Chapter III

Compliance Audit Paragraphs of State Public Sector Undertakings

Department of Industries and Commerce

3.1 Operational Performance of Traco Cable Company Limited

The Company did not have any short-term or long-term plans for its functional activities. The diversion of working capital loan and consequent shortage of funds adversely affected economic procurement of raw material and timely delivery of finished products. Idling of production facilities due to shortage of material led to payment of idle wages/ inefficient labour. The lack of planning in production led to overtime wages also. Inspite of labour inefficiencies and precarious financial position, the Company entered into Long-Term Wage Revision Agreement with employees. The Company was not able to deliver its products on time which led to levy of liquidated damages/ rejection of price revision claims. This also led to consequent cash loss as avoidable GST payments. Lack of scientific costing system in the Company led to calculation of erroneous cost of production itself. Implementation of a capital project with outdated technology led to idling of plant.

3.1.1 Introduction

Units of Traco Cable Company Limited

Traco Cable Company Limited (Company) was incorporated as a Government Company[214] in February 1960. The Company functions in the manufacturing sector under the administrative control of the Department of Industries and Commerce of Government of Kerala (GoK). The major products of the Company are Aluminium Conductor Steel Reinforced (ACSR) and House Wiring Cables (HWC). The Company is having three production units. ACSR is manufactured by units at Irumpanam and Thiruvalla. HWC is manufactured by unit at Pinarayi.

The product mix of the Company and the revenue generation from different products are as shown in **Table 3.1** below:

[214] Government of Kerala holds equity shares of face value of ₹53.02 crore (92.67 *per cent*) of the total paid up share capital of ₹57.22 crore as of March 2022. Institutional investors hold 7.20 *per cent* and balance 0.13 *per cent* is held by non-institutional investors.

Table 3.1: Product mix of the Company and individual product revenue as percentage of total revenue

Sl. No.	Product	Revenue from products as percentage of total revenue
1	Aluminium Conductor Steel Reinforced	78
2	XLPE[215] cable, control cables, Turnkey projects with XLPE cable	10
3	House wiring cable	12
	Total	**100**

3.1.2 Organisational setup

The Company is registered under the Companies Act, 1956/ 2013 and the management is vested with a Board of Directors consisting of eight members including two independent directors as on 31 March 2022. The executive functions are managed by the Managing Director who is assisted by the Chief Finance Officer, Deputy General Managers, Senior Managers/ Managers. The employee strength as on 31 March 2022 was 375 against the total sanctioned strength of 524 as shown in **Table 3.2** below:

Table 3.2: Employee strength as on 31 March 2022

Sl. No.	Designation	Number of employees	
		Sanctioned	Men-in-position
1	Officers	46	29
2	Workers	478	346
	Total	**524**	**375**

3.1.3 Audit objectives

Objective of the Compliance Audit was to assess whether the Company complied with the relevant rules, regulations, Government orders, internal manuals and prudent financial principles for the achievement of operational efficiency and to analyse the reasons for the persistent loss suffered during the period under review.

3.1.4 Scope of audit

Audit reviewed various aspects such as planning, working capital management, procurement, production, marketing, and other related issues of the Company for the five years from 2017-18 to 2021-22.

[215] Cross linked polyethylene.

3.1.5 Audit criteria

The following criteria were used for analysing the activities of the Company and arriving at a conclusion:

i. Orders of GoK.
ii. Guidelines issued by Bureau of Public Enterprises (BPE) and Public Sector Restructuring and Internal Audit Board (RIAB).
iii. Stores Purchase Manual (SPM) and Kerala Financial Code.
iv. Agenda and minutes of the meetings of Board of Directors/ Audit Committee/ Board Sub-committee.
v. Memorandum and Articles of Association of the Company.
vi. Financial Statements and Budget Estimates of the Company.
vii. The Companies Act, 2013.

3.1.6 Audit methodology

The methodology adopted for attaining the audit objectives, with reference to audit criteria, consisted of review of agenda notes and minutes of the meetings of the Board of Directors / Sub-Committees, Annual Reports, Management Information System (MIS) reports, Study reports, Internal Audit reports, Project reports, tender files, contracts, physical verification reports, files / records maintained by the Company, procurement and production records *etc.* During the Compliance Audit, records at RIAB, BPE, administrative department of GoK were scrutinised.

An entry conference was held on 02 December 2021 in which the audit objectives, audit criteria, scope and methodology were discussed with the representatives of the Government and the Company. The draft report was issued (January 2023) to the GoK for its comments and the reply (March 2023) of the Government was suitably incorporated. The audit findings were discussed with the representatives of the Government and the Company in the exit conference held on 29 May 2023 to discuss the audit findings. The Government furnished its modified reply (June 2023) subsequent to the exit conference and the same has been suitably incorporated.

3.1.7 Business environment of the Company

Audit analysed the business environment and various influencing factors in terms of working capital, working capital cycle, marketability, hike in raw material cost *etc*., and the results were as follows:

Marketability: The major customer of the Company is Kerala State Electricity Board Limited (KSEBL). GoK accorded (March 2020) sanction to KSEBL to procure ACSR from the Company with a price preference of 10 *per cent* over the lowest (L1) rate received by KSEBL while purchasing ACSR through competitive tenders during previous year. The assured quantity of procurement was 55 *per cent* of the total requirement of ACSR by KSEBL. By virtue of the GoK directives, the Company was enjoying assured market for its products at minimum L1 rates or at L1 plus 10 *per cent* rates, as the case may be.

Working Capital: The Company was enjoying the facility of unsecured working capital loan from Kerala State Power and Infrastructure Finance Corporation Limited (KSPIFC) up to 85 *per cent* value of the purchase order received from KSEBL. The average rate of interest of the working capital loan was 11.55 *per cent* per annum. The loan received from KSPIFC in the form of mobilisation advance was to be utilised for the procurement of raw material, which on an average constituted 66 *per cent* of the total expenses. As per tripartite agreement with KSEBL, KSPIFC and the Company, the sale proceeds were to be appropriated against the working capital loan. As the delivery schedule was scattered up to six months, the Company had the advantage to procure the resources in a staggered manner in accordance with the delivery schedule.

Lower working capital cycle: The average lead time for purchase of raw material was five days and the Company was having production facility of 300 km of ACSR per day. The purchase orders from KSEBL provided for 60 days credit period after delivery. Hence the amount held up with suppliers and customers was limited and thus the duration of working capital cycle was less.

Protection against hike in the material cost: The Company was duly protected against any hike in the cost of Aluminium, the major raw material constituting 71 *per cent* of the total cost of material consumed, as there was price variation clause based on the Indian Electrical and Electronics Manufacturers Association (IEEMA) price variation formula in the purchase orders issued by KSEBL.

Despite the above favourable factors, the Company failed to convert the advantageous position into better operating performance as shown by the working results below.

Audit Findings

The audit findings relating to the financial position, working results, and other functional areas of the Company are discussed below:

3.1.8 Financial Position

The financial position of the Company during the review period is shown below in **Table 3.3**.

Table 3.3: Financial position during the five-year period from 2017-18 to 2021-22

(₹ in crore)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	**Equity and Liabilities**					
2	**Shareholders' funds**					
3	(a) Share Capital[216]	57.22	57.22	81.87	81.87	57.22
4	(b) Reserves and Surplus	(73.76)	(87.33)	(99.12)	(143.90)	(53.91)

[216] For the years 2019-20 and 2020-21, Share Capital includes Advance for Share Capital ₹24.65 crore.

(₹ in crore)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
5	**Non-Current Liabilities**	9.36	19.14	21.62	28.56	61.21
6	**Current Liabilities**	133.41	187.06	146.83	172.48	157.86
7	**Total**	**126.23**	**176.09**	**151.20**	**139.01**	**222.38**
8	**Assets**					
9	**Non-Current Assets**					
10	(a) Fixed Assets	19.07	22.62	20.36	21.96	151.73
11	(b) Long-Term loans and advances	3.25	2.75	2.87	1.55	1.47
12	**Current Assets**	103.91	150.72	127.97	115.50	69.18
13	**Total**	**126.23**	**176.09**	**151.20**	**139.01**	**222.38**
14	**Net worth (3+4)**	**(16.54)**	**(30.11)**	**(17.25)**	**(62.03)**	**3.31**[217]

It could be seen from **Table 3.3** that the financial position of the Company deteriorated during the review period as given below:

- The Net worth of the Company was negative during the four years from 2017-18 to 2020-21, which deteriorated from ₹(-)16.54 crore to ₹(-)62.03 crore. During the year 2021-22, but for the revaluation of land, the Net worth would have been ₹(-)129.05 crore.
- Current liabilities increased from ₹133.41 crore (2017-18) to ₹157.86 crore (2021-22). During the corresponding years, the current assets decreased from ₹103.91 crore to ₹69.18 crore which aggravated the working capital shortage of the Company.
- Non-current liabilities increased from ₹9.36 crore (2017-18) to ₹61.21 crore (2021-22). There was, however, no corresponding increase in non-current assets which indicated that the Company was dependent on loan funds rather than internal accruals for operations throughout the review period.

3.1.9 Working results

The deterioration in financial position discussed above was due to the poor working results over the years as shown in **Table 3.4** below.

[217] During 2021-22, the Company revalued its freehold land from ₹1.39 crore to ₹133.75 crore which had a positive impact on reserves and surplus, fixed assets, and net worth of the Company.

