FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

PUBLIC UNDERTAKINGS
(2023-26)

FIFTY FIRST REPORT

(Presented on 21st March 2025)

SECRETARIAT OF THE KERALA LEGISLATURE

THIRUVANANTHAPURAM

2025

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On

The Kerala Cashew Development Corporation Limited

(Based on the Reports of the Comptroller and Auditor General of India for the years ended 31^{st} March 2018 and 2019)

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COMMITTEE ON PUBLIC UNDERTAKINGS

(2023-26)

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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 51st Report on The Kerala Cashew Development Corporation Limited based on the reports of the Comptroller and Auditor General of India for the years ended 31st March 2018 and 2019 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Reports of the Comptroller and Auditor General of India was laid on the Table of the House on 24.08.2020 and 10.06.2021 respectively. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2021-2023) at its meetings held on 26.07.2023.

This Report was considered and approved by the Committee (2023-2026) at its meeting held on 18.03.2025.

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

E. CHANDRASEKHARAN
Chairperson,
Committee on Public Undertakings.

Thiruvananthapuram,
21st March, 2025.

REPORT
ON
THE KERALA STATE CASHEW DEVELOPMENT CORPORATION LIMITED

Audit Report (2017-2018)

Audit Para 5.5 - Infructuous expenditure

Decision to meet expenditure on an advertisement, which was not beneficial to the Company or Government, from the Company's fund resulted in infructuous expenditure of ₹0.39 crore

As per Rule 60 of Kerala Government Servants' Conduct Rules, 1960 applicable to Public Sector Undertakings, employees/directors of PSUs shall not criticise any policy pursued or action taken by the Government. Clause no. III.B (15) of the Memorandum of Association of Kerala State Cashew Development Corporation Limited (the Company), a PSU, states that the Company can meet expenses on account of advertisements, only if incurred for the promotion of the Company or considered necessary for the attainment of the objectives of the Company.

The Company publishes advertisement for tender enquiries, recruitment of personnel and sales promotion. These advertisements are published in two to three local newspapers.

During 2012-13, the Company incurred an amount of ₹0.30 crore towards advertisement (sales promotion ₹0.16 crore, tender enquiries ₹0.09 crore and recruitment of personnel ₹0.05 crore). Apart from this, the Company also published an advertisement on 1 July 2012 in 13 newspapers incurring expenditure of ₹0.39 crore as directed by Board of Directors of the Company.

The advertisement was in the nature of accusations against various departments of Government of Kerala alleging non-cooperation in the working of the Company.

Since the advertisement was not in the interest of the Company or the Government, the Industries Department, GoK, based on the opinion of Finance Department, directed (September 2012) the Managing Director of the Company to recoup the expenditure incurred on this advertisement from the Chairman and Board of Directors of the Company.

Against the appeal of the Managing Director of the Company for review of the decision, the Finance Department, GoK reiterated that the expenditure should be treated as a personal liability of the Chairman and the Directors of the Company. Overruling the objection of the Finance Department, the Council of Ministers, GoK allowed (October 2014) the Company to meet the advertisement expenditure from the resources of the Company. The Company paid the advertisement expenditure in October 2014.

Audit observed that the action of the Chairman and Board of Directors of the Company to publish an advertisement criticising the policies and initiative of the Government in itself was violative of codal provisions. Since the advertisements were not in the nature of tender enquiries or for recruitment of personnel and sales promotion, these advertisements did not serve the cause of the Company.

Thus, the decision to meet the expenditure on an advertisement, which was not beneficial to the Company or Government, from the Company's fund resulted in infructuous expenditure of ₹0.39 crore.

GoK replied (August 2018) that the said advertisement was not beneficial to the Government or the Company and undoubtedly squandered public money. An amount of ₹0.37 crore was due to various newspapers on account of the advertisement and the managements of the newspapers were pressing for an early settlement of their dues. The Council of Ministers considered the matter and decided to accord sanction to meet the expenditure incurred for the advertisement from the funds of the Company.

The reply was not acceptable as the decision to meet an expenditure which was not beneficial to the Government or Company was improper.

[Audit Paragraphs 5.5 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2018]

The Notes furnished by the Government on the audit paragraphs are given in Appendix II

Discussions & Findings of the Committee

Audit observed that the action of the Chairman and Board of Directors of the Company to publish an advertisement criticising the policies and initiative of the Government was itself a violation of codal provisions. Since the advertisement was not in the nature of tender enquiries or for recruitment of personnel or for sales promotion, it did not serve the cause of the Company. The Committee demanded clarification about this audit observation.

The Managing Director replied that the news was given in the newspapers on July 1 as per the decision of the Board of Directors in 2012 and it was published as a news and not as an advertisement and that the Company had already given a detailed reply to Accountant General. He added that payment to all media were released only after ratification by Government.

