



**FOURTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2016-2019)**

**TWENTY FOURTH REPORT**

**(Presented on 9th March, 2017)**

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM**

**2017**

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**COMMITTEE  
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**On**

**Kerala State Construction Corporation Limited (Based on the Report of the  
Comptroller and Auditor General of India for the  
year ended 31 March, 2005)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

**Composition of the Committee**

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Shri K. B. Ganesh Kumar

Shri C. Krishnan

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Shri Thiruvanchoor Radhakrishnan

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Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, Deputy Secretary

Smt. Deepa V., Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the report on its behalf, present this Twenty Fourth Report on Kerala State Construction Corporation Limited, based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2005 relating to the Public Sector Undertakings of the State of Kerala.

The report of the Comptroller and Auditor General of India for the year ended on 31st March, 2005 was laid on the Table of the House on 13-2-2006. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This report was considered and approved by the Committee (2016-19) at its meeting held on 2-3-2017.

The Committee places on record its appreciation of the assistance rendered by the Accountant General (Audit), Kerala in the examination of the audit paragraphs included in this report.

The Committee wishes to express thanks to the officials of the Public Works Department of the Government Secretariat and Kerala State Construction Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government- Public Works and Finance Departments-and the officials of Kerala State Construction Corporation Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,

*Chairman,*

*Committee on Public Undertakings.*

Thiruvananthapuram,  
9th March, 2017.

## REPORT ON KERALA STATE CONSTRUCTION CORPORATION LIMITED

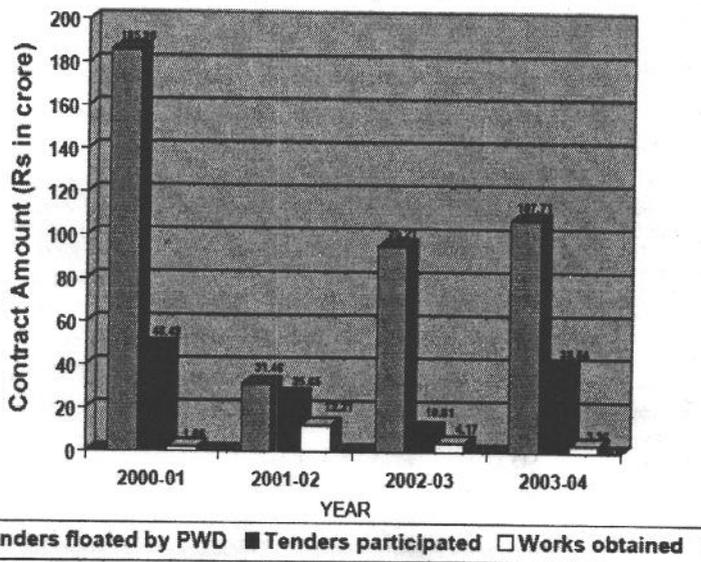
AUDIT PARAGRAPH 2.3.8 to 2.3.26 (2004-05)

### *Participation in PWD tenders*

2.3.8 The Company obtained PWD works mainly by participating in the open tenders floated by the Public Works Department (Roads & Buildings), on percentage basis, estimated on the basis of the department's schedule of rates. The Company had not laid down any policy for participating in such tenders and the basis for the rates quoted were not recorded. Even though the Company had stated that a preliminary feasibility study was being undertaken before quoting for the tenders, results of such study were not recorded. **Annexure 13** provides the details of tenders floated by PWD, tenders in which the company participated, works awarded by PWD and percentage of participation during the four years up to 2003-04.

A bar chart showing the Company's participation in PWD works and receipt there against is given below:

**Participation and receipt of State Government works**



Details in the Annexure indicated that out of 323 tenders (value ₹ 420.36 crore) floated by PWD, the company participated in 61 tenders (value ₹123.59 crore) against which it received only nine work orders valued at ₹21.60 crore. The percentage of number of tenders participated worked out to 18.89 (29.40 per cent in terms of value). While the principal objective of the Company was to execute PWD works economically and efficiently so as to break the monopoly of private contractors, very low participation in PWD tenders was not in conformity with the basic objective.

According to the Management (April 2005), its active participation in Government tenders induced private contractors to under quote and indirectly bring down the cost of Government works. The reply is not acceptable as low level of participation in tenders floated by PWD during the period from 2000-01 to 2003-04 indicated absence of significant presence of the company in the field. Increased participation of the Company in PWD tenders with realistic rates would have brought more savings to Government and thereby fulfilled the main objective of its formation. The Company had not analysed the reason for low participation in PWD tenders with a view to take corrective actions.

The Management further attributed (July 2005) lack of financial resources for low participation in PWD tenders. Management's reply is not tenable as the financial crunch was due to Company's failure in presenting bills in time, following up claims properly, lack of concrete measures to obtain funds from Government, etc., as discussed in paragraph 2.3.19 *infra*.

### **Position of works in hand**

2.3.9 Works in hand under various categories at the end of March 2005 were as given in the table below:

| Particulars                                | PWD Works     |              | Other State Agencies (Rs.in crore) | Central Agencies (Rs.in crore) | Total works* (Rs in crore) |
|--|---------------|--------------|------------------------------------|--------------------------------|----------------------------|
|  | (Rs.in crore) | Percentage   |                                    |                                |                            |
| Basis of receipt :<br>Allotment/ Guideline | 5.88          | 12.14        | 40.78                              | 1.76                           | 48.42                      |
| Open tenders                               | 39.29         | 88.36        | 5.17                               | ...                            | 44.46                      |
| <b>Total Works</b>                         | <b>45.17</b>  | <b>48.63</b> | <b>45.95</b>                       | <b>1.76</b>                    | <b>92.88</b>               |
| In the capacity:<br>As Agent/Consultant    | ...           | ...          | 38.55                              | 1.76                           | 40.31                      |
| As Contractor                              | 45.17         | 85.92        | 7.40                               | ...                            | 52.57                      |
| <b>Total Works</b>                         | <b>45.17</b>  | <b>48.63</b> | <b>45.95</b>                       | <b>1.76</b>                    | <b>92.88</b>               |

\* This represents balance Probable Amount of Contracts (PAC), i.e., total Available Works (₹111.50 crore) minus value of works partially completed (₹18.62 crore) as of March 2005.

