam Project in view of it being a non-forestry activity and works were held up since March 2015.

Recommendation No.6: ***The Company should obtain prior approval from Central Government before launching any new ecotourism project. Availability of pre-requisites such as adequate land may also be ensured before venturing into new projects.***

Conclusion

Kerala Forest Development Corporation Limited was formed to raise plantations and cultivating cash crops for meeting the industrial and domestic needs. But the share of the Company in meeting the demand for pulpwood and teak timber in the State was negligible due to underutilisation of land and deficiencies in plantation activities. Target for replanting could not be achieved due to delay in harvesting and failure to carry out replanting in the immediate replanting season. Deficient marketing strategy, failure to dispose of plantations with poor growth and exclusion of matured plantations in the schedule of harvesting caused significant backlog in harvesting. Thinning activity was not carried out in majority of the plantations where it was due. There were instances of failure of teak and red sanders plantations due to improper maintenance. Failure to follow standard agronomic practices and carry out timely replanting of aged plants resulted in shortfall in productivity of cash crop plantations.

Ecotourism projects did not generate projected revenue due to low occupancy rate in ecotourism centres on account of lack of basic facilities and publicity.

2.2 Material Management by Kerala State Electricity Board Limited

Executive Summary

Introduction

Kerala State Electricity Board Limited (KSEBL) is engaged in generation, transmission and distribution of electricity in the State. During 2010-15, KSEBL issued 610 Purchase Orders (PO) valuing ₹1741.33 crore. Audit examined 152 POs (₹664.99 crore) to check whether procurement and utilisation of material was effective and economic.

Planning for procurement of material

The process of material procurement begins with preparation of Annual Plan by Corporate Planning Wing and thereafter Purchase Plan (PP) by Chief Engineer, Supply Chain Management (CE, SCM). There was delay in issue of guidelines for preparation of Annual Plan. No prescribed time frame was fixed for preparation and approval of PP which resulted in delay in their preparations.

Lack of co-ordination in material procurement

Co-ordination between Corporate Planning Wing and CE, SCM was important to ensure procurement of adequate material. Lack of co-ordination resulted in short procurement of energy meters and delay in procurement of material.

Tendering process

There was no prescribed time frame for each stage of tendering process. Out of 113 tenders, 48 were invited after delays ranging from 31 to 269 days. Similarly, 36 out of 113 tenders were not finalised within the validity period of bids.

Delay in execution of work due to non-availability of material

Failure to assess the requirement with reference to available stock and average consumption led to shortage of material for up to nine months which affected the execution of various works.

Extra expenditure due to delay in finalisation of tender

Delay in finalisation of tender and subsequent cancellation and retendering resulted in extra cost of ₹16.32 crore in procurement of single phase meters at higher rate.

Procurement of additional quantity from existing suppliers

Due to delay in invitation and finalisation of fresh tender, KSEBL could not invoke price re-fixation clause which led to extra cost of ₹2.87 crore.

Absence of monitoring

There was no system to monitor the consolidated payment against a PO. Due to absence of Management Information System, utilisation of material procured by SCM Wing could not be monitored by KSEBL. Material transferred to end user section was not linked on the basis of PO.

Introduction

2.2.1 Kerala State Electricity Board Limited (KSEBL) was incorporated under the Companies Act, 1956 on 14 January 2011. KSEBL started independent operations with effect from 31 October 2013 when the Government of Kerala (GoK) revested the assets and liabilities of erstwhile Kerala State Electricity Board (KSEB), a Statutory corporation, to it. KSEBL is engaged in generation, transmission and distribution of electricity in the State.

KSEBL procures various kinds of material for carrying out its operations. Material requirement of the KSEBL and its procurement generally falls under the following categories:

Table 2.16: Category wise method of material procurement

Sl. No.	Category of material	Method of procurement
1	Steel structures, cables, conductors, etc., for construction of new transmission lines and substations	Centralised procurement
2	Material required for capital works and operation and maintenance of distribution lines and substations	Centralised and decentralised procurement

The Chief Engineer, Supply Chain Management[57] (CE, SCM), is responsible for centralised procurement of material required for both transmission and distribution works. Chief Engineers (CEs) of South, Central and North distribution regions are responsible for decentralised procurement of 48 items of distribution material with effect from 2004. Besides, Deputy CEs (Distribution) are empowered to make local purchases up to ₹10 lakh at a time subject to maximum annual limit of ₹1 crore. Details of procurement of material during 2010-11 to 2014-15 were shown in *Table* below:

Table 2.17: Details of centralised and decentralised procurement

(₹ in crore)

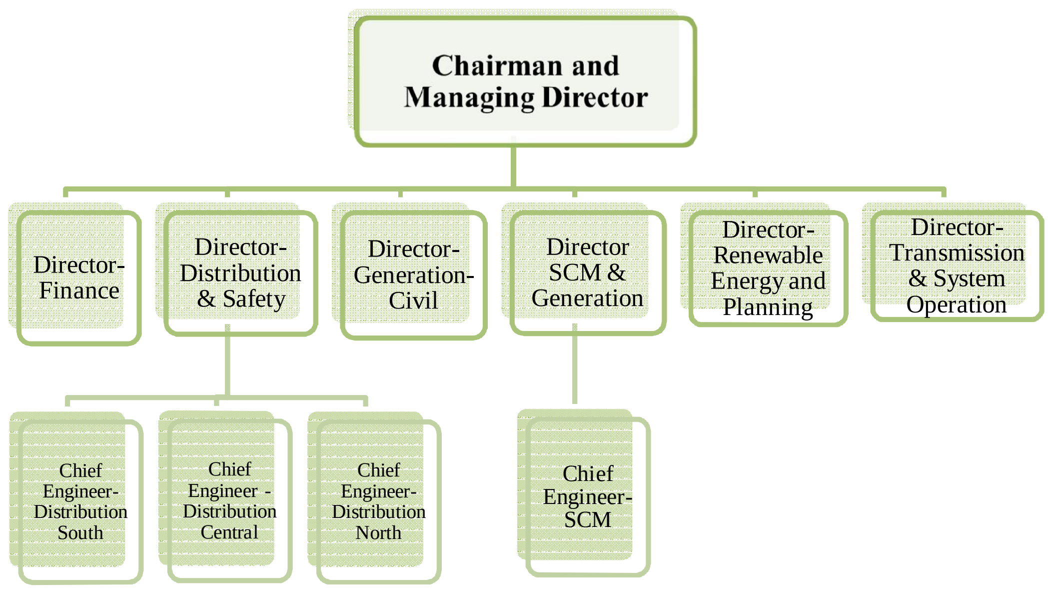
Year	Distribution material			Transmission Material	Total
	Centralised	Decentralised	Total	Centralised	
2010-11	252.57	213.36	465.93	97.48	563.41
2011-12	220.25	21.56	241.81	106.75	348.56
2012-13	267.61	18.03	285.64	30.09	315.73
2013-14	279.43	20.82	300.25	38.86	339.11
2014-15	315.04	12.94	327.98	65.28	393.26

[57] **Previously Technical Contracts and Materials.**

Organisational set up

2.2.2 The management of KSEBL is vested in a Board consisting of Chairman and Managing Director, Director (Finance), Director (Distribution and Safety), Director (SCM and Generation-Electrical), Director (Generation-Civil), Director (Renewable Energy and Planning) and Director (Transmission and System Operation). Organisational chart of KSEBL is given below:

Chart No.2.2: Chart showing organisation structure



Scope of Audit

2.2.3 The Performance Audit covered performance of KSEBL in procurement and utilisation of material required for transmission and distribution wing during the five years from 2010-11 to 2014-15. Audit also reviewed compliance to recommendations of Committee on Public Undertakings (CoPU) on earlier Audit Reports.

Audit Objectives

2.2.4 The objectives of Performance Audit were to ascertain whether:

- there was adequate mechanism in place for planning the procurement of required material after taking into account the material requisitioned and already available in stores and pipeline;
- there was co-ordination between the Corporate Planning Wing and the Purchase Department for ensuring procurement of adequate and quality material at competitive rates in a timely manner; and
- material procured was utilised in a timely manner for the purpose for which it was procured.

Audit Criteria, Methodology and Scope

2.2.5 The audit criteria were drawn from the following sources:

- Stores Purchase Manual (SPM) of GoK and Manual on Commercial Accounting System of KSEBL;
- Guidelines and circulars issued by the Central Vigilance Commission (CVC) to increase transparency in public procurement which was applicable to KSEBL; and
- Orders and Circulars issued by KSEBL and the Government.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining the audit objectives to top management of the KSEBL and Government in the Entry Conference held on 8 April 2015, scrutiny of records of the audited entity, analysis of data with reference to criteria, issue of audit queries, discussion of audit findings with management and issue of Draft Performance Audit Report. Audit findings were also discussed in an Exit Conference held on 14 December 2015 with representatives of KSEBL. The views expressed by KSEBL and Government have been duly incorporated in the Performance Audit Report.

Field Audit involving scrutiny of records of centralised and decentralised procurement of material and their utilisation by KSEBL and joint physical verification of material in stores was conducted during February-September 2015.

During the period from 2010-11 to 2014-15, KSEBL placed 610 Purchase Orders (POs) for procurement of various material required for transmission and distribution wings. In order to evaluate the performance of the KSEBL in its procurement operations, Audit test checked 152 POs selected based on Stratified Random Sampling technique as detailed below:

Table 2.18: Details of sample selected

Type of material	POs issued during 2010-15		Sample selected for test check		
	Number	Value (₹ in crore)	Number	Value (₹ in crore)	Category (Numbers)
Distribution	436	1430.91	108	429.96	Conductors (25) Energy meters (19) Line material (39) Transformers (15) Others (10)
Transmission	174	310.42	44	235.03	Conductors (8) Line material (14) Transformers (15) Others (7)
Total	**610**	**1741.33**	**152**	**664.99**	

Acknowledgement

2.2.6 Audit acknowledges the co-operation and assistance extended by the management and staff of the KSEBL in the conduct of this Performance Audit.

Audit Findings

2.2.7 Audit noticed deficiencies in planning for procurement, tendering process and contract management resulting in purchase of material at higher rate and deficiencies in utilisation of material leading to delay in implementation of various schemes.

Audit findings are discussed in succeeding paragraphs.

Planning for procurement of material

2.2.8 Procurement process for goods and services should ideally begin with need identification and planning for procurement. This demands that assessment of bulk requirement of goods is conducted at the beginning of every financial year and action is initiated for procurement in accordance with the procedures prescribed. Existence of such a system will reduce delays in procurement of material needed for meeting operational and maintenance requirements of KSEBL.

KSEBL begins the process of material procurement through preparation of Annual Plan. The Annual Plan contains the quantity of capital and maintenance works of transmission and distribution wings proposed to be executed during the ensuing financial year. For the preparation of Annual Plan, all pending works and targeted works are classified into capital and maintenance works. The inputs required for the preparation of the Annual Plan are received from the field offices, which is reviewed and checked at various levels, such as Division, Circle and Regional Office before it reaches the Corporate Planning Wing of KSEBL. Corporate Planning Wing is responsible for the consolidation of those inputs and preparation of Annual Plan for approval of the Board of Directors (BoD). Thereafter, Purchase Plan (PP) showing quantity of material required for the capital and maintenance works is prepared by CE, SCM based on approved Annual Plan.

Following issues were noticed in the preparation of Annual Plan and Purchase Plan.

Delay in preparation of Annual Plan

2.2.9 According to Store Purchase Manual, the time allowed to bidders for submission of bid is one month and maximum validity period of bid is three months. CE, SCM takes minimum one month for preparation and finalisation of PP. Since the material to be procured is meant for utilisation during April to March of the ensuing year, therefore, considering the minimum time required for submission of bids and its finalisation (four months) and finalisation of PP (one month), Annual Plan is to be finalised five months in advance, i.e. by October end every year.

Scrutiny of records revealed that there were delays ranging from three to four months in approval of annual plans as shown in *Table* below:

Table 2.19: Details of approval of Annual Plan by BoD

Year	Date of issue of guidelines by CE, Corporate Planning Wing	Date of approval of Annual Plan by BoD	Delay in approval of Annual Plan
2010-11	08/10/2009	06/03/2010	4 months
2011-12	11/10/2010	11/02/2011	3 months
2012-13	30/12/2011	21/03/2012	4 months
2013-14	22/09/2012	05/03/2013	4 months
2014-15	25/09/2013	12/03/2014	4 months

As evident from the above *Table*, the main reason for delay in approval of Annual Plan was delay on the part of Corporate Planning Wing in issue of guidelines for preparation of Annual Plan.

GoK replied (January 2016) that concerted efforts were being made by KSEBL to reduce the time taken for finalisation of the Annual Plan by making refinements in the software applications on a continuous basis.

Delay in preparation of Purchase Plan

2.2.10 After preparation of Annual Plan by Corporate Planning Wing, the CE, SCM prepares two centralised PPs and one decentralised PP. While the centralised PPs are meant for distribution and transmission material, to be procured by CE, SCM, decentralised PP is meant for material to be procured by three Distribution CEs. For preparation of PP, the quantity of material required for execution of works included in the Annual Plan, stock in position at sub regional stores and section stores along with details of quantity in pipeline and the quantity in tender under process are taken into account. The PP is, thereafter, placed before the Purchase Committee consisting of Chairman, full time Directors, CE, SCM and Financial Adviser for its recommendation before it is placed before BoD for approval.

Timely preparation of Annual Plans and PPs was necessary to ensure availability of material required for both capital and maintenance works in time. Yet, in the case of PP, no prescribed time frame was fixed for its preparation and approval. Consequently, the time taken for preparation and finalisation of PP ranged between 1 month and 10 months from the date of approval of Annual Plan as shown in *Table 2.20*:

Table 2.20: Time taken for preparation and finalisation of PP

Year	Approval of Annual Plan by BoD	Approval of PP		
		Centralised distribution material	Centralised Transmission material	Decentralised distribution material
2010-11	March 2010	April 2010 (one month)	March 2010[58] (one month)	July 2010 (four months)
2011-12	February 2011	May 2011 (three months)	Not prepared[58]	August 2011 (six months)
2012-13	March 2012	June 2012 (three months)	January 2013 (nine months)	July 2012 (four months)
2013-14	March 2013	July 2013 (four months)	December 2013 (10 months)	July 2013 (four months)
2014-15	March 2014	July 2014 (four and a half months)	July 2014 (four and a half months)	July 2014 (three and a half months)

(Figures in bracket indicate time taken for approval of PP from the date of approval of Annual Plan)

Out of the 14 PPs approved during 2010-11 to 2014-15, time taken for finalisation of 10 PPs was more than three months. Delay was due to the fact that in six cases, CE, SCM took more than three months to submit PPs to the Purchase Committee. Delay in the remaining four cases occurred because more than three months were taken by CE, SCM and Purchase Committee for their finalisation and approval.

Due to delay in finalisation of PPs, there was corresponding delay in procurement of material for capital and normal maintenance works. In order to tide over exigencies, field offices resorted to local purchases at higher rate and purchase of additional quantity from existing suppliers as discussed in *Paragraphs 2.2.15* and *2.2.16.*

GoK replied (January 2016) that the delay in preparation of PPs was due to the necessity of collection of the details of stock position as on 1 April every year from various electrical sections. It was also replied that delay did not affect the work as the material which were procured based on the previous yearȏs PP, were being received as pipeline quantity during the year.

The reply was not acceptable as the stock of material could be assessed real time through SCM software. There is also no need to take stock as on 1 April every year because material expected between date of PP and 1 April could be accounted as pipeline quantity. Due to delay in finalisation of PP and tenders, execution of various works was held up for want of material as discussed in *Paragraph 2.2.14*.

Recommendation No. 1: **KSEBL should prescribe timelines at each level for finalisation of Annual Plan and PP**.

[58] **Rolling plan for transmission for the two years 2010-11 and 2011-12.**

Lack of co-ordination in material procurement

2.2.11 Procurement of adequate and quality material by the Purchase Department (CE, SCM) is vital for execution of various capital works and maintenance work planned by Corporate Planning Wing. Thus, co-ordination between these departments would ensure proper procurement of material.

Audit examined effectiveness of co-ordination in respect of ten major distribution and transmission material and noticed short procurement of energy meters and non-inclusion of material required for work due to absence of co-ordination between Purchase Department and Corporate Planning Wing as discussed below:

- As per Clause 33 of Terms and Conditions of Supply of Electricity, 2005, KSEBL is to replace defective meters within one month. KSEBL, therefore, requires Single Phase meters (SP meters) and Three Phase meters (TP meters) for replacement of defective meters under normal maintenance work. KSEBL also requires meters for effecting new service connections under schemes like RAPDRP[59] and RGGVY[60].

  Procurement of energy meters during the period from 2010-11 to 2014-15 revealed that compared to the Annual Plan, there was shortage of 2.34 lakh SP meters and 0.40 lakh TP meters in the PP. Further, as compared to the PP, there was shortage of 3.25 lakh SP meters and 0.53 lakh TP meters in actual procurement. Thus, the total shortage in actual procurement of SP meters and TP meters was 5.59 lakh and 0.93 lakh respectively.

  On a review of target and achievement of replacement of faulty meters in two Electrical Circles at Alappuzha and Kottayam, it was noticed that both the Circle Offices could not achieve the targeted faulty meter replacement due to shortage in supply of energy meters to these two units. There was short supply of meters to Circle Office, Alappuzha and Circle Office, Kottayam by 49 *per cent* and 13 *per cent* during the period from 2010-11 to 2014-15. As a result, in these two Electrical Circles, the overall achievement of replacement of faulty meter over four years was 48 *per cent* and 88.90 *per cent* respectively.

- Assessment of KSEBL regarding the number of energy meters for replacement of faulty meters and for effecting new connections for a month was around one lakh SP meters (60000 *per* month for faulty meters plus 40000 *per* month for effecting new connections). Along with this, the opening balance of faulty meters was to be taken into consideration for annual requirement.

  Opening balance of faulty SP meters during 2014-15 was 5.73 lakh. Accordingly, the annual requirement of SP meters for 2014-15 was

[59] Restructured Accelerated Power Development and Reforms Programme.
[60] Rajiv Gandhi Grameen Vidyutikaran Yojana.

17.83 lakh. But KSEBL had worked out the annual requirement for 2014-15 at 12.10 lakh SP meters as KSEBL did not consider the requirement of meters at the time of preparation of Annual Plan. As a result, as of March 2015, 5.88 lakh SP meters could not be replaced due to non-availability of new SP meters.

It was further noticed that non-replacement of defective meters affected revenue realisation of KSEBL as it billed energy consumption based on average consumption instead of actual consumption of electricity for the period during which the meters remained faulty. Besides, Kerala State Electricity Regulatory Commission had also expressed (28 April 2012) displeasure in the performance of KSEBL on replacement of defective meters.

GoK replied (January 2016) that there was short purchase of four lakh SP meters in 2011-12 due to allegations raised against the tendering process. It was also stated that total quantity of energy meters procured during 2010-15 was sufficient to meet the requirement as per PP.

The reply was not acceptable as decision to limit procurement of meters in 2011-12 was taken after deciding to procure balance quantity through fresh tender. These material were procured subsequently through fresh tender after one year. Absence of sufficient energy meters also affected replacement of faulty meters as number of faulty SP meters to be replaced in March 2015 was 5.88 lakh meters**.**

- Construction of two 110 kV substations at Cyber Park, Kozhikode and Kinalur and two 33 kV substations at Palakkad and Nellikkaparamba were proposed to be implemented during 2011-12 as per Annual Plan. These substations were planned for voltage improvement and system improvement.

  It was noticed that material requirement for these planned substations was not included in the PP 2011-12 as KSEBL had prepared (March 2010) a two-year rolling PP for 2010-12. Consequently, these substations could not be completed during 2011-12 as scheduled.

  GoK replied (January 2016) that even though 110 kV substations at Cyber Park and Kinalur and 33 kV substations at Palakkad and Nellikkaparamba were included in the Annual plan 2011-12, land was not available except in Palakkad. It was included in the Annual Plan on the anticipation that land would be made available on time.

  The reply was not tenable as the above substationsô works were not included in PP because no separate PP was prepared for 2011-12 and a two year rolling plan had already been approved (March 2010) for 2010-12.

- GoI approved (June 2010) RAPDRP for 43 towns in Kerala, aimed at reduction of Aggregate Technical & Commercial (AT&C) loss through various distribution strengthening works. Approved RAPDRP involved installation of 2340 Ring Main Units (RMU) and drawing 1495 kilometre (km) of Aerial Bunched Cable (ABC). As per GoI guidelines, RAPDRP was to be completed by June 2015 (within five years).

  Scrutiny of records revealed that as per the Annual Plans 2010-11 to 2014-15, RMUs proposed to be installed were only 1394. Out of this, only 187 RMUs were procured and installed. Similarly, although 1547 km of ABC were proposed to be drawn during 2010-11 to 2014-15 as per respective Annual Plans, purchase of ABC was not included in the PP and hence, the purchase of ABC was not made. As a result, RAPDRP could not be completed within the scheduled five yearsô time. Consequently, reduction in AT&C loss could not be achieved as planned.

Recommendation No. 2: Co-ordination between Corporate Planning Wing and Purchase Department should be strengthened to ensure proper assessment and timely procurement of material to carry out various works as planned.

Procurement of material

2.2.12 Public procurement activities should be conducted in a transparent manner ensuring competition, fairness and elimination of arbitrariness in the system. It must also conform to exemplary norms of best practices to ensure efficiency, economy and accountability.

Scrutiny of 152[61] POs out of 610 POs issued by KSEBL during 2010-11 to 2014-15 revealed deficiencies in tendering processes and delay in procurement of material leading to delay in execution of works and extra expenditure in procurement. These are discussed in succeeding paragraphs.

Tendering Process

2.2.13 Generally, tenders are invited by KSEBL in two bid system, such as technical bid and financial bid and in case of material such as ACSR[62] conductors, weather proof wire, etc., procurement is made through limited tenders from Small Scale Industrial (SSI) units and Public Sector Undertakings of Kerala.

Audit examined process of tendering in 113 cases and observed following deficiencies:

- According to provisions (Rule 1.3) of SPM, KSEBL was to prescribe appropriate time frame for each stage of procurement, and delineate the responsibility of different officials involved in the

---

[61] **113 tenders.**
[62] **Aluminium Conductor Steel Reinforced.**

purchase process to reduce delays in tendering process. Such a time frame would also make the purchase officials concerned more alert.

KSEBL did not, however, prescribe any time frame for various stages of procurement. As a result, 48 out of 113 tenders for procurement of various material were invited after delays ranging between 31 and 269 days from the date of approval of PP on account of finalisation of technical specification, collection of latest requirement of material, etc. In five cases, tenders were floated during subsequent year of material requirement as the PP was approved in the month of December. Delay in invitation of tender led to consequent delay in replacement of faulty meters, increase in local purchases at higher rate, etc., as discussed in *Paragraph 2.2.15*.

- CVC directives (November 2008) stipulate that tenders should be finalised and contracts awarded in a time bound manner within original validity of the tender, without seeking further extension of validity. As per the SPM, the validity period should not be more than three months from the date of tender opening as the longer period entails the risk of getting higher price from the tenderers.

  General conditions of the tender documents issued by KSEBL, however, stipulated that the validity period of a bid shall be four months from the date of opening price bid or six months from the date of opening pre-qualification bid, whichever is earlier. The CE, SCM did not take any steps to reduce the validity period to match with the period prescribed in the SPM. This fact was also not brought to the notice of BoD.

- Since KSEBL follows two-bid system for procurement of majority of items, pre-qualification criteria should be specified in unambiguous terms to avoid arbitrariness and favouritism in pre-qualification of bids as stipulated by guidelines of CVC which was applicable to KSEBL. As per the provision of SPM (Chapter 5.25), KSEBL shall blacklist, ban, suspend business and remove from the list of approved suppliers, firms for breach of conditions of contracts. The list of firms blacklisted and or banned was also to be displayed in the website of KSEBL.

  In one tender, out of 113 tenders examined in Audit, for supply of 21500 numbers 200 amp LT rewirable fuse unit, invited (September 2012) by CE, Distribution, South, offer of Shree Krishna Electricals was rejected due to poor performance in earlier supply. Thus, the price bid of single bidder, Kerala Electrical and Allied Engineering Company Limited (KEL) was opened and PO placed with KEL on 8 August 2013. However, in connection with procurement of 1017 LT rewirable fuse unit, CE, SCM placed (December 2013) PO with Shree Krishna Electricals.

  There was, thus, no system to blacklist and display list of suppliers with poor contractual performance in the website of KSEBL as prescribed in the SPM leading to lack of uniformity in disqualifying the poor-performing suppliers.

GoK replied (January 2016) that the firm was not blacklisted as KSEBL resorted to black listing only as an extreme step. It was also replied that the list of blacklisted suppliers was also maintained.

The reply was incorrect as list of suppliers with poor performance was not maintained nor their names displayed in the website.

- It was also noticed that KSEBL could not finalise 36 out of 113 tenders, within the validity period fixed by it as shown in *Table* below:

Table 2.21: Time taken to issue purchase order after opening technical bid

Year	No. of Tenders	Time taken in months to issue POs		
		4 - 6	7-12	Above 12
2010-11	5	0	5	0
2011-12	8	0	7	1
2012-13	7	1	5	1
2013-14	6	1	5	0
2014-15	10	3	6	1
TOTAL	**36**[63]	**5**	**28**	**3**

Audit analysis revealed that in 36 tenders, the Pre-Qualification (PQ) Committee took periods ranging from 1 to 12 months to prequalify the bidders and Purchase Committee took 1 to 13 months to select a successful bidder as shown in *Table* below:

Table 2.22: Time taken to finalise tenders by PQ and Purchase Committee

Number of tenders	Time taken (months)		
	PQ Committee	Purchase Committee	Total
5[64]	Nil	4-6	4-6
28	1-11	1-11	7-12
3	7-12	4-13	Above 12
36	**Total**		

The delay on the part of PQ Committee was due to non-insistence of timely submission of missing bid documents, delay in scrutiny of financial aspects by financial advisor, etc. The delay on the part of Purchase Committee in selection of successful bidder was due to price negotiation and delay in convening Purchase Committee meeting and BoD meeting.

GoK replied (January 2016) that more than six months was required to finalise tenders for certain items like power transformer, transformer

[63] 28 tenders by CE, SCM; 1 tender by CE, Distribution South; 2 tenders by CE, Disribution Central and 5 tenders by CE, Distribution North.

[64] These were single-part tenders and hence pre-qualification was not carried out. Single part bids were to be finalised within four months.

control, feeder control and relay panel, RMU, etc. It was also stated that care would be taken in future tenders to avoid delays.

The reply was not acceptable as in 31 cases, tenders were finalised after six months. Out of this, in 30 tenders, Purchase Committee took three to thirteen months to select successful bidder after pre-qualification.

- Due to delay in finalisation of tenders and issue of POs after the validity period, KSEBL incurred extra expenditure of ₹1.26 crore in three out of 36 tenders as shown in *Table* below:

Table 2.23: Details of extra cost due to non-issue of POs within validity period

Material	Name of supplier	Extra cost (₹ crore)	Reason
110 kV SF 6 Circuit Breakers (CB) [65]	Crompton Greaves Limited, Nashik (CGL)[66]	0.23[67]	Due to delay in finalisation of tender, CGL refused to supply and KSEBL had to procure material through new tender at extra cost from CGL for which the responsibility needs to be fixed. GoK replied (January 2016) that balance quantity of 53 CBs was procured from CGL at lesser rate than the rate quoted in the first tender. On verification, it was found that the reply was incorrect as the rate quoted by CGL in the first tender (₹4.80 lakh) was lower than the rate in retender (₹5.23 lakh).
7 lakh SP meters	Larsen & Toubro Limited[68].	0.84	Tender was opened in June 2010. Due to delay in finalisation of tenders and placing PO, KSEBL had to incur extra cost on account of increase in excise duty (ED) from 10 to 12 *per cent* with effect from April 2012. GoK stated (January 2016) that now the tenders for purchase of meters are being processed without any delay.
0.50 lakh TP meters	EMCO Limited[69]	0.19	Tenders were opened in October 2011. Due to delay in finalisation of tenders and placing PO, KSEBL had to incur extra cost on account of increase in ED from 10 to 12 *per cent* with effect from April 2012. GoK stated (January 2016) that now the tenders for purchase of meters are being processed without any delay. Reply was not acceptable as the delay in finalisation of tenders for more than a year in case of SP and TP meters in 2010-12 had direct impact on the revenue of KSEBL as it continued to bill customers in such cases on the basis of average consumption.
	Total	**1.26**	

[65] Required for construction of transmission substation during 2010-12.
[66] PO. SCM 48/2012-13 dated 27 August 2012.
[67] Difference between rates quoted by CGL in the first and second tender (₹522968-₹479910) x 53 CBs.
[68] PO SCM 90/11-12 dated 20 January 2012.
[69] PO SCM 45/12-13 dated 17 October 2012.

Recommendation No.3: In order to ensure availability of material, time frame for each stage of procurement right from tendering process may be fixed in conformity with the provisions of SPM.

Delay in execution of works due to non-availability of material

2.2.14 Chapter III of Part II of Manual on Commercial Accounting System stipulated KSEBL to maintain different stock levels such as maximum, minimum or re-ordering level or economic order quantity in order to ensure uninterrupted supply of material and to avoid delay in execution of various works. The CoPU, while considering an earlier Audit Observation, had also directed (March 2005) KSEBL to follow the system of maintenance of stock level based on co-ordination with project or work requirements.

Audit noticed that:

- KSEBL did not fix and maintain stock levels for any of the material required for normal maintenance works. On an analysis of availability of ten major items of material during the period from 2010-11 to 2014-15, it was observed that due to delay in procurement of material there was non-availability of material for periods ranging between one and nine months. The details of delay for more than six months were as shown in *Table* below:

Table 2.24: Details of work affected due to non-availability of material

Sl. No.	Items	Period	Delayed period	Work or Project affected
1	Single Phase Meter	2011-12 and 2012-13	8 months and 6 months	New service connection, replacement of faulty meters and mechanical meters, RAPDRP and RGGVY works
2	ACSR Rabbit	2011-12 and 2012-13	7 months and 9 months	RGGVY, reconductoring work, RAPDRP and other line extension work.
3	ACSR Raccoon	2012-13 and 2014-15	7 months each	RGGVY, RAPDRP and other line extension work
4	Three Phase Energy meters	2013-14	7 months	New service connection, replacement of faulty meters and mechanical meters and RAPDRP Work.
5	AB Switch 400 Amp	2012-13	8 months	RGGVY, RAPDRP and other line extension work
6	11 kV 45KN Disc Insulator	2013-14 and 2014-15	7 months and 8 months	11 kV line extension work
7	11 kV Pin Insulator	2012-13	9 months	RGGVY, RAPDRP and other 11 KV line extension work
8	100 kVA Distribution transformer	2011-12	6 months	Voltage and system improvement and RAPDRP work
9	160 kVA Distribution transformer	2010-11	6 months	Voltage and system improvement work and RAPDRP work
10	12.5 MVA transformer (Transmission)	2014-15	9 months	Substation construction work (new and upgradation work)

GoK replied (January 2016) that action was being taken by KSEBL to finalise tenders within validity period. GoK further stated that maintaining stock level of critical material would not be possible at all times due to storage constraints, procedural delay in initiating next tender, etc.

The reply was not acceptable because KSEBL had not fixed stock levels in respect of material required even for regular operation and maintenance. This was despite the recommendation of CoPU to maintain stock levels. Procedural delay in tendering was avoidable through standardisation of procedures as most material are procured annually.

Recommendation No. 4: In order to avoid delay in procurement of material, a system may be incorporated in SCM software to analyse the available stock and its average consumption for the period so as to purchase the material before its stock-out.

- As per approved PP 2013-14, 10 Distribution Transformers (DTs) of 500 kVA[70] were required to meet voltage improvement and system improvement work during 2013-14. Tender was invited in April 2014. Price bid was opened in May 2014 and PO issued in November 2014 to Unipower Systems (Unipower) for supply of 10 DTs at ₹ 42.57 lakh. As per the PO, the DTs were to be delivered by 11 February 2015.

