



FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2023-26)**

FORTY FIRST REPORT

(Presented on 11th February, 2025)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2025

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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)**

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

COMPOSITION

Chairperson:

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 Chairperson, Committee on Public Undertakings (2023-26) having been authorised by the Committee to present the Report on its behalf, present this 41st 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 10.05.2022.

This Report was considered and approved by the Committee (2023-26) at its meeting held on 29.01.2025.

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

The Committee wishes to express thanks to the officials of the 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,
11th February, 2025.

E. CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

REPORT
ON
KERALA SMALL INDUSTRIES DEVELOPMENT CORPORATION
LIMITED

AUDIT PARAGRAPH 3.2(2015-16)

3.2 - Sub-Contract Management by Public Sector Undertakings

Introduction

3.2.1 Public Sector Undertakings (PSUs) in Kerala carry out supply and installation of equipment and execution of civil works on behalf of Departments/agencies of Government of Kerala (GoK). These PSUs in turn engage sub - contractors for procurement of equipment and execution of work awarded by Departments of GoK/ agencies.

In order to examine compliance with rules and regulations and transparency in sub-contract management by PSUs, we examined 50 works¹ relating to supply and installation of equipment and 107 works relating to civil construction in seven² PSUs during the period 2010-11 to 2015-16. Out of these, 29 work orders valuing ₹178.79 crore for supply and installation of equipment were issued to the PSUs by GoK on nomination basis of which 20 work orders costing ₹51.47 crore were issued to the PSUs without preparing cost estimate. The cost estimates for these works were prepared by the PSUs based on which, work orders were issued by GoK to them on back to back basis³. The cost estimate in respect of 10 work orders for ₹27.77 crore was prepared with the help of business partners of the PSUs to whom these works were later sub-contracted.

Audit findings are discussed below.

1. 41 works executed by Kerala State Electronics Development Corporation Limited (KELTRON) on behalf of 18 Departments/ agencies of GoK and nine works executed by Kerala Small Industries Development Corporation Limited (SIDCO) for one Department/ three agencies of GoK.
2. Kerala State Electronics Development Corporation Limited, Kerala Small Industries Development Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, Kerala State Construction Corporation Limited, Kerala State Coastal Area Development Corporation Limited, Kerala Irrigation Infrastructure Development Corporation Limited and Forest Industries Travancore Limited.
3. 'Back to back basis' is a term used by PSUs. It refers to purchases done by PSUs for GoK/ agencies whereby PSUs get orders from GoK/ agencies who then pass it on to private parties with payment terms that PSU would make payment to private parties only after receipt of payment from GoK/ agencies.

Audit Findings

Supply and installation of equipment

3.2.2 Kerala State Electronics Development Corporation Limited (KELTRON) and Kerala Small Industries Development Corporation Limited (SIDCO) supply and install equipment for departments of Government of Kerala (GoK) and other PSUs.

Issues noticed in the works relating to supply and installation of equipment are discussed in succeeding paragraphs.

Agreement with business partners

3.2.2.1 According to Section 3 of the Competition Act, 2002, no enterprise shall enter into any agreement for production, supply, etc., of goods or provision of services, affecting competition within India. As per guidelines (July 2004) of Central Vigilance Commission (CVC), while making procurement or executing work through a system of approved/ registered vendors and contractors, there should be wide publicity through website as well as through other traditional channels at regular intervals for registration of contractors/suppliers.

We observed that for executing major works, KELTRON and SIDCO had entered into business agreements with eleven agencies, with the intention of obtaining work orders from GoK and getting them executed through these sub-contractors, as detailed in Table 3.5.

Table 3.5: Entities with whom business agreements were entered into

Name of the entity	Agreement since	Terms of agreement/ Particulars
Stohos Infotech Private Limited (SIPL)	September 2013	As per Teaming Agreement, SIDCO would act as the team leader for participating in tenders floated by GoK and SIPL would supply the technology and equipment.
Kerala SIDCO Hitech Security Printing Solutions	May 2014	As per the Strategic Business Agreement, SIDCO would canvas with Government

Private Limited ⁴		agencies and submit quotations/ tender based on the predetermined pricing policy agreed upon. On obtaining the order from Government and Government agencies, SIDCO would issue the work order to the JV which would execute the work.
Sinelab Technologies Private Limited (Sinelab)	March 2015	SIDCO obtained orders from Government/PSUs which were passed on to Sinelab/ Nautical Lines, empanelled vendors, on nomination basis.
Nautical Lines	June 2013	

We observed that KELTRON and SIDCO selected business partners (strategic partners) without following any transparent procedure, such as identifying and empanelling firms through open tender process. Instead, the selection was based on unsolicited offers from the business partners who were private entities.

GoK stated (February 2017) that the PSUs had been instructed that criteria for selection of units whose products were marketed, terms of marketing arrangements, etc., should be brought to their Board of Directors (BoD) and got approved by them in advance. The reply is not acceptable as equal opportunity was not given to all interested parties.

Award of work to business partners without tenders

3.2.2.2 Rule 7.11 of Stores Purchase Manual (SPM) of GoK required that purchase orders/ work orders be issued only after inviting open tenders when the value of works exceeded ₹10 lakh.

