



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)**

THIRTY SEVENTH REPORT

(Presented on 28th January, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2014

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On

**Kerala Transport Development Finance Corporation based on the
Report of the Comptroller and Auditor General of India
for the year ended 31st March, 2009 (Commercial)**

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Smt. Lima Francis, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2011-2014) having been authorised by the Committee to present the Report on their behalf, present this Thirty Seventh Report on Kerala Transport Development Finance Corporation based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2009 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009, was laid on the Table of the House on 25-3-2010. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2011-2014.

This Report was considered and approved by the Committee at the meeting held on 17-7-2013.

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

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

Thiruvananthapuram,
28th January, 2014.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT

KERALA TRANSPORT DEVELOPMENT FINANCE CORPORATION

AUDIT PARAGRAPH

The Company formed with the main object of financing Kerala State Road Transport Corporation and to assist other transport undertakings started (October 2001), a direct lending scheme to transport operators in Kerala viz., Small Road Transport Operators (SRTO) loans scheme, as proposed by Shriram Investments Limited (SIL), Chennai, engaged in arranging finance for heavy commercial vehicles. According to the agreement (October 2001) with SIL, the Company was to finance 100 per cent of invoice price of chassis of vehicles and 75 per cent of body building cost of new vehicles and 50 per cent of assessed value of used/second hand vehicles with 25 per cent margin money, based on the select list of borrowers prepared by SIL.

The loans in respect of new/used vehicles were to be repaid in sixty/forty eight, Equated Monthly Instalments (EMI) commencing from the end of second month of sanction of loan. The rate of interest at the time of sanction of loan remained unchanged throughout. SIL was entering into agreements with the loanees and collecting instalments from borrowers. The Company's security for loans was the corporate guarantee by SIL, personal guarantee of individual transport operator, personal guarantee by the Directors of SIL and all the vehicles financed by the Company should be hypothecated in favour of the Company and the fact noted/exhibited on the vehicles.

According to the agreement (Clause 9), SIL was entitled to collect service charge not exceeding three per cent and ten to twenty per cent of loan amount as security deposit from the borrowers. In order to make transactions between the borrower and SIL transparent, SIL requested (October 2003) the Company to enhance the rate of interest on loans from 12.5 per cent to 14.5 per cent with effect from November 2003. This difference of 2 per cent was proposed to be treated as service charges and passed on to SIL, after the remittance of loans in full by SIL. The agreement with SIL was modified accordingly (October 2003).

The Company disbursed loans amounting to ₹ 125.77 crore (₹ 55.90 crore during October 2001 to October 2003 and ₹ 69.87 crore during November 2003 to April 2006). SIL received a commission of ₹ 2.34 crore during November 2003 to April 2006 and also collected security deposit as per agreement terms amounting to ₹ 5.59 crore (October 2001 to October 2003).

Audit noticed that despite deciding to stop the collection of 20 per cent of the loan amount as security deposit from borrowers and limit the service charges

to 2 per cent only (with effect from November 2003) by increasing the rate of interest and collecting the same in instalments from borrowers, the Company failed to ensure that, SIL was not collecting security deposit from borrowers because of lack of monitoring of loan agreements with ultimate borrowers. Further, SIL changed the moratorium period from 60 days to 30 days without the knowledge and approval of the Company. The agreements entered between the Company and the loanees were also not made available to Audit. Two cases where complaints were registered with the Company only were susceptible to verification in audit, as the Company had given full freedom to SIL for dealing with the loanees. The Company also had issued (April 2005) a power of attorney relaxing the provisions of original agreement condition allowing SIL to seize the vehicles of borrowers, collection of instalments and issue of receipts etc., on behalf of the Company. The tie-up with SIL was, however, discontinued in April 2006 and the reasons for the same were not available on record.

Thus, decision to permit SIL, to directly enter into agreements with loanees and deficient monitoring resulted in non-transparent deals and undue benefit of ₹ 2.21 crore to SIL for the entire loan period of 60 months in respect of 1458 loanees for new vehicles sanctioned during 2001-2006. Potential interest income unauthorisedly received by SIL at the minimum interest rate of 7.5 per cent charged by the Company during the period for 60 months amounted to ₹ 0.83 crore in addition to ₹ 5.59 crore collected as security deposit during October 2001 to April 2006. Audit observes that appointment of a private canvassing agency in a Government financing institution for promoting SRTTO loan scheme was unjustified as it led to lack of transparency in dealings.

