THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)

FIFTEENTH REPORT

(Presented on 17th December, 2012)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2012

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)

FIFTEENTH REPORT

On

The action taken by Government on the Recommendations contained in the Thirty First Report of the Committee on Public Undertakings (2001-04) relating to Traco Cable Company Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 1995, 1997, 1998 and 2000 (Commercial)

38/2013.

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2014)

Chairman :

Shri K. N. A. Khader

Members :

Shri Abdurahiman Randathani
,, A. A. Azeez
,, P. K. Gurudasan
Dr. N. Jayaraj
Shri Elamaram Kareem
,, T. N. Prathapan
,, Palode Ravi
,, S. Sarma
,, P. Thilothaman
,, P. C. Vishnunadh.

Legislature Secretariat:

Shri P. K. Muraleedharan, Secretary-in-charge
,, K. Priyadarsanan, Joint Secretary
,, C. Jos, Deputy Secretary
Smt. Lima Francis, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fifteenth Report on the action taken by Government on the recommendations contained in the Thirty First Report of the Committee on Public Undertakings (2001-04) on the working of the Traco Cable Company Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31-3-1995, 1997, 1998 and 2000 [Commercial]

The Statements of action taken by the Government included in this Report were considered by the Committee constituted for the year 2011-14.

This Report was considered and approved by the Committee at the meeting held on 12-7-2012.

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

K. N. A. KHADER,

Thiruvananthapuram,
17th December, 2012.

Chairman,
Committee on Public Undertakings.

REPORT

This Report deals with the action taken by the Government on the recommendations contained in the Thirty First Report of the Committee on Public Undertakings (2001-2004). The Thirty First Report of the Committee on relating to Traco Cable Company Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31-3-1995, 1997, 1998 and 2000 [Commercial] was presented to the House on 25th June 203.

The Report contained 10 recommendations and the Government have furnished replies to all recommendations. The Committee (2011-14) considered the replies received from the Government at its meeting held on 11-1-2012.

The Committee accepted all replies to the recommendations without any remarks. These recommendations, their replies form Chapter I of this Report.

58/2013.

REPORT

This Report deals with the action taken by Government on the recommendations contained in the Thirty First Report of the Committee on Public Undertakings (2001-2004). The Thirty First Report, relating to Traco Cable Company Limited based on the report of the Comptroller and Auditor General of India for the years ended March 31, 1995, 1997, 1998 and 2000 (Commercial) was presented to the House on 25th June, 2003.

The Report contained 10 recommendations and the Government have furnished replies to all the recommendations. The Committee (2011-2014) considered the replies received from Government at its meeting held on 11-1-2012.

The Committee accepted all replies to the recommendations without any remarks. These recommendations and their replies form Chapter I of this Report.

CHAPTER I

REPLIES FURNISHED BY GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations of Committee*	*Action Taken Report*
(1)	(2)	(3)	(4)	(5)
1	51	Industries	The Committee observes that TRACO Cables Company Limited which is engaged in the manufacture of conductors and telephone cables is solely dependant on one or two public undertakings like Kerala State Electricity Board and BSNL for its entire operation. Even though, the Company had been operating for the past forty years, seldom did it think about expanding its activities or extending customer base. As the Company is facing diminishing demand for its products and thereby incurring high loss, the Committee recommends that the Company should go out for an overall diversification and revamping of its operations. The technology in the areas of conductors and cables are	The Company was making profit till 2000-01. As the market for Jelly Filled Telephone CJFTC has come down drastically the Company has been incurring losses during the last two years. The Government has referred the Company to the Enterprise Reforms Committee for recommending restructuring proposals and the report of the ERC is under considerations of Government.

