



FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2023-26)**

THIRTIETH REPORT

(Presented on 8th July, 2024)

SECRETARIAT OF THE KERALA LEGISLATURE

THIRUVANANTHAPURAM

2024

FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2023-26)**

THIRTIETH REPORT

On

Kerala Small Industries Development Corporation Limited

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

CONTENTS

	<i>Page</i>
Composition of the Committee ..	v
Introduction ..	vii
Report ..	1
Appendix I : Summary of main Conclusions/ Recommendations ..	
Appendix II : Notes furnished by Government on the Audit Paragraph ..	

**COMMITTEE ON PUBLIC UNDERTAKINGS
(2023-26)**

COMPOSITION

Chairman:

Shri E. Chandrasekharan

Members:

Shri A.P. Anilkumar

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 Chairman, Committee on Public Undertakings (2023-26) having been authorised by the Committee to present the Report on its behalf, present this 30th Report on Kerala Small Industries Development Corporation 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 23-05-2017. The Report, besides other things in their findings, brought to light some functional irregularities relating to the Kerala Small Industries Development Corporation Limited. The Committee, in connection with the perusal of reports, 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 examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2021-2023) at its meeting held on 21.06.2022.

This Report was considered and approved by the Committee (2023-26) at its meeting held on 04.07.2024.

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 Industries Department of the Secretariat and the Kerala Small Industries Development Corporation 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, Industries Department and Finance Department and the officials of the Kerala Small Industries Development Corporation Limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

Thiruvananthapuram,
8th July, 2024

E. CHANDRASEKHARAN,
Chairman,
Committee on Public Undertakings.

REPORT
ON
KERALA SMALL INDUSTRIES DEVELOPMENT CORPORATION
LIMITED
(2015-16)

Para 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.

Para 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:

Para 3.5.2 - Irregular appointment of permanent employees

We noticed irregular appointment of 161 permanent employees in Kerala Small Industries Development Corporation Limited(SIDCO) and Indian Institute of

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.

Information Technology and Management, Kerala (IIITM-K) as discussed below.

- As per Staff Regulation of SIDCO, its Board of Directors (BOD) was empowered to recruit workers directly. Government of Kerala (GoK) had, while approving revision of pay for the employees of SIDCO, directed (February 2009) SIDCO not to appoint any employees, regular or temporary, without prior concurrence of Finance Department, GoK. Further, in view of the lack of transparency in direct appointment by PSUs, Industries Department, GoK ordered (August 2012) that Public Sector Reconstruction and Internal Audit Board (RIAB) shall scrutinise vacancies in PSUs, issue common advertisement and ensure transparent recruitment process.

SIDCO recruited (August 2015) 157 unskilled workers in 11 production units through KITCO³. Originally notified number of vacancies was 40. During the recruitment process, this was increased to 160 by converting peon posts (120) into worker category.

We observed that the recruitment to the post of peons was entrusted to KPSC as per the Staff Regulation of SIDCO. The Company, however, converted 120 peon posts into worker category without the concurrence of KPSC and made the recruitment directly. This was irregular. Further, the production units for which the recruitment was made, included three⁴ defunct units with 43 converted posts of workers. These production units had not been functioning for a long time and there were no proposals to revive them. After recruitment, the recruited persons were posted in non-production units like, Marketing (49), Raw Material (25), Sales (19), Head Office (13), Estates (8), Construction (7) and others (20) though they were recruited against specific production posts with defined pay scale. These employees were paid average monthly emoluments amounting to ₹16,396 each. Thus, the additional annual financial commitment of ₹2.30 crore⁵ due to recruiting excess staff without actual requirements and without following approved

3. Formerly Kerala Industrial and Technical Consultancy Organization Limited.

4. SEC, Monvila, SIDCO Tiles, SIDCO Auto Engineering Unit.

5. (Basic Pay of 2,560 + Variable Dearness Allowance 13,836) * 117 employees (157-40) * 12 months.

procedure was tantamount to irregular expenditure. The recruitment was also done without the concurrence of the Finance Department, GoK.

We also noticed that recruitment of 157 employees was not referred to RIAB in violation of the orders (August 2012) of Industries Department.

GoK stated (February 2017) that since the production units, for which the workers were recruited had been incurring loss, these employees were deployed to other divisions of SIDCO on working arrangement basis.

