



TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)**

THIRD REPORT

(Presented on 17th October, 2006)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006

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On

**Kerala State Electricity Board based on the Report of the
Comptroller and Auditor General of India for
the year ended 31-3-2000 (Commercial)**

959/2006.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorised by the Committee to present the Report on their behalf, present this Third Report on Kerala State Electricity Board based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2000 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2000 was laid on the Table of the House on 2-7-2001. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2004-2006.

This Report was considered and approved by the Committee at the meeting held on 9-10-2006.

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

The Committee wish to express their thanks to the officials of the Power Department of the Secretariat and Kerala State Electricity Board for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Power Department and Finance Department and the officials of the Kerala State Electricity Board who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
17th October, 2006.

*Chairman,
Committee on Public Undertakings.*

REPORT

KERALA STATE ELECTRICITY BOARD

AUDIT PARAGRAPH

Infructuous Expenditure

Procurement of defective fuse boards, wrong designing of special type steel posts and deterioration of mobile cable fault location equipment, resulted in infructuous expenditure of Rs. 16.28 crore.

(a) The Board placed (August 1996) orders on Indo Asian Fuse Gear Ltd., New Delhi for the purchase of 1500 nos. (750 nos. A and B type each) low voltage distribution fuse boards and spares for the works under the Master Plan for major cities at a total destination price of Rs.13.03 crore. As per the purchase order, the type tests of the equipment were to be carried out in the presence of an engineer deputed by the Board, and the supply was to commence only after the issue of inspection certificate and material despatch clearance certificate.

It was noticed that the inspection was waived (January 1997) by the Board and the firm supplied 822 numbers from December 1996 to April 1997, out of which only 15 per cent was found to be in acceptable condition. Instead of returning the defective consignments, the Board took delivery of the items and made 95 per cent payment. Even though the firm was directed (April 1997) by the Deputy Chief Engineer to stop further despatch of the items, conditional clearance was subsequently allowed (June 1997). The firm completed (August 1997) the supply of 1500 nos. of switch boards and Rs.11.67 crore was paid as 95 per cent of the total value against the defective items. An amount of Rs. 0.61 crore was also spent (June 1997 to September 1999) for the repair of the items.

Of the 1500 distribution fuse boards procured, the Board could install (September to December 1997) only 14 boards for the Master Plan works so far (January 2000), which also failed (January 1998) due to various problems including design defects. The fact that none of the fuse boards could be put to use even after a lapse of three years would indicate that waiver of inspection, acceptance of materials despite instructions to stop despatch and effecting payments in violation of the agreement conditions were not in the best interest of the Board. These irregularities resulted in infructuous expenditure of Rs. 12.28 crore.

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The matter was reported to the Board/Government in May 2000, their replies had not been received (September 2000).

(b) For the purpose of drawing 11 KV double circuit overhead line under the Master Plan Project for Thiruvananthapuram, Kochi and Kozhikode cities, the Board designed 14 M special type steel posts which required a minimum of 2.2×2.2 M foundation for erection. The total requirement of posts for 220 Km. line length was projected as 4400 numbers and the Board placed orders (February 1996) on ARM Ltd., Hyderabad and Jindal Steel Products Ltd., Calcutta for fabrication and supply of 1234.784 MT and 499.168 MT respectively of the above type of posts required for the work in Kochi and Kozhikode cities. Against the above orders the firms supplied (February 1997 to February 1999) a total quantity of 1299.762 MT valued at Rs. 3.95 crore against which Rs. 3.55 crore (90 per cent) had already been paid. When the work for laying the foundation for the 14 M posts was started, the Public Works Department (PWD)/National Highway (NH) Authorities directed (May 1998) the Board to stop the work since the rules permitted a foundation width of only 0.50 M on PWD/NH roads against 2.2 M required for erection of the posts. Since the Board was not able to proceed with the work further, the contract for construction of 11 KV overhead line was terminated (August/November 1998) and the poles could not be used. Thus, the designing and procurement of 14 M posts which required 2.2 M width for foundation when PWD/NH norms permitted only 0.5 M width, rendered the expenditure of Rs. 3.55 crore incurred for the purchase infructuous. No action had been taken against the officers responsible for the lapse (September 2000).

The Government stated (July 2000) that the above design had been adopted since there might have been constraints in providing stays/struts in city roads and the poles were diverted for 33/11 KV State-wide system improvement works. The reply is not tenable since the design and procurement of 14 M special type posts were made specifically for city roads. Moreover, the design of the posts was not intended for 33/11 KV transmission system but for 11 KV overhead lines.

(c) The Board placed (December 1994) orders for purchasing three van mounted mobile cable fault location equipments from Prime Chemfert Industries Ltd., New Delhi under Kerala Power Project Transmission and Distribution (World Bank) schemes, at a total cost of Rs. 1.34 crore (including cost of vehicle). The equipments were received during the period between July and November 1996 and were allotted to three World Bank Project Divisions at Kozhikode, Kochi and Thiruvananthapuram. The equipment allotted to Thiruvananthapuram Division (Vehicle Reg. No. DL-IL 7809) was commissioned in

August 1997 but could not be put to use till date (March 2000) for want of transfer of registration with Regional Transport Authorities due to dispute regarding payment of entry tax to Sales Tax Department. Though identical equipments were registered and put to use (May/July 1997) at Kozhikode and Kochi, the Board failed to effectively take up the matter with higher authorities to get the vehicle at Thiruvananthapuram registered and put to use. The equipment had been lying idle for the last three and a half years and was reported to be in a dilapidated condition with the result that the expenditure of Rs. 44.52 lakh thereon was rendered infructuous. The Board also lost the claim for guarantee extended by the supplier as twenty four months had elapsed since the date of supply.

The matter was reported to the Board/Government in May, 2000; their replies had not been received (September 2000).

[Para 4.2.1.1—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2000 (Commercial)]

The note furnished by Government on the para is given in Appendix II.

1. The Committee found that defective low voltage distribution fuse boards were procured from Indo Asian Fuse Gear Limited, New Delhi without carrying out the type test of the equipment, though it had to be carried out in the presence of an expert deputed by the Board. The supply was to commence only after the issue of inspection certificate and material despatch clearance certificate as per the purchase order. The Committee pointed out that 95% of the payment was effected only after receiving 15% of the item in acceptable conditions and wanted to know the reason for waiving the materials inspection procedure by the Board. The witness informed that as per the purchase order, it was optional to the Board to depute a person to inspect and certify the quality of the material. The Committee wanted to know why the Board refrained from deputing a person to conduct the quality test. The witness disclosed that it was due to the fact that when inspection was carried out on the first consignment no genuine defect was detected. The witness further stated that it was not practical to verify and issue release order for 50 consignments after checking them at Delhi. Instead, the proto type was examined by the Chief Engineer. All the necessary remedial measures had been taken to rectify the defects found in the item received afterwards. The company which supplied the materials had rectified the defects themselves on spending an amount of Rs. 61 lakhs. The witness added that the main defects noticed were in painting and in the assembling of components. The Committee enquired the reason why the Board had paid 95% of the price, even though only 15% of the materials were

received in working conditions. The witness stated that as per records, 1500 distribution fuse boards were supplied of which 722 were accepted and 778 were found defective.

2. The Committee understood that out of 822 fuse boards only 422 were subjected to verification of which only 15% of fuse boards were found in working condition and enquired whether the remaining 400 boards were verified and whether any purchase had been made from the company since the Deputy Chief Engineer had issued instructions to stop despatch by them. The Committee also wanted to know how many boards were used and how many of them were lying idle. The witness replied that out of the 1500 fuse boards, 798 had already been used and the remaining were being used. The Committee enquired whether the scheme proposed to be undertaken in Kochi, Kozhikode and Thiruvananthapuram had been completed and whether the same fuse boards had been used for these projects.

3. The witness informed that the scheme had not been completed and the fuse boards were being used for this scheme as well as for other schemes also. The diversion of the materials was necessitated because of the fact that the materials for the projects were purchased only towards the end of the project period. The District Collector used to give permission for underground cabling by cutting road, only for one or two weeks in an year. As a result materials became surplus which were diverted for other schemes.

4. The Committee found that out of the 1500 boards purchased in 1996-97, only 14 boards were used for master plan and wanted to be informed of the details regarding the number of boards purchased and the number of boards used and the balance remaining. The Chairman, KSEB disclosed that 798 fuse boards were used. The Committee observed that it took 6 years for the Board to use 798 fuse boards. To a specific question of the Committee regarding the number of board which were in working condition, the witness promised to furnish the details after verification.

5. To another question of the Committee regarding the payment of 95% of total value violating the agreement conditions, the witness could not give a satisfactory reply. The Committee viewed the action of the Board with suspicion and remarked that some thing fishy might have happened in the deal.

6. The Committee learnt that for the purpose of drawing 11 KV double circuit overhead line under the master plan project for Thiruvananthapuram, Kochi and Kozhikode cities, the Board designed 14 M special type steel posts which required a minimum of 2.2×2.2 M foundation for erection while the rules permitted a foundation width of only 0.50 M on PWD/NH roads. The Board could not proceed with the work, and the contract had to be terminated, rendering an expenditure of Rs.3.95 crore infructuous.

7. The Committee enquired why the Board did not consult PW/NH Department before hand while completing the formalities for procuring poles. The Principal Secretary, Power Department admitted that they ought to have consulted the P.W. Department, but somehow it was taken for granted. The Committee enquired the possibility of taking up the case once again after seeking permission from PWD, since PWD had objected it on the ground that roads have to be converted into four lane path.

8. The Committee pointed out that the mobile cable fault locating equipment suitable for pinpointing fault in underground cables, installed on TATA – 909 special purpose van purchased from a Delhi based firm could not be put to use till March, 2000 for want of registration with RTO, Thiruvananthapuram following a dispute regarding payment of entry tax to Sale Tax Department. The Committee remarked that it was the failure of the Board to take up the matter effectively with the authorities, concerned since similar equipments purchased for Kochi and Kozhikode were registered and put to use without delay. The Committee expressed displeasure at this and wanted to be furnished with all the details regarding purchase. The Committee also wanted to know why the Board did not take up the matter with the Sales Tax authorities and get it registered. The witness informed that eventhough the matter was taken up with the Sales Taxes Commissioner and at Government level, tax had to be paid by the Board. In the case of equipments purchased for Kozhikode and Kochi, an undertaking was given and later settled the issue by paying Rs. 5.19 lakhs while at Thiruvananthapuram along with tax, penalty had also to be paid. The Committee opined that if an undertaking had been given as in the case of Kozhikode and Kochi, delay of three years could have been avoided. The Committee remarked that the rigid stand taken by the officer who dealt with the case was responsible for the delay.

Conclusions/Recommendations

9. **The Committee finds that the Board procured defective low voltage distribution fuse boards without conducting adequate material inspection for ensuring the utility of the materials, resulting an infructuous expenditure of Rs. 12.28 crores. The Committee is shocked to find that 95% of the payment for the item was effected though only 15% of the items were received in working condition. The Committee is very particular to know the details regarding the working condition of the item received. The Committee suspects some unholy motive behind the hurriedly effected advance payment and therefore recommends an enquiry into the whole deal and bring to light the circumstances which led the advance payment before supply of materials. The action taken in this regard should be furnished to the Committee immediately.**

10. The Committee finds that an infructuous expenditure of Rs. 3.95 crore was incurred due to inability of the Board to proceed with the drawing of 11 KV double circuit overhead line under the master plan project for Thiruvananthapuram, Kochi and Kozhikode. The Board designed 14 M special type steel post which required a minimum of 2.2×2.2 m foundation for erection while the rules permit a foundation width of only 0.5 M on PWD/NH road. The Committee finds that lack of proper planning and failure to negotiate with the concerned Department were the reasons for the huge loss. The Committee wants to be furnished with the details regarding the procurement and utilization of the poles. The Committee further recommends to take up the matter once again after seeking permission from PWD.

