



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE ON  
PUBLIC UNDERTAKINGS  
(2014-2016)**

**HUNDRED AND FIRST REPORT**

**(Presented on 3-12-2015)**

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2015**

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ON  
PUBLIC UNDERTAKINGS  
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**HUNDRED AND FIRST REPORT**

**On**

**Kerala State Road Transport Corporation based on the  
Report of the Comptroller and Auditor General of India  
for the year ended 31<sup>st</sup> March 2012 (Commercial)**

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## **COMMITTEE ON PUBLIC UNDERTAKINGS (2014-2016)**

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Shri. P. S. Selvarajan, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-2016) having been authorised by the Committee to present the Report on their behalf, present this Hundred and First Report on Kerala State Road Transport Corporation based on the Reports of the Comptroller and Auditor General of India for the years ended 31<sup>st</sup> March 2012 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March 2012 was laid on the Table of the House on 19-3-2013. 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 2014-16.

This Report was considered and approved by the Committee at the meeting held on 24-11-2015.

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 concerned views before the Committee.

Thiruvananthapuram,  
3-12-2015.

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

## **REPORT ON KERALA STATE ROAD TRANSPORT CORPORATION**

### *Avoidable expenditure*

In the Budget speech for the year 2008-09, the Finance Minister had announced that Kerala State Road Transport Corporation (Corporation) would commission 1000 buses every year. As part of implementing this policy of introducing 1000 buses each year, the Corporation invited (November 2009) open tenders for purchase of 1000 bus chassis (280 numbers conforming to BS II and 716 nos conforming BS III and 4 nos fully built buses). Ashok Leyland and Tata Motors participated in the tender and quoted their rates (December 2009) for different variants, which was valid for one year from the date of offer ie. upto 08 December 2010.

The Board of Directors (BoD) of the Corporation decided (January 2010) to restrict the initial procurement of BS III variant to 20 (10 electronic and 10 mechanical each) on an experimental basis. The shortage in BS III chassis was proposed to be covered up by procurement of additional BS II chassis. During the period January 2010 to June 2010 out of the tendered quantity of 1000 chassis, the Corporation placed orders for 723 chassis.

We observed that the purchase of BS III chassis was done on experimental basis in order to evaluate the performance of its mechanical and electronic versions and also in accordance with the restrictions as per the date of implementation of BS III norms on 01 August 2010. Besides, there was delay in evaluating the performance of these chassis consequent to delayed delivery by the respective suppliers. The Technical Evaluation Committee, however, submitted their performance report on 30 November 2010. The

Board considered to procure the balance 277 chassis on 10 December 2010 ie. after the validity period of offers. The suppliers turned down the request to supply at the earlier quoted rate of `7.27 lakh on grounds of expiry of validity period of the offer.

Hence, the Corporation invited fresh tenders for 500 BS III chassis (both mechanical and electronic) and orders were placed (September 2011) for supply of chassis (mechanical) with Ashok Leyland (300 numbers) and Tata Motors (200 numbers) @ `10.20 lakh. Thus, the failure to place purchase order within the validity period of offer led to subsequent purchase at higher rate involving extra expenditure of `8.12 crore [(`1020000 – `726729) x 277] on the balance 277 chassis.

The Government replied (September 2012) that though the Corporation intended for 1000 chassis in 2009-10, it required only 723 chassis to cater to its necessities. It was also added that since the purchases were arranged from loans availed, its repayment was an additional burden as there was no appreciable development in the revenue side.

The reply is not acceptable as the decision to procure 1000 chassis every year was part of package for renovation and restructuring of the Corporation with a view to improve its performance, expected improvement in mileage and consequent significant reduction in the annual expenditure. The Board, however, did not decide to procure the balance 277 BS III chassis within the validity period.

[Audit paragraph 4.8. contained in the report of the Comptroller and Auditor General of India for the year ended 31 March 2012]

The Notes furnished by Government on audit paragraph is given in Appendix II

**1.** The Committee finds that the Corporation had purchased only 723 chassis out of the tendered quantity of 1000 chassis and due to the failure in placing purchase order within the validity period on the balance 277 chassis, the Corporation had committed a liability of ` 8.12 crore. The Committee further points out that the Corporation had neither prepared an estimate of the actual requirement nor conducted a technical evaluation in time about the performance of chassis.

**2.** Then the witness informed that a conversion from BS II to BS III version of chassis was occurred due to the implementation of replacement and upgradation of technology. As per the direction from the Board, the technical evaluation for the two types of vehicles purchased from M/s Ashok Leyland and M/s Tata Motors was conducted more perfectly, which resulted some delay in completing the evaluation. The witness also added that the purchase order for 300 number of BS III chassis was placed on January 2010 and it was also decided to restrict the initial procurements of BS III variant to ten number each of electronic and mechanical version on an experimental basis, in order to evaluate the performance of the chassis. But a delay for six months was occurred from the part of the Suppliers and another three months was also taken for conducting a technical evaluation of the chassis. The Committee further enquired about the mode of evaluation mechanism for monitoring and the officer who was in charge for conducting the evaluation etc.

