

CHAPTER IV

4 TRANSACTION AUDIT OBSERVATIONS

Important audit findings as a result of test check of transactions of the State Government Companies/Corporations are included in this Chapter.

GOVERNMENT COMPANIES

Transformers and Electricals Kerala Limited

4.1 Avoidable expenditure due to injudicious decision

Injudicious decision of the Company to keep the prices firm and failure to protect its interest in a long term contract resulted in avoidable expenditure of Rs.28.15 crore.

In response to an enquiry made by Bombay Suburban Electric Supply Company Limited (Reliance Energy Limited (REL)) the Company quoted (May 2002) rates for the supply of three classes* of transformers with price variation clause as per Indian Electrical and Electronics Manufacturers' Association (IEEMA) formula. Subsequently, as requested by REL, the Company reduced (December 2002) the prices and at the same time made it firm. Accordingly, REL placed (December 2002) letter of intent on the Company for the supply of the three classes (four each) of the transformers at a unit cost of Rs.4.47 crore, Rs.1.58 crore and Rs.1.49 crore respectively and agreement signed (January 2003). The supply was to be completed by January 2006.

At the time of revising the prices, the Company deleted the price variation clause without considering the future increase in material cost as delivery was staggered over three years. Subsequently in view of considerable increase (2.75 to 155.87 *per cent*) in the material prices the Company requested (February 2005) REL to change the purchase order terms from firm price to variable price as per IEEMA formula, which was rejected (February 2005) by REL. The Company supplied (December 2006) 10 transformers and work on the remaining transformers was in progress (May 2007). The financial implication in respect of all the 12 transformers as worked out by the Company on account of price variation is Rs. 28.15 crore.

Thus, injudicious decision of the Company to keep the prices firm and not protect its interest in a long term contract resulted in avoidable expenditure of Rs.28.15 crore.

The Management stated (July 2007) that decision to take the order at a firm price basis was correct because price variation on raw materials was marginal during that period. The reply does not hold good since the decision to make the prices firm considering the situations prevalent at the time of taking the order against supply staggered over three years was not justifiable.

* Generation Transformers (GT), Unit Transformers (UT) and Start up Transformers

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

4.2 Avoidable extra expenditure due to incorrect bidding

Company's omission to include the cost of tower materials in the price bid submitted for a turnkey contract resulted in avoidable extra expenditure of Rs. 2.19 crore.

The Company submitted a bid (May 2000) in response to the tender invited by the Kerala State Electricity Board (Board) for the upgradation of substations and construction of transmission lines on 'turnkey' basis. The scope of the work included construction of 35.5 Km of 110 KV DC line along the existing 66 KV DC line route.

As per the tender conditions, the bidder had to submit a priced activity schedule along with the bid by duly recording the rates and prices for all items of the works. The tender conditions also provided that the rates quoted for all civil/electrical works shall include cost of materials. It was also stated that items not indicated in the schedule but required for the fulfillment of the contract shall also be deemed to have been covered by the rates and prices in the activity schedule, for which no additional payment will be made to the contractor. Moreover, the necessity for inclusion of cost of tower structure was also reiterated by the Board prior to submission of the bid. Despite this, while preparing the price schedule, the Company omitted the cost of tower structures required for the line works and the total contract price was worked out as Rs. 14.72 crore. The Board awarded (July 2000) the work to the Company since it emerged as the lowest bidder after under quoting by excluding the cost of materials amounting to Rs. 2.19 crore. But for this under quoting the Company would have emerged as the third lowest tenderer.

During execution of the work, the Company procured (June 2001-December 2004) 531 MT of tower structures for the installation of 35.5 Km of transmission line by incurring a total expenditure of Rs. 2.19 crore. The Company intimated (June 2005) the Board that due to some misunderstanding at the tendering stage, the cost of tower structure had been omitted to be included and requested for compensation. The Board had not responded to the request of the Company and its subsequent reminders (July 2007). The expenditure of Rs. 2.19 crore incurred for the procurement of tower materials would not be recoverable from the Board by virtue of the provisions of the turnkey contract resulting in avoidable extra expenditure of Rs. 2.19 crore.

The matter was reported to the Management/Government (April 2007); their replies had not been received (August 2007).

The Pharmaceutical Corporation (Indian Medicines) Kerala Limited

4.3 Delay in placement of purchase order

Failure of the Company in placement of purchase order within the stipulated period resulted in avoidable extra expenditure of Rs. 10.52 lakh.

The Company invited tenders (November 2004) for purchase of Ayurvedic raw materials required for the year 2005-06. As per the tender conditions firm rates were to be quoted for 60 days from the date of opening (January 2005) of the tender. Out of 10 bids received, the offer of Bharat Trading Company (BTC), Mumbai was lowest in respect of three items[#] and second lowest in respect of two other items* which were emergent in requirement.

The Company, however, failed to place the order within the validity period. Subsequently, after expiry (March 2005) of the validity period, order was placed (April 2005) on BTC for the procurement of five items. BTC took advantage of the delay on the part of the Company in placing the order within the validity period and withdrew (April 2005) their offer for one of the ordered items ('Kachuri'). While the Company insisted on supply at the ordered rates, BTC did not respond.

Thereupon, the Company locally procured all the five items (July 2005 to March 2006) at rates higher (5 to 111 *per cent*) than the rates offered by BTC. The additional expenditure on the local purchase worked out to Rs.10.52 lakh. Thus, failure of the Company to place purchase order within the validity period resulted in avoidable extra expenditure of Rs. 10.52 lakh.

