



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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

**HUNDRED AND TWELFTH REPORT
(Presented on 18th January, 2021)**

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2021

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On

**The Action Taken by Government on the Recommendations contained in the
First Report of the Committee on Public Undertakings (2011-2014) relating
to Kerala State Cashew Development Corporation Limited, based on the
Report of the Comptroller and Auditor General of India
for the year ended 31-3-2008 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS
(2019-2021)

COMPOSITION

Chairman:

Shri C. Divakaran.

Members:

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri S. Rajendran

Shri Raju Abraham

Shri Sunny Joseph

Shri M. Ummer

Shri P. Unni.

Legislature Secretariat:

Shri S. V. Unnikrishnan Nair, Secretary

Shri B. Reji, Joint Secretary

Shri A. Jafar Khan, Deputy Secretary

Smt. Reji D. O., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2019-2021) having been authorised by the Committee to present the Report on their behalf, present this Hundred and Twelfth Report on the Action Taken by Government on the Recommendations contained in the First Report of the Committee on Public Undertakings (2011-2014) relating to Kerala State Cashew Development Corporation Limited, based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2008 (Commercial).

The Statement of Action Taken by the Government included in this Report was considered by the Committee constituted for the year (2016-2019) in its meeting held on 10-10-2018.

This Report was considered and approved by the Committee at its meeting held on 23-12-2020.

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

Thiruvananthapuram,
23rd December, 2020.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT

This Report deals with the Action Taken by the Government on the recommendations contained in the First Report of the Committee on Public Undertakings (2011-2014) relating to Kerala State Cashew Development Corporation Limited, based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2008 (Commercial),

The First Report of the Committee on Public Undertakings (2011-2014) was presented to the House on 21st June 2012. The Report contained 13 recommendations in Para numbers 36 to 48 of which the Government furnished Action Taken Statements to all of them. The Committee (2016-2019) considered the Action Taken Statements furnished by the Government at its meeting held on 10-10-2018.

The Committee accepted the reply to the recommendations in all paras. This recommendations and the reply furnished by the Government and the remarks of the Committee during the consideration of Action Taken Statements from Chapter I of the Report.

CHAPTER I

**REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE
COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE AND
THE REMARKS OF THE COMMITTEE**

Sl. No.	Para No.	Department Concerned	Conclusion/Recommendations	Action Taken by the Government
1	2	3	4	5
1	36	Industries	<p>The Committee points out that though Government was bound to furnish the note showing the remedial action on the audit para to the Committee within 2 months of laying of the Audit Report, the Industries Department had furnished the notes neither within the stipulated time nor before the examination of the Audit paragraph. The Committee felt that this is a serious lapse which could not be condoned by the Committee. The Committee also directs that such irresponsible attitude should not be repeated in future.</p>	<p>Government has taken the recommendation of the Committee seriously and will ensure that such lapses do not recur.</p>

1	2	3	4	5
2	37	Industries	<p>Though Accountant General pointed out that records showed excess payment of interest on defaulted LC payment, as per the statement made by the witness during oral evidence the company had not paid the excess interest of ₹ 1.01 crore on defaulted LC payment of ₹ 18.46 crore during 2005-06 and the amount was expected to be settled through negotiation with banks. The Committee reprimanded the company for not furnishing the reply in time to Accountant General. The Committee also recommends that detailed report regarding the reason for not furnishing timely reply to Accountant General should be made available to the Committee, after verification of all records.</p>	<p>The KSCDC has not paid the excess interest of Rs. 1.01 crore, as computed by Audit, on the defaulted LC payment. Also the Government has negotiated with consortium of banks and settled the principal amount of approx. Rs. 101.52 crore at Rs. 80.00 crore vide G. O. (Rt.) No. 1252/2016/ID dated 29-11-2016 and no interest or other charges were paid. KSCDC had furnished replies to Accountant General's Inspection report dated 12-6-2008 vide letter dated 24-7-2008, within the time limit. KSCDC is taking utmost care and attention to furnish replies to the inspection reports of Accountant General, within the time limit. In case if time is required for furnishing the replies due to collection & compilation of data, the same is being intimated to the Accountant General well in advance and also within the time limit.</p>

