

FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

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

FIFTY THIRD REPORT
(Presented on 26th June, 2024)



**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2024**

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On

**Paragraphs relating to Co-operation Department contained in the
Report of the Comptroller and Auditor General of India
for the year ended 31st March 2018 (Economic Sector)**

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COMMITTEE ON PUBLIC ACCOUNTS

(2023-2026)

Composition

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Shri Selvarajan P. S., Joint Secretary

Shri Jomy K. Joseph, Deputy Secretary

Smt. Beena O.M., Under Secretary.

INTRODUCTION

I, the Chairperson, Committee on Public Accounts, having been authorised by the Committee to present this Report, on their behalf present the Fifty Third Report on paragraphs relating to Co-operation Department contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2018 (Economic Sector).

The Report of the Comptroller and Auditor General of India for the year ended 31st March 2018 (Economic Sector) was laid on the Table of the House on 24th August 2020.

The Committee considered and finalised this Report at the meeting held on 8th May 2024.

The Committee place on records our appreciation of the assistance rendered to us by the Accountant General in the examination of the Audit Report.

Thiruvananthapuram,
26th June, 2024.

SUNNY JOSEPH,
Chairperson,
Committee on Public Accounts.

REPORT

CO-OPERATION DEPARTMENT

3.3 Short collection of Audit Fee from Co-operative Societies

Departmental lapse in enforcing the provisions of the Kerala Co-operative Societies Act, 1969 regarding audit fees resulted in non-collection/short collection of ₹16.69 crore.

The Co-operation Department is responsible for the disbursement of assistance and loans sanctioned by the Government/National Co-operative Development Corporation to Co-operative institutions for implementing various schemes, monitoring the utilization of funds, recovery of principal/interest on loans etc. In addition to this, it also discharges important statutory functions like audit of co- operatives.

Section 63 of the Kerala Co-operative Societies Act, 1969 (the Act) stipulates that the Director of Co-operative Audit (DCA) has to audit the accounts of all Co-operative Societies (Societies) registered with the Registrar of Co-operative Societies (RCS) in the State at least once in a year. Sub Section 6 below Section 64 of the Act stipulates that the amount of fee for auditing the accounts of Society each year shall be such as may be fixed¹ by the DCA in accordance with rules made in this behalf. Rule 65 of the Kerala State Co-operative Societies Rules states that every Co-operative Society shall pay audit fee to the Government within one month of the receipt of the annual audit certificate.

The responsibility for collecting the dues is vested with the RCS who has delegated it to the Assistant Registrars of Co-operative Societies (General) at Taluk level. Sub Sections (1) and (2) of Section 79 of the Act stipulate that in the case of non-payment of audit fees within the specified period of 30 days, it shall be recoverable in the same manner as arrears of public revenue due on land, that is to

1 The audit fee is calculated at the rate of 50 paise for every ₹100 or part thereof on the working capital, the value of sales or the gross income as the case may be, provided that the maximum audit fees payable by the Society shall not exceed rupees one lakh, subject to other lower limits in specified cases

say, first from the property of the Society and later from the members, past members or estates of deceased members subject to the limit of their liability. If the defaulted Societies fail to remit the audit fees, Revenue Recovery (RR) actions are initiated against them.

As per the records maintained by the RCS (General), there were 15624 Societies in Kerala² as of 31 March 2018, of which 11,892 were functioning and 3732 non-functioning.

Audit noticed that as on 31 August 2018 an amount of ₹16.69 crore was pending collection towards audit fee since the year 1972-73 from 5396 Societies functioning under seven³ departments in the State. This included ₹1.76 crore due from 640 profit making Societies. Major portion (83.52 per cent) of the pending audit fee related to societies functioning under two departments, viz., the Co-operation Department (₹9.67 crore from 3882 Societies) and the Handlooms and Textiles Department (₹4.09 crore from 270 Societies). RCS initiated revenue recovery action against 384 Societies involving ₹1.25 crore, but no amount was recovered from any of them.

Audit test checked the records maintained by eight⁴ offices of Assistant Registrars of Co-operative Societies (ARCS) (General) from five⁵ districts and found the following:

- Audit Fee Register was not being maintained up to date by seven of the eight taluk level offices.
- ARCS (General), Thrissur stated that the data on pending audit fee was compiled by collecting the information from the Societies over phone as the register was not updated properly.
- This points at the inadequacy of the internal control mechanism of the Department.

2 As furnished by the office of the Registrar of Co-operative Societies, Kerala

3 The Departments of Co-operation, Khadi & Village Industries, Fisheries, Industries, Handlooms, Dairy Development and Coir

4 Offices of the Assistant Registrars at Kasargod, Hosdurg, Tirur, Perinthalmanna, Thrissur, Cherthala, Ambalapuzha and Kollam

5 Kasargod, Malappuram, Thrissur, Alappuzha and Kollam

The matter was reported (December 2018) to the Government. In reply, (March 2019), the Government stated that a collection drive was on and that an amount of ₹ 6.68 crore was collected during the period from 17 December 2018 to 31 December 2018.