Table 3.4: Working results for the five-year period from 2017-18 to 2021-22

(₹ in crore)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	**Revenue from Operations**					
2	Net sale of Products	111.23	163.71	130.14	183.44	101.60
3	Other income	2.18	2.19	17.05	1.24	1.95
4	**Total revenue**	**113.41**	**165.90**	**147.19**	**184.68**	**103.55**
5	**Expenses**					
6	Cost of raw materials consumed	78.74	121.72	114.17	152.18	86.08
7	Changes in inventories	1.00	(1.60)	(7.80)	6.06	7.86
8	Employee benefit expenses	21.75	22.58	22.38	27.68	24.69
9	Finance cost	11.33	15.84	13.24	16.38	15. 87
10	Depreciation & other expenses	9.62	21.24	14.71	11.04	8. 83
11	**Total Expenses**	**122.44**	**179.78**	**156.70**	**213.34**	**143.33**
12	Profit/(Loss) before exceptional/ extraordinary items and tax	(9.03)	(13.88)	(9.51)	(28.66)	(39.78)
13	Prior period items	0.25	0.31	(2.28)	(16.12)	(2.92)
14	Exceptional/ extraordinary Items	0	0	0	0	0.33
15	**Profit/(Loss) for the year**	**(8.78)**	**(13.57)**	**(11.79)**	**(44.78)**	**(42.37)**
16	**Percentage of Net Loss to Revenue**	**7.74**	**8.17**	**8.00**	**24.25**	**40.92**

As could be seen from **Table 3.4**, the Company incurred net loss in all the years under review and the net loss ranged from ₹8.78 crore in 2017-18 to ₹44.78 crore in 2020-21. The average net loss of eight *per cent* on total revenue during the three-year period from 2017-18 to 2019-20 tripled to 24 *per cent* in 2020-21 and to 41 *per cent* in 2021-22.

As could be seen from **Table 3.4**, the total revenue and total expenses showed wide fluctuation. The total revenue of ₹113.41 crore in 2017-18 peaked to ₹184.68 crore in 2020-21 and dropped to ₹103.55 crore in 2021-22. Similarly, the total expenses of ₹122.44 crore for 2017-18 peaked to ₹213.34 crore in 2020-21 and then dropped to ₹143.33 crore in 2021-22. The reasons are explained below:

- Though the turnover registered an increase of 65 *per cent* over the four-year period from 2017-18 to 2020-21, the expenses increased at a higher rate of 74 *per cent* over the same period.
- Cost of raw material consumed, the major component in expenses, increased from ₹78.74 crore in 2017-18 to ₹152.18 crore in 2020-21 i.e., from 64 *per cent* to 71 *per cent* of the total expenses during the same period. During 2017-18 to 2020-21, the employee benefit expenses increased by 27 *per cent* (from ₹21.75 crore to ₹27.68 crore) and finance cost increased by 45 *per cent* (from ₹11.33 crore to ₹16.38 crore). The increase in material cost, labour and finance charges had its adverse impact on the working results of the Company.
- The Prior period items of ₹16.12 crore in the year 2020-21 comprised arrear provision of ₹14.10 crore in respect of Long-Term Agreement on wage revision which also increased the expenses.
- In 2021-22, revenue decreased by 44 *per cent* compared to the previous year. The reduction in total expenses, however, was only 33 *per cent* because of the comparatively fixed nature of employee benefits, finance cost and depreciation.
- Further, the reduction in cost of materials consumed in 2021-22 was associated with fall in production consequently impacting the revenue.

3.1.10 Unsustainable revenue model

It was seen that the average expenditure incurred during the five years from 2017-18 to 2021-22 to generate a revenue of ₹100 was ₹122.16 as shown in **Table 3.5** below:

Table 3.5: Components and split up of expenditure for earning of ₹100

Sl. No.	Nature of Expenditure	Amount (in ₹) expended to earn a revenue of ₹100
1	Cost of Raw materials consumed	80.11
2	Employee cost	17.99
3	Finance cost	10.92
4	Other expenses	13.14
Total Expenses		**122.16**

As the expenditure incurred was exceeding the revenue earned, the business model being followed by the company was not a sustainable one. This resulted in poor performance over the years, erosion of capital, and negative net worth. It is pertinent to note that the Company has not fixed any conversion ratio for conversion of raw materials to finished products. The Company only reviews the actual scrap percentage vis-à-vis the standards set by it, wherein the actuals recorded by the Company were found to be conforming to the standards.

The Company fixes its selling price by adding contribution to its cost. The contribution was fixed depending on the market conditions, so as to become L1 or match L1 rates to obtain the order. Thus, the procurement of raw materials was the decisive factor in the Company's revenue model, as it formed 65.57 *per cent* of the Company's total expenses. While there was limited scope for improvement in conversion ratio and fixation of selling price, Audit noticed that there were deficiencies in procurement of raw materials as well as cost estimation which are discussed in ***Paragraphs 3.1.13 and 3.1.15.3.*** Audit analysed the reasons for the poor performance of the Company over the review period as discussed in the succeeding paragraphs.

3.1.11 Planning

The Company did not have any documented plans for short-term or long-term operations in respect of functional activities such as working capital management, procurement of raw materials, production process, marketing and sales realisation, the effects of which were as shown below:

- The absence of planning in working capital management led to diversion of working capital loans meant for procurement of raw materials, for other administrative requirements.
- Similarly, lack of planning in procurement prevented the Company from large scale procurement of raw materials at economical rates, purchasing lesser quantities than required *etc*. This also prevented the Company from making any long-term/ short-term production plans which delayed the delivery of finished goods.
- The absence of planning in procurement and production process led to idle/ inefficient labour.

All these factors resulted in high cost of production which led to persistent loss to the Company. The short realisation/ delayed realisation of sale proceeds due to the delayed delivery added to the shortage of working capital, which formed a vicious circle.

The Government stated (March 2023) that based on the orders received, the Company was planning the working capital requirements, raw material and production in monthly review meetings held at the Company level. In its reply (June 2023), the Government stated that the Company had incorporated a working capital plan based on the fund requirement. However, due to shortage of working capital, fund availability and lockdown imposed during Covid-19 period, the Company could not achieve the planned production in time.

The reply of the Government is not tenable as review meetings served only as immediate remedial measures and did not address the short term/ long-term planning requirements. Further, KSEBL, the major customer of the Company was also a Public Sector Undertaking under the GoK. During the review period which included Covid-19 lockdown period also, KSEBL placed orders worth ₹1,020.08 crore for purchase of ACSR out of which the Company was given orders for ₹642.59 crore, constituting 63 *per cent* of the orders placed by KSEBL. However, the Company could not meet the full requirement of KSEBL. No efforts, however, were seen taken by the Company to correlate the requirements of KSEBL with its long-term production plan. The Company did not have any planning for investment decisions also as discussed in ***Paragraph 3.1.16.1.***

Recommendation: Government should direct the Company to prepare realistic short-term/ long-term plans for its functional activities to avoid diversion of funds.

3.1.12 Working capital management

Working capital is the measure of a Company's liquidity, operational efficiency and short-term financial health. To have the potential to invest and grow, any Company should have a reasonable amount of positive working capital. Sufficient working capital indicates that a Company can fund its current operations and invest in future activities.

The Company did not have any system for management of its working capital. The working capital status of the Company for the review period was analysed and tabulated as shown in **Table 3.6** below:

Table 3.6: Working Capital status

(₹ in crore)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Total Current Assets	103.91	150.72	127.97	115.50	69.18
2	Total Current Liabilities	133.41	187.06	146.83	172.48	157.86
	Working Capital (1)-(2)	**(29.50)**	**(36.34)**	**(18.86)**	**(56.98)**	**(88. 68)**

It could be seen that the Company was consistently having shortage of working capital during the five-year period under review. The working capital shortage increased from ₹29.50 crore in 2017-18 to ₹88.68 crore in 2021-22 indicating the lack of efficient working capital management in the Company.

Audit observed that while trade payables and other current liabilities decreased by ₹43.83 crore, the short-term borrowings increased by ₹68.28 crore, resulting in a net increase in current liabilities by ₹24.45 crore. All the components of current assets such as inventory, trade receivables, and cash and cash equivalents decreased resulting in net reduction by ₹34.73 crore. This resulted in shortage of working capital which increased by ₹59.18 crore during the period from 2017-18 to 2021-22.

3.1.12.1 Diversion of working capital loan availed for raw material procurement

The Company avails working capital loan at an average interest rate of 11.55 *per cent* per annum from KSPIFC for procurement of raw materials. The Company, however, did not fully utilise the loan for the purchase of raw materials. During the period 2017-18 to 2021-22, the loan raised by the Company for procurement was ₹539.73 crore whereas the amount utilised against purchase of raw material was only ₹473.37 crore. The cash and cash equivalents of the Company as on 31 March

2022 was only ₹3.78 crore indicating that the balance ₹62.58 crore[218] (being 11.60 *per cent* of total loan amount) was diverted for administrative and other purposes. The loan amount outstanding to KSPIFC accumulated to ₹77.40 crore as on 31 March 2022, which the Company is unable to repay from the respective sales realisation. Further the Company is incurring an average interest outgo of ₹0.81 crore per month (including penal interest) on this loan outstanding without having any recoverable amount from respective purchase orders.

3.1.12.2 Inefficient Working Capital Management led to abnormally longer Working Capital Cycle

Working capital cycle is the period for which the working capital is tied up in various components of working capital before realising cash. The components of working capital include inventories and trade receivables. To have an effective control over the working capital management, the close monitoring of inventory holding period, trade receivable collection period and trade payables payment period is inevitable. To reduce the working capital cycle, promptness in raw material procurement, production process, finished goods delivery and revenue collection should be ensured.

The Company has not worked out and fixed a norm for its working capital cycle. The actual working capital cycle of the Company during the period 2017-18 to 2021-22 in respect of ACSR was as shown in **Table 3.7** below:

Table 3.7: Working capital cycle

(in days)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	Average
1	Raw Material holding period	13	13	17	11	18	14
2	WIP holding period	19	11	11	8	12	12
3	Finished goods holding period	32	25	43	31	28	32
4	Accounts receivable collection period	197	184	248	151	218	200
	Total working capital cycle	**261**	**233**	**319**	**201**	**276**	**258**

From the above analysis, it could be seen that the average working capital cycle for the review period was 258 days. Against this, the working capital cycle required as calculated by Audit was only 84[219] days, which showed that cash was being held up additionally for about 174 days. The following reasons were attributable for the lengthy working capital cycle:

- There were inefficiencies in managing all components of working capital such as raw material, work in process, finished goods and accounts receivables.

