

Chapter IV

4. TRANSACTION AUDIT OBSERVATIONS

Important audit findings emerging from test check of transactions made by the State Government Companies/Corporations have been included in this Chapter.

Government companies

Kerala State Electronics Development Corporation Limited

4.1 *Lack of fairness and transparency in fixing advertisement agency*

Lack of fairness and transparency in selection of the advertising agency and deficiencies in contract with the agency led to loss of revenue of ₹8.02 crore.

The Company secured licence (19 May 2008) for display of advertisement in Kerala State Road Transport Corporation (KSRTC) buses (4000 nos.) for 24 months from 1 July 2008 for a consideration of ₹4.54 crore. The Company in turn leased out (23 June 2008) the licence to, Century Direct Advertising and Marketing (Private) Limited, (CDAM), a private agency, identified by RP Infomedia (RPI), a consultant for ₹11.37¹ crore to be paid in 23 monthly installments.

We scrutinised (June 2010) the award/ execution of the contract. The analysis revealed the following deficiencies:

- When KSRTC issued a tender cum auction notice (April 2008) for advertisement rights, the Company participated at the behest of RPI. The participation in the tender cum auction arose not because the Company on its own perceived the benefits, but because of the proposal from RPI, an unsolicited offer.
- The selection of the advertising agency CDAM lacked fairness and transparency as the Company failed to call for bids and was decided on the basis of recommendation made by RPI, a party which itself was selected through an unsolicited offer.
- Agreement with KSRTC stipulated a schedule of payments as detailed in **Annexure 15**. In the same vein the agreement with the agency for the execution of the contract should have been so structured that the receipts from the agency could be used to service the Company's obligation to KSRTC. This requirement was very vital considering the poor financial position of the Company. A scrutiny of the agreement with the advertising agency revealed that this requirement was not met.

Sl. No.	Date	Cumulative amount payable to KSRTC (₹ in lakh)	Remarks
1	15.05.2008	14.08	First payment from the agency becomes due only on 19.06.2008.
2	02.06.2008	104.88	-do-
3	09.06.2008	247.13	-do-
4	01.07.2008	262.26	Only ₹ 25 lakh was receivable

¹ Includes Service Tax of ₹ 1.25 crore.

Thus, up to 1 July 2008, the amount receivable from the agency was grossly inadequate in comparison to payments to KSRTC and subsequently also.

- As per Clause 5 of the contract with the advertising agency, the permissible period of default was 90 days before which the contract could not be terminated. As a safeguard in the event of termination of the contract, the security deposit (SD) should have been more than the value of three installments as time would be required for fixation of new agency. The value of SD was only ₹25 lakh (by way of EMD) which was strangely even lower than the monthly installment of ₹38.10 lakh. This defective clause facilitated the agency to default in its obligation from making prompt payment. The contract was terminated in November 2008. At the time of fixation (January 2009) of the new agency, the amount realised from the original agency was ₹2.19 crore as against the realisable amount of ₹3.77 crore (inclusive of Service Tax).
- Company favoured the agency by non-encashing a cheque worth ₹75 lakh (dated 20 September 2008) on the due date and was ultimately dishonoured.
- While fixing the new agency, Ram Advertising (RAM) the original agency (CDAM) was absolved of all the liabilities. Two months time was taken to fix the new agency. There was further delay of four months in issue of formal authorisation letter. These delays basically would have facilitated the original agency to continue to earn income from advertisements and also resulted in forgoing of revenue of ₹85.12 lakh from the second agency.
- As per Clause 5 of the tri-party agreement, defaulted payments after thirty days were not allowed and the licensor (Company) had full power to cancel the licence after expiry of 30 days of defaulted payments without further intimation. The first instance of default by the second agency took place in August 2009. Instead of termination of the contract by September 2009 in accordance with the agreement, the contract was terminated at a belated stage in January 2010. Shortfall in recovery from the second agency was ₹43.48² lakh.

Management while admitting (July 2011) that the offer from RPI was unsolicited stated that the Company had made adequate enquiries about CDAM, the advertising agency before entering into contract with them. The offer of CDAM was also found lucrative with good margin. The Company had also realised ₹1.50 crore as advance from CDAM besides EMD of ₹25 lakh which together were more than the value of three equated monthly instalments (EMIs). It was only at the instance of RAM, the second advertising agency that CDAM, the first agency was absolved of all liabilities by entering into tripartite agreement.

The reply was not acceptable. There was lack of fairness and transparency in selection of advertisement agency. There were serious flaws in the agreement clauses and implementation which resulted in default by the first and second agencies. The non-presentation of cheques on due dates indicated collusion. The

² ₹21.27 lakh X 5 months as reduced by security deposit of ₹ 47.87 lakh – EMD (₹ 15.00 lakh).

argument that the Company had collected advance of ₹1.50 crore (against ₹2.25 crore collectible) by August 2008 which was more than the value of three monthly instalments did not hold good as the amount payable to KSRTC by July 2008 itself was ₹2.62 crore. Further, the advance received needed to be viewed in the light of the fact that CDAM was to pay first EMI only in November 2008 although the agreement was inked in June 2008.

Thus, against ₹11.37 crore to be realised from the advertising agencies, the total amount realised from the first and second agencies together was ₹3.35 crore resulting in loss of revenue of ₹ 8.02 crore³.

The matter was reported (June 2011) to Government; their reply was awaited (November 2011).

Kerala State Civil Supplies Corporation Limited

4.2 *Failure to procure subsidised green gram*

Failure to respond to STC's offer of supply of subsidised green gram and procurement from alternative expensive sources resulted in avoidable extra expenditure of ₹2.93 crore.

State Trading Corporation (STC), a Government of India PSU, sent (17 January 2009) a communication to the Company, through email, offering to supply 20000 Quintals of green gram under the scheme of stabilising prices of pulses and distribution through State Government at the rate of ₹19.77/kg plus freight ex-Mumbai Port (total ₹23014 per MT). The Company was asked to confirm the acceptance by 20 January 2009. Audit noticed (April 2011) that the Company failed to respond within the period prescribed and consequently the pulses were sold in the open market by STC. The Company, however, procured green gram from other sources which was more expensive than the rate which STC would have charged resulting in avoidable extra expenditure of ₹2.93 crore⁴.

The Company stated (June 2011) that the consumers were not deprived of subsidised green gram and assured to enquire into the matter so as to take necessary action against the concerned. It was also stated (May 2011) that the communication from STC being through e-mail could not be acted upon as it was not received. The fact remained that the Company resorted to procurement from alternative open market and expensive sources. Moreover, the Company was very well aware of the scheme offered by Government of India. Had the Company acted in right earnest it would have procured at least 2000 MT of green gram less from the open market with its attached additional cost of ₹2.93 crore.

The matter was reported (May 2011) to Government; their reply was awaited (November 2011).

³ ₹11.37 crore as reduced by amount recovered from first agency (₹2.19 crore) and second agency (₹1.16 crore).

⁴ 991.50MT (₹37782.20 - ₹23014.00) + 1008.50 MT (₹37548.60 - ₹23014.00).

Roads and Bridges Development Corporation of Kerala Limited

4.3 Irregular deployment of unutilised funds in speculative activities

The Company deployed unutilised funds in speculative investments through brokers in violation of existing Government guidelines.

The Company incorporated (September 1999) under the administrative control of Public Works Department (PWD), Government of Kerala is engaged in the construction of highways, bridges, roads, bypasses, over-bridges, culverts, expressways etc. It meets its expenditure by funds raised through borrowings, loans and grants.

The guidelines on investment of surplus funds by Public Sector Enterprises issued by Department of Public Enterprises (DPE), Government of India stipulated that there should be no element of speculation on the yield in respect of investments made by PSUs and PSUs were not allowed to invest in public and private funds as they were equity based and risky. The Government of Kerala's directions (November 1997/August 2009) also bound, all State Public Sector Undertakings to deposit their surplus/ reserve funds with Government Treasuries.

The Company received (September 2006) an unsolicited offer from Trust Investment Services, Kochi, a partnership firm of brokers, to provide services in the field of investments in securities and mutual funds. The offer should have been rejected straight away as Public Sector Enterprises were bound to observe the principles concerning investments issued by DPE and Government.

The Company received (August 2007) ₹7.05 crore as loan from Kerala Road Fund Board (KRFB) and finding no immediate use of this amount, the Company decided, in contravention of the DPE and Government of Kerala guidelines on deployment/investment of surplus funds, to invest the same in mutual funds for short term with stop loss facility. We observed that this activity of investment of funds was beyond the scope and powers of the Company though the Board of Directors (BoD) authorised the Managing Director to undertake this prohibited activity in December 2007 based on the decision of BoD of the Company in September 2000.

We noticed (September 2008) this issue and subsequently also warned the Management about the nature of investments but the activity was continued. The speculative nature of investments was evident from the following table:

(₹ in lakh)

Year	Amount of average investments	Dividend income	Profit on sale of investments	Loss on sale of investments
2006-07	155.13	Nil	2.01	Nil
2007-08	788.84	110.11	2.00	Nil
2008-09	1760.16	21.79	357.77	467.28
2009-10	1240.95	Nil	190.83	17.60

The Company suffered the largest loss of ₹4.67 crore in 2008-09. Unutilised funds including project specific Grants/Loans received from Government/Governmental agencies ranging from ₹1.10 crore to ₹47.25 crore were deployed during the period from October 2006 to January 2010 in speculative investments.