**3.** To a query of the Committee the witness responded that when the technical evaluation was completed the validity period of offer was also



expired and hence 500 numbers of BS III version of chassis were procured in the next year by obtaining a loan at an interest of 14.5 percent.

**4.** The Committee commented that the above explanation clearly indicates the loss that was incurred due to the belated supply of chassis along with the prolonged delay in technical evaluation. The Committee criticised the Corporation for not taking any legal action against suppliers for not supplying the chassis within the time stipulated in the tender agreement and also for the prolonged delay in conducting technical evaluation.

**5.** Responding to the Committee's observation, the witness replied that by operating the vehicle in every terrain including high ranges and then by conducting a final evaluation, the performance of the vehicle thus collected would be reported to the Board. As there was only one offer for the BS III electronic version the Board had directed to conduct further evaluation, which resulted in some delay and it was the reason for the failure to place the orders within the period of agreement. The Committee remarked that the contributory negligence and the irresponsible attitude of the Technical Evaluation Committee was the main reason for the belated ordering of vehicle and resulted in an avoidable extra burden of ` 8.12 crore to the Corporation. The Committee directed to give a report in this issue explaining the reasons for not taking any action against the responsible officers who were liable for a loss of ` 8.12 crore.

**6.** The Committee instructed that the evaluation shall be strictly monitored by a Committee consisting of a technical expert as member and an effective system for ensuring the timely completion of evaluation shall also be evolved.

The Committee also directed that penal provision shall be incorporated in the tender agreement itself for the late delivery of tendered items.

7. To a query of the Committee witness informed that in every year a cut off date was given for the purchase of Super class buses. After five years these buses could not be used as Super class buses and would be condemned after fifteen years. The system prevailing in the Corporation was to replace the buses which cross over the cut off date every year.

8. When the Committee enquired about the purchase of CNG Buses, the witness replied that due to the delay in commissioning of CNG terminal in Kochi, the new system of CNG vehicles could not be materialised. As of now companies from Kayamkulam, Ernakulam & Alappuzha were intended to supply CNG Buses and a proposal had submitted to convert 750 RTC buses and 250 Jnrum Buses to CNG.

### **Conclusions / Recommendations**

9. The Committee is upset to note that failure to place the purchase order within the validity period, delayed supply of chassis, extended technical evaluation, lack of proper monitoring and lack of any estimate about the actual requirement etc were the reasons which led the Corporation to incur a loss of ` 8.12 crore.

10. The Committee remarks that even though the Corporation is finding it difficult to tide over the financial crisis day-by-day the responsible officers in the Corporation was imprudently dealing the financial matters to boost its burden again. The loss of ` 8.12 crore due to negligence is therefore not justifiable.

**11.** The Committee points out that if the Corporation placed purchase orders within the validity period of offer, purchase of chassis at a higher rate could have been avoided. The Committee remarks this instance as a classic example of sheer negligence on the part of the responsible officers.

**12.** The Committee is surprising to note that no action has so far been taken against the suppliers for the delayed supply of chassis in violation to the tender agreement. The Committee therefore recommends that penal provision should be incorporated in the tender agreement for the late delivery of tender items in order to avoid such gaps in future.

**13.** The Committee is not at all satisfied with the explanation of the witness with respect to the mode of technical evaluation conducted by the Corporation. The Committee understands that absence of technically qualified member in the evaluation Committee and lack of an effective monitoring system were the main reasons for the incompleteness of technical evaluation in time. Therefore, the Committee recommends that the Corporation should ensure that one among the members of the evaluation Committee should be technically qualified. The Committee also directs that an effective system should be evolved to ensure that the evaluation would be completed within the prescribed time limit.

Thiruvananthapuram,  
.....

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

## APPENDIX – I

### SUMMARY OF MAIN CONCLUSIONS / RECOMMENDATIONS

Serial No.	Paragraph No.	Department Concerned	Conclusions / Recommendations
1.	9	Transport	The Committee is upset to note that failure to place the purchase order within the validity period, delayed supply of chassis, extended technical evaluation, lack of proper monitoring and lack of any estimate about the actual requirement etc were the reasons which led the Corporation to incur a loss of ₹ 8.12 crore.
2.	10	Transport	The Committee remarks that even though the Corporation is finding it difficult to tide over the financial crisis day-by-day the responsible officers in the Corporation was imprudently dealing the financial matters to boost its burden again. The loss of ₹ 8.12 crore due to negligence is therefore not justifiable.
3.	11	Transport	The Committee points out that if the Corporation placed purchase orders within the validity period of offer, purchase of chassis at a higher rate could have been avoided. The Committee remarks this