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218 ₹539.73 crore – (₹473.37 crore + ₹3.78 crore) = ₹62.58 crore.

219 Five days for procurement, 19 days for production and dispatch and 60 days for sales realisation.

- Delay in procurement of raw material ranged up to 48 days[220] which added to the abnormally higher working capital cycle of 258 days.
- It was also seen that the Company did not have a debt realisation policy. The marketing department was not proactive in pursuing and realising the debts. As per the age-wise break up of debtors as on 31 March 2022, out of the total debt of ₹42.03 crore, debtors amounting to ₹30.57 crore was outstanding for more than 6 months. This included ₹21.13 crore which was outstanding for more than three years.
- Against the stipulated 60 days credit period agreed by KSEBL, the collection was delayed up to 248 days which was four-fold the agreed credit period. The Company's failure to follow up and collect the dues from customers affected the working capital cycle adversely.
- The delay in collection from debtors also affected the ability of the Company to repay the working capital loan, so as to keep the working capital cycle active.

Thus, ₹72.66 crore paid as finance charges during the review period was for an average of 258 days. The interest burden would have been ₹23.66 crore only had the Company managed to adhere to the ideal working capital cycle.

The Government accepted (March 2023) that there was working capital shortage in the Company during the review period. This was because working capital loans were diverted for meeting day-to-day expenses such as disbursement of salary and payment of interest to financial institutions *etc*. In the case of finished goods holding period, the Government replied that there was a delay of 20 days for conducting inspection. The Government in its reply stated (June 2023) that the shortage of funds was also due to the production limitations faced during Covid-19 pandemic. The Company is now closely monitoring the working capital cycle and it has deployed adequate manpower to get the receivables in time.

The reply is not tenable as the working capital position of the Company was negative even during the pre-Covid-19 period. The collection from debtors should be expedited and diversion of funds needs to be avoided. Further, out of the average 32 days collection period, 20 days were taken by KSEBL, another PSU, for inspection. Both the buyer and seller being PSUs, the Government could have effectively intervened to avoid the delay in inspection.

[220] KSEBL Order No. SCM 40.

Recommendations:

Government should ensure that:

- ***the Company is utilising, without any diversion, the working capital loan for procurement of raw materials and is proactive in collection of trade receivables.***
- ***the company frames a debt realisation policy and strictly implements it so that the delay in collection from KSEBL can be avoided.***

3.1.13 Uneconomic procurement of materials – Loss of ₹6.44 crore

Aluminium wire rod, steel, copper, PVC[221] and other consumables are the raw materials used by the Company, of which cost of aluminium constituted 71 *per cent* of the total raw material cost. An analysis by Audit revealed that while the wholesale market price of aluminium wire rod increased by 11.91 *per cent* during the period from April 2017 to March 2021, the procurement cost of aluminium wire rod for the Company increased by 25.33 *per cent*. This disproportionate increase indicated that the purchase of aluminium wire rod was not economical.

The market price of aluminium is volatile and depends on its international price which is represented by the London Metal Exchange (LME) official price. Audit noticed that the price of aluminium varied between US$ 1,400 (March 2020) to US$ 4,000 (March 2022) in a span of 24 months. This showed the scope for price-level based procurement planning.

It was also seen that the Company failed to invite tenders/quotations to identify lowest rates and make long term agreements with suppliers. Instead, the Company resorted to arbitrary purchases. As the Company did not resort to long term purchase by tendering during the review period, Audit was unable to quantify the loss due to arbitrary purchases. The difference between the lowest rate and the other rates received during respective years during the review period for the purchase of 20,988.34 MT of Aluminium showed an extra expenditure of ₹6.44 crore *(**Appendix 35**)*. Further, the direction of SPM to tender all purchases above ₹10 lakh was not followed for the purchases amounting to ₹473.37 crore during the audit period.

The Government replied (March 2023) that the Company had floated e-tenders many times but NALCO, the only Central PSU was not ready to participate in the e-tenders. The Company was procuring aluminium based on immediate requirement and transportation/transit advantage, among other things. It further stated (June 2023) that the Company was entering into Memorandum of Understanding (MoU) with primary producers of aluminium only, for the quantity to be procured in a year, in which the purchase price of material was not covered and the same was arrived based on the LME price movements on a daily basis.

[221] Poly Vinyl Chloride.

Though the price of aluminium was stated to be fixed on a daily basis as per LME price movements, the proportion of increase in procurement cost of aluminium by the Company was double the increase in its price. Thus, because of resorting to arbitrary purchases and the failure of the Company to invite tenders to obtain lowest rates, the Company incurred extra expenditure of ₹6.44 crore for purchase of 20,988.34 MT of Aluminium.

Recommendation: Government should consider a long-term purchase policy, to ensure procurement of raw material at lower rates based on LME price movements and also adhering to the provisions of SPM.

3.1.14 Production

3.1.14.1 Idle wages paid ₹19.08 crore

During the five-year period under review, the gross labour hours available were 28,03,424 hours of which 17,27,444 hours were utilised during the period for production. The balance 10,75,980 hours of labour were idle, and the idle wages paid worked out to ₹19.08 crore (***Appendix 36***).

Audit observed that the idling of labour was due to non-availability of raw materials for production as pointed out in ***Paragraph 3.1.12.1*** due to diversion of working capital for administrative purposes. The Company has stated (February 2023) that shortage of raw material and insufficient orders were the major reasons for the non-productive days and idling of plant and labour.

Government agreed to the reply of the Company and stated (March 2023) that in addition to shortage of materials, the 96 holidays due to Covid-19 pandemic was also a reason for the idling of workers. It further stated (June 2023) that consequent to the implementation of all India tender policy by KSEBL from 2019-20 onwards, the Company's order quantity reduced from 55 *per cent* to 25 *per cent*.

The reply is not tenable as the Covid-19 effect was only for 96 days out of the 1,825 days considered during audit and hence the major reason for the idling was the shortage of materials coupled with insufficient orders as admitted by the Government. As regards reduction in quantity of orders placed by KSEBL, it was seen that the Company could not supply orders worth ₹115.62 crore out of orders worth ₹319.35 crore received during the period 2020-22.

3.1.14.2 Inefficiency of labour – avoidable expenditure of ₹15.44 crore

Management did not conduct any scientific study of labour requirement for running a shift (the Company can run three shifts of eight hours daily) in its production facilities. The Company has not fixed any norms for the productivity of the staff to measure the efficiency in production in terms of output and labour hours. Consequently, the productivity of staff at production facilities could not be monitored for ensuring effective utilisation of labour hours. Hence Audit reckoned production of 0.2759 km of ACSR per hour as the norm based on the best performance[222] of the Company during the review period.

The total production of ACSR conductors during the review period was 2,37,773 kms for which 8,61,811 labour hours was required as per this norm. However, the actual labour hours utilised by the Company was double at 17,27,444 labour hours resulting in avoidable expenditure of ₹15.44 crore without any contribution to the Company ***(Appendix 37)***. The labour efficiency in each unit was evaluated by Audit, and it was found that management failed to utilise labour force effectively in all the factories. The labour inefficiency ranged up to 82.28 *per cent* at the Tiruvalla unit (2017-18).

The Government replied (March 2023) that the reasons for idle wages in Thiruvalla Unit was lack of orders and raw materials, and in respect of Irumpanam Unit, manpower requirement was assessed by a productivity study conducted (2019) by the Kerala State Productivity Council (KSPC). It was further stated (June 2023) that shortage of raw material and insufficient orders were the reason for non-productive days and idling of plant and labour.

Government admitted that there were idle wages in Thiruvalla Unit. Though it has been stated that there was a productivity study conducted by KSPC, the reply is silent on whether the study report was adopted by the Company as its norm. In respect of Irumpanam Unit, the direct labour required for processing 6,000 MT of aluminium per annum, was 137 as prescribed by KSPC. Thus, the average productivity fixed for one direct labourer was 43.80 MT per annum. The actual productivity, however, achieved by one direct labourer ranged from 10.98 MT to 31.40 MT during the review period. Thus, there was underutilisation of manpower resulting in inefficiency.

3.1.14.3 Overtime wages - ₹2.98 crore

Despite the instances of idle wages and inefficient labour, the Company paid overtime wages of ₹2.98 crore (at Irumpanam unit ₹2.29 crore and at Tiruvalla unit ₹0.69 crore) during the review period. The overtime expenditure was incurred for completing the production process and delivery in time as per the delivery schedule prescribed by KSEBL. Lack of planning in production and deployment of labour resulted in overtime wages, which in turn increased the cost of production and adversely impacted the profitability of the Company.

The Government replied (March 2023) that the overtime wages were given due to interruptions in material supply, availing of leave by skilled operators and for specialised processes. The reply is not tenable as the overtime wages could have either been avoided or kept at minimum with proper production planning. The Government in its modified reply stated (June 2023) that the Company has started monitoring production process and rearranged the shift pattern as per requirement.

[222] Achieved by Irumpanam unit in 2017-18.

3.1.14.4 Long term wage revision agreement without increase in production efficiency – financial implication - ₹17.23 crore

The Government of Kerala vide GO (MS) No.18/93/Plg dated 14-10-1993, had stipulated that wage revision should not be allowed in loss-making Public Sector Undertakings. While the Company was consistently incurring losses and its net worth had fully eroded, the management recommended wage revision in the form of Long-term Agreement (LTA) with workers for the period 2016 to 2020 stating that labour efficiency would be enhanced as part of the LTA. The LTA implemented (January 2020) by the Company for the period 2016 to 2020 resulted in increase in wages up to 68 *per cent* over the existing pay scale. The financial implication in respect of the LTA was ₹17.23 crore[223].

