



FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2023-2026)**

THIRTY FOURTH REPORT
(Presented on 11th February, 2025)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2025

FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

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ON
PUBLIC UNDERTAKINGS
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On

Kerala State Financial Enterprises Limited

**(Based on the Report of the Comptroller and Auditor General of India for the
year ended 31st March, 2016)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2023-2026)

COMPOSITION

Chairperson:

Shri E. Chandrasekharan.

Members:

Shri A. P. Anil Kumar

Shri Anwar Sadath

Shri Ahammad Devarkovil

Shri T. V. Ibrahim

Shri P. Mammikutty

Shri K. P. Mohanan

Shri D. K. Murali

Shri P. Nandakumar

Shri Kadakampally Surendran

Shri P. Ubaidulla.

Legislature Secretariat:

DR. N. Krishna Kumar, *Secretary*

Shri Venugopal R., *Joint Secretary*

Shri Anil Kumar B., *Deputy Secretary*

Shri Mohanan O., *Under Secretary.*

INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2023-2026) having been authorised by the Committee to present the Report on its behalf, present this 34th Report on Kerala State Financial Enterprises Limited based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2016 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India was laid on the Table of the House on 23-5-2017. The Report, besides other things in their findings, brought to light some functional irregularities relating to the Kerala State Financial Enterprises Limited. The Committee, in connection with the perusal of the report, took notice of the comparability of the audit paragraphs pertaining to such irregularities and decided to examine them altogether. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection there to were made by the Committee on Public Undertakings (2021-2023) at its meetings held on 12-10-2022 and 18-4-2023.

This Report was considered and approved by the Committee (2023-2026) at its meeting held on 29-1-2025.

The Committee place on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit paragraphs included in this Report.

The Committee wishes to express thanks to the officials of the Taxes department of the Secretariat and the Kerala State Financial Enterprises Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Taxes and Finance Department and the officials of the Kerala State Financial Enterprises Limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

E. CHANDRASEKHARAN,

Thiruvananthapuram,
11th February, 2025.

*Chairperson,
Committee on Public Undertakings.*

**REPORT
ON
KERALA STATE FINANCIAL ENTERPRISES LIMITED**

Audit Paragraph (2015-16)

3.5 Irregular appointment of employees in PSUs, Forest and Public Works Departments

Appointment of employees in violation of existing Government directions and irregular regularisation of temporary employees resulted in failure to ensure transparency and fairness in recruitment.

3.5.1 Public Sector Undertakings (PSUs) appoint employees on permanent and temporary basis. As per circular issued (5 September 1986) by Planning and Economic Affairs (Bureau of Public Enterprises) Department, Government of Kerala, all employees of PSUs, excluding workers (covered under the Factories Act) and supervisory or managerial personnel (whose basic starting salary exceeds ₹700¹), are to be recruited through the Kerala Public Service Commission (KPSC). For this, the PSUs were to frame Staff Regulation/ Recruitment Rules and include the name of the PSU in the list of PSUs specified under sub rule (d) of rule 2, Kerala Public Service Commission (Consultation by Corporation and Companies) Rules, 1971.

We examined recruitment process in eight² PSUs, Forest and Public Works Departments. Audit findings are as follows:

Irregular engagement of temporary staff

3.5.3 As per the provisions of the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959, vacancies³ for contract employment

1 Salary as of September 1986 excluding Dearness Allowance, incentive bonus, annual bonus etc.

2 Kerala Small Industries Development Corporation Limited, Kerala Industrial Infrastructure Development Corporation, Kerala State Construction Corporation Limited, Indian Institute of Information Technology and Management, Kerala, The Kerala State Financial Enterprises Limited, Kerala State Industrial Enterprises Limited, Oil Palm India Limited and Kerala State Poultry Development Corporation Limited.

3 Does not apply to vacancies in relation to any employment to do unskilled office work.

exceeding three months were to be notified to the Employment Exchanges. Further, for such employment, Rules for Reservation in Government Service shall be applicable. According to Rule 14 of Rules for Reservation in Government Service, unit of appointment for the purpose of reservation shall be 20, out of which two shall be reserved for persons belonging to Scheduled Castes and Scheduled Tribes, eight for other backward classes and remaining 10 shall be from the open category. We observed that six⁴ PSUs and one department engaged 1686 contract employees, without notifying the vacancies to Employment Exchanges as detailed in Table 3.13.

Sl. No.	Audit Findings	Management/Government Reply
1	KSFE ⁵ KSFE recruited 632 Assistants/ Attendants for a period of one year which was not against the sanctioned posts of the Company.	Government replied (January 2017) that all the 632 assistants / office attendants recruited were terminated from service.

The replies were only partially acceptable as temporary appointment had to be made from Employment Exchange against sanctioned posts only thereby ensuring transparency, equal opportunity and reservation rules in appointments. Further, no recovery was effected from Managing Director, KSIE who illegally appointed the employees. GoK should initiate action to fix responsibility for such stark disregard to rules and causing undue huge financial burden on public exchequer.

[The Audit paragraph 3.5 contained in the report of the C &AG for the year ended 31 March 2016.]

The notes furnished by the Government on the audit paragraph are given in Appendix II

4 SIDCO, Kerala State Construction Corporation Limited, Kerala State Financial Enterprises Limited, Oil Palm India Limited, Kerala State Poultry Development Corporation Limited and Kerala State Industrial Enterprises Limited.

5 The Kerala State Enterprises Limited

Discussion and findings of the Committee

3.5. Irregular appointment of employees in PSUs

3.5.3. Irregular Engagement of temporary Staff

The Committee asked the reason for making temporary appointments and sought explanation for not making it through Employment Exchange. The Managing Director, Kerala State Financial Enterprises Limited (KSFE) explained that since there was no PSC rank list at that time, the Company had to make temporary appointments to ensure the quality of service to the customers.

The Committee noted from the Government reply that there was a total of 632 vacancies of Assistants/Office Attendants as on 31-3-2016 and the Company deployed Ex-Service personnel under contract on those vacancies during the period after 31-3-2016 and terminated all those on 31-5-2016 as and when the objection of Accountant General was noticed. Then the Committee criticised KSFE for not making those appointment through Employment Exchange which would ensure transparency and reservation rules in appointments. The Managing Director, KSFE assured the Committee that such things will not be repeated in future.

The Committee inquired about the action taken to increase the number of sanctioned posts on the basis of business review. The Managing Director replied that all vacancies arised on the basis of business review had been reported to PSC. He added that about 3000 employees were appointed within the last 5 years and 1170 persons had been given appointment orders in the current year alone. The witness informed that as the Chitty was an important component of KSFE, the ratio between assistant and members joining the Chitty was 1:950. The middle level supervisory posts would be created based on the number of assistants and managers would be appointed based on the number of branches. The Managing Director informed that considering the transaction of the branches, temporary appointments were made for a short period.

The Committee observed that the Company had deployed 632 employees on contract basis during the period from 31-3-2016 to 31-5-2016 violating the rule 14 of Rules for Reservation in Government Service and Provision of the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1989. Hence

the Committee commented that it is not a good practice to deviate from the provisions of the Act and direct the Department to initiate action to fix responsibility for such action. The Committee wants the Government to strictly adhere to the rules in future.

Observations/Recommendations of the Committee

1. The Committee observes that 632 Assistants/Office Attendants were appointed on contract basis in various branches violating the Rule 14 of Rules for Reservation in Government Service and Provision of the Employment Exchanges Act, 1989. The Committee directs the department to fix responsibility for the same and to initiate action against the responsible official. The Committee recommends that all temporary appointments should be made through Employment Exchange following the principle of reservation in future.

Audit Paragraph (2015-16)

3.6 Payment of ineligible auction discount and prize money

Introduction

3.6.1 Kerala State Financial Enterprises Limited (Company) was incorporated in 1969 as a Miscellaneous Non-Banking Financial Company (MNBFC), fully owned by the Government of Kerala (GoK), with the object of operating chitty business and to protect the public from unscrupulous private chit fund operators. The activities of the Company are regulated by the Chit Funds Act, 1982.

