



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2008-2011)**

**SIXTY FIRST REPORT**

(Presented on 25th February, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2009

TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2008-2011)**

**SIXTY FIRST REPORT**

**On**

**State Farming Corporation of Kerala Ltd. based on the Reports  
of the Comptroller and Auditor General of India for  
the year ended 31-3-2003 and  
31-3-2004 (Commercial)**

## CONTENTS

|   | <i>Page</i> |
|---|-------------|
| Composition of the Committee                          | .. v        |
| Introduction  | .. vii      |
| Report  | .. 1        |
| Appendix I  |             |
| Summary of main Conclusions/Recommendations           | .. 6        |
| Appendix II   |             |
| Notes furnished by Government on the Audit Paragraphs | .. 9        |

COMMITTEE ON PUBLIC UNDERTAKINGS (2008-2011)

*Chairman :*

Shri Mankode Radhakrishnan.

*Members :*

Shri P. K. Abdu Rabb

„ A. A. Azeez

„ K. K. Jayachandran

„ K. Kunhammed Master

„ K. Kunhiraman

„ T. U. Kuruvila

„ C. K. P. Padmanabhan

„ P. M. A. Salam

„ K. Sudhakaran

„ K. C. Venugopal.

*Legislature Secretariat :*

Sri. P. D. Rajan, Secretary

Smt. D. Kumari Girija, Joint Secretary

Sri. J. Unnikrishnan Nair, Deputy Secretary

Smt. L. Sailaja, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011) having been authorised by the Committee to present the Report on their behalf, present this Sixty First Report on State Farming Corporation of Kerala Ltd based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial) and 31st March, 2004 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial) and 31-3-2004 (Commercial) were laid on the Table of the House on 28-6-2004 and 5-7-2005 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 constituted for the years 2006-2008.

This Report was considered and approved by the Committee at the meeting held on 21-1-2009.

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

The Committee wish to express their thanks to the officials of the Agriculture Department of the Secretariat and State Farming Corporation of Kerala Ltd. for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Agriculture Department and Finance Department and the officials of State Farming Corporation of Kerala Ltd., who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
25-2-2009.

*Chairman,  
Committee on Public Undertakings.*

## **REPORT**

### **THE STATE FARMING CORPORATION OF KERALA LIMITED**

#### **AUDIT PARAGRAPH**

Based on a project Report prepared (December 1993) by the Tribal Welfare Department, for promoting employment potential of tribal women by starting an umbrella manufacturing unit, the Company agreed (March 1994) to provide a contribution of Rs. 1.50 lakh out of Rs. 8.14 lakh required for the proposed unit, at the same time undertaking to purchase for its employees the entire production of 21,500 umbrellas per annum. However, on the ground that the participation of the Tribal Welfare Department was being delayed, the Company, in violation of its objectives decided (July 1994) to undertake the project on its own, without conducting a market study or tying up the sales with other public sector units in the plantation sector as envisaged under the project proposals.

The Company started (April 1995) the umbrella manufacturing unit with a production capacity of 24,000 umbrellas per annum. Due to poor demand in the absence of proper market tie up and high cost of production, the unit had to be closed down in June 1999. As against the total expenditure of Rs. 56.88 lakh (net of subsidy of Rs. 1.31 lakh received from Tribal Welfare Department) incurred during July 1994 to May 1999, the Company earned a revenue of Rs. 35.88 lakh, thereby incurring a cash loss of Rs. 21 lakh.

Thus, the decision of the Company, engaged in plantation activities, to diversify into umbrella manufacturing without conducting proper market study or ensuring sales tie up with other public sector units, resulted in cash loss of Rs. 21 lakh.

The management stated (February 2003) that the reason for poor sales for the product was its inability to compete with private sector umbrella manufacturers. The reply is not tenable since the Company did not tie up sales with other public sector units, which was a pre-requisite for the viability of the project, which resulted in poor market demand.

The matter was reported to Government in August 2003; their reply is awaited (September 2003).

[Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

1. The Committee enquired why the company had diversified into umbrella manufacturing without conducting proper market study or ensuring sales tie up with other Public Undertakings which resulted in cash loss of Rs. 21 lakh. The witness replied that the manufacturing unit was started based on a project report prepared by the Tribal Welfare Department for promoting employment potential of tribal women. But public sector companies like Rehabilitation Plantations Limited and Plantation Corporation of Kerala Limited did not come forward to purchase the umbrellas. Due to competition from the private sector, the Company did not succeed in selling the umbrellas in the open market. To an enquiry on the price of the umbrellas, the witness replied that they were priced at Rs. 90.