The Company had registered (December 2008) a complaint with the State police stating that as reported by the loanees, SIL, assumed themselves to be lenders of money and charged high rates of finance charges and are suspected to have changed the EMI amounts and requested to register a case against them.

Audit suggests that in future, when the Company embarks upon direct lending schemes to beneficiaries through marketing/canvassing agents, it should be ensured that the provisions of the agreement with the agencies are strictly enforced so that, the agency should not profit out of the scheme due to the lack of proper monitoring by the Company.

The matter was reported to Government/Management in June 2009; their reply was awaited (September 2009).

(Audit Paragraph 4.8 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009)

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

1. The Committee examined the audit observation that the appointment of a private canvassing agent–Shriram Investments Ltd., in a Government financial institution–KTDFC–for promoting SRTO Loan Schemes was unjustified as it led to lack of transparency in dealings. All the actions led to undue benefit to the agent with the use of public fund. The SIL was appointed by flouting all norms and without following any procedures. The Committee wanted to know the reason why Shriram Investments Ltd., was selected without inviting tenders or giving quotations and appointed them as agent for collecting instalment from borrowers of heavy vehicle loan. The witness informed that it was because of the fact that many Government financial institutions like KFC Co-operative Banks etc., have engaged SIL in this field and that was why the proposal of SIL was approved by the Board.

2. The Committee enquired the urgency behind the selection of the agent without inviting tender/quotations and without ensuring better proposals for the scheme. The witness replied that at that time the company had surplus fund received as fixed deposits for which the company had to pay interest and therefore the offer was accepted. The Committee felt suspicious of all dealings that the company had with SIL which were not much transparent to make one believe that no irregularities were crept in. The Committee opined that being a public sector company, KTDFC should not have entered into such a deal hastily but should have exercised some care to ensure better offer for the benefit of the company while using its own fund.

3. The Committee was surprised to find that though KTDFC had signed the agreement with SIL the entire transactions were done with Shriram Transport Finance Company. The witness failed to give a satisfactory reply to the question as to how the latter company came into the picture. The witness informed that the related files were with Vigilance and therefore they could submit only that the agreement was signed with Shriram Investments Ltd., who ensured the repayment.

4. To a question of the Committee whether prior sanction from Government was obtained before appointing SIL as agent for the scheme against existing rules, the witness replied that though sanction was received from the Government for appointing an agent, sanction specifically for SIL was not obtained. But, however, the Government had ratified the action later, the witness added.

5. The witness stated that it was done by taking into account the prevailing market demand and also informed the Committee that the agreement was for

10 years and the Shriram Company had repaid all the amount within that stipulated period of ten years. The Committee was not satisfied with the reply and opined that the decision to appoint SIL as an agent and allowing them to directly enter into agreement with the loanees and collecting security deposits and instalments from the borrowers was not a wise one. There lacked a monitoring system in the company on the activities of SIL and the company had given full freedom to SIL for the dealings with loanees. All these led to additional benefit of ₹ 2.21 crore to SIL.

6. The Committee opined that there should have been a monitoring system within the company to ensure that the amount disbursed was reaching the beneficiaries and that the agency was not taking undue benefit from the public fund. The Witness stated that due to the absence of any default but prompt repayment made by SIL and in the absence of any complaint from the loanees KTDFC did not think of a monitoring system as such and was not aware of the situation until the matter was brought to light under Right to Information Act. The Committee expressed its discontent over the reply that they took 8 years for a rethink.

7. The witness informed the Committee that during the first three years SIL was permitted to collect security deposits and commission and thereafter it was converted to EMI system at their own request.

8. The witness submitted that when an amount of ₹ 125 crore was disbursed as loans ₹ 39 crore was returned to KTDFC as interest and only 2.82 crore was issued as commission to SIL. The Audit intended that when the capital cost for ₹ 125 crore invested for 10 years was taken into account, the amount of ₹ 39 crore received as interest was considered to be a meager one.