Audit noticed that the percentage of productive labour hours to the total labour hours decreased from 72 in 2018-19 to 42.29 in 2021-22 despite implementation of LTA. Thus, implementation of LTA did not achieve the desired result of improved productivity. Instead, it added to the loss of the Company.

The Government replied (March/June 2023) that the reason for lowering of production efficiency despite the LTA was lack of sufficient sale orders. It agreed that the present situation of idling of manpower and mounting losses should be considered for future LTAs.

The reply is not tenable as the Company recommended wage revision without ensuring improved labour efficiency.

Recommendation: Government should give directions to the Company to conduct comprehensive productivity studies and establish norms for labour efficiencies to avoid idle wages and unnecessary overtime so as to reduce the cost of production and attain production efficiency.

3.1.15 Marketing and Contract management

3.1.15.1 Delayed delivery resulted in loss of upward price variation claim and levy of liquidated damages –₹6.41 crore

The terms of purchase order received from KSEBL for the supply of ACSR provided that both positive and negative price variations were applicable in respect of supplies made within the scheduled delivery period.

As per the provisions of purchase order, the delivery schedules were scattered, stipulating the quantity to be delivered in each month. It was provided that price variation claims would not be accepted by KSEBL in respect of belated deliveries. It was also stipulated that in respect of belated delivery, penalty at the rate of one *per cent* per month subject to a maximum of 10 *per cent* of the purchase order value will be levied.

[223] For the period April 2016 to January 2021.

Due to diversion of working capital loan as discussed in ***Paragraph 3.1.12.1***, the Company failed to purchase the required quantity of aluminium wire rods on time. The production was protracted due to inefficiencies as mentioned in ***Paragraph 3.1.14.2***. Consequently, the Company failed to deliver products within the stipulated delivery schedule. Consequently, KSEBL did not honour the upward price variation claim for ₹3.46 crore and imposed liquidated damages of ₹2.95 crore during the period 2017-18 to 2020-21.

Thus, the Company incurred a loss of ₹6.41 crore which also adversely affected its working capital position.

The Government accepted (March 2023) the audit observation and stated that shortage of working capital led to the shortage of raw materials and delayed delivery. It further stated (June 2023) that the Company would get loan amount from financial institutions only after 15 to 30 days after receiving purchase order from customers. This would result in delay of upto 40 days in starting production and hence, the Company could not deliver the products at the right time without incurring liquidated damages.

The reply regarding the delay in obtaining loan is not acceptable since the buyer, seller, and the creditor, all being PSUs, the Government could have effectively intervened to evolve a procedure to expedite the process of obtaining loan and to commence production at the earliest on receiving Purchase Orders by the Company.

3.1.15.2 Agreement to sell without upward price revision clause resulted in loss of ₹1.02 crore

IEEMA price variation clauses are used in settling claims between purchaser and supplier for variation in the basic price of raw materials from the period of tendering till the date of delivery. These clauses are widely accepted by the industry and purchasing organisations since they allow variations on both upward and downward directions, thus negating chances of undue gain or loss to the parties.

KSEBL is the major customer of the Company for ACSR and all the agreements with KSEBL contained a price variation clause which allowed upward as well as downward price revision based on the changes in the LME/ IEEMA rate for Aluminium rods. In variance from this practice, the purchase order (02 November 2020) from KSEBL for supply of 33,800 kms of ACSR provided that updating of price as per IEEMA formula will be limited to the basic price of aluminium as mentioned in the purchase order. Such a provision was prejudicial to the financial interests of the Company as it denied the opportunity to recover loss from KSEBL in the event of increase in price of aluminium. The Company agreed (17 November 2020) to this proposal and became obliged to supply the entire quantity of 33,800 km of ACSR at the rate of ₹35,772 per km or such rate based on the periodical LME rate of aluminium, whichever was lower.

The Company supplied 19,066.979 km of ACSR till July 2021 of which 12,256.66 km of ACSR was supplied at a reduced price applying negative price variation. During the same period, the Company supplied 6,661.102 km ACSR for which aluminium was purchased at higher rates owing to increase in LME rates. Though the Company claimed positive price variation aggregating ₹1.02 crore in respect of this supply, KSEBL declined the same as the agreement did not provide for the payment of positive price variation. The Company unilaterally withdrew from the supply contract in July 2021.

Thus, the failure of the Company in accepting a purchase order which was prejudicial to its financial interests resulted in an avoidable loss of ₹1.02 crore ***(Appendix 38)***.

The Government replied (March 2023) that KSEBL had informed that price variation would be considered on completion of delivery and that due to non-delivery, upward revision was denied. It was further stated (June 2023) that the Company accepted the order from KSEBL without price escalation because the Company had expected to complete the order within time as there were no orders in their hand. Also, the Company did not expect the huge increase in the price of aluminium.

The reply is not tenable because the price of aluminium being fluctuating as per LME price movements, the action of the Company to exclude upward price variation and include only negative price variation was against prudent financial principles.

3.1.15.3 Loss due to incorrect cost estimation - House wiring cables

The Company produces different types of House wiring cables (HWC). The selling price of HWCs was fixed by adding a margin to the cost of the product as calculated by the Company. The margin varied from 9 *per cent* to 49.51 *per cent* for different types of HWCs. On an analysis of the costing done by the management and cost audit reports for the years 2016-17 and 2017-18, it was noticed that the total cost of the HWC computed by the management consisted of material, power and packing material cost only. Labour which was a direct variable cost and overheads were not considered for computation of the cost.

Audit further noticed that cost audit for the two-year period 2016-17 and 2017-18 was conducted belatedly[224] and that the cost of sales as per the reports was higher than the selling price fixed by the Company. The Company did not conduct cost audit for the next two years, 2018-19 and 2019-20. For the year 2020-21 the Company computed the cost of production considering the entire cost involved. It was also noticed that the selling price of HWC was higher than the price of HWC of its competitors, by five to eight *per cent*.

Lack of costing system coupled with incorrect cost estimation and arbitrary fixation of selling price resulted in sale of HWC below cost resulting in a loss of ₹3.45 crore as shown in **Table 3.8** below:

[224] Cost audit report for 2016-17 in April 2019 and 2017-18 in March 2021.

Table 3.8: Loss due to incorrect cost estimation of House Wiring Cables

Sl. No.	Year	Total sales (No. of coils)	Cost[225] of sales per coil (₹)	Selling price per coil (₹)	Loss per coil (₹)	Total loss (₹ in crore)
	(1)	(2)	(4)	(5)	(6)	(7) = (2 * 6)
1	2016-17	70,693	996.19	767.17	229.02	1.62
2	2017-18	1,33,059	862.25	787.85	74.40	0.99
3	2020-21	1,71,621	969.01[226]	920.19	48.82	0.84
					Total	**3.45**

The Government replied (March/June 2023) that labour cost was not considered for computation of cost to keep selling price competitive and that they were forced to sell the product at a price below one to five *per cent* of competitors' price.

The reply is not tenable as the purpose of costing is to identify the actual cost of production. Ignoring a crucial component of cost in cost computation will not result in cost reduction but would only lead to imprudent decision of fixing selling price below cost of production.

Recommendations:

Government should ensure that the Company :

- ***strictly adheres to the time schedule of delivery to avoid loss from denial of price variation and imposition of liquidated damages.***
- ***establishes a robust costing system for considering all direct and indirect costs and ensuring that selling prices are based on actual production costs to avoid selling products below cost and incurring losses.***

3.1.16 Other topics

3.1.16.1 Investment in unviable and outdated project for manufacture of XLPE cables

The Company created a manufacturing facility for XLPE cables in 2016 by incurring ₹7.61 crore. The actual production from 2017-18 to 2019-20 was 622.08 kms and thereafter the production completely stopped for want of orders.

Audit noticed that since its commissioning in 2016, the Company could never obtain sufficient orders to utilise even 50 *per cent* of the installed production capacity. The Company could attain only 14.84 *per cent* of projected production quantity during the period 2015-16 to 2019-20. In terms of value, the Company could achieve only ₹11.38 crore against projected sales of ₹202.90 crore, being only 5.60 *per cent* of projected sales. The actual production of XLPE cables during

225 Cost Audit conducted for 2016-17 and 2017-18. Cost Audit for subsequent years were not conducted.

226 Computed by the Company by considering all related costs.

the three years from 2017-18 to 2019-20 was 95.71 kms, 382.63 kms and 143.74 kms respectively against the targeted production of 1,032 kms per annum. Similarly, the sales achievement was only 2.77 *per cent*, 16.24 *per cent* and 14.18 *per cent* of the sales targets[227] fixed for the year 2017-18, 2018-19 and 2019-20 respectively. Since 2020-21, the Company could not obtain work orders for XLPE and the plant has remained idle.

Audit analysed the reasons for the stoppage of production, and it was seen that the market preferred XLPE Cables manufactured using Dry Cure technology[228] whereas the production process used by the Company was SIOPLAS[229] technology. The Company did not conduct any market study as part of Detailed Project Report which resulted in its failure to identify the shift in production technology and the major change in market demand.

It was seen that in 2006 itself Indian Railways had suggested[230] using XLPE Cables processed using Dry Curing technology for voltages ranging from 3.3 kV to 33 kV. In 2014, Delhi Metro Rail Corporation Limited also specified Dry Cured XLPE Cables as its standard for all elevated and underground rail corridors to avoid micro voids and contaminants in insulation. It was also observed that the major customer of the Company, KSEBL, has been demanding both 11kV and 33kV XLPE Cables processed using Dry Cure technology since 2013-14 itself. During the eight-year period from 2013-14 (when the Company invited tenders for project implementation) to 2020-21, KSEBL had invited 62 tenders to the tune of ₹277.65 crore for supply of XLPE Cables manufactured using Dry Cure technology.