2. The Committee wanted to know the present position and enquired whether the Company had disposed the balance stock. The witness remarked that the umbrellas were disbursed as weather protective to the Company employees every year as per the provision contained in the Plantation Labour Act and the balance stock of umbrella spares and scrap disposed off. The building remains and the loss is about Rs. 4.94 lakh now and the Company had stopped manufacturing umbrellas.

3. The Committee opined that before implementing a project a thorough study of the new venture including its viability to avoid loss should be done in future.

#### **Conclusions/ Recommendations**

**4. The Committee finds that the Company had started the umbrella manufacturing unit without conducting proper market study or ensuring sales tie up with other Public Undertakings, incurring a cash loss of Rs. 21 lakh which was reduced to a certain extent by distributing the umbrellas as weather protective to the employees. The Committee recommends that henceforth, before implementing such projects a thorough study should be conducted and viability ensured.**

#### **AUDIT PARAGRAPH**

The Company had been producing centrifuged latex in its factory at Chithalvetty estate by conversion of field latex using two centrifuging machines. In order to increase its own production capacity and avoid additional expenditure involved in processing the latex in outside factories, the Company decided (August 1997) to purchase one more centrifuging machine.

The Company received (January 1998) three offers against tenders invited (September 1997) for procurement of one centrifuging machine. Rubber Board

(Board), the Consultant, recommended (March 1998) the highest offer of Westfalia Latex Separator, Germany since the then existing two machines in the Company's factory procured from this firm, were performing well. Further, the reliability of the machine offered by Indian Centrifuges (P) Limited (ICL), Ettumanoor, the lowest tenderer, could not be established. The Company decided (March 1998) to verify the reliability of the machine offered by ICL, since they were new to the field. Ignoring the recommendations of the Board and relying on the results of local enquiries, the Company placed (May 1998) orders on ICL for procurement of one machine at a cost of Rs. 16.39 lakh. The machine was installed in October 1998.

Audit noticed that the machine frequently broke down since installation. The Company, however, did not demand the supplier to take back the machine at his risk and cost within the warranty period of one year in terms of the provisions of Clause 10 of the agreement (July 1998). Instead, relying on the incorrect report of satisfactory performance received from the Factory Manager, the Company released (January 1999) the balance payment of Rs. 5.36 lakh to the supplier. The poor performance of the machine was reported to ICL only in November 1999 after the expiry (October 1999) of warranty period.

The machine was finally declared as beyond repairs and the Company decided (May 2003) to replace it with a new centrifuging machine at a cost of Rs. 21.53 lakh.

Thus, the decision to procure the centrifuging machine from ICL ignoring the advice of the Board and failure to invoke the replacement provisions in the agreement within the warranty period resulted in wasteful expenditure of Rs. 16.39 lakh.

The Management stated (February 2004) that there was marked price difference between the Westfalia Latex Separator and the Indian made machine manufactured by ICL and replacement could not be enforced as the warranty period was over.

The reply is not tenable since advice of the Board on the quality of the local machine was ignored by the Company. Price difference was Rs. 2.53 lakh only after reducing the cost of spare bowl and other tools of existing machines that could be utilised. Besides, the local firm was not informed of the defects in the machine within the warranty period (October 1999) depriving the Company of the benefit of replacement.

The matter was reported to Government (April 2004); their reply had not been received (September 2004).



[Audit paragraph 3.5 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-03-04 (Commercial)]

Notes on the Audit paragraph furnished by Government is given in Appendix II.

5. The Committee wanted to know the reasons for the Company's decision to procure poor quality centrifuging machine from a local firm ignoring the advice of the consultant and failure to invoke replacement provisions within the warranty period which resulted in wasteful expenditure of Rs. 16.39 lakh. The witness replied that the Company purchased the machine from M/s. India Centrifuge Private Limited, the lowest tenderer for Rs. 16.39 lakh whereas M/s. Westfalia Latex Separator, Germany quoted Rs. 25.70 lakh. After one year the machine broke down and was got repaired. The Committee pointed out that the machine was purchased against the recommendation of the Consultant and had repeatedly broken down since installation. However the Company did not demand the supplier to take back the machine at his risk and cost within the warranty period of one year as per the terms of the agreement, thus depriving the Company of the benefits of replacement. The Committee remarked that this shows the unholy nexus between the factory manager and the supplier and enquired if the Company had taken action against those culpable. The witness stated that they were not in service now.

