

## **2.3 OPERATIONAL PERFORMANCE OF KERALA STATE CONSTRUCTION CORPORATION LIMITED**

### **Highlights**

**Kerala State Construction Corporation Limited set up to function as a civil construction agency for the execution of the works of the Public Works Department (PWD), economically and effectively and to break the monopoly of private contractors, failed to achieve its objectives owing to low participation in PWD works and the execution of work through private sub-contractors. Audit noticed that:**

- **the Company executed annual value of works to the extent of only 15.70 to 27.37 per cent of the works in hand involving delay of up to 165 months.**
- **the average annual value of work executed was only Rs.11.26 crore when compared to Rs. 20.60 crore required to cover the actual annual average establishment expenditure.**
- **inordinate delay in execution resulted in termination of 14 works, worth Rs.18.20 crore by the clients at the risk and cost of the Company.**

*(Paragraphs 2.3.1, 2.3.8, 2.3.11, 2.3.13, 2.3.14 and 2.3.16)*

**High overhead expenses, low margin on works, inordinate delay in completion of works, diversion of funds, delay in raising/realisation of bills and holding of surplus man power contributed to the poor working results of the Company.**

*(Paragraphs 2.3.13, 2.3.14 and 2.3.19 to 2.3.23)*

**The Company diversified to toll collection activity and incurred a net loss of Rs.1.12 crore due to unrealistic estimation of revenue prior to bidding.**

*(Paragraph 2.3.25)*

### **Introduction**

**2.3.1** Kerala State Construction Corporation Limited (KSCC) was incorporated in March 1975, as a fully owned Government Company to function as a civil construction agency with a view to break the monopoly of the private contractors; to achieve economy in the execution of works of the Public Works Department (PWD); and to improve the quality of works. The Company is mainly engaged in the execution of civil works viz. Bridges, Buildings, etc., and also in collection of toll and providing consultancy services to Government agencies on execution of works.

The Company is managed by a Board consisting of six Directors, including the Chairman and the Managing Director. The Company has six\* Regional Offices under the control of Regional Managers.

A long paragraph on the deficiencies noticed in the execution of contracts by the Company was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1993.

### **Scope of audit**

**2.3.2** The present review conducted during the period from December 2004 to May 2005 covers the operational performance of the Company for the period of five years from 2000-01 to 2004-05.

### **Audit objectives**

**2.3.3** The performance audit of the Company was conducted with a view to assess whether:

- the Company could act successfully as an agency to restrict the monopoly of private contractors in the execution of Government works;
- the works awarded were executed systematically to achieve economy, efficiency and effectiveness in execution; and
- the available resources were utilised properly and effectively.

### **Audit criteria**

**2.3.4** The audit criteria considered for assessing the achievement of audit objectives were to evaluate whether :

- the share of the Company in the execution of Government works had been adequate to thwart the monopoly of private contractors;
- proper procedures had been adopted in the submission of tenders, execution of awarded works and in preferring the bills for work done; and

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\* Thiruvananthapuram, Kottayam, Ernakulam, Trichur, Kozhikode and Kannur

- timely completion of work had been ensured and delay in execution and consequent cost overrun avoided.

#### **Audit methodology**

2.3.5 Audit examined the records maintained at the Head office as well as the six Regional offices of the Company. In addition, the Company provided information/data on the works undertaken, completed and in progress which have been examined during audit for the purpose of gathering evidence.

#### **Audit findings**

2.3.6 Audit findings as a result of test check were reported to the Company/Government in July 2005 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 25 July 2005, which was attended by the Secretary to Government of Kerala, Public Works Department, and Managing Director of the Company. The views expressed by the members have been taken into consideration while finalising the review.

Audit findings are discussed in the succeeding paragraphs :

#### **Securing of works**

2.3.7 The Company had been securing works from the Public Works Department (PWD) of the State Government and other State/Central Government Agencies (CGA) on guideline<sup>#</sup>/allotment\* basis or by participation in the open tenders floated by them. The works were being executed either as an agent or consultant, where tendering of the works, supervision, execution and submission of the accounts to the client, etc., were undertaken by the Company. In respect of tendered works, the Company acted as a contractor and the works were executed through sub-contractors.

#### ***Participation in PWD tenders***

2.3.8 The Company obtained PWD works mainly by participating in the open tenders floated by the Public Works Department (Roads & Buildings), on percentage basis, estimated on the basis of the department's schedule of rates. The Company had not laid down any policy for participating in such tenders and the basis for the rates quoted were not recorded. Even though the Company had stated that a preliminary feasibility study was being undertaken before quoting for the tenders, results of such study were not recorded. **Annexure 13** provides the details of tenders floated by PWD, tenders in which the company participated, works awarded by PWD and percentage of participation during the four years up to 2003-04.