  It was noticed that though there was delay in supply, the CE, SCM asked Unipower on 16 March 2015 to produce temperature rise test certificate and to intimate the readiness of DTs for inspection. Unipower supplied the material during September-October 2015. As the firm delayed the delivery, the capital works, *viz.*, voltage improvement and system improvement envisaged during 2013-14 could not be executed till September 2015.

  GoK replied (January 2016) that the firm supplied DTs belatedly in September 2015, but no capital work was affected due to non-availability of material.

  The reply was not acceptable as tenders were issued for meeting requirement of DTs during 2013-14 after considering the stock. Due to delay in procurement, voltage improvement and system improvement planned during 2013-14 was, thus, affected.

Extra expenditure due to delay in finalisation of tenders and POs

2.2.15 Competition is the key element of the procurement policy framework which promotes value for money. Due to delay in preparation of PP and finalisation of tenders, KSEBL could not procure material through competitive

[70] **Kilo Volt Ampere.**

tenders but had to resort to local purchase, etc., resulting in extra expenditure as discussed below:

- Out of 19 POs of energy meters test checked, Audit noticed extra expenditure of ₹16.32 crore in five POs.

  During 2009-10, KSEBL required nine lakh SP meters for replacement of defective meters and for providing new connections. To meet this requirement, KSEBL, placed (October 2009) POs with United Electrical Industries Limited (UEIL) and ICSA India Limited (ICSA), L1 bidders. Since UEIL and ICSA defaulted in supply, KSEBL placed (March-December 2010) five POs with Larsen & Toubro Limited (L&T) for supply of 10.25 lakh[71] SP meters at the L1 rate of ₹665.32 per meter. As per the terms and conditions of the PO, price was to be re-fixed if there was fall in price in the tender to be floated for subsequent Annual Plan (2010-11). Accordingly, price re-fixation was applicable to four POs for 6.75 lakh[72] meters.

  Tender for seven lakh SP meters required as per Annual Plan 2010-11 was invited on two-bid[73] system. As per tender, financial bid was to be opened only if technically (PQ bids) qualified. PQ bids were opened in June 2010 and all five bids received were pre-qualified by the PQ committee[74], after testing the sample meters. Financial bid was opened (23 November 2010) and the rate offered by Bentec Electricals & Electronics Private Limited, Bangalore (Bentec) (₹554.69 per meter) was L1. As per decision (15 December 2010) of BoD, on negotiation all bidders agreed to match with the rate of L1 except L4 and L5. KSEBL did not, however, place PO on Bentec because of being a new supplier to KSEBL. BoD, thereafter, decided (February 2011) to cancel and retender the work after revising pre-qualification criteria to ensure good quality meters and to bring down the rates by ensuring competition.

  Retender was invited (May 2011) for 12 lakh SP meters along with the requirements of Annual Plan 2011-12. Out of 13 bidders, 12 bidders, including Bentec, were disqualified at pre-qualification stage itself on the grounds of non-submission of previous experience certificate and low production capacity as per revised qualification criteria. Rate quoted (September 2011) by the only pre-qualified bidder, L&T, was ₹665.32 per meter. PO was placed in January 2012 for eight lakh SP meters and the SP meters were supplied between February 2012 and June 2012.

  Audit observed that:

---

[71] **SCM 204/10-11- dated 16 March 2010 (350000 nos.), SCM 50/10-11 dated 17 July 2010 (300000 nos.), SCM102/10-11 dated 27 October 2010 (75000 nos.), SCM118/10-11 dated 25 November 2010 (165500 nos.), SCM 133/10-11 dated 23 December 2010 (134500).**

[72] **300000+75000+165500+134500 =675000 meters.**

[73] **Pre-qualification (Technical) bid and Financial bid.**

[74] **The members were: Accounts Officer (Law), Chief Engineer Distribution-South, Financial Adviser, Member (Transmission & Distribution).**

- As per the terms and conditions of the PO placed on L&T in 2009-10, price was to be refixed as a result of fall in price in the tender floated for PP 2010-11. But due to cancellation of the tender, KSEBL could not claim price refixation benefit of ₹7.47 crore[75] in respect of four POs for 6.75 lakh meters from L&T despite there being a fall in price, thus, extending undue benefit to L&T.

- KSEBL had also to incur extra expenditure of ₹8.85 crore[76] on procurement of eight lakh SP meters as a result of retender.

- KSEBL after a gap of seven months from the date of opening of PQ bid cancelled original tender floated in 2010-11 to ensure good quality meters and to bring down the rates by ensuring competition through incorporation of revised pre-qualification criteria in the tender documents. A comparison of the original and revised tender documents revealed that there was no significant change in the revised pre-qualification criteria with respect to quality parameters and this also eliminated competition as shown in *Table* below:

Table 2.25: Details of revision in pre-qualification conditions in tender documents

Sl. No.	Original pre-qualification conditions	Revised pre-qualification conditions	Remarks
1	The bidder should have a minimum annual turnover of ₹25 crore during last three financial years. Latest solvency certificate for an amount equivalent to probable amount of contract (PAC).	The bidder should have a minimum annual turnover equivalent to 50 *per cent* of PAC during last three financial years. Latest solvency certificate for an amount equivalent to PAC	No change except that turnover was linked as 50 *per cent* of PAC. Conventional Fastners, Haridwar did not participate in the retender
2	No such condition	Previous yearȇs production capacity along with actual quantity of production during the last 3 years duly certified by Excise authority.	Eliminated two bidders (Bentec and Linkwell).
3	Bidder should furnish performance certificate	Bidder should furnish performance certificate from power utility	

- Retender was invited for 12 lakh SP meters with a PAC of ₹80 crore instead of seven lakh SP meters (PAC of ₹40 crore) required as per the original tender. The revised tender conditions eliminated all three L1 bidders of the first tender from pre-qualifying. The Conventional Fastners, Haridwar did not meet minimum annual turnover of ₹40 crore and hence, did not participate in the second tender. Other two bidders (Bentec and Linkwell), though participated, were disqualified

---

[75] **6.75 lakh x (₹665.32-₹554.69) =₹7.47 crore.**
[76] **8 lakh x (₹665.32-₹554.69) = ₹8.85 crore.**

on the grounds of non-submission of performance certificate from power utility and the non-submission of production certificate for three years instead of one year.

One of the reasons to cancel the first tender was to get competitive rate, but, KSEBL did not revise pre-qualification criteria to ensure that sufficient bidders will meet pre-qualification criteria. Incorporation of pre-qualification criteria, after having known the strength and weakness of competitors in earlier tender, was tailored to favour L&T.

- Although PAC of the retender was worked out reckoning 12 lakh SP meters, PO was placed to L&T for eight lakh SP meters only on the ground that L&T was the lone successful bidder. Thus, rejection of other bids for not meeting the revised turnover criteria was not proper. For the balance quantity, new tender was invited in November 2012 and the PO was placed (April 2013) with L&T and the material was supplied between June 2013 and November 2013.

  Thus, due to non-issue of PO for the full tendered quantity, 4 lakh SP meters, required for new connections and replacement of defective meters during 2011-12 could be procured after two years only during June 2013 and November 2013.

  GoK replied (January 2016) that only two firms had fulfilled all the tender conditions and the sample meters of three L1 bidders were of suspect quality. Therefore, in order to have better competition and lower rate, BoD had decided (February 2011) to retender the work.

  The reply was not acceptable as all bidders were prequalified by PQ committee. The decision to send the sample meters of three L1 bidders was taken on 24 January 2011 after refusal of L&T in December 2010 to match its rate with the rate of L1. Besides, the decision to modify the prequalification conditions effectively ruled out competition as revised conditions eliminated participation by L1 bidders of the first tender.

  A preliminary investigation by State Vigilance Department (SVD) had proposed a vigilance enquiry by a Special Investigation Team since they suspected that unique specification of meter and tough tender conditions were intended to qualify L&T alone at pre-qualification stage. The proposal of SVD was, however, rejected by GoK based on the recommendation of Deputy Director of Prosecution.

- Due to delay in finalisation of tenders by CE, SCM for centralised procurement and CE, Distribution of three Regions for de-centralised procurement, the field offices had done local purchases of these material at higher price. On selected four circles[77], in procurement of five

[77] **Kannur, Thiruvananthapuram-Urban, Kollam and Pathanamthitta.**

items[78] there was extra cost of ₹5.37 lakh in local purchases during the period from 2011-12 to 2014-15 as compared to the rates of centralised and de-centralised procurement.

- The PPs of three CE- Regional Offices were compiled by CE, SCM and got it approved by BoD on the same date. However, various items of three Regions were procured by respective regions at different times through different tender notices even though material were with similar specifications. Thus, if a tender for an item is invited in one region, the prices quoted will be known to all participants. When other regions invite tenders later, for the same item, as the participants are same, they may form a cartel and might quote higher rates. In the absence of uniform time frame in tendering and purchasing material, tenders were invited by the three CEs at different periods and purchases were made at different rates. In some cases, same supplier supplied material at different rates. Considering the lowest cost of a region in annual purchases of two items[79], the extra cost incurred by KSEBL worked out to ₹1.21 crore.

  GoK replied (January 2016) that tender could be invited only based on the field requirement. Inviting tender simultaneously by the three Chief Engineers may not be possible at all times.

  The reply was not acceptable as the tender should have been invited by one regional office for supply of material to the three regions as per their requirements (month, place and quantity) to be specified in the tender.

Extra expenditure due to procurement of additional quantity from existing suppliers

2.2.16 Due to delay in approval of Annual Plans, PP and finalisation of tenders, KSEBL often resorts to procurement by way of additional quantity from existing suppliers. SPM (Rule 9.55) also prescribes a plus or minus tolerance clause to be incorporated in the tender documents, reserving purchaserĝs right to increase or decrease the quantity of the required stores up to a limit without any change in the terms and conditions and prices quoted by the tenderers. The tolerance clause is intended to take care of any change in the requirement between issue of tenders and placement of POs. Generally, the tolerance limit should not be more than 15 *per cent*. Conditions of PO stipulated that the price for the additional quantity under tolerance clause shall be re-fixed if a fall in price occurs in the next tender opened (price bid) during the delivery schedule fixed for the additional order.

Audit scrutiny of 20 POs (out of 152 POs test checked) issued for additional quantity during 2010-11 to 2014-15 revealed deficient terms of procurement of additional quantity, extra expenditure in three POs and non-refixation of price as discussed below:

---

[78] **200 A Fuse Unit, LT shackle insulator, HT stay wire, LT stay rod and GI wire 3.15 mm.**

[79] **200 Amp Fuse Unit and LT Shackle Insulator with SBN.**

- In all 20 POs issued up to 2010-11, KSEBL specified supply of 25 *per cent* additional quantity by successful bidders at the same rate, terms and conditions. Since 2011-12, in all POs, supply of additional material (25 *per cent*) was, however, made applicable only when the supplier was willing to supply at the same rate, terms and conditions. KSEBL changed the additional quantity policy as optional in January 2011, as KSEBL found it difficult to claim reduced rate when there was delay in tendering. Thus, making supply of additional quantity optional was not in the best interest of KSEBL as in case of increase in price, the supplier would refuse to supply and hence, the very purpose of the clause, to procure the material in exigency period, was defeated.

- In three cases[80], the suppliers had refused to supply additional material and consequently KSEBL had to procure the material at higher rate through new tender leading to delay in supply of material. Extra cost incurred by KSEBL in three cases was ₹19.55 lakh and the delay in procurement ranged between 9 and 14 months.

  GoK replied (January 2016) that KSEBL had decided to amend the 25 *per cent* excess quantity supply as optional so that the supplier could quote reasonable rates in the tender. The bidders may quote higher rate for the full 125 *per cent* quantity expecting an increase in market rate for the 25 *per cent* quantity, which would be issued on a later date.

  The reply was not acceptable as supply of additional quantity was made optional by KSEBL in violation of provisions of SPM, according to which supply of additional quantity of 15 *per cent* was mandatory.

- In order to meet part of the requirements (2640 DTs) of 100 kVA DTs for the year 2013-14, KSEBL placed (July 2013) three POs for additional quantity of 2050 DTs with existing three suppliers. The price of additional quantity was to be refixed based on rate obtained in new tender. KSEBL, instead of inviting new tender for the balance 590 DTs required to meet the requirements of 2013-14, placed (February 2014) additional three POs for extra quantity of 1100 DTs with the existing suppliers.

  KSEBL invited (April 2014) new tender for 2000 DTs required during 2014-15. Rate obtained (May 2014) in new tender was lower than the rate of POs issued for additional quantity. Since there was delay of nine months in issue of new tender from the date of issue (July 2013) of first PO for additional quantity (2050 DTs), KSEBL could not claim price refixation for the entire quantity. In respect of second PO for extra quantity (1100 DTs) also, price could be refixed only on 777 DTs supplied after opening of price bids of new tender (May 2014). Thus, due to delay in inviting new tender, KSEBL could not claim price

[80] 1 kVA online UPS – Hykon India Private Limited , 110/11 kV transformer Control and relay panel –Danish Private Limited, Supply and commissioning of Computer systems and Accessories- Keltron IT Business Group.

refixation benefit of ₹2.40 crore on 2373 DTs supplied between August 2013 and May 2014.

GoK replied (January 2016) that inviting fresh tenders would delay and badly affect the works. Further, at the time of placing PO, increase or decrease of price in future tenders could not be forecasted.

The reply was not acceptable, as invitation of tenders was for meeting annual requirement of material for which Annual Plan and PP were already approved. Therefore, timely action to invite fresh tender for the balance quantity would not only lead to transparency but would also benefit KSEBL for re-fixation of price of additional quantity supplied by the existing supplier in case of reduction in price.

- As per the amended (January 2011) price re-fixation clause, price re-fixation would depend on ‘basic price’ of material instead of ‘All Inclusive Price’ (AIP). Due to this revision, in two cases[81] of additional procurement of weather proof wire, KSEBL could not invoke price re-fixation benefit of ₹5.65 lakh though the AIP was lower in the second tender. This was because the bidders had quoted higher basic price while keeping the AIP lower with reduction in transportation and insurance charges.

  GoK replied (January 2016) that as per IEEMA[82] price variation clause, the quoted basic price is to be considered for price variation. Therefore, KSEBL adopted basic price for refixation of rate.

  The reply was not acceptable as price variation was applicable to suppliers for variation in market rate of aluminium, copper and steel components. In tendering process, L1 bidders were selected based on the AIP and PO for additional quantity was also issued at the lowest AIP. Besides, in the two instant cases, the existing supplier quoted lower AIP by reducing the freight and insurance charges in the fresh tender but the basic price was kept higher or unchanged to escape from the price re-fixation clause.

- In one PO for additional quantity of 25 *per cent* issued (October 2013) to Traco Cable Company Limited, price was to be re-fixed for material delivered after October 2013 based on rate obtained in new tender. However, the lower rate of new tender (November2013) was not considered while making payment to the supplier for the supply made after October 2013. Excess payment made to the suppliers in violation of the terms and conditions of the PO, worked out to ₹19.20 lakh[83].

  GoK replied (January 2016) that additional quantity was procured urgently for RGGVY work. This was to avoid delay in calling fresh

---

[81] SCM 80/13-14 dated 30 November 2013 and SCM 76/14-15 dated 18 November 2014 to Bhadora Industries Private Limited.

[82] Indian Electrical and Equipment Manufacturers Association.

[83] Rabbit 687.553 km*(₹36295.72-₹34830.00) =₹1007760 and for Weasel 989.276 km*(₹22529.40–₹21607.00)= ₹912508.

tender and hence, KSEBL approached the existing supplier for additional supply at same rate and conditions.

The reply was not acceptable as non-claiming price re-fixation benefit was in violation of the terms and conditions of PO issued.

- In respect of two POs issued (March and May 2010) for additional quantity (70 km) of ACSR Kundah from Sterlite Technologies Limited[84] and Traco Cable Company Limited[85] the additional quantity of 25 *per cent* was not sourced from the existing suppliers, when there was further requirement for ACSR Kundah. KSEBL had, instead, gone for fresh tender in May 2010 and had to incur additional cost of ₹2.66 lakh on purchase of 18 km (25 *per cent* of 70 km) of ACSR Kundah.

  GoK replied (January 2016) that PO for 25 *per cent* additional quantity could not be placed as the existing supplier had not completed the supply of tendered quantity. Hence, fresh tender was invited.

  The reply was not acceptable as the additional quantity at lower rate was ignored from the existing supplier even after the supply of tendered quantity**.**

Recommendation No. 5: ***KSEBL should claim benefit of price re-fixation in all cases of procurement of additional quantity from existing suppliers.***

Non-reconciliation of payment against POs

2.2.17 In respect of 152 POs test checked in Audit, delivery of material was made at more than one consignee unit, ranging up to 40 consignees[86] . The bills of the suppliers were verified and checked by concerned circle office with reference to the Goods Received Note from the Stores and the terms and conditions of PO received from the Purchase Departments (PD).The payments were made at respective circle office of the stores or at PD which would be mentioned in the PO.

Out of 23 circle offices, six[87] circle offices were selected to scrutinise the payments for the material supplied and it was observed in one case (Kottayam) that there was short levy of ₹0.65 lakh as penal charges for belated supplies due to non-consideration of revised basic price of material.

There was, however, no system to monitor the consolidated payment made against a single PO and material supplied against it at any level in Corporate Office. Reconciliation of payments and delivery against a PO was not done and thereby the overall performance of the suppliers with reference to its supplies and consolidated payments made could not be ensured in audit.

---

[84] SCM14/2010-11/953 dated 26 May 2010.
[85] SCM207/2009-10 dated 18 March 2010.
[86] 23 Sub regional Stores, five TMR, one Transmission Stores Division and 11 Transmission Circle Stores.
[87] Electrical Circles, Kottayam, Thiruvananthapuram Rural, Alappuzha, Perumbavur, Kannur and Shornur.

Besides, due to lack of information from the consignees about actual quantity of material supplied, rejected material, material failed during the guarantee period, etc., no timely action was taken by CE, SCM against the defaulted supplier as discussed in *Paragraph 2.2.18*.

Lapses in monitoring of Bank Guarantees

2.2.18 In order to ensure due performance of contract, KSEBL obtains Security Deposit (SD) from the supplier in the form of Bank Guarantee (BG). BG is to be retained till the date of completion of all contractual obligations. As on 31 March 2015, CE, SCM held 690 BGs valuing ₹177.80 crore. Audit examined 170 BGs and noticed the following lapses:

- Despite Rule 8.31 of SPM warranting verification of authenticity of BG submitted by the suppliers, KSEBL had not ascertained the authenticity of BGs at any time during validity period.

  GoK replied (January 2016) that at the instance of audit, the genuineness of BGs submitted by the firms are now being verified.

- As per the Rule 8.32 of SPM, monitoring of BG should include monthly review of all BGs expiring after three months along with a review of the progress of the corresponding contracts. Extension of BGs, where warranted, should be obtained within their validity period. But KSEBL initiated action to review BGs only one month in advance of expiry of validity. As a result, in seven cases, renewed BGs were received by KSEBL after the validity period of existing BGs. Further, KSEBL had not encashed five BGs, even though there was failure of suppliers to replace material rejected or failed during the warranty period as shown in *Table 2.26*:

Table 2.26: Details of BGs not invoked

Item	Name of Supplier	Quantity (Nos.) failed within guarantee period and period since faulty	Loss to be recovered from supplier (₹ in crore)	Value of BGs not encashed (₹ in crore)	Remarks
761 CT PT units of 11kV and 110V, three phase, three wire for Border metering	Indian Transformer[88] Company Limited, Mumbai (ITC)	153 (Since 2008)	0.26	0.38	Validity of two BGs expired in July 2010 and April 2011.
Three lakh SP meters procured in 2010-11	ICSA	17756 (2013-2015)	1.16	2.94	BGs have validity up to December 2015 and May 2016.
		14000 (Since 2013)	0.19		To be recovered from above said BGs
Total			**1.61**		

GoK replied (January 2016) that KSEBL had sent request for renewal of BG to ITC on 9 July 2010 and for invocation of BG held against ITC to the bank[89] on 29 July 2010, but there was no response from ITC and the bank.

Reply was not acceptable as CE, SCM had initiated action to renew or invoke the BG three weeks in advance instead of three months as per SPM.

In respect of BG held against ICSA, GoK replied that action was being initiated by KSEBL to collect the non-liability certificate from the consignee stores so as to invoke the security deposit clause. However, fact remained that details about receipt, rejection and failure of material during the guarantee period, etc., was not available with the CE, SCM, where BGs were maintained, so as to initiate timely action against the supplier for breach of contract.

Recommendation No. 6: ***In order to initiate timely action against a supplier for breach of contract, CE, SCM should reconcile the quantity as per MDCC issued with the actual quantity supplied, rejected material, if any, along with timely updated details of material that failed within the guarantee period.***

[88] TA33/Ele156(IT)05-06/4052/dated 22 November 2005, TA33/Ele156(IT)05-06/a Addl/ 4946/dated 12 January 2007, TA39/ELE53/03-04/ITC(106)/3895 dated 17 January 2004.

[89] Union Bank of India.

Utilisation of material

System of receipts and issue of material in KSEBL

2.2.19 As per the system prevailing in KSEBL, material procured through tender for Distribution and Transmission Wings are received at 23 Electrical Circle Stores, one Transmission Stores Division and 11 Transmission Circle Stores based on the Material Despatch cum Clearance Certificate (MDCC) issued by CE, SCM. The MDCC contains the details of PO and scheduled period for delivery of material at stores. The receiving unit (Stores) prepares Goods Received Note containing the details of material including the PO details. Thereafter, the material were issued from the above stores to 745 Electrical Section Offices or to 38 Transmission Divisions or to 158 Transmission Sub Divisions on the basis of requirement. Hence, the material consumed at or lying at the Electrical Section Stores, Transmission Divisions and Sub Divisions and the material transferred from other circles to any of the circle stores could not be linked to its PO. Due to absence of relevant MIS, the material procured by CE, SCM and their timely utilisation by field offices could not be monitored at any point of time.

Examination of ten major items of material procured during 2010-11 to 2014-15, revealed non-utilisation of transformers and accumulation of conductors, etc., as discussed below:

- For improvement of voltage and transmission system, KSEBL proposed to construct two substations during 2009-10 and 2010-12. Procurement of power transformers required for construction of these substations was included in the Annual Plan and PP of 2009-10 and 2010-12 and procured.

  On analysis of the utilisation of transformers (66.67 MVA and 12.5 MVA) as of August 2015, it was noticed that these substations were not commissioned even after lapse of more than four years due to delay in completion of connected work as shown below:

Table: 2.27: Details of delay in non-commissioning of substation

Substation	Capacity (MVA)	Purchase plan	No. of transformers	Month of supply	Value (₹ in crore)	Date of commencement of work (Reasons for non-commissioning)
Kattakada new substation	66.67	2009-10	3	June 2011	5.97	01 January 2009 (Line work delayed due to court cases)
Perinad substation	12.5	2010-12	2	December 2011	1.22	20 October 2009 (Line works delayed due to local objections)

Due to delay in commissioning the substations, transformers procured at ₹7.19 crore remained idle for more than four years. It was noticed that KSEBL had proceeded with procurement of transformers even before right of way clearance for incoming high tension line was obtained.

GoK replied (January 2016) that drawal of electric lines, one of the pre-requisites for commissioning power transformers, hit different hurdles like solving litigation and civil suits which were beyond their control. It was further stated that in future, costly items like power transformers would be purchased after ascertaining the progress of work from transmission wing.

The reply was not acceptable as idling of transformers was due to lack of co-ordination between transmission wing and SCM wing in implementation of projects and works. Procurement in cases where projects were stalled due to litigation was avoidable through postponement of procurement.

- On scrutiny of eight POs for purchase of conductors of transmission wing, excess holding of material was observed in one PO. KSEBL had a requirement of 80 km of ACSR Kundah during 2010-12, but the PO was placed (November 2010) for 100 km and the same was supplied (March 2011). On 1 October 2012, i.e. after eighteen months, when the stock position was analysed, there were 65.8 km of ACSR Kundah valuing ₹1.29 crore[90] lying idle. There was further procurement of 36 km of the same material (PO in December 2013 and supply in May 2014) for ₹0.86 crore[91].

  Audit observed that as on 11 December 2014, stock position was 39.30 km of ACSR Kundah which revealed non-requirement of 36 km of ACSR Kundah procured in May 2014.

  GoK replied (January 2016) that PO was placed by KSEBL for 100 km of ACSR Kundah based on decision of Purchase Committee, but the line works could not be carried out due to litigation.

  The reply was not acceptable as accumulation of stock was due to lack of co-ordination between transmission wing and SCM wing in implementation of projects and works. Procurement in cases where projects were stalled due to litigation was avoidable through postponement of procurement.

Stock verification system

2.2.20 CoPU in its 90th report (2004-06), recommended (March 2005) against an audit observation to create a proper system of stock verification for timely inspection of material at various stores. Recommendation of the consultant[92]

---

[90] 65.8 km x ₹ 196459.
[91] 36 km x ₹238857.
[92] KSEBL had appointed (January 2009) Deloitte Touche Tohmatsu (India) Private Limited as consultant to re-organise the then Office of Chief Engineer, (Technical, Contract and Materials) along with the stores in order to optimise the work of the Supply Chain Management (SCM) in KSEBL.

also included formation of a separate team for annual physical verification of material.

However, as on 31 March 2015 there was only one Assistant Executive Engineer for verification of 23 Sub-Regional Stores having 745 sectional stores, five-TMRs, three manufacturing units and a Transmission Division Store in a year. As a result, physical verification of stores could be conducted only in 22 out of 745 Electrical Sections during 2014-15, which accounted for only three *per cent*.

During the joint physical verification conducted by Audit at three Electrical Section Stores (Kazhakootam, Varkala and Kallambalam), where stock verification was not conducted by KSEBL during the year 2014-15, it was found (September 2015) that there was variation in physical stock (excess stock valuing ₹0.96 lakh and shortage of material valuing ₹62.84 lakh).

In reply (November 2015), the Assistant Engineer (AE) Kazhakootam stated that the difference was due to non-accounting of material issued to ongoing works which was under processing (November 2015) and also stated that the then AE, Kazhakootam had not handed over the details of actual stock at stores to the incumbent AE. Failure in monitoring utilisation of the material, coupled with failure in computerisation of the SCM wing resulted in non-adherence to recommendations of CoPU.

GoK replied (January 2016) that SCM software for Transmission Wing is ready and will be implemented shortly.

Recommendation No. 7: ***MIS and SCM software to be evolved in such a way that CE, SCM can monitor the actual supply of material and its utilisation by indenting offices. Issue of material by Sub Regional Stores should be linked with material requisitions, tenders and POs.***

Conclusion

Kerala State Electricity Board Limited requires an effective procurement mechanism to ensure timely availability of material at economic rates. But, delay in preparation of Annual Plan and Purchase Plans and lack of co-ordination between the Corporate Planning Wing and SCM Wing resulted in short procurement of material. Non-adherence to time frame for tendering specified in the Stores Purchase Manual and delay in finalisation of tender also led to procurement of material at higher rate, non-availment of price re-fixation benefits from the existing suppliers and delay in implementation of various schemes. KSEBL could not monitor the actual quantity supplied by the supplier against the POs and its utilisation due to absence of relevant MIS.

2.3 Implementation of Restructured Accelerated Power Development and Reforms Programme by Kerala State Electricity Board Limited

Executive Summary

Introduction

Government of India (GoI), Ministry of Power (MoP) approved (September 2008) 'Restructured Accelerated Power Development and Reforms Programme' (RAPDRP) with the aim of restoring commercial viability of power distribution sector by putting in place appropriate mechanism so as to substantially reduce Aggregate Technical and Commercial (AT&C) loss.

Physical progress of projects

MoP sanctioned 43 projects each under Part A and Part B and three Supervisory Control and Data Acquisition (SCADA) projects for implementation in the State. As per the original guidelines, Part A and Part B were to be completed within three years. GoI extended the completion period to five years. However, the projects could not be completed within five years and was further extended by one more year.

Project formulation and planning

Implementation of RAPDRP was to be preceded by policy initiatives like undertaking measures for prevention of theft of power, constitution of Special Courts to deal with cases of power theft, etc. Action taken by KSEBL was, however, inadequate to supplement efforts under RAPDRP to bring down AT& C loss to 15 per cent.

Fund Management

Non-opening of project-wise bank account and non-maintenance of project-wise separate accounts led to diversion of funds and ineffective monitoring of the projects. KSEBL made irregular interest free advance payment of ₹14.50 crore to the turnkey contractor.

Implementation of the projects

Delay in appointment of IT Implementing Agency, problems in implementation of Meter Data Acquisition System, slow progress of Geographic Information System and partial accomplishment of Customer Care Service Centre led to time overrun for more than three years. Erroneous price loading resulted in extra expenditure in implementation of Part A project to the extent of ₹27 crore.

Delay in submission of DPRs and financial tie-up, delay in completion of work due to non-procurement of material like ABC, UG cables, deviation from DPR, delay and extra expenditure incurred in awarding and implementation of turnkey contract, constituted time overrun for more than three years and cost overrun to the extent of ₹129 crore. None of the SCADA project could be completed due to delay in completion of Part B projects.

Undue delay in completion of RAPDRP projects led to non-realisation of envisaged benefit of ₹202.70 crore by way of reduction in AT&C loss.

Introduction

2.3.1 Government of India (GoI), Ministry of Power (MoP) approved (September 2008) ŏRestructured Accelerated Power Development and Reforms Programmeô (RAPDRP) with the aim of restoring commercial viability of power distribution sector by putting in place appropriate mechanism so as to reduce Aggregate Technical and Commercial (AT&C) loss substantially. AT&C loss was planned to be reduced by plugging pilferage points, supply of quality power, faster identification of faults and early restoration of power, proper metering, strategic placement of capacitor banks and switches and proper planning and design of distribution network.

Coverage of area under RAPDRP was urban area-towns and cities with a population of more than 30,000. Projects under RAPDRP were to be taken up in two parts, Part A and Part B. Under Part A, Supervisory Control and Data Acquisition (SCADA) or Distribution Management System (DMS) shall also be installed in eligible towns and cities with population of more than four lakh and annual input energy of 350 million units (MUs). The activities involved in Part A and Part B projects were as shown in *Table* below:

Table 2.28: Activities under Part A and B projects

Activities under Part A project	
a	Implementation of Information Technology (IT) modules for collection of base line data to capture AT&C loss in a precise manner without manual intervention and also to plan and implement corrective measures in Part B.
b	Energy accounting and audit
c	Redressal of consumer grievances and establishment of IT enabled consumer service centres, etc.
d	Implementation of SCADA or DMS, GIS based Consumer Indexing and asset mapping, etc.
Activities under Part B project	
a	Renovation, modernisation and strengthening of 11 kV[93] level substations, transformers / transformer centres, re-conductoring of lines at 11kV level and below, Load Bifurcation, Feeder segregation, Load Balancing, Aerial Bunched Conductoring in thickly populated areas, HVDS, installation of capacitor banks and mobile service centres, etc. In exceptional cases, where sub-transmission system is weak, strengthening at 33 kV or 66 kV levels may also be considered.

Execution of quadripartite agreement between power utility, GoI, PFC and State Government was a pre-requisite for release of funds under RAPDRP. Accordingly, a quadripartite agreement (MoA) was executed (August 2009) for implementation of RAPDRP in Kerala.

In Kerala, 43 towns were eligible for implementation of RAPDRP. All the 43 projects submitted by Kerala State Electricity Board Limited (KSEBL) under Part A were sanctioned (November 2009) by GoI and 43 projects under Part B were sanctioned on various dates between 2010 and 2012**.** Further, SCADA was sanctioned by GoI for three eligible towns (Thiruvananthapuram, Ernakulam and Kozhikode) under Part A.