The reply was not acceptable as the reason for not obtaining concurrence of KPSC and prior approval of Finance Department, GoK for the appointments was not furnished.

- KPSC stipulated that if selection to a post is finalised by written test and interview, the maximum marks for interview shall be 20 *percent* of the maximum marks for the written test. As per the directions of Industries Department, GoK, the interview board should comprise of nominees from Industries Department and RIAB.

We observed that not only there was gross irregularity of recruiting 157 unskilled workers against 40 vacancies by SIDCO, but also the maximum marks for Group Discussion (GD)/Interview was fixed at 50 *percent* of total marks. As a result, 16 candidates, who scored 80 *percent* and above in the written test could not find a place in the selection list due to low marks awarded to them in the GD / Interview whereas 14 candidates who scored 40 *percent* and below in the written test were selected for appointment as they scored high marks in the GD/ Interview. Further, three out of four members of the Interview Board comprised officials from SIDCO without any nominees from RIAB.

GoK accepted (February 2017) the audit observations and stated that there was violation of directions of Government that the marks for interview shall not exceed 20 *percent* of total marks. GoK also stated that a vigilance inquiry had been ordered to look into the entire recruitment process in SIDCO.

Para 3.5.3-Irregular engagement of temporary staff

As per the provisions of the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959, vacancies⁶ for contract employment exceeding three months were

⁶ Does not apply to vacancies in relation to any employment to do unskilled office work.

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 six⁷ PSUs and one department engaged 1686 contract employees, without notifying the vacancies to Employment Exchanges as detailed in Table 3.13.

Table-3.13 : Engagement of temporary staff

Sl.No	Audit findings	Management/Government Reply
1	<p>SIDCO</p> <p>Managing Director, SIDCO appointed (2010-2016) 403 persons on temporary/contract basis to various posts⁸ on nomination basis with an annual financial commitment of ₹2.40 crore on the basis of unsolicited applications submitted by the prospective employees. The remuneration paid to the employees engaged on contract basis ranged from ₹5,000 (Sales Assistant, Peon, Accountant, etc.) to ₹37,500 (Executive Secretary to MD) per month. The appointments were irregular as reservation rules were not followed. There was no concurrence of GoK and was not as per approved staff pattern of SIDCO.</p>	<p>GoK stated (February 2017) that all the temporary employees had been relieved from service and a vigilance inquiry in the matter is underway.</p>

⁷ 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.

⁸ Such as Accounts Executive, Co-ordinator, Assistant Public Relations Officer, HR Executive, Liaison Assistant, Audit Officer, Liaison Officer, etc.

The reply was 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. GoK should initiate action to fix responsibility for such stark disregard to rules and causing undue huge financial burden on public exchequer.

Para 3.8 - Avoidable financial commitment

The Company entered into a business activity without assessing its feasibility resulting in financial liability of ₹3.01 crore.

Kerala Small Industries Development Corporation Limited (SIDCO) appointed (March 2015) Shri. Suresh Babu as Consultant/Economic Advisor based on his voluntary offer to develop SIDCO's business activities. The consultant brought (8 May 2015) to the notice of SIDCO a tender floated (22 April 2015) by Uttar Pradesh Co-operative Federation Limited (UPCF) for the supply of three lakh MT of Di-Ammonium Phosphate (DAP). SIDCO participated in the tender and was selected as L1 with the rate of USD 478 (₹30,382⁹) per metric tonne (MT). Accordingly, an agreement was executed (28 May 2015) between UPCF and SIDCO. Since SIDCO was not a producer of DAP, it floated a global tender (27 May 2015) with Probable Amount of Contract of ₹950 crore to identify suppliers for the same. The approval of Board of Directors (BoD) was obtained (3 June 2015) wherein BoD authorised MD, SIDCO to carry out all necessary actions to implement the decisions of the BoD.

M/s Ram Online Services (P) Ltd. which was selected as L1 in the global tender (out of five technically qualified bids) reduced their rate to USD 474 (₹29,862¹⁰) per MT after negotiation and thus, the margin of SIDCO was USD 4 per MT (₹252). Considering the huge quantity of three lakh MT and seasonal requirement of the fertilizer, SIDCO requested (30 June 2015) the other four bidders¹¹ to supply at the L1 rate with the intention of supplying the entire quantity to UPCF in time. Accordingly, agreements were executed (July 2015) with all the five bidders. As per the agreement, the suppliers were

⁹ Calculated on the basis of Exchange Rate on 16 May 2015 (last date of tender)
(478*₹ 63.56)

¹⁰ Calculated on the basis of Exchange Rate ₹63.