11. The Committee finds that the mobile cable fault locating equipment purchased could not be put to use till March, 2000 for want of transfer of registration of the vehicle to which it was installed due to the dispute over payment of entry tax. The Committee understands that the failure of the Board to take up the matter with the concerned authorities and the rigid stand taken by the officer who dealt with the case was responsible for the inordinate delay. The Committee views this as a serious lapse on the part of the Board and recommends that strict action should be taken against the officers who failed to accept the pattern followed in the similar case at Kozhikode and Kochi for the settlement of entry tax.

AUDIT PARAGRAPH

Avoidable Extra Expenditure

Failure to assess the suitability of the new site before relocating the plant resulted in avoidable extra expenditure of Rs. 5.70 crore.

The Board selected (January 1992) the location for setting up a 126 MW thermal power plant at Nallalam in Kozhikode, considering its advantages such as easy evacuation of power generated, proximity to railhead and availability of water. The site was notified for acquisition at an estimated cost of Rs. 0.55 crore in December 1992, but no acquisition was made as the State Pollution Control Board denied (July 1993). 'No Objection Certificate' (NOC) in view of its proximity to residential areas and complaint from public. Therefore, the Board decided (July 1993) to relocate the plant at Thalakkulathur even though the disadvantages of the site were known in January 1992 itself. Advance possession of 3.67 acres of land valued at Rs. 23.03 lakh was obtained in October 1994 for the purpose and an amount of Rs. 19.85 lakh was spent for development of the land at the new site. However, due to the unsuitability of

the land acquired at Thalakkulathur for reasons such as scarcity of water, disadvantages in evacuation of power generated and problems in site preparation, the Board decided (October 1996) to locate the plant at the original site at Nallalam itself. A NOC from the Pollution Control Board, subject to certain conditions relating to pollution control systems, was obtained in November 1997. As a result, the expenditure of Rs. 19.85 lakh incurred on development of land at the second location became infructuous and the investment of Rs. 23.03 lakh on its purchase rendered idle. Besides, the Board had to incur an additional expenditure to the tune of Rs. 5.50 crore for acquisition (December 1997) of 10.8 hectares of land at the original site as a result of increase in value of land from Rs. 0.55 crore (1992) to Rs. 6.05 crore (1997).

Thus, the decision of the Board to relocate the plant at a new site (at Thalakkulathur) without assessing its suitability resulted in avoidable extra expenditure of Rs. 5.50 crore, besides blocking of funds to the extent of Rs. 23.03 lakh in land and unproductive expenditure of Rs. 19.85 lakh in its development. Further, the implementation of the Project, the gestation period of which was only 2 ½ years was also delayed by about 4 years, with attendant consequences like escalation in project cost and loss of revenue from sale of power.

The matter was reported to the Board/Government in April 2000; their replies had not been received (September 2000).

[Para 4.2.1.2—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2000 (Commercial)]

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

12. The Committee noticed that the Board had selected the site for setting up a 126 MW thermal power plant at Nallalam in Kozhikode, after considering its advantage. The site was notified for acquisition in December 1992 at an estimated cost of Rs. 0.55 crore, but acquisition could not be made as the state Pollution Control Board denied NOC in view of proximity of the site to residential areas and also because of complaints from the public. The Board decided to relocate the plant to Thalakkulathur, even though the disadvantage of the site was known in January 1992 itself. Rs. 23.03 lakh was spent on land and another Rs. 19.85 lakh for further development of the land at Thalakkulathur. But the plant was finally shifted to Nallalam in 1997 i.e., the original site selected for the plant after obtaining NOC from Pollution Control Board. In addition the Board had to incur an additional expenditure of Rs. 5.5 crore for acquisition of the land as a result of increase in value of land from Rs. 0.55 crore to Rs. 6.05 crore. Apart from this an idle investment of Rs. 23 lakhs at Thalakkulathur was also made by the Board.

13. The Committee opined that the Board had neither made any earnest effort to locate the plant at Nallalam in the first attempt itself by getting NOC from the Pollution Control Board nor made any serious effort to relocate the plant at Thalakkulathur. Asked about the present position of the land at Thalakkulathur, the Committee were informed that the land extending to about 3.67 acres was kept idle and nothing had been done on it.

Conclusion/Recommendation

14. **The Committee finds that the site at Nallalam was notified for acquisition (considering its advantages) at an estimated cost of Rs. 0.55 crore for setting up a 126 MW Thermal Power Plant. But the Board could not go ahead with the acquisition as State Pollution Control Board denied permission owing to proximity of the site to residential areas. The Board then decided to relocate the plant to Thalakkulathur in spite of its disadvantages already known and spent Rs. 23.03 lakh on land and another Rs. 19.85 lakh for development of the land. After spending so much amount for land and its development, the Board finally decided to set up the thermal power plant at the original site itself i.e., at Nallalam. The land acquired at Thalakkulathur was declared unsuitable owing to scarcity of water and disadvantages in transmission of power generated in the plant. The Committee suspects something ‘fishy’ in the purchase and development of land at Thalakkulathur as only after developing the land spending nearly Rs. 20 lakh the Board realised that the land was unsuitable owing to unavailability of water and difficulty in the transmission of power generated there resulting in locating the plant at the original site itself at Nallalam. But the Board had to incur an additional expenditure of Rs. 5.50 crore for acquisition of land owing to increase in land value. The Committee finds that lack of foresight and planning on the part of K.S.E.B. resulted in an infructuous expenditure of Rs. 5.5 crore and therefore recommends that the Board should study and ensure the suitability and viability of a project at a particular site, before acquiring land for the Project. The Committee also recommends that action should be taken against those responsible for the loss.**

AUDIT PARAGRAPH

Avoidable payment of customs duty

Failure to avail of concessional rate of customs duty by proper registration of contract resulted in avoidable loss of Rs. 19.73 crore.

The Board entered into (December 1985) an agreement with the World Bank for financing the execution of the Lower Periyar Hydro Electric Project and associated transmission and distribution works. Since concessional rate of

customs duty was applicable for imports made under registered projects, the Board filed (September 1987) an application for registration with the customs authorities. However, initial setting up of the Lower Periyar Hydro Electric Project alone was mentioned in the application and the associated transmission and distribution works which formed part of the project were omitted to be included. The Board imported (September 1988) materials like steel plate, penstock pipes, etc., required for the initial setting up of the project, which were allowed to be cleared at concessional rate of 20 per cent duty. After receipt of the above material, the Board intimated (February 1991) the customs authorities that no further imports were expected for this project.

Subsequently, during the period between May and July 1993, the Board imported from China 325 km. of 11 KV XLPE cables for Rs. 25.66 crore and five numbers of GIS equipment at Rs. 20.01 crore for the 'associated transmission and distribution' work of the above project. Though the customs authorities cleared (June-July 1993) these items initially under bond at concessional customs duty of Rs. 9.23 crore, the assessment was finally made (May 1996) for Rs. 48.69 crore stating that the second import was neither part of the project nor essential for initial setting up of it due to the omission in mentioning full details of the project at the time of original registration. The Board was directed (May 1996) to pay the differential duty amounting to Rs. 39.46 crore, which was finally settled (March 1999) by paying Rs. 19.73 crore, (50 per cent). Thus, the omission to mention the transmission and distribution part of the project in the application for registration for project contract, deprived the Board of the benefit of concessional rate of customs duty resulting in avoidable loss of Rs. 19.73 crore.

The matter was reported to the Board/Government in May 2000; their replies had not been received (September 2000)

[Para 4.2.1.3—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Commercial)]

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

15. The Committee pointed out that the omission to mention the transmission and distribution work as part of the project in the application for registration with customs authorities, deprived the Board of the benefits of concessional rate of customs duty, resulting in an avoidable loss of Rs. 19.73 crore in the execution of the Lower Periyar Hydro Electric Project and associated transmission and distribution works. The Committee wanted to know the reason as to why the Board had not mentioned the associated transmission and distribution works which formed part of the project. The witness informed that the concessional rate of customs duty for imports made under registered

projects, as per Project Imports (Registration of contract) Regulation 1965 was allowed only for project whose end product was power. The imports made for transmission and distribution work of power did not come under the concessional category as per the regulation. As such the application for concessional rate of customs duty was rejected for import of cables and GIS equipments for reinforcement of secondary transmission and distribution.

16. The Committee observed that if proper reply had been given to the audit at the time of inspection the para would not have arisen. The Committee wanted to know whether there was any arrangement in the Board to look into the audit objections. The witness informed that replies to audit objections were being furnished promptly and meetings were held at the Government level every month to review the position and to ensure that replies were furnished to audit in time.

Conclusion/Recommendation

17. **The Committee understands that the application for concessional rate of customs, duty in the execution of the Lower Periyar Hydro Electric Projects was ejected on the ground that the imports made for transmission and distribution works of power did not come under the purview of concessional rate of customs duty for imports made under registered projects as per projects imports (Regulation of contract) Regulation 1965.**

18. **The Committee finds that the audit paras could have been avoided, if proper reply had been furnished to the audit in time. The Committee, therefore, recommends that replies to audit should be furnished promptly so as to avoid audit paras in future.**

AUDIT PARAGRAPH

Payment to the contractor outside the scope of the contract :

Adoption of percentage basis of payment in deviation of provisions of contract resulted in avoidable excess payment of Rs. 0.25 crore.

The Board awarded (November 1993) the work of construction of a dam, power tunnel intake and appurtenant work for the Lower Periyar Hydro Electric Project to M/s. Hindustan Construction Company Limited (HCCL). The work included care and diversion of the river and maintenance during the entire period of construction. For the care and diversion, a lumpsum provision of Rs. 1.10 crore was made in the contract and payment there against was to be regulated for the actual work carried out by the contractor indicating that the total payment for the work had to be limited to Rs. 1.10 crore or the actual value of work done whichever was lower.

Till March 1995, an amount of Rs. 34 lakh was paid by the Board for care and diversion works on the basis of actual work done; but in March 1995 it was decided to effect payment to the contractor on monthly basis at 2.1594 per cent of the value of work done for the construction of dam, without considering the actual work done for care and diversion, on the ground that the payment at actual does not reflect a true and correct picture of the expenditure actually incurred by HCCL. The work was completed in October 1997 and a total amount of Rs. 1.03 crore was paid (February 2000) on per cent basis against the value of actual work done as per measurement book amounting to Rs. 77.10 lakh, resulting in excess payment of Rs. 25.45 lakh. Thus, the adoption of percentage basis for payment of care and diversion works in deviation of provisions of the contract and without relevance to actual work done, resulted in avoidable payment of Rs. 25.45 lakh.

The matter was reported to the Board/Government in May 2000, their replies had not been received (September 2000).

[Para 4.2.1.4. contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (commercial)]

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

19. The Committee pointed out that the Board had adopted percentage basis of payment, instead of effecting payment on the basis of actual work done in respect of the work care and diversion of the river and maintenance during the entire period of construction of the Lower Periyar Hydro Electric Project, by M/s. Hindustan Construction Company Limited (HCCL). Rs. 1.10 crore was provided in the contract and payment there against was to be regulated for the actual work carried out by the contractor indicating that the total payment for the work had to be limited to Rs.1.10 crore or the actual value of work done whichever was less. In March 1995 the Board decided to effect payment to the contractor on monthly basis at 2.1594 per cent of the value of work done for the construction of dam. The Committee noticed that when the work was completed in 1997, a total amount of Rs.1.03 crore had been paid to the contractor on the percentage basis and if the Board had followed the pattern of payment on the basis of actual work done, this would have been only Rs.77.10 lakh. Thus there was an excess payment of Rs. 25.45 lakh.

