THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)

SIXTY FIFTH REPORT
(Presented on 11th December, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2014

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On

Kerala Police Housing and Construction Corporation Limited
based on the Report of the Comptroller and
Auditor General of India for the years ended
31-3-2006, 31-3-2007 and
31-3-2009 (Commercial)

64/2015.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-2016) having been authorised by the Committee to present the Report on their behalf, present this Sixty Fifth Report on Kerala Police Housing and Construction Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2006, 2007 and 2009 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended on 31-3-2006, 31-3-2007 and 31-3-2009 were laid on the Table of the House on 28-3-2007, 26-2-2008 and 25-3-2010 respectively. 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 19-11-2014.

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

The Committee wish to express their thanks to the officials of the Home Department of the Secretariat and Kerala Police Housing and Construction Corporation Limited 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, Home and Finance Department and the officials of Kerala Police Housing and Construction Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

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

Thiruvananthapuram,
11th December, 2014.

REPORT

KERALA POLICE HOUSING AND CONSTRUCTION CORPORATION LTD.

AUDIT PARAGRAPH

4.10 Avoidable Financing Cost

The Company undertakes construction of buildings for Government of Kerala on 'no profit no loss basis'. It had been availing loans from Housing and Urban Development Corporation (HUDCO) and other financial institutions. Such loans were guaranteed by the State Government and the Company was exempted (May 1993) from payment of guarantee commission until the exemption was revoked (October 2004) in pursuance of the Kerala Ceiling on Government Guarantees Act, 2003. The Company availed loans (1999) of ₹ 6.82 crore and ₹ 50 lakh from LIC Housing Finance Limited (LHFL) bearing an interest rate of 11 per cent per annum.

The Company received (April 2004) an offer from HUDCO stating their willingness to takeover other loans of the Company at a reduced interest rate of 8.75 per cent per annum. The Board of Directors of the Company, however, took nearly a year to decide (March 2005) to permit HUDCO to takeover the two loans. The Government approval for transferring the Government guarantee in favour of HUDCO was sought for in April 2005. The approval was not granted since the company had to remit the outstanding guarantee commission consequent to the revocation (October 2004) of exemption. If the Company had acted upon HUDCO's offer in time when the exemption from payment of guarantee commission was available (April to October 2004) necessary transfer of guarantee would have materialized and financing cost would have reduced by 2.25 per cent per annum during September 2004 (being the quarter immediately succeeding the one in which the offer was received) to March 2006.

Thus, delay on the part of the Company in acting upon the offer of HUDCO for taking over existing loans at reduced interest rates resulted in avoidable financing cost of ₹ 15.60 lakh (March 2006).

The matter was reported to the Government in April 2006; their reply is awaited (August 2006).

[Audit Paragraph 4.10 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2006.]

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

1. At the outset the Committee desired to be informed about the reasons for not acting upon HUDCO's offer in time when the exemption from payment of guarantee commission was available. The witness explained that the Corporation had availed the existing loan from LIC Housing Finance Ltd. and therefore a No Objection Certificate was required from LIC for the takeover of the loan by HUDCO. From the scrutiny of the available records and calendar of events it was revealed that there was no purposeful delay on the part of the Corporation in acting upon HUDCO's offer as it had taken prompt steps in informing LIC regarding the offer of some financial institutions to takeover the loans with better options. But instead of issuing clearance the LIC Housing Finance Ltd. offered to waive the additional interest levied upon KPHCC and to reduce the interest rate to 15%.

2. The witness further clarified that the delay projected in the audit objection occurred mainly in obtaining the NOC from LIC as they took almost 8-9 months to issue the clearance letter. On receiving the same on 23-12-2004 it was placed in the very next board meeting. But unfortunately the anticipated financial gain could not be availed as HUDCO had increased the interest rate to 10.75% and in the meantime Ceiling Act was also implemented in 2004.

3. The Committee took on board the fact that the delay in acting upon the offer of HUDCO was due to the non-availability of NOC from LIC and remarked that the Corporation should be more vigilant and should take prompt action in its future activities.