Management's reply endorsed by the Government, stated (June 2007) that the processing of tenders was delayed since the company had to analyse the implications of Value Added Tax (VAT) and the Company had issued (2 March 2005) a letter within 60 days of offer to BTC inviting them for negotiation. It was further stated that the Company is taking steps to recover the loss from the contractor. The reply is not tenable since rates were firm and valid for 60 days with effect from 4 January 2005 as stipulated by the Company. Further, VAT was applicable only from 1 April 2005. The claims raised (September 2006) against the contractor also did not receive any response till date (June 2007).

[#] Kachoori, Peralam and Cheenathippali

* Amalporiveru and Kudakappalayari

Steel Industrials Kerala Limited

4.4 Avoidable expenditure due to deficient MOU

Furnishing performance bank guarantee by the Company without obtaining counter bank guarantee from the sub-contractor and failure of the company to execute a formal agreement with the sub-contractor resulted in avoidable expenditure of Rs.29.75 lakh.

The Company secured (March 2004) from Bangalore Electricity Supply Company Limited (BESCOM) two work orders on turnkey basis at an aggregate value of Rs. 2.97 crore for the supply, erection and commissioning of equipments in connection with the electrification of colonies in three districts of Karnataka State for completion by September 2004.

Before participating in the bid, the Company had entered (January 2004) into a Memorandum of Understanding (MOU) with Pooja Enterprises (Sub-contractor), Bangalore and Gemini Power Systems (Consultant), Bangalore exclusively for executing the project in the event of obtaining the work order from BESCOM. As per the provisions of MOU, the sub-contractor was responsible for the execution of the entire project under the guidance of the Consultant at 97.5 per cent of the value mentioned in the original work orders (Rs. 2.97 crore) and as per the terms and conditions contained therein. The MOU did not contain any provision to obtain counter Bank guarantee (BG) from the sub-contractor. As per the provisions of the agreement with BESCOM, the Company furnished (March 2004) two BGs aggregating Rs.29.75 lakh.

It was observed that the Company neither entered into a formal agreement with the sub-contractor nor availed of any counter guarantee for due performance of the work. It was also observed that there was inordinate delay in commencing (July 2004) the work by the sub-contractor after the work was awarded (April 2004). Despite repeated reminders and frequent extensions granted by BESCOM to the Company for the completion of the project, the sub-contractor completed the work valuing Rs.34.97 lakh by December 2005, the period upto which the BGs furnished by the Company remained valid. Thereafter BESCOM short closed (December 2005) the work and invoked the BGs. In the absence of a formal agreement with the sub-contractor, the Company could not initiate legal proceedings for recovery of loss.

Thus, furnishing performance BG by the Company without obtaining counter BG from the sub-contractor and failure of the company to execute a formal agreement with the sub-contractor resulted in avoidable loss of Rs.29.75 lakh.

The Management stated (May 2007) that BESCOM had been requested to refund the BG amount and expect a positive decision. The fact, however, remained that the amount had not been received so far (July 2007).

The matter was reported to the Government (May 2007); the reply is awaited (August 2007).

Kerala Police Housing and Construction Corporation Limited

4.5 Avoidable committed liability

Delay of more than one year in arranging for earth filling works despite availability of funds resulted in avoidable increase in contract cost by Rs. 21 lakh besides postponement of implementation of the scheme for modernisation of police force.

The Company was entrusted (September – December 2002) with the work of construction of nine District Police Lines in the State under the ‘Modernisation of Police Force Scheme’ of Central Government. The Company received (January and October 2003) State Government share of funds (Rs 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 work was awarded (June 2004) to Soj Associates at a contract price of Rs. 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 Rs. 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 retendering of the work amounted to Rs. 21 lakh.

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

Malabar Cements Limited

4.6 Avoidable expenditure on excessive contract demand

The failure of the Company to reduce the excessive contract demand as per provisions in the agreement resulted in avoidable expenditure of Rs. 43.74 lakh.

The Company is a High Tension - I (HT - I) category consumer of Kerala State Electricity Board (Board) with a contract demand of 1500 KVA. As per Clause 14 (a) of the service connection agreement, the Company had the option to increase/decrease the contract demand by giving six months' notice.

Since October 2002, the Board had been levying Rs. 270 per KVA of Billing demand per month as 'Demand charge' on HT- I consumers. The Billing demand was the recorded maximum demand for the month or 75 per cent of the Contract demand or 50 KVA whichever was the highest.

It was observed that the actual maximum demands recorded in a month during 2004-05, 2005-06 and 2006-07 were 599 KVA, 620 KVA and 652 KVA respectively which indicated that the Company required only a contract demand of 900 KVA. The Company, however, did not initiate action to reduce the contract demand from 1500 KVA to 900 KVA in terms of the provisions in the agreement. The extra expenditure on unutilised portion of contract demand during 2004-07 worked out to Rs.43.74 lakh.*

Thus, the failure of the Company to reduce the excessive contract demand as per provisions in the agreement resulted in avoidable expenditure of Rs.43.74 lakh.

The Management stated (June 2007) that request has been made (November 2006) to the Board to reduce the contract demand to 1000 KVA. The fact, however, remained that the delay on the part of the Company in taking timely action entailed a loss of Rs. 43.74 lakh.

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

* (75 per cent of 1500 KVA – 75 per cent of 900 KVA)xRs.270x36 months

Travancore Cochin Chemicals Limited
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4.7 Unauthorised payments

Unauthorised conversion of monthly production bonus into special pay resulted in avoidable payment of Rs.17.22 lakh and recurring future liability.
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The Company having an accumulated loss of Rs.13.84 crore as on 31 March 2005 had been paying production bonus to its employees under the monthly production bonus scheme. Provisions of the scheme specifically mentioned that the production bonus so paid was not to be considered as wages/salary for the purpose of benefits.