Audit verified the figures furnished by the Joint Registrars of Co-operative Societies, Thrissur (₹1.47 crore) and Thiruvananthapuram (₹59.74 lakh) and found that the collection from these districts was overstated by ₹1.02 crore and ₹8.09 lakh respectively. This again highlights the inadequacy of internal control.

[Audit paragraph 3.3 contained in the Report of the Comptroller and Auditor General of India on Economic Sector for the year ended 31st March 2018].

[Note submitted from the Government on the above audit paragraph is included as Appendix II]

Excerpts from the discussion of Committee with officials concerned.

1. When the Committee inquired about the present status of the matter in the audit para, the Secretary, Co-operation Department informed that the Co-operative Registrar had first collected ₹ 6.93 crore and later ₹ 58 crore through a special collection drive organised by the Co-operation Department and requested the Committee to give a time limit of one month to submit a statement after identifying the item amounting to ₹ 10 crore mentioned in the Demand Collection and Balance (DCB) Register as accumulated arrears.

2. The Committee acceded to allow the time limit of one month as requested by the Secretary, Co-operation Department.

Conclusion/Recommendation

3. The Committee directs the department to submit a report regarding the current status of collection of Audit Fees from Co-operative Societies, at the earliest.

3.4 Non-remittance of dividend due to the Government by Co-operative Societies

Ineffective internal control system of the Co-operation Department led to non-remittance/short remittance of dividend amounting to ₹95.44 lakh by Co-operative Societies to the Government.

The Kerala Co-operative Societies Act, 1969 provides⁶ for payment of dividend to members on their paid-up share capital at such rates as may be prescribed⁷. The dividend becomes due after the date on which the general body meeting passes the dividend. The Registrar of Co-operative Societies (RCS) issued (July 2010) instructions to all the District/Taluk level offices of the Department to ensure that dividend declared by the Co-operative Societies (Societies) on the Government share capital contributions were remitted.

(a) As of 31 March 2017 the Government of Kerala (GoK) made share capital contribution in 3755 Societies. According to the Demand Collection and Balance (DCB) Statement prepared by RCS as on 31 December 2018, a total of ₹1.18 crore was pending collection from 77 Societies towards dividend on Government shares for the period up to 2016-17.

As reported by the RCS (July 2019) and the Joint Registrar of Co-operative Societies (General), Thiruvananthapuram (May 2019), an amount of ₹76.67 lakh for the said period was collected from 16 Societies since 31 December 2018, leaving a balance of ₹41.61 lakh.

A test check of the records maintained in the offices of the Assistant Registrars of Co-operative Societies revealed that entries made in the 'Register of Share capital contribution to Co-operative Societies' containing the details of dividend payable by the Societies on Government shares were incomplete and not up to date. As a result, the exact amount of dividend due to the Government was not ascertainable from the records.

6 Sub section 2(a) of Section 56

7 Not exceeding 25 per cent (as amended in 2010)

Audit also noticed that the Department lacked an effective internal audit system. The GoK, Finance (IAC A) Department issued (June 2005) instructions⁸ to all departments to strengthen their internal audit system. The Co-operation Department, however, formed⁹ an internal audit wing only in December 2017. As intimated¹⁰ (September 2019) by the RCS no internal audit was conducted in the Department before 14 May 2019.

The Government in its reply (April 2019) accepted that the Register of Share Capital Contribution to Co-operative Societies was not being maintained by the field offices up-to-date. It was stated that instructions were issued for collecting institution-wise details of outstanding amounts of dividend and to maintain the register up-to-date. The Government also clarified that the dividends declared by Societies were not taken as demand in the DCB Statements furnished by the Joint Registrars of Co-operative Societies. Instead, the amount of dividend remitted by the Societies was shown as both demand and collection in the DCB statements. This led to the variation between the Departmental figures and the Audit figure.

(b) Scrutiny of the details of outstanding dividend furnished by the Joint Registrars of Co-operative Societies (district level offices) revealed that 23 Societies from three¹¹ districts did not pay dividend to the Government at the same rates at which they paid it to other members. This deprived the Government of dividend amounting to ₹53.83 lakh [**Appendix III(1)**].

The absence of an effective internal control mechanism in the Department, thus resulted in non-remittance/short-remittance of dividend amounting to ₹95.44¹² lakh to the Government by Co-operative Societies.

[Audit paragraph 3.4 contained in the Report of the Comptroller and Auditor General of India on Economic Sector for the year ended 31st March 2018].

