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**FOURTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2019-2021)**

**HUNDRED AND SIXTEENTH REPORT**

(Presented on 18th January, 2021)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM

2021

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**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2019-2021)**

**HUNDRED AND SIXTEENTH REPORT**

**On**

**The Action taken by Government on the Recommendations contained in the  
Twenty Ninth Report of the Committee on Public Undertakings (2016-2019)  
relating to The Kerala State Cashew Development Corporation Limited,  
based on the Report of the Comptroller and Auditor General of India  
for the years ended on 31st March, 2012 & 2013.**

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COMMITTEE ON PUBLIC UNDERTAKINGS  
(2019-2021)

**COMPOSITION**

*Chairman:*

Shri C. Divakaran.

*Members:*

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri S. Rajendran

Shri Raju Abraham

Shri Sunny Joseph

Shri M. Ummer

Shri P. Unni.

*Legislature Secretariat:*

Shri S. V. Unnikrishnan Nair, Secretary

Shri B. Reji, Joint Secretary

Shri A. Jafarkhan, Deputy Secretary

Smt. Reji D. O., Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2019-2021) having been authorised by the Committee to present the Report on their behalf, present this Hundred and sixteenth Report on The Action taken by Government on the Recommendations contained in the Twenty Ninth Report of the Committee on Public Undertakings (2016-2019) relating to The Kerala State Cashew Development Corporation Limited, based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2012 & 2013.

The Statement of Action Taken by the Government included in this Report was considered by the Committee at its meeting held on 15-10-2020.

This report was considered and approved by the Committee at its meeting held on 11-1-2021.

The Committee place on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala and express gratitude to officials of Industries Department during the examination of the Statements included in this report.

Thiruvananthapuram,  
11th January 2021.

C. DIVAKARAN  
*Chairman,*  
*Committee on Public Undertakings.*

## **REPORT**

This report deals with the Action Taken by Government on the recommendations contained in the Twenty Ninth Report of the Committee on Public Undertakings (2016-2019) relating to The Kerala State Cashew Development Corporation Limited, based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2012 & 2013.

The Twenty Ninth Report of the Committee on Public Undertakings (2016-2019) was presented on the House on 9th March, 2017. The Report contained 6 recommendations and the Government furnished replies to all the recommendations.

The Committee considered the replies received from the Government at its meeting held on 15-10-2020.

The Committee accepted the replies to the recommendations in Para Nos. 12, 13, 15, 16 & 17 without remarks. These recommendations and the replies furnished by the Government form Chapter I of this Report.

The Committee accepted the replies to the recommendations in Para No. 14 with remarks. This recommendation, the reply furnished by the Government and remarks of the Committee form Chapter II of this Report.

CHAPTER I

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE  
WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	Para. No.	Department concerned	Conclusion/Recommendations	Action Taken by the Government
1	2	3	4	5
1	12	Industries	It is found that the Company has violated the direction of the Government by failing to constitute an Audit Committee in time. It is observed that the delay in constituting the Audit Committee has resulted in several lapses in corporate governance due to neglect of certain crucial controls. It is surfaced that the Company has blatantly disregarded the	An Audit Committee was initially formed by the Corporation on 26-9-2015 comprising of three Board members. However the Committee did not function as the Government had suspended the Board of Directors of the Corporation as per G. O. (Rt.) No. 1375/ 2015/ID dated 22-12-2015. In due consideration of the recommendations of the Committee on Public Undertakings a new Audit Committee has been constituted in the Corporation on 9-3-2018 comprising five directors. The Audit Committee has decided to review the internal audit reports prepared on quarterly basis so as to take corrective measures on the lapses and defects reported. Government also desires to