We noticed that KELTRON and SIDCO had issued 12 work orders valuing ₹51.90 crore and 4 work orders valuing ₹8 crore respectively to their business partners without invitation of tenders as shown in **Appendix 10**. Out of these, eight work orders received by KELTRON and all the work orders received by SIDCO from GoK/ its agencies were on nomination basis. We also noticed that:

- For the work of printing text books (Serial number-8 of Appendix 10) of

⁴ A joint venture (JV) of SIDCO and Solar Offset Printers Private Limited.

Sarva Siksha Abhiyan (SSA), SIDCO requested (February 2014) GoK to allot the job to it on nomination basis. GoK, however, directed SIDCO to take part in tenders and operate on commercial basis. Yet, SIDCO approached SSA and obtained the printing job of activity books for schools. Thereafter, SIDCO assigned the work to a Joint Venture (JV), thus, bypassing the prescribed procedure for awarding contracts.

GoK in its reply stated (February 2017) that the work was awarded to SIDCO on the basis of quotations invited by SSA, and that there was no harm in SIDCO sub-contracting the work to the JV. The reply is not acceptable as SIDCO invited quotations from only one firm and awarded the work to the same firm.

- Three work orders for supply of 15-seater, 12-seater and 6-seater speed boats for Forest Department, GoK (Serial number 9 of **Appendix 10**) was issued (March 2015) to Nautical Lines, business partner of SIDCO. Work order for supply of 15 seater boat was issued based on a price comparison of three quotations, including quotations of two other firms collected and submitted by Nautical Lines themselves to SIDCO. The delivery schedule was not mentioned in the work order for the 15 seater boat and Nautical Lines was yet (December 2016) to deliver the boat. Wildlife warden, Shenduruny had, however, given (17 June 2015) a false acceptance certificate for receipt of the boat and payment of ₹0.66 crore released (March 2015).

The six-seater and 12-seater boats were delivered by Nautical Lines between May and June 2015, but the 12-seater boat could not be put to use as Nautical Lines had not furnished Fitness Certificate and Registration Certificate⁵ in line with the terms of the work order.

GoK, in its reply (February 2017), accepted that the award of work by

5 From Coastal Shipping and Inland Navigation Department.

SIDCO was irregular and assured that action would be taken against those concerned. Government also confirmed that the 15-seater boat is yet to be delivered. The reply did not explain how acceptance was issued by the Wildlife Department and payment released to the supplier for an item that is yet to be supplied. Responsibility was also not fixed for issuing false acceptance certificate.

Loss due to award of work without tenders

3.2.2.3 Issue of work orders to business partners on nomination basis resulted not only in violation of codal provisions but failure to obtain competitive rates as well. We worked out extra expenditure of ₹0.66 crore in award of works on nomination basis in two cases where comparable rates were available, as discussed below:

- According to the guidelines issued by Ministry of New and Renewable Energy (MNRE), Government of India (GoI), 30 *per cent* of cost or benchmark price of solar high mast lights was receivable as subsidy from GoI, if equipment were procured from MNRE-approved channel partners.

The work of supply and installation of solar high mast lights (Serial number-6 of Appendix 10) was awarded to Sinelab, business partner of SIDCO. But Sinelab was not an approved channel partner of MNRE for supply of solar high mast light. Due to procurement from a non-approved channel partner, Kerala State Coastal Area Development Corporation Limited (KSCADC) became ineligible for subsidy of ₹0.11 crore⁶

GoK replied (February 2017) that there was no condition in the work order issued by SIDCO to execute the work through MNRE approved channel partners. The reply is not acceptable as by awarding the work to

6 30 *per cent* on the cost of solar plants procured through SIDCO.

a firm not approved by MNRE, subsidy to the extent of ₹0.11 crore was foregone.

Award of work to single bidders

3.2.2.5 According to the directions (October 2013) of GoK, in cases where there was only single bidder, retendering should be resorted to. If after retendering also there was only single bidder, the work can be awarded to the single bidder with justification for the same. Further, as per Rule 8.15 of SPM, Earnest Money Deposit (EMD) of a tenderer will be forfeited, if the tenderer withdraws from the tender.

- In respect of tenders invited for three works, there were two bidders each. Though the bidders were related entities which made their bids equivalent to single bids, KELTRON/SIDCO did not retender the works as warranted by the Order (October 2013) of GoK as detailed in Table 3.8.

Table 3.8: Bidding by related entities

Sl. No.	Items of supply	Name of bidders	Name of PSU	Work awarded to	Purchase Order Value (₹ in crore)	Remarks
1	Compactors ⁷ for KLIM	SIPL and Net-X Technologies	SIDCO	SIPL	4.21	SIPL and Net-X Technologies were the business partners of SIDCO and KELTRON respectively.

⁷ Compactors are storage systems which can store large number of files/documents etc., utilising comparatively less floor space.

2	Two Database servers for IT @ School	SIPL and Net-X Technologies.	KELTRON	Net-X Technologies.	1.00	In the tender invited by KELTRON, the bid submitted by Smartsoft (another vendor) was rejected during technical evaluation though it complied with all the tender conditions. The seal of SIPL was found on the bid documents submitted by Net-X Technologies to KELTRON. The contact e-mail given by SIPL in the e-tender website was biju@netx.co.in i.e. an e-mail address registered in the domain of Net-X Technologies.
3	Supply of solar equipment in various coastal areas on behalf of KSCADC	Sinelab and SARK Cables Private Limited	SIDCO	Sinelab	2.31	Both the bidders were related entities because both had common directors.