[93] **Kilovolt.**

The main objectives of RAPDRP were to:

- reduce AT&C loss to 15 *per cent*.
- bring about commercial viability in the power sector.
- reduce outages and interruptions.
- increase consumer satisfaction.

Scope of Audit

2.3.2 The Performance Audit was conducted with a view to assess the performance of KSEBL in conceptualisation and implementation of RAPDRP with reference to the objectives set for the programme covering all 43 Part A projects, three SCADA projects and 25 Part B projects from 1 April 2009 to 31 March 2015 on the basis of the documents/ information maintained by Government of Kerala (GoK) and KSEBL.

Audit Objectives

2.3.3 The main audit objectives were to assess whether:

- policy initiative and planning required for implementation of the programme were appropriate and adequate; and
- the programme has been implemented in an efficient, effective and economical manner.

Audit Criteria

2.3.4 The audit criteria has been taken from following sources:

- National Electricity Policy formulated under Electricity Act, 2003;
- Memorandum of Agreement/Quadripartite Agreement;
- Guidelines issued by PFC/ MoP;
- General Financial Rules;
- Detailed Project Reports;
- Work Orders;
- Minutes of Steering Committee meetings; and
- Orders and circulars issued by KSEBL and the Government.

Audit Methodology

2.3.5 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining the audit objectives to top management of the KSEBL and the Government, scrutiny of records of the audited entity, analysis of data with reference to criteria, issue of audit queries, and discussion of audit findings with Management and issue of Draft Performance Audit Report. The audit objectives, audit criteria and scope of the performance audit were explained to the Management in an Entry Conference (23 June 2015). Audit findings were also discussed in the Exit Conference held on 3 December 2015.

Views expressed by the Management and GoK have been duly considered while finalising the Performance Audit Report.

Audit Findings

2.3.6 Audit findings are discussed in the succeeding paragraphs.

Physical progress of projects

2.3.7 MoP sanctioned 43 projects each under Part A and Part B and three SCADA projects for implementation in the State. As per the original guidelines, Part A and Part B projects were to be completed within three years from the date of sanction. Later, GoI extended the completion period to five years for both Part A (November 2014) and Part B (between June/December 2015). However, the project could not be completed within five years and was further extended by one more year.

Status of the projects as of September 2015 was as given below:

Table 2.29: Status of the projects as of September 2015

Items	Part A	SCADA	Part B
Projects sanctioned	43	3	43
Sanctioned project cost (₹ in crore)	214.38	83.15	1078.30
Date of approval by PFC	November 2009	February-June 2011	June 2010-August 2012
Scheduled completion date[94]	November 2014	November 2014	June 2015 (11 Nos.) August 2015 (21 Nos.) December 2015 (8 Nos.) February 2016 (2 turnkey) March 2017 (1 turnkey)
Name of the contractor	Korea Electric Power Data Network Company Limited (KDN)	Schneider Electric India Private Limited	40 projects by KSEBL and three projects through turnkey contracts
Projects completed	31	Nil	Nil
Loan released by GoI up to 31/03/2015 (₹ in crore)	64.31	24.95	161.74

[94] **Scheduled completion date was five years from the date of sanction. All projects were further extended by one more year except one Part B project for which completion date is March 2017.**

Counter part loan from REC up to 31/03/2015 (₹ in crore)	N/A	N/A	205.81
Amount utilised up to 31/03/2015 (₹ in crore)	59.00	4.94	377.81
Projects selected for audit (Number)	43	3	25

As evident from the *Table*, while only 31 projects had gone-live out of 43 Part A projects, none of the SCADA projects and Part B projects could be completed as of September 2015.

The main reasons for delay in completion of the Part A and Part B projects were poor fund management, deficient implementation of the project and inadequate monitoring. Policy formulation and planning required for attainment of objectives of RAPDRP was also deficient. These are discussed in succeeding paragraphs.

Policy Formulation and Planning

2.3.8 Implementation of RAPDRP in the State was to be preceded by certain policy initiatives like preparation of DPR, putting in place necessary systems and undertaking measures for prevention of theft of power, constitution of Special Courts to deal with cases of power theft, etc. Compliance of KSEBL to these pre-requisites is discussed below.

Faulty preparation of DPR

2.3.9 Detailed Project Reports (DPRs) of 43 Part B projects of RAPDRP were approved by GoI on various dates between June 2010 and August 2012.

Audit scrutiny of 25 town schemes revealed that there was faulty preparation of DPR as evident from a few instances cited in ***Appendix 5.***

Measures for prevention of theft

2.3.10 The main objective of RAPDRP was to bring down AT & C loss to 15 *per cent*. Any illegal consumption of power, which is not correctly metered, billed and revenue collected, causes commercial loss to the utilities. As per Section 135 of Electricity Act, 2003, illegal consumption of energy shall be punishable with imprisonment for a term which may extend to three years or with fine or with both.

14 Anti Power Theft Squads (APTS) were constituted by KSEBL exclusively to detect cases of theft of energy. Besides, the division and section squad also conducted surprise inspections to detect theft of energy. During 2010-11 to 2014-15, APTS and division and section squads detected 2390 cases of theft of energy and ₹15.66 crore was realised as penalty as detailed in *Table 2.30*:

Table 2.30: Details of detection of theft of energy

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1	Number of consumers (in crore)	1.01	1.05	1.08	1.10	1.10[95]	
2	Number of inspections conducted	23479	24090	21609	21758	31369	
3	Percentage of checking (2 /1)*100	0.23	0.23	0.20	0.20	0.28	
4	Total irregularities detected in Sl.No.2	2980	3167	3036	3392	4446	17021
5	Number of theft cases in Sl.No.4	386	336	386	386	896	2390
6	Total amount realised (₹ in crore)	2.53	2.16	2.58	2.78	5.61	15.66
7	Number of cases pending	3	4	4	9	33	53

- No target was fixed by APTS to the units for conducting inspection of premises of consumers.
- The percentage of checking of consumers on an average was between 0.23 and 0.28 during 2010-11 to 2014-15.
- Theft cases were detected in large commercial and industrial consumers like restaurants and hotels, shopping malls, etc., on inspection by APTS. The percentage of checking by APTS wing was less than five *per cent* in these cases also.
- Analysis of eight pending cases involving recovery of ₹21.82 lakh revealed that no follow up action was taken by KSEBL.
- The surge in detection of theft cases in 2014-15 when number of inspection increased points to the need for strengthening the APTS Wing further.

GoK replied (January 2016) that for increasing the percentage of inspection, huge manpower is required as consumer base in KSEBL is 1.16 crore. Standing instructions were, however, issued to conduct a minimum of 100 inspections in a month and the units were conducting 200 inspections in a month.

The reply was not acceptable since the inspection conducted was inadequate to supplement efforts under RAPDRP to bring down AT& C loss to 15 *per cent.*

Non-constitution of Special Courts

2.3.11 The National Electricity Policy lays special emphasis on time bound reduction of transmission and distribution loss and speedy implementation of stringent measures against theft of energy. As per Section 153 of the

[95] **As figures for 2014-15 were not available, figures of 2013-14 were adopted.**

Electricity Act, 2003, GoK was to constitute Special Courts for speedy trial of offences relating to theft of energy.

Instead of constituting Special Courts, GoK designated 43 existing District and Session Courts, Additional District Courts and Session Courts as Special Courts with the concurrence (July 2007) of the High Court of Kerala thereby defeating the objective of constituting Special Courts and denying speedy trial of offences relating to theft of energy. Due to non-setting up of Special Courts as envisaged in the National Electricity Policy, none of the 53 cases of theft of energy could be disposed.

The Government did not give any reply about formation of these Special Courts.

Recommendation No.1: ***Inspection by APTS should be strengthened to bring down AT&C loss to 15 per cent. GoK should form Special Courts to ensure disposal of theft cases.***

Fund Management

Non-opening of project-wise bank account

2.3.12 As per Memorandum of Agreement (MoA), KSEBL was to open project-wise escrow bank account for Part A and Part B projects to ensure debt servicing of principal, interest and other charges during pendency of the loan to the satisfaction of the nodal agency. Funds provided shall not also be diverted for any other scheme or purpose.

KSEBL opened a separate bank account for the implementation of the 43 Part A and B projects and three SCADA projects. First instalment of loan amounting to ₹251 crore received during January 2010 to December 2012 for Part A and B projects and SCADA projects were deposited in the bank account. Violating the guidelines of RAPDRP, the amounts were transferred to routine account of KSEBL within five days of receipt.

Non-maintenance of project-wise accounts

2.3.13 As per MoA, KSEBL was also to open separate project-wise accounts and sub-accounts immediately, for separate accounting classification, both on the receipt and expenditure side for enabling proper audit certification.

CE (Corporate Planning) directed (December 2009) section offices, sub-division offices and division offices to maintain separate project-wise register. Expenditure was also to be booked under RAPDRP head and RAPDRP bills bound separately.

Audit examined all Part A and Part B projects and noticed that:

- No separate register and separate bank account was maintained for these projects. Due to this, payment to contractors was effected through the normal account of the circle/division of the project area.

- Even though there was a full fledged Finance and Accounts Wing under Director (Finance), there was ineffective monitoring on the maintenance of project-wise separate account.

- In respect of 40 Part B projects executed departmentally, there was no separate purchase of material. The material required for RAPDRP work was issued and accounted under normal Material at Site Account (MASA) of the Division or Section concerned and RAPDRP material was clubbed with normal work material as illustrated below:

Table 2.31: Details of RAPDRP and Non-RAPDRP material clubbed under MASA

Month	Electrical Section	Material Consumption Statement number	Nature of work
July 2014	Kilikolloor	48/14-15	Normal work
		49/14-15	RAPDRP work
		50/14-15	Normal work

Due to clubbing, availability of material or diversion of material held for RAPDRP work at any point of time could not be determined and RAPDRP work bills were bound along with normal work bills.

As no separate account was maintained for RAPDRP work, financial progress of Part B project was arrived at by simply multiplying the executed quantity or physical progress in km/ numbers with the cost estimate as provided in DPR and had no connection with the actual expenditure incurred.

GoK replied (January 2016) that for administrative convenience, project-wise accounts were not opened. Material were procured centrally for funded schemes and normal work and during emergency or natural calamities, material were diverted to restore power supply.

The reply was not acceptable as non-maintenance of project-wise separate account was a clear violation of guidelines/MoA which resulted in non-availability of proper records for audit certification and for calculating the actual expenditure incurred for the scheme.

Recommendation No. 2: ***Separate project-wise accounts should be opened for having better control over expenditure and project monitoring.***

Irregular payment of interest free advance

2.3.14 As per clause 14.1 of special conditions of contract for execution of Part A projects, release of payments was performance based, where payments would be made for measured deliverables and outputs. As per the payment schedule, payment of 5 *per cent* (on approval of design), 25 *per cent* (installation of hardware), 20 *per cent* (installation of software), 30 *per cent* (approval of user acceptance test) were permissible on completion of prescribed milestone. There was no provision for payment of advance on delivery of material.

Violating the above clause, based on the recommendation of the Chairman and Managing Director, Board of Directors decided (August 2014) to pay interest free advance of ₹14.50 crore to KDN, being 60 *per cent* of payment against the security of material delivered and corporate guarantee executed by KDN. Thus, payment of interest free advance of ₹14.50 crore was not only against scheme guidelines but it also amounted to undue favour to the contractor.

Implementation of projects

2.3.15 Implementation of Part A projects under RAPDRP was aimed at capturing accurate figures of AT&C loss through installation of IT module for data acquisition in the project area along with establishment of IT enabled customer services. Part B projects aimed at strengthening transmission and distribution networks to bring down AT&C loss to 15 *per cent*.

Even though all 43 Part A projects were to be completed by November 2014 and 40 Part B projects between June 2015 and March 2017, only 31 Part A projects had, however, been completed as of September 2015.

Non-completion of projects was due to delay in installation of IT module for data acquisition and delay in completion of IT enabled customer care services envisaged under Part A and delay in completion of distribution strengthening works under Part B. Non-completion of projects led to non-achievement of objectives of RAPDRP and cost escalation besides probable non-conversion of loan into grant as discussed in succeeding paragraphs.

Execution of Part A projects

2.3.16 IT modules for data acquisition included installation of Meter Data Acquisition System and Geographic Information System (GIS) solution in all 43 Part A projects. Out of 43 projects, seven projects were completed within the extended time of five years (November 2014), 24 projects after delays ranging from one to nine months, while balance 12 Part A projects remained to be completed as of September 2015.

Audit examined implementation of all 43 Part A projects and noticed that the reasons for non-completion of data acquisition module were delay in award of work, delay in commissioning of Data Recovery Centre and non-replacement of incompatible meters by KSEBL as discussed below.

Appointment of IT Implementing Agency (ITIA)

2.3.17 As per clause 21.7 of the terms and conditions of PFC for sanctioning loan, KSEBL was to award Part A projects to ITIA within three months from the date of sanction i.e. by 25 February 2010.

Scrutiny of records revealed that there was delay in tendering process for appointment of ITIA for the execution of Part A pojects and the contract was awarded to KDN belatedly in September 2010. Thereafter, GoK directed (December 2010) KSEBL to cancel the contract awarded to KDN and to invite fresh tender because of allegations of corruption. The decision was challenged by KDN in the Hon'ble High Court of Kerala. Work was again awarded (September 2012) to KDN on the basis of the decision of the High Court for completion within 18 months i.e. March 2014. The work was in progress (November 2015). Installation of IT modules for collection of data and IT enabled customer care services envisaged under Part A of RAPDRP was pending**.** Thus, Audit observed that there was delay of two years in award of work due to intervention by the Government.

Implementation of Meter Data Acquisition System (MDAS)

2.3.18 Meter Data Acquisition System (MDAS), proposed under Part A projects, aimed to acquire meter data from system and selected High Tension (HT) consumer meters automatically avoiding any human intervention. It also aimed to monitor important distribution parameters for taking corrective action. All the feeder meters, DT meters and all HT consumers' meters in the entire utility area were to be covered in MDAS by installation of modem. The meter data from all DTs as well as HT consumers and data from feeder meters would be transmitted to central data centre server. As per the guidelines, meters were to be made DLMS[96]-compliant by KSEBL.

KDN was responsible to install 18526 modems in all border meters, feeder meters, DT meters and HT consumers' meters. The following works and issues were pending as of August 2015:

Table 2.32: Status of installation of MDAS

Item	Target	Installed/ communicating	Reasons
	(In numbers)		
Installation of Modem	18,526	7,386	Replacement of DLMS non-compliant HT meters by KSEBL pending
Communicating with Central data server	7,386 installed	3,355 out of 7,386 modem	Compatibility issue as discussed below

Scrutiny of records in 43 Part A projects revealed that:

- KDN could not install modems in 4400 HT meters as these meters were DLMS non-compliant but were not replaced by KSEBL to make them DLMS-compatible. The existing HT meters were purchased by consumers and when modems were installed, meters were stuck or gave abnormal figures, wrong reading, etc. KSEBL directed (October 2014) KDN to stop installing modem on HT consumers' meter till new

[96] **DLMS- Device Language Message Specification-is an object model to view the functionality of meter. DLMS is a transporting method to carry the information between the metering equipment and data collection system.**

ones were installed by KSEBL. Action for procurement of new HT meters was, however, not initiated so far (August 2015).

- Similarly, audit scrutiny in three Part A projects revealed that existing feeder meters, border meters and DT meters were either faulty or DLMS-non compliant but not replaced by KSEBL as shown in *Table* below:

Table 2.33: Details of faulty and DLMS-non compliant meters

(In numbers)

Name of town	Feeder meters		Border meters		DTR meters	
	Total	Faulty/ DLMS-non-compliant	Total	Faulty/ DLMS-non-compliant	Total	Faulty DLMS-non-compliant
Kunnamkulam	11	0	15	14	316	0
Guruvayoor	11	0	16	15	535	33
Thrissur	37	24	25	20	1436	1336

Slow progress in completion of MDAS resulted in generation of inaccurate AT&C loss data from 31 towns declared go-live as discussed in *Paragraph 2.3.20.*

GoK replied (January 2016) that during bid finalisation, it was assumed that, data could be retrieved from all these meters and sent to the server through modem. When modem was installed the meters were behaving abnormally. Since these meters belong to high value consumers of KSEBL, it was directed to stop the installation of modem.

The reply was not acceptable as improper field study conducted by CE (Corporate Planning) at DPR preparation stage was the reason for non-compatibility issue. No response was received in respect of DT meters.

Implementation of Geographic Information System (GIS)

2.3.19 Under Part A of RAPDRP, a Geographic Information System (GIS) solution consisting of a system for capturing, storing, checking, integrating, manipulating, analysing and displaying geo data related to positions on the earth's surface and data related to attributes of the entities or customers in a utility area was to be set up. Satellite images from National Remote Sensing Centre (NRSC) were obtained in respect of all 43 towns but GIS network survey and GIS consumer survey were yet to be completed due to inaction on the part of KDN. The GIS asset mapping included field visit to identify and locate the assets for mapping, painting each pole and numbering. KDN had not deputed adequate manpower for this work.

Timely completion of GIS based consumer indexing and asset mapping would have enabled KSEBL to locate a particular customer and the DT from which connection provided, location, etc., to identity the exact location of AT & C loss to take corrective measures. Due to delay in completion of GIS activity by

KDN, the benefits envisaged under RAPDRP could not be availed as of September 2015.

GoK replied (January 2016) that the identified features reported as not having provided were already functional in GIS modules. Even though consumer survey was included in the implementation of Part A projects, during the pilot implementation in the initial town, it was revealed that no valuable additional information would be obtained from the survey other than the information already available with KSEBL in the billing database. Hence, KSEBL was actively considering exemption of consumer survey in the remaining towns. Consumer indexing data was already available with KSEBL. Indexing of the remaining towns will be completed during the stabilisation period.

The reply was not acceptable as no proper study was conducted at the DPR stage to address this issue.

Declaration of towns as go-live

2.3.20 Although Part A projects were to be completed in all 43 towns by November 2015, 31 towns were declared ógo-liveô as of September 2015 though modem installation was completed in three[97] towns only. Due to declaration of towns as ógo-liveô before completion of the entire Part A work, AT & C loss data gathered from nine towns displayed unrealistic figures, compared with base line data at the time of commencement of Part A projects, as shown below:

Table 2.34: Base line AT & C loss and current AT & C loss figures.

(Figures in *per cent*)

Name of town	Base-line AT & C loss	AT & C loss for 2014-15	
		Third quarter	Fourth quarter
Chalakudy	23.77	55.33	56.47
Neyyattinkara	25.14	é	77.73
Ottappalam	28.01	64.55	61.00
Ponnani	22.25	56.03	39.80
Punalur	26.29	é	46.66
Shornur	25.36	48.60	32.89
Thiruvalla	27.86	42.41	38.58
Thodupuzha	27.47	41.13	51.54

Similarly, two internet connections were to be provided to DC in order to ensure uninterrupted network connectivity. BSNL network connectivity (primary) was delivered in all the 228 sections while Airtel connectivity (secondary) could be established in 170 sections only (August 2015).

Since all 43 towns had to be declared go-live before the stipulated completion date of November 2015 in order to be eligible for conversion of loan into grant, CE (IT) who was responsible for the implementation of Part A projects, declared towns go-live even before completion of work, which was not in order.

[97] **Changanassery, Palakkad, Punalur.**

Commissioning of Data Centre (DC) and Data Recovery Centre (DRC)

2.3.21 As per the Guideline, for storage of data to capture AT&C loss from 43 project areas, Part A projects should have one common Data Centre (DC) at a location identified by Power Companies with common Data Recovery Centre (DRC) on a different seismic zone other than in which the DC is located. The purpose of establishing DRC is that in case a disaster strikes at the primary DC, the DRC site will take over and start functioning as the primary site. As per guidelines, DRC was to be commissioned after successful completion of at least 70 *per cent* of Part A projects.

The Board of Directors decided (August 2012) to establish DC and DRC in the same seismic zone (Zone-III). DC was established at Thiruvananthapuram and started functioning from 21 January 2014 while the DRC at Infopark building, Cherthala was yet to be commissioned even after 31 Part A projects (72 *per cent*) having been completed (August 2015). Slow progress in completion of several processes like hardware installation test, inspection, DC-DRC point to point link for data replication, infrastructure high level design and low level design document review, etc., were the reasons for delay in commissioning of DRC. Thus, the DC commissioned in January 2014 was vulnerable to high risk and loss of valuable data in the absence of DRC, for which Board of Directors of KSEBL was responsible.

GoK replied (January 2016) that DRC at Cherthala was specifically designed to take care of seismic impact and there were practical difficulties and hardships in maintaining such a facility outside Kerala.

The reply was not acceptable as data stored in DC was vulnerable to high risk and loss of valuable data in the absence of DRC in a different seismic zone.

Recommendation No. 3: ***Preparation of DPRs should be realistic in order to guard against technology related compatibility issues at the implementation stage.***

Non-completion of Customer Care Services under Part A project

2.3.22 As per RAPDRP guidelines, a Centralised Customer Care Service Centre (CCC) was to be set up as part of Part A projects to improve the customer service by processing and resolving customer requests, queries and complaints in minimum possible time by taking up it at appropriate place and level. KDN was to link all 228 electrical sections falling under 43 Part A projects with the CCC and to impart end user training to the officials of electrical sections.

Scrutiny of records revealed that:

- although the CCC at Thiruvananthapuram was inaugurated on 12 November 2014, 60 Electrical Sections covered under RAPDRP could not be linked with CCC out of 228 Sections as end user training to the officials of KSEBL was not imparted by KDN. Thus, the facility of complaint redressal system was denied to the consumers of 60 Electrical Sections.

It was also noticed that even in CCC-linked Sections, integration of system with billing module and Consumer Indexing was pending (September 2015).

GoK replied (January 2016) that 192 Electrical Sections had now been linked to CCC.

The reply was not acceptable since the customer care services envisaged under RAPDRP could not be provided to the customers even after six years of sanctioning of projects.

- Spot Billing System (SBS) was intended to carry out spot billing for LT consumers. The Spot Billing System consisted of a Hand Held Equipment (HHE) and a separate Portable Printer (PP). End user training was to be imparted by KDN to meter readers of the electrical section of the project area concerned for the operation of SBS.

  Scrutiny revealed that KDN could not provide training to all the meter readers so far (September 2015). KSEBL, therefore, directed KDN to deliver SBS in phased manner so that SBS is delivered to trained meter readers only. Progress in installation of SBS is given in the following *Table*:

Table 2.35 –Status of installation of SBS

Particulars	Sanctioned (Nos.)	Completed (Nos.)
Spot Billing Machine (SBM)	1335	430
SBM software	In all the 43 towns	20

GoK replied (January 2016) that KDN had deployed 520 machines in 32 towns. Since the SBMs were to be used for consumer billing, care was taken to implement the SBM in a phased manner after training the meter readers. The remaining SBMs would be implemented soon.

The reply was not acceptable as non-installation of SBM was due to delay on the part of KDN to impart training to the meter readers of KSEBL.

- As per G-3 of System Requirement Specification Document of Part A, Intelligent Display Management System (IDMS) was to be set up in six locations identified by KSEBL to provide comfort and easiness of operation to the customers. IDMS was to work as queue management system, making customer sit easily and comfortably instead of standing in a queue.

  Due to non-finalisation of locations by KSEBL because of demand from all districts for these facilities, as of August 2015, one token dispenser machine, one touch screen kiosk and one cash collection kiosk could only be installed at Centralised Customer Care Center at Corporate Office of KSEBL as shown in *Table* below:

Table 2.36 –Status of implementation of IDMS

Item	Approved	Status of implementation
	(Number)	
Automatic token dispenser machine and IDMS at customer care centre	1	1
Touch Panel based kiosk for furnishing information on billing, payment, duplicate bills, etc., at customer care centres.	6	1
Cash/cheque collection kiosk for automatically accepting cash and cheque payments from customers	6	1

GoK replied (January 2016) that out of six touch panel based kiosk and cash/cheque collection kiosk, one each was installed and commissioned in CCC. The remaining five numbers would be installed in various locations identified by KSEBL, within a couple of weeks.

Thus, due to non-linking of all sections with CCC and non-installation of Spot Billing Machine and kiosk, the objective of consumer satisfaction envisaged under RAPDRP remained unachieved.

Extra expenditure in implementation of Part A projects

2.3.23 In the execution of Part A projects, KSEBL incurred extra expenditure of ₹27 crore as discussed below.

- As per the bid (March 2010) for appointment of ITIA, each bidder was to quote specifically the bandwidth connectivity charges for five years. As per clause 14.3 of instructions to bidders (ITB), if an item was not listed in the price schedule, price loading was to be made by taking highest of the prices quoted by other bidders for such missing item or component. If the price of item is available, then it shall be considered for price loading.

  L1 bidder (MIC Electronic Limited) quoted ₹195 crore including bandwidth connectivity charges of ₹26.54 crore for three years while L2 bidder (KDN) quoted ₹240 crore including bandwidth connectivity charges. KSEBL, instead of applying price loading proportionately for two more years (₹17.69 crore) on L1 (MIC), applied clause 14.3 of ITB irregularly for price loading (₹47.46 crore) on L1 bidder (MIC) for two more years by taking the highest connectivity charges quoted by bidders. After price loading, L2 bidder (KDN) became L1 bidder, leading to awarding contract at extra expenditure of ₹27 crore (₹240 crore ï ₹213 crore).

GoK replied (January 2016) that there is a specific method for arriving at L1 in case the period quoted for bandwidth is less than five years and loading principle had to be applied only in respect of the vendor who quoted lowest price, but only for three years.

The reply was not acceptable due to the following reasons:

As per clause 14.3 of Instruction to Bidders of RFP, clause 14.3 is applicable only if the price of an item is not available in the price schedule. Further PFC has clarified that if the price of an item is available, then it shall be considered for price loading. The bandwidth charges quoted by L1 for three years was ₹26.54 crore. Even if this was proportionately taken for five years, the connectivity charges quoted by L1 would be ₹44.23 crore and the rate quoted by L1 would be ₹27 crore[98] less than L2.

- Feedback Ventures Private Limited was appointed as IT Consultant (ITC) of Part A projects for ₹35.74 lakh. Contract period was up to November 2013. As Part A projects were not completed within the stipulated time and extension was granted by PFC up to November 2015, ITC was retained at a monthly retainer fee of ₹1.5 lakh excluding taxes. The additional amount to be incurred up to the completion of Part A projects worked out to ₹36 lakh.

Execution of Part B projects

2.3.24 Work under Part B projects consisted of distribution strengthening process. On completion of Part B projects, AT&C loss was targeted to be brought down to 15 *per cent* from the range of 19.78 *per cent* to 29.17 *per cent* existing at the time of approval of projects by MoP. Even though 32 Part B projects were due for completion as of August 2015, no project could be completed and PFC extended the completion period to six years.

Audit scrutiny of 43 Part B projects revealed that delay in submission of DPRs and award of work, delay in tying up loans, etc., were the reasons for non-completion of projects within scheduled time. Delay has led to extra expenditure and non-achievement of benefit envisaged under RAPDRP as discussed below.

Delay in submission of DPRs and financial tie-up

2.3.25 As per the guidelines of RAPDRP (December 2008), the sanction process and other formalities for execution of Part A and Part B projects should be taken up simultaneously and ring fencing was to be completed within 16 weeks of the sanction of DPR. Similarly, tie-up with Financial Institutions for counter part funding was to be firmed up within two months of sanction of the project.

Scrutiny of records in 43 Part B projects revealed that:

---

[98] ₹240 crore (L2) – ₹213 crore (L1).

- Sanction process and other formalities for the execution of Part A and Part B projects were not taken up simultaneously by KSEBL and Distribution Reforms Committee (DRC). While the DPRs for 43 Part A projects were approved by DRC (September 2009) and approved by the Steering Committee of GoI (November 2009), the process for the preparation of DPR of 43 Part B projects was taken up by KSEBL belatedly in December 2009. The delay in preparation of DPR of 43 Part B projects by KSEBL and approval by DRC ranged from five months to 28 months.

- As per guidelines, ring fencing of the town was to be done by the utility by installing the system meters (import/ export meters, feeder meters, DT meters, boundary meters, etc.) on its own and shall be taken up immediately on approval of DPR.

  Ring fencing through metering of all import/export metering points and segregation of agriculture feeders was to be completed by KSEBL within 16 weeks of the sanction of DPR of Part A projects i.e. by March 2010. There was, however, delay ranging from two months to one year in completion of ring fencing. The delay in ring fencing was due to excessive time taken in replacement of existing faulty meters.

  The delay in submission of DPR of Part B projects to PFC and delay in ring fencing resulted in non-commencement of Part B projects simultaneously with Part A projects and consequent delay in completion of Part B projects.

  GoK replied (January 2016) that delay was due to resubmission of DPR in many cases on the basis of the corrections done by PFC.

  The reply was not acceptable as corrections in DPR were warranted due to non-adherence to RAPDRP guidelines on submission of DPR.

- As per clause 5.3 of MoA, 75 *per cent* of the project cost of Part B was to be availed as counter part loan from Rural Electrification Corporation (REC)/ Financial Institutions (FIs). Tie-up with FIs for counter part funding was to be firmed up within two months of sanction of the project.

  In respect of 43 Part B projects sanctioned (June 2010 to August 2012) by PFC at a cost of ₹1078 core, KSEBL decided (April 2012) to avail 75 *per cent* project cost (₹801 crore) as counter part fund from REC. Agreement for counter part funding of all 43 Part B projects was executed with REC on 5 July 2014 and funds were released from October 2014 onwards. Thus, there was delay ranging from two to four years in availing counter part funding after sanction of projects. Inaction and inadequate monitoring on the part of CE (CAP-S) to arrange counter part fund resulted in tardy implementation of Part B projects.

GoK replied (January 2016) that the delay in tying-up with REC for availing counter part funding was due to slow progress of Part B projects and consequent non utilisation of 15 *per cent* of GoI loan already received as first instalment. It was also stated that projects were not delayed due to scarcity of funds but due to diversion of material for urgent normal work.

The reply was not acceptable since as per guidelines of RAPDRP, tying up counter part fund did not have any relation with progress of work and was to be firmed up within two months from sanction of projects.

Extra expenditure in execution of Part B projects

2.3.26 Out of 43 Part B projects, KSEBL decided to execute three city schemes on turnkey basis and as per guidelines, the contract was to be awarded within three months from date of sanctioning of the project.
Audit examined all three projects and noticed that:

- there was delay of 17 to 30 months in awarding contract as shown in *Table* below:

Table 2.37: Delay in awarding three turnkey contracts

Sl. No.	Name of project	Date of sanction by PFC	Invitation of tender	Date of opening price bid	Date of award of contract	Delay[99] from the date of sanction by PFC
1	Thiruvanantha-puram	03/08/2012	27/03/2013	07/10/2013	03/04/2014	17 months
2	Ernakulam	22/02/2011	30/05/2012	29/01/2013	15/11/2013	30 months
3	Kozhikode	22/02/2011	10/05/2012	10/12/2012	24/07/2013	26 months

The delay in awarding the contract by Chief Engineer (Distribution) resulted in delay in execution of the projects and cost escalation of ₹126.49 crore as shown below:

Table 2.38: Details of cost escalation due to delay in awarding work

(*₹ in crore*)

Sl. No.	Name of Town/ Project	Sanctioned project cost[100]	Awarded project cost	Difference	Percentage change
1	Ernakulam	184.47	243.97 (NCC)	59.50	32.25
2	Kozhikode	158.81	198.74 (L & T)	39.93	25.14
3	Thiruvananthapuram	173.94	201.00 (Leena)	27.06	15.56
	Total	**517.22**	**643.71**	**126.49**	**24.46**

[99] After three months.
[100] Excluding project cost of transmission items.

GoK replied (January 2016) that there was only procedural delay in awarding the work which did not affect completion of the scheme and it would be completed within the scheme period.

The reply was not acceptable as procedural delay ranging between 17 months to 30 months was extra ordinary and led to cost escalation of ₹126.49 crore .