8 Circular No.32/2005/Fin dated 10/06/2005

9 No. Fin.A(1)37247/2017 dated 19/12/2017

10 No. Fin(1)4961/19 dated 05/09/2019 of Registrar of Co-operative Societies

11 Pathanamthitta, Ernakulam and Thrissur

12 ₹41.61 lakh + ₹53.83 lakh = ₹95.44 lakh

[Note submitted from the Government on the above audit paragraph is included as Appendix II]

Excerpts from the discussion of Committee with officials concerned.

4. Regarding the audit para, the Secretary, Co-operation Department submitted that the dividend due to the government amounting to ₹ 95.44 lakh had already been remitted in two phases of payment of ₹ 41.61 lakh and ₹35.23 lakh respectively, by the co-operative societies and added that ₹ 6.38 lakh was remaining to be paid. The Secretary added that a district-wise list of liquidating societies and government societies whose arrear amount of dividend to be settled, was prepared and instructions had been given to clear the arrears due to government.

5. The Committee agreed with the reply furnished by the Co-operation Department.

Conclusion/Recommendation

6. The Committee directs the department to realise the arrears of non-remittance of dividend due to the Government by the Co-operative societies.

3.5 Infertuous expenditure on Floating Triveni Supermarket Project

Lack of prudence and total disregard of rules on Survey and Registration of boats made ₹1.82 crore spent on the purchase of nine ferro-cement hulled boats by the Kerala State Co-operative Consumers' Federation Ltd. infertuous.

The Kerala State Co-operatives Consumers' Federation Ltd. (CONSUMERFED) registered under the Travancore-Cochin Co-operative Societies Act 1951 is an apex body of the consumer Co-operatives in the State of Kerala. CONSUMERFED started functioning on 07 October 1965 and its functions involve bulk procurement of consumer goods and their supply to affiliated and/or other Co-operative Societies.

During the period from June 2009 to September 2012, CONSUMERFED purchased seven¹³ Mobile floating Triveni¹⁴ supermarkets (floating Triveni) with ferro-cement hull at a cost of ₹181.77 lakh and paid an advance of ₹20 lakh for two more. Seven of the Trivenis ceased¹⁵ their operation between April 2014 and September 2016. CONSUMERFED, therefore, decided (March 2017) to dispose them off in auction. Two attempts (April 2018 and May 2018) to auction them did not evoke any response from the public. Finally, four of the seven floating Trivenis were auctioned off (March 2019) for a sum of ₹91,658. There was no demand for the balance three.

Audit scrutiny revealed the following:

- The first floating Triveni was purchased by CONSUMERFED in June 2009 from M/s Floatels Hospitalities Private Limited, (Floatels) Thiruvananthapuram at a cost of ₹21.50 lakh to make essential commodities available to the people who lived in isolated and inaccessible areas surrounded by water in Kuttanad, Alappuzha.
- CONSUMERFED placed further orders with Floatels for three more floating Trivenis in September 2010 for a total cost of ₹76.5 lakh and another three floating Trivenis in October 2011 for a total cost of ₹83.77 lakh. It placed orders for another batch of three in September 2012 by paying an advance of ₹20 lakh.
- Subsequently, CONSUMERFED cancelled (8 January 2014) the order for one of the Trivenis included in the last batch, and did not take delivery of the remaining two, though they were constructed (September 2018), as the operation of Trivenis was found uneconomical.
- Audit observed that CONSUMERFED introduced the project in Kuttanad without even assessing its feasibility based on an announcement made by

13 Three Trivenis at Alappuzha, two at Kollam, one at Kottayam and one at Ernakulam

14 Triveni is a brand division of CONSUMERFED under which food & grocery, cosmetics, household items, electrical, textiles etc. are sold through super markets; super store, mega marts etc.

15 With effect from 08/04/2014, 31/03/2016, 22/06/2016, 07/07/2016 (three boats) and 30/09/2016

the Minister of Co-operation in the Legislative Assembly (July 2008) that CONSUMERFED would start a Floating Triveni in Kuttanad. As a result, most of the seven units commissioned ran on loss from the very beginning for want of adequate patronage.

- All these vessels were made of ferro-cement hull. The Chief Inspector of Boats, Irrigation Department refused (November 2009) to issue Inspection Certificate to these vessels as under the Travancore Public Canals and Public Ferries Act and Rules, Inspection Certificate could not be issued for vessels with ferro-cement hull.
- In spite of the rejection of inspection certificate for the vessels, CONSUMERFED continued to purchase six more ferro-cement hulled vessels and paid advance for three more.
- All the seven floating Trivenis ceased activity after being in service for four to six years and the vessels which were left unattended thereafter, sank in water or were in bad condition as mentioned in **Appendix III(2)**. It was further noticed that an amount of ₹6.47 lakh was spent towards maintenance, lifting of capsized vessels and valuation fees.