1	2	3	4	5
3	38	Industries	<p>The Committee observes that the company had incurred a loss of ₹ 16.57 lakh as interest due to delay in collection of bills discounted. The Committee finds this as the best example of lack of financial discipline in fund management of the company. If the company had monitored clearance of bills, it could have taken up the matter with banks and thus avoided loss of interest on delayed collection. Therefore the Committee urges the company to prepare periodical financial budgets and fund flow statements and avoid losses in future.</p>	<p>Government has negotiated with consortium of banks and settled the principal amount of approx. Rs. 101.52 crore at Rs. 80.00 crore vide G. O. (Rt.) No. 1252/2016/ID dated 29-11-2016 and no interest or other charges were paid.</p> <p>It may kindly be noted that usually 3 Banks are involved in the process, viz; the nominated bank, the confirming bank and the issuing bank. Each bank is allowed upto 5 banking days to scrutinise the export bills, to see if they are in order before the approval for payment, as per Article 14 of the UCP of international trade. 5 days for export proceeds realisation, considered by audit for their calculations is not practicable. However the company has been, directed to take steps to prepare financial budgets and fund flow as recommended by the Committee.</p>

1	2	3	4	5
4	39	Industries	<p>The Committee finds that the practice followed by the company of inviting all participants of tenders for negotiations is against the basic rule of tenders. The Committee takes serious note of the fact that the company miserably fails to follow the right tender procedure. It is therefore recommended that the company should discontinue the prevailing system. As quality and origin of nuts can be known on opening of tender, only the least quoted bidder should be called for negotiation.</p>	<p>KSCDC has implemented e-procurement since September 2012 and negotiation is carried only with L1 that too on a case to case basis and as and when situation warrants.</p>

1	2	3	4	5
5	40	Industries	<p>The Committee observes that the purchase price in 16 out of 21 consignments of import of raw nuts from 2003-04 to 2007-2008 was higher than the workable rate. The Committee also points out that the company was already knowing that the transactions would lead to negative contribution. Such decisions, which are against the financial interest of the company, should not be repeated in future.</p>	<p>Workability rates are prepared only to give an indication to the Managing Director about the market scenario. It is prepared on the basis of output per bag obtained in the previous purchase of same origin, International export price of Kernels at the time of preparation, prevailing exchange rate, cost of production per bag etc. and except cost of production, all are uncertain factors. Over all it is only a tool to negotiate with the seller and no seller will agree to supply at workable rates. Providing employment had governed purchase decision in the past. Necessary steps will be initiated to consider the financial interest of the company before a purchase decision is made in future by following all tender procedures envisaged in the Connected Government Orders.</p>

1	2	3	4	5
6	41	Industries	<p>The loss of ₹ 2.28 crore due to failure in comparative study of rates between local raw nuts and imported raw nuts based on price and outturn is viewed seriously by the Committee. It is felt that the company should have considered both price and outturn when comparing rates of local raw nuts and imported raw nuts rather than considering only price of raw nuts. Therefore the Committee recommends that the company should hereafter follow the practice of evaluating the rates obtained, based on price as well as outturn.</p>	<p>KSCDC has implemented e-procurement in since September 2012. Since the implementation of the e-procurement KSCDC, tenders are invited as per season and origin. In the BOQ template itself (for price bid) the required out-turn and count is provided. Moreover, comparison between two origin is not a trade practice, due to nature of commodity.</p> <p>As of now, in the tender condition itself, the company has included a clause, if necessary, parity practice will be arrived, based on the method stipulated for adjustment for quality and out-turn and lowest bidder will be determined based on out-turn and count. The Committee's recommendations are thus complied with.</p>

1	2	3	4	5
7	42	Industries	<p>The Committee needs an explanation from the company for not carrying out the recommendations of COPU made in 2003.</p>	<p>The recommendations of COPU was made in 2003, further an expert committee was constituted with Smt. Mridul Eapen, Member, State Planning Board as its Chairperson. The expert committee submitted the report to Government on 25-8-2007 and on the basis of the report the system of procurement was followed as per G. O. (Ms.) No. 149/2007/ID dated, 26-12-2007 which was transparent and comprehensive. But now KSCDC have fully transformed into e-procurement for purchase of raw cashew nuts and thus the laid down procedures of recommendations are complied with.</p>