The Committee enquired whether the Company Chairman and Board of Directors has the right to release an advertisement news criticizing the Government Policies. The Committee further demanded to find out the responsible official and enquired whether anyone had raised objection to the decision of the Director

Board. The Committee recommended to furnish a detailed report on the matter including the minutes of the meeting of the Board of Directors.

<u>Conclusions/Recommendations of the Committee</u>

1) The Committee observes that KSCDC published an advertisement on 1st July 2012 in thirteen newspapers incurring an expenditure of 0.39 crore as directed by Board of Directors of the Company, in the nature of accusations against various departments of GoK alleging non-cooperation in the working of the Company without prior approval of the Government and which is against the prevailing codal provisions.

2) The Committee noticed that though the Industries and Finance Departments directed the Company to recover the expenditure from the Chairman and Board of Directors of the Company, special sanction was accorded to remit the amount from the resources of the Company.

3) In this context, the Committee asked why the Chairman had not opposed the publication of advertisement if the Company had no authority to give advertisement against the Government policies and instructions or whether the advertisement was published against the dissent of the Chairman or whether anyone dissented from this decision in the Board Meeting.

4) The Committee also urged to submit a detailed report incorporating the above and mentioning those responsible, enclosing therewith copy of minutes of the Board Meeting that approved the publishing of the advertisement.

<u>Audit Report (2017-2018)</u>

Audit Para 5.6 - Delay in finalisation of Annual Accounts in State PSUs

Failure of the Administrative Departments in initiating punitive measures resulted in non-finalisation of the annual financial statements of PSUs within the stipulated period. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment of ₹5,922.25 crore by the Government of Kerala and expenditure incurred were properly accounted for. Moreover, the Government's investment in such PSUs remained outside the control of State Legislature.

According to the provisions of Section 136 (1) read with Sections 129 (2) and 96 (1) of the Companies Act, 2013, companies are required to finalise their annual financial statements and place the audited financial statements for every financial year along with annual reports in the Annual General Meeting within six months from the end of the relevant financial year (by September). The same shall also be placed in the State Legislature within three months thereafter (by December).

In compliance with the provisions of the Companies Act, 2013, State Public Sector Undertakings were to place their audited accounts up to the financial year 2017-18 along with the annual reports in the Annual General Meeting by September 2018. The same was also to be placed in the Legislature by December 2018.

Audit observed that:

• Out of 121 working PSUs in the State, 13 PSUs finalised their financial statements for the year 2017-18 as of September 2018. Only six PSUs did, however, place their audited financial statements in the State Legislature within December 2018 as shown in the Table 5.2:

Table 5.2: Details of placement of audited financial statements in the State Legislature as of July 2019

Particulars	Total	Annual General Meeting			State Legislature		
		Within 30/09/2018	After 30/09/2018	Not placed so far	Within 31/12/2018	After 31/12/2018	Not placed so far
Number of Working PSUs which finalised accounts up to the financial year 2017-18	13	6	7	0	6	6[1]	1[2]

The remaining 108 PSUs had arrears in finalisation of accounts for periods ranging between 1[3] and 11[4] years. Audit also observed that during the accounts arrear

1 The Kerala State Financial Enterprises Limited, Autokast Limited, Indian Institute of Information Technology and Management-Kerala, Steel and Industrial Forgings Limited, Kerala State Power and Infrastructure Finance Corporation Limited, Kerala High Speed Rail Corporation Limited.
2 Kerala State Electricity Board Limited.
3 22 PSUs had arrear in accounts of one year.
4 Trivandrum Spinning Mills Limited (2007-08 to 2017-18).

period (2008-09 to 2017-18), the Government of Kerala infused budgetary assistance of ₹5,922.25 crore by way of equity, loans and grants to these PSUs.

- In order to ensure that State Public Sector Undertakings adhered to the provisions of the Companies Act on the finalisation of the annual financial statements, the Finance Department, Government of Kerala issued (September 2015) directions to Administrative Departments of the PSUs to withhold 10 to 15 per cent of budget allocation of defaulting PSUs. Further, no fresh Government guarantee was to be provided to defaulting PSUs to obtain loan.

  During 2015-16 to 2017-18, the Administrative Departments, however, released budget allocation of ₹218.63 crore (2015-16), ₹415.27 crore (2016-17) and ₹317.10 crore (2017-18) in full respectively to 23, 24 and 30 PSUs whose accounts were in arrears. Furthermore, six PSUs were given Government guarantee of ₹567.86 crore during 2016-17 for availing loans. During 2017-18 also, nine PSUs with accounts in arrears were given Government guarantee to the tune of ₹1,055.37 crore.

