

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC ACCOUNTS
(2014-2016)**

NINETY FOURTH REPORT

(Presented on 30th June, 2015)



**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015**

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NINETYFOURTH REPORT

On

**Paragraphs relating to Co-operation, Revenue (Legal Metrology), Higher
Education & Home Departments contained in the Report of the
Comptroller and Auditor General of India for the year ended
31 March, 2010 (Revenue Receipts)**

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INTRODUCTION

I, the Chairman, Committee on Public Accounts, having been authorised by the Committee to present this Report, on its behalf present the 94th Report on paragraphs relating to Co-operation, Revenue (Legal Metrology), Higher Education and Home Departments contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010 (Revenue Receipts).

The Report of the Comptroller and Auditor General of India for the year ended 31 March, 2010 (Revenue Receipts) was laid on the Table of the House on 28th June, 2011.

The Committee considered and finalised this Report at the meeting held on 3rd June, 2015.

The Committee place on record its appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Report.

Thiruvananthapuram,
30th June, 2015.

DR. T. M. THOMAS ISAAC,
Chairman,
Committee on Public Accounts.

REPORT

CO-OPERATION, HOME, REVENUE (LEGAL METROLOGY) AND HIGHER EDUCATION DEPARTMENTS

CO-OPERATION DEPARTMENT

AUDIT PARAGRAPH

Non Tax Receipts

WORKING OF CO-OPERATION DEPARTMENT

Highlights

- Non-recovery of interest of ₹ 47.51 crore and non-recovery of loan amount of ₹ 150.21 crore repaid to NCDC by Government.
- 45 per cent of the total assistance was extended to a single beneficiary, from whom nothing has been recovered so far.
- Non-recovery of dues of ₹ 2.91 crore and locking up of ₹ 6.80 crore due to lack of diligence in sanctioning loan.
- Loss of revenue of ₹ 44.06 crore by way of interest due to accumulation of plan/borrowed fund at private party's TP account.
- Non-levy of interest of ₹ 7.09 crore and penal interest of ₹ 5.96 crore.
- Non-levy of penal interest of ₹ 5.80 crore on belated repayment of share capital contribution assistance in three cases.
- Non-recovery of declared dividend amounting to ₹ 1.50 crore which was subsequently converted as share capital.
- Non-recovery of ₹ 80 lakh from a society due to lapses in finalisation of revenue recovery proceedings.
- Short levy of interest of ₹ 1.37 crore and penal interest of ₹ 29.11 lakh in two cases due to failure to appropriate payment towards interest first.

Introduction

Co-operative sector plays a significant role in the economic scene of Kerala. There are more than 10000 societies spread throughout the State with a capital outlay of ₹ 40000 crore. These societies are concentrated in banking, agriculture, housing, education and health sectors. Banking sector provides short, medium and long term loans to its members, agricultural sector provides

assistance to societies which process agricultural produce, housing sector provides assistance for construction of houses, education sector provides assistance for running professional colleges and health sector provides assistance for running hospitals/dispensaries. The Kerala Co-operative Societies Act 1969 and the rules made there under govern the functioning of the Co-operative Societies/Banks.

As on 31st March, 2009, there were 10 apex* societies, four federal† societies and 14 District Co-operative Banks in the State. There are 13351 registered societies of which 10204 are functional.

Major receipts of the Co-operative Department are audit fee, audit cost, arbitration fee, fee for appeal or revision, interest/penal interest on loan, penal interest for delay in retirement of share capital, dividend on share capital, guarantee fee and liquidation charges etc.

We reviewed the functioning of the Co-operative Department for the period 2004-05 to 2008-09 which revealed a number of system and compliance deficiencies as mentioned in the succeeding paragraphs.

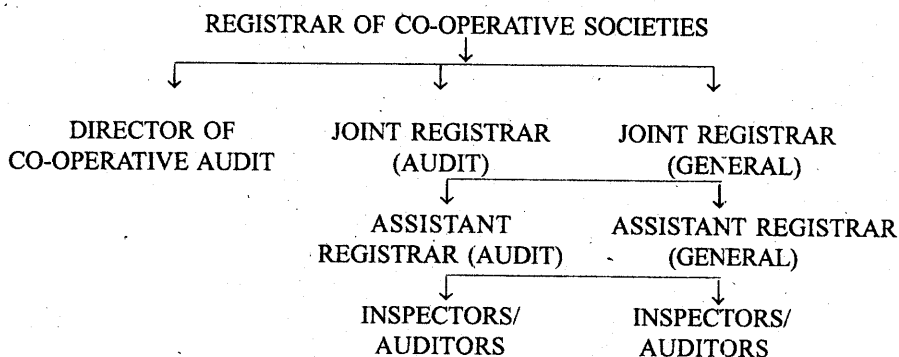
Organisational set-up

The Principal Secretary to the Government, Co-operative Department is in charge of the department at Government level. Registrar of Co-operative Societies (RCS) is the head of the department. Five Additional Registrars (Addl. Rs), three Joint Registrars (JR), a Law Officer, a Finance Officer, six Deputy Registrars (DRs), 13 Assistant Registrars (ARs) and one Research Officer assist the Registrar. In each district, there are two JRs, JR (General) looks after functions relating to administration, levy, recovery of principal, demand and collection of interest and penal interest and the JR (Audit) is in charge of the audit of the Co-operative Societies. Two ARs are posted in each taluk separately for administration and audit. Inspectors and auditors working under the ARs take care of inspection, audit and other field duties. Committee on Public Accounts (2006-08) in its 49th Report directed the Government to form a separate Directorate of Co-operative Audit. Accordingly the department formed a separate audit wing on 7th September, 2009.

* Apex society means a society having the whole of the State as its area of operation and having as its members only other societies with similar objects and declared as such by the Registrar.

† Federal society means a society having more than one district as its area of operation and having individuals and other co-operative societies as its members.

The organisational chart of the Co-operative Department is given below:



Scope and methodology of audit

We conducted performance audit of working of the Co-operative Department during October 2009 to March 2010 and covered the period 2004-05 to 2008-09. We collected data from the office of the Registrar of Co-operative Societies, offices of the Joint Registrars (General) and (Audit) and the Assistant Registrars (General). We selected six* out of 14 districts (being 40 per cent), spread all over Kerala and functional offices in each districts based on risk parameters inter alia including the number of societies and arrears. For selection of samples, 14 districts were divided into two clusters. Cluster one consisting of districts where apex/federal societies are located and cluster II consisting of the remaining districts. Cent per cent from cluster I had been selected considering the existence of apex/federal societies and for selection of samples from cluster II due consideration was given to the arrears of audit fee and outstanding loan as on 31st March, 2009. Using the software 'Stat Trek' available in the internet, we randomly selected Alappuzha, Kottayam and Kozhikode districts for review.

AUDIT OBJECTIVES

We conducted the audit to ascertain whether:

- the department demanded audit fee/audit cost, dividend, interest/penal interest on loan, penal interest on share capital contribution etc. in accordance with the provisions of the Act/Rules and took timely action for their realisation;
- the department maintained the accounts/registers like the loan registers, share capital register, audit fee register, demand collection balance (DCB) statements etc., properly;

* Alappuzha, Ernakulam, Kannur, Kottayam, Kozhikode and Thiruvananthapuram.

- the department conducted audit of the institutions/societies regularly;
- and proper internal control mechanism existed for the effective control of the department.

Acknowledgement

We acknowledge the help extended by the Co-operative Department in providing necessary information and records for audit. Before taking up audit, we held an entry conference on 1st March, 2010 with the Additional Chief Secretary (Co-operation) to the Government wherein the scope and methodology of audit were explained. The draft review report was forwarded to the department on 8th June, 2010 with the request for their response. We held an exit conference on 15th July, 2010 with the Additional Chief Secretary to the Government, wherein we discussed the audit findings and recommendations.

The Department/Government accepted most of the audit findings and recommendations and assured that steps would be taken to implement them. The specific replies received during the exit conference and at other points of time, have been appropriately included under the respective paragraphs.

AUDIT FINDINGS

Trend of revenue

The revenue receipts for five years from 2004-05 to 2008-09 were as under:

(Rupees in crore)

Head of account	2004-05	2005-06	2006-07	2007-08	2008-09
Audit fees	3.50	3.40	2.92	2.97	3.39
Audit cost	16.04	17.46	20.74	21.84	27.66
Arbitration fees	7.28	11.59	8.39	8.13	7.82
Liquidation charges, appeal fee & other charges	0.25	0.07	0.24	0.49	0.08
Grant from NCDC	0.26	0.25	0.42	0.23	0.15
Interest from Co-operative Societies	2.56	3.31	1.87	1.23	1.99
Dividend	1.72	1.02	1.00	0.87	1.05
Other items	2.04	3.00	3.04	2.86	2.90
Guarantee Commission	0.26	0.02	0.00	0.16	0.01
Total	33.91	40.12	38.62	38.78	4.05

The revenue collection during 2004-09 after an increase in 2005-06 remained in the range of ₹ 38 crore and ₹ 39 crore and went to the highest level of ₹ 45 crore in 2008-09 due to hike in audit cost after pay revision.

The department in their reply stated (July 2010) that the revenue collection declined in the review period due to shortfall in unit audit as there was a staff shortage. Further, they had conducted a special drive during January to March 2010 and collected ₹ 9.81 crore. The revenue collection from Guarantee Commission decreased consistently from 2004-05 to 2008-09 except in 2007-08.

Budget estimates and actuals

Under the Kerala Budget Manual, the head of the departments have to forward the proposals for the budget estimates (BEs) of receipts directly to the Finance Department with a copy to the concerned Administrative Departments in the Government which in turn have to forward these to the Finance Department with their remarks. The Finance Department finally frames the BEs. The BEs of revenue are to be based on the existing rates and no increase or decrease in the rates can be proposed unless approved by the Government. Officers who submit the BEs have to ensure that the BEs is neither inflated nor under pitched but are as accurate as practicable.

The budget estimates and actual receipts of the department during the years 2004-05 to 2008-09 were as follows:

(Rupees in crore)

Year	Receipt head of account in the State budget								
	0425 Co-operation			Interest receipts			Dividend and profit		
	Budget estimate	Actual	Variation	Budget estimates	Actual	Variation	Budget estimates	Actual	Variation
2004-05	30.80	29.38	-1.42	4.00	2.56	-1.44	1.20	1.72	+0.52
2005-06	33.25	35.78	+2.53	3.00	3.31	+0.31	1.70	1.02	-0.68
2006-07	35.39	35.75	+0.36	3.10	1.87	-1.23	1.70	1.00	-0.70
2007-08	38.22	36.52	-1.70	3.50	1.23	-2.27	1.70	0.87	-0.83
2008-09	43.19	42.02	-1.17	3.50	1.99	-1.51	1.50	1.05	-0.45

We noticed that even though the budget estimates for interest and dividends had almost remained static or declined marginally, the department could not achieve these targets and the shortfall in interest and dividend revenue varied from 39.7 per cent to 64.9 per cent and from 30 per cent to 48.8 per cent respectively during 2006-07 to 2008-09.

The department in their reply stated (July 2010) dividend becomes due only after the declaration of the Audited Balance Sheet and distribution of profit by the General Body. Due to shortage of auditors, audit was in arrears and hence dividend was not declared.

SYSTEM DEFICIENCIES

Improper computation of arrears

The department issued directions that all the officers should maintain loan ledger and demand, collection and balance register to watch recoveries of loans sanctioned by Government. The department should also raise demand in respect of repayment of the loan sanctioned and maintain demand collection balance details.

Arrears of revenue pending collection as per the Demand, Collection and Balance (DCB) statements of RCS under various categories against the period specified against them were as under:

(Rupees in crore)

Sl. No.	Head of account	2004-05	2005-06	2006-07	2007-08	2008-09
1	Interest and penal interest on loan due from					
	(a) Apex societies	56.56	52.59	21.09	71.55	64.70
	(b) Primary societies	5.28	6.54	24.50	12.58	11.40
2	Penal interest on share capital due from					
	(a) Apex societies	5.32	6.08	1.75	2.46	2.97
	(b) Primary societies	0.88	0.89	1.85	1.30	1.37
3	Audit Fee	3.13	3.09	5.38	6.80	7.03
4	Audit Cost	0.36	0.34	0.43	0.32	0.46
5	Dividend					
	(a) Apex societies	0.43	0.43	0.36	0.36	0.15
	(b) Primary societies	0.47	0.47	0.61	0.46	0.46
6	Guarantee Commission	20.94	20.08	75.89	73.12	101.73

Our review of the DCB statements revealed the following:

- DCB was not prepared periodically and the preparation was in arrears.
- The opening balance under interest, penal interest and dividend varied from the closing balance of the previous year making it unreliable and exposing the department to revenue loss.
- The outstanding revenue from interest and penal interest charged on loan accounts reduced from ₹ 52.59 crore in March 2006 to ₹ 21.09 crore in March 2007 but again increased to ₹ 71.55 crore in the next year. The wide variation was due to incorrect carry forward of the closing balances.

Financial assistance of Societies

The financial assistance to the beneficiary societies is extended mainly by way of loan and share capital. For this purpose, the department obtains funds from the Government through the plan schemes and also from National Co-operative Development Corporation (NCDC) and the National Bank for Agricultural and Rural Development (NABARD) as loan which are repayable in periodical instalments. The RCS forwards application for financial assistance received from various societies for approval by the Government. RCS releases the funds to the beneficiaries after fulfilling the terms and conditions. The Government repays the loans along with interest on behalf of the loanee who in turn pays the amount to the Government. The Act enables the recovery of all sums due from Co-operative Society as arrears of land revenue. JRs and ARs (General) are responsible for monitoring the recovery of loan to apex societies and ARs (General) to primary Co-operative Societies. Instalments of principal, interest and penal interest due from the loanees have to be worked out and demand notice issued one month in advance as required in the Kerala Financial Code. We found that the beneficiaries were not repaying the dues promptly. The principal and interest recovered by the Government

was much less compared to the amount repaid by the Government to the principal bankers leading to wide mismatch and revenue losses as discussed below:

Loss due to non-recovery of interest

The following table indicates details of the financial assistance released to the beneficiaries and the amount recovered by the Government.