9. The witness informed that for the first year cost of fund was calculated as 11.25 % while the interest charged was 15 %. During the first three years, SIL had collected the service charge directly from the borrowers and later KTDFC informed SIL that they would give service charge to them instead of collecting from borrowers. When the Committee sought the reason for shifting the collection of service charge from borrowers to KTDFC the witness explained that at first the business was a monopoly of Shriram Company and later new players entered the scene and then the loanees disagreed to pay security deposit and 3 % Commission as one time payment.

10. The Committee observed that there was irregularity in the selection of SIL, changes made in the agreement and in granting permission to another company to operate the business.

11. The Committee enquired the reason for stopping the operation of the company abruptly in April 2006. The witness failed to give a satisfactory reply and informed that major files pertaining to this case was with the Vigilance. The Committee expressed its displeasure that it was the obligation of the Company to take copies of relevant documents before forwarding the same to Vigilance Department.

12. The witness informed the Committee that, during that period there was some disruption and some files were found missing and hence they could not furnish the details.

13. The Committee opined that the Company should have compared the amount received as interest with the amount that would have been obtained if it were fruitfully utilized for other purpose. The Committee added that the reply furnished by the Government was not sufficient to clear the objections raised in the audit and therefore the request of the Government to drop the audit paragraph was not tenable. Hence the Committee recommended that the matter should be included in the ongoing vigilance enquiry.

Conclusions/Recommendations

14. **The Committee is of the view that the hasty selection of SIL by KTDFC as its agent and lack of monitoring system within company have contributed much to get undue benefit of ₹ 2.21 crore by SIL. The Committee expresses its displeasure over the appointment of a private canvassing agent, SIL, by KTDFC hastily without inviting tenders or giving quotations. It seems very suspicious about the dealings which the Company had with SIL as it lacks transparency. The Committee opines that being a Public Sector Undertaking, the KTDFC authorities should have shown much prudent in its investment decisions to ensure better offer for the benefit of the Company while using its own fund. The Committee recommends that the Functional Manual of Procedure of the Company should be updated so as to adopt the latest best practices prevailing in the field.**

15. **The Committee remarks that it was not wise on the part of KTDFC to allow SIL to directly enter into agreement with the loanees and to collect security deposits and instalments from the borrower. It is observed that laxity on the part of KTDFC to have an effective monitoring system prompted the SIL to exercise full freedom in dealing with the loanees there by enabling them to make additional benefit of ₹ 2.21 crore at the expense of KTDFC. So the Committee recommends that the Company should have an effective monitoring system to ensure that the amount disbursed reaches the beneficiaries and the agency did not make undue benefit using Company's fund.**

16. **The Committee finds many irregularities like changes in the agreement, granting permission to another company to operate the business of SIL etc. The Committee expresses its dissatisfaction over the reply furnished by the Government and remarks that the reply is not sufficient to clear the objections raised in the Audit and therefore the reply of the Government is not tenable to the Committee. The Committee recommends that the matter should strictly be included in the ongoing vigilance enquiry.**

17. **The Committee also recommends that it should be made mandatory on the part of the department to take copies of all relevant documents related to vigilance cases before handing over the original files to Vigilance Department for enquiry. The Committee expressed its displeasure and discontent over the reply furnished by Government on audit para and the overall performance of the Corporation. The Committee opines that the Corporation had failed to serve the very purpose of its establishment, since it had deviated from the main objective of financing Kerala State Road Transport Corporation for purchase of vehicles and to assist other transport undertakings.**

AUDIT PARAGRAPH

The Company was formed with the main object of financing Kerala State Road Transport Corporation for purchase of vehicles and to assist other transport undertakings. Grant of personal housing finance and personal loan schemes are the sub-objectives of the Company. The Company launched (February 2005) a new housing scheme viz., Aiswarya Griha Housing Finance Scheme and decided (March 2005) to appoint Direct Marketing Agents (DMA) for promotion and canvassing genuine and needy customers for the housing scheme, in places where the Company was not having branches. Based on applications invited (March 2005), through advertisements, the Company short listed two firms viz., H-Worknet and Powerlink Services (P) Ltd. (Powerlink).