A team comprising representatives of the Management and the Employees' Unions arrived at a settlement (March 2005) for payment of monthly production bonus of Rs.500 per employee for the year 2006 treating it as 'special pay'. Due to this, the special pay counted for payment of HRA, Provident fund contribution and gratuity necessitating extra payment to the employees. The payment so made from April 2005 to March 2007 worked out to Rs.17.22 lakh.

It was noticed that the representatives of Management who approved and adopted the amendment to the scheme were not authorised by the Board of Directors of the Company. The decision of the team was also not placed before the Board for ratification. Even when the new bonus scheme was submitted (May 2006) to the Board for approval, the information that the bonus had been converted as special pay for purposes of other benefits was suppressed. The avoidable extra payment without proper authority is still continuing (June 2007).

Thus, the unauthorised conversion of monthly production bonus into special pay resulted in avoidable extra payment of Rs.17.22 lakh and recurring future liability.

The Management stated (July 2007) that Rs. 500 paid under the head monthly production bonus was the restructuring benefit sanctioned by the Company to take up additional work load which was later converted as special pay as pressurised by the Union. It was also admitted that the conversion done as per approval of the then Managing Director was not placed before the Board for approval. The reply is not tenable since the Circular issued (February 1987) by the Planning and Economic Affairs (BPE) Department of the State Government prescribed that no state Public Sector Undertaking shall implement or commit to implement or negotiate any changes in the wage structure without obtaining the prior approval of the Government.

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

Roads and Bridges Development Corporation of Kerala Limited

4.8 Avoidable expenditure

Delay of the Company for rescheduling the drawal of loan has resulted in avoidable payment of commitment charges of Rs. 10.97 lakh.

The Company availed (February 2000) loan assistance of Rs. 59.15 crore at 13.75 *per cent* per annum from Housing and Urban Development Corporation Limited (HUDCO) to part finance the project cost for the construction of 19 Road Over Bridges (ROBs) in the State at a cost of Rs. 111.63 crore.

As per the loan agreement (September 2000), the amount should have been drawn in 12 quarterly installments during April 2000 to January 2003. In case of failure of the Company to draw any loan installment within six months of the scheduled date, commitment charges at the rate of 0.1 *per cent* per quarter beyond six months of scheduled date would have to be paid.

The Company received Government guarantee, a pre requisite to the execution of the loan agreement, only in September 2000 when the first installment which fell due from April 2000 should have been drawn to avoid commitment charges. In view of this delay and receipt (September 2000) of Government guarantee, the Company had the alternative of rescheduling the drawal programme with the approval of HUDCO immediately after execution (September 2000) of the agreement. Moreover, the Company could not properly co-ordinate the implementation of works and the drawal of funds was further delayed with reference to the schedule fixed by HUDCO. The delay ranged between one to five quarters and the rescheduling was done only in May 2003. On account of the delay HUDCO recovered (March 2002 and March 2003) Rs.10.97 lakh towards commitment charges.

Thus, delay of the Company in rescheduling the drawal of loan has resulted in avoidable payment of commitment charge of Rs. 10.97 lakh.

The matter was reported to the Management/Government (June 2007); their replies had not been received (August 2007).

4.9 Avoidable loss

Failure of the Company to commence toll collection for ROBs as provided in the agreement resulted in avoidable loss of revenue of Rs.1.48 crore.

The Company had been entrusted (April and July 2000) by the State Government with the construction work of Railway Over Bridges (ROBs) at Meenchanda, Kozhikode District and Tirur at Malappuram District. The Union Ministry of Railways empowered (May 2002) the State Government to levy toll from the users of ROBs on commissioning. The Company belatedly decided (July 2006) to levy and collect toll from the users of ROBs as approved (April 2005) by the State Government.

The ROBs at Tirur and Meenchanda constructed at a net cost of Rs.3.12 crore and Rs.4.32 crore were opened to traffic in February and May 2004 respectively. Subsequently, the Company entered into (April 2005) direct toll collection agreements with Kerala Road Fund Board and State Government, whereas, the Company was authorised to levy and collect toll at the prescribed rates for a period of 15 years from April 2005 onwards. The Company, however, failed to start toll collection (June 2007) in respect of the above two ROBs even after a delay of more than two years for no reasons on record. The gross amount of toll collection revenue lost during April 2005 to March 2007 on the basis of estimated realisation of revenue worked out to Rs. 1.48 crore.

Thus, the failure of the Company to commence toll collection for ROBs as provided in the agreement resulted in avoidable loss of revenue of Rs. 1.48 crore.

The Management stated (April 2007) that the decision to start the toll collection was kept in abeyance due to various external pressures. It was also stated that steps had been taken to commence toll collection on contract basis. The fact, however, remains that the Company had forgone revenue of two years due to non-commencement of toll collection immediately after completion of the ROBs.

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

Kerala Electrical and Allied Engineering Company Limited

4.10 Avoidable loss due to incorrect estimates

The Company's failure to include the correct estimated raw material cost in the price quoted in response to a tender resulted in avoidable loss of Rs. 1.12 crore.

The Company had an accumulated loss of Rs. 61.78 crore as on 31 March 2003. For supply of distribution transformers to Government Departments and Public Sector Undertakings, the policy followed by the Company was to quote rates covering full material cost, finance charges and contribution.