Government in endorsing (October 2011) the reply of Management (August 2011) stated that the investments in mutual funds were made considering the aspects of liquidity and better returns as compared to deposits in Treasury and nationalised banks. Further, the investments had the approval of Board of Directors and the overall transaction was profitable to the Company. The reply was not acceptable as the Company was prohibited to make these investments *ab initio*. In the year 2008-09, the loss on sale of investments was a massive ₹4.67 crore. It was only due to fortuitous circumstances the Company could make profits on investments in 2009-10.

Kerala State Textile Corporation Limited

4.4 Deficiencies in procurement of equipments

Non acceptance of lowest offer in the procurement of equipments in six cases resulted in avoidable extra expenditure of ₹5.23 crore.

Government of Kerala approved (April 2010) the project proposal of the Company for revival of two⁵ spinning and weaving mills and formation of two⁶ new spinning and weaving mills. The projects were due for completion by December 2010. For the implementation of the four projects, the Company issued (June/ July 2010) purchase orders for equipments worth ₹54.42 crore.

In examination of the procurement of equipments, we noticed that as per the Notice Inviting Tenders (NIT) a two-part bidding (Technical and Price bids) was envisaged. Established norms of fairness and transparency in evaluation of bids demanded that pre-qualification criteria, performance criteria and evaluation criteria are incorporated in the bid documents in clear and unambiguous manner. Price bids of only those tenderers who qualified technically were to be opened. In six cases it was observed that after opening the price bids, L1 parties were denied the supply order. Recorded reason for rejection of L1 offers was technical non-acceptance. This post tender rejection of bids of L1 parties was objectionable as price bids of those who were technically qualified were to be opened. The extra expenditure incurred by the Company due to non acceptance of the lowest offers was ₹5.23 crore (*Annexure 16*).

Management replied (October 2011) that in all the cases the orders were placed giving more importance to quality and performance of the machines.

The reply was not tenable in view of the fact that the tender opening and evaluation process was vitiated when the price bids of all tenderers were opened instead of

⁵ Malabar Spinning and Weaving Mills, defunct from August 2003 and Komalapuram Hi-tech Spinning and Weaving Mills, a private sector unit closed down in March 2003 and taken over by the State Government in November 2009.

⁶ Open end spinning Mill at Uduma and Hi-tech Weaving Project at Pinarayi.

opening price bids of only those tenderers who were qualified technically on evaluation of technical bids.

The matter was reported (May 2011) to Government; their reply was awaited (November 2011).

Kerala Medical Services Corporation Limited

4.5 *Extra expenditure in procurement of medicines*

Incorrect firming up of quantity for centralised procurement led to balance quantity being procured at higher rate, resulting in extra expenditure of ₹2.09 crore.

The Company was incorporated (November 2007) for implementing a system for purchase and distribution of drugs, supplies and equipments in the Department of Health Services and Medical Education through a centralised procurement system to ensure savings by harnessing funds allotted through State budget and from other sources.

As per Para 5 of the Stores Purchase Manual, the quantities of items for purchases are to be decided on the basis of consumption of previous three to five years and taking into account probable budget estimate for the next year. Requirements were to be correctly estimated so that after inviting tenders the quantities were not changed.

We observed (August 2010):

- The Company decided to call for tenders for supply of items for a duration of one year from April 2008 to March 2009 vide tender no. 001/Drugs/ KMSCL/2008 dated 30 January 2008. Based on the indents of two user departments for medicines required during 2008-09, the Company tied up for quantities valued for mere ₹31.90 crore only citing that the indents were artificially jacked up.
- During the first quarter of 2008-09 itself, the Company procured (April-June 2008) drugs/medicines valuing ₹31.40 crore at the agreed rates i.e., exhausting the total purchase order. Due to incorrect firming up of quantities, it had to procure the balance quantities for the rest of the year at rates higher than the original agreed rates leading to extra expenditure of ₹2.09 crore (*Annexure 17*).

Management stated (June 2011) that the actual requirement of drugs could not be planned due to non-availability of adequate data. Further, the quantities were restricted to the budget provision of ₹95.30 crore. Due to wrong estimation of the quantity and price, the value of medical items tied up was lower (₹31.90 crore). As there was a provision in the tender to increase or decrease the quantity at the same rate, the initial quantities were restricted.

The contention of the Company was not acceptable as it did not assess the requirements of the indenting departments correctly and arbitrarily reduced their demands without even linking with the funds availability through State Budget and other schemes. The agreement with suppliers also did not prescribe the upper limit of variation in quantities for which the prices quoted would be firm. It was for this reason that the suppliers were not willing to supply at the agreement rates beyond the quantities initially firmed up.

Thus, the avowed aim of setting up of the Company to ensure economy of purchase was defeated due to poor planning and co-ordination. We recommend the Company to evolve procedures to estimate demands correctly.

The matter was reported (May 2011) to Government; their reply was awaited (November 2011).

The Kerala Minerals and Metals Limited

4.6 *Irregular Payment*

Irregular reimbursement of Service Tax resulted in passing of undue benefit of ₹0.52 crore to the contractor.

The Company released ₹4.27 crore to Bhavani Erectors (P) Ltd. (party) during April 2006 to March 2009 towards structural and painting jobs in its Ilmenite Beneficiation Plant and Pigment Production Plant. As per the accepted terms and conditions of Work Orders (Clause 1(b)), the rates agreed to by the party were inclusive of all taxes and duties. The Company amended the work orders and paid an amount of ₹51.87 lakh separately towards Service Tax. This payment of Service Tax by amending the work order was irregular and resulted in passing of undue benefit of ₹51.87 lakh to the contractor.

Management stated (June 2011) that the rate mentioned was inclusive of Taxes and Duties. However, it was presumed that Taxes to be deducted such as Income Tax, Contract Tax etc. and Service Tax was not envisaged. Later Service Tax was paid on production of necessary documents. The contention of the Company was not correct as the work order clearly stipulated that the rates were inclusive of all Taxes and Duties and did not provide for payment of Service Tax as an extra item of expenditure reimbursable on production of necessary documents. We are of the opinion that, the Company erred by passing off the Service Tax amount of ₹51.87 lakh to the party beyond the agreed rates of contract.

The matter was reported to Government (May 2011); their reply was awaited (November 2011).

4.7 *Inappropriate purchase*

Incorrect specification in procurement by the Company resulted in improper expenditure of ₹0.46 crore.

As per the Export Promotion Capital Goods Scheme (EPCG) 2004-2009 of Government of India, imports of capital equipments used in manufacture of goods

was permitted at concessional rates of Duty. To avail this, the importer was to submit an installation certificate of the imported machinery within six months from the date of such import and was also under obligation to export goods worth eight times the Duty saved within eight years. Non-fulfilment of the obligations was to result in repayment of Duty saved with interest at 15 *per cent* per annum from the date of import.

Scrutiny of records revealed (March 2011) that the Company refunded (July 2010) concessional import duty availed under EPCG Scheme (₹8.04 lakh) along with interest (₹5.94 lakh) to the Customs authorities on submersible type Hazleton pump imported in August 2005 proposed to be used in transfer of crude titanium tetrachloride in its factory.

The Company was using a vertical centrifugal pump for the job and as an alternative bought the submersible pump without evaluating the technical compatibility of the product to its needs. This led to non-utilisation of the pump resulting in its subsequent non-installation and refund of duty saved under EPCG along with interest. Thus, the investment of ₹32.38 lakh on the Hazleton pump was rendered ineffective as the pump could not be run till date though modifications were also carried out (November 2008).

Management stated (June 2011) that since the pump was of submersible type it could not be used for crude tickle pumping. But with some modification suggested by the supplier, the pump would be run on trial during the annual shut down of the plant. The reply was not acceptable as the equipment was unsuitable for the needs as acknowledged by the Company and already annual shutdown had happened since the pump was modified but it was yet (September 2011) to be put to use even on trial basis. This proved that the purchased pump could not be used as it was unsuitable.

The matter was reported to Government in May 2011; their reply was awaited (November 2011).

Kerala Automobiles Limited

4.8 *Wasteful expenditure*

344 CNG engines worth ₹0.65 crore were procured without adequate assessment of their suitability.

The Company, engaged in the manufacture of three wheelers powered with diesel engines has its main markets in the northern States of the Country. Following the ban (2004) on running of diesel powered public transport in National Capital Territory of Delhi, the Company decided to go in for compressed natural gas (CNG) powered vehicles, fitted with LGA 340 engine supplied by Lombardini India Pvt. Ltd. (LIPL). The Company procured three engines from LIPL on trial basis which were approved by Automobile Research Association of India (ARAI) in the development test conducted as Bharat Stage II (BS II) compliant. Consequently, orders were placed (May 2006-March 2007) on LIPL for supply of 344 numbers LGA 340 engines at a total cost of ₹64.64 lakh to be fitted on to three

wheelers sold in Delhi, after obtaining approval from the certifying body ARAI. The vehicles fitted with engines from first lot of purchases reported (September 2006) engine problems after their sale. The Company could sell only 89 vehicles of the total 230 produced. The balance engines and vehicles remained unsold.