GoK admitted (February 2017) that SIDCO should not have awarded the work related to KLIM to SIPL and assured that the officials concerned would be taken to task. In case of the award of work to Sinelab, GoK stated that SIDCO was not aware of the fact that the two bidders were related.

Execution of civil works on behalf of agencies of GoK

3.2.5 GoK and its agencies executed various civil construction works through PSUs such as SIDCO, Kerala State Construction Corporation Limited (KSCC), Kerala Irrigation Infrastructure Development Corporation Limited (KIIDC), Forest Industries Travancore Limited (FIT), Kerala State Coastal Area Development Corporation Limited (KSCADC) and Roads and Bridges Development Corporation of Kerala Limited (RBDCK). These PSUs received (2013-14 to 2015-16) 166 work orders valuing ₹2,111.67 crore from various

departments of GoK for execution of civil works. Out of these, we examined 107 work orders valuing ₹1,718.81 crore in order to ascertain transparency in award of work and efficient execution.

All 107 work orders examined by us were issued to PSUs on nomination basis in violation of the provisions of Kerala Financial Code (KFC). These works were subsequently sub-contracted by the PSUs. Deficiencies noticed in the award of work by PSUs and their execution is discussed below.

Award of work to sub-contractors

3.2.5.1 We noticed violation of codal provisions in award of 69 works to sub-contractors by four PSUs as detailed in *Table 3.9*.

Table 3.9: Irregularities in award of work to sub-contractors

SI. No.	Criteria/ Norm	Audit Observation
1.	One of the conditions prescribed for empanelment of a firm with SIDCO for execution was that they should possess at least one year's experience in their field of activity.	One firm, DNA Creatives (DNAC) was empanelled (July 2014) by SIDCO just after registration (5 July 2014) of the firm. We also noticed that two ⁸ work orders received from Department of Museums and Zoos were awarded (September 2014) to DNAC for ₹2.17 crore against estimate of ₹2.66 crore.

Execution of civil works by sub-contractors

3.2.5.2 Issues noticed in execution of civil works by sub-contractors discussed below:

There was delay in execution of five civil works sub-contracted by SIDCO as detailed in *Table 3.10*.

Table 3.10: Delay in execution of civil works

SI. No.	Name of work	Name of contractor (Date of award of work)	Awarded cost(₹ in crore)	Schedule d date of completion	Progress as of February 2017(per cent)	Remarks
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⁸ Work order for modification of the interior of the enclosure in reptile house at ₹0.39 crore and work order for construction of enclosure for Anaconda and King Cobra at ₹1.78 crore.

1.	Construction of roads, retaining wall, community hall in Karakulam Panchayath (Maruthur/Manjamcode SC Colony) for Scheduled Castes and Scheduled Tribes Development Department	Angle Plus Private Limited (September 2014)	0.69	May 2015	33.70	Work was delayed as the revised estimate was not approved by Scheduled Castes and scheduled Tribes Development Department. GoK replied (February 2017) that the works were delayed due to lack of supervisory personnel in SIDCO. Reply was not acceptable as GoK had issued work to SIDCO on nomination basis without ensuring its capability.
2.	Construction of water tank, community hall in Andoorkonam Panchayath (Apollo Colony) for Scheduled Castes and Scheduled Tribes Development Department.	Shri D. Sasidharan (January 2015)	0.60	October 2015	0.09	Work was delayed as the revised estimate was not approved by Scheduled Castes and Scheduled Tribes Development Department. GoK replied (February 2017) that the delay was due to dispute with the contractor which had since been resolved and the contractor given instructions to restart the work. The fact, however, remains that work is yet to be completed.
3.	Construction of well, water tank, Mini community	Angles Plus Private	0.81	July 2015	48.15	Work was delayed as the revised estimate of

	hall in Andoorkonam Panchayath (Sreepadmam Colony) for Scheduled Castes and Scheduled Tribes Development Department.	Limited (September 2014)				digging a bore well in addition to well already constructed was not approved by Scheduled Castes and Scheduled Tribes Development Department. Gok replied (February 2017) that the construction of the well was completed as per original estimate. Reply is not acceptable since the actual requirements of the residents were not properly assessed.
4.	Work for setting up a museum at Kanakakkunnu Palace for Department of Tourism(DoT)	Not yet (as of March 2016) awarded by SIDCO.	0.60	NA	NA	The work was entrusted to SIDCO in May 2010. DoT released (September 2010) ₹29.96 lakh to SIDCO but the work was not completed even after five years as the details of the project was not forwarded to SIDCO by DoT. GoK in its reply (February 2017) admitted the audit finding and stated that DoT did not forward the details of project to SIDCO.
5.	Construction of multistoreyed industrial estate at Puthussery,	Entec Engineers (June 2013)	5.97	June 2015	Nil	Work is yet to be commenced as the site is not cleared yet (December

	Palakkad for Director of Industries and Commerce.					2016). GoK replied (February 2017) that the work was re-allotted to another implementing agency.
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- According to CVC directions (April 2007), payment of mobilisation advance (MA) should be made only if it is clearly stipulated in the tender document. Amount of MA, interest to be charged, recovery schedule, etc., should be stipulated in the tender document upfront. CVC further clarified (February 2011) that in order to enable recovery, MA should be granted only after obtaining Bank Guarantee equivalent to 110 *per cent* of MA.

SIDCO had granted MA of ₹1.51 crore in respect of two work orders⁹, despite there being no such stipulation in the tender document. In both the above cases, MA was granted interest-free, resulting in loss of interest of ₹0.16 crore¹⁰.