Thus, the failure on the part of the Company to identify technological advancements in the cable industry resulted in implementing the project with SIOPLAS technology instead of the Dry Cured technology. Since the industry demand was for cables manufactured under Dry Cure technology, the investment in a project using technology which was getting obsolete was not financially prudent.

The Government admitted (March 2023) that there was change in technology and that the cable manufacturing process used by it had become obsolete. However, it was stated that, during the period from 2016-17, the Company manufactured XLPE cables worth ₹54.70 crore using the technology for turnkey projects. The Government further stated (June 2023) that the Company has been directed to ensure the adoption of technical advancements in the upcoming projects.

The reply of the Government is not tenable since the Company could not achieve even 50 *per cent* of the envisaged sales for the period 2016-17 to 2019-20 even by including the turnkey project products. Though it was stated that there was good

227 Sales target for the year 2017-18 was ₹34.12 crore. For the years 2018-19 and 2019-20 it was ₹34.21 crore each.
228 The cross linking/ curing of the insulation over bare conductor using nitrogen gas under high pressure and temperature for bonding.
229 The cross linking/ curing of the insulation over bare conductor using hot water or steam for bonding.
230 Para 2.2.2 of Handbook on Electrical Power Cables, Indian Railways.

margin on turnkey work, the Company lost the opportunity of achieving higher profit margin in view of the outdated production technology. Further, from 2020-21 onwards, the Company could not obtain work orders for manufacturing XLPE cables and the project has been remaining idle.

Recommendation: Government should ensure that the Company improves its corporate governance mechanism by imparting proper training to its directors on technological developments.

3.1.16.2 Failure to claim refund of excess tax paid on rejected price variation claim - Loss of ₹0.62 crore

Central Goods and Services Tax Act, 2017 (CGST Act 2017) was introduced with effect from July 2017. Tax at the rate of 18 *per cent* was payable on the goods sold by the Company. As per Section 34 of CGST Act 2017, where one or more tax invoices have been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed. Any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than the thirtieth day of November following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed.

While raising invoices to KSEBL, the Company consistently included upward price variation claims for aluminium in respect of deliveries made after the scheduled delivery period also. KSEBL never honoured such claims as there was no contractual obligation on their part to pay upward price variation for deliveries made after the scheduled delivery period. However, the Company failed to raise credit notes for the unrealisable upward price variation claims on account of delayed delivery. Timely issue of credit notes and filing of the same in the monthly (GSTR 1) or the quarterly (GSTR 3B) returns would have reduced the taxable value of goods supplied and GST payments to such extent and saved the extra tax paid on account of unrealisable claims. This would further have positively impacted the fund flow and working capital management of the Company. However, the Company failed to claim tax refund on account of such reduction in taxable value by filing credit notes with the tax authorities. During the period 2017-2021, the reduction in taxable value omitted to be claimed was ₹3.46 crore and avoidable tax paid in this score was ₹0.62 crore.

The Government admitted (March 2023) that due to the Company's lack of knowledge in the subject, they could not claim refund of excess tax paid during the period 2017-21. The Government further replied (June 2023) that the Company has since engaged a Chartered Accountant firm for GST audit and consultation.

3.1.16.3 Absence of oversight by Government of Kerala and absence of Management Information System (MIS)

The operational performance of the Company deteriorated over the years under review and as per the annual accounts for the year ended 31 March 2021, the reserves and surplus stood at ₹(-)143.90 crore and the net worth of the Company at ₹(-)62.03 crore. Even though the Company incurred a net loss of ₹42.37 crore in 2021-22, the reserves and surplus as well as net worth showed improvement to ₹(-)53.91 crore and to ₹3.31 crore respectively due to the upward revaluation of the freehold land of the Company by ₹132.36 crore. But for this book adjustment, the positions of reserves and surplus and net worth of the Company would have deteriorated to ₹(-)186.27 crore[231] and ₹(-)129.05 crore[232] respectively. The Government of Kerala and the management of the Company failed to identify and correct the operational inefficiencies over the years.

RIAB is the agency responsible for monitoring the activities of Public Sector Undertakings under the administrative control of Industries Department. The agency is also responsible for close monitoring of the loss-making Public-Sector Undertakings. Even though the Company was forwarding the production statistics, profitability, debtor's position and loan outstanding position, no steps were seen taken to identify and rectify the lack of adequate working capital in the Company or diversion of loan funds for administrative requirements.

In order to take timely decisions, the MIS reports in a Company were vital. But the Company was not preparing any MIS reports such as cost audit reports, periodical financial reports and labour utilisation reports.

The Government replied (March 2023) that cost records were prepared and analysed by the Company on a day-to-day basis and work norms were prepared based on the agreements with trade unions. It was further stated (June 2023) that steps would be taken to adhere to the points noted by Audit.

The reply is factually incorrect as proper cost records were not maintained by the Company except for the periods 2016-17 and 2017-18 as mentioned in ***Paragraph 3.1.15.3***. The reply also confirmed the fact that work norms were prepared based on the agreements with trade unions and not based on any scientific study.

Recommendations:

Government should:

- ***direct the Company to maintain proper and up-to-date cost records; and***
- ***seek reports from RIAB on the activities of the Company as it is continuously making loss***.

[231] Reserves and Surplus as on 31 March 2021 ₹(-)143.90 crore *plus* Loss for the year ₹(-) 42.37 crore.

[232] Reserves and Surplus without revaluation reserve ₹(-)186.27 crore *plus* paid up capital ₹57.22 crore.

Steel Industrials Kerala Limited

3.2 Execution of works for State Water Transport Department

Adoption of engine with hydraulic propulsion without ensuring its suitability for construction of boats resulted in avoidable loss of ₹60.66 lakh

Steel Industrials Kerala Limited (Company) undertakes contract works for construction and repair of boats and executes the same through subcontractors. During the period April 2011 to March 2022, the Company received six orders valuing ₹15.13 crore for construction of 15 boats from the State Water Transport Department (SWTD). Audit examined (July 2019 and September 2022) the six orders and noticed that the Company could not successfully complete two out of the six orders and incurred avoidable loss of ₹60.66 lakh as discussed below.

The Company received (March 2012) the two orders from SWTD for construction and supply of one Inspection boat and one Workshop boat at an agreed price of ₹42.90 lakh and ₹36.47 lakh respectively. As per the agreements (March 2012) with SWTD, the boats were to be supplied by the end of June 2012, and delayed delivery was to attract a penalty of ₹1,000 per boat for each day of delay. SWTD paid an amount of ₹63.49 lakh to the Company from March 2012 to October 2012.

Audit noticed that SWTD had awarded the work orders based on the design proposed by the Company which envisaged use of engine with hydraulic propulsion instead of engines with conventional propulsion used in other four orders received from SWTD during the period 2011-22. The Company could successfully complete the four orders (December 2012 to December 2017) for which it had used engines with conventional propulsion. It, however, failed to supply the Inspection and Workshop boats constructed using engines with hydraulic propulsion. The boats could achieve a speed of only two knots, against the designed speed of eight knots, in the first trial held in March/ October 2013. In the second trial (October 2015) the speed could be marginally increased to four knots by increasing the pitch of the propeller. The Company could not conduct further trials to achieve the designed speed due to heating of hydraulic oil which caused efficiency drop and prevented the boats from generating adequate power to achieve the designed speed. As the Company did not supply the boats even after three and a half years, SWTD terminated (March 2016) the contract and recovered the amount (₹63.49 lakh) paid for construction of the boats from other payments due to the Company. Thus, the entire expenditure of ₹60.66 lakh[233] incurred by the Company for the construction of the boats became infructuous.

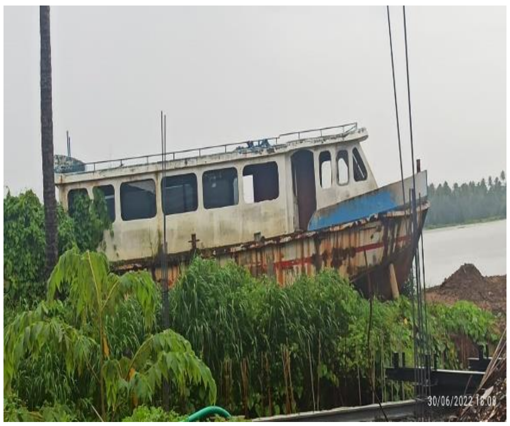
It is pertinent to note that another naval architect and structural engineer whom the Company consulted (July/ August 2016), had opined that a proven system for steering and propulsion was a requirement to ensure safety, and conventional propulsion system was suitable for these types of boats. It was also opined that the hydraulic propulsion system was not suitable for continuous duty as any small

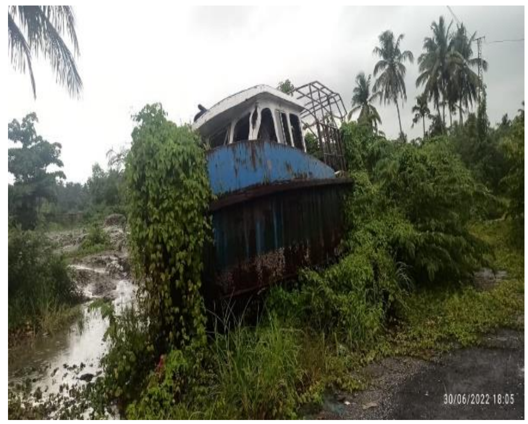
[233] ₹32.97 lakh for Inspection boat and ₹27.69 lakh for Workshop boat.

leakage in the system would lead to heating of hydraulic oil and resultant efficiency drop. This indicated that the Company introduced hydraulic propulsion system in the construction of Inspection boat and Workshop boat without ascertaining its suitability for these types of boats which ultimately led to the non-delivery of the boats and termination of contracts with SWTD.