Conclusions/Recommendations

4. **The Committee finds that contrary to the audit objection, prompt actions were taken by KPHCC to avail the benefit of reduced interest rate offered by HUDCO. The Committee is of the view that had LIC, the primary lender, issued the No Objection Certificate in time, the Corporation would have availed the lower interest benefit offered by HUDCO. Moreover the**

implementation of Ceiling Act and subsequent increase in interest rate by HUDCO hindered the Corporation to avail the said benefit. The Committee remarks that the Corporation should be vigilant to foresee similar situations in its activities and should formulate steps to overcome such situations in future.

4.5 Avoidable committed liability

The Company was entrusted (September - December 2002) with the work of construction of nine District Police Lines in the State under the 'Modernization of Police Force Scheme' of Central Government. The Company received (January and October 2003) State Government share of funds (₹ 6.53 crore) for this purpose and the works were to be completed (September 2005) within one year of the receipt of funds.

As per the soil investigation report (November 2003), the site proposed in Pathanamthitta district required earth filling before commencement of construction works. The Company, however, invited (May 2004) tenders for the construction of buildings without arranging for earth filling works which was a pre-requisite for commencement of construction. The construction was awarded (June 2004) to Soj Associates at a contract price of ₹ 1.27 crore and the stipulated period of completion was 10 months. Since the site was not handed over even within the stipulated period of completion, the Company, as requested (May 2005) by Soj Associates, relieved (June 2005) them from the contract. Subsequently the work was re-tendered (October 2005) and the contract awarded (December 2005) to Travancore Engineers and Contractors (TEC), Pathanamthitta at a higher price of ₹ 1.48 crore with a period of 14 months for completion.

It was observed that earth filling which was the first requirement for commencing the construction work took more than three years (December 2003 to December 2006) after obtaining soil investigation report and completed (December 2006) belatedly due to inadequate planning, award of work without agreement leading to non-commencement/abandoning the work and non-stipulation of period of completion in the work orders.

The site was handed over to the contractor in January 2007. The construction work had not been completed so far (May 2007). The additional financial commitment due to re-tendering of the work amounted to ₹ 21 lakh.

Thus, abnormal time taken for earth filling works despite availability of funds resulted in avoidable increase in contract cost by ₹ 21 lakh besides postponement of implementation of the scheme for modernization of police force.

The Management stated (June 2007) that the earth filling work which was originally proposed to be done departmentally could not be undertaken due to non-availability of earth locally and hence the work was done through another agency. The reply is not tenable, since the development of site was a pre-requisite for starting construction which was taken up (December 2004), only after a delay of more than one year since receipt (November 2003) of soil investigation report indicating absence of co-ordination of various activities of the project.

The matter was reported to the Government (May 2007); the reply had not been received (August 2007).

[Audit Paragraph 4.5 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2007.]

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

5. The witness informed the Committee that the Corporation was entrusted with the work of construction of nine District Police Lines in the State under the Modernisation of Police Force Scheme of Central Government. The Audit objection was regarding the construction in Pathanamthitta which was included under this scheme in 2004. The witness stated that as per soil investigation report the proposed site was a paddy field which required earth filling before the commencement of construction works. The KPHCC invited tenders for the construction work but earth filling was not included in it and tender was awarded to Soj Associates. Later when the site was handed over without earth filling, Soj Associates demanded an exorbitant rate for the filling work and hence the Corporation was forced to entrust the work to another contractor.

6. On enquiry of the Committee regarding the reason for handing over the site without earth filling the witness replied that the proposed site was a water logged area owned by Municipality. The earth filling was initially proposed to be done departmentally but it could not be materialized due to non-availability of earth

locally. As the construction of by-roads in Pathanamthitta was in progress during the said period huge quantities of earth was required for that purpose and it resulted in the shortage of earth which was pointed out to be the main reason for the delay in earth filling. He also added that had the Corporation failed to undertake the earth filling by then the completion of the work would have spilled over to 2010. Hence the loss occurred in this audit para could be considered as hypothetical.

7. When the Committee desired to be informed about the present stage of the work, the witness informed that all the works had been completed except electrical work and assured that the Corporation would take necessary steps to avoid such delays in future.

