

Chapter IV

4 MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

4.1 GOVERNMENT COMPANIES

4.1.1 The Kerala Minerals and Metals Limited

4.1.1.1 Infertuous expenditure

Redundant procurement of rotosil tubes and accessories resulted in infertuous expenditure of Rs.1.19 crore

The Company had been using silica structures consisting of 19 rotosil tubular hair pins each in the two streams (Stream A and Stream B) of its reactor for oxidation of titanium tetrachloride. As a part of technology upgradation to avoid high down time of the plant while using silica structures, the Company conducted trials since July 1997 and successfully inducted 'inconnel pipes'* in both A and B streams in August 1998 and May 1999 respectively. After complete change over to the new technology in May 1999, the Company held in stock 80 nos. of rotosil hair pins and accessories valued at Rs.2.04 crore which could not be used further. This included 40 nos, valued at Rs.1.19 crore received in January and April 1999 for which orders were placed in May 1998 and letter of credit thereagainst opened in June/July 1998.

It was noticed in audit that the Company had a stock of 157 nos. of rotosil hair pins and accessories (including 127 nos. pending supply against letters of credit already opened) when letters of credit were opened in June/July 1998 for further purchase of 40 rotosil tubes. The then existing stock of 157 rotosil tubes was sufficient to meet 9 months' requirement of the Company considering the average consumption of the material for the preceding three years up to 1997-98. In spite of adequate stocks and the advanced stage of technology upgradation to replace rotosil tubes by inconnel pipes, the Company unnecessarily procured 40 rotosil tubes and accessories instead of deferring the opening of letters of credit after the trials conducted in August 1998. Failure to do so resulted in redundant procurement and avoidable extra expenditure of Rs.1.19 crore.

Further purchase of rotosil tubes made despite sufficient stock and imminent technology upgradation

* Inconnel pipes are ceramic inserts for supported combustion in U-300, an intermediate plant.

Government stated (May 2001) that there was abnormal consumption of 65 nos. hair pins in January 1998 and it was necessary to procure more pipes for ensuring uninterrupted production. Moreover, the Board of Directors of the Company took decision for change over to 'Inconnel' pipes only in July 1998 and hence the procurement action taken in June 1998 could not be stopped. The reply is not tenable since the stock of 157 nos. of hair pins in June 1998 would have been sufficient to meet 9 months' requirement of the material considering the average consumption during the previous three years. There was also stand-by arrangement with the suppliers for airlifting 20 nos. of hair pins in case of emergency. Hence the orders for 40 nos. placed in June 1998 was avoidable.

4.1.1.2 Avoidable payment

Failure to estimate the income correctly for computation of advance tax resulted in avoidable payment of interest of Rs.0.24 crore

Income not estimated correctly despite adequate data

As per Section 208 of the Income Tax Act, 1961, companies having taxable income had to pay advance tax every quarter (15 of June, September, December and March) on the estimated income, failing which penal interest was payable under Section 234 C on the short-paid amount. The Company had a taxable income of Rs.12.79 crore (1997-98) and Rs.86.27 crore (1998-99) and the tax payable thereon was Rs.4.48 crore and Rs.30.19 crore respectively. However, the income was not estimated correctly and the advance tax paid for all the quarters (except for the quarters ended 15 March 1998 and September 1998) fell short of the requirement by Rs.11.09 crore. Further, the Company also failed to pay advance tax during the two quarters ended June and September 1997. Consequently, the Company had to pay interest of Rs.47.78 lakh on the short paid amount of tax. Against this the Company could earn interest to the extent of Rs. 23.88 lakh by depositing amounts equivalent to short-paid tax in treasury at 9 per cent per annum. The failure of the Company to estimate the income correctly for purpose of payment of advance tax (quarterly) during the years 1997-98 and 1998-99 resulted in net avoidable payment of interest of Rs. 23.90 lakh despite availability of surplus funds.

The Management stated (July 2001) that advance tax can be paid only on the basis of estimation and actual will be different from the estimation and that the advance tax paid was reasonably accurate under the given circumstances, parameters and assumptions on which estimation was made. The reply is not tenable since the pattern of actual monthly sales and periodical revision in selling price provided adequate data for correct estimation of income for the purpose of assessment of quarterly advance tax as prescribed under the Act. Moreover, the Company was also aware of the income for 2 ½ months for each quarter before remittance of advance tax.

The matter was reported to Government in June 2001; their replies are awaited (September 2001).

4.1.2 Kerala State Detergents and Chemicals Limited

Infructuous expenditure

Failure to repair and utilise the plant for 13 years resulted in infructuous expenditure of Rs.0.70 crore.

Guaranteed performance and quality not ensured at the time of commissioning

Mention was made in the Report of the Comptroller and Auditor General of India 1986-87 (Commercial) about the delay in commissioning of the second phase of the Sulphurex Plant of the Company intended for manufacture of Linear Alkyl Benzene Sulphonic Acid (LABSA). Though the machinery was purchased in June 1977, the project which was scheduled for completion in December 1979 could be commissioned at a total cost of Rs.70 lakh in May 1988 only, that too, without achieving guaranteed performance and quality of the product in the trial runs conducted during June 1986 to April 1988, due to inherent defects. The Company, however, did not take any further action for 9 years to rectify the defects with a view to starting commercial production but decided (December 1997) to dispose of the machinery and fixed (February 2000) an upset value of Rs.7.93 lakh since the purchase of LABSA was found to be more economical than inhouse manufacture. The Company was still (April 2001) awaiting orders of Government for disposing of the plant.

Failure of the Company to rectify the defects of the plant and start commercial production even after 13 years of its commissioning rendered the expenditure of Rs.70 lakh infructuous. No action has been taken to fix responsibility for the above loss.

