



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)**

FIFTH REPORT

(Presented on 21st June, 2012)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2012

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On

**Kerala Automobiles Limited based on the Report of the
Comptroller and Auditor General of India for the year
ended 31st March, 2008 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2014)

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Smt. Lima Francis, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings 2011-2014 having been authorised by the Committee to present the Report on their behalf, present this fifth Report on Kerala Automobiles Limited based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2008 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2008 (Commercial), was laid on the Table of the House on 23-6-2009. 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 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 1-2-2012.

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

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Kerala Automobiles Limited 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, Industries Department and Finance Department and the officials of Kerala Automobiles Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
21st June, 2012.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT

AUDIT PARAGRAPH

The company, engaged in the manufacture of various types of three wheelers, had been procuring two stroke engines from outside sources. New emission norms effective from April 2000 required the Company to switch over from two stroke to four stroke petrol engines. Hence the Board of Directors decided (May 2003) to go for the design and development of new four stroke engines. The Company entered (July 2003) into an agreement with the Supreme Enterprises (SE) for supply of already developed prototype of 'Yamaha' engine at the negotiated price of ₹ 55 lakh, without verifying the right of the local firm to supply the Yamaha engine prototype.

SE supplied the prototype and the company made the payment in July 2003. The company further incurred (July 2003-June 2006) additional expenditure towards testing fee, consultation fee, tools etc., to the tune of ₹ 60 lakh and the total expenditure for the prototype engine worked out to ₹ 1.15 crore.

Audit noticed (June 2007) that the company could not proceed with further development of prototype and production of engines due to lack of technical infrastructure, poor financial position and possibility of legal action by the original equipment manufacturer for infringement of rights on the prototype supplied by SE. Thus, the expenditure of ₹ 1.15 crore incurred by the company up to June 2006 remained wasteful.

Audit further noticed that no feasibility study on the project considering the then existing infrastructural facilities was conducted and the project was taken up by the company, without arranging finance for implementation of the project which was later (June 2006) estimated at ₹ 5.15 crore. Moreover the technical expert who provided (February 2001) the assessment report on the 'Yamaha' engine design had warned the company of infringement of patent right which was also not taken into consideration at the time of procurement of prototype and making payment.

Thus, the decision of the company to purchase prototype of four stroke engine from a local firm who had no legal rights to sell it coupled with failure to undertake any operational and financial feasibility study for its development, had resulted in wasteful expenditure of ₹ 1.15 crore.

The matter was reported to Government/Management in March 2008; their reply was awaited (August 2008).

(Audit paragraph 4.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2008).

The Note furnished by Government on the audit paragraph is given in Appendix II.

1. The Committee wanted to get explanation from the witness about the purchase of prototype of four stroke engine from a local firm without ensuring the competency of the firm and means of finance. The witness elaborated that to develop four stroke engines, the company had entered into an agreement with a private agency, Supreme Enterprises (SE) for an amount of ₹ 55 lakhs. Though Government approval was essential to spend more than ₹ 25 lakh, this decision taken by the Board was not approved by Government. After manufacturing the prototype of the engine, when tested in the API it turned out to be a failure. The Committee strongly condemned the explanation from the witness and asked whether the company had assessed the ability and technical knowledge of the agency to develop four stroke engines. The witness replied that neither the product nor its success rate was evaluated. The Committee then sought the reason for giving order, to SE for making the engine. The Principal Secretary replied that vigilance enquiry was already ordered on the case.

2. The Principal Secretary pointed out that in the present case, which is under vigilance enquiry, the genuineness of the objective behind the project was yet to be ascertained and hence the Government would wait for the findings of vigilance enquiry before taking any decision on the issue.

3. The Committee stated that the examination of the audit paragraph would still be open and that the Committee should be appraised of the Progress of the vigilance enquiry.

Conclusions/Recommendations

4. It is found that the agreement signed with the private agency Supreme Enterprises, for an amount of ₹ 55 lakh, was made without following the procedures, guidelines and rules. The Committee finds fault with the decision of KAL to sign the agreement without verifying the competency of Supreme Enterprises to supply the prototype and the possibility of legal action by original equipment manufacturer. The company should have assessed the competency of SE to supply the prototype before expending ₹ 55 lakh towards price and another ₹ 60 lakh for testing, consultation and tools. Thus, a total of ₹ 1.15 crore turned out to

be a wasteful expenditure due to want of foresight and lack of efficiency in management. Lack of technical infrastructure and lack of poor financial position of the company should have been considered before entering into a deal required huge amount.

5. The Committee directs that results of findings of the vigilance enquiry with regard to the deal as well as action taken against responsible officers should be reported to the Committee.

Thiruvananthapuram,
21st June, 2012.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl. No.</i>	<i>Report Para No.</i>	<i>Department concerned</i>	<i>Conclusions/Recommendations</i>
1	4	Industries	It is found that the agreement signed with the private agency Supreme Enterprises, for an amount of ₹ 55 lakh, was made without following the procedures, guidelines and rules. The Committee finds fault with the decision of KAL to sign the agreement without verifying the competency of Supreme Enterprises to supply the prototype and the possibility of legal action by original equipment manufacturer. The company should have assessed the competency of SE to supply the prototype before expending ₹ 55 lakh towards price and another ₹ 60 lakh for testing, consultation and tools. Thus, a total of ₹ 1.15 crore turned out to be a wasteful expenditure due to want of foresight and lack of efficiency in management. Lack of technical infrastructure and lack of poor financial position of the company should have been considered before entering into a deal required huge amount.
2	5	„	The Committee directs that results of findings of the vigilance enquiry with regard to the deal as well as action taken against responsible officers should be reported to the Committee.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

<i>Sl. No.</i>	<i>Para No.</i>	<i>Action taken Report</i>
1	4.1	<p>The company embarked on the development of a four stroke petrol engine for use on KAL vehicles in the year 2003. For this purpose the design of the engine was bought from a private company M/s. Supreme Enterprises, Karunagapally at a cost of ₹ 55 lakh. This agency had provided some drawings and two fully built engine plus one SKD prototype engine to KAL as per agreed terms and conditios. The purchase had no approval of the Government. However, the then Board had decided to go ahead with the purchase. After purchasing the design, company spent substantial amount of money to the tune of ₹ 1.15 crore to develop fresh prototype. This project was a failure. Consequent upon this the project was shelved resulting in a wasteful expenditure. This case is now with the Vigilance Department and the concerned people are being questioned by the Vigilance Department. It is imperative that the then Managing Director and the Board of Directors had no authority to make a purchase of this magnitude without obtaining prior approval of the Government. Most of the senior officials involved in this transaction have retired from the services of the company. The Members of the then Board who had approved this purchase without the approval of the Government are no longer the members of the Board now. Managing Director has reported that a Vigilance Enquiry is now going on in this regard. The outcome of the same may therefore be awaited.</p>