



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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

SEVENTH REPORT

(Presented on 21st June, 2012)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2012

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On

**Kerala Electrical and Allied Engineering Company Limited based on the
Report of the Comptroller and Auditor General of India for
the year ended 31-3-2008 (Commercial)**

832/2012.

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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 Seventh Report on Kerala Electrical and Allied Engineering Company 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 Electrical and Allied Engineering Company 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 Electrical and Allied Engineering Company 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

KERALA ELECTRICAL AND ALLIED ENGINEERING COMPANY LIMITED

AUDIT PARAGRAPH

The Company accepted (November 2003) an offer from Integral Coach Factory (ICF), Chennai for supply of 194 alternators of 4.5 kW to ICF at a basic price of ₹ 39,926 each plus duties and taxes. The basic price did not fully cover the direct expenses. The delivery was to be completed by August 2004.

As per the terms of the purchase order, ICF reserved the right to increase or decrease the order quantity by 30 per cent on the same price and other terms and conditions during the currency of the contract and the Company was bound to supply the quantity so ordered according to the revised delivery schedule fixed by ICF. As such the Company was under obligation to supply a maximum additional quantity of 58 numbers only. The Company, however, accepted (January/February/August 2004) orders from ICF for supply of additional quantity of 282 alternators at originally agreed basic rate of ₹ 39,926 each on the same terms and conditions and delivery schedule was extended up to 24 December 2004. The Company completed the supply of entire quantity by December 2006 and borne liquidated damages (LD) of ₹ 5.59 lakh.

Audit noticed (September 2007) that during the period from 2003-04 to 2006-07, the cost of the alternator ranged between ₹ 41,930 and ₹ 53,137 as against the accepted basic rate of ₹ 39,926. Since the Company had the option to accept only 58 numbers as additional order quantity, there was no justification for accepting the order for supply of the remaining 224 numbers of alternators at a cash loss of ₹ 25.38 lakh as the Company was having (December 2003) orders worth ₹ 3.81 crore. Further, the Company had lost ₹ 5.59 lakh as LD levied by ICF for delay in supply. Thus, the decision of the Company to accept orders for supply of additional quantity of alternators at a rate lesser than the variable cost resulted in cash loss of ₹ 25.38 lakh as well as payment of liquidated damages of ₹ 5.59 lakh.

The Government stated (July 2008) that even as the said contract was under execution, ICF awarded a number of other contracts all of which contributed generously to the Company's bottom line. They also stated that it was the management's view at that time to look at the standing and antecedents of the customer and not to consider the order in isolation. The fact however remained that the Company, which has been suffering continuous heavy losses, incurred

additional cash loss to satisfy a customer, which resulted in impacting its bottom line rather than contributing to it. The action of the Company to sell at a cash loss did not safeguard its financial interests.

[Audit paragraph 4.7 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2008.]

The notes furnished by Government on the Audit paragraph is given in appendix II.

1. The audit objection was based on the loss incurred by the company due to acceptance of an additional order from Integral Coach Factory (ICF) for supplying 224 alternators of 4.5 kW at the originally agreed basic price. The acceptance of the additional order was justified by pointing out the 'special clause' in the purchase order, according to which the ICF had the right to increase the order quantity by another hundred per cent according to their requirement. Thus the company was bound to supply an additional quantity of up to 310 alternators while ICF purchased only an additional quantity of 224 alternators. If the additional order had not been accepted by the company it would have been included in the black list of Railways. However, the explanation with regard to the 'special clause' in the original purchase order was not submitted as reply to C & A.G's initial queries.

2. It was further informed that out of the liquidated damages (LD) of ₹ 5.59 lakh paid to ICF, except a token LD of ₹ 96,000 the entire amount has been refunded.

3. Though as per the general conditions in the purchase order only additional order up to 30% was bound to be met by the company. The special clause favoured ICF to place up to 100% additional order, which the company was bound to execute. It was further agreed that the company suffered loss on account of this. Regarding the liquidated damages, the refund made good the loss on this account to the extent of ₹ 4.5 lakh. While meeting the initial order the cost of production per unit of alternator was just ₹ 35,000 which enabled the company to make a profit of Rupees Two to Three thousands per unit. However price hike of steel and other components later led to loss on the additional order. The most significant contention of the witness was that as the company being solely dependant on orders from Railway for its survival, it was essential to maintain a good relation with Railways. Loss in one deal could be made good through another deal. The Committee accepted the explanation and decided to drop further

action with the comment that the delay in furnishing reply to audit paragraph till the meeting date inexcusable. The Committee directed to monitor the furnishing of reply by giving strict orders to Managing Directors of concerned undertakings.