¹¹ El Joun United Company for General Trading and Contracting, Kuwait, M/s Obar Middle East Oil Field Services WLL, Kuwait, Nasser Al-Hussainan Electric & Electronic Appliances Est, Kuwait and M/s Quartet Industries Solution (P) Limited, Kochi, Kerala.

required to furnish Performance Bank Guarantee (BG) of 2 percent for the value of Letter of Credit to be established by SIDCO. However, BG was released by only two suppliers¹² to SIDCO.

As per the terms and conditions of agreement between SIDCO and UPCF, SIDCO had to furnish a performance guarantee of 1 percent (₹9.11 crore) of the contract value (₹911.45 crore¹³). Due to lack of funds, the BG furnished (14 July 2015) for USD 4,78,000 (₹3.01 crore) by M/s El Joun United Company for General Trading and Contracting, Kuwait (M/s El Joun) was reassigned (28 July 2015) in favour of UPCF for executing the trial order of 30,000 MT by AGM, Information Technology&Telecommunications (IT&TC) without authorisation. UPCF issued (22 August 2015) Letter of Credit for ₹92 crore towards the cost for the initial shipment of 30,000 MT, out of the total quantity of 3 lakh MT of DAP in favour of SIDCO with the last date of shipment being 30 September 2015. However, SIDCO could not open letter of credit in favour of any of its suppliers due to lack of funds and hence, it failed to fulfil the obligation of supply of DAP to UPCF within the time limit.

Due to non-supply of DAP by SIDCO within the stipulated period, UPCF terminated (10 December 2015) the agreement and encashed the BG. The arbitrator appointed by M/s El Joun issued notice to SIDCO for realising the loss sustained by them due to SIDCO's failure to open Letter of Credit violating the terms and conditions of the contract entered into between them.

In this connection, we observed the following:

- The Company was established with the objective of promotion of small scale industries (SSI) in Kerala. Hence, the decision of the Company to enter into a transaction which had no connection to its stated objective was irregular.
- As per Central Vigilance Commission (CVC) guidelines, the selection of consultants should be made in a transparent manner through competitive bidding. The scope of work and role of consultants should be clearly defined and the contract should incorporate clauses having adequate provisions for penalising the

¹² M/s Obar Middle East Oil Field Services WLL, Kuwait (USD 2,50,000, not reassigned by SIDCO to UPCF), El Joun United Company for General Trading and Contracting, Kuwait (USD 4,78,000).

¹³ 3,00,000 MT * USD 478 =USD 14,34,00,000 * Exchange Rate for USD ₹63.56 (last date of tender).

consultants in case of defaults by them at any stage of the project including delays attributable to the consultants. The MD appointed the consultant/Economic Advisor without following a transparent selection procedure.

- The BG of USD 4,78,000 (₹3.01 crore) provided by M/s El Joun was unauthorisedly endorsed by the AGM (IT&TC) of SIDCO in favour of UPCF. However, no action was initiated against the employee who endorsed the BG.

Thus, the decision of the MD, SIDCO to enter into a new venture amounting to ₹950 crore outside its core activity based on the advice of a consultant without analysing its financial position had resulted in financial commitment of USD 4,78,000 (₹3.01 crore).

Government stated (November 2016) that the matter has been referred to Vigilance Department and further action would be proceeded based on the findings of Vigilance Department.

Para 3.9 - Undue benefit to suppliers

Payment of advances in violation of tender/agreement conditions resulted in undue benefit to suppliers and potential loss of ₹6.01 crore to the Company.

As per Rule 12.16 of Stores Purchase Manual (SPM), ordinarily, payments for supplies made or services rendered should be released to the supplier only after the supplies have been made or services have been rendered. Rule 12.17 states that the Departments may, in consultation with Finance Department, relax the ceilings mentioned in Rule 12.16. However, while making any such advance payment, adequate safeguards in the form of bank guarantee, etc., should be obtained from the supplier.