Of the total works in hand at the end of March 2005, works amounting to ₹45.17 crore (48.63 *per cent*) only pertained to PWD indicating comparatively meagre participation and receipt of PWD works.

The work in hand included 33 works valuing ₹74.46 crore in respect of which, scheduled date of completion had already been crossed by periods ranging from three to 77 months.

### **Construction Performance**

2.3.10 The Company had not developed its own infrastructural facilities and as such the works awarded to it were got executed through private contractors. Of the works available as of March 2005 (₹111.50 crore), 11.30 *per cent* works were being executed through piece work contracts and 88.70 *per cent* through sub-contracts. In the absence of infrastructural facilities the Company could act only as an agent in the execution of works and not as a full-fledged construction Company.

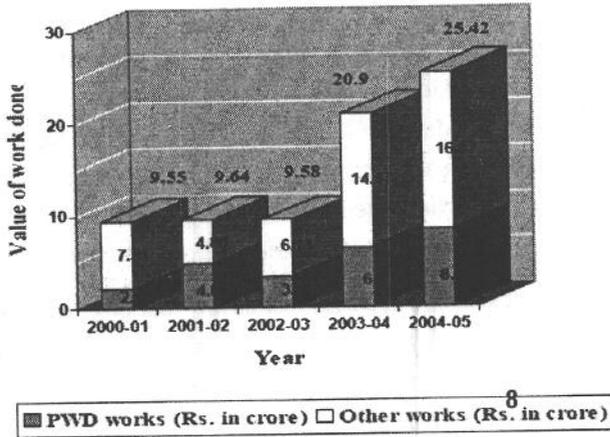
The Management stated (July 2005) that lack of working capital and non-release of authorised capital in full by the Government have compelled the Company to entrust works to private sub-contractors. The reply is not tenable for the reasons stated under paragraph 2.3.8 *supra*.

2.3.11 The construction performance of the Company in terms of value of actual work done with reference to the available quantum of work in each of the five years up to 2004-05 is indicated in **Annexure 14**.

It would be seen that the actual works executed by the Company with reference to the total value of works on hand ranged from 15.70 to 27.37 *per cent* during the period from 2000-01 to 2004-05. Improvement in construction performance during 2003-05 could be attributed to the water supply augmentation project at Chowara – Parur for a total contract value of ₹ 56.14 crore obtained during 2003-04, in respect of which the Company had formed a consortium with private contractors for pre-qualification bid and execution of the work. Excluding this work (₹ 8.89 crore for 2003-04 and ₹ 9.98 crore for 2004-05) the value of actual work done in respect of PWD, Central agencies and other State agencies for the two years would be ₹ 12.09 crore and ₹ 15.44 crore only.

2.3.12 The value of PWD works executed by the Company during the five years up to 2004-05 ranged between 23.46 and 50.21 per cent of the total value of works executed. Thus, though the company was established for undertaking works for the PWD, the actual execution was low, as may be seen from the diagram below:

Execution of works during the five years up to 2004-05.



#### Under recovery of overheads

2.3.13 Recovery of the establishment cost depended on the value of work done during the year; low out turn of works could be attributed as the primary reason for the poor working results of the Company. In 63, out of 82, completed works test checked, the percentage of establishment and administrative expenditure to the value of work done (excluding that of water supply augmentation project - Chowara) ranged between 19.62 and 37.90 per cent during the five years ending 2004-05 (Annexure 14), against the average gross margin of 10.74 per cent calculated on the value of work done. Further, the centage charges\* fixed by Public Works department for the period 2000-2005 were 13.5 per cent. With reference to this rate the excess establishment and administration expenses worked out to ₹7.31 crore during the period 2000-2005.

\* Charges fixed by PWD for meeting the overhead expenses to be collected from clients.

Considering the average gross margin of 10.74 per cent, the Company has to execute works for a minimum value of ₹ 27.75 crore to cover the average annual overheads of ₹ 2.98 crore. For covering the establishment expenditure (₹ 2.21 crore) alone, the Company should execute annually works valued at ₹ 20.60 crore. The annual average value of work done during the period of review was, however, only ₹ 11.26 crore.

### Completed works

#### Delay in execution

2.3.14 The Company has not compiled any data relating to the construction performance of ongoing/completed works. Client-wise analysis of construction performance in respect of completed works during the five years up to 2004-05 as compiled during audit is given in the table below:

(Rs in crore)

|                    |            |               |            |               |           |              |              |           |              |
|--------------------|------------|---------------|------------|---------------|-----------|--------------|--------------|-----------|--------------|
| PWD                | 48         | 83.40         | 43         | 65.41         | 18        | 16.37        | 16.80        | 9         | 1.32         |
| Other state agency | 65         | 100.35        | 64         | 96.69         | 28        | 21.01        | 21.63        | 13        | 1.37         |
| Central agencies   | 38         | 31.09         | 38         | 31.69         | 36        | 31.17        | 38.68        | 18        | 7.67         |
| <b>Total</b>       | <b>151</b> | <b>215.44</b> | <b>145</b> | <b>193.79</b> | <b>82</b> | <b>68.55</b> | <b>77.11</b> | <b>40</b> | <b>10.36</b> |

In this regard the following deserve mention:

- The Company completed only 35 per cent works out of the total works undertaken indicating poor level of execution of works.
- Out of the 82 works executed only 10 works were completed and handed over to the client departments within the scheduled date of completion. The remaining 72 works were executed after a delay ranging from one to 165 months.