The Government/Company stated (July 2001) that the plant could not be put to trial run in May 1983 due to paucity of funds but the trial run conducted in May 1985 could not stabilise production. The attempts to rectify defects and commission the plant in September/November/December 1986 and May 1988 did not succeed. The low capacity of the plant became a major constraint involving high cost of production and considering these aspects the Company decided (December 1997) to dispose of the plant. The reply is not acceptable since there was failure on the part of the Company in deciding the economic size of the plant, conducting trial run and commissioning of the plant in time, and invoking performance guarantee against the suppliers for non-performance of the plant.

4.1.3 The Kerala State Cashew Development Corporation Limited

4.1.3.1 Avoidable loss

Failure to include provisions in the contract for payment on actual out-turn basis resulted in avoidable loss of Rs.1.70 crore

The earlier contractual provisions were not included in subsequent contracts

To meet its processing requirement, the Company had been importing raw cashew nuts on landed weight and landed quality terms. Though the out-turn of kernels from raw cashew nuts was guaranteed in such contracts on the basis of cutting test conducted by the surveyors on raw nuts, the actual out-turn after shelling of roasted nuts in factories was always lesser leading to substantial loss. In order to avoid this loss, the Company modified (August 1999) the payment terms of contract from 'cutting test out-turn' to 'average actual out-turn' basis in respect of import of 4248 tonnes of raw nuts @ US \$ 1290/MT from M/s.Surice Trading Pte Limited, Singapore. However, while concluding (November 1999) contracts with two other Singapore based firms viz. M/s.Afrigrain Trading Private Limited and M/s.Noman Bhoy and Sons Private Limited (Noman Bhoy) for the import of a total quantity of 4677 tonnes of raw cashew nuts @ US \$ 1266 per tonne, the Company included the payment terms on 'cutting test out-turn basis' instead of 'actual average out-turn basis'. On the same terms, the Company also imported (January 2000) further quantity of 3180 tonnes from Noman Bhoy at the negotiated price of US\$ 1183.70 per tonne (2407 tonnes) and US\$1190 per tonne (773 tonnes). Final payments against the above contracts were made between December 1999 and January 2001. As against the cutting test out-turn of 44.68 to 46.92 pounds of kernel per bag of 80 kg. raw cashew nuts, based on which payment was made to the suppliers, the actual average out-turn obtained on processing of the raw nuts by the Company ranged between 43.09 to 44.43 pounds only. The negligence of the Company to include necessary provisions in the contract to regulate the payment on actual average out-turn basis, resulted in avoidable loss of Rs.1.70 crore.

The Government/Management stated (September 2001) that no supplier had agreed for payment on shelling out-turn basis since such a provision does not exist in the trade. The reply is not borne by the facts since M/s. Surice Trading Pte Limited, Singapore modified (August 1999) the contract by incorporating terms of payment based on shelling out-turn.

4.1.3.2 Unintended benefit to the seller

Amendment of the contract to the advantage of the seller deprived the Company of the benefit of performance bond amounting to Rs.0.53 crore

The Company has been importing and processing raw cashew nuts ever since its formation in July 1969 and the payment for import was invariably against letter of credits opened after execution of performance bond by the seller.

Payment terms amended to the seller's advantage

To meet the processing requirement for 1999 season, the Company concluded (February 1999) a contract with M/s. Tradex (UK) Limited, London (Tradex) through their agent M/s. Bhadresh Trading Corporation, Mumbai for the import of 6000 tonnes of Ivory Coast raw nuts at the rate of US \$ 1049 per tonne, c & f, Cochin. This contract involved execution of a performance bond (for 3 *per cent* value of the contract) by the seller which would become operative on receipt of the letter of credit from the Company by the seller's bank. Though Tradex executed (March 1999) the performance bond for \$188820 (Rs.81 lakh), it expressed (April 1999) difficulties in honouring the contract in view of the rising price of raw nuts in international market. The Company acceded (April 1999) to the request of the firm and amended the payment terms as cash against document (CAD) or opening of letter of credit at 7 days notice by Tradex, which in effect rendered the operation of performance bond to the seller's advantage.

Thereupon, the Company opened (May 1999) a letter of credit at seller's option for part shipment of 2000 tonnes of raw nuts through M/s. Upasana Private Limited, Singapore, an associate firm of Tradex and the contract was not honoured leading to release (July 1999) of \$ 62940 (Rs. 27 lakh) towards 1/3 value of the performance bond. M/s. Tradex failed to honour the remaining portion of the contract (4000 tonnes) and the Company could not encash the balance value (\$ 125880) of the performance bond since the amended contract demanded seller's notice for opening letter of credit.

To make good the defaulted quantity, the Company had to purchase (August 1999) 3300 tonnes of raw nuts from M/s. Surice Trading Pte Limited, Singapore at a higher price of US \$ 1290 per tonne involving extra expenditure of \$ 795300 equivalent to Rs.3.34 crore, as computed with reference to the price of Tradex. Thus, by amending the usual provisions of the contract to the advantage of the seller, the Company lost the benefit of performance bond valued at US \$ 125880 equivalent to Rs.52.87 lakh (at the conversion rate of Rs. 42 per US \$).