Both the firms, although did not possess the minimum desired experience of five years in marketing housing loans of Nationalised and other Commercial banks, were issued appointment letters (September 2005) which were prima facie managed by same persons and closely related to each other. As per the agreement entered (October, November 2005) with the DMAs for a period of three years, commission was payable at specified rates (half per cent to one per cent) on the loan canvassed in different slabs (₹ 10 lakh to ₹ 50 lakh and above).

The Board of the Company authorised (August 2005) the Managing Director (MD) only to appoint the two firms as DMAs, for housing loan schemes, but the MD appointed (February 2006) the two firms as canvassing and verification agents of housing and other loans as well, with a commission of

₹ 500 per file for housing, vehicle and consumer durable loans etc., and ₹ 300 per file for personal loans exceeding the delegated authority/powers. The DMAs were paid ₹ 40.96 lakh, as commission (₹ 37.26 lakh) and as verification charges (₹ 3.70 lakh) during the four years 2005-08 (up to November 2008).

Audit noticed (January 2009) that the Company had not fixed any monthly or region-wise target for DMAs and continued paying commission and verification charges without assessing the usefulness of their services. The Company should have been aware that using the DMAs for verification of loan applications would create conflict of interest as the verification process was the integral function of the Company. Thus, the Officers of the Company had failed in protecting the financial interest of the Company. Out of ₹ 75.32 crore loan disbursed (2005-09), ₹ 55.97 crore (74 per cent) in 45 cases was DMAs' share and out of this, 37 cases involving ₹ 49.56 crore were in Thiruvananthapuram district only, where, the head office of the Company was situated. The business generated by the two DMAs in other eleven districts of the State was only ₹ 6.41 lakh (11.45 per cent) defeating the very objective of appointing the DMAs, viz., expanding the customer base to districts where Company was not having branches.

It was also noticed that the directors of both the firms had availed (2006-07) housing loan of ₹ 90.39 lakh. In addition to the above, Powerlink Builders, with the same address of Powerlink Services also was granted (2007-08) housing loan of ₹ 2 crore. Aggregate amount of commission paid to the two DMAs on these three loans (₹ 2.90 crore) amounted to ₹ 2.90 lakh. Audit observes that the decision to appoint a marketing agency for canvassing loans by a Government Company by appointing two firms was not a transparent step. The DMAs selected were unqualified and inexperienced firms having partners/directors closely related to each other. Permitting, these DMAs to canvass and verify the documents of borrowers, to do business at places where Company, itself had its head office, without any strong business objective resulted in conflict of interest as well as wasteful expenditure of ₹ 40.96 lakh by way of commission and verification charges. On being pointed out by Audit (January 2009) the Government issued directions (February 2009), to stop payment of commission to DMAs in places where the Company had branches, and the direction was implemented with immediate effect.

The Government stated (July 2009) that the appointment of marketing and verification agents was as per Board resolution and there was no default in repayment of loan given to directors of DMA firms though the directors/partners of two firms appointed as marketing/verification agents are related persons. The reply of the Government is not convincing as the final Board decision

on 23rd March, 2005 was to appoint the two firms as Direct Marketing Agents alone and the audit contention of appointment of one and the same firm as marketing agent as well as verification agent was against the financial interest of the Company has not been contested. Thus the Officers of the Company failed to protect the financial interest of the Company and major share of business canvassed by the two firms was from the place where the head office of the Company is situated giving them undue advantage by abdicating their own responsibility.

Audit suggests that the Management/Government should take immediate steps to fix the responsibility for this act and direct to recover the undue benefits passed on to the DMAs and should appoint DMA firms after due diligence.

(Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009)

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

18. The Committee questioned the appointment of M/s H-Worknet and M/s Power link who were not qualified, inexperienced and prima facie managed by persons closely related to each other, as Direct Marketing Agents (DMA), for canvassing and verification of KTDFC finance scheme. The witness informed the Committee that the firms were qualified as per available official records and also they had the experience of 6 to 9 years. The Committee expressed its displeasure on the remarks of the witness as the firms themselves had claimed only three years experience in their application and as per the records of the company. The Committee was not convinced with the reply submitted by the witness to justify the appointment of DMA with the argument that the firms had 5 years of experience. The witness informed that the information was based on Agenda notes and stated that it was difficult to collect the details as all the related files were missing.