Audit also noticed that the Company had developed the design for the boats through a subcontractor. Though the Company argued that the boats did not achieve the designed speed due to design fault of the propulsion system, it did not levy any penalty from the sub-contractor even though the agreement/ work order contained a condition regarding levy of penalty in the event of design failure. Further, the boats are docked in open premises since 2014-15 and the Company did not take any action to dispose of the boats to minimise its loss after termination of the contracts by SWTD, and the boats were found (June 2022) in a dilapidated condition as shown in **Figure 3.1**.

Figure 3.1 Inspection and Workshop Boats in dilapidated condition





The Government replied (April 2023) that the Company has been directed to dispose of the Workshop boat and Inspection boat early without further deterioration in value. The Government also stated that the Secretary, Public Sector Restructuring and Internal Audit Board (RIAB) was appointed (February 2023) as the Enquiry Officer for conducting an enquiry and to submit the report without delay. It was also directed to fix responsibility in this regard. Though the Government has stated that out of the amount of ₹60.66 lakh, the supervision charges of ₹11.23 lakh cannot be considered exclusively for this Project, it has not apportioned the supervision charges attributable for this Project.

Thus, due to the adoption of hydraulic propulsion engine without ensuring its suitability for the boats, the Company suffered a loss of ₹60.66 lakh.

Recommendations:

Government should ensure that:

- ***the Company uses proven technology in construction of boats and other projects***

- ***the enquiry entrusted with RIAB is completed at the earliest with follow up action and that the Company disposes of the boats expeditiously without further deterioration in value.***

The Kerala State Cashew Development Corporation Limited

3.3 Extra expenditure

Cancellation of tender in violation of the provisions of the Stores Purchase Manual entailed extra expenditure of ₹93.39 lakh.

As per Rule 1.2 of the Stores Purchase Manual (SPM) issued (June 2013) by the Government of Kerala, public procurement activities should be conducted in a transparent manner ensuring competition, fairness and elimination of arbitrariness in the system. In order to ensure the same, the tender document should clearly mention the eligibility criteria to be met by the tenderers and tenders should be evaluated in terms of the criteria already incorporated in the tender document. Any new condition, which was not incorporated in the tender document, should not be brought into consideration while evaluating the tenders. Rule 7.50 of the SPM also mandates that wherein two bid system is adopted in tendering, the technical bids are to be opened in the first instance and the same will be scrutinised and evaluated by the competent committee/ authority with reference to parameters prescribed in the tender documents. Thereafter, in the second stage, the financial bids of only the technically acceptable offers (as decided in the first stage above) are to be opened for further scrutiny, evaluation, ranking and placement of contract.

Kerala State Cashew Development Corporation Limited (Company) is engaged in purchase of raw cashew nuts (RCN) and selling of processed cashew nuts. The Company invited (December 2016) tender for purchase of 2,500 MT RCN of Tanzanian (CDJKL[234]) origin on direct/ high seas sale[235] basis. Three firms submitted bids and the committee for evaluation of these bids reported (7 January 2017) that they were technically qualified. Accordingly, price bids were opened and it was found (7 January 2017) that Exolent Global Exim Company offered the lowest rate of USD 2,131 per MT of RCN. The Board of Directors (BoD) of the Company negotiated with the bidder who agreed to reduce the rate to USD 2,120 per MT. Subsequently, the BoD decided (16 January 2017) to cancel the tender citing that (i) the successful firm proposed to ship the RCN from Dar-es-Salam port whereas the tender conditions stipulated the same from Mtwara port in Tanzania, (ii) letter from Cashewnut Board of Tanzania submitted by the bidder was defective and; (iii) the firm would not be able to supply the RCN as per the supply schedule. Subsequently, the Company invited (8 February 2017) tender for purchase of imported RCN of Tanzanian (CDJKL) origin from Indian firms. Of the two firms

[234] CDJKL is a variety of cashew nut available in Tanzania.

[235] High Sea Sales' is a trade practice whereby the original importer sells the goods to a third person before the goods are entered for customs clearance.

that submitted bids, John Cashew Company offered the lowest price (₹159 per kg) and agreement was entered into (22 February 2017) for supply of 1,000 MT.

Audit observed that the reasons cited by the BoD for cancelling the tender were not justifiable. The tender document had not specified Mtwara or any other port in Tanzania for effecting shipment of the RCN. The BoD could not specify the defects in the letter produced by the bidder from Cashewnut Board of Tanzania approving transportation of RCN to Dar-es-Salam port. Further, there was nothing on record to justify the opinion of the BoD that the successful bidder would not be able to deliver RCN as per the committed schedule. The delivery schedule specified in the tender document was also ambiguous as it did not specify the exact days available for a bidder from the date of award of order for effecting the supply. Instead, it required that the supply should be made by 16 January 2017 which was later (23 December 2016) amended to 23 January 2017. It may be noted that in a similar transaction, one of the suppliers intimated (November 2016) that a period of 10 to 12 days was required to supply RCN from Tanzania. Hence, even if the order was placed immediately after the meeting (16 January 2017) of the BoD in which the tender was considered, the successful bidder would have been able to deliver the RCN by the end of January 2017 as committed in the tender submission. On the other hand, by re-tendering for the purchase of RCN, the BoD effectively deferred the receipt of RCN from January 2017 to March 2017. The decision of the BoD was, therefore, not in accordance with the tender conditions and provisions of the SPM which entailed extra expenditure of ₹93.39 lakh due to purchase of RCN at a higher rate from local market.

The Government replied (November 2022) that the BoD took a considerate decision based on the facts presented to them and in discussion with the L1 bidder on the supply schedules and other facts of the case. It was further replied that the port of loading is usually Mtwara. Since the successful bidder had expressed his intention to load the shipment from Dar-es-Salam port, the BoD had suspicion as the two ports are more than 500 km apart and Mtwara was the major port of loading RCN. There was no lack of transparency in evaluation of bids as the whole tender was cancelled by the BoD and not by the Tender Committee.

The reply is not acceptable. Cancelling a tender citing technical reasons after completing the technical and commercial evaluation was in violation of the SPM and lacked transparency. The tender document did not specify Mtwara as port of loading for the RCN. Hence, rejecting the tender on the ground that port of loading was Dar-es-Salam was not in accordance with the provisions of SPM which provided that the tender document should clearly mention the eligibility criteria to be met by the tenderers and any new condition should not be brought into consideration while evaluating the tenders. Technical evaluation of the bids, which was carried out by a committee which included the Managing Director did not report any adverse remarks on the competency of the successful bidder. The reasons cited by the BoD for cancelling the tender, therefore, were not justifiable.

Thus, the faulty formulation of tender documents and non-compliance with SPM during tender evaluation processes led to extra expenditure of ₹93.39 lakh.

Recommendation: The Government should ensure that the Company specifically mentions all the technical parameters in the tender documents to avoid ambiguity leading to avoidable expenditure.

Kerala State Construction Corporation Limited

3.4 Irregular sanction of mobilisation advance without security and non-recovery of risk and cost liability

Undue favour by the Managing Director, Kerala State Construction Corporation Limited in sanctioning Mobilisation Advance to a contractor in contravention of CVC guidelines resulted in non-recovery of ₹ 77.40 lakh.

As per the Central Vigilance Commission (CVC) directions (April 2007) on mobilisation advance, amount of mobilisation advance, interest to be charged, recovery schedule, *etc.*, should be stipulated in the tender document upfront. In case interest free advance is provided, then it should be clearly stipulated in the tender document and its recovery would be time based and not linked to the progress of the work. The purpose is to ensure that even if the contractor is not executing the work or executing it at a slow pace, the recovery of advance could commence and scope of misuse of such advance could be reduced. CVC further clarified (February 2011) that in order to enable recovery, mobilisation advance should be granted only after obtaining Bank Guarantee equivalent to 110 *per cent* of such advance.

As per Clause 15.6 of the Standard Bidding Document (SBD) in the event of termination of the contract as described in clauses 15.4 and 15.5 or both, the Employer shall be entitled to recover Liquidated Damages up to ten *per cent* of the contract value and forfeit the performance guarantee or Performance Security Deposit made by the Contractor to make good the losses besides getting the work completed by other means at the risk and cost of the Contractor.

'Construction of Kunambila Kurichya colony Road in Kottiyur Grama Panchayath in Kannur District' was part of a project involving construction of ninety roads and three bridges in tribal areas utilising NABARD-RIDF loan. Government of Kerala (GoK) entrusted (May 2015) the work to Kerala State Construction Corporation Ltd. (KSCC) at an estimated cost of ₹ 2.77 crore. For works which are financed through NABARD-RIDF loan, NABARD releases sanctioned amount on re-imbursement basis except for the initial mobilisation advance of 20 *per cent*.

The General Manager (GM), KSCC invited tenders (March 2018) for the aforesaid work. Provision of mobilisation advance was not mentioned in the tender document. The work was awarded to a contractor, Shri Niyas M.D, for ₹2,00,34,382/-. An agreement was executed (September 2018) with 182 days as time of completion. As per the terms of the contract, the contractor remitted ₹29.04 lakh towards the Security Deposit (SD) and Additional Performance Guarantee (APG). Of these, ₹5.01 lakh was in the form of treasury fixed deposit and balance ₹24.03 lakh as bank guarantees.

On a request from the contractor (September 2018), the Managing Director, KSCC accorded (October 2018) sanction to release mobilisation advance amounting to ₹44.31 lakh. However, there was no mention of bank guarantee to be obtained. Further, the recovery of the advance was linked to the progress of the work and not time based, as instructed in the CVC guidelines. The amount was disbursed to the contractor on 01 November 2018.