  Thus, though the Administrative Departments had the responsibility to oversee the activities of the PSUs and to ensure that the accounts were finalised and adopted by these PSUs within the stipulated period, the Administrative Departments did not withhold 10 to 15 per cent of budgetary assistance to PSUs with arrears in finalisation of accounts.

- As per Section 139 of the Companies Act, 2013, the Statutory Auditors of PSUs are appointed by the Comptroller and Auditor General of India (CAG).

  Audit observed that the CAG appointed Statutory Auditors for the years in which financial statements were in arrears as far back as September 2008.

But these PSUs did not finalise the arrear accounts so far due to non-availability of qualified accounting staff. The Government of Kerala permitted (December 2016) PSUs to employ outside professionals at Government expense to overcome the shortage of accounting staff. But, this possibility was also not explored by 108 PSUs whose annual financial statements were in arrears for 1 to 11 years.

Thus, failure of the Administrative Departments in initiating punitive measures resulted in non-finalisation of annual financial statements within the stipulated period. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment of ₹5,922.25 crore by Government of Kerala and expenditure incurred were properly accounted for. Moreover, Government's investment in such PSUs remained outside the control of State Legislature.

GoK replied that the PSUs were directed (17 July 2018) to submit a schedule for finalisation of accounts and complete their audit before 31 July 2018, but most of the PSUs did not comply with the same. The PSUs were directed (August 2018) to furnish a schedule of approval of accounts for each pending year to the Finance Department by 31 August 2018, failing which further fund release and pay revision of employees of PSUs would be stopped. The Chief Executives/Managing Directors of all PSUs were also informed (31 December 2018) that pay revision of employees in PSUs would be subject to finalisation of accounts up to previous year and also on maintenance of up-to-date accounts.

The reply was not acceptable as the Government did not implement its own earlier directions of withholding grants and denial of fresh government guarantee to PSUs with arrears in finalisation of accounts.

[Audit Paragraphs 5.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2018]

The Notes furnished by the Government on the audit paragraphs are given in Appendix II

Discussions & Findings of the Committee

While considering this audit para, the Managing Director informed the Committee that the audit for the financial years 2021-22 and 2022-23 is progressing.

The Committee observes that as a result of delay in finalisation of accounts in State PSUs for periods ranging between 1 and 11 years the performance review of PSUs cannot be monitored and hence the defective measures if any being followed in PSUs could not be rectified.

It was also noted that the Finance Department issued directions to the Administrative Departments of the PSUs to withhold 10 to 15% of budget allocation of defaulting PSUs and not to issue fresh guarantee for availing loan.

In the above prevailing circumstances during 2015-16 to 2017-18 the Administrative Departments, however, released budget allocation of ₹218.63 crore (2015-16), ₹415.27 crore (2016-17) and ₹317.10 crore (2017-18) in full respectively to 23, 24 and 30 PSUs whose accounts were in arrears. Furthermore, six PSUs were given Government guarantee of ₹567.86 crore during 2016-17 for availing loans. During 2017-18 also, nine PSUs with accounts in arrears were given Government guarantee to the tune of ₹1,055.37 crore.

Thus, though the Administrative Departments had the responsibility to oversee the activities of the PSUs and to ensure that the accounts were finalised and adopted by these PSUs within the stipulated period, the Administrative Departments did not withhold 10 to 15 per cent of budgetary assistance to PSUs with arrears in finalisation of accounts.

Though statutory auditors of PSUs are appointed by C& AG, the Committee also took it seriously that though the Government permitted to employ outside professionals at Government expense to overcome the shortage of accounting staff the possibility was not explored by 108 PSUs whose annual financial statements were in arrears for 1 to 11 years.

It was also evident that the failure of the Administrative Departments in initiating punitive measures resulted in non-finalisation of annual financial statements within the stipulated period. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment of ₹5,922.25 crore by Government of Kerala and expenditure incurred were properly accounted for. Moreover, Government's investment in such PSUs remained outside the control of State Legislature.

<u>Conclusions/Recommendations of the Committee</u>

5) The Committee are at a loss to understand why punitive action is not being initiated against State PSUs who delayed the finalisation of annual financial statements from 1 to 11 years. Government nominees in the Board of Directors of the PSUs should be held accountable for such delay and the Secretaries of Administrative Departments of those PSUs should keep a tab on such issues and to oversee the actions for rectifying the shortfalls within a time frame.

6) The Committee believe that the officials of Administrative and Finance Departments are not informing the higher-ups the exact issues at the time of action like budgeting, for evading further action against PSUs and officials.