A "chitty" is a contract between an organisation/ a person and subscribers in which each subscriber agrees to remit monthly a fixed amount of money during the duration of the chitty. Total of the monthly subscriptions, called the chitty amount, will be given out each month as prize money to the subscriber who bids for the maximum reduction in the prize money⁶, subject to a maximum of 25 per cent. Amount foregone by the successful bidder in the monthly auction is equally shared among all the subscribers as "auction discount". Eligibility of subscribers to

6 If more than one subscriber bids for the maximum reduction, prize money would be given to one subscriber through draw of lots.

participate in the auction for prize money and share of auction discount⁷ was contingent upon payment of monthly subscription within due date.

In order to assess the transparency and fairness in distribution of prize money and auction discount, we examined transactions during 2011-12 to 2015-16 in nine branches⁸ of the Company and noticed instances of irregular payment of auction discount and prize money as discussed in succeeding paragraphs.

Audit Findings

Irregular payment of auction discount

3.6.2 According to Paragraph 13.1 of the Manual of Procedure (MoP)⁹ of the Company, subscribers of chitty can pay monthly subscriptions in cash, demand draft, money order or cheque. As per Circular No. 33/2009 dated 3 April 2009 issued by the Managing Director of Company, cheques received from subscribers are to be deposited into the bank on the very next day of receipt and if the cheques are not cleared within three days (seven days in case of outstation cheques), the Company should get back the cheques from the bank and pass cancellation entries against the accounts of these subscribers. According to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed.

We noticed that 4,050 prized subscribers in nine branches of the Company had remitted monthly subscriptions in respect of 43,352 instalments by cheque within due date and availed the benefit of auction discount amounting to ₹10.68 crore. But, there was delay in realisation of cheques ranging up to 1105 days¹⁰ with

7 In the case of prized subscribers (prized subscribers are those subscribers who have won the prize money) only. Non-prized subscribers are eligible for auction discount irrespective of payment of subscription within due date.

8 Alappuzha II, Cherthala I, Cherthala II, Karunagappally I, Parasala, Perumbavoor I, Palakkad, Thalayolaparambu and Thamarassery.

9 Manual of Procedure of the Company prescribes the procedures to be followed for conduct of chitty business.

10 We noticed that cheques were shown as cleared in the records even after validity period. This was done by remitting the dues in cash directly to the Bank Account of the Company.

average abnormal delay¹¹ of 27 days. In spite of the delay, these prized subscribers were allowed auction discount of ₹10.68 crore (Appendix 18) due to the failure of the Company to link auction discount to prized subscribers with the realisation of cheques.

The reasons for undue delay in realisation of cheques submitted by the prized subscribers were not on record. We selected 59 cases and requested banks to furnish the details of such cases. Scrutiny of the details revealed that delay in realisation was due to delay in presentation of cheques to banks (26 cases), insufficient funds in the accounts of the subscribers (18 cases) and delay on the part of the banks (15 cases). Collusion between the employees of the Company and chitty subscribers in such cases could not be ruled out. We noticed some such instances as discussed below:

Issue of cheques by officials of the Company in favour of subscribers

3.6.3 According to Paragraph 3.22 of MoP of the Company, officials of the Company are not to issue cheques in favour of subscribers towards payment of monthly subscriptions. We noticed that 20 cheques for a total amount of ₹6.92 lakh were issued by two staff of Alappuzha II Branch and their relatives against 115 instalments of 76 subscribers.

Thus, misappropriation of cash received towards chitty subscriptions by the Company staff and issuing of cheques in favour of subscribers in lieu of cash received could not be ruled out. Some instances of suspicious transactions are given in Appendix 19.

Non-initiation of action on dishonoured cheques

3.6.4 According to Section 138 of the Negotiable Instruments Act, 1881, in case of dishonour of cheques due to insufficiency of funds, drawer of cheque shall be punished with imprisonment for a term which may extend to two years, or with fine which may extend to twice the amount of the cheque, or with both. Further, according to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed. We noticed that:

11: Delay of more than seven days is considered as abnormal delay.

- 59 cheques for an amount of ₹29.57 lakh received in respect of 92 instalments of 62 subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured due to insufficient funds. Dishonour of these cheques was not, however, recorded in the books of accounts. Instead of passing reversal entry in respect of these dishonoured cheques or taking action under Section 138 of the Negotiable Instruments Act, 1881, the branch allowed the subscribers to deposit cash directly into the bank account of the Company after delays ranging up to 91 days. Through this fraudulent process, the subscribers were granted ineligible auction discount of ₹98,426.

We also noticed that some of the dishonoured cheques were issued by employees of the Company in Alappuzha II Branch as given in Appendix 20.

- Similarly, 58 cheques for ₹8.59 lakh issued by subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured. Dishonour of these cheques was also not accounted for in the books of accounts of the Company by reversing the entry at the time of receipt of cheques. The accounts of these subscribers were closed without realising dues of ₹8.59 lakh.

Irregular payment of prize money

3.6.5 In accordance with Rule 14 of the Kerala Chit Funds Rules, 2012, a subscriber who has defaulted in payment of monthly subscriptions shall not be entitled to participate in the auction for prize money.

We noticed that:

- In respect of 14 high value chitties in five branches, 12 defaulting subscribers had remitted monthly subscriptions amounting to ₹39 lakh through cheques and were allowed to participate in auction before realisation of dues as shown in Appendix 21.

It can be seen from the Appendix 21 that two subscribers obtained prize money of ₹62.40 lakh before the Company had realised the dues.

We also noticed that Shri Ayoobkhan, a chitty subscriber against Chitty No. 44/2012¹² was allowed to participate in the auction (November 2012)

¹² Commenced in September 2012, instalment amount-₹1 lakh and duration- 30 months.

and won the prize money before the realisation of the cheque submitted by him for second and third instalments. The cheque submitted was dishonoured and the next four instalments were also defaulted upon. The Company released the prize money of ₹23 lakh to him on 19 March 2013 and allowed him to remit the defaulted (2nd to 7th) instalments of ₹6 lakh on the same day out of the prize money.

We further noticed that the subscriber again defaulted on the subsequent 23 instalments. The Company referred this case to the Revenue Authority in July 2014 for collection of ₹23 lakh. The amount was not collected till July 2016.

Favouring of a few defaulters resulted in genuine subscribers losing their legitimate chance of getting the prize money.

The Company replied that appropriate action would be taken to ensure that defaulting subscribers were not allowed to participate in chitty auction in future.

Non-collection of interest on delayed realisation of cheque

3.6.6 According to clause 18 of the Chitty agreement with subscribers, in case of delay in payment of monthly subscriptions, interest at the rate of 14 *per cent per annum* shall be payable by prized subscribers¹³ and at the rate of 12 *per cent per annum* by non-prized subscribers¹⁴. Payment of interest was in addition to disallowance of auction discount (prized subscribers) and ineligibility to participate in the auction for prize money (non-prized subscribers).

We noticed that during 2011-12 to 2015-16, nine branches of the Company had allowed auction discount (prized subscribers) and right to participate in auction (non-prized subscribers) on receipt of 63,659 cheques towards monthly subscriptions of ₹259.15 crore. Though these cheques were not realised within the prescribed seven days, interest of ₹1.23 crore was not charged.

Failure of internal control mechanism

3.6.7 All cheques received were entered into the system software and cheque deposit slips generated. In respect of cheques dishonoured and which could not be

¹³ Members who have won prize money.

¹⁴ Members who have not won prize money.

revalidated due to expiry, cash was remitted by subscribers directly into banks and the receipt earlier accounted for against the cheque was set off against the cash remittance by entering the cash payment date into the system software at the time of preparation of Bank Reconciliation Statement.

Since the Company accounts for monthly chitty subscriptions on receipt of cheques without waiting for realisation of cheques, delay in realisation can be watched only through preparation of monthly Bank Reconciliation Statement.

We noticed that the Company did not prepare monthly Bank Reconciliation Statements regularly. Internal Auditors and Statutory Auditors failed to notice and report the practice of irregular withholding of cheques of subscribers and consequent delay in realisation. Thus, through this fraudulent way of receipt of cheques within due dates and their delayed realisation with the possible connivance of officials of the Company, chitty subscribers were allowed ineligible auction discount and right to participate in the auction for prize money, besides extending undue benefit by way of non-levy of interest for delayed realisation of monthly subscriptions.