The Management attributed (August 2005) delay in release of payment by the client departments as the primary reason for the lower achievement in the execution of works. The reply is not tenable as there was inordinate delay ranging from two to 52 months in preferring the bills for the works executed as discussed under para 2.3.21.

- The value of work done in respect of 40 works exceeded the aggregate contract value of ₹ 45.36 crore by ₹ 10.36 crore and the cost over run worked out to 23 per cent. This was mainly due to delay of up to 92 months in the execution of PWD works, 42 months in the case of other State Agency works and 165 months in the case of Central Agency works. Instances involving significant cost over run on account of delay in execution of work are discussed below:
  - The construction of Jawahar Navodaya Vidhyalaya Building, Vechoochira contracted for completion within a period of three years (March 1991) at a cost of ₹1.63 crore, was completed in January 2005 at a cost of ₹ 3.12 crore, after a delay of 13 years and 9 months involving cost over run of ₹ 1.49 crore.
  - The construction of Hospital building for Medical College, Thrissur, envisaged to be completed in January 1997 at a cost of ₹ 2.76 crore, was actually completed in May 2004, after a delay of more than seven years, at a cost of ₹ 3.42 crore resulting in cost over run of ₹ 66 lakh.

#### Profitability of completed works

2.3.15 The Company had not evolved a system for evaluating the profitability of each work on completion. The Company executed 82 works during the five years up to 2004-05. It, however, failed to ascertain the profit/loss of each work. A test check conducted in respect of 63 works revealed that despite gaining a gross margin in all the works, the Company sustained heavy net loss due to excessive expenditure towards establishment and other administrative overheads (OH), as indicated in the following table:

(₹ in crore)

| 1. Loss sustained works : |           |              |              |             |              |                |
|---------------------------|-----------|--------------|--------------|-------------|--------------|----------------|
| PWD                       | 6         | 4.62         | 4.00         | 0.62        | 1.23         | (-)0.61        |
| Other State Agencies      | 12        | 5.19         | 4.43         | 0.76        | 1.37         | (-)0.61        |
| Central Agencies          | 36        | 38.68        | 35.50        | 3.18        | 10.25        | (-)7.07        |
| <b>Total</b>              | <b>54</b> | <b>48.49</b> | <b>43.93</b> | <b>4.56</b> | <b>12.85</b> | <b>(-)8.29</b> |
| 2. Profitable works :     |           |              |              |             |              |                |
| PWD                       | 1         | 1.37         | 0.90         | 0.47        | 0.36         | 0.11           |
| Other state agencies      | 8         | 1.81         | 1.29         | 0.52        | 0.48         | 0.04           |
| <b>Total</b>              | <b>9</b>  | <b>3.18</b>  | <b>2.19</b>  | <b>0.99</b> | <b>0.84</b>  | <b>0.15</b>    |

# Percentage of total OH to value of work done was arrived at based on weighted average of five years OH upto 2004-05

It may be seen from the table that the Company achieved total net profit of ₹ 0.15 crore in nine works and the remaining 54 works ended in aggregate net loss of ₹ 8.29 crore. The overall net loss worked out to ₹ 8.14 crore. The gross margin obtained in 51 works, out of the 63 works, could not even cover the labour overhead (apportioned at the rate of 19.7 per cent of the value of work done) resulting in net loss of ₹ 5.03 crore as shown in the following table :

(₹ in crore)

|                      |           |              |              |             |             |             |
|----------------------|-----------|--------------|--------------|-------------|-------------|-------------|
| PWD                  | 6         | 4.62         | 4.00         | 0.62        | 0.91        | 0.29        |
| Other State Agencies | 10        | 4.96         | 4.28         | 0.68        | 0.98        | 0.30        |
| Central Agencies     | 35        | 37.77        | 34.77        | 3.00        | 7.44        | 4.44        |
| <b>Total</b>         | <b>51</b> | <b>47.35</b> | <b>43.05</b> | <b>4.30</b> | <b>9.33</b> | <b>5.03</b> |

#### *Termination of works at Company's risk and cost*

2.3.16 During the period from February 1996 and March 2005 the Company had commenced 145 works valuing 193.79 crore and these works were under execution. Out of the above, 14 works valued at ₹18.20 crore (9 per cent) were terminated by the client departments at the risk and cost of the Company due to inordinate delay in the execution.

These works were originally scheduled for completion in periods ranging from four to 25 months. Even after availing a period of nine to 67 months from the date of commencement of work, two works had not been taken up and the percentage of completion in respect of the remaining 12 works ranged between three and 97. As against the contract value of ₹18.20 crore, the Company could complete construction worth ₹ 4.36 crore only (24 per cent) and payment of ₹ 3.60 crore was received. As all the works were terminated at the risk and cost of the Company, the value of work done amounting to ₹ 76 lakh could not be realised.

Instances noticed during audit where the contracts were terminated at the risk and cost of the Company, are discussed in the succeeding paragraphs.

### *Construction of Muttakkavu Bridge*

2.3.17 The Company executed (October 1998) an agreement with PWD for reconstruction of Muttakkavu Bridge, Kollam at a probable amount of contract (PAC) of ₹ 1.89 crore with stipulated date of completion as April 2000. This work was sub-contracted in September 1999 at a total contract value of ₹ 1.65 crore.