(Rupees in crore)

Sl. No.	Year	Principal repaid to		Principal realised	Interest repaid to		Interest realised by Government	Difference
		NCDC	NABARD*		NCDC	NABARD*		
1	2	3	4	5	6	7	8	9
1	2004-05	22.02	5.95	2.02	13.90	2.04	2.56	11.34
2	2005-06	28.55	4.75	2.89	10.68	1.49	3.31	7.37
3	2006-07	27.73	4.45	1.69	8.19	1.21	1.87	6.32
4	2007-08	36.50	4.04	0.31†	12.29	1.03	1.23	11.06
5	2008-09	42.32	3.56	Not available	13.41	0.94	1.99	11.42
Total		157.12	22.75	6.91	58.47	6.71	10.96	47.51

During the last five years Government obtained from Plan fund (₹ 58.08 crore), borrowings from NABARD (₹ 7.98 crore) and NCDC (₹ 189.15 crore) and released ₹ 255.21 crore to various beneficiaries by way of loan, share and subsidy. The Government repaid ₹ 157.12 crore towards principal as per the terms during the last five years as compared to which actual recovery of ₹ 6.91 crore only could be made during the period. Out of the periodical borrowing from NCDC, Government had repaid interest of ₹ 58.47 crore to NCDC alone but could collect ₹ 10.96 crore only from the beneficiaries. Similarly Government had repaid ₹ 22.75 crore and ₹ 6.71 crore towards principal and interest respectively to NABARD during the last five years but could not collect any amount from the beneficiaries.

It can be seen from the above table that there was short recovery of ₹ 47.51 crore as interest payment and locking up of ₹ 150.21 crore paid as principal. The recovery of loans and interest from beneficiaries was not in tune with repayment of loan and interest paid to NCDC.

Few instances in which the Government investment in the beneficiary societies did not yield any return are discussed in the succeeding paragraphs.

* Includes repayments on earlier draws also.

† Data on primary societies not available.

Extension of bulk of financial assistance to a single beneficiary-non-recovery of ₹ 115.28 crore from a single beneficiary

The department extended financial assistance of ₹ 255.21 crore during the last five years by way of loan and share capital. We noticed that a major portion comprising 45.17 per cent of the above sum was extended to a single beneficiary viz. RUBCO, Kannur. Year-wise details of financial assistance released to RUBCO by way of Government loan, share capital and NCDC loan* during the last five years were as follows:—

(Rupees in crore)

Year	Government		NCDC loan	Total
	Loan	Share		
Prior to 2004-05	0.72	12.57	24.44	37.73
2004-05				..
2005-06				..
2006-07				..
2007-08		2.00	4.34	6.34
2008-09		6.63	39.44†	46.07
Total	0.72	21.20	68.22	90.14

Though the RUBCO received financial assistance amounting to ₹ 115.28 crore (₹ 90.14 crore + ₹ 25.14 crore) they had not repaid any amount till date. In addition, the Government converted outstanding loan plus interest amounting to ₹ 25.14 crore as share capital. We observed that the department had not initiated earnest effort to recover the outstanding principal/interest from the RUBCO and instead continued to release additional funds without any restriction.

RCS stated (July 2010) that demand notice was issued to Managing Director, RUBCO to pay the dues. We have not received further development in this case (December 2010).

Loss due to non-recovery of loan released to RUBBERMARK

Financial assistance of ₹ 6.80 crore (from NCDC) was sanctioned to the RUBBERMARK (Kerala Co-operative Rubber Marketing Federation) for setting up of a joint venture project with a private company (Rubek Balloons Pvt. Ltd.) for the manufacture of toy balloons. The unit was commissioned in June 2006

* Government and NCDC loan as on March 2008 amounting to ₹ 25.14 crore plus interest has been converted to share capital vide G. O. dated 4-7-2009.

† Sanctioned in 2007-08 but released in 2008-09 only.

but commercial production has not commenced due to non-availability of raw materials, improper work environment, non-availability of skilled manpower and lack of timely support of collaborator in marketing. The unit again approached the Government for a revival package of ₹ 100 crore.

The Department in their reply stated that the RCS forwarded the request to the Government without recommending sanction of additional loan as there were misutilisation of funds granted previously, mismanagement, accumulation of dues, inefficient working etc. Thus, the investment of ₹ 6.80 crore made in 2006 was fruitless and the Government had lost interest of ₹ 2.91 crore. The office of the RCS had not evolved a system to monitor the viability of the proposal of assistance sanctioned by them.

The department in their reply had stated (July 2010) that strict instructions have been issued for the issue of demand notice and recovery of dues.

Undue financial benefit on drawal of loan

Loan and share capital sanctioned to the co-operative societies from plan fund and NCDC/NABARD borrowings are initially deposited in the Treasury Public (TP) Account No. 637 operated in the name of Kerala State Co-operative Bank (KSCB) maintained in the District Treasury, Thiruvananthapuram. The funds are finally released by the RCS to the beneficiaries after completing the necessary formalities. The condition of the loan stipulates that the amount released by the NCDC should be passed on to the beneficiaries within 30 days from the date of receipt from the NCDC. There was no such condition in the case of loan from the plan fund. The sanctioned amount was credited to the above TP account initially pending fulfillment of the conditions by the beneficiary and later transferred to the party's account. We noticed delay ranging from two months to nine years in releasing the fund to the loanee resulting in accumulation of fund in the TP Account of the KSCB on which interest at 3.5 per cent was credited, even though the money was owned by the department.

The reason for huge accumulation was due to subsequent refusal by beneficiaries to receive the loan, drawal of the amount by the Government without ascertaining the viability of the proposal for loan and non-verification of the antecedents of the beneficiaries.

We noticed that the District Treasury, Thiruvananthapuram credited ₹ 44.06 crore as interest on the amount deposited by the Government in the TP account of KSCB which represents revenue loss to the Government and extension of undue financial benefit to KSCB.

Government may evolve a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance. They may take steps to avoid retention of huge amount received as loan from NCDC on behalf of the beneficiaries in the TP account for long period.

Short recovery due to non-levy of interest/penal interest on loan

We conducted a detailed verification of the system of levy of interest and penal interest from the beneficiaries and recovery thereon. The conditions governing the sanction of loans to societies, stipulate levy of penal interest in case of default in repayment of the overdue instalments. The department is not maintaining proper records to watch the recovery of loans sanctioned by them. Moreover, demand notices were not issued in time and interest and penal interest were not worked out. Our scrutiny of 34 cases revealed that in six cases there was non-levy of interest amounting to ₹ 7.09 crore and penal interest amounting to ₹ 5.96 crore and short accounting of principal of ₹ 4.73 crore as on 31st March, 2009 which are shown in the table below:

(Rupees in crore)

Sl. No.	Name of the beneficiary	Non-accounting of principal amount	Non-levy of		Outstanding since
			Interest	Penal Interest	
1	Kerala Co-operative Rubber Marketing Federation (RUBBERMARK), Ernakulam	..	0.52	1.09	2001 onwards
2	Kera Karshaka Federation (KERAFED), Thiruvananthapuram	..	..	4.55	1990-91 onwards
3	Kerala State Agro Co-operative (AGREENCO), Kannur	3.42	4.01	0.14	2006 onwards
4	Kerala State Co-operative Hospital Complex and Centre for advanced Medical Services (KCHC), Pariyaram, Kannur	1.12	2.40	0.05	2005 onwards
5	Kaduthuruthy Co-operative Rubber Marketing and Processing Society (KCRMPS), Kottayam	0.19	0.16	0.01	2003 onwards
6	Kerala State Federation of SC/ST Development Co-operatives Ltd.	..	..	0.12	1985-86 onwards
	Total	4.73	7.09	5.9	

We noticed that for cases at Sl. Nos. one to three the RCS issued (July 2010) directions to issue demand notices to the beneficiaries concerned. For the remaining cases we have not received further developments from the department (December 2010).

Non-levy of penal interest on share capital contribution

Financial assistance given towards share capital contribution under "Direct participation" is repayable to the Government by the co-operative societies in instalments as approved by the Government. For the belated payment of the instalments the societies are liable to pay penal interest at 2.5 per cent. Our analysis of the following three (out of 39) cases revealed that the share capital amount due to be retired to the Government have not been demanded. The non-levy of penal interest worked out to ₹ 5.80 crore.

KERAFED

KERAFED secured share capital assistance amounting to ₹ 17.96 crore from the Government during 1988-89 to 1995-96 intended for distribution as share capital assistance to the Primary Agricultural Credit Societies (PACS). We noticed that though the PACS had returned the assistance to the KERAFED as per the agreed terms, the KERAFED has not repaid the assistance to the Government as per the terms and conditions. After we pointed out the matter, the department raised a demand notice for penal interest at the rate of 2.5 per cent per annum on the overdue share capital assistance amounting to ₹ 3.93 crore. The department has stated (July 2010) that directions were given to the Managing Director to remit the share capital and penal interest.

The Government also sanctioned share capital assistance amounting to ₹ 27.56 crore to KERAFED during February 1987 to March 1999 for setting up of three oil mills in south, central and north Kerala subject to the condition that the assistance was to be repaid after six years from the commencement of commercial production of the units. We noticed that the Karunagapally unit, on which ₹ 9.45 crore was invested, started commercial production during February 1993 and the other two units in which ₹ 18.11 crore was invested has not started commercial production so far. However, the federation has not started the repayment. Department failed to demand penal interest of ₹ 1.56 crore on overdue share capital of ₹ 9.45 crore.

The department stated (July 2010) that warning notice has been issued to the Federation to remit the penal interest.

AR Office, Thiruvananthapuram

We scrutinised the share capital register of AR office, Thiruvananthapuram and found that they did not charge penal interest on the overdue share capital amount of ₹ 1.26 crore, which works out to ₹ 30.71 lakh relating to 51 cases test checked. The department stated that ₹ 25,976 have been remitted by the beneficiaries and that the practice of raising demand was not followed in that office.

The department stated (July 2010) that the societies were being persuaded to remit the dues.

Non-realisation of declared dividend

In addition to financial assistance to the societies by way of loans, the State Government provides assistance by way of share capital contribution under various schemes as direct participation. The investments in shares are redeemable after a period of six years and the overdue payments attract penal interest at the rate of 2.5 per cent. As per the agreement for securing share capital, the societies which make profit have to pay dividend to the Government. The dividend due to the Government should be remitted into treasury within a period of one month from the date of declaration of such dividend.

As compared to the budget estimate of ₹ 11.06 crore for dividend, the Government received only ₹ 5.66 crore during the last five years ending March 2009. We noticed that the department does not have a system to identify the societies which declared dividends and to watch the remittance of the dividends declared to the Government account within the stipulated time limit of one month. Our test check of records available in two selected institutions* revealed that dividend declared by the societies amounting to ₹ 1.58 crore was not recovered as detailed below:

- RUBBERMARK, Ernakulam declared dividend of ₹ 7.96 lakh during the year 1995-96. The society had not remitted the amount so far.
- RAIDCO, Kannur had an overdue amount of ₹ 1.50 crore towards dividend. The firm did not remit the amount to the Government and the same had been converted as share capital during September 2008.

The department had issued (July 2010) strict instructions to collect dividend due to the Government.

We recommend that the Government may evolve appropriate mechanism for watching the realisation of dividend declared by the societies and crediting it to the Government account.

* RAIDCO & RUBBERMARK.

Guarantee Commission

The revised guidelines issued by the Government in October 2004 require the administrative department to maintain a register for recording all transactions relating to the guarantee commission. The guarantee commission is required to be paid in two equal instalments on 1st of April and October every year. The beneficiaries are required to send half-yearly report to the Finance Department with copies to the administrative department concerned and head of the departments indicating the details of guarantee amount outstanding, guarantee commission payable etc. The administrative department which provides the Government guarantee should make timely demand of the commission and ensure its payment before the due date.

We noticed that the RCS did not maintain register for watching recovery of the amount guaranteed to the beneficiaries, total guarantee commission due from them and the amount of guarantee commission realised. However, the department consolidated the DCB statements from the details of the remittances furnished directly by the beneficiaries. As no supporting documents were maintained in the department, we could not verify the authenticity of the DCB statements prepared by the RCS indicating an outstanding balance of ₹ 101.73 crore as guarantee commission. Compared to the huge balances outstanding, the department could recover only ₹ 45 lakh during last five years which reflects poor monitoring and follow up action. A test check of cases from the DCB statements revealed that the RCS failed to demand and collect an amount of ₹ 54 lakh as guarantee commission which are detailed below:

Short demand of guarantee commission

As per the DCB Statement for the period ending March 2009, the total guarantee commission due from Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) was ₹ 100.85 crore, whereas as per the data furnished by the bank, the outstanding guarantee commission was ₹ 101 crore. This resulted in short demand of ₹ 15 lakh.

The Department had issued (July 2010) warning notice to the defaulters to pay principal of ₹ 56.14 crore and interest of ₹ 53.77 crore.

Non-levy of interest on guarantee commission

As per the revised guidelines issued by the Government in October 2004 simple interest at the rate of 12 per cent will be charged for the defaulted payments of guarantee commission due on 1st of April and October. Scrutiny of records of JR offices, Ernakulam and Kannur revealed that the department failed to demand and collect ₹ 3.98 lakh from Marketing Federation from April 2006 to

March 2007 and ₹ 35.70 lakh from RUBCO from April 2004 onwards by way of interest against the overdue guarantee commission of ₹ 33.21 lakh and ₹ 49.58 lakh respectively. Our scrutiny revealed that the system of collection of guarantee commission, maintenance of DCB registers, levy and collection of interest on guarantee commission are weak as evidenced from the failure of RCS in making available the supporting documents of DCB for scrutiny as well as from the failure of JRs to maintain the registers prescribed.

The department stated (July 2010) that RR proceedings were initiated against RUBCO and notice was issued to Marketing Federation in June 2010.

We recommend that the Government may strengthen the mechanism for watching the collection of guarantee commission.

Audit fee

Rule 65 of the Co-operative Rules prescribes the levy of audit fee in different types of societies. Section 64 (7) of the Co-operative Societies Act 1969, provides for collection of audit fee from the societies concerned within 30 days of the intimation thereof and in case of non-payment of audit fee within the period, it shall be recoverable as arrears of public revenue due on land (Section 79 of the Act). The department recovers audit cost in respect of concurrent audits and audit fee in respect of unit audits involving short duration.

During the year 2008-09, the department completed audit of 12581 units and 1495 concurrent audits (total 14076) and realised audit fee amounting to ₹ 3.39 crore and audit cost worth ₹ 27.66 crore.