The Company submitted (January 2003) quotation in response to a tender floated by Tamil Nadu Electricity Board (TNEB) for the supply of 590 numbers of 500KVA distribution transformers and the quoted ex-works price was Rs. 1.35 lakh per transformer. As per the tender conditions the rates quoted were firm and valid for one year from the date of receipt of letter awarding the contract. The Company received (March 2003) orders for the supply of 590 distribution transformers within a period of one year.

It was noticed that the ex-works rate of Rs. 1.35 lakh per transformer quoted by the Company included raw material cost of Rs. 1.15 lakh. But the cost of raw material actually estimated before submission of tender was Rs. 1.29 lakh. Quoting the price of transformer without covering estimated raw material cost was not in consonance with the policy of the Company and was also not

justifiable in view of its poor financial position. The supply was completed (October 2004) with the actual cost of raw material per transformer going up to Rs.1.34 lakh involving an additional expenditure of Rs. 29.50 lakh with reference to the estimated cost (Rs.1.29 lakh). The amount of raw material cost short recovered due to initial under quoting worked out to Rs. 82.60 lakh (Rs.14000x590). Further in view of the delay (March to October 2004) in delivery of transformers TNEB withheld an amount of Rs. 36.30 lakh.

Thus, the Company's failure to include the correct estimated raw material cost in the price quoted in response to the tender and delay in delivery of transformer resulted in avoidable loss of Rs. 1.12 crore.

Management's reply as endorsed by the Government, stated (July 2007) that the Company switched over from superior quality of raw materials to standard quality and thereby reduced the estimated cost of raw material from Rs.1.28 lakh to Rs.1.15 lakh so as to quote very competitive rate to bag orders from TNEB for avoiding idling of the work force. It was also stated that even considering a raw material cost of Rs. 1.28 lakh per transformer as per the original estimate, a contribution of Rs. 5105 per transformer was available. The reply is not tenable since there was no change over from the superior quality to standard quality at the time of bid as evident from Company's subsequent correspondence with TNEB. Moreover, the price of steel adopted (January 2003) by the Company in the preparation of original raw material cost was lower than that in the price data prepared by the Indian Electrical and Electronics Manufacturers' Association (IEEMA) thereby leading to under estimation of raw material cost.

Bekal Resorts Development Corporation Limited

4.11 Undue benefit due to under recovery of land cost

The failure of the Company to include the development cost in the land value resulted in under recovery of land cost and resultant undue benefit of Rs.65 lakh to private entrepreneurs.

The Company acquired (1998-2001) 198.15 acres of land utilising funds provided by the State Government at a cost of Rs.19.86 crore. The land comprising six prime resort sites were to be licensed and leased out for setting up star/deluxe hotels, subject to payment of annual lease rent fixed by the Company. The Government fixed (May 2002) the land value of these sites at 125 *per cent* of land acquisition cost and decided to recoup the cost from the lessees annually at minimum eight *per cent* of the land value. The land acquisition cost was to include compensation paid/payable to the land owners, survey expenses, publication and establishment charges paid to the revenue authorities for the acquisition of land. Accordingly, the Company allotted (2004-07) six sites with basic infrastructure facilities initially for a period of 30 years (including two years for the construction of buildings) at the quoted annual lease rent ranging from 8 to 9.94 *per cent* of the land value. As per bid document of license/lease agreement if additional compensation becomes payable as a result of any court judgment, the lessee was liable to pay enhanced rent.

Scrutiny (November 2006) revealed that the Company had developed the land by creating infrastructure facilities at a cost of Rs.52 lakh up to April 2007. While fixing/approving the land value, the development cost was neither considered for computing the land value nor a provision included in the lease agreement for subsequent recovery of this amount, as in the case of additional land compensation payable to the land owners. Aggregate lease premium being forgone due to non-inclusion of development cost of Rs.65 lakh (125 *per cent* of Rs. 52 lakh) in the land cost worked out to Rs.1.56 crore* for the annual lease rent for the lease period of 30 years.

The Management stated (June 2007) that the mark up value of 25 *per cent* reckoned for computation of cost of land would cover the development cost and the land valuation was done strictly in accordance with the guidelines issued by the Government. The reply is not tenable. The mark up is intended to cover money value for the entire lease period of 30 years and non-inclusion of development cost in the cost of land is against spirit of valuation of land. Further, the Company did not bring to the notice of the Government the land development cost for purpose of inclusion in the land cost for its valuation.

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

STATUTORY CORPORATIONS

Kerala State Electricity Board

4.12 Avoidable payment

Decision of the Board to deviate from the tendered quantity and make counter offer after finalisation of bid resulted in non-recovery of cost of Rs 74.72 lakh

Board invited (June 2005) tenders for supply of two lakh sets of two line cross arms and placed (December 2005) orders on Mangal Steel Enterprises Limited (MSEL), the lowest bidder, for supply of four lakh sets at the all inclusive quoted rate of Rs.119.98 per set. MSEL, however, withdrew (December 2005) their offer on the ground of serious mistakes in the quoted price and demanded enhancement in rates. The Board thereupon, placed (March 2006) orders on Ceebuild Company (P) Limited (CCPL), Kolkata for purchase of two lakh sets at the rate of Rs 159.84 per set at the risk and cost of MSEL. CCPL supplied (September 2006) the material and Board released 90 per cent payment amounting to Rs 2.89 crore. The balance amount of Rs.31.13 lakh was withheld for re-fixation of price of the material for delayed delivery.