7) The Committee was astonished to note that the proposal for employing sufficient accounting staff at Government expense for completing the finalisation of accounts was not even heeded by the 108 PSUs. Hence it is inferred that the working of PSUs is in total mess and no one at the helm of affairs is committed to streamline their activities. Moreover, the main pillar of democracy, the legislature which functions as the check and balance of the executive on behalf of the people, being kept in the dark about the performance of PSUs, their Government funding, loans and advances availed each year, the remittance of loan etc.

8) Hence the Committee recommends that the finance department should take a lead to hold regular meeting with the Administrative Departments of PSUs for completing the finalisation of annual financial statements in a time bound manner and the financial status report regarding 108 PSUs should be furnished to the Committee.

9) The Committee strongly recommends that the Government assistance in the form of grant, loan or bank guarantee should not be granted to PSUs having arrears in finalisation of annual financial statements more than three years. Moreover Finance Department should conduct a half yearly analysis about the performance of PSUs especially before the beginning of the budget process and furnish reports to the Committee.

10) A detailed report containing the performance, financial status, loan availed, remittance of loan, advance pending, bank guarantee details, Commission on bank guarantee remitted, the equity transfer of each PSU etc. should be furnished to the Committee within one month and such a report should also be furnished to the Committee on yearly basis from next financial year onwards.

Audit Report (2018-2019)

Audit Para 5.1 - Compliance to the Government of Kerala guidelines for implementation of Enterprise Resource Planning initiatives by Public Sector Undertakings

Non-adherence to GoK guidelines for implementing e-governance initiatives affected timely implementation of ERP systems in seven PSUs. Five PSUs could not derive any benefit even after incurring ₹1.15 crore due to non-completion of their ERP systems.

The Government of Kerala (GoK) issued (September 2009) guidelines for implementation of e-governance initiatives in the State, detailing therein the procedures to be followed in the development of software systems. In this backdrop, Enterprise Resource Planning (ERP) systems[5] implemented after September 2009 by 8 randomly selected Public Sector Undertakings (PSUs) out of 17 were examined in order to assess the level of compliance to the guidelines by these PSUs.

5 A packaged business software system that allows an entcrprise to automate and integrate the majority of ils business processes, share common data and practices across the entire enterprise and produce and acccss information in a real time environment.

Implementation was in different stages of completion in Kerala State Horticultural Products Development Corporation Limited (HORTICORP), **The Kerala State Cashew Development Corporation Limited (CASHEW CORP)**, Kerala State Warehousing Corporation (WAREHOUSING CORP) and Kerala Electrical and Allied Engineering Limited (KEL). The status of ERP implementation in the selected PSUs is given in the Appendix 7 The Audit findings in this regard are discussed below:

Audit Para 5.1.1 - Leadership and Coordination of the implementation

The e-governance guidelines (the Guidelines) stipulated that organisations implementing e-governance projects shall appoint a nodal officer who, even if not from the IT wing, should at least be not more than one level below the Head of the Organisation. As per the guidelines, the Nodal Officer plays a pro-active role in implementation of ERP systems and is responsible for change management in the event of any adverse situation.

Audit, however, observed that except TCCL, none of the PSUs instituted a formal mechanism for ensuring involvement of top management in the implementation of ERP. Three PSUs (**CASHEW CORP,** WAREHOUSING CORP and KEL) appointed nodal officers from the lower managerial level as coordinators and the ERP projects in these PSUs were yet to be completed long after their projected target dates due to absence of active role of the top management. For instance, in two PSUs, development process was stalled for long periods of time[6] merely due to failure of the PSUs to test the beta versions[7] of software modules

CASHEW CORP replied (June 2020) that based on the audit observation the Head of IT from the top management team was appointed for supervision of ERP implementation.

6 WAREHOUSING CORP-January 2014 to March 2017; CASHEW CORP-December 2011 to October 2016.

7 An early version of software made available for testing and feedback.

The reply only validates the audit observation that non-appointment of properly qualified and suitably senior nodal officers as required in the Guidelines affected the timely implementation of ERP systems in the PSUs.

Audit Para 5.1.2 - Development of Detailed Project Proposal

The Guidelines stipulated that all IT enabled projects should invariably have a detailed project proposal (DPP) prepared either in-house or by taking external help from a Total Solution Provider[8] (TSP) professional consultancy agency. The proposal shall consist of User Requirements Specification (URS), Functional Requirements Specification (FRS[9]), Technical Analysis and an Implementation Plan. None of the PSUs, however, prepared DPPs/ its components resulting in the following issues

Audit Para 5.1.2.1 Non-preparation of URS and FRS

As per the Guidelines, URS and FRS should be prepared by functional experts within the organisation by defining the user requirements exhaustively, and practically feasible process reforms should be included in the FRS. Tenders for software development should be invited based on FRS which, in turn, shall form the basis for development of System Requirements Specification (SRS) to be delivered by the Implementing Agency (lA).