			changing day by day and hence the Company should keep pace with the technological changes and evolve suitable measures to meet the demands of the customers. A comprehensive study on diversification be done and urgent steps should be taken to modernize the factory.	
2	52	„	The Committee is surprised to note that during the four years up to 1993-94, there was excess consumption of raw materials valued at ₹ 39.97 lakh in the Power Cables Divisions, out of which ₹ 28.30 lakh was due to excess consumption of copper alone. The loss in the Telephone Cable Division was ₹ 70.44 lakh during the 2 years up to 1993-94 due to excess consumption of raw materials. The Committee understands that the total loss to the Company in this regard was around ₹ 110.41 lakh and the Company had not conducted any study to find out the reason for excess consumption.	As recommended by the Committee, TRACO Cable Company Limited appointed M/s K. N. Valsan & Company, Chartered Accountants, Kochi to conduct an independent enquiry to find out the reasons for excess consumption of aluminum and copper by the company. After conducting the enquiry, M/s. Valsan & Company submitted its report on 4-11-2008. The findings of the enquiry are as follows: (1) Comparison of actual material consumption with the standard consumption is only a cost accounting technique whereby the management seeks to reduce the cost to the extend possible by strengthening the internal control system. Since it is a cost account technique, no financial

(1)	(2)	(3)	(4)	(5)
			The Committee recommends that a detailed enquiry should be conducted to identify the reason for this and remedial action be taken accordingly.	aspects are covered. So the loss estimated by the C&AG is only an estimated loss and not an actual loss. (2) The input materials such as aluminium and copper are fed into production process in bulk rolls and daily physical weighing of material consumption are not practically possible. Due to this, the material consumption per day is recorded on estimated basis. Thus there is chances for clerical errors when such estimates were made. (3) If a periodical review had been taken by the material, stores and production department, the clerical errors could have been avoided. To that extend, the performance of material, stores and production departments are not satisfactory. The same system is still being continued

and periodical review has to be made for ascertaining whether standard costing techniques are correctly followed.

On the basis of the enquiry report, Managing Director, TRACO Cable Company Limited has issued a note on 26-11-2008 to strictly comply with the suggestions in the Enquiry Report and to ensure that a fool proof system is adopted for periodical review of consumption to avoid recurrence of such lapse in future.

The Company has further clarified that the Thiruvalla Unit which was set up for the manufacture of Jelly Filled Telephone Cables (JFTC), discontinued production from 2002-03 onwards, on account of high prices and very poor demand. The above situation had arisen due to the abnormal growth of mobile telephone technology and the advent of optical fibre cable which has lead to stoppage of JFTC for land line use. Hence implementation of material conservation programme and

(1)	(2)	(3)	(4)	(5)
				periodic review could not be implemented as advised by PUC. At present in both plants at Thiruvalla and Irimpanam, the main products are ACSR Squirrel, Weasel, Rabbit Conductors for KSEB and other Electricity Boards. The ACST conductors are manufactured as per Bureau of Indian Standards specification IS 398 Part 2: 1996. The input output ratio norms are fixed based on the IS Standard. Generally the estimates are prepared based on the nominal sizes of aluminium and steel conductor, however the composite weight varies based on the minimum and maximum tolerance limit for both aluminium and steel. Hence the outlook of the Company is to ensure that the gross consumption of aluminium and steel are within the minimum and maximum tolerance limits.

				In actual processing of the aluminium conductor it is impossible to strictly maintain the nominal diameter due to voltage variation, minor variation the line speed of the machine and other ambient conditions. Statistically, the tolerance limit provided in the specification are to cover up the causes of variations on account of unassignable reasons. However, it is the endeavour of the Company to maintain on an average at nominal diameter.
3	53	Industries	The Committee is perturbed to note that the Company does not have a purchase policy. The inventory management is also very poor. The Company seldom floated open tenders for the purchase of major raw materials like copper, which in turn had deprived the Company of the chance of availing competitive offers. The Committee finds that the Company had to suffer a loss of ₹ 27.13 lakh in the purchase of copper rods simply because of poor	The company is taking every care to see that the inventory is kept at the optimum level. Purchase decisions are taken on the basis of competitive tenders and on the recommendation of a Committee consisting of Heads Departments. The recommendations are pre-audited and approved by General Manager (Finance) before final decision is taken. A domestic enquiry was conducted by engaging Shri N. Sukumaran, Retired District Judge as Enquiry Officer on the