6. To a specific query regarding the action taken by the concerned administrative Department, the Joint Secretary, Agriculture Department replied that the Government had asked report from the Company and was not taking any action directly. If any lapse is found, the Managing Director can take action.

7. The Finance Secretary remarked that the consultant had recommended a supplier, but at the same time the Consultant had not technically disqualified the other two. If the Company had purchased from a technically disqualified supplier, it would be a serious matter. The Company had the right to purchase the machine from any of the three suppliers. The Secretary also pointed out that the Company had not informed the defect in the machine to the supplier and not asked for the replacement of the machine within the warranty period, which was a very serious matter.

8. The Committee pointed out that ignoring the advice of the Rubber Board, the consultant, to purchase from Westfalia Latex Separator, Germany, because of the then existing two machines in the company's factory procured from that firm functioning well, the company procured the machine from ICL relying on local enquiries and the failure to invoke the replacement provisions in the agreement within the warranty period purposefully are not justifiable.

9. The Committee expressed its displeasure over the actions of the company and of the Agriculture Department and stated that Government should take action against those responsible for such serious lapses.

#### **Conclusions/Recommendations**

10. The Committee finds that though the centrifuging machine purchased from Indian Centrifuges (P) Limited (ICL) frequently broke down since installation, the Factory Manager reported satisfactory performance of the machine as a result of which the company released the balance payment of Rs. 5.36 lakh to the supplier in January 1999. Further, even though the company could demand that the supplier take back the faulty machine at his risk and cost within the warranty period of one year as per clause 10 of the agreement made with the supplier, the company reported the poor performance of the machine to the supplier only in November, 1999 ie after expiry of the warranty period in October 1999. The Committee view this seriously and concludes that this is a clear case of malpractice. The Committee is surprised that Government has not taken any action in the matter though it was pointed out by Audit in April 2004 and opines that Government inaction is encouraging malpractice in public sector undertakings and the Committee recommends that strong action should be taken by Government whenever an irregularity/instance of malpractice is pointed out by Audit.

Thiruvananthapuram,  
25th February 2009.

MANKODE RADHAKRISHNAN,  
Chairman,  
Committee on Public Undertakings.

## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

| <i>Sl.No.</i> | <i>Para No.</i> | <i>Department<br/>Concerned</i> | <i>Conclusions/Recommendations</i>  |
|---------------|-----------------|---------------------------------|---|
| (1)           | (2)             | (3)                             | (4)   |
| 1             | 4               | Agriculture                     | The Committee finds that the Company had started the umbrella manufacturing unit without conducting proper market study or ensuring sales tie up with other Public Undertakings, incurring a cash loss of Rs. 21 lakh which was reduced to a certain extent by distributing the umbrellas as weather protective to the employees. The Committee recommends that henceforth, before implementing such projects a thorough study should be conducted and viability ensured.   |
| 2             | 10              | „                               | The Committee finds that though the centrifuging machine purchased from Indian Centrifuges (P) Limited (ICL) frequently broke down since installation, the Factory Manager reported satisfactory performance of the machine as a result of which the company released the balance payment of Rs. 5.36 lakh to the supplier in January 1999. Further, even though the company could demand that the supplier take back the faulty machine at his risk and cost within the warranty period of one year as per clause 10 of the agreement made with the supplier, the company reported the poor performance of the machine to the supplier only in November, 1999 ie after expiry of the warranty period in October 1999. The Committee view this seriously and concludes that this is a clear case of |

| (1) | (2) | (3) | (4)   |
|-----|-----|-----|---|
|     |     |     | <p>malpractice. The Committee is surprised that Government has not taken any action in the matter though it was pointed out by Audit in April 2004 and opines that Government inaction is encouraging malpractice in public sector undertakings and the Committee recommends that strong action should be taken by Government whenever an irregularity/instance of malpractice is pointed out by Audit.</p> |