Audit observed that since the user requirements were not exhaustively identified through URS by the PSUs themselves, no process reforms could be identified and brought out through FRS. The PSUs assigned the work of developing SRS to the IAs without identifying the user requirements and FRS. The SRS developed by the IAs, hence, suffered from the following shortcomings which affected the development process.

8 So approved by GoK.
9 Defines how URS is to be achieved

In **CASHEW CORP**, the URS study was conducted by Kerala State Electronics Development Corporation (KELTRON), the IA. This, however, did not meet the actual user requirements[10] and the 'beta version' of the software was modified several times. Even after the lapse of eight years since releasing the beta version, none of the 12 modules could be put to use (December 2019).

CASHEW CORP replied (June 2020) that the beta version did not meet the requirements though KELTRON prepared the URS'

The reply substantiates the audit observation that the PSU did not ensure the adequacy of URS prepared by KELTRON before development of the software.

Audit Para 5.1.2.3 - Absence of Implementation Plan

As per the Guidelines, an implementation plan containing an estimate prepared on the basis of ‘total cost of ownership’, the expected benefits quantified based on higher revenue generation or cost reduction and the time schedule for the pilot phase and final rollout for the project shall be prepared.

Audit, however, observed that the PSUs did not envisage any definite objective for implementation of ERP systems. In the absence of the implementation plan, Audit could not assess the outcome or impact of ERP projects that were completed and the opportunity cost of those that were delayed beyond the target date.

Regarding phase-wise rollout, Audit noticed that CASHEW CORP'S decision to roll out the software in all factories and Head Office in one go faced hurdles like non-completion of data entry in all factories, difficulties in inter-factory transactions, non-availability of adequate number of trained personnel etc.

CASHEW CORP replied (September 2020) that it was now fully equipped to implement the project.

10 Some of the additional requirements were lot mixing report, lot transfer (inter-factory transfer) reports, lot receipt reports, daily status report of filling, production expenses report etc. For Production Department. Sales report, Origin-wise, Grade-wise, Tin-wise reports, Comparison (origin and rate-wise) and payment status report etc. for Commerce Department.

Audit Para 5.1.3 - Application Development and Project Rollout

5.1.3.1 - Invitation of tender

As per the Guidelines, application development involving a third party agency shall be through a transparent tendering process based on FRS, detailed technical architecture, implementation plan and information security policy of Kerala State IT Mission (KSITM) Computer Emergency Response Team-IN (CERT-IN). The PSUs, however, did not comply with this stipulation and entered into tendering with bare minimum specifications of the functional processes to be covered by the software.

Audit Para 5.1.3.2 - Pre qualification criteria

The Guidelines stipulated that there shall be a prequalification process to shortlist the bidders. As per the Central Vigilance Commission (CVC) guidelines, the average annual financial turnover of the bidders is to be included as one of the prequalification criteria in the tender document to ensure the financial soundness of the firm. CVC guidelines also stipulated that all important tender evaluation criteria need to be specified in unambiguous terms in the bid documents so that the evaluation of bids can be made without any subjectivity.

Audit, however, observed that two PSUs (**CASHEW CORP** and WAREHOUSING CORP) did not include any prequalification criteria in the tender.

The absence of or ambiguous prequalification criteria led to selection of inexperienced Implementation Agencies resulting in non-implementation/ delayed implementation of the ERP system by the Implementing Agencies.

CASHEW CORP replied (June 2020) that the tendering was carried out before the Guidelines came into force and the work was awarded to KELTRON

The fact, however. remains that the CVC guidelines were not complied with by the PSUs with adverse impact on implementation of the ERP Systems.

Audit Para 5.1.3.4 - Service Level Agreements

As per the Guidelines, System Requirements Specification (SRS), detailed acceptance test plan based on the SRS, application software with fully documented source code and all necessary licenses are the deliverables expected from the IA. Accordingly, a detailed Service Level Agreement[11] (SLA) needs to be entered into with the IA covering all the aspects of development, implementation and maintenance of the software.

None of these SLAs provided for comprehensive acceptance testing including the final acceptance testing by an independent third party as stipulated by the Guidelines.

The fact remained that the PSUs did not comply with the Guidelines. The replies of the PSUs were also silent on the absence of provision for comprehensive acceptance testing. Absence of or incomplete SLA would result in inadequate mapping of deliverables expected from the implementation of ERP systems.

Audit Para 5.1.3.5 - Acceptance Testing

The Guidelines stipulated that Acceptance Test Plan (ATP) along with sample data should be ready by the time the application software is developed and that testing is conducted by functional experts within the organisation. The Final Acceptance Testing (FAT) should be conducted by a professional agency appointed through a transparent process.