Pendency in audit

The Act envisages the audit of co-operative societies at least once in a year and recovery of audit fee from them.

The number of societies due for audit and number of audit conducted during the year 2004-05 to 2008-09 were as under:

<i>Arrears in audit as on</i>	<i>No. of audits due</i>	<i>No. of audits completed</i>	<i>Percentage</i>	<i>Number of audits pending</i>		
				<i>Unit</i>	<i>Audit</i>	<i>Concurrent</i>
2004-05	32146	13009	40.47	18455	682	19137
2005-06	32576	13475	41.36	18431	670	19101
2006-07	33171	12924	38.96	19291	956	20247
2007-08	32879	13729	41.76	18083	1067	19150
2008-09	32498	14074	43.31	17193	1231	18424

As on 31st March, 2009, the department was able to conduct only 14074 audits out of 32498 audits due. The arrears in audit were above 58 per cent during the last five years. The Committee on Public Accounts in its 49th Report (October 2006) directed that immediate steps be taken to constitute viable system for the audit of Co-operative societies. Accordingly the Government ordered (May 2008) setting up of a Directorate of audit for watching audit of accounts of co-operative societies. But the Directorate was formed only in September 2009, diverting four staff from the existing strength of the department.

Despite directions by the PAC, the constitution of a separate Directorate was delayed and the pendency remained at 18424 as on March 2009. We noticed that against 14074 units audited every year, on an average more than 12000 units are added every year and hence the audit arrears cannot be wiped out without sustained additional efforts. The RCS stated that the pendency in audit was due to shortage of staff in the department.

The department stated (July 2010) that steps are being taken to reduce the pendency of audit.

We recommend that the Government may draw a strategy for wiping out the pendency in audit.

Revenue recovery

Section 79 of the Co-operative Societies Act enables recovery of all sums due from a co-operative society as arrears of land revenue on a requisition certificate issued by the RCS.

Non-inclusion of amount proposed for RR action in the DCB figures

The department shall not exclude the amount involved in cases proposed for RR action from the DCB figures until the amount is realised through RR action. We noticed that in four offices* audit fee of ₹ 78.71 lakh involving RR cases were excluded from the DCB statement even though the dues were not realised.

We observed that the records relating to revenue recovery furnished by the department was incomplete and information such as year-wise and society-wise principal amount receivable, the amount recovered as well as the amount outstanding for recovery were not available with the department. Similar information in respect of interest was also not available with the department. The incomplete information on revenue recovery available with the department indicated that the department lacked effective systems to monitor revenue recovery.

* AR Offices—Kothamangalam, Muvattupuzha, Neyyattinkara and Quilandy.

The department stated (July 2010) that instructions were issued to include the amount referred for RR to be shown separately in the DCB statements.

We recommend that the department should initiate an action plan to update revenue recovery records and have them reviewed by Audit.

Lapses in recovery of arrears due to the Government

During scrutiny of records of RCS, JR and AR offices, we noticed that these offices did not initiate timely action to collect the overdue arrears pending collection. We noticed that there were serious lapses in finalisation of RR proceedings. Few instances are given below:

- A sum of ₹ 80 lakh was due from Kannur Wholesale Co-operative Society towards outstanding dues relating to the period from 1996 to 2004. RCS referred the case for RR action in September 2005 and the revenue department suspended the proceedings temporarily in December 2006 at the request of the society. In the meantime, the RCS permitted the society to dispose the landed property subject to the condition that the dues to the Government should be settled first from the sale proceeds. Society disposed off the property for ₹ 2.63 crore, but the department failed to collect the Government dues from the society. On revival of RR proceedings, Government again stayed the proceedings in March 2008.
- JR, Kottayam initiated RR action during December 1997 against the Pineapple Marketing Co-operative Society, Kottayam to recover Government dues amounting to ₹ 30 lakh. We noticed that a sum of ₹ 19 lakh was also due from the society towards share capital and penal interest, which was not included in the RR proceedings.

The department replied (July 2010) that directions were given to collect the dues through RR action.

Failure to conduct special drives/adalaths for collection of arrears

Arrears of revenue pending collection as per the DCB statement in respect of interest, penal interest and audit fee etc., as on 31st March, 2009 amounted to ₹ 210.55 crore.

We noticed that during March and December 2001, the department launched special drive to recover the arrears, but thereafter it did not conduct special drive/adalaths* to recover the arrears.

* Courts.

We recommend that the Government may conduct special drive/adalaths frequently for clearing the arrears.

Liquidation of Societies

The Act provides that where the RCS has made an order for winding up a Co-operative Society, he may appoint a liquidator from among the subordinate officers for the purpose. Liquidators appointed under Sub-Section (1) of Section 72 of the Kerala Co-operative Societies Act shall complete the liquidation proceedings within a period of three years from the date of appointment as per Section 73 (2A). In computing the period of three years, the period during which an appeal, if any, preferred against an order of winding up of a society under Section 71 pending shall be excluded. The RCS in June 2000 had reiterated* that liquidation of the societies that had completed three years should be finalised within one year from the date of Amendment of Co-operative Rules in 1999.

We verified records of six JR offices and found that out of 383 liquidated societies, 254 were pending for more than three years. Of this 254 cases, 109 cases (43 per cent) were pending for more than 10 years. The Government dues involved in the liquidated societies was ₹ 2.38 crore.

Districts	Liquidating Societies					Government dues (Rs. in crore)
	Below 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	
Thiruvananthapuram	22	39	26	34	121	0.22
Kozhikode	5	5	12	0	22	0.49
Kottayam	4	6	9	25	44	0.14
Alappuzha	10	5	10	15	40	1.13
Ernakulam	5	4	7	27	43	0.09
Kannur	83	3	19	8	113	0.31
Total	129	62	83	109	383	2.38

Inordinate delay in finalisation of the liquidation process in disposing off the assets of the society under liquidation resulted in locking up of the Government investment in these societies and this may adversely affect the realisation of Government dues.

* Circular No. 33/2000 dated 20th June, 2000.

The department stated (July 2010) that necessary directions were issued to the officials concerned to settle the cases pending for more than three years.

Internal control

Paragraph 7.5.8 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts) mentioned about the non-maintenance of records by the RCS. During examination of the said paragraph, the Government informed the Committee on Public Accounts that basic records had been made up-to-date. Scrutiny of the records of RCS, JR and AR offices in the selected districts* revealed that these offices did not maintain basic records and where the offices maintained the basic records, they were not properly updated. These have been mentioned in the relevant paragraph of this review. The details regarding the total amount of audit cost, records on loans, share capital, audit fee, interest and penal interest were not recorded properly. We observed few instances of improper record maintenance as discussed below:

- (i) Recovery of Audit cost from 2004-05 to 2008-09 was ₹ 87.71 crore as per the DCB of RCS whereas, the audit cost recovered as per the finance accounts prepared by the Accountant General was ₹ 103.75 crore.
- (ii) AR offices Karthikappally, Nedumangad, Neyyattinkara and Vaikom, did not properly maintain basic records such as register for loan, share capital and DCB statements. AR offices Cherthala, Kanayannur, Karthikappally and Vadakara, did not update the loan register and share capital register periodically.
- (iii) In the DCB statements prepared by the AR offices, the DCB figures did not have the support of the records like loan, share capital, audit fee registers and AR offices Chengannur, Kanayannur, Kochi, Kuttanadu, Muvattupuzha, Thalassery and Vaikom did not demand interest/penal interest properly.

We could not ascertain the genuineness of the figures in the DCB statement in the absence of proper maintenance of the records.

We recommend that the department may strengthen internal control mechanism to watch recovery of audit cost and ensure proper maintenance of records and DCB in the field offices.

Internal audit

Internal audit is intended to examine and evaluate the level of compliance with the rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the

* Alappuzha, Ernakulam, Kannur, Kottayam, Kozhikode and Thiruvananthapuram.

manual as well as computerised environments is a pre-requisite for the efficient functioning of any department.

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts) recommended issuing directions for the conduct of internal audit to ensure the compliance with various provisions in the Act/Rules for effective internal control.

Despite the recommendations of the PAC, the department had not strengthened the internal audit wing. We noticed the following deficiencies in the working of internal audit:

- Audit plan was not prepared
- Sanctioned strength was not fixed for internal audit wing
- Target was not fixed for number of units to be audited.

We received (July 2010) the reply that the annual audit plan has been prepared and two Deputy Registrars were entrusted with the work.

We recommend that the Government may consider issuing guidelines to improve the quality and functioning of internal audit wing.

COMPLIANCE DEFICIENCIES

Revenue loss due to non-appropriation of payment towards interest first

Article 234 (3) (c) of the Kerala Financial Code provides that, any amount paid by the loanee shall be adjusted towards interest dues if any, and the balance available if any shall be adjusted towards principal amount. In the following two cases the department did not follow this principle which resulted in an understatement of loan balance to the extent of ₹ 2.23 crore and consequent interest loss amounting to ₹ 1.37 crore and penal interest of ₹ 29.11 lakh.

Pala Marketing Co-operative Society (PMCS), Kottayam

The Government had sanctioned an amount of ₹ 1 crore to the PMCS in May 2003. The rate of interest was 10 per cent per annum with an additional penal interest of 2.5 per cent for any default. The society had to repay the loan amount in 10 equal annual instalments as per the terms and conditions.

We observed that the Society had remitted ₹ 40 lakh as principal and ₹ 14.45 lakh as interest. However, the department did not observe the principle of

adjusting the amount paid first to interest due, resulting in understatement of the outstanding loan position by ₹ 35.54 lakh (₹ 40, 00,000 – ₹ 3,45,685) as detailed below:

Date of Repayment	Total repayments		Interest due on the date of repayment	Interest deductible from repayment	Balance after deducting interest	Penal interest(PI) due	PI deductible from repayment	Balance deductible from Principal
	Principal	Interest						
1	2	3	4	5	6	7	8	9
30-3-2006	20,00,000	8,50,000	28,95,890	28,50,000	Nil	75,000	..	..
17-5-2007	10,00,000	Nil	11,77,397	10,00,000	Nil	1,50,000	..	..
17-3-2008	10,00,000	5,95,000	10,13,014	10,13,014	5,81,986	2,36,301	2,36,301	3,45,685
	40,00,000	14,45,000						

Erroneous adjustment of principal resulted in loss of interest of ₹ 8.70 lakh and penal interest of ₹ 2.15 lakh for the period up to March 2009.

It was stated (July 2010) that at the instance of audit, the loanee has remitted the outstanding dues.

Kerala State Co-op. Consumer Federation Ltd. (CONSUMERFED)

The RCS had released a loan amount of ₹ 27.62 crore to the CONSUMERFED during the period from 1977 to 2009 (23 Government loans & 10 NCDC loans). Out of this, the society had repaid the principal amount of ₹ 1.96 crore in 59 instalments starting from March 1999 to March 2009. We noticed that out of the repayment amount of ₹ 1.96 crore, the Federation adjusted an amount of ₹ 1.86 crore (56 instalments) against the principal amount even when there was overdue interest. This resulted in incorrect adjustment of loan by ₹ 1.86 crore and also resulted in loss of interest of ₹ 1.28 crore and penal interest of ₹ 26.96 lakh leviable on the outstanding principal amount of loan. In their reply (March 2010), the department informed that directions were given to collect the arrears and to issue timely demand notices.

The department stated (July 2010) that notice has been issued to the Managing Director to remit the dues.

We recommend that the Government may devise suitable measures for monitoring the demand and levy of interest and penal interest including independent review of the same by internal audit.

Unauthorised withdrawal of amount by loanee from TP account

The loans sanctioned by the NCDC to various beneficiaries are routed through the RCS who deposits the amount in TP account pending finalisation of formalities of loans. NCDC sanctioned an amount of ₹ 15 crore to RAIDCO as share capital under rehabilitation package during November 2007. The RCS had drawn the loan amount and transfer credited to TP account of the federation during March 2008 subject to the condition that prior approval of the former must be obtained before the final withdrawal. But RAIDCO had withdrawn the amount during March and April 2008 without obtaining the concurrence of the RCS. Similarly, the beneficiary had also withdrawn an amount of ₹ 35.33 lakh and transfer credited to the federation's TP account during March 2009 without the concurrence of the RCS. This indicates that the RCS was not having proper control over release of loan amounts to the beneficiaries.

The RCS stated (July 2010) that RAIDCO was asked to execute a mortgage deed of the loan amount of ₹ 35.33 lakh and produce share certificate for ₹ 15 crore and society had complied with the directions.

Conclusion

Our review revealed a number of deficiencies in the maintenance of DCB which led to improper computation of arrears. The recovery of loans and interest from beneficiaries was not in tune with repayment of loans and interests paid to NCDC. The system for watching the realisation of dividend declared and crediting it to Government account was not proper. RCS retained huge amount received as loans from the NCDC on behalf of the beneficiaries in the TP account for long period. The information on Revenue Recovery of outstanding balance of principal and interest was unreliable. There was huge pendency in audit as well as arrears of audit fee. There was no system for ascertaining the eligibility of beneficiary before sanctioning the assistance.

Recommendations

The Government may consider implementing the following recommendations for effective collection of co-operation receipts:

- devising suitable measures for monitoring the demand and levy of interest and penal interest;
- evolving appropriate mechanism for watching the realisation of dividend declared by the societies and crediting the dividend to the Government account;
- strengthening the mechanism for watching the collection of guarantee commission;

- evolving a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance;
- taking steps to avoid retention of huge amount received as loan from NCDC on behalf of beneficiaries in TP account for long period;
- taking effective steps for the realisation of amount under revenue recovery; and
- issuing guidelines to improve the quality and functioning of internal audit wing.

[Audit paragraph 8.5 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2010 (Revenue Receipts).]

Notes received from Government on the above audit paragraph is included as Appendix II.

The Committee understood that from 2004-05 to 2008-09 dividend and guarantee commission had been decreasing but audit cost contrariwise. The witness, Secretary, Co-operation Department assured to provide the details after completing the audit. He added that now more employees were entrusted with audit so that audit up to 30th September, 2013 had been completed. In this regard the official from the Office of the Accountant General interfered to inform that dividend was not collected even in cases in which dividend was declared. The Committee decided to recommend that Co-operation Department should take timely action to collect the dividend and guarantee commission without further delay.

2. Regarding the audit paragraph Budget estimates and actuals the Committee directed the Co-operation Department to furnish a note detailing the difference between budget estimate and actual receipts at the earliest.