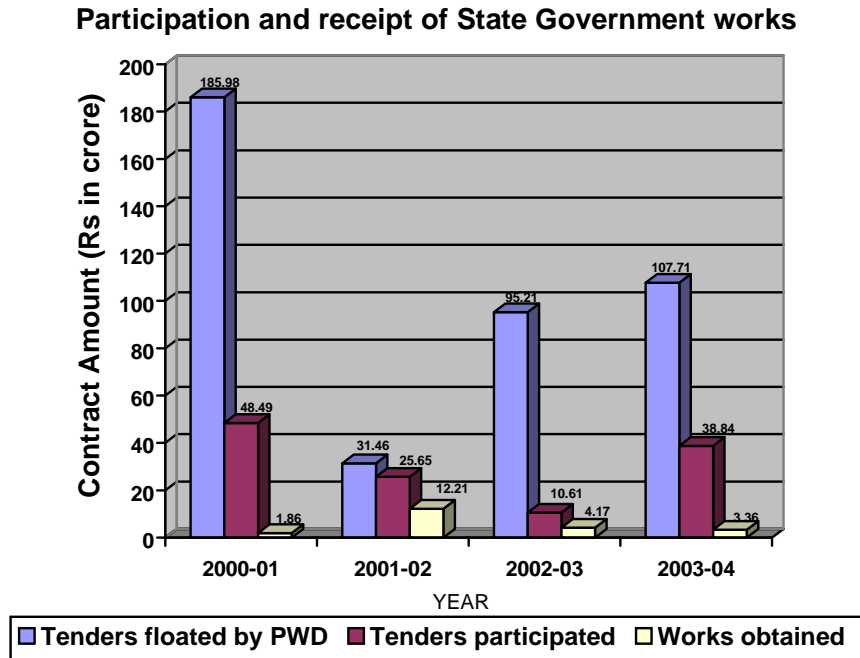
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<sup>#</sup> Estimates of the works prepared as per PWD schedule of rate and contract amount fixed by a Committee of the Government.

\* Works allotted by the client department with a specific contract amount.

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A bar chart showing the Company's participation in PWD works and receipt there against is given below:



**The company had participated only in 61 tenders, out of 323 tenders floated by PWD.**

Details in the Annexure indicated that out of 323 tenders (value Rs.420.36 crore) floated by PWD, the company participated in 61 tenders (value Rs.123.59 crore) against which it received only nine work orders valued at Rs.21.60 crore. The percentage of number of tenders participated worked out to 18.89 (29.40 *per cent* in terms of value). While the principal objective of the Company was to execute PWD works economically and efficiently so as to break the monopoly of private contractors, very low participation in PWD tenders was not in conformity with the basic objective.

According to the Management (April 2005), its active participation in Government tenders induced private contractors to under quote and indirectly bring down the cost of Government works. The reply is not acceptable as low level of participation in tenders floated by PWD during the period from 2000-01 to 2003-04 indicated absence of significant presence of the company in the field. Increased participation of the Company in PWD tenders with realistic rates would have brought more savings to Government and thereby fulfilled the main objective of its formation. The Company had not analysed the reason for low participation in PWD tenders with a view to take corrective actions.

The Management further attributed (July 2005) lack of financial resources for low participation in PWD tenders. Management's reply is not tenable as the financial crunch was due to Company's failure in presenting bills in time,

following up claims properly, lack of concrete measures to obtain funds from Government, etc., as discussed in paragraph 2.3.19 *infra*.

### **Position of works in hand**

**2.3.9** Works in hand under various categories at the end of March 2005 were as given in the table below:

Particulars	PWD Works		Other State Agencies (Rs.in crore)	Central Agencies (Rs.in crore)	Total works* (Rs in crore)
	(Rs.in crore)	Percent-age			
Basis of receipt : Allotment/ Guideline	5.88	12.14	40.78	1.76	48.42
Open tenders	39.29	88.36	5.17	...	44.46
<b>Total Works</b>	<b>45.17</b>	<b>48.63</b>	<b>45.95</b>	<b>1.76</b>	<b>92.88</b>
In the capacity: As Agent/Consultant	...	...	38.55	1.76	40.31
As Contractor	45.17	85.92	7.40	...	52.57
<b>Total Works</b>	<b>45.17</b>	<b>48.63</b>	<b>45.95</b>	<b>1.76</b>	<b>92.88</b>

Of the total works in hand at the end of March 2005, works amounting to Rs.45.17 crore (48.63 *per cent*) only pertained to PWD indicating comparatively meagre participation and receipt of PWD works.