Conclusion/Recommendation

4. The Committee opines that the reply to the audit objection should have been furnished at the time of audit. If this was done the audit paragraph itself could have been avoided. Furnishing of the explanation with regard to the 'special clause' was not done when audited and in the draft paragraph stage. The Committee therefore directs that strict order should be given to Managing Directors of all Public Sector Undertakings to furnish replies to findings of Accountant General in time. Government has been directed to monitor this at the Secretary level.

Thiruvananthapuram,
21st June, 2012.

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

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATION

<i>Sl.No.</i>	<i>Report Para No.</i>	<i>Department concerned</i>	<i>Conclusion/Recommendation</i>
1	4	Industries	The Committee opines that the reply to the audit objection should have been furnished at the time of audit. If this was done the audit paragraph itself could have been avoided. Furnishing of the explanation with regard to the 'special clause' was not done when audited and in the draft paragraph stage. The Committee therefore directs that strict order should be given to Managing Directors of all Public Sector Undertakings to furnish replies to findings of Accountant General in time. Government has been directed to monitor this at the Secretary level.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

<i>Sl. No.</i>	<i>Para No.</i>	<i>Action Taken Report</i>
(1)	(2)	(3)
1	4.7	<p>1. ICF had floated a tender for the supply of 723 Nos. of 4.5 kW alternators with RRU vide tender No. 06/03/1274/2 opened on 9-10-2003. KEL had quoted a basic price of ₹ 41,985 and was L4 in that tender. ICF had issued a counter offer for 194 sets with a basic rate of ₹ 39,926 vide counter offer No. 06/03/1274 dated 20-11-2003, which is the lowest rate quoted in that tender by M/s. Stone India Ltd., Kolkatta. Along with KEL, ICF had issued counter offer to other suppliers also in the L1 rate. In the counter offer ICF had clearly mentioned “special conditions” as,—</p> <p>(1) IRS terms and conditions applicable.</p> <p>(2) Apart from the ICF standard option clause, ICF reserves the right to increase the order quantity by 100% to cover for situation if RDSO approvals are not received by 31-3-2004.</p> <p>On acceptance of the counter offer, ICF had issued purchase order for 194 sets (PO. No. 06/03/1274/1474/F dated 2-12-2003) with delivery schedule as follows:</p> <p style="margin-left: 40px;">40 sets — 24-12-2003</p> <p style="margin-left: 40px;">40 sets — 31-1-2004</p> <p style="margin-left: 40px;">20 sets — 28-2-2004</p> <p style="margin-left: 40px;">37 sets — 30-4-2004</p> <p style="margin-left: 40px;">20 sets — 31-5-2004</p> <p style="margin-left: 40px;">20 sets — 30-4-2004</p> <p style="margin-left: 40px;">17 sets — 31-8-2004</p>

(1)	(2)	(3)
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Along with KEL the following suppliers also received order @ ₹ 39,926.

Stone India Ltd., Kolkatta	..	212 Nos.
HMTD, Mumbai	..	143 Nos.
Unilec, Chennai	..	20 Nos.
IC Electricals, Mohali	..	2 Nos.

2. As it was clearly mentioned in the counter offer for 100% option clause apart from the standard ICF option clause (30%), we should accept minimum additional quantity up to 310 Nos. of 4.5 kW alternators as detailed below:

Initial order quantity	..	194
Standard option clause (30%)	..	58
Quantity to be supplied as per standard option clause	..	<u>252</u>
Additional option clause as per PO (100%)	..	<u>252</u>
Total quantity to be supplied as per the PO	..	504
Less initial order quantity	..	<u>194</u>
Total additional quantity to be supplied as per the PO	..	<u>310</u>

Non acceptance of the counter offer would have adversely affected our relationship with ICF, detrimental to the future business and as well as it would have affected other orders received with better margins concurrently.

3. At the time of audit, due to over sight we have considered only the normal option clause of 30% (as per IRS terms and conditions) which comes to 58 Nos. Accordingly Auditors have taken 224 Nos. as additional quantity beyond option clause.

(1)	(2)	(3)
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However actually the Initial order received was for 194 Nos. which was further enhanced to 476 Nos. (194+83+89+110). Hence the additional quantity of 282 Nos. (476 - 194) is within the optional clause of the purchase order as explained in para 2 above.

ICF is one of our oldest customers and we are regularly interacting and our officials are regularly meeting ICF officials for getting new orders. It may also be noted that in the year 2002-2003, we have received ₹ 600 lakh worth of order in single tender basis from ICF. After this also we have received single tender orders from ICF for their coaches export to Senegal which comes to around ₹ 50 lakh.

Regarding liquidated damages recovered by ICF for the delayed execution of the order under reference, it may be noted that we have got refund of ₹ 4,57,327 on 13-9-2008 after deducting token LD of ₹ 99,899 as per letter No. ICF/06/03/1274/1474/F dated 19-8-2008.

Considering the above explanations we request that the Para may kindly be dropped.