Accepting all the audit observations, the GoK replied (December 2016) that the Company had since implemented a control system in order to plug any loopholes and revenue leakage. They also stated that in all the cases where officials were involved, appropriate action would be taken to recover loss from the officials concerned.

Conclusion

System of realisation of cheques against monthly subscription of chitty is marred by undue delays and possible collusion between officials and subscribers leading to payment of ineligible auction discount besides, ineligible subscribers being allowed to participate in auction for prize money. Cheques issued against chitty instalments were dishonoured but no action was initiated against such dishonour of cheques.

It is recommended that the Company should streamline the process by linking eligibility for auction discount and prize money to realisation of cheques.

[The Audit paragraph 3.6 contained in the report of the C &AG for the year ended 31 March 2016.]

The notes furnished by the Government on the audit paragraph are given in Appendix II

Discussion and findings of the Committee

3.6.2. Irregular payment of auction discount

In response to the above audit objection, the Managing Director informed that the Company noticed inordinate delay in the realisation of cheques. It was noticed that some branches took more than one week for the realisation of cheques. The Company had given strict directions not to repeat such things in future. Three preventive vigilance teams have been deputed for ensuring the adherence to the Company's directions and they conduct surprise visits in the branches to examine whether there are any unpresented cheques or undue delay in collection of cheques and issued memos to the Branch Managers who made defaults. The Internal Audit Department is also directed for verification of all such intentional deviations by the officials from Company directions, if any, for taking further appropriate disciplinary actions. The Managing Director added that once pending cheques are detected, the reasons for the same are verified every month at the head office level with the help of core solution and inform them to the respective bank branches for expedition for collection of the amount.

When the Committee inquired about the Internal Control System for monitoring such irregularities, the Managing Director informed that the Internal Audit wing had been strengthened by deputing around thirty teams after the irregularities were noticed.

To a query of the Committee about how to ensure that cheques are deposited within a specified time, the Managing Director explained that the date of deposit of cheques can be examined in the Head Office through an electronic system and after verifying its printouts by the concerned finance section, is sent to the Regional Managers through the accounts section every week.

To a query of the Committee, the Managing Director informed that as a financial organisation, KSFE was taking utmost care in avoiding irregularities and strictly dealing with the matters related to cheques. Stringent actions were taken against erring officials including dismissal as seen in the case of cheque related irregularity in the Alappuzha II branch.

The Committee asked why the Company could not link auction discount to prized subscribers with the realisation of cheques. The Managing Director informed that 14% interest was charged if cheque collection was delayed for more than seven days, but no decision had taken yet on forfeiting the dividend. To another query of the Committee, the Managing Director informed that the cheque received on the day of cheit auction would be considered as paid and be given dividend after considering subscribers' track record and if they had no sufficient balance in their account, the dividend is being forfeited.

When the Committee opined that it would be better to stop receiving cheques to avoid delay, the witness responded that cheques could not be denied as they are considered as cash.

The Committee noted that when the audit team scrutinised 59 cases related to realisation of cheques, it was found that delay in realisation was due to delay in presentation of cheques to banks in 26 cases, insufficient funds in the accounts of subscribers in 18 cases and delay on the part of the banks in 15 cases. The Committee asked the current status of those cases. The witness informed that he could not give a proper reply as he did not have the details of those individual cases. Then the Committee asked to examine those cases separately and furnish the report immediately. When the Committee asked whether there was any delay at present in cheque realisation, the concerned official informed that there was no delay at present and added that the preventive vigilance team would check the date of cheque submitted, date of cheque realisation and cheque pending realisation. The witness added that the audit team visit the branches once in six months.

Then the Managing Director disclosed that KSFE is currently working with a mission statement of increasing the number of its branches to 1000 by 2025.

Observations/Recommendations of the Committee

2. The Committee criticised the inability of the officers who were unable to present the current status of 59 cases which comes under audit objection including 26 cheque realisation cases. Hence the Committee recommends that detailed reply should be furnished about these cases.

3.6.3. Issue of cheques by officials of the Company in favour of subscribers

When the Committee asked what action had been taken against those who are accused, in connection with issue of cheque by officials of the Company in favour of subscribers, the Managing Director informed that Shanawaz, Najeeb A and Naufal, the main accused in this case were suspended and given charge sheets after conducting enquiry. The main accused Shanawaz had been terminated from the Company and the other two, Najeeb A and Naufal had been reverted to Junior Assistants and recovered the amount from them. Though they approached the Court, the Court didn't give any direction to reinstate them, instead directed to recover the lost amount from them. As directed by the Court, the lost amount had been recovered from them and they were reinstated by the Company as they had remitted the amount.

The Committee commented that irregularities of any type should not be tolerated and strict action should be taken if fraudulent practices are detected and wanted the Company to reinforce the steps taken in the matter to prevent any type of malpractices, in future.

The Committee expressed its discontent on such matters that questions the credibility of KSFE and reminded that as a financial institution it should be more vigilant in its dealings as public trust is an important factor in running such an institution successfully.

Observations/Recommendations of the Committee

3. The Committee observes that the Company reinstated two suspended officials who issued cheques in favour of subscribers towards payment of monthly subscriptions and opines that if such irregularities happen in KSFE, which is being trusted by public, it will affect the goodwill of the Company. Therefore the Committee directs to be cautious in cheque related cases and recommends that this kind of malpractices should not be repeated in future.

3.6.4. Non-initiation of action on dishonoured cheques

When the Committee asked for the details on non-initiation of action on dishonoured cheques referring on the para 3.6.4, the concerned officer informed that the case occurred in Alappuzha Branch II and stringent action was taken against the three employees who were involved in it. The main accused Shanawas had been terminated after recovering the due amount and detained benefits including gratuity and added that recovery is in progress in the case of the reverted employees.

When the Committee enquired how the liability would be recovered if it is more than that of gratuity amount, the concerned officer informed that revenue recovery would be initiated in such cases.

Then the Committee directed to furnish the current status of the said case.

The Committee observed that the audit objection was that 59 cheques for an amount of ₹29.57 lakh received in respect of 92 instalments of 62 subscribers in Alappuzha branch during 2010-11 to 2014-15 were dishonoured due to insufficient funds and were not recorded in the accounts. The Committee enquired whether any action has been taken against the concerned persons in the case of non-recovery of the amount. The MD replied that in the case of dishonoured cheques a reverse entry would have to be made in the accounting and the amount should be recovered with interest from the concerned persons. He also added that those who have not called the chit must pay back the money with interest, and those who have called the chit would lose interest.

The witness informed that their Internal Audit and Vigilance team had found the anomaly and conducted a detailed enquiry in this matter and had issued charge memo to the concerned delinquent employees. He also added that the Company had initiated disciplinary action against three employees who were found guilty as the outcome of the disciplinary proceedings and one of the employees was dismissed and other two were demoted.

The Committee inquired about the 58 cheques for ₹8.59 lakh issued by subscribers in Alappuzha II Branch that were dishonoured and asked the reason for not accounting them in the books of accounts. The Committee also asked how the accounts of the subscribers were closed without realising the dues and what action should be taken against the responsible persons.

In response to the Committee's query, the witness replied that their audit team had identified an amount of ₹4.64 lakh as a credit in the bank account of the branch which would be adjusted towards the loss of these dishonoured cheques and also decided to collect the remaining amount of ₹3.95 lakhs from the five delinquent employees after fixing the accountability. He also added that recovery proceedings had already been started and an amount of ₹26,364 had already been recovered from four employees and Terminal benefit of the retired employee has been withheld.

The Committee recommended to recover the whole amount with interest from the delinquent persons.

Observations/Recommendations of the Committee

4. The Committee observes that 58 cheques for ₹8.59 lakh issued by subscribers in Alappuzha Branch II were dishonoured and that were not accounted in the books of accounts. The Committee notices that out of the loss of ₹ 8.59 lakh, about ₹ 4.64 lakh has been credited to the bank account of the branch and the Company has decided to recover the remaining amount of ₹ 3.95 lakh from the five responsible employees. Therefore, the Committee recommends to expedite the action to collect the amount with interest from the responsible officials and submit a detailed report to the Committee at the earliest.