Due to the slow progress of the work (18 *per cent* only) even after the stipulated date of completion (March 2019), KSCC terminated (November 2019) the contract at the risk and cost of the contractor by invoking Section 2116.2.1 of KPWD Manual 2012. The balance work was retendered and awarded to another contractor, who completed the work in March 2021. KSCC directed the first contractor to remit the risk and cost of ₹97.2 lakh. Since there was no response from the contractor, KSCC recovered (August 2020) ₹24.03 lakh by invoking the bank guarantees furnished by the contractor and ₹5.01 lakh in the form of Treasury deposits was revoked in December 2022. The balance amount to be recovered from the contractor was worked out by KSCC as ₹48.36 lakh (as of September 2022) as detailed in **Table 3.9** below:

Table 3.9: Balance amount to be recovered from contractor worked out by KSCC

Particulars	Amount (in ₹)
Risk and Cost	18,67,192
GST 12 *per cent* of revised agreed PAC	27,28,650
Mobilisation Advance	44,31,000
Interest from 02 November 2018 to 10 September 2020 on mobilisation advance @ 9 *per cent*	7,41,858
Total liability	97,68,700
Less amount in KSCC as SD & APG	29,04,499
Contractors' 1st part bill recovered by KSCC	20,28,424
Balance amount due	48,35,777

In this context, Audit observed the following:

- The amount worked out by KSCC was incorrect, as the SD and APG of ₹29.04 lakh cannot be adjusted against the liability of a contractor as per clause 15.6 of SBD. Hence, the total liability of the contractor was ₹77.40 lakh[236].
- KSCC did not disclose the provision of mobilisation advance in the tender documents, which is in contravention to the CVC guidelines. As a result, level-playing field was denied to potential bidders. As such, the action of the MD, KSCC in ordering the release of mobilisation advance to the contractor was an undue favour.
- The contractor filed a petition before the Honourable High Court of Kerala, which passed (August 2020) an interim order not to take any coercive action against the contractor in respect of any other pending or future works of the petitioner. However, KSCC filed a statement to dismiss the writ petition only on 23 March 2023.

236 ₹29.04 lakh + ₹48.36 lakh

- Had the MD, KSCC released the mobilisation advance after obtaining BG equivalent to 110 *per cent* of mobilisation advance and made the recovery time based instead of progress of work, the amount (₹77.40 lakh) could have been recovered.

It may be mentioned that Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended 31 March 2016 (Report No. 4 of the year 2017) had similarly pointed out that KSCC released (October 2013 to December 2015) mobilisation advance of ₹11.43 crore without obtaining required Security Deposit of ₹12.56 crore in respect of five work orders of Public Works Department (PWD). As can be seen from the above, KSCC had not taken any corrective action to comply with the CVC guidelines, resulting in loss of ₹77.40 lakh and interest on mobilisation advance (from September 2020) to the exchequer.

The Government replied (May 2023) that KSCC has fully recovered the mobilisation advance. The claim of KSCC is not tenable since the amount recovered as BG and TD could not be considered against recovery towards mobilisation advance as per clause 15.6 of SBD. Further an amount of ₹77.40 lakh is still due from the contractor including the mobilisation advance. The Government also stated that the only option left with KSCC to recover the amount was to initiate Revenue Recovery. However, it was not listed under Section 71 of Revenue Recovery Act, 1968 and hence could not proceed with revenue recovery, though the request for inclusion has been made to the Revenue Department.

It was also stated by Government that the Court has not interfered in taking action against the contractor to recover the risk and cost liability and hence it had not approached the Honourable High Court of Kerala. The reply is not tenable as the Court direction clearly states that no coercive action can be taken against the contractor in respect of any other pending or future works. In addition, KSCC has no powers to recover the amount under Section 71 of Revenue Recovery Act 1968. Both these conditions make the recovery difficult. Further, after Audit pointed out the fact, KSCC had submitted a statement before the Honourable Court on 23.03.2023 to vacate the Order. Thus, irregular sanction of mobilisation advance resulted in contravention of CVC guidelines and non-recovery of amount due to KSCC.

Recommendation: Government should issue strict directions to all Government Departments and accredited agencies entrusted with execution of works to comply with the directions of CVC regarding mobilisation advance.

Kerala State Electricity Board Limited

3.5 Non-release of funds to the Master Trust amounting to ₹26,401.16 crore

The Master Trust could not invest funds and generate return for paying terminal benefits / pension to the employees/ pensioners of the Company as the Company failed to release sufficient funds to the Master Trust. Hence, the purpose of the Government to ensure terminal benefits/ pension, independent of the financial health of the Company, could not be achieved.

The Statutory Corporation, Kerala State Electricity Board (KSEB), was converted into a fully owned Government Company, Kerala State Electricity Board Limited (Company) and all the functions, properties, interests, and all rights and liabilities were transferred to it with effect from 31 October 2013.

The transfer scheme envisaged formation of a Kerala State Electricity Board Limited Employees Master Pension cum Gratuity Trust (Master Trust[237]) protecting the interests of the existing pensioners and the personnel transferred to the Company. The chronology of important events relating to the Master Trust is given in ***Appendix 39***. The liability on account of terminal benefits as per actuarial valuation was ₹12,419 crore as on 31 October 2013. This liability was to be funded jointly by GoK (through budgetary provision over a period of 10 years) and the Company (through issue of 20-year bond and 10-year bond to the Master Trust) as detailed in ***Appendix 40(a)***.

The Master Trust was responsible for disbursement of terminal benefits and pension from 01 April 2018 using the income generated from investment of funds received by redemption of bonds issued by the Company and budgetary support of the GoK, for ₹12,419 crore. In addition, the Company was liable to pay directly to the Trust any increase in actuarial valuation of terminal benefits for the subsequent years.

However, the Company failed to transfer funds to the Master trust as envisaged in the scheme leading to a shortfall of ₹26,401.16 crore. Hence the Master Trust could not invest and earn income from the investment for payment of terminal benefits, raising serious doubts on the sustainability of the Master trust. The shortfall in contribution to the Master Trust by the Company is as given below.

i. Retention of Government's contribution to Master Trust

During the period from November 2013 to March 2018, the GoK paid ₹2,850.61 crore in advance for redemption of 10-year bond and advance payment of budgetary support for transfer to the Master Trust ***(Appendix 40(b))***. The Company, however, did not transfer ₹2,850.61 crore to the Master Trust leading to interest loss of ₹1,026.22 crore[238].

[237] The Master Trust was formed with the Chairman and Managing Director of the Company as the Chairman and Trustee of the Trust.

[238] ₹2,850.61 crore at 9 *per cent* per annum, simple interest for four years.

ii. Failure to transfer full amount for redemption of bond

The Company had a liability to transfer ₹7,196.08 crore to the Master Trust from 2018-19 to 2021-22. However, it transferred only ₹7,050.66 crore to the Master Trust leading to a shortage of ₹145.42 crore.

iii. Non-payment of actuarial liability for the period 2013–2022

The Company failed to pay the actuarial valuation of the terminal benefits every year and the liability towards terminal benefits accumulated to ₹35,824.13 crore as on 31 March 2022. The net increase in actuarial valuation over the years was ₹23,405.13 crore from ₹12,419 crore in October 2013.

iv. Failure to pay penal interest for delayed payments

The Company failed to transfer the principal and interest to the Master Trust, on 1st of April of every year as envisaged in the re-vesting scheme. This resulted in a liability for payment of additional interest at the rate of 24 *per cent* per annum which worked out to ₹1,210.42 crore as shown in ***Appendix 41*.**

Table 3.10 : Year-wise shortfall in transfer of funds by KSEBL to Master Trust

Sl. No.	Period	Non-payment of increase in actuarial liability (₹ in crore)	Retention of Government's contribution to Master Trust (₹ in crore)	Shortfall in transfer of amount for redemption of bond (₹ in crore)
(1)	**(2)**	**(3)**	**(4)**	**(5)**
1	2012-13	-	52.40	-
2	2013-14	-	296.61	-
3	2014-15	-	638.50	-
4	2015-16	-	638.50	-
5	2016-17	3,728.70	638.50	-
6	2017-18	1,584.88	586.10	-
7	2018-19	1,595.15	-	429.66
8	2019-20	1,032.00	-	208.10
9	2020-21	14,152.56[239]	-	198.81
10	2021-22	1,311.84	-	(691.15)
	Total	**23,405.13**	**2,850.61**	**145.42**
Grand Total (3)+(4)+(5)		**26,401.16**		

239 The Company revised its pay twice – 2016 and 2021, without the approval of GoK. The impact of the pay revision is seen in the sudden jump of actuarial liability from ₹20,359.73 crore in 2019-20 to ₹34,512.29 crore in 2020-21

Thus, as seen from **Table 3.10**, the Company failed to contribute ₹26,401.16 crore[240] on three accounts as stated above, besides causing interest loss of ₹2,236.64 crore[241] to the Master Trust.

The Company replied (February 2023) that due to adverse financial condition, it was not able to pay the full amount of interest and principal of bonds each year to the Master Trust as envisaged. Hence, it had already requested the Government to issue sanction for issue of bonds for the increased actuarial valuation amount as on 31 March 2022.

The Government endorsed (April 2023) the reply of the Company and stated that suitable action would be taken at the earliest for issue of bonds.

The Company also stated that it had already paid ₹47.11 crore in excess to the Master Trust as on 31 March 2022. The reply of the Company is not correct because from April 2018 to March 2022, the Company transferred only ₹7,050.66 crore to the Master Trust against the actual dues of ₹7,196.08 crore, leaving a deficit of ₹145.42 crore. Further, it has not reckoned the interest for delayed remittances and increased liability on account of actuarial valuation over the years.

Thus, the purpose of the Government to protect the interests of personnel and pensioners of the Company by providing them terminal benefits/ pension independent of the financial health of the Company by constituting and enabling a Master Trust was not achieved even after nine years.

Recommendation: Government should ensure that the Company remits the dues to the Master Trust on time as envisaged in the transfer scheme.

3.6 Implementation of pay revision without approval of Government

Implementation of pay revision violating Articles of Association of the Company and orders of Government of Kerala entailed an irregular expenditure of ₹1,011 crore towards arrears of pay and allowances and ₹306.66 crore towards arrears of pension revision.

