



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)**

NINETY SIXTH REPORT

(Presented on 27-7-2015)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015**

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**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)**

NINETY SIXTH REPORT

On

**Kerala Industrial Infrastructure Development Corporation based on the
Report of the Comptroller and Auditor General of India for the year ended 31st
March 2011 (Commercial)**

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Smt. M. R. Maheswari, Deputy Secretary.

Shri. P. S. Selvarajan, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-16) having been authorised by the Committee to present the Report on their behalf, present this Ninety Sixth Report on Kerala Industrial Infrastructure Development Corporation based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March 2011 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended on 31-3-2011 was laid on the Table of the House on 23-3-2012. The consideration of the audit paragraphs included in this Report and the examination of the department witness in connection thereto was made by the Committee on Public Undertakings constituted for the period 2014-2016.

This Report was considered and approved by the Committee at the meeting held on 20-7-2015.

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

The Committee wish to express their thanks to the officials of the Industries department of the Secretariat and Kerala Industrial Infrastructure Development Corporation for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries and Finance Department and the officials of Kerala Industrial Infrastructure Development Corporation who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
27 -7-2015.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT ON
KERALA INDUSTRIAL INFRASTRUCTURE DEVELOPMENT
CORPORATION

Audit Paragraph

Violation of Government orders by three State PSUs

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

Scrutiny of records of PSUs (2010-11) revealed that three PSUs in the State collected only `14.89 lakh as cost of tender forms in 29 cases of works and supplies as against `87.99 lakh to be collected as per the revised rates resulting in loss of `73.10 lakh (Annexure 22). In the process the State Government also suffered loss of Tax revenue worth `4.38 lakh (Annexure 22) since as against `5.75 lakh collectible as VAT, the Company/Corporation had collected only `1.37 lakh.

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

Inappropriate deployment of Surplus Funds

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

prevailing in Fixed Deposits of Government Treasury for the same term at the time of investment was nine per cent.

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

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

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

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

Annexure 22
Statement showing shortfall in recovery of cost of tender forms by three Public Sector Undertakings
(Referred to in paragraph 4.11)

Kerala Industrial Infrastructure Development Corporation (KINFRA)

(Amount ₹)

Sl. No	Unit	Work	PAC	Cost of tender form collected		Date of Sale	Number sold	Cost of tender form to be collected		Short collection		Gross amount to be collected		Gross amount collected	
				Cost	VAT ²²			Cost	VAT ²³	Cost	VAT	Cost	VAT	Cost	VAT
1	2	3	4	5	6	7	8	9	10	11 [(9-5)*8]	12 [(10-6)*8]	13=8*9	14=8*10	15=5*8	16=6*8
1	Hitech Park Kalamassery	External electrification of TIC building	1860724	1500	61	03.2.09 to 10.2.09	9	2800	354	11700	2633	25200	3182	13500	549
2	Hitech Park Kalamassery	Construction of OH reservoir and distribution lines	26252032	3000	121	16.3.09 to 24.3.09	3	25000	3156	66000	9106	75000	9469	9000	363
3	Hitech Park Kalamassery	Construction of roads	32983523	3000	121	1.10.09 to 14.10.09	13	25000	3156	286000	39458	325000	41031	39000	1573
4	Hitech Park Kalamassery	Flooring TIC building	160450	50	2	5.11.09 to 6.11.09	3	300	38	750	108	900	114	150	6
5	Hitech Park Kalamassery	Petty Civil works	171565	100	4	24.1.09	3	300	38	600	102	900	114	300	12
6	KSIP Mazhavannur	Construction of roads	21261569	3000	121	Sep.09	18	25000	3156	3960000	54635	450000	56812	54000	2178
7	KSIP, Koratty	Construction of SDF building (Civil)	34200000	3000	121	Oct.09	13	25000	3156	286000	39458	325000	41031	39000	1573