GoK accepted (February 2017) the audit observation and stated that the amount paid as MA in SIDCO had since been recovered with interest.

- According to the directions (September 2007) of GoK, PSUs executing civil works on behalf of GoK were eligible for centage/ consultancy charge ranging between five and eight *per cent*¹¹ on the estimated cost or the actual cost of construction, whichever was lower.

In respect of eight¹² work orders issued (August 2014 to May 2015) by

9 (Amount of MA in brackets) Construction of District Youth Bhavan at Panamaram, Wayanad at ₹2.21 crore (₹0.50 crore during July-August 2014) and Construction of multi-storeyed industrial estate building at Puzhakkalpadam, Thrissur at ₹10.09 crore (1.01 crore in January 2013).

10 Up to March 2016- Panamarani: ₹0.04 crore, Puzhakkalpadam: ₹0.12 crore.

11 ₹5 crore and above-5 *per cent*, between ₹3 crore and ₹5 crore-6 *per cent*, between ₹50 lakh and ₹3 crore-7 *per cent*, less than ₹50 lakh-8 *per cent*

12 Construction of enclosures for Blue Bull at the Zoological Gardens, Construction of enclosures for Hyena at the Zoological Gardens, Construction of enclosures for Barking Deer at the Zoological Gardens, Construction of enclosures for Jackal at the Zoological Gardens, Construction of enclosures for Malabar Giant Squirrel at the Zoological Gardens, Construction of enclosures for Anaconda and King Cobra at the Zoological Gardens, Modification of interior of the enclosure in Reptile House of Museum and Zoo at Thiruvananthapuram and Construction of Kids' park at Museum and Zoo at Thrissur.

Department of Museums and Zoos, GoK, SIDCO received an amount of ₹8.83 crore in advance being the estimated cost of the works plus 7 per cent centage charges. Actual cost of execution of the eight works was ₹7.83 crore. As such SIDCO was eligible for an amount of ₹8.38 crore (actual cost ₹7.83 crore + ₹0.55 crore as centage charges being 7 per cent of the actual cost). However, SIDCO retained ₹1 crore as centage charges and did not refunded the difference amount of ₹ 0.45 crore (₹8.83 crore - ₹8.38 crore). Thus, SIDCO obtained undue benefit of ₹0.45 crore by charging excess centage.

GoK accepted (February 2017) the audit observation and stated that charging excess centage was against the Government direction.

- The work of development of Manappattuchira Environs at Malayattoor was awarded (September 2010) to SIDCO by Tourism Department and subcontracted by (October 2010) SIDCO to Shri P. A. George. Though the work was completed on 31 December 2012, the building was handed over by SIDCO to Tourism Department only in October 2016. Due to this, local people had occupied the building using its rooms and toilet facilities. The expenditure of ₹77.20 lakh incurred for the project, remained blocked up for nearly four years and the loss caused due to unregulated use and lack of maintenance was not ascertainable.

GoK replied (February 2017) that the said problem had already been solved and the building was handed over to the Tourism Department on 6 October 2016. The fact, however, remains that there was avoidable delay of nearly four years in utilising the completed asset.

Quality of construction work

3.2.5.3 We noticed poor quality of construction and violation of codal provisions in respect of three civil works executed by SIDCO as given in

Table 3.11.**Table 3.11 : Details of poor quality of construction of civil works**

Sl. No.	Name of work sub-contracted	Audit finding
1	Construction of industrial complex at Kakkanad for Directorate of Industries and Commerce awarded (June 2010) to Shri. Kunju Makkar for ₹1.69 crore.	<p>Since the work was completed within the scheduled period, the contractor was given a bonus of ₹0.94 lakh in accordance with extant directions (August 1997) of GoK. The Vigilance Officer, SIDCO noticed that the material used for plastering for the toilets were inferior in quality and the correct percentage of material mixing was not adhered to. As a result, the building was in shabby condition. Although as per the terms of work order the contractor was to rectify all these defects, maintenance of the building was entrusted (June 2015) to another contractor at an agreed amount of ₹0.93 lakh. SIDCO neither initiated any action to recover the extra expenditure caused by the negligence of the original contractor nor fixed responsibility on SIDCO officials who had not ensured quality of the work executed.</p> <p>GoK replied (February 2017) that SIDCO completed the work to the satisfaction of DI &C and the cost of maintenance was met within the bonus amount received by SIDCO for the early completion of the work. The reply is not acceptable as the quality of the work executed was not ensured by SIDCO.</p>
2	Project of execution of "Storm water stream management at	Due to unscientific construction, the floor level of the <i>thodu</i> ¹³ was raised from the

	<p>Edakkal area Kovalam” for Department of Tourism (DoT) awarded (May 213) to Shri P.A. George for ₹0.86 crore.</p>	<p>previous level causing water logging in the area which turned into a reason for agitation including filing of cases before the Hon’ble Court by the residents. District Collector requested (19 July 2014) SIDCO to look into the matter and take urgent steps to make changes in the construction to ensure free flow of water through the <i>thodu</i> by avoiding accumulation of water around the new construction.</p> <p>GoK replied (February 2017) that SIDCO completed the work as per the plan approved by DoT. Even though SIDCO suggested (30 October 2014) corrective measures in the drawings of the said plan, no response was received from DoT.</p>
3	<p>Implementation of ‘Development of gateway of Nilambur at Unarvu, Malappuram’ for DoT awarded (April 2012) to Shri N. S. Luka for ₹0.97 crore.</p>	<p>The project executed so far did not satisfy the requirements of the DoT. SIDCO had carried out the work without consulting either the DoT or the Architect. Although ₹0.93 crore was paid to the contractor, the scope of the work was not as envisaged in the administrative sanction for the project, thereby the whole expenditure became unfruitful. DoT reported that the deviations was done by the contractor without approval and fixed responsibility for the same on SIDCO.</p> <p>GoK replied (February 2017) that the bills of the contractor had since been accepted. The reply is not acceptable as the issue pointed out by us has not been addressed.</p>