3. Regarding the audit paragraph Improper computation of arrears, the Committee was informed that there was procedural lapse since the cases referred for Revenue Recovery were excluded from the DCB Statement against the rules which insisted to include such cases in the DCB statement until the amount get collected. The official from the Co-operation Department submitted that such practice had been revised and instructions were issued to all Joint Registrars in this regard.

4. Regarding the non-recovery of loans granted to co-operatives like Rubbermark and Rubco, the Official from the Office of the Accountant General informed that Government had repaid the interest on behalf of co-operative

institutions and thereby incurred a loss to the tune of ₹ 58.4 crore. The witness, Registrar of Co-operative Societies apprised that an amount not exceeding 50% of the own fund of co-operative institution should be granted as loan but most of those societies were not able to repay the loan due to financial constraints.

5. The Committee viewed with grave concern that the co-operatives had taken NCDC/NABARD loan virtually as grant rather than loan. The Committee suspected whether viability of the proposals had been examined by the department. The Committee directed the Co-operation Department to avoid granting further loans to the defaulters and to process the applications carefully giving consideration on the viability of the proposal. The witness, Registrar of Co-operative Societies informed that most of the loans were being repaid except of certain schemes. The Committee asked the Co-operation Department to furnish the latest data regarding the repayment status of various institutions at the earliest.

6. The Committee remarked that though the products of RUBCO have good market and their products are of good quality, their financial management was a mess. The Secretary, Co-operation Department informed that there were more employees than required due to inappropriate selection methods. Moreover these agencies had entered into unrelated diversification activities. The Committee was informed that RUBCO had not made any repayment after 2008-09, it was granted with additional fund without any restriction. The Committee viewed that financial mismanagement was obvious in those institutions and urged the department to take a careful watch on their financial management. It also decided to recommend that the Co-operation Department should conduct a thorough enquiry regarding the financial matters of those institutions and should formulate a policy for the restructuring.

7. With regards to the undue financial benefit on drawal of loan, the Committee was informed that the conditions for sanctioning loan stipulates that the amount released by the NCDC should be passed on to the beneficiaries within 30 days from the date of receipt from the NCDC and should not be retained in TP Account. But there are instances in which the fund was not released to the beneficiaries even after 9 years and the State Co-operative Bank had earned an amount of ₹ 44 crore as interest @3.5%. The Secretary, Co-operation Department explained that the main reason for the delay in releasing the loan was the delay in pledging the land of the loanee. The Committee expressed its anguish over the fact that co-operative institutions were losing their credibility due to such malpractices and the Co-operation Department should take necessary steps to avoid retention of huge amount

received as loan from NCDC on behalf of beneficiaries for long periods and should examine the feasibility of releasing the returned loans to the beneficiaries without further delay.

8. The Committee was at a loss to note that though KERAFED had received an amount of ₹ 27.56 crore as share capital assistance, it installed only one oil mill at Karunagappally expending ₹ 9.45 crore. The KERAFED had not yet started repayment, though commercial production commenced at Karunagappally Unit. The Committee condemned the Co-operation Department for its failure in realising penal interest. The Committee decided to recommend that the Co-operation Department should review the case of KERAFED and should prepare a plan to restructure KERAFED.

9. The Committee pointed out that the dividend declared by the societies amounting to ₹ 1.58 crore was not remitted to treasury and remarked that the department had failed to recover even the declared dividend. It directed the Co-operation Department that stringent steps should be taken to collect the dividend at the earliest. The Committee also decided to recommend the department should evolve appropriate mechanism for realising the dividend during the time of releasing of grant in future.

10. Regarding Guarantee Commission, the Committee remarked that the nationalized and scheduled banks would not grant agency commission unless 25% of the guarantee commission was remitted. If the societies failed to remit the guarantee commission, proportionate amount would be deducted from their Fixed Deposits. The department did not take any initiative to recover guarantee commission and it had not even demanded for that. It could not convince how guarantee commission could be accrued as arrear since rule stipulates that no further loan would be granted till the arrear towards guarantee commission was remitted. The Secretary, Co-operation Department apprised that some agencies demand for exemption from remitting guarantee commission. He added that about ₹ 12 crore was the arrear towards guarantee commission.

11. The Committee criticised the irresponsible attitude of the department and opined that if it could not bring to an end to this kind of financial mismanagement the credibility of the co-operative societies would be at stake. So the Committee urged the Co-operation Department that it should take necessary measures to impose financial discipline among Co-operative Societies.

12. Regarding the audit paragraph the Committee was informed that total guarantee commission due from Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) was ₹ 101 crore and the figure ₹ 12 crore claimed

by the department was not correct. The Secretary, Co-operation Department submitted that as per AR Report the guarantee commission was only ₹ 12 crore and the amount was adjusted by sanctioning an interest free loan by an Executive Order. The witness, Registrar of Co-operative Societies added that the Cabinet had made a decision to reduce the guarantee commission to 0.25 per cent. The Committee opined that Cabinet was not empowered to take such decisions and directed the Co-operation Department to take necessary steps to amend the Act if necessary and suggested that guarantee commission of financial institutions should be calculated separately.

13. Regarding the audit observation on Audit Fee the Committee enquired the reason for accruing arrear in audit fees. The Secretary, Co-operation Department informed that the arrear accumulated in the cases of unit audit fee and for concurrent audit fee there was no arrear. The Committee directed the department to furnish a detailed reply in this regard at the earliest.

14. To a query of the Committee, the Secretary, Co-operation Department apprised that audit pendency had been reduced considerably and only 250 cases were left to audit as on date. The Committee appreciated the department for the steps taken in this regard and directed the Co-operation Department to furnish a detailed report regarding audit pendency. The Secretary, Co-operation Department agreed to do so.

15. With regards to the Non-inclusion of amount proposed for RR action in the DCB figures the Secretary, Co-operation Department submitted that the arrear amount had been realised through RR proceedings.

16. The Committee noticed that the department had failed to realise the amount due from the Kannur Wholesale Co-operative Society, even after the land under RR proceedings was disposed of by the Society. It expressed its displeasure over the reply that the department was awaiting the reply from the RCS to take any action. The Committee decided to recommend that Co-operation Department should take effective measures to fix the responsibility for the lapse and should take appropriate departmental action against the delinquent at the earliest.

17. The Committee wanted to have an explanation for exempting an amount to the tune of ₹ 19 lakh towards share capital and penal interest while initiating RR proceedings against the Pineapple Marketing Co-operative Society, Kottayam. The Secretary, Co-operation Department replied that RR proceedings were carried out by District Collector. The Committee opined that the responsibility of fixing the amount to be realised was vested upon the department itself and implementing officer could not be blamed for that. The Committee directed the Co-operation

Department to take departmental action in this regard. The Secretary, Co-operation Department agreed to do so.

18. The Committee condemned the inefficiency of the Co-operation Department in not taking action to complete the liquidation proceedings even after ten years while the Act stipulates it to complete within three years. The Secretary, Co-operation Department submitted that scrupulous efforts were being taken to complete the liquidation proceedings within a short period.

19. The Committee was not satisfied with the overall performance of the Co-operation Department and remarked that the department had failed in implementing its supervisory and regulatory functions. The Co-operation Department was not competent to prepare a structuring plan. The Committee remarked that the only positive thing in the entire report was that the audit pendency of the department is reducing. It felt pity over the fact that in almost all area including recovery of arrears, audit fee collection etc. the department was a failure. The Committee urged the Co-operation Department to act effectively to revitalise the co-operatives in our state.

Conclusion/Recommendation

20. The Committee wants the Co-operation Department to submit a report elucidating the reasons for the difference between budget estimate and actual receipts to it at the earliest.

21. The Committee observes that the co-operative institutions had taken loan from the agencies like NCDC, NABARD etc., virtually as a grant rather than loan and was hesitant to repay it. The Committee directs that the Co-operation Department should scrutinise the proposal with due consideration of its viability, before sanctioning a loan. It recommends that the department should take effective measures to avoid granting further loan to the defaulters.

22. The Committee urges the Co-operation Department to furnish the latest data regarding the repayment status of various co-operative institutions at the earliest.

23. The Committee notices that RUBCO had not made any repayment since 2008-09, on the contrary it was granted with additional loan without any restriction. The Committee remarks that though the products of RUBCO are of high quality and of high market value RUBCO could not repay the loan. The Committee considers the act of RUBCO as not tenable and is of the opinion that the financial management of RUBCO is a mess. The Committee recommends that the Co-operation Department should conduct a thorough enquiry regarding the financial management of RUBCO.

24. The Committee observes that the State Co-operative Bank had kept the money owed to the beneficiaries in its safe custody for more than nine years. The Committee opines that such malpractices would adversely affect the credibility of co-operative institutions. The Committee recommends that the Co-operation Department should exert its power to curtail such unhealthy practices among co-operative institutions. It also urges the department to look into the matter to examine the feasibility of recouping the lapsed amount towards loan and make it available to the beneficiaries and to furnish a report on the measures taken in this regard.

25. The Committee understands that KERAFED had not started to repay the loan even after commercial production was started in its oil mill at Karunagappally. The Committee criticizes the lackadaisical attitude of the Co-operation Department for not taking action to realise the penal interest on the overdue share capital. It directs the department to review the functioning of KERAFED.

26. The Committee notices that the dividend declared by societies amounting to 1.58 crore was not remitted to treasury and expresses its anguish over the fact that the department has not taken any step to recover the dividend declared by the co-operative societies. It strongly recommends that Co-operation Department should expedite action to collect the dividend and credit it to Government account. It recommends that the department should evolve appropriate mechanism so that dividend could be realised at the time of releasing the grant itself.

27. The Committee wonders how crores could be accumulated as arrear towards guarantee commission as the rules provide not to grant further loan unless the guarantee commission owed to previous loan was remitted. The Committee urges the Co-operation Department to take necessary measures to impose financial discipline among co-operative societies.

28. The Committee came to know that the guarantee commission due to Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) was reduced to 0.25 per cent and the amount was adjusted by sanctioning an interest free loan by an executive order as per the decision of the Cabinet. The Committee opines that Cabinet is not empowered to take such a decision and directs the Co-operation Department to make necessary amendment in the Act in this regard, if necessary. The Committee exhorts the department that guarantee commission of financial institutions should be calculated separately.

29. When informed that arrear is accumulated only in the case of unit audit fee, the Committee directs to Co-operation Department to furnish a detailed report in this regard at the earliest.
30. The Committee expresses its displeasure that the department had not furnished a detailed reply regarding audit pendency as assured by the Secretary, Co-operation Department at the time of witness examination and reiterates to furnish the same within a month.
31. The Committee was astonished to note that rather than initiating step to realise the amount due from the Kannur Co-operative Society even after the disposal of the land attached under RR proceedings, the department was simply waiting for the reply from the RCS to act to take action. The Committee views with grave concern that the slackness on the part of the Co-operation Department could not be neglected and recommends that the department should take effective measures to fix the responsibility for the lapse and should take appropriate action against the delinquent at the earliest.
32. Regarding the illegal exemption of share capital and penal interest while carrying out RR proceedings against the Pineapple Marketing Co-operative Society, Kottayam, the Committee directs the Co-operation Department to initiate departmental action against those who were responsible for the negligence.
33. The Committee condemns the inefficiency of the department as it could not complete the liquidation procedures within the stipulated time and wants the department to take scrupulous effort to complete the liquidation proceedings at the earliest.
34. The Committee admonishes the Co-operation Department for the inertia on the part of the department, which is evident from the incompetency in preparing an action plan for the restructuring of the institutions registered under it. It remarks that the department could not impart the supervisory and regulatory functions effectively. The Committee reminds that the Co-operation Department was an utter failure in almost all areas including recovery of arrears, audit fee collection, realisation of declared dividend, etc. and urges to act effectively to revitalise the co-operatives in our state.
35. The Committee directs Co-operation Department to formulate a strategy for the restructuring of the co-operative institutions.

REVENUE (LEGAL METROLOGY) DEPARTMENT**AUDIT PARAGRAPH**

The laxity on the part of legal metrology department to verify fare meters of autorickshaws and tourist taxis as well as the water meters resulted in non-realisation of revenue to the extent of ₹ 29.92 crore.

Loss of revenue due to non-conducting of verification and stamping of auto/taxi meters

(Department of Legal Metrology, Thiruvananthapuram; April 2010)

All autorickshaws and motor cabs except all India tourist taxis are required to fix fare meters as per Rule 207 and 296 of Kerala Motor Vehicle Rules, 1989. Legal Metrology Department (LMD) should ensure that all auto/taxi fare meters are subjected to annual verification and stamping so as to ensure that the fare collected from the passengers is as per prescribed rates. The fee leviable for verification is ₹ 50 per fare meter up to 2005-06 and ₹ 100 thereafter.

We conducted a test check of the data collected from the department of Motor Vehicles with the LMD for the period 2004-09. We found that the verification conducted by the LMD ranged from 8.4 per cent to 13.2 per cent. The laxity on the part of the LMD in verifying fare meters had resulted in loss of revenue of ₹ 16.68 crore during 2004-05 to 2008-09. This has also allowed the commercial vehicle owners to manipulate the meters and over charge the public. The LMD should take initiative so that meters could be verified at prescribed intervals.

We reported the matter to the department in April 2010 and the Government in June 2010. We have not received their replies (December 2010).

[Audit paragraph 8.13 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (Revenue Receipts)]

Notes received from Government on the above audit paragraph is included as Appendix II.

36. Regarding the audit paragraph, the witness, Controller, Legal Metrology Department deposed that checking and stamping of fare meters of autorickshaws were not being regularly conducted. She continued that only autorickshaws running in urban area were stamped and 13% of such meters were stamped. To a query she informed that inspection of autorickshaws was the responsibility of

Motor Vehicles Department. In this regard, the witness, Joint Transport Commissioner, Motor Vehicles Department deposed that unless autorickshaws were fitted with fare meters it could not be registered. Some owners remove the meters from the autorickshaws after registration. He added that the department had been conducting special drive to inspect the vehicles. The Committee decided to recommend that the Transport Department should take effective measures to ensure that the autorickshaws, that running both in urban and rural areas were fitted with fare meters.

Conclusion/Recommendation

37. The Committee recommends that the Transport Department should take effective measures to ensure that all autorickshaws in hire service in our state should be fitted with fare meters both in urban and rural areas.