## APPENDIX II

## NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PARAGRAPH

**Statement of Action taken on the para contained in the Report of the Comptroller &  
Auditor General of India for the year ended 31-3-2003 (Commercial) pertaining  
to the State Farming Corporation of Kerala Ltd.**

| Sl. No.   | Para No.         | Department                   | Recommendation/<br>Conclusion  | Clarification/Action<br>Taken Report  |      |                  |                              |     |     |     |           |    |          |           |          |          |
|-----------|------------------|------------------------------|--|---|------|------------------|------------------------------|-----|-----|-----|-----------|----|----------|-----------|----------|----------|
| (1)       | (2)              | (3)                          | (4)  | (5)   |      |                  |                              |     |     |     |           |    |          |           |          |          |
| 1         | 4-9<br>cash loss | Agriculture                  | <p>The decision of the Company (State Farming Corporation of Kerala Ltd) to diversify into umbrella manufacturing without conducting proper market study or ensuring sales tie up with other public sector undertakings resulted in cash loss of Rs. 21 lakh.</p> <p>Based on a Project Report prepared (December 1993) by the Tribal Welfare Department, for promoting employment potential of tribal women by starting an umbrella manufacturing unit, the Company agreed (March 1994) to provide a contribution of Rs. 1.50 lakh out of Rs. 8.14 lakh required for the proposed</p> | <p>1. The loss of Rs. 21 lakh mentioned in audit para was reduced by sale of stock and disbursement of umbrella as weather Protective to Employees of the Corporation as per provision contained in Plantation Labour Act in which it is stipulated to issue weather protectives to their employees every year. The details are furnished below:</p> <table><tr><th>Year</th><th>Sale of Umbrella</th><th>Issued as Weather Protective</th></tr><tr><th>(1)</th><th>(2)</th><th>(3)</th></tr><tr><td>1998-1999</td><td>..</td><td>1,14,946</td></tr><tr><td>1999-2000</td><td>6,58,791</td><td>1,22,883</td></tr></table> | Year | Sale of Umbrella | Issued as Weather Protective | (1) | (2) | (3) | 1998-1999 | .. | 1,14,946 | 1999-2000 | 6,58,791 | 1,22,883 |
| Year      | Sale of Umbrella | Issued as Weather Protective |  |   |      |                  |                              |     |     |     |           |    |          |           |          |          |
| (1)       | (2)              | (3)                          |  |   |      |                  |                              |     |     |     |           |    |          |           |          |          |
| 1998-1999 | ..               | 1,14,946                     |  |   |      |                  |                              |     |     |     |           |    |          |           |          |          |
| 1999-2000 | 6,58,791         | 1,22,883                     |  |   |      |                  |                              |     |     |     |           |    |          |           |          |          |

∞

unit, at the same time undertaking to purchase for its employees the entire production of 21,500 umbrellas per annum. However, on the ground that the participation of the Tribal Welfare Department was being delayed, the Company, in violation of its objectives decided (July 1994) to undertake the project on its own, without conducting a market study or tying up the sales with other public sector units in the plantation sector as envisaged under the project proposals.

The Company started (April 1995) the umbrella manufacturing unit with a production capacity of 24,000 umbrellas per annum. Due to poor demand in the absence of proper market tie up and high cost of production, the unit had to be closed down in June 1999. As against the total expenditure of Rs. 56.88 lakh (net of subsidy of Rs.1.31 lakh received from Tribal Welfare Department) incurred during July 1994 to May 1999, the Company

|           |          |          |
|-----------|----------|----------|
| 2000-2001 | 31,763   | 10,457   |
| 2001-2002 | 72,881   | 1,53,250 |
| 2002-2003 | 2,854    | 1,53,149 |
| 2003-2004 | ..       | 1,27,159 |
| 2004-2005 | ..       | 1,00,114 |
| Total     | 7,66,289 | 7,81,958 |

From the above it is clear that total realization by way of sale and issue as Weather Protective upto 31-3-2005 was Rs.15,48,247 (ie. 7,66,289 + 7,81,958). The above mentioned realization of Rs.15,48,247 was not considered while assessing the loss of Rs. 21 lakhs. Now the corporation is having stock of Umbrella spares worth Rs. 1.2 lakh (approximate) also. Thus the loss mentioned in audit para is considerably reduced.