Conclusion

KELTRON and SIDCO awarded work orders to their business partners on nomination basis and through tendering that was tailor-made

to suit their business partners. Thus, a few firms viz., Mediatronix, RP Tech Net-X Technologies and SIPL managed to obtain major orders of GoK through KELTRON and SIDCO without complying with provisions of KFC, SPM and CVC guidelines. Besides, due to involvement of PSUs in the execution of works of GoK through private parties, GoK had to incur extra expenditure. In execution of civil works also, there was non compliance with provisions of KFC, SPM and CVC directives.

Recommendation

- 1. GoK should dispense with the system of awarding works to PSUs on nomination basis.**
- 2. GoK should comply with the provisions of SPM and invite competitive tenders.**
- 3. PSUs which get work orders after participating in tenders should ensure that all the provisions of SPM and CVC guidelines are complied with.**

[The Audit Paragraph 3.2 contained in the Report of the Comptroller & Auditor General 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 No. 3.2 - Sub-contract Management by Public Sector Undertakings

Para No. 3.2.2.1 - Agreement with business partners

The Committee sought clarification for selecting business partners without following transparent procedure such as open tender. The witness informed that the evaluation of the working of SIDCO during the period from

2012 to 2015 is under the scrutiny at the Government level. He added that in addition to the vigilance case against SIDCO, sanction for prosecution was given against the then Managing Director. The Committee wanted to know how the business partners were selected if it was not done through tender process. The Secretary, Industries Department responded that the business partners should have been selected through open tender or limited tendering from the enlisted MSME Units but in this case they adopted the method of nomination and selected the institutions under accredited agencies.

The Managing Director, SIDCO admitted the objection raised by audit and informed that the four business partners listed in the audit were selected as per the decision of the Board of Directors and vigilance case was registered against the firm Nautical Lines for not supplying 15 seater boats to Shenduruny Wild Life Sanctuary and revenue recovery proceedings were also started against the firm.

The Committee inquired whether SIDCO is still following the same methodology used in 2015-2016 for selecting business partners. The Managing Director replied that now the business partners are being selected through transparent tender process.

Conclusion/ Recommendation of the Committee

1. The Committee criticises the practice of selecting business partners on nomination basis without following transparent tender procedures. Hence the Committee recommends that the practice of selection of business partners on nomination basis should be strictly avoided and should follow transparent procedure.

Para No. 3.2.2.2 - Award of work to business partners without tenders

The Committee pointed out that SIDCO had issued 4 work orders without tenders in violation of Rule 7.11 of Store Purchase Manual of Government of Kerala.

To a query about the work of printing text books of Sarva Siksha Abhiyan (SSA), the witness replied that it seems that the work was given to Kerala SIDCO Hitech Security Printing Solutions Private Limited with the prospect that as an associated company of SIDCO having 26 percent of share capital it will be beneficial to them in future. The witnesses added that the work was given on the understanding that profit of that company would eventually go to SIDCO when it starts making profit, but the situation at present is that the company itself is defunct. The witness agreed to the Audit's view that since tender process was not there, transparency could not be assured.

The Committee noted with surprise that three work orders for supply of 15-seater, 12-seater and 6-seater speed boats for Forest Department was issued to Nautical Lines without mentioning delivery schedule in the work order for the 15 seater boat and the Nautical Lines was yet to deliver the boat. The Wildlife Warden, Shenduruny had given a false acceptance certificate on 17th June 2015 for the receipt of the 15 seater boat and payment of ₹0.66 crore was released. Moreover, though Nautical Lines delivered the 6-seater and 12-seater boats, it had not furnished Fitness Certificate and Registration Certificate in line with the terms of the work order which prevented the 12-seater boat from being operational. The Committee sought explanation regarding this.

The Managing Director, SIDCO responded that an inquiry was being conducted at the Additional Secretary level and it was suggested that it would be better to conduct a vigilance enquiry. The Secretary, Industries Department

informed that since there was a criminal background on issuing false acceptance certificate without delivering 15 seater boat, Forest Department had taken steps to conduct vigilance enquiry.

Then the Committee asked whether any action could be taken in this matter apart from vigilance investigation and the Secretary, Industries Department informed that since the firm possess immovable property in the Industrial Estate, Thiruvananthapuram, revenue recovery measures can be taken to recover the amount. The Committee recommends that a vigilance enquiry be initiated against the firm and revenue recovery proceedings to be started to recover the Government money. The Committee also observed that since it involves a crime an FIR should have registered at first instance against the delinquent official of Forest Department.

Conclusions/ Recommendations of the Committee

2. The Committee pointed out that SIDCO had issued 4 work orders without tenders in violation of Rule 7.11 of Stores Purchase Manual of Government of Kerala. Hence the Committee recommends that the Company should comply with the provisions of SPM and invite competitive tenders, in future.