3.6.5. Irregular payment of prize money

The Committee was surprised to note that two subscribers who defaulted payments obtained prize money before the Company had realised the dues and the Company released prize money to one subscriber and allowed him to remit the defaulted instalments on the same day out of the prize money. The Committee opined that it was a clear violation of Rule 14 of the Kerala Chit Fund Rules, 2012 and sought explanation. The KSFE Managing Director replied that the cheque realisation would take up to seven days. He admitted that Perumbavoor and Parassala branches had instances of releasing the prize money before the realization of cheques. The same had been noticed and the concerned Branch Managers had been issued memo and strongly warned against repetition of such events.

Dissatisfied by the reply of the Managing Director, the Committee strongly condemned KSFE for such irregularities and criticised for not taking timely action and observed that action was taken after 3 years. The Committee observed that such irregularities would make diminution in the actual income due for the Company and would result in genuine subscribers losing their legitimate chance of getting the prize money. The Committee expressed its strong discontent on the action taken against the delinquent officers on such grave issues and criticised KSFE for not initiating strong disciplinary action against them at the appropriate time. Then the Committee directed the Secretary, Taxes Department to take proper action after conducting a detailed enquiry on the matter and to furnish the report.

The Committee later considered the same para in its meeting held on 18-4-2023 and the witness replied that as per the then prevailing instructions, cheques submitted by customers having good track record were being treated at par with cash and thus the subscribers were allowed to participate in auction before realisation of dues. But in the matter of Sri Ayub Khan referred in the audit, the entire amount was collected with interest and the account was closed by resorting to Revenue Recovery.

The witness also stated that the inordinate delay in RR proceedings for realisation of the dues and due to increasing number of RR cases, the Company has approached the State Government to introduce SARFAESI Act in the Company and the matter is under the consideration of Central Government.

The Committee enquired whether the subscribers who have defaulted in payments are now allowed to participate in the auction. The witness replied that now things related to cheques are being implemented strictly. He also stated that as a precautionary measure to avoid such incidents in future, the Company has issued a circular regarding realisation of cheques within seven working days and has instructed the Preventive Vigilance Squad to ensure strict monitoring and compliance in all branches. He added that while paying the prize money to the defaulted subscribers, the amount including interest will be realised later.

The Committee opined that by favouring some defaulters, the genuine subscribers lost their legitimate chance of getting the prize money and that the public would lose confidence in the functioning of Public Sector Institutions.

The witness replied that appropriate action would be taken to ensure that the defaulting subscribers were not allowed to participate in chitty auction in future.

Observations/Recommendations of the Committee

5. The Committee strongly criticises KSFE for not taking timely action against the delinquent officers. The Committee observes that genuine subscribers will lose their legitimate chance of getting the prize money. So the Committee recommends to take appropriate steps to ensure that defaulting subscribers are not allowed to participate in chitty auction in future and to take stringent action against the delinquent officers who were responsible for giving prize money to the defaulted chitty subscribers.

3.6.6. Non Collection of interest on delayed realisation of cheques

The Committee was surprised to note that during 2011-12 to 2015-16, nine branches of the Company had allowed auction discount (prized subscribers) and right to participate in auction (non-prized subscribers) on receipt of 63,659 cheques towards monthly subscription of ₹259.15 crore. Though these cheques were not realised within the prescribed seven days, interest of ₹1.23 crore was not charged. The Committee wanted to know what action had been taken to recover the amount. To this the Managing Director responded that the report on action taken should be furnished after examining the matter in detail.

The Committee criticised for not answering to its queries and decided to consider the para after getting the RMT from Taxes Department.

The Committee in its meeting held on 18-4-2023 enquired about the matter in detail and the witness informed that there wasn't any mention of the cheque particulars or other details of the customers in the C&AG's Audit Report. Hence the Company requested for the details of cheques mentioned in audit observation to AG through letter dated 7-11-2022 and AG furnished it on 28-11-2022. He informed that the Company had deputed special internal audit teams to each of the 9 branches but the team could not trace out 63,659 cheque details printed out by AG in the concerned branches as the data was very old and pertains to the period 2011-2016 and this includes the dividend for the non-prized subscribers also.

The Committee enquired about the difficulty in monitoring the business activities after computerisation. The witness replied that the cheques of Co-operative Bank, treasury and non-CTS were passed with special approval if not credited within 7 days and at present the number of uncleared cheques have been reduced to 500.

The Committee opined that the situation of non-encashment of cheques should be avoided completely and the employees should ensure that the cheques were cleared within seven days and enquired about the steps taken in this regard.

The witness further stated that the Company had issued a Circular for streamlining the procedure of cheque realisation including the steps to be followed in the case of delayed cheque realisation. He added that an inbuilt check mechanism has been incorporated in their software which ensures that the uncleared cheques are automatically reversed if the same was not cleared within a reasonable time. He added that instructions have already been given to forfeit Auction Veethapalisa and impose default interest in case of violation of the instructions.

Observations/Recommendations of the Committee

6. The Committee observes that during the period 2011 to 2016, the cheques were treated as cash equivalents and the interest was not forfeited to the prized subscribers who issued cheques that could not be realised. Therefore, the Committee recommends that stringent action must be taken to find the erring officials and confiscate the same.

7. The Committee opines that KSFE being a financial institution, even a day's delay would be a loss to the Government. Therefore the Committee suggests that the cheques should be cleared within seven days and the situation of non-cashing of cheque within stipulated time should be avoided completely.

3.6.7. Failure of internal control mechanism

To a query about failure of internal control mechanism, the concerned officer informed that statutory auditing in KSFE was done by external agency. To a query regarding the appointment of the internal auditors, the witness responded that KSFE Managers were appointed as Internal Auditors. He added that KSFE implemented core solution in 2018. Till then, it was difficult to access centralised data. Now it is possible to find out delay in each stage from the head office or regional offices. The reconciliation statements are prepared every month, statements regarding the delay in realisation of cheques are taken weekly and the collection pending statements are taken in every month. He informed the Committee that by adopting such measures KSFE is able to control the irregularities to a certain extent.

When the Committee enquired whether the track record of managers were considered while appointing them as internal auditors, the witness informed that in the last board meeting held, it has been decided to appoint only proficient Managers as Internal Auditors.

To a query of the Committee about the present status of CASBA software, the Managing Director replied that since CASBA software could no longer handle the increased transactions in KSFE, it was decided to replace it with new one.

Observations/Recommendations of the Committee

8. The Committee observes that KSFE managers are appointed as internal auditors of the Company. The Committee wants to verify the past track record and efficiency of managers before appointing them as internal auditors, so as to avoid corrupted managers.

General Recommendations

9. The Committee noticed that cheques received from the chitty subscribers have to be presented to the bank on the very next day itself and if the cheques

are not cleared within 3 days (7 days in outstation cheques), those cheques from which money has not been realised, the Company should get back the cheques from the bank and pass cancellation entries against the accounts of those subscribers and should not allow them to participate in the lot and to receive prize money or auction discount. But the reason for undue delay in realisation of cheques submitted by the prized subscribers were not on record.

10. While examining the audit paragraph, the Committee observed that the chitty subscribers who opted for paying subscription through cheque within the due date availed auction discount, though the realisation of money to the Company was delayed beyond the maximum seven days. It was also evident that the MoP of the Company is inherently flawed regarding the payment through cheques and the officials of the Company colluded with some subscribers for the sake of business.

11. The Committee is of the view that the chitty subscribers who made direct payment through cash deprived of the legitimate chance of winning the lot in place of subscribers who opted payment through cheque. The Company is not taking seriously the denial of opportunity and only making business in an unethical way devoid of transparency.

12. The Committee also understands that if the Company follow good practice of doing business, it should make arrangements to verify that money from the chitty subscribers who opted for paying monthly subscription through cheque received in the accounts of the Company within due date and the branch manager should also have confirmed it before taking the lot.

13. Hence the Committee recommends that payment of chitty subscriptions through cheque make the procedure opaque and complex and hence in the era of online payment through various digital platforms the Company should opt for making chitty subscription payment through RTGS/NEFT etc. and to do away the practice of payment through cheque within no time.