AUDIT PARAGRAPH

Non-registration and stamping of water meters

(Department of Legal Metrology, Thiruvananthapuram; April 2010)

Legal Metrology Department is engaged in verifying the correctness of the calibration of the weighing and measuring instruments. Section 24 of the Standards of Weights and Measures (Enforcement) Act, 1985 and Rules made thereunder insists that every weight or measure used or intended to be used in any transaction shall be verified/re-verified and stamped at least once in a year. The fee payable for the verification is ₹ 25 per piece.

We test checked the data collected from the LMD, Thiruvananthapuram for the period 2004-09 and found that the fee realisable for 5296116 water meters during the said period was ₹ 13.24 crore which was not realised due to non-verification of meters. This resulted in non-realisation of ₹ 13.24 crore, besides allowing scope of tampering the meters leading to further recurring loss to the Government.

We reported the matter to the department in April 2010 and the Government in June 2010. We have not received their replies (December 2010).

[Audit paragraph 8.14 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (Revenue Receipts)]

Notes received from Government on the above audit paragraph is included as Appendix II.

38. When the Committee remarked that majority of water meters were not functional, the witness, Controller, Legal Metrology Department submitted that

before installing, the water meters were brought to Water Authority Office for inspection and stamping. But the Department could not perform periodical inspections due to dearth of staff and infrastructure facilities. The Committee decided to recommend that whatever be the constraints, the Water Authority should take necessary steps to inspect water meters at regular intervals.

Conclusion/Recommendation

39. The Committee notices that the Water Authority was not conducting periodical inspection of water meters and suggests that whatever be the constraints, the Water Authority should take necessary steps to inspect water meters at site in regular intervals.

HIGHER EDUCATION DEPARTMENT

AUDIT PARAGRAPH

Due to non-revision of lease rent based on the market value of land and building allotted to KBPS, the Government was deprived of revenue of ₹ 4.19 crore.

Non-levy of lease rent on land allotted to KBPS

[The Kerala Books and Publication Society (KBPS), Kochi; March and April 2010]

The Kerala Books and Publication Society (KBPS), Kochi is a Kerala Government undertaking registered under the Travancore-Cochin Literary, Scientific and Charitable Societies, Registration Act, 1955 to undertake printing of text books for schools and colleges.

The KBPS was set-up in August 1978 in a Government building in a plot of 3.97 hectares in Triakara Panchayat in Ernakulam district. We conducted verification of the records relating to lease of land and buildings to KBPS in March and April 2004. We had already mentioned about non-levy of lease rent from KBPS for the period ending 31st March, 1997 in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Revenue Receipts). The Government stated (October 1997) that they were considering the feasibility of converting the lease rent as capital grant. We noticed that the value of land and building was estimated by the competent authority in March 2004 as ₹ 8.80 crore. Even though the market value of holding was available with the Revenue Department, they failed to levy lease rent on land and building allotted to KBPS. The lease rent due for the period 1st April, 1997 to 31st March, 2010 amounted to ₹ 4.19 crore.

We reported the matter to the Director of Higher Education and Commissioner of Land Revenue in May 2010 and the Government in June 2010. We have not received their replies (December 2010).

[Audit paragraph 8.15 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (Revenue Receipts).]

40. Regarding the audit paragraph the Secretary, Printing and Stationery Department informed that Government Order had been issued to complete the procedures for leasing the land. But the Revenue Department did not handover the land. The Committee directed that Revenue Department should take necessary steps to resolve the problem at the earliest.

Conclusion/Recommendation

41. **The Committee notices that the Revenue Department did not handover the land to KBPS and directs the Revenue Department to take necessary steps to settle the issue at the earliest.**

HOME DEPARTMENT

AUDIT PARAGRAPH

The cost for providing police escort was not revised based on the revised average cost which resulted in short realisation of fee of ₹ 3.20 crore.

Short levy of fees for service rendered by police personnel

(Office of the DGP, Thiruvananthapuram; April 2010)

The Police Department collects fees/charges for various services rendered by the department which was based on the pay of the police officials. The pay of the Government Servants were revised with effect from 1st April, 2005 and consequently the Police Department revised the average cost in tune with the pay revision effected from April 2005. Police headquarters had (July 2008) given directions to unit officers who had provided police guards/escorts to various institutions, to raise arrear bill of cost from 1st April, 2005.

We verified the cost collected for providing police escort to various institutions. We found from the records of the office of the Director General of Police, Thiruvananthapuram that fees realised from 28 institutions for the period 1st April, 2005 to 31st March, 2007 was not revised resulting in short realisation of fee by ₹ 3.20 crore.

We pointed out the case to the police headquarters in May 2010. We have not received their reply (December 2010).

We reported the matter to the Government in June 2010. We have not received their reply (December 2010).

[Audit paragraph 8.16 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (Revenue Receipts).]

Notes received from Government on the above audit paragraph is included as Appendix II.

42. To a query, the witness, Director of General of Police apprised that though delayed, 90% of the amount due for rendering police escort for the agencies like BSNL, Scheduled/Public Sector/Central Banks had been collected. The rest would be realized within a short time. The Committee accepted the explanation.

Conclusion/Recommendation

No remarks.

Thiruvananthapuram,
30th June, 2015.

DR. T. M. THOMAS ISAAC,
Chairman,
Committee on Public Accounts.

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATION

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusion/Recommendation</i>
(1)	(2)	(3)	(4)
1	20	Co-operation	The Committee wants the Co-operation Department to submit a report elucidating the reasons for the difference between budget estimate and actual receipts to it at the earliest.
2	21	"	The Committee observes that the co-operative institutions had taken loan from the agencies like NCDC, NABARD etc., virtually as a grant rather than loan and was hesitant to repay it. The Committee directs that the Co-operation Department should scrutinise the proposal with due consideration of its viability, before sanctioning a loan. It recommends that the department should take effective measures to avoid granting further loan to the defaulters.
3	22	"	The Committee urges the Co-operation Department to furnish the latest data regarding the repayment status of various co-operative institutions at the earliest.
4	23	"	The Committee notices that RUBCO had not made any repayment since 2008-09, on the contrary it was granted with additional loan without any restriction. The Committee remarks that though the products of RUBCO are of high quality and of high market value RUBCO could not repay the loan. The Committee considers the act of RUBCO as not tenable and is of the opinion that the financial management of RUBCO is a mess. The Committee recommends that the Co-operation Department should conduct a thorough enquiry regarding the financial management of RUBCO.

(1)	(2)	(3)	(4)
5	24	Co-operation	The Committee observes that the State Co-operative Bank had kept the money owed to the beneficiaries in its safe custody for more than nine years. The Committee opines that such malpractices would adversely affect the credibility of co-operative institutions. The Committee recommends that the Co-operation Department should exert its power to curtail such unhealthy practices among co-operative institutions. It also urges the department to look into the matter to examine the feasibility of recouping the lapsed amount towards loan and make it available to the beneficiaries and to furnish a report on the measures taken in this regard.
6	25	"	The Committee understands that KERA FED had not started to repay the loan even after commercial production was started in its oil mill at Karunagappally. The Committee criticizes the lackadaisical attitude of the Co-operation Department for not taking action to realise the penal interest on the overdue share capital. It directs the department to review the functioning of KERA FED.
7	26	"	The Committee notices that the dividend declared by societies amounting to 1.58 crore was not remitted to treasury and expresses its anguish over the fact that the department has not taken any step to recover the dividend declared by the co-operative societies. It strongly recommends that Co-operation Department should expedite action to collect the dividend and credit it to Government account. It recommends that the department should evolve appropriate mechanism so that dividend could be realised at the time of releasing the grant itself.
8	27	"	The Committee wonders how crores could be accumulated as arrear towards guarantee commission as the rules provide not to grant further loan unless the guarantee commission owed to

(1)	(2)	(3)	(4)
			previous loan was remitted. The Committee urges the Co-operation Department to take necessary measures to impose financial discipline among co-operative societies.
9	28	Co-operation	The Committee came to know that the guarantee commission due to Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) was reduced to 0.25 per cent and the amount was adjusted by sanctioning an interest free loan by an executive order as per the decision of the Cabinet. The Committee opines that Cabinet is not empowered to take such a decision and directs the Co-operation Department to make necessary amendment in the Act in this regard, if necessary. The Committee exhorts the department that guarantee commission of financial institutions should be calculated separately.
10	29	"	When informed that arrear is accumulated only in the case of unit audit fee, the Committee directs to Co-operation Department to furnish a detailed report in this regard at the earliest.
11	30	"	The Committee expresses its displeasure that the department had not furnished a detailed reply regarding audit pendency as assured by the Secretary, Co-operation Department at the time of witness examination and reiterates to furnish the same within a month.
12	31	"	The Committee was astonished to note that rather than initiating step to realise the amount due from the Kannur Co-operative Society even after the disposal of the land attached under RR proceedings, the department was simply waiting for the reply from the RCS to act to take action. The Committee views with grave concern that the slackness on the part of the Co-operation Department could not be neglected and

(1)	(2)	(3)	(4)
			recommends that the department should take effective measures to fix the responsibility for the lapse and should take appropriate action against the delinquent at the earliest.
13	32	Co-operation	Regarding the illegal exemption of share capital and penal interest while carrying out RR proceedings against the Pineapple Marketing Co-operative Society, Kottayam, the Committee directs the Co-operation Department to initiate departmental action against those who were responsible for the negligence.
14	33	"	The Committee condemns the inefficiency of the department as it could not complete the liquidation procedures within the stipulated time and wants the department to take scrupulous effort to complete the liquidation proceedings at the earliest.
15	34	"	The Committee admonishes the Co-operation Department for the inertia on the part of the department, which is evident from the incompetency in preparing an action plan for the restructuring of the institutions registered under it. It remarks that the department could not impart the supervisory and regulatory functions effectively. The Committee reminds that the Co-operation Department was an utter failure in almost all areas including recovery of arrears, audit fee collection, realisation of declared dividend, etc. and urges to act effectively to revitalise the co-operatives in our state.
16	35	"	The Committee directs Co-operation Department to formulate a strategy for the restructuring of the co-operative institutions.
17	37	Transport	The Committee recommends that the Transport Department should take effective measures to ensure that all autorickshaws in hire service in our state should be fitted with fare meters both in urban and rural areas.

(1)	(2)	(3)	(4)
18	39	Water Resources	The Committee notices that the Water Authority was not conducting periodical inspection of water meters and suggests that whatever be the constraints, the Water Authority should take necessary steps to inspect water meters at site in regular intervals.
19	41	Revenue	The Committee notices that the Revenue Department did not handover the land to KBPS and directs the Revenue Department to take necessary steps to settle the issue at the earliest.

APPENDIX II

NOTES RECEIVED FROM GOVERNMENT

AUDIT PARA 8.5 (2009-10) ACTION TAKEN-WORKING OF CO-OPERATION DEPARTMENT**8.5.1 Introduction**

Co-operative Sector plays a significant role in the economic scene of Kerala. There are more than 10,000 societies spread throughout the State with a Capital outlay of Rs.40,000 crore. These societies are concentrated in banking, agriculture, housing, education and health sectors. Banking sector provides short, medium and long term loans to its members, agricultural sector provides assistance to societies which process agricultural produce, housing sector provides assistance for construction of houses, education sector provides assistance for running Professional colleges and health sector provides assistance for running hospitals/dispensaries. The Kerala co-operative Societies Act 1969 and the rules made there under govern the functioning of Co-operative Societies/Banks.

As on 31 March 2009, there were 10 Apex societies, four Federal societies and 14 District Co-operative Banks in the State. There are 18,361 registered societies of which 10,204 are functional.

Major receipts of the Co-operative department are audit fee, audit cost, arbitration fee, fee for appeal or revision, interest/penal interest on loan, penal interest for delay in retirement of Share Capital, dividend on Share Capital, guarantee fee and liquidation charges etc.

We reviewed the functioning of the Co-operative department for the period 2004-05 to 2008-09 which revealed a number of system and compliance deficiencies as mentioned in the succeeding paragraphs.

8.5.2 Organizational Set up.

The Principal Secretary to the Government, Co-operative department is in charge of the department at Government level.

No remarks

Registrar of Co-operative Societies (RCS) is the Head of the Department. Five Additional Registrar (Addl.Rs), Three Joint Registrars (JR's), a Law Officer, a Finance Officer, Six Deputy Registrars(DRs), 13 Assistant Registrars(ARs) and one Research Officer assist the Registrar. In each district, there are two JR's. JR(General) looks after functions relating to administration, levy, recovery of principal, demand and collection of interest and penal interest and the JR(Audit) is in charge of the audit of the Co-operative Societies. Two ARs are posted in each taluk separately for Administration and Audit. Inspectors and Auditors working under the ARs take care of inspection, audit and other field duties. Committee on Public Accounts (2006-08) in its 49th Report directed the Government to form a separate Directorate of Co-operative Audit. Accordingly the department formed a separate audit wing on 7 September 2009.

No remarks

8.5.4 Scope and methodology of audit

We conducted performance audit of working of Co-operative Department during October 2009 to March 2010 and covered the period 2004-05 to 2008-09. We collected data from the office of the Registrar of Co-operative Societies, offices of the Joint Registrars (General) and (Audit) and the Assistant Registrars (General). We selected six out of 14 districts (being 40 percent), spread all over Kerala and functional offices in each districts based on risk parameters interalia including the number of societies and arrears. For selection of samples, 14 districts were divided into two clusters. Cluster one consisting of districts where apex/federal societies are located and cluster II consisting of the remaining districts. Cent percent from cluster I has been selected considering the existence of apex/federal societies and for selection of samples from Cluster II due consideration was given to the arrears of audit fee and

No remarks

outstanding loan as on 31 March 2009. Using the software 'Stat Trek' available on the internet, we randomly selected Alappuzha, Kottayam and Kozhikode districts for review.

8.5.5 Audit objectives

We conducted the audit to ascertain whether

- the department demanded audit fee/cost, dividend, interest/penal interest on loan, penal interest on share capital contribution etc, in accordance with the provisions of the Act/Rules and took timely action for their realization;
- the department maintained the accounts/registers like the loan registers, Share Capital Register, Audit fee Register, Demand Collection Balance (DCB) statements etc., properly;
- the department conducted audit of the institutions/societies regularly; and
- proper internal control mechanism existed for the effective control of the department

No remarks

8.5.6 Acknowledgement

We acknowledge the help extended by the Co-operative department in providing necessary information and records for audit. Before taking up audit, we held an entry conference on 1 March 2010 with the Additional Chief Secretary (Co-operation) to the Government wherein the scope and methodology of audit were explained. The Draft review report was forwarded to the department on 8 June 2010 with the request for their response. We held an exit conference on 15 July 2010 with the Additional Chief Secretary to the Government, wherein we discussed the audit findings and recommendations.