Kerala Small Industries Development Corporation Limited (SIDCO) constituted (May 2012) a trading division which focuses mainly on supporting MSME manufacturers by helping them to market their products under the brand name of SIDCO. The total purchases by the trading division amounted to ₹18.31 crore during the period 2012-13 to 2015-16. We noticed irregularities in granting of advances to suppliers in violation of tender conditions and provisions of SPM which resulted in undue favour to suppliers and potential loss of ₹6.01 crore as detailed in Table 3.15.

Table 3.15: Details of deviation from tender/ agreement condition and SPM.

Item	Name of Supplier/ Agreement date	Tender/Agreement Condition	Violation
Cement Blocks	PRR Bricks, Mavelikkara/ April 2015	As per Clause 7 of terms and conditions of Notice Inviting Tender “No advance payment shall be made for the above work.” Further, as per Clause 6 of agreement conditions the supplier shall supply the products on credit for 15 days from the date of invoice, the payment to which shall be released only on submission of the concerned purchase bills along with the acceptance certificates.	Managing Director (MD) released (May 2015) an advance of ₹50 lakh without interest violating tender/ agreement condition. The supplier had supplied cement blocks amounting to ₹0.91 lakh and the balance ₹49.09 lakh and supply is still pending (December 2016).
Sand	SSTPL ¹⁴ / January 2015	As per Clause 13 of the agreement, advance payment amounting to value of sand dredged in five days, up to a maximum quantity of 5,000 cu.m (₹1.14 crore) for first two consignments would be made by SIDCO to SSTPL subject to the condition that advance would have to be settled against subsequent trade of sand.	As per the agreement conditions, SSTPL dredges sand from Kayamkulam lake which was to be supplied to SIDCO. SSTPL informed (24 January 2015) that 10,000 cu.m sand was ready for delivery and requested for advance payment. MD, SIDCO released an advance of ₹70 lakh (January/June/July 2015). Out of this, SIDCO had first advanced ₹50 lakh in January 2015 upon the condition that

			<p>advance shall be settled towards supply of dredged sand within a period of two months from the date of execution of agreement. In spite of non-supply of any material against this advance by SSTPL, SIDCO paid further advances of ₹10 lakh each in June and July 2015.</p> <p>We cross verified the data available with Kerala Irrigation Infrastructure Development Corporation Limited who had awarded the work to SSTPL. We found that SSTPL had dredged only 3,111 cu.m sand (September 2015). SSTPL had not supplied any sand so far and the amount of ₹70 lakh is still pending as advance with the supplier (December 2016).</p>
Revolving chairs	Indigo Life Style, Thrissur/Agreement not signed	There was no provision in the tender conditions for payment of advances.	<p>Audit observed that an amount of ₹45 lakh was disbursed (April to May 2013) before inviting (September 2013) tender. This was irregular and needs investigation. The supplies valuing ₹1.10 crore made were neither of specified quality nor manufactured by SSI units. The sales outlets of</p>

			SIDCO have reported that the revolving chairs supplied were unsaleable.
Sand from other States	Link Land Traders, Ernakulam/ October 2014	As per Clause 5 of the agreement SIDCO shall establish an irrevocable, transferable, Inland Letter of Credit (LC). 95 per cent of payment shall be made against shipping documents.	SIDCO had not complied with Clause 5 and 6 of the agreement conditions. The amount of ₹2 crore was credited to Dhanlaxmi Bank Limited to open an LC. LC was issued against purchase order and the amount was credited (April 2015) to the supplier against the purchase order. This amounted to providing advance to the supplier which was not envisaged in the agreement. The supplier had neither refunded the advance nor supplied material.
Packaged drinking water, coconut oil and soda & drinks	M/s Hebron Aqua and Foods (India) Pvt. Ltd, Ernakulam/ January 2013	There was no provision in the agreement regarding payment of advances. As per Clause 5 of the agreement, at the time of taking delivery of the consignments, the buyer shall make payment to the manufacturer the full value of products supplied to them.	An amount of ₹3.40 crore was released (November 2013 to January 2015) as advances. The supplier had stopped (December 2015) supplying the products. An amount of ₹1.67 crore is still pending as advance with the Supplier (December 2016).
Washing Soap	Chetak India Soaps and Detergents, Cherthala/ January 2013	There was no provision in the agreement regarding payment of advances. As per Clause 5 of the agreement, at the time of taking delivery of the	An amount of ₹50 lakh was released (February to July 2013) as advances. The amount was adjusted against supplies and ₹5.10 lakh is

		consignments, the buyer shall make full payment to the manufacturer.	pending (December 2016) with the supplier.
--	--	----------------------------------------------------------------------	--------------------------------------------