Audit observed that documentation regarding in-house acceptance testing was not available in any of the PSUs nor did the PSUs involve any external agency for FAT

11 A Service Level Agreement is a contract between a service provider and its customers that documents what services the provider will furnish and defines the service standards the provider is obligated to meet.

since there were no agreement clauses regarding the same. Absence of ATP or FAT led to the following issues in four out of eight PSUs:

Disagreement between CASHEW CORP and the IA on the completion/ commissioning status of various modules of the ERP led to suspension of development work for over two years.

CASHEW CORP replied (June 2020) that all the issues with IA were over and the project was revived. Though SLA did not provide for acceptance test by a third party, the process of independent audit and testing by a Government approved external agency was initiated.

Audit Para 5.1.5 - Security of Hardware and Data

Of the eight PSUs, ERP systems of six PSUs (TCCL, TTPL, WAREHOUSING CORP, COIR CORP, HORTICORP and KEL) were either fully or partially operationalised (i.e., some of the modules) and the PSUs used live production servers to host their data. The security of hardware and data assumed importance as any loss of data could cripple their operations from short to medium duration.

Audit Para 5.1.5.4 – Data Backup Policy

It was observed that all the PSUs had either manual or automatic back-up systems. In the case of COIR CORP and CASHEW CORP, the responsibility for data backup was entrusted to their respective data storage service providers. The other PSUs, however, did not have a documented data backup policy as stipulated by the System Security Guidelines.

However, the PSUs except TTPL were yet to formulate a documented data backup policy as required under the Guidelines which may weaken the regular data backup procedures and audit trail.

Audit Para 5.1.6 - Other Related Issues

5.1.6.1- Training, documentation and change management

The Guidelines stipulated that all users and stakeholders of the new system shall be imparted knowledge about the new systems to ensure proper use and operation of applications and infrastructure. The Guidelines read with Regulation No. 161 of Regulation on Audit and Accounts issued by the CAG of India also required that all documentations such as the URS, FRS, SRS, design documents, change control documents, training materials, source code etc. shall be kept under safe custody of the IT Division so that maintenance and change management are carried out smoothly.

Recommendation 5.1: The GoK/PSUs may ensure that the Guidelines for implementation of e-governance initiatives are complied with while implementing ERP systems so that such projects are completed in a time bound manner and intended benefits achieved.

[Audit Paragraphs 5.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2019]

The Notes furnished by the Government on the audit paragraphs are given in Appendix II

<u>Discussions & Findings of the Committee</u>

Audit Para 5.1 (2018-19) - <u>Compliance to the Government of Kerala guidelines for implementation of Enterprise Resource Planning initiatives by Pubic Sector Undertakings</u>

5.1.1 - <u>Leadership and co-ordination of implementation process</u>

With reference to the audit observation, the Committee sought explanation regarding the compliance to the Government of Kerala guidelines for implementation of Enterprise Resource Planning initiatives.

The witness replied that Keltron had started work as soon as the project was launched in 2010. He added that Keltron had many limitations in resources and frequent changes in the concerned contract workers also led to the delay of the project. Keltron started the work by digitising the ledgers. But when the Corporation directed that ERP should be implemented as per the guidelines there was a delay in resuming the work since it needed new URS and there was also the problem of payment to Keltron. After the payment of ₹17.50 lakh to Keltron they restarted the work in 2018. But the changes in officials at both KSCDC and Keltron delayed the project's implementation. He added that the works related to production module are progressing now.

The Committee criticized the reference in the Government reply that the delay in implementing ERP module was due to Covid-19 pandemic and the Committee pointed out that the project was initiated about 9 years before the Covid situation. The Committee opined that the Corporation had not considered the project seriously.

To a query of the Committee the witness informed that Kelton demanded ₹35 lakhs in 2010 for the implementation of the project and Corporation has paid only ₹17.50 lakh so far.

The Committee observed that according to the tender conditions, Keltron had to complete the project within six months, but even after 12 years it remains unfinished. The Committee enquired whether there was any clause in the tender documents to initiate action against Keltron if they fail to complete the work within the prescribed period. The witness admitted that there was no such clause in the tender documents. The Committee criticized the Corporation for not including appropriate risk and cost measures in the tender documents regarding the violation of the timeline. The Committee recommended to furnish a copy of the tender documents.

The witness informed the Committee that there are five modules related to production of the Corporation and the Corporation had altogether 12000 labourers in 30 factories. He added that Keltron had revised and developed the module and they are competent enough to do the work.

To a query of the Committee the witness informed that the post of Nodal Officer was changed to one level below the rank of Managing Director. Before that, the post of the Nodal Officer was one level below of this and was the Head of the IT Department.

