THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)

TWENTY THIRD REPORT

(Presented on 28th January, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2014

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COMMITTEE
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TWENTY THIRD REPORT

On

Kerala State Road Transport Corporation based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2006 and 31st March, 2007 (Commercial)

427/2014.

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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 Twenty Third Report on Kerala State Road Transport Corporation based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2006 and 31st March, 2007 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2006 and 31st March, 2007, were laid on the Table of the House on 28th March, 2007 and 26th February 2008. 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 1st October, 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 Transport Department of the Secretariat and Kerala State Road Transport Corporation 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, Transport and Finance Department and the officials of Kerala State Road Transport Corporation who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

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

Thiruvananthapuram,
28th January, 2014.

REPORT

KERALA STATE ROAD TRANSPORT CORPORATION

AUDIT PARAGRAPH

Avoidable extra expenditure

The Corporation decided (March 2004) to procure Low Floor Buses with a view to give a new look and added efficiency in city operation. No cost benefit analysis or performance evaluation was conducted prior to taking the decision. Accordingly, orders were placed (April 2004) with Ashok Leyland Limited (ALL) for the purchase of four Low floor Buses at a cost of ₹ 26.30 lakh per bus. The Corporation had also purchased (November 2003) chassis for Ordinary Leyland Buses the total cost of which including body building charges was ₹ 13 lakh per bus.

At the time of deciding the procurement of Low Floor Buses the Corporation did not have a definite idea regarding 'added efficiency' as the efficiency level was not assessed with reference to that of the Ordinary Leyland Buses in the operating fleet. During the trial run conducted (March/April 2003) the Low Floor Buses recorded a mileage of 3.05 Km. per litre only which was lower than that (3.62 Km./litre) of Ordinary Leyland Buses. While the average mileage obtained for ordinary buses was 3.70 Km./litre, Low Floor Buses could obtain only 3.42 Km. (August 2005). Actual performance recorded for Low Floor Buses during the months of December 2005, February 2006, March 2006 and April 2006 was 3.52 Km., 3.64 Km., 3.56 Km. and 3.54 Km. respectively indicating the dismal performance when compared to the cost involved. In view of the heavy loss (accumulated losses were ₹ 1139.93 crore as on 31st March, 2003) and working capital constraints, the Corporation should have avoided procurement of high value Low Floor Buses involving additional expenditure of ₹ 53.20 lakh [(₹ 26.30 lakh–13 lakh) x 4].

Thus, the Corporation's decision to procure high value Low Floor Buses without conducting any cost benefit analysis and ignoring the lower efficiency level during trial runs resulted in avoidable extra expenditure of ₹ 53.20 lakh.

The matter was reported to the Government/Corporation in July 2006, their replies have not been received (August 2006).

[Para 4.23 contained in the Report of the Comptroller and Auditor General for the year ended 31-3-2006 (Commercial).]

Note on the Audit Paragraph furnished by Government is given in Appendix II.

1. The Committee sought explanation for the loss incurred due to the purchase of 4 high-tech low floor buses by the Corporation without conducting any cost benefit analysis. The Managing Director explained that Kerala State Road Transport Corporation purchased the buses for providing better convenience and comfortable journey to aged, women, children, and physically disabled people without considering cost. The cost of one bus, i.e., ₹ 26,30,000 was more than double the cost of an ordinary bus. But the collection fetched by both the buses are more or less the same. In short, the operation of the high-tech buses was comparatively in loss.

2. The Corporation had not conducted any study on mileage of buses. The Corporation had purchased 4 numbers of the then available low floor buses on experimental basis.

3. With regard to chassis of low floor buses, the opinion of the Corporation was that there is difference between chassis of ordinary and low floor buses. The height of low floor buses was less than ordinary buses and their engines were at the rear. The body of low floor bus could not be made in ordinary workshop and it could be done only by integral construction by manufacturers.

4. Though the initial proposal was to buy 10 buses, the board approved to purchase only 4 buses, due to its high cost. The proposal to purchase 10 buses on an experimental basis was with the intention of attracting commuters in the city by providing more travel comfort and convenience, thereby reducing the use of private vehicles.

5. The Committee raised doubts regarding the success of low floor buses for city service. The Corporation's opinion was that the height of the floor in case of conventional buses was 650 mm while that of the AC low floor buses was just 400 mm. The new buses have no steps and commuters could enter directly into the bus. Another problem was the bad conditions of roads. As the buses were purchased as per the specification under JNNURM Scheme of the Central Government, the Committee commented that these buses could run only through the roads that satisfy Central Government specifications. While considering the condition of our roads, operation of low floor buses would face various problems.