3. The Committee observes that three work orders were issued to Nautical Lines for supply of speed boats by the Forest Department but the 15 seater boat has not been delivered yet and the Wildlife Warden, Shenduruny had given a false acceptance certificate for the receipt of the same and payment of ₹0.66 crore released. The Committee views this with great concern and recommends that a vigilance enquiry should be conducted against the delinquent officer and revenue recovery proceedings also to be started against the firm to recover the Government Money.

4. The Committee is in utter dismay to notice that even after many years, the department could not clarify the status of the case whether the vigilance

enquiry had started and other procedures initiated to recover the amount. The Committee condemns the laxity on the part of the Government to recover the lost amount and wants to expedite the action in this case and report the matter to the Committee within two months.

Para No. 3.2.2.3- Loss due to award of work without tender

The Committee enquired about the audit observation that due to procurement from a non-approved channel partner, Kerala State Coastal Area Development Corporation Limited (KSCADC) became ineligible for a subsidy of ₹0.11 crore from Government of India.

The Managing Director, SIDCO responded that the requirement of KSCADC was entirely different from the eligibility criteria of MNRE (Ministry of New and Renewable Energy). He also informed that no subsidy was given to off-grid system during the time.

To this, Senior Deputy Accountant General responded that all types of systems such as off-grid were given subsidy since 1994 and suggested to examine the matter in detail.

Then Managing Director, SIDCO accepted the suggestion and informed that the matter will be examined in detail and will furnish a report to the Committee.

In the additional information furnished by the Department it was informed that in the case of eligibility criteria for MNRE subsidy for off-grid solar plants, the specification of the system should strictly match that of MNRE specification whereas the requirement of KSCADC Ltd. was entirely different from the specification of MNRE and that in the financial year 2015 subsidy was not available for this specification and hence sustained no loss.

The Committee accepted the reply. ***Hence, no Comments.***

Para No. 3.2.2.5 - Award of work to single bidders

The Committee criticised the Industries Department for not furnishing RMT for the para and expressed its dissatisfaction over the lackadaisical attitude of the Department. The Principal Secretary accepted the lapse and apologized for not furnishing Government reply eventhough reply was received from SIDCO. The Committee viewed this seriously and directed not to repeat such instance in future.

To a query of the Committee, the witness replied that only two bidders participated in the tender and accepted the audit findings that both the bidders were related entities and had same e-mail id which made the bids equivalent to single bid. He informed that a vigilance enquiry was pending on the basis of the audit observation.

In the additional information furnished by the Department, it was stated that the audit observation about KLIM was correct and the vigilance enquiry is pending. But in the case of KSCADC, the tender procedures were done as per the store purchase procedure.

Conclusions/ Recommendations of the Committee

5. The Committee understands that a vigilance enquiry is pending on the basis of audit observation and the GoK itself admitted that SIDCO should not have awarded the work related to KLIM to SIPL. So the Committee recommends to furnish a detailed report on the current status of the vigilance enquiry.

Para No. 3.2.5 - Execution of civil works on behalf of agencies of GoK

Para No. 3.2.5.1 - Award of work to sub - contractors

To the audit objection, the Secretary, Industries Department informed that even though DNA Creatives was registered only on July 2014 and did not

satisfy the criteria of one year's experience for empanelling, it was empanelled on 11.07.2014. The Director of Museum and Zoo, Thiruvananthapuram had given a work of ₹2,18,16,499/- to SIDCO and SIDCO awarded the work to DNA Creatives in 22.08.2014 through e-tender. On the basis of the quick verification of vigilance, the work was started and completed on 25.03.2015. The Committee directed SIDCO that the criteria of one year experience should be maintained while awarding works.

In the additional information furnished by the Department it was stated that a vigilance enquiry has been initiated in this case.

Conclusions/ Recommendations of the Committee

6. The Committee recommends to furnish a detailed report on the current status of the vigilance enquiry.

7. The Committee points out that SIDCO awarded the work to DNA Creatives through e-tender without considering the one-year experience criteria for empanelling. Hence the Committee recommends to SIDCO that the criteria of one year experience should be maintained while awarding works.

Para No. 3.2.5.2 - Execution of civil works by sub-contractors

The Committee pointed out the delay in execution of five civil works sub-contracted by SIDCO and enquired about the present status of these works.

The Committee wanted to know whether the construction of the Community hall in Karakulam Panchayat has been completed and the reason for not getting permission from the Scheduled Castes and Scheduled Tribes Development Department.

The witness informed that Funding Agencies and the Departments sometimes make changes in their decisions at the eleventh hour. The Government Agencies and sub-contracted agencies undertake construction work through a cluster. In the said case, the work was delayed as the revised estimate was not approved by Scheduled Castes and Scheduled Tribes Development Department. Moreover, the department informed that the rest of the work would be done directly by the Nedumangad Block Panchayat. The witness added that such problems were common in local self-government bodies and it created difficulties for the agencies.

In the additional information furnished by the Department, it was informed that as the delay occurred and on suspicion of the quality of materials used for road works, a quick verification was processed from Vigilance and based on their report Government had taken steps to blacklist the firm in consultation with PWD.

The Committee enquired about the present status of the construction of water tank and community hall in Apollo Colony, Andoorkonam Panchayath and the Managing Director, SIDCO informed that the construction work had been stopped due to a vigilance investigation based on a complaint regarding unscientific construction.