Thus, the granting of irregular interest free advances without safeguarding the financial interest of SIDCO (such as by obtaining bank guarantees for the advances) had resulted in undue advantage to the suppliers to the extent of ₹6.01 crore (including interest loss ¹⁵ of ₹0.55 crore).

Government stated (January 2017) that a vigilance inquiry had been initiated considering the gravity of the matter.

[The Audit paragraph 3.5, 3.8, 3.9 contained in the Report of the C&AG for the year ended 31st March 2016.]

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

Discussion and findings of the Committee

Para 3.5.2-Irregular appointments of permanent employees

When the Committee enquired about the irregular appointments in SIDCO, the Managing Director replied that all 157 irregularly appointed unskilled workers were dismissed as per the Court order and the salary arrears of those dismissed workers had also been paid.

The Committee inquired whether any legal action had been taken against the Managing Director who made the irregular appointments and about the current status of the vigilance enquiry regarding the irregular appointments. The witness informed that the matter has been referred to vigilance and 4 cases and one writ appeal are pending before the Hon'ble High Court regarding the appointment of unskilled workers. Further action can be taken only after the completion of Vigilance investigation and High Court judgement in the above cases. He added that the sanction of prosecution against the then Managing Director had been approved by the Government.

¹⁵ Calculated on amount blocked upon cement block, sand and river sand from other States at 10 per cent.

To a query of the Committee, the Managing Director informed that as per the Court verdict, the appointments have been made from the existing list by adjusting the marks of the interview as per the norms. He added that 40 candidates were selected with a weightage of 20 percent for interview and 80 percent for written test and only 6 dismissed candidates were included in the new list. The Committee observed that despite the Government direction that marks for the interview / GD shall not exceed 20% of the total marks, the rules are not followed by SIDCO and such practices in PSUs are unjustifiable. The Committee recommended to expedite the vigilance enquiry in the matter and urged to report the same to the Committee.

Conclusions/Recommendations

1. The Committee opines that the appointments made were highly irregular since it did not match with actual requirements and without the concurrence of either the Finance Department, GoK or RIAB. Also, the conversion of the posts from peon category to worker category was done without the concurrence of KPSC which is a clear violation of existing laws in addition to gravity of violations done in SIDCO as far as appointments are concerned. The Committee also observes that the cases regarding the irregular appointment of 157 unskilled workers is pending before the Hon'ble High Court and the vigilance enquiry is ongoing. Hence the Committee recommends to expedite the vigilance enquiry in the matter and report the same to the Committee.

2. The Committee wants the Corporation to strictly adhere to the Government directions about the weightage of marks in interview / Group Discussion while appointments are made, in future.

3. The Committee is also astonished to note the inertia of the Administrative Department in reporting to the Government and to take immediate action for the recruitment process done in SIDCO flouting all the prevailing standing orders, norms and guidelines for recruitment to be followed in PSUs. The Committee also recommends that strict instructions should be given to the officials of the department that they would be liable for such lackadaisical attitude for not taking timely action against mismanagement in PSU's.

Para 3.5.3 - Irregular engagement of temporary staff

The Committee enquired about the audit observation that the Managing Director, SIDCO during 2010-16 appointed 403 persons on temporary /contract basis to various posts on nomination basis with an annual financial commitment of ₹2.40 crore on the basis of unsolicited applications submitted by the prospective employees.

The Managing Director replied that in 2016, 403 people were relieved from service and currently the number of contract employees has been reduced and now less than 20 employees are there in place of 168 employees. He added that all the irregular appointments were made during the time of former Managing Director Shri. Saji Basheer and Vigilance investigation is going on in all these cases.

The Committee is of the opinion that while there is a rule that vacancies for contract employment exceeding three months should be notified to the Employment Exchanges and Reservation Rule should also be followed, all PSUs are obliged to comply this.

Conclusions/Recommendations

4. The Committee recommends to expedite the vigilance enquiry on the irregular appointment of temporary/contract staff and to furnish a report before the Committee.