(1)	(2)	(3)	(4)	(5)
			management of inventory system in the Company. The Committee points out that the Company purchased copper rods from NS Sterilite Industry @ ₹ 1.56 lakh per tonne in June 1994 after turning down the offer from the same firm in May 1994 @ ₹ 1.12 lakh per tonne, and the Company had to incur a loss of ₹ 12.56 lakh because of this. The Committee further points out that the placing of repeat order for 180 tonnes of copper with the French Firm, with variation in normal contract term led to a loss of ₹ 14.57 lakh to the Company. The Committee expresses displeasure over the inventory management system in the Company and recommends that these two purchases should be thoroughly enquired into and action should be taken against those founds responsible for the loss. The results of action taken should be intimated to the Committee.	subject matter. After detailed enquiry, the Enquiry Officer have exonerated the three delinquent officers from the charges levelled against them. Disagreeing with the conclusions of the Enquiry Officer, the then Management have imposed punishment on the three Officers as follows:— 1. Shri C.P. Surendra Prakash, Deputy General Manager was reverted to Sr. Manager. 2. Shri P.E. Parasuram, Senior Manager and Shri Satheesh Chandra Babu, Manager (Purchase) barred three increments on cumulative basis. Aggrieved on the above decision three delinquent officers filed petition before the Honourable High Court of Kerala. While disposing the petitions the Honourable High Court have concurred with findings of the Enquiry Officer on the above petitions. While pursuing the domestic enquiry, the Management have requested to the Government for Vigilance enquiry on the matter. The Industries (H) Department, Government of Kerala, Trivandrum vide their letter No. 3360/H1/05/ID dated 14-2-2005 have informed the company that

				having already settled the issue by the Honourable High Court on the O.Ps. filed by the accused Officers, the Vigilance and Anti Corruption Bureau have dropped further action on the matter.
4	54	Industries	The Committee desires to be furnished with the latest position of appeal pending before the High Court against the three purchase managers who were implicated in connection with the purchase of galvanized steel tapes. The Committee is surprised to note that the Company had to suffer a loss of ₹ 17.28 lakh towards liquidated damage due to non-adherence of delivery schedule to Kerala State Electricity Board. Further, the Company could not claim price escalation to the tune ₹ 19.14 lakh in this regard. The Committee opines that at a time when the Company is facing acute shortage of orders, failure to keep the delivery schedule of existing orders will wean away the present customers and hence it would strive its best to supply items in times.	The various High Court decisions on the delinquent officers had been submitted to the Government and based on the above the Government have dropped the matter and intimated the company vide Government letter No.3336/H1/2005/ID dated 14-2-2005. (Copy of the letter is attached as annexure).

(1)	(2)	(3)	(4)	(5)
5	55	Industries	The Committee points out that though the Company received an order for 3560 LKM of Cables from the Department of Telecommunication in January 1992, it could supply only 686,442 LKM up to April 1993 and the balance of the order was cancelled by DOT resulting in a loss of ₹ 11.41 lakh as liquidated damages. The unexecuted portion of order was ₹ 22.32 crores. The Committee recommends that the failure on the part of the Company to execute orders should be investigated and steps should be taken so that such instances are not repeated in future.	Even though the company have offered to supply 5484 LKM of JFTC in 19 sizes, the company have received orders for supply of only 3560 LKM of cables in 9 sizes. Out of the above, the company could supply a quantity of 2871.864 LKM within the delivery schedule, i.e. 30-9-1992. The entire quantity have been supplied by the company during the extended delivery period. In this connection a copy of the letter showing the details of despatch as informed to DOT in their format, by the company is enclosed as Annexure II. As already informed the Company has supplied the complete quantity of cables in the extended delivery period and the observation of the audit that the Company lost ₹ 22-25 crores is not correct. On a scrutiny of records it is observed that the JFTC Unit at Thiruvalla was operating without sufficient workmen till 1993. The recruitment of workmen was completed only during 1993-94 period. Since the commencement of production in 1990, the then available workmen were engaged one after another in the process line as the total

				process line was not working simultaneously. Even the plant engineers were engaged as operators in the machine to run the process line to some extent. The witness might have failed to explain this aspect during the discussion at COPU, There was no cancellation of order and the entire quantity was supplied in the extended delivery period as already reported.
6	56	„	The Committee is astonished to note that there is a shortage of 260 LKM of cables worth ₹ 222.70 lakh during 1993-94 between actual physical stock and book stock. The Committee recommends that a detailed enquiry should be conducted regarding the shortage of cables.	M/s. K.N. Valsan & Company conducted a detailed enquiry regarding the shortage of cables. The reasons for the mismatch between book stock and physical stock is that the unavoidable erosion in production quantities on account of expended quantities in testing, rejection etc. which were not properly accounted for. The years in question i.e. 1990-91 to 1993-94, were the first few years since the inception of the JFTC Unit and a good quantity was expended in initial tests and trials. However, to avoid such instances in future, the Company has issued necessary directions to the concerned units for strict compliance.