In the additional information furnished by the Department, it was informed that as per the Vigilance report, Government had taken steps to blacklist the firm in consultation with PWD.

The Committee enquired whether the construction of well, water tank and mini community hall in Sreepadam Colony, Andoorkonam Panchayath had been completed. The witness informed that the construction of the community hall had been completed and the construction of the well and

water tank had not started yet due to the non-availability of suitable land. In the additional information furnished by the Department, it was informed that as per the Vigilance report, Government had taken steps to blacklist the firm in consultation with PWD.

When the Committee enquired about the present status of the construction of a museum at Kanakakunnu Palace, the witness informed that the Tourism Department had not taken any initiatives since 2017. In the additional information furnished, it was admitted that Tourism Department had not forwarded the details of the project to SIDCO.

The Committee enquired about the construction of multi-storeyed industrial estate at Puthussery, Palakkad for Director of Industries and Commerce. The witness informed that the work was re-awarded to SIDCO and SIDCO submitted a new proposal but approval for the same was not received till date.

In the additional information furnished by the Department regarding the excess collection of centage charges by SIDCO, it was informed that the audit observation was correct.

The Committee inquired about the delay in the work of development of Manappattuchira Environs at Malayattoor. The witness informed that the work of development of Manappattuchira Environs at Malayattoor was awarded to SIDCO on September 2010 by Tourism Department. Though the work had been completed on 31st December 2012, the Tourism Department was not ready to take up the building. The building was officially inaugurated in October 2016. The Committee enquired about the reasons for not taking over the building and criticised the inefficiency of the witness to clarify the present status of the project and directed to submit the current status of the same.

In the additional information furnished by the Government, it was informed that after repeated requests from SIDCO dated 04.03.2013, 29.07.2013, 16.12.2013 and 30.01.2024, the Joint Director, Tourism Department informed SIDCO to hand over the site only on 28.09.2016 and SIDCO handed over the site on 06.10.2016.

Conclusions/ Recommendations of the Committee

8. The Committee observes that many of the projects mentioned above should have been completed years ago, the actual progress of them is below fifty percent. All these show nothing but the inefficiency and lack of co-ordination of the concerned department. Although many reasons have been cited for non-completion of projects, the fact remains that the Government is losing money and the benefits intended for the project are not getting in time. Therefore, the Committee recommends that steps be taken to complete the pending projects in a timely manner and report the current status of each project to the Committee even if there is Vigilance investigation pending in the case.

9. The Committee comments that whenever works are sub-contracted, it is the duty of SIDCO to monitor the progress of the work in each stage and rectify the hurdles in the execution of the projects. Also, if SIDCO itself is not capable of clearing the hurdles, the matter should be taken up with the Department for smooth functioning. The SIDCO should engage an officer for the purpose and he shall be responsible for the monitoring and execution of the projects.

Para No. 3.2.5.3 Quality of construction works by sub-contractors

The Committee enquired whether the complaint regarding the construction of industrial complex at Kakkanad for Directorate of Industries and Commerce was raised after the liability period.

The witness informed that complaint was registered after the defect liability period. SIDCO rectified the works in 2014 itself with incentive amount received from the D.I.C. for timely completion of the same project.

The Deputy Accountant General commented that irregularity in the work was noticed by the vigilance officer of the SIDCO itself. The witness added that they had done maintenance also.

The Committee directed to furnish a detailed report on the matter. In the additional information furnished by the Department, it was informed that all the damage caused to the industrial complex was reported after the defect liability period of the contractor and hence SIDCO could not carry out the rectification work through them and that they rectified the same in 2014 itself with SIDCO's own money i.e., the bonus amount received from DIC for timely completion of the same project.

To a query of the Committee, the witness informed that the project for the execution of storm water stream management at Edakkal area of Kovalam for the Department of Tourism (DoT) had been completed in 2013. To the query of the Committee, it was stated that SIDCO submitted a remedial solution with plan to District Collector and Director of Tourism on 30.10.2014, but no reply has been received yet and they could not conduct any additional works.

The Committee enquired about the implementation of development of gateway of Nilambur at Unary, Malappuram.

The Managing Director informed that the work had been completed as per the proposal of the Tourism Department. SIDCO had done extra items of work as demanded by the MLA, Municipal Chairman and DoT officials during the site visit and the Tourism Department approved the revised

estimate. He also informed that additional Administrative Sanction was not required for the extra work.

In the additional information furnished by the Department, it was stated that the Department approved revised estimate on 03.06.2015 and approved the final bill on 22.12.2015.

The Secretary admitted the lapse on the part of the Department in furnishing RMTs on time and assured the Committee that a detailed report regarding audit paragraphs would be furnished as soon as possible.

Conclusions/ Recommendations of the Committee

10. The Committee recommends to furnish a report on the current status of the remedial solution submitted by SIDCO to the District Collector and Director of Tourism for the Storm Water Stream Management at Edakkal area of Kovalam.

General Recommendations

11. Going through the audit paragraphs the Committee is at a conclusion that some PSUs having no expertise and experience in relevant field were engaged in supply and installation of equipment and execution of civil works in Government Departments. These PSUs in turn engage subcontractors for procurement and execution on nomination basis without inviting tenders. Based on what discussion it was enforced at what level and copies of all relevant orders should be furnished to the Committee.

12. It was also observed that most of the supply and installation of equipments / civil works were done without preparing cost estimate and was subcontracted by PSUs to private entities without calling tenders. Hence the total procedure lack transparency and further more the losses/ profits sustained by departments cannot even be reckoned with.