14. Otherwise, the Company should ammend its MoP vividly explaining the procedure such that the money to the accounts of the Company is well received within the due date (the auction date) from the chitty subscribers who opted payment of chitty subscription through cheques and the Branch Manager should confirm the receipt before taking the lot. The officials who takes the lot, managing the account and the Branch Manager should be made liable if any untoward procedure happen in the practice of the chitty subscription payment through cheques.

Thiruvananthapuram
11th February, 2025.

E. CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

APPENDIX-I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Taxes	The Committee observes that 632 Assistants/Office Attendants were appointed on contract basis in various branches violating the Rule 14 of Rules for Reservation in Government Service and Provision of the Employment Exchanges Act, 1989. The Committee directs the department to fix responsibility for the same and to initiate action against the responsible official. The Committee recommends that all temporary appointments should be made through Employment Exchange following the principle of reservation in future.
2	2	Taxes	The Committee criticised the inability of the officers who were unable to present the current status of 59 cases which comes under audit objection including 26 cheque realisation cases. Hence the Committee recommends that detailed reply should be furnished about these cases.
3	3	Taxes	The Committee observes that the Company reinstated two suspended officials who issued cheques in favour of subscribers towards payment of monthly subscriptions and opines that if such irregularities happen in KSFE, which is being trusted by public, it will affect the goodwill of the Company. Therefore the Committee directs to be cautious in cheque related cases and recommends that this kind of malpractices should not be repeated in future.

(1)	(2)	(3)	(4)
4	4	Taxes	<p>The Committee observes that 58 cheques for ₹8.59 lakh issued by subscribers in Alappuzha Branch II were dishonoured and that were not accounted in the books of accounts. The committee notices that out of the loss of ₹8.59 lakh, about ₹ 4.64 lakh has been credited to the bank account of the branch and the Company has decided to recover the remaining amount of ₹ 3.95 lakh from the five responsible employees. Therefore, the Committee recommends to expedite the action to collect the amount with interest from the responsible officials and submit a detailed report to the Committee at the earliest.</p>
5	5	Taxes	<p>The Committee strongly criticises KSFE for not taking timely action against the delinquent officers. The Committee observes that genuine subscribers will lose their legitimate chance of getting the prize money. So the Committee recommends to take appropriate steps to ensure that defaulting subscribers are not allowed to participate in chitty auction in future and to take stringent action against the delinquent officers who were responsible for giving prize money to the defaulted chitty subscribers.</p>
6	6	Taxes	<p>The Committee observes that during the period 2011 to 2016, the cheques were treated as cash equivalents and the interest was not forfeited to the prized subscribers who issued cheques that could not be realised. Therefore, the Committee recommends that stringent action must be taken to find the erring officials and confiscate the same.</p>

(1)	(2)	(3)	(4)
7	7	Taxes	The Committee opines that KSFE being a financial institution, even a day's delay would be a loss to the Government. Therefore the Committee suggests that the cheques should be cleared within seven days and the situation of non-cashing of cheque within stipulated time should be avoided completely.
8	8	Taxes	The Committee observes that KSFE managers are appointed as internal auditors of the Company. The Committee wants to verify the past track record and efficiency of managers before appointing them as internal auditors, so as to avoid corrupted managers.
9	9	Taxes	The Committee noticed that cheques received from the chitty subscribers have to be presented to the bank on the very next day itself and if the cheques are not cleared within 3 days (7 days in outstation cheques), those cheques from which money has not been realised, the Company should get back the cheques from the bank and pass cancellation entries against the accounts of those subscribers and should not allow them to participate in the lot and to receive prize money or auction discount. But the reason for undue delay in realisation of cheques submitted by the prized subscribers were not on record.
10	10	Taxes	While examining the audit paragraph, the Committee observed that the chitty subscribers who opted for paying subscription through cheque within the due date availed auction discount, though the realisation of money to the Company was delayed beyond the maximum seven days. It was also evident that the MoP of the Company is inherently flawed regarding the payment through cheques and the officials of the Company colluded with some subscribers for the sake of business.

(1)	(2)	(3)	(4)
11	11	Taxes	The Committee is of the view that the chitty subscribers who made direct payment through cash deprived of the legitimate chance of winning the lot in place of subscribers who opted payment through cheque. The Company is not taking seriously the denial of opportunity and only making business in an unethical way devoid of transparency.
12	12	Taxes	The Committee also understands that if the Company follow good practice of doing business, it should make arrangements to verify that money from the chitty subscribers who opted for paying monthly subscription through cheque received in the accounts of the Company within due date and the branch manager should also have confirmed it before taking the lot.
13	13	Taxes	Hence the Committee recommends that payment of chitty subscriptions through cheque make the procedure opaque and complex and hence in the era of online payment through various digital platforms the Company should opt for making chitty subscription payment through RTGS/NEFT etc. and to do away the practice of payment through cheque within no time.
14	14	Taxes	Otherwise, the Company should ammend its MoP vividly explaining the procedure such that the money to the accounts of the Company is well received within the due date (the auction date) from the chitty subscribers who opted payment of chitty subscription through cheques and the Branch Manager should confirm the receipt before taking the lot. The officials who takes the lot, managing the account and the Branch Manager should be made liable if any untoward procedure happen in the practice of the chitty subscription payment through cheques.

APPENDIX-II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

STATEMENT OF ACTION TAKEN FOR THE REPORT OF C & AG ON PUBLIC SECTOR UNDERTAKING FOR THE YEAR ENDED ON
31ST MARCH 2016 (Audit paras 3.3, 3.5, 3.6)

2.	3.5.3	KSFE recruited 632 Assistants/ Attendants for a period of one year which was not against the sanctioned posts of the Company.	<p>The Vacancies in the entry cadre post namely Assistant-in KSFE are calculated as per the Business Review conducted in every six months. As per the Business review dated 31.03.2016, there were 472 vacancies in the post of Assistants. Besides, there were a total number 135 vacancies in the post of Office Attendant as on 31.03.2016.</p> <p>I Assistants</p> <table> <tr> <th>Sl No.</th><th>Date on which the vacancy reported to PSC</th><th>No. of Vacancies reported</th><th>Remarks</th></tr> <tr> <td>1</td><td>12/07/11</td><td>5</td><td>PH category (NJD)</td></tr> <tr> <td>2</td><td>09/12/11</td><td>1</td><td>PH category (NJD)</td></tr> <tr> <td>3</td><td>20/06/14</td><td>43</td><td>Vacancy due to retirement during the year 2015</td></tr> <tr> <td>4</td><td>20/11/14</td><td>8</td><td>By-Transfer</td></tr> <tr> <td>5</td><td>24/04/15</td><td>36</td><td>Fresh vacancies as per Business Review dated 31.03.2015; out of which 25 were direct and 11 were By-Transfer category</td></tr> <tr> <td>6</td><td>04/01/16</td><td>5</td><td>NJD</td></tr> <tr> <td>7</td><td>08/02/16</td><td>60</td><td>NJD</td></tr> <tr> <td>8</td><td>27/02/16</td><td>79</td><td>Fresh vacancies as per Business Review dated 30.09.2015; out of which 71 were direct and 8 were By-Transfer category</td></tr> <tr> <td>9</td><td>27/05/16</td><td>235</td><td>Fresh vacancies as per Business Review dated</td></tr> </table>	Sl No.	Date on which the vacancy reported to PSC	No. of Vacancies reported	Remarks	1	12/07/11	5	PH category (NJD)	2	09/12/11	1	PH category (NJD)	3	20/06/14	43	Vacancy due to retirement during the year 2015	4	20/11/14	8	By-Transfer	5	24/04/15	36	Fresh vacancies as per Business Review dated 31.03.2015; out of which 25 were direct and 11 were By-Transfer category	6	04/01/16	5	NJD	7	08/02/16	60	NJD	8	27/02/16	79	Fresh vacancies as per Business Review dated 30.09.2015; out of which 71 were direct and 8 were By-Transfer category	9	27/05/16	235	Fresh vacancies as per Business Review dated
Sl No.	Date on which the vacancy reported to PSC	No. of Vacancies reported	Remarks																																								
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9	27/05/16	235	Fresh vacancies as per Business Review dated																																								