We noticed (January 2011) the following lapses in procurement of the CNG engines:

- LIPL being a single source identified for CNG powered engines, the Company had procured 3 engines from LIPL on trial basis initially. The vehicles fitted with these engines though approved (December 2005) by ARAI on BS II emission norms, reported engine problems and were replaced by LIPL. Disregarding this, the Company decided (June 2006) to procure 110 engines in the initial phase itself without adequate assessment of their suitability. The Company further continued to place orders and procured (November 2006 - March 2007) additional 234 engines.
- To ensure proper application and good performance, LIPL was to provide warranty for engines for six months against manufacturing defects and support to the Company in the form of after sale service. However, no formal agreement was entered into with LIPL to guarantee performance of the engines which ultimately led to the Company bearing the additional expenditure for rectification of defects. This poor after sales service coupled with non-availability and high cost of spares further dampened the marketability of the vehicles. Consequently, 141 engines already fitted to three-wheelers and 114 others procured from LIPL remained unutilised as of March 2011. The Company could sell only 89 vehicles.
- Efforts of the Company to rectify the defects using upgradation kits procured from LIPL at a cost of ₹2.25 lakh also did not yield the desired results.

Thus, procurement of CNG (LGA 340) engines disregarding the poor performance of the initial lot led to production of 141 vehicles worth ₹1.07 crore⁷ for which there were no sales in addition to idling of 114 engines worth ₹21.42⁸ lakh.

Management stated (March 2011) that the CNG engines were procured with the intention of maintaining and boosting the sales of vehicles in areas where diesel engine powered public transport were banned. But certain defects such as engine overheating, HT coil failure and starting problems seriously affected the sales of these vehicles. Efforts of the Company to rectify these defects with upgradation kits were also not successful. The Management reply did not hold good as the initial procurement of 110 engines and additional quantity of 234 engines were made without considering the road performance of first lot of engines procured on trial basis. Moreover, sale of vehicles powered with these Bharat Stage (BS) II compliant engines became impossible since BS III emission norms had been made

⁷ Cost of production for 141 vehicles at the rate of ₹75831 per vehicle.

⁸ (₹64.64 lakh/344 engines) 114 engines.

mandatory from October 2010 whereas LGA 340 engines were only BS II compliant.

Thus, the Company was saddled with the unsold inventory worth ₹1.28 crore which it could not sell.

We suggest that the Company should enter a new business line only after a thorough market research about acceptability of its products.

The matter was reported to Government in April 2011; their reply was awaited (November 2011)

Financial Management in four selected areas

4.9 We selected twenty Companies⁹ from six sectors based on risk analysis for assessing the effectiveness of performance in the following areas pertaining to the period 1 April 2006 to 31 March 2011:

- *Deployment of surplus funds*
- *Disbursement of loans*
- *Borrowing of funds and*
- *Payment of taxes and duties.*

We noticed deficiencies and were of the opinion that they required urgent attention of the Managements of respective Public Sector Undertakings (PSUs).

Deployment of Funds

Incorrect selection of financial institutions for deployment of funds, inappropriate duration of term deposits and avoidable deployment of funds in Current Accounts resulted in loss of interest of ₹6.57 crore, as discussed further.

Time Deposits

Selection of institution

Incorrect selection of the institution for deployment of surplus funds in time deposits by the following nine PSUs ignoring the rates offered by State Treasury which were better than what they carried resulted in foregoing of possible revenue of ₹3.30 crore in 399 cases as tabulated below:

⁹ Agriculture Sector – Kerala Agro Machinery Corporation Ltd.(KAMCO), Kerala Livestock Development Board (KLDB).

Finance Sector – Kerala Transport Development Finance Corporation Ltd.(KTDFC), Kerala State Financial Enterprises Ltd.(KSFE), Kerala State Film Development Corporation Ltd.(KSFDC), Kerala Urban and Rural Development Finance Corporation Ltd.(KURDFC).

Infrastructure sector - Roads and Bridges Development Corporation of Kerala Ltd.(RBDCK), Kinfra Export Promotion Industrial Park(KEPIP), Kerala State Industrial Development Corporation Ltd.(KSIDC).

Manufacturing Sector - Kerala State Beverages (M&M) Corporation Ltd.(KSBC), Transformers and Electricals Kerala Ltd.(TELK), Kerala Feeds Ltd.(KFL), Steel Industrials Kerala Ltd.(SILK), Steel and Industrial Forgings Ltd.(SIFL), Kerala Minerals and Metals Ltd.(KMML), United Electrical Industries Ltd.(UEIL), Kerala State Electronics Development Corporation Ltd.(KELTRON).

Power Sector - Kerala State Power and Infrastructure Finance Corporation Ltd.(KSPIFCL).

Service Sector – Kerala State Industrial Enterprises Ltd.(KSIE), Tourist Resorts Kerala Ltd.(TRKL).

Company	No of Fixed Deposits (FDs) Instances	Period involved	Range of FDs (₹ in lakh)	Range of Period of FDs (Days)	Rate of interest (ROI) received (%)	Alternative ROI available at State Treasury (%)	Interest forgone (₹ in lakh)
TELK	31	Jan2009 to Oct 2010	40 to 300	180 to 468	2.00 to 6.25	6.75 to 10.00	68.08
KSPIFCL	48	March 2009 to March 2011	25 to 500	365 to 730	7.00 to 8.80	7.50 to 10.00	64.35
KMML	40	Jan 2009 to March 2011	15 to 261.93	365	6.50 to 9.00	7.50 to 10.00	63.18
KSIDC	163	Nov 2007 to March 2011	1.00 to 380.14	180 to 365	6.00 to 8.00	6.75 to 10.00	55.72
TRKL	06	March 2009 to March 2011	9.50 to 556.31	365	5.00 to 8.00	7.50 to 10.00	29.50
KURDFC	49	April 2008 to March 2011	15.90 to 99.00	180 to 556	5.75 to 8.00	6.75 to 10.00	23.11
KSIE	17	Jan 2009 to Nov 2010	0.55 to 109.38	365	7.00 to 8.50	7.50 to 10.00	9.74
KELTRON	22	May 2006 to Feb 2011	5.00 to 116.55	181 to 897	4.05 to 7.70	6.50 to 10.00	8.48
KFL	23	May 2009 to Feb 2011	55.00 to 99.00	180	5.50 to 7.00	6.75 to 8.50	8.21
Total	399						330.37

Four Companies namely TELK (July 2011), KSPIFCL (August 2011), KSIDC (August 2011) and KMML (August 2011), stated that restrictions imposed by Government/ Treasury, operational convenience and facilities for Overdraft (OD)/Cash Credit (CC)/Letter of Credit (LC)/Working Capital Loan offered by scheduled commercial banks (SCBs) etc. were the major reasons for the preference given to SCBs while depositing the funds.

The replies were not acceptable as Government/ Treasury did not impose any restriction for withdrawal of Fixed Deposits (FDs) on maturity. Monetary ceiling for premature closure could be overcome by opening FDs of smaller denominations and also by adopting phased withdrawal. The State Treasury should have been preferred for investment over SCBs as it would have fetched better returns.

About TRKL, Government (October 2011) replied that they parked their deposits with banks for operational convenience. The Management stated (August 2011) that they could not monitor their deposits due to shortage of manpower. The reason did not justify the loss of potential interest income of ₹29.50 lakh.

KSIE stated (August 2011) that they had switched over to deployment of surplus funds in long term FDs with banks because of the OD facility offered to them while KFL replied (August 2011) that the Company could not estimate short term requirement of funds correctly and there were chances of premature closure. The Audit point that these Companies did not beneficially deploy their surplus funds stays, as the Treasury did not discourage premature withdrawals.

Optimal utilisation of increasing interest rates

Treasury periodically revised the rate of interest on Fixed Deposits. Regular monitoring coupled with comparative assessment of continued investment in

existing FDs or switching over to new FDs, will help maximisation of interest on investment. No penalty is imposed by the Treasury for premature renewal of term deposits.

- Delay in renewal of term deposits by KSFE on 66 occasions in line with upward revision in interest rates (October 2008) by Treasury resulted in loss of potential earnings of ₹13.47 lakh.

The Company replied (August 2011) that the delay in foreclosure of FDs was due to the delay in getting approval from Board of Directors which took all major decisions. Thus, quick decision making was absent, and to overcome this, operational freedom should have been given to functional managers within specific guidelines laid down by the Board of Directors.

- The Company also erred in selection of term deposits for foreclosure which resulted in interest loss of ₹10.55 lakh. The Company assured to evolve appropriate methodology for foreclosures.
- Non-closure of existing FDs to redeploy funds when the Treasury had raised rates of interest resulted in loss of potential interest of ₹69.09 lakh in KLDB during the period from April 2005 to October 2008.

The Company replied (September 2011) that prior approval of Government was required for opening new Fixed Deposit Account as well as renewal of existing Treasury FD account.

The reply was not tenable since given the benefits involved, operational freedom should have been sought from the Government subject to specific guidelines from the Government.

Inappropriate duration of deposits

Due to lack of planning, the following companies failed to deploy funds in FDs of longer durations instead of renewing and re-depositing in FDs of shorter durations resulting in foregoing of potential interest income of ₹1.31 crore:

(₹in lakh)

Name of the Company	Funds Deployed in	Period involved	Initial Investment	Actual duration of deposits	Alternative long term duration available	Rates of interest (actually earned in deposits (%))	Rates of Interest for longer duration (%)	Interest Received	Interest that could have been received	Interest Foregone
KAMCO	State Treasury	June 2005 to March 2011	2332.13	6 to 13 months	36 months	6 to 9	7.5 to 10	1278.70	1361.25	82.55
KSBC	SCB	Feb 2008 to March 2011	1985.85	12 Months	36 Months	6.25 to 10	8 to 11	252.24	295.84	43.60
SILK	SCB	Jan 2010 to March 2011	190.00	30 to 46 days	181 to 414 days	3 to 4	6.75 to 7.5	4.58	8.93	4.35
Total			4507.98					1535.52	1666.02	130.50

KAMCO replied (August 2011) that the Company was engaged in various diversification/expansion schemes and to ensure fund availability for the same at appropriate time short term FDs were resorted to.