Serial No.	Paragraph No.	Department Concerned	Conclusions / Recommendations
			instance as a classic example of sheer negligence on the part of the responsible officers.
4.	12	Transport	The Committee is surprising to note that no action has so far been taken against the suppliers for the delayed supply of chassis in violation to the tender agreement. The Committee therefore recommends that penal provision should be incorporated in the tender agreement for the late delivery of tender items in order to avoid such gaps in future.
5.	13	Transport	The Committee is not at all satisfied with the explanation of the witness with respect to the mode of technical evaluation conducted by the Corporation. The Committee understands that absence of technically qualified member in the evaluation Committee and lack of an effective monitoring system were the main reasons for the incompleteness of technical evaluation in time. Therefore, the Committee recommends that the Corporation should ensure that one among the members of the evaluation Committee

Serial No.	Paragraph No.	Department Concerned	Conclusions / Recommendations
			<p>should be technically qualified. The Committee also directs that an effective system should be evolved to ensure that the evaluation would be completed within the prescribed time limit.</p>

## APPENDIX II

Notes furnished by Government on the Audit paragraphs.

Sl No	Audit Paragraph	Reply furnished by Government
1.	4.8 (2011-12)	<p>Though KSRTC intended for 1000 buses in 2009-10, it required only 723 chassis to cater its necessities at that time and in the coming months. There was no need of procuring all 1000 chassis. It may be noted that while taking decisions regarding the next chassis purchase, the Board of Directors of KTDFC resolved that there shall be no introduction of New service without ascertaining its economical viability. In next chassis purchase the board restricted the purchase of chassis to 500 numbers, even though it was announced by Government to introduce 1000 buses in 2011-12. This decision was taken announced by Government to introduce 1000 buses in 2011-12. This decision was taken by the Board considering the precarious financial position of KSRTC. It is to be noted that KSRTC had been arranging the purchase of chassis by obtaining loans from various financial institutions. The repayment of loans on this account was an additional burden on KSRTC since there was no appreciable development in the revenue side. In 2010-11, if KSRTC procured this 277 chassis also the interest burden and repayment loans would have been unbearable to KSRTC and the gap in revenue and expenditure would have been much more</p> <p>Besides this, KSRTC was greatly interested in the plan to bring CNG pipe lines to Kayamkulam terminal and consequent possibility for the implementation of CNG buses in KSRTC by 2012-13. The expectation was that about 500 buses could be of CNG versions in the first phase in 2012 and that can be increased up to 2062 when the implementation</p>

comes in to its full swing in 2013. Consequently that much vehicles can be spared from the existing fleet and used instead of purchasing and inducting new vehicles with diesel engines.

Thus the purchase of BS III chassis had to be avoided to the extent possible. This was very essential because the induction of new BS III versions into fleet would necessitate the upkeep of fresh inventory and maintenance systems including various equipments, Besides this the CNG vehicles were cheaper in terms of operational cost and less polluting and hence environmental friendly. This was the reason why KSRTC did not attempt for the purchase of BS III chassis all of a sudden. It was the aim of KSRTC to procure as many BS II chassis as possible before the implementation of CNG buses, utilising the advantage of the notification of Ministry of Road Transport & Highways dated 30.3.2010, which postponed the date of implementation of BS III norms to 1.10.2010

As an alternative measure KSRTC continued the process of evaluation of BS III electronic chassis, parallel to the action to bring in CNG vehicles. As far as BS III engine is concerned, there were lot of ambiguities in the overall performance of BS III electronic versions which were very sophisticated in design and entirely a new product to KSRTC. M/s Ashok Leyland was the only offerer of BS III electronic version and hence the rate offered by M/s Ashok Leyland was not at all competitive and hence beyond the scope of comparison. Hence the Board resolved for detailed and foolproof judgement, the evaluation of any vehicle has to be done on the basis of the results evolved from the actual operation of the vehicle for considerably long period. But, as audit observes the reason for dropping the purchase of 277 chassis in



2009-10 was not only the delay occurred in assessing the performance of BS III electronic chassis, but also the absence of absolute necessity of chassis. If there were absolute necessity of chassis at that time, the order could not have been placed with both supplier for equal quantity at lowest rates. But there was no absolute demand for chassis in KSRTC to start services in routes which can fetch additional revenues.

But the implementation of CNG vehicles did not materialised as expected in Kerala. There were unexpected problems in bringing CNG lines to Kayamkulam. As such KSRTC could not have further waited for CNG vehicles. KSRTC had no other option but to go for diesel engine vehicles when the proposals and plan to switch over to CNG were at stake. In that situation KSRTC invited tender for BS III diesel engine vehicles in 8.2011 and ordered for BS III mechanical versions in 9/11. The rates obtained in this tender were naturally higher than the rates of previous tender.