6. Though the Corporation intended to provide a better travel comfort to passengers by introducing low floor buses, the collection was the same as that of ordinary buses. Moreover the passengers preferred to travel by the then introduced Ananthapuri buses and other ordinary buses. Though low floor buses could occupy more persons, it could not attract more passengers. Therefore after buying 4 buses the Corporation had stopped the purchase of low floor buses. Thereafter Corporation decided to purchase 240 new buses both semi low floor and buses with 650 mm high floor under the JNNURM Scheme. The Committee viewed that the Corporation could have conducted a study about the commuters' choice before hand.

7. The main purpose of introducing these buses was to reduce the use of private vehicles. The mandatory condition for the success of the system is to provide pay and park facility in each junction and terminal points so that passengers can board these buses after parking their vehicles. Unless this facility is provided it would be difficult to attract passengers who are using two/four wheelers. When low floor buses were introduced in Chennai, there was not only increase in collection but also decrease in the number of private vehicles on the road. The Committee opined that for successful operation of low floor buses either the Corporation or PWD must provide the basic infrastructure facilities.

8. The Committee remarked that it was unwise to introduce the new system without having a definite idea regarding 'added efficiency'. Moreover the Corporation has incurred a loss of ₹ 53 lakh by purchasing low floor buses. The Committee was surprised why the Corporation was again trying for another huge loss. As the fund from JNNURM would get lapsed after a definite period the committee suggested that KSRTC should try to get the parking facility using the same fund. The Committee stressed the need for placing a proposal on the same.

9. The Corporation's revelation was that as the funds come under the purview of LSGD it has already been informed to the department for providing the facility of pay and park system for the successful implementation of the scheme. The Committee pointed out that LSGD cannot do the entire work as most of the roads are NH, State Highways or PWD roads and LSGD can spend the funds on only roads coming under panchayat or corporation jurisdiction.

10. The Committee aspired that a joint meeting of LSGD, PWD and KSRTC could solve the problem. It was then learnt that several meetings had been conducted and the matter had been brought to notice of related officials.

Conclusions/Recommendations

11. **The trial run of low floor buses conducted in March/April 2003 had revealed that mileage of these buses is comparatively lower than that of ordinary buses in the operating fleet. In spite of this the Corporation went on with the purchase of 4 such buses without conducting any cost-benefit analysis. This act of the Corporation, in spite of all other justifiable advantages does not seem excusable. The cost of low floor bus being double that of ordinary one, the Corporation should have assessed its economic feasibility before going for it. The Committee recommends that in view of its heavy accumulated losses and the working capital constraints faced by the Corporation, such irrational decisions, without the backup of even an efficiency assessment, should not be repeated in future.**

12. **The concept of providing better travel comfort and convenience to passengers is worth acceptable. However the Corporation miserably failed to improve collection from low floor bus so as to justify its heavy cost. The Committee emphasises that the Corporation ought to have assessed the extent to which the increased comfort and convenience would be utilised by public, especially when fare charged by low floor bus is higher.**

13. **To attract more passengers to low floor buses and thus reduce use of private vehicles in cities, some basic infrastructure facilities like properly maintained roads and parking facility near each junction/terminal are highly essential. The Committee strongly recommends the need to consider utilisation of JNNURM fund which would otherwise get lapsed after a definite period, for bringing about such infrastructure facilities. It is stressed that a proposal with regard to this should be placed without delay.**

14. **KSRTC should also take the initiative to co-ordinate with LSGD and PWD and make their joint meetings fruitful so as to set-up such infrastructure arrangements needed for success of operation of low floor buses. The Committee desires to know the result of such joint meetings already convened. It should be reported whether any fruitful decision has been taken in the meetings.**

AUDIT PARAGRAPH

Avoidable Expenditure

The Corporation placed (November 2003) orders with Hi-Tech Auto Craft, Alappuzha (HTA) for the purchase of 50 bus body kits for assembly and mounting on "TATA 232" wheel base chassis at a landed cost of ₹ 5.54 lakh per unit. The delivery was to be effected from January 2004 to July 2005. Simultaneously, the Corporation finalised (December 2003) another contract with the same firm (HTA) for construction and supply of 50 numbers "full bus body" for the same type of chassis (TATA 232) at the unit price of ₹ 5.10 lakh. Even though the Corporation was aware of the additional expenditure of ₹ 0.44 lakh per bus body kit involved in the first purchase order it was decided (June 2004) to continue with the procurement of bus body kits from HTA on the plea of utilising the labour in their bus body building workshop at Pappanamcode. Fifty numbers of the bus body kits were supplied (January to November 2004) and payments made at higher rates (January 2004 to July 2005). The additional expenditure on purchase of 50 bus body kits worked out to ₹ 22 lakh.