The work in hand included 33 works valuing Rs.74.46 crore in respect of which, scheduled date of completion had already been crossed by periods ranging from three to 77 months.

### **Construction Performance**

**2.3.10** The Company had not developed its own infrastructural facilities and as such the works awarded to it were got executed through private contractors. Of the works available as of March 2005 (Rs.111.50 crore), 11.30 *per cent* works were being executed through piece work contracts and 88.70 *per cent* through sub-contracts. In the absence of infrastructural facilities the Company could act only as an agent in the execution of works and not as a full-fledged construction Company.

The Management stated (July 2005) that lack of working capital and non-release of authorised capital in full by the Government have compelled the Company to entrust works to private sub-contractors. The reply is not tenable for the reasons stated under paragraph 2.3.8 *supra*.

**2.3.11** The construction performance of the Company in terms of value of actual work done with reference to the available quantum of work in each of the five years up to 2004-05 is indicated in **Annexure 14**.

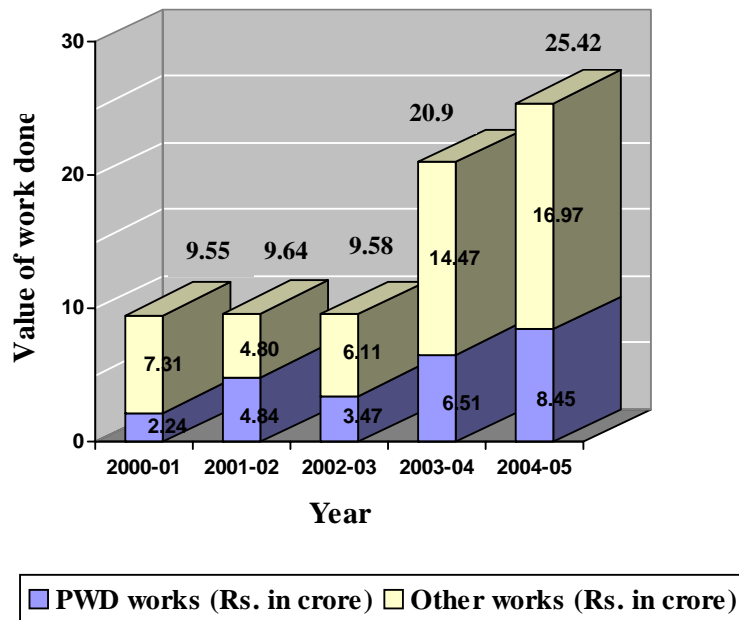
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\* This represents balance Probable Amount of Contracts (PAC), i.e., total Available Works (Rs.111.50 crore) minus value of works partially completed (Rs.18.62 crore) as of March 2005.

It would be seen that the actual works executed by the Company with reference to the total value of works on hand ranged from 15.70 to 27.37 *per cent* during the period from 2000-01 to 2004-05. Improvement in construction performance during 2003-05 could be attributed to the water supply augmentation project at Chowara – Parur for a total contract value of Rs.56.14 crore obtained during 2003-04, in respect of which the Company had formed a consortium with private contractors for pre-qualification bid and execution of the work. Excluding this work (Rs.8.89 crore for 2003-04 and Rs.9.98 crore for 2004-05) the value of actual work done in respect of PWD, Central agencies and other State agencies for the two years would be Rs.12.09 crore and Rs.15.44 crore only.

**2.3.12** The value of PWD works executed by the Company during the five years up to 2004-05 ranged between 23.46 and 50.21 *per cent* of the total value of works executed. Thus, though the company was established for undertaking works for the PWD, the actual execution was low, as may be seen from the diagram below:

**Execution of works during the five years up to 2004-05.**



***Under recovery of overheads***

**2.3.13** Recovery of the establishment cost depended on the value of work done during the year; low out turn of works could be attributed as the primary reason for the poor working results of the Company. In 63, out of 82, completed works test checked, the percentage of establishment and administrative expenditure to the value of work done (excluding that of water supply augmentation project - Chowara) ranged between 19.62 and

37.90 per cent during the five years ending 2004-05 (**Annexure 14**), against the average gross margin of 10.74 per cent calculated on the value of work done. Further, the centage charges\* fixed by Public Works department for the period 2000-2005 were 13.5 per cent. With reference to this rate the excess establishment and administration expenses worked out to Rs.7.31 crore during the period 2000-2005.