19. The Committee enquired how the 3 years experience shown in the application became 5 years experience when the Agenda notes were prepared. The Committee noticed that there were defaults in the repayment of loans and the Paramount Company alone had committed 9 defaults in repayment. The witness informed that Paramount had approached KTDFC to reschedule the loans as they were not informed of the changes in the rate of interest. It was informed that the request for rescheduling of the loan was pending for consideration of the Board and they had to pay 2% penal interest when the loan was rescheduled. It was further informed that original loan to Paramount was issued at 7.75% interest rate and later it was changed to 14.75%. The witness stated that the default in the

repayment occurred when they challenged the hike in the interest rate in the Court.

20. The Committee was surprised to find that the normal rate of interest charged by similar financial institutions for housing loans range between 14.5 % to 16.5 % as against 7.75 % charged by KTDFC. The Committee expressed its disapproval of the fact that despite KTDFC was formed with a view to finance KSRTC for the purchase of vehicles, the company even charged 16.25 % interest on loans to KSRTC. Responding to a question of the Committee it was informed that the Company had only 5% NPA against the private borrowers and no NPA to KSRTC. The witness also informed the Committee that the total amount issued to private parties amounted to ₹ 57.48 crore.

21. The Committee could not understand the justification of issuing soft loan under housing loan category to builders when 16.5 % interest was charged against them in normal condition. The Committee enquired whether KTDFC had the mandate for subsidising loans, which were borrowed at higher rates.

22. The Committee observed that 75 % of loans were disbursed in Thiruvananthapuram and that the business generated by DMAs from 11 districts other than Thiruvananthapuram, Ernakulam and Kozhicode was only a meager amount of ₹ 6,41,000 when the main objective behind their appointment was marketing the company's scheme in the districts, where the company had no branches. The Committee also learned that the Managing Partner in H-Worknet Company and the director in Powerlink Company were closely related persons. In these circumstances the Committee recommends that the matter should be included in the ongoing vigilance enquiry.

Conclusions/Recommendations

23. The Committee finds a lot of irregularities and lack of transparency in the appointment of direct marketing agents for canvassing and for verification of KTDFC Finance Scheme. The committee suspects ulterior motives behind the appointment of unqualified inexperienced firms managed by persons closely related to each other as direct marketing agents and verification agents.

24. The Committee finds impropriety in the rescheduling of loans and defaults in loan repayments and also in issuing soft loans under housing loan category to builders when 16.5% interest rate was charging against them in the money market. The committee feels clear evidence of financial manipulation and impropriety in the functioning of the Company.

25. **Considering the importance of the case the Committee also recommends that the matter should be included in the ongoing vigilance enquiry and responsibility for the irregularities be fixed and the losses be recovered from the concerned.**

26. **The Committee observes that though the main objective of appointing DMA was to generate business where the Company had no branches, the Company failed to attain the same as the business generated in the 11 districts was meager as against the commission paid to them. The Committee recommends that DMA firms should be appointed with due diligence fixed with monthly or region-wise targets and ensured that the very purpose of their appointment is served. The Committee recommends that the existing interest rate should summarily be changed to meet the genuine financial needs of the society. The Committee further recommends that Kerala Transport Development Finance Corporation and other financial institutions in the public sector should follow uniform pattern in interest and impose ceiling on interest rate.**

AUDIT PARAGRAPH

The Company decided (October 2005) to allot shops and office space on lease and invited tenders (July 2006). Reliance Retail Limited (RRL) which submitted their bid (August 2006) for an area of 4411.60 square feet for a lease rent of ₹ 1.11 lakh per month, was allotted (August 2006) the space for 3 years from 7th December, 2006 to 6th December, 2009. RRL also remitted the security deposit of ₹ 1.11 crore.