The Government/ Management stated (September 2001) that the Company always retained the option even after the amendment to the contract, to open letter of credit and invoke performance bond at any time if the supply was not made, and based on the higher kernel price (295 US cents per pound) prevailed during August and September 1999 (when the import of raw nuts was made at higher price) the Company earned a profit of Rs.2.80 crore with reference to the price prevailing (253 US cents per pound) in February 1999. The reply is not tenable since as per the report of the Managing Director to the Board, legal opinion was sought in the matter, according to which the Company required seller's option to open the letter of credit and invoke the performance bond. The profit of Rs.2.80 crore contended to have been earned by the Company is only the additional revenue that could have been generated and not the actual profit. At the rate of purchase of US \$ 1290 per tonne, the Company would have incurred a loss of Rs.2.95 crore since the break even cost of raw nuts was US \$ 1077 per tonne even as per its workability statement.

4.1.4 Autokast Limited

4.1.4.1 Unfruitful investment

Avoidable procurement of DG Set resulted in unfruitful investment of Rs.0.99 crore

The DG Set was commissioned only after the lifting of power cut by Board

Production came down even after installation of the DG set

The Company which was utilising only 12 *per cent* of the annual installed capacity of 23000 tonnes of castings had been consuming power below the quota allotted by the Kerala State Electricity Board (Board) ever since introduction of power cut in January 1996. With the express intention to overcome power problems and improve production, the Company entrusted (April 1997) the work of installation of 1 number 1.25 MVA, 11 KV diesel generator set to M/s Steel Industrials Kerala Limited (SILK) on turn key basis at a total cost of Rs. 85.32 lakh. While the power cut imposed by the Board lasted till July 1998 only, the DG set, which was required to be commissioned by February 1998 was actually commissioned in April 1999 only at a total cost of Rs.99.22 lakh (including civil works). Though the Company projected power problems and improvement in production as the reason for installation of the DG set, it was noticed in audit that the actual energy produced with the set was only 3225 units up to September 2001 and production of castings came down from 2771 tonnes in 1997-98 to 2427 tonnes in 1999-2000 after installation (April 1999) of the DG set. Thus, the procurement and installation of 1.25 MW DG set was avoidable and the investment of Rs.99.22 lakh thereon proved to be unfruitful.

Government stated (September 2001) that the proposal was to use the 1 MW diesel generator for auxiliary requirement along with a 2.5 MW power plant with low cost fuel (LDO/FO). But sanction was accorded for procurement of 1 MW DG set only and the present DG set was sufficient to meet the auxiliary power consumption during power restriction in peak hours. The reply is not tenable since the DG set was intended to be used along with low cost captive generators and the package did not carry through. Though the quota allotted by the State Electricity Board was being under-utilised, the 1 MW diesel generator was unnecessarily procured and kept idle since April 1999 making the investment unfruitful.

4.1.4.2 Avoidable expenditure

Failure to use the conveyor system resulted in blocking up of funds of Rs.0.09 crore and avoidable payment of Rs.0.18 crore on labour

**Conveyor system
commissioned in
December 1997 not
put to use**

In order to surmount the problem of accumulation of castings at the end of the Vibratory Conveyor which affected the optimum capacity utilisation and to avoid the expenditure on engagement of manual labour to remove the castings, the Company decided (March 1996) to procure and instal a pendulum conveyor. The pendulum conveyor system was purchased (December 1996) from M/s Vinar Systems Limited, Calcutta at a cost of Rs.10.31 lakh and payment of Rs.9.41 lakh (90 *per cent*) effected (December 1996 to December 1997). The system commissioned in December 1997 has not been put to use so far (September 2001). Failure to use the conveyor system resulted in blocking up of funds of Rs.9.44 lakh besides avoidable payment of labour charges of Rs.17.50 lakh for removing the castings during the period December 1997 to May 2001.

The Management while accepting the facts stated (May 2001) that even though the conveyor system was installed the same could not be used since certain connected investments in shot blasting machine, hangers etc., could not be made and production levels enhanced. The fact thus remains that above requirements were not considered while deciding to instal the pendulum conveyor. Failure to provide for the necessary supporting systems before commissioning of the conveyor system had resulted in the avoidable expenditure.

The matter was reported to Government in June 2001; their replies are awaited (September 2001).

4.1.5 Kerala State Financial Enterprises Limited

Avoidable payment of interest

Delay in filing IT return coupled with failure to estimate income correctly and pay the advance tax due resulted in avoidable payment of interest of Rs.0.59 crore

According to Section 208 read with Section 210 of the Income Tax Act, the whole amount of advance tax due has to be paid in four instalments @ 15,45,75 and 100 *per cent* by 15 of June, September, December and March respectively of the financial year. If the total advance tax thus paid is less than 90 *per cent* of the assessed tax, penal interest @ 2 *per cent* per month is payable under Section 234 B on the amount by which the advance tax paid fell short of the assessed tax.

The total advance tax paid was less than 90 *per cent* of assessed tax

For the assessment year 1996-97 the Company had a taxable income of Rs.7.50 crore for which the tax due was Rs.3.45 crore. As the total advance tax paid and tax deducted at source (Rs.2.71 crore) during the financial year 1995-96 was less than 90 *per cent* of the assessed tax, the Company had to pay (October 1998) Rs.35.61 lakh towards penal interest under Section 234 B

There was 15 months' delay in filing the IT return for the assessment year 1996-97

As per Section 139(1) of the Income Tax Act, 1961, every Company has to file the return of income before 31 December of the assessment year. Delay in filing the return would entail payment of penal interest under Section 234 A @ 2 *per cent* for every month or part of the month on the amount of tax as reduced by advance tax for the period commencing from the date immediately following the due date. The return of income for the assessment year 1996-97 due to be filed on or before 31 December 1996 was filed on 31 March 1998 and for which the Company had to pay interest of Rs.23.74 lakh under Section 234 A of the Income Tax Act.