- MoP approved (February 2011) Kozhikode Town Scheme under Part B at a total outlay of ₹160.78 crore (₹158.81 crore for distribution work and ₹1.97 crore for transmission work). KSEBL placed (July 2013) work order with Larsen &Toubro Limited (L&T) for execution of the above work at a total amount of ₹198.74 crore excluding the two items viz., work of supply and installation of 11 kV sectionalisers and the work of retrofitting of existing RMUs as the rate quoted were abnormally high. The project completion date was March 2015.

  In this connection, it was observed that while evaluating the rates offered by L&T, Chief Engineer (Distribution North) (CE, DN) had noticed (March 2013) that L&T had quoted abnormally higher rates for many items. However, only two of such items were excluded from the scope of the work of L&T. The major items of work retained in the scope of work with L&T for which exorbitant rates quoted were the following:

  - CCV type RMU ï The quoted rate was ₹6.9 lakh as against the estimated rate of ₹4.2 lakh which was arrived at based on the market rate and the PFC approved cost data in the DPR. The excess expenditure was ₹11 crore for 400 RMU.

  - Replacement of single phase meter ï Rate of ₹2124 per meter quoted by the contractor was 2.5 times the estimate rate prepared based on KSEBL approved cost data. Excess cost was ₹6.5 crore for the tendered quantity of 56023 items.

  - Supply of distribution transformersï The rate quoted by the contractor for distribution transformers (total value ₹5.93 crore) was double the KSEBLôs standard rate.

  Awarding the above items of work to the contractor at exorbitant rates resulted in commitment of extra expenditure to the tune of ₹20.36 crore. This excess cost would have to be met by KSEBL since funding by PFC would depend on approved project cost.

- Wastage of UG cable provided in estimate in excess of norms of five *per cent* in Thiruvananthapuram and Kozhikode Town Part B projects amounted to ₹2.49 crore**.**

Delay in completion of work due to non-procurement of material

2.3.27 In respect of 40 Part B projects being executed departmentally, KSEBL did not procure material for the works in time leading to delay in completion of work and consequent cost overrun as discussed below.

- Approved 40 Part B projects included reconductoring 77.40 km of 11 kV overhead (OH) line with Aerial Bunched Cables (ABC) and 1346 km of new ABC line in dense, theft prone and congested areas with the objective to minimise snapping of lines due to touching of trees or branches, reduction of commercial loss and increase consumer satisfaction by minimising frequent outage/supply failure. KSEBL could, however, draw seven km of new ABC as of August 2015 due to non-procurement of material as shown in *Table below*:

Table 2.39: Details of non-procurement of ABC material

Work	Target as per DPR	Proposed as per annual plan 2011-12	Quantity as per annual plan 2012-13	Annual plan 2013-14 and 2014-15
LT ABC (km)	989	191	890	Nil
HT ABC (km)	357	89	370	Nil

Audit examined ABC work in 25 Part B projects and noticed that in 22 projects ABC work had not commenced. In three projects, there was delay ranging between four to five years in commencement of ABC work due to non-procurement of ABC.

Delay also resulted in cost escalation of ₹2.82 crore in respect of Kollam project while in respect of Kannur and Kanhangad projects, length of proposed ABC laying was curtailed to compensate the cost escalation as shown in *Table* below:

Table 2.40: Details of execution of ABC work

Name of the project	As per DPR	Revised proposal
Kanhangad	31 km for ₹1.66 crore	Length reduced to 9.138 km
Kollam	44.40 km for ₹1.23 crore.	Revised cost ₹4.05 crore
Kannur	126.90 km for ₹12.59 crore	Length reduced to 67.08 km for an estimate cost of ₹10.18 crore

GoK replied (January 2016) that KSEBL had no expertise in installation of ABC work and being a new technology they decided (February 2012) to execute the work on turnkey basis. However, participation by tenderers was very poor and the cost data of ABC was approved by KSERC only during July 2015.

The reply was not acceptable as installation of ABC work was proposed in the DPR by KSEBL itself.

- With the objective to minimise snapping of lines due to touching of trees, reduce commercial loss and to increase consumer satisfaction by minimising frequent outage and supply failure, laying of UG cable was approved under 40 Part B projects. Status of the work as of August 2015 was as given below:

Table 2.41: Status of work of UG cable (August 2015)

Item of work	Sanctioned	Completed
	(km)	
11 kV new UG cable	269	78
Replacing 11 kV line OH with UG cable	85	0
Replacing 11 kV UG with UG	5.30	4

Audit selected 25 Part B projects for analysing reasons for delay in completion of UG cabling work and noticed non-procurement of material and right of way issues as discussed below:

➢ Under Part B project of Kannur town, laying new UG cable (83.6 km) and reconductoring (84.43 km) were approved. Since the physical progress of laying new UG cable was only 25.41 km, KSEBL decided (April 2015) to complete the balance work on turnkey basis while the reconductoring work on 84.43 km was yet to commence due to non-procurement of UG cable.

➢ Part B project of Chokli-Peringathur town, included UG cable work for 2.02 km spread over Chokli Section and Kodiyeri Section. 1.95 km of UG cable work was completed (May 2014) by Chokli Section and the balance railway crossing work of 0.07 km was yet to be completed by Kodiyeri Section. The completed portion was yet to be energised.

GoK replied (January 2016) that fast progress could not be achieved for UG cable laying due to various issues outside the control of KSEBL like road cutting sanctions, road restoration charges, non-issue of permission for open trenching in BMBC roads/NHAI, etc. As the work has now been decided to be executed on turnkey basis, centralised purchase of UG cable was not relevant for the case.

The fact, however, remains that Part B projects were sanctioned from June 2010 onwards, and it took four years to decide on executing the work on turnkey basis.

- As per the guidelines, High Voltage Distribution System (HVDS) was to be implemented in theft prone areas by improving HT:LT ratio. The DPR of approved Part B project included HVDS work of laying eight km OH line, three km UG cable, one km PVC cable and installation of 51 transformers at sanctioned project cost of ₹2.50 crore.

HVDS work was yet to commence due to non-procurement of material. This resulted in non-achievement of objective of bringing down AT & C loss.

GoK replied (January 2016) that all the essential works under the HVDS category were expected to be completed well within the extended period of RAPDRP.

- In order to improve power factor and to strengthen distribution network, approved 43 Part B projects targeted to install the following.

Table 2.42: Details of work proposed

Item	Approved quantity (Number)
Installation of capacitors bank	6293
Installation of remote communicable Fault Passage Indicator	274
Installation of remote switchable breakers	955
Installation of sectionalisers	471
RMU installation	2340
Providing AB switches	205

CE (SCM) responsible for procurement of above material did not procure the above material and as a result envisaged distribution strengthening work was yet to commence in all 43 projects.

Recommendation No.4: ***Funding arrangements should be firmed up upfront, as envisaged in scheme guidelines, in order to avoid delay in procurement and consequent delay in execution of work.***

Deviation from approved DPR

2.3.28 DPRs of 43 Part B projects of RAPDRP were approved by GoI after taking into consideration Internal Rate of Return (IRR) of 10 *per cent* and reduction of AT & C loss from above 20 *per cent* to 15 *per cent*.

Audit scrutiny of 25 Part B projects revealed that there was deviation from the approved DPR like change of location, quantity variation, inclusion of new location in bid document, etc., as evident from a few instances cited in ***Appendix 6.***

Due to deviation from approved DPR, excess expenditure of ₹109.21 crore has to be borne by KSEBL if the revised DPR is not approved by PFC.

GoK replied (January 2016) that excess amount above the DPR would be borne by KSEBL.

The reply was not acceptable as deviation from the DPR resulted in loss of grant to the tune of 50 *per cent* of excess expenditure.

Delay in completion of SCADA project

2.3.29 SCADA project was approved (February 2011 and June 2011) for three[101] eligible towns in Kerala at project cost of ₹83.15 crore. SCADA project was to be completed within three years of sanction. Completion of SCADA project in these three towns was dependent on completion of Part B projects in the towns. Works like compatibility of circuit breaker and switches, remote operable motors for SCADA compatibility in existing Ring Main Units (RMUs), placement of RMUs and Fault Passage Indicator **(**FPIs), etc., under Part B were to be completed for the successful and timely completion of SCADA projects.

Non-commencement of SCADA compatible work under Part B had adversely affected the completion of SCADA project as discussed below:

- Works under SCADA were awarded (May 2013) to turnkey contractors with completion time of 18 months (November 2014), while Part B projects in these towns were awarded (July 2013-April 2014) on turnkey basis with completion time of 20 months. Scrutiny of records revealed that none of the SCADA project could be completed as of September 2015 due to delay in completion of Part B projects in these towns. As per the DPRs of Thiruvananthapuram, Ernakulam and Kozhikode city Part B projects, RMUs to be made SCADA compatible were 329, 320 and 155 respectively. However, the work was yet (August 2015) to commence in these towns.

- No prioritisation was done to execute these city schemes in sync with the progress of SCADA project. DPR for Thiruvananthapuram city project was approved in August 2012 but there was delay of 20 months in award of Thiruvananthapuram city project work. In respect of Ernakulam and Kozhikode Part B projects also, delay in award of work after approval by PFC was 32 months and 29 months respectively.

- Kalki Communication Technologies Limited (Kalkitech), Bangalore was appointed as SCADA consultant (SDC) in the three cities of Thiruvananthapuram, Ernakulam and Kozhikode for a period of four years at a lump sum price of ₹49.95 lakh. The period of contract of the SDC expired in April 2014 but due to non-completion of SCADA project, the contract of SDC was extended for one more year at an additional expenditure of ₹24 lakh per year.

The CEs (Distribution) of the project area concerned were responsible for awarding and execution of three turnkey Part B projects. Delay in completing SCADA project within the stipulated time would result in loss of grant of ₹52 crore (awarded cost), since PFC had not extended original completion time of three years.

[101] **Thiruvananthapuram (₹29.76 crore), Ernakulam (₹24.40 crore) and Kozhikode (₹28.99 crore).**

GoK replied (January 2016) that the scheduled completion date of SCADA and Part B projects was June 2016 and February 2017 respectively.

The reply was not acceptable as extension of SCADA consultant was due to the extension of original contract.

Loss of envisaged benefit due to delay in completion

2.3.30 According to DPR of 43 Part B projects, energy saving in the range of 1.11 MUs to 80.92 MUs, totalling 506.74 MUs annually was envisaged on completion of these projects. Further, the conversion of loan ₹836.68 crore sanctioned by GoI into grant was contingent on timely completion of Part A and B projects. Therefore, proper monitoring of implementation of projects was of paramount importance.

As per the guidelines issued by GoI (MoP) and terms of MoA, a Distribution Reforms Committee (DRC) was to be constituted under RAPDRP at the State level under the Chairmanship of the Chief Secretary /Principal Secretary/Secretary Power/Energy. In the State, DRC constituted under APDRP scheme was allowed to continue to monitor the RAPDRP also. The DRC was to:

a) recommend the Project proposals to the MoP after ensuring that all the required formalities have been complied with;
b) monitor the compliance to conditionalities; and
c) monitor the achievement of milestones and targets under the scheme.

DRC, mandated to monitor progress of implementation of RAPDRP, held three meetings after sanction of the RAPDRP projects but did not discuss progress of implementation of RAPDRP at all.

As a result, Part A and Part B projects which were originally scheduled for completion within three years could not be completed even within the extended time of five years. Delay in completion of projects led to annual loss of envisaged benefit of ₹202.70[102] crore on 506.74 MUs of energy ***(Appendix 7)*** and probable non-conversion of loan of ₹836.68 crore into grant. Thus, DRC had failed in performing its duties.

KSEBL replied (November 2015) that the members of the DRC were high level officers in Government and availability of their time for close monitoring of the schemes was difficult. Monitoring by the CMD can be considered as Government level monitoring by virtue of his position as Secretary, Power Department.

The reply was not acceptable as the DRC consisted of representatives of PFC, MoP, CEA, ANERT and Energy Management Centre besides Power Secretary and four representatives from KSEBL.

[102] **Calculated at the average rate of ₹4 *per* unit.**

Conclusion

The main objective of Restructured Accelerated Power Development and Reforms Programme was to bring down Aggregate Technical & Commercial loss to 15 *per cent*. But there was no realistic approach in the preparation of Detailed Project Report to guard against technology related compatibility issues at the implementation stage. Action taken in the policy initiative like measures for prevention of theft of power, constitution of Special Courts to deal with cases of theft of power, etc., were inadequate. Delay in preparation of DPRs and arrangement of funds led to delay in procurement of material and awarding of contracts. This has also resulted in time overrun of more than three years and cost overrun, which contributed to the non-materialisation of envisaged benefit of reduction in Aggregate Technical & Commercial loss.

CHAPTER III

3. Compliance audit observations

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

Government companies

3.1 Implementation of greenfield projects by five PSUs

Introduction

3.1.1 Government of Kerala (GoK) decided (April 2010) to implement five greenfield projects at a total project cost of ₹53 crore through five Public Sector Undertakings (PSUs). The projects, to be commissioned by December 2010, aimed at creating new facilities in manufacturing and to generate skilled work force. Status of implementation of these projects as on 31 March 2015 was as given below:

Table 3.1: Status of implementation of greenfield projects as on 31 March 2015

Sl. No.	Name of the Project	Implementing PSU	Annual Capacity	Project cost (₹ in crore)	Month of commissioning	Actual cost (₹ in crore)
1	House Wiring Cables Unit	TRACO Cable Company Limited (TRACO)	4.43 lakh coils of 90 meter	12.00	July 2013	8.25
2	Tool Room cum Training Centre	Kerala Small Industries Development Corporation Limited (SIDCO)	-	12.00	April 2013	10.87
3	Mini Tool Room cum Training Centre	Kerala State Electronics Development Corporation Limited (KELTRON)	-	12.00	December 2011	8.44
4	Machining[1] Unit of SIFL	Steel and Industrial Forgings Limited (SIFL)	1000 Metric Ton (MT)	12.00	December 2012	9.55
5	Liquid Crystal Display (LCD) Meter Production Unit	United Electrical Industries Limited (UEIL)	12 lakh units	05.00	Not Implemented	0.62
Total				**53.00**		**37.73**

(Source: Government Order No. (GO(MS) No.103/2010/ID dated 30/04/2010)

[1] **Machining is the process of conversion of raw forgings to ready to fit components.**

Out of the five projects planned, four projects were commissioned after delays ranging from 12 months to 30 months, while LCD Meter Production Unit of UEIL at Palakkad was not implemented.

Against the estimated cost of ₹53 crore, the actual expenditure was only ₹37.73 crore. Less expenditure was mainly due to non-implementation of LCD Meter Production Unit, Palakkad and non-procurement of vital machinery and equipment envisaged in Detailed Project Reports (DPRs) of SIDCO, KELTRON and SIFL. Audit examined the implementation of greenfield projects to ascertain compliance to Government Orders, DPRs, Manuals of GoK and GoI.

Audit Findings

3.1.2 The DPRs of the four commissioned projects envisaged net profit of ₹15.70 crore up to March 2014. Despite investing ₹37.73 crore, these projects incurred aggregate loss of ₹11.59 crore up to March 2014. This was mainly due to non-achievement of envisaged turnover since the DPRs were prepared without carrying out proper feasibility studies. Further, there were deficiencies in DPRs, non-availing of Government assistance, etc*.*, by TRACO, SIDCO, SIFL and KELTRON as discussed in succeeding paragraphs.

Planning of projects

Imprudent selection of implementing agencies

3.1.3 As per the Government Order (GO), one-third of project cost of three[2] projects, totaling ₹12 crore was to be financed out of their own resources/ loans from financial institutions. In the case of UEIL, the project cost of ₹5 crore was to be financed by equal equity participation (₹2.5 crore) and soft loan (₹2.5 crore) from Malabar Cements Limited[3] (MCL). GoK selected TRACO, SIDCO, KELTRON and UEIL, PSUs with poor track record of performance and continuous operating losses, for implementing four projects. These PSUs had an aggregate accumulated loss of ₹310.25 crore at the end of March 2010. TRACO, SIDCO and KELTRON failed to comply with the Government Order on financing the project. Consequently, GoK had to extend financial assistance to TRACO and SIDCO and certain vital machinery was curtailed in respect of SIDCO and KELTRON as explained in *Paragraph 3.1.6.*

Thus, selection of the projects without proper feasibility study and entrustment of their implementation to PSUs with poor track records was not prudent.

---

[2] **Units of TRACO, SIDCO and KELTRON.**
[3] **A Public Sector Undertaking in Kerala engaged in manufacture of cement.**

Preparation of feasibility report

3.1.4 According to Project Implementation Manual (PIM) published (1989[4]) by Ministry of Statistics and Project Implementation, Government of India (GoI), approval for any public investment should be preceded by a feasibility report. The feasibility report should focus on whether the project was conceptually sound and feasible for its economic benefits as well as financial returns.

During scrutiny of records, it was noticed that the decisions to set up the greenfield projects were not backed by feasibility studies.

Deficient Detailed Project Reports (DPR)

3.1.5 As per the PIM, preparation of an accurate and realistic DPR is the foremost activity for any project. The DPR should contain complete break up of all components of the project with specific time schedule and firmed up costs, market demands, pricing, location, etc. It is used as an instrument for controlling and monitoring the physical as well as financial progress of the project. The DPR must address all issues related to the justification, financing and implementation of the Project. The services of professional bodies could be hired for preparation of the DPR, if considered necessary.

The DPRs for Machining Unit (SIFL), House Wiring Cables Unit (TRACO), LCD Meter Production Unit (UEIL) and Mini Tool Room cum Training Centre (KELTRON) were prepared in-house by the implementing agencies and that for Tool Room cum Training Centre (SIDCO), it was prepared by engaging a chartered accountant (GSPU Associates, a regular consultant of SIDCO). Lack of expertise and adequate due diligence on the part of the agencies and consultants was quite evident from the deficiencies in the DPRs and market projections as discussed below.

- Against financing pattern[5] prescribed (April 2010) in the GO for the projects of SIDCO and KELTRON, DPRs were prepared envisaging 100 *per cent* equity contribution from the GoK. Similarly, in respect of the project of SIFL, prescribed funding pattern of own funds and loans from financial institution was in the ratio of 1:1. DPR was, however, prepared envisaging 100 *per cent* borrowed funds. Consequently, capital investment was restricted by curtailing procurement of vital machinery as explained in *Paragraph 3.1.6.*

  KELTRON replied that the DPR was initially prepared envisaging 100 *per cent* financial support from the GoK, but the decision on fund allocations was received later.

  The reply was not acceptable as the deviations from GO was due to non-revision of DPRs which were prepared before receipt of GO on funding.

[4] **Revised in June 2010.**
[5] **Ratio of 1:1:1 (equity contribution and soft loan by MCL and own fund/ loan from financial institution).**

- Estimates prepared for the civil works in the DPR were not based on the actual requirements and were made without considering the machine specifications. This necessitated construction of additional space and facility, which were not envisaged at the time of estimation. Consequently, actual cost of execution of civil works increased from ₹0.92 crore to ₹2.36 crore (157 *per cent* increase) in respect of SIDCO and from ₹1.40 crore to ₹4.55 crore (225 *per cent* increase) in respect of KELTRON.

  SIDCO and KELTRON while agreeing with audit observation replied that plinth area envisaged in the DPR had no rationale with the plinth area actually required and were prepared without considering the size and dimensions of the machinery and area to be occupied by the machinery.

- DPR of House Wiring Cables Unit of TRACO envisaged production of 11.08 lakh coils of 90 metre for the first three years (annual production capacity- 4.43 lakh coils of 90 meter size) whereas actual production for the first three years was only 1.34 lakh coils of 90 metres. Against this production, actual sales were 1.31 lakh coils of 90 metres.

  It was noticed that annual production capacity was pegged (2010) in DPR at 4.43 lakh coils of 90 meter size based on the market study report received from KITCO in July 2004. Due to fixing annual production capacity based on an outdated market study, TRACO faced problems in marketing and TRACO could not find enough dealers for selling its products. TRACO was using its three outlets for marketing its products.

  TRACO replied (October 2015) that efforts were being made to boost sales through registration with Government Departments like, Public Works Department and appointment of marketing agents.

- Sales turnover and breakeven point were not projected while preparing the profitability analysis in the DPR of Tool Room cum Training Centre of SIDCO.

Non-compliance to Government Orders on funding of projects

3.1.6 As per the GO, out of project cost of ₹12 crore each in respect of TRACO, SIDCO and KELTRON, ₹8 crore was to be financed by MCL and the balance ₹4 crore each by the implementing agencies. In the case of SIFL, the project cost of ₹12 crore was to be equally funded out of own resources and loans.

MCL advanced its share of ₹24 crore (₹12 crore as equity and ₹12 crore as loan) in the year 2010. MCL also advanced ₹1 crore as equity to abandoned project of UEIL. The implementing agencies, however, failed to comply with the provisions of the GO on financing the projects as shown in *Table 3.2*:

Table 3.2: Status of funding

Name of the Implementing agencies	Required funding (₹ in crore)		Actual funding (₹ in crore)		Impact
	MCL	Own	MCL	Own	
TRACO	8	4	8	Nil	GoK had to extend financial assistance of ₹4 crore by way of working capital loan. This loan together with accrued interest was subsequently converted (November 2013) into equity.
SIDCO	8	4	8	0.87	GoK had to give loan of ₹2 crore. Capital investment was restricted to ₹10.87 crore curtailing procurement of vital machineries required for the project.
KELTRON	8	4	8	0.44	Capital investment was restricted to ₹8.44 crore curtailing procurement of vital machineries required for the project
SIFL	0	12	0	9.55	SIFL contributed ₹6.55 crore against required contribution of ₹6 crore as per the GO. Loan from financial institutions was arranged to the extent of ₹3 crore only. Consequently capital investment was restricted to ₹9.55 crore curtailing procurement of vital machineries required for the project.
UEIL	5	0	1	0	Project cost of ₹5 crore was to be financed by equity participation and soft loan from MCL in the ratio of 1:1. As the project did not take off, ₹4 crore was refunded to MCL, keeping the balance of ₹1 crore with the Company.

In the absence of required funding by the implementing agencies, implementation of the greenfield projects was curtailed and limited to the funds provided by MCL, a profit making PSU, as it contributed ₹25 crore out of the total expenditure of ₹37.73 crore incurred on the greenfield projects.

Implementation of projects

Issues noticed in the implementation of the greenfield projects are discussed below.

Deviation from DPR

3.1.7 During implementation of greenfield projects, implementing agencies deviated from the DPR as discussed below.

- As per the DPR, the Machining Unit of SIFL should be located near the promoterôs existing company to reduce the transportation cost. Machining Unit of SIFL was proposed to process the raw forgings manufactured in its Forging Unit at Athani. SIFL had eight acres of un-utilised land adjacent to its Forging Unit at Athani. The Company, however, set up the machining unit in three acres of land taken (August 2010) on lease at Shoranur, which was 22 km away from Athani for a period of 99 years at the rate of ₹30,000 *per annum* with 10 *per cent* escalation every five years. The requirement of setting-up of

machining unit at Shoranur was taken in the meeting (March 2010) chaired by Hon'ble Minister for Industries and Commerce, GoK.
The Machining Unit of the Company was located at a distant place despite having suitable land near the Forging Unit. As a result, after commissioning of the Machining Unit, the forged material (811.07 MT) had to be transported from Athani to Shoranur for machining purpose by incurring avoidable expenditure of ₹5.32 lakh (up to February 2015) towards transportation charges and avoidable committed liability on lease rent of ₹30,000 per year.

Management replied (May 2015) that the Unit was set up at Shoranur at the instance of GoK. The reply was not acceptable as the Company should have brought to the notice of GoK the extra expenditure in setting up the project at Shoranur but it had failed to do so.

- DPR of Tool Room cum Training Centre of SIDCO envisaged procurement of machinery worth ₹10.31 crore for the project. The Management, however, did not procure machinery worth ₹3.39 crore.

  The Management replied that non-procurement of machinery was due to shortage of funds that resulted from the increased cost of construction.

  The reply was not acceptable as the increased cost of construction was due to constructing double the area envisaged in DPR. Further SIDCO had brought only ₹0.87 core against its share of ₹4 core in the project cost.

- Lump sum provisions for electrical installations were made in the DPRs without any drawings and estimates. As against ₹18 lakh (SIDCO) and ₹14.50 lakh (KELTRON) for electrification provided in the DPRs, expenditure incurred was ₹96.12 lakh (434 *per cent* increase) and ₹37.67 lakh (160 *per cent* increase) respectively.

- SIFL supplies different types of gears and pinions in a ready to fit condition that involved the process of forging and extensive machining. The Company did forging works in its forging unit at Athani and machining works through outsourcing at faraway places like Bangalore and Bhopal involving approximately 50 *per cent* of the total cost of the finished product. The objective behind setting up the Machining unit at Shoranur was to carry out all machining jobs in-house with better monitoring, control and with faster results.

  One of the machining works, gear hobbing process involves gear hobbing, gear shaping, gear grinding, heat treatment and inspection. This requires operation of the gear hobbing machine in tandem with gear grinding machine, gear shaping machine and co-ordinate measuring machine. DPR envisaged procurement of all these machines at a cost of ₹6.55 crore. SIFL, however, procured gear hobbing machine only excluding the remaining equipment needed for finishing operations due to non-availability of sufficient funds as discussed *in Paragraph 3.1.6*. As a result, the gear hobbing machine procured (March 2012) at a cost of ₹1.68 crore was not put to use so far (March 2015). Consequently, SIFL had to continue outsourcing these works. Moreover, due to failure of the Company to procure related equipment needed for finishing operations, against envisaged conversion of 4000 MT forgings for the first four years (2011-12 to 2014-15) actual conversion was only 811.07 MT forgings.

Gear hobbing machine lying idle at Machining Unit of SIFL at Shoranur

While accepting Audit observations, Management stated that efforts were being taken to utilise the gear hobbing machine after exploring the possibility of outsourcing balancing work.

- Similarly, though the DPR did not envisage procurement of shot blasting machine, SIFL procured the machine at a cost of ₹0.18 crore at the behest of Senior Manager (Special Projects) and was commissioned in March 2011. SIFL discontinued shot blasting and fettling operation and the machine was lying idle since May 2012.

  The Management replied (May 2015) that shot blasting process was adversely affecting the performance of the sophisticated co-machines and consequently, shot blasting and fettling operation at the Shoranur unit were discontinued. This indicates deficient procurement planning as the problems of shot blasting machines were known to the Company as they were using the same for their forging operations in its parent unit.

- DPR of Tool Room cum Training Centre of SIDCO and KELTRON envisaged giving short term training courses to 5400 students and 9060 students respectively up to March 2015 whereas actual training (long-term) was given to only 53 students and 391 students, respectively. SIDCO replied that their main aim was to focus on post diploma course for engineering graduate/ diploma holders and efforts were being made to provide awareness about courses to prospective students. However, the DPR envisaged short term training courses only and this deviation from DPR indicated that the same was not realistic and prepared arbitrarily. Basis for projection of short term training courses was not furnished to Audit, though called for.

- DPR of Tool Room cum Training Centre of SIDCO envisaged setting up of Effluent Treatment Plant (ETP) and obtaining approval from Pollution Control Board (PCB). Neither ETP was set up nor approval from PCB obtained, so far (February 2015).

  Company stated that ETP was not installed as the machine installed has in-built system to treat effluents.

  The reply was not acceptable since installation of in-built system to treat effluents was not informed to the PCB and certificate to that effect obtained from PCB. In the absence of certificate from PCB, adequacy of in-built ETP to treat effluent could not be ensured.

Non-availing of assistance under Government of India scheme

3.1.8 In XI Five Year Plan, GoI introduced a scheme for providing assistance to set up Mini Tool Room & Training Centre. As per the Scheme, GoI would provide one time grant equal to 90 *per cent* of the cost of machinery and equipment subject to a maximum of ₹9 crore.

The Tool Rooms cum Training Centre projects implemented by SIDCO and KELTRON were eligible for financial assistance under the above scheme. DPR of KELTRON also envisaged use of such grant. The total investment in these projects of SIDCO and KELTRON amounted to ₹7 crore and ₹3.25 crore respectively and the eligible grant on this investment was ₹9.23 crore[6].

The implementing agencies, however, did not tap GoI assistance due to misconception about the parameters by the unit-in-charge (AGM/IT) in case of SIDCO and purely an omission in case of KELTRON. Consequently, this fund gap had to be met through loans from MCL and GoK carrying interest rate of seven *per cent* and 11.5 *per cent* respectively resulting in avoidable interest burden of ₹3.22 crore[7] up to March 2015.

KELTRON stated (October 2015) that central assistance to set up mini tool room was eligible only for units set up under Public Private Partnership model.

The reply was not correct since State agencies were also eligible for central assistance according to the guidelines of the scheme.

SIDCO replied (June 2015) that earnest efforts were made to avail grant from GoI, but could not get the desired results as minimum two acres of land was lacking. The reply further stated that efforts were still being made to avail of the grant from GoI. The fact, however, remains that even though infrastructure

---

[6] **90 *per cent* of ₹7 crore and ₹3.25 crore.**

[7] **(₹4 crore*7 *per cent**4.5 years)+(₹2 crore *11.5 *per cent**4.5 years) +(₹2.93 crore *7 *per cent**4.5 years).**

facilities were created in February / March 2012, applications for the grants were yet to be submitted. In the case of SIDCO, the Company was ill-informed about the parameter of two acres of land, which was not taken care of in the guidelines issued for the scheme.

Irregularities in award of work

3.1.9 As per Kerala Financial Code (Rules 51 and 126), contracts for the supply of stores or the execution of works should be entered into after invitation of open tenders whenever the estimated value of contract exceeded ₹10,000. In all cases of open tender, wide publicity should be given to the tender notification. The codal provisions were not complied in the following two cases.

- Work Order (WO) for construction of factory building, substation building, etc., of House Wiring Cables Unit of TRACO was awarded (December 2010) to Kerala Electrical and Allied Engineering Company Limited (KEL) for ₹1.87 crore without inviting tender. In the absence of open tender, the competitiveness of rates could not be ensured and financial impact could not be ascertained.

  TRACO stated (October 2015) that work was awarded to KEL without invitation of tender since tendering process was time consuming and as per orders of Government, the project was due for completion within December 2010.

  The reply was not acceptable because tendering process was not to be compromised for timely completion of work and required additional time should have been sought from Government.

- In the award of civil works for Tool Room cum Training Centre of SIDCO, the implementing agency had failed to ensure competiveness of rates by giving wide publicity for the tender notification. Against publication of tender notice in one or more leading regional languages and one or more issues of a leading English newspaper as per provisions of Kerala Financial Code, tender advertisement was published only in local newspaper denying opportunity at all India level.

  SIDCO replied that the tenders for construction of civil works were advertised in local newspaper with the intension to curtail expenditure. The reply was not acceptable as the practice adopted by the agency was in violation of the codal provisions, which aimed at ensuring transparency and competitiveness of rates.

Unfruitful expenditure on recruitment

3.1.10 Industries Department, GoK created (January 2011) 395 posts as per the man-power requirement envisaged in the DPR of greenfield project and outsourced the recruitment to Kerala State Productivity Council, National Institute of Personnel Management and KITCO Placement Park. The agencies commenced (January 2011) the process of recruitment that was targeted to be completed by February 2011. The PSUs paid ₹0.41 crore as remuneration to these agencies. The conditions of recruitment included weightage to local candidates. The prospective candidates challenged the fairness of the recruitment process in the Honôble High Court of Kerala questioning the conditions in the notification for recruitment and the process of selection.

Accepting their contentions, the Honôble High Court stayed (February 2011) the selection process. In the meantime, 10 personnel were recruited for the greenfield projects. Based on this, GoK cancelled (December 2011) the remaining rank list already prepared and RIAB[8] has been appointed to oversee the recruitment process to ensure transparency. The new recruitment process was in progress. Thus, fee of ₹ 0.41 crore paid to the recruiting agencies became unfruitful. In the absence of recruitment, contract employees, apprentices and employees on deputation were engaged for the working of the greenfield projects thus, impacting the implementation period and commissioning schedule of the projects.