Para 3.8 - Avoidable financial commitment

The Committee enquired about the audit observation that the decision of the Managing Director, SIDCO to enter into a new venture amounting to ₹950 crore outside its core activity based on the advice of a consultant without analysing its financial position had resulted in financial commitment of ₹3.01 crore. The Managing Director informed that the matter regarding the award of contract for the supply of Di-Ammonium Phosphate to Uttar Pradesh Co-operative Federation Limited and the release of Bank guarantee has been referred to Vigilance Department for enquiry. He added that report has not been received from Vigilance Department and further action will be initiated based on the findings and recommendations of Vigilance Department.

To a query of the Committee regarding vigilance cases, the Managing Director replied that in addition to the 9 regular divisions of SIDCO, a special division was formed and all the activities relating to vigilance enquiries were done by appointing retired employees and contract staff.

The Committee enquired whether any kind of protest was made by trade unions or officers' associations against this financial fraudulence that took place during the period 2011-16. The Senior Superintendent, SIDCO informed that there was no protest from the trade unions or the officials, but the matter was conveyed to the Government through a letter.

The Managing Director further informed that the Company do not have an audited Balance Sheet from 2014-15 and due to non-availability of documents and evidences due to missing of files, there was delay in preparation of Balance Sheet. He added that the Balance Sheet for the years 2014-15, 2015-16 and 2016-17 has been prepared recently and the Balance Sheet for 4 years after 2017 will be prepared by the end of this year.

The Committee enquired whether the decision was taken by the Managing Director alone as the decision of the Board of Directors was required for financial matters that goes beyond the core activity of the Corporation. The Managing Director replied that there was no evidence that the Board of Directors has taken a decision on the said issue and when transactions are done in dollars through global tender, the decision of the Board was inevitable. He added that this issue is now under the consideration of the Vigilance Department.

To a query of the Committee, the Managing Director replied that at present SIDCO is doing civil & construction works and the works are being done after taking decision in the Board of Directors including inviting tenders for appointing PMCs.

He added that now SIDCO has decided not to take any new venture on which the SIDCO is not competent to do contract. This decision and dismissal of unwanted contract employees helped the Company to reduce its loss to less than 3 crore rupees.

The Committee enquired about the centage charge levied by SIDCO for undertaking the work. The Managing Director replied that SIDCO charges ₹4 lakh as

centage charge for a work of ₹1 crore and that amount only covers the salary of the officers of the section doing the said work.

The Committee agreed with the Principal Accountant General's comment about the matter that provisions of the Companies Act are applicable to Public Sector Undertakings and the Company should act as per the provisions of the Memorandum of Association and the Chairman and the Board of Directors have no authority to act beyond that. The Committee opined that if anything is to be done beyond that, the Memorandum of Association should be amended, otherwise the decisions taken will tend to become illegal and if such irregularities has happened in the said matter, it is a serious lapse.

The Managing Director assured that he will verify whether the Memorandum of Association has been amended and the activities which can be done legally under it and will submit a report to the Committee at the earliest. The Committee recommended to submit such a report after the scrutiny of the Accountant General.

Conclusions/Recommendations

5. The Committee is surprised to note that a Company like SIDCO which was established with the objectives of promotion of Small Scale Industries in Kerala has entered into a transaction which had no connection to its stated objectives and resulted in financial liability of ₹3.01 crore. This activity is not justifiable and doubts whether the provisions of the Articles of Association permits the Company to do such practices. Hence the Committee recommends that the Company should act as per the provisions of the Articles of Association. The Chairman and the Board of Directors are bound to act in accordance with the provisions of this. The Committee wants to fix liability on the erring official who is responsible for such financial commitment and to furnish a detailed report on the matter.

6. The Committee also recommends to verify whether the Memorandum of Association has been amended to enter into such business and directs to furnish a report in this regard and the latest position of the vigilance enquiry if it had been referred to Vigilance Department.

Para 3.9 - Undue benefit to suppliers

The Committee noticed with dismay about the violation of tender conditions that no advance payment shall be made before the supply of materials or services rendered but had violated the stipulations which resulted in undue benefit to suppliers and potential loss of ₹6.01 crore to the Company.