20. The Committee wanted to know whether there was any provision in the agreement to effect payment to the contractor on percentage basis. The witness replied that there was no such condition in the agreement and it was done on the basis of the request of the contractor. The Committee wanted to know who was responsible for this and if it was the Board, whether prior

sanction had been obtained from Government for effecting payment against agreement conditions. The Chairman KSEB informed that no such specific sanction had been obtained from Government and the Board had done it on its own.

21. The Committee opined that it was highly irregular practice to invite tenders on certain conditions and alter them later on while effecting payment. The Committee observed that if percentage system had been adopted at the time of inviting tenders, the work could have been arranged at a still lower rate, which would have been beneficial to the Board. Instead the Board arranged the work on certain conditions and later on altered the conditions to favour the contractor.

Conclusion/Recommendation

22. **The Committee observes that the decision of the Board to effect payment to the contractor on monthly basis at 2.1594 per cent of the value of work done instead of effecting payment on the basis of actual work done in respect of the care and diversion of the river and maintenance during the entire period of construction of the Lower Periyar Hydro Electric Project against the contractual agreement has resulted an excess payment of Rs. 25.45 lakh.**

23. **The Committee opines that the decision of the Board to effect payment on monthly basis without the prior sanction of the Government to favour the contractor is highly irregular. The Committee understands that it is an unholy practice to invite tenders on certain conditions and alter them on a later date while effecting payment. The Committee views this as a serious irregularity and recommends that the loss caused to the Board in this regard should be realised from those responsible. The action taken in this regard should be intimated to the Committee without fail.**

AUDIT PARAGRAPH

Sale of Scrap

Failure to conduct proper negotiations or invite open tenders for sale of scrap resulted in loss of Rs. 3.01 crore.

In the course of regular repairs, replacement and maintenance work undertaken by the Board, huge quantities of high value scrap of copper, aluminium, iron, cold rolled steel, brass, transformers, etc, were being generated. The Board invited (June 1992) open tenders for the sale of these scarp materials lying in various locations and the bids of seven firms including Steel

Industrials Kerala Limited (SILK), a State Government Company, were accepted (December 1992). Out of the above bidders, four parties, including SILK, defaulted in lifting the quantities allotted.

SILK offered (December 1993) to buy the entire scrap materials and the Board, after conducting negotiations, entered into (January 1994) a contract for the sale of all items, at rates which were much lower compared to the then prevailing market price and the earlier offers received. SILK lifted a total quantity of 2137.799 MT of various items of scrap for a total value of Rs. 5.28 crore during the period January 1994 to November 1996. As against this, the value realisable for the above scrap on the basis of rates accepted in December 1992 would work out to Rs. 8.28 crore. Had the board conducted proper negotiations with SILK or invited open tenders to take advantage of the higher market rates, it could have avoided the revenue loss of Rs. 3.01 crore (as detailed in Annexure 37) being the difference between the higher offer received earlier and the price obtained from SILK.

The matter was reported to the Board/Government in May 2000, their replies had not been received (September 2000).

[Para 4.2.1.5 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Commercial)]

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

24. The Committee found that the Board had entered into a contract with 'SILK' after conducting negotiation for sale of 2137.799 MT of various items of scrap for a total value of Rs. 5.28 crore for the period from January 1994 to November 1996 without inviting open tenders for the sale of scraps which resulted in a loss of Rs. 3.01 crore. The Committee wanted to know why the Board had sought for a short tender notice for the sale of scraps, instead of conducting detailed negotiations. The witness disclosed that when tenders were invited first, seven parties had responded and agreement had been executed with all the parties. But out of the seven parties only one party had lifted all the scraps allotted to them, another party partially lifted the scraps and others failed to lift the scraps. Since scraps were getting accumulated in large quantities for want of sufficient storage facility and due to fluctuations in price in the market, the Board was forced to take up the matter with three Government companies viz. SILK Trichur, TELK, Angamaly, and KEL, Mamala forfeiting the EMD of others. Positive response was received only from SILK, who offered to execute a new sale contract after negotiations. The disposal of scraps had since been streamlined. The witness also added that no officer was individually responsible for this as the matter had come before the purchase committee.

Now scraps were disposed by tender cum auction procedure by the scrap disposal committee in the presence of recognized union representatives. The witness stated that it was going on for the last few years without any complaint. The witness also informed the Committee that since stream-lining the procedure, much progress had been achieved in the matter of scrap disposal. Last year scraps were sold for Rs. 10.4 crores and the year before for Rs. 1.7 crores and this year scraps were sold for Rs. 5.35 crores.

25. The Committee enquired whether any action had been taken against the officer who caused huge loss to the Board by way of negotiated pricing of the scraps. The witness replied that, the decision was that of the purchase Committee.

26. To a specific question of the Committee whether the tender awarded to seven respondent in the first tender was cancelled, the witness responded in the affirmative and stated that all the tenders were cancelled. As a permanent arrangement, the three public sector undertakings were contacted; but only 'SILK' responded as a rate contractor. The witness admitted that the irregularity had occurred in the deal. The Committee enquired whether the concerned officer was still in service, the witness informed that no action had been taken on individual basis since the decision for the sale was taken by the purchase Committee. The witness also informed that there was a scrap disposal committee at present in the Company which included representatives of the unions which made the process more transparent.

27. When asked about the progress of action taken in the light of the suggestions made by the Committee during its visit in the store twice, the witness informed that the reform process was progressing .

28. When asked why the scraps were sold below the market price, the witness informed that there was no market price for the scraps as such. The Committee observed that when the Company was streamlined as a whole, it could earn Rs.10 crore by way of the sale of scraps in a year. The Committee also understood that not even an explanation was sought from the concerned officer by the Purchase Committee nor did it follow the tender procedure strictly. The Committee decided to recommend that stringent measures should be taken against those responsible for such an avoidable loss.

Conclusion/Recommendation

29. The Committee finds that the Board had sought for conducting negotiation, instead of going for a short tender notice for the sale of 2137.799 MT of various items of scraps for a total value of Rs. 5.28 crore resulting in

a loss of Rs. 3.01 crore. The Committee is shocked to find that, not even an explanation was sought from the concerned officers by the purchase committee nor did it follow the tender procedure strictly. The Committee, therefore, recommends that stringent action should be taken against those responsible for such an avoidable loss and the action taken in this regard should be intimated to the Committee. The Committee also desires to be furnished with a copy of the order which deals with tender-cum-auction procedure that prevails in the Board for the sales of scraps at present.

AUDIT PARAGRAPH

Extra Expenditure

Award of work of three units at higher rates due to wrong evaluation resulted in extra expenditure of Rs. 0.23 crore.

The Board invited (February 1997) limited tenders for rewinding and uprating of five stator units of 50 MW Hydro generators at the Sabarigiri Hydro Electric Project. According to the notice inviting quotations, all the materials including testing and allied equipment, were to be brought to site by the contractor within 60 days from the date of execution of agreement and the units were to be handed over after re-winding at intervals of 45 days each.

Of the nine quotations received from various bidders including public sector BHEL, the Board identified the quotation of Yashmun Engineering Ltd., Pune (YEL) as the lowest at Rs. 1.10 crore per unit for uprating to 54 MW capacity. The firm had demanded 35 per cent advance on the total cost and agreed to supply materials for the re-winding within 90 days and complete the re-winding at 45 days interval for each unit.

As against this, the rate quoted by BHEL was Rs. 1.17 crore per unit for an uprated capacity of 60 MW. BHEL demanded only 10 per cent advance and agreed to supply the materials within 60 days to complete the work of all the five units at intervals of 45 days each. The offer of BHEL had the advantage of additional 6 MW uprating per unit, lesser payment of advance and early completion of work.

It was noticed in audit that while preparing the comparative statement, the value for capacity addition of 6 MW/unit amounting to Rs. 7.55 lakh offered by BHEL was not taken into account for working out the per unit price which would have rendered their offer as the lowest at Rs. 1.07 crore per unit. Based on the wrong comparison the Board placed orders for re-winding three units with YEL and only two units were awarded to BHEL. Award of work for

re-winding of three units at higher rates to YEL on the basis of wrong evaluation, resulted in extra expenditure of Rs. 22.65 lakh, compared to the offer received from BHEL. Further, the two units entrusted with BHEL were completed (October 1997/January 1998) within the scheduled time. Of the other three units for which work was awarded to YEL, only two units were completed (April/June 1998) and the third unit for which an advance amount of Rs. 85 lakh was paid (April 1997) was delivered only in February 1999.

The matter was reported to the Board/Government in May 2000, their replies had not been received (September 2000).

[Para 4.2.1.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Commercial)]

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

30. The Committee understood that the Board had invited tenders for rewinding and uprating of five stator units of 50 MW Hydro Generations at the Sabarigiri Hydro Electric Project. The Board had awarded the work to Yashman Engineering Ltd., Pune (YEL) based on the wrong assumption that their quotation was the lowest at Rs. 1.10 crore per unit for uprating to 54 MW capacity inspite of the fact that the firm had demanded 35 per cent advance payment on total cost and agreed to supply materials for the re-winding within 90 days. But the rate quoted by BHEL was Rs. 1.17 crore per unit for an uprated capacity of 60 MW. Over and above, BHEL demanded only 10 per cent advance and agreed to supply the material within 60 days to complete the work of all the five units at intervals of 45 days each.

31. The Committee wanted to know why the Board had not taken into account of the value for capacity addition of 6 MW amounting to Rs. 7.55 lakh offered by BHEL, while preparing the comparative statement of quotation. The witness explained that tenders were invited for re-winding only and no uprating was indented at that time. The Committee pointed out that in the reply furnished by Government it was shown that tenders were invited in February 1997 for re-winding and uprating of 5 stator units of 50 MW hydro generators at the Sabarigiri Hydro Electric Project. The witness explained that they had given tenders for re-winding only and the same was verified by taking records from Moolamattam while preparing the comparative statement of quotations, the rate per MW was not taken into consideration as there was no additional advantage for uprating the capacity to 60 MW.

32. To a specific question of the Committee whether the Board had rejected the tenders submitted incorporating uprating also, the witness replied in the affirmative and informed that uprating was an elaborate process and it

could be done only if the control system, conductors, water nozzle, transformers etc. were replaced altogether along with rewinding process. The witness also stated that the Board had fixed contract for the actual uprating of the generators for Rs. 94 crores.

33. The Committee also wanted to know about the means by which the projects are monitored at present. The witness informed that renovation and modernisation process were being implemented for each project and it had been implemented in the case of Pallivassal, Chenkulam and Panniyar Projects. The renovation works were in progress in Sabarigiri and Neriamangalam Projects without interruption.

Conclusion/Recommendation

34. **The Committee understands that tenders were invited in February 1997 for rewinding and uprating of 5 stator units of 50 MW hydro generators at the Sabarigiri Hydro Electric Project. But at the time of witness examination it was stated that tenders were given for rewinding works only. The Committee expresses its dissatisfaction at the casual and irresponsible way in which replies are being furnished to Audit paras by the Department and recommends that the department should be more serious while furnishing replies to audit paras. Reply should be furnished only after proper verification of facts.**

AUDIT PARAGRAPH

Payment of advance outside the scope of agreement

Payment of advance to suppliers for excise duty outside the scope of the agreement and failure to claim refund in stipulated time resulted in loss of Rs. 0.13 crore.