SIFL and KELTRON replied (May 2015) that they were not in a position to conclude the recruitment outsourced, consequent to the stay from Honôble High Court of Kerala. The reply was not acceptable since lack of transparency in the recruitment process was the root cause for Courtôs intervention.

Hasty inauguration of the greenfield projects

3.1.11 As per Rule 4 and 5 of Kerala Factories Rules, manufacturing process shall be carried out only after obtaining Factory Licence. Due to delay in completion of construction, commissioning of machinery, obtaining statutory licences and electricity connections, the above projects were not in a position to commence the operations by the target date of December 2010. Despite this, inauguration ceremonies were conducted in January and February 2011 by incurring ₹0.48 crore by taking several *ad hoc* measures, like hiring generator instead of getting permanent power connection from Kerala State Electricity Board Limited (KSEBL)[9], to give a semblance of completion.

Mini Tool Room cum training centre of KELTRON commenced training (July 2012) and commercial production (February 2013) without obtaining Factory Licence from the Director of Factories and Boilers.

Further, both the Tool Room cum Training Centres of KELTRON and SIDCO had not obtained licence for fire and safety so far (March 2015) from the Department of Fire and Safety.

KELTRON replied (May 2015) that necessary steps were taken for obtaining fire and safety clearance. Further, necessary procedures had been completed for obtaining Factory Licence. Receipt of both the certificates was, however, awaited (December 2015).

---

[8] **Public Sector Restructuring and Internal Audit Board.**
[9] **Erstwhile Kerala State Electricity Board.**

Infructuous expenditure due to non-implementation of LCD Meter factory of UEIL

3.1.12 UEIL was awarded an order for six lakh LCD Meters by KSEBL with a delivery schedule of one lakh meters *per* month. Since Kollam unit had limitation to manufacture one lakh meters monthly, UEIL decided to set up a new production unit (LCD Meter Production Unit) at Palakkad under the greenfield project of GoK during 2009-10. DPR of the project envisaged supply of meters to other State power utilities as well. Kannadi Grama Panchayat allotted one acre of land for 99 years on lease basis to construct the proposed factory. The approved project cost of ₹5 crore consisted of construction of building worth ₹2 crore and procurement of machinery and other assets worth ₹3 crore. MCL advanced ₹5 crore for implementation of the project.

UEIL awarded the construction work to BSNL. They could not execute the construction work as the land allotted was unsuitable for construction and there was no approach road to the plot. Yet, UEIL made temporary arrangements at the Panchayat Community Hall at Kannadi Grama Panchayat, incurring total expenditure of ₹0.62 crore (including ₹0.20 crore towards cost of machinery) and inaugurated (January 2011) the project. Further, ₹0.38 crore was diverted for meeting the working capital requirements of another unit which was irregular.

After inauguration, UEIL decided (March 2011) not to go ahead with the project as KSEBL had stopped accepting meters from UEIL due to problems in the field performance of meters already supplied from Kollam unit (2.7 lakh LCD Meters). UEIL had not received any orders from other State electricity utilities even though the DPR had envisaged it. Thereafter, as ordered by GoK, balance fund of ₹4 crore was refunded (March 2011) to MCL.

Thus, selection of the project without proper feasibility study/ market potential resulted in infructuous expenditure of ₹0.62 crore.

UEIL replied (May 2015) that KSEBL stopped purchase of LCD Meter from them and hence, the LCD Meter Factory, Palakkad was not commissioned and machinery were not installed.

The reply of UEIL was not acceptable as cancellation of order by KSEBL was due to quality issues. Also, though the DPR envisaged orders from power utilities of other States, no such order could fructify.

Non-availing credit for excise duty paid on capital goods

3.1.13 As per Rule 3 and 4 of the CENVAT Credit Rules, 2004, a manufacturer or producer of final products was allowed to take credit (availment) of excise duty paid on capital goods received in the factory of manufacturer of final product. The CENVAT credit can be utilised for payment of excise duty on any final product. For availing the CENVAT credit, the assessee has to file return in which credit taken on capital goods on invoices issued by manufacturers has to be furnished. KELTRON procured (February to June 2011) machinery worth ₹2.91 crore (basic cost) paying ₹0.22 crore as excise duty but did not avail of the CENVAT credit (till March 2015) due to non-filing of return showing the details of capital goods purchased.

Management replied (May 2015) that CENVAT credit on machinery purchased would be availed during the financial year 2015-16. The fact, however, remains that even after a lapse of 39 months after commissioning the unit the CENVAT credit was not availed.

Conclusion

The implementation of the greenfield projects was beset with poor planning and execution of projects. The DPRs were prepared without actual feasibility study. Despite poor track record of TRACO, SIDCO and KELTRON, the decision of GoK to divert funds from MCL resulted in high probability of the loans advanced by MCL remaining irrecoverable. There were failures to avail of Central Government assistance and CENVAT credit. Envisaged funding was also not ensured leading to curtailment of investment in machinery and equipment. All these factors led to the greenfield projects clocking losses of ₹11.59 crore in their operations up to March 2014.

The matter was reported (October 2015) to Government; their reply was awaited (October 2015).

3.2 Material procurement in Kerala Agro Machinery Corporation Limited

Introduction

3.2.1 Kerala Agro Machinery Corporation Limited (Company) was established in March 1973 with the main objective of production, assembling and marketing of agricultural implements such as power tillers, reapers and tractors. The Company has four production units at Athani and Kalamassery (Ernakulam), Kanjikode (Palakkad) and Mala (Thrissur) with an aggregate installed capacity of 6000 power tillers. The Company did not assess installed capacity of other products namely, reapers and tractors.

The Company has been enjoying goodwill and brand image in the Indian tiller market especially in the North Eastern States. Over the years, the Company has developed a good dealer network. The turnover of the Company was generally showing an increasing trend which was mainly because of the product quality, goodwill as well as support from Government by way of subsidy. Despite enjoying goodwill and brand image, profit from operation of the Company was meagre, ranging from 1.23 *per cent* (2014-15) to 4.98 *per cent* (2010-11) of sales during 2010-11 to 2014-15. Since the material cost ratio showed wide fluctuation ranging from 67.88 *per cent* to 82.24 *per cent,* Audit reviewed practice of procurement of spares by the Company with reference to the provisions of Stores Purchase Manual (SPM) of Government of Kerala during the period 2010-11 to 2014-15.

Audit Findings

3.2.2 The Company followed an approved purchase procedure prepared for the purpose of ISO certification. The present system of procurement of raw material followed by the Company did not comply with the provisions of SPM and guidelines of Central Vigilance Commission (CVC). The procurement rules followed by the Company were also not approved by Government of Kerala (GoK). The non-compliance of procurement rules resulted in uneconomic and irregular procurement of material as discussed below.

Deficient vendor performance rating system

3.2.3 For production of agricultural implements, the Company requires 1914 different categories of spares. At the commencement of every financial year, the Company assesses the material required for all the four units and places annual purchase orders (PO) with the existing limited number of suppliers at the rate at which they were previously supplying the material.

The quantity to be supplied by each supplier was fixed not based on the economy of rates but in proportion to the weightage obtained in the vendor performance rating. Vendor performance rating system was made by giving weightage of 15 *per cent*, 35 *per cent*, 25 *per cent* and 25 *per cent* to four factors namely cost, timely supply, Inspection Goods Received Report (IGRR) acceptance[10] and assembly acceptance[11] respectively during the previous year.

The system of vendor performance rating was deficient as explained below.

- Performance evaluation was done on the basis of performance during the first nine months instead of preceding twelve months resulting in omission of performance during January to March every year. Audit analysed delivery performance of six spares during January to March of four years ended 2013-14 and noticed that there was non-delivery ranging up to 38 *per cent* of scheduled quantity. The Company procured the non-delivered quantity from other existing suppliers at their supply rate, through PO amendments resulting in extra expenditure as mentioned in *Paragraph 3.2.12*; and

- Lesser weightage (15 *per cent*) was assigned to cost factor and higher weightage was assigned to other factors (timely supply, IGRR acceptance and assembly acceptance) which should have otherwise been taken care of by incorporating penal clauses in purchase agreements. In spite of assigning higher weightage for timely supply

---

[10]Percentage of material accepted to the material supplied.
[11]Percentage of material successfully processed in assembly section.

and material acceptance, the instances of delayed/ short delivery and material rejection were on higher side.

The irregular methodology adopted for the vendor performance system made it improper and ineffective. Hence major procurement decisions, including issue of purchase orders, taken based on the system was found to be wrong.

The Company replied (September 2015) that since the annual purchase plan had to be completed by January, the performance of suppliers during January to March was not considered. It was also stated that since the practice was applicable for all suppliers alike, this would have no impact on evaluation. It was stated (November 2015) that the feasibility of including 12 months performance from January to December was under consideration of the management.

The reply was not acceptable since higher weightage (35 *per cent*) was given for timely supply of material and non-consideration of performance during January to March makes the vendor-performance rating system self-defeating.

Registration of new vendors

3.2.4 As per SPM, efforts should be taken to identify higher number of approved suppliers to obtain more eligible bids on competitive basis. As per clause 4.1.9 of the Quality System Procedure of the Company, the approved vendor list was to be updated once a year.

On scrutiny of the new vendors enlistment procedure, Audit noticed that the purchase department had not made efforts to widen the vendor base. Audit noticed that financial capability, previous experience, production capacity, etc., were not verified at the time of empanelment of new vendors. Audit noticed that 112 new suppliers were added to the vendor list during the period 2011-12 to 2014-15. The number of suppliers in the vendor list during 2010-11 was 229 and it was 239 during 2014-15, which showed a net increase of 10 suppliers. This showed that the performance of the Company in widening the vendor list was not effective. Further, the Company was not updating its vendor list annually.

Planning for procurement

Purchase procedure violating the provisions of SPM

3.2.5 As per the guidelines of CVC, the cardinal principal of any public purchase is to procure the material/ services of the specified quality at the most competitive prices and in a fair, just and transparent manner. To achieve this end, there should be a codified purchase manual containing the detailed purchase procedure, guidelines and also proper delegation of power so that there is a systematic and uniform approach in decision making. It is pertinent to mention that the GoK has made the provisions of SPM mandatory for all the PSUs in the State in respect of their operations/ procurement, etc.

Scrutiny of records revealed that the Company followed an approved purchase procedure prepared for the purpose of ISO certification. However, the procedures were inconsistent with the provisions of SPM. Absence of a purchase manual in line with provisions of SPM led to unrealistic assessment of requirement and extra expenditure as discussed in succeeding paragraphs.

The Company replied (September 2015) that it did not follow the provisions of SPM for procurement from the very inception. It was also stated (November 2015) that the Company being an ISO certified company followed purchase procedures as per ISO Manual.

The reply was not acceptable in view of the fact that compliance to provisions of SPM was mandatory for all PSUs in the State. The ISO manual followed by the Company was not at par or in conformity with the mandatory provisions of SPM.

Unrealistic assessment of requirement

3.2.6 As per Rule 6.1 of SPM, purchasing authority has to estimate material requirements for a year so far as can be foreseen. At the end of each financial year, each department should realistically assess its requirements of stores and equipment required during the next financial year based on the consumption during the previous three to five years and with reference to factors, if any, which justify an increase or decrease compared with the average.

The Company assessed material requirement based on budgeted production. The budgeted production/sales was decided on the basis of sales estimated by the marketing department. The management was unable to justify the estimates of the marketing department and hence, it was arbitrary.

- A comparison of the budgeted production of tillers with the budgeted production as per SPM as well as the actual production was made as shown below.

Table 3.3: Budgeted production *vis-à-vis* actual production of tillers

(No of tillers)

Year	Budgeted production		Actual production
	As done by Company	As per SPM	
2010-11	15000	9705	12182
2011-12	24000	10884	13478
2012-13	21000	12161	12085
2013-14	16000	12582	14577
2014-15	16500	13380	11825

Production budget to be prepared as per the provisions of SPM, based on three years average was in the range of 9705 to 13,380 tillers. The Company, however, budgeted production in the range of 15,000 to 24,000 tillers during the period 2010-11 to 2014-15 without any justifiable reasons for such increase.

Planning for procurement of raw material based on such inflated production budget resulted in wrong estimation of material requirement and consequent excess procurement of material leading to blocking up of funds and loss of interest of ₹2.44 crore as discussed below.

- Evaluation of stock accumulation of tiller spares during the period from 2010-11 to 2014-15 revealed that in respect of 714 spares, the inventory was held to meet the requirement for periods ranging up to 2373 daysô consumption. The Company was following the practice of issuing purchase orders for one year with monthly schedule of supply. Keeping 30 daysô consumption as optimum stock level, the excess inventory holdings resulted in blocking up of ₹ 25.42 crore and consequent interest loss of ₹2.03 crore.

  The Company replied (November 2015) that the material procurement was done based on actual requirement and there was no excess inventory due to suitable rescheduling of purchase orders.

  The reply was not acceptable as the inventory holding for periods up to 2373 days was noticed even after rescheduling of purchase orders.

- While there was a restriction imposed (April 2011) on the Company by the Honóble High Court of Kerala for the recruitment to the newly established tractor unit, it imported (February/July 2012) 180 sets of components for manufacture of tractors at landed cost of ₹2.63 crore. Due to insufficient work force, only nominal production commenced (March 2013) through re-deployment of personnel from its Athani Unit and only 125 sets could be consumed until March 2015. The failure of the management in considering the factors for estimating the material requirement resulted in accumulation of stock up to three years and loss of interest ₹0. 41 crore.

  The Company replied (November 2015) that tractor components were procured in anticipation of starting commercial production of tractor unit, but recruitment for the Unit could not be done due to factors beyond its control and hence, production could not be carried out as anticipated.

  The reply was not acceptable since the Company had imported the components for production though restrictions on recruitment for the Unit were already in place.

Procurement of material

3.2.7 Public procurement activities should be conducted in a transparent manner ensuring competition, fairness and elimination of arbitrariness in the system. All public procurement should be made to ensure the lowest reasonable price for the material. Such a system was, however, absent in the Company as discussed below.

Procurement of material without tendering

3.2.8 As per Rule 7.7 of the SPM, system of open tender should be adopted for all purchases above ₹10 lakh and limited tender for value of purchases between ₹1 lakh and ₹10 lakh. Further, for purchase value between ₹0.15 lakh and ₹1 lakh, the system of issuing quotation enquiries should be adopted.

The Company never followed the practice of tendering as required by SPM for procurement of spares. During the period from 2010-11 to 2014-15, the Company issued 4113 POs for procurement of 1914 type of spares valuing ₹813.06 crore. All these POs were issued without inviting tenders or quotations enquiries as shown below.

Table 3.4: Details of procurement

Value of PO	Procurement procedure prescribed in SPM	No. of POs issued	Amount involved (₹ in crore)	Practice followed by the Company
Up to ₹15000	No Quotation	398	0.23	No Quotation
Between ₹15000 and ₹1 lakh	Through Quotation	715	3.62	
Between ₹1 lakh and ₹10 lakh	Limited Tender	1547	62.99	No Tendering
Above ₹10 lakh	Open Tender	1453	746.22	
Total		**4113**	**813.06**	

Thus, all the 3715[12] POs, which were to be issued based on tendering/quotation enquires were issued amongst the existing single suppliers/limited suppliers at the latest supply price. Audit noticed that spares worth ₹266 crore were procured from 19 suppliers during the review period. The major suppliers benefitted by the irregular procurement were Sree Ganesh Gears Private Limited, Autokast Limited, CVM Precisions Products Private Limited, Tolins Tyres Private Limited and Fairfield Atlas Limited. Moreover, Sree Ganesh Gears Private Limited was the major supplier who supplied 31 different categories of spares to the Company.

By resorting to procurement from limited number of suppliers when alternative suppliers were available in the market, the Company ignored the basic requirement of procurement *i.e.* ensuring competitive rate.

The Company replied (September 2015) that majority of the spares were specially designed components, the design of which cannot be disclosed to all, as the designs would be misused by spurious spare manufacturers**.** The reply was not acceptable since the Company had already implemented methods like affixing of hologram on the spares to prevent spurious spares designed by the

[12]Total No. of POs (4113) less No. of POs valuing up to ₹15000 (398).

Company. Further, the Company did not resort to competitive bidding even amongst the empanelled vendors who were given the design of spares.

Procurement at non-lowest rate resulting in extra expenditure

3.2.9 The Company, while issuing annual POs, did not consider the lowest rate at which materials were being supplied by the suppliers. Instead of giving preference to the lowest rate, requirement of annual quantity was divided among all the existing suppliers based on vendor performance rating. Further, in the event of short supply by any supplier, the non-delivered quantity was procured from other existing suppliers at higher rates.

Audit made a detailed analysis of difference in the procurement rates of each material and found that material were procured through annual POs, from different suppliers at different rates. During the review period, avoidable expenditure of ₹43.89 crore was incurred due to procurement of material at rates higher than the lowest rates, as detailed below:

Table 3.5: Procurement of material at rates higher than the lowest rate

Year	Total No. of POs verified	No. of POs in which purchases made from non-lowest suppliers	Total purchase value (₹ in crore)	Purchase value at lowest rate (₹ in crore)	Extra expenditure (₹ in crore)
2010-11	874	574	122.06	111.73	10.33
2011-12	765	601	148.72	135.56	13.16
2012-13	760	541	132.75	124.30	8.45
2013-14	748	463	151.12	143.62	7.50
2014-15	688	487	110.41	105.96	4.45
Total	**3835**	**2666**	**665.06**	**621.17**	**43.89**

The failure of the Management in ensuring the strict compliance to SPM in the procurement activity resulted in extra expenditure, which was avoidable, calling for fixing responsibilities.

The Company replied (November 2015) that suppliers with lowest rates were always given maximum quantity as per their capacity to supply and the balance alone was procured from others.

The reply was factually incorrect since POs were placed on the basis of vendor performance rating, which did not consider the capacity of suppliers. Moreover, the Company never verified the capacity of the suppliers at any stages of procurement.

In the Exit Conference held in January 2016, Government directed the Company to negotiate with suppliers to reduce the rate offered by them.

Procurement of material from single source

3.2.10 As per Rule 7.20 of the SPM, purchase through private placements, i.e. by issuing single tender enquiry to a selected source should be resorted to only in unavoidable situations like small order which does not exceed ₹10,000 and when articles purchased are of a proprietary character.

Scrutiny of records revealed that out of 1914 spares required by the Company, 559 non-proprietary spares (29.21 *per cent*) worth ₹179.35 crore were procured from single source through private placement during the period from 2010-11 to 2014-15. The major beneficiaries of such single supply who got the advantages of non-competitive monopoly pricing are as indicated in the following *Table*:

Table 3.6: Major beneficiaries of single supply

Supplier	Spare	Period of single supply	Amount (₹ in crore)
Bombay Forgings Private Limited	Crank shaft	2012-13 and 2013-14	3.34
K.L.N. Eng. Products Private Limited	Air cleaner assembly	2010-11 to 2014-15	3.12
Tolins Tyres Private Limited.	Tyre 6.00 x 12	2014-15	3.12
La-cast Metals & Comp Private Limited	Piston	2010-11 to 2013-14	2.94
Falcon Tyres	Tyre 18x7-8	2010-11 to 2013-14	2.05
Amar Metering Pumps	Oil Pump Assembly	2010-11 to 2013-14	1.51

In spite of availability of alternative suppliers in the market, the Company allowed many of the suppliers to continue to be single source during 2010-11 to 2014-15, affecting competitiveness of the procurement price as well as the transparency of the whole system of procurement in the Company.

The Company replied (September 2015) that the procurement was done from single source due to its proprietary nature. The Company further replied (November 2015) that alternative suppliers for a few spares could not be identified because of heavy prices demanded by them. The reply was factually incorrect as all the 559 spares were non-proprietary items and the Company failed to take initiative for identifying alternative suppliers in respect of single source supplies. The matter being serious, this requires investigation by the Government to set right the things in the Company.

Procurement of material without ensuring reasonableness of rates

3.2.11 As per Rule 9.46 of the SPM, before placing POs reasonableness of rates is to be ensured. The reasonableness of rates is to be judged (Rule 9.47) based on current market price of similar stores, cost of raw material used for production of the stores, etc.

In order to assess the reasonableness of the price, Audit assessed periodical upward revision in the prices of spares taking 2009-10 as base year. The increases in actual prices of spares were compared with the increases in Wholesale Price Indices (WPI)[13] of the particular spare/base material for producing the spare. Increase in the WPI of base material represents increase in the cost of material as well as its conversion cost. Hence, the increase in the price of a spare will normally be at par with the increase in the WPI of the particular spare/base material. Out of 85 high value category spares used for producing tillers, the rates of 53 spares were analysed. Of these, Audit noticed that prices of only 10 spares were reasonable and that of the remaining 43 spares procured from 125 suppliers were unreasonably high. The excess rate paid over the reasonable rate ranged up to 50.72 *per cent*. The reasonable price of these 43 spares worked out by the Audit using WPI was ₹170.62 crore whereas the amount paid by the Company on the procurement of these spares was ₹185.93 crore which resulted in extra expenditure of ₹15.31 crore (approximate) during the period from 2010-11 to 2014-15, as detailed below.

Table 3.7: Procurement of spares at unreasonably high prices

Base Material	No. of spares	Reasonable price worked out based on WPI (₹in crore)	Actual expenditure incurred on purchase (₹in crore)	Extra expenditure (₹in crore)
Cast Iron	20	70.88	79.97	9.09
Aluminium Castings	3	4.24	5.61	1.37
Aluminium Alloy	1	6.06	6.16	0.10
Steel Rod	2	14.01	16.07	2.06
Steel	1	4.27	4.76	0.49
Gear	14	45.45	47.27	1.82
Tyre	1	21.32	21.62	0.30
Crank Shaft	1	4.39	4.47	0.08
Total	**43**	**170.62**	**185.93**	**15.31**

There was no system to ensure the reasonableness of the procurement price through a systematic and dynamic market analysis by the Materials Department, in addition to competitive bidding. The Company disregarded the provisions of SPM and continued to follow the prevailing system of purchase of its own having no authority or approval of the Government resulting in procurement of spares at unreasonably higher rate. The top management of the Company failed to form a policy for ensuring compliance with SPM provisions. Besides, the Head of the Material Department did not bring the lapse to the notice of Companyȇs management. Details of major suppliers who got undue advantage of procurement at above the prevailing market rate during the review period are given in *Table 3.8*:

[13] **The WPI published monthly by the Economic Adviser, Ministry of Commerce and Industry, Government of India is a reliable indicator of price of industrial material prevailing in the wholesale market in the country.**

Table 3.8: Major suppliers who got undue advantage of procurement at above the prevailing market rate

Sl. No.	Supplier	Spare	Base Material	Purchase Value (₹ in crore)
1	Willmac Engineering India Private Limited	Blade Shaft	Steel Rod	5.24
2	Industrial Aids	Fly Wheel	Cast Iron	3.97
3	Saroj Foundaries	Cylinder Head	Cast Iron	2.64
4	Turntech Engineers	Blade Shaft	Steel Rod	2.56
5	FL Arya	Fly Wheel	Cast Iron	2.55
6	Shri Ganesh Foundry Private Limited	Cylinder Head	Cast Iron	2.36
7	Rugmini Engineering Industries	Blade Shaft	Steel Rod	2.27
8	Rugmini Engineering Industries	Cylinder Head	Cast Iron	1.51
9	Enkey Precision Industries	Auxiliary Wheel Hub	Aluminium castings	1.06
10	Ashwin Engineering	Blade Shaft	Steel Rod	0.45

The Company replied (November 2015) that reasonableness of the rates quoted was always ensured by collecting break up of rates quoted and rates of base material were also compared with the price index of material.

The reply was factually incorrect as the Company did not make a comparison of rates of base material with the price index of material nor did it produce evidence for the same to Audit.

Contract Management

Modifications of terms and conditions in purchase orders

3.2.12 As per Rule 14.6 of SPM, any amendment to contract terms requested by the suppliers having financial impact should be made only after ensuring that the amendment will not have any adverse effect on the financial interest of the Company. Further, as per the terms of the PO, the Company was not bound to allow price variation.

Based on recommendations of purchase committee, the Managing Director frequently amended the POs in favour of 163 suppliers (67 *per cent*) out of 245 suppliers by increasing the price as demanded by them. This was done without assessing the financial impact on the Company or reasonableness of the prices but based on purchase bills submitted by the suppliers. The failure of the Head of the Material Department in complying with the provisions of SPM resulted in extra expenditure to the Company. The undue favour extended to various suppliers by amending POs worked out to ₹18.34 crore as given in *Table 3.9*:

Table 3.9: Amendment of purchase orders.

Year	Total number of suppliers	Number of suppliers benefited due to PO amendment	Extra expenditure (₹in crore)
2010-11	229	172	6.36
2011-12	252	176	7.26
2012-13	256	161	2.49
2013-14	250	158	1.54
2014-15	239	148	0.69
Average/Total	**245**	**163**	**18.34**

Audit also noticed that the frequent amendments to quantity and rates of the original POs were made in the electronic data base by retaining the same PO number and date. Hence, the authenticity of the numerous and frequent amendments could not be verified in the absence of the amendment history in the software. In order to ensure transparency and control over amendments, there should be a system to retain the original quantity and rate of the POs even after amending the same subsequently. Further analysis of irregular PO amendments revealed that the following suppliers were the major beneficiaries who got price revision repeatedly:

Table 3.10: Major beneficiaries who got price revision repeatedly

Supplier	Categories of spares procured (No.)	Instances of price revisions (No.)	Extra expenditure (₹ in crore)
Sree Ganesh Gears Private Limited	31	118	1.33
Autokast Limited	2	28	0.70
Auto Wings	20	44	0.55
Gear Systems	3	9	0.50
Falcon Tyres	4	10	0.49
Total			**3.57**

The Company replied (September 2015) that it followed the practice of amending the POs for a long time. The Company further replied (November 2015) that amendments were made to ensure uninterrupted supply of material and were done as per procedures followed by the Company.

The reply was not acceptable as practice is not a substitute for law/rules/SPM. Thus, non-compliance to rules resulted in extra expenditure of ₹18.34 crore. Thus, non-compliance with applicable rules by the Company's officials is a serious lapse for which their responsibility needs to be fixed.

Inter-State purchases without Government approval

3.2.13 SPM (Rule 9.31) provides that purchases exceeding ₹2.50 crore *per annum* from outside Kerala, when the same product is being manufactured by one or more units in the State, will be made only after approval by a

Committee consisting of the Chief Secretary, the Finance Secretary, the Secretary (Industries) and the Secretary of the Department concerned. The Company, however, procured five categories of spares viz., cylinder frame, flywheel, main clutch assembly, radiator and tyre 6x12 which are manufactured by one or more units in the State without obtaining approval from the above Committee. The value of spares procured during the period from 2010-11 to 2014-15 in contravention to the provisions of the SPM worked out to ₹36.41 crore.

The Company replied (September 2015) that preference was given to manufacturers in the State and no item available indigenously was purchased from outside the State. The reply was factually incorrect as the above referred five categories of spares were procured from outside the State despite availability of the material in the State[14].

Non-execution of agreements

3.2.14 As per Rule 9.60 of the SPM, an agreement should be entered into with the supplier for the satisfactory fulfilment of the contract embodying the conditions of the order and providing for necessary penal clauses for any breach of the conditions of the contract. The SPM also provides for obtaining performance security of five *per cent* for supply orders valuing more than ₹1 lakh and for claiming liquidated damages in case of delayed delivery.

The Company, however, did not execute agreements with suppliers. Though the POs contain a clause that the Company was at liberty to recover liquidated damages in case of loss incurred on account of delayed delivery, the rate at which the liquidated damages to be recovered was not mentioned in the POs due to which Management failed to recover liquidated damages from any of the defaulted suppliers during the review period.

Though 3000 POs were required to be covered under performance guarantee, none of the POs contained any clause on performance security. Hence, the Company failed to ensure contractual delivery of the spares. On a review of delivery against 372 POs, it was noticed that there were short delivery of ordered quantity in 243 POs.

The Company replied (November 2015) that it had to revise the POs or delivery schedules due to uncertainties in the market and hence, executing agreement incorporating the provisions for penalty or liquidated damage was not feasible. The reply was not acceptable since frequent revisions in the POs that were issued based on vendor performance rating system were contradictory to the very purpose of the system. Presently, the system does not play any role in ensuring timely and quality supply, but kills the competition *ab-initio*, making the procurement costlier. Non-compliance with

[14] **Manufacturers of the five spares within Kerala are Autokast Limited, Alappuzha (Cylinder frame and Flywheel), Gayathri Enterprises, Palakkad (Main clutch assembly), Metal Land Industries, Ernakulam (Radiator) and Tolins Tyres Private Limited, Ernakulam (Tyre).**

the provisions of SPM on agreement and penal provisions on the ground of convenience was not justifiable.

Higher incidence of assembly rejections

3.2.15 When the spares entered into assembly line fail due to deviations in the specification, or defective design or poor quality, the material is rejected as assembly rejections. As per the provisions of the PO, ñé proportionate recovery as per norms for assembly rejection note would be effectedò. Assembly rejection of spares results in wastage of resources, time and consequent hike in the operating expenses of the Company. Hence, there should be a prudent system for locating as well as reducing the instances of assembly rejections. On a scrutiny of assembly rejections during the review period, the number of spares rejected from the assembly line increased from 2883 (2010-11) to 5409 (2014-15).The aggregate value of assembly rejections during the audit period was ₹4.48 crore.

On a detailed analysis of instances of the assembly rejections during the period from 2010-11 to 2014-15, it was noticed that out of total assembly rejection of material valuing ₹4.48 crore, material valuing ₹1.41 crore were supplied by six suppliers[15] (31.47 *per cent*).

All the assembly rejections were reflected in the vendor performance report of the suppliers concerned. As the weightage for the assembly rejection was 25 *per cent*, the overall performance was good due to higher score in other criteria. In cases of poor assembly rejection note score, the suppliers were not disqualified and continued to get POs based on their performance rating. Even the suppliers with poor performance rating could get higher quantity through frequent PO amendments. The higher incidence of assembly rejections showed that the present system of vendor performance rating giving weightage for assembly rejection is ineffective and favoured a few suppliers.

The Company (November 2015) replied that the limit fixed for assembly rejection was 0.5 *per cent* of the material input and the actual assembly rejections were slightly higher than the limit fixed. The reply was not tenable as the actual assembly rejections reached up to 152 *per cent* (2012-13) of the standard fixed.

Conclusions

The Company failed to ensure procurement of material at competitive rates by following mandatory provisions of SPM on competitive bidding. The Company also failed to assess the requirement of material through budgetary control. Board of Directors, which was to give proper direction and guidance for the operation of the Company also failed to ensure that the Company adopted mandatory provisions of SPM.

[15] **Austin Engineering Company Limited, Es Es Auto Engineerings, Autokast Limited, Manikam Radiators Private Limited , Auto Wings and R.K. Enterprises.**

Recommendations

Since there have been widespread deviation from the SPM and large quantity of items have been purchased from suppliers selected as indicated in the report without tender under the garb of ñsingle source supplierò, an in-depth investigation by the Vigilance Department may be ordered by the Government followed by fixing of responsibility.

The Company should evolve its own purchase manual/policy in conformity with the provisions of SPM. The Company should also take effective steps to widen its vendor base to minimise dependence on single/limited sources of supply. Competitive bidding should also be adopted to economise the procurement of material.

The matter was reported (October 2015) to Government; their reply was awaited (December 2015).

Compliance of Public Sector Undertakings to the provisions of Income Tax Act, 1961

Scrutiny of compliance of Public Sector Undertakings to the provisions of the Income Tax Act revealed instances of delay in submission of tax returns, non-payment of required amount of advance tax and consequent payment of interest, etc.

3.3 As per Section 28 of Income Tax Act, 1961(Act), profits or gains arising out of any business or profession carried out by companies shall be chargeable to income tax. Such companies shall have to file annual return of tax within 30 September of the assessment year[16] under Section 139 of the Act.