Thus, the decision of the Corporation to purchase bus body kits at higher rates when the construction of bus body itself was possible at a lesser cost resulted in avoidable expenditure of ₹ 22 lakh.

The Management while admitting the loss on account of the decision of the Board stated (February 2006) that unless the labourers in the workshop were deployed for bus body construction, the result would have been mass idling of labour. It was also stated that there would have been labour unrest and consequent losses. The reply is not acceptable since the Corporation had been procuring full bus body for their chassis on earlier occasions also and it may not be a prudent decision to incur significant additional expenditure to avoid idling of labour.

The matter was reported to the Government in May 2006, their reply is awaited (August 2006).

[Para 4.24 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial).]

Note on the Audit Paragraph furnished by Government is given in Appendix II.

15. The Committee wanted to get elucidated the circumstances that necessitated the purchase of 50 bus body kits. The explanation was that it was the cabinet decision in 2003 to introduce a system such that bus body kit in excess of those which could be built by labourers of KSRTC only could be given to outside agencies for building. The decision to go for bus body kits was taken to

provide experience to KSRTC employees who had so far dealt with composite bus body only. During the transition from composite to metal body, the body kits served as a means to impart technical expertise to these employees. Thus purchase of body kits with higher price was justified in the light of the technical know-how obtained by KSRTC employees.

16. When the Committee pointed out the difference of ₹ 44,000 in price of bus body kits and fully built bus body, it was explained that in the case of bus body kits aluminium was used in some parts while in fully built bus body galvanised iron was used. In the case of body kits Corporation bought the product specifically made by the supplier while in full body option GI material was included in the proposed specification. With regard to availability of kits made of GI material it had to be specifically ordered. Therefore readily available kit was bought by the Corporation. The purchase was made to avoid idling of workers and to acquire technical knowledge. The Committee pointed out the irregularity in the cost of fully body building compared to the cost of body kits. The clarification from the Corporation was that purchase of bus body kits was decided by the Board and that as soon as the difference has come to notice the Board stopped the purchase of body kits.

17. The Committee could not accept the justification that inclusion of aluminium in body kits to be the reason for the huge difference of ₹ 44,000. The Managing Director conveyed that aluminium parts contributed as a minor factor for the high cost. The Board's initial decision to stop purchase of body kit on account of high cost was later changed and again decided to go for body kits. After purchase of 20 kits, when the question came whether to buy the remaining 30 kits or not, the Board decided to continue to get kits for engaging workers of body building units and to further review in April 2004.

18. The Committee viewed that lack of competing bidders was a major reason for blindly purchasing 'labour exclusive' body kits at exorbitant rate when 'labour inclusive' full body was cheaper. The Committee blamed the Corporation for not conducting proper evaluation of the options and pointed out that the contention that purchase made at a higher price could enable to avoid idle labour and consequent loss was not worth justifying. Whether the body kits were bought or not the labourers were to be paid salary and hence the significant additional expenditure of ₹ 44,000 per body kit, stated to be for avoiding idle labour, could not make good any loss on account of idle labour.

Conclusions/Recommendations

19. **The Committee is not satisfied with the replies furnished by the Corporation regarding the purchase of 50 bus body kits at higher rates. Moreover, quality of Aluminium material included in the body kits was not a valid reason for the difference of ₹ 44,000 per unit in prices of bus body kits and full bus body.**

20. **The Committee understands that after the purchase of 20 bus body kits the Corporation had proposed to stop its purchase due to its high cost, but the Board decided to go ahead with the purchase as its stoppage would have caused idling of labourers in its workshops. This justification doesn't hold good as whether work was given or not to labourers had to be paid. Hence paying higher price for body kits just to avoid idling of labour could not bring savings in any form to the Corporation.**

21. **The Committee finds that the purchase decision was injudicious and has caused an additional burden of ₹ 22 lakh to the Corporation.**