The reply was not tenable since the facility of foreclosure of deposits in Treasury would have taken care of unanticipated cash outflows associated with diversification. As per the Government policy in vogue, there was no restriction/ban for withdrawal of FDs from Treasury.

SILK replied (August 2011) that absence of integrated information system contributed to the loss and it had plans of implementation of fund management techniques.

Current Account Deposits

Avoidable deployment of funds in Current Accounts

In nine companies viz. KFL, TELK, KAMCO, KEPIP, TRKL, KSIE, KMML, KSIDC and KLDB, heavy accumulation of balance in Current Accounts for long durations was noticed. Companies with unpredictable cash flows can resort to Flexi Fixed Deposits (FFDs) so as to avoid idling of fund in Current Accounts and also to earn interest for periods ranging from seven days onwards. FFDs offer the twin advantage of liquidity as well as operational flexibility of Current Accounts coupled with interest returns of Fixed Deposits. All the banking facilities attached to a Current Account like fund transfer methods viz. Real Time Gross Settlement (RTGS)/National Electronic Funds Transfer (NEFT) and Internet banking features are also available to the FFD account holders without involving any extra charge.

The total amount blocked up in Current Accounts of the nine companies for various periods ranging upto 1823 days was equivalent to the idling of ₹54.42 crore for one year (**Annexure 18**). The equated annual idling of funds ranged from ₹0.86 crore (KLDB) to ₹14.52 crore (KAMCO). This resulted in foregoing of interest income. In the light of the advantages of FFD account, there was a need for these companies to consider availing of this facility.

KAMCO and KSIDC replied (August 2011) that they had opened FFD accounts.

KFL (August 2011), KLDB and KEPIP appreciated (June 2011) the benefits of opening FFD Account and information relating to the progress thereon was awaited (November 2011). About KLDB, Government replied (September 2011) that the interest forgone was not considerable and about TRKL (October 2011), that efforts would be made to open FFDs in future.

KMML replied (August 2011) that they had requested the banks to provide FFD account facility.

KSIE (August 2011) replied that amounts accruing in Current Accounts of the Company at different locations were transferred to OD account and the balance in Current Account was minimised leading to need of additional funds.

The corrective actions taken by the Companies were appreciable.

- At KEPIP, four dormant Current Accounts in SCBs were observed during the period from April 2006 to February 2011 wherein balances ranging from

₹4.00 lakh to ₹18.00 lakh were persistently maintained which resulted in forgoing potential interest income of ₹7.51 lakh. The Company assured that short term surplus funds would be invested in interest bearing FDs in future (July 2011).

Maximisation of rate of interest

Daily sales collections in all the units of KSBC were transferred to its Current Accounts maintained with Canara Bank, Union Bank of India, Dhanalakshmi Bank Limited and Punjab National Bank in Thiruvananthapuram. After leaving a minimum daily balance of ₹2.50 lakh in the accounts, remaining funds were transferred to the Flexi Fixed Deposit Accounts maintained with the same bank. The agreements with the banks provided for re-deployment of funds to earn maximum revenue in the event of revision of rates of interest. The Company did not have a system to daily compare the rates of interest that existed across the banks and to redeploy funds whenever interest rate changes thereby forgoing interest of ₹95.50 lakh during 2006-07 to 2010-11.

KSBC replied (August 2011) that the loss was worked out by Audit without considering the period of seven days for generation of interest, number of transactions in a bank account and the higher interest earned by the Company by transferring fund from FFD account to Term Deposits with Treasury.

The period of seven days mentioned in the reply was not relevant to the audit observation. Our comment was restricted to initial deployment of cash collections. The reply with regard to transferring of funds from FFD account to Treasury was not relevant as the calculation done by us pertained to the period when the funds remained with the banks. We were of the opinion that KSBC was providing low cost funds to banks.

Loan Disbursement

Of the selected PSUs we observed inconsistency in lending activity as under:

Non-synchronisation of due dates of loan repayment and bond redemption (KSPIFCL) and non-revision of interest rate linked to increase in cost of funds (KTDFC) resulted in avoidable extra expenditure on interest/short realisation of interest income amounting to ₹56.24 lakh as discussed further:

- KSPIFCL issued (1 January 2003) redeemable 11.10 *per cent* bonds worth ₹200 crore for lending to Kerala State Electricity Board (KSEB) at the rate of 11.75 *per cent*. The bonds carried a put/call option exercisable on or after 01 January 2009. The loan given to KSEB had a repayment schedule of four half yearly installments starting from 30 June 2008. KSEB repaid the first installment of ₹50 crore on 30 June 2008. Though the Company offered to redeem bonds worth this amount immediately, only those holding bonds worth ₹1.57 crore accepted the Company's offer. Hence the Company could redeem the remaining bonds worth ₹48.43 crore (ie 50 crore - 1.57 crore) only on 01 January 2009. During the intervening period of 184 days (from 30 June 2008 to 31 December 2008) the Company had to park ₹48.43 crore

in FDs which earned interest at the rate of 9.85 *per cent* per annum. This resulted in interest loss of ₹30.52 lakh towards differential interest (11.10 *per cent* - 9.85 *per cent*) payable to bond holders. Had the initial date of repayment of loan by KSEB been synchronised with the call/put option date, the interest loss could have been avoided.

The Company replied (April 2011) that several attempts were made (October 2005 onwards) with KSEB to get the repayment schedule of loan revised but in vain and that the above loss was absorbed in the overall profitability in the bond transaction.

- KTDFC decided in the Board meeting (June 2007) to revise the interest rates of loans under *Aiswarya Griha Scheme* sanctioned thereafter, in tune with the increased cost of borrowings. Loan disbursed (March to May 2006) by KTDFC to three parties—SK Hospital, Credence Hospital and Paramount Photographers provided for revision of interest rates based on the changes in the borrowing cost of the Company. The interest rates of these loans were revised in the Board meeting (November 2008) with effect from June 2008 after a delay of 11 months (for the period from July 2007 to May 2008) resulting in loss of interest income of ₹25.72 lakh.

Government replied (August 2011) that the above three loans were housing loans and were sanctioned with fixed interest rates. The loanees objected to the decision to have floating rates and to avoid litigation, it was decided to refix the interest rate and later on bring them under floating interest rate.

The reply was not tenable because the loan agreements clearly indicated that they were sanctioned as floating loans with clear provisions for revision of interest rates.

Borrowings

Ineffective management of loans

Ineffective management of loans resulted in avoidable interest payout of ₹94.01 lakh as discussed further:

Three Companies (TELK, UEIL and SILK) did not utilise the available funds in their FDs / Current Accounts for extinguishing the loans/CC/OD availed though the available funds were fetching lesser rates of interest compared to the carrying cost of loans/CC/OD availed. We worked out that this resulted in avoidable interest payout amounting to ₹37.93 lakh (*Annexure 19*) as detailed below:

- Despite having sufficient funds invested in FDs earning interest of 5 *per cent* to 5.25 *per cent* per annum, TELK availed LCs of 90 days duration carrying interest commitments of 12 *per cent* - 12.75 *per cent* during the period from November 2007 to August 2009 for purchases. This resulted in avoidable interest payout of ₹25.97 lakh.

TELK replied (August 2011) that the Company was forced to open usance LCs instead of sight LCs as the monopolistic suppliers insisted for the same. Further, the Company could persuade the suppliers to accept sight LCs from 2009 onwards

and that lately the Company was making advance payments through RTGS mode to avoid interest.

The corrective action taken by the Company was appreciable.

- UEIL and SILK failed to transfer surplus funds lying in Current Accounts to Cash Credit Accounts which would have helped in avoiding extra interest expenditure of ₹11.96 lakh during the period 2007-2011.

About UEIL, Government (October 2011) stated that the funds parked in Current Accounts were received from Public Sector Restructuring and Internal Audit Board (RIAB) against specific undertaking that the same would not be diverted.

CC account being a standing arrangement for Working Capital, utilisation of Working Capital assistance received from RIAB to mitigate interest burden on CC account did not amount to diversion.

SILK replied (August 2011) that their units were geographically and functionally scattered and that they could not integrate the fund position of its units with the fund requirements which attributed to the loss.

The reply was not tenable because the Company should have developed an integrated information system to ensure effective fund management.

Non- compliance with terms and conditions of borrowings

- CC arrangements opened by KTDFC with two SCBs stipulated that periodical financial statements and statement of debtors shall be furnished by the borrower to the lender, failing which penal interest, limited to two *per cent* over and above the rate of interest would be levied. On persistent default by the Company (from 2007-08 onwards) in preparation and submission of statements agreed upon, the relevant penal clauses were invoked by the lenders which cost the Company ₹36.64 lakh by way of avoidable penal interest.

Government replied (August 2011) that the non-submission of financial statements to the banks was due to retrenchment of almost entire staff of the Company and also due to the delays associated with migration of data to new software. It was also stated that the cost of funds included penal interest charged by banks and the interest charged by the Company on loans were over and above the cost of funds.

Thus, the delay caused in submission of statement to banks resulted in the Company foregoing potential profit of ₹36.64 lakh.