The progress of the work was very poor and even after a lapse of about five years only 25 per cent of the work was completed. PWD terminated (March 2004) the contract at the risk and cost as per the terms of the agreement. The liability of the Company in this regard had not been fixed (May 2005).

It was noticed during audit that the work of Panayilkadavu bridge awarded to the Company and sub-contracted (March 1990) to the same contractor was terminated by the PWD (October 1997) at the risk and cost of the Company. The liability on the work (₹ 40 lakh) as worked out by the Company was yet to be recovered (August 2005). Ignoring this the construction of Muttakkavu bridge was also awarded (September 1999) to the same sub-contractor after terminating the first work at his risk and cost.

The awarding of the work to a contractor, despite prior knowledge about his incompetence to undertake works, ended up in termination of the second work also at the risk and cost of the Company. The liability of the Company to PWD on this work had not been intimated. The Management stated (July 2005) that its request for revoking risk and cost termination was under the consideration of the Government.

### *Construction of Mini Civil Station building*

2.3.18 The PWD awarded (December 1999) the work of construction of Mini Civil Station building at Mapranam at a contract amount of ₹4.39 crore and handed over the site in January 2000. The scheduled date of completion was January 2002. The Company sub-contracted (May 2000) the work at an agreed PAC of ₹ 3.99 crore.

Due to financial constraints the sub-contractor stopped (October 2000) the work at site after executing 2.85 per cent of the total estimated cost of the work. The Company preferred a claim (November 2000) of ₹ 12.51 lakh against the value of work done and received ₹ 6.60 lakh from the PWD (May 2005).

As the sub-contractor abandoned the work, the Company terminated (May 2002) the contract at his risk and cost after a lapse of 19 months from the date of stoppage of work. The Company, however, failed to rearrange the work and PWD terminated (July 2002) the agreement with the Company at its risk and cost. The PWD fixed the risk and cost liability of the Company at ₹ 1.23 crore and directed (October 2004) the Company to remit the amount. The Company's request (November 2004) to revoke the termination of the work had not been considered by PWD (May 2005).

The Management stated (July 2005) that its request for revoking risk and cost termination was under the consideration of the Government. The reply is not acceptable as considering the financial constraints of the contractor the work should have been terminated immediately and re-arranged through financially sound pre-qualified contractors, thereby avoiding the risk and cost liability of ₹ 1.23 crore.

#### **Factors responsible for deteriorating financial position**

2.3.19 The Company had been incurring heavy losses since 1999-2000. The losses increased from ₹ 35.66 lakh in 1999-2000 to ₹ 4.03 crore during 2003-04. The accumulated loss as on 31 March 2004 stood at ₹ 19.46 crore and exceeded the paid up capital of ₹ 87 lakh by 2,136.79 per cent. The billed revenue declined from ₹ 32.46 crore in 1999-2000 to ₹ 8.81 crore in 2003-04. The reasons attributed by the management for the poor performance, were low turnover due to delay in settlement of bills, increased cost and severe financial crunch. Audit scrutiny, however, revealed that high over head expenses, low margin on works (paragraph 2.3.13), inordinate delay in completion of works (paragraph 2.3.14), diversion of funds (paragraph 2.3.20), delay in raising/realisation of bills (Paragraph 2.3.21 and 2.3.22), and holding of surplus manpower (Paragraph 2.3.23) contributed to the loss.

#### **Diversion of Mobilisation Advance**

2.3.20 In most of the construction works awarded, interest free mobilisation advances were released to the Company at various rates up to 20 per cent of the contracted amount excluding the cost of departmental materials, to ensure uninterrupted execution of the work on condition that the amount be utilized exclusively for the work for which it had been released.

On a review of the completed, terminated and ongoing works during the five years up to 2004-05, it was noticed that out of ₹ 7.20 crore received in respect of 23 works from the clients, the Company utilised only ₹ 1.88 crore for the intended purpose and the balance of ₹ 5.32 crore was diverted for other purposes, the details of which were not on record. The works against which mobilisation advance was released were completed belatedly or remaining incomplete or terminated, mainly due to paucity of funds for the execution of works.

Further, in respect of 17 works, the Company had not released any amount to the sub-contractor and in the case of three works, though the contracts were terminated by the PWD, the unadjusted balance of the mobilisation advance of ₹ 54 lakh was not returned but diverted for other purposes.

The Management, while admitting the fact, stated (July 2005) that the advances were diverted for other works and for payment of salary to its employees.

#### **Delay in presentation of final bills**

2.3.21 The Company had not laid down any specific procedure for preparation and presentation of final bills. The final bills relating to 23 works during the period under review amounting to ₹ 1.68 crore were prepared and presented for payment after inordinate delay ranging from two to 52 months, from the date of completion of work. The final bills in respect of 12 works (₹ 65 lakh) were yet to be submitted (December 2004) to the client departments and the delays ranged from two to 50 months. The loss of interest on this account worked out to ₹ 49.64 lakh. Instances of undue delay in realisation noticed during audit are discussed below:

- In the case of works executed (January 2001) on behalf of Jawahar Navodaya Vidhyalaya, Oorakam an amount of ₹ 38.24 lakh was due (January 2001) from Navodaya Vidyalaya Samithi, New Delhi. The value of work done (₹ 4.68 crore) exceeded the sanctioned amount (₹ 4 crore) by ₹ 68 lakh. As per the agreement conditions, variation up to 10 per cent over the sanctioned amount only would be allowed at the time of final settlement. Realisation of the cost overrun in excess of 10 per cent amounting to ₹ 27.52 lakh, therefore, appears doubtful. Even after 50 months from the date of completion, the Company had not presented (February 2005) the final bill, though the payments to the sub-contractor had already been settled (July 2004).