22. **The Committee views the injudicious purchase of bus body kits seriously. Since a fishy intention is suspected behind the deal, the Committee recommends a thorough enquiry into the matter. The Committee also observes that such bizarre decisions should not be repeated by the Corporation.**

23. **The Committee recommends that a detailed enquiry by Vigilance Department should be conducted on the injudicious purchase of bus body kits.**

AUDIT PARAGRAPH

Undue benefit

The Corporation invited (May 2004) tenders for the purchase of 24000 tyres and 36000 tubes for the year 2004-05. Out of eight quotations received, Birla Tyres (Birla) was rated as most economical with reference to cost per Kilometer based on earlier performance, even though they were the second lowest considering the quoted price of ₹ 5,120 per tyre and ₹ 532 per tube. The Corporation placed (August 2004) orders on Birla for the purchase of 14400 tyres and 21600 tubes as against 24000 tyres and 36000 tubes offered. The delivery was scheduled to be completed during the period from September 2004 to July 2005.

Subsequently Birla intimated (September 2004) that they would be able to supply only 5500 tyres and 8250 tubes as against the order quantity of 14400 and 21600 respectively which was accepted (January 2005) by the Corporation. Birla supplied (September 2004 to April 2005) 5120 tyres and 7475 tubes at the purchase order rates and the balance quantity at the reduced rate of ₹ 4,785 and ₹ 498 respectively taking into account the reduction in rate of excise duty effective from 1st March, 2005.

The Corporation without inviting tenders, placed (June 2005) another order on Birla for an additional quantity of 3000 tyres and 4500 tubes at an enhanced rate of ₹ 5,300 per tyre and ₹ 553 per tube. The entire quantity was delivered during the period July to August 2005 at a total cost of ₹ 2.06 crore. The additional expenditure incurred with reference to the rates revised on account of reduction in excise duty worked out to ₹ 17.92 lakh.

Thus, the decision of the Corporation to allow reduction in quantity of tyres and tubes ordered from Birla and subsequent purchase of the remaining quantity from them at enhanced rates resulted in extending undue benefit to Birla to the extent of ₹ 17.92 lakh.

The matter was reported to Government/Corporation in July 2006; their replies have not been received (August 2006).

[Para 4.25 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2006 (Commercial).]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

24. The Committee's enquiry about the tender for the purchase of tyres and tubes, was answered by the Corporation that the Corporation had invited tenders for the purchase of 24000 tyres and 36000 tubes. Out of 8 quotations received Birla quoted the second lowest but was found to be most economical. Based on this the order was placed with Birla for 14400 tyres and for 4800 tyres each with MRF and Appollo. On placing the order Birla intimated that they could supply only 5500 tyres. The Corporation then approached MRF and Appollo for the supply of remaining tyres and tubes. But they were reluctant due to the expiry of validity period and fluctuation in price of tyres. As there was no other alternative, the Corporation approached JK tyres who responded positively. The witness further informed that out of the 4 suppliers, namely Birla, MRF, Appollo and JK, Birla and Appollo had completed their supply, the JK and MRF had delayed supply till last stage, leaving a short supply of 3185 tyres.

25. The Accountant General's main objection was with regard to partial withdrawal of Birla tyres from the tender, after agreeing to supply 24000 tyres and 36000 tubes and the acceptance of the same by KSRTC without any objection. In September 2004, they abruptly withdrew from the tender intimating that they could supply only 5500 tyres and 8250 tubes as against the offer made by them in May 2004 and purchase order placed by KSRTC in August 2004. The violation of the contract was accepted by the Corporation, without raising any objection.

26. The Corporation had agreed that Birla had intimated their inability to supply full quantity when the purchase order was made. The Committee observed the initial offer made by Birla and accepted by KSRTC to be a binding agreement. The subsequent withdrawal of Birla from the same should have been at their cost. The Managing Director answered that after placing of order an agreement should have been entered into to make both the parties binding. However since a system of signing agreement was not in existence then, the case under discussion lacked such an agreement. Without such an agreement no legal action was possible against Birla. The Committee viewed lack of legal procedures seriously. According to the Accountant General the order itself was a valid agreement. The Committee stressed the point that so long as a system of signing agreement was not followed, bidding in a tender counts as acceptance of conditions of tender. Hence Birla was bound to supply 14400 tyres and 21600 tubes, since they submitted signed bid and the Corporation placed the order. The Committee was surprised to note the flexible attitude of the Corporation in accepting the subsequent denial of partial order without any effort to enforce Birla to supply the entire quantity. The Committee blamed the Corporation for incurring additional expenditure on account of enhanced rates at which it had to buy tyres and tubes to make good the short supply.