Conclusions/Recommendations

8. **The Committee observes that the delay in handing over the site, non-inclusion of earth filling in the tender conditions, scarcity of resources and absence of co-ordination of various activities of the project etc. have led to the non-completion of the work of construction of nine District Police Lines within the stipulated time. The Committee observes that the Corporation was well aware of the fact that the proposed site for construction was a waterlogged area which necessitated earth filling but the Corporation willfully ignored this vital pre-requisite before handing over the site for construction which has resulted in undue delay in the completion of work and an avoidable financial burden. The Committee recommends that before the commencement of a project a detailed plan and schedule of works should be prepared and adhered to, so that such incidents will not recur in future. The Committee also remarks that the Corporation should be more conscious and vigilant while implementing Centrally sponsored schemes in future so as to avoid under utilization of funds.**

4.6 Avoidable loss of interest

The Company was having sums ranging from ₹ 33.78 crore to ₹ 41.44 crore in call deposits with State Bank of Travancore during 2007-08, earning interest at 4.5 per cent per annum. The amounts deposited in call deposits were the withdrawals from Treasury Personal Deposits (TP) Account intended for keeping funds received towards Central/State Sponsored Schemes for modernization of police forces. The minimum monthly balance maintained in call deposits during the year 2007-08 was as given below:

Month	Amount (₹ in crore)
April 2007	33.78
May 2007	33.83
June 2007	38.33
July 2007	36.78
August 2007	38.71
September 2007	37.93
October 2007	40.66
November 2007	40.16
December 2007	44.64
January 2008	44.39
February 2008	43.39
March 2008	41.14

While the Company was withdrawing funds ranging from Rupees five crore to Rupees six crore from TP account every month, for depositing in call deposits, day-to-day expenses were met through transfers from call deposit account, of sums ranging from ₹ 0.76 crore to ₹ 5.75 crore, every month to current account with State Bank of Travancore.

Audit observed (March 2009) that the minimum balance held in call deposit account during 2007-08 was ₹ 33.78 crore and had the Company deposited at least ₹ 33 crore in fixed deposits for 180 days with bank fetching minimum interest rate of 6.75 per cent per annum, the Company would have earned additional income of

₹ 1.10 crore (after adjusting ₹ 1.13 crore actually received as interest on call deposits) during the year.

The reply of the Management (November 2008) endorsed by the Government (April 2009) stated that funds received from Government of India in respect of Centrally Sponsored Schemes are deposited in call deposits, as Clause 17 (xii) of the Articles of Association of the Company authorizes to operate only call deposits and current accounts as the funds deposited by various agencies will be required for payment of work bills of various schemes executed. The Board of Directors has already directed the Managing Directors to keep the unutilized funds in fixed deposits for a period ranging from 30 days to one year. However, as suggested by Audit, necessary amendments in the Articles of Association will be made later. The reply is not convincing as the Management failed to evaluate the actual fund requirements periodically and the deposit the surplus funds in fixed deposits fetching higher rate of interest by amending the Articles of Association following the procedure as per section 31 of the Companies Act, 1956 as Memorandum of Association [clause III B (ii) permitted the investment of surplus funds in any manner other than in shares and stock]. Thus, the Company had to forego an income of ₹ 1.10 crore. The Company should take immediate steps to amend its Articles of Association so as to safeguard its financial interests.

[Audit Paragraph 4.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009.]

9. The Principal Secretary, Home Department enlightened the Committee that there occurred no flaw on the part of KPHCC as objected by Audit and requested the Committee to permit them to enforce the recommendations suggested in the audit para. Because according to a Government circular which came into force in 1996, ‘All the heads of departments and officers and Chief Executives of Public Sector Undertakings were directed to withdraw money if any received from Government and deposited in Commercial and Co-operative banks and to deposit the same in Government treasuries. Any violation of these instructions would be viewed seriously and the officers responsible would be liable to pay interest at the rate of 18% per annum for the entire period for which the amount was kept outside

the treasury'. In the light of this circular the audit objection that the management had failed to deposit the surplus fund in fixed deposits to fetch higher rate of interest would not hold good.