The Management accepted (August 2005) the facts.

- In respect of the work of Rajeev Gandhi Institute of Technology, Pampady, though the Company claimed (March 2001) ₹ 1.37 crore as value of work done, the PWD admitted only ₹ 1.24 crore and the balance ₹ 13.20 lakh was disallowed (March 2005) for reasons not on record. The Company had not raised any further claim against the disallowed amount. As the sub-contractor's account had been fully settled (September 2004) the disallowed amount (₹ 13.20 lakh) was a clear loss to the Company.

The Management replied (July 2005) that it had received all its claims. The reply is not acceptable as the records showed that the total value of work done by the Company was ₹ 1.37 crore.

#### *Inordinate delay in realisation of bills*

2.3.22 During the period of review the financial position of the Company continued to be critical in view of the heavy losses in the past and nonrealisation of substantial amounts from the clients. The bills pending realisation at the end of 2004-05 amounted to ₹ 13.89 crore which included ₹ 7.52 crore from PWD; ₹ 4 crore from Other State agencies and ₹ 2.37 crore from Central Agencies.

The reasons attributed (July 2005) by the Management for the delay were nonavailability of provision in the Government budget for State Government works (₹ 6.52 crores), delay in approval of revised estimates and extra works (₹ 2.78 crore), non-receipt of bills relating to terminated works (₹ 1.06 crore) and other reasons (₹ 3.53 crore).

#### ***Surplus Manpower/Excessive Employee cost***

2.3.23 The manpower position in the Company for the five year ended 31 March 2005 was as given in the Annexure 15. It would be seen from the Annexure that;

- the non-technical staff (199) constituted 78.66 per cent of the average staff strength (253) of the Company during the five-year period ending 31 March 2005; out of this, 68.84 per cent (137 nos.) represented site assistants (39), attenders/watchers (76), mechanical operators (9), drivers (13), etc., who were having no work owing to switching over to sub-contracting of the works.

- Out of ₹ 2.21 crore incurred towards average employee cost for the five years ending 31 March 2005, ₹ 1.66 crore represented payments to non-technical staff including site assistants (₹ 0.33 crore), attenders/watchers (₹ 0.51 crore), mechanical operators (₹ 0.07 crore) and drivers (₹ 0.11 crore). Since the works during the period under review were got executed through sub-contractors, the average annual expenditure on employee cost of site assistants, attenders/watchers, etc., amounting ₹ 1.02 crore appeared unnecessary and wasteful.

The Management stated (July 2005) that the non-technical staff such as store-keepers, watch and ward, site assistants, contract helpers, etc., appointed when the project was executed directly by the Company could not be retrenched on switching over to execution of projects through sub-contractors due to various socio political situations prevalent and the Company has been exploring ways to re-deploy the surplus staff profitably. The company had not re-deployed the surplus staff till date (August 2005).

2.3.24 The Company while sub-contracting the works, deployed its staff including Project Engineer, at the work site. On completion of the work or stoppage of work for a long period these staff were to be re-deployed to other needy sites. Audit noticed that in respect of eight works pertaining to the PWD which were stopped/completed/terminated, the project staff were retained at site for periods ranging from two to 21 months without work resulting in payment of idle wages amounting to ₹ 25.68 lakh.

The Management stated (July 2005) that skeleton staff were retained at the site for preparation of bills, client follow-up, minor rectification work and for guarding the material at site. The reply is not tenable as retention of staff at site was not necessary for client follow up and preparation of bills and was not justified for such extended periods up to 21 months after completion of the work for minor rectification and for guarding materials at site.

#### **Diversification of activities**

2.3.25 In order to improve its turnover the Company diversified (February 2001) its activity to collection of toll on behalf of Public Works (National Highways) Department. The Company was awarded the right to collect toll on the

basis of open tender in four cases by PWD and by direct allotment in one case by Roads and Bridges Development Corporation of Kerala Limited (RBDCK) on lump-sum contract basis. The working result of the toll collection activity during the five years ending 2004-05 were as given in **Annexure 16**.

Audit analysis revealed that;

- The Company had not conducted any preliminary traffic survey to estimate the expected revenue collection in the case of Munambam Harbour and Kumbalangi Perumpadappu Bridge. Further in the case of Kumbalam – Aroor Bridge and Kundannoor – Thevara Bridge the Company conducted only 12 hours and 24 hours survey respectively, before submission of bid. The reduction on account of return tickets and concession tickets were not reckoned for the purpose of estimation of income. The failure of the Company to estimate toll collection in a realistic manner, prior to bidding, resulted in cash loss to the extent of ₹ 23 lakh in four (**serial no 1 to 4 of Annexure 16**) contracts secured on open tender basis and the toll collection activity ended up in a net aggregate loss of ₹1.12 crore.
- The agreement terms provided for remittance of the license fee\* to PWD as per the schedule of remittance, and non-remittance attracted interest and penal charges. The Company failed to remit ₹ 1.70 crore, out of ₹ 4.44 crore payable in respect of five toll collection contracts. Owing to violation of contractual obligation, further tenders submitted for right to toll collection since 2001-02, were rejected by the PWD. In one case (Kundannur-Thevara) the Chief Engineer PWD (Highways) claimed (October 2004) dues of ₹ 2.62 crore inclusive of interest, and penalty (₹ 1.83 crore) up to June 2004. In the remaining cases, claims were yet (May 2005) to be preferred by PWD. After debarring the Company from participating in tenders for right to toll collection, Government awarded the work to private agencies involving reduction in revenue amounting to ₹ 2.04 crore when compared to the rates offered in the previous contracts by the Company. This indicated that the rates offered by the Company were not realistic.