27. The Corporation's opinion was that major tyre companies are reluctant to supply tyres to KSRTC. One reason for non-participation in KSRTC tenders is that as per agreement, prices quoted is firm for the next one year and hence suppliers do not get the option to change their prices with fluctuation in the price of rubber, which is likely to occur every 3 months. Conditions like replacement terms for defective tyres is yet another reason. Due to these reasons KSRTC depends on few tyre manufacturers who dictate their terms.

28. The Committee found no justification in giving further order to Birla tyres after they partially withdrew from the first order. The Corporation's justification was that only when the next higher quoted suppliers declined to supply, Birla was given further order at a price higher than what they initially quoted. This enhanced price was still lesser than the price quoted by other suppliers. The Committee is of opinion that the Corporation's justification on further purchase from Birla cannot be admitted just because the enhanced price was less than the initially quoted second lowest price, since excise duty rates were reduced in the meantime. The Committee found that the Corporation had not negotiated with other suppliers after reduction in excise duty. The prices quoted by other suppliers were inclusive of excise duty at higher rates. Hence Corporation ought to have negotiated with them after reduction in excise duty rates. The Corporation's stand was that when quotations were invited there were only 4 bidders including Birla tyres. The Corporation avoided MRF and JK because they had caused shortfall in supply earlier. Between the other two Birla quoted the lowest and thus the supply order was placed with them. The Committee expressed dissatisfaction about this because the Birla had also committed the same mistake by reducing their supply to 5500 tyres.

29. The Committee rebuked the stand of KSRTC in justifying the part withdrawal from initial order by Birla and blaming MRF and JK tyres for short supply.

Conclusions/Recommendations

30. **The Committee envisages that the Corporation had given undue favour to Birla tyres by accepting their partial withdrawal from the tender without any objection, as per the tender conditions Birla was bound to supply 14400 tyres and 4800 tubes. But on placing the order Birla intimated that they could supply only 5500 tyres. The Committee cannot agree with the Corporation's justification in accepting Birla's stand.**

31. **The failure of the Corporation to follow the procedure of signing agreement with the supplier after acceptance of tender cannot be pointed out as the reason for making Birla not legally binding for supply of the whole quantity ordered. This is because so long as the practice of signing agreement was not followed, the tender acceptance was a binding agreement. Hence the subsequent partial withdrawal from the tender should have been at Birla's risk and cost. The Corporation is bound to submit explanation as to why it refrained from insisting Birla to supply the entire quantity of first order and why the firm was not asked to make the further supply at the initially quoted rates.**

32. **The Corporation is further blamed for not following the procedure of signing an agreement after the tender procedures. Such an agreement would have made Birla more legally binding. The Committee views the failure to do this as a gross negligence on the part of the Corporation. The Committee learns that the Corporation had done nothing to enforce the supply of entire ordered quantity by Birla. The Corporation consequently had to bear the additional expenditure of ₹ 17.92 lakh for the purchase of the remaining quantity from the same supplier Birla at an enhanced rate to make good the short supply. The Committee directs that this kind of negligence and irresponsibility should not be repeated by the Corporation.**

33. **No justification is found in accepting the partial withdrawal of Birla from the first order and again placing order at enhanced rate with Birla without inviting tender. The Committee cannot comprehend the logic behind the reply given by the Corporation regarding this matter that the enhanced price was lesser than the price quoted by other suppliers, as the Corporation had not negotiated with other suppliers after reduction in excise duty rates.**

34. **The Committee disagree with the statement that the Corporation avoided both MRF and JK in the second order due to their short supply as Birla had also committed the same mistake by cutting short the proposed supply. The Committee finds fault with KSRTC in vindicating the act of Birla's partial withdrawal from first order and blaming MRF and JK tyres for short supply. By accepting the offer of Birla for the Second time at an enhanced rate overlooking the lowest bidder, the interest of the corporation was put at stake. Since this act of KSRTC is unjustifiable the Committee recommends that an enquiry should be conducted by Vigilance Department on the purchase of Tubes and Tyres.**

35. **Decisions giving undue favour to a supplier, thereby incurring additional expenditure, are detrimental to the Corporation. Hence such decision to favour any supplier, with added expenditure, should not be taken by the Corporation in future.**