No remarks

The Department/Government accepted most of the audit findings and recommendations and assured that steps would be taken to implement them. The specific replies received during the exit

conference and at other points of time, have been appropriately included under the respective paragraphs

Audit Findings

8.5.7 Trend of revenue

The revenue receipts for five years from 2004-05 to 2008-09

Head of Account	2004-05	2005-06	2006-07	2007-08	2008-09
Audit Fees	3.5	3.4	2.92	2.97	3.39
Audit Cost	16.04	17.46	20.74	21.84	27.66
Arbitration Fees	7.28	11.59	8.39	8.13	7.82
Liquidation Charges, appeal fee & other charges	0.25	0.07	0.24	0.49	0.08
Grant from NCDC	0.26	0.25	0.42	0.23	0.15
Interest from Co-operative Societies	2.56	3.31	1.87	1.23	1.99
Dividend	1.72	1.02	1	0.87	1.05
Other items	2.04	3	3.04	2.86	2.9
Guarantee Commission	0.26	0.02	0	0.16	0.01
Total	33.91	40.12	38.62	38.78	45.05

The Revenue collection during 2008-09 after an increase in 2005-06 remained in the range of Rs.38 crore and Rs.39 Crore and went to the highest level of Rs.45 Crore in 2008-09 due to hike in audit cost after pay revision.

The Department in their reply stated (July 2010) that the revenue collection declined in the review period due to short fall in unit audit as there was a staff shortage. Further, they had conducted a special drive during January to March 2010 and collected Rs.9.81 crore. The revenue collection from Guarantee Commission decreased consistently from 2004-05 to 2008-09 except in 2007-08.

The revenue collections pertaining to Audit fees, interest and dividend declined due to shortage of staff. The audit fees becomes due after completion of audit and dividend will be declared only after the issue of audit certificate by the Dept. The position is improved in 2009-2010 by filling the vacancies. The collection in audit fees and dividend. It is expected that the position will improve in the coming years. The profit margin of Co-operatives show a declining trend in the recent years. The increase in over head expenses and

decrease in revenue due to low rate of interest affects the profit margin of Co-operatives. Even though the Dept. issued demand notices for the payment of interest, pending audit fees the collection is not as expected. Urgent steps are taken to boost the collection and directions are issued to district offices in this regard.

System Deficiencies

8.5.9 Improper Computation of arrears

The Department issued directions that all the officers should maintain loan ledger and demand, collection and balance register to watch recoveries of loans sanctioned by Government. The Department should also raise demand in respect of repayment of loan sanctioned and maintain demand collection balance details.

Arrears of revenue pending collection as per the Demand, Collection and Balance (DCB) Statement of RCS under various categories against the period specified against them were as under:

(Rupees in Crore)

Sl No	Head of Account	2004-05	2005-06	2006-07	2007-08	2008-09
1	Interest and Penal interest on loan due from					
	a) Apex Societies	56.56	52.59	21.09	71.55	64.7
	b) Primary Societies	5.28	6.54	24.5	12.58	11.4
2	Penal interest on Share Capital due from					
	a) Apex Societies	5.32	6.08	1.75	2.46	2.97
	b) Primary Societies	0.88	0.89	1.85	1.3	1.37
3	Audit Fee	3.13	3.09	5.38	6.8	7.03
4	Audit Cost	0.36	0.34	0.43	0.32	0.46
5	Dividend					

	a)Apex Societies	0.43	0.43	0.36	0.36	0.15
	b)Primary Societies	0.47	0.47	0.61	0.46	0.46
6	Guarantee Commission	20.94	20.08	75.89	73.12	101.73

Our review of the DCB Statements revealed the following

- DCB was not prepared periodically and the preparation was in arrears
- The opening balance under interest, penal interest and dividend varied from the closing balance of the previous year making it unreliable and exposing the department to revenue loss.
- The outstanding revenue from interest and penal interest charged on loan accounts reduced from Rs.52.59 crore in March 2006 to Rs.21.09 crore in March 2007 but again increased to Rs.71.55 crore in the next year. The wide variation was due to incorrect carry forward to closing balances.

8.5.10 Financial assistance of Societies

The financial assistance to the beneficiary societies is extended mainly by way of Loan and Share Capital. For this purpose, the department obtains funds from the Government through the plan schemes and also from National Co-operative Development Corporation (NCDC) and the National Bank for Agricultural and Rural Development (NABARD) as loan which are repayable in periodical installments. The RCs forwards application for financial assistance received from various societies for approval by the Government. RCS releases the funds to the beneficiaries after fulfilling the terms and conditions. The Government repays the loans along with interest on behalf of the loanee who in turn pays the amount to the Government. The Act enables the recovery of all sums due from Co-operative Society as arrears of land revenue. JRs and ARs (General) are responsible for monitoring the recovery of loan

Necessary steps have been taken for the preparation of timely DCB statements. Now the statements are prepared periodically and as a result DCB statement of Audit fees and Audit cost have been prepared for the year 2010-2011 and 2011-2012. The variations have been rectified and ensured that all District offices are maintaining the concerned registers and proper review is made from the Head Quarters.

The primary co-operatives engaged in credit, marketing, processing, consumer are implementing many Govt. policies viz interest free loans for paddy cultivation, low interest for agri based loans, Procurement of agricultural produces, giving support price, sale of essential consumer items below market prices etc. The one time settlement of loan dues to reduce NPA of Co-operatives result interest Loss. These activities reduce profit margin. Besides the employees in co-operatives enjoy all privileges as in the organized sector. It may be noted that the co-operatives are not working with the sole intention of making profit alone. Due to the above reasons recovery of loans, retirement of share capital from co-operatives are not satisfactory.

The Govt. is providing share capital

to apex societies and ARs (General) to primary co-operative societies. Installments of principal, interest and penal interest due from the loanees have to be worked out and demand notice issued one month in advance as required in the Kerala Financial Code. We found that the beneficiaries were not repaying the dues promptly. The principal and interest recovered by the Government was much less compared to the amount repaid by the Government to the principal bankers leading to wide mismatch and revenue losses as discussed below.

assistance to Co-operatives for enhancing their borrowing power to improve the working capital requirement. In spite of all these hindrances the Dept. has taken all possible steps to improve the recovery of dues by issuing demand notices, special collection drives etc.

8.5.10.1. Loss due to non-recovery of interest

The following table indicates details of the financial assistance released to the beneficiaries and the amount recovered by the Government

(Rupees in Crores)								
Sl No.	Year	Principal repaid to		Principal realised	Interest repaid to		Interest realised by Government	Difference
		NCDC	NABARD		NCDC	NABARD		
1	2004-05	22.02	5.95	2.02	13.9	2.04	2.56	11.34
2	2005-06	28.55	4.75	2.89	10.68	1.49	3.31	7.37
3	2006-07	27.73	4.45	1.69	8.19	1.21	1.87	6.32
4	2007-08	36.5	4.04	0.31	12.29	1.03	1.23	11.06
5	2008-09	42.32	3.56	Not available	13.41	0.94	1.99	11.42
Total		157.12	22.75	6.91	58.47	6.71	10.96	47.51

During the last five years Government obtained from Plan Fund (Rs.58.08 Crore), borrowings from NABARD (Rs.7.98 crore) and NCDC (Rs.189.15 crore) and released Rs.255.21 crore to various beneficiaries by way

NCDC is providing financial assistance in the form of loan to Govt. and as per the guidelines of NCDC, the assistance is provided in the form of loan and share capital assistance to co-operatives

of loan, share and subsidy, The Government repaid Rs.157.12 crore towards principal as per the terms during the last five years as compared to which actual recovery of Rs.6.91 crore only could be made during the period. Out of the periodical borrowing from NCDC, Government had repaid interest of Rs.58.47 crore to NCDC alone but could collect Rs.10.96 crore only from the beneficiaries. Similarly Government had repaid Rs.22.75 crore and Rs.6.71 crore towards principal and interest respectively to NABARD during the last five years but could not collect any amount from the beneficiaries.

It can be seen from the above table that there was short recovery of Rs.47.51 crore as interest payment and looking up of Rs.150.21 crore paid as principal. The recovery of loans and interest from beneficiaries was not in tune with repayment of loan and interest paid to NCDC.

Few instances in which the Government investment in the beneficiary societies did not yield any return are discussed in the succeeding paragraphs.

8.5.10.2 Extension of bulk of financial assistance to a single beneficiary - non - recovery of Rs.115.28 crore from a single beneficiary.

The department extended financial assistance of Rs.255.21 crore during the last five years by way of loan and share capital. We noticed that a major portion comprising 45.14 percent of the above sum was extended to a single beneficiary viz. RUBCO, Kannur. Year wise details of financial assistance released to RUBCO by way of Government loan, share capital and NCDC loan during the last five years were as follows.

and under each scheme moratorium is also allowed to the beneficiary co-operatives. Hence the Govt. remittance to NCDC is high but realization of interest and principal will be lower since the share capital assistance does not bear interest and moratorium in the payment of principal.

However direction are issued for the recovery of interest, principal and retirement of share capital. Demand notices are issued to all co-operatives for the payment of pending dues

NCDC has approved the proposal of Kerala State Rubber co-operative Ltd. (RUBCO) seeking financial assistance of Rs.55 crore for completion of its three incomplete units and working capital for business operations vide Sr.No.NCDC.135/2007-PC(254) 5070149 dated; 20.02.2008, on the basis of the recommendation of the Govt. The proposal was recommended to NCDC considering all aspects of the project, since the units proposed are blocked due to shortage of funds. It may be noted that the proposals of other co-operatives are not denied to consider the proposal of RUBCO. So the

observation of 40%, Budget Estimate to a single Co-operative is exaggerated. Besides financial assistance is much needed to RUBCO to complete the incomplete units.

In accordance with the provisions in Article 234 (3) clause (3) of Kerala Financial code warning notices were issued to Managing Director RUBCO to remit the dues worth Rs. 32.54 crores in respect of Govt./NCDC loan and share capital Assistance.

(Rupees in crore)

Year	Government		NCDC Loan	Total
	Loan	Share		
Prior to 2004-05	0.72	12.57	24.44	37.73
2004-05				
2005-06				
2006-07				
2007-08		2	4.34	6.34
2008-09		6.63	39.44	46.07
Total	0.72	21.2	68.22	9.14

Though the RUBCO received financial assistance amounting to Rs.115.28 crore (Rs.90.14 crore + Rs.25.14 crore) they had not repaid any amount till date. In addition, the Government converted outstanding loan plus interest amounting to Rs.25.14 crore as Share capital. We observed that the department had not initiated earnest effort to recover the outstanding principal/interest from the RUBCO and instead continued to release additional funds without any restriction.

RCS stated (July 2010) that demand notice was issued to Managing Director RUBCO to pay the dues. We have not received further development in this case (December 2010)

8.5.10.3 Loss due to non-recovery of loan released to Rubbermark

Financial assistance of Rs.6.80 crore (from NCDC) was sanctioned to the Rubber Mark (Kerala Co-operative Rubber Marketing Federation) for setting up of a joint venture project with a private company (Rubek Balloons Pvt. Ltd) for the manufacture of toy balloons. The unit was commissioned in June 2006 but commercial production has not commenced due to non-availability of raw materials, improper work environment, non-availability of skilled man power and lack of timely support of collaborator in marketing. The unit again approached the Government for a revival package of Rs.100 crore.

The Department in their reply stated that the RCS forwarded the request to the Government without recommending sanction of additional loan as there were mis-utilisation of funds granted previously, mismanagement, accumulation of dues, inefficient working etc. Thus, the investment of Rs.6.80 crore made in 2006 was fruitless and the Government had lost interest of Rs.2.91 crore. The office of the RCS had not evolved a system to monitor the viability of the proposal of assistance sanctioned by them.

The department in their reply had stated (July 2010) that strict instructions have been issued of demand notice and recovery of dues.

8.5.10.4 Undue Financial benefit on drawal of loan

Loan and Share Capital sanctioned to the co-operative societies from plan fund and NCDC/NABARD borrowings are initially deposited in the Treasury Public (TP) Account No.637 operated in the name of Kerala State Co-operative Bank (KSCB) maintained in the District Treasury, Thiruvananthapuram. The funds are finally released by the RCS to the beneficiaries after completing the necessary formalities. The condition of the loan stipulates that the amount released by the NCDC should be passed on to the beneficiaries

Warning notice has been issued for remitting the dues to Government. The present financial status of the federation is not sound enough to remit the entire dues. The proposal for the revival of Rubber mark is under the consideration of Govt.

Remedial measures are taken to sanction assistance to eligible Co-operatives to avoid retention of plan funds in T.P. Account. It may be noted that progress is achieved to reduce balance in T.P. Account.

within 30 days from the date of receipt from the NCDC.

There was no such condition in the case of loan from the plan fund. The sanctioned amount was credited to the above TP account initially pending fulfillment of the conditions by the beneficiary and later transferred to the party's account. We noticed delay ranging from two months to nine years in releasing the fund to the loanee resulting in accumulation of fund in the TP Account of the KSCB on which interest at 3.5 percent was credit, even though the money was owned by the department.

The reason for huge accumulation was due to subsequent refusal by beneficiaries to receive the loan, drawal of the amount by the Government without ascertaining the viability of the proposal for loan and non-verification of the antecedents of the beneficiaries.

We noticed that the District Treasury, Thiruvananthapuram credited Rs.44.06 crore as interest on the amount deposited by the Government in the TP account of KSCB which represents revenue loss to the Government and extension of undue financial benefit to KSCB

Government may evolve a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance. They may take steps to avoid retention of huge amount received as loan from NCDC on behalf of the beneficiaries in the TP account for long period.