Government stated (August 2001) that the Company could have avoided the payment of this huge amount as penalty had it taken prompt and adequate measures to make reasonable assessment on the profit before the closure of the financial year. Government have, therefore, directed the Managing Director of the Company to fix responsibility for the negligence and failure on the officers concerned and proceed against them as per the rules of the Company and place the matter before the Board.

Further action in this regard is pending (September 2001).

4.1.6 Kerala State Electronics Development Corporation Limited

Avoidable loss

Failure of the Company to execute orders within contractual period and continued acceptance of fresh orders without ensuring availability of working capital resulted in avoidable loss of Rs.0.99 crore

The orders not executed even after extension of delivery period

(a) The Company which submitted (June 1997) certain revival package to the Government, received (July 1997) orders from the Department of Telecommunications (DOT) for the supply of Max-L-Main exchange equipment to their circles. Accordingly, eight telecom circles placed (October 1997 to June 1998) detailed orders for a total capacity of 45.5 K valued at Rs.11.07 crore. The delivery period of the equipment under various orders was up to 6 months from the date of detailed order (February 1998 to September 1998) and for the prompt execution of the contract, the Company had to execute performance guarantee for Rs.48.58 lakh which was furnished in August 1997. Delayed supply also attracted levy of liquidated damages @ $\frac{1}{2}$ per cent per week subject to a maximum of 5 per cent of the value of such supplies. However, the Company could execute orders for only 25.5 K capacity amounting to Rs.5.87 crore even within the extended period (April 1999) of delivery, due to which DOT encashed (June 1999) the performance guarantee for Rs.48.58 lakh and also levied (November 1998 to March 1999) liquidated damages of Rs.20.19 lakh. Thus, the failure of the Company to execute orders within the contractual period resulted in avoidable loss of Rs.68.77 lakh.

The Management stated (July 2001) that on the basis of verbal assurance regarding acceptance of revival package the units were asked to proceed with the plan for obtaining new orders and accepted the orders with the full faith of getting adequate funds; but delay occurred due to shortage of working capital. The reply is not acceptable since the proposal for revival was submitted in June 1997 only and the order from DOT with short delivery period, was accepted in July 1997, before approval of the proposal by Government in March 1999. The implication of non-execution of orders were not given due weightage before accepting the order.

The matter was reported to Government in June 2001; their replies are awaited (September 2001).

(b) While the above orders for supply of Max L Exchange equipment were pending due to non-availability of working capital, the Company again accepted (October 1998) orders for supply of SBM Exchange equipment worth Rs.7.12 crore to eight telecom circles. As per detailed orders (December 1998/January 1999) the supply was to be completed by May 1999 failing which liquidated damages was payable @ $\frac{1}{2}$ per cent per week subject

Orders accepted and performance guarantee executed despite working capital constraints

to a maximum of 5 per cent of the contract value. Further, the Company had executed (November 1998) a performance bank guarantee of Rs.26.35 lakh as per the terms of the contract.

Though DOT extended the delivery period up to February 2000 the Company could supply (July to September 1999) equipment for a total value of Rs.0.53 crore only. Thereupon DOT shortclosed (April 2000) the orders, invoked (June 2000) the bank guarantee (Rs.26.35 lakh) for non-execution of the contract, reduced (July/September 1999) the price (Rs.1.32 lakh) and levied liquidated damages (Rs.2.64 lakh) for belated delivery of equipment. Thus the acceptance of orders without ensuring availability of working capital and failure to take into account unexecuted orders on hand, led to delay/non-supply of SBM exchange equipment resulting in avoidable loss of Rs.30.31 lakh.

Government stated (July 2001) that the purchase order was accepted to ensure continuous loading in the shop floor and that by keeping aside the old order and completing the supply of Rs.5 crore worth equipment against the new order within the delivery period, the Company could effect possible savings of Rs.25 lakh by way of liquidated damages. The reply is not tenable since the delivery period against the previous order was extended by DOT up to April 1999 which had facilitated continuous loading of the shop floor without accepting the subsequent purchase order. There was also no possible savings in liquidated damages as contended, since the DOT had encashed bank guarantee worth Rs.48.58 lakh as penalty for non-execution of the previous order.

4.1.7 Transformers and Electricals Kerala Limited

4.1.7.1 Avoidable payment of interest

Invoicing of goods before completion of manufacture necessitated payment of excise duty and sales tax far in advance resulting in avoidable payment of interest of Rs 0.25 crore.

Raising invoices before manufacture/ despatch of goods necessitated payment of excise duty/ sales tax in advance

The Company which is engaged in the manufacture and sale of transformers and allied equipment used to show better working results by inflating the sales after raising invoices before the goods were actually despatched from their works at Angamally. On such sales the Company had to remit excise duty at the time of raising invoices and sales tax within a period of one month thereafter. It was noticed in audit that during February/March 1999 the Company raised invoices for Rs.33.64 crore before the completion of manufacture of goods and goods were actually despatched after a delay of one to eleven months. Payments were to be received after delivery. Because of this, the Company had to pay excise duty of Rs.4.24 crore in February/March 1999 itself and the sales tax of Rs.1.24 crore, in March/April 1999. Thus the incorrect practice of invoicing of goods before completion of manufacture had necessitated payment of excise duty and sales tax far in advance resulting in

avoidable payment of interest of Rs.25.42 lakh at the cash credit rate of 18 per cent per annum.

Government stated (July 2001) that the Company has been following the method of reckoning of sale and sundry debtors a little in advance of the point of actual sales in the true sense as per Sale of Goods Act and that due to shift in the long followed practice of booking of sales during 1998-99 there had been a big reduction in current assets level. The Company did not analyse the financial impact in respect of taxes and duties on account of this practice.