The Board had entered into (1982) a contract with Venad Structurals, Kottayam, a Small Scale Industrial (SSI) Unit, for manufacturing and supplying PSC Poles against work orders issued from time to time. As per the agreement, the excise duty on the poles manufactured was to be reimbursed to the Unit on clearance of poles from the yard. However, in practice, the Board had been paying the duty amount to the Unit in advance to avoid delay in clearance of poles. In March 1986, the Central Government exempted all SSI Units from payment of excise duty upto a turnover of Rs. 15 lakh and extended concessional rate of 5 per cent (against 15 per cent) beyond that limit.

Even though Venad Structurals was an SSI Unit eligible for concessional duty, it was required to pay duty at normal rates for clearance of poles made during July 1988 to January 1990, due to failure to establish its eligibility by filing

the documents in time. However, the Board made an advance payment of Rs. 16.56 lakh to the Unit to pay the excise duty at normal rates, against the actual duty payable amounting to Rs. 3.95 lakh.

Subsequently, the Central Excise Department granted SSI Unit status to this Unit, but its claim for refund of duty paid in excess amounting to Rs. 12.61 lakh was rejected by the department in July 1991 on the ground that the duty paid by the Unit had been collected from the Board. The appeal against this decision was also rejected by Customs and Central Excise Appellate Tribunal, Madras, on 29 October 1997.

According to Section 11 B of the Central Excise and Salt Act, 1944, the Board should have applied for refund of the duty paid in excess within a period of six months from the date of rejection of the appeal, ie., 29 October 1997. However, it was seen that the refund claim was not filed by the Board within the time prescribed as a result of which the refund claim was rejected (December 1998). Thus, the decision of the Board to pay advance to the Unit for payment of excise duty which was not contemplated in the agreement and its failure to claim refund within the time limit resulted in avoidable loss of Rs.12.61 lakh. No action had been taken against the delinquent official(s) for this lapse (July 2000).

The matter was reported to the Board/Government in March 2000, their replies had not been received (September 2000).

[Para 4.2.1.7—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Commercial)]

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

35. The Committee observed that the payment of advance to suppliers as excise duty outside the scope of the agreement and failure to claim refund within the stipulated time had resulted in a loss of Rs. 0.13 crore. The witness explained that the Board had entered into contract with Venad Structurals, a Small Scale Industrial Unit for manufacturing and supplying PSC poles against work orders. As per the agreement, the Board had to reimburse the excise duty, paid by the small scale unit at the time of supply of poles. But the Assistant Commissioner of Customs and Central Excise rejected the claims of the small scale unit for exemption of excise duty which was eligible for small scale units whose turnover was upto 15 lakh, holding the view that the Board which was supplying raw materials for the manufacture of PSC poles, was the manufacturer for the purpose of payment of excise duty. The witness also disclosed that poles were piling up and the Board was forced to release the poles after paying the excise duty in advance.

36. As the Board had to bear liability on account of payment of Central Excise duty at the final stage, the Central Excise Department hesitated to grant SSI status to the contractor firm. Later when SSI status was given to the contractor firm, it claimed for refund of excise duty paid before the Assistant Commissioner of Central Excise which was dismissed on the ground that Board was the primary manufacturer of the poles. The witness added that while the Excise Duty Act was amended in 1991, the buyer had the right to apply for refund of Central Excise Duty, if the sale price included excise duty as well. As per the revised procedure, the Board filed application for refund before the Assistant Commissioner, Kottayam who rejected the application on the ground that the claim was not made within the stipulated time of 6 months. It was also informed that an appeal petition had been filed, in the High Court in 2003, and it was still pending.

37. The Committee wanted to know whether the Board was not aware of the excise duty exemption and enquired about the delay in submitting application for refund. The witness admitted that delay of 9 months had occurred, nevertheless all the possible steps had been taken to get it refunded and the case was still pending before the High Court. The Committee enquired why the Board had to pay the excise duty in advance, the witness informed that when the excise authority took a firm stand, the Board had to pay the excise duty as the primary manufacturer, there was no other way, but to pay the amount and release the poles in order to avoid piling up of poles.

Conclusion/Recommendation

38. **The Committee observe that as per the Amendment made in the Excise Duty Act 1991, the buyer, ie., the Board, as the primary manufacturer of the poles had the right to apply for refund of central excise duty, if the sale price included excise duty as well. But the Board didn't file the application for refund of the excise duty already paid before the Assistant Commissioner, Kottayam within the stipulated period. As a result, the application was rejected. The Committee finds that unpardonable delay of 9 months had occurred in submitting the application and therefore, recommends that immediate action should be taken against the concerned officer who failed to file the application in time.**

AUDIT PARAGRAPH

Undue benefit to the supplier

Payment at higher rate for the second lot of the same order resulted in undue benefit of Rs.0.12 crore to the supplier.

The Board placed (July 1996) orders on Omega Cables Ltd., Chennai for the purchase of 1050 Km of ACSR conductors in two lots of 525 km each, at two different rate of Rs.97,200 and Rs. 99,500 per km (ex-works) respectively eventhough the supply of the first lot was to be made within three months and the second lot in five months from the date of receipt of order. Further, a price variation clause was also incorporated in the agreement for variation in the price of raw materials and labour during the scheduled delivery period subject to a ceiling of 20 per cent. As against the ordered quantity of 1050 km., the firm delivered 1089.918 km. during the period between August 1996 and April 1997. While there was no provision in the agreement, the excess quantity of 39.918 km was also accepted by the Board and payment made at the ex-works rate of Rs. 97,200 per km. applicable for the first lot.

Eventhough the first lot as well as the additional quantity which was received along with the second lot were supplied at the rate of Rs. 97200 per km only, the Board paid higher rates for the second lot of 525 km of cable on the ground that the firm quoted different rates for the two lots. Acceptance of higher price for the second lot was not justifiable, since extra payment of Rs. 12.07 lakh at enhanced rates as well as price variation claims of Rs. 15.26 lakh for the second lot of the materials conferred double benefit upon the contractor and resulted in avoidable extra expenditure of Rs. 12.07 lakh to the Board.

The Government stated (July 2000) that the order of 10 July 1996 was in response to a retender wherein the Board incorporated the two lot provisions to get advantageous offers from firms with less production capacity and that the rate of M/s. Omega Cables being the lowest was accepted. The reply is not tenable since the Board could not retender for a materials when the World Bank had already approved the rates on the basis of the earliest bid. Moreover, the Government could not offer any justification for allowing higher rate as well as price variation for the second lot alone.

[Para 4.2.1.8—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Commercial)]

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

39. The Committee enquired why the Board had placed orders for the purchase of 1050 Km. of ACSR conductors in two lots of 525 Km. each at two different rates of Rs. 97200 and Rs. 99500 per Km. The witness informed the Committee that when tenders were invited for the first time, only ALIND had quoted and the bidder was not prepared to accept the offer of the Board for variable price of 30%, instead the company demanded for an unlimited price

variation clause. The witness added that the Board incorporated two lot offer provision, to get advantageous offers from firms with low production capacity, and the rate of M/s Omega Cables being the lowest was accepted. The witness claimed that the company had made a profit of Rs. 1.1 crore in the deal as compared to the rate quoted by the nearest bidder. The Committee strongly held the view that there was no justification in providing enhanced rate for the second lot of the same order, in addition to the benefits of price variation and wanted to know how the price variation was allowed. The witness informed that it was proportional to the escalation of rate of raw materials published by the Integration of the Equipment Manufacturers Association from time to time. The witness requested the Committee to accept the view that the rate quoted for the first lot was less, than holding the view that the second lot was given an enhanced rate, since the rate quoted by the nearest bidder was a much higher one.

Conclusions/Recommendations

40. No Comments.

AUDIT PARAGRAPH

Irregular payment

Failure to adhere to the instructions of the Board for non-admittance of claims for arrears of overtime/holiday wages resulted in irregular of Rs. 0.15 crore.

At the time of switching over (March 1995) to the percentage rate (from variable) of payment of DA to the employees of the Board and again while issuing (October 1998) clarifications on the revision (August 1995) of pay with retrospective effect from August 1993, it was reiterated by the Board that claims for arrears of overtime/holiday wages consequent on the revisions of DA/Pay need not be admitted. However, a test check conducted (March 1999) in ten out of 98 units of Board revealed that in four units viz. Generation Circle at Meencut and Electrical Divisions at Karunagapally, Chalakkudy and Kunnankulam, the arrears of overtime and holiday wages for the period January 1993 to December 1996 aggregating Rs. 14.65 lakh consequent on retrospective revision of DA/Wages was drawn (October 1995 to August 1997), out of which Rs. 12.73 lakh was credited to Provident Fund account of the employees and balance Rs. 1.92 lakh disbursed in cash. Though the above payment was in violation of the orders of the Board, no action was taken against the Deputy Chief Engineer of the Circle and Executive Engineers of the Divisions responsible for the inadmissible payment.

The Government stated (July 2000) that the Board had already taken action (June 1999) to withdraw the unauthorised credit from General Provident Fund account and to realise the arrears paid in cash. However, the actual adjustment/recovery remained to be effected so far (September 2000).

The Government in its interim reply stated (July 2000) that it proposed to order an enquiry and fix the responsibility for the loss. However, final reply of the Government had not been received (September 2000).

[Para 4.2.1.9—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Commercial)]

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

41. The Committee understood that in spite of the Board's instructions that claims for arrears of overtime/holiday wages consequent on the revision of DA/Pay should not be admitted, in some units of the Board the arrears of overtime and holiday wages was drawn or was credited to Provident Fund Account of the employees. The Committee wanted to know the details regarding the items on which the excess amount was paid and the amount recovered so far. The Committee also enquired whether any earnest attempt had been made for recovering the interest on the amount unauthorisedly sanctioned. The witness informed that so far an amount of Rs.21,92,279 had been recovered from the employees. Excess amount was given by way of allowing DA also, over items such as holiday wages, overtime allowance which was against the instructions of the Board while revision of pay, with retrospective effect from August 1993. The witness also stated that no action had been taken to recover the interest allowed to the amount deposited in the provident fund or the amount paid in cash.

42. The Committee enquired whether the Board had completed the task of finding out the number of employees who were at the receiving end of the unlawful benefit and the amount recovered from them to assess the latest position in the case. The Chairman KSEB stated that the process of finding out the employees was going on and it was yet to be completed. The Committee sought for the details regarding the above, including the details of the interest recovered/adjusted. Responding to the questions of the Committee whether any preventive measures had been taken to avoid the reoccurrence of such instances in future the witness informed that such cases were being handled very carefully ever since and the practice of paying holiday wages and overtime allowances had since been done away with.

Conclusion/Recommendation

43. The Committee understands that in certain units of the Board arrears of overtime and holiday wages were drawn and credited to the Provident Fund Account of employees unauthorisedly. The Committee learns that the recovery of such amount is in progress and desires to be furnished with the details of recovery. The Committee also recommends that immediate steps should be taken to recover the interest on the amount unauthorisedly sanctioned, and write back the interest on the amount credited to the Provident Fund Accounts.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
17-10-2006.

Chairman,
Committee on Public Undertakings.