8.5.10.5 Short recovery due to non-levy of interest/penal interest on loan

We conducted a detailed verification of the system of levy of interest and penal interest from the beneficiaries and recovery thereon. The conditions governing the sanction of loans to societies, stipulate levy of penal interest in case of default in repayment of the overdue installments. The department is not maintaining proper records to watch the recovery of loans sanctioned by them. Moreover, demand notices were not issued in time and interest and penal interest were not worked out. Out scrutiny of 34 cases revealed

Demand notices were issued to all co-operatives to remit their dues and necessary registers and records are maintained. An inspection team comprising two Deputy Registrars of the Head office have visited all subordinate offices to ensure maintenance of records.

that in six cases there was non-levy of interest amount to Rs.7.09 crore and penal interest amounting to Rs.5.96 crore and short accounting of principal of Rs.4.73 crore as on 31 March 2009 which are shown in the table below.

(Rupees in crores)					
Sl No	Name of the beneficiary	Non accounting	Non-levy of		Outstanding since
			Interest	Penal interest	
1	Kerala Co-operative Rubber Marketing Federation (RUBBER MARK), Eranakulam		0.52	1.09	2001 onwards
2	Kerala Karshaka Federation (KERAFED), Thiruvananthapuram			4.55	1990-91 onwards
3	Kerala State Agro Co-operative (AGREENCO), Kannur	3.42	4.01	0.14	2006 onwards
4	Kerala State Co-operative Hospital Complex and Centre for advanced Medical Services(KCHC), Pariyaram, Kannur	1.12	2.4	0.05	2005 onwards
5	Kaduthuruthy Co-operative Rubber Marketing and Processing Society (KCRMPS), Kottayam	0.19	0.16	0.01	2003 onwards
6	Kerala State Federation of SC/ST Development Co-operatives Ltd.			0.12	1985-86 onwards
Total		4.73	7.09	5.96	

We noticed that for cases at S. Nos one to three the RCS issued (July 2010) directions to issue demand notices to the beneficiaries concerned. For the remaining cases we have not received further developments from the department (December 2010).

8.5.11 Non-levy of penal interest on share capital contribution

Financial assistance given towards share capital contribution under "Direct participation" is repayable to the Government by the co-operative societies in installments as approved by the Government. For the belated payment of the installments the societies are liable to pay penal interest at 2.5 percent. Our analysis of the following three (out of 39) cases revealed that the share capital amount due to be retired to the Government have not been demanded. The non-levy of penal interest worked out to Rs.5.80 Crore.

Demand notices were issued in all cases and proper review will be conducted periodically.

8.5.11.2 AR Office, Thiruvananthapuram

We scrutinised the share capital register of AR office, Thiruvananthapuram and found that they did not charge penal interest on the overdue share capital amount of Rs.1.26 crore, which works out to Rs.30.71 Lakh relating to 51 cases test checked. The department stated that Rs.25,976 have been remitted by the beneficiaries and that the practice of raising demand was not followed in that office.

An amount of Rs. 3,50,574/- collected as Penal Interest on overdue share capital. Demand notices were issued to the concerned societies to remit the Penal Interest.

The department stated (July 2010) that the societies were being persuaded to remit the dues.

8.5.12 Non realisation of declared dividend

In addition to financial assistance to the societies by way of loans, the State Government provides assistance by way of Share capital contribution under various schemes as direct participation. The investments in shares are redeemable after a period of six years and the overdue payments attract penal interest at the rate of 2.5 percent. As per the agreement for securing share capital, the societies which make profit have to pay dividend to the Government. The dividend due to the Government should be remitted into treasury within a period of one month from the date of declaration of such dividend.

The Dept. have an effective system to collect dividend from Co-operatives. Periodical inspection/checks are done by the Unit Inspectors at taluks. The shortage of staff in northern District affect the collection. The financial status of Rubber Mark, Ernakulam and Raidco, Kannur is poor to collect long pending dues. Demand notices were issued to these institution to remit the dues.

As compared to the budget estimate of

Rs.11.06 crore for dividend, the Government received only Rs.5.66 crore during the last five years ending March 2009. We noticed that the department does not have a system to identify the societies which declared dividends and to watch the remittance of the dividends declared to the Government account within the stipulated time limit of one month. Our test check of records available in two selected institutions revealed that dividend declared by the societies amounting to Rs.1.58 crore was not recovered as detailed below

- RUBBER MARK, Eranakulam declared dividend of Rs.7.96 lakh during the year 1995-96. The society had not remitted the amount so far.
- RAIDCO, Kannur had on overdue amount of Rs.1.50 crore towards dividend. The firm did not remit the amount to the Government and the same had been converted as Share Capital during September 2008.

The department had issued (July 2010) strict instructions to collect dividend due to the Government.

We recommended that the Government may evolve appropriate mechanism for watching the realization of dividend declared by the societies and crediting it to the Government account.

8.5.13 Guarantee Commission

The revised guide lines issued by the Government in October 2004 require the administrative department to maintain a register for recording all transactions relating to the guarantee commission. The guarantee commission is required to be paid in two equal installments on first of April and October every year. The beneficiaries are required to send half yearly report to the Finance Department with copies to the administrative department concerned and head of the departments indicating the details of guarantee amount outstanding, guarantee commission payable etc. The administrative department which provides the Government

Necessary registers are now properly maintained and demand notices were issued before the due date for remitting the guarantee Commission dues to Govt.

guarantee should make timely demand of the commission and ensure its payment before the due date.

We noticed that the RCS did not maintain register for watching recovery of the amount guaranteed to the beneficiaries, total guarantee commission due from them and the amount of guarantee commission realized. However, the department consolidated the DCB Statements from the details of the remittances furnished directly by the beneficiaries. As no supporting documents were maintained in the department, we could not verify the authenticity of the DCB statements prepared by the RCS indicating an outstanding balance of Rs.101.73 crore as guarantee commission. Compared to the huge balances outstanding, the department could recover only Rs.45 Lakh during last five years which reflects poor monitoring and follow up action. A test check of cases from the DCB statements revealed that the RCS failed to demand and collect an amount of Rs.54 Lakh as guarantee commission which are detailed below Short demand of guarantee commission

8.5.13.1 Short demand of guarantee commission

As per the DCB statement for the period ending March 2009, the total guarantee commission due from Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) was Rs.100.85 crore, whereas as per the data furnished by the bank, the outstanding guarantee commission was Rs.101 crore. This resulted in short demand of Rs.15 Lakh.

The Department had issued (July 2010) warning notice to the defaulters to pay principal of Rs.56.14 crore and interest of Rs.53.77 crore.

As per the G.O.(Rt)458/10/Co-op dated, 19.07.2010 Govt. have accorded Administrative sanction for an interest free loan to the tune of Rs.130 crores to settle guarantee Commission dues of KSCARDB and as per G.O.(Rt) 515/10 Co-op dated, 06.08.2010 Govt. have accorded sanction for the release of 124,38,35,000/- and the amount was contra credited under receipt head "0075-108-99 Guarantee Fee".

As per G.O.(Rt)1/2011/Co-op. 01.01.2011 administrative sanction has been accorded for interest free loan to the tune of Rs. 115/- lakhs for the payment of Guarantee Commission outstanding as on 01.10.2010, along with penal interest as on date and as per G.O.(Rt) 51/11/Co-op. date 27.01.2011 Govt. have accorded sanction

for the release of Rs. 115 lakhs which was contra credited to the receipt head 0075-108-99 and the balance amount of Rs. 4,65,042/- was remitted by the bank.

It is informed that there is no pending realization in guarantee commission from KSCARDB as on 31.03.2011.

8.5.13.2 Non-levy of interest on guarantee commission

As per the revised guide lines issued by the Government in October 2004 simple interest at the rate of 12 percent will be charged for the defaulted payments of guarantee commission due on 1 of April and October. Scrutiny of records of JR offices, Eranakulam and Kannur revealed that the department failed to demand and collect Rs.3.98 Lakh from Marketing Federation from April 2006 to March 2007 and Rs.35.70 lakh from RUBCO from April 2004 onwards by way of interest against the overdue guarantee commission of Rs.33.21 lakh and Rs.49.58 lakh respectively.

Our scrutiny revealed that the system of collection of guarantee commission, maintenance of DCB registers, levy and collection of interest on guarantee commission are weak as evidenced from the failure of RCS in making available the supporting documents of DCB for scrutiny as well as from the failure of JRs to maintain the registers prescribed.

The department state (July 2010) that RR proceedings were initiated against RUBCO and notice was issued to Marketing Federation in June 2010

The observation is noted for future guidance and assured that all corrective steps will be taken to monitor the progress in the collection of guarantee commission and interest.

8.5.15.1 Non inclusion of amount proposed for RR action in the DCB figures

The Department shall not exclude the amount involved in cases proposed for RR action from the DCB figures until the amount is realised through RR action. We noticed that in four officers audit fee of Rs.78.71 lakh

Instruction has been given to the subordinate offices for the inclusion of the amounts proposed for Revenue Recovery action in the Demand list of Audit fee until the amounts is realized

involving RR cases were excluded from the DCB statement even though the dues were not realised.

We observed that the records relating to revenue recovery furnished by the department was incomplete and information such as year-wise and society-wise principal amount receivable, the amount recovered as well as the amount outstanding for recovery were not applicable with the department. Similar information in respect of interest was also not available with the department indicated that the department lacked effective systems to monitor revenue recovery.

The department stated (July 2010) that instructions were issued to include the amount referred for RR to be shown separately in the DCB statements.

We recommend that the department should initiate an action plan to update revenue recovery for RR to be shown separately in the DCB statements.

8.5.16 Failure to conduct special drives/adalaths for collection of arrears

Arrears of revenue pending collection as per the DCB statement in respect of interest, penal interest and audit fee etc., as on 31 March 2009 amounted to Rs.210.55 crore.

We noticed that during March and December 2001, the department launched special drive to recover the arrears, but thereafter it did not conduct special special drive/adalaths to recover the arrears.

We recommend that the Government may conduct special drive/adalaths to recover the arrears.

8.5.17 Liquidation of societies

The Act provides that where the RCS has made an order for winding up of co-operative society, he may appoint a liquidator from among the subordinate officers for the purpose. Liquidators appointed under Sub-Section (1) of Section 72 of the Kerala Co-operative Societies Act shall complete the liquidation proceedings with a period of three

through RR action. Now this procedure is being followed. Circular directions are also issued in the matter (Circular No.59/2009 Dated, 20.12.2009).

The Dept. conducts special drive periodically for the collection of arrears. In the special drive conducted from 01-01-2010 to 28.02.2010 an amount of 1.13 crores was received as Audit Fee and Rs.0.15 crore as Average cost. Necessary steps have been taken to recover the arrears.

As per the Kerala Co-operative Societies Act 1969, Section 72(1) Liquidator is appointed in a co-operative society for the winding up of the society and should complete the liquidation proceedings within a period of 3 years.

The Liquidator so appointed has to

years from the date of appointment as per Section 73 (2A). In computing the period of three years, the period during which as appeal, if any, preferred against as order of winding up of a society under Section 71 pending shall be excluded. The RCS in June 2000 had reiterated that liquidation of the societies that had completed three years should be finalized within one year from the date of Amendment of Co-operative Rules in 1999.

We verified records of six JR officers and found that out of 383 liquidated societies, 254 were pending for more than three years. Of this 254 cases, 109 cases (43 percent) were pending for more than 10 years. The Government dues involved in the liquidated societies was Rs.2.38 crore.

realize the assets and settle the liabilities of the said society including the matters related to legal cases, cases related to deceased members and co-operatives under other department like Industries, fisheries, Khadi and village Industries etc.

Dues related to financial institutions and Government can be written off with the prior permission of the Government if the society has no asset value. As per G.O(P). No. 350/2008 Fin dated 06.08.2008, Head of the Dept. has the power to write off the amount upto 10,000/- in each case with the annual limit of Rs. 50,000/-. An amount of Rs.24,159/- has been written of during the year 2010-2011 and 2011-2012 in 6 cases.

District	Liquidating Societies					Govt. dues (Rs.in crores)
	Below 3 years	3 to 5 years	5 to 10 years	over 10 years	Total	
Thiruvananthapuram	22	39	26	34	121	0.22
Kozhikode	5	5	12	0	22	0.49
Kottayam	4	6	9	25	44	0.14
Alappuzha	10	5	10	15	40	1013
Eranakulam	5	4	7	27	43	0.09
Kannur	83	3	19	8	113	0.31
Total	129	62	83	109	383	2.38

Inordinate delay in finalization of the liquidation process in disposing off the assets of the society under liquidation resulted in locking up of the Government investment in these societies and this may adversely affect the realization of Government dues.

The department stated (July 2010) that necessary directions were issued to the officials concerned to settle the cases pending for more than three years.

Moreover the post of liquidator has not been created separately. The unit Inspector attached to the Assistant Registrar office are attending the liquidation work in the District, in addition to their routine works. For all these reasons delay is occurred in some societies for completing the liquidation process within the stipulated time. In such cases, the period of liquidator shall be extended on the request of the Liquidator with sufficient reasons.

In Order to complete the Liquidation work within the stipulated time, necessary directions are given to Districts/Taluk level officers and monthly review meetings are also conducted and rectification of defects are periodically verified. Moreover personal hearing of Department officers and directors, and staff are held for speedy work. For all and above reasons, it is informed that purposeful delay has not been committed in liquidation proceedings, but only Administrative delay occurred. The achievements as on 31.03.2011 of the 6 selected District are as follows:

District	Below 3 years	3 to 5 years	5 to 10 years	over 10 years	Total	Govt. dues in crores
Thiruvananthapuram	-	19	30	71	120	0.17
Kozhikode	12	5	11	-	28	0.48
Kottayam	6	7	9	24	46	0.19
Alappuzha	5	5	10	12	32	1.12
Eranakulam	7	4	7	27	45	0.09
Kannur	48	7	7	5	67	0.32
Total	78	47	74	139	338	2.37

8.5.18 Internal control

Paragraph 7.5.8 of the Report of Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts) mentioned about the non-maintenance of records by the RCS. During examination of the said paragraph, the Government informed the Committee on Public Accounts that basic records had been made upto date. Scrutiny of the records of RCS, JR and AR offices in the selected districts revealed that these offices did not maintain basic records and where the offices maintained the basic records, they were not properly updated. These have been mentioned in the relevant paragraph of this review. The details regarding the total amount of audit

As part of strengthening up of the Internal control system Registrar of Co-operative Societies conducted a special drive during January - February 2010 to keep and maintain the registers of loan, share, dividend, Interest, penal Interest, Audit fee, Audit cost etc. upto date. For achieving the desired results circulars are issued viz circular No. 59/2010 dated 20.12.2009 and 1/2010 dated 06.02.2010. Officers in the cadre of Deputy Registrar were deployed to verify the veracity and authenticity of updation of the registers. Special drive was again conducted to watch the progress and to recover the Govt. dues.

cost, records on loans, share capital, audit fee, interest, and penal interest were not recorded properly. We observed few instances of improper record maintenance as discussed below:

- i) Recovery of Audit cost from 2004-05 to 2008-09 was Rs.87.71 crore as per the DCB of RCS whereas, the audit cost recovered as per the finance accounts prepared by the Accountant General was Rs.103.75 crore.
- ii) AR offices. Karthikappally, Nedumangad, Neyyattinkara and Vaikom, did not properly maintain basic records such as register for loan, share capital and DCB statements. AR officer Chertihala, Kanayannur, Karthikappally and Vadakara did not update the loan register and share capital register periodically.
- iii) In the DCB statements prepared by the AR offices, the DCB figures did not have the support of the records like loan, share capital, audit fee registers and AR offices Chengannur, Kanayannur, Kochi, Kuttanadu, Muvattupuzha, Thalassery and Vaikom did not demand interest/penal interest properly.