10. The Committee remarked that Articles of Association was also not in favour of depositing surplus funds in banks. The witness stated that all the deposits in banks were being done as per clause 17 (xii) of the Articles of Association and the audit then suggested that this clause should be amended accordingly so that surplus funds could be deposited in banks. To a question of the Committee whether the Articles of Association or the Government circular which would prevail if they contradicted each other, the witness replied that the Articles of Association approved by Government of Kerala would prevail.

11. The witness further elaborated that all the fund management of the Corporation was done in accordance with that Articles of Association and requested that the fund management should be made more flexible so as to facilitate the payments to various ongoing works every now and then. So the Corporation generally puts the surplus money in short-term deposits with Banks.

12. To a query of the Committee regarding the type of recommendation which they prefer, the witness submitted that if a sanction from Finance Department was obtained to deposit the surplus fund of ₹ 30-35 crore available with the Corporation in fixed deposit at least for six months, the interest would be an additional income for the Corporation and added that several Government circulars and Government Order No. 442/2008/Fin. dated 8-8-2012 regarding this issue directed that the deposits of Public Sector Undertakings should be deposited in the treasury savings bank only. Considering these facts, Committee decided to recommend for an amendment to this rule so as to enable the Corporation to deposit a certain percentage of excess funds in banks for a fixed period when there is no financial crunch in the State.

13. At this juncture the Special Secretary Finance Department intervened by saying that the Corporation had to abide by the provisions in the Articles of Association as it is the Constitution of the Company. Funds given to the Corporation was in the form of grant-in-aid and should be treated as other income. So it has to be spent as per the norms set by the Government and that the

Corporation should be more vigilant in the effective utilization of the funds allotted to it annually. The Corporation is bound to obey the instructions set by the Government as Government is the sole shareholder of the Corporation.

14. The Committee opined that Corporation faced many practical difficulties in the timely utilization of funds. The witness acceded to Committee remarks and explained that the funds allotted by the Government of India was not usually at par with the cost of construction prevalent in Kerala as the labour cost and material cost were too high in Kerala as compared to that of other States and the works undertaken could hardly be completed within the prescribed time limit due to various factors. The witness reiterated that if a specific percentage of the total surplus cash could be deposited as fixed deposit, the Corporation would be able to earn 3-4 crore per month which would be an additional income for the Corporation. The Committee remarked that inordinate delay in completion of construction works undertaken by the Corporation should be avoided.

Conclusions/Recommendations

15. **The Committee finds that the Corporation could not be held responsible for not depositing the surplus funds in banks as the Government policy is not allowing deposits of surplus funds in banks. As the Government Order No. 442/08/Fin. Dated 8-8-2012 directs that the deposits of Public Sector Undertakings should be with treasury savings bank only, the Committee urges the Government to reconsider this aspect seriously and take a constructive decision in this regard for favouring the deposits in banks. The Committee also remarks that the Corporation should take steps in the effective utilization of the funds allotted to it annually.**

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

Thiruvananthapuram,
11th December, 2014.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	*Para No.*	*Department concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	4	Home	The Committee finds that contrary to the audit objection, prompt actions were taken by KPHCC to avail the benefit of reduced interest rate offered by HUDCO. The Committee is of the view that had LIC, the primary lender, issued the No Objection Certificate in time, the Corporation would have availed the lower interest benefit offered by HUDCO. Moreover the implementation of Ceiling Act and subsequent increase in interest rate by HUDCO hindered the Corporation to avail the said benefit. The Committee remarks that the Corporation should be vigilant to foresee similar situations in its activities and should formulate steps to overcome such situations in future.
2	8	,,	The Committee observes that the delay in handing over the site, non-inclusion of earth filling in the tender conditions, scarcity of resources and absence of co-ordination of various activities of the project etc. have led to the non-completion of the work of construction of nine District Police Lines within the stipulated time. The Committee observes that the Corporation was well aware of the fact that the proposed site for construction was a waterlogged area which necessitated earth filling