Failure to minimise cost of borrowing

KTDFC had other issues of financial mismanagement also. It had CC arrangements with three banks but had no mechanism to ensure that CC limit of the bank offering lowest rate of interest was utilised first at any point of time. We worked out that the Company could have minimised their borrowing cost by ₹16.60 lakh by capitalising on the rate differentials, but failed to do so (*Annexure 20*).

Similarly, surplus funds (credit balances) were maintained in CC accounts with certain banks while deficit (debit balance) existed in CC account with other banks

during the corresponding period. Non-settlement of these deficits resulted in avoidable interest payment of ₹2.84 lakh.

Government replied (August 2011), that absence of qualified staff in its finance wing coupled with shortage of staff affected the financial arrangements of the Company adversely. It was further added that the Company did not incur any loss as it gives loans at a rate higher than the rate charged by its banks.

The reply was not tenable as the lapses pointed out persisted up to 2010-11 and staffing issues were sorted out by the Company in 2007-08. Prudent financial management demanded minimisation of cost and not covering up the inefficiency by passing on the burden to the unsuspecting customers.

Payment of Taxes & Duties and Guarantee Commission

Payment of Advance Income Tax

As per Section 234 B and C of the Income Tax (IT) Act, 1961, a corporate assessee was to pay 90 *per cent* of the tax in advance when the amount of Tax payable exceeds ten thousand rupees per annum. The Advance Tax was payable in four quarterly installments between June and March of the corresponding financial year. Excess payment of Advance Tax earned an interest of 6.00 *per cent* per annum until refund was received. It was observed that refund of tax took one to two years to materialise. Similarly for failure to pay instalments of Advance Tax by specified dates, interest was chargeable at the rate of one *per cent* per month (Section 234 C of the Act *ibid*). However, any shortfall in payment of Advance Tax in earlier instalments could be offset by making additional payment during last installment due on 15 March, by which time, Tax liability for the year would be certain. The duration of penalty could thus be restricted to a period not exceeding nine months.

We observed nine instances of overpayment ranging from ₹0.10 crore to ₹15.57 crore in six companies due to assessment of tax based on budgeted profit rather than working out approximate income based on income of previous 11.5 months, a methodology which had already been recommended by the Committee on Public Undertakings (CoPU). We worked out the associated interest loss at ₹3.25 crore (*Annexure 21*).

To estimate the profit accurately, Projected Profit and Loss Account was to be prepared on quarterly basis taking into account Purchase and Sales budgets duly revised, ratio of expenditure to total sales and sales trend during the corresponding months in the previous years, if any. Absence of proper functional budgets or periodical revisions or non- preparation of projected Profit & Loss account on quarterly basis led to wrong estimation of profit resulting in excess payment of Advance Tax.

It was observed in KSFE that the Tax Deducted at Source by banks for each quarter was not considered while ascertaining the tax payable for that quarter thereby resulting in over payment of Advance Income Tax.

KSFE replied (August 2011) that the criteria adopted for computing the Advance Tax Liability was based on the estimated profits as per budgets for the year,

profitability trend as well as the payment of Advance Tax for the previous years. However, absence of an integrated real time information system and non-synchronised operation of different wings of the Company hampered timely revision of estimates. Further, there was also demand from the Commissioner of Income Tax, Thrissur for remitting Tax at least equal to that which was remitted in the previous year (2006-07).

About UEIL, Government (August 2011) stated that owing to the change over to new accounting platform, Enterprise Resource Planning, the work of finalising accounts for the year was delayed and they could not come out with accurate figures.

KSIE admitted (August 2011) that there was some excess payment of Advance Tax and stated that they would review and revise budgets periodically to minimise the Advance Tax payments to be made before 15 of March every year.

KSBC replied (August 2011) that, a higher income was estimated at the beginning of the year to avoid the penal interest of 12 *per cent* charged by IT Department for incorrect assessment. It was also stated that the rate of interest on excess Advance Tax offered by IT Department was higher than the average interest earned by the Company from Flexi Fixed Deposit Accounts. The reply was not acceptable as the rate offered by IT Department (six *per cent*) should have been compared with the FD rates offered by Treasury/Banks. The reply with regard to penal interest did not hold good as discussed earlier.

About KTDFC, Government replied (August 2011) that due to heavy arrears in finalisation of accounts coupled with unreliability of the accounting package, the Company had been unable to make a reasonable estimation of the Advance Tax payments, but the Company admitted system lapses as the cause of excess payment of Advance Income Tax.

KMML while admitting (August 2011) the audit observation stated that the Company had changed to a daily profit monitoring system at present which reduces the chances of excess / short payments.

Payment of Income Tax

Income Tax Act does not admit all the expenses unless they comply with the provisions of the Act. Any payment of expense over and above ₹20,000 by way of cash rather than by bank would render those expenses inadmissible. The Act also provides for deduction of Tax at Source from expenses in case of consultancies, technical fee, etc., failing which the party liable to collect the Tax at source would have to bear Tax burden. The following companies did not exercise due diligence resulting in avoidable Tax burden to the tune of ₹44.69 lakh:

Name of Company	Particulars	Provisions of IT Act	Avoidable payment of Income Tax (₹ in lakh)
KSBC	Due to non-claiming of allowable expenses such as interest / commission / professional fee etc. paid by the Company for which TDS was deducted	Section 40 (i a)	15.26
KSBC	Due to payment of expenses above ₹ 20000 in cash	Section 40 A(3)	11.99
KTDFC	Due to recognition of fictitious interest income during 2006-07	NA	14.44
KAMCO	Due to non-deduction of Tax at source from interest / commission / professional fee etc. paid by the Company	Section 40 (i a)	2.21
KMML	Due to payment of expenses above ₹ 20000 in cash	Section 40 A(3)	0.79
	Total		44.69

KSBC, KAMCO and KMML admitted their lapses and assured to ensure avoidance of such lapses in future.

About KTDFC, Government replied (August 2011) that recognition of interest on the amount spent on BOT¹⁰ project was in order and that the Company was entitled to operate the asset over a period of time to recoup the total expenditure incurred with return on investment through user charges namely rent.

The reply was not acceptable as there was no payment of interest by government. The Company could earn return on investment in the form of rent.

Payment of Service Tax/ Excise Duty

➤ Though the services rendered by KSIE (Airport services) were taxable as per the relevant Finance Act, the Company failed to collect/remit Service Tax from the customers resulting in a liability of ₹10.24 lakh.

The Company replied (August 2011) that the Service Tax on facilitation charges (₹1.05 lakh) was receivable from the airlines. The uncollected Service Tax on unaccompanied baggage (₹9.20 lakh) was borne by the Company.

➤ As per Rule 3 of the CENVAT Credit Rules 2004, a manufacturer could utilise CENVAT credit against the payment of excise duty. But KMML did not utilise the entire CENVAT available to its credit during the period from April 2006 to February 2011 resulting in an interest loss of ₹44.33 lakh.

KMML replied (August 2011) that it had a dispute regarding eligibility of certain input credit with Excise Department and hence the CENVAT credit had been kept unutilised deliberately so as to avoid interest liability in the event of losing the dispute. The reply was not tenable. As per rules, interest liability existed even if the wrongly availed credit had not been utilised.

¹⁰ Build Operate Transfer

Payment of Guarantee Commission

KSPIFCL was liable to pay Guarantee Commission (GC) to the State Government at the rate of 0.75 *per cent* on the amount guaranteed by the State Government on loans raised by the Company. Any default in payment of GC would attract penalty at the rate of 12 *per cent* per annum on amount defaulted. The delayed discharge of liability ranging from ₹1.02 crore to ₹5.64 crore for periods extending up to 600 days by the Company despite having sufficient funds resulted in avoidable liability of ₹1.03 crore as penal interest. Considering the interest realised from investment in FD, which was lower than the GC payable by 4 *per cent* to 8 *per cent*, the Company suffered interest loss of ₹41.33 lakh.

The Company admitted the situation and replied (April 2011) that they had approached Government to get the GC payable converted into equity participation of Government in the Company but was rejected (March 2010). A further proposal by the Company for waiver of penal interest was pending with the Government (June 2011).

Reply of Government on Companies except UEIL, KSFDC, KFL, KURDFC, TRKL, KTDFC and KLDB was awaited (November 2011).

Canons of financial propriety-Advertisement

An expenditure of ₹3.68 crore was incurred by Kerala State Electricity Board and 21 other State PSUs during 2008-09 to 2010-11 on advertisements which violated canons of financial propriety.

4.10 Adopting the canons of financial propriety as the benchmark we undertook scrutiny of expenditure incurred by Kerala State Electricity Board (KSEB) and State PSUs on advertisements during 2008-09 to 2010-11. Canons of financial propriety required that public money should not be utilised for the benefit of a particular person or section of the community. The conclusion about compliance with this requirement can be arrived at only by looking at the contents of the advertisement. If the advertisement is publication of tender notices, Statutory notifications, etc., then this item of expenditure is in conformity with this requirement, but to the contrary if the advertisement is in the nature of extolling the achievements of the Government or of a section of society such surrogate advertisements are indirectly burdening the PSU and are violative of canons of financial propriety. We observed that expenditure of ₹3.68 crore on advertisements was violative as detailed below:

Kerala State Electricity Board

- A total of 29 display advertisements made (2008-09 to 2010-11) at a cost of ₹3.19 crore by the KSEB were in the nature of extolling the accomplishments of the Government. While the KSEB issued tender advertisements in maximum of three news papers, all the display advertisements were made in nine to eleven newspapers. Included in it were advertisements published in February and May 2009 in 11 news papers spending ₹90 lakh with no benefit to itself or to the consumers.