Thus, decision of the CONSUMERFED to proceed with procurement of vessels for floating supermarkets without feasibility study and Inspection Certificate led to unfruitful expenditure of ₹1.88 crore¹⁶.

The Government, in its reply (April 2019) stated that the reason for failure of the floating Triveni supermarkets was not inadequate patronage or lack of feasibility study but due to fast development of basic infrastructure facilities. It was also stated that at the time of purchase of boats and placing of orders for subsequent purchases there was no restriction on the registering of boats manufactured using ferro-cement. Further, four of the seven floating Trivenis were auctioned off (February 2019) for a total amount of ₹ 0.92 lakh.

The Government reply is not acceptable. The fact that three of the seven Trivenis were making loss from the very beginning and that two went in to loss after the first year of their commissioning supports the audit observation that there

16 ₹181.77 lakh + ₹6.47 lakh

was inadequate planning and patronage for the project. Further, the Government stand that there was no restriction on registering of ferro-cement boats at the time of placing of orders for subsequent purchases is not tenable, as CONSUMERFED invited (August 2010) quotations for further supply of such boats after the Chief Inspector of Boats rejected (November 2009) the application for registration of the first boat.

[Audit paragraph 3.5 contained in the Report of the Comptroller and Auditor General of India on Economic Sector for the year ended 31st March 2018].

[Note submitted from the Government on the above audit paragraph is included as Appendix II]

Excerpts from the discussion of Committee with officials concerned.

7. The Committee observed that the purchase of Floating Triveni had been made without conducting any feasibility study and that the bonafide of the purchase was doubtful as the official responsible for the purchase had not taken into consideration the adverse remarks made by the Chief Inspector of Boats in his inspection certificate. The Committee inquired about the duration of the purchased boats in use.

8. The Secretary, Co-operation Department submitted that after receiving the audit objection, an inquiry was conducted at the government level and instructions were given to dispose of the boats and stop the operation of the Floating Thriveni Supermarkets. As per the upset price fixed for each boat three boats fetched ₹ 32,000, ₹ 30,000 and ₹ 26,000 respectively and one bad conditioned boat fetched ₹ 3,658. To the Committee's query about whether the project was implemented without conducting any feasibility study, the Secretary Co-operation Department replied that the project must have been implemented without conducting any feasibility study and the details in that regard could be submitted. The Secretary added further that a detailed report showing the cost of purchasing the boats, amount received on sale and the loss incurred in the transaction could

also be submitted. The CONSUMERFED's Mobile Floating Triveni Supermarkets implemented in 2008-09, was now working well in interior areas of tribal settlements, but if such a project had to be implemented well in Kuttanad, a system should have been developed accordingly.

9. The Secretary further added that an enquiry under Section 65 of the Co-operative Societies Act was conducted against the then Consumerfed MD, an enquiry report was filed, and an application for prosecution sanction had been submitted. A writ appeal was filed against the proceedings, and the Honourable High Court of Kerala stayed the proceedings. The department filed a counter affidavit and follow-up action was taken in consultation with the Advocate General. An enquiry under Section 68 would be initiated as and when the stay was vacated.

Conclusion/Recommendation

10. The Committee observes that the purchase of Floating Triveni Boats has been made without conducting any feasibility study and that the bonafide of the purchase is doubtful as the official responsible for the purchase has not taken into consideration the adverse remarks made by the Chief Inspector for Boats in his inspection certificate. So, the Committee directs the department to submit a detailed report regarding the reason for the hasty implementation of the project without any feasibility study, the cost of purchase of boats, amount received on sale and the loss incurred in the transaction.

Thiruvananthapuram,
26th June, 2024.

SUNNY JOSEPH,
Chairperson,
Committee on Public Accounts.

APPENDIX I**SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS**

Sl.No.	Para No.	Department Concerned	Conclusion/Recommendations
1.	3	Co-operation	The Committee directs the department to submit a report regarding the current status of collection of Audit Fees from Co-operative Societies, at the earliest.
2.	6	Co-operation	The Committee directs the department to realise the arrears of non-remittance of dividend due to the Government by the Co-operative societies.
3.	10	Co-operation	The Committee observes that the purchase of Floating Triveni Boats has been made without conducting any feasibility study and that the bonafide of the purchase is doubtful as the official responsible for the purchase has not taken into consideration the adverse remarks made by the Chief Inspector for Boats in his inspection certificate. So, the Committee directs the department to submit a detailed report regarding the reason for the hasty implementation of the project without any feasibility study, the cost of purchase of boats, amount received on sale and the loss incurred in the transaction.

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