Articles 55 and 56 of the Articles of Association of the Company require prior approval of Government of Kerala (GoK) in matters of service conditions of the employees. Moreover, the Company has to implement any direction/ instruction in regard to the affairs or conduct of business of the Company from the GoK on any matter.

The Board of Directors of the Company, however, revised the pay, allowances and pension of its employees without the approval of GoK on 26 February 2021. The Company and its predecessor entity, Kerala State Electricity Board (KSEB) have resorted to such irregular revisions several times in the past *viz*., 1995, 2001, 2007, 2011 and 2016. In this regard, Audit noticed the following:

240 ₹2,850.61 crore plus ₹145.42 crore plus ₹23,405.13 crore.
241 ₹1,026.22 crore plus ₹1,210.42 crore.

- The CAG of India had commented[242] on the irregular pay revision in 1995 by the KSEB. GoK had then assured (February 2009) the Committee on Public Undertakings (CoPU) that decisions regarding pay revision of KSEB will be taken only after obtaining approval of the Government. Despite these assurances, the Company revised the pay in 2011, 2016 and 2021 without the prior approval of GoK. The Pay Revision of 2016 is yet to be approved by GoK.
- When the Company had implemented revision of pay and allowances[243] of its officers and workmen in February 2016, GoK had suggested (August 2016) discontinuation of some elements of pay like cadre pay, and implementation of pay revision prospectively with effect from the date of effect of next revision for State Government employees. This was in view of the better scale of pay and perks enjoyed by employees of the Company as against the employees of State Government, and the fragile financial position of the Company. However, the pay revision of 2021 was implemented ignoring these directions of GoK.
- The increased annual financial burden on account of Pay Revision 2021 was estimated at ₹543 crore *per annum.* As a result, the expenditure on emoluments increased from 23.77[244] *per cent* to 46.59[245] *per cent* of its revenue during the period 2017-18 to 2020-21. Further, the steep increase in liability by ₹14,152.56[246] crore on account of increase in terminal benefits as per actuarial valuation, during the period from 2019-20 to 2020-21, was mainly on account of pay revision. This also added to the liability of the Company for transferring funds to the Master Trust as discussed in ***Paragraph 3.5***.
- As the Pay Revision was implemented with retrospective effect from July 2018, the Company paid arrears of pay and allowances (₹1,011 crore) and pension (₹306.66 crore) amounting to ₹1,317.66 crore.

The increased expenditure on account of pay and pension revision will further weaken the already fragile financial position of the Company in view of its negative net worth increasing from ₹8,605.38 crore in March 2020 to ₹15,701.34 crore in March 2022.

The matter was reported to the Government in August 2022. The Company replied (March 2023) that the pay revision was based on a Long-Term Settlement with recognised trade unions, which is a legally binding agreement. The Company cannot deviate from its obligation for want of approval from Government, which is a time-consuming process. The reply is not factual as the Company was authorized to enter into Long-Term Settlement only with approval of Government.

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242 Report No.1 (Commercial) – Government of Kerala- of the Comptroller and Auditor General of India for the year ended 31 March 1997 (Paragraph 4.2.1.1).

243 Pay revision for the period from July/August 2013 to June/ July 2018.

244 In 2017-18, the Employee benefit expenses : ₹3,038.40 crore and Income : ₹12,784.95 crore.

245 In 2020-21, the Employee benefit expenses : ₹7,067.28 crore and Income : ₹15,169.60 crore.

246 For the period from 2019-20 to 2020-21 (₹34,512.29 crore less ₹20,359.73 crore = ₹14,152.56 crore).

Finance Department, GoK stated (December 2022) that it has requested Power Department to take stringent action such as withholding of grant, taking disciplinary action against the delinquent officers, *etc*. for ignoring the Government directions. The Power Department, however, is yet to act upon this request of the Finance Department.

The reply of Power Department, GoK is still awaited[247](April 2023).

Thus, continuous revision of pay and allowances by the Board of Directors without the approval of the Government is not only violating the Articles of Association of the Company but is also in contempt of the recommendations of the COPU.

Recommendations:

Government should ensure that:

- ***the Company revises its pay and allowances and pension only with the prior approval of the Government***
- ***the Power Department takes stringent action such as withholding of grant, taking disciplinary action against the delinquent Board Members, etc. for ignoring Government's directions.***

3.7 Non-inclusion of price variation clause in purchase order resulted in avoidable extra expenditure

Procurement of High-Tension Aerial Bunched Cable at different rates from the same firm during the same period resulted in avoidable extra expenditure of ₹1.73 crore.

Kerala State Electricity Board Limited (Company) is engaged in the generation, transmission and distribution of electricity in Kerala. The market prices of electrical products showed wide fluctuations due to fluctuations of raw materials used for their manufacture. Kerala State Electricity Board[248] (Board) had decided (May 2008) to include price variation clause (PV) in contracts for purchase of materials[249], if the delivery period exceeds six months. Clause 7.1.4 of the Procurement Manual (2017) of the Company prescribed that IEEMA[250] formula should be used in purchase orders with price variation clause.

The Chief Engineer (Distribution South) (CE-DS) of the Company invited (August 2018) two-part tenders for the supply of 440 km of High-Tension Aerial Bunched Cables (HTABC)[251]. After evaluation of the bids by the Financial Adviser (12 December 2018) and the purchase committee (04 January 2019), the CE-DS placed

[247] The matter was brought to the notice of Government as a Statement of Facts in January 2022. Later the Draft Paragraph was issued and reminder letters were issued on 06 October 2022, 21 December 2022, 13 February 2023 and 15 March 2023. The Draft Paragraph was modified and re-issued (12 May 2023) to the Government. A meeting was also conducted with the Additional Chief Secretary, Power Department on 15 March 2023 for soliciting reply in this regard.

[248] The predecessor entity of KSEBL.

[249] having metal content of 50 *per cent* or more.

[250] Indian Electrical and Electronics Manufacturers' Association.

[251] These cables provide higher safety and reliability, lower power losses and is ideal for power distribution in rural areas, difficult terrains, and also for congested urban areas.

(January 2019) purchase orders with Paramount Communications Limited and Havells India Limited for the supply[252] of 380 km and 132 km, respectively, of HTABC at an all-inclusive rate[253] of ₹8,02,460 per km. The total value of the purchase order was ₹35.31 crore. The purchase order, however, did not include PV clause. The supply was to be completed within 60 days from the date of purchase order. The firms supplied 447.417 km of HTABC, belatedly, during the period from April 2019 to August 2019. As enabled by the purchase order, the CE-DS gave additional orders (September 2020), which had a PV clause, for additional quantity of 110 km of HTABC.

In this connection, Audit noticed (March 2022) that

- The basic price of raw materials used in the manufacture of HTABC decreased by 2.55 *per cent* to 6.35 *per cent* during the delivery period as seen from the IEEMA circulars for the period March 2019 to August 2019. The Company could not take advantage of the downward price variation as the CE-DS had not included PV clause in the tender/ purchase order and thus, had to pay for the entire purchase quantity at the firm rate. The avoidable extra expenditure worked out on this score was ₹1.73 crore as shown in ***Appendix 42.***

- It was noticed that the Chief Engineer (Supply Chain Management) (CE-SCM) of the Company had placed (December 2018) Purchase Orders with two firms[254] with delivery period ranging from 60 to 90 days. Audit noticed that these purchase orders were on variable price basis, as per IEEMA formula and were cleared by the Financial Adviser (29 November 2018) and Purchase Committee (05 December 2018).

- However, the Purchase Orders placed (January 2019) by CE-DS during the same period, were on firm price basis without PV clause. It was noticed that the Financial Adviser and the Purchase Committee[255] were negligent in not pointing out the absence of PV clause during the same period.

The Government replied (October 2023) that PV clause was included in tenders if the delivery period exceeds six months, as decided by its Board in May 2008. If the delivery was completed within 60 days, the anticipated financial loss due to downward trend in price arrived at using the IEEMA price variation formula would not apply.

The reply is not tenable, as no justification to exclude (May 2008) PV clause in contracts with delivery period less than six months was given. The Procurement Manual of the Company (2017) had not prescribed any delivery period in connection with PV clause. As such, there was nothing which prevented the Company from including PV clause in tenders whose delivery schedule was below six months. Further, the delivery period stipulated in the Purchase Orders placed

[252] On 70:30 ratio.
[253] Basic price of ₹6,46,000.
[254] M/s.APAR Industries Limited and M/s.Paramount Communication Limited.
[255] consisting of Chairman and Managing Director as its Chairman. All the Full Time Directors along with the Financial Adviser are Members and the Chief Engineer (SCM) is the Convener.

by the Chief Engineer (Supply Chain Management) was less than six months. Also, the Company while placing (September 2020) orders for the additional quantity of 110 km of HTABC had included a clause for price variation, even though the supply was to be completed within 60 days. The Company had also acknowledged (June 2022) that after the audit observation, PV clause was included in all the subsequent tenders.

Thus, non-inclusion of PV clause in the contract led to incurring of extra expenditure of ₹1.73 crore.

Responsiveness on the Paras by Government on this Report

3.8 Statements of Facts followed by Draft Audit Paragraphs proposed for inclusion in this Report of the Comptroller and Auditor General of India were forwarded to the Principal Secretaries/ Secretaries of the six Departments[256] concerned drawing their attention to the audit findings and requesting them to send their response within four weeks. Replies to thirteen Compliance Audit Paragraphs were received from Government which is suitably incorporated in this Report. Replies to four Compliance Audit Paragraphs were yet to be received (December 2023) from the State Government.

Thiruvananthapuram,
The 20 June 2024

(S. SUNIL RAJ)
Principal Accountant General
(Audit II), Kerala

Countersigned

New Delhi,
The 03 July 2024

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

[256] Archaeology, Museums and Zoos, Industries, Forest and Wildlife, Public Works and Power.