36. **The Corporation should also reframe its tender conditions for tyres and tubes such that the price once quoted should be standing for a shorter period in place of 'one year'. This would enable the Corporation to avail the benefit of more major tyre suppliers participating in its tenders.**

AUDIT PARAGRAPH

Extra expenditure on procurement of tyres and tubes

For meeting its requirement of tyres and tubes for the year 2005-06 the Corporation placed (August 2005) orders with MRF Limited, Cochin (5000 tyres and 7500 tubes), Birla Tyres, Cochin (15000 tyres and 22500 tubes) and J.K. Industries Limited (JK), Cochin (6000 tyres and 9000 tubes) on the basis of maximum quantity offered and past performance. The per unit rates at which tyres and tubes were to be supplied by the firms were ₹ 5,400/₹ 465, ₹ 5,450/ ₹ 590 and ₹ 5,200/₹ 525 respectively. As per the purchase orders the entire suppliers were to be completed during September 2005 to August 2006.

All the firms except MRF Limited executed (September 2005) agreements. Since MRF failed to execute the agreement the Corporation cancelled (October 2005) the purchase order placed on the firm.

Thereupon the Corporation made (October 2005) enquiries and J.K. expressed (December 2005) its willingness to supply additional quantities to the extent of 5000 tyres and 7500 tubes at the same rates and conditions of the original purchase order. They also offered to execute the supplies at the rate of 1200 tyres and 1800 tubes per month with effect from January 2006. The Corporation responded (April 2006) to the offer only after a delay of four months. The original purchase order placed with JK (April 2006) was amended as 11000 tyres and 16500 tubes incorporating the additional quantity which was to be delivered by August 2006.

The Corporation, however, could not take delivery of 2000 tyres and 3000 tubes by August 2006 and JK treated the quantity as lapsed due to expiry of the delivery period and delay in remittance of dues. The Corporation accepted (September 2006) the lapse of order and thereafter the requirement of 2000 tyres and 3000 tubes had to be met by placing (September 2006) fresh purchase orders with Birla tyres at higher rates of ₹ 6,930 and ₹ 650 respectively. The additional expenditure incurred amounted to ₹ 43.14 lakh * inclusive of taxes.

Thus, the failure of the Corporation to take delivery of tyres and tubes available at cheaper rates within the scheduled delivery period and its subsequent procurement at enhanced rates resulted in extra expenditure of ₹ 43.14 lakh.

The matter was reported to Government/Corporation in June 2007, their reply is awaited (July 2007).

[Para 4.20 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2007 (Commercial).]

*(₹ 6,930–₹ 5,220) X 2000 tyres + (₹ 650–₹ 525) X 3000 tubes + ₹ 479 lakh for taxes.

Note on the Audit Paragraph furnished by Government is given in Appendix II.

37. The Committee wanted to know why the Corporation had failed to take delivery of tyres and tubes available at cheaper rates within the scheduled delivery period and subsequently procured the same at enhanced rate. The Committee also enquired the reason for the non-execution of agreement with MRF when the Corporation placed orders with it. The answer from the Corporation was that when order was placed for the supply of tyres with MRF, Birla and JK, the MRF refused to sign the contract. Thereafter the Corporation approached JK for the quantity which MRF had to supply. As the financial position of the Corporation was very bad, the Corporation could not take delivery of additional quantity by 31-8-2006. Later JK informed that they could not supply those tyres and tubes and treated the quantity as lapsed due to expiry of the delivery period and delay in remittance of dues. As soon as MRF withdrew from supply the Corporation had given proposal to buy the same from next supplier. However due to the financial crisis the Corporation was facing, the move was stopped. The then existing supplier Birla then supplied tyres to meet the need.

38. The Committee's next enquiry was how and at what rate the second order was placed with Birla. It was answered that Birla was selected by inviting tender and the rates were ₹ 6,930/tyre and ₹ 650/tube. The substantial increase in price from ₹ 5,450/tyre and ₹ 590/tube, was reported to be due to general increase in price of tyres of all manufacturers.

39. The Committee commented that the Corporation was forced to invite fresh tender and buy tyres at enhanced price because it failed to accept the offer from JK Tyres by responding promptly. The Accountant General pointed out two kinds of delay involved in the deal. One was the delay of 4 months to respond to offer of JK Tyres. The second was delay to pay for and take delivery of tyres before expiry of delivery date. The KSRTC Managing Director put forth the reason for the delay as financial crisis and hence paucity of funds. During the period of private bus strikes, most of the KSRTC buses were docked due to shortage of tyres and then tyres were purchased by Government for ₹ 5 crore for the Corporation. Now Corporation purchases tyres on monthly basis. The need for tyres has decreased from 2400 per month to 1300 per month. The reason for this was the increased life of tyres from 90000 Kms. to 150000 Kms. To another query the Chairman and Managing Director replied that at present Corporation purchased tyres by inviting open tender. Agreement is made for each years total requirement and then the Corporation gives the supply schedule for each month.