4.1.7.2 Avoidable expenditure

Failure to utilise the facility of duty free import, resulted in avoidable extra expenditure of Rs.1.06 crore in the local purchase of copper rods

Purchase made at higher rate when licence for import at reduced price was on hand

For the duty free import of materials used in the manufacture of transformers and allied equipment, the Company obtained (September 1997 and October 1997) three advance licences under which it was eligible to import 279.9 MT of copper wire/ rods for a value of Rs.2 crore. The validity period of the licences was up to March/April 2000. Against the above eligible quantity the Company imported only 70.353 MT of copper rods valued at Rs.59.40 lakh @ Rs.84430 per MT. However, it was noticed in audit that while the licences for import of 209.547 MT of copper @ Rs.84430 per MT were on hand, the Company during the period from August 1998 to May 1999 procured 419 MT of copper rods from M/s.Birla Copper, Bangalore at the higher rate of Rs.135130 per MT (including excise duty). Thus, the failure to import balance 209.547 MT of copper utilising the available licences resulted in avoidable extra expenditure of Rs.1.06 crore at the difference in rate of Rs.50700 per MT.

The Government stated (August 2001) that the import of copper rods required a lead time of 2 to 2 ½ months and the foreign suppliers would not ship less than 20 MT at a time. Moreover, since the Company had exhausted the cash credit limit it was not possible to invest funds in opening letter of credit while the local firms were in a position to supply small quantities at a time that too within two days of opening of letter of credit. The reply is not tenable since the Company placed orders (September 1998) for 175 MT of copper which was enhanced (May 1999) to 419 MT for which the delivery was to be made from ready stock on payment against irrevocable letter of credit. Such huge amounts spent for opening of letter of credit for local purchases, could have been used for importing the material against advance licence at cheaper rates. The import could also have been made in smaller consignments below 20 MT as was done by the Company in the import of 12.2 MT in October 1997.

4.1.7.3 Avoidable loss

Delay in delivery of power transformers resulted in loss of Rs.1.11 crore

Manufacture not undertaken despite receipt of advance

Price of transformers reduced and price variation claims disallowed for failure to effect timely delivery

The Company received (March 1998 to October 1998) orders from Kerala State Electricity Board (Board) for the supply of 20 power transformers of different ratings for a total value of Rs.8.74 crore. As per the contract, 20 *per cent* of the ex-works price was to be received from the Board as advance and the balance under the IDBI rediscounting scheme against readiness of despatch. The delivery was to be completed during the period August 1998 to March 1999. As per clause 8 of the contract, for materials supplied after the delivery date, prices would be refixed taking into account the market value of the material on the date of supply or the price noted in the order whichever is lower. Though the advance was paid in full (1998) by the Board, the Company delivered 13 out of the 20 transformers only after the expiry of delivery date. In view of the delay, the Board invoked the penal provisions (Clause 8) of the contract and effected (September 2000) a total reduction in price amounting to Rs. 42.96 lakh on the basis of subsequent reduced quoted prices from other firms. In addition, Board also disallowed (September 2000) price variation claims amounting to Rs.67.90 lakh. Thus, the failure of the Company to deliver the transformer within stipulated period resulted in loss of Rs.1.11 crore.

The Government stated (August 2001) that since the material content involved in the transformer was more than 70 *per cent* of the cost, the 20 *per cent* advance received from KSEB was not sufficient to procure the entire raw materials and the delay in supply was not at all avoidable considering the Company's financial difficulties. The reply is not tenable since the Company received 20 *per cent* advance against the order which comprised 20 power transformers and the total amount received thereagainst was more than sufficient to procure materials for the transformers which were to be delivered in various smaller lots in a phased manner. Moreover, the balance 80 *per cent* payment was receivable under the rediscounting scheme of IDBI immediately after despatch.

4.1.7.4 Revenue loss

Avoidable delay in supply of Gas Circuit Breakers led to reduction in price and resultant revenue loss of Rs.0.54 crore

There was inordinate delay in finalisation of drawings and completion of production

The Company received (June 1998) orders from the Kerala State Electricity Board (Board) for the supply of 25 numbers of 123 KV, 25 KA SF 6 circuit breakers at the per unit ex-works price of Rs.7.58 lakh subject to variations as per IEEMA (Indian Electrical and Electronics Manufacturers Association) formula. As per contract, the delivery was to commence in December 1998 at the rate of 5 circuit breakers per month and completed by April 1999, failing which the prices of materials delivered late would be fixed by the Board taking into consideration the market value of such materials on the date of actual supply or at the price noted in the order whichever was lower. However, due to delay in finalisation (November 1998) of the drawings and production of equipment, the Company could commence the delivery only in January 2000 and complete it by August 2000. Due to this the Board reduced the per unit price of 15 numbers of the equipment (supplied up to 6 July 2000) to Rs.5.69 lakh and the balance 10 numbers to Rs.5.02 lakh as against the purchase order (June 1998) price of Rs.7.58 lakh. Thus the inordinate delay in finalisation of drawings and completing the production of SF 6 circuit breakers resulted in avoidable revenue loss of Rs.53.86 lakh.

Government stated (July 2001) that the 25 numbers of SF 6 Gas Circuit Breakers were of a new design and the design aspects took considerable time and slippage in the production schedule. In addition to the above the financial position of the Company affected procurement of raw materials. The reply is not acceptable since the delivery schedule as per contract was accepted after taking into account all such constraints. Further, the Board had reduced the prices in October 1999 which was six months after the scheduled date (April 1999) of completion of supply, but the Company could complete the delivery in August 2000 only after a delay of 16 months.