- Similarly, all the 18 display advertisements published at a cost of ₹1.95 crore running upto May 2011 related to publicising the achievements of the Government were surrogate in nature and also did not add to the benefits of the KSEB. In all the above cases no benefit directly or indirectly accrued to the KSEB or the consumers.

State PSUs

- Government also directed (April 2009/July 2010), 21 State PSUs to release an amount of ₹52.59 lakh to Public Sector Restructuring and Internal Audit Board (RIAB) in connection with advertisements. An amount of ₹48.85¹¹ lakh was paid by 17 PSUs to RIAB.

KSEB stated (August 2011) that messages pertaining to developmental activities had to reach public. Considering this, wide publicity was given to certain projects/programmes unlike tender advertisements focused on certain target groups. Further, the advertisements released (February – May 2009/2010-11) were not aimed for publicising the achievements of Government. Managements (eight companies) stated (October 2011) that the payments were made as per the directions of Government of Kerala.

Their replies were not acceptable. The advertisements were not issued in the context of advertising the product of the KSEB/PSUs to increase their market share. They were violative of canons of financial propriety.

We recommend Government to clearly lay down guidelines with regard to advertisements issuable by PSUs.

The matter was reported to Government (June/September 2011); their reply was awaited (November 2011).

Violation of Government orders by three State PSUs

Violation of Government orders on enhancement of cost of tender forms by three State PSUs resulted in loss of revenue of ₹73.10 lakh to the PSUs and Tax revenue worth ₹4.38 lakh to State Government.

4.11 Public Sector Undertakings (PSUs) in the State were adopting the rules and procedures laid down in Stores Purchase Manual (SPM) of the State Government following enforcement (February 1995) by a Government order (GO). Paragraph 21 (a) of the SPM as revised by GO (December 2008) prescribed the cost of tender forms to be collected from bidders for the works and supplies at the rate of 0.20 *per cent* of estimated cost of item tendered for tenders up to ₹10 lakh and thereafter at the rate of 0.15 *per cent* + Value Added Tax (VAT).

Scrutiny of records of PSUs (2010-11) revealed that three¹² PSUs in the State collected only ₹14.89 lakh as cost of tender forms in 29 cases of works and

¹¹ ₹17.10 lakh paid by 10 companies during May 2009-March 2010. ₹31.75 lakh paid by 17 companies during July 2010 to November 2010.

¹² The Kerala Minerals and Metals Limited (KMML), Kerala Medical Services Corporation Limited (KMSCL) and Kerala Industrial Infrastructure Development Corporation (KINFRA).

supplies as against ₹87.99 lakh to be collected as per the revised rates resulting in loss of ₹73.10 lakh (*Annexure 22*). In the process the State Government also suffered loss of Tax revenue worth ₹4.38 lakh (*Annexure 22*) since as against ₹5.75 lakh collectible as VAT, the Company/Corporation had collected only ₹1.37 lakh.

Management of KMSCL accepted (June 2011) the contention and agreed to revise the tender rates in line with Government orders while KMML stated (May 2011) that they had collected cost of tender forms at rates fixed in accordance with the purchase procedure approved (2001) by its Board of Directors but expressed that adoption of revised Government rates may result in small and medium scale industries, refraining from participation in tender process. In respect of KINFRA, Government stated (June 2011) that no additional expenditure was incurred by the Company for tendering as it formed part of Architectural consultants' scope of work. The Company collected the cost of tender proportionate to the cost incurred for its preparation.

The replies of the Management of KMML and Government were not acceptable as the Government Orders were mandatory and the Government while issuing the orders had already considered the interests of all stake holders.

Violation of Employees Provident Fund and Miscellaneous Provisions Act, 1952

Contribution to Provident Fund disregarding the ceiling fixed for salary resulted in irregular payment of ₹72.93 crore.

4.12 As per Employees Provident Fund and Miscellaneous Provisions Act, 1952 (Act) and Employees Provident Fund Scheme of 1952, for establishments engaging 20 or more persons and engaged in notified industries, employer's contribution to Provident Fund was 12 *per cent* of salary (basic pay, DA, cash value of food concession and retaining allowance if any), limited to ₹6500 of salary per month. For any sick industrial company¹³, the rate of contribution was 10 *per cent*.

A test check (2009-2011) of the employer's contribution to the Provident Fund in case of thirteen¹⁴ companies revealed that these companies instead of restricting their share of contribution to monthly salary of ₹6500 had been contributing on the basis of full salary in respect of employees drawing salary more than ₹6500 per month.

The excess contributions to Provident Fund thus made resulted in irregular payment of ₹72.93 crore (*Annexure 23*) in respect of the thirteen companies during the period 2007-08 to 2010-11.

¹³ Any sick industrial company as defined in clause (O) of subsection (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 and which has been declared as such by the Board for Industrial and Financial Reconstruction.

¹⁴ The Kerala State Financial Enterprises Ltd, Transformers and Electricals Kerala Ltd, The Travancore Cochin Chemicals Ltd, Keltron Component Complex Ltd, Keltron Crystals Ltd, Keltron Resistors Ltd, Keltron Magnetics Ltd, Kerala Automobiles Ltd, Travancore Titanium Products Ltd, Kerala State Beverages (Manufacturing and Marketing) Corporation Ltd, The Plantation Corporation of Kerala Ltd, Kerala State Electronics Development Corporation Ltd, The Kerala Minerals and Metals Ltd.

Managements stated that the ceiling of ₹6500 under the Act was fixed years back and it remained without change whereas the wages and other benefits had increased considerably over the years. Accordingly even the lowest unskilled employee would draw in excess of ₹6500 per month. They also contended that it would not be possible to recruit and retain work force if employee benefits were reduced.

The point stays that all EPF contributions should have been in consonance with existing statutory provisions.

The matter was reported to Government (July 2011); their reply was awaited (November 2011).

Kerala State Wood Industries Limited

4.13 *Inadequate arrangements for safeguarding movable and immovable Assets*

Inadequate maintenance of Assets records and delay in disposal of idle Assets were noticed and physical verification of Assets was not carried out.

The Company was incorporated in September 1981 with the main objective of production of decorative veneers, plywood, furniture etc. The Company was put under lock out from June 1993. Though the Company reopened in May 2002, it could not perform on account of continuous/huge Accumulated Loss and ultimately became completely non-functional since 2006. The Accounts of the Company were finalised and audited up to the year 1991-92 which were adopted in the Annual General Meeting held on 18 November 2008. The Accounts of the Company were in arrears from the year 1992-93 onwards. Latest certified Accounts for the year ended 31 March 1992 depicted that the Company had total Assets of ₹388.83 lakh (including Fixed Assets: ₹276.35 lakh and Current Assets, Loans and Advances: ₹112.48 lakh).

Even though the Company was non- functional, it still had to ensure that accounts were maintained and the permanent Assets were safeguarded through periodical physical verification, arrangements for watch and ward of the Assets and adequate insurance cover. The deficiencies noticed (July 2011) in this regard were summarised as under:

Inadequate maintenance of Assets records

The Company had the necessity to maintain “Assets records” for each of the Asset with details of the Assets showing their location, original Cost, Accumulated Depreciation, technical and engineering specification of machinery, identification number, etc. We noticed that the Company did not maintain adequate and up to date records depicting this vital information. The original Asset Register was not made available to Audit. Even though the equipments and spares available in the Company were valued through an external agency, KITCO Limited, in 2005 to assess the market value, the loss of Assets, if any, could not be assessed in the absence of proper records.

Physical verification of Assets

The system of physical verification of Assets at regular time intervals was an essential tool of internal control as it helped in ensuring the availability of Assets in the possession of the Company at stated location. An effective system of periodic physical verification of Assets minimised the risks of loss/ theft of movable Assets and enabled the management to take remedial action against the detected cases of theft of Assets. As per the valuation report of KITCO Limited the total market value of Company's Assets was ₹6.84 crore (which included ₹95.85 lakh worth furniture and wood items). We noticed (June 2011) that the Company did not carry out the physical verification of Assets thereafter.

Inadequate security arrangements

Proper arrangement for security and watch and ward of the movable and immovable properties was very essential to protect the movable as well as immovable property. The factory and residential quarters of the Company were situated on forest land on lease. We noticed that, after the complete withdrawal (February 2009) of even the skeleton security staff deployed, no proper security was arranged for the protection of the machinery and Current Assets of the Company. Occurrence of fire (February 2009)/ theft of wooden inventory (December 2009), theft of machinery parts (November 2010) were reported; in the absence of proper records even the extent of loss could not be ascertained or quantified.

Disuse of Assets

The Company had an obligation to make adequate arrangements for proper maintenance and upkeep of the Assets (eg. plant and machinery etc.) not in use or not in use to their full capacity. As the Company was non-functional since 2006, periodical review of the position of these Assets taking into account the reports of the physical verification was essential so as to avoid the chances of the Assets becoming obsolete due to their disuse. The Assets not in use for long also needed to be considered for sale. We observed the following:

- Eighty eight staff quarters and one Guest house constructed by the Company on forest land became uninhabitable due to non maintenance and deterioration. Though Board of Directors of the Company had decided (September 1997) to lease out the vacant quarters to Forest Department no further action was taken in this regard.
- Efforts of the Company to dispose of inventory of logs and other semi-finished products worth ₹94 lakh in 2007, through auction did not materialise as this was stalled by Revenue Department citing pending Revenue Recovery action against the Company. Even though the matter was taken up with the Government, it has not yet been resolved (November 2011). No measures were also taken for safeguarding the inventory from further deterioration/theft.