The purchase of chassis in the year 2009-10 and that in 2011-12 are distinguished actions. The purchase of 500 chassis in 2011-12 cannot be considered as a continuous action of the same in 2009-10. The rates obtained in 8/2011 are fresh rates and cannot be compared with that of 12/09. There is a time lapse of 18 months in between these two tenders and naturally there will be difference in price due to the escalation of material cost and other input cost. As audit observes KSRTC has never purchased the 277 chassis which were dropped in the year 2009-10. KSRTC did not require those 277 chassis at that time and hence the purchase process was dropped. When there was demand for chassis in 2011-12, tenders were invited for 500 Nos which was then requirement

and orders placed at the tender rates.

As announced by the Finance Minister in the Budget for the year 2008-09, the KSRTC had made every effort to implement the renovation and restructuring policy of the Corporation. For this the Corporation had placed purchase order for 1000 Nos of chassis in the year 2008-09 itself. The details of purchase orders are furnished below:

- (I) SRA1/14086/08/DATED 15.09.2008... Placed purchase order for 800 chassis of various type with M/s Ashok Leyland.
- (ii) SRA I/14086/08 dated 15.09.2008..... Placed purchase order for 200 chassis of various type with M/s Tata Motors In the year 2009-10 KSRTC had invited tender for the purchase of 996 chassis and 4 fully built buses (2 double decker +2 vestibule). But the Corporation had placed orders for 720 Nos.of chassis and 3 fully built buses (2 double decker + 1 vestibule) for meeting the requirement of the Corporation. It may be noted that the Corporation had placed purchase order with M/s Ashok Leyland and M/s Volvo India Ltd. For the purchase 320 Nos (240Leyland and 80 Volvo) of fully built buses under JnNURM scheme. It was expected that 320 Nos.of buses would be added to the fleet of KSRTC in the year 2009-10 so that more than 1000 vehicles could be commissioned in the said year.

As per the budget announcement of the Government to release 1000 new buses very year, KSRTC, by available infrastructure had taken every effort to release the maximum number of buses. The details of the number of buses commissioned for the period 2007-2011

is detailed below;

Period	No. of new buses built in KSRTC workshops	No. of new buses commissioned under JnNURM scheme	No. of total new buses commissioned
2007-08	589	-	589
2008-09	767	-	767
2009-10	626	24	650
2010-11	710	104	814

From the above data, it is noteworthy that the Corporation could have released below 1000 Nos of new buses in every year from 2007 to 2011.

It may be noted that by available infrastructure facility and manpower, the Corporation could have build an average of 673 Nos. of new buses per year, as such if the corporation had invited tender for 700 Nos. of Chassis during 2009-10, there was no question of hypothetical loss. The corporation had invited tender for the purchase of 1000 chassis on the best interest of the Government to implement the renovation and restructuring policy announced in the Budget for the year 2008-09. There was no need for procuring all 1000 chassis in 2009-10. It may be noted that while taking decisions regarding the next chassis purchase, the board resolved that there shall be no introduction of New services without ascertaining its economical viability. It is to be noted that KSRTC had been arranging the purchase of Chassis and body building materials by obtaining loans from various financial institutions. The repayment of loans on this account was an additional burden on KSRTC, since there is no appreciable developments in the

revenue side. If KSRTC procured 277 Chassis during 2010-11, the interest burden and repayment of loans would have been unbearable to KSRTC.

If the Corporation had purchased 277 Nos of Chassis during 12/2010, the expenditure on building of new bus was as follows :

Chassis cost : ` 7,26,729.00

Body Building material and labour cost- ` 5,50,000.00

Cost of one bus : ` 12,76,729.00

Total Cost for 277 New Buses ` 35,36,53,933.00

If the Corporation had obtained loan amount of ` 35.35 Crore with interest @ 14.5% with a repayment period of 7 years, the interest amount would be ` 21,12,91,763/-

By dropping the purchase of 277 Nos.of Chassis, the Corporation had served an amount of ` 21.12 Crores an account of interest for ` 35.36 Crores. Since the Corporation had to repay the loan amount, the monthly loan repayment amount comes to ` 67, 25,544/-. The dropping of purchase of 277Chassis also reduced the monthly gap in revenue and expenditure by ` 67.25 lakhs. Also avoided ` 35.6 Crores in the accumulated loss of the Corporation.

The Corporation had made all effort to purchase the Chassis by mobilizing the fund from the Financial Institution amidst the financial crisis of the Corporation.

Considering the details mentioned above, the audit observations may be dropped.