It was noticed that in response to the tender for two lakh sets of two line cross arms, MSEL had quoted (June 2005) for two lakh sets only. Deviating from the tendered quantity, the Board, however, placed orders for four lakh sets. Moreover, MSEL had executed (July 2005) a written document on stamp paper confirming that the offer as per their price bid shall constitute a binding

* Rs.65 lakh x 8 *per cent* x 30 years

contract till the formal contract was prepared and executed. Ignoring this, the Board obtained (January 2006) a revised bid from MSEL. By making a counter offer for four lakh sets and obtaining a revised rate, the Board created legal hurdles with regard to the risk and cost purchase of the material.

The Board terminated (August 2006) the orders placed on MSEL, forfeited earnest money deposit of Rupees five lakh and directed the firm to remit Rs.74.72 lakh being price difference towards risk and cost purchase of material. MSEL, however, took advantage of the counter offer for four lakh sets made by the Board while placing the purchase order and refused (September 2006) to remit the amount of Rs.74.72 lakh.

Thus, the decision of the Board to deviate from the tendered quantity and make counter offer after finalisation of bid resulted in non-recovery of cost of Rs 74.72 lakh.

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

4.13 Undue benefit to a contractor

The decision of the Board to waive liquidated damages despite consequential loss resulted in undue benefit of Rs 46.91 lakh to the contractor.

The Board decided to implement Lower Meenmutty Small Hydro Electric Project (a run of the river project) with an installed capacity of 3.5 MW for generating 7.63 MU of energy per annum. Agreement for the implementation of the project involving construction, supply, installation, testing and commissioning as a single package was entered into (July 2003) with Asian Techs-VA Tech Joint Venture (AT-VA) at a cost of Rs 12.38 crore. As per the terms of the agreement, AT-VA was to commence the work within 30 days from the date of award of contract and complete the same on or before 13 February 2005.

The agreement provided for imposition of liquidated damages for delay in completion of civil works at the rate of one *per cent* of estimated value for each day of delay subject to maximum of five days and for mechanical and hydro- mechanical portion at the rate of 0.5 *per cent* for every week's delay, limited to 5 *per cent* of the contract value. Consequent on failure of AT-VA to complete the work (February 2005), extension was granted up to 30 November 2005 subject to imposition of liquidated damages after the scheduled completion period.

Scrutiny revealed that AT-VA could not complete the work even within the extended period and a further extension upto 31 May 2006 was granted on the same terms and conditions. The work in its entirety was completed (31 May 2006) and units synchronised to the grid (12 March 2006 to 28 April 2006). Reasons for delay in completing the work were over excavation in hard rocks by the contractor and resultant refilling of the over-excavated area at extra cost, excess concreting and changes in design quantity,

etc. Owing to delayed synchronisation of units, the Board lost revenue of Rs.3.13 crore on 81.96 MU* of potential generation of power based on average daily generation of 21015 Kwh during post-commissioning period (08 May 2006 to 27 July 2006). The liquidated damages payable by AT-VA was Rs.61.91 lakh. Despite consequential loss of revenue to the tune of Rs 3.13 crore, the Board waived liquidated damage of Rs.46.91 lakh and recovered (May 2006) only Rs.15 lakh.

Thus, the decision of the Board to waive liquidated damages despite consequential loss for delay on the part of contractor resulted in undue benefit of Rs.46.91 lakh to the contractor.

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

4.14 Avoidable additional expenditure

The decision of the Board to award extra works to the contractor even before ascertaining the necessity and reasonableness from Central Electricity Authority resulted in avoidable additional expenditure of Rs. 51.08 lakh.

The work of Renovation, Modernisation and Upgradation (RMU) of Sabarigii Hydro Electric project, having six generating units of 50 MW each, was awarded (July 2002) to VA Tech Hydro GmbH & Co (VA Tech), Austria on turnkey basis for an amount of Rs.94.65 crore. The scope of RMU work included everything required to be performed for the design, manufacture, supply, erection, testing and commissioning. As per the agreement, replacement/ repairs to components/ equipments found defective on inspection and testing after dismantling, which were not included in the scope of tender specifications, would be treated as extra work. The rates, terms and conditions for extra works were to be conveyed by the Board within a reasonable time from the date of receipt of the report from the contractor. VA Tech commenced field operations on 25 February 2003 and was to complete the work within 48 months (January 2007).

On dismantling and after detailed testing and examination of Unit 6, VA Tech intimated (January 2004) the necessity of extra works estimated at Rs.82.70 lakh. Eleven months after the receipt of intimation regarding extra work from VA Tech, the Board accorded (December 2004) sanction for extra works amounting to Rs.82.70 lakh. Accordingly purchase orders/ work orders were issued (January 2005) on VA Tech for supply (Rs 32.03 lakh) and services (Rs 49.46 lakh).

It was noticed that the expert opinion of Central Electricity Authority (CEA) on the necessity and reasonableness of the extra work was sought for by the Board only in March 2005. As per CEA's report (July 2005) extra work amounting to Rs.51.08 lakh (machining of runner coupling flange of turbine shaft including to & fro transportation and insurance Rs 9.02 lakh;

* 21015 Kwh X 30 days X 13 months from 13 February 2005 to 12 March 2006

replacement of existing water guard: Rs 6.90 lakh; replacement of flow guide: Rs 13.24 lakh; site machining of distributor bore : Rs 13.86 lakh and jet alignment using precision equipments : Rs 8.06 lakh) actually came under the ambit of the original contract and VA tech had to carry out the work without any extra cost. Since the work order for extra items was issued by the Board to VA Tech in January 2005 itself, ultimately the Board had to release payment of Rs 40.25 lakh to VA Tech towards the extra works valued at Rs.51.08 lakh disallowed by the CEA. The balance (Rs 10.83 lakh) remained to be paid.