**Average annual value of work executed was Rs.11.26 crore as against the value of Rs.20.60 crore required to cover even the establishment expenditure.**

Considering the average gross margin of 10.74 per cent, the Company has to execute works for a minimum value of Rs. 27.75 crore to cover the average annual overheads of Rs. 2.98 crore. For covering the establishment expenditure (Rs. 2.21 crore) alone, the Company should execute annually works valued at Rs.20.60 crore. The annual average value of work done during the period of review was, however, only Rs.11.26 crore.

### **Completed works**

#### **Delay in execution**

**2.3.14** The Company has not compiled any data relating to the construction performance of ongoing/completed works. Client-wise analysis of construction performance in respect of completed works during the five years up to 2004-05 as compiled during audit is given in the table below:

(Rs in crore)

Sector	Works undertaken		Works scheduled to be completed		Works completed			Cost over run	
	No.	Amount	No.	Amount	No.	Amount	Value of work done	No.	Amount
PWD	48	83.40	43	65.41	18	16.37	16.80	9	1.32
Other state agency	65	100.35	64	96.69	28	21.01	21.63	13	1.37
Central agencies	38	31.69	38	31.69	36	31.17	38.68	18	7.67
<b>Total</b>	<b>151</b>	<b>215.44</b>	<b>145</b>	<b>193.79</b>	<b>82</b>	<b>68.55</b>	<b>77.11</b>	<b>40</b>	<b>10.36</b>

In this regard the following deserve mention:

- The Company completed only 35 per cent works out of the total works undertaken indicating poor level of execution of works.
- Out of the 82 works executed only 10 works were completed and handed over to the client departments within the scheduled date of completion. The remaining 72 works were executed after a delay ranging from one to 165 months.

The Management attributed (August 2005) delay in release of payment by the client departments as the primary reason for the lower achievement in the execution of works. The reply is not tenable as there was inordinate delay ranging from two to 52 months in preferring the bills for the works executed as discussed under para 2.3.21.

- The value of work done in respect of 40 works exceeded the aggregate contract value of Rs.45.36 crore by Rs.10.36 crore and the cost over run worked out to 23 per cent. This was mainly due to delay of up to

\* Charges fixed by PWD for meeting the overhead expenses to be collected from clients.

92 months in the execution of PWD works, 42 months in the case of other State Agency works and 165 months in the case of Central Agency works. Instances involving significant cost over run on account of delay in execution of work are discussed below:

- The construction of Jawahar Navodaya Vidhyalaya Building, Vechoochira contracted for completion within a period of three years (March 1991) at a cost of Rs.1.63 crore, was completed in January 2005 at a cost of Rs. 3.12 crore, after a delay of 13 years and 9 months involving cost over run of Rs 1.49 crore.
- The construction of Hospital building for Medical College, Thrissur, envisaged to be completed in January 1997 at a cost of Rs.2.76 crore, was actually completed in May 2004, after a delay of more than seven years, at a cost of Rs.3.42 crore resulting in cost over run of Rs. 66 lakh.

**Profitability of completed works**

**2.3.15** The Company had not evolved a system for evaluating the profitability of each work on completion. The Company executed 82 works during the five years up to 2004-05. It, however, failed to ascertain the profit/loss of each work. A test check conducted in respect of 63 works revealed that despite gaining a gross margin in all the works, the Company sustained heavy net loss due to excessive expenditure towards establishment and other administrative overheads (OH), as indicated in the following table:-

(Rs. in crore)

Name of Client Department	Number of works	Value of work done	Value of work done by sub-contractor	Gross margin	Total OH# @ 26.5 per cent of value of work done	Net profit/loss (-)
<b>1. Loss sustained works :</b>						
PWD	6	4.62	4.00	0.62	1.23	(-)0. 61
Other State Agencies	12	5.19	4.43	0.76	1.37	(-)0. 61
Central Agencies	36	38.68	35.50	3.18	10.25	(-) 7.07
<b>Total</b>	<b>54</b>	<b>48.49</b>	<b>43.93</b>	<b>4.56</b>	<b>12.85</b>	<b>(-) 8.29</b>
<b>2. Profitable works :</b>						
PWD	1	1.37	0.90	0.47	0.36	0.11
Other state agencies	8	1.81	1.29	0.52	0.48	0.04
<b>Total</b>	<b>9</b>	<b>3.18</b>	<b>2.19</b>	<b>0.99</b>	<b>0.84</b>	<b>0.15</b>