We could not ascertain the genuineness of the figures in the DCB statement in the absence of proper maintenance of the records.

We recommend that the department may strengthen internal control mechanism to watch recovery of audit cost and ensure proper maintenance of records and DCB in the field offices.

8.5.19 Internal Audit

Internal Audit is intended to examine and evaluate the level of compliance with the rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerized environments is a pre-requisite for the efficient functioning of any department.

Further Circular No.30, 31,32 were also issued on 01.07.2010 for the continuity of the system. As a result considerable progress was achieved with regard to maintenance of registers and the collection of Govt. dues. The difference in the figures shown in the DCB of Registrar of Co-operative Societies and the finance accounts prepared by Accountant General with regard to the Audit cost recovered was due to the inclusion of LS & PC collected in the accounts prepared by Accountant General. Necessary directions have been issued to the subordinate officers to prepare separate statement for Audit cost and LS & PC.

In compliance of the Govt. orders and the guidelines issued an Internal Audit wing is constituted as per the proceeding No. EB(1)28991/2010 dated 25.06.2010 of Registrar of Co-operative Societies and the wing has started its function.

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts) recommended issuing directions for the conduct of internal audit to ensure the compliance with various provisions in the Act/Rules for effective internal control.

Despite the recommendations of the PAC, the department had not strengthened the internal audit wing. We noticed the following deficiencies in the working of internal audit.

- Audit plan was not prepared
- Sanctioned strength was not fixed for internal audit wing.
- Target was not fixed for number of units to be audited.

We received (July 2010) the reply that the annual audit plan has been prepared and two Deputy Registrars were entrusted with the work.

8.5.20.1 Pala Marketing Co-operative Society (PMCS), Kottayam

The Government had sanctioned an amount of Rs.1 Crore to the PCMS in May 2003. The rate of interest was 10 percent per annum with an additional penal interest of 2.5 percent for any default. The society had to repay the loan amount in 10 equal annual installments as per the terms and conditions.

We observed that the society had remitted Rs.40 Lakh as principal and Rs.14.45 lakh as interest. However the department did not observe the principle of adjusting the amount amount paid first to interest due, resulting in understatement of the outstanding loan position by Rs.35.54 Lakh (Rs.40,00,000-Rs.3,45,685) as detailed. Erroneous adjustment of principal resulted in loss of interest of Rs.8.70 Lakh and penal interest of Rs.2.15 Lakh for the period upto March 2009.

It was stated (July 2010) that at the instance of audit, the loanee has remitted the outstanding dues.

The erroneous adjustment of Principal amount has already been cleared and the society has already remitted Rs.41.77 lakhs as interest on 20.03.2010 and Rs. 8 Lakhs as Interest and 215 lakhs as Penal Interest on 19.06.2010.

8.5.20.2 Kerala State Co-op Consumer Federation Ltd.(CONSUMERFEDP)

The RCS had released a loan amount of Rs.27.62 crore to the CONSUMERFED during the period from 1977 to 2009 (23 Government loans & 10 NCDC loans).

Out of this, the society had repaid the principal amount of Rs.1.96 crore in 59 installments starting from March 1999 to March 2009. We noticed that out of the repayment amount of Rs.1.96 crore, the Federation adjusted an amount of Rs.1.86 crore (56 installments) against the principal amount even when there was overdue interest. This resulted in incorrect adjustment of loan by Rs.1.86 crore and also resulted in loss of interest of Rs.1.28 crore and penal interest of Rs.26.96 lakh leviable on the outstanding principal amount of loan.

In their reply (March 2010), the department informed that directions were given to collect the arrears and to issue timely demand notices.

The Department stated (July 2010) that notice has been issued to the Managing Director to remit the dues

8.5.21 Unauthorised withdrawal of amount by loanee from TP Account

The loans sanctioned by the NCDC to various beneficiaries are routed through the RCS who deposits the amount in TP account pending finalization of formalities of loans. NCDC sanctioned an amount of Rs.15 crore to RAIDCO as share capital under rehabilitation package during November 2007. The RCS had drawn the loan amount and transfer credited to TP Account of the federation during March 2008 subject to the condition that prior approval of the former must be obtained before the withdrawal. But RAIDCO had withdrawn the amount during March and April 2008 without obtaining the concurrence of the RCS. Similarly, the beneficiary had also withdrawn an amount of Rs.35.93 lakh and transfer credited to the federation's TP account during March 2009 without the concurrence of the

Demand notice was issued vide letter.No.CS(1)25442/2010 dated, 12.06.2012 to the Managing Director, Consumerfed directing to make good the loss sustained by the Govt. due to erroneous adjustment of Interest/Penal Interest. Also informed Managing Director, Consumerfed that RR action will be initiated if the loss sustained to Govt. is not settled in due course.

On 2007-2008 financial year, NCDC has sanctioned Rs. 15 crores to RAIDCO as Govt. share capital under Rehabilitation package, Subsequently on obtaining administrative sanction the amount was transfer credited to TP Account No.1319 of Raidco with District Treasury,Thiruvananthapuram as per proceedings No. MP(5)56811/06 dated 18/03/2008 with direction that the amount should not be released without the direction of Registrar of Co-operative Societies. Contrary to the direction of the Registrar of Co-operative Societies, Raidco withdrew the amount from their TP account No.1319 without prior Permission. On noting the unauthorized withdrawal

RCS. This indicates that the RCS was not having proper control over release of loan amounts to the beneficiaries.

The RCS stated (July 2010) that RAIDCO was asked to execute a mortgage deed of the loan amount of RS.35.33 lakh and produce share certificate for Rs.15 crore and society had complied with the directions.

necessary action had been taken by the Registrar of Co-operative Societies. A hearing was conducted on 08.10.2009 and strict direction was given to Raidco to execute a mortgage deed covering the loan amount vide D.O. Lr. No.MP(5)11694/09 dated 31.01.2010 of Registrar of Co-operative Societies.

Accordingly the society has executed mortgage deed for the loan amount of Rs. 35.33 lakhs and submitted share certificate for the balance amount with Agreement as per norms of the scheme.

**ACTION TAKEN REPORT ON AUDIT PARA 8.16 (2009-2010) OF AUDIT REPORT (REVENUE RECEIPTS)
FOR THE YEAR ENDED 31ST MARCH 2010**

Paras	Recommendation	Action Taken			
8.16	<p>Short levy of fees for service rendered by Police Personnel The cost for providing police escort was not revised based on the revised average cost which resulted in short realisation of fee of Rs. 3.20 crore.</p> <p>The Police Department collects fees/charges for various services rendered by the department which was based on the pay of the police officials. The pay of the Government servants were revised with effect from 1 April 2005 and consequently the Police Department revised the average cost in tune with the pay revision effected from April 2005. Police headquarters had (July 2008) given directions to unit officers who had provided police guards/escorts to various institutions, to raise arrear bill of cost from 1 April 2005.</p>	<p>There is a short demand of Rs. 3,20,43,840/- towards the Bill of Cost raised by the Police Department in respect of institutions for rendering the service of Police personnel. Out of this an amount of Rs.66,80,293/- in respect of 15 institutions have been realised and the details are furnished below.</p>			
SI No.	Institution	Period	Amount realised		
1	Cochin Refineries	01.04.2005 to 31.03.2007	4,60,076		
2	Canara Bank, Thrissur	01.04.2005 to 30.03.2007	1,29,239		
3	South Indian Bank, Thrissur	01.04.2005 to 31.03.2007	95,037		
4	Dhanalakshmi Bank, Thrissur	01.04.2005 to 30.03.2007	1,21,533		
5	RBI, Typm	01.04.2005 to 31.03.2007	14,38,105		
6	Federal Bank, Aluva	01.04.2005 to 31.03.2007	6,10,350		
7	Cochin International Airport	01.04.2005 to 31.03.2007	13,07,568		
8	All India Radio, Thrissur	01.04.2005 to 31.03.2007	2,72,510		
9	Sabangiri Project, Moozhayar	01.04.2005 to 31.03.2007	9,44,259		
10	C.B.I Kochi	01.04.2005 to 31.03.2007	2,17,532		
11	Special Bureau, Kochi	01.04.2005 to 30.09.2006	92,047		
12	Subsidiary Intelligence Bureau, Typm	01.04.2005 to 31.12.2006	2,65,331		
13	Doordarsan, Kochi	01.04.2005 to 30.09.2006	1,90,166		
14	AIR, Typm	01.04.2005 to 31.12.2006	2,64,030		
15	AIR, Kullathur	01.04.2005 to 30.09.2007	2,72,510		
	TOTAL		66,80,293		
				The process of realization of remaining bill of cost arrears is in progress and the same will be completed within 2 months.	

Report of Comptroller & Auditor General of India for the year ended on 31st March, 2010 (Revenue Receipts).

Remedial Measures Taken Statement on Audit Paras 8.13 & 8.14 pertaining to Legal Metrology Department.

Department	Para-graph	Gist of the Audit Report	Remedial Action Taken														
Legal Metrology Dept.	8.13	<p><u>Loss of revenue due to non-conducting of verification and stamping of auto/taxi meters.</u></p> <p>All auto rickshaws and motor cabs except all India tourist taxis are required to fix fare meters as per Rule 207 and 296 of Kerala Motor Vehicle Rules, 1989, Legal Metrology Department (LMD) should ensure that all auto/taxi fare meters are subjected to annual verification and stamping so as to ensure that the fare collected from the passengers is as per prescribed rates. The fee leviable for verification is Rs.50 per fare meter upto 2005-2006 and Rs.100 thereafter.</p> <p>We conducted a test check of the data collected from the department of Motor Vehicles with the LMD for the period 2004-2009. We found that the verification conducted by the LMD ranged from 8.4 per cent to 13.2 per cent. The laxity on the part of the LMD in verifying fare meters had resulted in loss of revenue of Rs.16.68 crore during 2004-2005 to 2008-2009. This has also allowed the commercial vehicle owners to manipulate the meters and over charge the public. The LMD should take initiative so that meters could be verified at prescribed intervals.</p> <p>We reported the matter to the department in April 2010 and the Government in June 2010. We have not received their replies (December, 2010).</p>	<p>The power to execute Rule 207 and 296 of Kerala Motor Vehicle Rules, 1989 is exercised by the Motor Vehicles Department. The Department of Legal Metrology has no power to implement auto/taxi fare meters to all auto rickshaws registered in the State.</p> <p>The Motor Vehicles Department in the State did not make it compulsory to install fare meters to all registered auto rickshaws except Passenger auto rickshaws plying on the road.</p> <p>The staff strength of the Legal Metrology Department has not been increased since 2004. But the number of passenger auto rickshaws plying on the road installed with fare meter have increased four times than that in the year 2004. The total number of original and re-verification in the financial years 2004 to 2010 is given below.</p> <table border="1"> <tbody> <tr> <td>2004-2005</td> <td>32398</td> </tr> <tr> <td>2005-2006</td> <td>40940</td> </tr> <tr> <td>2006-2007</td> <td>50832</td> </tr> <tr> <td>2007-2008</td> <td>52146</td> </tr> <tr> <td>2008-2009</td> <td>64560</td> </tr> <tr> <td>2009-2010</td> <td>84030</td> </tr> <tr> <td>2010-2011</td> <td>1,21,555</td> </tr> </tbody> </table> <p>It is pertinent to note that even though the staff strength in the year 2012 is the same as that created / existed in the year 2004 or before, they have performed four times verification in the year 2010 than the work done in the year 2004 in the case of verification of passenger</p>	2004-2005	32398	2005-2006	40940	2006-2007	50832	2007-2008	52146	2008-2009	64560	2009-2010	84030	2010-2011	1,21,555
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		<p>auto rickshaws. It is respectfully submitted that all auto rickshaws installed with fare meters have been verified by Legal Metrology Department.</p> <p>The fare meter in motor cabs did not make compulsory by the Motor Vehicle Department in the State. Hence, no motor cabs caused to be inspected by the Legal Metrology Department.</p>
8.14	<p><u>Non-registration and stamping of water meters</u></p> <p>Legal Metrology Department is engaged in verifying the correctness of the calibration of the weighing and measuring instruments. Section 24 of the Standards of Weights and Measures (Enforcement) Act, 1985 and Rules made thereunder insists that every weight or measure used or intended to be used in any transaction shall be verified/re-verified and stamped at least once in a year. The fee payable for the verification is Rs.25 per piece.</p> <p>We test checked the data collected from the LMD, Thiruvananthapuram for the period 2004-2009 and found that the fee realisable for 52,96,116 water meters during the said period was Rs.13.24 crore which was not realised due to non-verification of meters. This resulted in non-realisation of Rs.13.24 crore, besides allowing scope of tampering the meters leading to further recurring loss. We reported the matter to the department in April, 2010 and the Government in June, 2010. We have not received their replies (December 2010).</p>	<p>There is no production of water Meters within the State of Kerala for the last 8 years. Those water meters which are being used are the products of other States and is marketed only after original verification by the manufacturers. Further verification in this regard is unwarranted. It is not practically viable to dismantle and bring it to the centres of Legal Metrology for re-verification.</p> <p>There is no willful latches from the part of the Legal Metrology Department in verification and re-verification of water meters.</p>

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