Government of Kerala, meanwhile, directed (December 2007) the Company to revoke the agreement with RRL and it consequently terminated the agreement (June 2008). However, RRL requested (January 2008) the Company either to allow them to operate with the approval of Government of Kerala or to refund the entire security deposit along with entire rent paid. The Company returned the security deposit of ₹ 1.11 crore along with rent of ₹ 15.92 lakh (net amount after adjusting TDS deducted by RRL) for the period from January 2007 to June 2008 while neither the directives of State Government nor the lease agreement contained provision for refund of rent collected for the period of occupation in case of premature termination of the agreement by the lessor.

This decision of the Company to refund the rent for the period of 18 months during which RRL occupied the premises did not follow the principle of *quid pro quo* and caused it a loss of ₹ 15.92 lakh.

Management stated (June 2009) that the agreement had not envisaged anything in such a peculiar condition. This showed that the agreement was not properly drafted by envisaging all the possibilities.

The matter was reported to Government in April 2009; their reply was awaited (September 2009).

(Audit Paragraph 4.10 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009).

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

27. On enquiry of the Committee regarding the reasons behind the audit objection, the witness informed that KTDFC had executed an agreement with Reliance Retail Ltd. (RRL), for leasing an area of 4411.60 square feet in their building Trans Towers at Thiruvananthapuram. RRL had remitted the security deposit of ₹ 1.11 crore for the purpose. Meanwhile, Government had directed KTDFC to revoke the agreement with RRL and to vacate them from the building.

28. The witness informed the Committee that KTDFC had to agree to refund the rent for the period of 18 months along with the security deposit, as they were not at fault of any violation of the lease agreement with the Company.

29. The witness brought the attention of the Committee that, they had earned ₹ 30 lakh as interest from the security deposit of RRL by disbursing the amount @ 14.25% interest to borrowers. He added that, if the said amount was borrowed, they would be charged with an interest rate of 10.25% for the amount. The witness also informed that at present the area was occupied by Kerala State Insurance Department on rent, and the security deposit collected from them was only 10 times the rent.

30. When the Committee enquired whether the building was fully occupied, it was informed that 15% of the total area was yet to be released. It was also stated that KTDFC was unable to pay the interest on loan from the rent collected as it was short by 10% of the interest to be paid. The Committee was of the opinion that the situation could have been avoided if they had better marketing system. Based on the reply furnished by the Government and remarks of witness present, the Committee decided to drop the objection raised in the audit paragraph.

Thiruvananthapuram,
28th January, 2014.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	14	Transport	The Committee is of the view that the hasty selection of SIL by KTDFC as its agent and lack of monitoring system within company have contributed much to get undue benefit of ₹ 2.21 crore by SIL. The Committee expresses its displeasure over the appointment of a private canvassing agent, SIL, by KTDFC hastily without inviting tenders or giving quotations. It seems very suspicious about the dealings which the Company had with SIL as it lacks transparency. The Committee opines that being a Public Sector Undertaking, the KTDFC authorities should have shown much prudent in its investment decisions to ensure better offer for the benefit of the Company while using its own fund. The Committee recommends that the Functional Manual of Procedure of the Company should be updated so as to adopt the latest best practices prevailing in the field.
2	23	„	The Committee finds a lot of irregularities and lack of transparency in the appointment of direct marketing agents for canvassing and for verification of KTDFC Finance Scheme. The committee suspects ulterior motives behind the appointment of unqualified inexperienced firms managed by persons closely related to each other as direct marketing agents and verification agents.
3	24	„	The Committee finds impropriety in the rescheduling of loans and defaults in loan repayments and also in issuing soft loans under housing loan category to builders when 16.5% interest rate was charging against them in the money market. The committee feels clear evidence of financial manipulation and impropriety in the functioning of the Company.