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\* Fee to be remitted to PWD by the toll collecting agency

The Management/ Government stated (July 2005) that reduction in toll revenue was on account of reduction in traffic due to restrictions imposed by Government in sand mining and that penalties imposed in respect of Kundanoor-Thevara toll have been waived by Government. The reply is not tenable in the light of reduced offers by private agencies for the subsequent contracts and *as waiver of penalty would not absolve the Company from its liability of payment of the licence fee.*

2.3.26 The work relating to Chowara Water Supply Augmentation Scheme of Kerala Water Authority was awarded (August 1998) to the Company acting in consortium with Water and Power Consultancy Services India Limited (a Government of India enterprise), on guideline basis. The estimate submitted by the Company was rejected on the basis of recommendation of a Committee constituted (December 1999) by Government since a consensus on cost could not be arrived at. Kerala Water Authority thereupon invited (July 2000) open tenders and the Company acting as a lead partner for a consortium of three private contractors quoted (August 2001) for the project at ₹ 57.18 crore. The contract was awarded (March 2003) to the Company at a negotiated price of ₹ 56.14 crore. Though the scheduled date of completion of work has expired (March 2002), only 35.71 per cent (value ₹ 20.05 crore) of the work has so far (May 2005) been completed.

Audit scrutiny revealed that the Company had been acting as a lead partner to the consortium for this work and quoted for the work on behalf of the other firms owning full legal responsibility for all the liabilities arising out of the work. The Company's only gain from the project was a margin of ₹ 1.80 crore which was added to the cost estimate submitted to the Kerala Water Authority at the instance of the consortium partners. It was further noticed that the Company acting as the lead partner to the contract was also not aware of the margin of profit included in the cost with a view to obtaining its due share.

The Management stated (July 2005) that the profit margin of consortium partners was not relevant to it as it could make a profit of ₹ 1.80 crore without making any investment. The reply is not tenable as, the Company, in violation of its objective of controlling the excessive presence of private contractors in Government works, acted as a conduit for a private consortium in bagging a Government contract.

[Audit Paragraph 2.3.8-2.3.26 containing in the Report of the Comptroller and Auditor General of India for the year ended on 31<sup>st</sup> March 2005 (Commercial).]

1. When the Committee enquired about the ongoing works of the Company, the witness replied that more than two hundred works for ₹ 1700 crore were going on at present. The Committee was concerned to note that the Company executed the works through private contractors and did not take any step even to monitor the works. The Committee pointed out that by only acting as an agent, the Company terminated the work for ₹ 18 crore and accrued a net loss of ₹ 8.29 crores.

2. Regarding the query about the present gross margin of the Company, the witness answered that though the Company was running on loss upto 2004 the fiscal status has improved considerably since 2008. The Committee was aggrieved to note that eventhough the Company executed works for a minimum value of ₹ 27.75 crore, the Company has done the work only for ₹ 11.26 crore.

3. The Committee was much displeased to note that inordinate delay had occurred in the execution of works. The Company took thirteen years and nine months for the construction of Jawahar Navodaya Vidhyalaya building and took seven years for the construction of Hospital building for Medical College, Thrissur which resulted in the cost overrun of ₹ 1.49 crore and ₹ 66 lakh respectively. The witness explained that the Company had completed majority of the works and the performance of the Company had improved far from the previous years.

4. The Committee observed that the Company continued the works without ascertaining the profit and loss of each work. The Committee remarked that if the Company had worked out the result of each completed work, net loss could have been reduced to a certain extent.

5. The Committee was aggrieved to note that ₹ 76 lakh spent towards the work already done could not be realised since the works were terminated at the risk and cost of the Company itself.

6. Regarding the diversion of mobilisation advance to other purposes the Committee was of the opinion that Company would have at least completed the work against which mobilisation advance was released instead of diverting it to disbursing salary and allowances to its employees. The Committee remarked that this is a crystal clear example of the irresponsibility of the Company in executing the work.
7. The Committee was concerned to note that the Company neither took steps to obtain funds from Government nor presented the final bills in time which resulted in financial crunch and low participation in PWD tenders. The Committee criticised the Company for the inordinate delay in the presentation of final bills and realisation of bills which adversely affected the fund position of the Company.
8. The Committee suggested that since the works of the Company were of low quality, it was better to liquidate the company than allowing it to exist, by executing an agreement that the ongoing works already undertaken by the Company should be completed by Public Works Department. At this time the witness requested that before recommending for liquidation, the present position of the Company might also be considered. He also expressed his hope that management having professional qualification might improve the Company.
9. The Committee suggested that a study should be conducted for the rejuvenation of the Company by implementing latest technology in the execution of work. The Committee also directed that considering worst situation of the Company, necessary steps should be taken by the Government for the improvement of the Company by handing over the already undertaken works to Public Works Department.
10. The Committee also suggested that Government should either examine the necessity of the existence of Roads and Bridges Development Corporation, Roads and Infrastructure Company, Ashwas Public Amenities etc. or take steps to change those Government agencies to become financially more feasible.
11. When the Committee criticised the surplus manpower and excessive employee cost the witness informed that they had reduced the staff pattern according to the recommendations and had taken corrective measures that are pointed out by the Accountant General.