Public Sector Undertakings (PSUs) in the State carry on the business of manufacture, trading, financing activities, etc., and hence, are liable to pay tax on profits arising out of such business. A scrutiny of compliance of PSUs to the provisions of the Act was undertaken by Audit. Audit scrutiny revealed instances of avoidable expenditure on account of delay in submission of tax returns, non-payment of required amount of advance tax, etc., by eight[17] PSUs as discussed in succeeding paragraphs.

Avoidable payment of interest due to delay in submission of tax return

Section 139 of the Act requires a company to furnish tax return in the prescribed form on or before the due date i.e 30th day of September of the

---

[16] **Assessment year is the year immediately following the financial year (F.Y) wherein the income of the F.Y. is assessed.**

[17] **Kerala Transport Development Finance Corporation Limited, Kerala State Financial Enterprises Limited, Bekal Resorts Development Corporation Limited, Keltron Electro Ceramics Limited, Kerala State Beverages (Manufacturing & Marketing) Corporation Limited, Kerala State Maritime Development Corporation Limited, Kerala State Mineral Development Corporation Limited and Kerala State Civil Supplies Corporation Limited.**

assessment year. The tax returns are to be filed after completion of audit of accounts of the respective years (Section 139 (6)). As per Section 140(c), the return shall be verified by the Managing Director. In case of failure to file tax return on or before due date, interest is chargeable on the amount of tax at the rate of one *per cent per* month or part of the month for delay (Section 234 A of the Act).

Scrutiny of records revealed that in respect of five[18] PSUs, there were delays ranging from one month to eighteen months in filing tax returns of seven assessment years due to delay in finalisation and audit of accounts. As a result, these PSUs had to pay penal interest of ₹70.07 lakh under Section 234 A of the Act as tabulated in ***Appendix 8***.

Bekal Resorts Development Corporation Limited replied that they had not delayed the tax returns for the assessment year 2014-15.

The reply was incorrect since the Company had delayed filing of tax return for the assessment year 2014-15 by two months and paid interest of ₹0.54 lakh due to the delay.

Keltron Electro Ceramics Limited and its Administrative Department[19] replied that it could not file tax return on time due to its inability to pay tax.

The reply was not acceptable since payment of income tax is mandatory and was not dependent on availability of fund.

Kerala Transport Development Finance Corporation Limited, Kerala State Maritime Development Corporation Limited and Kerala State Mineral Development Corporation Limited replied that they could not file tax return on or before due date due to shortage of skilled and trained staff. Administrative Departments[20] of these three PSUs endorsed the views of the PSUs.

The replies are not acceptable since the companies could have hired skilled staff for filing tax return in time.

Avoidable payment of tax due to delay in submission of tax return of losses

As per Section 72 of the Act, loss under the head "Profits and gains of business or profession" could be carried forward[21] for eight years and set off against future profit. Such set off is admissible only if the return of loss of the year in which loss is incurred is furnished on or before the due date (Section 80 of the Act).

It was noticed that Kerala State Maritime Development Corporation Limited (KSMDCL) had incurred accumulated loss of ₹9.38 crore during the period

[18] **Bekal Resorts Development Corporation Limited (2014-15), Keltron Electro Ceramics Limited (2013-14 and 2014-15), Kerala Transport Development Finance Corporation Limited (2012-13 and 2013-14), Kerala State Maritime Development Corporation Limited (2014-15) and Kerala State Mineral Development Corporation Limited (2011-12).**

[19] **Industries Department.**

[20] **Administrative Departments of Kerala Transport Development Finance Corporation Limited, Kerala State Maritime Development Corporation Limited and Kerala State Mineral Development Corporation Limited are Transport Department, Fisheries & Ports Department and Industries Department respectively.**

[21] **As per Section 72 of the Act, if loss of any business/ profession (other than speculative business) cannot be fully adjusted in the year in which it is incurred, then the unadjusted loss can be carried forward for making adjustment in the next years against income charged to tax under the head "Profits and gains of business or profession".**

2004-05 to 2007-08 which was eligible for carry forward and set off against future profits up to the year 2015-16. KSMDCL did not, however, file tax return for the period 2004-05 to 2007-08 on or before due dates due to delay in finalisation and audit of accounts.

Audit scrutiny further revealed that during the two years 2012-13 and 2013-14, KSMDCL had earned aggregate taxable profit of ₹1.43[22] crore which was adjustable against loss of ₹9.38 crore incurred during the period 2004-05 to 2007-08. Since the tax returns for 2004-05 to 2007-08 were not filed on or before due dates, the benefits of set off could not be availed of and KSMDCL had to pay avoidable tax of ₹38.22 lakh[23].

KSMDCL stated (September 2015) that delay in filing of return was due to delay in finalisation of accounts.

The reply was not acceptable since KSMDCL had the option to appoint tax auditors for tax audit under Section 44 of the Act in case of delay in finalisation of accounts.

Avoidable payment of interest due to failure/ defaults in payment of advance tax

Section 208 of the Act stipulates that every company shall pay advance tax during the financial year when amount of tax payable exceeds ₹10,000. Failure to pay at least 90 *per cent* of the tax in advance by March attracts interest at the rate of one *per cent per* month or part of a month (Section 234B of the Act).

Scrutiny of records revealed that there was shortage in payment of advance tax by seven PSUs in respect of 14 Assessment Years as these PSUs could remit advance tax ranging from 1.06 *per cent* to 76.58 *per cent* only within stipulated dates while one PSU[24] did not remit any advance tax at all. As a result, these eight PSUs had to pay interest of ₹15.98 crore under Section 234B as tabulated in ***Appendix 9.***

Default in payment of required amount of advance tax was due to non-compliance with provisions of the Act on computation of advance tax by estimating current income after giving due consideration to last assessment, last return, tax deducted at source, etc.

Avoidable payment of interest due to non-payment of quarterly instalments of advance tax

Section 211 of the Act stipulates that advance tax has to be paid in instalments. Companies are to pay advance tax in a staggered manner in four quarterly instalments[25] between June and March of the corresponding financial year. If any instalment is not paid or less paid, interest is chargeable[26] for non-payment or late payment of such instalment. Audit noticed 17 instances where

[22] ₹1.33 crore in Financial Year 2013-14 and ₹0.10 crore in Financial Year 2012-13.

[23] Including interest of ₹4.74 lakh paid under Sections 234A, 234B and 234C of the Act .

[24] Kerala State Maritime Development Corporation Limited.

[25] 15 *per cent* by 15th June, 45 *per cent* by 15th September, 75 *per cent* by 15th December and 100 *per cent* by 15th March.

[26] At the rate of one *per cent per* month (Section 234 C of the Act).

the companies could not pay the required advance tax in four instalments on or before due dates prescribed. The interest paid due to deferment of advance tax worked out to ₹6.49 crore as tabulated in ***Appendix 10***.

Kerala State Financial Enterprises Limited stated (August 2015) that the short payment was due to lack of availability of information from branches at the time of payment of advance tax which would be rectified by implementation of Core Solution Software connecting all branches.

The reply was not acceptable as a similar assurance was given by the Management in June 2012 when similar issue was brought to their notice, which was not acted upon.

Bekal Resorts Development Corporation Limited stated that a refund claim was pending with Income Tax Department and hence advance tax not paid. The fact, however, remains that Income Tax Department has not yet (September 2015) admitted the refund.

KSMDCL stated (October 2015) that payment of interest under Sections 234 B and 234 C was due to erroneous accounting of loss incurred out of the project executed for Port Department.

The reply was not acceptable since the error in accounting has resulted in avoidable expenditure of ₹4.12 lakh.

Kerala State Beverages (Manufacturing & Marketing) Corporation Limited stated that they could not estimate its tax liability accurately due to wide variation in monthly sales and hence, could not avoid interest under Sections 234 B and 234 C of the Act.

The reply was not acceptable as the Company could have paid the required amount of advance income tax by estimating tax liability approximately using the management information system existing in the Company thereby avoiding payment of interest under Sections 234 B and 234 C of the Act.

Kerala State Civil Supplies Corporation Limited replied that writing off of accumulated interest on Government loan was only a book adjustment in the account of the Company without any inflow of cash, which ultimately resulted in payment of tax. The Company also replied that interest paid for non-remittance of income tax was not much, compared to the interest paid on cash credit.

The reply was not acceptable since payment of income tax was mandatory and the Company could have taken into account the waiver of interest while paying income tax.

Avoidable payment of tax due to failure to deduct tax at source

As per Section 194 C of the Act, companies are required to deduct two *per cent* income tax at source from payments made to contractors for carrying out any contractual work. Tax so deducted shall be paid to the credit of Government on or before seven days from the end of the month in which the deduction is made and before 30th day of April in the case of deductions made in March (Rule 30 of Income Tax Rules, 1962). Non-compliance with the above provisions would render expenditure on the contract work inadmissible in computing the income chargeable under the head Profits and Gains of business or profession as per Section 40(a) (ia) of the Act.

It was noticed that Kerala State Mineral Development Corporation Limited had failed to deduct and remit tax on payment of ₹3.13 crore made to contractors in 2010-11 as a result of which the expenditure was disallowed from computing the taxable income of the PSU. Hence, the Company became liable to pay income tax of ₹1.02 crore, which was avoidable.

The Company replied that the problem occurred due to its inability to meet the tax liability on account of acute shortage of fund and lack of qualified or experienced accounting personnel to handle the payment of TDS on or before the due date.

The reply was not acceptable since payment of income tax is mandatory and was not dependent on availability of fund. Further, the Company could have hired qualified or experienced accounting personnel to handle the payment of TDS.

The matter was reported (October 2015) to Government; their reply in respect of four PSUs[27] is awaited (December 2015).

Though the Administrative Departments concerned were invited (October 2015) for discussing the matter, they did not respond.

Kerala State Coastal Area Development Corporation Limited

Avoidable payment of corporate tax

Erroneous accountal of interest earned on unutilised funds pertaining to Government projects resulted in avoidable payment of corporate tax amounting to ₹1.29 crore.

3.4 Kerala State Coastal Area Development Corporation Limited (Company) is engaged in planning, formulating and implementing various development projects and programmes for sustainable fisheries development in the State. For this purpose, the Company acts as the implementing agency for various development schemes financed by Central and State Governments. The Ministries/Departments/Agencies of Central and State Governments provide grants to the Company in advance. The Company also receives consultancy fee fixed by the Government(s) for implementing these projects.

According to Generally Accepted Accounting Principles and Conventions (GAAP), interest earned on unutilised grants pertaining to Government projects, shall not be treated as income of the Company unless the Government Orders/ agreements specifically provide that such income could

[27] Kerala State Financial Enterprises Limited, Kerala State Civil Supplies Corporation Limited, Bekal Resorts Development Corporation Limited and Kerala State Beverages (Manufacturing & Marketing) Corporation Limited.

be treated as income of the Company. As per the GAAP, interest earned on unspent balance should be added to the grant amount.

During the four years period ended 2012-13, the Company received ₹136.09 crore towards grants from Government of India and its agencies (₹69.89 crore) and Government of Kerala and its agencies (₹66.20 crore) for implementation of various schemes. The Company invested unspent balance of grants ranging from ₹6.57 crore (2009-10) to ₹39.29 crore (2012-13) in interest bearing bank deposits and earned interest of ₹5.77 crore. None of the Government Orders or Sanctioning Orders, according to which grants were sanctioned, specified that the Company could take interest earned on unspent balance as its income. As such, interest earned on unspent grants ought to have been added to the grant.

Scrutiny of records revealed that in violation of the above GAAP, the Company had accounted interest of ₹5.77 crore earned on unspent balance of grants as its own income in the accounts for the period 2009-10 to 2012-13. This resulted in inflating taxable income of the Company and consequent avoidable payment of corporate tax to the tune of ₹1.29 crore as shown below:

Table 3.11: Statement showing tax liability of the Company

(₹ in lakh)

Previous year	Assessment year	Interest income	When interest on unspent grant is included in its income		If interest on unspent grant is excluded from its income	
			Taxable income	Tax liability[28]	Taxable income	Tax liability
2009-10	2010-11	13.26	9.95	3.07	(-) 3.31	Nil
2010-11	2011-12	136.39	121.75	40.44	(-) 14.64	Nil
2011-12	2012-13	129.45	133.69	43.38	4.24	Nil[29]
2012-13	2013-14	297.43	128.77	41.78	(-) 168.66	Nil
Total		**576.53**		**128.67**		**Nil**

Thus, due to erroneous treatment of interest earned on unspent balance of grants as its own income, the Company had to pay corporate tax to the tune of ₹1.29 crore which was avoidable.

The overstatement of profit due to recognition of interest on term deposit made out of Government grants was included in CAGôs Comments on the Companyôs Annual Accounts for the year 2010-11 in the Supplementary Audit.

The Company stated (September 2015) that the funds received from Central Government agencies were kept as fixed deposits and interest accrued from

[28] Excluding the interest paid due to non-compliance with the provisions of Income Tax Act, 1961.

[29] As per Section 80 of the Income Tax Act 1961, business losses can be carried forward for eight assessment years and set off against business income. Hence, business losses of ₹3.31 lakh and ₹14.64 lakh for the assessment years 2010-11 and 2011-12 respectively can be set off against the business income of ₹4.24 lakh for the assessment year 2012-13.

such deposits was accounted for as the income of the Company in accordance with the requirement of Schedule VI of the Companies Act, 1956.

The reply of the Company is not acceptable since Schedule VI[30] does not specify that interest earned on the unspent balance of grant can be treated as income. Recognition of interest income was rather to be based on GAAP, which was violated in this case resulting in avoidable payment of corporate tax.

Government replied (November 2015) that the Company undertook consultancy works for National Fisheries Development Board, District Tourism Promotion Councils, etc., as an accredited agency and the funds received against these were parked in bank accounts and interest earned from such works treated as income of the Company.

The reply of Government is not acceptable since there was no specific direction in the sanction orders or Memorandum of Understanding (MoU) with the National Fisheries Development Board, etc., to treat interest income on unspent balance of grant funds towards implementation of various schemes as income of the Company. Moreover, according to the MoU between the Company and the National Fisheries Development Board, the Company was to open a separate current account to maintain receipts, grants, etc. As such, the grants received were not to be deposited in fixed deposits. Therefore, treating of interest earned on unspent balance of grants as its own income was erroneous. Besides, the audit objection pertains to grant funds and not money received for consultancy works by the Company.

Malabar Cements Limited

Avoidable extra expenditure

Non-collection of adequate security deposit (SD) to ensure due performance of the contract coupled with non-recovery of damages resulted in avoidable extra expenditure of ₹1.77 crore to the Company.

3.5 As per rule 8.17 of the Stores Purchase Manual of Government of Kerala, to ensure due performance of the contract, performance security is to be obtained from the successful bidder who is awarded the contract. Performance security is to be obtained from every successful bidder irrespective of its registration status, etc., for a contract value above ₹1 lakh. Performance security may be furnished in the form of an account payee demand draft, fixed deposit receipt from a commercial bank or bank guarantee from a commercial bank. The performance security should be equivalent to five *per cent* of the total value of the contract, rounded off to the nearest rupee.

[30] **It specifies the form of Balance Sheet, requirements as to Profit and Loss Account, interpretation and Balance Sheet Abstract and Company's General Business Profile.**

Malabar Cements Limited (Company) is a fully owned Government company engaged in the manufacture of cement using limestone. The Company invited (December 2011) tenders for collection and transportation of up to 10,000 Metric Ton (MT) of limestone per month from Tamil Nadu Minerals Limited, Ariyalur to the Company. According to the tender conditions, the bidders were to quote rate for one MT of limestone and the maximum quantity that can be transported in a month. The Company reserved the right to place order on one or more firms at the lowest quoted (L1) rate.

NT Lorry Service (NTLS), the L1 bidder, offered to transport 6000 MT of limestone monthly at the rate of ₹433 per MT and accordingly, the Company placed (March 2012) the work order on them for monthly transportation of 6000 MT. For the balance 4000 MT of limestone, work order was placed (March 2012) on Radha Lime Stone (RLS) at the L1 rate of ₹433 per MT. The period of contracts was one year from 27 February 2012 to 26 February 2013.

As per terms and conditions of the contracts, NTLS and RLS remitted ₹5.60 lakh[31] as SD which would be forfeited in case of their failure to carry out the work. Further, the balance work would be executed through an alternative agency at the risk and cost of NTLS and RLS. They were also liable to pay liquidated damages at the rate of ₹10 *per* MT on the undelivered quantity.

Against the contracted transportation of 10,000 MT of limestone per month for one year, NTLS and RLS transported an aggregate 17221.30[32] MT of limestone only for five months up to May 2012 despite availability of limestone at site. The NTLS and RLS failed to transport the contracted quantity on the ground that the rates quoted were not favourable to them, as also due to delay on the part of the Company in unloading limestone at Companyꞌs site. On this, the Company invited (May 2012) fresh tenders and engaged alternative agencies[33] for transportation of the balance quantity at the rate of ₹608 per MT. In the alternative contract, the Company incurred additional expenditure of ₹1.77 crore. Although the additional expenditure was recoverable from NTLS and RLS as per provisions of the contracts, this amount has not, however, been recovered as yet (April 2015).

Audit noticed (October 2014) that purchase policy of the Company, approved by the Board of Directors in April 2010, diluted and limited SD to five *per cent* of three monthsꞌ value of the contract despite Stores Purchase Manual warranting collection of five *per cent* of the total value of contract as SD. Consequently, against ₹25.98 lakh[34] to be kept as SD as per the Stores Purchase Manual, the Company actually held SD of ₹5.60 lakh only. Thus, failure on the part of Company to collect adequate SD, led to non-performance of the contract by NTLS and RLS and the Company had to incur additional expenditure in the alternative contract. The Company has not recovered the risk and cost amount of ₹1.77 crore involved in the alternative contract from NTLS and RLS.

---

[31] **₹3 lakh held as EMD from NTLS and ₹2.60 lakh remitted as SD by RLS.**
[32] **NTLS-1240.30 MT and RLS-15981 MT.**
[33] **Raja Warehouse and Logistics (8000 MT) and Vijayalakshmi Transport (2000 MT).**
[34] **120000 MT*₹433*5 *per cent.***

Thus, non-collection of adequate SD to ensure due performance of the contract coupled with non-recovery of damages resulted in avoidable extra expenditure of ₹1.77 crore to the Company.

The Company stated (April 2015) that they had filed (April 2015) a suit for recovery of damages against the defaulted firms. The reply of the Company was not acceptable since the Company had failed to ensure due performance of the contract through collection of SD as per the provisions of Stores Purchase Manual. Further, Company's legal action to recover damages was late by three years due to delay by Company's Legal Department and was initiated only after this being pointed out (October 2014) by Audit. The delay may compromise the Company's position in the Court of Law.

The matter was reported (June 2015) to Government; their reply was awaited (December 2015).

Though the Administrative Department was invited (October 2015) for discussing the matter, they did not respond.

Kerala State Civil Supplies Corporation Limited

Avoidable committed liability

The Company incurred avoidable additional liability of ₹0.40 crore due to inordinate delay in complying with provisions of the Companies Act, 1956.

3.6 Section 94 of the Companies Act 1956[35] (1956 Act) permitted a company to alter its share capital by passing a resolution in general meeting if so authorised by its Articles of Association (AoA). Section 97(1) of the 1956 Act further provided that if increase of share capital is beyond authorised share capital of the company, notice of such increase shall be filed with the Registrar of Companies (RoC) within 30 days after passing resolution in the general meeting. Application fee at the prescribed rate[36] for increase in share capital was also payable.

Kerala State Civil Supplies Corporation Limited (Company) is a wholly owned Government company with an authorised capital of ₹15 crore. AoA of the Company empowered its Board of Directors (BoD) to increase the share capital by passing an ordinary resolution[37] in the general meeting.

An increase in the authorised capital of the Company became necessary when Government of Kerala (GoK) converted (November 2009) the loan of ₹133.46 crore advanced to the Company into equity and the Company accounted the same as share capital advance. The BoD of the Company, thereafter, resolved

---

[35] Repealed by Companies Act 2013.

[36] ₹4000 upto ₹1 lakh, ₹300 for every ₹10,000 increase after ₹1 lakh up to ₹5 lakh, ₹200 for every ₹10,000 increase after ₹5 lakh upto ₹50 lakh, ₹100 for every ₹10,000 increase after ₹50 lakh up to ₹1 crore and ₹50 for every ₹10,000 increase after ₹1 crore.

[37] An ordinary resolution is a resolution passed by the shareholders of a company by a simple or bare majority (for example more than 50 *per cent* of the vote) either at a convened meeting of shareholders or by circulating a resolution for signature.

(September 2012) to increase its authorised share capital to ₹175 crore. BoD's decision was to be followed by passing an ordinary resolution in the general meeting and filing notice of increase with the RoC along with application fee of ₹0.80 crore[38].

Scrutiny of records, however, revealed that although the Company had held three general meetings[39] after the BoD's decision, no resolution was moved for increasing the authorised share capital. As a result, the notice for increase of authorised share capital could not be filed with the RoC so far (August 2015).

Meanwhile, Government of India enacted the Companies Act, 2013[40] and promulgated (March 2014) the Companies (Registration Offices and Fees) Rules, 2014. As per the Companies (Registration Offices and Fees) Rules, 2014, fee to be paid for enhancement of authorised share capital was increased[41] by ₹25 for every ₹10,000 increase in share capital beyond ₹1 crore. Accordingly, the Company became liable to pay fee of ₹1.20 crore[42], instead of ₹0.80 crore, for enhancement of authorised share capital from ₹15 crore to ₹175 crore. Thus, inordinate delay in complying with provisions of the 1956 Act resulted in avoidable additional liability ₹0.40[43] crore to the Company.

The Company replied (July 2015) that enhancement of the authorised share capital required approval of Government of Kerala, which was not received. The Company also stated that it had earned profit of ₹0.48 crore *per annum* on the unpaid dues of ₹0.80 crore considering stock turnover of two months and margins of 10 *per cent* on consumer goods, medicines, etc., traded by the Company.

The reply of the Company is contrary to the facts because the Government directed (March 2010) the Company to take necessary action to increase the authorised capital and as per the AoA, the Company only had to pass an ordinary resolution in the general meeting for enhancement of authorised share capital**.** The reply of the Company that it had made profit on the unpaid statutory fee is not acceptable since the primary responsibility of the Company is to comply with statutes. Further, the Company sells consumer goods, medicines, etc., to consumers at subsidised rate and is dependent on Government grant to make good the loss. Despite the grants, the Company had incurred loss of ₹80.90 crore and ₹89.11 crore during the years 2012-13 and 2013-14 respectively.

The Government agreed with the contention of Audit and reiterated that as per the AoA, the Company had just to pass an ordinary resolution in the general

---

38 [(₹175 crore - ₹15 crore)/10,000]*50.
39 16 May 2013, 24 November 2014 and 06 June 2015.
40 Came into force with effect from 01 April 2014.
41 ₹4000 upto ₹1 lakh, ₹300 for every ₹10,000 increase after ₹1lakh upto ₹5 lakh, ₹200 for every ₹10,000 increase after ₹5lakh upto ₹50 lakh, ₹100 for every ₹10,000 increase after ₹50 lakh upto ₹1 crore and ₹75 for every ₹10,000 increase after ₹1 crore.
42 [(₹175 crore - ₹15 crore)/10,000]*75.
43 ₹1.20 crore - ₹0.80 crore.

meeting for enhancement of authorised share capital because Government sanction was already issued in this regard.

Therefore, it is recommended that action should be initiated against the erring authorities of the Company for their failure to take appropriate steps in time as per statute and causing loss of ₹0.40 crore to the Company.

Kerala State Mineral Development Corporation Limited

Loss of revenue

Failure of the Company to provide adequate security and storage for excavated sand resulted in loss of sand worth ₹6.42 crore and consequent loss of revenue to Government.

3.7 Kerala State Mineral Development Corporation (Company) is engaged in exploring, mining, processing, selling, etc., of minerals and mineral substances in the State. Government of Kerala (GoK) engaged (January to March 2010) the Company to desilt and dispose sand from three dam sites, i.e. Malampuzha, Chulliyar and Walayar to tide over the scarcity of construction grade sand in Kerala. The purpose of desiltation exercise was to sell sand at reduced rate[44] to general public, mainly BPL families and to the beneficiaries of EMS/MN housing scheme. Sale proceeds were to be remitted to the Government. A Core Committee[45] was to monitor and supervise the operations. The Company was responsible for ensuring proper storage, security and movement of sand, etc.

As per initial planning, the Company was to identify the land for stockyard and security for the stockyard by outsourcing security personnel. District Collector and the Company were to take steps to recruit required personnel for site supervision, accounting, transportation, etc. The Company was also responsible to set up necessary infrastructure like check posts, site office, etc.

During February to May 2010, the Company excavated and filtered three lakh Cubic Meter (cu. m) of sand. Desiltation of sand was carried out through contractors engaged at the rate of ₹180 per cu. m of sand excavated. Out of excavated sand, 1.35 lakh[46] cu. m was sold until August 2011, leaving a stock of 1.65 lakh cu. m of sand.

As there were allegations (August 2011) of discrepancies in the claim of sand excavated, GoK ordered (September 2011) a vigilance enquiry at the instance of the Core Committee. Vigilance Enquiry Report (December 2012) though did not find any discrepancy in the quantity of sand excavated, recommended that the then Managing Director of the Company should not be appointed in any other PSUs or Corporations under GoK for the official misconduct on his part as Managing Director when he did not record correct measurement of sand excavated.

---

[44] **₹1200/ cu. m in February 2010, ₹ 990 in May 2010 and ₹600 in January 2011.**

[45] **The Core Committee headed by District Collector, Palakkad has members from the Company, Irrigation, Forest, Revenue, Police, Taxes departments and experts from Centre for Earth Science Studies and Centre for Water Resources Development and Management.**

[46] **0.85 lakh by direct sale and 0.5 lakh by sale to Government agencies.**

There was no desiltation and sale of sand during the vigilance enquiry. At the time of resumption (April 2013) of sales activities, the available stock of sand was found to be just 0.58 lakh cu. m. A quantity of 1.07 lakh[47] cu. m of sand worth at least ₹6.42 crore[48], was washed away/ stolen due to lack of proper storage/ security. The Company reported the theft of sand to the police. The objective of the sand desiltation was also not achieved as the Company had failed to transport the sand to other districts as directed (May 2010) by a Cabinet sub-committee on Reservoir Desiltation.

Audit noticed that there was possibility of sand being stolen, owing to high price variation between market rate (₹1750 per cu. m - ₹2777 per cu. m) and Government rate (₹600 per cu. m - ₹1200 per cu. m) warranting heightened security arrangement. Moreover, the Company did not have any storage facility of its own and the excavated sand was stored at dam sites. Yet, the Company had failed to ensure proper security of the available stock because:

- The desilting of sand was carried out without an estimate of likely sale and capacity of the Company for storing and transporting the unsold sand, resulting in large accumulation of sand.

- The Company had a manpower of only five as on March 2010. Though GoK permitted the Company to recruit site supervisors, accountants and personnel and to outsource security personnel after the commencement of desiltation process, the Company had failed to do so. There was also lack of proper transportation arrangement to carry sand to other districts. Obstruction by local people and rain also affected sale/ transfer of sand.

Thus, failure of the Company to perform the duties assigned to it by GoK, namely, provision of sufficient security to the excavated sand and transportation of sand to other places, resulted in loss of revenue of ₹6.42 crore to the Government and non-achievement of the envisaged objective of the project as the sand could not be distributed to the general public at reasonable price as envisaged by GoK**.**

The Company replied (October 2015) that against 2.71 lakh cu.m of sand excavated, the Company sold 1.74 lakh cu. m and 0.97 lakh cu. m was available in stock as of November 2015. Therefore, there was no shortage of sand and that quantity of sand estimated to be washed away was subsequently found spread over a broad area near the reservoir. GoK endorsed (December 2015) the reply of the Company.

The reply was not acceptable since as *per* the detailed report of Managing Director sent to GoK in November 2010 and July 2012, the excavated and filtered sand was three lakh cu. m. It was also concurred by GoK. Out of the excavated quantity of three lakh cu. m of sand, the Company had sold only 1.74 lakh cu. m of sand so far. The fact that the Company could not dispose of the remaining sand at concessional rate of ₹600 per cu. m as per direction (March 2014) of GoK, further proved that sand had been lost and could not be salvaged.

---

[47] Difference between 1.65 lakh and 0.58 lakh.

[48] At the rate of ₹600 per cu. m as fixed by GoK for sale to beneficiaries of EMS/MN housing scheme.

Since the Company has now (since November 2014) been assigned with desilting operations at Pazhassi Dam and proposal for desilting at another dam site (Chamravattom) is pending with the Government, it is recommended that the Company should ensure proper storage of excavated sand by providing protection against seepage and theft. Adequate security arrangements should also be made.

Kerala State Electricity Board Limited

Loss due to undue favour to cable TV operators

Failure of KSEBL to execute agreement with Asianet and other cable TV operators resulted in loss of ₹14.70 crore and short collection of service tax of ₹1.75 crore.

3.8 As per Rule 181 of Kerala Financial Code, no work which is to be executed under a contract should be started until the contractor has signed a formal written agreement. If no formal agreement is executed, there should at least be a written understanding specifying terms and conditions of the contract including prices and rates, etc. All cable TV operators including Asianet Satellite Communications Limited (Asianet) have been using electric poles of Kerala State Electricity Board Limited (KSEBL) for their cable TV operations on payment of annual pole rental of ₹108 for urban areas and ₹54 for rural areas fixed in 2002 based on cost of erection of poles plus margin. Pole rental was subject to annual increase of 12.5 *per cent*. The existing agreement with Asianet for 10 years, upon its expiry in March 2011, was extended (July 2011) up to September 2011. Extension was given subject to the condition that rates would be revised with effect from April 2011 based on the report of an Expert Committee constituted to revise pole rentals.

Based on the report (December 2011) of the Expert Committee, KSEBL increased (February 2012) the annual pole rent to ₹311 in urban/ semi-urban areas and ₹155.50 in rural areas with annual increase of five *per cent* from April 2011 for all cable TV operators. KSEBL did not execute fresh agreement with Asianet reckoning pole rentals suggested by Expert Committee. Asianet and other Cable TV operators, however, continued to use the electric poles of KSEBL.

The Asianet and other cable TV operators challenged the enhanced rate before the Honòble High Court of Kerala. The Court directed (November 2012) KSEBL to charge pole rental at ₹250 in urban/ semi urban areas and at ₹125 in rural areas, as an interim arrangement, subject to ña final appropriate decision to be taken by KSEBL after considering the representation of cable TV operatorsò. KSEBL considered the representations and decided (January 2014) to uphold the enhancement of pole rentals i.e. ₹311 in urban and ₹155.50 in rural areas as done in February 2012. Meanwhile, Asianet filed a petition before District Legal Services Authority[49] (DLSA), Thiruvananthapuram against the decision of KSEBL. In the Lok Adalat held (August 2014) by DLSA, as part of a mutual settlement between Asianet and other cable TV operators and KSEBL at the instance of Minister for Power and Transport and other political leaders/representatives, pole rental was finally fixed at ₹250 in urban/semi-urban areas and ₹125 in rural areas with an annual increment of five *per cent* for the period from 2011-12 to 2020-21. KSEBL had also decided (September 2014) to apply the same pole rental to all cable TV operators using electric poles of KSEBL in the State. Reduction of pole rental to ₹250 for urban/ semi-urban areas and ₹125 for rural areas as part of a mutual settlement before Lok Adalat was unjustified. Reduction of pole rental as part of a mutual settlement before Lok Adalat resulted in loss of pole rental amounting to ₹14.70 crore and short collection of service tax of ₹1.75 crore during 2011-12 to 2014- 2015.