Thus, decision of the Board to award extra works to the contractor even before ascertaining the necessity and reasonableness from CEA resulted in avoidable additional expenditure of Rs. 51.08 lakh .

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

4.15 Avoidable payment on import of power

Reduction in internal generation without sufficient grounds resulted in unscheduled import of power from Central Generating Stations leading to avoidable payment of Rs.57.08 lakh.

Following the decision (October 2002) of the Southern Regional Electricity Board^{*}, Availability Based Tariff (ABT) was implemented (January 2003) in the Southern Region. The ABT enables despatch of power in relation to a schedule for each day comprising 96 time blocks of 15 minutes duration. The schedule of the Kerala Grid connected to Southern Grid is prepared by the KSEB Load Despatch Centre based on, among other things, expected demand and energy availability from internal sources. The difference between scheduled drawal of power and actual drawal would be treated as Unscheduled Interchange (UI). The UI attracted penal charges at slab rates fixed by the Central Electricity Regulatory Commission depending on the frequency at which excess power was drawn. The rates so fixed for the period 2004-09 were six paise per unit of energy for every 0.02 HZ drop in frequency between 49.8 HZ and 50.5 HZ, nine paise from 49 HZ to 49.7 HZ and thereafter at the rate of Rs.5.70.

As on 4 April 2005, the Board had a scheduled Central Generating Station (CGS) share of 13.90 MU. The Board, however, drew 16.41 MU of CGS share resulting in UI (import) of 2.51 MU when the frequency was below 50.5 HZ and consequently the Board had to pay UI charges of Rs.57.08 lakh.

It was noticed (December 2006) that despite availability of sufficient water, the generation at Idukki Hydel station on 4 April 2005 was only 3.60 MU compared to the average daily generation of 6.52 MU during the month of April 2005. The reduced level of hydel generation was as per system

^{*} Southern Regional Electricity Board is an organisation whose functions include planning and ensuring smooth, economic and efficient integrated operation of the constituent power systems in the Southern Region of India. SREB has been renamed (April 2006) as Southern Regional Power Committee.

requirement, communicated by the Load Despatch Centre of the Board at Kalamassery. The reduction in internal generation at Idukki Station, without sufficient ground, upset the schedule fixed for drawal of power from CGS and led to avoidable payment for unscheduled interchange and penal charges of Rs.57.08 lakh.

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

4.16 Avoidable loss due to payment of inadmissible claims

Decision of the Board to make payment for free spares by adjustment against an inadmissible claim resulted in avoidable loss of Rs 33.31 lakh.

Mention was made in paragraph 3A.5.3 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial), Government of Kerala regarding claim of SEMT Pielstick, France (SEMT), the contractor for supply, erection and commissioning of 5 X 20 MW diesel generating units at Brahmapuram for supervision charges during the extended period, which was not justifiable, as the extension was necessitated due to delay in supply of equipment by SEMT.

As per the terms of the agreement with Kerala State Electricity Board (KSEB), SEMT was to supply operating spares for scheduled maintenance upto 12,000 hours of operation and also spares required for overhauling of engines on completion of 12,000 \pm 750 hours of operation free of cost. 'Connecting rod bearing shell' (shell) was one such spare item which was to be replaced at the time of engine overhauling. The firm supplied (August 2000 and March 2003) 56 shells for generating units I, II and V without any extra cost. The firm, however, refused to supply free of cost the remaining 34 shells required for units III and IV. Instead, the firm requested the Board to make payment for these spares and adjust the amount against their pending (July 1997) claims towards supervision charges for the extended period of the agreement. The Board issued (February 2003) the purchase order to SEMT and released (July 2003) payment of Rs 33.31 lakh towards cost of spares subject to the condition that the amount so disbursed would be adjusted against Rs 1.58 crore assessed as supervision charges for the extended period. The claim of SEMT for Rs 1.58 crore has not been settled so far (May 2007).

Thus the Board had made payment for free spares against the inadmissible claim for supervision charges; the same was unjustified and resulted in avoidable loss of Rs.33.31 lakh.

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

4.17 Avoidable extra expenditure due to price revision

Decision of the Board to allow price revision in violation of the provisions of purchase order resulted in avoidable extra expenditure of Rs.1.68 crore.

In order to meet the requirements of Vadakara and Malapparamba substations the Board issued (April 2005) orders on Transformers and Electricals Kerala Limited (TELK) for supply of four 100 MVA, 220/110 KV transformers at the lowest all inclusive rate of Rs 2.65 crore per transformer. As per the terms of the purchase order, the price was firm and taxes and duties were payable as per actuals. TELK was to supply the first unit within four months (October 2005) from the date of approval of drawings and the balance at the rate of one unit per month thereafter. Meanwhile, the Board revised (January 2006) the unit rate to Rs 2.84 crore in order to incorporate VAT (12.5 per cent) introduced by the State Government with effect from April 2005. TELK could not supply the transformers within the scheduled delivery period (January 2006) and extension sought was granted upto 31 March 2006 without any price revision and penalty. TELK completed the delivery within the extended period. Thereafter based on the request (July 2006) of TELK, the Board revised (March 2007) the price to Rs 3.12 crore per transformer to compensate for the unprecedented increase in raw material cost even though the contract prices were firm. Consequently, the Board incurred an additional expenditure of Rs 1.12 crore[#].