31.03.2016; out of which 211 were direct and 24 were By-Transfer category

Total vacancies as on 31.03.2016 472

II Office Attendants

Sl No	Date on which the vacancy reported to PSC	No.of Vacancies reported	Remarks
1	Various dates	54	Vacancies reserved for effecting By-Transfer appointment from among the PTS cadre in the Company. These vacancies remained NCA for long period. Later, these vacancies were filled through direct appointment vide PSC advice letter dated 26.07.2016.
2	20/06/14	2	Vacancy reserved for effecting By-Transfer appointment from among the PTS cadre in the Company
3	04/01/16	1	Vacancies reserved for effecting By-Transfer appointment from among the PTS cadre in the Company.
4	28/11/13	3	Muslim(NCA)
5	Various dates	13	The vacancies to be filled by appointing PH category as intimated

vide PSC Advice letter dated 30.08.2014

6	20/06/14	3	Vacancy due to retirement during the year 2015
7	17.11.2015	55	NJD
8	04/01/16	3	NJD
9	23/03/16	1	NJD

Total vacancies as on 31.03.2016 135

As on 31.03.2016, the process of appointment to the above mentioned vacancies were not completed through PSC. Besides, there were other temporary vacancies in those posts due to maternity leave etc. On such occasions, the Company used to deploy Ex-Service Personnel under contract in order to ensure quality service to the customers. Accordingly, the Company deployed 632 Assistants/Office Attendants under contract during the period immediately after 31.03.2016. However, all those Ex-Service personnel were terminated from service on 31.05.2016. Hence, it may be noted that Company deployed 632 Ex-Service Personnel under contract against the vacancies actually existed in the posts of Assistant and Office Attendant as on 31.03.2016. As mentioned above, the Company have terminated the services of all those Ex-Service Personnel under contract. Presently, the Company have not deployed Ex-Service Personnel under contract as Assistants / Office Attendant. The Company will strictly adhere to the directions from the Government on the matter and recruitment will be made

			through Employment Exchange on similar situation in future.
3.6.2	<p>According to Paragraph 13.1 of the Manual of Procedure (MoP) of the Company, subscribers of chitty can pay monthly subscriptions is cash, demand draft, money order or cheque. As per Circular No.33/2009 dated 3rd April 2009 issued by the Managing Director of Company, cheque received from subscribers are to be deposited into the bank on the very next day of receipt and if the cheques are not cleared within three days (seven days in case of outstation cheques), the Company should get back the cheques from the bank and pass cancellation entries against the accounts of these subscribers. According to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed. We notices that 4,050 prized subscribers in nine branches of the Company had remitted monthly subscriptions in respect of 43,352 instalments by cheque within due date and availed the benefit of auction discount amounting to 10.68 crore. But, there was delay in realisation of cheques ranging upto 1105 days with average abnormal delay of 27 days. In spite of the delay, these prized subscribers were allowed auction,</p>	<p>Certain branches are extending the auction discount to the prized customers on accepting cheques submitted, although the same realized subsequently. In this connection it may be noted that as per the existing directions, the branches are allowed to accept cash or cheques for permitting customers to participate in the chitty auction and also for extending dividend benefit, on the presumption that the cheques would be cleared immediately. But when there is inordinate delay, Internal Audit Department of KSFE sorts out such cases if any and deal with separately and unauthorized granting of dividends will be reversed, apart from taking disciplinary action against the officials concerned. Certain banks also give credit of the cheques submitted for collection immediately in anticipation of realization of cheques. The Company have given strict direction to Internal Audit Department of KSFE for verification of all such intentional deviations from Company direction if any, for taking further appropriate disciplinary actions. The company is well aware of the seriousness of the above case and such tendency if any found in any of the branches will be strictly dealt with and directions given to follow the instructions issued by the Company in this regard. KSFE have also issued strict directions not to keep cheque with the branch beyond 3 days of its receipt for collection.</p>	

		<p>discount of Rs.10.68 crore (Appendix 18) due to the failure of the Company to link auction discount to prized subscribers with the realisation of cheques. The reasons for undue delay in realisation of cheques submitted by the prized subscribers were not on record. We selected 59 cases and requested banks to furnish the details of such cases, scrutiny of the details revealed that delay in realisation was due to delay in presentation of cheques to banks (26 cases), insufficient funds in the accounts of the subscribers (18 cases) and delay on the part of the banks (15 cases). Collusion between the employees of the Company and chitty subscribers in such cases could not be ruled out. We noticed some such instances as discussed below.</p>	<p>As per the existing rules, the chitty subscribers can pay the monthly subscriptions through cash remittance, demand draft, cheque and money order. As far as acceptance of cheques is concerned, The Company issued a Circular No.52/2016(FA) dated 28.10.2016 to all branches in order to arrest belated realization, detaining cheques in collusion with chitty subscribers, non-accounting of dishonoured cheques, allowing auction discount to ineligible subscribers etc.</p> <p>Apart from this, The Company has also given strict direction to their Internal Audit Department for verification of such intentional deviations from Company directives, if any for taking further appropriate disciplinary actions against the employees concerned.</p>
3.6.3	<p>According to Paragraph 3.22 of MoP of the Company, officials of the Company are not to issue cheques in favour of subscribers towards payment of monthly subscriptions. We noticed that 20 cheques for a total amount of Rs.6.92 lakh were issued by two staff of Alappuzha II Branch and their relatives against 115 instalments of 76 subscribers. Thus, misappropriation of cash received towards chitty subscriptions by the Company staff and issuing of cheques in favour of subscribers in lieu of cash received could not be ruled out. Some</p>	<p>The practice of non accounting of cheque dishonor was noticed in Alappuzha II branch by the companies Internal Audit Department. The bounced cheques of various customers were not accounted and later the concerned amount was directly remitted as cash in their bank account. In most of the cases cash remittance were done after 2 or 3 months. The issue noticed was probed in to by their IAD Teams and found that there is misappropriation of the Company fund, collected from customers. Two staff members are found directly involved in the malpractices reported by the Audit Department. The delinquent</p>	

		instances of suspicious transactions are given in Appendix 19.	employees were suspended from service on 07/08/2014. Subsequently the charge sheeted employees were reinstated in service on 12/03/2015.
	3.6.4	<p>According to Section 138 of the Negotiable Instruments Act, 1881, in case of dishonour of cheques due to insufficiency of funds, drawer of cheque shall be punished with imprisonment for a term which may extend to two years, or with fine which may extend to twice the amount of the cheque, or with both. Further, according to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed. We noticed that:</p> <p>* 59 cheques for an amount of Rs. 29.57 lakh received in respect of 92 instalments of 62 subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured due to insufficient funds. Dishonour of these cheques was not, however, recorded in the books of accounts. Instead of passing reversal entry in respect of these dishonoured cheques or taking action under Section 138 of the Negotiable Instruments Act, 1881, the branch allowed the subscribers to deposit cash directly into the bank account of the Company after delays ranging up to 91 days. Through this fraudulent process, the subscribers were granted ineligible auction discount of Rs.98,426.</p>	

		<p>We also noticed that some of the dishonoured cheques were issued by employees of the Company in Alappuzha II Branch as given in Appendix 20.</p> <p>* Similarly, 58 cheques for Rs.8.59 lakh issued by subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured. Dishonour of these cheques was also not accounted for in the books of accounts of the Company or reversing the entry at the time of receipt of cheques. The accounts of these subscribers were closed without realising dues of Rs.8.59 lakh.</p>	
	3.6.5	<p>In accordance with Rule 14 of the Kerala Chit Funds Rules, 2012, a subscriber who has defaulted in payment of monthly subscriptions shall not be entitled to participate in the auction for prize money.</p> <p>We noticed that:</p> <p>* In respect of 14 high value chitties in five branches, 12 defaulting subscribers had remitted monthly subscriptions amounting to Rs.39 lakh through cheques and were allowed to participate in auction before realisation of dues as shown in Appendix 21.</p> <p>It can be seen from the Appendix 21 that two subscribers obtained prize money of Rs.62.40 lakh before the Company had realised the dues.</p>	<p>As per the prevailing rules the customers are allowed to make monthly subscription through cheques and hence the action of the Branch in permitting the customer in the chit auction is in order. But the cheques so collected should not take inordinate delay in getting it cleared. Report received from Palakkad branch states that the delay has been occurred in clearing the cheques by 9 days and 6 days respectively. The branch has levied the extra penal interest @ 18% for the delay and now the accounts mentioned in the query were closed on 06/04/2018. Chembukavu branch has reported that the cheque was realized within 3 days from the date of auction. Now the subscriber had remitted all the installments, till the termination of the chitty and there has been no monetary loss to the Company and no breach of trust on the part of the customer. It is true that Perumbavoor and Parassala branches had released the</p>