4.1.8 Kerala State Handloom Development Corporation Limited

Avoidable extra interest burden

Charging of higher rate of interest by Government as canalising agency for development funds resulted in interest burden of Rs.0.51 crore on the beneficiaries

State charged higher rate of interest on Central funds received at lower rate

For the benefit of weavers from SC/ST, minority, women, people below poverty line, etc., in the handloom sector of Kerala, the Government of India introduced (1991-92) a project package scheme for implementation with the financial assistance of Central and State Government. The funding of the project was on 50:50 basis between the Central/State Government and the Company was the designated agency for implementing the schemes in the State. During the period January 1994 to November 1998, the Company received loans amounting to Rs.6.26 crore for disbursement to weavers under the package scheme, out of which Rs.3.32 crore represented share of loan assistance from the Central Government. It was noticed (June 2000) in audit that Central share of loans was being provided at the interest rate of 11.75 to 12 *per cent* per annum, whereas the State Government while routing the above loan through the Company for ultimate disbursement to the beneficiaries charged a higher rate of 19.5 *per cent* per annum. The extra interest burden imposed by State Government on the beneficiaries due to the higher rate of interest for the period up to 31 March 2000 on the loan amount disbursed (Rs.2.58 crore) was Rs.51.12 lakh. Thus, the State Government acting as a canalising agency for funding of Central development schemes for SC/ST, minorities, etc., in the handloom sector, helped only to add to the financial burden of the beneficiaries by unnecessarily charging higher rate of interest.

Project funds of weavers remained undisbursed

While the Company received a total loan assistance of Rs.6.26 crore under the scheme till 31 March 2000, the actual payment made for ultimate disbursement to the weavers for implementation of the schemes was Rs.2.58 crore* only. Thus, the balance Rs.3.68 crore remained undisbursed as on 31 March 2000 defeating the very purpose of the scheme.

The Government stated (June 2001) that the question of reducing the interest rate was being examined. However, the fact remains that the reduction in interest rate will mostly benefit the Company rather than the ultimate beneficiaries since a major portion of the funds remained with the Company undisbursed.

* Provisional

4.1.9 Malabar Cements Limited

4.1.9.1 Avoidable loss of interest

Failure to deposit surplus funds in Government treasury allowing higher rate of interest resulted in loss of interest of Rs.0.12 crore

Company deprived of additional interest earning by investing the funds in banks instead of Government treasury

As per instructions (November 1997) issued by the State Government, all Public Sector Undertakings were to deposit their surplus funds in Government treasuries only. Despite such instructions, the Company during the period March 1999 to November 2000 deposited its surplus funds amounting to Rs.5 crore with State Bank of Travancore in five term deposits of Rs.50 lakh to Rs.1.5 crore, for periods ranging between 46 days to 180 days at interest rates varying from 6 to 8.25 *per cent* per annum. These deposits were renewed for 18 to 21 months. The same surplus funds if deposited with Government treasury in term deposits for the same periods would have fetched higher rate of interest of 9 *per cent* per annum. The deposit of surplus funds in nationalised banks instead of in Government treasury not only violated Government's instructions but also deprived the Company of additional interest earnings of Rs.12.47 lakh.

Government stated (July 2001) that for major Public Sector Units like Malabar Cements Limited, funds were to be made available at short notice for day to day operations of the Company and hence it would not be practicable to deposit funds in treasury. The reply does not appear to be convincing since Government itself had directed (November 1997) the Public Sector Undertakings to deposit surplus funds in treasury. The Company had been keeping the surplus funds in term deposits with State Bank of Travancore for more than 18 months continuously, indicating that the funds were not required for day to day operations as stated by Government.

4.1.9.2 Avoidable extra expenditure

Lack of proper procurement plan and emergent transportation of laterite by rail at higher cost resulted in avoidable extra expenditure of Rs.0.15 crore

The Company has been procuring laterite required for clinker production mainly from a State Government company viz. Kerala Clays and Ceramic Products Limited, Kannur (KCCPL). While the average consumption during 1997-98 was 2000 MT per month, the Company placed (March 1998) orders for transportation with United Enterprises, Calicut for a period of one year @ 1000 MT per month only. The cost of transportation was Rs.228.50 per MT till May 1998 and Rs.217 per MT thereafter. Though the contractor used to transport laterite in excess of 1000 tonnes per month (average for the period from April 1998 to November 1998 was 1718 MT per month) such excess quantities were being accepted by the Company since the monthly requirement

Transportation of laterite was curtailed without considering actual requirement

demanded more quantity. But in December 1998, without considering the actual requirement (average consumption for the period from April 1998 to November 1998 was 1791 MT per month) the Company instructed the contractor to restrict the transportation to the ordered quantity of 1000 tonnes per month leading to a stock out situation in January 1999. In January 1999 Company assessed its requirement @ 2500 MT per month and efforts were made to enhance the supplies @ 200 tonnes per day through the same contractor. As the contractor firm expressed (February 1999) its inability to supply at the enhanced rate because its trucks were already diverted for other works, the Company transported (March-June 1999) 7873 tonnes of laterite from KCCPL by rail at a higher rate of Rs.395 per tonne, against which the actual quantity received was 6533 tonnes only. Thus lack of proper procurement plan and the injudicious curtailment of the quantity transported by road resulted in avoidable extra expenditure of Rs.11.63 lakh (Rs.395 – Rs.217 x 6533 tonnes) apart from loss of Rs.3.12 lakh being the cost (Rs.233/tonne) of laterite short received.