The Board had earlier issued (30 July 2004) a purchase order to TELK for supply of twenty 12.5 MVA, 110/11KV three phase transformers at the unit rate of Rs 45.89 lakh. As per the terms of the purchase order, the price was firm and TELK was also to supply, if so required, an additional 25 per cent of the quantity on the original terms and conditions. Accordingly orders were placed (April 2005) for supply of five transformers. The transformers were supplied during March 2006.

The Board, however ignored the provisions of the purchase order and enhanced (January 2006) the unit rate to Rs.60.63 lakh for the additional five transformers (25 per cent quantity) incurring extra expenditure of Rs.56 lakh*. Payment at enhanced rate was made during March-April 2006.

Thus, the decision of the Board to allow price revision in violation of the provisions of the purchase orders resulted in avoidable extra expenditure of Rs.1.68 crore in respect of two purchase orders.

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

[#] (Rs. 3.12 crore - Rs 2.84 crore) X 4

* Rs.60.63 lakh - (Rs.45.89 lakh + Rs.3.52 lakh additional tax on account of introduction of VAT and Cess on original ex-works price) x 5 transformers.

4.18 Favour to a private contractor

Decision of the Board to amend the bid documents and make payment for lumpsum civil works without measurements resulted in undue benefit of Rs.1.92 crore to the contractor.

In order to enhance the existing capacity (125 MW) of Kuttiyadi Hydro Electric Project by additional 100 MW, the Board proposed Kuttiyadi Additional Extension Scheme (KAES) and invited pre-qualification bids for its execution on turnkey basis. The scope of work as per the tender notice included design and supply of equipments and materials, civil construction, installation, testing and commissioning of Generating units. As per the Bid documents forming part of the contract, bidders were to give bill of quantities for civil works based on the estimation of the scope of work. Further, all items of work having financial value had to be measured jointly by the Board and the Contractor. The contractors were also required to make their own arrangements for engagement of labourers and their accommodation.

Five bidders including BHEL-L&T consortium (BHEL-L&T) were declared (June 1999) as qualified to submit their price bid. Before submission of price bid the Board amended (February 2000) the provisions of bid documents, according to which, the measurement of lump sum items would be based on the work completed as a percentage of the total work.

BHEL-L&T emerged as the lowest price-bidder and accordingly the Board entered into (November 2003) an agreement with them for implementation of KAES. The Board, however, did not obtain bill of quantities for civil works comprising of construction of contractor's camp offices, stores and workshop and BHEL-L&T quoted a lump sum rate of Rs. 2.79 crore for these items and proposed to utilise an area of 4100 square meter without providing the details.

It was noticed (November 2006) that as against construction of plinth area of 3075 square metre in 4100 square metre of land allotted to the consortium the actual area constructed as per measurement book was 637 square metre requiring payment of only Rs.55 lakh. The requirement of balance area for housing their camp office, store, etc., was met from Board's own construction facilities available at KAES site by BHEL-L&T paying (December 2006) Rs 5.49 lakh as rent. Although there was no evidence of any construction made, the Board made extra payment of Rs. 1.92 crore (Rs.2.52 crore minus Rs. 60.49 lakh) to BHEL-L&T on the ground that the work being of temporary nature did not require measurement.

Thus, the decision of the Board to amend the bid documents and non-acceptance of bill of quantities for civil works facilitated payment for lumpsum civil works without measurements and resulted in undue benefit of Rs.1.92 crore to the contractor.

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

4.19 Avoidable additional liability

The imprudent decision of the Board to ignore the extra claim for Rs 7.03 lakh from the existing contractor despite lack of clarity in tender schedule and award the work at exorbitant rates to a new contractor resulted in avoidable additional liability of Rs 88 lakh.

For the Railway electrification of Ernakulam-Trivandrum section, the Board agreed (February 2002) to undertake the work for supply of 110 KV three phase power to the Railway Traction substations at four* locations, on deposit basis. For Chingavanam 110 KV power supply line works, the Board estimated (July 2004) a cost of Rs 3.43 crore, including Rs.1.48 crore for construction of 110 KV line. The Board thereafter, revised (April 2004) the estimate to Rs.90 lakh and issued (December 2004) work order for construction of the 110 KV line to Emgee Constructions (EC) at the lowest quoted rate of Rs.89.48 lakh (one *per cent* below the net estimated cost). As per work order, the value of cement and tor steel supplied by the Board would be recovered. There was, however, a lack of clarity on the part of the Board in respect of specification given under item 8 of the tender schedule due to which EC demanded (December 2004) a price increase of Rs.7.03 lakh stating that the mistake in the specification given by Board made them believe that the items 5 & 6 of tender schedule was exclusive of concrete work. Even though the work was of emergent nature, the Board, instead of negotiating with the contractor, terminated (December 2005) the contract at the risk and cost of EC.

The work was subsequently awarded (March 2006) to Steel Industrials Kerala Limited (SILK), the second lowest bidder who had quoted 55 *per cent* above the estimate. SILK, however, refused (May 2006) to undertake the work. Thereupon, the Board invited (May 2006) fresh tenders and awarded (November 2006) the work to Shri. D. Ajayakumar (DA), the lowest bidder, at Rs.1.89 crore (189 *per cent* above the net estimate cost). The agreement for the work was executed (December 2006) and the work was in progress (June 2007).

It was noticed (April 2007) that the line work to the traction substation of Railways, awarded to the Board in July 2002, had a completion period of nine months only and its early completion involved public interest. The work awarded to EC in December 2004 was also one *per cent* below the estimated cost and their claim for price increase of Rs 7.03 lakh was a fall-out of the Board's mistake in the tender schedule. The Board, however, did not avail of the advantage of very low rates quoted by EC, and took the imprudent decision of inviting fresh tender and awarding contract to DA involving additional expenditure of Rs 88 lakh[#].