**The Company incurred a net loss of Rs.8.29 crore in respect of 54 completed works.**

It may be seen from the table that the Company achieved total net profit of Rs.0.15 crore in nine works and the remaining 54 works ended in aggregate net loss of Rs.8.29 crore. The overall net loss worked out to Rs.8.14 crore. The gross margin obtained in 51 works, out of the 63 works, could not even cover the labour overhead (apportioned at the rate of 19.7 per cent of the value of work done) resulting in net loss of Rs.5.03 crore as shown in the following table :

# Percentage of total OH to value of work done was arrived at based on weighted average of five years OH upto 2004-05



(Rs. in crore)

Name of client department	Number of works	Value of work done	Value of work done by sub-contractor	Gross margin	Labour OH ♦ @ 19.7 per cent of value of work done	Net loss
PWD	6	4.62	4.00	0.62	0.91	0.29
Other State Agencies	10	4.96	4.28	0.68	0.98	0.30
Central Agencies	35	37.77	34.77	3.00	7.44	4.44
<b>Total</b>	<b>51</b>	<b>47.35</b>	<b>43.05</b>	<b>4.30</b>	<b>9.33</b>	<b>5.03</b>

### **Termination of works at Company's risk and cost**

**2.3.16** During the period from February 1996 and March 2005 the Company had commenced 145 works valuing 193.79 crore and these works were under execution. Out of the above, 14 works valued at Rs.18.20 crore (9 per cent) were terminated by the client departments at the risk and cost of the Company due to inordinate delay in the execution.

**Works worth Rs.18.20 crore were terminated due to delay in execution.**

These works were originally scheduled for completion in periods ranging from four to 25 months. Even after availing a period of nine to 67 months from the date of commencement of work, two works had not been taken up and the percentage of completion in respect of the remaining 12 works ranged between three and 97. As against the contract value of Rs.18.20 crore, the Company could complete construction worth Rs.4.36 crore only (24 per cent) and payment of Rs.3.60 crore was received. As all the works were terminated at the risk and cost of the Company, the value of work done amounting to Rs.76 lakh could not be realised.

Instances noticed during audit where the contracts were terminated at the risk and cost of the Company, are discussed in the succeeding paragraphs.

### **Construction of Muttakkavu Bridge**

**2.3.17** The Company executed (October 1998) an agreement with PWD for reconstruction of Muttakkavu Bridge, Kollam at a probable amount of contract (PAC) of Rs. 1.89 crore with stipulated date of completion as April 2000. This work was sub-contracted in September 1999 at a total contract value of Rs. 1.65 crore.

The progress of the work was very poor and even after a lapse of about five years only 25 per cent of the work was completed. PWD terminated (March 2004) the contract at the risk and cost as per the terms of the agreement. The liability of the Company in this regard had not been fixed (May 2005).

It was noticed during audit that the work of Panayilkadavu bridge awarded to the Company and sub-contracted (March 1990) to the same contractor was terminated by the PWD (October 1997) at the risk and cost of the Company. The liability on the work (Rs.40 lakh) as worked out by the Company was yet to be recovered (August 2005). Ignoring this the construction of Muttakkavu

♦ Percentage of labour OH to value of work done was arrived at based on weighted average of five years labour OH upto 2004-05.

bridge was also awarded (September 1999) to the same sub-contractor after terminating the first work at his risk and cost.

**Awarding of work to an incompetent contractor resulted in its termination and consequent risk and cost liability.**

The awarding of the work to a contractor, despite prior knowledge about his incompetence to undertake works, ended up in termination of the second work also at the risk and cost of the Company. The liability of the Company to PWD on this work had not been intimated. The Management stated (July 2005) that its request for revoking risk and cost termination was under the consideration of the Government.

**Construction of Mini Civil Station building.**

**2.3.18** The PWD awarded (December 1999) the work of construction of Mini Civil Station building at Mapranam at a contract amount of Rs.4.39 crore and handed over the site in January 2000. The scheduled date of completion was January 2002. The Company sub-contracted (May 2000) the work at an agreed PAC of Rs. 3.99 crore.

Due to financial constraints the sub-contractor stopped (October 2000) the work at site after executing 2.85 *per cent* of the total estimated cost of the work. The Company preferred a claim (November 2000) of Rs. 12.51 lakh against the value of work done and received Rs. 6.60 lakh from the PWD (May 2005).

As the sub-contractor abandoned the work, the Company terminated (May 2002) the contract at his risk and cost after a lapse of 19 months from the date of stoppage of work. The Company, however, failed to rearrange the work and PWD terminated (July 2002) the agreement with the Company at its risk and cost. The PWD fixed the risk and cost liability of the Company at Rs. 1.23 crore and directed (October 2004) the Company to remit the amount. The Company's request (November 2004) to revoke the termination of the work had not been considered by PWD (May 2005).