Insurance Cover

Insurance for the properties was a cover that guards the Assets of the Company against probable losses due to natural calamities and other reasons such as floods, riots, theft etc. Regular and adequate coverage of insurance minimised the risks against these losses at a nominal cost of insurance premium. We noticed that the insurance policy taken by the Company with Kerala State Insurance Department extended only up to May 1994.

Delay in winding up

Even though a Government appointed Committee recommended (December 2005) for closure of the Company and orders were issued in this regard (January 2009) so as to avoid further financial commitment to Government, the Company could not avail the Easy Exit Scheme (EES) due to the unwillingness of the holding Company (Kerala Forest Development Corporation Limited) to take over the Assets and Liabilities of the Company. Further orders to wind up the Company under the normal procedure (October 2010) did not materialise so far (November 2011) due to pending Sales Tax recovery claim, EPF recovery claim and other issues.

Government replied (August 2011) that the Company had maintained a record of Assets and in the absence of regular staff, physical verification of Assets was not feasible. Regarding disuse of staff quarters and guest house, it was stated that there was no demand from Forest Department or any other agency. Efforts were being made to protect the materials and provide insurance coverage and to settle Sales Tax dues.

The reply of the Government reinforced the need for immediate winding up of the Company. We recommend that, the Management/Government should take necessary action to clear the arrears in accounts, settle the statutory dues and expedite the winding up of the Company.

Statutory corporations

Kerala State Electricity Board

4.14 *Power Purchase*
Deficiencies in procurement of power resulted in extra expenditure of ₹15.95 crore and undue favour to traders.

For short term purchase of power tender notice was issued to the traders through fax. The quotes from traders were called for through fax or email to the Office of Chief Engineer (Commercial & Tariff). During the period 2010-11, the Kerala State Electricity Board (KSEB) purchased 1077.37 MU of power at a total cost of ₹490.78 crore.

We observed (July 2011):

- KSEB invited tenders (31 December 2010) for purchase of power (quantum 150 MW and not less than 10 MW in any time block) for February to May

2011. The closing date of tender was 5 January 2011 (3 PM). JSW Power Trading Company Limited (JSWPTCL) offered (5 January 2011) to supply 100 MW during February 2011 (0.00 hours to 24.00 hours) at ₹3.86 per unit. Another bidder, GMR Energy Trading Limited (GMRETL) offered (5 January 2011) to supply 100 MW at ₹4.10 for the period from 1 February to 14 February 2011 (5.00 hours to 23.00 hours) and 75 MW at ₹4.80 for the period 15 February to 28 February 2011 (18.00 hours to 23.00 hours) to be accepted by 7 January 2011.

Given the KSEB's requirement of 150 MW and JSWPTCL was willing to supply only 100 MW there was compelling urgency to place order on GMRETL before expiry of validity period. KSEB placed Letter of Intent (LOI) on JSWPTCL and GMRETL only on 13 January 2011. GMRETL refused to supply. JSWPTCL offered (14 January 2011) to supply additional 50 MW, not at the original rate of ₹3.86 but at higher rate of ₹4.24 per unit. Non-placement of the LOI on GMRETL within its validity period led to KSEB incurring extra expenditure of ₹11.98 lakh.¹⁵

- KSEB invited (3 February 2011) another tender for purchase of 100 MW to 300 MW of power for the months of March to May 2011 (quantity not less than 10 MW in any time block). Bids were to be submitted by 2 PM on 4 February 2011.

JSWPTCL quoted rate of ₹5.76 per unit on 3 February 2011 with validity of offer till 11 AM on 4 February 2011. Reliance Energy Trading Limited quoted a rate of ₹6.07 per unit on 3 February 2011. JSWPTCL on expiry of original offer again quoted (4 February 2011) at increased rate of ₹5.96 per unit but retained its L1¹⁶ status. KSEB placed (10 February 2011) orders on JSWPTCL at ₹5.92 per unit as reduced from its second offer of ₹5.96 per unit. The difference in price paid to JSWPTCL on account of the 50 MW power purchased from first and second offer was ₹51.93 lakh at KSEB periphery.

- Hydel generation capacity of KSEB was adequate to meet off-peak hour requirements. Average generation cost from the hydel stations is very low compared to the average purchase cost from traders. Taking into account these factors it would have been appropriate for KSEB to restrict purchases from Independent Power Producers/traders to the peak hour periods only.

KSEB had a policy of keeping minimum hydro reserve on the last day of water year (31 May) at 525 MU. There was failure to fully utilise the available water subject to the requirement mentioned above. It was observed that the hydro reserve carried forward on 31 May 2011 was 839.27 MU far higher than the limit of 525 MU resulting in short generation of an additional 314 MU. KSEB purchased 27.06 MU from Adani Enterprises Limited and 5.04 MU from JSWPTCL (under a separate contract than above) in February 2011. We are of the opinion that this

¹⁵ {17775000 kwh x (4.24-4.10)} – {(2304000 x (4.80-4.24))} = 1198260.

¹⁶ L1- Party quoting the lowest rate.

purchase was entirely avoidable if the existing hydel capacity was optimally utilised. Failure to do so resulted in additional expenditure of ₹13.88 crore on purchase of 32.10 MU of electricity.

- In a swap/bank arrangement, energy was supplied to a trader with the stipulation for receipt of the energy in a future period. KSEB decided (May 2010) to swap/bank surplus power available during monsoon period for getting receipt during the power deficient summer months. Based on offers received, KSEB entered into a tripartite agreement (12 August 2010) with GMRETL and North Delhi Power Limited (NDPL) for banking of 54.00 MU of power during 1 to 15 October 2010 (0.00 hours to 24.00 hours) for getting 105 *per cent* quantum in return during March 2011.

We observed lacuna in the Agreement. As no money was received for the energy initially supplied, there was a risk that the trader may not fully discharge the obligation in future. The natural control for this risk was to have a bank guarantee (BG) for quick realisation of compensation equal to the value of power to be received computed at the settlement rate, the value of which would work out to ₹56.70 crore. As against this, KSEB did not collect any BG from the party. This lacuna was exploited by the trader who short supplied 1.43 MU during return period. KSEB thus instead of imposing damages on GMRETL of ₹1.43 crore, as per settlement rate, chose to accept supply during power surplus period and favoured the trader.

The matters were reported (July 2011) to Management/ Government; their replies were awaited (November 2011).

4.15 *Delay in repair of pumps*

Failure to carry out prompt repairs of pumps resulted in loss of power generation and consequent purchase from external sources at ₹7.37 crore.

Sabarigiri and Kakkad power stations generate additional power from water pumped into Pamba reservoir from Kochupampa weir. Every unit of generation had a revenue implication of ₹3.53 (2009-10) for KSEB. The pumping of water into Pamba reservoir was critically dependant on four 315 HP turbine pumps. It was, therefore, absolutely necessary to keep the down time of these pumps to minimum by carrying out repairs and maintenance in a timely manner as had been taken note of (November 2008) by Electrical Inspectorate (EI) of the Government.

The pumping scheme was designed for simultaneous operation of three pumps keeping one as standby and the pumping operations were to be carried out only during rainy season (June to December) with the aim to provide time to undertake the repairs and maintenance without affecting the operations.

We noticed (March 2011):

- Two pumps out of the four in the station were non-functional since January 2006. The Research and Dam Safety Division, Seethathode (RDSD), continued (May 2007) pumping operations with the other two pumps without undertaking repairs of the two defective pumps. As a result when the two

remaining pumps also broke down in October 2008, there were no pumps to put into operation.

- RDSD initiated steps for rectification of the pumps belatedly in May/ August 2009. While the estimate for repairing of pump at a cost of ₹7.98 lakh was sanctioned by the Chief Engineer in November 2009, the estimate of ₹15.15 lakh for rectification of defects pointed out by EI was sanctioned only in December 2010. Two pumps were repaired in February 2011 while the balance pumps were repaired in May 2011. Considering the fact that any shortfall in generation has to be met through costly purchase from external sources, the disruption in pumping operations during the years 2009 and 2010 resulted in negative financial impact of ₹7.37 crore¹⁷ while the cost of repairs of the pumps was merely ₹23.13 lakh. The situation is indicative of lack of proper planning and monitoring by the Management. We recommend a close top level monitoring of the matters to overcome such operational problems.

The matter was reported (July 2011) to Management/ Government; their replies were awaited (November 2011).

Kerala State Road Transport Corporation

4.16 Procurement of tyres, tubes and flaps

Adoption of defective methodology in procurement of tyres, tubes etc. resulted in extra expenditure of ₹6.67 crore to the Corporation.

Scrutiny of procurement of tyres, tubes and flaps made by Kerala State Road Transport Corporation (Corporation) during the period 2006-11 was undertaken in audit. For the purpose of placement of orders, the price quoted by the bidder was adjusted for average past performance measured in terms of kilo meters per tyre (CPKM¹⁸). The details of purchase orders are tabulated below:

Sl. No.	PO No.	Name of supplier	Ordered quantity	No. of tyres purchased	Performance considered for placement of orders	Actual performance obtained	Shortfall in performance	CPKM (Paise)	Extra Expenditure (₹)
					(Km per Tyre)				
	1	2		3	4	5	6 = (4-5)	7	8=(3x6x7)/100
1	SRA 1/25160/06	Birla	15000	10499	31740	27873	3867	27.68	11237978
2	SRA 1/25160/06	JK	9000	6776	29732	27397	2335	28.38	4490272
		JK		2224	29732	27397	2335	29.51	1532466
3	SRA 1/34887/07	JK	15000	13745	30905	24951	5954	31.3	25615209
4	SRA 1/1181/09	BIRLA	20000	19873	27724	25109	2615	32.55	16915550
									59791475

¹⁷ Average annual hours of pumping (based on data for the years 2007 and 2008) was 2760, based on which the net generation potential for two years was 86,55,360 units (2760 hrs x 1568 unitsx2 yrs). Based on the purchase price per unit of ₹8.51 from Kasaragode Power Corporation Limited, cost of short generation worked out to ₹7.37 crore.