APPENDIX I

Summary of Main Conclusions/Recommendations

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	9	Power	The Committee finds that the Board procured defective low voltage distribution fuse boards without conducting adequate material inspection for ensuring the utility of the materials, resulting an infructuous expenditure of Rs.12.28 crores. The Committee is shocked to find that 95% of the payment for the item was effected though only 15% of the items were received in working condition. The Committee is very particular to know the details regarding the working condition of the item received. The Committee suspects some unholy motive behind the hurriedly effected advance payment and therefore recommends an enquiry into the whole deal and bring to light the circumstances which led the advance payment before supply of materials. The action taken in this regard should be furnished to the Committee immediately.
2	10	„	The Committee finds that an infructuous expenditure of Rs.3.95 crore was incurred due to inability of the Board to proceed with the drawing of 11 KV double circuit overhead line under the master plan project for Thiruvananthapuram, Kochi and Kozhikode. The Board designed 14 M special type steel post which required a minimum of 2.2 × 2.2m foundation for erection while the rules permit a foundation width of only 0.5 M on PWD/ NH road. The Committee finds that lack of proper planning and failure to negotiate with the concerned Department were the reasons for the huge loss. The Committee wants to be furnished with the details regarding the procurement and

(1)	(2)	(3)	(4)
2	10	Power	utilization of the poles. The Committee further recommends to take up the matter once again after seeking permission from PWD.
3	11	„	The Committee finds that the mobile cable fault locating equipment purchased could not be put to use till March 2000 for want of transfer of registration of the vehicle to which it was installed due to the dispute over payment of entry tax. The Committee understands that the failure of the Board to take up the matter with the concerned authorities and the rigid stand taken by the officer who dealt with the case was responsible for the inordinate delay. The Committee views this as a serious lapse on the part of the Board and recommends that strict action should be taken against the officers who failed to accept the pattern followed in the similar case at Kozhikode and Kochi for the settlement of entry tax.
4	14	„	The Committee finds that the site at Nallalam was notified for acquisition (considering its advantages) at an estimated cost of Rs. 0.55 crore for setting up a 126 MW Thermal Power Plant. But the Board could not go ahead with the acquisition as State Pollution Control Board denied permission owing to proximity of the site to residential areas. The Board then decided to relocate the plant to Thalikulathur in spite of its disadvantages already known and spent Rs. 23.03 lakh on land and another Rs.19.85 lakh for development of the land. After spending so much amount for land and its development, the Board finally decided to set up the thermal power plant at the original site itself ie., at Nallalam. The land acquired at Thalikulathur was declared unsuitable owing to scarcity of water and disadvantages in transmission of power generated in the plant. The Committee suspects something ‘fishy’ in the purchase and

(1)	(2)	(3)	(4)
4	14	Power	development of land at Thalikulathur as only after developing the land spending nearly Rs. 20 lakh the Board realised that the land was unsuitable owing to unavailability of water and difficulty in the transmission of power generated there, resulting in locating the plant at the original site itself at Nallalam. But the Board had to incur an additional expenditure of Rs.5.50 crore for acquisition of land owing to increase in land value. The Committee finds that lack of foresight and planning on the part of K.S.E.B. resulted in an infructuous expenditure of Rs. 5.5 crore and therefore recommends that the Board should study and ensure the suitability and viability of a project at a particular site, before acquiring land for the project. The Committee also recommends that action should be taken against those responsible for the loss.
5	17	„	The Committee understands that the application for concessional rate of customs duty in the execution of the Lower Periyar Hydro Electric Projects was rejected on the ground that the imports made for transmission and distribution works of power did not come under the purview of concessional rate of customs duty for imports made under registered projects as per Projects Imports (Regulation of contract) Regulation 1965.
6	18	„	The Committee finds that the audit paras could have been avoided, if proper reply had been furnished to the audit in time. The Committee, therefore, recommends that replies to audit should be furnished promptly so as to avoid audit paras in future.
7	22	„	The Committee observes that the decision of the Board to effect payment to the contractor on monthly basis at 2.1594 per cent of the value of work done instead of effecting payment on the

(1)	(2)	(3)	(4)
			basis of actual work done in respect of the care and diversion of the river and maintenance during the entire period of construction of the Lower Periyar Hydro Electric Project against the contractual agreement has resulted an excess payment of Rs. 25.45 lakh.
8	23	Power	The Committee opines that the decision of the Board to effect payment on monthly basis without the prior sanction of the Government to favour the contractor is highly irregular. The Committee understands that it is an unholy practice to invite tenders on certain conditions and alter them on a later date while effecting payment. The Committee views this as a serious irregularity and recommends that the loss caused to the Board in this regard should be realised from those responsible. The action taken in this regard should be intimated to the Committee without fail.
9	29	„	The Committee finds that the Board had sought for conducting negotiation, instead of going for a short tender notice for the sale of 2137.799 MT of various items of scraps for a total value of Rs.5.28 crore resulting in a loss of Rs.3.01 crore. The Committee is shocked to find that, not even an explanation was sought from the concerned officers by the purchase committee nor did it follow the tender procedure strictly. The Committee, therefore, recommends that stringent action should be taken against those responsible for such an avoidable loss and the action taken in this regard should be intimated to the Committee. The Committee also desires to be furnished with a copy of the order which deals with tender-cum-auction procedure that prevails in the Board for the sale of scraps at present.
10	34	„	The Committee understands that tenders were invited in February 1997 for rewinding and uprating of 5 stator units of 50 MW hydro generators

(1)	(2)	(3)	(4)
			<p>at the Sabarigiri Hydro Electric Project. But at the time of witness examination it was stated that tenders were given for rewinding works only. The Committee expresses its dissatisfaction at the casual and irresponsible way in which replies are being furnished to Audit paras by the Department and recommends that the department should be more serious while furnishing replies to audit paras. Reply should be furnished only after proper verification of facts.</p>
11	38	Power	<p>The Committee observe that as per the Amendment made in the excise duty Act 1991, the buyer, ie., the Board, as the primary manufacturer of the poles had the right to apply for refund of central excise duty, if the sale price included excise duty as well. But the Board didn't file the application for refund of the excise duty already paid before the Assistant Commissioner, Kottayam within the stipulated period. As a result, the application was rejected. The Committee finds that unpardonable delay of 9 months had occurred in submitting the application and therefore, recommends that immediate action should be taken against the concerned officer who failed to file the application in time.</p>
12	43	„	<p>The Committee understands that in certain units of the Board arrears of overtime and holiday wages were drawn and credited to the Provident Fund Account of employees unauthorisedly. The Committee learns that the recovery of such amount is in progress and desires to be furnished with the details of recovery. The Committee also recommends that immediate steps should be taken to recover the interest on the amount unauthorisedly sanctioned, and write back the interest on the amount credited to the Provident Fund Accounts.</p>

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON AUDIT PARAGRAPHS

<i>Sl. No.</i>	<i>Para No.</i>	<i>Audit Para</i>	<i>Action Taken</i>
(1)	(2)	(3)	(4)
1	4.2.1.1 (a)	<p>The Board placed (August 1996) orders on Indo Asian Fuse Gear Ltd., New Delhi for the purchase of 1500 Nos. (750 Nos. A and B type each) low voltage distribution fuse boards and spares for the works under the Master Plan for major cities at a total F.O.R. destination price of Rs. 13.03 crore. As per the purchase order, the type tests of the equipment were to be carried out in the presence of an engineer deputed by the Board, and the supply was to commence only after the issue of inspection certificate and material despatch clearance certificate.</p> <p>It was noticed that the inspection was waived (January 1997) by the Board and the firm supplied 822 numbers from December 1996 to April 1997, out of which only 15 per cent was found to be in acceptable condition. Instead of returning the defective consignments, the Board took delivery of the items and made 95 per cent payment. Even though the firm was</p>	<p>In August 1996, the Board placed orders on M/s. Indo Asian Fuse Gear Limited for supply of 750 Nos. each of A & B type 415/230 V Low Voltage Distribution Fuse Boards at F O R Destination price of Rs.13. 03 crore. The firm completed the supply by September 1997 and the Board made payment to the tune of Rs. 11.67 crore, being 95% of the value, by December 1997. The Board also made final payment of Rs. 9,94,401, being 5% of the value, after adjusting the liquidated damage of Rs. 48.60 lakh.</p> <p>Out of the 1500 Nos. procured 660 Nos. (188 Nos. of A type and 427 Nos. of B type) could be issued to various circles up to May 2001. As the Master Plan Works for the three cities viz., Thiruvananthapuram, Kochi and Kozhikode had not been progressed as envisaged, the entire quantity could not be distributed among the Circle Level Officers.</p>

(1)	(2)	(3)	(4)
	<p>directed (April 1997) by the Deputy Chief Engineer to stop further despatch of the items, conditional clearance was subsequently allowed (June 1997). The firm completed (August 1997) the supply of 1500 Nos. of switch boards and Rs. 11.67 crore was paid as 95 per cent of the total value against the defective items. An amount of Rs. 0.61 crore was also spent (June 1997 to September 1999) for the repair of the items.</p> <p>Of the 1500 distribution fuse boards procured, the Board could install (September to December 1997) only 14 boards for the Master Plan works so far (January 2000), which also failed (January 1998) due to various problems including design defects. The fact that none of the fuse boards could be put to use even after a lapse of three years would indicate that waiver of inspection, acceptance of materials despite instructions to stop despatch and effecting payments in violation of the agreement conditions were not in the best interest of the Board. These irregularities resulted in infructuous expenditure of Rs. 12.28 crore.</p> <p>The matter was reported to the Board/ Government in May 2000; their replies had not been received (September 2000)</p>	<p>Though the inspection was waived, the supplier firm itself had undertaken the rectificatory works and the Board had not incurred any expenditure on this. Rs. 0.61 crore mentioned in the para was the expenditure assessed by the Board and not incurred.</p>	

- 2 4.2.1.1 (b) For the purpose of drawing 11 KV double circuit overhead line under the Master Plan Project for Thiruvananthapuram, Kochi and Kozhikode cities, the Board designed 14 M special type steel posts which required a minimum of 2.2 x 2.2 M foundation for erection. The total requirement of posts for 220 km. line length was projected as 4400 numbers and the Board placed orders (February 1996) on ARM Ltd., Hyderabad and Jindal Steel Products Ltd., Calcutta for fabrication and supply of 1234.784 MT and 499.168 MT respectively of the above type of posts required for the work in Kochi and Kozhikode cities. Against the above orders the firms supplied (February 1997 to February 1999) a total quantity of 1299.762 MT valued at Rs. 3.95 crore against which Rs. 3.55 crore (90 per cent) had already been paid. When the work for laying the foundation for the 14 M posts was started, the Public Works Department (PWD)/National Highway (NH) Authorities directed (May 1998) the Board to stop the work since the rules permitted a foundation width on only 0.50 M on PWD/NH roads against 2.2 M required for erection of the posts. Since the Board was not able to proceed with the work further, the contract for construction of 11 KV overhead line KSEB had designed three types of 14 M long, self supporting steel poles, viz. A, B and C types to draw 11 K. V. double circuit with LT lines for Master Plan Works in the three cities of Thiruvananthapuram, Kochi and Kozhikode. All the three types were having 4 Nos. of angle iron legs with the maximum across the road spacing of 51 cm. The foundation to support the poles was to be at 165 cm below ground level and muffing had to be provided at 30 cm above ground level, across road width being 71cm. Such a design of self supporting poles had been adopted since the poles had to carry loads and there might be constraints in providing stays/struts in the city roads. By the above design neither the trafficable width of road nor facility to any other public utility services would be affected. So objection from PWD had not been anticipated.
- In fact, the objection for the local PWD was due to the proposal to convert Irumbannam Kalamassery road to 4 lane. So PWD authorities suggested to erect poles at the Boundary of the acquired land