			<p>Central Vigilance Commission (CVC) guidelines with regard to tender negotiations and has failed miserably in complying with a fair, transparent and competent tender process. The Committee, therefore, recommends that the Company should uphold the CVC guidelines and the Expert Committee directions at all stages of tender process.</p>	<p>reconstitute the audit committee for the effective and timely actions incorporating the representatives from Industries Department, Finance Department and Directorate of Industries and Commerce etc.</p> <p>The Corporation has been implementing e-tender procedure of the Govt. of Kerala for procurement of Raw cashew nuts since September 2012. Short comings in the manual tendering system followed in the Corporation included the practice of inviting all bidders for negotiation had been rectified and only LI (Lowest bidder) is called for negotiation at present.</p>
2	13	Industries	<p>The Company has been inexplicably relying on local traders for the procurement of Raw Cashew Nuts (RCN) avoiding the direct purchase from domestic farmers. It is also seen that the Company has ignored the recommendations of</p>	<p>Keeping in view of COPU and Expert Committee recommendations, KSCDC had taken efforts to procure RCN grown indigenously.</p> <p>Through the corporation had attempted procuring cashew directly from the farmers since 2009 by opening depots in different parts of Northern Kerala and on prompt payment basis, it was not successful. Price volatility and prompt payment were key factors in the direct procurement from</p>

		<p>the Committee on Public Undertakings (COPU) and the Expert Committee (EC) appointed by the Government in this regard. The Committee firmly recommends that the Company should take proactive steps for direct purchase of RCN from domestic farmers, and thereby preventing the exploitation of the farmers by middlemen. It is also advised that the Company should thoroughly adhere to the recommendations of the COPU and the EC in the efforts to procure RCN.</p>	<p>farmers. During 2012 corporation had procured RCN directly from farmers by opening 10 depots in different parts of Northern Kerala. It could procure 263 MT only, on prompt payment basis, in this way. But procurement directly from the farmers in the succeeding years till 2016-17 was meagre.</p> <p>During 2012-13 the corporation had procured 3861.36 Kg. of RCN grown locally. With the intervention of the Government the Corporation could procure 605644 Kg. and 613308 Kg. of RCN of Kerala origin in the year 2017-18 and 2018-19 respectively at the rate fixed by the price fixing committee appointed by the Government.</p> <p>Though the procurement of indigenously grown RCN was minimal compared to the total production, this intervention has been instrumental in farmers getting comparatively higher price for their products during the entire cashew season.</p> <p>Efforts will be taken to improve local procurement in the coming years as well.</p>
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3	15	Industries	<p>The Committee has observed the Company's willful transgression of the Memorandum of Understanding (MoU) with Tanzania and refusal to utilise the financial facility and the import of RCN through State Trading Corporation of India Ltd. (STC). Instead, the Company focused heavily on local traders accompanied with intermediaries aimed at profiteering. In view of these factors, the Committee advises that, in no circumstance, the Company should deviate from proceeding with any agreement/contracts made in good faith for the betterment of the Company.</p>	<p>It is true that the Corporation had approached STC for utilizing their L/C facility for import of RCN when there was cash crunch. However, this could not be materialized. In order to ensure continuous operation of the factories the corporation had to consider all available options including procurement of RCN involving local traders.</p> <p>The Government have since formed a company viz a viz the Kerala Cashew Board Ltd. with a prime objective of procuring of RCN from India and abroad for supplying the same to the processing units in the public sector and private sector. The board has started its operations. With the full swing operations of the KCB, it is expected that good quality RCN can be procured from abroad at reduced rates without involvement of middlemen, which will ultimately benefit the KSCDC also.</p>
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4	16	Industries	<p>The Committee further noted that the Company had been following an irrational practice in the procurement of RCN from International market due to the lack of purchase planning. The Committee, therefore, recommends that the Company should frame a far sighted purchase plan so that the Company can proceed with international procurements in accordance with market fluctuations.</p>	<p>Timely availability of working capital is an important factor for corporation's seasonal purchase planning, so as to ensure competitive prices when it is favourable. Purchase decisions are taken in due consideration of availability of funds from various sources. Further to avoid hindrance in operation many a times the Corporation has to avail credit for purchasing RCN and for selling Kernels, advance from buyers.</p> <p>It is submitted that the Government have formed a company viz a viz the Kerala Cashew Board Ltd. with prime objective of procuring of RCN from India and abroad. The board has started its operations. With the full swing operations of the KCB, it is expected that good quality RCN can be procured from abroad at reduced rates without involvement of middlemen, which will ultimately benefit the KSCDC also. The KCB is in the process of procuring raw cashew nut in bulk quantities from respective African countries by taking advantage of the season of cashew harvesting in those countries, so that the market volatility in the price of RCN can be controlled to the benefit of the Board, which will benefit the Corporation also.</p>
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5	17	Industries	<p>The Committee finds that the quality tests of the RCN are being done by a panel appointed by the Company ignoring institutions like the Central Export Promotion Council etc. The Committee views this as an unhealthy practice which will eventually turn detrimental to the Company. Therefore, it is suggested that the quality tests of the RCN should be done in institutions having proper credentials and expertise in the field. It is seen that the terms and conditions in the Supply Contract have a lot of deficiencies. There are so many occasions in which breach of contract was conspicuous. In this scenario, the Committee wants that the supply contracts of the Company should be renegotiated by rectifying all deficiencies and irregularities.</p>	<p>Cashew Export Promotion Council (CEPC) does only in house operations for quality surveying where samples are to be brought to their office for obtaining test results. No field work is carried out by CEPC for Raw nuts sampling. As of now the RCN quality test is carried out by RBS Maritime services as per G. O. (Rt.) No. 717/16/ID dated 1-8-2016. RBS is an institution having proper credentials and expertise in the field.</p> <p>Tender conditions, specifications and supply contracts were modified. Some of the changes brought in are:</p> <p><u>Raw Cashew Nut (RCN)</u></p> <ol style="list-style-type: none"> <li>1. Origin and quality were specified in each tender.</li> <li>2. Quality surveyor is (RBS) as per Government G. O.</li> <li>3. RCN-EMD and Security Deposit was enhanced to 5 lakhs import tender and 2 lakhs and 5 lakhs for local tender.</li> <li>4. Raw Cashew Nut tender validity period was extended from 7 to 10 days after the opening date of the tender.</li> <li>5. The payment terms in supply contract has been modified to 80 % payment of the invoice value of the goods against import bills and submission of supply document specified, instead of 90% against factory delivery in supply contract.</li> <li>6. Seperate detailed claim settlement clause was included in supply contract.</li> </ol>
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## CHAPTER II

### REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAS BEEN ACCEPTED BY THE COMMITTEE WITH REMARKS

Sl. No.	Para. No.	Department Concerned	Conclusions/Recommendation	Action Taken by the Government
1	2	3	4	5
1	14	Industries	<p>It is seen that the Company has diverted the grants released by the Government for the procurement of Kerala Origin RCN directly from farmers and for the modernisation of Cashew factories and has thus, defeated the very purpose of the provision of funds. This diversion is ratified by producing fake Utilisation Certificates. In view of this situation, the Committee warns that the Company should utilise the grants only for the purpose for which it was sanctioned. The Committee also urges that the practice of submitting fake utilisation certificates should be discontinued forthwith.</p>	<p>The Committee's recommendations in this regard is noted for future compliance.</p>

Remarks:—The Committee finds that the reply furnished by the Government as “noted for future compliance” is not satisfactory and pointed out that no mention has been made in the reply regarding fake utilisation certificate and diversion of the fund. The Committee expressed its dissatisfaction over the Government reply and sought detailed report on the following points:

1. The total fund received during the audit period.
2. How the fund was utilised.
3. How many utilisation certificates issued during audit period.
4. Details of officials who were responsible for issuing utilisation certificate.

Thiruvananthapuram,  
11th January, 2021.

C. DIVAKARAN,  
*Chairman,*  
*Committee on Public Undertakings.*