2. The Public Sector Companies like RPL and PCK did not turn up to purchase umbrellas from SFCK to disburse it as Weather Protective. Instead they invited tenders for procurement of umbrella and in the tenders we could not compete with the Private Sector

| (1) | (2) | (3) | (4)   | (5)   |
|-----|-----|-----|---|---|
|     |     |     | <p>earned a revenue of Rs.35.88 lakh, thereby incurring a cash loss of Rs. 21 lakh.</p> <p>Thus, the decision of the Company, engaged in plantation activities, to diversify into umbrella manufacturing without conducting proper market study or ensuring sales tie up with other public sector units, resulted in cash loss of Rs. 21 lakh.</p> <p>The management stated (February 2003) that the reason for poor sales for the product was its inability to compete with private sector umbrella manufacturers. The reply is not tenable since the Company did not tie up sales with other public sector units, which was a pre-requisite for the viability of the project, which resulted in poor market demand.</p> | <p>Umbrella manufactures. However, the corporation have disbursed majority of the stock of umbrellas to their employees over the last seven years and by which the stock is reduced to the minimum. The balance stock of umbrella spares will be disposed off shortly.</p> <p>In view of the above, the audit para 4.9 related to State Farming Corporation of Kerala may be dropped.</p> |

APPENDIX II

NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PARAGRAPH

AGRICULTURE (PU) DEPARTMENT

**Action taken Statement on the Report of the Comptroller & Auditor General  
of India for the year ended 31-3-2004**

| <i>Sl.<br/>No.</i> | <i>Para<br/>No.</i> | <i>Recommendations</i>   | <i>Action Taken</i>   |
|--------------------|---------------------|--|---|
| (1)                | (2)                 | (3)  | (4)   |
|                    | 3.5                 | The decision of the Company to procure poor quality Centrifuging machine from a local firm ignoring the advice of the Consultants and failure to invoke replacement provision within the warranty period resulted in wasteful expenditure of Rs. 16.39 lakh. | <p>The Centrifuging Machine was purchased from M/s. India Centrifuge Private Ltd. Ettumannur against their invoice No.1338/10-10-1998 and installed in the Factory on 30-10-1998. The purchase was effected as per the decision of the Board of Directors, since there was marked price difference between the foreign M/s. Westfalia Latex Separator, Germany and the Indian made machine manufactured by M/s. India Centrifuge Private Ltd. Ettumannur. The price of foreign supplier was Rs. 25.7 lakhs as against Rs.16.39 lakhs of M/s. India centrifuge leading to a difference of Rs. 9.31 lakhs. The machine supplied by India Centrifuge Private Ltd. Ettumannur was installed at so many other places and the repairs etc. were attended by the supplier at that time.</p> <p>The warranty period of the machine was for one year from the date of installation as per agreement.</p> |



| (1) | (2) | (3) | (4)   |
|-----|-----|-----|---|
|     |     |     | <p>In this case it expired on 30-10-1999. All repairs were undertaken by the supplier free of cost during the warranty period. Clause 10 of the agreement is the saving clause in the agreement by which the supplier had undertaken to take back the machine at their risk and cost and rectify and provide damages including the value of new machine and other installation expenses. 'But this was operational only during the period when the warranty was in force (one year). The State Farming Corporation of Kerala limited had sent a detailed letter to the supplier on 24th November 1999 informing them of the defects and frequency of repairs etc. But as the warranty period was over the replacement clause could not be enforced.</p> <p>The machine was purchased because the market information at that time was in favour of the machine and the same was working perfectly elsewhere. The price factor was also an, advantage notwithstanding the advice from the Rubber Board.</p> <p>The machine was in operation upto the period 2002 also but it was kept out of use because during operation some vibrations were noticed. The risk element involved was also taken into consideration and by which management decided</p> |

not to engage the machine the machine was in operation from 1998-99 to 2002-03 and book value of machine after depreciation as on 31-3-2003 was Rs. 7,11,371. Hence the entire purchase of Rs. 16.39 lakhs was not lost. However the State Farming Corporation of Kerala Limited has handed over the file to their Advocates to initiate legal action against M/s. India Centrifuges Ltd. Ettumannoor to get compensation. Now the machine is replaced by a new machine of Alfalaval make costing Rs. 21.53 lakhs. The new machine was installed on 28-6-2004.