Government stated (July 2001) that KCCPL had informed the Company that against the Company's annual requirement of 30000 tonnes of laterite a maximum quantity of 15000 tonnes only would be generated and delivered in a year. It was also reiterated that the additional expenses to receive the material from KCCPL was incurred due to unforeseen circumstances that prevailed during the end of 1998 and first quarter of 1999. The reply is not correct since KCCPL had in fact agreed (January 1999) to supply the total requirement of 50000 MT for the year 1999. Eventhough the supply of laterite from three other suppliers was not available by August 1998, the Company did not plan procurement of additional quantity from KCCPL but directed (December 1998) the transporters not to transport more than the allotted 1000 tonnes per month which ultimately led to the stock out situation in January 1999.

4.2 STATUTORY CORPORATIONS

4.2.1 Kerala State Electricity Board

4.2.1.1 Locking up of funds

Procurement of fault locating equipment without ensuring their performance and requirement resulted in idle investment of Rs.0.65 crore and interest loss of Rs.0.38 crore

For the purpose of locating faults in the transmission lines, the Board placed (February 1997) orders with M/s CSD Instruments (India) Limited, Jaipur for the procurement of four Overhead Line Fault Locators at a total *f.o.r* price of

Inspection and testing of equipment was waived

One unit failed due to defects and the remaining three not commissioned within guarantee period

Rs.70.22 lakh. The machines were supplied (between August and October 1997) by the firm and payment of Rs.65.19 lakh (90 *per cent*) was made (January 1998). The inspection and testing of the equipment required to be conducted by the Board as per clause 10 of the contract was waived (July 1997) and the supplier was directed to forward the test certificates. Of the four units procured, only one was commissioned (January 2000) and, that too, failed due to defects in the Central Processing Unit card. The unit remained to be repaired (April 2001). The remaining three units issued to Sub Station Areacode, Generating Station Lower Periyar and Sub Station Madakkathara have not been commissioned till date (April 2001). The period of guarantee of the equipment (24 months from the date of supply) also expired in October 1999. Thus, the procurement of fault locating equipment without assessing the actual requirement and before ensuring their performance had resulted in idle investment of Rs.65.19 lakh involving loss of interest of Rs.38.14 lakh for the period from January 1998 to April 2001 computed at the average cash credit rate of 18 *per cent* per annum. Blocking of funds in equipment not being used by sub stations, was not in the best financial interests of the Board, especially when the working capital requirements were being met out of cash credit at high rate of interest.

The matter was reported to Government/Board in June 2001; their replies are awaited (September 2001).

4.2.1.2 Ineligible payment

Failure of the Board to regulate project allowance as per long term settlement resulted in ineligible payment of Rs.0.12 crore

Project allowance was paid to employees not working in project area

As per the long term settlement (1995) with the employees of the Board on salary and allowances, project allowance was payable only to those employees working in the various project areas of the Board. However, a test check in audit (August 2000) of the establishment charges incurred by the Board revealed that in the Electrical Major Section, Vadasserikkara falling under the Electrical Division, Pathanamthitta, project allowance was being paid to the employees though the nature of work and the area of location of the office did not allow such payment. The project allowance paid for the five years ended 31 March 2001 was Rs.11.70 lakh. Thus, the failure of the Board to regulate the payment of project allowance as per the long term settlement with employees, resulted in ineligible payment of Rs.11.70 lakh.

The Board stated (October 2000) that the employees working under Electrical Major Section, Vadasserikkara were not eligible for drawing project allowance. However, the Board continued (March 2001) to make the ineligible payment and neither any action had been initiated to recover the amount already paid nor any responsibility fixed against the officials for such a gross lapse.

The matter was reported to Government in June 2001; their replies are awaited (September 2001).

4.2.1.3 Excess payment

Error in preparation of estimate for line work resulted in excess payment of Rs.0.08 crore

Labour charges applicable for earth work was wrongly applied to estimate transportation work

The Board sanctioned (January 1997) a work estimate of Rs.49.49 lakh (including materials) for the replacement of the then existing mink conductor in the Peerumedu – Moozhiyar 66 KV line with ACSR DOG conductor. The above work, awarded to Shri.Roy P. Rajan at 185 *per cent* above estimate of Rs.8.81 lakh (excluding materials) was completed (October 1998) at a cost of Rs.24.44 lakh and final payment to that extent made in October 1999. It was noticed in audit that while preparing the estimate of the work for purpose of tender, the rates for transportation of conductors, insulators and dismantled materials were calculated as Rs.3723.35, Rs.3889.25 and Rs.2918.45 per MT against which the correct rates based on Standard data book and PWD Schedule of rates were Rs.1067.08, Rs.1232.74 and Rs.736.34 respectively. The mistake occurred due to incorrect provision for additional labour for excess lift and down admissible for earthwork excavation in hard soil while preparing the estimate with reference to Standard data book. The computation of excess rates outside the provision of the Standard data book led to increase in the value of work estimate and resultant undue benefit of Rs.7.83 lakh to the contractor (including tender excess of 185 *per cent*).

The Management stated (August 2001) that taking into account the varying heights of different tower location and the riskier physical labour involved, an average height of 500 meters had been taken for computation of estimate. The reply is not tenable since the PWD data book which has been adopted by the Board for preparation of estimate did not envisage payment for extra lift based on physical features of land but only for lifting of materials to prescribed level of height. Moreover, the items intended for excavation work cannot be applied for transportation of materials in line work and the percentage excess of 185 granted to the contractor had taken care of the additional labour due to arduous nature of work, if any.

The matter was reported to Government in June 2001; their replies are awaited (September 2001).