40. When the Committee enquired the reason for non-participation of companies in KSRTC's tender, it was pointed out that the reason was inability to change price according to change in open market as the rate once agreed upon cannot be changed for the next one year. When the Committee opined that it is really surprising to see that the suppliers are not participating in KSRTC tenders in spite of the Corporation often making bulk purchases, the Chairman and Managing Director pointed out that it is a matter of credibility of KSRTC, even though they make payment to all purchases of tyres in advance.

Conclusions/Recommendations

41. **The failure of the Corporation to take delivery of tubes and tyres at cheaper rates within the scheduled delivery period and delay in remittance of dues to JK Tyres ended up in the Corporation procuring the same at much higher rates from the Birla. The Committee is not satisfied with the reply of the Corporation that due to the then poor financial position of the Corporation, it couldn't take delivery of tyres and tubes in August 2006. The point doesn't stand valid as the Corporation placed fresh order with Birla at enhanced rates just one month after this in September 2006. The Committee therefore wants to be informed of the motive behind such an act by the Corporation.**

42. **The Committee expresses its surprise that even though KSRTC makes bulk purchases suppliers are reluctant to participate in KSRTC tenders. The KSRTC should take steps to improve its credibility among general public as well as suppliers and maintain transparency in all purchases in future.**

43. **The Committee wants to know the reason for cancelling order placed with MRF, on their refusal to execute agreement. The Committee should be informed if risk and cost provision couldn't have been invoked on MRF instead of cancellation of the order.**

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

Thiruvananthapuram,
28th January, 2014.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	*Para No.*	*Department concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	11	Transport	The trial run of low floor buses conducted in March/April 2003 had revealed that mileage of these buses is comparatively lower than that of ordinary buses in the operating fleet. In spite of this the Corporation went on with the purchase of 4 such buses without conducting any cost-benefit analysis. This act of the Corporation, in spite of all other justifiable advantages does not seem excusable. The cost of low floor bus being double that of ordinary one, the Corporation should have assessed its economic feasibility before going for it. The Committee recommends that in view of its heavy accumulated losses and the working capital constraints faced by the Corporation, such irrational decisions, without the backup of even an efficiency assessment, should not be repeated in future.
2	12	„	The concept of providing better travel comfort and convenience to passengers is worth acceptable. However the Corporation miserably failed to improve collection from low floor bus so as to justify its heavy cost. The Committee emphasises that the Corporation ought to have assessed the extent to which the increased comfort and convenience would be utilised by public, especially when fare charged by low floor bus is higher.
3	13	„	To attract more passengers to low floor buses and thus reduce use of private vehicles in cities, some basic infrastructure facilities like properly maintained roads and parking facility near each junction/terminal are highly essential. The Committee strongly recommends the need to consider utilisation of JNNURM fund which would otherwise get lapsed after a definite period, for bringing about such infrastructure facilities. It is stressed that a proposal with regard to this should be placed without delay.

(1)	(2)	(3)	(4)
4	14	Transport	KSRTC should also take the initiative to co-ordinate with LSGD and PWD and make their joint meetings fruitful so as to set-up such infrastructure arrangements needed for success of operation of low floor buses. The Committee desires to know the result of such joint meetings already convened. It should be reported whether any fruitful decision has been taken in the meetings.
5	19	,,	The Committee is not satisfied with the replies furnished by the Corporation regarding the purchase of 50 bus body kits at higher rates. Moreover, quality of Aluminium material included in the body kits was not a valid reason for the difference of ₹ 44,000 per unit in prices of bus body kits and full bus body.
6	20	,,	The Committee understands that after the purchase of 20 bus body kits the Corporation had proposed to stop its purchase due to its high cost, but the Board decided to go ahead with the purchase as its stoppage would have caused idling of labourers in its workshops. This justification doesn't hold good as whether work was given or not to labourers had to be paid. Hence paying higher price for body kits just to avoid idling of labour could not bring savings in any form to the Corporation.
7	21	,,	The Committee finds that the purchase decision was injudicious and has caused an additional burden of ₹ 22 lakh to the Corporation.
8	22	,,	The Committee views the injudicious purchase of bus body kits seriously. Since a fishy intention is suspected behind the deal, the Committee recommends a thorough enquiry into the matter. The Committee also observes that such bizarre decisions should not be repeated by the Corporation.
9	23	,,	The Committee recommends that a detailed enquiry by Vigilance Department should be conducted on the injudicious purchase of bus body kits.