Thus, the imprudent decision of the Board to ignore the extra claim for Rs 7.03 lakh from the existing contractor despite lack of clarity in tender

* Kazhakuttom, Perinad, Chingavanam and Punnapra

[#] New contract price Rs.1.89 crore – Rs.1.01 crore (the original offer of EC Rs.89.48 lakh + additional claim of EC Rs.7.03 lakh + earnest money of Rs.4.47 lakh withheld from EC).

schedule, and award the work at exorbitant rates to a new contractor resulted in avoidable additional liability of Rs 88 lakh.

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

Kerala State Road Transport Corporation

4.20 Extra expenditure on procurement of tyres and tubes

The failure of the Corporation to take delivery of tyres and tubes available at cheaper rates within the scheduled delivery period and its subsequent procurement at enhanced rates resulted in extra expenditure of Rs. 43.14 lakh.

For meeting its requirement of tyres and tubes for the year 2005-06 the Corporation placed (August 2005) orders with MRF Limited , Cochin (5000 tyres and 7500 tubes), Birla Tyres, Cochin (15000 tyres and 22500 tubes) and J.K.Industries Limited.,(JK) Cochin (6000 tyres and 9000 tubes) on the basis of maximum quantity offered and past performance. The per unit rates at which tyres and tubes were to be supplied by the firms were Rs.5400/Rs.465, Rs.5450/Rs.590 and Rs.5200/Rs.525 respectively. As per the purchase orders the entire supplies were to be completed during September 2005 to August 2006.

All the firms except MRF Limited executed (September 2005) agreements. Since MRF failed to execute the agreement the Corporation cancelled (October 2005) the purchase order placed on the firm.

Thereupon the Corporation made (October 2005) enquiries and J.K expressed (December 2005) its willingness to supply additional quantities to the extent of 5000 tyres and 7500 tubes at the same rates and conditions of the original purchase order. They also offered to execute the supplies at the rate of 1200 tyres and 1800 tubes per month with effect from January 2006. The Corporation responded (April 2006) to the offer only after a delay of four months. The original purchase order placed with JK (April 2006) was amended as 11000 tyres and 16500 tubes incorporating the additional quantity which was to be delivered by August 2006.

The Corporation, however, could not take delivery of 2000 tyres and 3000 tubes by August 2006 and JK treated the quantity as lapsed due to expiry of the delivery period and delay in remittance of dues. The Corporation accepted (September 2006) the lapse of order and thereafter the requirement of 2000 tyres and 3000 tubes had to be met by placing (September 2006) fresh purchase orders with Birla Tyres at higher rates of Rs.6930 and Rs.650 respectively. The additional expenditure incurred amounted to Rs. 43.14 lakh* inclusive of taxes.

Thus, the failure of the Corporation to take delivery of tyres and tubes available at cheaper rates with in the scheduled delivery period and its

* (Rs.6930 - Rs.5200) x 2000 tyres + (Rs.650 - Rs.525) x 3000 tubes + Rs.4.79 lakh for taxes.

subsequent procurement at enhanced rates resulted in extra expenditure of Rs. 43.14 lakh.

The matter was reported to Government/ Corporation in June 2007; their reply is awaited (July 2007).

General

4.21 Follow-up action on Audit Reports

*Explanatory notes * outstanding*

4.21.1 The Audit Reports of the CAG represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various Government companies and Statutory Corporations. It is, therefore, necessary that they elicit appropriate and timely response from the executive.

The Audit Reports for the years up to 2005-06 have been presented to the State Legislature but seven out of ten departments did not furnish explanatory notes on 43 out of 84 paragraphs/reviews relating to the Audit Reports for the year 2003-04 to 2005 -06 as of September 2007.

Compliance to Reports of Committee on Public Undertakings (COPU) outstanding

4.21.2 As per the Handbook of Instructions for Speedy Settlement of Audit Objections, the replies to paragraphs are required to be furnished within one month from the presentation of the Reports by COPU to the State Legislature. Action Taken Notes (ATNs) to 323 paragraphs pertaining to 76 Reports of the COPU presented to the State Legislature between July 2000 and September 2007 had not been received as of September 2007 as shown below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where ATNs not received
1998-2000	2	6
2001	4	13
2001-2004	17	69
2004-2006	28	127
2006-2008	25	108
Total	76	323

Response to inspection reports, draft paragraphs and reviews

4.21.3 Audit observations made during audit and not settled on the spot are communicated to the heads of the PSUs and the concerned departments of the State Government through Inspection Reports (IR). The heads of PSUs are required to furnish replies to the IR through the respective heads of

* Explanatory notes refer to the explanations furnished by Administrative Departments to the Legislature Secretariat, on reviews/paragraphs contained in Audit Reports placed before the Legislature.

departments within a period of six weeks. IR issued up to March 2007 pertaining to 102 PSUs disclosed that 4579 paragraphs relating to 963 IR remained outstanding at the end of September 2007. Of these, 351 IR containing 2211 paragraphs had not been replied to for one to five years. Department-wise break-up of IR and paragraphs outstanding as on 30 September 2007 is given in **Annexure 21**.

Similarly draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that nineteen draft paragraphs and three draft reviews forwarded to various departments during May-July 2007, as detailed in **Annexure 22**, had not been replied to so far (September 2007).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to IR/draft paragraphs/reviews and ATNs on recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.

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