		<p>We also noticed that Sri.Ayoobkhan, a chitty subscriber against Chitty No.44/2012 was allowed to participate in the auction (November 2012) and won the prize money before the realisation of the cheque submitted by him for second and third instalments. The cheque submitted was dishonoured and the next four instalments were also defaulted upon. The Company released the prize money of Rs.23 lakh to him on 19 March 2013 and allowed him to remit the defaulted (2nd to 7th) instalments of Rs.6 lakh on the same day out of the prize money.</p> <p>We further noticed that the subscriber again defaulted on the subsequent 23 instalments. The Company referred this case to the Revenue Authority in July 2014 for collection of Rs.23 lakh. The amount was not collected till July 2016. Favouring of few defaulters resulted in genuine subscribers losing their legitimate chance of getting the prize money.</p> <p>The Company replied that appropriate action would be taken to ensure that defaulting subscribers were not allowed to participate in chitty auction in future.</p>	<p>prize money in respect of 2 chitties before the realization of respective cheques which is against the prevailing rules of the Company. The Branch Manager is strongly warned against repetition of such events. Supervisory lapse occurred on the payment of prize money of the cases mentioned in the query may kindly be condoned. The company assure again that such mistakes won't repeat in future.</p>
	3.6.6	<p>According to clause 18 of the Chitty agreement with subscribers, in case of delay in payment of monthly subscriptions, interest at the rate of 14 per cent per</p>	<p>The system of realisation of cheques against monthly subscription of chitty is marred by undue delays and subscribers leading to payment of ineligible auction</p>

		<p>annum shall be payable of prized subscribers and at the rate of 12 per cent per annum by non-prized subscribers. Payment of interest was in addition to disallowance of auction discount (prized subscribers) and ineligibility to participate in the auction for prize money (non-prized subscribers).</p> <p>We notices that during 2011-12 to 2015-16, nine branches of the Company had allowed auction discount (prized subscribers) and right to participate in auction (non-prized subscribers) on receipt of 63,659 cheques towards monthly subscriptions of Rs.259.15 crore. Though these cheques were not realised within the prescribed 7 days, interest of Rs. 1.23 crore was not charged.</p>	<p>discount and right to participate in auction for prize money. Therefore, it is recommended that the Company should streamline the present practice of giving auction discount by linking it with realisation of cheques. Company has subsequently implemented a control system on the subject in order to plug any loopholes and revenue leakage on the matter. The Company has issued strong directions and implemented a robust internal control system on the subject. In all the cases, where officials are involved appropriate disciplinary actions are already initiated and steps will be taken to recover loss from the officials concerned.</p>
	3.6.7	<p>All cheques received were entered into the system software and cheque deposit slips generated. In respect of cheques dishonoured and which could not be revalidated due to expiry, cash was remitted by subscribers directly into banks and the receipt earlier accounted for against the cheque was set off against the cash remittance by entering the cash payment date into the system software at the time of preparation of Bank Reconciliation Statement.</p> <p>Since the Company accounts for monthly chitty subscriptions on receipt of cheques without waiting for realisation of cheques, delay in realisation can be watched only through preparation of monthly</p>	<p>On the basis of comments made in the CAG report for the year ended 31.03.2016 strict directions were given to all IAD teams as to verify that the branches are keeping BRS updated and ensure they are complying with circular No.52/2016(FA) dated 28.10.2016 in this regard. Subsequent to the issue of said circular and also as the audit is now conducting on a concurrent basis at every six months, the situation has improved considerably. After the above actions taken at HO level an incident of withholding of cheques occurred at Kanjirappilly branch recently and strong disciplinary action is being taken against the delinquent officer on the basis of audit report. Latest internal Audit report of the branches shows that most of the</p>

Bank Reconciliation Statement.

We noticed that the Company did not prepare monthly Bank Reconciliation Statements regularly. Internal Auditors and Statutory Auditors failed to notice and report the practice of irregular withholding of cheques of subscribers and consequent delay in realisation. Thus, through this fraudulent way of receipt of cheques within due dates and their delayed realisation with the possible connivance of officials of the Company, chitty subscribers were allowed ineligible auction discount and right to participate in the auction for prize money, besides extending undue benefit by way of non-levy of interest for delayed realisation of monthly subscriptions.

Accepting all the audit observations, the Government of Kerala replied (December 2016) that the Company had since implemented a control system in order to plug any loopholes and revenue leakage. They also stated that in all the cases where officials were involved, appropriate action would be taken to recover loss from the officials concerned.

branches are keeping the BRS promptly and leave less chances for being queried for withholding of cheques. In this connection the company further suggest that a foolproof control and monitoring mechanism in CASBA software to be introduced urgently so as to eliminate any further occurrence of irregular withholding/realization of cheques.

സിനി ബി. ജി. കുമാർ
അഡ്വക്കേറ്റ് സെക്രട്ടറി
നാഷണൽ ലാംപ്
സെക്രട്ടറിയുടെ
പ്രൊപ്പോസിഷൻ

**STATEMENT OF ACTION TAKEN FOR THE REPORT OF C & AG ON PUBLIC
SECTOR UNDERTAKING FOR THE YEAR ENDED ON 31ST MARCH 2016**
(Audit paras 3.3.4.7, 3.6.4, 3.6.5, 3.6.6) - ADDITIONAL INFORMATION

2.	3.6.4	<p>According to Section 138 of the Negotiable Instruments Act, 1881, in case of dishonour of cheques due to insufficiency of funds, drawer of cheque shall be punished with imprisonment for a term which may extend to two years, or with fine which may extend to twice the amount of the cheque, or with both. Further, according to Paragraph 13.4(b) of the MoP, in case of dishonour of cheques remitted by subscribers, cancellation entries against the accounts of these subscribers had to be passed. We noticed that 59 cheques for an amount of Rs.29.57 lakh received in</p>	<p>The Company pointed out that they had clearly outlined the procedure for promptly submitting the cheques received in the branches. However, it is noted that 59 cheques amounting to Rs 29.57 lakhs in respect of 62 subscribers during the period under audit were dishonoured and the same were not accounted for. It may be further noted that their Internal Audit and Vigilance team on finding the anomaly had conducted a detailed enquiry in the matter and had issued charge memo to the concerned delinquent employees concerned. Accordingly, based on the audit report Company had already recovered an amount of Rs. 72,093/- from the two delinquent employees</p>
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respect of 92 instalments of 62 subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured due to insufficient funds. Dishonour of these cheques was not, however, recorded in the books of accounts. Instead of passing reversal entry in respect of these dishonoured cheques or taking action under Section 138 of the Negotiable Instruments Act, 1881, the branch allowed the subscribers to deposit cash directly into the bank account of the Company after delays ranging up to 91 days. Through this fraudulent process, the subscribers were granted ineligible auction discount of Rs. 98,426.

We also noticed that some of the dishonoured cheques were issued by employees of the Company in Alappuzha II Branch as given in Appendix 20.

Similarly, 58 cheques for Rs. 8.59 lakh issued by subscribers in Alappuzha II Branch during 2010-11 to 2014-15 were dishonoured. Dishonour of these cheques was also not accounted for in the books of accounts of the Company by reversing the entry at the time of receipt of cheques. The accounts of these subscribers were closed without realising dues of Rs. 8.59 lakh.

concerned viz Mr. Sajeeb and Noufal. Balance amount of Rs.26,333/- is being adjusted from the arrear salary of delinquent employee Mr. Shanavas S (SGA) who has already been dismissed from service of the Company.