4.2.2 Kerala State Road Transport Corporation

4.2.2.1 Avoidable loss

Failure to reclaim and utilise the used engine oil for top-up resulted in avoidable loss of Rs.3.06 crore

Till June 1997, the Corporation had been using in their vehicles reclaimed engine oil obtained at a cost of Rs.26 per litre, in place of fresh engine oil

(Servo Pride 40/30 grade), both for original filling and for topping-up*. The use of reclaimed oil was stopped thereafter (June 1997) on the advice (June/August 1996) of the manufacturers that such oil should not be used for complete oil change since it would affect the life of engines.

The practice prevailing in other RTCs was ignored

It was noticed in audit (March 1999) that while Road Transport Corporations in Tamil Nadu and Andhra Pradesh were using reclaimed engine oil for top-up as instructed by vehicle manufacturers, the Corporation had dispensed with (since June 1997) the use of reclaimed oil altogether. The decision to discontinue the use of cheaper reclaimed oil for topping-up ignoring the practice prevailing in other State Road Transport Corporations and the use of costlier fresh engine oil in its place resulted in avoidable extra expenditure of Rs.3.06 crore on 12.22 lakh litres of engine oil used for topping-up during 1997-2000 at the differential rate of Rs.25.05 per litre (cost of purchase of fresh oil: Rs.51.05 – cost of reclaimed oil: Rs.26).

The Management stated (March 2001) that the vehicle manufacturers advised them to discontinue the use of reclaimed oil and stick on to the use of recommended lubricants only in their engines. The reply is not tenable in as much as the vehicle manufacturers' recommendation was to discontinue the use of re-refined oil for complete oil change in engines after 16000 km run of the vehicle and not for topping-up of oil at the rate of 1 litre after every 1000 km run of the vehicle.

The matter was reported to Government in June 2001; their replies are awaited (September 2001).

4.2.2.2 Avoidable excess payment

Failure to regulate payment to suppliers as per terms of the contract resulted in avoidable excess payment of Rs.0.47 crore.

The Corporation had been using tread rubber slabs for retreading of used tyres. To meet the requirement of retreading, the Corporation purchased during the period April 1995 to March 1999 a total quantity of 1420.430 MT of tread rubber slabs from 12 suppliers at a total cost of Rs.9.26 crore. As per the terms of the purchase order, the suppliers had guaranteed performances at varying rates of 20000 km to 32000 km for each tyre retreaded out of the material supplied by them and the Corporation had to make 85-90 *per cent* payment after supply and acceptance of the materials. The balance amount was to be paid after evaluating the performance of at least 80 *per cent* of the tyres retreaded by using the material supplied. Proportionate recovery for shortfall in actual performance of tyres with reference to the guaranteed performance, was to be made from the suppliers.

* top-up – filling of engine oil at the rate of 1 litre for every 1000 km run of the vehicle

Recovery of Rs.0.47 crore for shortfall in guaranteed performance of retreaded tyres not made

While computing the performance of the retreaded tyres, the Corporation had been excluding those retreaded tyres which failed prematurely, on the ground that the failure was due to reasons not connected with the quality of material supplied by the suppliers. Though the suppliers' guaranteed performance ranged between 20000 km to 32000 km, the actual performance assessed during the period from December 1997 to August 2000 ranged between 16038 km and 24774 km only. Accordingly, proportionate recovery was made for the shortfall in guaranteed performance. However, the Corporation failed to effect proportionate recovery for 40,428 prematurely failed/non-returned* tyres out of 143621 tyres retreaded, on the basis of actual performance and the payment for these tyres was made as if they attained the full guaranteed performance as per contract. Thus, the failure of the Corporation to regulate recovery as per terms of the contract resulted in avoidable excess payment of Rs.46.63 lakh.

The matter was reported to the Corporation/Government in June 2001; their replies are awaited (September 2001).

4.2.2.3 Loss of potential revenue

Failure of the Corporation in evicting illegal occupant of stall resulted in loss of potential revenue of Rs.0.16 crore.

The Corporation decided (February 1994) to award the licence to run the pan shop at Kollam bus station to the highest bidder (Sri. M. Ramesh Kumar) for a period of one year from 1 April 1994 at a licence fee of Rs.18885 per month. In the mean time, the existing licensee (Sri. H. Habeeb Babu) whose extended term was due to expire on 31 March 1994, obtained (February 1994) an ex-parte interim injunction order from Sub Court, Kollam restraining the Corporation from forcibly evicting him from the stall and continued occupation of the stall without paying any licence fee. The Corporation also did not take any action to evict him by due process of law by invoking the provisions of the Kerala Public Buildings (Eviction of unauthorised occupants) Act, 1968. Meanwhile, based on the decision (October 1998) of the Board of Directors, the licensee was allowed (December 1998) to continue occupation of the stall paying the licence fee at Rs.7500 per month for the first year commencing from 1 April 1994 with 15 *per cent* increase thereon every year thereafter, and remitting the pending dues with 12 *per cent* interest. But the licensee defaulted in payment of licence fee. Subsequently the original petition of the licensee was dismissed by Additional Sessions Court, Kollam (August 1999) and the stall was vacated (October 1999). Though the Corporation initiated revenue recovery action for realisation of the arrears amounting to Rs.10.21 lakh, no recovery could be effected (September 2001), as he had transferred (October 1999) the ownership of his assets.

* non-returned tyres – used tyres not returned for performance test

Thus the failure of the Corporation to take action to evict the illegal occupant of the stall by following the provisions of Kerala Public Buildings (Eviction of unauthorised occupants) Act, 1968 resulted in a potential revenue loss of Rs.16.43 lakh for the period from April 1994 to September 1999 (at the rate of Rs.18885 per month for the first year with 15 *per cent* increase every year thereafter).

The matter was reported to Government/Corporation in June 2001; their replies are awaited (September 2001).

Thiruvananthapuram
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