13. The Committee also wanted to explore the criteria by which PSUs being included in the “Listed Agencies” category and copies of guidelines and circulars issued in this regard and copies of listed agencies for each specific type of work also be furnished to the Committee.

14. The Committee also observed that the estimate or revised estimate for a work is usually subject to whim and fancy of the listed agency, leaving the department uninformed. Hence, the Committee strongly recommends that necessary instructions should be issued for limiting the role of the listed agency while engaging works in departments and all procedures as per SPM and CVC Guidelines should be followed through out the engagement.

15. The Committee strongly recommends that Government should dispense with the system of awarding works to PSUs having no expertise and experience in carrying out the technical works in Government Departments for which private partners of PSUs were selected on nomination basis and entrusted the work on back to back basis.

Thiruvananthapuram,
11th February, 2025.

E. Chandrasekharan,
Chairperson,
Committee on Public Undertakings.

APPENDIX-I
SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Industries Department	The Committee criticises the practice of selecting business partners on nomination basis without following transparent tender procedures. Hence the Committee recommends that the practice of selection of business partners on nomination basis should be strictly avoided and should follow transparent procedure.
2	2	Industries Department	The Committee pointed out that SIDCO had issued 4 work orders without tenders in violation of Rule 7.11 of Stores Purchase Manual of Government of Kerala. Hence the Committee recommends that the Company should comply with the provisions of SPM and invite competitive tenders, in future.
3	3	Industries Department	The Committee observes that three work orders were issued to Nautical Lines for supply of speed boats by the Forest Department but the 15 seater boat has not been delivered yet and the Wildlife Warden, Shenduruny had given a false acceptance certificate for the receipt of the same and payment of ₹0.66 crore released. The Committee views this with great concern and recommends that a vigilance enquiry should be conducted against the delinquent officer and revenue recovery proceedings also to be started against the firm to recover the Government Money.
4	4	Industries Department	The Committee is in utter dismay to notice that even after many years, the department could not clarify the status of the case whether the vigilance enquiry had started and other procedures initiated to recover the amount. The Committee condemns the laxity on the part of the Government to recover the lost amount and wants to expedite the action in this case and report the matter to the Committee within two months.
5	5	Industries Department	The Committee understands that a vigilance enquiry is pending on the basis of audit observation and the GoK itself admitted that SIDCO

			should not have awarded the work related to KLIM to SIPL. So the Committee recommends to furnish a detailed report on the current status of the vigilance enquiry.
6	6	Industries Department	The Committee recommends to furnish a detailed report on the current status of the vigilance enquiry.
7	7	Industries Department	The Committee points out that SIDCO awarded the work to DNA Creatives through e-tender without considering the one-year experience criteria for empanelling. Hence the Committee recommends to SIDCO that the criteria of one year experience should be maintained while awarding works.
8	8	Industries Department	The Committee observes that many of the projects mentioned above should have been completed years ago, the actual progress of them is below fifty percent. All these show nothing but the inefficiency and lack of co-ordination of the concerned department. Although many reasons have been cited for non-completion of projects, the fact remains that the Government is losing money and the benefits intended for the project are not getting in time. Therefore, the Committee recommends that steps be taken to complete the pending projects in a timely manner and report the current status of each project to the Committee even if there is Vigilance investigation pending in the case.
9	9	Industries Department	The Committee comments that whenever works are sub-contracted, it is the duty of SIDCO to monitor the progress of the work in each stage and rectify the hurdles in the execution of the projects. Also, if SIDCO itself is not capable of clearing the hurdles, the matter should be taken up with the Department for smooth functioning. The SIDCO should engage an officer for the purpose and he shall be responsible for the monitoring and execution of the projects.
10	10	Industries Department	The Committee recommends to furnish a report on the current status of the remedial solution submitted by SIDCO to the District Collector and Director of Tourism for the Storm Water Stream Management at Edakkal area of Kovalam.

11	11	Industries Department	Going through the audit paragraphs the Committee is at a conclusion that some PSUs having no expertise and experience in relevant field were engaged in supply and installation of equipment and execution of civil works in Government Departments. These PSUs in turn engage subcontractors for procurement and execution on nomination basis without inviting tenders. Based on what discussion it was enforced at what level and copies of all relevant orders should be furnished to the Committee.
12	12	Industries Department	It was also observed that most of the supply and installation of equipments / civil works were done without preparing cost estimate and was subcontracted by PSUs to private entities without calling tenders. Hence the total procedure lack transparency and further more the losses/ profits sustained by departments cannot even be reckoned with.
13	13	Industries Department	The Committee also wanted to explore the criteria by which PSUs being included in the “Listed Agencies” category and copies of guidelines and circulars issued in this regard and copies of listed agencies for each specific type of work also be furnished to the Committee.
14	14	Industries Department	The Committee also observed that the estimate or revised estimate for a work is usually subject to whim and fancy of the listed agency, leaving the department uninformed. Hence, the Committee strongly recommends that necessary instructions should be issued for limiting the role of the listed agency while engaging works in departments and all procedures as per SPM and CVC Guidelines should be followed through out the engagement.
15	15	Industries Department	The Committee strongly recommends that Government should dispense with the system of awarding works to PSUs having no expertise and experience in carrying out the technical works in Government Departments for which private partners of PSUs were selected on nomination basis and entrusted the work on back to back basis.