(1)	(2)	(3)	(4)																														
	<p>was terminated (August/November 1998) and the poles could not be used. Thus, the designing and procurement of 14 M posts which required 2.2 M width for foundation when PWD/NH norms permitted only 0.5 M width, rendered the expenditure of Rs. 3.55 crore incurred for the purchase infructuous. No action had been taken against the officers responsible for the lapse (September 2000).</p> <p>The Government stated (July 2000) that the above design had been adopted since there might have been constraints in providing stays/struts in city roads and the poles were diverted for 33/11 KV State-wide system improvement works. The reply is not tenable since the design and procurement of 14 M special type posts were made specifically for city roads. Moreover, the design of the posts was not intended for 33/11 KV transmission system but for 11 KV overhead lines.</p>	<p>limiting width to 50 cm from the said boundary since statutory clearance could not be maintained with buildings and structures by the side of the said road. The above stipulation rendered it impracticable and impossible to construct the HT line. In Aluva town, a good number of these posts had already been erected.</p> <p>Even though the requirement was assessed to be 4400 Nos. of poles, the Board placed orders on the two firms for supply of 1320 Nos. only as shown below :</p>	<table><tr><th><i>Name of firm</i></th><th colspan="3"><i>No. of poles ordered</i></th><th><i>Weight</i></th><th><i>Total Price (Rs.)</i></th></tr><tr><td>(1) M/s ARM Ltd., Hyderabad</td><td>A</td><td>B</td><td>C</td><td>MT</td><td>368,53,363</td></tr><tr><td></td><td>423</td><td>423</td><td>94</td><td>1234.784</td><td></td></tr><tr><td>(2) M/s Jindal Steel Products Ltd., Culcutta</td><td>171</td><td>171</td><td>38</td><td>499.168</td><td>144,75,872</td></tr><tr><td>Total</td><td>594</td><td>594</td><td>132</td><td>1733.952</td><td>513,29,235</td></tr></table>	<i>Name of firm</i>	<i>No. of poles ordered</i>			<i>Weight</i>	<i>Total Price (Rs.)</i>	(1) M/s ARM Ltd., Hyderabad	A	B	C	MT	368,53,363		423	423	94	1234.784		(2) M/s Jindal Steel Products Ltd., Culcutta	171	171	38	499.168	144,75,872	Total	594	594	132	1733.952	513,29,235
<i>Name of firm</i>	<i>No. of poles ordered</i>			<i>Weight</i>	<i>Total Price (Rs.)</i>																												
(1) M/s ARM Ltd., Hyderabad	A	B	C	MT	368,53,363																												
	423	423	94	1234.784																													
(2) M/s Jindal Steel Products Ltd., Culcutta	171	171	38	499.168	144,75,872																												
Total	594	594	132	1733.952	513,29,235																												

Against this order, ARM Ltd. had supplied the full quantity whereas M/s Jindal had supplied only less quantity, as shown below:

<i>Name of supplier</i>	<i>No. of poles supplied</i>			<i>Amount paid (90%) (Rs.)</i>
(1) M/s ARM Ltd., Hyderabad	A 423	B 423	C 94	3,44,11,460
(2) M/s Jindal Steel Products Ltd., Culcutta	47	11,36,201
Total	470	423	94	3,55,47,661

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The Board also short closed the contract with M/s Jindal Steel Products. So it may be seen that the contention of audit that the Board procured 2496.127 MT valued Rs. 7.47 crore is not correct. All the poles have diverted for the newly introduced, REC aided, 33 KV/11 KV state-wide system improvement works and are being erected without going for fresh procurement.

Considering the above facts, the objections pointed out may please be waived.

(1)	(2)	(3)	(4)
3	4.2.1.1(c)	<p>The Board placed (December 1994) orders for purchasing three van mounted mobile cable fault location equipments from Prime Chemfert Industries Ltd., New Delhi under Kerala Power Project Transmission and Distribution (World Bank) schemes, at a total cost of Rs. 1.34 crore (including cost of vehicle). The equipments were received during the period between July and November 1996 and were allotted to three World Bank Project Divisions at Kozhikode, Kochi and Thiruvananthapuram. The equipment allotted to Thiruvananthapuram Division (Vehicle Reg. No. DL-1L 7809) was commissioned in August 1997 but could not be put to use till date (March 2000) for want of transfer of registration with Regional Transport Authorities due to dispute regarding payment of entry tax to Sales Tax Department. Though identical equipments were registered and put to use (May/July 1997) at Kozhikode and Kochi, the Board failed to effectively take up the matter with higher authorities to get the vehicle at Thiruvananthapuram registered and put to use. The equipment had been lying idle for the last three and a half years and was reported to be in a dilapidated condition with</p>	<p>The Board Purchased Mobile Cable Fault Locating Equipments suitable for pinpointing fault in underground cables, installed in TATA 909 special purpose van from the Delhi firm. The supplier firm got the vehicle registered in their name at New Delhi on 3 April 1996 and the Registering Authority at New Delhi issued NOC to the Regional Transport Officer, Thiruvananthapuram on 15 May 1996. When the Board officials approached the Regional Transport Officer, Thiruvananthapuram for getting the ownership transferred, he insisted on getting entry tax certificate in form 2 A from Sales Tax Department.</p> <p>Total invoice amount for the fault locator including the cost of vehicle was Rs. 44,51,760 whereas the cost of vehicle alone was Rs. 3,57,189. The Additional Sales Tax Officer III, Ist circle, Thiruvananthapuram demanded 10% of the entire amount as entry tax, instead of limiting to the cost of vehicle. Due to this dispute, the Board could not get the vehicle registered and put it to use.</p>

the result that the expenditure of Rs. 44.52 lakh thereon was rendered infructuous. The Board also lost the claim for guarantee extended by the supplier as twenty-four months had elapsed since the date of supply. The matter was reported to the Board/ Government in May 2000; their replies had not been received (September 2000).

The Board had taken up the issue with Commissioner of Commercial Taxes. Efforts are being made to see that the vehicle is put to use.

4 4.2.1.2

The Board selected (January 1992) the location for setting up a 126 MW thermal power plant at Nallalam in Kozhikode, considering its advantages such as easy evacuation of power generated, proximity to railhead and availability of water. The site was notified for acquisition at an estimated cost of Rs. 0.55 crore in December 1992, but no acquisition was made as the State Pollution Control Board denied (July 1993) 'No objection Certificate' (NOC) in view of its proximity to residential areas and complaints from public. Therefore, the Board decided (July 1993) to relocate the plant at Thalakkulathur even though the disadvantages of the site were known in January 1992 itself. Advance possession of 3.67 acres of land valued at Rs. 23.03 lakh was obtained in October 1994 for the purpose and an amount of Rs. 19.85 lakh was spent for development

On actual execution of the project, the Board had to acquire 26.61 acres (10.8452 hectares) of land for which the Revenue Authorities fixed the compensation as Rs. 6.05 crore which included the following :—

Land Value	Rs. 3,26,74,418.56
Timber Value	Rs. 3,10,369.00
Structure Value	Rs. 53,89,047.00
Solatum at 30%	Rs.1,15,12,141.57
Interest at 12% for one year	Rs.50,97,209.30

Even though the Civil Wing of the Board assessed the value of 10 acres as Rs. 0.50 crore, the Board had to make payment of Rs. 6.05 crore for 26.61 acres, based on the valuation made by Revenue Authorities as per the law in force.

(1)	(2)	(3)	(4)
		<p>of the land at the new site. However, due to the unsuitability of the land acquired at Thalakkulthur for reasons such as scarcity of water, disadvantages in evacuation of power generated and problems in site preparation, the Board decided (October 1996) to locate the plant at the original site at Nallalam itself. A NOC from the Pollution Control Board, subject to certain conditions relating to pollution control systems, was obtained in November 1997. As a result, the expenditure of Rs. 19.85 lakhs incurred on development of land at the second location became infructuous and the investment of Rs. 23.03 lakh on its purchase rendered idle. Besides, the Board had to incur an additional expenditure to the tune of Rs. 5.50 crore for acquisition (December 1997) of 10.8 hectares of land at the original site as a result of increase in value of land from Rs. 0.55 crore (1992) to Rs. 6.05 crore (1997).</p> <p>Thus, the decision of the Board to relocate the plant at a new site (at Thalakkulathur) without assessing its suitability resulted in avoidable extra expenditure of Rs. 5.50 crore, besides blocking of funds to the extent of</p>	

Rs. 23.03 lakh in land and unproductive expenditure of Rs. 19.85 lakh in its development. Further, the implementation of the project, the gestation period of which was only 2½ years was also delayed by about 4 years, with attendant consequences like escalation in project cost and loss of revenue from sale of power.

The matter was reported to the Board/ Government in April 2000; their replies had not been received (September 2000)

- 5 4.2.1.3 The Board entered into (December 1985) an agreement with the World Bank for financing the execution of the Lower Periyar Hydro Electric Project and associated transmission and distribution works. Since concessional rate of customs duty was applicable for imports made under registered projects, the Board filed (September 1987) an application for registration with the customs authorities. However, initial setting up of the Lower Periyar Hydro Electric Project alone was mentioned in the application and the associated transmission and distribution works which formed part of the project were omitted to be included. The Board imported (September 1988) materials like steel plates, penstock pipes etc., required for the initial setting up of the project, which were allowed to

As per the agreement entered into on 5-12-1985 for World Bank loan, the loan was intended for a Power project having 7 parts, Part A to Part G. Part A was for Lower Periyar Hydro Electric Project and Part D for re-inforcement of secondary transmission and distribution network. In September 1987, the Board applied for registration of Lower Periyar Hydro Electric Project under Project Imports (Registration of Contract) Regulation 1965 for concessional rate of customs duty for the import of materials for initial setting up of Lower Periyar Hydro Electric project. The Customs Authorities accepted the application and registered as Project Certificate 8/88. Under the cover of this Project Certificate, the Board imported

(1)	(2)	(3)	(4)
		<p>be cleared at concessional rate of 20 per cent duty. After receipt of the above material, the Board intimated (February 1991) the customs authorities that no further imports were expected for this project.</p> <p>Subsequently, during the period between May and July 1993, the Board imported from China 325 km. of 11 KV XLPE cables for Rs. 25.66 crore and five numbers of GIS equipment at Rs. 20.01 crore for the 'associated transmission and distribution' work of the above project. Though the customs authorities cleared (June-July 1993) these items initially under bond at concessional customs duty of Rs. 9.23 crore, the assessment was finally made (May 1996) for Rs. 48.69 crore stating that the second import was neither part of the project nor essential for initial setting up of it due to the omission in mentioning full details of the project at the time of original registration. The Board was directed (May 1996) to pay the differential duty amounting to Rs. 39.46 crore, which was finally settled (March 1999) by paying Rs. 19.73 crore (50 per cent). Thus, the omission to mention the transmission and</p>	<p>materials required for the setting up of the Lower Periyar Hydro Electric Project at concessional rate of duty.</p> <p>In March 1993, the Board filed a similar application for the import of 11 KV XL PE cables and GIS equipment under Project Imports (Registration of Contract) Regulation 1965 ; but the Customs Authorities rejected the application in June 1993 on the ground that the import was for transmission and distribution work. On taking up the issue again with the Customs Authorities, they provisionally allowed to clear the items at concessional rate of customs duty. Subsequently in May 1996, the customs authorities informed the Board that the concessions could not be extended to the import of cables and GIS equipment and demanded duty of Rs. 39,45,53,478. Finally the Board could settle the issue under "Kar Vivad Samadhan" Scheme introduced by the Government of India by remitting 50% of the amount due, ie. Rs. 19,72,76,739.</p> <p>11 KV XLPE cables and GIS equipment were imported for the reinforcement of secondary</p>

distribution part of the project in the application for registration for project contract, deprived the Board of the benefit of concessional rate of customs duty resulting in avoidable loss of Rs. 19.73 crore.

The matter was reported to the Board/ Government in May 2000; replies had not been received (September 2000).

transmission and distribution network, included under Part D of the loan agreement, and not for the initial setting up of LPHEP included under Part A of the agreement.