**The delay in rearranging the work, after abandoning by the sub-contractor resulted in its termination and consequent risk and cost liability of Rs.1.23 crore.**

The Management stated (July 2005) that its request for revoking risk and cost termination was under the consideration of the Government. The reply is not acceptable as considering the financial constraints of the contractor the work should have been terminated immediately and re-arranged through financially sound pre-qualified contractors, thereby avoiding the risk and cost liability of Rs. 1.23 crore.

**Factors responsible for deteriorating financial position**

**The accumulated losses exceeded the paid up capital by 2136.79 *per cent***

**2.3.19** The Company had been incurring heavy losses since 1999-2000. The losses increased from Rs.35.66 lakh in 1999-2000 to Rs.4.03 crore during 2003-04. The accumulated loss as on 31 March 2004 stood at Rs.19.46 crore and exceeded the paid up capital of Rs 87 lakh by 2,136.79 *per cent*. The billed revenue declined from Rs.32.46 crore in 1999-2000 to Rs.8.81 crore in 2003-04. The reasons attributed by the management for the poor performance, were low turnover due to delay in settlement of bills, increased cost and severe financial crunch. Audit scrutiny, however, revealed that high over head expenses, low margin on works (paragraph 2.3.13), inordinate delay in completion of works (paragraph 2.3.14), diversion of funds (paragraph 2.3.20),

delay in raising/realisation of bills (Paragraph 2.3.21 and 2.3.22), and holding of surplus manpower (Paragraph 2.3.23) contributed to the loss.

***Diversion of Mobilisation advance***

**2.3.20** In most of the construction works awarded, interest free mobilisation advances were released to the Company at various rates up to 20 per cent of the contracted amount excluding the cost of departmental materials, to ensure uninterrupted execution of the work on condition that the amount be utilized exclusively for the work for which it had been released.

**Mobilisation advance of Rs.5.32 crore received from PWD was diverted for other purposes.**

On a review of the completed, terminated and ongoing works during the five years up to 2004-05, it was noticed that out of Rs.7.20 crore received in respect of 23 works from the clients, the Company utilised only Rs.1.88 crore for the intended purpose and the balance of Rs.5.32 crore was diverted for other purposes, the details of which were not on record. The works against which mobilisation advance was released were completed belatedly or remaining incomplete or terminated, mainly due to paucity of funds for the execution of works.

Further, in respect of 17 works, the Company had not released any amount to the sub-contractor and in the case of three works, though the contracts were terminated by the PWD, the unadjusted balance of the mobilisation advance of Rs.54 lakh was not returned but diverted for other purposes.

The Management, while admitting the fact, stated (July 2005) that the advances were diverted for other works and for payment of salary to its employees.

***Delay in presentation of final bills***

**Bills amounting to Rs.1.68 crore in respect of works completed were presented after a delay of two to 52 months.**

**2.3.21** The Company had not laid down any specific procedure for preparation and presentation of final bills. The final bills relating to 23 works during the period under review amounting to Rs.1.68 crore were prepared and presented for payment after inordinate delay ranging from two to 52 months, from the date of completion of work. The final bills in respect of 12 works (Rs.65 lakh) were yet to be submitted (December 2004) to the client departments and the delays ranged from two to 50 months. The loss of interest on this account worked out to Rs. 49.64 lakh. Instances of undue delay in realisation noticed during audit are discussed below:

- In the case of works executed (January 2001) on behalf of Jawahar Navodaya Vidhyalaya, Oorakam an amount of Rs.38.24 lakh was due (January 2001) from Navodaya Vidyalaya Samithi, New Delhi. The value of work done (Rs.4.68 crore) exceeded the sanctioned amount (Rs.4 crore) by Rs.68 lakh. As per the agreement conditions, variation up to 10 per cent over the sanctioned amount only would be allowed at the time of final settlement. Realisation of the cost overrun in excess of 10 per cent amounting to Rs.27.52 lakh, therefore, appears doubtful. Even after 50 months from the date of completion, the Company had not presented (February 2005) the final bill, though the payments to the sub-contractor had already been settled (July 2004).

The Management accepted (August 2005) the facts.

- In respect of the work of Rajeev Gandhi Institute of Technology, Pampady, though the Company claimed (March 2001) Rs.1.37 crore as value of work done, the PWD admitted only Rs.1.24 crore and the balance Rs.13.20 lakh was disallowed (March 2005) for reasons not on record. The Company had not raised any further claim against the disallowed amount. As the sub-contractor's account had been fully settled (September 2004) the disallowed amount (Rs.13.20 lakh) was a clear loss to the Company.