(1)	(2)	(3)	(4)
10	30	Transport	The Committee envisages that the Corporation had given undue favour to Birla Tyres by accepting their partial withdrawal from the tender without any objection, as per the tender conditions Birla was bound to supply 14400 tyres and 4800 tubes. But on placing the order Birla intimated that they could supply only 5500 tyres. The Committee cannot agree with the Corporation's justification in accepting Birla's stand.
11	31	,,	The failure of the Corporation to follow the procedure of signing agreement with the supplier after acceptance of tender cannot be pointed out as the reason for making Birla not legally binding for supply of the whole quantity ordered. This is because so long as the practice of signing agreement was not followed, the tender acceptance was a binding agreement. Hence the subsequent partial withdrawal from the tender should have been at Birla's risk and cost. The Corporation is bound to submit explanation as to why it refrained from insisting Birla to supply the entire quantity of first order and why the firm was not asked to make the further supply at the initially quoted rates.
12	32	,,	The Corporation is further blamed for not following the procedure of signing an agreement after the tender procedures. Such an agreement would have made Birla more legally binding. The Committee views the failure to do this as a gross negligence on the part of the Corporation. The Committee learns that the Corporation had done nothing to enforce the supply of entire ordered quantity by Birla. The Corporation consequently had to bear the additional expenditure of ₹ 17.92 lakh for the purchase of the remaining quantity from the same supplier Birla at an enhanced rate to make good the short supply. The Committee directs that this kind of negligence and irresponsibility should not be repeated by the Corporation.

(1)	(2)	(3)	(4)
13	33	Transport	No justification is found in accepting the partial withdrawal of Birla from the first order and again placing order at enhanced rate with Birla without inviting tender. The Committee cannot comprehend the logic behind the reply given by the Corporation regarding this matter that the enhanced price was lesser than the price quoted by other suppliers, as the Corporation had not negotiated with other suppliers after reduction in excise duty rates.
14	34	,,	The Committee disagree with the statement that the Corporation avoided both MRF and JK in the second order due to their short supply as Birla had also committed the same mistake by cutting short the proposed supply. The Committee finds fault with KSRTC in vindicating the act of Birla's partial withdrawal from first order and blaming MRF and JK Tyres for short supply. By accepting the offer of Birla for the Second time at an enhanced rate overlooking the lowest bidder, the interest of the corporation was put at stake. Since this act of KSRTC is unjustifiable the Committee recommends that an enquiry should be conducted by Vigilance Department on the purchase of Tubes and Tyres.
15	35	,,	Decisions giving undue favour to a supplier, thereby incurring additional expenditure, are detrimental to the Corporation. Hence such decision to favour any supplier, with added expenditure, should not be taken by the Corporation in future.
16	36	,,	The Corporation should also reframe its tender conditions for tyres and tubes such that the price once quoted should be standing for a shorter period in place of 'one year'. This would enable the Corporation to avail the benefit of more major tyre suppliers participating in its tenders.

(1)	(2)	(3)	(4)
17	41	Transport	The failure of the Corporation to take delivery of tubes and tyres at cheaper rates within the scheduled delivery period and delay in remittance of dues to JK Tyres ended up in the Corporation procuring the same at much higher rates from the Birla. The Committee is not satisfied with the reply of the Corporation that due to the then poor financial position of the Corporation, it couldn't take delivery of tyres and tubes in August 2006. The point doesn't stand valid as the Corporation placed fresh order with Birla at enhanced rates just one month after this in September 2006. The Committee therefore wants to be informed of the motive behind such an act by the Corporation.
18	42	,,	The Committee expresses its surprise that even though KSRTC makes bulk purchases suppliers are reluctant to participate in KSRTC tenders. The KSRTC should take steps to improve its credibility among general public as well as suppliers and maintain transparency in all purchases in future.
19	43	,,	The Committee wants to know the reason for cancelling order placed with MRF, on their refusal to execute agreement. The Committee should be informed if risk and cost provision couldn't have been invoked on MRF instead of cancellation of the order.