The Committee vehemently criticized the Corporation for preparing tender documents by excluding the clause for imposing penalty if the project is not completed on time. The Committee recommended the Corporation to be vigilant while preparing such tender documents in future.

To the Committee's query about when the implementation of ERP module would be completed, the witness replied that about 3 modules have been developed so far but personal module was discontinued since as per the Government direction e-office and spark have been introduced in PSUs.

The Copy of the tender condition has been furnished by the Industries Department vide letter dated 03.02.2024. By examining the document it can be understood that no clause was included to impose penalty on the Implementing Agency in case of non completion of the project in the prescribed time period ie. six months.

Conclusions/Recommendations of the Committee

11) The Committee vehemently criticizes the Corporation for its lackadaisical attitude in preparing the tender document which excluded the clause for imposing penalty on the Implementing Agency if the project is not completed on time. The Committee observes that the project which was supposed to be completed within six months has remained unfinished even after 12 years due to the absence of risk and cost clause in the tender document. So the

Committee recommends that the Corporation should be more diligent while preparing tender documents in future.

<u>Discussions & Findings of the Committee</u>

5.1.2 – <u>Development of detailed Project Proposal.</u>

5.1.2.1 – <u>Non-preparation of URS and FRS</u>

The audit observation was that the Cashew Corporation had not prepared a detailed project proposal and the exclusive user requirements were not identified through URS, no process reforms could be identified and brought out through FRS and that Cashew Corporation assigned the work of developing SRS to the IAs without identifying the user requirements and FRS. The Committee enquired about the agency who conducted the work study of the said project.

The witness replied that there was lack of internal professional expertise during the initial stages and Keltron was entrusted the responsibility of preparation of Cashew Corp’s SRS specifications for being used as a guidance for ERP implementation.

The witness also replied that the project was started in 2010 and a committee was constituted with the department head and the IT department and they discussed the matter with Keltron, the implementing agency, and created a project blueprint and demanded Keltron to develop SRS as per the guidelines. But the documents are not found in the concerned file.

The Committee criticized the delay of 13 years in the implementation of ERP system and commented that Corporation alone had to bear the loss.

<u>Conclusion/Recommendation of the Committee</u>

12) The Committee observes that the Corporation assigned the work of developing SRS to the Implementing Agency without identifying the user requirements and Functional requirements and hence could not meet the actual user requirements. So the Committee vehemently critizes

the Corporation for the delay of 13 years in the implementation of ERP system and recommends to complete the project immediately.

Discussions & Findings of the Committee

5.1.2.3 – Absence of Implementation Plan

The audit observation was that the PSUs did not envisage any definite objectives for implementation of ERP systems.

In the Government reply it was informed that Cashew Corp with the help of Keltron, had completed pilot testing initially in the first 10 factories and then scaled up to 20 factories before go live in all the 30 factories. There was a huge Capacity Gap for implementation of the Production Module in factories due to inadequate computer literacy, which was subsequently bridged to a large extent through in house training at various levels and now it is fully equipped to implement the project.

The Committee inquired about the percentage of works that has been shifted to ERP so far. The witness informed that over 60 percent of the total work is in the production sector and the production module has been completely shifted to ERP. The witness further stated that three modules have been developed and eighty percent of the personal module has been completed. However, since e-office and Spark are being implemented in all public sector organisations in accordance with Government directives, the personal module is not being used.

The witness informed that the production of the Corporation is very meagre as it faces the shortage of raw cashew. The Corporation was able to provide only 65 working days last year and this year only 60 days so far. He added that since the procurement and sale of raw cashew was being done through e-tender, 70% of the work related to commerce module was shifted to Government site which inturn affected the development of commerce module.

The Committee accepted the reply. Hence no remarks.

5.1.3.2 - Prequalification Criteria

5.1.3.4 – Service Level Agreements

5.1.3.5 – Acceptance Testing

The audit observation was that the Guidelines stipulated that Acceptance Test Plan along with sample data should be ready by the time the application software is developed and that testing is conducted by functional experts within the organization. The Final Acceptance Testing should be conducted by a professional agency appointed through a transparent process. To a query about the audit observation, the witness stated that initialy, the software developed was only for digitisation of ledgers and records and then Keltron subsequently modified the production module to workflow mode as per the work requirements. He added that the ERP has now deployed to the IT mission's data center after a security audit by an external empanelled agency.

The Committee accepted the reply. Hence no remarks.

5.1.5 Security of Hardware and Data

5.1.5.4 Data backup policy

The audit observation was that all the PSUs had either manual or automatic back-up systems and the Committee enquired where the server of the Company is located now. The witness informed that CASHEWCORP hosted its database in State Data Centre which ensures the data backup in alternate servers as other Government projects.

The Committee accepted the reply. Hence no remarks.