(1)	(2)	(3)	(4)	(5)
				Based on recommendation No.52 and 56 of the Committee the Company took the following action for ensuring the consumption of raw materials well within the norms fixed. 1. Engaged M/s. K.N. Valsan & Company, Chartered Accountants to conduct a detailed study and based on their report strict directions were issued vide note No. MD/01/32/09 dated 11-5-2009 to both Thiruvalla and Irimpanam Division for close monitoring of the consumption of various raw materials with the norms fixed. The directions are: (1) Every year quantity wise details of the opening stock, production, sales and closing stock of finished goods must be prepared and the same should be reconciled. (2) Ensure that sales quantity based on commercial invoices should tally with sales quantity as per finished goods stock register.

(3) Any variation noticed on the above may be brought to the notice of the Managing Director.

(4) Ensure that the production quantities reported are after providing for expended quantities in trials, testing, rejections etc.

Subsequent to the issue of the above directions, the consumption of raw materials are being reviewed in the production planning meeting scheduled periodically and ensuring consumption within the norms. Necessary directions were also issued to the concerned, to bring to notice any abnormal deviation for corrective actions for ensuring optimum consumption. This procedure is strictly followed in the case of all types of cables and conductors currently being manufactured.

(1)	(2)	(3)	(4)	(5)
7	57	Industries	The Committee observes that the Company had to sustain a net loss of ₹ 110.52 lakh on account of rejection of telephone cables by Department of Telecommunication as the item could not get through water penetration test and recommends that the Company should be more vigilant in ensuring quality since it cannot afford to loose its few customers.	The Company have started commercial production in 1990-1991 and the production could not be stabilized till 1991-1992. Even during the year 1991-1992, the capacity utilisation of the plant was just around 26%. DoT's one of the main parameter in accepting the cables is Water Penetration Test. Since the Company could not fully absorb the technology till 1991-1992, the substandard cables manufactured during the period were much higher. However the Company could reduce the percentage of Water Penetration Test rejection from 2.5 % in 1991-1992 to just 0.98 % during 1993-1994. Then onwards the Company stablized the production and maintained a rejection percentage less than 1%.
8	60	,,	The Committee deprecates the action of the Company in purchasing copper rods from a Mumbai firm at a higher rate, when the same material was offered by a Bangalore firm at a lower rate, causing a loss of ₹ 19.57 lakh. The Committee recommends that Vigilance Case initiated against three officers of the Company	A Vigilance case was instituted against these Officers at the instance of Government. The Committee has also suggested to recover the loss sustained by the Company in purchase of copper from the Officers involved in this transaction. The domestic enquiry and the High Court had absolved the Officers and a Division

			should be speeded up since it is not completed even after a gap of five years. The Committee feels that apart from the three officers, the then CMD is also responsible for the purchase and recommends that the amount lost to the Company should be recovered from him also proportionately and reported to the Committee.	Bench had rejected the appeal made by the Company in one case. Therefore recovering the loss as suggested by the Committee cannot be implemented.
9	62	„	The Committee view with serious concern that an amount of ₹ 16.27 lakh was lost to the Company due to sheer negligence and dereliction of duty on the part of Accounts Department of the Company. The Committee opines that had the Company preferred the claim for refund of excess excise duty within the stipulated period of six months, the lost could have been avoided. The Committee recommends that the financial wing of the Company should be more vigilant in the affairs of the Company and recurrence of such instances should be avoided in future.	Managing Director has issued strict instructions that the claims are made at the appropriate time and avoid such instances in future.

(1)	(2)	(3)	(4)	(5)
10	65	Industries	The Committee desires to be informed about the outcome of writ petition filed before the Hon'ble High Court, Mumbai.	The Hon'ble High Court of Mumbai has given a direction to settle the issue through arbitration. Accordingly as per the terms of contract with Mahanagar Telephone Nigam Limited the matter has been referred to the International Council for Alternative Dispute Resolution (ICADR) and the arbitration proceedings are being initiated.

K. N. A. Khader,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th December 2012.