Sl. No	Unit	Work	PAC	Cost of tender form collected		Date of Sale	Number sold	Cost of tender form to be collected		Short collection		Gross amount to be collected		Gross amount collected	
				Cost	VAT ²²			Cost	VAT ²³	Cost	VAT	Cost	VAT	Cost	VAT
1	2	3	4	5	6	7	8	9	10	11 [(9-5)*8]	12[(10-6)*8]	13=8*9	14=8*10	15=5*8	16=6*8
8	KITP, Palakkad	Construction of stamps for water supply scheme	11956131	2000	80	Dec.09	6	17900	2260	95400	13079	107400	13559	12000	480
9	KSIP, Nellad	Construction of SDF building	81600000	4000	162	2.2.09 to 8.2.10	8	25000	1010	168000	6784	200000	8080	32000	1296
10	Hitech Park Kalamassery	Petty Civil Works	187823	100	4	21.4.10	3	400	16	900	36	1200	48	300	12
11	KSIP, Koratty	Construction of SDF building (Electrical)	5000000	1500	61	June.10	15	7500	303	90000	3630	112500	4545	22500	915
12	KSIP, Kasargode	Maintenance work	954000	500	20	July. 10	5	1900	77	7000	284	9500	384	2500	100
13	Hitech Park Kalamassery	Construction of infrastructure for TIC	31355607	5000	202	16.7.10 to 22.7.10	5	25000	1010	100000	4040	125000	5050	25000	1010
14	Hitech Park Kalamassery	Internal roads & Land Development	74447911	8500	344	26.7.10 to 10.8.10	12	25000	1010	198000	7992	300000	12120	102000	4128
15	Hitech Park Kalamassery	Intake well and supply and laying of pumping main	54919649	8500	344	27.7.10 to 5.8.10	7	25000	1010	115500	4662	175000	7070	59500	2408
	Total			43750	1768		123	231100	19750	1821850	186006	2232600	202609	410750	16603

[The Audit Paragraphs 4.11 and 4.18 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2011]

The Notes furnished by Government on the Audit Paragraphs are given in Appendix II.

1. The Committee enquired why the Corporation had deposited `114 crore in Commercial banks for low interest rates instead of depositing the amount in Government Treasury and whether there was any instruction to deposit the money in the banks only.

2. The Secretary, Industries Department informed that the said money was obtained through the sale of land and if it was deposited in the Treasury, the Corporation could not remit back the money intime because of treasury restrictions. However the funds received as Government grants had been deposited in government treasury. The Secretary also responded that the department had agreed with the decision of the Corporation to avoid delays in liquidating the money. The Corporation have to go for clearance from Finance Department for withdrawing amounts greater than ₹50 lakhs from treasury. He also suggested that if the regulation of taking approval to deposit the funds in banks other than government grants, the objections raised in this regard could have been avoided.

3. However the Committee is not convinced with the above arguments and stated that if the Corporation had invested the amount in government treasury, an additional revenue of ₹2.72 crore could have been earned by the Corporation. The Committee instructed that going forward such unrealistic decision should not be taken.

4. Regarding the short fall in collection of cost of tender forms, the witness replied that in KINFRA the cost of tender forms is decided by the Project Management Committee. The Committee commented that the process followed by KINFRA to call out tender is technically incorrect and suggested to follow the procedures prescribed in the Stores Purchase Manual.

Conclusions/Recommendations

5. The Committee is dissatisfied to note that the process followed by Corporation to call out tender is not as per the procedure prescribed in the Stores Purchase Manual. Hence, the Committee recommends that in future, the Corporation should follow the tendering process only according to the procedures mentioned in the Stores Purchase Manual.

6. The Committee commented the decision of the Corporation to invest the amount in Commercial Banks instead of investing in the government

treasury as indefensible and criticises the officials of the Corporation who wilfully violated the Government Order. The Committee is not convinced with the arguments of the witness with respect to investment of funds in Commercial Banks. The Committee believes that if the Corporation had invested the funds in Government Treasury, additional revenue to the tune of ₹ 2.72 crore could have been earned by the Corporation. Hence, the Committee instructs that such investments are against the interest of Government, going forward such unrealistic decision should not be repeated.

Thiruvananthapuram,
27 -07-2015 .

K.N.A. KHADER,
Chairman,
Committee on Public Undertaking.