**Conclusions / Recommendations**

12. **The Committee is saddened to note that by acting just as a passive agent, the Company terminated the work for 18 crores which resulted in a net loss of 8.29 crores. It is also bewildering that 76 lakh spent towards the already completed work could not be realised since the works were terminated at the risk and cost of the company. The Committee, in this situation recommends that the Company should completely do away with the prevailing practice of subletting works to sub contractors forthwith.**

13. **The Committee observes that the technical resources of the company in the execution of work are poor in quality. The Committee therefore suggests that the Company should seek to obtain advanced technical expertise along with modern machinery as part of a rejuvenation process.**

Thiruvananthapuram,  
9-3-2017.

C. DIVAKARAN,  
*Chairman,*  
*Committee on Public Undertakings.*

## APPENDIX I

## SUMMARY OF MAIN CONCLUSION/RECOMMENDATIONS

| Sl. No. | Para No. | Department Concerned    | Conclusions/Recommendations  |
|---------|----------|-------------------------|--|
| (1)     | (2)      | (3)                     | (4)  |
| 1       | 12       | Public Works Department | The Committee is saddened to note that by acting just as a passive agent, the Company terminated the work for 18 crores which resulted in a net loss of 8.29 crores. It is also bewildering that 76 lakh spent towards the already completed work could not be realised since the works were terminated at the risk and cost of the company. The Committee, in this situation recommends that the Company should completely do away with the prevailing practice of subletting works to sub contractors forthwith. |
| 2       | 13       |                         | The Committee observes that the technical resources of the company in the execution of work are poor in quality. The Committee therefore suggests that the Company should seek to obtain advanced technical expertise along with modern machinery as part of a rejuvenation process.   |

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**Annexure 13**  
(Referred to in paragraph 2.3.8)

**Statement showing tender participation by Kerala State Construction Corporation Limited in the PWD works for the four years up to 2003-04**

| Sl. No. | Particulars                                  | 2000-01 |                                | 2001-02 |                                | 2002-03 |                                | 2003-04 |                                | Total |                                |
|---------|--|---------|--------------------------------|---------|--------------------------------|---------|--------------------------------|---------|--------------------------------|-------|--------------------------------|
|         |  | No.     | Contract amount (Rs. in crore) | No.   | Contract amount (Rs. in crore) |
| (I)     | Tenders floated by PWD (SE)                  | 89      | 185.98                         | 37      | 31.46                          | 73      | 95.21                          | 124     | 107.71                         | 323   | 420.36                         |
| (II)    | Tenders participated by the Company          | 25      | 48.49                          | 13      | 25.65                          | 7       | 10.61                          | 16      | 38.84                          | 61    | 123.59                         |
| (III)   | Works awarded to the Company                 | 1       | 1.86                           | 3       | 12.21                          | 3       | 4.17                           | 2       | 3.36                           | 9     | 21.60                          |
| (IV)    | Percentage of participation to total         | 28.08   | 26.07                          | 35.14   | 81.53                          | 9.59    | 11.14                          | 12.90   | 36.06                          | 18.89 | 29.40                          |
| (V)     | Percentage of works awarded to total         | 1.12    | 1.00                           | 8.11    | 38.81                          | 4.11    | 4.38                           | 1.61    | 3.12                           | 2.79  | 5.14                           |
| (VI)    | Percentage of works awarded to participation | 4.00    | 3.84                           | 23.07   | 47.60                          | 42.86   | 39.30                          | 12.50   | 8.65                           | 14.75 | 17.49                          |

Note: Information for the year 2004-05 not yet compiled by the Company (July 2005)

**Annexure 14**  
(Referred to in paragraphs 2.3.11 and 2.3.13)

**Statement showing construction performance of Kerala State  
Construction Corporation Limited in terms of total value of works on  
hand during the five years up to 2004-05**

| Particulars   | Years   |         |         |                |                |
|---|---------|---------|---------|----------------|----------------|
|   | 2000-01 | 2001-02 | 2002-03 | 2003-04        | 2004-05        |
| Opening works in hand                                       | 54.79   | 50.90   | 61.42   | 54.81          | 102.36         |
| Works obtained less Terminated (Net)                        | 5.66    | 20.16   | 2.96    | 68.53          | 15.94          |
| Closing works in hand                                       | 50.90   | 61.42   | 54.81   | 102.36         | 92.88          |
| Value of work done  | 9.55    | 9.64    | 9.57    | 20.98 (12.09)* | 25.42 (15.44)* |
| Percentage of value of work done to work in hand            | 18.76   | 15.70   | 17.46   | 20.50*         | 27.37*         |
| Establishment overheads                                     | 2.43    | 1.78    | 2.02    | 2.31           | 2.51           |
| Administrative overheads                                    | 1.19    | 0.95    | 0.67    | 0.52           | 0.52           |
| Total overheads   | 3.62    | 2.73    | 2.69    | 2.83           | 3.03           |
| Percentage of establishment overheads to value of work done | 25.40   | 18.46   | 21.11   | 19.11*         | 16.26*         |
| Percentage total overheads to value of work done            | 37.90   | 28.32   | 28.11   | 23.41*         | 19.62*         |
| Overhead based on centage (13.5%) charges fixed by PWD      | 1.29    | 1.30    | 1.29    | 1.63*          | 2.08*          |
| Excess overheads over the centage charges fixed by PWD      | 2.33    | 1.43    | 1.40    | 1.20           | 0.95           |

\* Figures in bracket represents value of work done excluding that of Chowara project.

\* Percentage worked out based on value of work done excluding data of Chowara Project where the Company is acting as a consortium partner.