(1)	(2)	(3)	(4)
4	25	Transport	Considering the importance of the case the Committee also recommends that the matter should be included in the ongoing vigilance enquiry and responsibility for the irregularities be fixed and the losses be recovered from the concerned.
5	26	„	The Committee observes that though the main objective of appointing DMA was to generate business where the Company had no branches, the Company failed to attain the same as the business generated in the 11 districts was meager as against the commission paid to them. The Committee recommends that DMA firms should be appointed with due diligence fixed with monthly or region-wise targets and ensured that the very purpose of their appointment is served. The Committee recommends that the existing interest rate should summarily be changed to meet the genuine financial needs of the society. The Committee further recommends that Kerala Transport Development Finance Corporation and other financial institutions in the public sector should follow uniform pattern in interest and impose ceiling on interest rate.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

**Action Taken Statement on the Report of the
Comptroller and Auditor General for
the year ended on 31st March, 2009**

<i>Sl. No.</i>	<i>Audit Paragraph</i>	<i>Reply furnished by the Government</i>
(1)	(2)	(3)
1	4.8	<p>Now KTDFC is not engaging canvassing agents at the cost of Corporation for canvassing loans. Prospective loanees are being identified/canvassed by the branches of KTDFC.</p> <p>Under these circumstances further action on the audit enquiry may kindly be dropped.</p>
2	4.9	<p>Board of Directors in the 76th meeting held on 23-3-2005 vide Agenda Item No. 1380 resolved that “the Managing Director of the Company be and is hereby authorised to invite a panel of specialized agencies for obtaining their services for canvassing and verification work of KTDFC finance schemes and shortlist them for selection and to fix the charges payable to the specialised agencies for canvassing and verification works of KTDFC finance schemes”.</p> <p>The Board further resolved that “the above mentioned short listed panel should be placed before the Board of Directors for making final appointment thereon” and the Board of Directors also authorised “The Managing Director to take up necessary actions for implementing the above decision”.</p> <p>Based on that in the 78th Board Meeting held on 30-8-2005 vide item No. 14333 Board resolved that “the Managing Director to appoint M/s H-Worknet, Kumarapuram, Medical College P.O., Trivandrum and M/s Powerlink, T.C. 14/1017, Opp. Trivandrum Club, Vazhuthacaud, Trivandrum who satisfied the</p>

(1)	(2)	(3)												
		Pre-qualification condition as DMAs of the KTDFC Loan Schemes”.												
		Further resolved that “the following persons/ agencies be and are hereby appointed as DMA for mobilizing the Housing Loan Scheme of the Company under the following commission structure:												
		<table border="1"> <thead> <tr> <th style="text-align: center;"><i>Slabs/Month</i></th> <th style="text-align: center;"><i>Payout (% of the loan amount)</i></th> </tr> </thead> <tbody> <tr> <td>Up to ₹ 10 lakh</td> <td>0.50%</td> </tr> <tr> <td>₹ 11 lakh to ₹ 20 lakh</td> <td>0.60%</td> </tr> <tr> <td>₹ 20 lakh to ₹ 30 lakh</td> <td>0.75%</td> </tr> <tr> <td>₹ 30 to ₹ 40 lakh</td> <td>0.85%</td> </tr> <tr> <td>₹ 40 to ₹ 50 lakh</td> <td>1.00%</td> </tr> </tbody> </table>	<i>Slabs/Month</i>	<i>Payout (% of the loan amount)</i>	Up to ₹ 10 lakh	0.50%	₹ 11 lakh to ₹ 20 lakh	0.60%	₹ 20 lakh to ₹ 30 lakh	0.75%	₹ 30 to ₹ 40 lakh	0.85%	₹ 40 to ₹ 50 lakh	1.00%
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		From the approved list, based on the decision of Agenda Item No. 1380, since the procedure was initiated for all finance schemes of KTDFC, the Company appointed M/s H-Worknet and M/s Powerlink for the work of other schemes also. Moreover in the minutes of Agenda Item No. 1433 nowhere it is stated that the Direct Marketing Agents are for Housing Loan Scheme to District where it had no branches. Hence, it is concluded that these two agencies were appointed as per the resolution of the Board and the company paid commission as per the rates approved by the Board.												
		As regards the specific cases of 21/HL and 28/HL in which it is pointed out that there is default in cases for loans for verification done by the DMA’s, actually in both these cases, there is no default as on date. Moreover, as per the clause in Section 8 Penalties of the agreement executed by KTDFC with the DMA, in the event of default by the loanee, canvassed by the Agent, if it is proved that the said default has occurred due to a collusion between the												