1	2	3	4	5
8	43	Industries	A well defined procurement policy has to be formulated by the company in accordance with the accepted procedures in the industry so as to reduce the cost of procurement.	With the adoption of e-procurement the procurement policy would be streamlined in accordance with the accepted procedure of the industry and operational scenario of Corporation. The purchase procedure is transparent and is as per Government norms.
9	44	Industries	Suitable standards should be evolved at various stages of processing to ensure adequate control over output and to improve labour productivity.	This is a fact to be considered and has already taken necessary action to ensure required standard at all stages of processing. Raw cashew being an agro-product with various origin, processed in different factories, handled by various age groups, there is possibility of variation in yield, during the actual processing work. Further, the company does factory-wise analysis and actions are also taken for below performing factories (Factories that produce less cashew kernels) and adequate control has been evolved. In order to improve labour productivity, partial mechanization has been planned by the Corporation. In the initial phase partial mechanization will be implemented in 21 factories.

1	2	3	4	5
10	45	Industries	<p>A proper market intelligence system and data base on prices to ensure formulation of an appropriate pricing strategy to obtain best prices for sale of kernels is also recommended by the Committee.</p>	<p>The price of cashew kernels is controlled by International market, and it varies on a day-to-day basis depending on various factors. The prices of Kernels are volatile and speculative. Like other commodities, cashew statistics also are usually with a disclaimer. Hence a proper reliable market intelligence system cannot be derived. However, now the sale of Cashew Kernel is through tenders and only H1 bidder is considered for finalization and also negotiation is done with the highest bidder only, if situation warrants. As a result market oriented and even higher rates are fetched presently</p>
11	46	Industries	<p>Effective steps should be taken to appoint distributors all over the state so that retail sales can be enhanced.</p>	<p>In order to enhance retail sales, necessary steps had already been initiated. Around 20 active distributors/Franchisees are operating throughout Kerala presently. However, the import of Cashew Kernels from Vietnam through Special Economic Zone (Cochin) at cheaper rates had a negative impact on the retail sales.</p>

1	2	3	4	5
12	47	Industries	<p>The Company should take efforts to revitalize the Employees Group Gratuity cum Life Assurance Scheme with LIC, make up to date the premium dues to LIC and ensure disbursement of retirement/life assurance benefits to its employees in time by making regular premium payments.</p>	<p>At present, due to the financial difficulties being faced by the company, gratuity is paid to retired employees from the funds provided by the Government for this purpose. Due to the said difficulties, the company is presently unable to make the payment of premium to Group Gratuity cum Life assurance Scheme of the LIC regularly. Earlier the company had deposited Rs. 11.06 crore towards gratuity dues upto 1998 with the LIC in this regard and the LIC apportioned Rs. 65.50 lakh towards their administrative charges. The gratuity is being paid with the financial support of the Government as the financial condition of the company is such that it is unable to remit premiums regularly. The funds released by the Government are disbursed directly to the retired employees</p>

1	2	3	4	5
13	48	Industries	Immediate steps should be taken to strengthen and widen the scope of internal audit system and the financial control mechanism in the company.	The internal Audit Wing of KSCDC is now headed by an officer on deputation from the C&AG, who works independently. The Audit of purchase and works are done at the payment stage. The sales process is also being brought into the ambit of internal audit. Necessary steps would be taken to strengthen and widen the scope of the internal audit system and financial control system.

Remarks:

1. The Government had informed the Committee via Letter No. 18672/K2/2013/Ind., dated 14-3-2016 that a CBI enquiry is underway, on the basis of different recommendations of the report, with the exception of those made on paras 37 and 42. But the Committee noted that no mention of such an enquiry was made in the Action Taken Statement provided by the Government. The Committee had asked to intimate the present position of the said CBI enquiry.

2. The Committee viewed it as a serious and deliberate dereliction of duty from the part of Government Department. The Committee also surprised why the department suppressed the details of CBI enquiry and still hesitate to explain the actual position of the same to the Committee. The Committee commented that it was very unfair to a deny facts to Legislature Committee.
3. The Committee expresses its deep displeasure over the matter and directs to submit all the details regarding the CBI enquiry before its next meeting.

Thiruvananthapuram,
23rd December, 2020.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.