The Managing Director informed that Vigilance investigation is going on in 6 cases and in 2 cases the prosecution had submitted a report to the Government mentioning the delinquent officers. Further action will be taken on receipt of the findings and recommendations of Vigilance Department. The Committee on further enquiry understood that advance had been given to all the cases cited which led to the conclusion that corruption had been there in all cases.

To a query of the Committee, the Managing Director informed that mobilisation advance and bank guarantee were waived and interest free advance was allowed. But revenue recovery measures cannot be done as the said companies are not existing now. When it was pointed out the need of the company to make an internal policy, the Managing Director replied that SIDCO had developed an internal policy but does not allow advance amount and 10% retention as included in tender conditions. He added that after 2016-17, there had been no issues in this regard.

The Committee doubted how it can intervene in such serious matters as there will be delay in taking action after completing the vigilance investigation.

The Committee suggested that there should be a system to give exemplary punishment to the officers who were involved in corruption and it will help to prevent such fraudulent practices in future.

The Committee suggested that the irregularities which have not come under vigilance but took place in the company should also be re-investigated and the culprits should be brought before the law. The Committee also opined that once stringent measures are taken, it would prevent the officers from violating the law.

Conclusions/Recommendations

7. The Committee suggests that there should be a system to give exemplary punishment to the officers who were involved in corruption and it will help to prevent crimes in

future. The Committee recommends to take appropriate steps in this regard and to furnish a report regarding the matter within 2 months.

8. The Committee opines that the irregularities which have not come under vigilance enquiry but took place in the company during the period should also be re-investigated and the culprits should be brought before the law. The Committee recommends to furnish a report regarding the matter.

Thiruvananthapuram,
8th July, 2024.

E. Chandrasekharan,
Chairman,
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	Industries Department	The Committee opines that the appointments made were highly irregular since it did not match with actual requirements and without the concurrence of either the Finance Department, GoK or RIAB. Also, the conversion of the posts from peon category to worker category was done without the concurrence of KPSC which is a clear violation of existing laws in addition to gravity of violations done in SIDCO as far as appointments are concerned. The Committee also observes that the cases regarding the irregular appointment of 157 unskilled workers is pending before the Hon'ble High Court and the vigilance enquiry is ongoing. Hence the Committee recommends to expedite the vigilance enquiry in the matter and report the same to the Committee.
2	2	Industries Department	The Committee wants the Corporation to strictly adhere to the Government directions about the weightage of marks in interview / Group Discussion while appointments are made, in future.
3	3	Industries Department	The Committee is also astonished to note the inertia of the Administrative Department in reporting to the Government and to take immediate action for the recruitment process done in SIDCO flouting all the prevailing standing orders, norms and guidelines for recruitment to be followed in PSUs. The Committee also recommends that strict instructions should be given to the officials of the department that they would be liable for such lackadaisical attitude for not taking timely action against mismanagement in PSU's.
4	4	Industries Department	The Committee recommends to expedite the vigilance enquiry on the irregular appointment of temporary/contract staff and to furnish a report before the Committee.
5	5	Industries Department	The Committee is surprised to note that a Company like SIDCO which was established with the objectives of promotion of Small Scale Industries in Kerala has entered into a transaction which had no connection to its stated objectives and resulted in financial liability of ₹3.01 crore. This activity is not justifiable and doubts whether the provisions of the Articles of Association permits the Company to do such

			practices. Hence the Committee recommends that the Company should act as per the provisions of the Articles of Association. The Chairman and the Board of Directors are bound to act in accordance with the provisions of this. The Committee wants to fix liability on the erring official who is responsible for such financial commitment and to furnish a detailed report on the matter.
6	6	Industries Department	The Committee also recommends to verify whether the Memorandum of Association has been amended to enter into such business and directs to furnish a report in this regard and the latest position of the vigilance enquiry if it had been referred to Vigilance Department.
7	7	Industries Department	The Committee suggests that there should be a system to give exemplary punishment to the officers who were involved in corruption and it will help to prevent crimes in future. The Committee recommends to take appropriate steps in this regard and to furnish a report regarding the matter within 2 months.
8	8	Industries Department	The Committee opines that the irregularities which have not come under vigilance enquiry but took place in the company during the period should also be re-investigated and the culprits should be brought before the law. The Committee recommends to furnish a report regarding the matter.