(1)	(2)	(3)	(4)
			but the Corporation willfully ignored this vital pre-requisite before handing over the site for construction which has resulted in undue delay in the completion of work and an avoidable financial burden. The Committee recommends that before the commencement of a project a detailed plan and schedule of works should be prepared and adhered to, so that such incidents will not recur in future. The Committee also remarks that the Corporation should be more conscious and vigilant while implementing Centrally sponsored schemes in future so as to avoid under utilization of funds.
3	15	Home	The Committee finds that the Corporation could not be held responsible for not depositing the surplus funds in banks as the Government policy is not allowing deposits of surplus funds in banks. As the Government Order No. 442/08/Fin. Dated 8-8-2012 directs that the deposits of Public Sector Undertakings should be with treasury savings bank only, the Committee urges the Government to reconsider this aspect seriously and take a constructive decision in this regard for favouring the deposits in banks. The Committee also remarks that the Corporation should take steps in the effective utilization of the funds allotted to it annually.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Sl. No.	*Audit Paragraph*	*Reply furnished by Government*
(1)	(2)	(3)
1	4.10 (2005-2006)	The Government received an offer from M/s HUDCO to takeover the existing loans of Kerala Police Housing and Construction Corporation Ltd. at lower rates of interest. M/s HUDCO offered 8.75% per annum. The Company, after consulting the Finance Department, agreed in principal to convert the loan amount of ₹ 377.45 lakh repayable to M/s LIC of India as loan from M/s HUDCO. As the formalities for conversion were in progress M/s HUDCO intimated the company that rate of interest has been raised from 8.75% to 10.75% and the company in turn intimated this to Government. In view of the above increase in the rate of interest it was realized that the conversion of the amount repayable to M/s LIC of India as loan from M/s HUDCO will not be profitable to the company but will result in loss. Therefore, it was decided not to consider the offer of M/s HUDCO.
2	4.5 (2006-07)	The design for construction of police lines in Pathanamthitta district was entrusted to the Architectural Consultants with the direction to submit the design in August 2003 itself. The consultants submitted the location plan for soil test to the company on 19-8-2003. The architectural drawing was submitted to the company on

(1)	(2)	(3)
		26-11-2003 for approval. The result of soil test was handed over to the consultants on 17-11-2003 for foundation drawing and structural design. On receipt of schedule tenders were invite on 17-5-2004 with last rate receipt of tenders as 8-6-2004. The work was awarded to M/s Soj Associates 23-6-2004. The structural design received on 25-4-2004 was approved by the company on 25-4-2004. As pile work and site leveling work which were to be done first was not completed, the approved design has not been given to the contractor. As per PWD schedule of rates at the time of tender, the cost of the work was ₹ 1,17,95,590. As per the contract, the work was to be completed within ten months. The site for the above work was paddy field of 1.5 to 1.8 meter below the road level and was marshy. The site required about 16500 m^3 of soil for leveling. M/s Soj Associates was requested to furnish the rate leveling and they quoted the PWD rate of ₹ 197/m^3. Though the company negotiated with the contractors they did not reduce the rate. If the Company had accepted the rate it would have to spend ₹ 32.5 lakh for site leveling itself. The financial position of the company did not allow it to spend huge amount for site leveling. The company's endeavors to do the work departmentally did not succeed due to non-availability of sand locally. The Superintendent of Police, Pathanamthitta District invited quotations for site leveling and the work was awarded to another agency at the rate of ₹ 98/m^3.

(1)	(2)	(3)
		In order to show reduced construction cost the work site leveling was not included in the tender schedule sent for Administrative sanction. Administrative sanction to the work was for ₹ 155 lakh. Though the contract price of the work was ₹ 1,48,12,000, the Project Engineer was directed to limit the work to ₹ 140 lakh. It is requested that the excess expenditure due to revision of schedule of rates may not be treated as excess expenditure due to delay. The delay in handing over the site, increased expenses due to revision in the schedule of rates, non-availability of materials, increase in the cost of materials are the reasons for delay in completion of work. Excess expenditure was incurred due to the above reasons and was not deliberate. It is requested that the para may be dropped.