The Management replied (July 2005) that it had received all its claims. The reply is not acceptable as the records showed that the total value of work done by the Company was Rs 1.37 crore.

#### ***Inordinate delay in realisation of bills***

**2.3.22** During the period of review the financial position of the Company continued to be critical in view of the heavy losses in the past and non-realisation of substantial amounts from the clients. The bills pending realisation at the end of 2004-05 amounted to Rs.13.89 crore which included Rs.7.52 crore from PWD; Rs.4 crore from Other State agencies and Rs.2.37 crore from Central Agencies.

**Bills pending collection as at the end of 2004-05 amounted to Rs.13.89 crore.**

The reasons attributed (July 2005) by the Management for the delay were non-availability of provision in the Government budget for State Government works (Rs.6.52 crores), delay in approval of revised estimates and extra works (Rs.2.78 crore), non-receipt of bills relating to terminated works (Rs.1.06 crore) and other reasons (Rs.3.53 crore).

#### ***Surplus Manpower/Excessive Employee cost***

**2.3.23** The manpower position in the Company for the five year ended 31 March 2005 was as given in the **Annexure 15**. It would be seen from the Annexure that;

- the non-technical staff (199) constituted 78.66 *per cent* of the average staff strength (253) of the Company during the five-year period ending 31 March 2005; out of this, 68.84 *per cent* (137 nos.) represented site assistants (39), attenders/watchers (76), mechanical operators (9), drivers (13), etc., who were having no work owing to switching over to sub-contracting of the works.
- Out of Rs.2.21 crore incurred towards average employee cost for the five years ending 31 March 2005, Rs.1.66 crore represented payments to non-technical staff including site assistants (Rs.0.33 crore), attenders/watchers (Rs.0.51 crore), mechanical operators (Rs.0.07 crore) and drivers (Rs.0.11 crore). Since the works during the period under review were got executed through sub-contractors, the average annual expenditure on employee cost of site assistants, attenders/watchers, etc., amounting Rs.1.02 crore appeared unnecessary and wasteful.

The Management stated (July 2005) that the non-technical staff such as store-keepers, watch and ward, site assistants, contract helpers, etc., appointed when the project was executed directly by the Company could not be retrenched on switching over to execution of projects through sub-contractors due to various socio political situations prevalent and the Company has been exploring ways to re-deploy the surplus staff profitably. The company had not re-deployed the surplus staff till date (August 2005).

**Non-deployment of idle staff to needy works resulted in payment of idle wages to the extent of Rs.25.68 lakh.**

**2.3.24** The Company while sub-contracting the works, deployed its staff including Project Engineer, at the work site. On completion of the work or stoppage of work for a long period these staff were to be re-deployed to other needy sites. Audit noticed that in respect of eight works pertaining to the PWD which were stopped/completed/terminated, the project staff were retained at site for periods ranging from two to 21 months without work resulting in payment of idle wages amounting to Rs.25.68 lakh.

The Management stated (July 2005) that skeleton staff were retained at the site for preparation of bills, client follow-up, minor rectification work and for guarding the material at site. The reply is not tenable as retention of staff at site was not necessary for client follow up and preparation of bills and was not justified for such extended periods up to 21 months after completion of the work for minor rectification and for guarding materials at site.

#### **Diversification of activities**

**2.3.25** In order to improve its turnover the Company diversified (February 2001) its activity to collection of toll on behalf of Public Works (National Highways) Department. The Company was awarded the right to collect toll on the basis of open tender in four cases by PWD and by direct allotment in one case by Roads and Bridges Development Corporation of Kerala Limited (RBDCK) on lump-sum contract basis. The working result of the toll collection activity during the five years ending 2004-05 were as given in **Annexure 16**.

Audit analysis revealed that;

- The Company had not conducted any preliminary traffic survey to estimate the expected revenue collection in the case of Munambam Harbour and Kumbalangi Perumpadappu Bridge. Further in the case of Kumbalam – Aroor Bridge and Kundannoor – Thevara Bridge the Company conducted only 12 hours and 24 hours survey respectively, before submission of bid. The reduction on account of return tickets and concession tickets were not reckoned for the purpose of estimation of income. The failure of the Company to estimate toll collection in a realistic manner, prior to bidding, resulted in cash loss to the extent of Rs. 23 lakh in four (**serial no 1 to 4 of Annexure 16**) contracts secured on open tender basis and the toll collection activity ended up in a net aggregate loss of Rs.1.12 crore.