APPENDIX – I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS.

Sl.No.	Para No.	Department Concerned	Conclusion/Recommendations.
1	5	Industries	The Committee is dissatisfied to note that the process followed by Corporation to call out tender is not as per the procedure prescribed in the Stores Purchase Manual. Hence, the Committee recommends that in future, the Corporation should follow the tendering process only according to the procedures mentioned in the Stores Purchase Manual.
2	6	Industries	The Committee commented the decision of the Corporation to invest the amount in Commercial Banks instead of investing in the government treasury as indefensible and criticises the officials of the Corporation who wilfully violated the Government Order. The Committee is not convinced with the

			<p>arguments of the witness with respect to investment of funds in Commercial Banks.</p> <p>The Committee believes that if the Corporation had invested the funds in Government Treasury, additional revenue to the tune of ₹2.72 crore could have been earned by the Corporation. Hence, the Committee instructs that such investments are against the interest of Government, going forward such unrealistic decision should not be repeated.</p>
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APPENDIX – II
NOTES FURNISHED BY GOVERNMENT
ON THE AUDIT PARAGRAPHS

Serial No.	Audit Paragraph.	Reply furnished by Government
(1)	(2)	(3)
1	4.11 (2010-2011)	<p>KINFRA execute infrastructure works through outside Engineering cum Project Management Consultants (PMC) like KITCO, FACT Engineering & Designing Organization (FEDO) etc. The main responsibilities of PMC include preparation of tender documents and organizing the entire tendering process up to the point of receipt of tender bids. After award of work to the successful bidder, the work is supervised entirely by the PMC which is also part of their responsibilities. The cost of printing the tender documents is also part of their responsibilities. The cost of printing the tender documents is also met by the PMC. In other words KINFRA does not incur any additional expenditure in the tendering process. However, KINFRA is following the system of collecting cost of tender forms which may slightly be less than the rates prescribed by the Government.</p> <p>KINFRA does not maintain any Stores and does not supply any item to the contractor. The Stores Purchase Manual is more relevant to those organizations which maintain and supply stores to the contractors,</p> <p>Moreover, KINFRA does not incur any additional expenditure in this regard as all this is met by the PMC. On this basis the procedure adopted by KINFRA for fixing rates for tender forms may be condoned.</p> <p><u>Action taken:</u> Based on the audit observation by the CAG, KINFRA is adopting the rates prescribed in Para 21 (a) of the Store Purchase Manual as revised by the State Government with respect to collection of cost of tender forms from 1-4-2012 onwards.</p>

(1)	(2)	(3)
2	4.18 (2010-2011)	<p>KINFRA has been depositing its surplus funds with public sector banks to ensure that funds are available promptly and timely to be utilized for execution of its projects. Depositing with Nationalized banks enables KINFRA to withdraw the amounts as and when needed depending on the projects that are being undertaken. Most banks do not charge any penalty for premature withdrawal of deposits; further they give the interest rate for the period the deposits have remained with the banks.</p> <p>The main purpose behind depositing surplus funds with public sector banks is due to the ease and convenience for withdrawing deposits as and when KINFRA require funds. Maintaining huge balance in current account is non remunerative as the bank does not pay any interest, Hence, KINFRA manage their funds position in such a way that they obtain the maximum possible interest on their Fixed Deposits while at the same time ensuring that their payments are duly met. Such operational convenience and flexibility are available only with banks. KINFRA is availing several other services from banks like at par collection of cheques, free cheque books, at par payment facility anywhere in India, free remittance of amounts from our Parks and so on. All these services are made available free of cost only because KINFRA is maintaining deposits with them.</p> <p>The present rate of interest offered by the Treasury for 1 year deposits is 8% per annum, while deposits made in nationalized banks fetch average interest of 10.50% per annum.</p> <p><u>Action taken</u> : Based on the audit observation by the CAG and directions issued by Government KINFRA is depositing the surplus funds in nationalized banks to fetch maximum returns to the Corporation. The funds received from Government of Kerala through budget allocation is depositing in Government Orders issued in this regard.</p>