The company had initiated disciplinary action against three employees who were found guilty as per the domestic enquiry conducted in this regard. Accordingly, Mr. Shanavas S (SGA) has been dismissed from service of the Company and other two employees Mr. Sajeeb A (SGA) and Mr. Noufal B (AM), were reverted from their post to the Junior Most Senior Assistant and Junior Most Assistant Manager respectively as outcome of the disciplinary proceedings...

With regard to audit findings of the loss amounting to Rs 8.59 lakhs from 58 cheques being dishonoured and closing the accounts without realizing dues, The Company's audit team had identified an amount of Rs. 4,63,756/- as a credit in the bank account of the branch which could be adjusted towards the above loss of cheque dishonour. Based on the audit enquiry report, Company has already fixed accountability on the employees concerned and steps are being initiated to recover the balance loss amount of Rs. 3,95,244/- from five employees viz. Noufal B, Geetha MG, Antony PG, Anilkumar EM and Manoj kumar. Recovery has already been commenced from four employees from October 2022

			onwards and an amount of Rs.26,364/- has already been recovered. Terminal benefit of one delinquent employee Mr. Manojkumar who retired during 2022 has been withheld on account of the above.
3.	3.6.5	<p>In accordance with Rule 14 of the Kerala Chit Funds Rules, 2012, a subscriber who has defaulted in payment of monthly subscriptions shall not be entitled to participate in the auction for prize money. We noticed that:</p> <p>In respect of 14 high value chitties in five branches, 12 defaulting subscribers had remitted monthly subscriptions amounting to Rs.39 lakh through cheques and were allowed to participate in auction before realisation of dues as shown in Appendix 21.</p> <p>It can be seen from the Appendix 21 that two subscribers obtained prize money of Rs. 62.40 lakh before the Company had realised the dues.</p> <p>We also noticed that Shri. Ayoobkhan, a chitty subscriber against Chitty No. 44/2012¹⁰² was allowed to participate in the auction (November 2012) and won the prize money before the realisation of the cheque submitted by him for second and third instalments. The cheque submitted was dishonoured and the next four instalments were also defaulted upon. The Company released the prize</p>	<p>With reference to the above audit query read with appendix 21 of the report, the Company furnished that except in three cases, cheques were realised within an average period of 10 days. The CTS cheques introduced were fully operationalised during 2014 only, which was one of the reasons for delayed realisation of cheques. In this connection, the Company informed that as per the then prevailing instructions, cheques submitted by customers having good track record were being treated at par with Cash.</p> <p>Further in the matter of Sri. Ayoob Khan, chitty subscriber in chitty 44/2012-10 of Karunagappally Branch, the Company reported that the said R R account was closed on 18/07/2022. Considering the inordinate delay in RR proceedings including timely realisation of the dues and also increasing number of RR cases, Company has approached the State Government to introduce SARFAESI Act in the Company. The State Government already taken up the matter with Central Government and that is under their consideration.</p> <p>As a precautionary measure to avoid such cases in future, the Company has issued Circular</p>

		<p>money of Rs. 23 lakh to him on 19 March 2013 and allowed him to remit the defaulted (2nd to 7th) instalments of Rs. 6 lakh on the same day out of the prize money. We further noticed that the subscriber again defaulted on the subsequent 23 instalments. The Company referred this case to the Revenue Authority in July 2014 for collection of Rs.23 lakh. The amount was not collected till July 2016. Favouring of a few defaulters resulted in genuine subscribers losing their legitimate chance of getting the prize money. The Company replied that appropriate action would be taken to ensure that defaulting subscribers were not allowed to participate in chitty auction in future.</p>	<p>no. 52/2016 (FA), Alert Note 2/2021 and Letter No.11101 dated 11.10.2022 to all branches regarding realisation of cheques within seven working days and newly created Preventive Vigilance Squad has been advised to ensure strict compliance of the above circular.</p>
4.	3.6.6	<p>According to clause 18 of the Chitty agreement with subscribers, in case of delay in payment of monthly subscriptions, interest at the rate of 14 per cent per annum shall be payable by prized subscribers¹⁰³ and at the rate of 12 per cent per annum by non-prized subscribers¹⁰⁴. Payment of interest was in addition to disallowance of auction discount (prized subscribers) and ineligibility to participate in the auction for prize money (non-prized subscribers). We noticed that</p>	<p>With regard to comments contained in the above queries, the Company submitted the following:-</p> <p>The period covered by audit was from 2011-16 and the circular relied upon by audit for raising queries was issued on 28/10/2016. Till this date the cheques were treated at par with cash and no specific instructions to forfeit dividend was enforced strictly in those cases where realisation was delayed. Subsequent to the COPU meeting held on 12/10/2022, the Company had deputed their special internal audit teams to each of the 9 branches as stated</p>

during 2011-12 to 2015-16, nine branches of the Company had allowed auction discount (prized subscribers) and right to participate in auction (non-prized subscribers) on receipt of 63,659 cheques towards monthly subscriptions of Rs.259.15 crore. Though these cheques were not realised within the prescribed seven days, interest of R.1.23 crore was not charged.

by audit to look into the queries raised, so as to furnish clarification/action taken in this regard. As the data under search is very old and pertains to period 2011-2016, the audit teams could not trace out details in the concerned branches. The IAD teams have gone through some of the AG audit queries issued to branches in this regard, which were found not having any mention of the cheque particulars or other details of the customers. Situation being so, tracing of 63,659 cheques as reported by audit has become very difficult. The Company have already taken up the matter with C&AG vide letter dated 07.11.2022 requesting for details of cheques as reported by the audit.

The Company has issued Circular No.52/2016 dated 28/10/2016 for streamlining the procedure of cheque realization including steps to be undertaken in the event of delayed realization of cheques and reiteration/alert note was sent to all branches vide alert note 02/2021 and letter dated 11.10.2022. The Company instructed their audit teams to vigilantly monitor and report any violation in this respect during the course of their audit, so that all unwarranted practices as mentioned in the audit reports are dispensed with. An inbuilt check mechanism has been incorporated in their software and the uncleared cheques automatically gets reversed if the same is not cleared within a reasonable time. Instructions have already

			been given to forfeit Auction Veethapalisa and levy default interest in cases where there is violation of the above instructions.
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Appendix 19
Statement showing instances of suspicious transactions

(Referred to in paragraph 3.6.3)

Sl. No.	Particulars	Amount	Audit Observations
88/2013-98.1	Soni S	2250	Shri. Sajeeb A of Alappuzha II Branch
84/2012-98.15	Soni S	2250	issued (16/11/2013) a cheque
107/2012-75.12.14	Soni	8477	(numbered 10094) for ₹27031 to the
119/2012-75.12.14	Soni A	7534	Company. The cheque was realised on
81/2013-103	Shree S	6500	24/01/2014
160/2013-93.1	Ans	5000	Shri. Sajeeb A of Alappuzha II Branch
160/2013-93.1	Shree A	5000	issued (03/12/2013) a cheque
160/2013-45.1	Vinod S	5000	(numbered 10090) for ₹20000 to the
160/2013-45.1	Ans	5000	Company. The cheque was realised on
			08/02/2014.
160/2013-49.1	Sunil Bhat	5000	Shri. Sajeeb A of Alappuzha II Branch
81/2013-103	Jaya	8000	issued (4/12/13) a cheque (numbered
17/2012-252.1	Peen	8000	10091) for ₹1100 to the Company.
			The cheque was realised on
			15/02/2014.
175/2013-46.1	Roh	4000	
175/2013-47.1	Roh	4000	Shri. Sajeeb A of Alappuzha II Branch
129/2013-37.3	Soni AP	7500	issued (21/12/13) a cheque (numbered
129/2013-39.3	Soni AP	7500	10098) for ₹5257 to the Company.
13/2014-100	Soni AP	5000	The cheque was realised on
107/2012-75.15	Soni	4297	15/02/2014.
124/2012-58.19	Soni Anir	7500	
81/2013-25	Soni AP	7500	
8/2013-11.13	Jaya M V	15250	Shri. Shanavas S of Alappuzha II
			Branch issued (24/02/2014) a cheque
			(numbered 1095) for ₹15250 to the
			Company. The cheque was
			dishonoured and cash remitted on
			04/03/2014

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