**Annexure 15**  
(Referred to in paragraph 2.3.23)

**Statement showing manpower position of Kerala State Construction Corporation Limited for the five years up to 2004-05**

| Category                      | Year                |             |             |             |             | Average     |             |
|-------------------------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                               | 2000-01             | 2001-02     | 2002-03     | 2003-04     | 2004-05     |             |             |
| Regular                       | 142                 | 138         | 134         | 132         | 123         | 134         |             |
| Project specific- Provisional | 36                  | 4           | 3           | 18          | 22          | 16          |             |
| Contract                      | 16                  | 16          | 16          | 15          | 15          | 16          |             |
| Daily                         | 7                   | 7           | 7           | 7           | 6           | 7           |             |
| Deputation                    | 15                  | 13          | 15          | 17          | 16          | 15          |             |
| Time Scale                    | 69                  | 66          | 65          | 64          | 62          | 65          |             |
| <b>Total</b>                  | <b>285</b>          | <b>244</b>  | <b>240</b>  | <b>253</b>  | <b>244</b>  | <b>253</b>  |             |
| Technical                     | No.                 | 74          | 40          | 41          | 58          | 58          | 54          |
|                               | Cost (Rs. in crore) | 0.79        | 0.38        | 0.46        | 0.51        | 0.60        | 0.55        |
| Non-technical                 | No.                 | 211         | 204         | 199         | 195         | 186         | 199         |
|                               | Cost (Rs. in crore) | 1.64        | 1.40        | 1.56        | 1.80        | 1.91        | 1.66        |
| <b>Total</b>                  | No.                 | <b>285</b>  | <b>244</b>  | <b>240</b>  | <b>253</b>  | <b>244</b>  | <b>253</b>  |
|                               | Cost (Rs. in crore) | <b>2.43</b> | <b>1.78</b> | <b>2.02</b> | <b>2.31</b> | <b>2.51</b> | <b>2.21</b> |

|                     |                     |             |             |             |             |             |             |
|---------------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Site Assistants     | No.                 | 42          | 42          | 39          | 38          | 36          | 39          |
|                     | Cost (Rs. in crore) | 0.31        | 0.29        | 0.31        | 0.38        | 0.38        | 0.33        |
| Attender/watcher    | No.                 | 80          | 77          | 75          | 75          | 74          | 76          |
|                     | Cost (Rs. in crore) | 0.49        | 0.37        | 0.48        | 0.58        | 0.62        | 0.51        |
| Mechanical operator | No.                 | 9           | 9           | 9           | 9           | 8           | 9           |
|                     | Cost (Rs. in crore) | 0.06        | 0.05        | 0.07        | 0.08        | 0.07        | 0.07        |
| Driver              | No.                 | 15          | 14          | 13          | 13          | 12          | 13          |
|                     | Cost (Rs. in crore) | 0.12        | 0.10        | 0.10        | 0.11        | 0.12        | 0.11        |
| <b>Total</b>        | No.                 | <b>146</b>  | <b>142</b>  | <b>136</b>  | <b>135</b>  | <b>130</b>  | <b>137</b>  |
|                     | Cost (Rs. in crore) | <b>0.98</b> | <b>0.81</b> | <b>0.96</b> | <b>1.15</b> | <b>1.19</b> | <b>1.02</b> |

Excluding employer's share of GPF

**Annexure 16**  
(Referred to in Paragraph 2.3.25)

Statement showing working results of toll collection activity of Kerala State Construction Corporation Limited.

| Sl No              | Name of Toll             | Awarding Authority | Period              | License fee | Direct Expenses | Salary of Staff | Toll collection | Total expenses (4+5+6) | Total profit/loss (-) (7-8) | (Rs in crore)                 |                                 |
|--------------------|--------------------------|--------------------|---------------------|-------------|-----------------|-----------------|-----------------|------------------------|-----------------------------|-------------------------------|---------------------------------|
|                    |                          |                    |                     |             |                 |                 |                 |                        |                             | Cash profit/loss (-) 7. (4+5) | Short remittance of license fee |
|                    | 1                        | 2                  | 3                   | 4           | 5               | 6               | 7               | 8                      | 9                           | 10                            | 11                              |
| 1                  | Munambam Fishing Harbour | PWD                | 01.01.01 to 31.3.03 | 0.42        | 0.06            | 0.23            | 0.45            | 0.71                   | (-) 0.26                    | (-) 0.03                      | 0.03                            |
| 2                  | Kumbalam-Aroor-Panagad   | PWD                | 15.9.01 to 7.7.02   | 1.90        | 0.04            | 0.30            | 1.84            | 2.24                   | (-) 0.40                    | (-) 0.10                      | 0.70                            |
| 3                  | Kumbalangi-Perumpadappu  | PWD                | 1.4.02 to 31.3.03   | 0.05        | 0.003           | 0.057           | 0.05            | 0.11                   | (-) 0.06                    | (-) 0.00                      | 0.03                            |
| 4                  | Kundannoor-Thevara       | PWD                | 20.5.02 to 19.5.03  | 1.47        | 0.04            | 0.34            | 1.41            | 1.85                   | (-) 0.44                    | (-) 0.10                      | 0.78                            |
| <b>Total</b>       |                          |                    |                     | <b>3.84</b> | <b>0.14</b>     | <b>0.93</b>     | <b>3.75</b>     | <b>4.91</b>            | <b>(-) 1.16</b>             | <b>(-) 0.23</b>               | <b>1.54</b>                     |
| 5                  | Chithrapuzha             | RBDC Ltd.          | 1.4.01 to 31.12.04  | 0.60        | 0.02            | 0.40            | 1.07            | 1.03                   | 0.04                        | 0.44                          | 0.16                            |
| <b>Grand Total</b> |                          |                    |                     | <b>4.44</b> | <b>0.16</b>     | <b>1.33</b>     | <b>4.82</b>     | <b>5.94</b>            | <b>(-) 1.12</b>             | <b>0.21</b>                   | <b>1.70</b>                     |

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