It was observed by Audit as under:

- the revised rates of ₹250 and ₹125 for urban and rural areas respectively were not only lower than the rates fixed by Expert committee but even lower than the pre-April 2011 rates of ₹277.06[50] (urban area) and ₹138.53 (rural area) as shown in *Table* below:

Table 3.12: Details of pole rentals charged by KSEBL

(Amount in ₹)

Urban/Semi urban areas			Rural areas		
Pole rental as per existing agreement up to April 2011	Rate revised from April 2011 for all cable TV operators	Rate finally agreed from April 2011 for all cable TV operators	Pole rental as per existing agreement up to April 2011	Rate revised from April 2011 for all cable TV operators	Rate finally agreed for all cable TV operators
277.06	311.00	250.00	138.53	155.50	125.00

- KSEBL's settlement of rent by downward revision "as a matter of goodwill and to put to rest prolonged litigation" was against the commercial interest of the Company, which was also upheld by the High Court.

- Asianet had been using poles of KSEBL from November 1992 onwards. Valid agreements were also in force up to September 2011. Therefore, KSEBL did not have to go in for out of court settlement and petitions of Asianet challenging rate enhancement of pole rentals in 1999 and 2005 were dismissed by Hon'ble High Court.

[49] The National Legal Services Authority (NALSA) has been constituted under the Legal Services Authorities Act, 1987 to provide free legal service to the weaker sections of the society and to organise Lok Adalats for amicable settlement of disputes. In every State, State Legal Services Authority has been constituted to give effect to the policies and directions of NALSA. In every District, District Legal Services Authority has been constituted to implement Legal Services Programmes in the District. The District Legal Services Authority is situated in the District Courts Complex in every District and chaired by the District Judge of the respective district.

[50] An appeal filed by Asianet against this rate was also pending before the Court.

KSEBL replied (September 2015) that it had upheld the revised rate on the Honôble High Courtôs interim order and the decision for downward revision, to a meagre extent, was taken after considering representations of various political parties, peopleôs representatives and associations of cable TV operators and to avoid litigation. It was further replied (December 2015) that Asianet was remitting revised pole rental charges, in spite of disputes regarding the number of poles and rate, even though there was no existing formal agreement.

The reply is not acceptable since reduction of rate was due to absence of a conclusive agreement. Besides, KSEBL had taken the appropriate decision to uphold rate enhancement after considering the representations of cable operators as directed by Honôble High Court. Subsequent downward revision in the Lok Adalat at the instance of Minister for Power and Transport, Government of Kerala and other political representatives as admitted by the KSEBL resulted in loss of pole rental of ₹14.70 crore to KSEBL. In the absence of agreement, pole rentals paid by Asianet was at the reduced rate (₹250 for urban and ₹125 for rural areas) and not at an enhanced rate (₹311 for urban and ₹155.50 for rural areas).

Avoidable expenditure

Avoidable expenditure of ₹68.31 lakh due to delay in surrendering railway siding.

3.9 KSEBL owned a railway siding under its Building and Stores Division at Angamaly for transportation of bulk quantity of departmental material like steel, cement, high quality structural steel and special machineries, etc., required for implementation of various projects of KSEBL. The railway siding was beneficial to KSEBL as transportation of material through rail was cheaper compared to the freight charges by road. As per agreement with Southern Railway, KSEBL was to pay annual maintenance charges for the railway siding.

In June 2007, KSEBL changed conditions of tenders for implementation of projects. According to new conditions, cement and steel supplied departmentally hitherto became the responsibility of contractors. Thereafter, supply of departmental material to contractors was limited in respect of transmission wing only. Hence, the railway siding ceased to be in use and no material was transported by the Railways using railway siding since 2010.

As annual maintenance charges paid to the Railways increased in line with the salary and allowances of Railwaysô staff, despite there being no usage of railway siding, Financial Adviser of KSEBL recommended (June 2010) the Board to discontinue operation of railway siding. The Board, however, decided (November 2010) to continue the railway siding since a proposal for installation of a 1026 MW[51] Liquified Natural Gas based Combined Cycle Power Plant at Brahmapuram (LNG project) was in the pipeline and it was expected that the railway siding would be needed to handle the equipment for

[51] **Mega Watt.**

the proposed plant. The LNG project was subsequently abandoned (February 2011) as the land earmarked for the LNG project was handed over to Government of Kerala (GoK) for Smart City Project. Thereafter, KSEBL decided (November 2013) to surrender the railway siding.

Due to delay in surrender of railway siding, KSEBL had to incur avoidable expenditure of ₹68.31[52] lakh during November 2010 to November 2013 towards annual maintenance charges.

KSEBL replied (January 2016) that decision to surrender the railway siding was not taken until November 2013 as large projects like installation of 400 MW Combined Cycle Power Plant at Brahmapuram and replacement of faulty Diesel Generating units of Brahmapuram Diesel Power Project with gas based generators were under active consideration.

The reply was not acceptable as KSEBL's decision (30 November 2010) to continue the railway siding was based solely on the requirement to handle equipment for the LNG project at Brahmapuram. The land ear-marked for LNG Project was handed over to GoK in July 2007 and request (April 2010) of KSEBL to transfer the land back was turned down by GoK.

The matter was reported (December 2015) to Government; their reply is awaited (December 2015).

Avoidable expenditure

Avoidable expenditure due to delay in payment of excise duty- ₹64.82 lakh

3.10 As per Rule 9 of Central Excise Rules, 2002, every manufacturer of dutiable goods is required to obtain Central Excise registration from Central Excise authorities for payment of excise duty. Central Excise Authorities would issue the Registration Certificate in a couple of working days after submission of online registration form.

Following the introduction (February 2011) of Finance Bill 2011, excise duty became payable with effect from March 2011 on galvanisation of line material since the galvanisation was categorised under "manufacturing" in the Finance Bill 2011. Mechanical Fabrication Units (MF Units) Angamaly and Kolathara of KSEBL, responsible for the job of galvanisation works in KSEBL were, therefore, to pay excise duty on value of material galvanised with effect from March 2011 after registration with Central Excise Authorities.

MF Units Angamaly and Kolathara obtained Central Excise registration only in February 2012 and March 2012 respectively and paid excise duty in March 2012. While paying excise duty in March 2012, MF Unit Kolathara did not pay arrears of excise duty from March 2011 to February 2012. The arrears of excise duty was paid in November 2014 only, on being pointed out by the Central Excise Authorities. Due to delay in payment of excise duty on galvanised material from March 2011 onwards, KSEBL had to pay avoidable

[52] **₹13.85 lakh in 2010-11, ₹11.79 lakh in 2011-12, ₹19.23 lakh in 2012-13, ₹ 21.68 lakh in 2013-14 and ₹1.76 lakh in 2014-15.**

interest of ₹49.80 lakh and penalty of ₹15.02 lakh on galvanised material cleared from March 2011 to February 2012.

Although registration with Central Excise authorities could have been obtained immediately and was mandatory for payment of excise duty with effect from March 2011, the Member (Generation Projects) brought the matter to the notice of Full Time Members only in November 2011. KSEBL issued order to obtain Central Excise Registration in January 2012 after a delay of 11 months from the date of promulgation (February 2011) of Finance Act 2011.

Thus, delay on the part of KSEBL to issue orders for central excise registration coupled with delay in payment of excise duty arrears resulted in avoidable payment of interest and penalty of ₹64.82 lakh.

The Company confirmed the facts of the case in its reply (January 2016).

Kerala State Beverages (Manufacturing & Marketing) Corporation Limited

Avoidable expenditure

Failure in timely passing on the incidence of additional tax (i.e. medical cess) to consumers resulted in payment of tax of ₹2.10 crore. Besides, delay in payment of medical cess resulted in avoidable payment of interest of ₹0.42 crore.

3.11 Kerala State Beverages (Manufacturing & Marketing) Corporation Limited (Company) is a public sector undertaking engaged in wholesale and retail trade of liquor in Kerala. Under Section 5 of the Kerala General Sales Tax Act, 1963, the Company is liable to pay sales tax to Government of Kerala (GoK) on sale of liquor. GoK imposed (28 July 2012) medical cess[53] at the rate of one *per cent* on sales tax payable by the Company with effect from 28 July 2012 to mobilise funds for supplying generic medicines free of cost. Medical cess was payable along with monthly sales tax on or before the tenth day of the succeeding month.

The Company, however, passed on the incidence of medical cess to customers by increasing price of liquor with effect from 16 August 2012 only due to delay in revising the Maximum Retail Price (MRP) of various brands of liquor sold. As a result, during the intervening period between 28 July 2012 and 15 August 2012, the Company could not collect and pay medical cess amounting to ₹2.10 crore. Due to non-payment of medical cess for the above period, Commercial Tax Department, GoK directed (November 2014) the Company to pay medical cess of ₹2.10 crore along with interest of ₹0.42 crore. Accordingly, Company paid (December 2014) ₹2.52 crore out of its income.

Audit noticed that GoK had ordered to levy medical cess on 30 June 2012, but the effective date of levy was not specified in the order of GoK. Despite this ambiguity in the order of GoK, the Company did not make any attempt to

[53] **Medical cess is a tax on tax, levied by the Government for providing generic medicine free of cost to poor patients.**

ascertain the effective date of levy and make preparatory arrangements in advance to implement the Government Order. This was necessary for making arrangements for passing on the burden of medical cess to consumers by revising the MRP. Consequently, when Government notification was issued on 28 July 2012 to impose levy of medical cess with immediate effect i.e. from 28 July 2012, the Company was unprepared for collecting additional medical cess from the consumers even though it was well aware of the impending cess / order as early as 30 June 2012.

Thus, failure of the Company in passing on the incidence of cess to customers on time and delay in payment led to avoidable payment of ₹2.10 crore as medical cess and ₹0.42 crore as interest out of its profits.

Government replied (January 2016) that for collecting the medical cess from customers, new MRP had to be worked out for all brands of liquor and new MRP entered into billing machines. Therefore, the Company implemented the revised MRP with effect from 16 August 2012.

The reply was not acceptable since the Company was aware of the impending medical cess as early as 30 June 2012. Lack of preparedness on the part of the Company was the reason for non-collection of medical cess from the consumers.

Statutory corporations

Kerala State Road Transport Corporation

Irregular payment of performance allowance

Irregular payment of performance allowance of ₹3.24 crore in violation of Government Order.

3.12 According to Section 34 of Road Transport Corporation Act, 1950, State Government can issue instructions to Road Transport Corporations on matters relating to recruitment, wages to be paid to employees, etc. Road Transport Corporations shall not depart from the directions without prior permission of State Government.

Transport Department, Government of Kerala (GoK), while ratifying (February 2015) payment of performance allowance[54] of ₹2.13 crore and ₹2.97 crore for the years 2012-13 and 2013-14 respectively to the employees of Kerala State Road Transport Corporation (Corporation), had ordered that performance allowance should not be paid in future without prior approval of GoK.

The Corporation is a "loss making"[55] PSU with no worthwhile performance to

[54] Allowance given to employees as an appreciation towards their best performance.

[55] Loss of the Corporation as per the last five finalised accounts were: ₹508.22 crore (2012-13), ₹412.78 crore (2011-12), ₹376.89 crore (2010-11), ₹237.95 crore (2009-10) and ₹117.12 crore (2008-09). Accumulated loss up to 31 March 2013 was ₹3025.90 crore as per the latest finalised accounts (2012-13).

report upon. Its loss had increased from ₹117.12 crore in 2008-09 to ₹508.22 crore in 2012-13. Further, considering the severe financial crisis faced by the Corporation, a revival package approved (February 2014) by GoK was under implementation.

For the year 2014-15, the Corporation, based on the orders of the Chairman and Managing Director, paid performance allowance of ₹3.24 crore to its 29,478 employees without obtaining prior approval of GoK and without linking performance allowance with any significant performance or achievement. In reply to the queries of Audit in connection with the payment of performance allowance to its employees for the periods 2012-13 to 2013-14, Finance Department, GoK replied (January 2016) that they had neither accorded sanction to pay the performance allowance nor ratified the action of Transport Department. Ratification of performance allowance paid to employees for the periods 2012-13 to 2013-14 was stated to be accorded by the Cabinet. Though the Transport Department was requested to provide the copies of the cabinet decision, they have not responded as yet (January 2016).

Since the Corporation was incurring loss continuously and was facing severe financial crisis, payment of performance allowance was unjustified and ratification of the payment by the Government overruling its own orders on the subject was also not justified.

Thiruvananthapuram, **(AMAR PATNAIK)**

The 03 MAY 2016 **Principal Accountant General**

(Economic & Revenue Sector Audit)

Kerala

Countersigned

New Delhi **(SHASHI KANT SHARMA)**

The 16 MAY 2016 **Comptroller and Auditor General of India**

Appendix 1
Statement showing investments made by State Government to PSUs whose accounts are in arrear
(Referred to in paragraph 1.11)

(Figures in column 4 and 6 to 8 are ₹ in crore)

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. Working Government companies							
1	Kerala State Horticultural Products Development Corporation Limited	2011-12	6.23	2012-13	0.25	é	é
				2013-14	é	é	15.00
				2014-15	0.25	é	é
2	Kerala State Poultry Development Corporation Limited	2010-11	1.97	2011-12	é	é	13.55
				2012-13	é	é	15.16
				2013-14	é	...	9.00
				2014-15	é	...	10.50
3	Meat Products of India Limited	2012-13	2.31	2013-14	é	é	2.70
				2014-15	..	1.77	1.00
4	The Kerala Agro Industries Corporation Limited	2010-11	4.74	2011-12	é	é	13.27
				2012-13	é	é	21.40
				2013-14	é	é	15.79
				2014-15	é	é	0.82
5	The Kerala State Cashew Development Corporation Limited	2011-12	116.79	2012-13	é	é	37.90
				2013-14	40.70	20.00	1.00
				2014-15	15.00	..	..
6	The Kerala State Coir Corporation Limited	2012-13	8.05	2013-14	é	8.00	3.37
				2014-15	é	é	6.95
7	Handicrafts Development Corporation of Kerala Limited	2011-12	2.77	2012-13	é	5.00	0.60
				2013-14	é	é	0.96
				2014-15	é	é	0.50
8	Kerala Artisans' Development Corporation Limited	2011-12	3.35	2013-14	é	é	2.40
				2014-15	..	é	é
9	Kerala Small Industries Development Corporation Limited	2011-12	29.67	2012-13	0.20	é	é
				2013-14	é	é	é
				2014-15	é	é	é

SI. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
10	Kerala State Development Corporation for Christian Converts from Scheduled Castes & the Recommended Communities Limited	2002-03	10.95	2006-07	3.50	é	é
				2007-08	3.40	é	é
				2008-09	3.50	é	é
				2009-10	3.00	é	é
				2010-11	0.50	é	é
				2011-12	3.50	é	é
				2012-13	é	é	4.50
				2013-14	é	é	0.10
				2014-15	é	é	2.00
11	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	2010-11	105.26	2011-12	6.63	é	1.88
				2012-13	5.33	é	1.00
				2013-14	5.80	é	é
				2014-15	5.42	é	2.56
12	Kerala State Film Development Corporation Limited	2008-09	20.17	2009-10	0.65	é	é
				2010-11	1.59	é	1.01
				2011-12	2.46	é	1.17
				2012-13	2.75	é	1.28
				2013-14	5.00	é	1.41
				2014-15	4.00	é	1.41
13	Kerala State Handicapped Persons' Welfare Corporation Limited	2005-06	2.10	2006-07	0.05	0.10	0.30
				2007-08	0.04	0.08	0.40
				2008-09	é	é	1.32
				2009-10	é	é	1.40
				2010-11	1.40	é	é
				2011-12	é	é	1.50
				2012-13	é	é	3.30
				2013-14	é	é	5.85
				2014-15	é	é	2.25
14	Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited	2012-13	0.87	2013-14	é	é	0.45
				2014-15	é	é	é

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
15	Kerala State Womenõs Development Corporation Limited	2011-12	7.06	2012-13	é	é	6.44
				2013-14	é	é	7.08
				2014-15	é	é	6.80
16	The Kerala State Backward Classes Development Corporation Limited	2012-13	82.96	2009-10[1]	7.00	é	0.92
				2013-14	10.00	é	é
				2014-15	8.00	é	é
17	Kerala State Welfare Corporation for Forward Communities	2012-13	0.51	2013-14	5.00	é	5.60
				2014-15	4.00	é	10.44
18	Kerala Police Housing and Construction Corporation Limited	2009-10	0.27	2010-11	é	é	7.94
				2011-12	é	9.63	é
				2012-13	é	11.35	é
				2013-14	é	12.96	1.63
				2014-15	...	9.50	0.00
19	Kerala State Industrial Development Corporation Limited	2013-14	400.00	2014-15	113.33	26.00	é
20	Vision Varkala Infrastructure Development Corporation Limited	2013-14	0.10	2014-15	0.10	é	1.60
21	Autokast Limited	2013-14	19.97	2014-15	é	6.89	é
22	Kanjikode Electronics and Electricals Limited	2009-10	0.10	2010-11	é	é	0.15
				2011-12	é	é	é
				2012-13	é	é	0.14
				2013-14	é	é	0.14
				2014-15	...	é	é
23	Kerala Automobiles Limited	2011-12	10.98	2012-13	é	é	é
				2013-14	é	6.72	é
				2014-15	é	4.00	é
24	Kerala Feeds Limited	2011-12	38.66	2012-13	é	é	0.50
				2013-14	8.00	é	é
				2014-15	21.47	2.00	é

[1] **Accounts for the year 2009-10 was not finalised.**

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
25	Kerala State Bamboo Corporation Limited	2010-11	8.13	2011-12	0.60	4.00	é
				2012-13	0.27	4.82	0.10
				2013-14	0.45	7.51	0.20
				2014-15	0.50	é	0.20
26	Kerala State Textiles Corporation Limited	2012-13	96.52	2013-14	é	18.39	é
				2014-15	é	0.00	é
27	Sitaram Textiles Limited	2013-14	42.46	2014-15	é	0.11	é
28	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2013-14	28.66	2014-15	6.00	é	é
29	Traco Cable Company Limited	2013-14	57.22	2014-15	é	3.00	é
30	Travancore Titanium Products Limited	2010-11	13.77	2011-12	é	é	é
				2012-13	é	é	é
				2013-14	é	5.00	é
				2014-15	é	3.00	é
31	United Electrical Industries Limited	2012-13	4.99	2013-14	é	3.04	é
				2014-15	é	3.00	é
32	Bekal Resorts Development Corporation Limited	2012-13	49.23	2013-14	1.35	é	é
				2014-15	1.10	é	é
33	Indian Institute of Information Technology and Management - Kerala	2013-14	31.68	2014-15	2.20	é	2.20
34	Kerala Medical Services Corporation Limited	2009-10	5.00	2010-11	é	é	145.00
				2011-12	é	é	174.00
				2012-13	é	é	200.00
				2013-14	é	é	220.00
				2014-15	é	é	165.00
35	Kerala Tourism Development Corporation Limited	2011-12	77.70	2012-13	é	é	é
				2013-14	6.50	é	é
				2014-15	é	é	é

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
36	Overseas Development and Employment Promotion Consultants Limited	2013-14	0.86	2014-15	é	é	0.35
37	The Kerala State Civil Supplies Corporation Limited	2013-14	142.02	2014-15	é	é	406.08
38	Kerala State Coastal Area Development Corporation Limited	2012-13	2.81	2013-14	5.81	é	é
				2014-15	5.81	é	é
39	Norka Roots	2012-13	1.52	2013-14	é	...	8.50
				2014-15			13.37
40	Kerala Rapid Transit Corporation Limited (Erstwhile Kerala Monorail Corporation Limited.)	2013-14	28.05	2014-15	28.50	0.00	0.00
41	Kerala Academy for Skills Excellence	2013-14	26.94	2014-15	é	é	23.00
42	Bhavanam Foundation Kerala	First Accounts not finalised		2014-15	40.00	é	8.00
43	Kerala Agro Machinery Corporation Limited	2013-14	1.61	2014-15	é	é	4.00
44	Kerala State Coir Machinery Manufacturing Company Limited	First Accounts not finalised		2014-15	4.97	é	2.66
45	Kerala State Drugs and Pharmaceuticals Limited	2013-14	9.08	2014-15		2.50	
46	Kerala State Electricity Board Limited	2012-13	0.05	2013-14	é	é	é
				2014-15	é	é	93.62
47	Kerala State Housing Development Finance Corporation Limited	First Accounts not finalised		2014-15	10.27	é	é

Sl. No.	Name of the Company/ Corporation	Year up to which Accounts finalised	Paid up capital as per latest finalised accounts	Period of Accounts pending finalisation	Investment made by State Government during the years for which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
48	Kerala State Minorities Development Finance Corporation	First Accounts not finalised		2013-14	é	é	é
				2014-15	10.00	...	é
49	Kerala Urban & Rural Development Finance Corporation Limited	2012-13	0.96	2013-14	é	...	é
				2014-15	5.00	é	é
50	Oil Palm India Limited	2013-14	11.79	2014-15	é	é	0.43
51	The Travancore Cements Limited	2012-13	2.71	2013-14	é	é	é
				2014-15	é	4.00	é
52	Trivandrum Spinning Mills Limited	2002-03	7.73	2014-15	...	1.50	...
	Total A (Companies)				**421.15**	**183.87**	**1723.05**
B. Working Statutory corporations							
1	Kerala State Warehousing Corporation	2011-12	11.50	2012-13	0.50	é	0.50
				2013-14	é	é	0.50
				2014-15	é	é	é
2	Kerala Industrial Infrastructure Development Corporation	2013-14	é	2014-15	...	15.07	é
3	Kerala State Road Transport Corporation	2012-13	586.67	2013-14	59.00	425.00	é
				2014-15	65.42	266.41	é
	Total B (Statutory Corporations)				**124.92**	**706.48**	**1.00**
	Grand Total (A)+(B)				**546.07**	**890.35**	**1724.05**
	Aggregate				**3160.47**		

Appendix 2

Statement showing financial position and working results of Government Companies and Statutory Corporations as per their latest finalised financial statements/accounts

(Referred to in paragraph 1.15)

(Figures in column 5 to 12 are ₹in crore)

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A. WORKING GOVERNMENT COMPANIES													
AGRICULTURE & ALLIED SECTOR													
1	Kerala Agro Machinery Corporation Limited	2013-14	2014-15	1.61	é	107.30	192.50	5.46	é	111.96	5.48	4.89	574
2	Kerala Forest Development Corporation Limited	2013-14	2014-15	9.20	5.33	8.56	16.65	0.70	-0.14	56.94	0.84	1.48	562
3	Kerala Livestock Development Board Limited	2011-12	2014-15	7.33	é	9.74	10.68	1.04	é	60.02	1.04	1.73	410
4	Kerala State Horticultural Products Development Corporation Limited	2011-12	2015-16	6.23	3.55	-5.26	16.75	-0.02	-1.77	5.01	-0.02	é	44
5	Kerala State Poultry Development Corporation Limited	2010-11	2015-16	1.97	0.14	-0.51	24.28	3.13	-3.78	6.00	3.15	52.50	25
6	Meat Products of India Limited	2012-13	2015-16	2.31	2.14	-15.09	7.87	-0.69	é	2.60	-0.51	é	74
7	Oil Palm India Limited	2013-14	2014-15	11.79	é	34.65	45.00	1.20	é	85.57	1.20	1.40	868

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
8	The Kerala Agro Industries Corporation Limited	2010-11	2015-16	4.74	18.20	-15.09	52.10	0.81	...	29.05	2.29	7.88	69
9	The Kerala State Cashew Development Corporation Limited	2011-12	2014-15	116.79	221.40	-1093.21	270.40	-127.95	-2.82	-714.95	-64.71	é	12388
10	The Kerala State Coir Corporation Limited	2012-13	2014-15	8.05	1.43	-7.05	73.77	1.20	-0.77	28.10	1.53	5.44	69
11	The Plantation Corporation of Kerala Limited	2014-15	2015-16	5.57	0.48	157.54	73.01	9.37	-0.18	191.75	9.37	4.89	2879
12	The Rehabilitation Plantations Limited	2014-15	2015-16	3.39	é	158.02	22.92	3.65	é	161.41	3.65	2.26	1337
13	The State Farming Corporation of Kerala Limited	2014-15	2015-16	9.04	0.22	60.58	20.77	-0.86	é	79.10	-0.83	é	715
14	Aralam Farming Corporation (Kerala) Limited	2012-13	2014-15	0.01	é	-0.15	é	-0.01	é	-0.14	-0.01	é	548
15	Vazhakulam Agro and Fruit Processing Company Limited	2014-15	2015-16	0.05	7.64	-0.40	1.47	-0.37	é	12.11	-0.35	é	126
16	Kerala State Coconut Development Corporation Limited	1995-96	2009-10	2.85	8.13	-12.36	é	-0.61	é	-2.27	-0.61	é	1
	Sector -wise total			**190.93**	**268.66**	**-612.73**	**828.17**	**-103.95**	**-9.46**	**112.26**	**-38.49**	é	**20689**
FINANCE SECTOR													
17	Handicrafts Development Corporation of Kerala Limited	2011-12	2014-15	2.77	10.11	-17.44	4.16	-2.13	-0.60	1.66	-1.55	é	104

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
18	Kerala Artisans' Development Corporation Limited	2011-12	2014-15	3.35	3.84	-1.81	13.50	0.06	é	5.39	0.21	3.90	18
19	Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited	2007-08	2011-12	0.50	..	-0.61	0.13	0.06	-0.16	é	0.06	é	3
20	Kerala Small Industries Development Corporation Limited	2011-12	2013-14	29.67	56.03	-38.98	199.08	1.95	-0.35	46.23	3.19	6.90	671
21	Kerala State Development Corporation for Christian Converts from Scheduled Castes & the Recommended Communities Limited	2002-03	2011-12	10.95	4.60	-4.73	0.45	-2.02	é	10.82	-1.74	é	30
22	Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited	2010-11	2014-15	105.26	11.46	-15.42	5.88	-1.98	é	101.55	-1.69	é	174
23	Kerala State Film Development Corporation Limited	2008-09	2014-15	20.17	11.20	-25.88	5.64	-0.33	-0.02	5.49	0.38	6.92	177
24	Kerala State Handicapped Persons' Welfare Corporation Limited	2005-06	2014-15	2.10	7.00	-0.03	1.65	-0.25	0.17	9.08	-0.14	é	42
25	Kerala State Handloom Development Corporation Limited	2014-15	2015-16	37.00	16.10	-67.83	22.61	-5.19	-7.71	-14.71	-3.37	é	276
26	Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited	2012-13	2015-16	0.87	1.61	0.57	0.33	0.07	é	2.30	0.09	3.91	12

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
27	Kerala State Women's Development Corporation Limited	2011-12	2013-14	7.06	0.05	0.30	3.17	0.13	é	6.31	1.13	17.91	33
28	Kerala Transport Development Finance Corporation Limited	2011-12	2014-15	43.83	772.54	26.40	130.99	8.81	-2.15	842.77	113.00	13.41	47
29	Kerala Urban & Rural Development Finance Corporation Limited	2012-13	2014-15	0.96	50.30	8.06	6.26	2.84	é	62.30	3.79	6.08	18
30	The Kerala State Backward Classes Development Corporation Limited	2012-13	2014-15	82.96	338.63	107.32	35.70	13.61	é	529.88	25.11	4.74	215
31	The Kerala State Financial Enterprises Limited	2012-13	2014-15	20.00	é	304.42	979.10	69.90	-5.61	324.42	443.48	136.70	5585
32	Kerala State Minorities Development Finance Corporation	First Accounts not finalised											21
33	Kerala State Housing Development Finance Corporation Limited	First Accounts not finalised											1
34	Kerala State Welfare Corporation for Forward Communities	2012-13	2014-15	0.51	é	-0.10	é .	-0.10	é .	0.41	-0.10	é	1
	Sector -wise total			**367.96**	**1283.47**	**274.24**	**1408.65**	**85.43**	**-16.43**	**1933.90**	**581.85**	**30.09**	**7428**
INFRASTRUCTURE SECTOR													
35	Kerala Police Housing and Construction Corporation Limited	2009-10	2013-14	0.27	2.07	-1.86	33.63	-0.59	-4.26	36.24	-0.49	é	137

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
36	Kerala State Construction Corporation Limited	2012-13	2014-15	0.88	é	-2.80	242.29	10.70	-2.15	-1.92	10.87	é	164
37	Kerala State Industrial Development Corporation Limited	2013-14	2014-15	400.00	26.00	148.32	44.31	30.49	é	655.05	30.49	4.65	79
38	Roads and Bridges Development Corporation of Kerala Limited	2012-13	2014-15	62.43	60.37	-40.12	10.53	-0.93	é	82.68	2.93	3.54	43
39	The Kerala Land Development Corporation Limited	2008-09	2014-15	7.05	1.88	-18.99	1.24	-1.22	-0.47	10.06	-1.22	é	87
40	Kerala State Information Technology Infrastructure Limited	2013-14	2015-16	172.90	é	-3.17	0.06	-1.48	-0.19	169.73	-1.48	é	5
41	Kinfra Export Promotion Industrial Parks Limited	2013-14	2014-15	0.25	5.96	17.61	1.34	3.26	é	38.44	3.26	8.48	4
42	Kinfra Film and Video Park Limited	2013-14	2014-15	1.50	22.61	-0.31	3.83	0.64	é	40.64	1.10	2.71	2
43	Kinfra International Apparel Parks Limited	2013-14	2014-15	0.25	36.70	0.86	2.12	0.22	é	57.18	0.22	0.38	4
44	Marine Products Infrastructure Development Corporation Limited	2014-15	2015-16	5.00	é	4.18	0.24	0.36	-1.61	9.18	0.36	3.92	2
45	Kannur International Airport Limited	2013-14	2014-15	264.77	...	Commercial activities not commenced			é	264.79	é	é	36
46	Road Infrastructure Company Kerala Limited	2012-13	2015-16	0.05	...	é	0.06	0.00	é	0.17	0.00	é	10

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
47	Vision Varkala Infrastructure Development Corporation Limited	2013-14	2014-15	0.10	é	...	é	0.00	0.98	0.10	0.00	é	9
48	Kerala Irrigation Infrastructure Development Corporation Limited	2012-13	2014-15	0.21	é	-0.23	0.06	-0.23	é	-0.02	-0.23	é	41
49	Pratheeksha Bus Shelters Kerala Limited	2013-14	2014-15	0.05	é	é	é	0.00	0.00	0.05	0.00	é	1
50	Ashwas Public Amenities Kerala Limited	2013-14	2014-15	0.05	é	-0.02	é	-0.02	é	0.03	-0.02	é	1
	Sector -wise total			**915.76**	**155.59**	**103.47**	**339.71**	**41.20**	**-7.70**	**1362.40**	**45.79**	**3.36**	**625**
MANUFACTURING SECTOR													
51	Autokast Limited	2013-14	2014-15	19.97	74.95	-117.29	20.50	-6.36	-21.77	-22.37	-5.40	é	380
52	Foam Mattings (India) Limited	2010-11	2015-16	5.15		1.81	7.68	-1.25	é	7.54	-1.25	é	102
53	Forest Industries (Travancore) Limited	2011-12	2013-14	0.38	2.94	1.11	12.32	0.09	...	4.44	0.58	13.06	82
54	Kanjikode Electronics and Electricals Limited	2009-10	2010-11	0.10	..	0.03	0.31	-0.04	é	0.57	-0.04	é	8
55	Keltron Component Complex Limited	2013-14	2014-15	34.23	11.00	-42.51	55.03	-5.62	é	6.52	-2.89	é	592
56	Keltron Electro Ceramics Limited	2013-14	2014-15	3.18	3.98	-2.77	14.17	0.19	é	4.60	0.77	16.74	70
57	Kerala Automobiles Limited	2011-12	2014-15	10.98	11.48	27.43	12.97	-8.31	-5.73	-4.97	-7.42	é	178
58	Kerala Clays and Ceramic Products Limited	2014-15	2015-16	1.32	2.25	10.39	10.61	0.59	é	13.98	1.06	7.58	280