The concessional rate of duty is governed by heading 98.01 of Customs Tariff under which all items of machinery required for setting up of a Power Project are included. The Customs Notification 67/87 says that "Power Project" is such project whose output or end product is power. Thus it is clear that project registration under Project Imports (Registration of Contract) Regulation 1965 can be allowed for the project whose end product is power. As the transmission and distribution network except for power generation will not come under this Head, the cables and GIS equipments imported for reinforcement of secondary transmission and distribution network cannot be brought under the said regulation and concessional rate of duty is not therefore applicable.

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6	4.2.1.4	The Board awarded (November 1993) the work of construction of a dam, power tunnel in take and appurtenant work for the Lower Periyar Hydro Electric Project to M/s. Hindustan Construction Company Limited (HCCL).	The Board awarded the work of Construction of a Dam, Power tunnel intake and appurtenant works for Lower Periyar Hydro Electric Project to M/s. Hindustan Construction Company in November 1993. Item 1 of Schedule B was care
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(1)	(2)	(3)	(4)
		<p>The work included care and diversion of the river and maintenance during the entire period of construction. For the care and diversion, a lumpsum provision of Rs. 1.10 crore was made in the contract and payment there against was to be regulated for the actual work carried out by the contractor indicating that the total payment for the work had to be limited to Rs. 1.10 crore or the actual value of work done whichever was lower.</p> <p>Till March 1995, an amount of Rs. 34 lakh was paid by the Board for care and diversion works on the basis of actual work done; but in March 1995 it was decided to effect payment to the contractor on monthly basis at 2.1594 per cent of the value of work done for the construction of dam, without considering the actual work done for care and diversion, on the ground that the payment at actuals does not reflect a true and correct picture of the expenditure actually incurred by HCCL. The work was completed in October 1997 and a total amount of Rs. 1.03 crore was paid (February 2000) on per cent basis against the value of actual work done as per measurement</p>	<p>and diversion during the entire period of construction of dam intake and appurtenant works and their maintenance including cost of cement, but excluding cost of certain specific items mentioned therein. M/s. HCC quoted Rs. 1.1 crore for this item. As per clause 46 of the General Conditions of Contract, the payment for this item would be regulated as per actuals.</p> <p>But later on M/s. HCC submitted that it would be more expedient to make the payment in instalments linked to the progress of the work as was the practice prevalent in other projects and requested for payments in stages of 20%, 35%, 35% and 10% starting from the commencement of excavation in the river bed to the plugging of diversion tunnel. The Project Director (SNC-Shawinigan) also recommended to regulate payments for care and diversion work on instalment basis linked proportionately to the progress of work. After examining the recommendation of the Project Director, the Board sanctioned percentage basis for payment for the work and adopted the percentage as 2.1594 arrived at by dividing lumpsum of Rs. 1.1 crore for care and diversion by the total amount of contract of Rs. 50.94 crore.</p>

		<p>book amounting to Rs. 77.10 lakh, resulting in excess payment of Rs. 25.45 lakh. Thus, the adoption of percentage basis for payment of care and diversion works in deviation of provisions of the contract and without relevance to actual works done, resulted in avoidable payment of Rs. 25.45 lakh.</p> <p>The matter was reported to the Board/ Government in May 2000; their replies had not been received (September 2000).</p>	<p>The Board made payment of Rs.1,06,56,105.56 on prorata basis prior to final bill on this account, when the value of work done as per measurement amounted to Rs. 82,15,612.82, resulting in excess payment of Rs. 24,40,492.74. Board had also issued direction to the Deputy Chief Engineer to recover the amount paid in excess to the contractor from the FCC of M/s. HCC. Particulars of recovery will be intimated on settlement of final claim”.</p>
7	4.2.1.5	<p>In the course of regular repairs, replacement and maintenance work undertaken by the Board, huge quantities of high value scrap of copper, aluminium, iron, cold rolled steel, brass, transformers, etc., were being generated. The Board invited (June 1992) open tenders for the sale of these scrap materials lying in various locations and the bids of seven firms including Steel Industrials Kerala Limited (SILK), a State Government Company, were accepted (December 1992). Out of the above bidders, four parties, including SILK, defaulted in lifting the quantities allotted.</p> <p>SILK offered (December 1993) to buy the entire scrap materials and the Board, after conducting negotiations, entered into (January 1994) a</p>	<p>“In June 1992, the Board invited tenders for the sale of scrap materials lying in the various locations and accepted the offers of the following seven bidders.</p> <ul style="list-style-type: none"> (i) M/s. Ashok Metal Industries, Bangalore. (ii) M/s. SILK, Thrissur. (iii) M/s. Shameer Metal Trading Co., Kollam. (iv) M/s. Viswambaran, Karunagappally. (v) M/s. Venad Steel Agencies, Kollam. (vi) M/s. Jasmy Aluminium Industries, Kollam. (vii) M/s. Iron House, Ernakulam

(1)	(2)	(3)	(4)
		<p>contract for the sale of all items, at rates which were much lower compared to the then prevailing market price and the earlier offers received. SILK lifted a total quantity of 2137.799 MT of various items of scrap for a total value of Rs. 5.28 crore during the period January 1994 to November 1996. As against this, the value realizable for the above scrap on the basis of rates accepted in December 1992 would work out to Rs. 8.28 crore. Had the Board conducted proper negotiations with SILK or invited open tenders to take advantage of the higher market rates, it could have avoided the revenue loss of Rs. 3.01 crore (as detailed in Annexure 37) being the difference between the higher offer received earlier and the price obtained from SILK. The matter was reported to the Board/ Government in May 2000; their replies had not been received (September 2000).</p>	<p>Of the seven bidders, M/s. Jasmy Aluminium Industries, Kollam who was awarded the contract for lifting damaged tyres, tubes and flaps executed the order in full and M/s. Viswambaran, Karunagappally and M/s. Ashok Metal Industries, Bangalore partially lifted the materials. Others didn't respond.</p> <p>As the scrap was accumulating, the Board was finding it difficult to store the scrap materials the Board contacted M/s. KEL, Mamala, M/s. TELK, Angamaly and M/s. SILK, Thrissur, the three Government owned companies, to explore the possibility of lifting the scrap by them. When M/s. TELK, Angamaly expressed their unwillingness, M/s. KEL, Mamala didn't respond.</p> <p>But M/s. SILK, Thrissur expressed their willingness to execute a new rate contract at negotiated price. Accordingly, the Board negotiated with M/s. SILK and entered into a contract, valid up to 31 December 1994, taking into account the market value of scrap published in the "Economic Times of India".</p>

From the statement of items, quantity and rate offered by the seven firms in June 1992 and accepted by the Board in December 1992, the rates taken into account by Audit for the purpose of comparison were the rates quoted by the bidders in response to the tender call in June 1992 and accepted by the Board in December 1992. As most of the bidders didn't turn up to lift the scrap at the agreed rates presumably because the rates, offered by themselves, were not affordable and the scrap was piling, the Board thought of remedial measures to remove the scrap at the earliest.

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As the process of fresh tender was a time consuming one and the chances of getting a better offer in the wake of non-lifting of items by the successful bidders were rare, the Board contacted the Government owned companies and executed the agreement with M/s. SILK who was prepared to lift the scrap at a reasonable rate. So comparison of the rate at which scrap was sold with the rates originally agreed to by the bidders doesn't seem to be correct."

(1)	(2)	(3)	(4)
8	4.2.1.6	<p>The Board invited (February 1997) limited tenders for rewinding and uprating of five stator units of 50 MW Hydro generators at the Sabarigiri Hydro Electric Project. According to the notice inviting quotations, all the materials including testing and allied equipment, were to be brought to site by the contractor within 60 days from the date of execution of agreement and the units were to be handed over after re-winding at intervals of 45 days each.</p> <p>Of the nine quotations received from various bidders including public sector BHEL, the Board identified the quotation of Yashmun Engineering Ltd., Pune (YEL) as the lowest at Rs. 1.10 crore per unit for uprating to 54 MW Capacity. The firm had demanded 35 per cent advance on the total cost and agreed to supply materials for the re-winding within 90 days and complete the re-winding at 45 days interval for each unit. As against this, the rate quoted by BHEL was Rs. 1.17 crore per unit for an uprated capacity of 60 MW. BHEL demanded only 10 per cent advance and agreed to supply the materials within 60 days to complete the work of all the five units at intervals of 45 days each. The offer of BHEL</p>	<p>“Tenders were invited in February 1997 for re-winding and uprating of 5 stator units of 50 MW Hydro Generators at the Sabarigiri Hydro Electric Project. To get an addition of 10 MW, replacement of turbine, penstock transformer etc. was also required and uprating upto 54 MW offered by M/s. YEL was in line with the existing condition. Hence while preparing the comparative statements of quotations received for the work, the rate per MW had not been taken into account as there was no additional advantage for uprating the capacity to 60 MW .</p> <p>Out of the total cost of Rs. 1.10 lakh per unit quoted by the Co., cost of material alone would come up to Rs. 91.2 lakh per unit. Materials for the 1st unit were supplied in November 1997 and second unit in December 1997. Stator coils for the 3rd unit were supplied at site in February 1998. Since materials were supplied at site, no loss of interest on advance payment of Rs. 115.5 (Not Rs. 85 lakh) made to M/s. YEL in 6/97 (Not in 4/97) for the three number of units was sustained to the Board.”</p>

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had the advantage of additional 6 MW uprating per unit, lesser payment of advance and early completion of work.

It was noticed in audit that while preparing the comparative statement, the value for capacity addition of 6 MW/unit amounting to Rs. 7.55 lakh offered by BHEL was not taken into account for working out the per unit price which would have rendered their offer as the lowest at Rs. 1.07 crore per unit. Based on the wrong comparison the Board placed orders for re-winding three units with YEL and only two units were awarded to BHEL. Award of work for re-winding of three units at higher rates to YEL on the basis of wrong evaluation, resulted in extra expenditure of Rs. 22.65 lakh, compared to the offer received from BHEL. Further, the two units entrusted with BHEL were completed (October 1997/January 1998) within the schedule time. Of the other three units for which work was awarded to YEL, only two units were completed (April/June 1998) and the third unit for which an advance amount of Rs. 85 lakh was paid (April 1997) was delivered only in February 1999.

The matter was reported to the Board/ Government in May 2000; their replies had not been received (September 2000).

(1)	(2)	(3)	(4)
9	4.2.1.7	<p>The Board had entered into (1982) a contract with Venad Structurals, Kottayam, a Small Scale Industrial (SSI) Unit, for manufacturing and supplying PSC poles against work orders issued from time to time. As per the agreement, the excise duty on the poles manufactured was to be reimbursed to the Unit on clearance of poles from the yard. However, in practice, the Board had been paying the duty amount to the Unit in advance to avoid delay in clearance of poles. In March 1986, the Central Government exempted all SSI Units from payment of excise duty upto a turnover of Rs. 15 lakh and extended concessional rate of 5 per cent (against 15 per cent) beyond that limit.</p> <p>Eventhough Venad Structurals was an SSI unit eligible for concessional duty, it was required to pay duty at normal rates for clearance of poles made during July 1988 to January 1990, due to failure to establish its eligibility by filing the documents in time. However, the Board made an advance payment of Rs. 16.56 lakh to the Unit to pay the excise duty at normal rates, against the actual duty payable amounting to Rs. 3.95 lakh.</p>	<p>“In 1982 the Board entered into an agreement with M/s. Venad Structurals for the supply of PSC poles. As per the agreement, the Board had to reimburse the excise duty paid by them at the time of clearance of poles.</p> <p>Holding the view that the Board who was supplying raw materials for the manufacture of PSC poles was the manufacturer for the purpose of payment of excise duty, the Commissioner of Central Excise, Kochi issued a show cause notice on 9-5-1986 demanding duty for the period from 1981-82 to 1984-85 and later in Order No. 101/86 dated 17-11-1986 he confirmed the demand. On appeal filed by the Board, the CEGAT in their order dated 1-2-1988 reversed the decision of the commissioner and held the view that the job worker and not the Board was the manufacturer of poles for the purpose of payment of excise duty. Thus, till the date of order of CEGAT i.e., 1-2-1988 the Central Excise Department was holding the view that the Board was the manufacturer and not the job worker. So whatever be the agreement condition, the Board was held liable to pay</p>

Subsequently, the Central Excise Department granted SSI Unit status to this Unit, but its claim for refund of duty paid in excess amounting to Rs. 12. 61 lakh was rejected by the department in July 1991 on the ground that the duty paid by the Unit had been collected from, the Board. The appeal against this decision was also rejected by Customs and Central Excise Appellate Tribunal, Madras, on 29 October 1997.