**Unrealistic assessment of revenue from toll collection before bidding resulted in net loss of Rs.1.12 crore.**

- The agreement terms provided for remittance of the license fee\* to PWD as per the schedule of remittance, and non-remittance attracted interest and penal charges. The Company failed to remit Rs.1.70 crore, out of Rs.4.44 crore payable in respect of five toll collection contracts. Owing to violation of contractual obligation, further tenders submitted for right to toll collection since 2001-02, were rejected by the PWD. In one case (Kundannur-Thevara) the Chief Engineer PWD (Highways) claimed (October 2004) dues of Rs.2.62 crore inclusive of interest, and penalty (Rs.1.83 crore) up to June 2004. In the remaining cases, claims were yet (May 2005) to be preferred by PWD. After debarring the Company from participating in tenders for right to toll collection, Government awarded the work to private agencies involving reduction in revenue amounting to Rs. 2.04 crore when compared to the rates offered in the previous contracts by the Company. This indicated that the rates offered by the Company were not realistic.

The Management/ Government stated (July 2005) that reduction in toll revenue was on account of reduction in traffic due to restrictions imposed by Government in sand mining and that penalties imposed in respect of Kundanoor-Thevara toll have been waived by Government. The reply is not tenable in the light of reduced offers by private agencies for the subsequent contracts and as waiver of penalty would not absolve the Company from its liability of payment of the licence fee.

**2.3.26** The work relating to Chowara Water Supply Augmentation Scheme of Kerala Water Authority was awarded (August 1998) to the Company acting in consortium with Water and Power Consultancy Services India Limited (a Government of India enterprise), on guideline basis. The estimate submitted by the Company was rejected on the basis of recommendation of a Committee constituted (December 1999) by Government since a consensus on cost could not be arrived at. Kerala Water Authority thereupon invited (July 2000) open tenders and the Company acting as a lead partner for a consortium of three private contractors quoted (August 2001) for the project at Rs.57.18 crore. The contract was awarded (March 2003) to the Company at a negotiated price of Rs.56.14 crore. Though the scheduled date of completion of work has expired (March 2002), only 35.71 *per cent* (value Rs.20.05 crore) of the work has so far (May 2005) been completed.

Audit scrutiny revealed that the Company had been acting as a lead partner to the consortium for this work and quoted for the work on behalf of the other firms owning full legal responsibility for all the liabilities arising out of the work. The Company's only gain from the project was a margin of Rs.1.80 crore which was added to the cost estimate submitted to the Kerala Water Authority at the instance of the consortium partners. It was further noticed that the Company acting as the lead partner to the contract was also not aware of the margin of profit included in the cost with a view to obtaining its due share.

The Management stated (July 2005) that the profit margin of consortium partners was not relevant to it as it could make a profit of Rs.1.80 crore

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\* Fee to be remitted to PWD by the toll collecting agency

without making any investment. The reply is not tenable as, the Company, in violation of its objective of controlling the excessive presence of private contractors in Government works, acted as a conduit for a private consortium in bagging a Government contract.

### **Conclusion**

The Company, incorporated in 1975 to function as a civil construction agency with a view to break the monopoly of private contractors and to achieve economy and efficiency in execution of works of Public Works Department, failed to achieve its laid down objectives due to low level of participation in the tenders floated by PWD. In the absence of adequate infrastructure, the works were executed through sub-contractors due to which the private contractors were benefited. The Company incurred heavy losses due to inordinate delay in the execution of works which resulted in cost overrun and under recovery of overheads. There was delay in presentation and realisation of bills which affected the fund position of the Company. Besides, low volume of execution of works, inadequate financial management, low margin on works executed, surplus man power, etc., also contributed to the deteriorating financial position of the Company.

### **Recommendations**

- *The Company should increase the participation in PWD works and monitor the execution of work effectively to ensure their timely completion.*
- *The Company should put in place an institutional mechanism for proper and timely coordination with various agencies, so as to minimise delay and hindrances in execution of works.*
- *The Company has to streamline systems and procedures for participation in tenders.*
- *The Company should evolve a proper system for analysing the profitability of each work so as to serve as an indicator for submission of tenders and for taking corrective action to reduce overheads.*
- *Excessive manpower in the Company requires down sizing.*
- *For timely realisation of the dues and for maintaining proper fund flow, the Company should prefer bills in respect of executed works, in time and, as per terms of the contract.*

The above recommendations were accepted by the Management during the ARCPSE meeting held on 25 July 2005.