5.1.6.1. Training, Documentation and Change Management

The guidelines stipulated that all users and stakeholders of the new system shall be imparted knowledge about the new systems to ensure proper use and operation of applications and infrastructure. The Committee enquired whether training has been given to the staff for implementation of the project. In response, the Managing Director stated that although training was given, the lack of proper awareness among the workers had seriously affected the project implementation process.

Conclusion/Recommendation of the Committee

13) The Committee noted that in order to guarantee appropriate usage and operation of the new system's applications, all users and stakeholders should be made aware of the new infrastructure and system. So the Committee recommends to provide proper training and awareness of the new system to all users.

E. Chandrasekharan
Chairperson
Committee on Public Undertakings

Thiruvananthapuram,
21st March, 2025.

APPENDIX – I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATION

Sl. No.	Para. No.	Department Concerned	Conclusions/Recommendations
1	1	Industries	The Committee observes that KSCDC published an advertisement on 1st July 2012 in thirteen newspapers incurring an expenditure of 0.39 crore as directed by Board of Directors of the Company, in the nature of accusations against various departments of GoK alleging non-cooperation in the working of the Company without prior approval of the Government and which is against the prevailing codal provisions.
2	2	Industries	The Committee noticed that though the Industries and Finance Departments directed the Company to recover the expenditure from the Chairman and Board of Directors of the Company, special sanction was accorded to remit the amount from the resources of the Company.
3	3	Industries	In this context, the Committee asked why the Chairman had not opposed the publication of advertisement if the Company had no authority to give advertisement against the Government policies and instructions or whether the advertisement was published against the dissent of the Chairman or whether anyone dissented from this decision in the Board Meeting.
4	4	Industries	The Committee also urged to submit a detailed report incorporating the above and mentioning those responsible, enclosing therewith copy of minutes of the Board Meeting that approved the publishing of the advertisement.
5	5	Industries	The Committee are at a loss to understand why punitive action is not being initiated against State PSUs who delayed the finalisation of annual financial statements from 1 to 11 years. Government nominees in the Board of Directors of the PSUs should be held accountable for such delay and the Secretaries of Administrative Departments of those PSUs should keep a tab on such issues and to oversee the actions for rectifying the shortfalls within a time frame.

6	6	Industries	The Committee believe that the officials of Administrative and Finance Departments are not informing the higher-ups the exact issues at the time of action like budgeting, for evading further action against PSUs and officials.
7	7	Industries	The Committee was astonished to note that the proposal for employing sufficient accounting staff at Government expense for completing the finalisation of accounts was not even heeded by the 108 PSUs. Hence it is inferred that the working of PSUs is in total mess and no one at the helm of affairs is committed to streamline their activities. Moreover, the main pillar of democracy, the legislature which functions as the check and balance of the executive on behalf of the people, being kept in the dark about the performance of PSUs, their Government funding, loans and advances availed each year, the remittance of loan etc.
8	8	Industries	Hence the Committee recommends that the finance department should take a lead to hold regular meeting with the Administrative Departments of PSUs for completing the finalisation of annual financial statements in a time bound manner and the financial status report regarding 108 PSUs should be furnished to the Committee.
9	9	Industries	The Committee strongly recommends that the Government assistance in the form of grant, loan or bank guarantee should not be granted to PSUs having arrears in finalisation of annual financial statements more than three years. Moreover Finance Department should conduct a half yearly analysis about the performance of PSUs especially before the beginning of the budget process and furnish reports to the Committee.
10	10	Industries	A detailed report containing the performance, financial status, loan availed, remittance of loan, advance pending, bank guarantee details, Commission on bank guarantee remitted, the equity transfer of each PSU etc. should be furnished to the Committee within one month and such a report should also be furnished to the Committee on yearly basis from next financial year onwards.

11	11	Industries	The Committee vehemently criticizes the Corporation for its lackadaisical attitude in preparing the tender document which excluded the clause for imposing penalty on the Implementing Agency if the project is not completed on time. The Committee observes that the project which was supposed to be completed within six months has remained unfinished even after 12 years due to the absence of risk and cost clause in the tender document. So the Committee recommends that the Corporation should be more diligent while preparing tender documents in future.
12	12	Industries	The Committee observes that the Corporation assigned the work of developing SRS to the Implementing Agency without identifying the user requirements and Functional requirements and hence could not meet the actual user requirements. So the Committee vehemently critises the Corporation for the delay of 13 years in the implementation of ERP system and recommends to complete the project immediately.
13	13	Industries	The Committee noted that in order to guarantee appropriate usage and operation of the new system's applications, all users and stakeholders should be made aware of the new infrastructure and system. So the Committee recommends to provide proper training and awareness of the new system to all users.