According to Section 11 B of the Central Excise and Salt Act, 1944, the Board should have applied for refund of the duty paid in excess within a period of six months from the date of rejection of the appeal. i.e. 29 October 1997. However, it was seen that the refund claim was not filed by the Board within the time prescribed as a result of which the refund claim was rejected (December 1998). Thus, the decision of the Board to pay advance to the Unit for payment of excise duty which was not contemplated in the agreement and its failure to claim refund within the time limit resulted in avoidable loss of Rs. 12.61 lakh. No action had been taken against the delinquent official(s) for this lapse (July 2000).

central excise duty till 1-2-1988 when the CEGAT reversed the opinion. Eventhough the CEGAT decided in favour of the Board on 1-2-1988, the agreement condition provided for reimbursement of excise duty paid by the contractor firm. Thus, in effect, the Board was liable to make payment of excise duty on poles cast by M/s. Venad Structural under the agreement executed in August 1982.

In March 1986, the Government issued notification No. 175/86 exempting all SSI units from payment of excise duty upto a particular limit and extending a concessional rate of duty beyond that limit. But there was a dispute over the SSI status to be given to M/s. Venad Structural and therefore the Central Excise didn't declare the said unit eligible for SSI exemption till October 1990. In October 1990 the Central Excise Department declared the unit as eligible for SSI exemption by which time the Board had to make advance payment of Rs. 16.56 lakh to the contractor firm for paying excise duty. As the Board would have to bear liability on account of

(1)	(2)	(3)	(4)
		The matter was reported to the Board/ Government in March 2000; their replies had not been received (September 2000).	<p data-bbox="1249 403 1756 746">payment of Central Excise duty finally as explained in the sub para above, and the Central Excise Department didn't grant SSI status to the contractor firm, the Board had to make advance payment to avoid piling up of poles in the casting yard and delay in execution of the targeted work. Besides, the contractor also represented that they didn't envisage payment of excise duty at the time of submitting the tender.</p> <p data-bbox="1249 754 1756 1236">On getting the SSI status, the contractor firm claimed refund before the Assistant Commissioner of Central Excise, Kottayam who in his order dated 29-7-1991 dismissed the claim on the ground that the duty burden was passed on to the Board. In the meantime, the Central Excise Act was amended with effect from 1-4-1991 by Amendment Act 40/91 by which the buyer could also apply for refund of Central Excise Duty if the sale price included Central Excise Duty as well. Under the revised procedure, the Board filed application for refund before the Asst. Commissioner, Kottayam who rejected the application on the ground that the claim was</p>

hit by time bar. Against the order of the Assistant Commissioner, the Board filed appeal before the Commissioner (Appeals) Kochi. The appeal is pending.”

- 10 4.2.1.8 The Board placed (July 1996) orders on Omega Cables Ltd., Chennai for the purchase of 1050 km of ACSR conductors in two lots of 525 km each, at two different rates of Rs. 97200 and Rs. 99500 per km (ex-works) respectively eventhough the supply of the first lot was to be made within three months and the second lot in five months from the date of receipt of order. Further, a price variation clause was also incorporated in the agreement for variation in the price of raw materials and labour during the scheduled delivery period subject to a ceiling of 20 per cent. As against the ordered quantity of 1050 km, the firm delivered 1089.918 km during the period between August 1996 and April 1997. While there was no provision in the agreement, the excess quantity of 39.918 km was also accepted by the Board and payment made at the ex-works rate of Rs. 97200 per km. applicable for the first lot.
- On 10 July 1996, the Board placed orders with M/s. Omega Cables, Chennai, for supply of 1050 kms of ACSR Kundah conductor in two lots of 525 kms each at two rates of Rs. 97200 and Rs. 99500 per km quoted by the firm in response to International Competitive Bid dated 7 June 1995. ICB dated 7 June 1995 was a retender necessitated due to the cancellation of ICB dated 25 September 1992 for the same quantity since the low responsive bidder was not prepared to accept the offer of the Board of variable price of 30%. Considering the fate of the above said cancelled order, the Board incorporated the two lot offer provision in the ICB dated 7 June 1995 with the intention of getting advantageous offers even from firms

(1)	(2)	(3)	(4)																												
	Eventhough the first lot as well as the additional quantity which was received along with the second lot were supplied at the rate of Rs. 97200 per km. only, the Board paid higher rates for the second lot of 525 km. of cable on the ground that the firm quoted different rates for the two lots. Acceptance of higher price for the second lot was not justifiable, since extra payment of Rs. 12.07 lakh at enhanced rates as well as price variation claims of Rs. 15.26 lakh for the second lot of the material conferred double benefit upon the contractor and resulted in avoidable extra expenditure of Rs. 12.07 lakh to the Board.	with less production capacity. In response to this bid, following six firms responded:																													
		<table> <tr> <th><i>Sl. No.</i></th><th><i>Name and address of the firm</i></th><th><i>Qty Km.</i></th><th><i>Rate per Km.</i></th></tr> <tr> <td>1.</td><td>M/s. Gillooram Gowrisankar</td><td>1050</td><td>109,000</td></tr> <tr> <td>2.</td><td>M/s. Deepak Cables</td><td>525</td><td>107,662.61 (Quoted) U.S. dollar of 3950)</td></tr> <tr> <td>3.</td><td>M/s. Omega Cables</td><td>525 + 525</td><td>97200 99500</td></tr> <tr> <td>4.</td><td>M/s. Klen Marshall</td><td>1050</td><td>123516 (Q u o t e d U. S. dollar of 3950)</td></tr> <tr> <td>5.</td><td>M/s. Traco Cables</td><td>525</td><td>116100</td></tr> <tr> <td>6.</td><td>M/s. China National Machinery Import and Export</td><td>1050</td><td>115073.60 (Quoted U. S. dollars of 3680)</td></tr> </table>	<i>Sl. No.</i>	<i>Name and address of the firm</i>	<i>Qty Km.</i>	<i>Rate per Km.</i>	1.	M/s. Gillooram Gowrisankar	1050	109,000	2.	M/s. Deepak Cables	525	107,662.61 (Quoted) U.S. dollar of 3950)	3.	M/s. Omega Cables	525 + 525	97200 99500	4.	M/s. Klen Marshall	1050	123516 (Q u o t e d U. S. dollar of 3950)	5.	M/s. Traco Cables	525	116100	6.	M/s. China National Machinery Import and Export	1050	115073.60 (Quoted U. S. dollars of 3680)	
<i>Sl. No.</i>	<i>Name and address of the firm</i>	<i>Qty Km.</i>	<i>Rate per Km.</i>																												
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The Government stated (July 2000) that the order of 10 July 1996 was in response to a retender wherein the Board incorporated the two lot provisions to get advantageous offers from firms with lesser production capacity and that the rate of M/s. Omega Cables being the lowest was accepted. The reply is not tenable since the Board could not retender for a material when the World Bank had already approved the rates on the basis of the earlier bid. Moreover, the Government could not offer any justification for allowing higher rate as well as price variation for the second lot alone.

It may be seen that the two provision attracted two more participants viz., M/s. Deepak Cables and M/s. Traco Cables. Had the offer of those two firms been lower, it would have been accepted and purchase orders placed accordingly.

On revalidation M/s. Omega Cables demanded the 2nd lot rate of Rs. 99500 with variable price for the entire quantity of 1050 kms. But the Board insisted on the firm to supply the cables at the rates quoted by the firm. It is worth mentioning that the FOR destination price of the 2nd lowest, M/s. Gillooram Gowrisankar, who quoted a single rate for the entire quantity of 1050 kms., was higher by Rs. 111.29 lakh when compared to the offer of M/s. Omega Cables who quoted two different rates for two lots as shown below :

M/s. Gillooram Gowrisankar	115,446450
M/s. Omega Cables	104,317500

Since the two rates of M/s. Omega Cables were the lowest the Board could get the price variation also reduced proportionately. Thus, by insisting on the firm who on revalidation

(1)	(2)	(3)	(4)
			<p>demanded the higher rate for the entire lot to supply at the quoted rates, the Board had not incurred any additional expenditure, instead had derived savings.</p> <p>The requirement of 1050 kms. was as per 1992-93 status whereas the requirement by 12/97 was 157 km more. Further the excess quantity of 39.918 km was within the tolerance limit of $\pm 5\%$ given by the firm. For the excess quantity the Board made payment at the reduced rate of Rs. 97200 per km. only. The Board had also utilised the entire quantity of ACSR Kundah conductor for the Idukki Lower Periyar 220 KVDC Line., targeted to be commissioned in December 1999. But due to the non availability of conductor, the Board could not materialize the proposed commissioning.</p> <p>In view of the above facts, the objection raised may please be dropped.</p>
11	4.2.1.9	<p>At the time of switching over (March 1995) to the percentage rate (from variable) of payment of DA to the employees of the Board and again while issuing (October 1998) clarifications</p>	<p>As soon as the statement of facts on the issue was received, a circular was issued to all the field offices to withdraw unauthorised credit deposited in GPF and to realize the</p>

on the revision (August 1995) of pay with retrospective effect from August 1993, it was reiterated by the Board that claims for arrears of overtime/holiday wages consequent on the revision of DA/Pay need not be admitted. However, a test check conducted (March 1999) in ten out of 98 units of the Board revealed that in four units. Viz., Generation Circle at Meencut and Electrical Divisions at Karunagappally, Chalakkudy and Kunnamkulam, the arrears of overtime and holiday wages for the period January 1993 to December 1996 aggregating Rs. 14.65 lakh consequent on retrospective revision of DA/Wages was drawn (October 1995 to August 1997), out of which Rs. 12.73 lakh was credited to Provident Fund account of the employees and balance Rs. 1.92 lakh disbursed in cash. Though the above payment was in violation of the orders of the Board, no action was taken against the Deputy Chief Engineer of the Circle and Executive Engineers of the Divisions responsible for the inadmissible payment.

arrears of holiday wages/overtime wages paid in cash, to the employees of certain offices, based on the revision of DA with retrospective effect.

The recovery particulars of ineligible payment to staff are being received from the controlling officers. As per the available details, an amount of Rs. 3,83,580 has been recovered in cash and Rs. 2,71,518 adjusted against the amount wrongly credited to GPF.

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(1)	(2)	(3)	(4)
		<p>The Government stated (July 2000) that the Board had already taken action (June 1999) to withdraw the unauthorised credit from General Provident Fund account and to realize the arrears paid in cash. However, the actual adjustment/recovery remained to be effected so far (September 2000).</p> <p>The Government in its interim reply stated (July 2000) that it proposed to order an enquiry and fix the responsibility for the loss. However, final reply of the Government had not been received (September 2000).</p>	

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