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
59	Kerala Electrical and Allied Engineering Company Limited	2013-14	2014-15	87.15	18.85	-113.50	93.37	-3.80	-24.61	-7.34	0.85	é	567
60	Kerala Feeds Limited	2011-12	2013-14	38.66	13.07	12.87	267.23	8.35	é	57.67	8.35	14.48	212
61	Kerala State Bamboo Corporation Limited	2010-11	2013-14	8.13	20.55	-21.44	13.61	-4.75	é	4.74	-4.01	é	192
62	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2013-14	2015-16	1.03	é	835.68	3263.03	123.54	-667.58	840.92	123.54	14.69	3164
63	Kerala State Drugs and Pharmaceuticals Limited	2013-14	2014-15	9.08	36.22	-104.40	20.01	-10.12	é	-57.94	-4.87	é	206
64	Kerala State Electronics Development Corporation Limited	2013-14	2014-15	200.00	é	-199.73	311.81	1.35	-116.82	107.02	4.82	4.50	1502
65	Kerala State Mineral Development Corporation Limited	2013-14	2014-15	1.76	1.88	-0.15	0.04	-0.05	-4.82	3.49	-0.05	é	14
66	Kerala State Textile Corporation Limited	2012-13	2014-15	96.52	84.92	-88.49	67.62	-8.64	-3.49	17.93	-2.94	é	731
67	Malabar Cements Limited	2013-14	2015-16	26.01		202.27	203.12	0.44	-0.07	235.77	0.70	0.30	828
68	Sitaram Textiles Limited	2013-14	2014-15	42.46	17.66	-50.25	13.21	-3.38	-3.24	9.87	-2.12	é	215
69	Steel and Industrial Forgings Limited	2014-15	2015-16	27.93	8.95	22.99	56.84	-1.66	-2.96	59.98	0.20	0.33	251
70	SAIL- SCL Kerala Limited	2014-15	2015-16	26.43	54.28	-34.62	17.78	-6.82	é	46.09	-5.08	é	76
71	Steel Industrials Kerala Limited	2013-14	2014-15	36.56	7.10	-28.15	31.93	0.03	-109.38	16.03	0.75	4.68	153
72	The Kerala Ceramics Limited	2014-15	2015-16	11.20	47.25	-68.04	3.19	-7.32	0.00	-9.55	-4.13	é	120
73	The Kerala Minerals and	2014-15	2015-16	30.93		559.04	538.01	-24.90	é	589.99	-21.71	é	1416

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Metals Limited												
74	The Metal Industries Limited	2012-13	2015-16	1.94	7.34	-5.74	4.08	-1.16	-0.56	5.79	-0.45		57
75	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2013-14	2014-15	28.66	é	40.54	73.90	8.50	-0.18	69.27	8.50	12.27	698
76	The Travancore Cements Limited	2012-13	2015-16	2.71	9.96	-17.87	23.14	-3.43	-0.18	-2.03	-2.53	é	372
77	The Travancore Sugars and Chemicals Limited	2014-15	2015-16	1.32	0.10	4.49	41.38	1.67	0.00	7.40	1.67	22.57	53
78	The Travancore-Cochin Chemicals Limited	2014-15	2015-16	21.31	25.40	-18.10	156.57	0.66	é	28.61	5.93	20.73	604
79	Traco Cable Company Limited	2013-14	2014-15	57.22	13.83	-48.58	111.24	-4.06	-0.50	22.47	2.80	12.46	552
80	Transformers and Electricals Kerala Limited	2014-15	2015-16	42.97	é .	37.12	130.02	-22.60	-10.33	96.28	-22.48	é	547
81	Travancore Titanium Products Limited	2010-11	2014-15	13.77	60.04	-22.70	161.83	8.32	-5.14	51.12	10.80	21.13	729
82	United Electrical Industries Limited	2012-13	2014-15	4.99	10.07	-20.56	2.46	-5.22	13.94	-6.46	-3.77	é	88
83	Malabar Distilleries Limited	2013-14	2014-15	2.46	é	-0.87	0.08	-0.20	é	1.59	-0.20	é	73
84	Kerala State Coir Machinery Manufacturing Company Ltd	First Accounts not finalised											25
85	Trivandrum Spinning Mills Limited	2002-03	2003-04	7.73	7.27	-17.28	é	-0.44	é	0.06	-0.44	é	86
	Sector-wise total			**904.24**	**551.34**	**732.73**	**5739.09**	**23.60**	**-963.42**	**2199.08**	**79.54**	**3.62**	**15223**

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
POWER SECTOR													
86	Kerala State Power and Infrastructure Finance Corporation Limited	2014-15	2015-16	26.65	é	25.55	4.15	4.15	...	64.52	4.15	6.43	7
87	KINESCO Power and Utilities Private Limited	2014-15	2015-16	0.36	2.35	0.83	46.59	0.40	é	3.54	0.53	14.97	1
88	Kerala State Electricity Board Limited	2012-13	2013-14	0.05	..	-3.27	é	-0.02	-0.28	-3.22	-0.02	é	33041
	Sector-wise total			**27.06**	**2.35**	**23.11**	**50.74**	**4.53**	**-0.28**	**64.84**	**4.66**	**7.19**	**33049**
SERVICE SECTOR													
89	Bekal Resorts Development Corporation Limited	2012-13	2014-15	49.23	é	-0.60	2.58	-0.08	-0.38	48.65	-0.08	é	19
90	Indian Institute of Information Technology and Management - Kerala	2013-14	2014-15	31.68	é	-6.19	2.85	0.06	é	34.24	0.06	0.18	17
91	Kerala Medical Services Corporation Limited	2009-10	2015-16	5.00	0.06	5.18	182.26	4.94	0.09	20.24	4.94	24.41	652
92	Kerala Shipping and Inland Navigation Corporation Limited	2013-14	2014-15	30.00	é	-9.00	6.68	-3.38	-2.64	21.42	-3.30	é	129
93	Kerala State Ex-Servicemen Development and Rehabilitation Corporation Limited	2013-14	2014-15	0.50	é	4.43	22.00	0.80	é	4.93	0.80	16.23	23
94	Kerala State Industrial Enterprises Limited	2013-14	2014-15	1.20	3.80	33.47	35.22	0.35	..	40.93	1.57	3.84	110

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
95	Kerala State Maritime Development Corporation Limited	2013-14	2014-15	10.00	é	-6.19	7.40	0.97	0.25	3.81	0.97	25.46	18
96	Kerala Tourism Development Corporation Limited	2011-12	2012-13	77.70	12.74	-22.24	86.62	-0.70	-0.25	70.78	-0.53	é	715
97	Overseas Development and Employment Promotion Consultants Limited	2013-14	2014-15	0.86	é	1.45	6.21	-0.10	é	2.52	-0.10	é	17
98	The Kerala State Civil Supplies Corporation Limited	2013-14	2015-16	142.02	é	-222.90	3565.74	-89.11	-0.35	-80.76	-42.19	é	3080
99	Kerala Tourism Infrastructure Limited	2012-13	2013-14	31.22	12.74	5.43	0.80	1.43	-0.14	36.05	1.43	3.97	9
100	Vizhinjam International Seaport Limited	2013-14	2015-16	12.00	é	-11.64	é	-3.29	é	737.33	-3.29	é	18
101	Kerala State Coastal Area Development Corporation Limited	2012-13	2015-16	2.81	é	1.72	0.93	0.78	é	4.47	0.78	17.45	125
102	Norka Roots	2012-13	2014-15	1.52	é	3.71	2.69	0.16	é	9.22	0.16	1.74	46
103	Kerala High Speed Rail Corporation Limited	2013-14	2014-15	59.00	é	-11.85	é	-0.86	é	48.15	-0.86	é	4
104	Kerala Rapid Transit Corporation Limited (Erstwhile Kerala Monorail Corporation Limited)	2013-14	2014-15	28.05	é	-0.06	é	-0.06	é	27.99	-0.06	é	8
105	Clean Kerala Company Limited	First Accounts not finalised											8
106	Kerala Academy for Skills Excellence	2013-14	2014-15	26.94	é	1.52	0.13	1.97	é	66.31	1.97	2.97	11
107	Bhavanam Foundation	First Accounts not finalised											3

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Kerala												
	Sector-wise total			**509.73**	**29.34**	**-233.76**	**3922.11**	**-86.12**	**-3.42**	**1096.28**	**-37.73**	**…**	**5012**
	Total A (All sector-wise working Government Companies)			**2915.68**	**2290.75**	**287.06**	**12288.47**	**-35.31**	**-1000.71**	**6768.76**	**635.62**	**9.39**	**82026**
B. Working Statutory corporations													
AGRICULTURE & ALLIED SECTOR													
1	Kerala State Warehousing Corporation	2011-12	2014-15	11.50	0.64	-23.75	9.06	-6.96	é	-9.90	-6.96	é	329
	Sector-wise total			**11.50**	**0.64**	**-23.75**	**9.06**	**-6.96**	**0.00**	**-9.90**	**-6.96**	**…**	**329**
FINANCE SECTOR													
2	Kerala Financial Corporation	2014-15	2015-16	226.50	1408.58	85.76	284.56	14.37	0.07	1607.45	158.08	9.83	226
	Sector-wise total			**226.50**	**1408.58**	**85.76**	**284.56**	**14.37**	**0.07**	**1607.45**	**158.08**	**9.83**	**226**
INFRASTRUCTURE SECTOR													
3	Kerala Industrial Infrastructure Development Corporation	2013-14	2014-15	é	672.47	129.15	6.25	4.28	0.29	857.26	4.28	0.50	37
	Sector-wise total			**0.00**	**672.47**	**129.15**	**6.25**	**4.28**	**0.29**	**857.26**	**4.28**	**0.50**	**37**
SERVICES SECTOR													
4	Kerala State Road Transport Corporation	2012-13	2015-16	586.67	1885.95	-3025.90	1592.97	-508.22	é	-531.05	-265.44	é	45326
	Sector-wise total			**586.67**	**1885.95**	**-3025.90**	**1592.97**	**-508.22**	**0.00**	**-531.05**	**-265.44**	**…**	**45326**
POWER SECTOR													
5	Kerala State Electricity Board (up to 31.10.2013)	2013-14*	2014-15	1553.00	2654.57	2348.74	5012.75	140.42	é	12464.25	591.11	4.74	NA

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Sector-wise total			**1553.00**	**2654.57**	**2348.74**	**5012.75**	**140.42**	**0.00**	**12464.25**	**591.11**	**4.74**	**0**
	Total B (All sector-wise working Statutory Corporations)			**2377.67**	**6622.21**	**-486.00**	**6905.59**	**-356.11**	**0.36**	**14388.01**	**481.07**	**3.34**	**45918**
	Grand Total (A+B)			**5293.35**	**8912.96**	**-198.94**	**19194.06**	**-391.42**	**-1000.35**	**21156.77**	**1116.69**	**5.28**	**127944**
C. Non-working Government Companies													
MANUFACTURING SECTOR													
1	The Kerala Premo Pipe Factory Limited	1985-86	1999-2000	0.35	0.00	-0.19	é	-0.35	é	1.00	-0.35	é	0
2	Kerala Garments Limited	2008-09	2009-10	0.48	6.07	-10.23	0.03	-0.25	-0.30	-7.87	0.35	é	0
3	Kerala Special Refractories Limited	2013-14	2015-16	2.91	1.07	-2.63	é	-0.10	é	1.35	-0.10	é	3
4	The Kerala Asbestos Cement Pipe Factory Limited	1984-85	1986-87	0.06	é	é	é	é	é	é	é	é	...
5	SIDCO Mohan Kerala Limited	2007-08	2012-13	0.17	6.61	-6.13	é	-1.16	é	-5.52	é	é	é
6	Keltron Counters Limited	2003-04	2006-07	4.97	22.02	-31.74	1.52	-3.67	é	-10.62	-3.67	é	...
7	Keltron Power Devices Limited	2005-06	2014-15	15.37	7.67	-29.65	é	-0.53	-0.19	-6.42	0.00	é	0
8	SIDKEL Televisions Limited	1999-2000	2004-05	0.44	2.56	-4.14	é	-0.48	é	-2.03	-0.48	é	...
9	Astral Watches Limited	2010-11	2011-12	0.95	4.25	-5.92	é	-0.32	é	-0.62	-0.03	é	...
10	Keltron Rectifiers Limited	2005-06	2014-15	8.50	é	-23.57	é .	-0.07	é	-4.86	-0.07	é	...
11	Trivandrum Rubber Works Limited	2001-02	2010-11	2.35	é	-25.99	1.52	-1.02	é	14.00	-1.01	é	...
12	Kerala State Wood Industries Limited	2001-02	2012-13	1.70	0.01	-6.48	é	-0.28	é	1.82	-0.28	é	1

Sl. No.	Sector/ Name of the Company/ Corporation	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit (+) / loss (-)	Turnover	Net profit (+) / Loss (-)	Net impact of Audit Comment #	Capital employed @	Return on capital employed $	Percentage of return on capital employed	Manpower (No. of employees) (as on 31.3.2015)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
13	Kerala State Detergents and Chemicals Limited	2013-14	2014-15	1.55	27.07	-32.79	é	-1.12	é	-4.01	-0.04	é	...
14	Kunnathara Textiles Limited	Data not available											
15	Vanjinad Leathers Limited	Data not available											
	Sector-wise total			**39.80**	**77.33**	**-179.46**	**3.07**	**-9.35**	**-0.49**	**-23.78**	**-5.68**	é	**4**
	Total C (All sector wise non working Government Companies)			**39.80**	**77.33**	**-179.46**	**3.07**	**-9.35**	**-0.49**	**-23.78**	**-5.68**	**…**	**4**
D. Non-working Statutory Corporations													
	Grand Total (A+B+C+D)			**5333.15**	**8990.29**	**-378.40**	**19197.13**	**-400.77**	**-1000.84**	**21132.99**	**1111.01**	**5.26**	**127948**

Notes:

*** As per the latest accounts for the year 2013-14 (up to 31 October 2013). Government of Kerala revested (31 October 2013) all assets, rights and liabilities of KSEB in the newly formed (January 2011) Kerala State Electricity Board Limited. Though it was not in existence as on 31 March 2015 as Statutory Corporation, its performance as per the latest accounts was considered for this Report for better presentation of performance of PSUs.**

 # Impact of accounts comments include the net impact of comments of Statutory Auditors and CAG and indicates (+) increase in profit/ decrease in loss or (-) in case of decrease in profit/ increase in loss.

@ Capital employed represent net fixed assets (including capital work-in-progress) plus working capital except in case of finance companies/corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

$ Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.

Appendix 3

Statement showing list of matured plantations which are not included in the schedule of harvesting

(Referred to in Paragraph 2.1.23)

Sl. No.	Location of plantation	Species	Year of Plantation	Year of maturity	Area (Ha.)	Subunit	Division
1	II Kumarankudy	Acacia Mangium	2002	2009	10.02	Karavoor	Punalur
2	Central Nursery	Acacia Mangium	2003	2010	0.20	Anakulam	Thiruvananthapuram
3	Aruvikkadu, Silent Valley	Eucalyptus	1978	1985	20.00	Silent Valley	Munnar
4	Aruvikkadu, Silent Valley	Eucalyptus	2002	2009	31.20	Silent Valley	Munnar
5	II Kadassery	Eucalyptus	2007	2014	31.00	Punnala	Punalur
6	III Punnala Padam	Eucalyptus	2007	2014	29.30	Pathanapuram	Punalur
7	V Punnala	Eucalyptus	2007	2014	24.80	Punnala	Punalur
8	NS&SS Chittar	Eucalyptus	2007	2014	4.25	Achencovil	Punalur
9	Yellappatty & Pachakkadu	Eucalyptus	2007	2014	35.00	Silent Valley	Munnar
10	Central Nursery IFGTB Plot	Eucalyptus	2000	2007	0.33	Anakulam	Thiruvananthapuram
11	XIII 2P, 3P, 4P,Peringamala	Eucalyptus	2007	2014	3.86	Palode	Thiruvananthapuram
12	VIII 7, Uppukuzhi	Eucalyptus	2007	2014	12.75	Arippa	Thiruvananthapuram
13	XI 3,9, Chittar	Eucalyptus	2007	2014	18.25	Palode	Thiruvananthapuram
14	XII 6P,7P,10P, Peringamala	Eucalyptus	2007	2014	19.00	Palode	Thiruvananthapuram
15	IX Anakulam	Eucalyptus	2007	2014	28.70	Anakulam	Thiruvananthapuram
16	Central Nursery	Eucalyptus	2006	2013	6.00	Palode	Thiruvananthapuram
Total					**274.66**		

Appendix 4
Statement showing loss due to lower productivity of cash crop plantations

(Referred to in Paragraph 2.1.29, 2.1.30, 2.1.31 and 2.1.32)

Year	Area (Ha)	Total production[1] (kg)	Average productivity per Ha (kg)	State average production per Ha[2] (kg)	Percentage of yield against state average	Shortfall in yield (kg)	Average price per kg (₹)[3]	Shortfall in revenue (₹in crore)
A. Cardamom								
2010-11	146.70	14874.32	101.39	272	37.28	25028	968.65	2.42
2011-12	146.70	17033.94	116.11	381	30.48	38859	645.94	2.51
2012-13	146.70	13720.58	93.53	383	24.42	42466	687.54	2.92
2013-14	146.70	3739.85	25.49	457	5.58	63302	649.23	4.11
2014-15	146.70	2422.24	16.51	522	3.16	74155	753.77	5.59
Total		**51790.93**				**243810**		**17.55**
B. Cashew								
2010-11	312.26	22200	71.09	947	7.51	273510	40.45	1.11
2011-12	312.26	26878	86.08	845	10.19	236982	71.00	1.68
2012-13	312.26	43795	140.25	898	15.62	236614	59.59	1.41
2013-14	312.26	25855	82.80	910	9.10	258302	51.80	1.34
2014-15	312.26	23845	76.36	950	8.04	272802	61.32	1.67
Total		**142573**				**1278210**		**7.21**
C. Coffee								
2010-11	219.90	20650	93.91	780	12.04	150871	105.10	1.59
2011-12	597.43	115930	194.05	809	23.99	367388	109.07	4.01
2012-13	597.43	105028	175.80	761	23.10	349614	125.85	4.40
2013-14	597.43	108935	182.34	790	23.08	363032	116.34	4.22
2014-15	597.43	81157	135.84	802	16.94	397982	101.68	4.05
Total		**431700**				**1628887**		**18.27**
D. Green tea leaves								
Year	**Area (Ha)**	**Total production (kg)**	**Average productivity per Ha**	**Standard productivity as per UPASI(kg)**	**Percentage of yield against standard productivity**	**Shortage in yield (kg)**	**Weighted average price per Kg (₹)**	**Shortfall in revenue (₹in crore)**
2010-11	90.50	1082590	11962.32	15000	79.75	274910	12.14	0.33
2011-12	90.50	997055	11017.18	15000	73.45	360445	12.43	0.45
2012-13	90.50	902184	9968.88	15000	66.46	455316	15.34	0.70
2013-14	90.50	899547	9939.75	15000	66.26	457953	16.52	0.76
2014-15	90.50	986188	10897.10	15000	72.65	371312	11.62	0.43
Total		**4867564**				**1919936**		**2.67**

[1] Cardamom production from STA and TA was arrived at based on the percentage of green cardamom collected from these areas during each year. Sub Unit Kadalar in Munnar Division has been excluded for working out the percentage of green cardamom collected from STA and TA as the Sub Unit did not keep separate account for green cardamom collected from STA, TA and GMA.

[2] Source: Spices Board, Directorate of Cashew and Cocoa Development (DCCD) and Coffee board for cardamom, cashew and coffee respectively.

[3] Whereas annual weighted average auction price of small cardamom provided by Spices Board is applied for cardamom, the average prices provided by DCCD and Coffee Board are applied for cashew and coffee respectively.

Appendix 5
Statement showing faulty preparation of DPR

(Referred to in Paragraph 2.3.9)

Name of Project	Item of work as per DPR	Remarks
Varkala town scheme	DPR proposed 5 km HT line and 10 km LT line reconductoring under Varkala Section	On implementation these were fragmented among three sections of Varkala, Edava and Kedamkulam on the direction of Executive Engineer
	HT line - 1.5 km in Edava and 2.40 km in Kedamkualm	Actual – HT line - 1.2 km in Edava and 2.00 km in Kedamkualm. Change was made at the behest of Executive Engineer.
Attingal town scheme	11 kV New feeder from CM 22 to CM not included in DPR	11 KV New feeder from CM 22 to CM 55- 1 km was carried out as this was omitted from DPR due to improper field study by Executive Engineer.
	11 kV New feeder from C 53 to C 53/12 (Vilayil moola)	These were not required on actual execution. Inclusion in DPR was improper field survey carried out by Executive Engineer
	11 kV new feeder from Palam konam palli(KDR 64)-KDR 64/ branch	
	11 kV Line : Reconductoring/Augmentation- Kallambalam 11kV feeder (ATL section) -2.5 km	4 km reconductoring was done as required on actual execution of the work. The change from DPR was due to improper field survey at the time of preparation of DPR.
Neyyattinkara town scheme	11 kV Line reconductoringnot included in DPR	1 km 11 kV Line reconductoring was executed as demanded by site conditions. Deviation from DPR was due to improper field survey at the time of preparation of DPR
	11 kV Line : Reconductoringnot included in DPR	11 kV Line : Reconductoring/ OH with OH - Marayamuttom ES- 4 km
Thaliparamba town scheme	Construction of 8 kms 11 kV UG cable work	The route was deviated due to objection from PWD and also OH interlinking line drawn in the proposed area, hence the length has been reduced to 5.448 km
	HT reconductoring work- target as per DPR was 23 km	HT reconductoring work for 23 km in the DPR included 14 kms of line where reconductoring was already done. Hence, reconductoring was reduced to 9 km from 23 km envisaged in the DPR.
	Conversion single phase to three phase- target as per DPR was 78.24 km but revised to 36 km.	Conversion was originally proposed for the whole area of the section, now the target area revised with proposals within the scheme area.
	HVDS- target as per DPR was 14 km but revised to 0 km.	No specific reasons given by Executive Engineer (EE) / Assistant Engineer (AE) of the project area concerned.

Appendix 6

Statement showing deviation from approved DPR

(Referred to in Paragraph 2.3.28)

Name of Project	Item of work as per DPR	Remarks
Thiruvananthapuram city scheme	Road restoration charge of ₹6 crore only	Road restoration charge revised to ₹32.96 crore due to adoption of technology. Deputy CE suggested the revision.
Kozhikode city scheme	Provision for Road cutting, PTCC, tree cutting and railway crossing of ₹6.13 crore only	The anticipated expenditure is ₹10.06 crore. Defective planning of expenditure in the DPR stage resulted in less provision in the DPR to be met out of own resources.
	The construction cost of 33/11 kV substation was only included in the DPR and the feeding arrangement to the proposed Substation was completely omitted	Feeding arrangement at a cost of ₹4.11 crore was not included in the approved DPR
Ernakulam–Kochi city scheme	Provision for Road cutting, PTCC, tree cutting and railway crossing of ₹11.76 crore only	The amount of expenditure anticipated is ₹85.50 crore. Less provision was due to lack of planning in the DPR stage. CE suggested for revision and decided to met the excess expenditure from own budget.
Manjeri town scheme	Installation of 10 RMUs was taken up which was not included in the sanctioned DPR	Estimate sanction accorded by the EE during March 2015 for ₹0.47crore. The work now included for effective utilization of UG cable work.

Appendix 7

Statement showing esnvisaged benefit on completion of the project

(Referred to in Paragraph 2.3.30)

Sl. No.	Name of Town/project	Date of Sanction	Date of completion (5 years from date of sanction)	Extension granted by PFC beyond 5 years	Envisaged annual benefit on completion of the project within 3 years (MU)	Month beyond 5 years up to September 2015	Envisaged loss beyond 5 years in MU
1	Alappuzha	02/06/2010	01/06/2015	30/06/2016	19.33	4	6.44
2	Aroor	02/06/2010	01/06/2015	30/06/2016	12.74	4	4.25
3	Attingal	16/08/2010	15/08/2015	31/08/2016	5.05	1.5	0.63
4	Chalakudy	16/08/2010	15/08/2015	31/08/2016	3.43	1.5	0.43
5	Changanacherry	16/08/2010	15/08/2015	31/08/2016	4.65	1.5	0.58
6	Cherthala	16/08/2010	15/08/2015	31/08/2016	19.39	1.5	2.42
7	Chittur	02/06/2010	01/06/2015	30/06/2016	5.73	4	1.91
8	Chokli-Peringathur	02/06/2010	01/06/2015	31/12/2016	5.72	4	1.91
9	Guruvayur	16/08/2010	15/08/2015	31/08/2016	4.22	1.5	0.53
10	Kanhangad	16/08/2010	15/08/2015	31/08/2016	5.83	1.5	0.73
11	Kannur	16/08/2010	15/08/2015	31/08/2016	31.82	1.5	3.98
12	Kasaragod	16/08/2010	15/08/2015	31/08/2016	6.51	1.5	0.81
13	Kayamkulam	02/06/2010	01/06/2015	30/06/2016	4.45	4	1.49
14	Kodungallur	08/12/2010	07/12/2015	31/12/2016	7.67	0	0.00
15	Kollam	16/08/2010	15/08/2015	31/08/2016	15.98	1.5	2.00
16	Kothamangalam	16/08/2010	15/08/2015	31/08/2016	5.16	1.5	0.65
17	Kottayam	08/12/2010	07/12/2015	31/12/2016	20.11	0	0.00
18	Koyilandy	16/08/2010	15/08/2015	31/08/2016	5.75	1.5	0.72
19	Kunnamkulam	02/06/2010	01/06/2015	30/06/2016	4.70	4	1.57
20	Malappuram	02/06/2010	01/06/2015	30/06/2016	3.16	4	1.05
21	Mattannur	16/08/2010	15/08/2015	31/08/2016	4.89	1.5	0.61
22	Nedumangad	16/08/2010	15/08/2015	31/08/2016	3.06	1.5	0.38
23	Neyyattinkara	02/06/2010	01/06/2015	30/06/2016	2.79	4	0.93
24	Ottappalam	08/12/2010	07/12/2015	31/12/2016	1.98	0	0.00
25	Palakkad	08/12/2010	07/12/2015	31/12/2016	20.10	0	0.00
26	Pappinissery	16/08/2010	15/08/2015	31/08/2016	2.34	1.5	0.29
27	Paravur	16/08/2010	15/08/2015	31/08/2016	3.04	1.5	0.38
28	Pathanamithitta	16/08/2010	15/08/2015	31/08/2016	1.11	1.5	0.14
29	Payyanur	02/06/2010	01/06/2015	30/06/2016	3.89	4	1.30
30	Perinthalmanna	16/08/2010	15/08/2015	31/08/2016	2.19	1.5	0.27
31	Ponnani	16/08/2010	15/08/2015	31/08/2016	2.12	1.5	0.27
32	Punalur	02/06/2010	1/06/2015	30/06/2016	2.85	4	0.95
33	Shornur	08/12/2010	07/12/2015	31/12/2016	2.76	0	0.00

Sl. No.	Name of Town/project	Date of Sanction	Date of completion (5 years from date of sanction)	Extension granted by PFC beyond 5 years	Envisaged annual benefit on completion of the project within 3 years (MU)	Month beyond 5 years up to September 2015	Envisaged loss beyond 5 years in MU
34	Thaliparamba	08/12/2010	07/12/2015	31/12/2016	4.24	0	0.00
35	Thiruvalla	16/08/2010	15/08/2015	31/08/2016	8.71	1.5	1.09
36	Thodupuzha	16/08/2010	15/08/2015	31/08/2016	4.96	1.5	0.62
37	Thrissur	08/12/2010	07/12/2015	31/12/2016	16.53	0	0.00
38	Tirur	02/06/2010	01/06/2015	30/06/2016	5.41	4	1.81
39	Vadakara	08/12/2010	07/12/2015	31/12/2016	7.60	0	0.00
40	Varkala	16/08/2010	15/08/2015	31/08/2016	1.54	1.5	0.19
A				**Total**	**293.51**	**75.5**	**41.31**
41	Ernakulam-Kochi	22/02/2011	21/02/2016	28/02/2017	80.92	0	
42	Kozhikode	22/02/2011	21/02/2016	28/02/2017	67.86	0	
43	Thiruvananthapuram	03/08/2012	31/03/2017	Nil	64.45	0	
B				**Total**	**213.23**	0	
		Grand Total(A+B)			**506.74**		

Appendix 8
Statement showing interest paid due to delay in filing tax return

(Referred to in paragraph 3.3)

Sl No	Name of PSU	Assessment Year	Due date	Filed on	Delay (days)	Interest paid under section 234(A) (₹ in lakh)	Total (₹ in lakh)
1	Bekal Resorts Development Corporation Limited	2014-15	30.09.14	29.11.14	60	0.54	0.54
2	Keltron Electro Ceramics Limited	2013-14	30.09.13	20.11.14	416	3.44	4.55
		2014-15	30.09.13	23.06.15	266	1.11	
3	Kerala Transport Development Finance Corporation Limited	2012-13	30.09.12	29.03.13	180	41.95	44.10
		2013-14	30.09.13	30.10.13	30	2.15	
4	Kerala State Maritime Development Corporation Limited	2014-15	30.09.14	29.11.14	60	0.63	0.63
5	Kerala State Mineral Development Corporation	2011-12	30.09.11	30.03.13	547	20.25	20.25
	Total						**70.07**

Appendix 9

Statement showing interest paid due to shortage in payment of advance tax

(Referred to in paragraph 3.3)

Sl No	Name of PSU	Assessment Year	Amount of tax due (₹ in lakh)	Percentage of advance tax/TDS paid to total tax liability	Interest paid under section 234B (₹ in lakh)	Total (₹ in lakh)
1	Kerala Transport Development Finance Corporation Limited	2012-13	714.62	2.16	83.90	98.97
		2013-14	663.13	67.54	15.07	
2	Kerala State Financial Enterprises Limited	2010-11	1708.14	76.58	51.60	831.84
		2011-12	2325.23	66.92	73.31	
		2012-13	4824.58	38.84	612.47	
		2013-14	5473.33	71.24	94.46	
3	Bekal Resorts Development Corporation Limited	2012-13	27.63	29.81	1.50	6.10
		2013-14	45.96	23.88	2.45	
		2014-15	64.78	58.59	2.15	
4	Keltron Electro Ceramics Limited	2013-14	26.98	2.01	3.10	4.48
		2014-15	14.40	14.35	1.38	
5	Kerala State Beverages (Manufacturing & Marketing) Corporation Limited	2013-14	2425.04	63.66	52.87	52.87
6	Kerala State Maritime Development Corporation Limited	2014-15	31.48	0.00	2.53	2.53
7	Kerala State Mineral Development Corporation	2011-12	102.59	1.06	40.50	40.50
8	Kerala State Civil Supplies Corporation Limited	2010-11	1487.16	1.17	560.39	560.39
Grand Total						**1597.68**

Appendix 10

Statement showing payment of interest due to non-payment of quarterly instalments of advance tax

(Referred to in paragraph 3.3)

Sl No	Name of PSU	Assessment Year	Interest Paid (₹ in lakh)	Total (₹ in lakh)
1	Kerala Transport Development Finance Corporation Limited	2012-13	35.29	63.24
		2013-14	27.95	
2	Kerala State Financial Enterprises Limited	2010-11	11.55	455.59
		2011-12	45.13	
		2012-13	156.29	
		2013-14	125.65	
		2014-15	116.97	
3	Bekal Resorts Development Corporation Limited	2012-13	0.98	4.10
		2013-14	1.77	
		2014-15	1.35	
4	Keltron Electro Ceramics Limited	2013-14	1.34	1.96
		2014-15	0.62	
5	Kerala State Beverages (Manufacturing & Marketing) Corporation Limited	2013-14	19.64	46.39
		2014-15	26.75	
6	Kerala State Maritime Development Corporation Limited	2014-15	1.59	1.59
7	Kerala State Mineral Development Corporation	2011-12	1.46	1.46
8	Kerala State Civil Supplies Corporation Limited	2010-11	74.22	74.22
	Grand Total			**648.55**