¹⁸ Cost Per Kilo Meter.

- As seen from the table above (serial no.3) the order on JK Tyres was placed reckoning performance expressed in terms of Kilometers per tyre as 30905 whereas the actual mileage obtained was only 24951 Kms. The monetary value of shortfall in performance worked out to ₹2.56 crore. Audit analysis revealed that there was lacuna in the agreement due to non-linking of payments to actual performance. The absence of such clause had adverse monetary implication of ₹5.98 crore to the Corporation in respect of the four orders mentioned above.
- In respect of purchase orders at serial nos. 3 and 4 above the Corporation had to incur extra expenditure of ₹69.21 lakh (*Annexure 24*) due to failure of the parties to supply the material in the required quantity/as per the time schedule necessitating purchase from other sources. The defaulting companies were granted a favour through non invoking of penalty clause for the extra expenditure incurred.

Government stated (August 2011) that:

- Cost per kilo meter was adopted for selection of the lowest bidder as no other statistical parameter could be relied upon. The Corporation had incorporated performance guarantee clause for purchase of tyres during 2009 but, since the minimum performance guarantee offered was below the past performance the same was discontinued.
- Efforts were under way for recovery of loss due to alternative purchases.

The Government reply was not acceptable in view of the fact that:

- When manufacturers were unwilling to offer performance guarantee equivalent to past average performance reckoned for working out CPKM, the award of works on CPKM basis was inappropriate.
- Payment of only ₹45.06 lakh was requested for from Birla Tyres and claim with JK Tyres was yet to be raised (November 2011).
- KSRTC had no effective method of recovery of damages from these firms.

4.17 *Construction of shopping complex*

Failure of the Corporation to hand over work site resulted in re-tendering at extra expenditure of ₹0.56 crore and loss of potential revenue.

The Corporation in possession of land admeasuring 2.21 acres at Kottarakara, on which a garage was functioning, decided (March 2005) to demolish the same and construct a shopping complex having an area of 2080 square meters.

Smooth progress of the work was dependent on handing over of clear site. The demolition and shifting of garage itself was dependent on construction of an alternative accommodation. The Corporation without waiting for alternative accommodation for garage invited the bids (February 2006) for construction of shopping complex. Due to high percentage rates quoted, the work was decided to be retendered and bids opened in April 2007.

The contractor who was awarded the work in July 2007 was to complete it by June 2008. The contractor could not commence the work and made no progress till March 2008 due to non-handing over of clear site by the Corporation. The dismantling of garage was hampered due to non-provision of funds for the alternative accommodation. The contractor who was awarded the work based on 2004 Schedule of Rates sought enhanced rates to complete the work.

Audit analysis revealed (June 2011) that the agreement did not provide for price variation clause which would have ensured fair and transparent way of taking care of such contingencies.

The Corporation decided to cancel the tender and once again invited bids (April 2008). The same contractor emerged as the successful bidder with an increase of 25 per cent over the initial quoted value. The extra expenditure for the Corporation worked out to ₹55.64 lakh¹⁹. Thus inadequate planning and lack of co-ordination of various items of work led to cancellation of the contract and subsequent re-tendering.

Not taking up advance action for construction of alternative accommodation had another adverse impact for the Corporation as the shopping complex originally scheduled for completion by June 2008 could be completed only by April 2010. This delay of two years had resulted in the Corporation losing rental income during the period 2008 to 2010.

We noticed delay of ten months in completion of the work by the contractor and as per provisions of the contract, liquidated damages of ₹31 lakh²⁰ were leviable. The Corporation however, recovered only a paltry sum of ₹5000 as liquidated damages.

Government stated (September 2011) that the work of shopping complex was tendered in anticipation of receipt of funds for construction of new garage by the time tendering formalities get completed which did not turn out as expected. Further, the delay in completion of works was due to reasons beyond the control of contractor as well as the Corporation and no avoidable loss was incurred by the Corporation. The fact remains that the work had to be tendered and executed at higher cost. The delay in completion of construction had its effect in the form of loss of rental income which the Corporation could have earned on the space let out after completion. The funds required for shifting of garage were ₹28.31 lakh while extra expenditure incurred on construction of shopping complex was of the order of ₹55.64 lakh.

¹⁹ ₹ 255.91 lakh (actual cost) minus ₹ 200.27 lakh (LI rate at the time of first tender).

²⁰ ₹2.55 crore minus ₹1.01crore (works completed as per 2nd RA Bill) x 0.5 per cent for 40 weeks.

Kerala Industrial Infrastructure Development Corporation

4.18 *Inappropriate deployment of surplus funds*

Inappropriate deployment of surplus funds resulted in loss of additional interest income of ₹2.72 crore.

Scrutiny (September 2010) of deployment of surplus funds by Kerala Industrial Infrastructure Development Corporation (Corporation) was undertaken in Audit. It was observed that the Corporation made Fixed Deposits of ₹114.21 crore with different banks during the period from June 2009 to August 2009 {₹28 crore (June 2009) at seven *per cent* interest and ₹20 crore (August 2009) at 6.5 *per cent* interest with Union Bank of India, ₹56.31 crore and ₹9.90 crore (both in August 2009) at 6.5 *per cent* interest with State Bank of India and Central Bank of India respectively} each for a term of one year, when the interest rate prevailing in Fixed Deposits of Government Treasury for the same term at the time of investment was nine *per cent*.

Depositing of surplus funds in Commercial banks at rates of interest which were less than those offered by Government in its Treasury was against the financial interests of the Corporation, and was not in consonance with the general policy of the State Government that all Public Sector Undertakings/Boards/Corporations should deposit their surplus funds in Government treasuries. Thus, had the Corporation deposited the amount in Government Treasury it could have earned additional revenue to the extent of ₹2.72 crore.

The Government replied (June 2011) that the paramount objective of the Corporation was to make funds available as and when needed without any delay and the parking of funds by the Corporation in PSU banks is permitted by it. The Government added that in view of the restrictions imposed by them from time to time on withdrawal of funds from the Treasury on account of ways and means clearance problem KINFRA's cash flow had been adversely affected on several occasions.

The reply was not acceptable in view of the fact that the Return from Investments in Government Treasury would have been higher.

We suggest the Corporation to take decisions in its best financial interests.

General

4.19 *Follow-up action on Audit Reports*

Explanatory notes²¹ outstanding

4.20 The Audit Reports of the CAG represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the

²¹ Explanatory notes refer to the explanations furnished by Administrative Departments to the Legislature Secretariat, on performance audit / paragraphs contained in Audit Reports placed before the Legislature.

various Government Companies and Statutory Corporations. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Kerala issued (April 2005) instructions to all Administrative Departments to submit explanatory notes indicating a corrective/remedial action taken or proposed to be taken on paragraphs and performance audits included in the Audit Reports within two months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (CoPU).

The Audit Reports for the years up to 2009-10 had been presented to the State Legislature but 10 departments did not furnish explanatory notes on 28 out of 152 paragraphs / performance audits relating to the Audit Reports for the year 2004-05 to 2009-10 as of September 2011.

Compliance to Reports of Committee on Public Undertakings outstanding

4.21 As per the Handbook of Instructions for Speedy Settlement of Audit Objections issued by the State Government the replies to paragraphs are required to be furnished within two months from the presentation of the Reports by CoPU to the State Legislature. Action Taken Notes (ATNs) to 256 paragraphs pertaining to 65 Reports of the CoPU presented to the State Legislature between July 2000 and July 2011 had not been received as of September 2011 as shown below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where ATNs not received
1998-2000	1	11
2001	1	4
2001-2004	3	21
2004-2006	16	37
2006-2008	18	79
2008-2011	26	104
Total	65	256

Response to Inspection Reports, Draft Paragraphs and Performance Audit Reports

4.22 Audit observations made during audit and not settled on the spot are communicated to the heads of the PSUs and the departments concerned of the State Government through Inspection Reports (IRs). The heads of PSUs were required to furnish replies to the IRs through the respective heads of departments within a period of six weeks. IRs issued up to March 2011 pertaining to 84 PSUs disclosed that 2291 paragraphs relating to 487 IRs remained outstanding at the end of September 2011. Of these, 63 IRs containing 500 paragraphs had not been replied to for one to four years. Department-wise break up of IRs and paragraphs outstanding as on 30 September 2011 is given in *Annexure 25*.

Similarly Draft Paragraphs and Reports on Performance Audit on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures

and their comments thereon within a period of six weeks. It was, however, observed that eleven Draft Paragraphs and two Draft Performance Audit Reports forwarded to various departments during April-August 2011 as detailed in *Annexure 26* had not been replied to so far (November 2011).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to IRs/Draft Paragraphs/Performance Audit Reports and ATNs on recommendations of CoPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.

Thiruvananthapuram
The



(G.N. SUNDER RAJA)
Principal Accountant General (Civil and
Commercial Audit),
Kerala

Countersigned



New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India