(1)	(2)	(3)
		<p>said loanee and the Agent, penal interest charge of 2%p.m. on the defaulted EMI/amount will be chargeable after the said loan has become NPA as per RBI regulation, and will be recovered form the service fee of the Agent. These clauses are there in the agreement both for marketing as well as verification. The basic agreements to be used for marketing and verification was vetted and approved by the Law Department and the details of the same are available in the file.</p> <p>In such circumstances, it is clear that appointment of the DMA's for marketing and verification was through the Board Resolution and there is no default in repayment in the specific cases of 21/HL (Shri Salim, V.F.) and 28/HL (Shri Sreekumar, V.). However, it is learned that name of managing partner in H-Worknet application (Rashmi Ajith, Kaveri, Kadappakkada, Kollam) and the name of director in Powerlink application (R. Ajith, Kaveri, Kadappakkada, Kollam) are related persons (Husband and Wife).</p>
3	4.10	<p>It is true that the Company decided (October 2005) to allot shops and offices in Trans Towers on lease and invited tenders (July 2006). Reliance Retail Ltd., submitted their bid (August 2006) for an area of 4411.60 square feet in Level-1 in Trans Towers for a lease rent of ₹ 1,10,700 per month and was allotted (August 2008) space for three years for 7th December, 2006 to 6th December, 2009 having quoted the highest amount of lease rent. M/s RRL executed lease agreement (December 2006) and remitted the security deposit of ₹ 1,10,70,000 RRL was regular in remitting rent since January 2007.</p> <p>Government has directed (December 2007) to revoke the agreement with RRL and consequently, the Company terminated the agreement (June 2008) and returned the security deposit of ₹ 1,10,70,000 along</p>

(1)	(2)	(3)
		<p>with a rent (after adjusting TDS deducted) of ₹ 15.92 lakh for the period from January 2007 to June 2008. The lease agreement did not contain provision for refund of rent collected for the period of occupation in case of premature termination of the agreement. However to get RRL vacated from the building KTDFC had to agree to refund the rent for the period of 18 months during which RRL occupied the premises also along with the security deposit.</p> <p>M/s Reliance Retail had executed agreement on 7th December, 2006 for allotment of space 4411.60 square feet at Level-1 in Trans Towers by depositing ₹ 1,10,70,000 (Rupees One Crore Ten Lakh Seventy Thousand only) as security deposit and at a monthly rent of ₹ 1,10,700 (Rupees One Lakh Ten Thousand and Seven Hundred only) for a period of 3 years ending on 6-12-2009. They had invested an amount nearly ₹ 1 crore towards the interior works. As per the terms and conditions of lease agreement KTDFC have the right to terminate the agreement only if any of the terms and conditions of the agreement or the conditions of the tender document are violated by the lessee, such as, (1) If the lessee sublet or handover possession of the leased premises under any circumstances to any person, (2) If the shop/space is utilised for any activities other than the purpose for which it has been leased out or (3) If any of the terms and conditions of the agreement or the conditions of the tender documents are violated. Here in this particular case such a violation has not happened KTDFC being a Government Organisation, is bound to implement the orders of Government as and when issued.</p> <p>By letter No. KTDFC/Admn./07 dated, 4-1-2008 KTDFC had communicated to RRL the Government decision to revoke the agreement with them and served notice on them to vacate the space within</p>

(1)	(2)	(3)
		<p>30 days from the date of issue of the notice. In reply by letter dated, 10-3-2008 they informed their willingness to terminate the agreement and requested KTDFC to return the security deposit and rent paid by them. KTDFC Board considered all aspects involved and decided to return to RRL the security deposit and rent already received from them and get the space vacated without delay (agenda item No.11/100 of the Board meeting held on 4-7-2008). It is under the above circumstance that the security deposit and rent received from M/s RRL was returned to them. But it is to be appreciated that RRL had not claimed their investment and interest for the entire amount as a precondition for vacating the space even though they were not at fault of any violation of the lease agreement with KTDFC.</p>
		<p>KTDFC has suffered a loss on this account but it is as a result of the policy decision of the Government. Under the circumstance it is requested that the audit observation on this issue may be dropped.</p>
